

The Compañía Distribuidora de Nicaragua S.A. (CDN) is a recently formed distribution company with operations in Nicaragua since 2013, and is a subsidiary of INCECA (holding company), which also owns “Compañía Cervecera de Nicaragua” or “CCN”(largest Nicaraguan beverage company that produces water, juice, and beer)[1] and “Punto Ideal” (a chain of convenience stores).

IIC financing will be used to construct a distribution center for CDN, outside of the metropolitan area of Managua. IIC financing for the project is estimated in US\$13 million.

### 1. Overview of Scope of IIC Environmental and Social Review (E&S)

This document was prepared based on: i) an environmental and social due diligence (ESDD) that was carried out from June 13 to June 15, 2017, which included Interviews and discussion with the Client’s accounting officer, the Quality, Safety and Sustainability manager, as well as the project manager and engineers overseeing the project construction; ii) the analysis of documentation provided by the Client before the visit; and iii) information requested and reviewed during the visit.

It is worth mentioning that CCN currently operates a large production facility that produces several lines of beer, bottled water and juices, and during the visit we were able to witness that the distribution center was already under construction.

### 2. Environmental and Social Categorization and Rational

Since the Project can produce negative impacts[2] of low-to-medium magnitude and importance that can be avoided or mitigated following generally recognized performance standards and criteria, it has been classified in Category B, according to IIC’s Sustainability Policy. The main E&S risks identified were related to environmental management (IFC Performance Standard -PS1), Work and Labor Conditions (PS2), Efficient use of resources and the prevention of contamination (PS3), Health and Community Safety (PS4).

IFC PS6, PS7, and PS8 do not apply since the Project will not produce any relevant impacts on biodiversity conservation or natural habitats, is not located or will not affect any indigenous community, and will not generate any impacts on cultural heritage.

### 3. Environmental and Social Context

The Project, located about 1.4 km outside the center of Managua (Comarca Sabana Grande) on a 157,440.158 m<sup>2</sup> land previously used for peanut production, the warehouse has a physical footprint of 11,700 m<sup>2</sup>, a height of 15 m and a total construction area of 16,719.09 m<sup>2</sup>. More specifically, the center is located close to Carretera Norte, the principal artery for transporting goods in and out of Managua.

In addition to the plant, the center will include a parking lot, administrative offices, service areas, water treatment plant, a small access road on CDN land, and a transmission line[3].

There are no immediate towns in the vicinity of the Project but rather a few sporadic houses located several hundred meters away from the distribution center. Many of the families living in the surrounding area are engaged in small-scale agricultural production on adjacent lands and are not expected to be impacted by the Project.

The Project area has been traditionally used in intensive agricultural production and includes several other distribution centers for other medium sized Nicaraguan companies.

There is no significant biodiversity (flora and/or fauna) on the site.

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

### 4.1 Assessment and Management of Environmental and Social Risks and Impacts

CDN follows CCN environmental and social management plans that are, in general, compliant with PS 1. The Client has been certified in ISO 9001 and OHSAS 18001, and has a detailed Hazard Analysis and Critical Control Points (HACCP) plan. The current environmental management system includes these programs: solid waste management, hazardous waste management, integrated water management, atmospheric emissions, and biodiversity management. It also has a separate system for emergency response and to manage occupational health and safety issues. Each of these programs has clearly defined actions to identify and monitor risks related to each system as well as to mitigate those risks during construction and operation of the distribution center.

Despite the latter, in order to be fully compliant with this PS, CDN needs to presents a new EMS that is currently in development, that integrates all components. In addition, CDN needs to conducts at least one public consultation and provide documentation for its stakeholder engagement activities.

#### 4.1.1 Policy

CDN has a clearly defined policy that explains its mission and values. It also explicitly states its commitment to sustainability in all of its manufacturing procedures.

#### 4.1.2. Identification of Risks and Impacts

The main impacts for this project will be felt during both construction and operation; (1) Despite being located in a low-population area, increased vehicular traffic will potentially increase the risk of traffic accidents; (2) accidents or injuries to workers during construction and operation as a result of operating heavy equipment is also a potential risk; (3) product spills during operation are a potential risk as well.

CDN's Safety and health Program identifies and monitors occupational health and safety risks particularly as it pertains to internal operations. It does not cover sufficiently community impacts of traffic and accidents within the community.

#### 4.1.3. Management Programs

The client has a series of environmental health and safety management plans that identify risks and put in place procedures to those risks. The current environmental management system includes a; solid waste management plan. This plan details how solid waste is supposed to be handled and disposed; a hazardous waste management plan which similarly details disposal procedures; an integrated water management which describes the waste and residual water treatment systems, an atmospheric emissions procedure which calculates all emissions for all CDN facilities, and a biodiversity management plan which describes their commitment to being a water neutral company and how they achieve those goals.

As previously stated, CDN has a series of management programs that cover many of the IFC performance standard processes including a HACCP plan for the production process. The HACCP plan is based upon US HACCP plan standards from the FDA (Federal Drug Administration).

#### 4.1.4. Organizational Capacity and Competency

At the corporate level, CDN has a manager to handle all environmental issues for the company. This

person is also responsible for occupational health and safety and reports directly to the general manager. He oversees a staff of 4 individuals who are responsible not only for environmental management but also quality, safety, and sustainability. There is a separate health and safety staff of 3. During the visit it was observed that they have sufficient resources to carry out and perform the tasks they are responsible for within the company.

In addition to sufficient human resources, they have sufficient capital to implement and suggest changes to the management systems. For example, they are currently revising all environmental management procedures and producing a new integrated EMS that will be finalized over the next few months. This system will govern all of the client's facilities throughout the country including the new distribution center.

#### 4.1.5. Disclosure of Information

The company makes information available for review through its annual sustainability report ([www.ccn.com.ni](http://www.ccn.com.ni)) as well as through the UN Global Compact site, A United Nations site that monitors corporate sustainability (<https://www.unglobalcompact.org/participation/report/cop/create-and-submit/active/331541>). The sustainability report has been on their site from the beginning of 2017.

#### 4.2 Labor and Working Conditions

CDN currently has 198 workers for construction of the distribution center, and expects 120 administration and operational staff during operations. CDN is managing the contracting and construction process for the Project led by its head engineer. This allows CDN to have a closer control over the process including environmental and social management.

CDN has required each contractor to develop an ESMS and adhere to the operation health and safety (OHS) guidelines it employs. The contracts reviewed confirm this.

Working conditions observed during the site visit met or exceeded IFC General EHS Guidelines. All workers were present with appropriate personal protection equipment (PPE) for their jobs. There is no evidence of any child or forced labor on the construction site.

In addition, Nicaragua has ratified a large number of the international Labor Organization (ILO) conventions including: i) Freedom of Association and Protection of the Right to Organize (C087); ii) Right to Organize and Collective Bargaining (C098); iii) Equal Remuneration (C100); iv) Discrimination (C111); v) Forced Labor (C029); vi) Abolition of Forced Labor (C105); vii) Minimum Age (C138); and viii) Worst Forms of Child Labor (C182). The Project's compliance with national legislation is sufficient to adequately protect many of the specific worker rights identified in PS 2.

CDN does have a human resources policy and procedures that describe trainings, worker contracts, code of conduct, and general expected working conditions. Notwithstanding, it has two internal documents that govern its labor and working conditions; the Código de Ética and the Reglamento, interno de trabajo.

There are currently no worker unions; however this is not discouraged by CDN management.

CDN currently uses Nicaraguan legislation standards for environmental management from MARENA, the Nicaraguan environmental agency.

Contractor performance on health and safety needs to be monitored appropriately. These item is included in the ESAP.

### 4.3 Resource Efficiency and Pollution Prevention

CCN-CDN has a robust resource efficiency program that complies with PS3. It uses an integrated system that monitors all carbon emissions and that reports the results on an annual basis. While no specific monitoring is currently being done for the Project since it is under construction, CCN reported that in average approximately 40,197 tons of CO<sub>2</sub> are produced annually in its production, transportation, water treatment, and energy consumption. The Project's production of greenhouse gas (GHG) emissions will be calculated once the facility is concluded.

For other inputs, the company has adopted a strategy of conservation and waste reduction. This is spelled out in their corporate strategy and is available for all workers. For the new distribution plant, resource efficiencies will be limited mainly to water since no actual production will be placed on the site initially. Water study and usage monitoring is currently being done in-house by their chief engineer. Water usage at the production facility is paid for by CCN through program that protects the forests and headwaters of the different wells on site. Currently they fund the maintenance of 883,359 m<sup>2</sup> of forest to ensure well water filtration and recharging. As a result they are a water neutral company.

Like GHG emissions, water is currently monitored at their production facilities conducted annually by Laboratorios Bengoechea, S.A. The numbers reported for production are larger than for the distribution facility since the beverage manufacturing process requires a substantial amount of water input. The distribution center relies on a system of natural wells that are dug on premises. The new center will have 4 wells to provide sufficient water to the facility.

Energy consumption for the distribution center is currently not estimated. However the CCN production facility last year consumed 67,591 gigajoules (GJ) and 263,951 GJ of energy from fossil fuels. However from the previous year this represents a 10.7% reduction.

There is a robust recycling and sorting program in place at the production facility. This same system will be extended to the distribution center. Waste in the production facility that is eligible for recycling and reuse is collected, sorted, and maintained on site. Much of the solid post industrial waste is sold for reuse by CCN. Waste is mostly recycled glass, aluminum, and paper and sells just over 98% of this type of waste to third parties and again this system will be in place at the distribution center. Any hazardous wastes are managed by an authorized company that disposes of these according to Nicaraguan national law. No energy production will take place in the new distribution center, however, how biodegradable waste will be treated will need to be verified.

CDN will need to provide estimates of emissions, water consumption, waste (in all forms) and energy consumption for the new distribution center. In addition we will verify the third party contractors and the types of wastes they dispose to ensure conformance with PS 3. This will be part of the ESAP action items.

### 4.4. Community Health, Safety and Security

The project is currently in compliance with PS 4 with some gaps around security and community health and safety.

Security personnel is outsourced to a third party company called CyB. They are unarmed and do have security protocols approved by the company. In my observations during the visit they are compliant with PS 4 having protocols, secured entry points, and trained security personnel. In terms of community health and safety they provide training to their drivers and provide community with a grievance mechanism to call for any complaints.

CCN has adopted a safety training for its drivers, which is a company initiative that complies with a general requirement of local laws for handling all risks.

The presentation of a security management plan will be required as part of the ESAP. In addition, CDN will need to provide evidence of its safety training given to drivers.

#### 4.5 Land Acquisition and Involuntary Resettlement

There is no involuntary resettlement for this project.

#### 4.6. Biodiversity Conservation and Natural Habitats

There are no significant biodiversity values in the area. The land used for construction was intensively used for agricultural production (peanuts). Despite this CDN plans to reforest approximately 10% of the land.

#### 5. E&S Action plan. Please see attached document

[1] IFC's exclusion list has an exception for beer and wine.

[2] The principle impacts expected during the construction of the new distribution center are: potential increased traffic accidents due to increased vehicular traffic; worker accidents or injuries during construction; accidents or injuries during operation within the facility from lifting or operating loading equipment.

[3] The transmission line is located solely on CDN's property and will connect to the main municipal power supply.