

ENVIRONMENTAL AND SOCIAL MANAGEMENT REPORT

Program to establish a partial credit guarantee fund for enterprise development in Haiti (HA-L1050)

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I. PROGRAM DESCRIPTION

- 1.1 The proposed operation consists of the establishment of a Partial Credit Guarantees Fund (PCGF) with grant and non grant resources from various development institutions which will issue partial credit guarantees to firms with capacity to repay existing loans and any additional funding they may receive, in order to enable these firms to negotiate with commercial banks the restructuring of loans. As such, the direct beneficiaries of the PCGF will be the borrowing firms. However, the banks will also benefit, since their asset base will considerably improved, and the guarantees will mitigate the effects of the earthquake through the loan rescheduling.
- 1.2 This PCGF will be managed by the “*Fonds de Développement Industriel*” (FDI or Fund) who will receive restructuring sub-loan applications from the 9 commercial banks. The Fund will have two components according to the borrower’s loan size to be restructured: (i) small credits (lower than 1 million dollars); and (ii) larger loans with an outstanding debt larger than 1 million dollars. The PCGF will operate with two Sub-funds or Pillars: (i) Pillar I, aimed to restructure quake-affected loans; and (ii) Pillar II, for the provision of new loans financing new investments.
- 1.3 The PCGF will be set up to US \$120 million, of which the Inter-American Bank (IDB) will participate with a grant of \$20 million and the rest of the amount will be provided by other donors. It is expected that the World Bank will be among the other donors. The IDB will provide funds only for the first pillar (restructure quake-affected loans). The Bank’s participation will also include technical assistance to strengthen the Executing Agency in general and in running the PCGF.
- 1.4 For this operation, 9 commercial banks that were operating in Haiti will be considered; 7 private and 2 public banks (the latter ones are *Banque Nationale de Credit* and *Banque Populaire Haitienne*). As of December 2009, three banks (Sogebank, Unibank and BNC) had held 82% of the total portfolio assets.

II. ENVIRONMENTAL AND SOCIAL ASPECTS

- 2.1 The Environmental and Social Strategy (ESS) was cleared by the Environmental and Social Review (ESR) group on May 3rd, 2010. As the specific beneficiaries of the PCG are not known at this time, the IDB cannot conduct a detailed assessment of the impacts and risks associated with the individual companies that will benefit with a partial credit guarantee. Based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), the Fund is classified as a Flexible Lending Instrument (for a financial intermediary institution) and as such this operation is not categorized according to its potential environmental and social impacts.

- 2.2 Due to the PCGF operational structure and consistent with intermediary finance or guaranteeing operations, the Bank will delegate to the Executive Agency the responsibility for the assessment of the environmental and social impacts and risks associated with the issuance of individual guarantees. As such, the Bank's approach for this operation was basically to (i) assess the existing portfolio that could benefit from the PCGF guarantees and identify the typical potential environmental and social impacts and risks of this potential portfolio; and (ii) provide recommendations on how to support the Executive Agency capacity and commitment to manage and address potential environmental and social impacts and risks associated with the issuance of guarantees.

Portfolio of existing borrowers that could benefit with a partial credit guarantee

- 2.3 The majority of the existing loans (71.44%) at the 9 commercial banks are associated with the financing of services, retail and whole commerce and real state. In general, these sectors are considered to have low environmental and social risks. The remaining 28.56% of the existing loans are distributed within industrial and manufacturing activities. Table 1 presents the distribution of the loan by subsector.

Table 1.
Portfolio loan distribution by subsector*

Services	29.86 %
Retail and whole commerce	27.67 %
Real estate services	13.91 %
Food & beverage production	7.93 %
Electricity generation & distribution	4.20 %
Building contractors	3.22 %
Transportation	2.12 %
Iron and steel ind.	2.08 %
Telecommunications	1.80 %
Chemical ind.	1.77 %
Metallic factories	1.43 %
Gas generation & distribution.	1.38 %
Textile ind.	1.14 %
Water treatment & distribution.	0.41 %
Tobacco, leather & rubber	0.34 %
Printing and edition	0.28 %
Wood industry	0.25 %
Pharmaceutical ind.	0.19 %
Mineral extraction & fisheries	0.02 %
Total	100.0 %

Source: From the credits of all 9 commercial banks, at the end of December 2009.

*It refers to the credit exposure of the banking system by sector, as a proxy for portfolio distribution.

Environmental and Social Impacts

- 2.3 The restructuring of loans are expected to have positive social impacts while reestablishing or enhancing the operation of small and medium enterprises SMEs and larger firms. At the same time, the enterprises benefiting from guarantees to restructure

their loans have specific environmental, social, health, safety (ESHS) and labor impacts and risks associated with its activities, which are diverse and their significance depends on the project's size, sector activity, and location.

- 2.4 Due to the distribution of the portfolio of existing loans, which in its majority has been identified in low environmental risk sectors, the principal ESHS and labor impacts from the PCGF are expected to be minimal to low. More relevant environmental impacts and risks could be expected from the restructuring of loans related to brown-field projects, such as electricity generation and distribution, chemical plants and textile industries. The operations of industrial facilities in these sectors are likely to entail the generation of moderate environmental, social, health and safety and labor impacts and risks, principally risks of pollution and contamination from the operations of existing facilities and labor management aspects including: (i) soil contamination; (ii) water discharged to improper septic, inappropriate drainage or lack of a sewage system (thereby contaminating soil) with potential public health consequences; (iii) increase levels of noise, pollution and air particles emissions; (iv) lack of pollution control equipment in the printing, painting, textile, wood and chemical activities; (v) inadequate safety measures to store, use or disposition of input chemicals or fuels; and/or (vi) violation of labor laws and regulation (such as child labor or extended working hours/days).
- 2.5 Based on a preliminary review of the existing portfolio, it is anticipated that the loan restructuration will not result in resettlements, impacts on indigenous peoples, impacts on natural habitats and other social and environmental impacts that could trigger other Bank safeguard policies (OP-710, OP-765 and OP-704). In addition, the restructuring of loans does not require public consultation and information disclosure in accordance with both OP-703 and OP-102, as no Greenfield projects are eligible for IDB's guarantees.

III. ENVIRONMENTAL AND SOCIAL MANAGEMENT

- 3.1 The Executive Agent will be the ultimate responsible for screening, assessing and managing the environmental and social aspects of the PCGF in a manner that is consistent with the IDB's environmental and social policies. For this purpose, the Bank and the Executive Agent will discuss the preparation of an Environmental and Social Management System (ESMS) which will need to be developed and implemented in order to properly identify, assess, mitigate and monitor the potential environmental and social impacts and risks associated with the PCGF.
- 3.2 Considering the characteristics of the PCGF, the proposed approach to manage the environmental, social, health and safety and labor impacts and risks will consist of:
 - (a) **Excluded Activities.** All loans to be restructured or guaranteed will be subject to an exclusion criteria to reject operations in which project parties are active in sectors included in the IDB's Exclusion List (see Annex 1);

(b) Screening. After the initial review to rule out loans for activities or companies in the Exclusion List, the Executive Agent will conduct a screening process in order to identify the potential environmental and social impacts or risks. This process will be documented using Screening Checklists and/or Categorization Form(s) to be provided by the IDB. This screening process will serve as the basis for the categorization

(c) Categorization. The objective of the categorization process is to determine the appropriate type and extent of environmental and social due diligence and assessment required for the issuance of a PCG. Prior to the initiation of comprehensive due diligence and investment review for any prospective guarantee, the Executive Agent will categorize the loans as Category A, B, or C according to the IDB's principles for categorization as stated in the IDB's Environment and Safeguards Compliance Policy (OP-703). These categories depend on the level of potential environmental and social impact or risk associated with the operation of the facilities or enterprises requesting a guarantee. These categories will be fully described in the ESMS of the PCGF.

The majority of the loans will be classified as category C and certain loans might be category B operations. All operations will be required to comply with local regulatory requirements applicable to the companies in search of a guarantee. It is anticipated that no Category A operations will be presented to the PCGF. However, in the unlikely case of the request to issue a PCG to a Category A operation, the Executive Agent will require the enterprise to conduct an Environmental and Social Audit (Audit). In this case the Executive Agent, in conjunction with the IDB, will review the adequacy of the Audit to determine whether further assessment is necessary and define an Action Plan to correct or mitigate the identified environmental impacts and risks. For Category A projects the Executive Agent will obtain the Bank's non-objection before considering issuing a guarantee.

(d) Management. The Bank will support the design and implementation of appropriate tools and guidelines to assess, evaluate and determine specific requirements to adequately manage the environmental and social impacts or risks associated with existing enterprises seeking PCG. In addition, when subprojects involve activities determined as high environmental and social impact, the subproject will be referred to the Bank early in the due diligence process.

(d) Reporting. Monitoring reports will be prepared by the Executive Agent to guarantee compliance with the ESMS. Guarantee contracts will define the procedure and documents to support compliance or recommend timely adjustments in accordance with specific criteria. The credit cycle, the documents and the required ESHS requirements are shown below in Table 2.

(e) Training. The IDB will support the Executive Agent along with the 9 banks with environmental and social training on IDB policy safeguards. An IDB representative will provide training in Haiti on the use of screening tools, environmental categorization, elements of ESMS and ESHS and labor mitigation measures to all 9 bank representatives and FDI personnel.

- 3.3 The Operational Regulations will contain the contractual and monitoring arrangements between the PCGC and the Bank in order to ensure implementation and proper functioning of the ESMS, establish measures and mechanisms to address any non-compliances and to manage unmitigated environmental and social impacts or risks during the execution of PCGF-guaranteed loans. A typical structure of the credit review cycle is shown in the following Table.

Table 2.
Typical credit cycle, documentation and ESHS requirements

Credit restructuring cycle	Document or Form Report	Additional environmental, social, health or safety requirement and (<u>who is responsible</u>)
Registration for loan restructuring	Restructure loan application	1) Exclusion List, 2) Permits or licenses to of applicable Haitian regulations, 3) Contingency plan for natural events. (1) <u>Banks and FDI</u> 2) & 3) <u>beneficiaries</u>).
Evaluation	Credit analysis form or appraisal report.	1) Screening and categorization form. 2) Applicable guidelines, 3) Audit or equivalent international standards. (1) <u>Banks</u> , 2) & 3) <u>Borrowers who request an external ESHS assessment</u>).
Contract and disbursement	A Restructuring Contract	Corresponding recommendations are included in specific clauses within a restructured contract. (<u>FDI</u>).
Supervision	Supervision forms *	Monitoring or supervision by <u>Banks, FDI and IDB</u> .
Report	Environmental and Social Compliance Report	Environmental and Social Compliance Reports. (By the <u>banks and global report to the FDI</u>).

* Mentioned in the “Environmental Haitian Decree”.

- 3.4 If any non-compliance occurs during the execution of a loan, it will need to be notified and explained to the commercial bank and the FDI, (who will in turn report any large firm event having an A or B risk category operation to the IDB), and an Action Plan should be prepared and implemented.

IV. RECOMMENDATIONS

- 4.1 The IDB will require as part of the Partial Credit Agreement that the FDI complies with:
- i. All environmental, social, health and safety and labor regulatory requirements (applicable in Haiti) will be followed in accordance with the national Environmental Decree, corresponding regulations or best international practices/guidelines.
 - ii. Applicable IDB's social and environmental policies¹ and IDB's list of Excluded Activities for Non-Sovereign Guaranteed operations.
 - iii. An Environmental and Social Management System integrating the environmental criteria or policy, environmental guidelines, tool-kits and requirements to commercial banks and thereafter to viable beneficiaries.
 - iv. Will provide loan beneficiaries with a hard copy of the applicable Environmental Guideline or Tools in French and Creole language that would be recommended for all beneficiaries as applicable in their restructuring loan contract.
 - v. The Fundamental Principles of the Rights at Work and any other International Labor Organization Convention or Treaty signed by the eligible countries.
 - vi. Annual reporting to the IDB on social and environmental aspects, including on the implementation of the Environmental and Social Management System.
 - vii. The Fund will state in its contract with that it abides by the Fundamental Principles and Rights at Work Declaration and with any other international labor organization convention or treaty Haiti has signed. Also, the FDI will declare in writing that, to the best of its knowledge, there are no unresolved social or environmental liabilities.
- 4.2 Prior to financial closure, the Executing Agency will provide an Action Plan, in form and substance acceptable to the IDB, defining the actions, responsible parties, dates and cost to enhance and implement an internal Environmental and Social Management System (ESMS) along with a Contingency Plan for emergency events. Such ESMS shall define all the social and environmental requirements, policies or procedures, and staff training or qualification that will apply to the selection of sub-borrowers, the appraisal, approval, and monitoring of loans. The ESMS will include requirements for borrowers, the commercial banks and the FDI to include specific ESHS provision in restructured sub-loan agreements as necessary.

¹ These include: the Environmental and Safeguards Compliance Policy (OP-703), the Involuntary Resettlement Operational Policy (OP-710), and the Operational Policy on Indigenous Peoples (OP-765).

ANNEX 1

LIST OF EXCLUDED ACTIVITIES FROM IDB FINANCING

The IDB does not finance projects or companies² involved in the production, trade or use of the products, substances or activities listed below.

1. Products, substances and activities that are defined as illegal under host country laws, regulations or ratified international conventions and agreements.
2. Weapons and ammunitions.
3. Tobacco.³
4. Gambling, casinos and equivalent enterprises.⁴
5. Wildlife or wildlife products regulated under Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).⁵
6. Radioactive materials.⁶
7. Production or commerce or use of unbonded asbestos fibers.⁷
8. Forestry projects or operations that are considered as not consistent with the IDB's Environmental and Safeguards Compliance Policy (GN-2208-20) i.e. those forestry products without a sustainable management plan.
9. The production or trade of Polychlorinated biphenyl compounds (PCBs).
10. Pharmaceuticals subject to international phase outs or bans.⁸
11. Pesticides/herbicides subject to international phase outs or bans.⁹
12. Fishing with nets of more than 2.5 Kms in length.
13. Production or activities that: involve risky or forced labour, employ children under the local legal age as workers, apply discriminatory labour practices or practices that prevent workers from exercising their right of free-association and collective bargaining.
14. Production, commerce, storage or transportation of significant amounts of hazardous chemicals or use of dangerous chemicals in a commercial scale.
15. Trans-border commerce of waste disposals or disposable products, except un-dangerous waste for recycling purposes.
16. Production or commerce of substances that deplete the ozone layer and are subject to international phase outs.

² For purposes of the Trade Finance Credit Facility Agreement, "companies" means the Borrower's trade customers that benefit from a Loan. The eligibility of such companies will apply in accordance with section 2.B of the Environmental and Social Procedure (Exhibit 6).

³ This does not apply to companies who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a company's primary operations.

⁴ This does not apply to companies who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a company's primary operations.

⁵ www.cites.org

⁶ This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where it can be demonstrated that the radioactive source is to be trivial and/or adequately shielded.

⁷ This does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is <20%.

⁸ Pharmaceutical products subject to phase outs or bans in United Nations, *Banned Products: Consolidated List of Products Whose Consumption and/or Sale Have Been Banned, Withdrawn, Severely Restricted or not Approved by Governments*. (Last version 2001, www.who.int/medicines/library/qsm/edm-qsm-2001-3/edm-qsm-2001_3.pdf)

⁹ Pesticides and herbicides subject to phase outs or bans included in both the Rotterdam Convention (www.pic.int) and the Stockholm Convention (www.pops.int).