

Environmental and Social Strategy (ESS)¹

Banco Nacional de Costa Rica

I. Overview

- 1.1 The proposed transaction entails up to US\$75 million of long-term financing to BNCR, consisting of a subordinated loan with a tenor of up to ten years, with an expected five-year interest only period. Through this loan Banco Nacional de Costa Rica (BNCR) will increase lending to women-led small and medium-sized enterprises (“SMEs”) directed through the *Banca Mujer* program in Costa Rica. At the same time, the Loan would strengthen Banco Nacional’s capitalization and liquidity indicators.

II. Environmental and Social Impacts and Risks

- 2.1 Based upon the nature of this operation to support SMEs, there may be minimal to moderate direct environmental, social or health and safety (ESHS) and labor risks and impacts. To that end a specific environmental due diligence is required. The potential key ESHS and labor risks and impacts associated with this operation are those related to the specific transactions financed by BNCR with the proposed financing and could include (i) BNCR’s environmental credit risks; (ii) specific ESHS and labor risks and impacts related to investments in certain sectors; and (iii) IDB reputation risks associated with the impact of other BNCR operations and/or financing.
- 2.2 *Environmental credit risks:* Environmental credit risks refer to potential negative effects on BNCR’s ability to repay the IDB because of: (i) risk of an eventual non-repayment of loan due to environmental and social issues (e.g. law suits, fines, etc) associated with its loans; and (ii) risks associated with BNCR’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).
- 2.3 *Direct impacts associated with loans to SMEs:* The Partnership may generate minimal to moderate negative social and environmental impacts associated with loans to SMEs. The type and extent of impacts will vary depending on the amount of loans to be extended and on the type of activities to be financed. There may be specific environmental, social, health and safety (ESHS) and labor impacts and risks related to SME investment in certain sectors, for example, related to investment in energy, construction, manufacturing, agriculture, or mining sectors,

¹ This ESS will be made available to the public in accordance with the Bank’s policy on information disclosure. The ESS does not represent either the Bank’s approval of the Project or verification of the ESS completeness or accuracy. The Bank, as part of its due-diligence on the feasibility of the Project, will assess the environmental and social aspects. This assessment will be presented in the Project Environmental and Social Management Report that will be prepared by the Bank, and will be made available to public prior to consideration of the Project by the Bank’s Board of Executive Directors.

among others. The assessment of social and environmental impacts for each loan will be the responsibility of BNCR, through the implementation of an Environmental and Social Management System, whose specific requirements will be defined during the due-diligence process.

- 2.4 *Reputational risks associated with the impact of other operations:* Reputational risks may be associated with BNCR's involvement in projects, companies or activities considered unacceptable to the IDB and/or that will face significant public opposition or concerns, such as (i) inappropriate development location; (ii) BNCR's finance application and analysis process that is not equitable, fair, and unbiased in terms of social factors (e.g. gender, age, ethnicity, or cultural heritage, etc.); and (iii) significantly deficient labor practices.
- 2.5 These risks may be minimal to moderate and will be assessed during due diligence.

III. Status and Compliance

- 3.1. Given that this is a financial intermediary and based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this transaction is not categorized.

IV. Strategy for Environmental and Social Due Diligence

- 4.1 As per the IDB Environment and Safeguards Compliance Policy and Guidelines, and as part of its due diligence process, the Bank will assess BNCR's capacity for environmental and social risk management. During this process the Bank will establish whether appropriate procedures are in place to assess and manage the potential environmental risks and impacts associated with sub-loans. The IDB will ensure that appropriate and feasible ESHS and labor requirements, including capacity building, in the form of an Environmental and Social Management System (ESMS), tailored to the particular needs of the Partnership, are included in the legal agreements.
- 4.2 The environmental and social due diligence required for this Partnership will comprise of the following steps:
- a. An identification of any environmental and occupational safety liabilities in BNCR's facilities and operations and, if required, an assessment of the adequacy of action plans to properly resolve them.
 - b. An assessment of BNCR's compliance status with the applicable country environmental, social, health and safety, and labor regulatory requirements as well as with any relevant conventions and treaties which have been ratified by Costa Rica;
 - c. An assessment of BNCR's procedures to ensure that its loan, finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. age, gender, cultural heritage, etc).

- d. An assessment of BNCR's actual and pipeline portfolio, to establish potential reputational risks associated with BNCR's involvement in projects, companies or activities considered unacceptable to the IDB; and specific ESHS and labor impacts and risks related to investment in certain sectors, likely to be financed under the Partnership.
- e. An evaluation of the current credit appraisal, approval and monitoring procedures in place to manage environmental and social liabilities, impacts and risks associated with BNCR's portfolio as well as an assessment of BNCR's capacity in terms of environmental and social risk management.

The results of the due diligence will be presented in an Environmental and Social Management Report and summarized in the Loan Proposal to establish the environmental, social, health and safety, and labor requirements for the Partnership. In the event BNCR does not have sufficient environmental and social measures in place, the Bank will define its conditions for the scope, depth and content of an adequate ESMS to be developed and implemented by BNCR.