

## Environmental and Social Strategy (ESS)

### I. Overview

- 1.1 The proposed project consists of a financing facility (the “Facility”) for Banco Financiera Comercial Hondureña, S.A. (“Ficohsa”) to support primarily the development of a “green” loan portfolio of small and medium enterprises (“SMEs”) and small and medium corporate companies.

### II. Environmental and Social Impacts and Risks

- 2.1 Based upon the nature of this operation (i.e. a financing facility to support the development of a “green” loan portfolio for small and medium enterprises), there may be minimal to moderate direct environmental, social or health and safety (ESHS) and labor risks and impacts. To that end a specific environmental due diligence is required. The potential key ESHS and labor risks and impacts associated with this operation are those related to the specific projects financed by Ficohsa with the proposed financing and could include (i) Ficohsa’s 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 impact of other Ficohsa operations.
- 2.2 *Environmental credit risks:* Environmental credit risks refer to potential negative effects on Ficohsa’s ability to repay the IDB because of: (i) risk of an eventual non-repayment of loan due to environmental and social issues (e.g. law suits, fines, etc) for SME loans; and (ii) risks associated with Ficohsa facilities and operations, such as environmental liabilities in their offices due to asbestos, lead paint, etc. or BG employees having occupational health and safety problems due to working conditions (e.g. inadequate emergency preparedness, lack of fire exits, etc).
- 2.3 *Direct impacts associated with loans to SMEs:* The Facility may generate minimal to moderate negative social and environmental impacts associated with loans to SMEs. The type and extent of impacts will vary depending on the amount of loans to be extended and on the type of activities to be financed. There may be specific environmental, social, health and safety (ESHS) and labor impacts and risks related to SME investment in certain sectors, for example, related to investment in energy, forestry, waste management, water and wastewater treatment and industrial technology sectors. The assessment of social and environmental impacts for each loan will be the responsibility of Ficohsa through the Environmental and Social Management System (ESMS) developed as part of the requirements of A/B Loan HO-L1036, signed in 2008. This ESMS includes the approved Environmental and Social Credit Policy (Política Ambiental y Social Crediticia) which provides instruction on the identification, classification, evaluation, and monitoring of environmental risks and impacts for all its corporate loans, and the respective procedures developed through an Environmental and Social Risk Assessment System (Sistema ARAS, Analisis de Riesgo Ambiental y Social). The due diligence will assess Ficohsa’s progress in developing and implementing this system and its adequacy and/or sufficiency to ensure the

management of the environmental risks and impacts of the proposed Facility. If this system is deemed adequate, it will be sufficient to fulfill the above requirement of an ESMS. If it is not considered sufficient, the project team will work with Ficohsa on an Action Plan to enhance the ESMS.

- 2.4 *Reputational risks associated with the impact of other operations:* Reputational risks are associated with Ficohsa's involvement in projects, companies or activities considered unacceptable to the IDB and/or that will face significant public opposition or concerns, such as (i) inappropriate development location; (ii) Ficohsa's finance application and analysis process that is not equitable, fair, and unbiased in terms of social factors (e.g. gender, age, ethnicity, or cultural heritage, etc.); and (iii) significantly deficient labor practices.
- 2.5 These risks may be minimal to moderate and will be assessed during the due diligence.

### **III. Status and Compliance**

- 3.1 Based on Directive B.13 of the Environment and Safeguards Compliance Policy, and given that this is a Financial Intermediary project, this operation is not categorized.
- 3.2 In form, Ficohsa is in compliance with most of the environmental and social requirements of the HO-L1036 A/B loan, except for the 2009 Environmental and Social Compliance report, which has been due since March 1, 2010.

### **IV. Strategy for Environmental and Social Due Diligence**

- 4.1 The IDB undertook a first environmental and social due diligence of Ficohsa as part of the A/B loan approved in 2008. The Bank will update this assessment to take into account any changes in Ficohsa's portfolio, policies and practices, and to evaluate the progress made in the development of the Environmental and Social Management system required for the A/B loan. During this process, the Bank will establish whether the environmental procedures in place are sufficient and adequate to appropriately assess and the environmental and social risks and impacts associated with the Facility. The IDB will ensure that appropriate ESHS and labor requirements are included in the legal agreements.
- 4.2 To that end, the updated environmental and social due-diligence will specifically reassess the components listed below and will attempt to identify areas where the IDB's participation could result in additionality by promoting better management and good practices related to environmental and social issues:
- a. An assessment of any changes in Ficohsa's compliance status with the applicable country environmental, social, health and safety, and labor regulatory requirements;
  - b. An assessment of the Environmental and Social Management System developed by Ficohsa and its implementation status.

- c. An updated assessment of Ficohsa's actual and pipeline SME portfolio, to establish potential reputational risks associated with Ficohsa's involvement in projects, companies or activities considered unacceptable to the IDB; and specific ESHS and labor impacts and risks related to SME investment in certain sectors, likely to be financed under the Facility.
- d. An assessment of Ficohsa's status and compliance with other environmental and social requirements of the existing A-Loan and the Trade Finance Facilitation Program (TFFP). An identification of any environmental and occupational safety liabilities in Ficohsa's facilities and operations that might have occurred since the last due-diligence, and if required, assessment of the adequacy of action plans to properly resolve them.
- e. An updated evaluation of Ficohsa's compliance with the Fundamental Principles and Rights at Work and with any other international labor organization conventions and treaties which have been ratified by Honduras, to determine presence of any existing major labor problems associated with Ficohsa projects, and whether they practice fair and unbiased labor practices related to sex, age, ethnicity, cultural heritage, and collective bargaining.
- f. An updated social assessment of Ficohsa's procedures to ensure that loan, finance application and analysis process is still equitable, fair, and unbiased in terms of social factors (e.g. age, gender, cultural heritage, etc).

4.3 The results of the updated due diligence will be presented in an Environmental and Social Management Report and summarized in the Loan Proposal.

