

Environmental and Social Review Summary (ESRS) Naturasol Project

Original language of the document: Spanish
Cut-off date for review: August 18, 2020

The transaction consists of an uncommitted revolving import-financing facility for up to US\$16.2 million with a 180 day term from the date of each disbursement to Naturasol, S.A. de C.V. and Miel Mex, S.A. de C.V. as joint and several borrowers (the "Borrowers").

The Borrowers will use IDB Invest funds to finance the import of peanuts, seeds, fruits, cereals, and the purchase of other raw materials. This would be IDB Invest's first operation with Naturasol and Mielmex, companies with a share in Mexico's processed food production market, robust sales channels with internationally renowned clients, and a supply chain comprising up to 18,000 small producers and MSMEs.

1. General Information of the Project and Scope of IDB Invest's Environmental and Social Review

IDB Invest conducted the virtual environmental and social (E&S) due diligence for the project from July 28th to July 31st, 2020. This entailed a review of E&S, occupational health and safety (OHS) and labor-related information such as procedures, policies, reports, audits, licenses, and other internal documents of Naturasol and Mielmex, also holding meetings with company personnel.

2. Environmental and Social Categorization and Rationale

The Project has been classified as a Category B operation under the IDB Invest Environmental and Social Sustainability Policy, given that it may generate impacts and risks related to the following aspects: (i) functionality of E&S management and monitoring systems, (ii) food safety and security; (iii) labor management and adequate working conditions; (iv) generation of wastewater, solid waste, and air emissions; (v) community relations; and (vi) supply chain sustainability. These impacts and risks are considered low to medium intensity.

The Project will trigger the following Performance Standards (PS):

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

Naturasol and/or Mielmex will immediately inform IDB Invest should any other PS apply.

3. Environmental and Social Context

Naturasol's plants are located in industrial zones in the State of Mexico. It has a production plant for seeds and bars, another for cereals, and the Mielmex honey production plant. All locations are leased. The Physical and Transitional Climate Risk Assessment Report reveals that the location of

the plants is potentially exposed to climate change induced natural disasters, such as hurricane winds and long-term droughts. They may also be exposed to volcanic risks.

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

4.1 Assessment and Management of Environmental and Social Risks and Impacts

E&S Assessment and Management System (ESMS)

The Companies are currently at an advanced stage of development of the ESMS components. For the system to comply with PS1, it must include the following:

Policy

Naturasol and Mielmex have developed a policy that includes compliance with national and international quality, safety, environmental, occupational health and safety, and social responsibility laws and standards. This policy defines the personnel responsible for ensuring internal compliance; it is communicated to all levels of the Companies and updated regularly. Companies should communicate the policy to contractors, temporary workers, and other social stakeholders.

Identification of Risks and Impacts

Naturasol and Mielmex have developed a risk assessment matrix including human, environmental, financial, infrastructure, product, and information risks. The matrix must be updated to include E&S and community risks.

Management Programs

Naturasol's cereal plant is ISO 28000 supply chain security certified and all plants are FSSC 22000 food safety certified.

The companies have developed several management programs to manage the identified risks, including waste management and hazardous chemical storage, spill containment, audits, communication, and corrective actions. As part of their ESMS, Naturasol and Mielmex must devise management programs that describe mitigation and performance improvement measures and actions to address identified E&S and community risks and impacts.

They have also developed, among others, procedures for the sourcing and selection of suppliers, planning, purchasing and re-supplying, and movement of raw materials, packaging material, semi-finished, and finished products. They have also implemented a traceability procedure to identify and quantify their products at all stages of the process, guaranteeing quality and safety. At present, the risk of significant conversions of natural or critical habitats by suppliers has not been evaluated, so the Companies must update their traceability procedure to identify the risks associated to their primary suppliers in the supply chain, while also evaluating their exposure to such risks in terms of the operation and their reputation, so that they can discard products or suppliers that pose biodiversity and/or labor-related (child and forced labor) risks. In addition, with support from IDB Invest, Mielmex will conduct sustainability trainings with current honey suppliers as part of a plan to reinforce sustainability, to be implemented in the medium term.

Organizational Capacity and Competency

At present, Naturasol and Mielmex have personnel assigned to Human Resources, safety and hygiene, and quality tasks. E&S issues are under the supervision of the Comprehensive Management and Continuous Improvement Managers and the Safety, Hygiene, and Environmental Coordinators for each Plant. Procurement staff must extend E&S policies to suppliers.

Emergency Preparedness and Response

Naturasol and Mielmex have developed a business continuity procedure in emergencies that not only includes natural and technological contingencies but also terrorism, political, and information technology events. The procedure is updated regularly, contains templates to improve emergency management, a schedule for drills and corresponding templates for ex-post reporting and evaluation. The Companies must develop collective emergency response systems with neighboring industries. It is recommended that the Companies' response to pandemics such as COVID-19 be included as part of this emergency procedure.

Monitoring and Review

Naturasol and Mielmex report their compliance with E&S aspects annually to CDMX's Civil Protection and Environmental Protection every time their Operating Permit is renewed and through social responsibility audits conducted by external certifications under the Sedex Members Ethical Trade Audit (SMETA) framework. Internally, they have developed a variety of monitoring and evaluation procedures such as: document and record generation and control, non-compliance, product withdrawal/recovery, audits, traceability, management review, food fraud, fire equipment checks, among others. Each year, Walmart audits Naturasol and Mielmex's supply chain under its own framework based on ISO 28000 and the criteria of the Customs Trade Partnership Against Terrorism (CTPAT). Naturasol and Mielmex submit annual reports to senior management that include information on non-conformities and corrective actions, results of external audits, supplier performance, compliance with food safety management system objectives, and training and continuous improvement opportunities. They also report key performance indicators (KPIs) such as days free of accidents, water and energy use, wastewater effluents and air emissions monitoring; staff retention and training. The Companies are also encouraged to prepare an annual corporate Environmental and Social Sustainability Report based on the Global Reporting Initiative (GRI) standards.

Stakeholder Engagement

Naturasol and Mielmex have conducted an analysis to identify the social stakeholders related to their operations; however, they must update this mapping to include neighboring industrial parks and nearby communities. The Head of Quality and the Safety, Hygiene, and Environment Coordinator participate in the Tepotzotlán municipal environmental fair, where they communicate the Companies' E&S information to participants.

External Communication and Grievance Mechanisms

Naturasol and Mielmex have an external grievance procedure. Grievances may be anonymous and reported by the affected persons via complaint boxes at plant entrances, and via telephone and e-mail. There are internal workers in charge of receiving, analyzing, replying and documenting grievances.

4.2 Labor and Working Conditions

Working Conditions and Management of Worker Relationships

Naturasol and Mielmex have a total of 562 workers of which 199 work in the honey plant, 268 in the seed and bar plant, and 95 in the cereal plant. There is an equal proportion of men and women.

Human Resources Policies and Procedures

Naturasol and Mielmex have a Code of Conduct and Ethics as well as human resources procedures such as talent recruitment and personnel hiring and induction. The Companies must develop a human resources policy that is consistent with national labor laws and PS2 requirements.

Working Conditions and Terms of Employment

The Companies' workers receive salaries in excess of the country's minimum wage (MX\$123.22 per day) by approximately 40%, and working conditions comply with national labor regulations. Naturasol and Mielmex use internal tools to determine job promotions based on seniority and work performance.

Workers' Organizations

Mexican legislation recognizes the right to free association. Some workers are part of the *Federación de Trabajadores Asalariados y no Asalariados Sindicalismo Nuevo de México* workers' union with no reprisal from the Companies.

Non-discrimination and Equal Opportunity

The Code of Conduct and Ethics includes a commitment by the Companies that discrimination during recruitment, hiring, training, or promotion is not permitted. They are also committed to maintaining a work environment free of any kind of harassment.

Grievance Handling Mechanism

Naturasol and Mielmex have a grievance and suggestions box for employees in each plant, as well as an e-mail address that is communicated during onboarding and internal sessions. Management performs a weekly collection of grievances and makes sure that they are all replied to, including any anonymous grievances.

Child and Forced Labor

In compliance with national regulations and internal procedures, Naturasol and Mielmex do not employ minors (under 18 years of age); however, in exceptional cases, and with the permission of a parent or guardian, they have hired minors aged 16 or older for non-hazardous work. Companies are committed to not employing forced labor.

Occupational Health and Safety

Naturasol and Mielmex have an occupational health and safety management procedure, with safety and hygiene committees and a preventive program that includes activities such as: training, risk analysis, and quantifying accident occurrences. On the latter, in 2019, the Companies recorded a rate of 0.011 injuries per million hours worked (LTIFR) and 0.000037 days lost per million hours worked (LTISR).

As part of the Companies' health procedures, all personnel are required to have a medical certificate for the health profile and a periodic certificate that becomes part of each employee's comprehensive medical history. All Company workers are affiliated with the Mexican Social Security Institute (IMSS) and have access to an in-house physician who rotates among the plants. Workers' main health problems are not associated with their work.

As part of addressing OHS aspects, Naturasol and Mielmex have developed procedures for work in confined spaces, work at heights, hot work, in the event of spills, work with pressure vessels, and maintenance of electrical facilities. Naturasol and Mielmex offer access to hydration for all workers, including those exposed to high temperatures during cutting and welding work.

They have an annual training program for personnel that includes: HACCP, SA8000, chemical handling, food safety, use of personal protective equipment (PPE), waste management and disposal, occupational health and hygiene, among others.

Noise and lighting analyses are carried out in the workplace in accordance with national regulations. In all three plants, noise levels exceed 85dBa in a few work areas, the maximum parameter defined in the World Bank's General Environmental, Health, and Safety Guidelines. The Companies offer hearing protectors to all personnel who request them but require mandatory use by workers in locations where the noise level exceeds the 85dBa limit. Temperature, vibration, and particulate matter parameters are lower than those required to be measured by regulations. The processes are at room temperature, neither lowered nor raised, no worker is exposed to temperatures exceeding 25°C. Naturasol and Mielmex must monitor and comply with the different parameters in the work environment at concentrations below the American Conference of Industrial Hygienists (ACGIH) recommended time weighted average and threshold limit values (TWA-TLV) – concentrations to which most workers may be repeatedly exposed (noise: max. in work environment 85dbA, external 70dBA; particulate matter: 10mg/m³; lighting: 10-500 lux).

The Companies comply with fire safety-prevention and protection conditions in their facilities, in keeping with national regulations, which have adopted the requirements of the National Fire Protection Association (NFPA), which requires, among other things, implementing a fire prevention and mitigation plan, mobile and fixed fire systems, the creation of a brigade group, PPE for the brigade, fire, earthquake and evacuation drills, and regular testing of equipment. Civil Protection and Firefighters are invited to the drills and must issue a compliance clearance after each annual visit in order to renew the Operating Permit. Four drills are held annually at each plant, in which emergency brigades and all plant personnel participate. The Companies have evacuation, search and rescue, first aid, firefighting, and communication brigades.

Supply Chain

Naturasol and Mielmex's supply chain includes 18,000 domestic suppliers of honey and approximately 800 additional suppliers of cereals, fruits, oils, packaging, cleaning products, among others, about 10% of which are foreign. Naturasol and Mielmex will update the supplier search and selection procedure to include additional analyses to help the Companies ensure that the supply chain is free of child and forced labor.

4.3 Resource Efficiency and Pollution Prevention

Resource Efficiency

Greenhouse Gases

Naturasol's plants operate with local electricity supply featuring an annual consumption of 14.2 MWh for the seed plant, 6.5 MWh for the cereal plant, and 45.8MWh for the honey plant. Diesel is also used for two boilers in the honey plant, with an annual consumption of 180m³. SO₂ emissions (80cc boiler 338.46mg/m³ and 100cc boiler 451.39mg/m³) are in compliance with national regulations and the World Bank's General Environmental, Health, and Safety Guidelines. Mielmex must include NO_x and PM₁₀ emissions in the measurement reports of the boilers and comply with the emission parameters of the WB General Guidelines (PM₁₀ 100 mg/Nm³; NO_x 460 mg/Nm³; SO_x 2000 mg/Nm³). The seed plant consumes 265m³ of gas for the steam generator and the ovens. CO levels are in compliance with national regulations. Naturasol will include measure NO_x and comply with the emission parameters of the WB General Guidelines (NO_x 320 mg/Nm³). The laboratory at the honey plant also uses 3.5m³ of gas. Energy consumption per ton of raw material in the seed plant is 3.3 KWh, in the cereal plant 4.1 KWh, and in the honey plant 65 KWh. Approximately 900m³ are used annually for the transport fleet. Greenhouse gas emissions for 2019 not including transportation were 1,167.17 CO₂ Toneq.

Energy Consumption

Water for processes and services is supplied through the municipal network. Drinking water pipes are also used, since the availability and intermittence of water from the municipal network fails to ensure process continuity. Therefore, they have a cistern with piped water. The average demand for drinking water is 0.178m³/ton of raw material.¹

The volume range of the liquid effluent produced is approximately 2.2 m³/day, which is discharged to the municipal sewage network. The company complies with the maximum permissible limits for pollutants in wastewater discharges to sewage systems required by national regulations.

Pollution Prevention

Wastes

The companies have a permit to generate special handling waste for each of the plants and a waste collection contract for sale for recycling and/or final disposal that covers all three plants.

Management of Hazardous Materials

Naturasol and Mielmex have developed a procedure to handle and store hazardous chemicals in compliance with national regulations. Each plant also produces a hazardous waste collection, transportation, and final disposal statement. There are no refrigeration units in any of the production plants.

¹ Below the water consumption parameters in food processing. Table 3. IFC Environmental, Health and Safety Guidelines for Food and Beverage Processing Pg. 13.

Pesticide Use and Management

The companies have developed an integrated pest management procedure that is consistent with the requirements of the Secretary of Health and Assistance, which includes the assignment of responsibilities, specific requirements for the service provider, chemical handling specifications (it must be approved by Nestlé Mexico and by the Organic Crop Improvement Association International (OCIA) certification international standards) and procedures applying and handling hazardous waste. Staff are periodically trained in pest control and pesticide use at the facilities. Naturasol and Mielmex must ensure that this procedure includes restrictions in the use of pesticides in all plants as set out by the World Health Organization (WHO) and its Extremely Hazardous (Ia) and Highly Hazardous (Ib) pesticide classes.

4.4 Community Health, Safety and Security

Community Health, Safety and Security

Infrastructure and Equipment Design and Safety

Naturasol and Mielmex have their own fleet of 27 trucks to transport raw materials to the plant and perform deliveries to clients. Transport services are subcontracted whenever more capacity is needed. Naturasol and Mielmex must implement a safety program for drivers and traffic in accordance with the principles described in the WB's General Environmental, Health, and Safety Guidelines, which will be part of the ESMS.

Security Personnel

Naturasol and Mielmex have unarmed in-house personnel for the Companies' security functions, who carry out their work following the Consignments for surveillance personnel that have been developed mainly to control entry to the plant. Naturasol and Mielmex will update their internal security procedures according to IFC PS4 requirements and include them in their ESMS.

4.5 Land Acquisition and Involuntary Resettlement

This is not applicable, as no new land will be acquired, and no people will be relocated.

4.6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

This is not applicable.

4.7 Indigenous Peoples

Not applicable, rather the project will benefit some honey suppliers that are part of the Mayan community, who will be supported through technical assistance.

4.8 Cultural Heritage

This is not applicable, as the facilities are located in places devoid of cultural heritage.

5. Environmental and Social Action Plan

The Project's Environmental and Social Action Plan (ESAP) is summarized as follows:

Naturasol PROJECT
Environmental and Social Action Plan (ESAP)

No.	Aspect	Action	Deliverable	Completion Date
PS 1: Assessment and Management of Environmental and Social Risks and Impacts				
1.1	ESMS	Update the ESMS fulfilling the requirements of PS1.	SGAS update.	1 year after the first disbursement.
1.2		Communicate E&S policy to contractors, temporary workers, and other social stakeholders.	Evidence of the dissemination of the E&S policy.	9 months after the first disbursement.
1.3		Update the risk matrix to include E&S and community risks.	Updated risk matrix.	9 months after the first disbursement.
1.4		Devise management programs as part of their ESMS that describe mitigation and performance improvement measures and actions to address identified E&S and community risks and impacts.	Management programs for identified E&S and community risks and impacts.	9 months after the first disbursement.
1.5	Supply Chain	Update the traceability procedure to identify the risks associated to primary suppliers in the supply chain and evaluate their exposure to such risks in terms of the operation and their reputation, so that they can discard products or suppliers that pose biodiversity and/or labor-related (child and forced labor) risks.	Updated traceability procedure including biodiversity and labor risk (child and forced labor) analyses in primary suppliers.	9 months after the first disbursement.
1.6		Train current honey suppliers that will be part of a plan to reinforce sustainability, to be implemented in the medium term.	Evidence of sustainability training for honey suppliers.	1 year after the first disbursement.
1.7		Extend the E&S policy to suppliers.	Evidence that the E&S policy has been shared with suppliers.	9 months after the first disbursement.
1.8	Emergency Plan	Develop collective emergency response systems with neighboring industries.	Collective emergency response system.	9 months after the first disbursement.
1.9	Stakeholders	Update social stakeholder mapping to include neighboring industrial parks and nearby communities.	Updated social stakeholder mapping.	9 months after the first disbursement.
PS 2: Labor and Working Conditions				
2.1	Human Resources	Develop a human resources policy consistent with the requirements of the national labor laws and PS2.	Human resources policy.	3 months after the first disbursement.
2.2	Occupational Health and Safety	Maintain monitoring and compliance with the different parameters in the work environment at concentrations below the American Conference of Industrial Hygienists (ACGIH) recommended time weighted average and threshold limit values (TWA-TLV) - concentrations to which most workers may be repeatedly exposed (noise: max. in work environment 85dba, external 70dba; particulate matter: 10mg/m ³ ; lighting: 10-500 lux).	Submit measurements of all parameters.	Annual
PS 3: Resource Efficiency and Pollution Prevention				
3.1	Emissions	Include NO _x and PM ₁₀ emissions in the measurement reports of Mielmex boilers and comply with the emission parameters of the WB General Guidelines (PM ₁₀ 100 mg/ Nm ³ ; NO _x 460 mg/Nm ³ ; SO ₂ 2000 mg/Nm ³).	NO _x , SO ₂ and PM ₁₀ measurements for emissions in the Mielmex plant.	Annual
3.2		Include the measurement of NO _x for the seeds plant flue and comply with the emission parameters of the WB General Guidelines (NO _x 320 mg/Nm ³).	NO _x measurements for emissions in the seeds plant.	Annual
3.3	Integrated Pest Management	Ensure that the Integrated Pest Management procedure restrictions in the use of pesticides in all plants as set out by the World Health Organization (WHO) and its Extremely Hazardous (Ia) and Highly Hazardous (Ib) pesticide classes.	Demonstrate that this restriction is included.	3 months after the first disbursement.
PS 4: Community Health, Safety and Security				
4.1	Transportation	Produce and implement a safety program for drivers and traffic in accordance with the principles described in the WB's General Environmental, Health, and Safety Guidelines, which will be part of the ESMS.	Implemented safety program for drivers and traffic.	9 months after the first disbursement.

No.	Aspect	Action	Deliverable	Completion Date
4.2	Security	Update internal security procedures according to IFC PS4 requirements and include them in the ESMS.	Updated security procedures.	9 months after the first disbursement.