

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

An Environmental and Social Due Diligence (ESDD) was conducted for this operation via videoconference on June 28, 2018. The Mavesa team responsible for handling environmental, health and occupational safety, human resources, and corporate social responsibility issues made a presentation and answered a questionnaire previously sent to the client.

2. Environmental and Social Classification

According to Environmental and Social Sustainability Policy, this operation is classified as a Category "C" operation since the **associated** risks and impacts are minimal and reversible.

3. Environmental and Social Context

Mavesa is an Ecuadoran company founded in 1932, a leader in the country's automotive market with a presence in 11 cities through 19 dealers. Its main office is located in the city of Guayaquil. It provides comprehensive and personalized after-sale services such as repair shops, technical support, and replacement parts.

The Performance Standards to be triggered by this operation are as follows:

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

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

4.1 Assessment and management of environmental and social risks and impacts

Mavesa has a Comprehensive Environmental **Policy** and an **Environmental Management Plan** and various procedures for identifying risks, managing occupational health and safety, controlling work-related accidents, predictive and preventive maintenance, personnel training, and emergency response. Mavesa complies with national legislation which requires companies to have the capacity and tools for adequate management of environmental and social (E&S) risks.

The Company has the ISO 9001/2015 certification for its Quality Management System for the marketing and technical service of heavy vehicles, light vehicles and machines, the marketing of repair parts and tires, and chassis assembly with its motor for buses. Mavesa is in the process of obtaining ISO 45001 certification, which is expected to occur during the final quarter of 2018.

The Company has an **internal grievance** mechanism for which the Organizational Development Department is responsible. However, it should be updated in accordance with the PS2; in addition, a new mechanism to address external grievances needs to be developed based on PS4 requirements.

Within its credit analysis process, Mavesa should include, for each of the loans to be granted using funds from this operation, an assessment of each client's compliance with the IDB Invest List of Excluded Activities as well as applicable national regulations.

4.2 Labor and Working Conditions

Mavesa manages its personnel internally through **Internal Work Rules** ensuring compliance with the requirements of Ecuador's Labor Code. Although the Company respects freedom of association, it does not have union organizations. The Ministry of Labor periodically verifies compliance with labor laws. Mavesa's labor force currently includes 896 workers (186 women and 710 men).

The Company has implemented a **Suppliers' Code of Conduct** applicable to all consultants, vendors, brokers, merchants, distributors, contractors, agents and goods and services providers and requiring compliance with the laws, standards, and regulations of each country where it operates, including environmental and social regulations, respect for human rights, prohibition of forced or child labor, and the provision of reasonable salaries, social benefits, working hours, freedom of association, and other fair working conditions. In addition, the Supplier undertakes to manufacture and deliver safe products and to provide a safe working environment that supports accident prevention and minimizes its employees' exposure to health risks. In addition, all contractors or suppliers entering the Mavesa group facilities must comply with the **Industrial Safety Policy for Contractors and Suppliers**.

Mavesa also has **Internal Workplace Hygiene and Safety Rules** to manage the Company's Occupational Health and Safety (OHS) aspects. These rules are applicable both to its own workers and to contractors. They include the identification of potential hazards for workers, establishment of prevention and protection measures, worker training, documentation, submission of reports on workplace accidents, illnesses and incidents, and emergency preparedness and response arrangements. In addition, Mavesa has developed a procedure for planned OHS inspections in order to identify unsafe actions and conditions and establish a methodology for conducting periodic observations of safety in facilities and activities performed. It also has an Activities Plan for 2018 that contains a list of tasks and activities to be carried out related to OHS management. The Company monitors and reviews aspects related to workplace health and safety, the working environment, and other OHS indicators. It gathers information and develops corrective actions to ensure a continuous improvement process.

4.3 Resource Efficiency and Pollution Prevention

Mavesa has a **Hazardous Waste Management Procedure** establishing the guidelines for the technically and environmentally correct disposal of hazardous waste, biohazards and special waste, adequate treatment management and compliance with national regulations. This waste is stored in properly designated areas with proper signage and delivered to environmental managers qualified by the environmental authorities. The Company also has a **Comprehensive Used Tires Management Plan** for correct handling and final disposal in compliance with the provisions of Ministerial Agreement 020.

According to the Ministry of the Environment, Mavesa's dealers have been classified as having medium impact because they generate nonhazardous and hazardous waste. For this reason, the Company must comply with an Environmental Registry. Currently, all dealers are in compliance.

The main office in Guayaquil has a wastewater treatment plant (WWTP) that treats industrial wastewater. This water is later reused and ultimately discharged into the sewer system. This procedure reduces contaminant levels to a minimum. The plant treats 30 m³ of wastewater every 20 days. Monthly analyses of discharged water are done with accredited laboratories by the Ecuadoran Accreditation Service and an annual report compiling the monthly reports is sent to the national authority. Nonetheless, Mavesa should provide information to ensure that the water discharged from the WWTP complies with the indicative values contained in the World Bank's Environmental, Health and Safety Guidelines.

All of Mavesa's dealers are connected to the country's electrical grid. During 2017, monthly average energy consumption was 347,000 KW/h. As a matter of policy, the Company only imports vehicles that are compliant with the European Union's Euro 3 and Euro 4 emission standards, helping to reduce emissions into the environment. However, Mavesa should quantify GHG emissions annually, in accordance with internationally recognized methodologies and good practices.

4.4 Community Health and Safety

Mavesa has a **Fire Protection System** that includes a detection system and an extinguishing system; Mavesa's dealers are inspected annually by technical personnel from the fire department, which issues its report for obtaining the respective operating permit.

Mavesa has an **Emergency and Contingency Plan** for each dealer that includes procedures, persons in charge, and tools in case they are needed.

Mavesa uses armed security personnel subcontracted through an outside company. Guards have a **Weapons Handling Procedure**. Nonetheless, the Company should develop an analysis of gaps between its current practices and the Manual of Good Practices in the Use of Security Forces: Assessment and Management of Risks and Impacts.

The vehicles financed by Mavesa are insured, with the exception of models that correspond to bus chassis. Mavesa is the beneficiary of the insurance. Bus chassis are not insured given that they have insurance in their Cooperatives for all units and a replacement fund that is activated in the event of a loss. This general insurance and the replacement fund cannot be signed over to Mavesa. In accordance with the current legal framework, any vehicle sold by a dealer must be delivered to a properly licensed customer.

Any vehicle sold by Mavesa is delivered with its respective manuals. The Company also has a discussion with the owners of new units sold regarding best practices for maintaining and driving the vehicle. Vehicles financed by Mavesa are delivered with a satellite tracking device that generates on-line information on routes, mileage, speed, and wear and tear on the unit.

Mavesa's Corporate Social Responsibility is exercised through the Mavesa Foundation, which focuses on supporting entrepreneurs in the northern provinces of Ecuador that were most affected following the earthquake in 2016.

5. Environmental and Social Action Plan - Mavesa 2018

Action	Performance Indicator	Deadline
Include within its credit analysis process an assessment of each client's compliance with IDB Invest's List of Excluded Activities and applicable national regulations for each of the loans granted using IDB Invest funds.	Updated credit analysis form.	Before granting the first loan using IDB Invest funds
Develop and adopt an internal grievance mechanism in compliance with PS2, and an external grievance mechanism based on PS4.	Internal complaint mechanism updated and external complaints mechanism with copy of administrative act putting it into effect.	6 months after signing contract

Annually quantify GHG emissions in accordance with internationally recognized methodologies and good practices	GHG emissions report	Annual
Ensure that water discharged from the WWTP complies with indicative values according to general guidelines on the environment, health and safety.	Monitoring report	Continuous
Develop analysis of gaps between current practices and the Manual of Good Practices in the Use of Security Forces: Assessment and Management of Risks and Impacts.	Gaps analysis included in a mitigation plan if necessary.	6 months after signing contract