

FINDEV CANADA TRANSACTION SUMMARY

Banco Promerica de Costa Rica S.A.

This document provides an overview of the FinDev Canada transaction, including a summary of the anticipated development impacts and of the environmental, social and governance (ESG) assessment performed, potential risks identified, and related mitigation measures to be implemented.



Transaction Description

This bilateral transaction supports Banco Promerica Costa Rica S.A.'s ("Promerica CR", or the "Bank") small and medium sized enterprises ("SMEs") lending activities in Costa Rica. The Bank will direct at least 30% of the loan to women-owned or led SMEs ("WSMEs") as defined by the 2X Criteria, and 30% of the loan will support 'green' projects.

Transaction Details

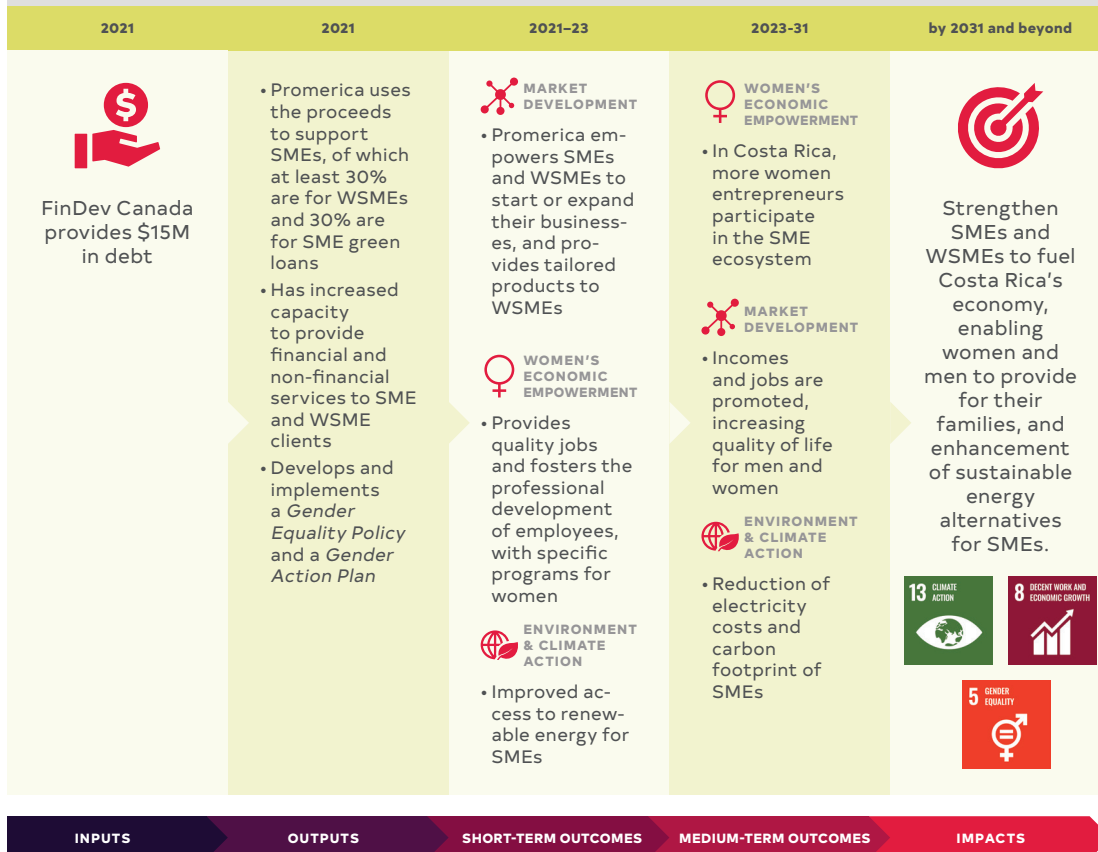
COUNTERPARTY	Banco Promerica Costa Rica S.A. ("Promerica CR" or the "Bank")
DOMICILE OF INCORPORATION	Costa Rica
DOMICILE OF OPERATIONS	Costa Rica
TERM OF FINANCING	5 years
SECTOR	Financial Services
IFC PERFORMANCE STANDARDS TRANSACTION CATEGORY	FI-2
FINANCING PRODUCT	Debt
FINDEV CANADA TRANSACTION AMOUNT	USD 15 million
DATE OF TRANSACTION DISCLOSURE	September 21st, 2021
DATE OF TRANSACTION SIGNING	November 26th, 2021
DATE OF TRANSACTION SUMMARY PUBLICATION	February 26th, 2021
2X CHALLENGE QUALIFYING	Yes, under employment and indirect criteria

Summary of Anticipated Development Impacts

SMEs are an important part of Costa Rica's economic development and job creation, with over 11,500 SMEs in Costa Rica, representing approximately 31% of the national employment (OECD, 2018). The development impact value proposition of Promerica CR is to provide access to financial services to SMEs and WSMEs in Costa Rica, contributing to the increased economic well-being of men and women. The impact theory of change demonstrates how Promerica CR will contribute to FinDev Canada's long-term development impact goals and the Sustainable Development Goals ("SDGs"), particularly SDG 8 "Decent Work and Economic Growth", SDG 5 "Gender Equality" and SDG 13 "Climate Action".

Development Challenges:

- Costa Rica's economy is driven by the private sector: SMEs provide 31% of the national employment (SME Finance Forum)
- The current MSME finance gap in Costa Rica is US\$ 4.77 bn, or 9% of GDP, and SMEs represent 33% of these businesses (SME Finance Forum)
- An estimated 57% of SMEs in Costa Rica have access to a loan from a financial institution (OECD)
- There is a considerable gender gap in financial inclusion in Costa Rica: 61% of women vs 75% of men have an account at a financial institution (Equilo)
- Credit is considerably more expensive for SMEs than large corporations in Costa Rica (OECD)



MARKET DEVELOPMENT

- **Strengthen local SMEs and value chain:** 100% of FinDev Canada's loan proceeds will be used by Promerica CR to on-lend to local SMEs, supporting the local economy and employment.
- **Financial products for SMEs:** SMEs in Costa Rica often face higher interest rates than larger corporations and shorter tenors, which stunts their potential for growth. Promerica CR supports its SME clients with interest rates that are in line with those offered to larger corporations, and that are significantly lower than the offerings of financial institutions in many countries in Latin America and the Caribbean, where interest rates for SME loans can go up to 20% (OECD, 2020).
- **Non-financial services for SMEs:** Promerica CR offers an assortment of digital services, reducing the need for in-person banking and promoting financial inclusion, considering men and women have similar access to internet in Costa Rica (80% of men and 82% of women), and that 90% of the country's population is now using a mobile phone with internet (OECD, 2020). The Bank is part of Costa Rica's National Financial Education Strategy and offers financial education to its customers.

WOMEN'S ECONOMIC EMPOWERMENT

- **Support WSMEs through financial and non-financial services:** Promerica CR is in the process of improving the customer journey for women, developing products and services to better serve WSMEs, and designing a program of non-financial services (such as computer services, legal support and accounting) with a gender focus. Promerica CR commits to on-lending 30% of FinDev Canada's loan to WSMEs.
- **Supporting quality employment for women:** Promerica CR promotes gender equality among its workforce, where women account for 51% of employees. The Bank is a signatory of the UN Women's Empowerment Principles ("WEPs") since 2020, and has developed a Gender Equality Policy, which demonstrates Promerica CR's commitment towards women's economic empowerment and gender equality. Promerica CR has developed a Gender Action Plan that outlines concrete goals, baseline indicators, activities towards improvement, target dates and accountable parties. For example, to support women's career development, Promerica CR is implementing capacity building programs and creating the mentoring program Career Watch for women working at the Bank.

CLIMATE MITIGATION AND ADAPTATION

- **Climate change mitigation:** Promerica CR offers its SME clients 'green' loans, for products such as renewable energy, which contributes to the reduction of both the carbon footprint of SMEs and the expenses related to energy, due to generally high electricity costs in Costa Rica. Promerica CR commits to earmarking at least 30% of FinDev Canada's loan towards 'green' credit for SMEs.
- **Climate change adaptation:** Promerica CR is also in the process of calculating its Scope 3 financed greenhouse gas ("GHG") emissions using the Partnership for Carbon Accounting Financials (PCAF) Standard and is developing tools to measure the physical risks faced by its clients due to climate change, to eventually offer financial and non-financial products and services with the aim to reduce clients' vulnerability to climate change.
- **Sustainable practices within operations:** In 2018, the Bank aligned with the Programa Pais para Carbono Neutral 2.0, created by the Ministry of Environment and Energy of the Government of Costa Rica and obtained the certification for Carbon Neutrality in 2018 and 2019. The Bank measures and reports its Scope 1 and Scope 2 GHG emissions, and is taking measures to reduce its GHG emissions, including with the installation of solar panels in seven of its 19 physical locations.

Summary of Environmental and Social Assessment and Related Risk Mitigation Measures

FinDev Canada considers the transaction to be Category FI-2 (B), as Promerica CR's loan portfolio is made up loans to businesses and individuals engaged in business activities that have potentially limited adverse environmental and social (E&S) risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.

A benchmark review of Promerica CR's E&S management capacity was completed against IFC Performance Standards 1 and 2 (IFC PS), which have been confirmed as the appropriate E&S benchmarks for this transaction. Due diligence activities consisted of E&S documentation review, a review of Promerica CR's responses to FinDev Canada's questionnaire, virtual Lenders presentations, and client meetings. FinDev Canada did not undertake a site visit given the lower risk nature of the opportunity.

The E&S risks associated with this transaction lie with the individual companies that Promerica CR may support with the FinDev Canada funds it receives. Promerica CR's lending portfolio is situated in Costa Rica and primarily composed of corporate, SME, retail, home, and auto loans. Given the use of proceeds, it is anticipated that much of FinDev Canada's support will be directed towards working capital solutions for the lower risk commerce and services sectors that make up Promerica CR's SME customer base (i.e., the trade and sale of goods and services, real estate and tourism). Overall transaction-related E&S risks are expected to be low to moderate.

Promerica CR's policies and procedures provide basic coverage for the labor and working conditions related issues anticipated by the IFC PS as well as the management of E&S risks of on-lending, though opportunities for improvement were identified and will be implemented by the client during the time of the investment.

FinDev Canada is of the opinion that adverse environmental, social and human rights risks associated with the transaction are low to moderate and will be mitigated by Promerica CR's adherence to loan covenants and planned improvements to their environmental and social management system and internal policies, which will enable Promerica CR's operations to align with the objectives of the IFC PS over a reasonable period of time. FinDev Canada does not anticipate Promerica CR having difficulty in maintaining regulatory compliance in the markets in which it serves and functions. This review has been completed in accordance with FinDev Canada's E&S Policy.

An illustrative list of key documents reviewed is outlined below:

- Promerica's Environmental and Social Assessment Procedure and Questionnaire, dated February 2020
- Promerica's Ethics Code, dated January 2021
- Promerica's Human Resources Policy, dated December 2020
- Promerica's Occupational Health and Safety Policy, dated June 2020
- Promerica's Outsourcing Policy, dated May 2021

The following International Finance Corporation (IFC) Performance Standards were applied in FinDev Canada's assessment in addition to host country requirements and the IFC Interpretation Note on Financial Intermediaries:

- IFC Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts
- IFC Performance Standard 2: Labor and Working Conditions