

Environmental and Social Management Report
Banco General
PN-L1035

Project Description

The proposed project entails a long term senior unsecured financing facility (the “Facility”) that will enable Banco General (“BG”) to finance the growth of its mortgage loan portfolio for medium and low income individuals in Panama. The proposed Facility would provide an A loan (the “A Loan”) for up to US\$50 million to be funded by the IDB with a tenor of five years. Furthermore, subject to market demand, the IDB will syndicate a senior B loan (the “B Loan”) on a best effort basis for up to US\$75 million.

Banco General (BG) initiated operations in 1955 as a general licensed bank focusing on mortgage lending. In 1990, BG decided to expand its market and broaden its product base by becoming a universal bank. BG entered in the corporate and retail markets while developing its private banking business and starting an insurance company. In September 2007, BG merged with Banco Continental (BC) becoming the second largest commercial bank in Panama with total assets of US\$7,524 million, a loan portfolio of US\$5,149 million, a network of 63 branches in Panama, one general licensed bank in Costa Rica, 5 representative offices (in Guatemala, El Salvador, Nicaragua, Mexico and Colombia), 205 ATMs and 2693 employees, based on information as of June 2008. BG has traditionally been the leader in the mortgage segment. BG activities are divided in main part into “Corporate Loans” and “Consumer Loans”

Project Status and Compliance

The Environmental and Social Strategy for the Project was presented and approved on October 3, 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.

BG 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, such as those required by The National Environmental Authority of Panama (ANAM).

Environmental and Social Impacts and Risks

The potential key environmental, social, health and safety, and labor issues and risks associated with this Facility are mainly those related to the mortgages to be financed by BG as well as to the construction loans, which could finance housing development projects for which BG could eventually provide mortgages from the Facility. BG has extensive experience in the mortgage business in Panama. In June 2008 BGs mortgage portfolio totaled US\$1,386 million, 37% of which was for preferential interest rate mortgages (low income housing for properties with a

value of under \$80,000). BG relies on the regulatory framework in Panama for the assessment of environmental and social impacts and risks. For all newly constructed properties BG requires an Occupation Permit (which must be approved by the respective authorities for water, waste and fire and safety) before a mortgage is granted. For older properties, BG requires an Evaluation Inspection, by an independent third party acceptable to BG, before a mortgage is granted, which includes consideration of water, sanitation and natural hazards. Currently BG does not have an environmental procedure to assess the environmental and social aspects related to residential mortgages, which form part of their Consumer Loans business, and does not apply an exclusion list. BG has stated that it has no financial liabilities in its existing portfolio, related to environmental, social and health and safety issues.

For BG financed construction of preferential (low-income) housing (part of its Corporate Loans business), BG requires a Construction Permit from the Municipality Office as well as an approved resolution from The National Environmental Authority of Panama (ANAM) (confirming the results of an EIA) before any disbursements can be made. In order to receive these, the construction plans must be approved by the respective authorities for water, waste, and fire and safety. Third party inspections are conducted prior to each disbursement to ensure compliance with the permit and resolution. Additionally BG is piloting the use of an internal environmental report to supervise environmental risks associated with construction projects in operation.

The risks associated with BG facilities and operations, such as environmental liabilities in their offices due to asbestos, lead paint, etc. or BG employees having occupational health and safety problems due to working conditions (e.g. inadequate emergency preparedness, lack of fire exits, etc) are considered to be minimal. BG's head office is located in the city of Panama. BG has a Security Procedures Manual ("Manual"), which includes a disaster contingency plan which includes instructions for evacuations, bomb threat, fire protection, and natural disasters, and details key roles and responsibilities. BG has a designated officer to manage security issues (including fire and evacuation). The head office is inspected by the fire department on a yearly basis and each floor has the corresponding fire extinguishers. However, currently BG does not conduct evacuation drills and does not have well marked evacuation signage. Acuerdo 1 (2007) of the *Superintendencia de Bancos de Panamá* stipulates legal requirements for all Banks with respect to fire regulations, including evacuation. To date progress has been made by conducting fire training (theory and practice) for employees designated as fire monitors (two per Branch).

BG has a series of Human Resources Policies implemented through an established Human Resources Strategy covering organization culture, people, compensation practices, communication, leadership and operations. BG's Code of Ethic includes stated reference to respect, fair and equal treatment as a basis for labor relations. All employees receive a copy of the Code, which must be signed and BG provides training on the Code. All BG employees have a private health plan (medical, hospital and emergency). BG has stated that they have no material health issues (including legal claims) and do not have any materials employee or labor disputes. BG has also stated that its finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. gender, age, ethnicity, or cultural heritage).

Other Risks

During IDB's environmental and social due diligence, BG disclosed one particular aspect of its current portfolio that raised a certain level of concern regarding other potential risks (reputational, financial and legal) arising from the involvement of BG in a hydroelectric project in the Changuinola/Teribe watershed¹. In 2007 BG became the arranger and administrative agent for a syndicate of 11 Panamanian and Central American financial institutions, to fund the AES Changuinola, S.A. (AESC) development of CHAN 75 (Changuinola I Hydroelectric Project), a 223-MW facility located on the Changuinola River in Bocas del Toro Province near the town of Almirante in northwestern Panama.² In addition to arranging the financing, BG has a US\$ 84.3 million investment in AESC for the development of CHAN 75.

Recent investigations during IDBs due diligence have indicated that the environmental and social issues and risks have been satisfactorily resolved. The environmental and social due diligence conducted by the IDB confirmed that while the original EIS (based on a Category III, the highest category in Panama) was "*not very specific or accurate on certain sensitive matters*", the project has addressed the concerns raised through including an additional 41 environmental obligations, which are presently being monitored by ANAM. Moreover, BG has taken some steps toward ensuring close monitoring and supervision of the environmental and social aspects of the project, by, for example, retaining MWH Panama, S.A. to be BG's Independent Engineer (IE) for the Project review. According to the IE, these "*additional environmental duties include very accurate and mandatory instructions*". Furthermore according to the IE, the principal social issue, the resettlement of mostly indigenous people, is proceeding well and AESC has hired a consultant to work on the relocation process. The monitoring is done by the IE (in close collaboration with AESC, the project developer), but as can be seen from their construction monitoring report, also relies heavily on the inspections carried out by ANAM. There are several other monitoring consultancies ongoing. In addition to the services of the IE, who reports to the lenders, an auditor reports every four months to ANAM. All available reports seem to be satisfactory and indicate the project is in compliance with Panamanian legislation and most of the environmental obligations.

BG has stated that it has no outstanding environmental, social, health and safety concerns, through involvement in the project detailed above or other projects, companies or activities that could potentially generate significant public opposition or concerns, for example due to inappropriate development location.

Environmental and Social Management

Environmental and Social Management System

Since August 2008, BG has been working on developing an Environmental Management System ("EMS") within the guidelines set out by the International Finance Corporation and other

¹ The Changuinola/Teribe watershed is 3,202 square kilometers (sq. km.), of which approximately half is located La Amistad International Peace Park and Biosphere Reserve, shared between Panama and Costa Rica.

² AESC was also awarded the two other dams (CHAN 140 and CHAN 220) in the same watershed.

multilateral institutions. The EMS will apply to all BG activities. To assist them in this process, BG has contracted the support of EcoConsulta, S.A., a consulting firm based in Costa Rica, whose founders and partners are members of INCAE and founders of the EcoBanking Project. This consultancy is financed through technical assistance provided to BG by the German Investment and Development Company (DEG). EcoConsulta is working closely with BG's Risk Management Department to further develop the EMS, currently in draft format, which is based on a set of procedures, questionnaires and tools that will be used to ensure its efficient and effective implementation. While to date the development of the Policy and EMS has been focused on the identification of environmental and social risk in corporate loans rather than consumer loans, BG has made a serious commitment to its implementation at all levels of its business. During due diligence BG expressed specific interest in incorporating a specific mortgage procedure into the EMS. BG has also begun to apply the Equator Principles³ to new projects in their portfolio; however they are not yet a signatory of this voluntary agreement.

Following a presentation of the proposed plan for an EMS, BG Senior Management issued their full support. It is expected that the EMS will be approved by Senior Management by the end of 4th quarter of 2008 and that this will be piloted in the 1st quarter of 2009, and fully implemented by the 4th quarter of 2009. BG stated the intent to hire an Environmental Analyst responsible for ensuring that the EMS is applied systematically, and to that end have requested assistance from the IDB in identifying the most appropriate profile for this position.

As part of the process of developing the EMS, EcoConsulta delivered a two day training course to 25 senior officials of the Risk Management, Corporate Loans and Consumer Loans Departments on the identification of environmental and social risks during the credit process. Participants became familiar with various techniques for identifying and categorizing risks, as well as the use of exclusion lists. This training was carried out as a way to sensitize officials to these issues in advance of the implementation of an eventual EMS. In addition two senior officials of the Risk Management Department attended the IIC-IDB Environmental Management for FIs workshop (Mexico, 15-17 October 2008).

Corporate Social Responsibility

BG has a demonstrated strong commitment to Corporate Social Responsibility ("CSR"). BG has a dedicated CSR Officer, reporting functionally to the Human Resources Manager, who is responsible for the program and prepares an annual Social Report. A CSR Committee meets on a monthly basis. The CSR program has a particular focus on social programs through its program "*Fundacion sus Buenos Vecinos*", which fights malnutrition in children, improves education in marginal areas, supports improved health care among poor communities, creates new opportunities for people with disability and gives shelter to the elderly. In addition to providing financial support to this program, more than 1000 BG employees participate in a Volunteer Corp "*Vecinos en Accion*". BG has been a member of the United Nations Global Compact since 2001⁴.

³ The Equator Principles are a financial industry benchmark for determining, assessing and managing social & environmental risk in project financing.

⁴ The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment

The CSR program has recently expanded to include environmental issues pertaining to their facilities, including energy efficiency and recycling. BG is in the process of selecting a Consultant to assist them in further developing the environmental component of the CSR program, and is undergoing a UNEP-FI e-learning course on Corporate Eco-efficiency for Financial Institutions.

Environmental and Social Requirements

The Bank will require as part of the Loan Agreement that BG comply with all applicable Panamanian 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 BG to present an Environmental, Social and Health and Safety (ESHS) Action Plan in form and substance satisfactory to the IDB that specifically includes a chronogram for the completion and implementation of the EMS currently under development for all of BG's financial operations; a chronogram for conducting emergency evacuation drills and implementing evacuation and emergency exit signage in all BG facilities; as well as a chronogram for an assessment by the IDB of all current existing auditing, monitoring and supervision reports prepared for BG and ANAM on the subject of its participation as a lender on the Changuinola I Hydroelectric Project. The results of this assessment should provide recommendations to enhance the BG EMS particularly with respect to future investments in sectors that could have potential reputational risks associated with environmental and social issues. This condition will be, therefore, part of the Loan Agreement to be negotiated with the BG.

The level of detail of the EMS will be commensurate to the potential environmental and social risk associated with BGs portfolio, and will 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, and in particular, the mortgage portfolio; (iv) a process for documenting evaluation, approval and monitoring performance; and (v) training. 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 BG to present environmental and social compliance reports in form, content and frequency satisfactory to the IDB.

and anti-corruption. By doing so, business, as a primary agent driving globalization, can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere.