1. **General Information and Overview of Scope of IIC E&S Review**

The Hotel La Compañia Project is located within block number 29 of Casco Antiguo in Panamá (area declared in 1976, as a Historical Monument). It is enclosed by the 8th Street, A Avenue, 7th Street and Central Avenue. The block is composed by: (i) the Jesuit church ruins, lot #2476, property of the Tourism Authority of Panama ("ATP", for its acronym in Spanish); (ii) the future Jesuit museum, lot #3045 property of ATP; (iii) the internal courtyard, lot #2473, property of ATP with a current legal custodial agreement with Shebandowan Holdings; (iv) the Casa Galó Martínez, lot #2459, property of Shebandowan Holdings; (iv) the Casa Cattan, lot #1820, also property of Shebandowan Holdings; (v) the Casa Washington, lot #2479, also property of Shebandowan Holdings; (vi) the Miles de Arias, lot #2471, also property of Shebandowan Holdings; (vii) a playground, lot #455, property of the State, but operated by the Patronage of San Felipe; and finally, (viii) two privately owned buildings, lots #3708 and #3650, with no access to the central courtyard. According to the national laws for the protection of the Historical Heritage of Panama, the 4 buildings of the Project have each their own category of protection: (i) Casa Galó Martínez and Casa Cattan, are 3rd Category buildings[1]; (ii) Miles de Arias, is a 2nd Category building[2]; and (iii) Casa Washington, is a 1st Category building[3].

The IDB Invest initiated due diligence after eligibility was declared on April, 11th 2018, by beginning the review of key project documents, specifically those related to the environmental, social and cultural licenses or permits, which included the Environmental Statement DIEORA-DEIA-NC-0166-1505-15, of May 15, 2015 in which the Ministry of Environment mentions that this project does not require an Environmental Impact Assessment ("EIA"), due to the fact the project consists in the restoration of an existing building, without modifying its existing height and footprint. This review was followed by an environmental and social due diligence ("ESDD") mission visiting, both the Borrower and the Project site in Casco Antiguo, from July 16th to 19th, 2018[4]. The mission included: (i) meetings with Mr. Christopher Lenz, the founder and main shareholder of the Borrower and Harnan K. Singh, the Strategic Development Director of the Borrower, to talk about different administrative and technical areas of the Project (Procurement, Construction, Operation and Maintenance – O&M, Environmental, Social, Health and Safety – ESHS, Corporate Social Responsibility, etc.); (ii) interview with local authorities, such as Arq. Ariana Lyma Y., Director of National Historical Heritage ("DNPH", for its acronym in Spanish) of the National Cultural Institute ("INAC", for its acronym in Spanish), Architect Manuel Truté, Director of Urban Planning of the Mayor Office of Panama City, Manuel Cambra, Investigator from the ATP, among others; and (iii) a site visit to the locations of the "Hotel La Compañia" Project and surrounding areas of Casco Antiguo. Throughout this period, document review continued and included the Technical Review and Analysis Report form the Independent Engineer (PROSKENE, SLP; July 17, 2018), and others.

2. Environmental and Social Categorization and Rationale

This Project is a **Category B** project according to IDB Invest's Sustainability Policy, because its environmental and social risks can be mitigated via measures that are readily available and feasible to implement in the context of the operation. The potential key Environmental, Social and Health and Safety ("ESHS") negative impacts and risks initially identified for the Project, during the demolition/construction phase, include: (i) generation of solid waste, both hazardous and non-hazardous; (ii) air pollutant emissions and dust; (iii) noise pollution; (iv) wastewater generation; (v) movement of soils; (vi) ground vibrations (vii) occupational health and safety of workers; and (viii) community health and safety concerns related to increase of heavy traffic. During the operations and maintenance (O&M), the risks tend to be related to: (i) occupational health and safety of workers, (ii) generation of solid waste, both hazardous (cooking oil and grease, mainly from the restaurants' kitchens) and none-hazardous (domestic waste, mainly); and (iii) use of resources such as energy, water and local services (e.g.: sewage, access roads, etc.). Natural disasters such as earthquakes,

fires, floods and electric storms, might also pose very limited risks to the Project, both from the potential of risk to employees and guest, and in terms of structural and environmental damage to physical infrastructure.

The IFC Performance Standards (PS) likely applicable to this Project, include:

- PS 1 - Assessment and Management of Environmental and Social Risks and Impacts
- PS 2 - Labor and working conditions
- PS 4 - Community Health, Safety and Security
- PS8 – Cultural Heritage

PS3 - Resource Efficiency and Pollution Prevention, does not apply to small and medium-sized projects, like this project, with limited potential emissions that may be achieved through compliance with emissions and effluent standards and the application of other pollution prevention and control approaches. PS5 - Land Acquisition and Involuntary Resettlement, does not apply because this project will be built on uninhabited land already owned by the Borrower. PS6 - Biodiversity Conservation and Sustainable Management of Living Natural Resources, does not apply because the Project will be developed in a gray-land, previously developed. PS7 - Indigenous Peoples will also not be applicable since the Project will be developed within an urban area as Panama City. However, once IDB Invest's investment proceeds, IDB Invest will periodically review the Project's ongoing compliance with all Performance Standards.

3. Environmental and Social Context

The environmental viability of the Project is granted by the Environmental Statement DIEORA-DEIA-NC-0166-1505-15, of May 15, 2015. According to this statement, the Project was not required to perform an Environmental Impact Assessment ("EIA"); the reason for this exemption is that the Ministry of Environment considered the Project as a restoration and rebuilding of existing structures/buildings, in which the height and footprint will not change, and these structures were previously commercially zoned.

As mentioned above, the Project will restore and rebuild a historic site (brownfield site) using modern materials whilst being socially and environmentally sensitive, in addition to featuring sound design and engineering practices to attain long-term benefits in environmental sustainability, both from energy efficiency and savings (walls isolation, lighting control systems, VRF[5] air conditioning systems, etc.), and water reuse and efficiencies (rain water recovery system, water flow regulators, etc.).

From a social context point of view, the Hotel is expected to create approximately 170 jobs including 150 positions accessible to limited skilled workers from the nearby low-income neighborhoods of San Felipie, Chorrillo and Santa Ana. The Hotel also expects to work very closely with the Instituto Nacional de Formación Profesional y Capacitación para el Desarrollo Humano (INADEH for its acronym in Spanish; www.inadeh.edu.pa) to provide well trained individuals in the hospitality and tourism sectors; from underprivileged surrounding neighborhoods. In addition, the Hotel will collaborate very closely with Fundación Calicanto, which has established a successful presence in Casco Viejo in training and preparing individuals for diverse positions. Moreover, the Hotel will provide quality hospitality infrastructure with the potential of attracting approximately 300 daily visitors to the hotel and associated restaurants, thereby contributing to the revitalization and resurgence of Casco Antiguo; but not only in terms of business, but also in the generation of income to more than 170 families. The Hotel will also engage with local SMEs including farmers, craftsmen and other suppliers to provide goods and services to the hotel and restaurants. This will help promote the Panamanian culture through art and food and provide many SMEs the opportunity to

promote their products from around the country.

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

4.1 Assessment and Management of Environmental and Social Risks and Impacts

4.1.a. E&S Assessment and Management System

The Borrower will develop a specific Environmental and Social Management System ("ESMS") for both the construction and operational phases of this Project, to include: (i) policies (see section 4.1.b); (ii) internal procedures for the Borrower's compliance with the Environmental and Social Management Plan ("ESMP"); (iii) procedures for identifying, evaluating and managing the potential environmental, social, occupational health and safety, and labor risks and impacts, associated with each activity of the Project and for any contractors and sub-contractors; (iv) organization and assignment of responsibilities for implementation of this ESMS; (v) training; and (vi) periodic audits and inspections with respect to Environmental, Social, and Health and Safety ("ESHS") requirements, applicable by law (ESAP Action 1.1).

4.1.b. Policy

The Borrower will develop an Environmental, Social, Health and Safety ("ESHS") overarching policies that indicates who, within the borrower's organization, will ensure compliance with the policy and be responsible for its execution, and create a mechanism to communicate the policy to all levels of its organization and measure continuous improvement in its implementation (ESAP Action 1.2).

4.1.c. Management Programs

The Borrower will develop a site specific Environmental and Social Management Plan ("ESMP") with mitigation and compensation measures to address each environmental impact, both negative and positive, of greater importance, during the construction and operational phases (ESAP Action 1.3). The site specific ESMP for the construction phase, will address key E&S impacts, as follows: (i) Impact Management Program for the physical and visual environment, which will include mitigation measures for the impact on the terrain relief; solid waste management (both hazardous and non-hazardous); gas emissions, dust pollution and noise disturbances controls; effluents; solid waste, both industrial and/or domestic; (ii) Impact Management Program for the socioeconomic environment, which will include social compensation measures for the communities surrounding the Project; training for managers and construction workers; measures for interinstitutional coordination; and measures to ensure safe and hygienic-sanitary conditions during construction. Additionally, the site specific ESMP for the operational phase, will include the following measures: (i) an Environmental Monitor and Surveillance Program, (ii) an Integral Solid Waste Management Program (which will emphasize in measures to reduce, reuse and recycle those inert materials such as metal, paper, plastic, etc., and also provide special measures to the hazardous waste, like oil, grease, paint/solvents, etc., especially from the kitchens and during maintenance activities, in accordance to local environmental and sanitary laws and regulations); and (iii) a Health and Safety Management Plan (see Section 4.2.b).

Additionally, due to the dynamics of the project, the Borrower will provide an updated matrix of legal permits and certifications associated with ESHS issues handled by suppliers of the Project (for example: water use and wastewater discharge permits, non-hazardous and hazardous waste storage, transportation and/or disposal, etc.), which includes authorizing governmental entity, dates, responsible party or organizational chart, and communication and compliance procedures (ESAP

Action 1.4).

4.1.d. Organizational Capacity and Competency

The Borrower has a technical and management team based in the Project area. However, a dedicated environmental and social unit shall be created for the Project, and it will be responsible for planning, implementing and monitoring all the required environmental, social and health & safety related actions. Therefore, the Borrower will structure this unit to ensure adequate human and financial resources, within the ESMS, and appoint and maintain for the Project, throughout both construction and operation, a qualified on-site Environmental Manager (Sustainable Manager) and an Occupational Health and Safety ("OHS") Manager, to report directly to their correspondent Manager/Director, with independent reporting lines to General Management (ESAP Action 1.5).

4.1.e. Emergency Preparedness and Response

The Borrower should develop a detailed and site specific Emergency Preparedness and Response ("EPR") Plan or Contingency Plan, with a set of specific pre-established procedures for coordination, alert, mobilization and response to the occurrence or imminence of a particular event, such as: (i) natural hazards as for earthquakes, tropical storms, flooding and storm surge, electric storms, etc.; and (ii) technological danger as for fire, oil or fuel spills (mainly in the restaurants), and workers and guest accidents. Therefore, the Borrower will commission an updated, detailed and site specific EPR Plan (Contingency Plan), to minimize risk to employees and guests in the case of natural disasters or technological danger, with the contact information of the appropriate and relevant collaborative third parties (ESAP Action 1.6).

This ERP Plan will address the following aspects: (i) specific emergency response procedures; (ii) trained emergency response teams; (iii) emergency contacts and communication systems/protocols; (iv) procedures for interaction with local and regional emergency and health authorities; (v) permanently stationed emergency equipment and facilities (e.g., first aid stations, fire extinguishers/hoses, sprinkler systems); (vi) protocols for fire truck, ambulance, and other emergency vehicle services; (vii) evacuation routes and meeting points; (viii) training exercises like annual drills, simulations or actual events, or more frequency as necessary, in which the Borrower should include nearby residential and commercial properties and other stakeholders, to familiarize them with proper procedures in the event of an emergency.

4.1.f. Monitoring and Review

The Borrower is responsible to ensure the implementation of the monitoring and control plans described in the Project's original ESMP and complemented though the Environmental Surveillance Program ("ESP"). The ESMP and/or ESP for this Project, includes a series of monitoring measures, both for the construction and operation phases. However, the Borrower will develop a set of key performance indicators to be monitored to measure the effectiveness of the ESMP and ESP, as well as all the applicable legal and contratual obligations during the operations phases (ESAP Action 1.7). Finally, an Independent Environmental and Social Consultant ("IESC") is required to periodically prepare a consolidated report addressing the compliance status of all environmental, social, health, safety and labor policies (ESAP Action 1.8).

4.1.g. Stakeholder Engagement

4.1.g.i Stakeholder Analysis and Engagement Planning

The stakeholder analysis and engagement planning process was carried out according to local legislation (Law 41[6]), and included project information disclosure through interviews and a public

informative assembly (see Section 4.1.g.ii), that involved local authorities and the communities within the influence area of the Project; as well as private retail sector, cultural and religious institutions, and public sector representatives. However, to comply with best practice and PS-1, there is a commitment to develop a Stakeholder Engagement Plan for both the construction and operational phases of the Project, which should detail the process for community engagement (ESAP Action 1.9) and the implementation of a formal mechanism i for recording community grievances (see Section 4.1.h).

This Stakeholder Engagement Plan should incorporate the following: (i) Updated identification of all stakeholders and affected communities that may be interested in the Project; (ii) Differentiated measures to allow the effective participation of disadvantaged or vulnerable groups; (iii) Mechanism to ensure community representatives represent the views of affected communities; (iv) Details on how information is disclosed to stakeholders; (v) Details on the engagement process between affected communities.

4.1.g.ii Disclosure of Information and Consultation

Although the Ministry of Environment does not require to conduct a public consultation process for projects that do not need to submit an EIA; because of the cultural importance and sensitivity of this Project, the Borrower voluntarily decided to conduct a public informative assembly, on June 11th, 2018, to inform stakeholders and the community in general, specially the Project's neighbors in Casco Antiguo, about the scope, impacts, and schedule of the Project. Approximately 65 people attended this event, mainly representatives from the different groups in Casco Antiguo: developers, residents, social groups, conservators, retail and restaurant owners and architecture professionals.

On this regard, and because of the importance of the Project, the Direction of Citizen Participation and Transparency of the Mayor Office, emitted the note No. 436/DPCT/2018, with a report, pictures and list of attendants, giving evidence of the active participation of those attending the public consultation.

4.1.h. External Communication and Grievance Mechanisms

As mentioned above, although the Borrower has regularly consulted the community within the Project's influence areas, an internal and external communication and grievance mechanism should also be in place. As per the IDB Invest's requirements, the Borrower is required to document both internal and external communications detailing how information is received from their employees/academic personnel/students and/or the public in general, how the issues are assessed, how responses are provided and tracked and any adjustments to the management program. Therefore, the Borrower should provide the following:

- (i) copies of the Internal Grievance Mechanism (for direct employees, academic personnel and students) and the External Grievance Mechanism (communities and/or owners within the indirect area of influence, with potential impact or interest) for the construction phase; and (ii) copies of the evidences of its implementation. This grievance mechanism should include details of how these complaints are recorded, investigated / evaluated and the follow-up and closure / resolution process (ESAP Action 1.10).
- A similar Grievance Mechanism, both internal and external, during operation (ESAP Action 1.11).

4.2 Labor and Working Conditions

4.2.a. Working Conditions and Management of Worker Relationships

4.2.a.i. Human Resources Policies and Procedures

The Borrower will develop a Human Resources (HR) Policy and associated procedures for the Project (ESAP Action 2.1). The HR Policy and its procedures will include, inter alia, promotion of gender equality and non-discrimination, equal opportunities, fair treatment, adequate working conditions and terms of employment agreements, notice of dismissal and severance payments, as well as a Code of Conduct (or Ethics Code) for the Borrower's employees. The Borrower will ensure that its contractors and sub-contractors also abide by its HR Policy and procedures in accordance to IFC Performance Standard 02.

4.2.a.ii Working Conditions and Terms of Employment

The Borrower will provide: a) The procedures adopted for contractors/suppliers for the hiring and firing of workers (ESAP Action 2.2); b) A reasonable working conditions and terms of employment agreement for employees (ESAP Action 2.3); and, c) A coexistence manual (rulebook) for employees, contractors/suppliers and sub-contractors (ESAP Action 2.4).

4.2.b Occupational Health and Safety

The Borrower will update the EMP to include a Health and Safety Management Plan, that attends: (i) the identification of possible risks to the occupational health and safety of the workers according to the job that they do; (ii) details of the preventative and protective measures implemented, worker trainings, and daily safety briefings mentioned during the site visit and (iii) a copy of the reports developed in the event of an incident or occupational accident. The EMP will also contain a procedure to notify emergency response services and local law enforcement about any major accident or fatality (ESAP Action 2.5). Also, this mechanism shall provide a procedure to notify, emergency response entities, local law enforcement, and the Bank, about any major accident or fatality (ESAP Action 2.6).

4.2.c Supply Chain

The Borrower will develop a procedure for managing and monitoring the performance of its primary suppliers as well as for workers engaged by third parties (ESAP Action 2.7).

4.3 Community Health, Safety and Security

4.3.a Community Health and Safety

No Community Health and Safety Management Plan has been provided for review. Therefore, the Borrower shall develop a Community Health and Safety Plan, considering the outcome of both the ESMP, as a priority to ensure impacts on the surrounding community are minimized during the construction phase and into the operation phase (ESAP Action 4.1). This is particularly important with regard to the nearby residential and commercial properties, and to those community members adjacent and using the public roads adjacent to the Project area (Av. Central and Av. A, and Calle 7a Oeste and 8a Oeste).

Although, during the site visit, there were no signage prohibiting unauthorized access to the site, a security fence at the majority of the entrances to the site were identified; however, appropriate measures should be in place to ensure no unauthorized access to the construction site can be obtained.

It is known that increased traffic in this area (Casco Antiguo in general), especially during construction, is an issue that requires consultation with local authorities regarding routing, road

rehabilitation, calendar, road safety measures such as signposting, speed controls, etc.

It is understood that no specific Traffic Management Plan exists, however there is a general understanding that during construction delivery vehicles, trucks and any other construction vehicles, cannot enter or leave the site compound without supervision from banksmen. Therefore, it is recommended that a formal Traffic Management Plan is documented and communicated as part of the stakeholder engagement procedure, especially during the construction phase, but also including the operation phase and its vehicular composition (ESAP Action 4.1).

4.3.b Security Personnel

The Borrower shall provide copy of the contract between them and the security company or companies to verify, among other aspects, the security procedure and training of personnel details, that define the responsibilities and authority of security personnel present on site; also, that provisions have been included that permit the client, to: i)carry out reasonable investigations to ensure that security personnel do not have police records, or have been implicated in previous cases of abuse; ii) details of required training regarding use of force; iii) restrictions in the use of firearms; and iv) details of training in environmental awareness (ESAP Action 4.2).

4.4 Cultural Heritage

On December 28th, 2016, the National Direction of Historical Heritage ("DNPH", for its acronym in Spanish) of the National Institute of Culture of Panama ("INAC" for its acronym in Spanish) granted the Borrower, by means of the Resolution No. 385-16/DNPH, the authorization to develop the Project. According to these resolutions described above, the Borrower must comply with the following guidelines:

- Avoid any structural changes of any kind, meaning that the existing facade must be maintained, so that the structure of the property is not altered.
- Prior to executing any construction work involving excavation activities, the Borrower shall request DNPH's supervision for such works.
- Any modification to the Project, modifying the plans or the surface already inspected shall be informed to DNPH for its analysis and review.
- Communicate to DNPH any finding of archaeological or paleontological vestiges, in the Project or within the internal courtyard. Works must be suspended in such event; however, if during works, any element were found by the Borrower's personnel, these elements must be delivered to DNPH.

From the above guidelines, it is clear that a chance find procedure is required to be prepared by the Borrower and shared with the construction company (ESAP Action 8.1).

Contact Information

For project inquiries, including environmental and social questions related to an IDB Invest transaction please contact the client (see **Investment Summary** tab), or IDB Invest using the email requestinformation@idbinvest.org. As a last resort, affected communities have access to the IDB Invest Independent Consultation and Investigation Mechanism by writing to mecanismo@iadb.org or MICI@iadb.org, or calling +1(202) 623-3952.

[1] A 3rd category listed building has structures with little architectural value but contributes to the greater urban environment.

[2] A 2nd category listed building has structures which are, in whole or partially, of great value because they contain important architectural elements that are either prior to 1850 or later, but of maximum architectural value for their time.

[3] A 1st category listed building is one of high intrinsic value, in total or partially, because some of the following circumstances exist; for being earlier than 1850 or being one of the prime examples of architecture of its time in the country, or for its function, its former inhabitants or for events that occurred in it and thus must be preserved in its entirety or for the greater part.

[4] A first site visit had occurred during eligibility on March 12th, 2018.

[5] Variable Refrigerant Flow (VRF), is an HVAC technology invented by Daikin Industries, Ltd. In 1982. By operating at varying speeds, VRF units work only at the needed rate allowing for substantial energy savings at load conditions.

[6] General Environmental Law, Law 41 of July 1, 1998.