

Environmental and Social Strategy¹

Banco CMF, Argentina

I. Overview

- 1.1 The proposed project consists of a seven year revolving line of US\$15 million (“The Facility”) for Banco CMF (“CMF”) to support small and medium enterprises (“SMEs”) portfolio growth, under the IDB SME Facility, approved in 2011. Each disbursement will have a 12 months tenor.
- 1.2 Banco CMF is the 34th largest bank in terms of assets in Argentina, following a niche corporate banking business model, specializing in banking to small and medium enterprises in Argentina. Rather than providing transactional services, the bank emphasizes an integral relationship with its clients, striving to better understand and serve their specific needs. It started up as a joint-stock company on 1978, originally operating as a finance company. The present stockholders acquired the entity in 1990 and on 1996, after the approval from the Central Bank of the Argentine Republic, it became a Commercial Bank. For further information visit www.cmfb.com.ar

II. IDB Environmental Impact Category

- 2.1 Based on Directive B.13 of the IDB’s Environmental and Safeguard Compliance Policy (OP-703), and given that this is a Financial Intermediary project, this operation is not categorized according to its potential environmental and social impacts and risks.

III. Environmental and Social Impacts and Risks

- 3.1 Based upon the nature of this Facility, 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 CMF under the proposed Facility and could include (i) CMF’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 CMF operations.
- 3.2 *Environmental credit risks:* Environmental credit risks refer to potential negative effects on CMF’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 CMF facilities and operations, such as environmental liabilities in their offices due to asbestos, lead paint, etc. or CMF employees having occupational health and safety problems due to working conditions (e.g. inadequate emergency preparedness, lack of fire exits, etc).
- 3.3 *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

¹ This Environmental and Social Strategy (ESS) is being made available to the public in accordance with the Bank’s Policy on Disclosure of Information. The ESS has been prepared based primarily upon information provided by the project sponsors and does not represent either the Bank’s approval of the project or verification of the ESS’s completeness or accuracy.

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, industry energy, or manufacturing. These ESHS risks and impacts could include for example: habitat conversion and degradation (construction, agriculture, transport, energy); solvent emissions and waste (print shops, tanneries); occupational health and safety (industry, construction, agriculture); poor land use (construction, agriculture); noise and air pollution (industry, construction), increased greenhouse gas emissions (industry, energy), increased pressure on, and disruption to, water resources (agriculture).

- 3.4 *Reputational risks associated with the impact of other operations:* Reputational risks are associated with CMF'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) CMF'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.
- 3.5 These risks and impacts may be minimal to moderate and will be assessed during the due diligence. The assessment of ESHS risks and impacts for each loan will ultimately be the responsibility of CMF, through the implementation of an Environmental and Social Management System (ESMS), the specific requirements of which will be defined during the environmental and social due-diligence process.

IV. Strategy for the Environmental and Social Due Diligence

- 4.1 As per the IDB Environment and Safeguards Compliance Policy and Guidelines, and in accordance with the due diligence procedure put in place for the SME Financing Facility, the Bank will assess CMF's capacity for environmental management, through an analysis of the ESHS and labor risks and impacts associated with the Facility. During this process the IDB will establish whether appropriate environmental procedures are in place to appropriately assess and manage these potential risks and impacts. The IDB will ensure that appropriate and feasible ESHS and labor requirements, in the form of an Environmental and Social Management System (ESMS), tailored to the particular needs of the Facility, are included in the legal agreements.
- 4.2 To that end, the environmental and social due-diligence will specifically include 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 CMF's compliance status with the applicable country environmental, social, health and safety, and labor regulatory requirements;
 - (b) An assessment of CMF's actual and pipeline portfolio, to establish potential reputational risks associated with CMF'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, such as agriculture.
 - (c) An assessment of the sufficiency of current credit appraisal, approval, and monitoring procedures to manage environmental and social liabilities, impacts and risks of its loan operations, including risks associated with CMF's SME lending portfolio. Current procedure should at a minimum be able to (i) include consideration of environmental or social aspects (such as possible impacts on coastal zones, lakes and rivers; in protected areas; or possible effects that may result from natural disasters), and assess potential environmental financial/credit risks and liabilities that may be associated with the loans; and (ii) include

- provisions to have credit officers qualified and trained to identify potential environmental, social, health and safety, and labor issues/liabilities. Specifically this will include an assessment of any existing environmental and social policies and/or management systems currently in place to determine their adequacy in managing the potential risks and impacts of investments to be financed under this Facility.
- (d) An evaluation of CMFs status and compliance with the environmental and social requirements of the TFFP and with other multilateral development facilities and programs, if applicable.
 - (e) An evaluation to ensure an appropriate inventory of present environmental and occupational safety liabilities in CMF's facilities and operations, and if required, assess the adequacy of action plans to properly resolve them.
 - (f) An evaluation of CMF'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 Argentina, to determine presence of any existing major labor problems associated with CMF projects, and whether they practice fair and unbiased labor practices.
 - (g) An assessment of the adequacy of CMF's procedures to ensure that loan, finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. age, gender, cultural heritage).

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