

Environmental and Social Strategy (ESS)¹

Banco Davivienda Costa Rica

I Overview

- I.1 Banco Davivienda Costa Rica is a subsidiary of Banco Davivienda Colombia², one of the largest regional banks in Central America. The financial group has experienced significant growth, more recently boosted by partnership agreements and acquisitions. Banco Davivienda Costa Rica is the third largest private bank in the country, with about [10.7] % of the System's total assets. Davivienda's commercial strategy has focused on corporate clients and, more recently, Green lines.
- I.2 The Project consists of a senior unsecured A Loan for up to US\$35 million to Davivienda, with a maturity of up to six years, with a two-year grace period; of which US\$10 million will be allocated to Base of the Pyramid clients for the sustainable social housing component. The A Loan could be complemented by a B Loan financed by commercial investors in an amount to be determined based on market conditions and the needs of the client, which is currently estimated at approximately US\$10 million. The Loan will be used to finance: (i) Davivienda's efforts to increase access to energy efficient products and renewable energy sources for corporate clients and (ii) to promote sustainable social housing projects targeting the BoP. The coordination between SCF and OMJ will allow Davivienda, the sixth largest bank in the system, to support and consolidate its "Green portfolio".
- I.3 Based on Directive B.13 of the Environment and Safeguards Compliance Policy, and given that this is a financial intermediary project, this operation is not categorized.

II Environmental and Social Risks and Impacts

- 2.1 Based upon the nature of this operation, there may be minimal to moderate direct environmental, social, health and safety (ESHS) and labor risks and impacts, and thus a limited environmental assessment is required.
- 2.2 The ESHS risks and impacts associated with mortgaging new and existing houses will be related mainly to the magnitude and the location of each individual property to be mortgaged. The key potential project-related ESHS risks and impacts are those typically associated with the location of the property, such as:
- Properties located on land which may have contamination such as soil and ground water contamination, which may present a human health risk;

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.

² There are also subsidiaries in El Salvador, Honduras, and Panama.

- Particularly in older properties, properties with the existence of lead based paint, friable asbestos containing materials, equipment containing polychlorinated biphenyl compounds, or presence of hazardous gases/materials;
- Properties that are located on sites of archeological, cultural or historical value;
- Properties located in areas where previous use/ activities may have resulted in localized environmental problems (i.e. abandoned landfills or waste disposal areas, industrial facilities).
- Properties located in areas at high risk to natural hazards, such as tornadoes, hurricanes, floods, or from seismic events, and fires.
- Properties located in areas near important or sensitive environmental areas (e.g. containing threatened or endangered species, tropical rain forests, natural parks, etc.)
- Properties located in areas with particular social issues such as the displacement of illegal settlements occupying the property or land on which the property is located;
- Potential discrimination and barriers for an equitable process of providing the mortgages taking into consideration ethnicity, sex, religion, age, etc.

2.3 The ESHS impacts and risks associated with loans to corporates and mortgages will be of varied nature depending mainly on the type of activity being financed. These ESHS risks and impacts may be minimal to moderate, for example related to trade and commerce of products and substances subject to bans and international phase outs (trade finance); habitat conversion and degradation (construction, agriculture, transport, energy); aquatic biodiversity loss (fisheries, hydropower); solvent emissions and waste (print shops, tanneries); occupational health and safety (industry, construction, agriculture); poor land use (construction, agriculture); noise and air pollution (industry, construction), increased greenhouse gas emissions (industry, energy).

III Strategy for the Environmental and Social Due Diligence

3.1 As per the IDB Environment and Safeguards Compliance Policy and Guidelines, the Bank will assess Davivienda's capacity for environmental management, through an analysis of the ESHS and labor impacts and risks associated with its mortgage and SME lending business. This will be done through an analysis of the ESHS and labor risks and impacts associated with the Operation as well as an assessment of Davivienda's existing ESHS policies and procedures in place to assess and manage these potential risks and impacts.

3.2 To that end, the environmental and social due-diligence will specifically include the components listed below:

- (a) An assessment of Davivienda's compliance status with the applicable environmental, social, health and safety, and labor regulatory requirements in Costa Rica.

- (b) An assessment of Davivienda's existing ESMS, the sufficiency of the current credit appraisal, approval, and monitoring procedures (checklists, exclusion list) to manage environmental and social liabilities, risks and/or impacts of SME and residential mortgage loans.
- (c) An assessment of potential reputational risks associated with Davivienda's involvement in projects, companies or activities considered unacceptable to the IDB.
- (d) An evaluation, if appropriate, of Davivienda's status and compliance with other multilateral development facilities and programs.
- (e) An evaluation to ensure an appropriate inventory of present environmental and health and safety liabilities in Davivienda's portfolio, and facilities, and if they exist, assess the adequacy of the action plan to properly resolve them.
- (f) An evaluation of Davivienda's compliance with the Fundamental Principles and Rights at Work and whether they practice fair and unbiased labor practices related to sex, age, ethnicity, cultural heritage, and collective bargaining.
- (g) An assessment of the adequacy of Davivienda's procedures to ensure that the mortgage finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. age, gender, cultural heritage, etc).

3.3 The results of the due diligence will be presented in an Environmental and Social Management Report and summarized in the Loan Proposal.