

## **ANNEX I - ENVIRONMENTAL AND SOCIAL MANAGEMENT REPORT**

### **BANCO ATLANTIDA**

#### **HO-L1077**

#### **I. Project Description**

- 1.1. The proposed project consists of a financing Loan (the “Loan”) for Banco Atlantida S.A. (Atlantida) to support the development of its environmentally friendly loan portfolio. The financing will contribute to meet the large demand expected for renewable energy sectors in Honduras. The Loan, with a tenor of up to six years, will provide a senior unsecured A loan (the “A Loan”) of US\$20 million to be financed by IDB. Depending on market conditions and the needs of the client, a targeted B Loan (the “B Loan”) of approximately US\$10 million could be financed by commercial investors at the time of closing.
- 1.2. The proposed Loan will support Banco Atlantida’s initiative to expand its portfolio of sustainable environmental projects in Honduras. Banco Atlantida is among the few Honduran financial institutions with a track-record in financing renewable energy projects (approximately US\$40 million). Atlantida will use the proceeds of the Loan to further grow its corporate and SME portfolio in the areas of renewable energy, energy efficiency, sustainable forestry, biofuels, sustainable transportation, sustainable tourism, sustainable agriculture, sustainable building and cleaner production.

#### **II. Project Status and Compliance**

- 2.1 The Environmental and Social Strategy for the Project was presented and approved on November 5, 2010 by the Environmental Safeguards Review team, no further action was required.
- 2.2. Based on Directive B.13 of the Environment and Safeguards Compliance policy (“Environment Policy”), and given this is a financial intermediary, this Loan was not categorized.
- 2.3. Atlantida has confirmed that it is in compliance with Directive B.2 (country laws and regulations) of the Environment 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**

##### *A. Environmental and social risks associated with Atlantida’s portfolio*

- 3.1. Banco Atlantida ([www.bancatlan.hn](http://www.bancatlan.hn)) is the largest bank in Honduras and as of December 2010, its commercial loan portfolio accumulated to a total of US\$1,220 million of which 72% are corporate clients, 20% retail clients and 8%, SMEs. The commercial portfolio’s sector breakdown is diverse with 41% in Real Estate (project development), 22% in Manufacturing Industry (textile, furniture,

food processing), 14% in Services, 10% in Commerce, 7% in Agriculture (sugar cane, palm oil, flowers, coffee, fishing), 5% in Financial Institutions and Local Governments as well as 2% in Transport. Most environmental and social risks are involved in Atlantida's financing of industrial activities in the manufacturing sector (food and beverage and textile manufacturing) and industry (e.g. cement factories). The textile manufacturing sector, in particular, can pose potential credit and reputational risks due to the high level of public scrutiny around this sector. Industrial companies such as cement factories can have large impact as well due to the nature of their activities. Atlantida's SME portfolio carries less Environmental, Social, Health and Safety (ESHS) risks due to the average size of loans in that segment as well as the different sectors in which the clients are active. In the SME portfolio (as of November 2010) the most significant sectors are: Real estate (44%), Commerce (27%), Services (10%), agriculture (9%) and Transport (6%).

- 3.2. Atlantida will use the Loan's proceeds to finance renewable energy or energy efficiency projects among its commercial clients eligible under the IDB's green line eligibility criteria. Atlantida aims to finance projects with a size of US\$1 million or more, but expects a minimum of US\$3 million to be most realistic for this type of projects.
  - 3.3. There may be specific ESHS and labor risks and impacts related to investment in activities in certain sectors of Atlantida's portfolio, for example related to occupational health and safety (industry and real estate development); noise and air pollution (industry and real estate development); contamination of land and water (industry and agriculture) as well as natural disasters, such as earthquakes, forest fires and landslides.
  - 3.4. While most of the risks associated with potential investments to be supported by the IDB could be minimal to moderate, there might be some investments such as hydros above 10 MW that could entail high risks. Risks can be mitigated and managed with the implementation of an Environmental and Social Management System (ESMS) to ensure that sub-loan supported activities adhere to good environmental and social practices. Given that the Loan will focus on loans that result in energy and water savings/efficiency, cleaner production and improved sustainable technologies in different sectors, the potential risks may be further reduced with the introduction of robust eligibility criteria to ensure that each investment has a positive environmental impact.
  - 3.5. Atlantida has stated that it has no financial liabilities in its existing portfolio, related to ESHS issues. Atlantida has stated that it has no outstanding ESHS concerns, through involvement in projects, companies or activities considered unacceptable to the IDB that could potentially generate significant public opposition or concerns. Atlantida 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).
4.
    - B. *Environmental and social risks associated with Atlantida's facilities and Human Resources practices*

- 3.5. The risks associated with Atlantida's facilities and operations, such as environmental liabilities in their offices due to asbestos, lead paint, etc. or 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. Atlantida's head office is located in Tegucigalpa.
- 3.6. Atlantida has stated that they have no material health issues (including legal claims) and do not have any material employee or labor disputes.

#### **IV. Environmental and Social Management**

##### *A. Environmental and social risk management*

- 4.1. Due to financial ties with development banks such as IFC, OPIC, BCIE and FMO, Atlantida applies an Exclusion List to its operations that is similar to the IDB Exclusion List.
- 4.2. Banco Atlantida requires all its clients to comply with national legislation and checks all projects and clients for environmental permits when required. However, an environmental and social risk assessment is not part of the standardized evaluation procedure for credit applications and Atlantida does not have a structured mechanism in place to structurally identify, mitigate and monitor environmental and social risks and impacts in its portfolio.
- 4.3. However, Atlantida's management is about to implement a CSR Program (please refer to section B.4.5. for more information) which also includes the implementation of a systematic approach to Environmental Credit Risk Management. According to this plan, Atlantida will develop an Environmental Policy, following the IDB's Safeguard Policy, which will be applied to all credit applications. The details of the policy and its implementation mechanisms (evaluation forms, monitoring formats) are still to be worked out, but the IDB and Atlantida have agreed that this provides an excellent opportunity to use the IDB's requirements and standards for environmental and social risk management as a basis for this approach.
- 4.4. At the moment, there is not a specific person within the organization of Atlantida who carries responsibility for coordinating environmental and social risk management. But again as a part of its overall CSR program, Atlantida will assign a person to coordinate the development and implementation of the Environmental Policy who reports directly to the CSR Committee. Both will be assigned and installed in 2011.

##### *B. Corporate Social Responsibility (CSR)*

- 4.5. Acknowledging the increasing importance of corporate responsibility in the financial sector, Atlantida has developed a CSR Program. The CSR Program is a bank-wide plan that covers six areas in which Atlantida will take its responsibility as a company and as a stakeholder in society. These areas are called building blocks: Education & Culture, Foundations, Health & Sports,

Environmental credit risk management, Internal environmental management, External environmental management. The CSR Program is currently under review by management and awaiting approval. As soon as the CSR Program is approved, which is expected in the first quarter of 2011, Atlantida will start implementing the plan.

- 4.6. An important part of the CSR Program is the installation of Atlantida's CSR Committee which will carry responsibility for supervising the implementation of the CSR Program and achievement of the program's objectives. The CSR Committee will have nine, high level bank-representatives as its members; the President, the VP Risk, VP Human Resources, VP Funds, VP Operations, VP Corporate Banking, VP Personal Banking, VP International Relations and the VP Reputation Management.

## **V. Environmental and Social Requirements**

- 5.1. As part of the Loan Agreement between the IDB and Banco Atlantida, the IDB will require that Atlantida comply with: (i) all applicable Honduran ESHS, and labor regulatory requirements, (ii) IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations, (iii) the Fundamental Principles of Rights at Work (together referred to as the IDB Environmental and Social Requirements), and exclusively with respect to the IDB sub-loans (iv) the IFC Performance Standards.
- 5.2. The IDB will require that Atlantida use all reasonable efforts to keep operational an Environmental and Social Management System (ESMS) with respect to the sub-loans to be financed with IDB funds.
- 5.3. The IDB will require that Atlantida present an Environmental and Social Action Plan (ESHS Action Plan) in form and substance satisfactory to the IDB and specifically includes a chronogram for the following elements:
- The development and implementation of an ESMS to manage the ESHS risks and impacts associated with sub-loans to be financed with IDB fund. At a minimum this procedure should include:
    - A process for assuring compliance with the IDB Environmental and Social Requirements as relevant according to risk level;
    - Mechanisms for assessing, categorizing (high, medium or low) and managing environmental and social aspects associated with sub-loans;
    - A process for documenting evaluation and monitoring performance.
  - The development and roll out of training of involved personnel on applying the ESMS.
- 5.4. The IDB will require Atlantida to present every hydropower projects generating 20MW or more to the IDB's Environmental Safeguards Unit (ESG) for no-objection.

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 Atlantida to present environmental and social compliance reports in form, content and frequency satisfactory to the IDB.