

Environmental and Social Management Report
Banco del Pais Subordinated Loan (HO-L1085)

I. Overview

- 1.1 The proposed project consists of a subordinated loan (“The Subordinated Loan” or the “Loan”) to Banco del Pais, S.A. (“Banpais”) for up to US\$10 million. The Subordinated Loan is part of the LACC Subordinated Debt Facility (RG-X1088) (the “Facility”), approved by the Board of Executive Directors in August 2010. This loan is the fifth operation under the LACC Subordinated Debt Facility (RG-X1088), approved by the Board in August 2010.
- 1.2 Such capital enhancement will allow Banpais to support the growth of their lending portfolio in high social impact areas such as Small and Medium Enterprises (“SMEs”) in Honduras.
- 1.3 Banpais expects to further consolidate its relevant position in the SME market segment and extend financing beyond the traditional short-term working capital financing that is currently provided by the market on a limited basis.
- 1.4 Banpais was founded on July 2nd, 1992 in San Pedro Sula, Honduras and in 2007 was acquired by Bicapital Corporation (“BICC”), which in addition to Banpais and its only wholly owned subsidiary Seguros del Pais, S.A., also owns in Guatemala Banco Industrial, S.A. Banpais is the fifth largest bank in Honduras and has evolved as a relevant player in the local financial system.
- 1.5 As of September 2011, Banpais serves more than 200,000 individual customers through more than 220 points of sale, including 70 branches (9 new to come), 11 auto branches, 66 tellers (6 more to come) and 107 ATMs. As of September 2011, Banpais had total assets of US\$1.1 billion, loan portfolio of US\$849 million, and total deposits of US\$855 million.
- 1.6 As of September 2011, Banpais maintains a commercial lending portfolio of US\$571 million and expects to further expand its portfolio. The SME portfolio (clients between the upper limit for microfinance (USD\$10,000) and the lower limit for “Grandes Deudores” according to the definition of the CNBS (less than US\$1 million)), represent around 20% of the bank’s commercial lending portfolio.

II. Status and Compliance

- 2.1 Based on Directive B.13 of the Environment and Safeguards Compliance policy and given this is a financial intermediary, this operation was not categorized.

- 2.2 Banpais has confirmed that it is in compliance with Directive B.2 (country laws and regulations) of IDB Environment 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

- 3.1 In order to assess the Environmental and Social (E&S) risk of this operation, two main components are taken into consideration: first, the E&S impact level of the use of proceeds and second, the E&S management capacity of Banpais.
- 3.2 The determination of the E&S impact level is primarily done on the basis of the use of proceeds, followed by the size of the sub-projects. 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. The types of projects that Banpais will finance with the proceeds are loans to SMEs between US\$10,000 and no more than US\$1 million. Banpais has an SME portfolio of approximately US\$ 114 million that consists on the following activities: trade and commerce of agricultural products, food, construction materials and electric products (27%), manufacturing such as food and beverages and furniture (25%), service industry such as tourism, restaurants, hotels, schools, hospitals, etc (17%), real estate (15%), state-owned companies (5%), and some other activities with less than 1.5% each.
- 3.3 The type of SMEs listed above can produce minimum to medium direct environmental, social or health and safety (ESHS) and labor potential impacts. Projects with moderate direct ESHS and labor potential impacts are specially the manufacturing that may produce contamination of land and water, noise and air pollution, increased greenhouse gas emissions, occupational health and safety and inadequate labor conditions. In a less degree, real estate and services might produce other impacts due to inadequate location in areas with non-compatible land use or prone to natural disasters. Therefore these activities are considered as minimum impact activities.

IV. Environmental and Social Management

- 4.1 As part of its environmental and social management practices, Banpais requires all its clients to comply with national legislation and verifies that all projects and clients comply with environmental permits.
- 4.2 Banpais management is currently in the process of implementing the application of an Environmental Policy. This policy includes a project categorization according to its environmental impact (A – low, B- medium, C-high) and excludes from financing all the high risk projects (C). The policy also includes an Exclusion List that is similar to the IDB Exclusion List and requires that all the clients comply with the local environmental regulations.
- 4.3 At the moment, there is not a specific person within the organization of Banpais who carries responsibility for coordinating environmental and social risk management.

V. Recommendations

- 5.1 As part of the Loan Agreement between the IDB and Banpais, the IDB will require Banpais to develop an Environmental and Social Management System (ESMS) commensurate to the environmental and social risks of its SME portfolio with inputs from a representative sample of their SMEs operations. By means of the ESMS Banpais will be required to ensure that the SMEs supported with the proceeds of the IDB loan comply with: (i) all applicable Honduran ESHS, and labor regulatory requirements, (ii) IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations, and (iii) the Fundamental Principles of Rights at Work (together referred to as the IDB Environmental and Social Requirements).
- a. The IDB will require that Banpais presents an Action Plan to develop the ESMS. The ESMS should include at a minimum:
- A process for assuring compliance with the IDB Environmental and Social Requirements as relevant according to risk level.
 - Mechanisms for assessing and managing environmental and social aspects associated with sub-loans.
 - A process for documenting evaluation and monitoring performance of the SME loans. Training investment and/or other officers in the application of the ESMS.
 - Participation in an environmental finance training seminar
 - The designation of an Environmental Officer to implement the ESMS.
- The Action Plan will include the actions above with corresponding milestones.
- 5.2 The IDB will supervise the environmental and social aspects of the Loan Agreement either by an in-house specialist or with external consultants, and require Banpais to present environmental and social compliance reports in form, content and frequency satisfactory to the IDB.