

SUCCESS STORIES

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Financial
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SMEs and
Sustainability



Capital Markets
Instruments and
Finance Structures

Introducing Central America's first sustainability bond

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Through a partnership with IDB Invest, Banco Promerica Costa Rica became the first private bank in Central America to issue a sustainability bond. This achievement opened up new opportunities in the region to channel thematic impact funding from capital markets to financial institutions and, from there, to sustainable businesses in various sectors. It has helped finance SMEs (including many owned or led by women),

promote investment in the resilience of production systems and even cut greenhouse gas emissions, through financing for renewable energy, sustainable construction and sustainable agriculture.

The partnership that led to the first issuance has also opened a door to greater knowledge of the latest advances in sustainable financing within the sector, enabling other actors to design policies, processes and products for loan financing as part of their strategies to create sustainable assets over the medium and long term. As a model for financing priority sectors identified in corporate sustainability strategies, it has a role in a broader mission to leverage the sector's core business – fund brokerage services – to deliver benefits for society and the environment.

IDB Invest has provided support for financial institutions, businesses and investment projects in renewable energy and infrastructure, issuing more than 35 thematic bonds with a total value of more than US\$3 billion.

Many have gone on to become pioneers in markets where IDB invest is pursuing projects to make a positive impact on both people and planet. Among them are visionary entrepreneurs and collaborators who lack the experience to venture into new markets such as thematic bonds.

Sustainability bonds are issued in capital markets by financial institutions in order to raise loan funding for projects or activities that contribute to positive change. **The environmental outcomes of financing these activities are typically assessed using certain indicators, such as reductions in electricity use, water consumption or wastage and greenhouse gas emissions, measured in CO₂ equivalent.**

Some of the most inspiring stories have come from SMEs, the driving force of Central American economies. Sustainability bonds have helped bring many SMEs into the formal banking system, as well as **boosting employment and incremental revenue in companies run by members of vulnerable social groups or in regions with multiple social issues** (unemployment, poverty, etc.).





A new framework for financing sustainability



Banco Proamerica Costa Rica S.A. is the fourth largest private financial institution in Costa Rica. It is part of the Proamerica Group, active in nine countries in the region.

The bank has embraced support for the Sustainable Development Goals (SDGs) as part of its overall strategy, providing financing for SMEs and agribusinesses, green loans and mid-sized mortgages. It was the first bank in

Costa Rica to sign up to the UN Principles for Responsible Banking and is a founding signatory of the Net-Zero Banking Alliance.

In March and April 2020, recognizing that SMEs made up 86% of clients in its loan portfolio, the bank began work on the structure for its first sustainability bond issuance. Approved by the Superintendency of Securities in Panama for up to US\$50 million, the bond program was listed on the Panama Stock Exchange (LATINEX), which is backed by a partial loan guarantee from IDB Invest for up to US\$15 million.

Banco Proamerica was able to access the partial loan guarantee facility thanks to the funds raised through the bond issuance. As a result, the issuance was given a much-improved risk rating, granting access to more competitive interest rates and helping draw in investors. The funds raised were used to provide additional financing for SMEs and environmental projects. Financial and advisory services offered by Banco Proamerica were instrumental in helping small businesses pull through the COVID-19 pandemic.

In this respect, it is clear that the decision to issue a sustainability bond in the capital markets strengthened the bank's pandemic response. This decision was backed by a

successful case study that produced significant performance gains and positive impacts for a number of green initiatives and individual business owners, who were able to preserve and grow their SMEs thanks to an injection of funds at an extremely challenging time for businesses all over the world.

The issuance gave a major boost to the expansion of sustainable banking in Costa Rica.

Moreover, the number of loans granted to SMEs rose by approximately 5% in this period.

This initial success allowed the bank to identify new areas of opportunity and development for Costa Rica. These include providing financing for SMEs owned or operated by women and the potential synergies between this client group and the world of green investment.

It has been calculated that 33.8% of loans to SMEs under female ownership or control within the bank's portfolio are invested in sustainable projects that promote business models oriented towards social and environmental outcomes. Banco Promerica therefore has an opportunity to position itself as a leader in advancing sustainable enterprise and the transition to a resilient, low-carbon economy.

En **2019,**

prior to the launch of the program, Banco Promerica held a portfolio valued at **US\$57.5 million** and **543 green loans**



From this baseline, it saw green loans shoot up by

more than **125%** by 2023



thereby making a significant contribution to **SDG 13 on Climate Action.**

As of **2021**

the bank had issued a total of **US\$14.3 million** in loans to **39 clients**

By the close of **2022**

this figure had reached **US\$21.37 million**



20% in green loans



80%

in sustainable loans to SMEs (of which 60% went to agribusiness, 29% to trade in goods and 11% to services)

Sustainability is smart business

When the main shareholder in Banco Promerica first came up with the essential pillars of the bank's strategy, jotting them down on a napkin, one of the principles he proposed was that financial institutions should have a positive impact in the communities where they operate. Since that day, Banco Promerica has made it a strategic priority to finance sectors that support the country's development, irrespective of the challenges that creates. Unequivocally committed to sustainability, and conscious of the need to diversify its funding sources, the bank chose to focus its attention on structuring and issuing sustainability bonds.



Thanks to the green loan from Banco Promerica, Parque La Libertad was able to access not only financial support, but also the opportunity to develop a sustainable business model with long-term profitability. It helped us adopt an environmentally responsible approach that appeals to conscious investors and will continue to serve our community in the future.

Marcos Fernández
President of the Parque La Libertad Foundation



Avolta's relationship with Banco Promerica has unlocked financing for sustainable energy projects, bringing solar energy to more than 80 companies in Costa Rica and encouraging a wider uptake of renewable technologies.

Daniel Rojas
Executive Director of Avolta Energy



This ensures transparency to end investors, who can be confident that their funds are being used sustainably. What is more, they are able to see the impact they are having on sustainable development and on beneficiaries themselves. Borrowers have shared their stories of how this financing has been pivotal to the growth of their businesses and delivered tangible benefits for their communities and the environment.

The program adds another facet to the bank's sustainable business model, which covers a number of successful financial products and services aimed at creating sustainable assets. It also helps build capacity and develop processes and systems for sophisticated instruments that facilitate access to diverse sources of funding through the capital markets, resulting in loan

products that are fully aligned with the bank's business strategy. These products are used to finance high-impact, sustainable investments that deliver benefits for society and the planet, support Costa Rica's sustainable development and ultimately improve the lives of countless individuals.



A solution that channels funding towards climate and sustainable development goals

Banco Promerica Costa Rica is taking robust action towards national and international sustainable development goals. **These include the 2030 Agenda and its Sustainable Development Goals, the National Decarbonization Plan and Costa Rica's Nationally Determined Contributions (NDCs) under the Paris Climate Agreement.**

The bank's strategy is also carried through internally, based on four core principles – practicing sustainable business, measuring impact, preaching by example and investing in society – plus two overarching themes: **communicating both internally and externally and managing environmental, social and governance risks.**

These principles ensure that systems are in place for identifying and addressing major environmental and social risks, whether these affect the country as a whole or the sectors where its clients operate.

In addition, they support a strategy, organizational structure and skillset that allow it to develop and identify investment portfolios with sustainability benefits.

IDB Invest: value-creating ally

This particular success story offers a concrete example of how IDB Invest is combining its expertise in financial and advisory services to pursue innovation in financial markets, working alongside clients, businesses and financial institutions to promote financing for

sustainable development in Latin American and the Caribbean. In doing so, it is helping meet the challenge of building more resilient, low-emissions economies. The case has become a flagship example for planning future issuances of this kind in Panama, Costa Rica, El Salvador and Guatemala. Ultimately, IDB Invest hopes to ignite a spark of change that inspires other financial institutions to rethink their conventional practices.

Banco Promerica is proud to have played a key role in the success of visionary companies such as Avolta Energy, Turrialba Gourmet (Le Chaudron) and Upala Agrícola. Our strategic partnerships have not only yielded financing for innovative projects, but also expanded access to renewable energy, empowered companies led by women and supported sustainable agricultural methods. These success stories are a testament to our shared commitment to business development, sustainability and making a positive impact in the communities we serve.

Backed and guided by IDB Invest, Banco Promerica is blazing a trail towards a more sustainable approach to business. These innovatory financing programs give companies the boost they need to grow financially, socially and economically through responsible business practices. We are grateful to IDB Invest for being our strategic partner on the journey to bring sustainable development opportunities to our clients. Its support has left a positive and impactful legacy, one we hope to carry into the future as we put sustainability at the heart of everything we do.



Michelle Espinach
Sustainable Banking Manager
at Banco Promerica.

**Luis Carlos
Rodriguez Acuña**
Deputy Financial and
Operations Manager
Banco Promerica



Representative sample of enterprises supported by Banco Promerica

Upala Agrícola, a specialist supplier of fresh pineapple in Costa Rica, has enjoyed a strategic partnership with Banco Promerica since 2015. Financial support received in 2021 has helped it embed its sustainable agricultural approach, spurring progress in corporate social responsibility and sustainability within the company. Upala Agrícola is certified under Preferred by Nature, ISO 14001, Global GAP, BASC, BRC Food and Safety, SMETA and Esencial Costa Rica.



Avolta Energy has been advancing solar photovoltaic technology in Costa Rica since 2017, through groundbreaking projects and a strategic alliance with Banco Promerica. This relationship has generated financing for projects that have brought solar power to more than 80 companies in Costa Rica and encouraged the adoption of renewable energy sources.



Turrialba Gourmet (Le Chaudron) is led by Maritza Solano, voted entrepreneur of the year in 2023. A producer of high-quality cheeses, it has succeeded in expanding its market and growing its sales, backed by loan financing granted in previous years stemming from Banco Promerica's sustainability bond. This alliance has not only allowed it to solidify its new brand, Del Guayabal, but also to grow its team and support small-scale milk producers in the region.



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