

ENVIRONMENTAL AND SOCIAL MANAGEMENT REPORT (ESMR)
Banco Multisectorial de Inversiones
(ES-L1011)

A. Project Description

1. The borrower, Banco Multisectorial de Inversiones, was founded on April 21st, 1994, through an act of legislation¹ of the government of El Salvador, and began operating on August 1, 1994. BMI's sole shareholder is the Central Bank of El Salvador (Banco Central de Reserva). BMI's mandate is to assist the development of the country's private sector by providing long term capital for private sector investment projects. BMI's function had previously been performed by the Central Bank, and when BMI was created, it inherited a seasoned loan portfolio from the Central Bank. It was initially funded with \$34.3 million in capital plus a \$175 million 30 year loan from the Central Bank and an \$8 million loan for 39 years from the IDB². BMI is the recipient of public, private, and foreign bilateral and multilateral funds, which it channels to financial entities regulated by the Superintendencia del Sistema Financiera ("SSF") of El Salvador.
2. The purpose of this operation is to support Banco Multisectorial de Inversiones ("BMI"), lending programs to Eligible Financial Institutions ("EFIs") in El Salvador for on-lending for low- and middle-income housing and small, medium and microfinance enterprises ("MSMEs"). By supporting these key sectors, the Bank would complement its country strategy by contributing with the government of el Salvador to close the housing gap and enhance the competitiveness and efficient development of the private sector.
3. BMI's largest sector exposure is construction (28%), followed by agro-industry (20%) and then education (10%). Manufacturing, commercial and services sector comprises (40%) of the portfolio. By tenure, 67% of the portfolio is long term between 5 and 25 years, 29% is medium term between one and five years, and 3.64% is up to one year.

B. Environmental and Social Compliance

1. The Environmental and Social Strategy was presented and approved by ESR on July 28, 2007, with the only request to send the ESMR to ESR secretary for verification purposes only.

¹ Ley de Creación del BMI, Decreto no. 856 del 21 de abril 1994.

² The balance of the IDB loan was \$7.5 million in September 2006.

2. Based on Policy Directive B.13, and given this is a financial intermediary project, this operation was not categorized.
3. BMI is in compliance with all relevant environmental, social, health and safety and labor applicable regulations in El Salvador, and has equitable and unbiased practices in terms of social factors (e.g. gender, age, religion, cultural heritage, etc), in both their hiring procedures as well as their credit review, approval, and foreclosure mechanisms.

C. Environmental, Social and Health and Safety Issues

1. The key potential environmental, social, health and safety, and labor impacts and risks associated with the loan are those related to or caused by the projects financed by the Eligible Financial Intermediaries (EFI's) projects.
2. The key potential environmental, social, health and safety, and labor risks are those typically associated with the sub-loans itself such as: (a) potential risks due to location (e.g., located in areas susceptible to natural hazards, such as tornados, hurricanes, floods, seismic events, and fires) and b) potential risks due to hazardous material handling use of pesticides, herbicides to control plagues, potential risks due to droughts or floods.
3. Environmental credit risks refer to potential negative effects on BMI's ability to repay the IDB because of: (i) risks due to BMI's credit programs associated with the reduction in mortgage asset values or property guaranties due to environmental or social issues (e.g., law suits, fines, etc), and (ii) risks associated with BMI's facilities and operations, such as environmental liabilities in their buildings/offices due to existence of PCB transformers, asbestos, lead paint, etc., or employees having occupational health and safety problems due to BMI's working conditions/environment (e.g. inadequate emergency preparedness, lack of fire exits, etc).
4. Reputational risks refer to the potential for BMI's lending programs themselves to damage BMI's reputation (transferable to the IDB) as a result of unacceptable environmental and social practices by EFI's. Reputational risks may also be associated with BMI's involvement in operations that can be considered unacceptable to IDB such as: (i) support to projects or companies that may be considered to be non-eligible according to IDB's exclusion list (e.g., weapons or munitions, radioactive materials, tobacco, etc.); (ii) there may also be environmental, social, health and safety, and labor risks associated with BMI's practices, such as poor working condition/environment for its employees (e.g. lack of non-discriminatory policies, inadequate emergency preparedness, lack of fire exits, etc), or significant liabilities in their facilities or operations (e.g. buildings/offices with asbestos, lead pain, etc).
5. In order to strengthen BMI's capacity to manage environmental, social, health and safety and labor issues, IDB will require as part of the Loan Agreement

that Banco Multisectorial de Inversiones complies with all applicable Salvadorian environmental, social, health and safety, and labor regulatory requirements and applicable IDB policies, develop and implement and Environmental Mortgage Procedure and implements and Environmental Management System within twelve months of financial closing.

D. Environmental and Social Management

1. BMI recently developed an environmental procedure based on risk categorization. There are three categories, with projects that will have minimal or no adverse impact considered category 1, and projects that will have adverse impacts considered category 3 and rejected. EFI's will be required to screen, verify and categorize the transactions/loans according to environmental risks, and also will be required to review loan/transaction compliance with applicable environmental regulations and country requirements.
2. BMI's office is on the 4th floor of the World Trade Building located in Colonia Escalon, San Salvador. The building is 4 years old and currently complies with all relevant fire and building codes. The Borrower has a designated officer to manage labor and safety issues, 8 employees from BMI participate in the fire brigade of the building. BMI has a comprehensive Emergency Preparedness and Response Plan that describes key organizational responsibilities, arrangements with local emergency support providers, emergency response procedures (including emergency communication procedures), location and types of emergency response equipment, training/testing of personnel (including the on-site emergency response team) and evacuation routes and exits.
3. BMI has a human resources manual listing hiring, salaries, and promotion procedures. All employees are subject to an Ethics Code. The Company has 76 employees, with even gender distribution (38 males and 38 females). It was noted during due diligence that currently there are no employees with disabilities. BMI pays 13 salaries a year, plus a merit bonus paid in June. Once a year, Bank employees get a free comprehensive physical examination, and all employees are covered with medical and life insurance. Bank employees are also offered grants and loans for education. As a second tier bank, BMI does not directly deal with retail clients, nevertheless BMI has established Anti-Money Laundering ("AML") procedures and has an AML manual and annual training for employees.

E. Environmental and Social Requirements

The Bank will require as part of the Loan Agreement that BMI comply with all applicable Salvadorian environmental, social, health and safety, and labor regulatory requirements, IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations, and with the Fundamental Principles of the Rights at Work. Prior to

financial closure, the IDB will require BMI to present an Environmental, Social and Health and Safety Action Plan (ESHS Plan) in form and substance satisfactory to the IDB, including at a minimum (i) the chronogram for the development and implementation of an Environmental Management System (EMS) and (ii) the inclusion of BMI's environmental policies and procedures at its website. The level of detail of the Environmental Management System will be commensurate to the potential environmental and social risk associated with BMI's portfolio, and should include at a minimum: (i) project eligibility criteria (Environmental Exclusion List); (ii) a process for assuring compliance with local environmental and social legal requirements, (iii) mechanisms for assessing and managing environmental and social aspects associated to its portfolio; (iii) a process for documenting evaluation, approval and monitoring performance; and (iv) training. Additionally, the IDB will provide BMI with guidelines and best practices associated with environmental and social risk management for SMEs and Mortgages lending in financial institutions, for BMI to become a knowledge multiplier agent in the Region. 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 BMI to present environmental and social compliance reports in form, content and frequency satisfactory to the IADB.