

1. **Scope of Environmental and Social Review.** The environmental and social analysis of the proposed transaction consisted of reviewing documentation and holding conversations with the environmental management officer and members of the corporate banking risk management team of Banco Davivienda El Salvador. The bank has been an IDB Invest client since 2014, with satisfactory performance. In 2014, the bank received a loan from the International Finance Corporation (IFC) for its portfolio of small and medium-sized enterprises (SMEs). In 2017, Davivienda El Salvador signed a loan with FMO, which it used to strengthen its internal capacities and policies in environmental and social topics.

2. **Environmental and Social Categorization and Rationale.** The proposed transaction is classified FI-2 pursuant to IDB Invest's sustainability policy. The potential risk of the sub-loans to the SME, large enterprise, corporate, and *Multilatina* segments to be supported is moderate, as the sub-loans granted by the bank involve or are expected to involve limited and relatively few activities with potentially environmentally and socially adverse impacts or risks, generally location specific and mostly reversible and addressable through mitigation measures. The sub-loans to be granted by the bank from IDB Invest funds will go to green loans, mostly renewable energy and energy efficiency.

The Bank defines SME loans as loans to enterprises with sales volume of less than US\$10 million. The loans in the portfolio average US\$500,000 and a term of approximately five years. Davivienda El Salvador defines large enterprise clients as enterprises with sales volume of between US\$10 million and US\$20 million, while corporates and *Multilatinas* are clients with annual sales volume greater than US\$20 million. On average the loans in this portfolio average US\$8 million and have a term of approximately three years.

The green loans portfolio, including international investments, breaks down as follows:

(i) photovoltaic solar power (41%); (ii) biomass (30%); (iii) wind power (16%); and (iv) hydroelectric power (13%), among the most important sectors. These sectors comprise 6% of the bank's portfolio, but their projected annual growth is 14%. The new green loan projects to be financed with funds from IDB Invest will all be located in El Salvador, and the majority are expected to be photovoltaic projects up to 25 MW as well as energy efficiency projects (efficient lighting, inverter air conditioning).

The IDB Invest proceeds may not be used by Davivienda El Salvador to finance Category A (high-risk) sub-projects, nor hydroelectric projects, nor projects in sectors included on the IDB Invest exclusion list, nor projects that do not comply with the specifications established in the eligibility list.

3. **Environmental and Social Risks and Impacts.** The environmental and social (E&S) risks of this transaction are related to Davivienda El Salvador's capacity to evaluate and manage the risks associated with its investments.

The Bank has had an exclusion list and a policy governing its corporate Environmental and Social Risk Analysis System (ESRMS) since 2015. Internal reviews of the policy are conducted annually and adjustments made to operations in El Salvador. IDB Invest reviewed the May 2019 version of the policy and the bank recently made its annual update in May 2020. The ESRMS applies to loans starting in US\$350,000 that may have this requirement according to the policy. For loans for which the total project cost is greater than US\$10 million, the IFC Performance Standards and Equator Principles are applied. The Bank's analysis of local regulations is detailed and meticulous. However, those projects where IFC Performance Standards and Equator Principles are applied must have a continuous follow-up to Action Plans. The Bank has an Environmental Management Officer dedicated entirely to the management and follow-up of the ESRMS, who conducts the environmental and social due diligence, as well as the annual supervision. The evaluation includes visits considering the criteria established in the policy.

4. **Mitigation measures.** The Bank must evaluate, manage, and carry out monitoring of environmental and social risks by strengthening its ESRMS in accordance with IFC

Performance Standard 1 [1] in order to be able to fully apply the Performance Standards where needed. The Bank staff in charge of implementing and following-up the ESRMS, and of risk evaluation in general will have an external consultant to do a one-time support of the training processes in the IFC Performance Standards.

Additionally, for transactions in which the IFC's Performance Standards must be applied, Davivienda El Salvador agrees with IDB Invest: (1) present to Davivienda Colombia the analysis conducted for review, and (2) follow-up the implementation of the Action Plans established for the projects financed.

The financing that Davivienda El Salvador grants with IDB Invest resources must comply with the IDB Invest Exclusion List, the eligibility list, applicable local and national environmental and social laws, and (where applicable) IFC standards. [2] In order for the bank to have a better understanding of IDB Invest's requirements, the personnel in charge of managing and following-up the ESRMS must attend IDB Invest's training workshop on Environmental and Social Risk Management for financial intermediaries.

5. Environmental and Social Action Plan (ESAP)

ITEM	TASK	ACTIVITY	DELIVERABLE	COMPLIANCE
1	Strengthen the Environmental and Social Risk Management System (ESRMS)	Strengthen its ESRMS with support from Davivienda Colombia pursuant to the guidelines of IFC Performance Standard 1 by strengthening procedures for evaluating projects in relation to the Performance Standards. Specifically, environmental and social due diligence processes/procedures to identify the risks and impacts of green loans, and design of the action plan. The ESRMS must indicate that in projects with a total cost of US\$10 million, Davivienda El Salvador will require the application of the Performance Standards and support from Davivienda Colombia.	Policy on the Environmental and Social Risk Management System (ESRMS) strengthened for applying the IFC Performance Standards.	Ten months after the first disbursement
2	Evaluation of the first three Large Enterprise, Corporate or <i>Multilatina</i> green loans.	Davivienda El Salvador will send the first three large enterprise, corporate, and <i>Multilatina</i> green loans to IDB Invest for review and comments to (i) confirm the environmental and social classifications and (ii) comment on the proposed Action Plan. The comments will be for Davivienda's consideration for future evaluations.	Environmental evaluations of the first three transactions	When each of the transactions is completed

ITEM TASK	ACTIVITY	DELIVERABLE	COMPLIANCE
3	Capacity building and training	Certification of training of risk personnel and new hires	Ten months after the first disbursement. And whenever new risk management staff is hired.

6. **Contact information** For questions about projects, including environmental and social issues associated with an IDB Invest transaction, please contact the client (see **Investment Summary**) or IDB Invest through e-mail requestinformation@idbinvest.org. As a last resort, affected communities have access to IDB Invest's Independent Consultation and Investigation Mechanism through 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

[2] Projects with a total cost of US\$10 million or greater.