

ANNEX 1
BANCO HIPOTECARIO DE VIVIENDA
DR-L1038
ENVIRONMENTAL AND SOCIAL STRATEGY¹

A. Project Description

- i. The proposed project consists of a financing package (the “Facility”) to Banco BHD S.A (“BHD”), an IDB existing client. The financing entails: i) US \$20 million subordinated loan granted under conditions set by the local regulator and the rating agency (ies) to qualify as Tier II capital. The IDB loan is complemented by additional subordinated loans from Deutsche Investitions-und Entwicklungsgesellschaft (“DEG”) and from promotion et Participation pour la Cooperation economique (“PROARCO”), who have expressed their interest to participate in the transaction; and ii) Risk Sharing Guarantee Facility (“RSGF”) on loans extended to finance energy and tourism projects, among others in the Dominican Republic. The guarantee will cover 50% of the principal and interest losses for a total amount of up to US\$50 million. BHD will originate the portfolio following underwriting, credit and loan policies acceptable to the IDB.
- ii. The IDB loan will provide Banco Hipotecario de Vivienda (“BHD”), the third largest bank in the Dominican Republic with long-term financing to strengthen its capital base and to support its continued growth. Limited access to long-term finance in the country is a key constraint to BHD’s growth. The Facility will encourage medium-and long term lending to the corporate sector and will provide alternative financial sources to individuals. IDB’s Risk Sharing Guarantee Facility will enable BHD to expand its medium-term lending for projects in key sectors such as energy and tourism over a period of 2 years. Given the importance of these sectors in the Dominican Republic (i.e. tourism is the main earner of foreign exchange and one of the largest generators of employment in the country), there is a significant need of this type of financing.

B. Environmental and Social Impacts and Risks

- i. The key potential environmental, social, health and safety, and labor impacts associated with the Facility and the Risk Sharing Guarantee could be those related to or caused by the specific projects financed by BHD. These impacts can be diverse and their significance will depend on the project characteristics (e.g. medium and long term lending

¹ This Environmental and Social Strategy (ESS) is being made available to the public in accordance with the Bank’s policy on information disclosure. The ESS has been prepared based primarily upon information provided by the Project sponsors and 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.

to corporate sector, energy and tourism projects) location and magnitude of development. Specific impacts and risks related to the energy and tourism sectors could include: green house gas emissions, waste water, solid waste, and carrying capacity in coastal zones, among others.

- ii. In terms of risks, the potential key environmental, social, health and safety, and labor issues could include (i) Banco Hipotecario de Vivienda environmental credit risks, (ii) IDB Reputational Risks associated to Banco Hipotecario de Vivienda environmental, social, health and safety, and/or labor practices.
- iii. Environmental credit risks refer to potential negative effects on Banco Hipotecario de Vivienda ability to repay the IDB because of: (i) risks due to the bank's credit programs associated with the reduction in guaranties/securities due to environmental or social issues (e.g. environmental liabilities) or increased probability of non-repayment of loan due to environmental and social issues (e.g. law suits, fines, etc); and (ii) risks associated with Banco Hipotecario facilities and operations, such as environmental liabilities in their offices due to asbestos, lead paint, etc. or Banco Hipotecario de Vivienda employees having occupational health and safety problems due to working conditions (e.g. inadequate emergency preparedness, lack of fire exits, etc).
- iv. Reputational Risks are associated with Banco Hipotecario de Vivienda 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) poor building design including ability to withstand natural disasters; (iii) Banco Hipotecario de Vivienda 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 (iv) significantly deficient labor practices by Banco Hipotecario de Vivienda. These risks are considered to be minor and will be assessed during the due diligence.

C. Status and Compliance

- i. As a financial intermediary operation, this transaction is not categorized, per Policy Directive B.13 of the Environment and Safeguard Compliance Policy.

D. Strategy for Environmental and Social Due Diligence

The Bank, as part of the due diligence process, will analyze the environmental and social aspects of the Project and establish environmental, social, health and safety, and labor requirements in the legal agreements. The environmental and social due-diligence will specifically include the components listed below:

- i. An assessment of Banco Hipotecario de Vivienda compliance status with the applicable country (national, state, municipal) environmental, social, health and safety, and labor regulatory requirements.

- ii. An assessment of the sufficiency of current credit appraisal, approval, and monitoring procedures to manage environmental and social liabilities, impacts and risks of its loan operations, including risks associated with Banco Hipotecario de Vivienda portfolio. Current procedure should at a minimum be able to (i) include in the application and analysis process (i.e., underwriting guidelines and risk review process) consideration of environmental or social aspects (such as possible impacts on coastal zones), and assess potential environmental financial/credit risks and liabilities that may be associated with the loans; and (ii) include provisions to have credit officers qualified and trained to identify potential environmental, social, health and safety, and labor issues/liabilities.
- iii. An evaluation to assure an appropriate inventory of present environmental and occupational safety liabilities in Banco Hipotecario de Vivienda facilities and operations, and if they exist, prepare an action plan to properly address them.
- iv. An evaluation to ensure that Banco Hipotecario de Vivienda has adequate Contingency Plans and procedures (i.e. emergency response programs, building evacuation drills, etc) including their technical adequacy, proper level of training, and sufficient resources to ensure adequate implementation.
- v. An evaluation of Banco Hipotecario compliance with the Fundamental Principles and Rights at Work and with any other international labor organization conventions and treaties which have been ratified by the Dominican Republic, to determine presence of any existing major labor problems associated with BHD, and whether they practice fair and unbiased labor practices related to sex, age, ethnicity, cultural heritage, and collective bargaining. BHD must have (or develop) written procedures to assure adequate hiring procedures and treatment of employees.
- vi. An assessment of the adequacy of Banco Hipotecario de Vivienda procedures to ensure that loan and foreclosure procedures, finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. age, gender, cultural heritage, etc).