

Environmental and Social Management Report
COOPENAE Housing Financing Partnership
(CR-L1072)

I. Project Description and Background

- 1.1 The proposed Housing Financing Partnership (the “Project”) establishes a strategic partnership with COOPENAE. The objective of the proposed financing (the “Loan”) is to contribute to increasing access to mortgage financing for social housing by supporting COOPENAE in its efforts to expand its mortgage portfolio intended to complement the social housing system in Costa Rica.
- 1.2 The Project consists of a Senior unsecured A Loan for up to US\$35 million to COOPENAE, with a maturity of up to six years, and a two-year grace period. To the extent possible, the A Loan will be provided in local currency. 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 or its equivalent in local currency. In addition, the Project Team is coordinating with IIC, which will in turn extend an additional loan of up to US\$5 million, which will target SME financing as use of proceeds.

II. Project Status and Compliance

- 2.1 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.
- 2.2 COOPENAE 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 Given the focus of this line on social income housing of low purchase price value, combined with national regulation that includes screening of E&S issues during appraisal, this loan is considered low risk (FI-3).

III. Environmental and Social Risks and Impacts

A. Potential risks and impacts associated with COOPENAE’s portfolio

- 3.1 The potential key environmental, social, health and safety, and labor issues and risks associated with this Partnership are mainly those related to the individual characteristics of the mortgage loans. Direct environmental, social, health and safety (ESHS) risks are anticipated to be limited due to the small value of the sub-loans (capped at a maximum of US\$104,000), and Costa Rica’s use of appraisers in the due diligence process. It is

estimated that the majority of houses are urban with 75% located in the San Jose metropolitan area.

- 3.2 The ESHS risks and impacts are expected to be minimal. Where present, risks could include, for example: (i) developments located on land which may have contamination such as soil and ground water contamination, which may present a human health risk; (ii) properties that are located on sites of archeological, cultural or historical value; (iii) properties located in areas where current or previous use/activities may result or have resulted in localized environmental problems (i.e. landfills or waste disposal areas, industrial facilities, highways, ports, airports and high voltage transmission lines or substations, etc.). (iv); properties located in areas at high risk to natural hazards, such as tornadoes, hurricanes, floods, or from seismic events, and fires, (v) properties located in areas near important or sensitive environmental areas (e.g. containing threatened or endangered species, tropical rain forests, natural parks, etc.). These risks are assessed under Costa Rican legislation.

IV. Environmental and Social Management

A. COOPENAE's Management of Environmental and Social Risks in Mortgage Lending

- 4.1 COOPENAE's management of E&S 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, an independent assessment is undertaken by authorized inspectors ("peritos") which report on the location of the property and its 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), fire safety, and proximity to waterways. In order to evaluate a mortgage request, COOPENAE requests a copy of the land registry plans and titles of the property, the independent assessment and checks to ensure that there are no outstanding liabilities on the property. For any new construction, COOPENAE requests in addition a municipal permit. COOPENAE's policy on housing and use of peritos is included in its credit manual.¹

V. Environmental and Social Requirements

- 5.1 For this operation which involves low income mortgages not to exceed US\$104,000 in home value, the Bank will require COOPENAE 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 houses to 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) COOPENAE's housing credit manual.

¹ COOPENAE Gerencia Comercial, Creditos Hipotecarios, Politica, Codigo (POL VI-02.v2).

- (ii) Present an Annual Environmental and Social Compliance Report (ESCR) with information on the portfolio, 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.