

FINDEV CANADA TRANSACTION SUMMARY

Banco Nacional de Costa Rica (BNCR)

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

Established in 1914, Banco Nacional de Costa Rica is a financial conglomerate wholly owned by the Government and the largest commercial bank of the country in terms of assets and loan portfolio. With over 170 branches across the country and more than 1,200 commercial establishments affiliated to BN Services, BNCR is a key institution to the economic development of Costa Rica.

Transaction Details

COUNTERPARTY	Banco Nacional de Costa Rica ("BNCR")
DOMICILE OF INCORPORATION	Costa Rica
DOMICILE OF OPERATIONS	Costa Rica
TERM OF FINANCING	10 years
SECTOR	Financial Services
IFC PERFORMANCE STANDARDS TRANSACTION CATEGORY	Category FI-2
FINANCING PRODUCT	Debt
FINDEV CANADA TRANSACTION AMOUNT	USD 30 million
DATE OF TRANSACTION DISCLOSURE	07 July 2021
DATE OF TRANSACTION SIGNING	04 February 2022
DATE OF TRANSACTION SUMMARY PUBLICATION	04 May 2022
2X CHALLENGE QUALIFYING	Yes, under direct (Leadership and Employment) and indirect criteria (min. 40% of proceeds towards women entrepreneurs)

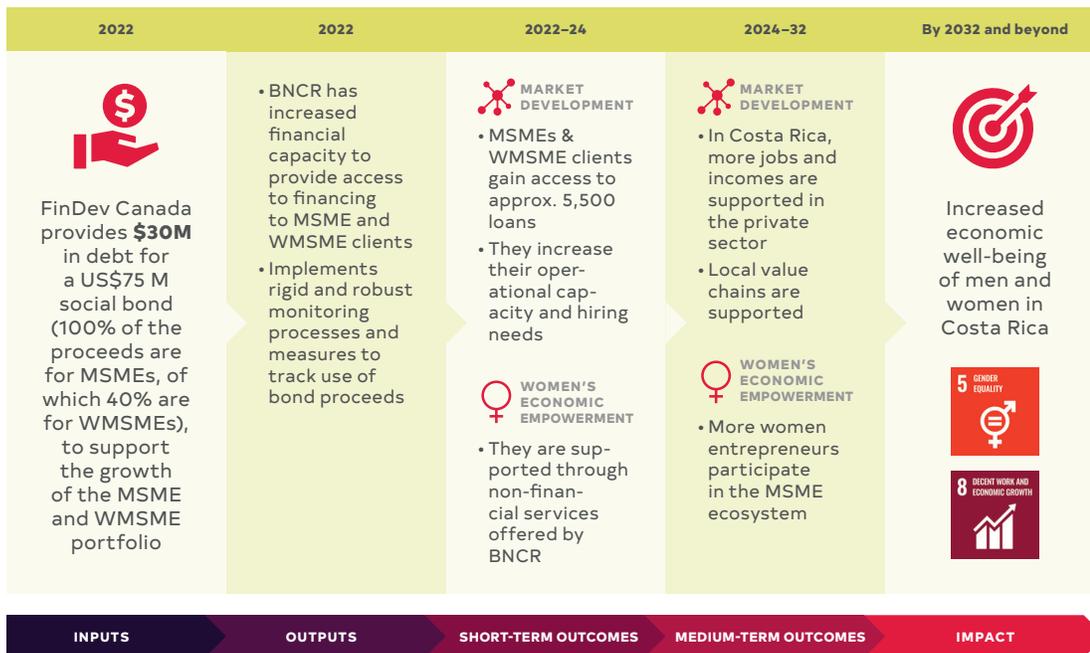
Summary of Anticipated Development Impacts

As the first social bond to be issued in Costa Rica, all proceeds will be on-lent to micro, small and medium-sized enterprise (MSMEs) clients of BNCR, and at least 40% of the bond's proceeds will be directed towards women-owned/led MSMEs (WMSMEs).

The development impact value proposition of this transaction is to increase the economic well-being of men and women in Costa Rica. This will be achieved by providing financing for Costa Rican MSMEs and WMSMEs, which will in turn support jobs, incomes and promote the participation of women entrepreneurs in the MSME ecosystem. This transaction will also contribute to FinDev Canada's long-term development impact goals and the Sustainable Development Goals (SDGs), particularly SDG 5 (Gender Equality) and SDG 8 (Decent Work and Economic Growth) as illustrated by the impact theory of change below.

Development Challenges:

- MSMEs represent approximately 96% of Costa Rica's businesses and 31% of the national employment¹
- Women entrepreneurs have been disproportionately affected by the economic impacts from COVID-19



¹Ministerio de Economía, Industria y Comercio. Registro de empresas Pymes. Feb 2020.



MARKET DEVELOPMENT

- **Increasing access to financing for Costa Rican microentrepreneurs:** MSMEs play a major role in Costa Rica's economy, as they represent approximately 98% of the country's businesses and 31% of national employment. As a result, and in the context of the economic crisis induced by COVID-19, increasing access to financing for men and women microentrepreneurs is key for the economic recovery of Costa Rica.
- **Catalyzing the growth of Costa Rica's MSME ecosystem:** as the largest commercial bank in the country and with approximately 36,000 MSME clients in 2020 (just over half of the 68,000 registered MSMEs in the country), BNCR is well positioned to reach this segment: it is estimated that approximately 5,500 MSMEs and WMSME will be able to access financing derived from the social bond's proceeds. Supporting the MSME ecosystem in Costa Rica will, in turn, fuel local value chains, incomes, and jobs.



WOMEN'S ECONOMIC EMPOWERMENT

- **Providing access to financing for women entrepreneurs:** BNCR will on-lend 40% of the social bond's proceeds to WMSME clients. This is significant, as it will encourage the growth of this segment (approximately one-third of BNCR's MSME clients are WMSMEs). Within the context of COVID-19, which has had a disproportionately negative impact on women entrepreneurs, promoting access to financing for WMSMEs is even more important. This commitment demonstrates BNCR's intention to support Costa Rican women entrepreneurs, which is further showcased by it being a member of the Financial Alliance for Women and a signatory of the Women's Empowerment Principles of UN Women.
- **Promoting women's representation in leadership and employment in the bank:** at BNCR, women represent 57% of the Board of Directors and 50% of employees, with benefits and programs in place promoting quality employment and equal opportunity in the workplace. As a 2X Challenge qualifying transaction, BNCR is committed to maintaining gender-balanced representation and a gender-inclusive workplace.

Summary of Environmental and Social Assessment and Related Risk Mitigation Measures

FinDev Canada considers the transaction to be Category FI-2 (equivalent to Category B and specific to financial intermediaries), as the proposed portfolio to be supported with FinDev Canada proceeds is expected to comprise business activities that have potential limited adverse environmental or social risks, or impacts.

Due diligence was undertaken over a span of approximately eight weeks and consisted of environmental and social documentation review and capacity analysis, as they relate to the organization's ability to manage the environmental and social risks of its operations and loan portfolio. FinDev Canada considered the structure and use of the funds in the review and included an assessment of labour practices through a review of BNCR's human resources regulations and tools.

Key E&S risks related to this transaction are considered to be low. The type of businesses that will be supported through FinDev Canada's support include, but are not limited to: labour management, occupational health and safety, waste management and pollution. Use of proceeds will be limited to MSMEs active in the services (48%), commercial (23%), agriculture (19%), industry (5%), tourism (3.5%), and warehouse/storage (1.5%) sectors. FinDev Canada proceeds will be subject to an Exclusion List and BNCR social criteria that will restrict the use of funds from project financing and higher risk (e.g., Category A) investments. BNCR has developed an environmental and social management system (ESMS) and human resource framework that generally align with International Finance Corporation (IFC) Performance Standards 1 and 2, respectively. However, opportunities for enhancement of BNCR's ESMS were identified during due diligence and have been captured in an Environmental and Social Action Plan (ESAP). These opportunities will enable BNCR to reinforce alignment with IFC Performance Standard 1, as interpreted for F1-2 categorized financial institutions, over a reasonable period of time. FinDev Canada will maintain a dialogue with BNCR to support the completion of the ESAP and to mature their E&S management capacity throughout the tenor of the debt facility. This review was completed in accordance with FinDev Canada's Environmental and Social Policy.

An illustrative list of key documents reviewed is outlined below:

- Social and Environmental Risk Management System (SARAS) Manual
- BNCR Code of Conduct
- BNCR Exclusion List
- BNCR Grievance Management
- Human Resources Policy
- Compliance Manual
- 2020 Emergency Plan
- Sustainable Financing Policy
- BNCR Social Bond Framework

The following 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