

Environmental and Social Review Summary (“ESRS”)

Banco Davivienda - Green Finance Partnership / 14246-01 – Costa Rica

Original language of the document: Spanish
Issuance date: October 2022

- 1. Scope of the Environmental and Social Review.** The environmental and social (“E&S”) analysis for the proposed transaction consisted of a documentary review, as well as discussions with Banco Davivienda (Costa Rica) S.A.’s management, sustainability coordinator, and environmental risk analyst. The Bank has been a client of IDB Invest since 2017 with satisfactory performance and has worked with other multilateral institutions on the development of climate finance lines.
- 2. Environmental and Social Categorization and Rationale.** The proposed transaction is categorized as FI-2 under the IIC’s Sustainability Policy. The sub-loans granted to companies that will be supported by the Loan have a medium risk potential, i.e., the sub-loans granted by Davivienda encompass or are expected to encompass business activities with limited potential adverse E&S impacts or risks that are generally site-specific, largely reversible, and readily addressed through mitigation measures. The sub-loans to be granted by the Bank with IDB Invest funds will form part of its green portfolio, primarily related to clean production and energy efficiency.

The Bank offers business loans in three segments: Small and Medium Enterprises (“SMEs”), Large Enterprises, and Corporate. The Bank defines “SMEs” as companies with an annual revenue between US\$1 million and US\$5 million. On average, loans for US\$80,000 with an approximate tenor of six years are granted in this segment. Davivienda defines “Large Enterprises” as companies with an annual revenue of between US\$5 million and US\$30 million. This segment receives loans for an average of US\$250,000 with a tenor of 5.5 years. The Bank defines “Corporate” clients as companies with an annual revenue of more than US\$30 million. The average loan amount granted in this segment is US\$1.5 million, with an approximate tenor of five years.

IDB Invest funds may not be used by Davivienda to finance Category A (high risk) sub-projects, projects in sectors included in the IDB Invest Exclusion List, or those that do not comply with the eligibility criteria.

- 3. Environmental and Social Risks and Impacts.** This transaction’s E&S risks relate to Davivienda’s ability to assess and manage the risks associated with its investments. The potential risks related to its main lending activities include labor rights and pollution prevention and mitigation.

The composition of the green project portfolio in the second quarter of 2022 was as follows: (i) clean production 50%; (ii) energy efficiency 19%; (iii) sustainable construction 14%; (iv) renewable energy 14%; (v) green mortgages 2%; and (vi) environmentally friendly vehicles for companies 1%. These sectors account for between 5% and 6% of the Bank’s total loan portfolio but are forecast to achieve a compound annual growth of 22%. The new green finance projects to be supported by IDB Invest funding will all be located in Costa Rica and are expected to be distributed between these sectors. Renewable energy projects will have an installed capacity cap of 10 MW.

The Bank has had an exclusion list and a Social and Environmental Management System ("ESMS") procedure since 2015, which was updated in March 2022. The ESMS is applied to loans from US\$1 million, or lower amounts if they are in sensitive sectors (e.g. renewable energy with an installed capacity higher than 10 MW). Applicable standards include Costa Rican legislation and the International Finance Corporation (IFC) Performance Standards. These standards are explicitly specified in the E&S Information Forms ("ESIF") and E&S Self-Reporting Forms("ESSF"). The Bank's analysis of local regulations is detailed and thorough.

The Bank has an environmental risk analyst who is fully dedicated to managing and monitoring the ESMS and is responsible for conducting the ESDD and annual oversight. With the support of the credit risk teams, the environmental risk analyst conducted 14 due diligence processes and 83 instances of oversight in 2021. The Bank also has a sustainability coordinator who supports environmental and social risk management from a strategic perspective in relation to the business and the origination of green and social loans.

The Bank's parent company ("Grupo Bolívar") adheres to the UN Global Compact, undertaking to fulfill the Sustainable Development Goals ("SDGs"). It also participates in reference frameworks such as the Green Protocol, the Carbon Disclosure Project ("CDP"), the Dow Jones Sustainability Index ("DJSI"), and the Task Force on Climate-Related Financial Disclosures ("TCFD"). Sustainability initiatives are spearheaded by the Corporate Governance and Sustainability Committee. The Group releases an annual sustainability report in line with Global Reporting Initiative ("GRI") standards and has prepared TCFD reports since 2021. The Group aims for sustainable lending to account for 30% of its total loan portfolio by 2030 but has yet to establish specific percentage goals by country or a breakdown between green and social loans. The materiality matrix identified the following key sustainability issues: climate change; sustainable finance; equity, diversity and inclusion; and sustainable funding. Every year, the Group provides a training session titled "No fear of risk: environmental and social risk", which bolsters the implementation of the ESMS and reviews case studies on the materialization of E&S risks. Meanwhile, the environmental risk analyst provides annual training to risk management personnel and the personnel responsible for implementing the ESMS in their processes.

- 4. Mitigation Measures.** The Bank shall assess, manage, and monitor E&S risks, strengthening its ESMS as required by IFC Performance Standard 1¹, and apply the Performance Standards when necessary². The Bank's personnel responsible for managing and monitoring the ESMS and risk assessments in general shall receive specialized support and training on the IFC Performance Standards.

Additionally, the ESMS must be activated for green transactions. As such, the ESMS activation threshold for loans of less than US\$1 million that are not considered to be in sensitive sectors must be reviewed.

Davienda has implemented a Code of Ethics and Conduct that includes a section on transparency when receiving employee grievances. The Bank has adopted International Subsidiary Policies,

¹ [*IFC: Interpretation note on Financial Intermediaries.*](#)

² Financing of corporate projects and loans with a tenor of at least 36 months, and financing of assets defined as part of a project for at least US\$10 million of the total capital cost. For corporate loans granted to a single client that exceed US\$5 million on aggregate over a 36-month period.

which were last reviewed in February 2022, that cover human resources policies and procedures, and grievance and complaint management (internal and external), among other issues. A grievance and suggestion management process is provided on the Bank's [website](#).

The Bank must confirm that all sub-projects in the asset class that will be financed by IDB Invest comply with the stipulations of the IDB Invest Exclusion List, eligibility criteria, applicable local and national E&S legislation, and the IFC Performance Standards, when applicable³. In order to better understand IDB Invest's requirements, personnel responsible for managing and monitoring the ESMS must attend the IDB Invest Environmental and Social Risk Management Training Workshop for Financial Intermediaries. Additionally, the Bank will prepare and implement a procedure to assess E&S risks in the solar panel supply chain for solar energy sub-projects in cases where it has a relationship with the solar panel supplier.

5. Environmental and Social Action Plan (ESAP)

Item	Task	Activity	Deliverable	Compliance date
1	Strengthen the ESMS procedure	Strengthen the ESMS in line with IFC Performance Standard 1. Specifically, strengthen procedures for assessing green projects. The ESMS must be activated for green finance lines.	Strengthened ESMS procedure to be applied to green finance lines.	6 months after the first disbursement.
2	Assessment of the first three medium-risk green transactions	Davienda will send the first three medium-risk green transactions to IDB Invest for comments, in order to: (i) confirm the E&S categorization; and (ii) receive feedback on the proposed action plan.	Environmental assessments of the first three transactions.	When each transaction is available.
3	Strengthen E&S risk assessment in the supply chain for solar energy sub-projects	Prepare and implement a procedure for assessing E&S risks in the solar panel supply chain for solar energy sub-projects in cases where the Bank has a relationship with the solar panel supplier.	Procedure for assessing E&S risks in the solar panel supply chain.	6 months after the first disbursement.
4	Capacity building and training	With the support of IDB Invest's Environmental and Social Team, the Bank will provide training to all risk management and business personnel, including management, on the IFC Performance Standards. Ensure that all new personnel involved in the implementation of the ESMS receive training from Davienda's environmental management officer.	Training certificate for risk management personnel, and any time new personnel are hired.	8 months after the first disbursement. Whenever new risk management personnel are hired.

³ Financing of corporate projects and loans with a tenor of at least 36 months, and financing of assets defined as part of a project for at least US\$10 million of the total capital cost. For corporate loans granted to a single client that exceed US\$5 million on aggregate over a 36-month period.

6. **Contact Information** For project inquiries, including environmental and social questions related to an IDB Invest transaction please contact the client (see **Investment Summary tab**), or IDB Invest using the email requestinformation@idbinvest.org. As a last resort, affected communities have access to the IDB Invest Independent Consultation and Investigation Mechanism by writing to mecanismo@iadb.org or MICI@iadb.org, or calling +1(202) 623-3952.