

Environmental and Social Management Report
Banco General (Costa Rica), S.A. SME Loan
(CR-L1064)

I. Project Description and Background

- 1.1 The proposed transaction consists of a loan (the “Loan”) to the subsidiary of Banco General in Costa Rica (“BGCR”). The Loan seeks to support BGCR in their strategic goal of expanding credit to small and medium-sized enterprises (“SME”).¹
- 1.2 This transaction entails an approximately US\$20 million medium-term financing to BGCR, consisting of up to US\$8 million in a senior A-loan (the “A Loan”) with a tenor of up to six years. In addition, and subject to market demand and the Borrower’s funding needs, IDB anticipates the A-Loan may be complemented by a senior B Loan (the “B Loan”) targeted at US\$12 million, to be funded through the sale of participation to commercial lenders. In the event the B Loan does not materialize simultaneously with the A Loan, IDB could initially disburse the A Loan. BGCR is a wholly owned subsidiary of Banco General (Panama) S.A. (“BGP”). BGP is largest private sector locally-owned bank in Panama in terms of assets (US\$10.8 billion), total domestic private sector deposits (US\$7.4 billion), total domestic private sector loans (US\$5.9 billion), and shareholders’ equity (US\$1.3 billion) as of 31 December 2012. BGCR started operations in Costa Rica as a representative office serving Panamanian clients with operations in CR and originating international business for the group. BGCR strategy is to gradually expand its operations from the corporate and high-income individuals segments to SME lending. The Loan would support BGCR’s expansion into SME financing, which would entail a downscaling from their corporate and large enterprise focus.

II. Project Status and Compliance

- 2.1 The project falls under the SME Financing Facility RG-X1092. Based on Directive B.13 of the Environment and 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. BGCR implemented an environmental and social management system (ESMS) in 2010, and has indicated capacity to assess and manage environmental and social risks in SME lending. Due to the minimum to moderate risks associated with their SME portfolio, which includes operations in an amount of up to five hundred thousand Dollars (US\$500,000), the operation is classified as low to moderate risk.
- 2.2 BGCR 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.

¹ At General the SME segment comprises all enterprises with 100 or less employees and revenue of up between US\$5 million to US\$25 million.

III. Environmental and Social Risks and Impacts

A. Potential risks and impacts associated with BGCR's portfolio

- 3.1 BGCR is a wholly owned subsidiary of Banco General de Panama ("BGP"), an existing IDB client since 2008. As of June 2012, BGCR'S effective capital was approximately US\$47.8 million. As of September 2012, the sectors in which BGCR was working were: construction (including commercial mortgage lending – 57%), commercial (13%), industry (9%), services (7%), household mortgages (7%), and agriculture (3%). BGCR's SME portfolio accounts for 8.1% of the entire corporate portfolio and is primarily composed of commerce (45%), commercial mortgage lending (31%), services (14%), and small-scale manufacturing (7%). For BGCR, a "Small Enterprise" is defined as having a maximum of 30 employees, and a "Medium Enterprise" is defined as an enterprise with a maximum of 100 employees.
- 3.2 The ESHS impacts and risks associated with loans to SMEs 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: i) habitat conversion and degradation (construction, agriculture); ii) solvent emissions and waste (print shops, tanneries, small scale industry/manufacturing); iii) occupational health and safety (industry, construction, agriculture); iv) poor land use (construction, agriculture); v) noise and air pollution (industry, construction), increased greenhouse gas emissions (industry).

B. Environmental and social risks associated with BGCR's facilities and human resources practices

- 3.6 BGCR has stated that they have no material health issues (including legal claims) and do not have any materials employee or labor disputes. BGCR has also stated 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). BGCR guidelines for employees' compensation (salary, pay raise, benefits) and analysis (evaluations) are based on the local legislation, following also Costa Rican labor regulations. This is defined in their HR labor policy of June 2012, *Evaluación del desempeño*. In order to prevent and mitigate possible emergencies, BGCR implemented in June 2011 the *Plan de Emergencia*.

IV. Environmental and Social Management

A. BGCR's Environmental and Social Management System

- 4.1 BGCR has received support from the Deutsche Investitions- und Entwicklungsgesellschaft (DEG) and the International Finance Corporation (IFC). In 2008, Banco General (Panama) SA, the parent company of BGCR, developed an ESMS, which was subsequently applied to

BGCR in 2010. The ESMS and its components are described in their operating manual for dealing with environmental and social issues in credit lending².

- 4.2 The ESMS applies a tiered approach for safeguarding operations. All operations are screened against an exclusion list, which is consistent with the IDB's List of Excluded Activities for Non-Sovereign Guaranteed Operations (NSG). Transactions are additionally screened against a sector-specific list (*Listas Taxativas*) for which, if found present, additional environmental permits, Environmental Impact Assessments (EIA), Consultation Plans, and Environmental Management plans, among others, are requested from the client. Transactions are categorized using an A, B, or C definition consistent with IFC and IDB standards, as well as clients' capacity to manage environmental and social issues.

B. Environmental and Social Management System for SMEs

- 4.3 BGCR applies their E&S procedures to all transactions regardless of size or sector. E&S risk for SMEs is defined on the basis of industrial sector, size of the loan, and client capacity to manage E&S issues. For projects categorized as A or B, BGCR staff undertakes an environmental diagnostic of the client's operations and, where necessary, can apply a standard corrective action plan to remedy issues identified. Additionally, BGCR requires an independent EIA for projects that fall within the sector-specific list (*Lista Taxativa*) found in the Costa Rican regulatory framework. These projects are classified as Category A or Category B projects depending on their potential risks. In the case of BGCR's commercial lending, mortgages are primarily in urban areas and for new buildings. A high level checklist is used to screen building facilities and operations for potential environmental risk.
- 4.4 In the case of the other SME sectors, the majority of the portfolio and proposed investments are in the service and commercial sectors, where the E&S risks and impacts are minimal, for which BGCR applies its ESMS and relies on in-country regulations.

C. Training on Environmental and Social Risk Management

- 4.5 Overall coordination and responsibility for the ESMS is managed by Assistant Vice-President for Environmental and Social Risk, Mr. Raul Preciado, at Banco General, S.A., In Costa Rica, the Risk Manager, Johnny Calderon, is responsible for E&S issues drawing on support from Panama. Local loan officers and credit officers have been trained on the environmental risk policies of the bank. Additionally, the BGCR risk manager participated in the UNEP FI advanced course on environmental and social credit risk management in September 2011, while two members from the BGCR credit risk team participated in the UNEP FI basic course held in June 2012.

V. Environmental and Social Requirements

- 5.1 For this operation which involves SME lending for operations in an amount of up to five hundred thousand Dollars (US\$500,000) to support mainly commercial mortgages,

² *Manual del Sistema de Gestión de Riesgo Ambiental y Social de Banco General, S.A. y Subsidiarios*, Version 29 Noviembre 2012.

commercial operations, and services, the Bank will require BGCR as part of the Loan Agreement to:

- (i) Comply with all applicable Costa Rican environmental, social, health and safety, and labor regulatory requirements, and in relation to the financing of SME's to ensure that each loan complies with: (a) in-country regulations; (b) the IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations; and (c) the Fundamental Principles of the Rights at Work; and (d) its Environmental and Social Management System.
- (ii) 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, to ensure that BGCR continue to remain up to date with its environmental and social risk management expertise.
- (iii) Present an Annual Environmental and Social Compliance Report (ESCR) with information on the SME financial operations funded with the IDB use of proceeds, including a breakdown of financing by subsectors and Environmental risk categorization (according to BGCR's methodology), and any particular risk issues identified during screening and mitigation measures agreed with clients.

5.2 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 enhancing management of impacts and risks.