

Environmental and Social Management Report
Banco Ganadero (Bolivia) SME Financing Partnership
(BO-L1097)

I. Project Description and Background

- 1.1 The objective of the proposed SME Financing Partnership (the “Project”) is to increase access to financing to SMEs in Bolivia. In order to achieve this objective, IDB will join efforts with Banco Ganadero (“BGA”), a local bank with an important focus on SME lending, to provide financing to this segment. The Project also aims at meeting the specific demands of agricultural SMEs by channeling at least 50% of the Loan proceeds to SMEs in the Farming¹ and Agribusiness² sectors, given their significance in the Bolivian economy and BGA’s specialization and competitive advantage in these sectors.
- 1.2 The proposed Project is part of the SME Financing Facility (RG-X1092) approved by IDB’s Board of Executive Directors in May 2011 and consists of a senior IDB loan (the “Loan”) of up to US\$10 million. The project will provide BGA with medium-term financing to expand its SME portfolio. As part of IDB’s mobilization efforts the Loan will be complemented through the participation of the China Co-Financing Fund for Latin America and the Caribbean with US\$5 million. In addition, Proparco, the French Development Agency, will provide US\$10 million co-financing, under similar terms as the IDB Loan.

II. Project Status and Compliance

- 1.3 Based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this Project is classified as a financial intermediary and as such is not categorized according to its potential environment and social (E&S) impacts and risks.
- 1.4 BGA has indicated that it is committed to comply 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 (ESHS&L) laws and regulations and expects the activities it finances to comply as well.
- 1.5 BGA does not have an environmental and social management system (ESMS), though it has expressed an interest and willingness to develop and implement appropriate management measures, which correspond to the E&S risk profile identified with regard to its lending operations. BGA’s dominant SME portfolio concentration is in Farming and Agribusiness³, and the average value of SME sub-loans for small enterprises is US\$54,000 and US\$262,000 for medium-sized companies. Based on their portfolio in medium to high-risk sectors, loan size and tenor this operation is classified as medium

¹ The term “farming” includes all activities related to producing and managing crops, as well as livestock.

² The term “agribusiness” includes all activities related to the industrial production or transformation of crops as well as the agricultural supply chain.

³ Within these sectors agribusiness represents 45.2%, livestock 34.6% and crops 20.1%.

risk (FI-2). BGA's capacity in environmental and social management will need to be developed to match the level of risk of its portfolio.

III. Environmental and Social Risks and Impacts

A. Potential risks and impacts associated with BGA's portfolio

- 3.1 Within their SME⁴ portfolio, BGA has the following sector concentrations as of March, 2014: Farming and Agribusiness (38%), Services (34%), Services (14%), Construction (7%), and Industry (7%). The majority of lending across sectors is oriented primarily at small-scale activities. Under this line, BGA will place a minimum of 50% of IDB's line in Farming and Agribusiness activities, which present primarily moderate environmental and social issues and risks.
- 3.2 The ESHS risks and impacts could include, for example: i) habitat conversion and degradation (agriculture, livestock); ii) poor land use/contaminated land (agriculture, livestock, industry), iii) stress/contamination of water resources (agriculture, livestock), iv) waste management and disposal (livestock, agriculture, industry), v) use of migratory or informal labor (agriculture, livestock), vi) transport and traffic management (construction), vii) pesticide use and agrochemical management.

IV. Environmental and Social Management

A. BGA's Management of Environmental and Social Risks

- 4.1 BGA does not currently have an environmental and social management system in place. IDB's involvement, alongside Proparco, would represent BGA's first loan with a Development Finance Institution (DFI). As a bank with a heavy concentration in Farming and Agribusiness, BGA does prepare annual investment analysis reports on crop performance and yields. At present, particular environmental and social issues, which might influence yields, are not yet considered. Under the authority of the Superintendence, Bolivia has recently implemented legislation that requires Financial Institutions to undertake work on understanding and improving their environmental and social performance. While the details of this legislation and its implication for banks remain to be defined, BGA has initiated work in this respect under a Corporate Social Responsibility agenda and specific to its direct rather than indirect impacts (i.e. not that of its lending activities).
- 4.2 Local environmental authorities in the Department of Santa Cruz are also becoming increasingly involved in enforcement, especially with respect to requirements to maintain forested areas and/or tree cover in key areas of rural properties. BGA and its clients are aware of the need to develop management plans and implement some restoration activities.

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SME sub-loans will be for values less than US\$500K, and consistent with IDB's Sector Guideline for SME Finance and Development Programs in LAC (OP-580) definition of SME loans for a C&D country.

This may be an area that can receive additional financing and is currently raising the awareness of local producers with respect to the need to address environmental regulations.

- 4.3 Under this Loan, IDB and Proparco will be requiring BGA to develop and implement an Environmental and Social Management System (ESMS), and apply this system to its portfolio of operations. The ESMS will include, but not be limited to: (1) the appointment of an E&S Officer and nomination of a Manager in charge of E&S , (2) development of E&S tools (categorization, due diligence, checklists, appraisal, E&S sector guides, and E&S monitoring, (3) inclusion of E&S processes into BGA's credit manual, (4) development of E&S clauses and E&S action plans, (5) approval of ESMS and tools by management, (5) training for both E&S team and relevant staff, (6) operationalization of the ESMS; and (7) evaluation and continuous improvement as needed.
- 4.4 The E&S requirements noted below detail the nature of E&S risk management measures that will be developed and implemented corresponding to this Loan.

V. Environmental and Social Requirements

- 5.1 For this operation which involves SME lending for an average value of US\$54,000 for small enterprises and US\$262,000 for medium-sized companies and not to exceed US\$500,000, the Bank will require BGA as part of the Loan Agreement to:
- (i) Comply with all applicable Bolivian environmental, social, health and safety, and labor regulatory requirements, and in relation to the financing of SMEs to ensure that each loan complies with: (a) in-country regulations; (b) the IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations; and (c) the Fundamental Principles of the Rights at Work;
 - (ii) Develop and implement an ESMS consistent with paragraphs 4.2 and 4.3 above. Provide IDB with drafts of the ESMS at key milestones over the course of the 36 month process.
 - (iii) Agree with IDB on how to integrate the IDB exclusion list and high risk exclusions⁵ in the Ganadero operation approval process and implement the agreed changes.
 - (iv) Present an Annual Environmental and Social Compliance Report (ESCR) with information on the SME portfolio, on the progress of development and implementation of the ESMS, and with information on any particular risk issues identified with respect to Sub-Loans and mitigation or corrective measures agreed with clients and/or taken by BGA.

⁵ In addition to the products and activities included in the IDB Exclusion List, the Borrower will not use the proceeds of the IDB loans in accordance with a covenant as follows: "**High Risk Activities.** The IDB Loan will not be used to finance any Sub-Loans that finance activities that: (i) support IDB Category A Projects; (ii) adversely affect lands, territories or intellectual property of or have potentially significant adverse impacts on indigenous communities; or (iii) result in the involuntary resettlement or displacement of livelihood activities, unless a Resettlement Plan is approved by the IDB prior to Sub-Loan approval."

- 5.2 The IDB will supervise the environmental and social aspects related to the use of the proceeds of the IDB loan either by an in-house specialist or with external consultants, and if necessary, will require means of addressing specific impacts and risks and/or enhancing management.

SAFEGUARD POLICY FILTER REPORT

PROJECT DETAILS	
IDB Sector	[Not Set]
Type of Operation	Other Lending or Financing Instrument
Additional Operation Details	
Investment Checklist	Generic Checklist
Team Leader	Marisela Alvarenga and Marcelo Paz
Project Title	Toolkit: BO – Banco Ganadero SME Financing Partnership
Project Number	BO-L1097
Safeguard Screening Assessor(s)	McKee, Colin (COLINM@iadb.org)
Assessment Date	2014-04-15

SAFEGUARD POLICY FILTER RESULTS		
Type of Operation	[Not Set]	
Safeguard Policy Items Identified (Yes)	Activities to be financed by the project are in a geographical area and sector exposed to natural hazards* (Type 1 Disaster Risk Scenario).	(B.01) Disaster Risk Management Policy– OP-704
	The operation itself has a potential to exacerbate hazard risk* to human life, property, the environment or the operation itself (Type 2 Disaster Risk Scenario).	(B.01) Disaster Risk Management Policy– OP-704
	The operation is in compliance with environmental, specific women's rights, gender, and indigenous laws and regulations of the country where the operation is being implemented (including	(B.02)

	national obligations established under ratified Multilateral Environmental Agreements).	
	The operation (including associated facilities) is screened and classified according to their potential environmental impacts.	(B.03)
	The Bank will monitor the executing agency/borrower's compliance with all safeguard requirements stipulated in the loan agreement and project operating or credit regulations.	(B.07)
	Operation for which ex-ante impact classification may not be feasible. These loans are: Policy-based loans, Financial Intermediaries (FIs) or loans that are based on performance criteria, sector-based approaches, or conditional credit lines for investment projects.	(B.13)
	Suitable safeguard provisions for procurement of goods and services in Bank financed projects may be incorporated into project-specific loan agreements, operating regulations and bidding documents, as appropriate, to ensure environmentally responsible procurement.	(B.17)
Potential Safeguard Policy Items(?)	No potential issues identified	
Recommended Action:	Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s), including B13, for guidance. No project classification required. Submit Report and PP (or equivalent) to ESR.	

Additional Comments:	
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ASSESSOR DETAILS	
Name of person who completed screening:	McKee, Colin (COLINM@iadb.org)
Title:	
Date:	2014-04-15