

1. Environmental and Social Categorization and Rationale: This operation is classified as an FI-2 under the IDB Invest's Sustainability Policy. Based on information reviewed by IDB Invest, the proposed Project will have limited adverse environmental and social (E&S) impacts. LAAD's portfolio may present risks in the form of deforestation and land-use changes. LAAD assesses deforestation and land use changes for all new loans. When changes in use of land occur, LAAD ensures that it is done in compliance with local legislation and PS6 performance standard. All relevant permits are requested from prospective clients before loan approval.
2. Environmental and Social Risks and Impacts Key E&S issues associated with sub-projects under this investment are: i) on-farm working conditions and prevention of harmful or exploitative forms of child labor (PS2); ii) occupational health and safety on farmer fields, appropriate use of PPE; iii) on-farm agrochemical hazards, WHO banned pesticides; and capacity building in Integrated Pest and disease management (IPDM); iv) on-farm land use change/deforestation, including conversion of natural / critical habitats and biodiversity risk of investments in proximity to sensitive geographical areas (i.e. Chaco, Cerrado, etc.) (PS6); v) supply chain (issue of concern in certain geographical areas and sectors in LAC); vi) sub-project use of ozone depleting substances (chemicals, refrigerants, etc.) and compliance with the Montreal Protocol. Mitigation measures for these impacts are described below and being incorporated into the Environmental and Social Action Plan (ESAP).
3. Environmental and Social Management System (ESMS). IDB Invest carried out an evaluation of LAAD's compliance with PS1, to determine the company's parity with the nine elements of an ESMS defined in PS1; the level of maturity of each of these elements; and, the level of implementation of the system. The nine elements (requirements) of an ESMS defined by PS1 include: Policy, Identification of Risks and Impacts, Management Programs, Organizational Capacity and Competency, Emergency Preparedness and Response, Stakeholder engagement, External Communication and Grievance mechanism, Ongoing Reporting to Affected Communities, and Monitoring and Reporting. The overall assessment is very positive and showed that LAAD's ESMS is well developed, reflecting compliance with Performance Standards. And, there are some areas highlighted in the improvement plan. Also, the examples of LAAD's investments discussed during the meetings with IDB Invest indicate that the ESMS has undergone considerable practical and successful implementation with LAAD clients in Latin America and the Caribbean.

The ESMS Improvement Plan includes the following ameliorative tasks:

- i. Management Programs: Where applicable, LAAD will require clients to consider external stakeholder feedback in reviewing and updating established action plans and objectives and targets. It should also integrate continual improvement plans agreed upon with its clients. In addition, and especially important for sub-projects in natural and critical habitats, LAAD will formalize current practices into a management system procedure to avoid impacts on biodiversity and ecosystem services in sensitive geographical areas (for example Chaco, Cerrado, others). The procedure shall include use of satellite imagery, land use maps, and other mapping efforts. Examples of these tools that could be used are: World Resources Institute (WRI), Global Forest Watch, others; for ex-ante project assessment and monitoring. A management system procedure appropriate to the nature and scale of LAAD sub-project investments shall be developed to quantify GHG emissions for IDB Invest funded subprojects. Sub-project use of ozone depleting substances (chemicals, refrigerants, etc.) requires an ESMS procedure for sub-clients to ensure tight control of leaks to the air.
- ii. Stakeholder Engagement: Important stakeholders for LAAD's clients are also the inhabitants (employees) living in any company provided quarters. If a subproject requires it or is applicable, LAAD shall request its client to create and implement communication channels for these stakeholders, in addition to the employee grievance mechanism.
- iii. Ongoing Reporting to Affected Communities. LAAD may profit from reviewing its web page and include a clearly visible tab and contact person at LAAD for accessing a grievance

mechanism's contact points.

iv. Reporting to IDB Invest: To address potential exposure to E&S operational business risks in the short and long term, LAAD has established a plan for monitoring and reporting to senior management on E&S risks and impacts of its subproject operations. When reporting to IDB Invest, LAAD shall include exemplary subprojects in terms of E&S and transactions declined on E&S grounds.

4. E&S Risk Management at LAAD: To assess and manage E&S risk at the client and portfolio level, LAAD has developed and implemented an Environmental and Social Management System. This system provides tools, procedures and information for aggregated E&S reporting, for reporting E&S issues to senior management, ensure quality of reporting across country offices and provide measures undertaken to promote E&S sustainability (opportunities) and mitigation of E&S impacts in line with the 2012 Performance Standards. Training in E&S risk assessment has been done for country staff. LAAD will continue to work with its clients to encourage them to obtain certifications, as one way of ensuring sustainable environmental and social practices in the supply chains of companies financed. During the Due Diligence, LAAD provided samples of its ESMS implementation to assess PS6 (Biodiversity Conservation and Sustainable Management of Living Natural Resources) of a livestock subproject in the Chaco region of Paraguay. Information requested from the client included the approval of the Environmental Impact Assessment by the Secretaría de Ambiente-SEAM; the resolution of the Instituto Forestal Nacional's (INFONA), approving the "Estudio Tecnico del Plan de Uso de la Tierra for farms where land use changes were made after the year 2006, or will be made as part of the project. These are supported by information such as: Geographic coordinates of farms; Environmental & Social questionnaire; Agrochemical use form; Labor self-evaluation form. For analysis of information, the geographic coordinates are entered in ArcGIS to verify location in relation to protected or environmental sensitive areas and land use changes since year 2000. If the project involved a change of land use after the year 2006 (or a change in land use is planned as part of the subproject operations), then the farm's limits are geo-coded using the maps of the "Estudio Tecnico del Plan de Uso de Tierra". These maps indicate the authorized uses by SEAM and INFONA. Compliance with approved land use is verified utilizing Global Forest Change 2000-2015 data (Hansen, 2015), and Sentinel Satellite images to assess current land cover. Improvement actions requested are registered in the ESMS database with action items, compliance indicator/documentation, due dates, assignees and status.

5. E&S Action Plan (ESAP). Environmental and Social Action Plan (2017 ESAP) - Updated (May,2020)

Task Title/Description	Anticipated Completion Date	Indicator of Completion	Update May 2020
------------------------	-----------------------------	-------------------------	-----------------

<p>PS 1 Environmental and Social Management System (ESMS) Compliant: a) LAAD is required to implement the ESMS Improvement Plan described in this table, aimed at closing gaps between the ESMS and the 2012 PS1. The Company will provide to IDBINVEST its updated Procedures Manual.</p>	08/31/2018	<p>a) Procedures manual for the ESMS to the satisfaction of the IDBINVEST b) PS 1 ESMS Compliant verified by IDBINVEST</p>	<p>IN COMPLIANCE a) ESMS complied on 08/31/2018 and 02/08/2019 b) IDB Invest verified compliance in May 2020,  Due to ESMS nature, LAAD will update annually. For example, recently added a COVID-19 ESMS procedure.</p>
<p>b) Compliance with the 2012 PS1 ESMS element requirements will be verified by IDBINVEST through supervision.</p>			
<p>Exclusion of Category A for IDBINVEST funded sub-Projects, according to IDBINVEST definition.</p>	Duration of loan	<p>Annual report to include LAADs portfolio and subproject E&amp;S categorization</p>	<p>IN COMPLIANCE. UPDATES ANNUALLY  FY2019 report sent on 02/28/2020, indicates Subproject categorization</p>
<p>Formalize current practices into a management system procedure to avoid impacts on biodiversity and ecosystem services in sensitive geographical areas. The procedure shall include use of satellite imagery, land use maps, and other mapping efforts. Examples of these tools that could be used are: World Resources Institute (WRI), Global Forest Watch, others, for ex-ante project assessment and monitoring.</p>	04/30/2018	<p>Management system procedure to assess Biodiversity Conservation and Sustainable Management of Living Natural Resources in Subprojects.</p>	<p>IN COMPLIANCE on 02/08/2019</p>
<p>LAAD will review its web page and include a clearly visible tab and name of contact person at LAAD (i.e. a grievance mechanism) such that LAAD may receive and become aware of any queries/questions, particularly as they relate to LAAD's E &amp; S procedures.</p>	04/30/2018	<p>Website updated with name of LAAD contact person for accessing a grievance mechanism's contact person.</p>	<p>PARTIAL COMPLIANCE (6/11/2018)  Note: name of contact person is not indicated in web page. However, grievance form is sent directly to Senior E&amp;S Compliance Officer and E&amp;S Coordinator</p>

Reporting to include list of exemplary subprojects in terms of E&S and transactions declined on E&S grounds.	Annual Report	E&S Annual Report, to be delivered each year 120 days after the closing of LAADs fiscal year. Report will include exemplary subprojects and transactions declined on E&S grounds.	IN COMPLIANCE FY2019 E&S Annual Report sent on 02/28/2020.
GHG emissions: LAAD will create a procedure to quantify GHG emissions for its IDBINVEST funded subprojects, at the beginning of the subproject's subloan. If a sub-project exceeds 25,000 tons of CO2 equivalent, GHG for that subproject will be reported annually.	IDBINVEST's Subportfolio report.	Report to IDBINVEST GHG footprint of IDBINVEST funded subprojects.	TO BE UPDATED ANNUALLY  To date, none of the sub-projects reported exceeded 25,000 t of CO2-equivalent.
<p>a) For new Sub-projects, LAAD will ensure that sub-projects look beyond R22 refrigerants when installing new equipment.</p> <p>b) LAAD will look into specific updated country phase out plans on control of ozone-depleting substances (ODS) substances based on Montreal Protocol.</p> <p>c) When investing in new projects, LAAD will make sure that IDBINVEST proceeds are not used in loans to sub-projects that use any ozone-depleting substances controlled by the Montreal Protocol</p>	Duration of loan	<p>a) Annual report to include data on change of refrigerants in sub-projects</p> <p>b) Subportfolio report to IDBINVEST to include data on country updated phase out plans for sub-projects using ozone-depleting substances controlled by the Montreal Protocol.</p> <p>c) Report to IDBINVEST that none of IDBINVEST proceeds are used in loans to sub-projects that use any ozone-depleting substances controlled by the Montreal Protocol.</p>	<p>TO BE UPDATED ANNUALLY.</p> <p>- One client approved in 2019, part of IDB sub portfolio, utilizes R-409A, which contains 60% of R-22. We identified this substance as containing R-22 after granting the loan. The client is requesting a new loan and retrofit of equipment to use a different refrigerant is been requested.</p> <p>- One client approved in 2019, not part of IDB sub-portfolio, utilizes R-22. Conditions were established for the client to retrofit equipment and replace refrigerant by August 2022.</p>

**6. 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](mailto: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](mailto:mecanismo@iadb.org) or [MICI@iadb.org](mailto:MICI@iadb.org), or calling +1(202) 623-3952.