

## ENVIRONMENTAL AND SOCIAL STRATEGY<sup>(1)</sup>

### Banrural GU-L1010

#### A. Project Status and Compliance

- 1.1 Banrural states that it is in compliance with all the relevant environmental, social, health and safety and labor applicable regulations. Currently, Banrural does not have a structured procedure to evaluate environmental and social aspects during the credit review process.
- 1.2 As this operation involves a Financial Intermediary, and in accordance with Policy Directive B.13, this project is not categorized.

#### B. Environmental and Social Impacts and Risks

- 1.3 Based upon the nature of this project (i.e. strengthen Banrural's market coverage in rural areas, particularly in providing individual mortgages for low income housing), there should be limited environmental, social, or health and safety impacts or risks, and thus a limited environmental assessment is required. The potential key environmental, social, health and safety, and labor issues and risks include (i) environmental, social and health and safety, impacts associated with the individual projects financed by Banrural (ii) Banrural's environmental credit risks, and (iii) IDB Reputation Risks associated to Banrural's environmental, social, health and safety, and/or labor practices.
- 1.4 The environmental, social and health and safety impacts associated with the individual projects finance can be as diverse as Banrural's portfolio and its impacts will depend on specific projects. It is expected that IDB resources will be mainly used to provide rural mortgages, so no direct environmental impacts are expected.
- 1.5 Environmental Credit Risks refer to potential negative effects on Banrural's ability to repay the IDB because of: (i) risks due to Banrural's credit programs associated with the reduction in mortgage asset values or property guaranties/securities due to environmental or social issues (e.g. environmental liabilities) or increased probability of non-repayment of loan due to environmental and social issues (e.g. law suits, fines, etc); and (ii) risks associated with Banrural's facilities and operations, such as environmental liabilities in their offices and branches due to PCB transformers, asbestos, lead paint, etc., or Banrural's employees having occupational health and safety problems due to

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<sup>1</sup> This Environmental and Social Strategy (ESS) is being made available to the public in accordance with the Bank's Policy on Disclosure of Information. The ESS has been prepared based primarily upon information provided by the project sponsors and does not represent either the Bank's approval of the project or verification of the ESS's completeness or accuracy. The Bank, as part of its due diligence on the feasibility of the project, will assess the environmental and social aspects. This assessment will be presented in the project Environmental and Social Management Report, prepared by the Bank, and will be made available to public prior to consideration of the project by the Bank's Board of Executive Directors.

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

- 1.6 Reputation Risks are associated with Banrural involvement in projects or companies considered unacceptable to the IDB and/or that will face significant public opposition or concerns,\ or Banrural's finance and HHRR practices that are not equitable, fair, and unbiased in terms of social factors (e.g. gender, age, ethnicity, or cultural heritage, etc.).
- 1.7 The IDB will assist the client to develop an Environmental Procedure commensurate to the potential environmental and social impacts and risks associated to its operations.

**C. Strategy for the Environmental and Social Due Diligence**

- 1.8 The Bank, as part of the due diligence process, will analyze the environmental and social aspects of the project. The environmental and social due-diligence will specifically include the components listed below:
  - i. An assessment of Banrural's compliance status with the applicable environmental, social, health and safety, and labor regulatory requirements in Guatemala.
  - ii. An assessment of the sufficiency of current credit appraisal, approval, and monitoring procedures to manage environmental and social liabilities, risks and/or impacts of loan operations, including the review of specific risks related to residential mortgages. Such as risks from natural hazards, risks from proximity to contamination sources (land, water, air emissions) and risks from poorly enforced building codes and standards.
  - iii. An evaluation to assure an appropriate inventory of present environmental and health and safety liabilities in Banrural's portfolio, and facilities, and if they exists, assess the adequacy of the action plan to properly resolve them.
  - iv. An evaluation to ensure that Banrural has adequate emergency response programs, (e.g. building evacuation drills, etc) including their technical adequacy, adequate level of training, and sufficient resources to ensure adequate implementation.
  - v. An evaluation of Banrural's compliance with the Fundamental Principles and Rights at Work and whether they practice fair and unbiased labor practices related to sex, age, ethnicity, cultural heritage, and collective bargaining.
  - vi. An assessment of the adequacy of Banrural's procedures to ensure that loan/mortgage and/or foreclosure procedures, finance application and

analysis process is equitable, fair, and unbiased in terms of social factors (e.g. age, gender, cultural heritage, etc).