

**Annex I**  
**Environmental and Social Management Report**  
**Banco Industrial (Guatemala), MSME Finance Partnership**  
**(GU-L1079)**

**I. Project Description and Background**

- 1.1 The objective of the proposed Micro Small and Medium Enterprises (MSMEs) Financing Partnership is to increase access to financing to MSMEs in Guatemala. In order to achieve this objective, IDB will join efforts with *Banco Industrial, S.A.* (“BI”), the largest bank in the country, to provide financing to this sector. IDB, through BI’s established Diversified Payments Rights Program<sup>1</sup> (“DPR Program” or the ‘Program’) will channel a financing of up to US\$150 million with a tenor of up to 12-years and a grace period of up to 3 years to BI, to support BI’s MSMEs loan portfolio with a portion earmarked to support women-led MSMEs and/or rural areas across Guatemala in order to support BI’s downscaling strategy into the MSME segment. The Project will be complemented with technical assistance (“TA”) that aims to support the development of products and services to women-led MSMEs. The TA is under consideration by MIF as part of the women entrepreneurship Banking (weB) initiative.

**II. Project Status and Compliance**

- 2.1 The Environmental and Social Strategy (ESS) for GU-L1079 was presented to the Environmental Safeguards review team and no special actions were required. Based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this Project is classified as a financial intermediary and as such is not categorized according to its potential environment and social (E&S) impacts and risks.
- 2.2 BI 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 (ESHS&L) laws and regulations.
- 2.3 BI has developed an environmental and social management system (ESMS), which it applies to transactions above US\$700,000. BI has indicated willingness to amend its ESMS to IDB’s use of proceeds and in line with the E&S risk profile identified. BI’s financing limit will be up to US\$500,000. Its dominant portfolio concentration is in commerce, services, and manufacturing and the average sub-loans is US\$2,500 for micro, US\$43,000 for small, and US\$210,000 for medium<sup>2</sup>. Lending to certain sectors in its portfolio such as construction, manufacturing, and agriculture may present

---

<sup>1</sup> DPRs take the form of U.S. dollar-denominated, Society for Worldwide Interbank Financial Telecommunications (SWIFT) MT100 series payment order messages and check remittances.

<sup>2</sup> SME are defined as having fewer than 300 employees, and annual sales of less than US\$1.9 million.

moderate and higher risk. Based on management capacity and portfolio composition, this operation is classified as medium risk (FI-2).

### **III. Environmental and Social Risks and Impacts**

#### ***A. Potential risks and impacts associated with BI's portfolio***

- 3.1 Within their total portfolio, BI has the following sector concentrations as of February 2013: Commerce (24%), Services (46%), Agriculture (5%), Manufacturing (18%), and Construction (7%).
- 3.2 The ESHS impacts and risks associated with loans to MSMEs in BI's portfolio are likely to be low to moderate in nature in light of the dominance of low risk sectors. Any likely significant environmental and social impacts would relate to lending in agriculture, manufacturing and construction. The ESHS risks and impacts could include, for example: i) habitat conversion and degradation (agriculture, livestock); ii) poor land use/contaminated land (manufacturing, agriculture, livestock, construction), iii) stress/contamination of water resources (agriculture, livestock, construction), iv) inadequate waste management and disposal (livestock, agriculture, manufacturing), v) use of migratory or informal labor (agriculture, livestock), vi) transport, traffic noise and dust management and natural disaster risks (construction).
- 3.3 Given the prevalence of indigenous groups among Guatemala's population, it will be important to ensure that BI has sound lending policies to address any negative potential impacts on indigenous groups, ensure fair lending practices, and to the extent possible promote access to credit by indigenous entrepreneurs.

### **IV. Environmental and Social Management**

#### ***A. BI's Management of Environmental and Social Risks***

- 4.1 BI's E&S analysis for loans below US\$700,000 entails application of local law and compliance with existing DFI exclusion lists. The design of their environmental and social management system is currently for corporate loans above US\$700,000, and classifies operations' environmental and social risk as A, B, or C in accordance with international practice. Their system applies as necessary a generic checklist, requires annual reports and monitoring, and details processes for environmental consultant review and development of corrective action plans. The requirements below include E&S risk management measures that will be developed and implemented as a condition of this loan through an action plan designed to work with BI to introduce E&S analysis for IDB's loans below the US\$500,000 limit.

### **V. Environmental and Social Requirements**

- 5.1 For this operation which involves MSME lending up to US\$500,000, the Bank will require BI as part of the Loan Agreement to:

- (i) Comply with all applicable Guatemalan legal and regulatory requirements, and in relation to the financing of each MSME loan require and obtain satisfactory assurance that all customers/use of proceeds comply with: (a) at a minimum host country environmental, social, health and safety, and labor regulations and standards; (b) BI's own policies on environmental, social, health and safety and labor matters for sub-loans (b) the IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations; and (c) the Fundamental Principles of the Rights at Work;
- (ii) Customize a checklist for lending operations between US\$100,000 – US\$500,000 to be filled by BI and applicable to Agriculture, Manufacturing, Construction, operations affecting indigenous groups, and any other potentially higher risk on-lending sectors with IDB's proceeds to identify potential environmental and social risks, identify required environmental and social permits, screen out high risks, and propose management responses. The development and application of the checklist will be done in stages according to an action plan to be agreed between IDB and BI prior to the first disbursement, to implement them for operations above US\$250,000 within 12 months of first disbursement and for operations above US\$100,000 within 18 months from said date.
- (iii) Implement measures to operationalize points (i) and (ii) above, including: (i) updating its loan documentation or other tools to obtain a representation and commitment, or other satisfactory assurance, that clients, especially those in the higher risk sectors, will comply with local laws and regulations; At a minimum, BI will provide a representation to the IDB regarding the clients' compliance with local laws and regulations after conducting its own assessment regarding compliance; (ii) engage with IDB in the ongoing process of reviewing its environmental and social policies to agree on any needed improvements within a time frame to be agreed at around one year from signing; and (iii) assign staff responsibility to screen for environmental and social issues prior to the first disbursement, and ensure that the designated staff member take part in the IIC/IDB Environmental Risk Management training course, or a similar workshop by other organizations such as UNEP-FI, to be agreed upon by the IDB.
- (iv) Present an Annual Environmental and Social Compliance Report (ESCR) with information on the MSME portfolio, and any particular risk issues identified during screening, mitigation measures agreed with clients, and compliance status.

5.2 The IDB will supervise the environmental and social aspects related to the use of the proceeds of the IDB loan either by an in-house specialist or with external consultants, and if necessary, will require measures to address the management of impacts and risks. To this end BI will provide and facilitate access by IDB to all relevant documentation, personnel and project facilities.