

Environmental and Social Review Summary (“ESRS”)

Davivienda: Credit Facility for SMEs, Women-Led SMEs, and Green Financing in El Salvador / 15665-01

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- 1. Scope of Environmental and Social Review.** The Environmental and Social (“E&S”) analysis of the proposed transaction consisted of a review of the Environmental and Social Risk Management System (“ESMS”), the Human Resources policies and procedures, information on the loan portfolio of Banco Davivienda Salvadoreño S.A. (“Davivienda” or the “Bank”), as well as conversations with Bank officials. The Bank has an existing relationship as a client of IDB Invest.
- 2. Environmental and Social Categorization and Rationale.** The proposed transaction is classified as FI-2 under IIC’s Environmental and Social Sustainability Policy, as it will finance sub-projects with moderate E&S risk. The sub-loans will be aimed at supporting the growth of Davivienda’s green portfolio, as well as financing Small and Medium-Sized Enterprises (“SMEs”) and SMEs led by women (“Women-Led SMEs”). Davivienda will not finance category A (high-risk) sub-projects, as defined by IDB Invest, nor those involving activities listed on IDB Invest’s exclusion list.

The Bank’s green portfolio is mainly concentrated in the corporate segment and includes nine categories, with the most prominent being: (i) Sustainable Energy;¹ (ii) Sustainable Infrastructure and Construction; (iii) Transport and Mobility; and (iv) Sustainable Agricultural Development. Regarding the SME portfolio, the Bank defines these enterprises as those with annual sales of up to US\$10 million. Sub-loans in this portfolio have an average amount of US\$38,900 and an average term of five years. The four sectors with the highest participation in the SMEs portfolio are: Commerce (47%), Services (41%), Manufacturing Industry (8%), and Agribusiness (1%).

The transaction is considered aligned with the Paris Agreement based on an analysis conducted according to the IDB Group’s Paris Alignment Implementation Approach. The analysis considered the development of procedures to be integrated into the Bank’s ESMS to strengthen the management of physical climate risk in its portfolio.

- 3. Environmental and Social Risks and Impacts.** The main E&S risks of the transaction are related to Davivienda’s ability to identify and manage risks associated with its financing activities, particularly in the sub-projects within the green portfolio. These E&S risks may involve worker health and safety, waste generation, land use changes, handling of hazardous materials, community health and safety, labor rights, among others. The E&S impacts and risks associated with the sub-projects are considered to be of moderate level.
- 4. Mitigation Measures.** Davivienda has an ESMS that includes an exclusion list, processes and forms for E&S risk categorization and assessment, as well as guidelines for the design and implementation of environmental and social action plans. ESMS incorporates local environmental and social legislation and the Equator Principles. The Bank has a specialized analyst responsible for E&S risk management, who leads the evaluations and monitors the implementation of action plans in sub-projects, and oversees the overall management of ESMS, with support from staff in other operational areas. Additionally, Davivienda has Human Resources policies based on principles of equal opportunity and non-discrimination, and provides a grievance mechanism for

¹ Eligible renewable energy projects will include, among others, solar and wind energy projects with an installed capacity of up to 15 MW, excluding hydroelectric projects.

its employees. The Bank also offers accessible external communication channels through its website.

Davivienda must ensure that all underlying loans in the asset class financed by IDB Invest comply with local E&S laws, IDB Invest's exclusion list, IDB Invest's eligibility criteria, the current ESMS, and, where applicable, the International Finance Corporation ("IFC") Performance Standards. As part of the E&S action plan described in Section 5, the Bank must implement improvements to strengthen the management of environmental, social, and climate risks, and its E&S team must complete an online course offered by IDB Invest.

5. Environmental and Social Action Plan ("ESAP"):

N°	Activity	Description	Deliverable	Compliance date
Performance Standard 1: Assessment and Management of E&S Risks and Impacts				
1	Environmental and Social Risk Analysis System	1.1 Establish the application of the IFC Performance Standards for new sub-loans within the green portfolio, with a total amount equal to or greater than US\$5 million and a term equal to or longer than 36 months;	Updated ESMS	Within 9 months after disbursement
		1.2 Strengthen and expand the procedures and forms related to the application of the IFC Performance Standards; and		
		1.3 Share the E&S assessment of the first three transactions in which the Performance Standards are applied, in order to: (i) confirm the E&S categorization; and (ii) evaluate the proposed action plan.	E&S Due Diligence Reports for the first three transactions	After 9 months, once the report for each transaction is available
2	Climate Risk Management	Develop, document within ESMS, and implement a procedure to identify and manage physical climate risks in sub-projects.	a) Approved Procedure or Updated ESMS	Within 18 months after disbursement
			b) Evidence of Implementation	As part of the ESMR ²
3	Natural Habitat Conversion Risk Management	Develop and implement a procedure to identify and manage the risk of natural habitat conversion in agricultural sub-projects, using satellite monitoring tools.	a) Approved Procedure or Updated ESMS	Within 12 months after disbursement
			b) Evidence of Implementation	As part of the ESMR
4	Supply Chain Risk Management	Develop and implement a procedure to assess labor risks in the supply chain of solar panels used in solar energy sub-projects.	a) Approved Procedure or Updated ESMS	Within 4 months after disbursement
			b) Evidence of Implementation	As part of the ESMR

² ESMR stands for Environmental and Social Monitoring Report, which must be submitted regularly to IDB Invest.

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 divulgacionpublica@iadb.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.