

Environmental and Social Management Report
Caja Maynas
Capital strengthening and low income housing loan
PE-L1095

I. Project Description

1. The proposed Project is an OMJ US\$2 million facility to the Caja Municipal de Ahorro y Crédito Maynas (CMAC Maynas). Funds will be used to provide loans of on average USD\$4,000-USD\$7,000 to low-income individuals, for 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. 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 populations (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 OMJ Facility, or a defined percentage of the borrower’s equity. CMAC Maynas applied for the Housing Microfinance Loan Product, and qualifies for a USD\$2 million loan from IDB.

II. Project Status and Compliance

1. 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.
2. 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

¹ Comprised of close to 40 members including the “*Cajas Municipales de Ahorro y Crédito*” (CMAC), “*Cajas Rurales*” (CRAC) *Entidades de Desarrollo de la Pequeña y Micro Empresa (EDPYMES)* and certain *Financieras* (together the “Microfinance Institutions, or MFIs”).

loan in order to assess and recommend environmental and social procedures, including an Environmental Procedure commensurate to the risks associated to each loan.

3. CMAC Maynas 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

4. The loans are expected to have a positive social, health and safety impacts through the improvement of homes, since they could ameliorate 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

5. The potential direct negative impacts of this individual transaction are associated with home improvements, since it is the only Lending Product requested from the Program. These impacts are expected to be minimal and small in scale given the small amount of each individual loan to be provided by CMAC Maynas (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

6. There are reputational risks for the IDB group associated with: (i) the potential environmental impact of other operations in CMAC Maynas portfolio; (ii) liabilities due to past or current environmental and social issues; and/or (iii) environmental, social, health and safety issues related to CMAC Maynas facilities and human resources management.
7. Regarding the composition of the portfolio per sector, 63% of the portfolio is composed of loans to the services sector, 30% to commercial activities. Only 5% of loans are for industrial activities, and a smaller, 2% to the agricultural sector, which implies relatively low environmental, social health and safety (ESHS) and labor risks for the portfolio as a whole.
8. With respect to the type of loans, 38% of the total amount of loans goes to Medium Enterprises (MEs), 32% to credit for Consumption, 22% to commercial loans, and 8% to secured and mortgage loans.
9. Approximately 37% of loans are inferior to US\$3,400; 31% are between US\$3,400 and US\$10,300, 20% are between US\$10,300 and US\$52,000, and 12% are above US\$52,000.

10. To the IDB's knowledge, CMAC Maynas 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 Maynas 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

11. CMAC Maynas does not have a specific Environmental Management System in place. It has approved Policies on Security, Health and Environmental in August 2007, where it commits to implement an adequate system for the management of operational or environmental risks in order to provide a healthy and safe work environment and to reduce the impact on the environment. Managers are jointly responsible for the monitoring of this policy. CMAC Maynas also has a Code of Ethics that is being currently updated and focuses on integrity and equality in the bank's relationships with clients, providers, and the market.

V. Environmental and Social Requirements

12. As part of the loan agreement The Bank will require that CMAC Maynas complies 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 Maynas does 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 Maynas will prepare and submit an annual Environmental and Social Compliance Report in form and content acceptable to the Bank.
13. CMAC will develop and implement an appropriate Environmental Procedure (EP) to be applied to all home improvement 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) simple mechanisms for monitoring and reporting on the loans. In addition, CMAC Maynas 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 Environmental and Social Procedure 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.
14. As an option, CMAC Maynas is also encouraged to integrate environmental aspects in 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.