

**Environmental and Social Management Report  
Banco Davivienda Costa Rica Green Line Partnership  
(CR-L1078 – CR-L1080)**

**I. Project Description and Background**

- 1.1 The main objective of this project is to contribute to increasing the supply of financing for environmentally sustainable projects in Costa Rica, both in the commercial and housing sectors. The proposed Green Line loan (the “Loan”) will provide targeted support for environmentally sustainable initiatives in Costa Rica by partnering with Banco Davivienda. (Costa Rica), S.A. (“Davivienda”).
- 1.2 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\$25 million, the SCF funds, will target energy efficiency, clean energy, transportation and sustainable building projects with Davivienda’s commercial clients; while US\$10 million, the OMJ funds, will be allocated towards sustainable social housing for Base of the Pyramid “BoP” clients. 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.

**II. Project Status and Compliance**

- 2.1 Based on Directive B.13 of the Environmental Safeguards Compliance Policy (OP-703), this Project is classified as a financial intermediary and as such is not categorized according to its potential environment and social (E&S) impacts and risks. Davivienda has confirmed that it is in compliance with Directive B.2 (country laws and regulations) of IDB Environmental and Safeguards Compliance Policy, complying with all applicable legal and regulatory environmental, social, health and safety, and labor (ESHS&L) laws and regulations.
- 2.3 Based on the sectors that will be financed with SCF Funds, tenor and average loan size between US\$3-US\$5 million, for projects that would not exceed US\$10 million, this operation is categorized as medium risk FI-2+; while for the OMJ financing, focused on sustainable-social housing and consisting of mortgage loans averaging about US\$55,000, the operation is categorized as low risk FI-3.

**3.0 Environmental and Social Risks and Impacts**

**A. Potential risks and impacts associated with Davivienda’s portfolio**

- 3.1 Davivienda has targeted clients across sectors providing various types of corporate and trade-related finance. Its portfolio concentration with the potential for environmental and social issues is currently estimated at about 0.5%, mostly in renewable energy projects.
- 3.2 In the context of Davivienda’s lending operations, the proposed pipeline of activities includes: energy efficiency, clean energy and sustainable buildings project, the ESHS impacts and risks associated with sub-loans can be minor to significant in nature. Based upon the nature of this operation, there may be low to high direct environmental, social,

health and safety (ESHS) and labor risks and impacts. While most of the risks associated with potential investments to be supported by the IDB could be moderate, there might be some investments such as hydro and the installation of new plants that could entail high risks. These are mainly related to the location, the nature of the fuels used for the co-generation, and the source of water for the systems. It is also important to mention that although the substitution of old technology and equipment through the adoption of new EE measures will also reduce GHG and other emissions, this type of project could have limited adverse impacts on the environment if the substituted equipment is not withdrawn from circulation or is not properly disposed. Depending on the nature and the complexity of the materials and substances to be removed and replaced, they will have to be handled in a technically appropriate manner to be recycled, returned post use, or discarded for final disposal by the EE project owner and in some cases the supplier of the old or new equipment, in some cases with the assistance of a licensed or certified waste management service provider.

- 3.3 Specific to this Green Line, the ESHS risks could include, among others: i) land degradation and conversion (land use change, displacement of small-holder farms, flooding) and impacts on water bodies (extraction, diversion, run off); ii) community impacts (land acquisition, tenure, physical resettlement, economic displacement); iii) cumulative impacts associated with hydro dams or flow diversions and other projects using the same watershed; iv) biodiversity impacts associated with conversion of natural habitats and in rare cases impacts on critical natural habitats (crop plantation, dams); v) worker and community health and safety impacts and risks during construction and operation phases (hydropower, biofuels, agriculture); vi) labor related issues (agriculture, renewable energy); vii) local food security concerns in the conversion of feedstocks away from staple crops (biofuels); viii) contamination and waste and effluent management issues (agriculture, construction, biofuels).
- 3.4 The key ESHS risks and impacts associated with mortgage lending on new houses are typically related to the magnitude and the location of each individual property to be mortgaged and include: i) properties located in areas where previous use/activities (i.e. abandoned landfills or waste disposal areas, industrial facilities) may have resulted in localized environmental problems such as soil and ground water contamination, which may present a human health risk; ii) particularly in older properties, properties with the existence of lead based paint, friable asbestos containing materials, or presence of hazardous gases/materials; iii) properties located in areas at high risk to natural hazards, such as floods, seismic events, and fires; iv) properties located in areas near important or sensitive environmental areas (e.g. containing threatened or endangered species, tropical rain forests, natural parks, etc.) v) 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; vi) Potential discrimination and barriers for an equitable process of providing the mortgages taking into consideration ethnicity, sex, religion, age, etc.
- 3.5 Risks can be mitigated and managed with the implementation of an Environmental and Social Management System (ESMS) to ensure that sub-loan supported activities adhere to good environmental and social practices. Given that the Loan will focus on loans that result in energy savings/efficiency, cleaner production and improved sustainable technologies in different sectors, the potential risks may be further reduced with the introduction of robust eligibility criteria to ensure that each investment has a positive environmental impact.

B. Environmental and social risks associated with Davivienda's facilities and human resources practices, and other considerations

- 3.3 Davivienda has stated that they have no material health issues (including legal claims) and do not have any material employee or labor disputes. Davivienda indicated that its finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. gender, age, ethnicity, or cultural heritage). Davivienda's guidelines for employee compensation (salary, pay raise, benefits) and analysis (evaluations) are based on the local legislation, following also Costa Rican labor regulations.
- 3.4 In Colombia, Davivienda Colombia is a signatory to Pacto Global and the Protocolo Verde sponsored by the Banking Association. In Costa Rica, Davivienda has been certified on nine occasions under the national program Bandera Azul Ecológica.<sup>1</sup>
- 3.5 As part of Davivienda's CSR, it has set up a corporate volunteering program focused on working in protected areas. It also supports social program activities, assisting organizations which work in the neighborhoods where the bank's branches are located. Moreover, a project is being organized in conjunction with the municipalities to create a space for children and youth from the community, starting with the Guácimo municipality. Since November 2014, there has been a financial education program for employees at Davivienda's commercial clients.

#### 4.0 Environmental and Social Management System

A. Davivienda's Environmental and Social Management System (ESMS)

- 4.1 Davivienda Costa Rica has developed an ESMS, in conjunction with Davivienda Colombia and the IFC; however, the system has to be officially adopted after its approval by the Board, expected in October of this year. All loans above the US\$1 million threshold and for tenors of 12 months or longer have to undergo an environmental and social analysis; moreover, the Risk Area of the bank, if it deems it necessary, may request the ESMS be applied to loans smaller than the threshold.
- 4.2 The environmental policy is adapted from the Davivienda Colombia policy, including the adoption of its Exclusion List<sup>2</sup> and the risk categorization system (high risk (A), moderate (B) and low (C)) that the credit officer has to undertake and the E&S specialist validates. They maintain a list of activities deemed high risk (Cat A), for these projects, they incorporate a supervision procedure.
- 4.3 They also keep track of the main impacts resulting from the clients' commercial activities. Depending on the impacts are reported, and based on these activities, an appropriate supervisory plan is agreed to, with a monitoring frequency established which is commensurate to the risk entailed. Davivienda also keeps a database of all the environmental and social evaluations undertaken, recording a track record of all findings.
- 4.4 Under Costa Rican law, SETENA (Secretaría Técnica Nacional Ambiental) is the regulatory body responsible for implementation of environmental regulation, including requesting and assessing EIA, approving projects and issuing the requisite permits. Davivienda requests EIA of all large projects, in accordance with regulatory

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<sup>1</sup> For more information, please refer to <http://pactoglobal-colombia.org/>; [http://www.asobancaria.com/portal/page/portal/Asobancaria/responsabilidad\\_social/protocolo\\_verde/](http://www.asobancaria.com/portal/page/portal/Asobancaria/responsabilidad_social/protocolo_verde/); <http://banderaazulecologica.org/>

<sup>2</sup> The policy's exclusion list does not cover two items which are part of the IDB Exclusion List, namely: the transboundary trade in waste or waste products, except for non-hazardous waste destined for recycling, and Persistent Organic Pollutants (POPs). Note that for IDB use of proceeds, these activities will also have to be excluded.

requirements, as well as environmental management plans to assess and establish control measures and covenants on the clients. All such interactions, including EIA, environmental management plans and any other pertinent material requested from the client, are recorded and kept in the ESMS Evaluation Form (“Formato de Evaluación SARAS”). There may be other required evaluation, leading to corrective action plans PAAS (Plan de Acción Ambiental y Social), depending on the activity being mitigated.

- 4.5 The management of the ESMS is shared between three departments: risk, commercial, and portfolio management, with risk coordinating the system directly among the three. There are Environmental and Social Analysis professionals, although for more complex cases, external consultants can be used. The commercial origination professionals have also been trained in the ESMS workings and carry out some of the environmental and social evaluation process.

## **5.0 Environmental and Social Requirements**

- 5.1 For this US\$35 million operation, involving two components. First, the US\$25 million SCF funds which are categorized medium risk FI-2+, consisting of energy efficiency, clean energy, transportation and sustainable building projects with Davivienda's commercial clients of loan sizes between US\$3-US\$5 million, for projects that would not exceed US\$10 million. Second; the US\$10 million the OMJ funds which are categorized as low risk FI-3 and which will be allocated towards sustainable social housing for Base of the Pyramid “BoP” clients, consisting of mortgages averaging about US\$55,000.
- 5.2 Given the Bank categorizations for the operation as FI-2+ and FI-3, the Bank will require as part of the Loan Agreement that Davivienda:
- (i) Comply with all applicable Costa Rica environmental, social, health and safety, and labor regulatory requirements.
  - (ii) In relation to the financing of commercial clients and BoP mortgage loans ensure that each loan complies with: (a) in-country regulations; (b) the IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations; (c) the Fundamental Principles of the Rights at Work; and (d) Davivienda's ESMS.
  - (iii) Ensure that at least one staff member with responsibility for the ESMS implementation and maintenance take part in the IIC/IDB Environmental Risk Management training course, or a similar workshop by other organizations such as UNEP-FI, to be agreed upon by the IDB, annually, to ensure that Davivienda continues to remain up to date with its environmental and social risk management expertise.
  - (iv) Present an Annual Environmental and Social Compliance Report (ESCR) with information on the project portfolio, and with information on any particular risk issues identified with respect to projects and mitigation or corrective measures agreed with clients.
- 5.3 The IDB will supervise the environmental and social aspects related to the use of the proceeds of the IDB loan either by an in-house specialist or with external consultants, and if necessary, will require means of addressing specific impacts and risks and/or enhancing management.