

**Environmental and Social Management Report**  
**Banco Promerica de Costa Rica**  
**CR-L1044**

**I. Project Description**

The proposed transaction consists of a financing facility (the “Facility”) for Banco Promerica de Costa Rica, S.A. (“Promerica”). The Facility seeks to broaden and deepen the scope of the bank’s key business areas in mortgage financing to lower- and middle-income individuals and to develop a “green” loan portfolio (“Green Loans”). The proposed transaction entails up to US\$25 million of long-term financing to Promerica, consisting of up to US\$15 million in a senior A-loan with a tenor of up to five years. Subject to market demand, IDB will try to syndicate the approximately US\$10 million senior B loan to complement the green loan component on a best effort basis. The A-Loan would finance two different lines of activity. The first portion, consisting of up to US\$10 million would be used to support Promerica’s expansion in mortgage financing, which would entail a downscaling to a lower income earning sector than their traditional focus. This senior financing would be secured by the underlying mortgage collateral. The second portion, consisting of the remainder of the loan, would be senior and unsecured, and would finance the green loans.

**II. Project Status and Compliance**

- 2.1 The Environmental and Social Strategy was presented and approved as part of the Project Profile on April 30th, 2010 by the Environmental Safeguards Review team; no further action was required. Based on Directive B.13 of the Environment and Safeguards Compliance Policy, and given this is a financial intermediary project, this operation was not categorized.
- 2.2 Promerica 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 laws and regulations including permits and authorizations.

**III. Environmental and Social Risks and Impacts**

*a. Potential risks and impacts associated with BCs portfolio*

- 3.3 As of March 2010, Promerica’s loan portfolio had a total value of CRC160,060,960,158 (approximately US\$303 million). Promerica’s portfolio is fairly evenly divided, with corporate banking accounting for just over 51% of total loans, broken down as follows: Agriculture 3%; Manufacturing 2%; Real estate and commerce 11%; Construction, Purchase, and Renovation of Buildings 5.3%; Trade 10%; Transport 3%; Services 9.5%; financial services, including state banking 7.2%. Personal banking accounts for 49%, in turn composed of credit cards and personal loans (29.3%), mortgages (13.0%) and the remaining 6.7% represented by collateralized loans (creditos prendario), such as car loans.

- 3.4 There may be specific ESHS and labor impacts and risks related to investment in activities in certain sectors of Promerica's portfolio, for example related to trade and commerce of products and substances subject to bans and international phase outs (commerce); habitat conversion and degradation (agriculture, construction, transport); occupational health and safety (agriculture, construction, transport); poor land use (agriculture, construction); noise and air pollution (manufacturing, construction), increased greenhouse gas emissions (manufacturing), natural disasters, such as earthquakes, forest fires and landslides.
- 3.5 These risks are considered minimal to moderate and may be mitigated and managed through Promerica's existing Environmental and Social Management System. Given that the Facility will focus investments in (i) Renewable energy, (ii) Energy Efficiency, (iii) Cleaner Production, (iv) Agriculture, (v) Biofuels, (vi) Forestry, (vii) Tourism, (viii) Transportation and (ix) Sustainable Building, the potential risks may be further reduced with the introduction of robust eligibility criteria to ensure that each investments has a positive environmental impact.
- b. Potential risks and impacts associated with BCs mortgage portfolio*
- 3.6 Mortgage investments have the potential to generate environmental credit risks. These refer to potential negative effects on Promerica's ability to repay the IDB because of: risks due to Promerica's credit programs associated with reduction in mortgage asset values or property guarantees/securities due to environmental or social issues (e.g. environmental liabilities) or risks due to increased probability of non-repayment of loan due to environmental and social issues (e.g. law suits, fines, etc) however these risks are considered minimal.
- c. Risks associated with BC's facilities and human resources*
- 3.7 The risks associated with Promerica's 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) are considered to be minimal. Promerica's head office is located in San Jose, Costa Rica.

#### **IV. Environmental and Social Management**

- a. Commitment to Environmental and Social Management*
- 4.1 Promerica displays a high level of commitment to environmental and social risk management, through a well developed Policy and Procedure, which make up its ESMS (see below) which it has recently started to implement.
- b. Environmental and Social Management System*
- 4.2 Promerica's Environmental and Social Management System (ESMS) is made up of two key documents: Environmental and Social Risk Policy (PRCR10) and the Procedure for the Application of the Environmental and Social Risk Policy (PRCR05), approved by the board of directors in May, 2010. These are complemented by various questionnaires to implement the procedure. The responsibility for ESMS is within the credit risk function.
- 4.3 The key elements of the Policy are to reduce the risk of environmental and social incompliance among its clients; develop new business opportunities; comply with financial

institutions' requirements and develop a good public image with respect to Promerica's environmental commitment. The Policy's scope is for all those credits defined as Group 1 by the Costa Rican banking regulations (SUGEF 1.05) which are those credits above approximately US\$100,000, as well as credits below US\$100,000 which are classified as category A.

- 4.4 The Policy and Procedure were developed over a one year period, during which Promerica has been conducting various pilots of the categorization model during this time. In November of 2009, Promerica undertook a manual exercise, using the then draft categorization procedure, to classify its portfolio using an A, B, C model. The result of this initial classification of the portfolio showed a largely low risk portfolio. One percent of Promerica's portfolio is Category A projects (two manufacturing projects, and one tourism development project). A further eight percent is Category B, and the remaining 91 percent was classified as Category C. With the approval of the Policy and Procedure to implement the Policy, Promerica will now formalize the classification process, integrating it into its automated in-house system.
- 4.5 The Procedure clearly sets out the steps to be taken when any operation to be financed by Promerica (clarify scope: SUGEF criteria). This is based on (i) a determination of eligibility (application of the IFC List of Excluded Activities); (ii) categorization of projects/activities being financed in order to determine the level of environmental evaluation required; (iii) assessment of environmental and social risks, specifically those categorized as A and B; and (iv) Monitoring. The procedure also sets out roles and responsibilities, information regarding training on the system, and instruction on resolution of non-compliance. The Procedure is accompanied by a "*Formulario de Identificación de Riesgos Socio Ambientales*" which must be completed at step (ii) above in order to determine the environmental risk categorization of the project. Currently Promerica is in the process of disseminating the Policy to all Bank personnel via its Intranet, as well as training the staff involved in its implementation.
- c. *Environmental and Social Management for Mortgages*
- 4.6 Promerica's management of environmental and social risks and impacts associated with residential mortgages relies on Costa Rican environmental legislation and banking regulations. Under Costa Rican banking regulations (SUGEF 1.05) land use, protected areas and natural/historical patrimony must be considered as part of the valuation and assessment of land and buildings (for housing). To that end, the analysis process (an independent assessment undertaken by an authorized body) takes into account location type and size, description of the land/property and adjacent lands/properties, whether liabilities exist, soil use, access to land, utilities provision (electricity, water and sewerage etc) and fire safety
- 4.7 In order to evaluate a mortgage request, Promerica requests a copy of the land registry plans and titles of the property, the independent assessment (see above), and checks to ensure that there are no outstanding liabilities on the property.
- 4.8 Promerica has agreed to apply a basic environmental checklist to its residential mortgage portfolio financed with IDB use of proceeds, on a best efforts basis. The checklist was elaborated by Promerica based on a comparison of their existing assessment process which is based on Costa Rican legislation and the IDBs recommended environmental mortgage

procedure, for this transaction. This checklist will be completed by the authorized assessment bodies (“peritos”), with which Promerica works.

*d. Training on Environmental and Social Risk Management*

- 4.9 During 2009, three senior Promerica officials (from risk and credit) underwent training on environmental and social risk management. Internally Promerica has conducted internal training both for those personnel responsible for the implementation of the ESMS itself, and for credit analysts and executives who will use the system

*e. Green Line Procedure and Eligibility Criteria*

- 4.10 In March 2010 the International Finance Corporation (IFC) approved a green credit line for US\$6 million. Promerica is currently assessing a number of projects that may be eligible for the IFC and/or IDB green credit facilities.
- 4.11 While Promerica does not have a written procedure for green lines, it has begun to develop a series of eligibility criteria that projects must meet (in addition to compliance with Promerica’s environmental and social policy and procedure, and Costa Rican environmental and social legislation) in order to qualify as a green loan. Promerica has identified the following sectors: (i) agriculture, agro-forestry (i.e. FSC certified forestry projects); (ii) conservation; (iii) green commerce and services (i.e. energy efficiency, waste management or recycling projects for corporate clients); and (iv) industrial/construction (i.e. green construction projects, installation of energy saving technologies in manufacturing processes). As part of this Facility, the IDB will provide Promerica with a copy of SCF’s Generic Eligibility Guidelines and tools and support Promerica as it develops its procedure and criteria.

**V. Environmental and Social Safeguard Requirements**

- 5.1 The Bank will require as part of the Loan Agreement that Promerica:
- (i) comply with all applicable Costa Rican environmental, social, health and safety, and labor regulatory requirements, IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations, the Fundamental Principles of the Rights at Work.
  - (ii) apply its Environmental and Social Management System (ESMS) to IDB use of proceeds.
  - (iii) Enhance its ESMS, to incorporate Promerica’s newly elaborated environmental checklist for mortgages, on a best efforts basis,
- 5.2 The IDB will supervise the environmental and social aspects of the Loan Agreement either by an in-house specialist or with external consultants, and require Promerica to present environmental and social compliance reports in form, content and frequency satisfactory to the IDB.