

**Environmental and Social Strategy (ESS)<sup>1</sup>**  
**Colombian Financial Intermediaries Sustainable Energy Facility**

**I. Overview:**

- 1.1 The proposed Facility entails financing up to US\$90 million to promote Energy Efficiency (EE) investments from end-users in Colombia by increasing access to appropriate finance and by building capacity and awareness. The Facility will finance the senior tranche of risk sharing facility (RSF) structures expected to be executed with 3 to 4 Financial Institutions (FIs). This Facility will leverage CTF resources and will be designed and implemented as a coordinated effort with the IFC.

**II. Status and Compliance:**

- 2.1 Based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this Facility is classified as a Flexible Lending Instrument (financial intermediary) and as such this operation is not categorized according to its potential environmental and social impacts and risks.

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

- 3.1 By providing the Facility, IDB will be encouraging a pool of financial intermediaries to provide finance for beneficiaries that have not been identified at this time and thus, the potential environmental and social, health and safety (ESHS) and labor risks and impacts cannot be assessed ex-ante. The specific ESHS and labor aspects of participating FIs' portfolios, as well as their lending practices and procedures (including environmental and social risk management) will be individually assessed as part of the due diligence to be done when an FI applies for funding under the Facility. It is expected that participating FIs will be required to apply appropriate procedures which will enable it to identify, assess, mitigate and monitor the potential environmental impacts and risks associated with Energy Efficiency (EE) projects financed by the FI under the Facility.
- 3.2 The potential key ESHS and labor risks and impacts associated with this Facility are those related to the portfolios and lending practices and processes of participating Financial Institutions in the Facility. These could include (i) environmental credit risks; (ii) specific ESHS and labor risks and impacts related to EE investments in certain sectors; and (iii) IDB Reputation Risks associated with the activities of participating FI operations.
- 3.3 Based upon the differing nature of portfolios of the FIs to be funded under this Facility there may be a range of direct and indirect environmental, social or health and safety (ESHS) and labor risks and impacts. In most cases these risks and adverse impacts are expected to be minimal to moderate resulting from energy efficiency projects in, for example, residential, commercial and industrial properties (waste of obsolete equipments, occupational health and safety impacts, noise); fuel substitution in power utilities and transportation (habitat conversion and degradation, air pollution, noise,

waste disposal). If wrongly implemented, EE projects can result in effects that are reverse to those intended in terms of GHG emission reduction. The nature of ESHS and labor risks and impacts will be assessed during the due diligence of each participating Financial Institution applying for financing under the Facility.

#### **IV. Strategy for Environmental and Social Due Diligence:**

- 4.1 As part of the environmental and social due diligence ESDD process, the Bank will (a) analyze the Facility's general requirements for participating FIs, and establish an appropriate environmental and social, health and safety and labor Procedure; (b) analyze IFC criteria and requirements for Participating FIs in the Facility, and (c) establish a preliminary identification of any particularly sensitive impacts or risks that may be posed by participating FIs expected to apply to the Facility (if known). IDB and IFC expect to work together to develop a single harmonized approach for the Environmental and Social Requirements for the participating FIs.
- 4.2 It is expected that the environmental and social management aspects of the Facility will centre on ensuring that the eligibility criteria for each participating FI under the Facility include (i) compliance with IDBs environmental and social policies (ii) compliance with the Fundamental Principles and Rights at Work and with any other relevant international labor organization conventions and treaties which have been ratified in the country, and (iii) application of an acceptable environmental and social management system (ESMS) or environmental and social procedures commensurate to the anticipated impacts and risks associated with the portfolio to be guaranteed under the Facility.
- 4.3 The specific environmental and social, health and safety aspects of Participating FIs' portfolios, as well as their lending practices and procedures (including environmental and social risk management) will be individually assessed at such time that they apply for financing under the Facility. A summary of the environmental and social impacts and risks, and the recommended specific environmental and social risk management measures to be undertaken will be presented in individual ESMRs for each Participating FI and included into the legal agreement between the IDB and the Participating FI.