

ENVIRONMENTAL AND SOCIAL MANAGEMENT REPORT

(Banco Ficohsa HO-L1036)

Project Description

The proposed project entails a US\$25 million long term financing facility (the “Financing Facility”) that will enable Banco Financiera Comercial Hondureña S.A. (“Ficohsa”) to increase its longer term loan portfolio; including housing finance, and lending to small and medium enterprises “SMEs”.

By providing a five-year loan facility to Ficohsa this IDB facility will (i) support the origination of mortgages to meet projected growth for mortgage origination and thereby increase the availability of housing finance in Honduras, and (ii) improve the access of Honduran SMEs to scarce longer term financing.

Environmental and Social Impacts and Risks

The Environmental and Social Strategy for the Project was presented and approved on February 25, 2008 by the Environmental Safeguards Review team, no further action was required.

Based on Policy Directive B.13, and given this is a financial intermediary project, this operation was not categorized.

Based upon the nature of this project (i.e. facility to support housing finance and MSME’s), there should be limited direct environmental, social, or health and safety impacts or risks. The potential key environmental, social, health and safety, and labor issues and risks include (i) Ficohsa environmental credit risks, and (ii) IDB reputational risks associated with Ficohsa environmental, social, health and safety, and/or labor practices.

Environmental credit risks refer to potential negative effects on Ficohsa’s ability to repay the IDB because of: (i) risks due to Ficohsa programs (e.g. lending), such as reduction in asset values held as securities due to environmental issues or social issues (e.g., law suits, fines, etc); and (ii) risks associated with Ficohsa’s facilities and operations, such as environmental liabilities in their buildings/offices due to the existence of PCB transformers, asbestos, lead paint, etc., or employees having occupational health and safety problems due to

Ficohsa's working conditions/environment (e.g. inadequate emergency preparedness, lack of fire exits, etc).

Reputational risks refer to the potential for Ficohsa's lending programs that could jeopardize the Bank's reputation (transferable to the IDB) as a result of unacceptable environmental and social practices, or significant public opposition or major concern in relation to environmental or social matter. Lastly, reputational risks may also be associated with Ficohsa's involvement in operations that can be considered unacceptable to the IDB such as: (i) goods (companies) which may be considered to be non-eligible according to IDB's exclusion list (e.g., weapons or munitions, radioactive materials, etc.); (ii) possibility that Ficohsa's finance application and analysis process may not be equitable, fair, and unbiased in terms of social factors (e.g. gender, age, sex, ethnicity, or cultural heritage etc.); (iii) significantly deficient labor practices by Ficohsa.

Environmental and Social Management

Banco Ficohsa is in compliance with all the relevant environmental, social, health and safety and labor applicable regulations in Honduras.

Ficohsa is an active TFFP/ IDB client and has an environmental procedure established to screen trade transactions. Additionally, the bank is working with the OPIC, CABEL, MIF., IFC, DEG and FMO and is in compliance with the environmental and social requirements of these institutions. Ficohsa undertakes an environmental and social review of each project and requires that all operations are carried out in compliance with applicable Honduran environmental, health and safety requirements. Currently, Ficohsa is working with ECO CONSULTA, FMO and IFC to develop a Corporate Environmental Management System.

Ficohsa has a well developed HHRR Policy Manual, "Manual de Recursos Humanos", that outlines recruiting, training, and compensation procedures and practices that includes non-discriminatory clauses with regards to gender, age, social origin, religion and handicap. All employees are subject to an Ethics Code and anti-money laundering policy, with effective penalties applied. Ficohsa has 1260 employees, and according to a study conducted by Price Waterhouse Coopers its compensation package is one of the best in the market. The bank does not have handicapped employees and is not required to have them under law in Honduras.

Ficohsa's head office is located in Tegucigalpa and consists of two six floor buildings. In terms of emergency preparedness, evacuation drills are conducted on a regular basis and the bank has a fire brigade of 22 employees. The head office is inspected by the fire department on a yearly basis and each floor has the corresponding fire extinguishers. The Bank has an Emergency Preparedness and Response Plan that describes key responsibilities and procedures. In 2007 a group of employees from the bank were trained and certified in emergency

preparedness and CPR by the Red Cross. The bank has a medical facility in its head office where the majority of its workforce is located.

In terms of social responsibility, Ficohsa established a foundation that supports 110 low income pre-school centers throughout the country. Aside from education all the centers provide meals and school supplies for approximately 8,000 students per year involving their parents in these activities.

Environmental and Social Requirements

The Bank will require as part of the Loan Agreement that Ficohsa comply with all applicable Honduran environmental, social, health and safety, and labor regulatory requirements, IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations, and with the Fundamental Principles of the Rights at Work. Prior to financial closure, the IDB will require Ficohsa to present an Environmental, Social and Health and Safety Action Plan (ESHS Plan) in form and substance satisfactory to the IDB, including at a minimum (i) the chronogram for the development and implementation of an Environmental Management System (EMS) for all of Ficohsa's financial operations. The level of detail of the Environmental Management System will be commensurate to the potential environmental and social risk associated with Ficohsa's portfolio, and should include at a minimum: (i) project eligibility criteria (Environmental Exclusion List); (ii) a process for assuring compliance with local environmental and social legal requirements, (iii) mechanisms for assessing and managing environmental and social aspects associated to its portfolio; (iii) a process for documenting evaluation, approval and monitoring performance. 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 Ficohsa to present environmental and social compliance reports in form, content and frequency satisfactory to the IDB.