

1. Scope of Environmental and Social Review

The environmental and social analysis of the proposed transaction consisted of reviewing the Client's documentation and website, in addition to a telephone call with its management. Konfío has experience working with multilateral banks not only as lenders but also as shareholders, as is the case of the International Finance Corporation ("IFC").

2. Environmental and Social Categorization and Rationale

The proposed financing facility for MSMEs is classified as an IF-3 operation under IDB Invest's Sustainability Policy. Konfío's mission is to drive the growth of small businesses in emerging markets. The subprojects to be supported have a low potential for risk. Microcredit sub-loans are for up to US\$8,000 with a 12-month term. Sub-loans for small and medium enterprises amount up to US\$14,000 with a term of approximately 18 months. All of its sub-loans are in Mexico; they are distributed throughout the country, although the central region has the largest share (37%).

The four main sectors in its portfolio are: Trade (36%), Professional Services (12%), Construction (10%), and Manufacturing Industries (10%). Less than 2.5% of the portfolio is allocated to agriculture and forestry. Most loans are characterized by being agile, predominantly on a virtual platform, and without the need for collateral. This year, Konfío extended its first US\$350,000 loan to a client in the commercial sector. Subprojects classified as A (high risk) and those that perform activities on the IDB exclusion list will be excluded from IDB Invest financing.

3. Environmental and Social Risks and Impacts

Konfío has 289 employees, 80 of whom are women (28%). Of the 14 management positions, 3 are held by women. Konfío has a Human Resources policy, an exclusion list, and a Code of Ethics that includes a dedicated email to register grievances with the Conduct Committee, which is responsible for registering, classifying and following up on grievances.

The environmental and social risks of this transaction have to do with the ability of Konfío's staff to assess and manage the risks associated with its loans. Konfío complies with national legislation. However, it lacks an environmental and social management system, since the environmental and social risks of its loans are considered to be low.

4. Mitigation Measures

Konfío has an exclusion list; however, it must be supplemented to ensure that all backed loans fulfill the provisions of the IDB Invest Exclusions List and applicable local and national environmental and social legislation. In order for Konfío's staff to better understand IDB Invest's requirements, those responsible will take the IDB Invest online course^[1] for financial intermediaries. The free online course "Environmental and Social Management Systems" will teach Konfío's staff to incorporate environmental and social practices into the company's risk management.

[1] <https://cursos.iadb.org/es/indes/sistema-de-gesti-n-ambiental-y-social-una-oportunidad-de-negocio>