

Environmental and Social Strategy (ESS)¹⁷
Banco Davivienda Salvadoreño, S.A.

I. Overview

- 1.1 The project's objective is to increase the financing of micro, small and medium enterprises ("MSMEs"), with a particular focus on those led by women in El Salvador, as part of the women-entrepreneurship Banking ("weB") initiative. To achieve this objective IDB will join efforts with Banco Davivienda Salvadoreño, S.A. ("DAV"), the second largest bank in the country to provide financing to this segment, thus broadening the scope and reach of SME funding in the country. The transaction will consist of a long-term financing of up to US\$60 million with a 7-year tenor and a grace period of up to 2 years.
- 1.2 In 2009, DAV joined the IDB's Trade Finance Facilitation Program ("TFFP") with a US\$ 20 million credit line. DAV is in the process to become an active partner in trade financing in countries like Honduras, Costa Rica and Colombia. In 2014, the IIC provided DAV a US\$10 million unsecured 5 year tenor senior loan to finance its SME portfolio in different economic sectors.

II. Environmental and Social Impacts and Risks

- 2.1 Based upon the nature of this operation to support MSMEs with a focus on women entrepreneurs and a maximum loan amount of US\$500k, 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. The potential key ESHS and labor risks and impacts associated with this operation are those related to (i) specific projects financed by DAV with IDB's use of proceeds, (ii) reputational risk associated with the impacts of other DAV's operations, and (iii) adequacy of E&S risk management capacity to manage risks under this credit line.
- 2.2 *Environmental and social risks with IDB's use of proceeds:* 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 upon DAV's portfolio composition, which includes consumer lending (35%), housing (18%), commerce (15%), services (11%) manufacture (9%) and others (12%), the E&S risks appear to be minimal to moderate.
- 2.3 *Reputational risks associated with the impact of other operations:* Reputational risks relate

¹⁷ 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.

to DAV's involvement in projects, companies or activities considered unacceptable to the IDB and/or that will face significant public opposition or concerns such as DAV'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 significantly deficient labor practices.

- 2.1 *E&S Risk Management Capacity:* DAV has an Environmental and Social Management System (ESMS) in place, with an environmental officer in charge of conducting environmental reviews of the institution's lending operations and managing the system. The ESMS was designed to comply with domestic environmental and labor regulations; the Equator Principles, which have been followed voluntarily since 2008; and the IFC's Performance Standards, which DAV began applying in 2014.
- 2.2 The assessment of social and environmental impacts for each loan will be DAV's responsibility, and managed through the operation and/or possible adjustment of their existing Environmental and Social Management System. IDB will review the development and implementation of their system in the context of due diligence.

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. Based on early indication, this operation is estimated to be low to medium risk. The classification and the associated risks and mitigation will be evaluated and confirmed during due diligence.

IV. Strategy for Environmental and Social Due Diligence

- 4.1 As per the IDB Environment and Safeguards Compliance Policy and Guidelines, and as part of its due diligence process, the Bank will further assess related E&S risks under this credit line, possible reputational risks, and capacity for environmental and social risk management. The IDB will ensure that appropriate and feasible ESHS and labor requirements including capacity building, in the form of their existing Environmental and Social Management System (ESMS), tailored to the particular needs of the Partnership are included in the legal agreements. Where possible, IDB will work to align with existing action plans of other DFIs specific to the adjustment and application of the ESMS.
- 4.2 The environmental and social due diligence required for this operation will comprise of the following steps:
 - a. An identification of any environmental and occupational safety liabilities in DAV's facilities and operations and, if required, an assessment of the adequacy of action plans to properly resolve them.
 - b. An assessment of DAV'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 El Salvador;

- c. An assessment of DAV'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 DAV's actual portfolio and proposed pipeline, to establish potential reputational risks associated with DAV'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 full evaluation of the client's ESMS and of all current credit appraisal, approval and monitoring procedures in place to manage potential environmental and social impacts, risks and liabilities, associated with DAV's portfolio.
 - f. An assessment of DAV's capacity in terms of environmental and social risk management.
- 4.3 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 operation.