Environmental and Social Strategy (ESS)[1]
Banco BAC San José MSME Financing Partnership

I. Overview

1.1 The proposed project (the "Loan") will support Banco BAC San Jose ("BAC") in its strategy to expand financing to SMEs, particularly women-led SMEs in Costa Rica. The project will also support BAC's objective of formally establishing a new women-banking business lines through a MIF technical assistance (TA) through women entrepreneurship Banking (weB)[2]. This loan would complement an existing SME and mortgage financing line (CR-L1059) approved in 2012.

1.2 The Project consists of a senior unsecured A Loan for up to US$40 million to BAC, with a maturity of up to six years, with a two year grace period. 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. The project also includes a MIF technical assistance (TA) through women entrepreneurship Banking (weB), with the objective of assisting BAC in developing women-banking products and business lines.

II. Environmental and Social Impacts and Risks

2.1 Based upon the nature of this operation to support SMEs, and specifically women entrepreneurs, there may be minimal to moderate direct environmental, social or health and safety (ESHS) and labor risks and impacts. To that end, specific environmental due diligence is required, and namely a re-assessment of previous due diligence undertaken under loan CR-L1059. The potential key ESHS and labor risks and impacts associated with this operation are those related to the specific projects financed by BAC with the proposed financing and could include (i) credit risks to BAC resulting from environmental and/or social liabilities; (ii) specific ESHS and labor risks and impacts related to investments in certain sectors; and (iii) IDB reputation risks associated with the impact of other BAC operations and/or financing.

2.2 *Credit risks related to environmental and social risks*: credit risks refer to potential negative effects on BAC's ability to collect on sub-loans because of: (i) risk of an eventual non-repayment of loan due to environmental and social issues (e.g. law suits, fines, etc.) associated with its loans; and (ii) risks associated with BAC's facilities and operations,

[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] weB is a joint effort between SCF's beyondBanking Program and MIF's LASEF, with the goal to provide incentives to banks and other financial institutions to test innovative, inclusive lending models that support growth in women's businesses. weB resulted from research and on-the-ground experience that tend to demonstrate that women-led SMEs make up a high-growth, yet underserved segment of Latin American and Caribbean economic activity.

such as environmental liabilities in their offices due to asbestos, lead paint, etc. or employees having occupational health and safety problems due to working conditions (e.g. inadequate emergency preparedness, lack of fire exits, etc.).

2.3 *Direct impacts associated with loans to SMEs*: The Partnership may generate minimal to moderate negative social and environmental impacts associated with loans to SMEs. The type and extent of impacts will vary depending on the amount of loans to be extended and on the type of activities to be financed. Based on an earlier review of BAC's portfolio, the dominant sector investments were in commerce, services, and tourism. The assessment of social and environmental impacts for each loan will be the responsibility of BAC, and managed through the application of their existing Environmental and Social Management System.

2.4 *Reputational risks associated with the impact of other operations:* Reputational risks are associated with BAC's 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) BAC'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 due diligence. Early indication suggests that this operation is low risk (FI-3).

III. Status and Compliance

3.1. Given that this is a financial intermediary and based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this transaction is not categorized.

IV. Strategy for Environmental and Social Due Diligence

2.6 As per the IDB Environment and Safeguards Compliance Policy and Guidelines, and as part of its due diligence process, the Bank will re-assess BAC's capacity for environmental and social risk management. During this process the Bank will establish whether appropriate procedures are in place to assess and manage the potential environmental risks and impacts associated with sub-loans. 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), tailored to the particular needs of the Partnership, are included in the legal agreements.

4.1 The environmental and social due diligence required for this partnership will comprise of the following steps:

a. An identification of any environmental and occupational safety liabilities in BAC's facilities and operations and, if required, an assessment of the adequacy of action plans to properly resolve them.
b. An assessment of BAC's compliance status with the applicable country environmental, social, health and safety, and labor regulatory requirements as well as with any relevant conventions and treaties which have been ratified by Costa Rica;

c. An assessment of BAC's procedures to ensure that its loan, finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. age, gender, cultural heritage, etc).
d. An assessment of BAC's actual and pipeline portfolio, to establish potential reputational risks associated with BAC'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 Partnership.
e. A re-evaluation of the current credit appraisal, approval and monitoring procedures in place to manage environmental and social liabilities, impacts and risks associated with BAC's portfolio as well as an assessment of BAC's capacity in terms of environmental and social risk management.

4.2 The results of the due diligence will be presented in an Environmental and Social Management Report and summarized in the Loan Proposal to establish the environmental, social, health and safety, and labor requirements for the Partnership.