

**Environmental and Social Strategy (ESS)
Banco Interamericano de Finanzas (BanBif)**

I. Overview

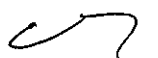
- 1.1 The proposed transaction is part of the Regional SME Downscaling Facility (the Facility) which entails approving partial credit guarantees (Risk Sharing Guarantees or RSGs) for Financial Intermediaries (FIs) to support the growth of their SMEs by using the psychometric screening tool developed by Entrepreneurial Finance Lab (the EFL Tool). Total amount of the Facility adds up to US\$15 million.
- 1.2 The first utilization of the Facility is intended to be Banco Interamericano de Finanzas in Peru (BanBif), which is a multiple service bank with a diverse client base. Historically, BanBif has catered primarily to the corporate sector; however, starting in 2008 BanBif has changed its strategy to focus primarily on SMEs as well as the middle and lower-middle income segments of retail banking. As per yearend 2011, BanBif's outstanding portfolio related to this targeted segment is almost inexistent, and is initially willing to expand the portfolio to approximately 5,000 clients with average equivalent loans of US\$3,500 to US\$5,000 during the 2 years pilot program. In September 12th, 2011 the Bank approved a US\$20 million Subordinated Loan to BanBif (PE-L1118) as part of the LACC Subordinated Debt Facility in order to strengthen BanBif's capital to support the growth of their housing and mortgage portfolio. At that time the Bank assessed the composition of its portfolio, the overall management of environmental and social aspects and the risks of the use of the proceeds of the IDB loan.

II. Status and Compliance

- 2.1 Based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this Guarantee is classified as a Flexible Lending Instrument (financial intermediary) and as such this operation is not categorized according to its potential environmental and social impacts and risks.

III. Environmental and Social Impacts and Risks

- 3.1 The potential key ESHS and labor risks and impacts associated with the first utilization of the Facility are those related to the portfolio, which in this case is relatively small and lending practices and processes of BanBif, which in general have focused in corporate lending. Impacts and risks could include (i) environmental credit risks; (ii) specific ESHS and labor risks and impacts related to SME investment in certain sectors; and (iii) IDB Reputation Risks associated with the activities of BanBif operations.
- 3.2 During the due diligence of the last loan to BanBif (PE-L1118) to support mortgages, the Bank confirmed the level of commitment of BanBif to environmental and social risk management: Since 2009 BanBif has been implementing an Environmental and Social Management System (ESMS) "Sistema de Administración Social y Medioambiental" to its corporate banking portfolio. The ESMS is implemented at the earliest stage of the credit cycle, requiring checks against a list of excluded activities consistent with the IDBs List of Excluded Activities for NSG Operations, the categorization of the transaction according to its environmental risk (categorized A, B, C) as well as the completion of an



environmental questionnaire (completed by the Credit Executive) and an evaluation of environmental risks (completed by the client). Depending on the level of potential risks identified, the ESMS provides instructions on the actions that may be required, responsible parties for implementing actions and on monitoring and compliance reporting. The responsibility to implement the ESMS is shared by three BanBif's deputy managers, one in each Vice-presidency; Corporate Banking and Risk. An annual budget is assigned to ensure that the ESMS can be updated, as required, on an annual basis, with the support of an environmental specialist.

- 3.3 Based on the small size of the loans and BanBif's system to manage environmental and social aspects there may be minimal to moderate direct environmental, social, health and safety (ESHS) and labor risks and impacts, and thus a limited environmental assessment is required.

IV. Strategy for Environmental and Social Due Diligence

- 4.1 As per the IDB Environment and Safeguards Compliance Policy and Guidelines, the Bank will assess BanBif's capacity for managing environmental and social aspects. This will be done through an analysis of the ESHS and labor risks and impacts associated with its SME business as well as an assessment of BanBif's existing ESHS policies and procedures in place to assess and manage these potential risks and impacts.
- 4.2 To that end, the environmental and social due-diligence for this operation will benefit from the Environmental and Social assessment and requirements established for the last loan (PE-L1118) and will complement this assessment to include:
- (a) An assessment of BanBif's compliance status with the applicable ESHS and labor regulatory requirements in Peru.
 - (b) An evaluation of BanBif's compliance with the Fundamental Principles and Rights at Work and whether they continue practicing fair and unbiased labor practices related to sex, age, ethnicity, cultural heritage, and collective bargaining.
 - (c) An assessment of BanBif's environmental and social risk management (existing ESMS, checklists and exclusion list) when applicable to credit appraisal, approval, and monitoring procedures of SMEs loans.
 - (d) An assessment of the adequacy of BanBif's procedures to ensure that the SMEs finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. age, gender, cultural heritage, etc).
 - (e) An assessment of potential reputational risks associated with BanBif's involvement in projects, companies or activities considered unacceptable to the IDB.
 - (f) An assessment of BanBif's status and compliance with the environmental and social requirements of the last IDB's Loan (PE-L1118).
- 4.3 The results of the due diligence will be presented in an Environmental and Social Management Report and summarized in the Guarantee Proposal.

