

**Environmental and Social Management Report**  
**G & T Continental, Guatemala**  
**GU-L1067**

**I Project Description**

- 1.1 The proposed transaction is part of the LACC Subordinated Debt Facility (RG-X1088) approved by the Bank's Board of Executive Directors in August 2010 and consists of a subordinated financing (which qualifies as Tier II capital under local regulatory requirements) for up to US\$45 million to Banco G&T Continental ("G&TC").
- 1.2 The Subordinated Loan ("The Subordinated Loan" or "The Loan") will offer long term subordinated debt instruments that will support its capital enhancement by qualifying as Tier II capital as per local regulatory requirements. Such capital enhancement will allow G&TC to support the growth of their lending portfolio in high social impact areas such as Micro, Small and Medium Enterprises ("MSMEs"), Microfinancial Institutions ("MFIs") and housing finance. The Subordinated Loan amount of up to US\$45 million is expected to be divided in three disbursements of US\$18 million, US\$15 million and US\$12 million, respectively and a final maturity of approximately ten years. With the proposed Loan, G&TC intends to finance housing loans to low and middle income individuals of an average of US\$125,000, SME loans of an average of \$72,000 and micro loans of an average of US\$7,400.
- 1.3 G&TC is one of the most important banks in Guatemala with 379 branches, 1,669 agents and 2,224 ATMs all over the country. As per April 30 2011, G&TC has a total loan portfolio of US\$1,938 million. In its portfolio, 83% of all loans are provided to corporates, 8% to retail, 7% to development segments (MSMEs and low income-groups) and 2% to Financial Institutions. G&TC holds a second position in the micro finance segment right behind Banrural with a market share of 40%. Its development portfolio is broken down in micro entrepreneurs (58%), small companies (12%), medium-sized companies (11%), housing (7%) and special products Linea de Crédito Premier (1%) and Micro Abasto (2%). Additional information on G&TC can be found on <http://www.G&Tcontinental.com.gt/G&Tca/index.html>
- 1.4 This is the second IDB direct lending operation with G&TC. The first loan consisted on a senior loan of a maximum amount of up to US\$70 million and a final maturity of five years for financing MSMEs and was approved on December of 2008. So far IDB US\$45 million A Loan has been disbursed. Further information can be found on

<http://www.iadb.org/en/projects/project,1303.html?id=GU-L1040>. G&TC is also a client of IDB's Trade Finance Facilitation Program (TFFP) since 2007.

## **II Project Status and Compliance**

- 2.1 Based on Policy Directive B.13, and given this is a financial intermediary project, this operation was not categorized.
- 2.2 G&TC 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.
- 2.3 G&TC is in compliance with the E&S requirements of the IDB operation GU-L1040 Under the current loan with G&TC, the Bank requires G&TC to apply its ESMS to the subprojects financed with the IDB loan. In any case, G&TC is applying the ESMS to all of its MSME operations.

## **III Environmental and Social Impacts and Risks**

- 3.1 The potential key environmental, social, health and safety, and labor issues and risks associated with this Loan are mainly those related to the activities of MSMEs loans and to a minor extent to the housing projects to be financed by G&TC.
- 3.2 **Potential environmental and social impacts associated with loans to MSMEs.**

Given the composition of G&TC's MSME portfolio, the direct negative environmental and social impacts of the project could be from minor to medium. The type and extent of impacts will vary depending on the amount of loans to be extended and on the type activities to be financed. Investments in transportation, construction (which may have impacts associated with noise, dust, traffic, health and safety as well as location), agriculture (land use conflicts, biodiversity loss), amongst other possible sectors, present relatively higher levels of environmental risk and will require more detailed evaluation and supervision by G&TC. The assessment of social and environmental impacts for each loan will be the responsibility of G&TC, through their Environmental and Social Management System.
- 3.3 **Potential environmental and social impacts associated with housing finance.**

G&TC housing division has four main products: loans with a fiduciary guarantee, loans with a mortgage, and loans for construction when the land is owned by the customer and "Fomento de Hipotecas Aseguradas" (FHA) guaranteed loans. G&TC's housing most important product is the FHA guaranteed loans. The FHA is a government agency that gives a 100% guarantee over the mortgage given to the client. To qualify for and FHA guarantee, clients

(people and developers) must apply to FHA and comply with a certain number of requirements, including construction parameters, materials, environmental, among others. Being that these loans are 100% guaranteed by the FHA, G&TC does not book them as loans but as investments (a mortgage security is issued) and consequently does not provision them.

3.4 The main environmental and social risks and impacts involved with housing loans are associated with the location and integrity of the houses. This risks and impacts include:

- Houses located in areas of previous use activities that may result in localized environmental problems, such as abandoned landfills or waste disposal areas, industrial facilities, etc
- Houses located in areas susceptible to natural hazards, such as tornadoes, hurricanes, floods, seismic events, and fires
- Potential risks on houses with low construction standards
- Potential impacts on houses with a lack of the basic services such as sewer, electricity and water.

These potential risks and impacts are being managed by procedures and policies of FHA for most of the mortgage operations, as described in paragraph 4.3

3.5 **Reputational risks associated with G&TC's operations, management and facilities.**

There could be some potential reputational risks associated with G&TC's potential involvement in projects, companies or activities considered unacceptable to the IDB and/or that will face significant public opposition or concerns. G&TC has stated that it has no outstanding environmental, social, health and safety concerns, through involvement in projects, companies or activities considered unacceptable to the IDB that could potentially generate significant public opposition or concerns, for example due to inappropriate development location. Likewise, G&TC has stated that it has no financial liabilities in its existing portfolio, related to environmental, social and health and safety issues. Other reputational risks relate to (i) G&TC's finance application and analysis process in case it reveals not to be equitable, fair, and unbiased in terms of social factors (e.g. gender, age, ethnicity, or cultural heritage, etc.); and (ii) potential deficient labor practices. G&TC 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).

3.6 **Environmental and social risks associated with G&TC's facilities and operations.**

The risks associated with G&TC facilities and operations, such as environmental liabilities in their offices or G&TC 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. G&TC's head office is located in Guatemala City. G&TC has a suite of documented

Contingency Plans which include: Fire, Evacuation, Earthquake, Robbery, Firearms, Injury, Collision, Violent Protest and Internal Protest. G&TC has a Director of Security and Manager for Prevention and Compliance, who are responsible for the physical security of G&TCs facilities, as well as G&TC contingency plans (including fire and evacuation).

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

- 4.1 G&TC has an Environmental and Social Management System (ESMS) in place as was requested by IFC and the IDB (as part of the operation GU-L1040). With help from IFC, it has developed an ESMS in 2010 based on an Exclusion List, Environmental Policy, a Classification system and an Environmental Procedure. The system applies to all its operations including the G&TC's micro finance activities although these are subject to a simplified procedure in which the Credit Officer executes both origination and analysis of deals. In the case of SME and corporate loans, the risk analyst assesses the deals, including the environmental analysis. All loan applications are subject to an Environmental and Social Questionnaire resulting in a classification of the operations in A, B or C ranging from high to low risk impact respectively. Category C clients do not require further analysis while category B and A clients require a site visit and an Environmental Analysis Report (done by the Credit Risk Analyst and Environmental Compliance Officer or a third party, if needed)).
- 4.2 After testing the system in a pilot program in the fourth quarter of 2010, the ESMS was implemented in G&TC's credit procedure and the bank has made a good effort to train its staff on E&S risk management including credit officers, risk analysts, legal councils and other staff involved in the credit procedure. So far, around 180 people have been trained representing approximately 80% of the people involved in the application of the system in the MSME segment. The development and coordination of the ESMS is in hands of an Environmental Compliance Officer who is fully dedicated to this task and who has good knowledge of the issues at stake by participating in the IDB/IIC training 2010 and completed a six-week course on environmental management.
- 4.3 As for the housing loans, consistent with G&TC's housing most important product, the IDB proceeds will be used to finance housing loans to low and middle income individuals which are the FHA guaranteed loans.. Information on FHA can be found on <http://www.fha.gob.gt/>. The FHA certifies that the following aspects are being covered on each housing loan:
  - Compliance with construction standards in Guatemala
  - Polluting materials used for constructions
  - Existence of basic services such as sewer, water, electricity
  - Confirmation that houses are not in areas susceptible to natural hazards
  - Information on the previous land use or other activities that may result in localized environmental problems

## **V Environmental and Social Requirements**

- 5.1 The Bank will require as part of the Loan Agreement that G&TC comply with all applicable Guatemalan environmental, social, health and safety, and labor regulatory requirements, IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations, with the Fundamental Principles of the Rights at Work and continue to implement the ESMS G&TC already applies.
- 5.2 The Bank will also require that G&TC complements its ESMS to include provisions for lending to Micro Financial Institutions (MFIs), which are currently not covered under the scope of the ESMS. For this, an Action Plan will be agreed upon with G&TC.
- 5.3 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 G&TC to present environmental and social compliance reports in form, content and frequency satisfactory to the IDB.