

1. **Scope of environmental and social review.** The Environmental and Social (“E&S”) analysis of the proposed operation consisted of the review of documentation, and several conversations with Management and technical staff of Banco Nacional de Costa Rica. The Bank has been an existing IDB Invest client since 2014 with satisfactory performance.
2. **Environmental and social classification, and its foundations.** The proposed transaction is rated FI-2 according to the IDB Invest Sustainability Policy. Sub-loans to the SME segments to be supported have a potential moderate risk, that is, the sub-loans granted by BNCR include or are expected to include activities with potential limited, relatively small, generally site-specific adverse E&S impacts or risks, mostly reversible and addressable through mitigation measures. The sub-loans to be granted by the Bank with IDB Invest funds will be intended for social loans only. The Bank defines SMEs as those with fewer than 100 employees and annual sales of up to US\$1.5 million. On average, this portfolio provides loans of US\$ 30,000 and has an average tenor of seven years. The composition of the SME portfolio is as follows: (i) services 48%; (ii) trade 23%; (iii) livestock, hunting, and fishing 9%; (iv) agriculture and forestry 9%; and (v) industry 5%, among the most important sectors. The SME portfolio has an annual growth expectation of 3.8%. IDB Invest resources may not be used by BNCR to finance category A (high risk) sub-projects as defined by IDB Invest, or projects that are in the sectors stipulated in the IDB Invest exclusion list or that do not meet the specifications set out in the eligibility list.
3. **Environmental and social risks and impacts.** The E&S risks of this transaction relate to Banco Nacional de Costa Rica's ability to assess and manage the risks associated with its investments. Banco Nacional de Costa Rica has a detailed exclusion list and a Manual of the Environmental and Social Risk Management System (“ESRS”) which since January 2021 has been in a pilot implementation phase. The ESRS, approved by Management in 2020, stipulates the need of annual revisions to its protocols. The ESRS categorization is based on two factors: inherent E&S risk of the economic activity and the level of financial exposure. The minimum financial exposure for the implementation of the ESRS is set at US\$1 million. According to these two factors, four levels of due diligence are established: (i) *Basic* – loans between US\$1-5 million and E&S risk low/medium, require compliance with local law and the exclusion list; (ii) *Moderate* – loans between US\$5-20 million and medium/high E&S risk or loans greater than US\$20 million and low E&S risk, require in addition to the stipulations at the *Basic level*, apply a questionnaire setting conditions for credit; (iii) *Advanced* – lending greater than US\$20 million and average E&S risk, or loans between US\$5-20 million and high E&S risk, require in addition to the stipulations at the *Moderate level* a field visit by a credit analyst trained in local law and IFC Performance Standards; and (iv) *Expert* – loans greater than US\$20 million and high E&S risk require in addition to what is detailed in the *Advanced level* a field view led by an E&S specialist. The Bank has a Sustainability Manager and a Sustainability Committee in charge of the implementation of the ESRS in its pilot phase. However, the ESRS indicates the creation of the position of an E&S Manager whose mandate will be the implementation and effectiveness of the ESRS with the support of an E&S Coordinator and an E&S Analyst. The Bank has an Internal and External Grievances Mechanism, as well as an Emergency Plan. Since 2018 Banco Nacional de Costa Rica has published Sustainability Reports. In 2019 the Bank won an award with Latam Digital for the best digital transformation solution for its SME segment with the “PYMENAUTA” platform. In 2020 the Bank reached its goal of being a Carbon Neutral institution.
4. **Mitigation measures.** BNCR should evaluate, manage, and monitor E&S risks by strengthening its ESRS Manual. The ESRS will indicate that all Bank investments will be evaluated according to the exclusion list, and local/national law following the guidelines of Performance Standard 1.^[1] The Bank's staff responsible for the implementation of the ESRS and risk management in general will be trained in its implementation. Financing granted by Banco Nacional de Costa Rica with IDB Invest resources must comply with the IDB Invest

Exclusion List, the Eligibility List, as well as applicable local and national laws on E&S. To better understand IDB Invest's requirements, the staff in charge of the ESRS monitoring and implementation should attend IDB Invest's Environmental and Social Risk Management training workshop for financial intermediaries.

5. Environmental and Social Action Plan ("ESAP")

Item	Task	Activity	Deliverable	Compliance
1	Strengthen the Environmental and Social Risk Management System (ESRS) Manual to include SMEs	Supplement ESRS: (i) extend the scope of SARAS to include SMEs (i.e., the ESRS application threshold should be adjusted to cover this asset class), (ii) including a Basic <i>assessment</i> for SMEs subloans focused on local law and E&S requirements at the national level; (iii) including the IDB-Invest and FinDev exclusion list; and (iv) reviewing ESRS Table 1 setting out the criteria used to define the inherent level of risk of an activity to include greenhouse gas emissions and supply chain risks related to each project;	Strengthened Manual of the Environmental and Social Risk Management System ("ESRS").	6 months after first disbursement
2	Strengthen the Sustainable Financing Policy	Review the Sustainable Financing Policy to include: (1) commitment to comply with the host country's environmental and social regulatory requirements; (2) comply with IDB Invest and FinDev exclusion lists; and (3) establishing that the IFC Performance Standards are on the underlying risk management standard for higher risk transactions (e.g. Expert Level).	Sustainable Financing Policy strengthened	4 months after the first disbursement
3	Evaluation of the first three medium or high E&S risk SME transactions	Banco Nacional de Costa Rica will send the first three transactions categorized with medium and/or high environmental and/or high inherent risk for review and comment by IDB Invest, in order to: (i) confirm E&S categorization; and (ii) evaluate the proposed action plan	Pilot project implementation and evaluation report	When the Bank has any of the transactions

Item	Task	Activity	Deliverable	Compliance
4	Capacity building and training	The Bank, through an external consultant, will train all credit, E&S and sustainability risk personnel in the implementation of the ESRS following the IDB-Invest/FinDev exclusion list, local regulations and Performance Standards. Ensure that all new ESRS assessment and/or implementation staff receive training	Certificate of training of the personnel in charge of the ESMS implementation and every time new staff is hired	6 months after the first disbursement and every time new personnel are incorporated into risk management.

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

[1] Interpretation note on Financial Intermediaries
https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_policy_interpretationnote-fi