

**1. Project Description.** This project aims to expand Banco Industrial's on-lending activities in the productive sector of Guatemala with a focus on residential mortgage portfolio for low and middle-income segments and financing MSMEs activities.

**2. Environmental and Social Categorization and Rationale.** This operation is classified as an FI-2 under the IDB Invest's Sustainability Policy. Based upon the nature of these transactions (i.e. a partnership to provide residential mortgage for low and middle-income segments and medium-term funding to MSMEs in the productive sectors), those focused specially on micro and small productive sectors are likely to be of moderate to significant indirect environmental, social, health and safety (ESHS) and/or labor impacts and risks. Banco Industrial's microfinance portfolio is concentrated mainly in commerce (62.8%), commercial real state (10.1%), manufacturing industries (9.6%), transportation and storage (7.4%) and community, social and personal services (6.0%) economic sectors, which present risks in the form of possible air, water and soil contamination, noise and vibration, and labor impacts.

**3. Environmental and Social Risks and Impacts.** Sub-project environmental and social risks may be related to air, water and soil contamination, noise and vibration, occupational health and safety, supply chains, and land-use change. Banco Industrial has in place an Environmental and Social Management System (ESMS) to identify and manage the E&S risks of its portfolio. Its systems include adequate E&S procedures and has a qualified team, lead by an Environmental Coordinator, trained to manage E&S risks and impacts; however, there are improvement regarding capacity strengthening and training, the monitoring and reporting procedures, and the grievance mechanism.

**4. Mitigation Measures.** Banco Industrial will be required to ensure that all loans supported comply with the IDB Invest Exclusion List, applicable E&S local national laws and good practice guidelines, and the IDBG's environmental and social guidelines. To enable the Borrower to better understand the IDB Invest's requirements, Banco Industrial will be required to attend the IDB Invest's Environmental and Social Risk Management training workshop for financial intermediaries (FI). Banco Industrial will also be required to upgrade their External Communication or Grievance Mechanism to review inquiries or complaints from any interested party regarding the E&S risks and impacts of their operations. Finally, Banco Industrial will be required to report annually and provide monitoring reports of client activity.

## **5. Environmental and Social Action Plan (ESAP)**

**1- Capacity Strengthening & Training.** Reinforcement training of senior management, loan officers and credit analysts on IDBG environmental and social guidelines and IFC Performance Standards, by experienced consultant acceptable to IDB Invest or by attending the IDB Invest's Environmental and Social Risk Management training workshop for FI and provide an E&S training during the Banks induction program.

**2- Monitoring and Reporting procedures** Banco Industrial will adopt and implement the Annex 5 - Environmental Performance Report of their ESMS of version B-453 of Banco Industrial's Manual de Políticas de Análisis de Riesgo de Impacto Ambiental (dated September 2017), as part of their monitoring and reporting procedures.

**3- Grievance Mechanism** Upgrade Banco Industrial external communication or grievance

mechanism to review inquiries or complaints from any interested party regarding the E&S risks and impacts of their operations.

## **ADDENDUM - 8/13/2018**

**Expected Board Approval Date:** "September 25", 2018

**Financing Requested:** Up to "US\$120,000,000.00"

### **Scope and Objective of the Project and IDB Invest's Participation:**

The proposed operation consists of a note subscription under Banco Industrial's financial future flow securitization program. "Banco Industrial will issue around **US\$350 million** under its existing Diversified Payments Rights Program (the "Program"). And the IDB Group will purchase "**US\$120 million**" in notes with a tenor of up to "**12 years**". The use of funds will be to expand Banco Industrial's (i) residential mortgage portfolio for low and middle-income segments, as well as to finance micro enterprises "**lending**" in the productive sector of Guatemala.

### **B. Environmental and Social Review Summary**

**1. Project Description.** This project aims to expand Banco Industrial's on-lending activities in the productive sector of Guatemala with a focus on residential mortgage portfolio for low and middle-income segments and financing "**micro enterprises**".

**2. Environmental and Social Categorization and Rationale.** This operation is classified as an "FI-3" under the IDB Invest's Sustainability Policy.. Based upon the nature of these transactions (i.e. a partnership to provide residential mortgage for low and middle-income segments and medium-term , funding to MSMEs micro enterprises in the productive sectors),those focused specially on micro and small productive sectors are likely to be of moderate to significant indirect environmental, social, health and safety (ESHS) and/or labor impacts and risks. Banco Industrial's microfinance portfolio is concentrated mainly in commerce (62.8%), commercial real state (10.1%), manufacturing industries (9.6%), transportation and storage (7.4%) and community, social and personal services (6.0%) economic sectors, which present risks in the form of possible air, water and soil contamination, noise and vibration, and labor impacts.