**Environmental and Social Management Report**

**Caja Sullana**

**Capital strengthening and low income housing loan program**

**for the Peruvian Microfinance System**

**PE-L1102**

**I. Project Description**

1. The proposed Project is an OMJ US$5 million facility ($2.5 million for subordinated loan to fund mortgage and/or home improvement loans and $2.5 million for home improvement sub-loans) to the Caja Municipal de Ahorro y Crédito Sullana (CMAC Sullana). Funds will be used to provide loans of an average of USD$5,000 for home improvements and USD$10,000 for mortgages to low-income individuals, for mortgages and home improvements, pursuant to the IDB Program “Capital Strengthening and Low Income Housing Loan Program for the Peruvian Microfinance System” (“the Program”), approved on March 11, 2009. The Program provided for IDB senior and subordinated housing loans (together, “Lending Products” or “MFI Program”) as well as a parallel MIF technical cooperation (“TC”) to support the provision of housing solutions for the base of the pyramid population in Peru by funding Peruvian regulated microfinance institutions (MFIs)[[1]](#footnote-1). The total amount of the Program approved was USD$10 million from the OMJ Facility.

2. Under the IDB Program, Peruvian MFIs could apply to finance one or several of the

following Lending Products, based on pre-defined eligibility criteria: (i) a subordinated

credit loan to the MFIs to strengthen their equity position (the “Subordinated Loan

Product”); (ii) a senior unsecured credit loan to the MFIs to fund home improvements (the “Housing Microfinance Loan Product”) and/or (iii) senior secured mortgage loan to low income population (the “Mortgage Loan Product”). The total amount of the Lending

Products to each MFI cannot exceed the lower of USD$5 million per institution from the

IDB Program, or a defined percentage of the borrower’s equity. CMAC Sullana applied for the Housing Microfinance and Subordinated Loan Products, and qualifies for a USD$5 million loan from IDB.

**II. Project Status and Compliance**

3. Based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP 703), and given that this is a financial intermediary project, the Program was not categorized and neither is this loan.

4. The Environmental and Social Strategy (ESS) of the Program was approved by the

Environmental and Social Review (ESR) Committee on November 7, 2008, and the

Environmental and Social Management Report of the Program on November 21, 2008. The Program ESMR established that the Bank would carry out due diligence for each individual loan in order to assess and recommend environmental and social procedures, including an Environmental Procedure commensurate to the risks associated to each loan.

5. CMAC Sullana 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 Impacts and Risks**

*Positive direct impacts*

6**.** The loans are expected to have a positive social, health and safety impacts through the

improvement of homes, since they could improve the living conditions of individual

borrowers and their families, the security standards of their homes and reduce the risk of

accidents related to real estate quality.

*Potential negative direct impacts*

7. The potential direct negative impacts of this individual transaction are associated with change in the natural environment due to modification of the physical condition of specific project areas building sites or due to construction, rehabilitation, alteration and demolition on land; and energy related environmental impact of buildings, including the waste of non-renewable energy such as land and water. The potential negative risks include the reduction in mortgage assets values because of environmental and social issues. These impacts are expected to be minimal and small in scale given the small amount of each individual loan to be provided by CMAC Sullana (US$4,000 USD$7,000, on average). Impacts would be mainly related to the environment and/or health and safety and could result from unsafe and/or unlawful sites, building facilities, carrying out of construction works, and disposal of material used for construction.

*Indirect, reputational Risks*

8. There are reputational risks for the IDB group associated with: (i) the potential

environmental impact of other operations in CMAC Sullana portfolio; (ii) liabilities due to past or current environmental and social issues; and/or (iii) environmental, social, health and safety issues related to CMAC Sullana facilities and human resources management.

9. Regarding the composition of the CMAC Sullana portfolio per sector, 30% of the portfolio is composed of commercial activities, 21% for industrial activities, 19% for the agricultural sector and the rest for other minor activities, which implies relatively low environmental, social health and safety (ESHS) and labor risks for the portfolio as a whole.

10. With respect to the type of loans, most of them are Micro and Small Enterprises.

11. To the IDB’s knowledge, CMAC Sullana has no environmental, social, health and safety

(ESHS), or labor liabilities related to its facilities, working practices or operations, in the

present or in the past 5 years. Also, to the IDB’s knowledge, CMAC Sullana has not violated any applicable national ESHS or labor legal requirements during this time frame nor the International Principles and Rights at work or any other applicable International Labor Organization convention or treaty.

**IV. Environmental and Social Management**

12. CMAC Sullana does not have a specific Environmental Management System in place. CMAC Sullana has a Code of Ethics that focuses on integrity and equality in the bank’s relationships with clients, providers, and the market.

**V. Environmental and Social Requirements**

13. As part of the loan agreement the IDB will require that CMAC Sullana comply with all applicable Peruvian environmental, social, health and safety and labor regulatory

Requirements, with the Fundamental Principles of the Rights at Work, and that CMAC

Sullana not finance any product or activity that is listed in the IDB List of Excluded

Activities for NSG operations. During the life of the loan, CMAC Sullana will prepare and submit an annual Environmental and Social Compliance Report in form and content

acceptable to the Bank.

14. CMAC Sullana will also develop and implement an appropriate Environmental Procedure (EP) to be applied to all home loans that will be financed with IDB proceeds. The EP must include at least (i) a checklist to verify the eligibility of loans against some key environmental, social, health and safety requirements (for example no loan should be provided for the improvement of real estate situated in protected, contaminated or disaster risk-prone land or areas); (ii) a simple mechanisms for monitoring and reporting on the loans. In addition, CMAC Sullana will have to train at least one officer in each one of its branches in the implementation of the EP. If feasible, basic technical and legal information could be distributed borrowers as a way to prevent accidents and unlawful/inadequate carrying out of improvement works. An EP complying with these requirements and deemed acceptable by the IDB in substance and form will be developed following the due diligence process and included as an annex in the loan agreement.

13. As an option, CMAC Sullana is also encouraged to integrate environmental aspects into its

loan evaluation, approval and monitoring process. This would contribute to further enhance the quality of the portfolio by reducing the financial and reputational risk of loans that entail some level of environmental impact. The IDB could provide technical support in this sense.

1. Comprised of close to 40 members including the *“Cajas Municipales de Ahorro y Crédito*” *(CMAC)*, *“Cajas*

*Rurales” (CRAC) Entidades de Desarollo de la Pequeña y Micro Empresa* (*EDPYMES*) and certain *Financieras*

(together the “Microfinance Institutions, or MFIs” ). [↑](#footnote-ref-1)