

Environmental and Social Management Report
Banco Interamericano de Finanzas (BanBif)
PE-L1136

I. Description of the operation

- 1.1 The proposed project will be the first utilization under the MSME Downscaling Facility (RG-X1153), to be approved by the Board in October 31, 2012. This project consists of a risk sharing guarantee facility (RSGF) of up to US\$ 5 million for Banco Interamericano de Finanzas (BanBif). The objective of this transaction is to increase access to financing for Peru's MSMEs, capitalizing on the market interest generated from SCF/FMK's SME Financing Facility and the work of FOMIN's technical assistance to test implement a trailblazing credit scoring methodology by the Entrepreneurial Finance Lab (EFL) tailored to the financial profile of micro, small and medium enterprises (MSMEs). The objective for BanBif is to grow its outstanding current portfolio of US\$1.3 million to more than US\$25 million by 2015.
- 1.2 BanBif is the 5th largest bank in Peru and holds a 2.7% market share in terms of assets. BanBif was founded in 1991 as a multiple bank and is part of the large Spanish group denominated Grupo Fierro with presence in Spain, Latin America and the United States. Through 2007 BanBif concentrated its commercial efforts in the corporate sector and select retail products for the high income segment in Peru. In 2008 BanBif decided to redefine its strategy to gradually move away from the corporate¹ and high-income individuals segment. The new commercial strategy focuses primarily on MSMEs (companies with annual revenues between US\$30 thousand and US\$12 million²) and to downscale its retail banking operation to middle and lower-middle income individuals. BanBif expects that this new wholesale and retail focus will soon become its core business. Products that are currently being evaluated to be offered to this segment are: revolving credit cards, amortizing commercial loans (working capital), fixed assets loans and SME leasing. Information on BanBif can be found on <http://www.bif.com.pe/NuestroBanco.aspx>
- 1.3 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 2,000 clients by 2015, with average equivalent loans of US\$12,500.
- 1.4 On 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

¹ Companies with annual revenues higher than US\$12 million.

² Microenterprise segment includes companies with annual revenues between US\$ 30 thousand and US\$ 400 thousand; Small Enterprise segment includes companies with annual revenues between US\$ 400 thousand and US\$ 2 million; Medium Enterprise segment includes companies with annual revenues between US\$ 2 million and US\$ 12 million.

management of environmental and social aspects and the risks of the use of the proceeds of the IDB loan.

II. Project 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.
- 2.2 BanBif has confirmed that it is in compliance with Directive B.2 (country laws and regulations) of IDB Environmental and Safeguards Compliance Policy, complying with all applicable legal and regulatory environmental, social, health and safety, and labor laws and regulations including permits and authorizations.

III. Environmental and Social Risks and Impacts

- 3.1 The potential key environmental, social, health and safety (ESHS) and labor risks and impacts associated with the first utilization of the Facility are those related to the portfolio that it would be supporting, which in this case is composed of relatively small loans that range from US\$500 to US\$100,000 mainly in retail and services sectors. Based on the small size of the loan and the sectors, the direct impacts and risks are considered low.
- 3.2 On a broader scale, there are some reputation risks associated with BanBif lending practices and processes, which in general have focused in corporate lending. These impacts and risks are being managed through an Environmental and Social Management System "*Sistema de Administracion Social y Medioambiental*" which is being implemented since 2009, and was updated in 2010. 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.³

IV. Environmental and Social Management

- 4.1 The operations with micro and small enterprises that will be supported by the IDB guarantee are considered low in terms of their environmental and social risk risks and

³ The responsibility to implement the ESMS is shared by three BanBif deputy managers, one in each Vice-presidency; Deputy Business General Manager and Deputy Risk General Manager. An annual budget is assigned to ensure that the ESMS can be updated, as required, with the support of an environmental specialist.

thus will be managed by the IDB List of Excluded Activities for NSG operations and ensuring compliance with applicable laws and regulations. This approach for MSMEs will be defined in the ESMS to include the smaller client segment, as currently the ESMS is being implemented for large commercial operations.

V. Environmental and Social Requirements

- 5.1 The Bank will require as part of the Risk Sharing Guarantee Agreement that BanBif comply with all applicable Peruvian environmental, social, health and safety, and labor regulatory requirements, IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations and the Fundamental Principles of the Rights of Work.
- 5.2 Prior to financial closing an Action Plan will be agreed with BanBif to define the process by which the environmental and social requirements of this transaction will be applied, which is mainly modifying BanBif's existing ESMS or developing a stand-alone environmental procedure.
- 5.3 The IDB will supervise the environmental and social aspects of the Risk Sharing Guarantee Agreement and will require BanBif to present environmental and social compliance reports in form, content and frequency satisfactory to the IDB.