

1. Scope of the Environmental and Social Review

Agripac is an Ecuadorian company founded in 1972 that produces, distributes, and sells agricultural and industrial supplies. It has the largest distribution network of agro-industrial products in the country. It is an existing client of IDB Invest and this would be the third transaction with the client. The first was approved in 2012 and the second in 2015.

IDB Invest performed due diligence on the Project from October 22 to 24, 2018. In addition, environmental information was reviewed from different reports, audits and environmental data, internal documents on Agripac's policies and procedures, and staff from all plants were interviewed.

2. Environmental and social classification, and its fundamentals

This is a category B project, in accordance with the CII' s Environmental and Social Sustainability Policy, as it could have moderate and mitigable environmental and social impacts. The main risks associated with the project include: (i) management of the environmental and social aspects and monitoring systems; (ii) management of labor and adequate working conditions, operational health and safety ("OHS") programs; (iii) fire safety; (iv) control and monitoring of agrochemical management; (v) emissions monitoring and control; (vi) relationship with the community; (vii) sustainability of the supply chain; (viii) procedures for security forces hired by the company.

3. Environmental and social context

Agripac has four production plants: Balanfarina (balanced food processing) located at Km 4.5 of the Durán - Tambo route, Guayas; Agrigrain (corn and soybean storage and rice and soybean processing) at Km 6 ½ of the Quevedo - El Empalme route, Los Ríos; Celtec (fractioning and storage of agrochemicals) at Km 15 ½ of the route to Daule, Guayaquil, Guayas, and Laquinsa (formulation of agrochemicals) at Km 5.5 of route Via Durán-Tambo, Durán, Guayas. They also have 13 storage centers, eight business units and 165 points of sale throughout the country. Additionally, they provide aerial fumigation services through the company Aeroagripac.

In order to expand the Balanfarina plant and use the new lot for the storage of finished products from such plant, it will be necessary to update the environmental management plans of the existing licenses.

4. Environmental risks and impacts, and proposed mitigation and compensation measures

As a result of the Environmental and Social Due Diligence, it can be concluded that this operation will have impacts that will be managed in accordance with the Performance Standards.

PS 1: Assessment and Management of Environmental and Social Risks and Impacts

PS 2: Labor and Working Conditions

PS 3: Resource Efficiency and Pollution Prevention

PS 4: Community Health, Safety and Security

PS5: Land Acquisition and Involuntary Resettlement

PS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources

PS 7: Indigenous Peoples is not relevant, as there are no IPs in the areas where the company's

operations are located.

PS 8: Cultural Heritage is not applicable, as the facilities are located in places devoid of cultural heritage. If these PSs are applicable, Agripac will immediately inform IDB Invest.

4.1 Assessment and Management of Environmental and Social Risks and Impacts

Grupo Agripac S.A. has implemented an Environmental and Social Management System (ESMS) at the corporate level, covering the four plants (Celtec, Laquinsa, Balanfarina and Agrigrain) and Headquarters. The Group maintains triple certification, ISO 14001/2015, ISO 9001/2015 and OSHAS 18001/2007 since 2010. In 2014, the Balanfarina plant also obtained GLOBALG.A.P. certification in good agricultural practices for the shrimp feed production line, guaranteeing food quality throughout the value chain, as well as care for the environment, worker health and welfare, animal welfare and even the integrated management of crops and pests. In 2017, the Ministry of Agriculture, Livestock, Aquaculture and Fisheries, together with Agrocalidad, granted this same plant the Good Manufacturing Practices certification, which certifies its raw materials and how it operates, as well as the quality control of the processes implemented.

Agripac's Board of Directors plays a very active role in the management of environmental and social aspects. It is committed to disseminating and maintaining the Corporate Environmental Policy, and overseeing the performance of the ESMS to ensure that it operates properly and effectively. The policy is reviewed systematically and communicated internally, but it is not shared externally.

In order to identify risks and impacts, Agripac has procedures to manage the risks associated with internal operations. However, it needs to develop an ESMS procedure for risk assessment and prioritization, including those involving contractors, subcontractors, third parties, and primary suppliers. In addition, an ESMS procedure is required to address the importance of risks and impacts on communities. The risk assessment should be reviewed not only when there is a change in processes, activities, or technological changes in operations, but also when there is an expansion and some change in the dynamics of the neighboring communities. Include all levels of the company and external actors.

Management programs include measures to manage environmental and social (E&S) risks and impacts. There are company-wide quantifiable objectives, targets and procedures for periodic review and updating; however, Agripac needs to develop management procedures for its ESMS to ensure community participation, including submitting periodic reports to the communities and an external grievance mechanism; it shall also develop management procedures for managing E&S, occupational health and safety (OHS), and labor aspects of the supply chain.

Agripac has organizational capacity and competence, it has professional staff to manage E&S aspects with defined roles in all its plants and at the corporate level. In addition, it has personnel in charge of the management and implementation of the ESMS. Agripac should assign tasks to the E&S staff in order to manage the E&S aspects of the procurement of agricultural products in the supply chain, as outlined in the ESMS Supply Chain Policy.

Emergency Preparedness and Response: All Agripac facilities have developed and implemented emergency preparedness and response plans in accordance with local OHS legal standards and OHSAS 18001 requirements. Emergency preparedness and response planning takes into account only internal response, and lacks emergency planning to involve nearby communities.

Participation of Social Actors: Various stakeholder groups have been identified and the communication channels, frequency and issues to be discussed with each have been defined. The

company should initiate culturally appropriate communication to share environmental information with the communities.

External communication and grievance mechanisms: Agripac has an external communication mechanism as part of its Communication, Participation and Consultation Procedure; however, this should be updated using the best available communication channels and a grievance mechanism. The management system procedure implemented will include the dissemination of the grievance mechanism, how people can register complaints with Agripac publicly or anonymously, and how responses will be submitted. Involve the community's key social actors to receive and manage complaints. Communicate the mechanism to suppliers and contractors. Specifically, for Aeroagripac, although it is in compliance with all the requirements of national legislation for aerial spraying, it should develop and implement a management system procedure that involves their clients, to ensure that the communities that inhabit the areas to be sprayed are informed in detail.

Periodic reports to the affected communities: Agripac prepares an annual Environmental and Social Sustainability Report based on Global Reporting Initiative (GRI) standards.

Monitoring and Evaluation: Agripac monitors and reports the E&S performance of its operations to senior management using Key Performance Indicators (KPIs).

4.2 Labor and Working Conditions

Agripac has 1,218 employees throughout the country, of whom 540 are administrative staff (168 women and 372 men), 37 executives (6 women and 31 men) and 641 operational staff (7 women and 634 men).

Agripac complies with Ecuadorian labor regulations and offers its workers additional benefits (health and food subsidies, recreational activities, talks, celebration of festivities, savings and credit plans, vaccination campaigns and medical dispensaries in the plants). Agripac has a remuneration policy that surpasses the legal amounts set forth in the Law. Agripac does not have employee associations or trade unions, and its workers have not signed collective agreements. According to its policy document, it does not employ minors and prohibits forced labor. All company employees are affiliated to the Ecuadorian Social Security Institute.

Currently, 4.2% of its employees are disabled. This program is implemented in collaboration with the government entities CONADIS (National Council on Disabilities) and SIL (Labor Insertion Service).

For human resources management, Agripac has Company Internal Regulations, a Selection Procedure, an Induction and Performance Evaluation, a Training and Competencies Procedure, an Absenteeism Policy and Procedure, and an Initial Training Procedure for the Position and Work Area. Currently, Agripac has complaint mailboxes at each of its facilities and an email for this purpose that allows anonymous complaints. The mechanism should be updated in accordance with PS2 and communicated to the staff.

Agripac has developed an Internal Health and Safety Regulation approved by the Ministry of Labor Relations that includes a series of standards and training for personnel in order to prevent labor risks. It also includes emergency drills, brigade structuring for emergency services, internal signage, and strict compliance with movement regulations for workers, visitors and suppliers. Workers are provided with personal protective equipment (PPE) and its use is mandatory, including contractors. Agripac assesses the health status of every worker who enters the company and performs annual occupational assessments with general and special examinations according to the worker's exposure and the Hazard Identification and Risk Assessment matrix. Annual occupational monitoring is

performed by companies qualified by the Ecuadorian Accreditation Service (SAE, for its acronym in Spanish). In 2017, Agripac allocated 7,533 hours of training in occupational health and safety in areas such as the use of PPE, electrical risk, integrated solid waste management, industrial toxicology, correct and responsible use of agricultural inputs, instructions for recharging forklifts, 5S methodology, first aid, sexually transmitted diseases, healthy eating, domestic violence, drug prevention and consumption, among others.

The work noise levels in the Balanfarina plant do not exceed the permissible limits of 85dB set forth in the Regulation on Safety and Health of Workers and Improvement of the Working Environment; however, it will be necessary to continue the use of hearing protection and perform hearing tests to personnel at varying intervals, depending on their levels of exposure. At the Laquinsa plant, the level of work noise exceeds the permissible limits. The Balanfarina and Laquinsa environmental noise level measurements are in compliance with the maximum permissible limit of 70dB for the use of industrial land established by the Ecuadorian Standard for Environmental Noise Levels for Fixed and Mobile Sources of 2015, which is equal to that required by the General Guidelines of the WB. Monitoring is performed annually in each of the plants by a firm endorsed by the Ecuadorian Accreditation Body (OAE, for its acronym in Spanish) and using internationally recognized methodologies.^[1]

All Agripac facilities have a Fire Prevention and Fighting System validated by the Fire Department of each locality; periodic drills and training of the brigade are performed. In order to carry out the Balanfarina expansion, Agripac shall update the specific Fire Prevention and Fighting System for that plant, which shall be prepared by a duly qualified professional, demonstrating that the proposed buildings comply with safety and fire prevention requirements and that safety and fire prevention systems shall be designed and installed using established standards or a performance-based design, following good technical practices. It is recommended that the requirements of the Standard for the Prevention of Fire and Dust Explosions in Agricultural and Food Processing Facilities NFPA 61 be considered for the design, operation and maintenance of the plant.

There have been no fatal accidents at Agripac and the low accident rates demonstrate the implementation of good OHS practices. At Celtec, dust particles can be easily observed in the agrochemical packaging area, however, the management plan does not require its monitoring. Employee health exposure will be reduced through the application of engineering controls, regular cleaning and PPE. As part of the ESMS, Agripac will develop and implement an Air Quality Monitoring Plan for all four plants' workstations that will include a procedure to verify the effectiveness of the dust removal equipment. Periodic physical and medical examinations should be conducted for people exposed to industrial chemicals and dust (e.g. lung capacity tests) and the results of medical examinations should be reported to IDB INVEST annually. The company will submit an initial medical report to IDB INVEST on the incidence of lung diseases in workers. Agripac will sample the dust levels, and if the particulate matter limits set out in the guidelines for the manufacture, formulation and packaging of pesticides are exceeded, it will install dust evacuation systems (extraction hoods) in Celtec and Laquinsa, in accordance with the ACGIH (American Conference of Governmental Industrial Hygienists) Industrial Ventilation Manual. Agripac will submit a final report to IDB INVEST with a certification from the company's task manager that all observed deficiencies have been corrected.

Agripac's supply chain comprises 3,756 suppliers, 3,540 of which are national and 216 international. However, it does not have an ESMS procedure to identify whether there is a risk of child or forced labor in its chain or for subcontracted workers.

4.3 Resource Efficiency and Pollution Prevention

The power supply source for all plants is through the public power grid. In 2017, the energy consumption for the plants was: Laquinsa 171MWh, Celtec 166MWh, Balanfarina 11,344MWh and Agrigrain 202MWh. Laquinsa uses water from the public mains for domestic use and collects rainwater which it uses as a solvent in its processes. Celtec captures water from the public mains for domestic use. In Balanfarina, the water used for steam generation and domestic use arrives at the plant in tankers. Agrigrain is the only plant that uses groundwater for domestic use and has a licensed well approved by the Secretariat of Water (SENAGUA) for the extraction of a flow of 60 gal/min. The update of its flow approval is currently in process. The annual water consumption for the same year was: Laquinsa 7,934 m³, Celtec 3,183 m³, Balanfarina 20,706 m³ and Agrigrain 1,657 m³. Between 2016 and 2017, power consumption in Laquinsa was reduced due to the replacement of new LED lights and the removal of electrical equipment, including air conditioners. On the other hand, water consumption rose due to civil engineering works and an increase in the production volume. In Balanfarina and Agrigrain, power and water consumption increased due to the increase in productivity and the reception and processing of raw materials, respectively. At Celtec, power consumption increased due to increased production, but water consumption was reduced due to the implementation of pressurized water to wash empty containers and the good behavior of customers who returned washed containers to the plant. The industrial effluents generated at the plants result mainly from cleaning containers, floors, and equipment. These effluents are collected by a company certified by the Ministry of the Environment (MAE), which is also in charge of their final disposal. Sanitary effluents from all the plants are sent to septic tanks that are maintained periodically.

Agripac performs periodic monitoring of atmospheric emissions, air quality, noise and lighting in its various plants. In 2017, the particulate matter measurements for Balanfarina, Laquinsa and Agrigrain complied with the levels required in the WB General Guidelines. For the formulation of pesticides, Laquinsa and Celtec require the measurement of Volatile Organic Compounds (VOCs) and the results show that, to date, the companies comply with national regulations and international standards of the Occupational Safety and Health Administration (OSHA) and the American Conference of Governmental Industrial Hygienists of the United States (ACGIH). The new production lines that will be installed as part of the project will have atmospheric emission control equipment.

Wastes classified as hazardous (e.g. containers with agrochemical residues) are packaged, weighed, labeled and temporarily stored in hazardous solid or liquid waste warehouses, as appropriate. The management of non-hazardous waste (non-recyclable, paper, cardboard, plastic) is carried out at five collection points which house different types of waste that are taken to the recycling warehouse, or to the area where non-recyclable waste is disposed of. All waste is then collected by handlers authorized by the Ministry of Environment or sent to landfills, as appropriate.

The Celtec and Laquinsa plants use and formulate solvents that are mostly biodegradable, although some are toxic such as toluene. Agripac shall develop and implement a procedure for handling toxic solvents.

Agripac still has old equipment that uses R-22 or chlorodifluoromethane, which is highly harmful to the ozone layer. It is being slowly replaced, however. It also uses R-410A and R-404A, two hydrofluorocarbons which, while not contributing to ozone depletion, have a high Global Warming Potential (GWP) and are also in the phase-out phase. It also uses R-417. Agripac will develop a phase-out plan for ozone-depleting refrigerants subject to international phase-out as required by the Montreal Protocol.

Agripac's practices follow the World Health Organization (WHO) guidelines on pesticides and comply with the Andean Standard and the Andean Manual for the Registration and Control of Pesticides for Agricultural Use, as well as with the International Code of Conduct on the Distribution and Use of Pesticides of the Food and Agriculture Organization (CICOU/FAO). However, they still

distribute four products (VYDATE BLUE Ia, GASTOXIN Ia, METHOMILAQ 900 Ib, and PHOXTOXIN Ib). Agripac will adopt commercial policies and techniques aimed at reducing the distribution and sale of products of pesticide classes corresponding to the Extremely Dangerous Classes (Ia) and Highly Dangerous Classes (Ib) according to the WHO. The measure is based on the company's belief in its influence on the market and the positive impact that measures such as this can have on the environment and people. Agripac will not add new products to the current sales palette, other than those it already sells, for Classes Ia and Ib. The policy shall include a Phase Out Plan in a period of no more than three (3) years and promote the use of Integrated Pest/Disease Management (IPDM) Programs by clients.

4.4 Community Health, Safety and Security

Agripac has procedures to manage the transportation of hazardous substances and the current environmental license. It should complement this area by implementing safety programs for drivers and traffic in accordance with the principles described in the general guidelines on Environment, Health and Safety (EHS) and which are part of its ESMS.

Agripac has hired a Security company accredited and qualified by the competent authority, which has a Functional Guide detailing responsibilities and procedures in case of emergency and special operations. For the personnel selection process, they check the candidate's criminal record and/or claims, evaluate alcohol and drug use, and train personnel in the use of firearms. Agripac will include operating procedures in its ESMS to manage the security forces in accordance with the requirements of PS4.

4.5 Land Acquisition and Involuntary Resettlement

Agripac owns the land its plants are located on, which are in industrial sectors. It intends to acquire a lot close to the Balanfarina plant that is already being negotiated and will not incur resettlement or economic displacement.

4.6 Conservation of biodiversity and natural habitats

All of Agripac's plants have valid Environmental Permits and Intersection certificates that prove that they do not intercept the National System of Protected Areas, protective woodlands, or State forest wealth. None discharges into surface waters.

However, Agripac has not performed an E&S analysis of its supply chain and therefore does not know the impact it may be generating. Therefore, Agripac will implement a Supply Chain Policy with its suppliers to ensure that they do not generate any impact on critical habitats, significant change in land use, deforestation, invasion of protected areas or indigenous populations, also avoiding the employment of minors and forced labor, adequately managing the occupational health and safety of its workers, implementing integrated pest management, and eliminating the use of WHO Class Ia and Ib pesticides.

CONTACT INFORMATION:

For project inquiries, including environmental and social issues related to an IDB Invest transaction, please contact the client (see **Investment Summary** sheet), or IDB Invest via email requestinformation@idbinvest.org.

As a last resort, affected communities have access to IDB Invest's Independent Consultation and Investigation Mechanism using the following email address mecanismo@iadb.org or MICI@iadb.org, or by calling the telephone number +1(202) 623-3952.

