

Environmental and Social Review Summary (“ESRS”) Banco de Occidente Subordinated Loan / 13865-01– Colombia

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- 1. Scope of Environmental and Social Review:** The Environmental and Social (“E&S”) assessment of the proposed transaction consisted in reviewing the documentation and holding conversations with Banco de Occidente S.A. (the “Bank” or “Banco de Occidente”) officials and management. Banco de Occidente is a new client for IDB Invest; however, the Bank is part of the Aval Group, with whom IDB Invest conducted several transactions through other financial institutions which are part of the Group.
- 2. Environmental and Social Categorization, and Rationale:** The proposed transaction was classified as FI-2 as per the IIC’s Environmental and Social Sustainability Policy since the financing will provide support exclusively to the Small and Medium-Sized Enterprise (“SME”) segment, with subprojects entailing a moderate E&S risk. Banco de Occidente will not finance either category A (high risk) subprojects as defined by IDB Invest or those involving activities included in IDB Invest’s Exclusion List.

For this transaction, Banco de Occidente defines SMEs as companies with annual revenue of US\$185,000 to US\$8 million. The average loans in this portfolio amount to US\$51,500 with an average term of 22 months. The five sectors mostly represented in the SME portfolio are: Retail, Construction, Services, Industry, and Healthcare.

- 3. Environmental and Social Risks and Impacts:** The main E&S risks of this transaction relate to Banco de Occidente’s ability to identify and manage the risks associated with its investments, mainly in the industry and construction sectors, which may be linked to worker health and safety, waste generation, pollutant gas emissions, management of hazardous materials, and community health and safety, among others. Considering that the underlying loans will be focused on the SME segment, these risks will be low to moderate.
- 4. Mitigation Measures:** The Bank does not have an Environmental and Social Management System (“ESMS”) in place, but it has scheduled to start developing one during the second quarter of 2022 and start implementing it in the first quarter of 2023. In late 2021, the Bank invited several national and international consulting firms to submit their consulting services proposal for the development and implementation of the ESMS. The Bank anticipates such firm to be selected and hired in the second quarter of 2022. The selection and hiring process is led by the Department of Risks and the Sustainability Area supported by corporate personnel from the Aval Group. Banco de Occidente has Human Resources policies and an internal grievance mechanism in place and also implements the Aval Group’s corporate diversity and inclusion policy.

Banco de Occidente shall develop and implement an ESMS following the guidelines of the International Finance Corporation (“IFC”) Performance Standard 1 and making sure it is consistent with the risk level of the asset class (SME segment) financed by IDB Invest, in addition to meeting the requirements of IIC’s sustainability policy. The ESMS should include processes, procedures, guidelines and forms which should, in turn, consider E&S risk categorization, E&S risk assessment, and the contractual requirements for underlying loans, among others.

The loans to be granted by Banco de Occidente to the SME segment should meet the provisions in IDB Invest’s Exclusion List, as well as applicable E&S local and national laws. In order to disseminate IDB Invest’s requirements, the personnel in charge of supervising and implementing the ESMS should attend IDB Invest’s E&S Risk Management training for financial intermediaries.

5. Environmental and Social Action Plan:

#	Activity	Description	Compliance Indicator	Delivery Date
1	Development and start of implementation of the ESMS	Develop and start implementing the ESRMS in the loan portfolio in line with the IFC’s PS 1 and with the support of a consultant specialized in this area. In addition, clearly establish the roles and responsibilities assigned in the Bank’s organizational chart to implement the ESMS.	ESMS	8 months after first disbursement
2	Appointment of an E&S official	The E&S official will be in charge of implementing the ESMS and monitoring the subsequent performance in connection with the contractual requirements and any applicable action plan in the underlying loans.	CV of the E&S official Updated organizational chart	1 month after first disbursement
3	Capacity building and training	Carry out comprehensive training sessions for the personnel in charge of implementing the ESMS (including the Business Area and Management).	Training certificates or records	8 months after first disbursement and whenever new personnel in charge of implementing the ESMS is incorporated

6. Contact Information For project inquiries, including environmental and social questions related to an IDB Invest transaction please contact the client (see **Investment Summary** tab), or IDB Invest using the email requestinformation@idbinvest.org. As a last resort, affected communities have access to the IDB Invest Independent Consultation and Investigation Mechanism by writing to mecanismo@iadb.org or MICI@iadb.org, or calling +1(202) 623-3952.