

1. Overview and Scope of IDB Invest's Environmental and Social Review

Negocio Agrícola San Enrique, SA de C.V ("NASE"), located in northwest Mexico, is a company with 25 years of experience in the horticultural sector, engaged in the production of organic and non-organic tomatoes, peppers, table grapes, nuts (pecan), strawberries, blackberries, and farmed shrimp, with a focus on the export market (90% of sales).

NASE operates in the following five regions or Business Units ("BU"): (i) The Hermosillo area, with approximately 2,569 hectares of agricultural fields, distributed across the Hermosillo, Pesqueira and Cobarca coasts, all in the State of Sonora; (ii) Tastiota, with approximately 1,980 hectares of shrimp farms, in the State of Sonora; (iii) Boca Cegada, with 1,000 hectares of shrimp farms, in the State of Nayarit; (iv) Melitón, with approximately 283 hectares of agricultural fields (~ 63% with shade mesh), in the State of Southern Baja California; and (v) Vizcaíno, with 806 hectares of agricultural fields (~80% with shade mesh), in the State of Southern Baja California.

Agricultural goods are produced continuously throughout the year, interspersing different crop varieties and agricultural land areas (crop rotation); likewise, shrimp farming takes place continuously throughout the year, interspersing cultivation in different ponds. According to productive growth projections for the period from 2017 to 2021, NASE will increase its blueberry production area by approximately +2,000% (the 2017 area is increased twentyfold, from 5 ha to 100 ha for the year 2021), grape crops by approximately +190.9%, pecan nut cultivation by approximately +50.6%, and farmed shrimp production by approximately +160%, with a 100% reduction in strawberry cultivation by 2021 (gradually replacing this crop with the production of blackberries). The remaining crops (various varieties of organic and conventional tomatoes and peppers) will maintain their productive areas.

As part of NASE's evaluation, IDB Invest's environmental and social review included the analysis of environmental permits and sanitary licenses for the Projects, meetings and conference calls with their representatives. Moreover, IDB Invest's environmental and social experts conducted an environmental and social due diligence (ESDD) visit on October 9 and 10, 2018 in Mexico, which included the following tasks: (i) meeting with NASE staff; (ii) conducting an inspection visit to Tastiota, in the State of Sonora, with a tour of the shrimp farms and the shrimp processing and packing plant; (iii) conducting a visit to the pecan tree plantation and nut processing plant near Hermosillo, Sonora; (iv) conducting a visit to several plantations and the packing plant in the Melitón region, Southern Baja California; and (v) conducting a visit to several plantations and the vegetable packing plant in the Vizcaíno region, Southern Baja California. At the end of this ESDD tour, documents associated with manuals, procedures, and internal and external operational reports, among others, were reviewed.

2. Environmental and Social Categorization, and its Foundations

This is a **Category B** Project, in accordance with IDB Invest's Environmental and Social Sustainability Policy, since overall its environmental and social risks are expected to be reversible and capable of being mitigated through currently available technologies. Given the Project's characteristics (in terms of the use of financial resources), in which the acquisition of new land is not foreseen, but rather a productivity increase on already owned land through the operation and maintenance (" O&M") of facilities/lands, possible environmental and social impacts and risks will be: (i) the production of hazardous and non-hazardous waste; (ii) polluting atmospheric emissions (mainly dust from field preparation, the transit of vehicles and agricultural machinery, and combustion gases from vehicles and agricultural machinery); (iii) generation of industrial and domestic wastewater; (iv) generation of industrial and domestic wastewater; (iv) occupational health and safety risks for worker; and (v) use of resources, such as energy and water sources (surface or

underground), mainly.

Considering the location of the croplands and aquaculture farms, and the sensitivity of crops to the inclement weather, the natural disasters that present a greater risk to the Project, are: droughts, floods, and hurricanes; both for damages that they could cause to the physical infrastructure, as well as the possible loss of product (crops or shrimp), resulting in loss of business.

Based on the ESDD visit and the information provided in the Environmental and Social Questionnaire, the Project is expected to involve the following International Finance Corporation (IFC) Performance Standards (PS):

- PS-1. Evaluation 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.

The following IFC Performance Standards are not envisaged: PS-5, Land Acquisition and Involuntary Resettlement, since the Project will be developed on currently owned land; PS-6, Biodiversity Conservation and Sustainable Management of Living Natural Resources, since the project will be developed on currently owned and previously used land (for agriculture); PS-7, Indigenous Peoples, since they do not exist in the project's area of development; and PS-8, Cultural Heritage, since, as mentioned above, the land is already owned and has been previously used.

3. Environmental and Social Context

NASE possesses more than 3,650 hectares of agricultural fields and approximately 3,000 hectares of aquacultural farms dedicated to the production of white shrimp, distributed across various BUs located in the States of Sonora, Nayarit, and Southern Baja California, in Mexico. The social context of each BU and the nearest populations are: (i) for the Hermosillo Area BU on the Hermosillo Coast, the closest population to the fields is the Miguel Alemán village, Hermosillo, Sonora, at a distance of 15 km; for the Pesqueira area, the nearest population is Hermosillo, Sonora, at a distance of 40 km; for the Caborca area, the nearest town is H. Caborca, Sonora, at a distance of 30 km; (ii) for the Tastiota BU, the nearest town is Miguel Alemán, Hermosillo, Sonora, at a distance of 60 km; (iii) for the Boca Cegada BU, the nearest town is San Blas, Nayarit, at a distance of 16 km; (iv) for the Melitón BU, the nearest population is Todos Santos, Southern Baja California at a distance of 40 km; and (v) for the Vizcaíno BU, the nearest population is Guerrero Negro, Southern Baja California, at a distance of 60 km.

In terms of health risks, NASE Vizcaíno possesses a Notice of Operation for economic entities dedicated mainly to the wholesale trade of fresh fruits and vegetables. Likewise, for its horticultural crops, NASE possesses the Unique Sowing Permits granted by the Rural Development District of each locality, based on National Water Law, the Internal Regulation of the Irrigation District, and the Federal Vegetation Health Law.

Since 2006, NASE relies on a Safety Policy^[1] (PO-GG015), attesting to its safety commitment throughout the chain, from field work to the delivery of final products to the customer.

In 2017 NASE registered for the Implementation of Pollution Risk Reduction Systems ("PRRS") in the Primary Production of Vegetables, for certification and recognition for its vegetable crops, and engaged the procedure to obtain the Certificate or Recognition (as applicable) with the General Directorate of Agrifood, Aquaculture and Fishery Safety ("GDAAFS") of SENASICA. NASE also holds the following Certificates:

- Certification that the products (crop production) and activities (processing of agricultural products) of NASE Melitón comply with the provisions and procedures of the Guidelines for the Organic Operation of Agricultural Activities (Certificate No. al310), issued in 2017, valid for one year.
- Version 2.1-2c, for the different cultivation centers/sites, for the Packing Plant in the State of Southern Baja California, and for the different products (tomatoes, peppers, and cranberry), issued in different months of 2018, valid for one year.
- NON-GMO Project, for tomato, pepper, and blueberry products, issued in June 2018, valid until October 2019, for NASE Melitón.
- Fair Trade USA Certified Producer, by the Fair Trade USA Standard for Agricultural Workers - Version 1.1.

Based on Mexico's environmental legislation (General Law of Ecological Balance and Environmental Protection - GLEBEP[2]), all the Project's activities, meaning all agricultural and aquacultural production sites, must possess authorization from SEMARNAT regarding environmental impact. However, expansion or modification of the works or activities provided in the aforementioned authorizations, such as the expansion of the productive area within NASE's own land, must be submitted to SEMARNAT for consideration, to establish the procedures according to Art. 28 of the GLEBEP Regulation on environmental impact[3].

NASE has recently obtained authorization regarding the Environmental Impact of Forest Area Land Use Change for the "Expansion of El Benny Vineyards" Project (Official Statement No. DS-SG-UGA-IA-0379-18) dated October 23, 2018. Likewise, for the Vizcaíno BU, NASE is voluntarily engaged in a certification process to obtain the "Clean Industry" certificate from the National Environmental Audit Program ("NEAP"), issued by the Federal Office for Environmental Protection ("FOEP") of the SEMARNAT.

Among NASE's Vizcaíno BU crop fields, that of "El Tablón" (approximately 200 hectares, of which only 100 hectares will be developed; 95 hectares for organic vegetables and 5 hectares for composting) stands out due to its natural surroundings, the buffer zone of the El Vizcaíno Biosphere Reserve in the Municipality of Mulegé, Southern Baja California. It possesses the authorization or decision approving the Environmental Impact Statement (EIS), particular modality, by means of Official Notice No. SEMARNAT-BCS.02.01.903 / 2005. To a lesser extent, the Boca Cegada BU in Nayarit, is close to the Biosphere Reserve "Marismas Nacionales Nayarit" (more than 15 km away), and finally, heading towards the Caborca area of the Hermosillo BU lies the "Great Desert of Altar" Reserve. In both cases, the reserves are not affected by the Project's activities.

The electrical power source for the Packing Plants, Processing Plants, and aquaculture farms will be provided by the national network, with a contract from the Federal Electricity Commission ("FEC"). The facilities (substation, alternators, power lines, etc.) are in compliance with NOM-001-SEDE-2012.

Regarding solid waste, during the visit to agricultural fields and aquaculture farms, an adequate management of waste was generally observed, both for discarded products and household or food remains, as well as for the different types of packaging used in the operation of fields and aquaculture farms (e.g.: medicine containers, herbicides, pesticides, etc.), and it was verified that trucks transporting special handling waste possess a license issued by the competent authority[4]. As part of the Occupational Health, Safety and Security Program, sanitary measures are provided for the proper handling of containers holding dangerous chemical substances (according to their description in the Safety Data Sheets - "SDS").

The agricultural fields, the packing or processing plants, and the shrimp aquaculture farms of the

Project obtain water from underground sources through well-extraction and/or from surface bodies (including estuaries, in the case of shrimp aquaculture farms), both duly awarded for exploitation or consumption, either by the National Water Commission (CONAGUA) for inherent state assets (see Section 4.3.a, for more details). Drinking water for NASE workers and employees is also provided through a well, subject to compliance with the sanitary specifications of the health standard (NOM-201-SSA1-2015)[5].

As for wastewater, during the inspection tour, good management of runoff waters was observed, which did not come into contact with the ponds in the shrimp aquaculture farms or the crop fields, thus avoiding the displacement of sediment, nutrients, etc., that could pollute the soil or superficial bodies. However, NASE not only generates wastewater in the Community Facilities, but also by cleaning and disinfecting vegetables and machinery in the Packing Plants. It is then conveyed to a wastewater treatment plant (“WWTP”) where it undergoes a biological treatment to reduce organic matter and nutrients to permissible levels for discharge according to NOM-001-SEMARNAT-1996[6]. Also, if reused in agricultural irrigation it must comply with NOM- 003-SEMARNAT-1997[7].

Regarding the use, handling and storage of dangerous products, such as pesticides and herbicides, cleaning and disinfection agents, fuels (LP gas in tanks of 5,000 liters) and even medicines, NASE relies on specific procedures in the Occupational Health and Safety Program in compliance with the national health and safety regulations, and trains authorized personnel for its application, either through previously trained personnel (instructors) or by qualified personnel of the supplier. Regarding the handling and storage of dangerous products in the Community Facilities and Packing Plants, LP Gas is used in compliance with NOM-004-SEDG-2004[8]. As for the crops, pesticides and herbicides are used together with their SDS in compliance with NOM-018-STPS-2000[9].

Finally, regarding the issue of occupational health and safety, during the inspection visit of the farms it was possible to observe the use of personal protective equipment (PPE) suitable for each activity as indicated in the Occupational Health and Safety Program, according to Occupational Health and Safety Policy, such as[10]: (i) NOM-001-STPS-1999; (ii) NOM-002-STPS-2000; (iii) NOM-005-STPS-1998; (iv) NOM-026-STPS-1998; (v) NOM-114-STPS-1994; (vi) NOM-017-STPS-2001; (vii) NOM-025-STPS-1999. Likewise, during this visit the implementation of biosecurity measures was observed, in compliance with the Good Agricultural Practices of the national health legislation, such as: visitor registration; vehicle registration and inspection upon entry, worker health conditions, etc. All these biosecurity measures are included in the General Farm Rules Manual (a Regulation).

Aquaculture

Regarding shrimp production, NASE possesses Harvest[11] and Commercial Aquaculture permits[12], granted by the Secretariat of Agriculture, Livestock, Hydraulic Resources, Fishery and Aquaculture (“SALHRFA”) via the Undersecretary of Fishery and Aquaculture. The commercial aquaculture permit requires authorization in terms of environmental impact.

Regarding the safety and quality of food coming from aquaculture, during the ESDD visit to the Tastiota BU, the following Aquaculture Shrimp Production Good Practices[13] (“ASPGP”) were observed: (i) Careful selection of the site where the farm is to be located, discarding sites with nearby sources of contaminants or that have had intensive agricultural use causing the contamination of the soil; (ii) Making sure that the quality of water used for breeding is acceptable, i.e. does not contain pollutants or toxic waste; (iii) Maintaining a healthy and clean breeding environment, both in the ponds and their vicinity, preventing the intake of pathogens and/or chemical contaminants by humans (iv) Promoting efforts to improve the selection and proper use of food, food additives, fertilizers, and promoting sanitation and hygiene practices, as well as the

minimal use of therapeutic agents, veterinary medicines, hormones, antibiotics, and other chemicals used to control diseases; (v) Regulating the use of chemicals in aquaculture that are hazardous to human health and the environment; (vi) Eliminating waste and dead animal remains, excess veterinary drugs and other hazardous chemicals, in such a way that they do not constitute a danger for man and the environment; (vii) Ensuring the safety of the food products produced by aquaculture and promoting efforts to maintain the quality and improve their value through care before and during harvest, transport, on-site processing, and storage; (viii) Harvesting shrimp using sanitary practices, including compliance with the Official Mexican Standard PROYNOM-201-SSA1-2000 on water and ice for human consumption; and (ix) Relying on sufficient trained staff that can ensure that the above-mentioned procedures are carried out effectively and efficiently.

Workforce

According to the provided information, NASE has 4,186 workers, of which 26% are located in the Hermosillo BU, 17% in the Melitón BU, and the remaining 56% in the Vizcaíno BU. As for gender composition, it is estimated that 21% of the workers in the Hermosillo BU, 10% in the Melitón BU, and 17% in the Vizcaíno BU are women.

4. Environmental Risks and Impacts, and Proposed Mitigation and Compensation Measures

4.1 Evaluation and Management of Environmental and Social Risks and Impacts

4.1.a Environmental and Social Management System

In order to comply with PS-1, NASE shall develop a specific Environmental and Social Management System (“ESMS”) for the Project in compliance with Mexico’s national laws and regulations, which should include: (i) policies (see Section 4.1.b); (ii) proper procedures for identifying, assessing, and managing potential environmental, social, OHS, and labor risks and impacts associated with each Project activity, as well as for its contractors and subcontractors; (iii) internal procedures for compliance with the Environmental and Social Management Plan (ESMP); (iv) organizational capacity and competence, with the definition of roles and assignment of responsibilities for the implementation of said ESMS; (v) protocols for emergency preparedness and response (see Section 4.1.f); (vi) methods or plans for the participation of key stakeholders (see Section 4.1.h); (vii) mechanisms for external communication and receipt of complaints (see Section 4.1.i); (ix) protocols for the dissemination of information to communities, decision-making and training; (x) protocols for the evaluation and continuous improvement of the ESMS; and (xi) periodic audits and inspections with respect to environmental, social, and OHS requirements, applicable under GLEBEP and the Federal Labour Legislation (“FLL”) of Mexico (Action 1.1 of the ESAP[\[14\]](#)).

4.1.b Policies

According to the provided information, NASE has a Food Safety Policy and an Occupational Health and Safety Policy (PO-FT005), as part of its Occupational Health and Safety Program and Safety Regulation (see Section 4.2.c), in compliance with Mexico's labor regulation requirements[\[15\]](#).

However, to further comply with PS-1, NASE must define its Environmental and Social Policy, indicating: (i) who, within NASE's organization, will guarantee compliance with the policy and be responsible for its execution, and also define a program that establishes how the policy will be monitored and communicated to all levels of the organization; and (ii) create a program to measure continuous improvement in its implementation (Action 1.2 of the ESAP).

4.1.c Identification of Risks and Impacts

All new construction, expansion, modification and/or improvement to increase the efficiency of any existing process, in addition to complying with Mexican [16] environmental impact regulations, must identify and assess environmental and social risks and impacts.

In order to modify any activities authorized under NASE's current environmental permits/licenses for operation, it must request proper authorization from the corresponding Federal Delegation, under the terms provided in the GLEBEP regarding Environmental Impact Evaluation[17]. In this case, as part of the process of identification and evaluation of risks and environmental and social impacts to obtain the environmental authorization (license, resolution, etc.), NASE will perform an analysis of alternatives and an evaluation of cumulative impacts (in addition to the methodological requirements in the legislation on environmental impact assessment in Mexico) based on the Manual of Good Practices for the Evaluation and Management of Cumulative Impacts of the International Finance Corporation (IFC), for each modification of the Project (Action 1.3 of the ESAP)

Finally, given that the execution and operation of the Project is dynamic, NASE, in compliance with PS-1, will perform a continuous update of the environmental, social, health and occupational safety risks matrix for each phase of the Project (Design, Construction, O&M and/or Closure/Shutdown), of all its operations, in order to obtain, monitor and control the operating/performance permits or licenses (see Section 4.1.g).

4.1.d Management Program

According to the environmental legislation of Mexico (GLEBEP 3 and its Regulations4), all the operational activities carried out by NASE must be covered by an environmental authorization. Each authorization, whether it has been granted following the presentation of an EIS (in any of its modalities) or via an environmental audit, contains the Environmental and Social Management Program ("ESMP"), under which NASE must develop its activities.

However, as a reinforcement of these ESMPs, it is provided that NASE shall develop the following Programs, which will be described in later Sections of this report:

- Efficient Water Saving and Use Program (see Section 4.3.a), with the purpose of promoting the reduction of water consumption and/or reuse, in areas with scarce resources[18].
- Comprehensive Solid Waste Management Program (see Section 4.3.b), emphasizing measures to reduce, reuse, and recycle inert materials such as metal, paper, plastic, etc., that result from the Project's operation, and also providing management measures for special hazardous waste, such as oils, greases, paints, solvents, medicines, disinfectants, herbicides, pesticides, or any other special handling product.

4.1.e Organizational Capacity and Competence

NASE has a unit responsible for the Occupational Health and Safety of each BU, especially for Packing Plants; as well as Safety and Hygiene Commissions in each BU, in compliance with the Federal Labor Law and its Regulations16. It also has an appointed Certification and Regulation Manager for each BU. However, to comply with PS-1, NASE must appoint an Environmental and Social Unit, either for NASE as a company or for each BU Project, who will be responsible for planning, implementing and monitoring all the environmental and social actions required by the GLEBEP; as well as define the functions, responsibilities and faculties of each environmental and social manager of said Environmental and Social Unit, for the implementation of the ESMS. Likewise, an introductory and refresher training program will be required at least once a year for all

personnel responsible for environmental, social, labor and OHSS matters (Action 1.4 of the ESAP).

Therefore, NASE will ensure adequate human and financial resources, within the ESMS, for the Environmental and Social Unit, and appoint a qualified Environmental and Social Coordinator (or similar position depending on the responsibilities) for each BU, who, together with the Safety and Hygiene Commissions Coordinator of each BU, must directly and independently inform NASE's General Management about environmental, social and OHS compliance (Action 1.4 of the ESAP).

4.1.f Emergency Preparedness and Response

NASE has an Emergency Response Plan for each BU with community facilities and/or packing plants, however, during their review it was noted that for compliance with PS-1, NASE must strengthen and/or update these Emergency Response Plans (Action 1.5 of the ESAP), including/enhancing the following aspects: (i) the security policy (see Section 4.1.b); (ii) an organizational structure with the Plant Director, a Coordinator of Industrial Safety and Firefighters, for first aid and against fire (as a minimum); (iii) specific emergency response procedures, depending on the magnitude and characteristics of the incident, including a search and rescue procedure, for damages due to natural phenomena, to declare the end of the emergency, and for post-emergency; (iv) trained emergency response teams; (v) emergency contacts and communication systems/protocols; (vi) procedures for interaction with local and regional emergency and health authorities, including a contact directory in case of emergency; (vii) a description and inventory of permanent emergency equipment and facilities (for example, first aid, fire extinguishers/hoses, sprinkler systems); (viii) protocols for firefighters, ambulances and other emergency vehicles; (ix) evacuation routes and meeting points; (x) conditions for resumption of activities; and (xi) training exercises such as yearly drills, or more frequently if necessary, or actual events in which NASE shall include packing plant staff and all community facility workers; as well as adjacent property owners and other key stakeholders to familiarize them with the procedures in the event of an emergency.

4.1.g Monitoring and Evaluation

NASE is responsible for ensuring the implementation of the follow-up, monitoring and control plans described in the Project's ESMP or Action Plans (in the case of Environmental Audits) (see Section 4.1.d). NASE will therefore develop a compliance matrix with its set of key performance indicators to measure the effectiveness of the ESMP and compliance with all legal and contractual obligations of the Project during its execution/operation and maintenance ("O&M") (Action 1.6 of the ESAP).

Likewise, for compliance with all legal obligations and regulatory requirements in Mexico through the implementation of this compliance matrix, the status/validity of all necessary Permits and/or Licenses for the execution of the Project will be reviewed/updated, the main ones being:

- Environmental Impact authorization or Comprehensive Environmental License ("CEL"), issued by the Secretariat of the Environment and Natural Resources (SEMARNAT) or the Council for the Environment and Sustainable Development (CEDES) of the State of Sonora, or by the Secretariat of Economic Development, Environment and Natural Resources of the State of Southern Baja California;
- Notice of Operation, issued by the National Service for Food Health, Safety and Quality (SENASICA);
- Registration as a producer of hazardous and special handling waste¹¹ and a Special Handling Waste Plan, issued by CEDES of the State of Sonora or by the Secretariat of Economic Development, Environment, and Natural Resources of the State of Southern Baja California;
- Water use concession (procedure CNA-01-003 for surface water and procedure CNA-01-004 for groundwater), issued by CONAGUA or by the State Water Commission for inherent state

assets;

- Wastewater discharge permit (procedure CNA-01-001), issued by CONAGUA;
- Land use authorization and construction permit (or similar), issued by the Municipalities;
- Annual Operation Certificate (“AOC”) for federal jurisdiction establishments, issued by SEMARNAT.

This permit Matrix must include: (i) the competent Authority that grants the authorization or issues the permit/license; (ii) dates of issuance and validity; (iii) the person in charge at NASE for monitoring/compliance; and (iv) future communication and compliance procedures.

In addition, NASE shall strengthen its Wastewater Discharge Monitoring Program, aiming at improving the regulatory performance of each Wastewater Treatment Plant (WWTP) in terms of compliance with wastewater discharge regulations (NOM-001-SEMARNAT-1996), as well as compliance with IFC's environmental, health and safety guidelines for water and sanitation [19] (whichever is more rigorous[20]). This strengthening will be accompanied by new training campaigns, the establishment of a “penalty/reward” mechanism and/or improvement of wastewater management in each industrial complex (Action 1.6 of the ESAP).

Finally, in compliance with PS-1, an environmental and social independent consultant must periodically prepare a consolidated report on the compliance status with all environmental, social, and OHS policies and measures applicable to the Project's works, including the progress of the ESMS actions regarding the established key performance indicators, as well as the compliance status of IDB Invest's Environmental and Social Sustainability Policy, of Mexico's environmental, social and OHS legislation, and of the IFC's Performance Standards (Action 1.7 of the ESAP).

4.1. h Participation of Social Actors

The participation of social actors is a permanent process that, for this Project, must include: (i) analysis of social actors and planning of their participation; (ii) dissemination of information; (iii) grievance/complaints mechanism; and (iv) provision of periodic reports to the community. In this sense, NASE will prepare for each Project BU, a Comprehensive Plan for the participation of Key Social Actors (Action 1.8 of the ESAP), including: (i) updated identification of all stakeholders, including local authorities and surrounding communities (within a 1 km radius or adjacent to the BU access roads) that may be interested in the Project; (ii) differentiated measures to enable the effective participation of disadvantaged or vulnerable groups; (iii) a mechanism to ensure that community representatives represent the views of affected communities; (iv) details on how information is disseminated to stakeholders; (v) details on the participatory process among affected communities and how the complaints mechanism can be accessed (see Section 4.1.i).

4.1.i External Communication and Grievance Mechanism

As mentioned above, although NASE has regularly consulted the community within the Project's areas of influence (SIP industrial complex), it should also rely on an external report and grievance mechanism. According to the requirements of PS-1, NASE is required to document external communications, detailing: (i) how information is received from key stakeholders and /or the general public; (ii) how these complaints are evaluated; (iii) how answers are provided and followed up, concluding with the closure of the claim; and (iv) any adjustment or improvement to the ESMP in terms of communication and spreading information.

Therefore, NASE will develop and implement an External Grievance Mechanism focused on key stakeholders, affected or with some interest, including local authorities, owners of neighboring land and users of common roads, within the Project's area of indirect influence (within a radius 1 km).

This grievance mechanism should include details of how these complaints or grievances are recorded, investigated/evaluated, and the follow-up and closure/resolution process (Action 1.9 of the ESAP).

4.2 Labor and Working Conditions

4.2.a Human Resources Policies and Procedures

NASE relies on a Contracting Policy and its procedures [21], which comply with Mexican labor laws [22] and PS-2, including among other things, the promotion of gender equality and non-discrimination, equal opportunities, fair treatment, appropriate terms and conditions of employment, notice of dismissal and compensation for employees. However, NASE must guarantee, through a control and monitoring mechanism, that its engineering, procurement and construction contractors and subcontractors also comply with said Contracting Policy and its procedures (Action 2.1 of the ESAP).

Additionally, NASE has developed the following policies that reinforce and/or complement the Contracting Policy: (i) Workers' Fundamental Rights Policy; (ii) Non-Discrimination Policy; (iii) Sexual Harassment and Abuse Policy; (iv) Non-Forced Labor Policy; (v) Child Care and Protection Policy; (vi) Disadvantaged Groups and Minorities Development Policy; (vii) Freedom of Association Policy; and (viii) Appeal Policy.

Finally, NASE is certified with the "Agricultural Company Without Child Labor" label, awarded by the General Directorate of Labor Inclusion and Child Labor of the Secretariat of Labor and Social Welfare ("SLSW"), for the Rancho San Francisco Plant.

4.2.b Employment Terms and Labor Conditions

Base contracts for day laborers are for 8 months (one season) with the possibility of extension depending on labor demand. NASE's approach to the temporality of jobs for migrants is not common in the agroindustrial sector. A large part of the labor force, around 80%, are re-entry workers, meaning that they migrate almost constantly to the workplace.

Base salaries for all of the company's migrant workers are competitive for the sector/region, at \$150 Mexican pesos per day (8 hours), with multiple opportunities to obtain productivity bonuses (\$141 Mexican pesos per job) that can raise daily earnings to more than \$500 Mexican pesos. As a reference, the general daily minimum wage in Mexico for 2018 was \$88.36 Mexican pesos.

NASE shows great seriousness in ensuring that day laborers know their labor rights and are fully informed about them. All workers receive written contracts and the Social Work department ensures that each person understands them before signing, conversing collectively and individually to clarify doubts and answer questions. This clear, transparent and consistent communication extends to workers with some degree of illiteracy, giving more time to oral interpretation, and to workers who speak languages other than Spanish, by playing audio recordings commissioned by NASE in the most represented indigenous languages among the day laborer population.

NASE offers several additional benefits that position the company as a leader in the industry. These include free and secure transportation to and from the workers' places of origin, free basic medical service, free housing and domestic services, credit for basic housing supplies (gas, food, cleaning and hygiene products), and free education opportunities for themselves and for their children, including preschool and school meals.

As mentioned above, NASE has a Guideline for Good Practices in Hiring, Termination, Disciplinary

Procedures and Complaint Resolution within the San Enrique Agricultural Business, including: (i) worker rights and obligations; (ii) terms and conditions of employment; (iii) the General Regulation; (iv) Guideline on disciplinary measures; and (v) Guideline on Conflict Resolution and Complaints (see Section 4.2.d). However, in order to comply with PS-2, NASE must establish a mechanism to ensure that: (i) its procedures for hiring and terminating/reducing jobs are adopted by contractors and subcontractors of the contractor for their workers; and (ii) establish a procedure for managing and monitoring the performance of workers hired by third parties (Action 2.2 of the ESAP)

Finally, during the ESDD it was observed that in the most recent season (2018), approximately 330 workers identified as indigenous worked at NASE Melitón. These people came from the following communities: (i) The Amuzgos of Guerrero (approximately 200 people); (ii) The Popolucas of Veracruz (approximately 60 people); and (iii) The Mixes of Oaxaca (approximately 70 people). Despite efforts made so far by NASE to integrate translation from Spanish into Amuzgo, Popoluca and Mixe in certain key written materials, such as complaints procedures, the language issue is one that affects indigenous workers the most nowadays. In this sense, for each Project BU where there is the presence of indigenous workers, NASE must hire a full-time person or train an employee who manages at least two of the three most spoken indigenous languages among this segment of the day laborer population, not only to assist in the translation of all signs, posters, and public announcements, but also to offer on-site interpretation assistance (Action 2.3 of the ESAP).

Housing

The housing facilities for workers in NASE operate more like a small community (Community Facilities) than as a Camp. These Community Facilities, located in each NASE BU, have 3 types of rooms. The oldest ones are the most spacious, including kitchen and bathroom space, but they are also the hottest because of the construction material used. Because they are in short supply, they are usually reserved for residents with seniority and are always assigned to families. The second type of room is cooler and also has its own bathroom and kitchenette, but it is less spacious. The third type is designed as a bedroom, with high ceilings for temperature management and adequate space, but without a bathroom or kitchen space (although they are equipped with a small gas stove). These last rooms are the most recent and numerous, placed in two-story buildings. The rooms are not furnished with more than the base of the beds, mattresses and a gas burner.

The basic capacity of all the rooms is four people. Single men are always housed in dormitory rooms without a bathroom. Couples, with or without children, are assigned one shared room. Room assignment is conducted by NASE administrative staff in accordance with demand, availability, and factors mentioned above.

All the rooms are painted and fumigated by NASE between occupations. Basic cleaning is the responsibility of the inhabitants. All rooms have natural ventilation and mosquito nets on the windows. The vast majority of rooms (500) have satellite television, paid for by the inhabitant. There is no internet network in the complex other than that provided by mobile telephony.

The Community Facilities have 4 sanitary and laundry modules with toilet cubicles, urinals (for men), private showers, and outdoor sinks made of cement for hand-washing laundry. These modules provide drinking water and are cleaned with the support of maintenance personnel. The Community Facility does not have many green areas since vegetation is scarce in both Sonora and Baja California. However, there are two sports courts with night lighting (one inaugurated this year) for recreational activities. These Community Facilities also have 2 grocery stores, a tortillería, and a refectory. Those establishments are operated by external suppliers and are available to all residents.

NASE relies on a Housing Regulation, which establishes the rights/benefits and duties for workers

and their families living in the Community Facilities.

According to interviewed residents, some examples of improvements to the camp with a low investment cost and a high return in quality of life include:

- Access to electric washing machines, even at the cost of the workers and managed by an external provider, would reduce the time and physical effort needed for laundry, improving resting time outside of working hours;
- Access to wireless internet networks (WiFi), improving access to entertainment during leisure and recreation time;
- Supply of new mattresses to all first-time day laborers and returning day laborers at least every third season worked;
- Locked storage boxes for personal belongings in all shared rooms (not families);
- Better lighting and night surveillance; and
- Expanding green areas/gardens.

In this regard, NASE shall implement an annual housing satisfaction survey for the inhabitants of the Community Facilities to obtain direct feedback from users/beneficiaries on the facilities most prominent aspects and the main areas of opportunity that could be addressed gradually (Action 2.4 of the ESAP).

Worker Organizations

In compliance with the Mexican regulatory framework and International Labor Organization (ILO) standards that emphasize the workers' right to participate in collective bargaining with their employers (i.e., the Convention on Freedom of Association and Protection of the Right to Organize, 1948, no. 87), the vast majority of day laborers at NASE are affiliated with the National Trade Union of Industry and Agricultural Wage Workers, or similar and related unions, as part of the Mexican Confederation of Workers (MCW). According to the provided information, the relationship between the union and the company is good, with complaints or grievances rarely being submitted to the company through the union, and at no time in NASE's history has there been an organized workers' movement (strike) against the company.

4.2.c Occupational Health, Safety & Security

According to the analysis of the information and in compliance with Occupational Health and Safety legislation¹⁶, NASE already has an Occupational Health and Safety Program^[23] which was certified by Fair Trade USA (see Section 3), including: (i) the identification of possible hazards for workers; (ii) the establishment of prevention and protection measures; (iii) worker training; (iv) documentation and reporting on accidents, illnesses and occupational incidents; and (v) arrangements for prevention, preparedness and response in cases of emergency.

Likewise, NASE relies on: (i) A Hydration Policy for areas where workers are exposed to temperatures exceeding 27° Celsius (80° Fahrenheit), providing fresh drinking water and shade areas to rest and prevent thermal stress, as well as oral serum thermos to prevent dehydration when the temperature of the day reaches its highest point. These hydration measures are also implemented in the packing areas. (ii) A General Field Rules manual, establishing commitments and duties that must be fulfilled by NASE visitors and/or workers regarding hygiene, agriculture, and manufacture good practices.

However, in order to comply with PS-2, NASE will have to develop a procedure for notifying emergency response services and local authorities about a major accident or fatality (Action 2.5 of

the ESAP). Said procedure must include a Root Cause Analysis of each major accident or fatality, as well as the description of necessary corrective actions to minimize the risk of a new occurrence, as established in the accident investigation section of the Occupational Health and Safety Program.

On the other hand, regarding health and safety conditions in the Community Facilities, an abundant presence of fire-fighting equipment (fire extinguishers) was observed during the ESDD in strategic locations, as well as signaling of evacuation routes and meeting points for each housing module. Both are Civil Protection requirements of the state and municipality. However, the Community Facility does not have formal plans for total or partial evacuation in case of emergency or fire in more than one housing module, nor does it carry out simulations among the housing population. To respond to this, NASE will strengthen its Emergency Response Plans for each BU with Community Centers and/or Packing Plants (see Section 4.1.f).

Finally, two of the Project's most characteristic labor aspects that can cause damage to workers' health are:

- In the Mexican agricultural sector, it is not required or common to provide workers with solar protection or heat mitigation. Each day laborer is responsible for his/her own working clothes. However, the International Labor Organization (ILO) standards could be interpreted in such a way that clothing, hats, sunscreen and other accessories related to work performance could be considered Personal Protective Equipment (PPE); ILO standards demand that the employer provide workers with the right PPE for each activity and make its use mandatory. In this regard, NASE must update its Occupational Health and Safety Program to supply and stimulate the use of fresh clothing items that protect the worker in the field from solar radiation (bandanas/scarves, hats, long-sleeved shirts, etc.), and introduce as a precautionary and risk mitigation measure, the presence of available sunscreen next to hydration stations in the field (Action 2.6 of the ESAP);
- General, all workers take their lunch meals in the facility refectory or take an "itacate"/lunchbox with the day's meal from the refectory to the field, sheltering the food in the satellite eating areas during the morning shift. However, food is often spoiled by prolonged exposure to high temperatures. NASE must therefore update its Occupational Health and Safety Program to equip the satellite eating areas with refrigerators and/or to equip workers with heat-resistant portable containers for food, preventing possible gastrointestinal diseases and/or bad food practices (Action 2.6 of the ESAP).

4.2.d Internal Grievances Mechanism

NASE promotes an atmosphere of openness and communication in its work environments. Supervisors are directed to encourage their day laborers to express themselves if they identify deficiencies or have disagreements; there is even a Conflict Resolution and Complaint Handbook in which a Conflict Resolution and Complaint Policy is established, as well as informal and formal procedures to deal with such conflicts and complaints, with formats for formal complaints, anonymous or not, and the response format for the complaint.

However, in practice, this mechanism is not fully operational. There are complaint forms and complaint mailboxes, but they are not widely available. According to interviewed workers, their existence, location and/or purpose is scarcely known, and there is mistrust surrounding the mechanism. Despite the high rate of illiteracy among the day laborer population, no strategies were reported to encourage the use of such forms or other means among this segment of the labor force.

NASE must therefore reinforce the implementation of existing complaint and grievance mechanisms. Mailboxes should be installed in multiple strategic points (refectories, transport facilities, sanitation

modules, etc.) to facilitate their access and guarantee the possibility of anonymous use. NASE should also launch a general outreach/training campaign among the working population to promote said Conflict and Complaint Resolution system and ensure its operationalization (Action 2.7 of the ESAP).

4.3 Resource Efficiency and Pollution Prevention

4.3.a Water

NASE obtains its water, both for agricultural and domestic use, through concessions for wells or surface water intakes (mainly for shrimp farms) granted by CONAGUA or the State Water Commission for inherent state assets. According to an approximate estimate, NASE's water consumption is as follows: 13,521 m³/ha/year for the Hermosillo region, in Sonora; 11,610 m³/ha/year for the Vizcaíno region in Southern Baja California, and 12,200 m³/ha/year for the Melitón region, also in Southern Baja California.

Water management for the production of annual crops should aim at optimizing their yield while maintaining the quantity and quality of water resources. In this regard, during the ESDD it was observed that the use of groundwater for irrigation complies with the following principles of integrated water management and saving: (i) reducing evaporation, avoiding midday irrigation and using drip irrigation techniques (if applicable), or using "understorey" irrigation instead of sprinkler irrigation; (ii) reducing infiltration losses with channel coating; and (iii) controlling the proliferation of weeds between the crop lines and keeping those areas dry.

Water is used in packing plants to wash vegetables by aspersion with recirculating water, treated with peracetic acid at a concentration of 60-78 ppm, monitored every hour and renewing the tank every 5 hours.

However, during the inspection visit and based on the meetings with NASE operational and maintenance personnel, the possibility was mentioned of reducing said subsoil water extraction through its optimization (establishing a savings policy, consisting mainly in the replacement of shut-off valves, sprinklers, etc., with more sparing equipment) and/or the reuse of treated water from the Wastewater Treatment Plant ("WWTP") for various applications; for example: (i) reuse as gray water, without human contact, mainly for use in toilets, cleaning, etc.; and (ii) irrigation of green areas and roads, complying with the parameters of national regulations (NOM-003-SEMARNAT-1997) and the corresponding permits according to the regulations.

NASE will therefore elaborate an Efficient Water Saving and Use Program for Community Facilities and Packing Plants, including general water balance management, an analysis of current technological alternatives (dosing devices, etc.) and reuse alternatives for treated water from the WWTP; as well as an environmental and economic feasibility study of the two (2) best alternatives for water saving or reuse, and a personnel training program for water saving and efficient use (Action 3.1 of the ESAP). The baseline for water use shall be the year 2018 and its variation shall be reported annually, together with an explanation of the causes of the variation.

Regardless of the above, NASE will implement a mechanism to monitor and follow-up compliance with NOM-001-SEMARNAT-1996, as well as compliance with IFC's environmental, health and safety guidelines for water and sanitation (whichever are more rigorous), for the WWTP effluent (see Section 4.1.g).

4.3.b Solid Waste Management

During the ESDD it was observed that the Community Facilities and the Packing Plants generate domestic solid waste (mainly); although it was also observed that agricultural activity generates special handling or hazardous waste (medicine containers, herbicides, pesticides, etc.), as well as residues and sediment/sludge from the WWTP. NASE must therefore comply with the Registry as a hazardous waste generating company issued by SEMARNAT[24] (Action 3.2 of ESAP).

Best practices entail sending such solid waste to authorized landfills, for which NASE, as part of the monitoring and evaluation measures (see Section 4.1.g), must maintain a contract with a qualified waste management company, accredited by SEMARNAT for the management, transport and disposal of solid domestic waste, in addition to hazardous or special handling waste. Additionally, NASE must request a certificate of final disposal of hazardous waste from the management company and establish a training program for its personnel to keep track of the transport, storage and final disposal manifestos.

Regardless of regulatory compliance in the management, transportation and disposal of solid waste, as part of the ESMP, NASE will develop a Comprehensive Solid Waste Management Program (CSWMP) for each Project BU, emphasizing measures to reduce, reuse and recycle inert materials such as metal, paper, plastic, etc., that result from the Project's operation and also providing special handling measures for hazardous waste, such as oils, greases, paints, solvents, medicines, disinfectants, herbicides, pesticides, or any other special handling product (NOM-161-SEMARNAT-2011[25]) used during the Project's activities (Action 3.2 of the ESAP). Likewise, the CSWMP must integrate a procedure to take advantage of all the waste from the packing plants for the generation of compost, to be used as a soil improver, nutrient or substrate for vegetable and fruit crops, for public or private green areas and plant nurseries in general, or to help reduce the application of chemical fertilizers, in compliance with national regulations[26] and with the example of the Mexican standard of Mexico City NADF-020-AMBT-2011[27].

4.3.c Pesticide Use and Handling

According to the provided information, NASE has a procedure and strategy in place to reduce the use of agrochemicals, such as pesticides and insecticides, and to favor the development of beneficial fauna that provides very efficient natural control against various pests. However, NASE has presented a list of 45 agrochemical products for use in tomato production and 42 for pepper production; none of which are to be found in the "Ia" (extremely hazardous) or "Ib" (highly hazardous) classes of the World Health Organization's (WHO) recommended pesticide classification.

In summary, NASE will use pesticides only when necessary to achieve the Project's objectives in accordance with an Integrated Pest Control strategy (IPC) or Integrated Vector Management (IVM), and only after other pest control practices have failed or have been ineffective.

4.4 Community Health, Safety and Security

4.4.a Security Personnel

During the inspection visit it was observed that, in general, security personnel is present in the NASE facilities (mainly in the accesses and customs). NASE will therefore provide a copy of the contract between each Project BU and the security company or companies to verify, among other things, that conditions have been included allowing NASE to perform: (i) reasonable investigations to ensure that security personnel do not have a criminal record and have not been involved in past cases of abuse; (ii) verify details of necessary training in relation to the use of force; (iii) verify restrictions on the use of firearms; and (iv) identify details of environmental and social awareness training, including issues of respect for human rights (Action 4.1 of the ESAP).

5. Environmental and Social Action Plan (Please see attached).

CONTACT INFORMATION:

For inquiries and comments to IDB Invest, please contact: IDB Invest Communications Group

Email: requestinformation@idbinvest.org

For Project inquiries, including questions on environmental and social issues related to IDB Invest's investments, please contact the Client or IDB Invest using the contact information provided above.

As a last resort, communities affected by the Project have access to the IDB Invest Independent Consultation and Investigation Mechanism

(<https://www.idbinvest.org/en/how-we-work/integrity-transparency>).

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[1] Food Safety Policy - PO-GG015; prepared on April 22, 2006 and revised in January 2018.

[2] General Law of Ecological Balance and Environmental Protection - GLEBEP (DOF, 01-28-1988); last published revision (DOF, 01-24-2007).

[3] Regulation of the General Law of Ecological Balance and Environmental Protection for Environmental Impact Assessment; DOF of May 30, 2000, last revision published DOF of October 31, 2014.

[4] Art. 82 of the Law of Ecological Balance and Environmental Protection of the State of Sonora.

[5] Mexican Official Standard, NOM-201-SSA1-2015, Products and services. Sanitary specifications for water and ice for human consumption, packed and in bulk. (DOF of December 22, 2015).

[6] The control of pollution for discharges of swine wastewater is regulated by the following laws and regulations: (i) General Law of Ecological Balance and Environmental Protection -1982; (ii) Federal Rights Law of 1991 (Parameters: DQO, SST); (iii) National Waters Law -1992- and its Regulation -1994; (iv) Official Mexican Standard NOM-001-SEMARNAT-1996, which establishes the maximum permissible limits of contaminants in wastewater discharges in national waters and properties; (v) Official Mexican Standard NOM-002-SEMARNAT-1996, which establishes the maximum permissible limits of contaminants in wastewater discharges in urban or municipal sewerage systems.

- [7] NOM-003-SEMARNAT-1997, establishing the maximum permissible limits of contaminants for treated wastewater reused in public services, (DOF, 01-14-1998).
- [8] NOM-004-SEDG-2004, on installations for the use of LP Gas. Design and Construction.
- [9] NOM-018-STPS-2000, System for the identification and communication of risks by chemical substances in work centers.
- [10] NOM-001-STPS-1999, buildings, premises, facilities and areas in work centers-safety and hygiene conditions; NOM-002-STPS-2000, safety conditions-prevention, protection and firefighting in the workplace; NOM-005-STPS-1998, safety and hygiene conditions in work centers for the handling, transport and storage of dangerous chemical substances; NOM-022-STPS-1999, static electricity in work centers-safety and hygiene conditions; NOM-026-STPS-1998, colors and signs for safety and hygiene, and identification of risks from fluids running in pipes; NOM-114-STPS-1994, system for the identification and report of risks from chemical substances in the workplace; NOM-017-STPS-2001, regarding personnel protection equipment-selection, use and management in work centers; NOM-025-STPS-1999, regarding lighting conditions in work centers.
- [11] Based on Art. 8 fraction IX, 63, 66, 73, 75 and 119 of the Fisheries and Aquaculture Law for the State of Sonora, Mexico
- [12] Based on Art. 29 and 54 of the Fisheries and Aquaculture Law for the State of Sonora, Mexico.
- [13] Manual of Good Practices in Shrimp Aquaculture for Food Safety; Center for Food and Development Research, AC and SENASICA, SAGARPA; 2003
- [14] Environmental and Social Action Plan (ESAP); see Section 5.
- [15] Federal Labor Law (DOF, 04-01-1970); last published revision (DOF, 11-30-2012) and the Federal Regulation for Workplace Safety and Health (DOF, 11-13-2014)
- [16] Regulation of the General Law of Ecological Balance and Environmental Protection in matters of Environmental Impact Assessment (DOF, 10.31.2014)
- [17] In accordance with Articles 6 and 28 of the Regulation of the General Law of Ecological Balance and Environmental Protection in Matters of Environmental Impact Assessment.
- [18] The hydrographic-administrative region of the Baja California Peninsula (Region I) and the Northeast Region (Region II), to which the States of Southern Baja California and Sonora belong (respectively), present a degree of pressure on water resources of 76.9 % for Region I and 88.6% for Region II (source: CONAGUA, SEMARNAT, Atlas del Agua in Mexico, 2012)
- [19] Environment, health and safety guidelines for water and sanitation, IFC; April 2007

[20] In cases where the recipient country has regulations that differ from the levels and indicators presented in the IFC guidelines, the projects must comply with the most rigorous ones. If appropriate to use less rigorous levels or indicators considering the Project's specific circumstances, a complete and detailed justification of any proposed alternative must be included, in which it must be demonstrated that the alternative performance level protects human health and the environment.

[21] Guidelines for Good Contracting Practices, Termination, Disciplinary Procedures and Complaint Resolution within the San Enrique Agricultural Business; January 1, 2018

[22] Federal Labor Law (DOF, 04-01-1970); last published revision (DOF, 11-30-2012) and the Federal Regulation for Workplace Safety and Health (DOF, 11-13-2014)

[23] For purposes of compliance with Federal Labor Law and its Regulations, this Program is the same as the Occupational Health and Safety Program, defined in Art. 3 of the Federal Regulation on Workplace Health and Safety.

[24] SEMARNAT-07-017 procedure for registration as new producer of hazardous waste and SEMARNAT-07-031 procedure for changes to the registrations and authorizations regarding hazardous waste.

[25] Official Mexican Standard NOM-161-SEMARNAT-2011, establishing the criteria to classify Special Handling Waste and determine which are subject to the Management Plan; their list, the procedure for inclusion or exclusion from said list; as well as the elements and procedures for designing the management plans.

[26] General Law for the Prevention and Comprehensive Management of Waste. Published in the Official Gazette of the Federation on October 8, 2003, the last published revision of DOF November 5, 2013; Regulation of the General Law for the Prevention and Comprehensive Management of Waste. Published in the Official Gazette of the Federation on November 30, 2006.

[27] Environmental Standard for the Distrito Federal NADF-020-AMBT-2011, establishing the minimum requirements for the Production of Compost from the Organic Fraction of Solid Urban, Agricultural, Livestock and Forest Residues, as well as the Minimum Quality Specifications for Compost Produced and/or Distributed in the Distrito Federal.