

Environmental and Social Strategy (ESS)¹

Banco Promerica

I. Overview

- 1.1 Banco Promerica was established in 1992 as a financial institution and granted the banking license in 1995. It belongs to a regional bank network with financial institutions in Latin America and the Caribbean (Nicaragua, Costa Rica, Panama, El Salvador, Dominican Republic, Ecuador, Guatemala and Honduras). Each entity has its own board of directors and operates independently. The financial network underwent a process of consolidation through a holding company established in Panama, Promerica Financial Corporation (PFC) that was completed in late 2009.
- 1.2 Promerica's loan portfolio accounts for 65.1% of assets and is composed of 51% in commercial lending and 49% in consumer lending. The commercial portfolio is mainly composed of lending to the service industry (20%), commercial (11%) and construction (10%). On the consumer side, mortgage loans represent 14% and credit cards 22%.

II. Environmental and Social Impacts and Risks

- 2.1 Based upon the nature of this operation (i.e. a facility to increase mortgage financing to lower- and middle-income individuals and to develop a "green" loan portfolio), there may be minimal to moderate direct environmental, social or health and safety (ESHS) and labor impacts and risks. To that end a specific environmental due diligence is required. The potential key ESHS and labor issues and risks associated with this operation are those related to the specific projects financed by Promerica, with the proposed funding, and could include (i) Promerica's environmental credit risks; (ii) specific ESHS and labor risks and impacts related to mortgages, MSME investment in certain sectors and green projects; and (iii) IDB Reputation Risks associated with the impact of other Promerica operations.
- 2.2 *Environmental credit risks:* Environmental credit risks refer to potential negative effects on Promerica's ability to repay the IDB because of: risks due to Promerica credit programs associated with reduction in mortgage asset values or property guarantees/securities due to environmental or social issues (e.g. environmental liabilities); (ii) risks due to increased probability of non-repayment of loan due to environmental and social issues (e.g. law suits, fines, etc) for both mortgages and MSME loans; and (iii) risks associated with Promerica facilities and operations, such as environmental liabilities in their offices due to asbestos, lead paint, etc. or Promerica employees having occupational health and safety problems due to working conditions (e.g. inadequate emergency preparedness, lack of fire exits, etc).

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.

- 2.3 *Direct impacts associated with green loans:* The project may generate minimal to moderate negative social and environmental impacts associated with the loans in specific sectors. The type and extent of impacts will vary depending on the amount of loans to be extended and on the type activities to be financed. There may be specific environmental, social, health and safety (ESHS) and labor impacts and risks related to investment in certain sectors, for example, related to investment in renewable energy (hydro, wind for example), forestry, waste management, water and wastewater treatment and industrial technology sectors. The assessment of social and environmental impacts for each loan will be the responsibility of Promerica, 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 are associated with Promerica's involvement in projects, companies or activities considered unacceptable to the IDB and/or that could face significant public opposition or concerns, such as (i) inappropriate development location; (ii) Promerica'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 the due diligence.

III. Status and Compliance

- 3.1 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.

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 Promerica's capacity for environmental management, through an analysis of the ESHS and labor impacts and risks associated with the Facility. During this process the Bank will establish whether appropriate environmental procedures are in place to appropriately assess and manage these potential risks and impacts. 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), and green line criteria, tailored to the particular needs of the Facility, are included in the legal agreements.
- 4.2 To that end, the environmental and social due-diligence will specifically include the components listed below and will attempt to identify areas where the IDB's participation could result in additionality by promoting better management and good practices related to environmental and social issues:

- a. An assessment of Promerica's compliance status with the applicable country environmental, social, health and safety, and labor regulatory requirements;
- b. 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 Promerica's mortgage portfolio, and lending portfolio (particularly those sectors likely to be relevant for the green line). 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, lake and rivers; in protected areas; or on indigenous peoples, or possible effects that may result from natural disasters), 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. This assessment will include a review of advances made by Promerica in developing environmental risk management and greenline procedures with other multilateral development banks, such as IFC, if appropriate.
- c. An assessment of Promerica's mortgage portfolio, as well as its actual and pipeline of potential green projects , to establish potential reputational risks associated with Promerica'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 Facility.
- d. An evaluation of Promerica's status and compliance with the environmental and social requirements of the IDB's Trade Finance Facilitation Program and, if appropriate, with other multilateral development facilities and programs.
- e. An evaluation to ensure an appropriate inventory of present environmental and occupational safety liabilities in Promerica's facilities and operations, and if so, assess the adequacy of the action plan to properly resolve them.
- f. An evaluation to ensure that Promerica has adequate Contingency Plans and procedures (i.e. emergency response programs, building evacuation drills, etc) including their technical adequacy, adequate level of training, and sufficient resources to ensure adequate implementation.
- g. An evaluation of Promerica's compliance with the Fundamental Principles and Rights at Work and with any other international labor organization conventions and treaties which have been ratified by Costa Rica, to determine presence of any existing major labor problems associated with Promerica projects, and whether they practice fair and unbiased labor practices related to sex, age, ethnicity, cultural heritage, and collective bargaining.
- h. An assessment of the adequacy of Promerica's procedures to ensure that loan, finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. age, gender, cultural heritage, etc).

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