

1. Overview of IDB Invest Scope of Review

The proposed investment consists of a loan to Agrícola Pampa Baja (“APB” or the “company”). APB is a family-run producer and marketer of fruits (avocados, grape, mandarins and pomegranates), horticultural crops (paprika and sweet yellow onions) and milk based in Majes-Sihuas (Majes) and H2Olmos (Olmos) in Peru. APB’s main operation is located in Majes-Siguas, near Arequipa, and consists of approximately 1,288 hectares of fruits and horticultural crops and a dairy operation of 6,250 cows, of which 3,200 are under production. A second, 1,100 hectares farm is located in the H2Olmos irrigation project in Northern Peru. A new proposed expansion of about 600 hectares of avocados is planned at Olmos, to reach a total of 900 hectares avocado orchards. About 50% of the APB products are exported to the USA market, 48% to Europe, and 2% to other locations in Asia and elsewhere. Future strategic investment plans for Olmos include building a packing facility.

Pampa Baja agricultural operations and processing facilities are certified according to specific market demands. These, among others, include Global Good Agricultural Practices (GlobalGAP), a food safety program for raw materials; British Retail Consortium (BRC) that harmonizes international food safety standards and reduce the need for multiple international retailer’s audits; BSC, a voluntary cooperation program between the private sector and the United States Customs. GlobalGAP is a basic requirement of all APB fruit products/operations. The participation in these certification schemes indicates that APB is already committed to continued improvement in its sustainability practices which are primarily market driven.

IDB Invest visited the company’s operations in Majes and Olmos in Peru. These include large-scale field growing operations, packing facilities, dairy facilities, and associated infrastructure. IDB Invest’s environmental and social (E&S) Due Diligence (DD) included the review of technical and environmental, health and safety (EHS) related documents presented by the company.

IDB Invest’s DD reviewed environmental and social management plans for the Project, and gaps between these plans and the IDB Invest Sustainability Policy requirements were identified. Where necessary, corrective measures intended to close these gaps within a reasonable period of time, are summarized in the paragraphs that follow and in the agreed Environmental and Social Action Plan (ESAP) disclosed in this review summary. Through implementation of these management plans and the ESAP, the Project is expected to be designed and operated in accordance with Performance Standards objectives. This process of continued improvement of E&S risk management will support APB’s expansion in high demanding markets such as Europe and the USA, contribute to consolidating its brand as a sustainability leader in Peru, support the identification of opportunity to reduce operational costs and to increase productivity, and provide for higher company valuation.

2. Environmental and Social Categorization and Rationale

This investment is classified as a Category B project in accordance with IDB Invest Policy on Environment and Social Sustainability. Key E&S issues and risks associated with the project include: (i) functionality of the company’s E&S management and monitoring systems, (ii) management of labor and provision of adequate working conditions, operational health and safety (OHS) programs, and field hydration of workers; (iii) monitoring and management of ammonia safety; (iv) technically-based water resources management plan for the expansion at Olmos; (v) elimination of WHO Ia/Ib chemical formulations and implementation of a Corporate Integrated Pest and Disease (IPDM) Management Programme; and, (vi) ESMS management programme procedures to ensure the appropriate conduct of security personnel engaged by the company.

3. Environmental and Social Context

The environmental and social DD indicates that the investment will have impacts which must be managed in a manner consistent with the following Performance Standards.

PS1: Assessment and Management of Environmental and Social Risks and Impacts

PS2: Labor and Working Conditions

PS3: Resource Efficiency and Pollution Prevention

PS4: Community Health, Safety and Security

PS5: Land Acquisition and Involuntary Resettlement and PS6: Biodiversity Conservation and Sustainable Management of Living Natural Resources are not applicable, since the operations are in newly irrigated lands both in Majes-Siguas and in H2Olmos irrigation projects (both developed in dry sub-tropical arid deserts, which under irrigation, the land becomes excellent for intensive agribusiness developments). PS 7: Indigenous Peoples is not relevant as there are no IPs in the areas where APB's operations are located and there are no assets or lands negatively impacting indigenous peoples. PS 8: Cultural Heritage is not applicable as land used for agricultural operations in both locations have obtained the CIRA document from Peruvian authorities, which certifies that the land is devoid of cultural heritage. In the event that these PS's become applicable, Pampa Baja will promptly inform IDB Invest.

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

4.1 Assessment and Management of Environmental and Social Risks and Impacts

Pampa Baja's management system include some site management plans that establish strategies to minimize E&S risks and impacts. APB has written Standard Operating Procedures (SOP's) to conduct farming and processing work that includes EHS provisions. Existing APB farms have specific waste, OHS and energy efficiency management plans and programs. The APB staff and IDB Invest conducted a joint self and independent assessment of the nine elements of the Corporate Environmental and Social Management System (ESMS) of the company as defined in PS1. The average value of the self and independent assessment for both locations reveals a relatively low degree of ESMS maturity, the need for the revision and/or establishment of ESMS procedures and requiring an ESMS improvement plan.

Policy: As part of this investment, the overarching Corporate Policy statement will be strengthened to align with the 2012 Performance Standards and IDB Invest Sustainability Policy. Once updated, the policy will be communicated to main contractors and suppliers.

Identification of Risks and Impacts: Pampa Baja will update its corporate risk management process to (a) develop a Corporate risk evaluation and prioritization method and review its risk assessment whenever there is a change in processes, technology, activities or an expansion; (b) improve identification of risks and impacts of its operations to communities on a periodic basis, (c) develop procedures to implement a preventive management plan to avoid/minimize the impact of floods to crop fields, resulting from climate events such as the 2017 Niño Costero in Olmos.

Management Programs: Pampa Baja shall develop management system procedures and action plans to minimize environmental and social problems, reduce their impact and the chance for recurrence; formalize management system procedures for community engagement including a community grievance mechanism; formalize management procedures for supply chain management if the company ever begins to source produce from suppliers; implement management system procedures for integrated pest and disease management; implement management system procedures for a Code of Conduct for the security personnel at the company facilities, and manage each identified risk in alignment with the Voluntary Principles (VPs) on Security Forces and Human Rights.

Organization Capacity and Competency: Pampa Baja will present to IDB INVEST a copy of the internal memorandum signed by the CEO that officially establishes Pampa Baja's independent Environmental and Social Management Unit or Department, appoints a qualified Corporate Social

and Environmental resource person responsible for managing the Corporate Environmental Management Unit. The Unit shall clearly be designated with management responsibility for environmental, OHS and social issues, within the Environmental and Social Management System (ESMS) framework.

Emergency Preparedness and Response: The company will update its corporate emergency preparedness and response management system procedures to account for emergency planning to involve communities; regular review of the training programs for Emergency Preparedness and Response; review its emergency response procedures whenever there is a change in processes, technology, activities or an expansion; and implement the emergency preparedness plan at Olmos.

Stakeholder Engagement: The company will develop a corporate management system procedure for communication with external stakeholders; will enhance its existing website to keep external parties informed and include a clearly visible tab and name of contact person at Pampa Baja for accessing a grievance mechanism's contact points and associated information to express concerns and complaints about company operations.

Monitoring and Review: Pampa Baja will establish a corporate management system procedure for formal documentation of monitoring results and use these in risk assessment; develop a management system procedure to report monitoring results in senior management meetings to determine whether the ESMS is effective and supports the policies.

4.2 Labor and Working Conditions and Management of Worker Relationship

The company complies with labor laws of Peru. As off 2018, APB employs nearly 2,581 people on a permanent basis across field production, administration, and packaging operations in Majes and Olmos. In addition, there are an estimated 1,000 thousand temporary workers during the harvest seasons hired directly by Pampa Baja following national labor regulations. Of Pampa Baja's total permanent staff approximately 40% are female in Majes, and 12% at Olmos. Women are found working in all operations. Future operational plans at Olmos will increase labor force to 2,000 workers of which 65% are likely to be woman. APB is working on a plan for retaining women employees in order to maintain institutional know-how and long-term sustainability. This indicates that APB is interested to expand its own performance on gender inclusion and there are opportunities to work with the support of IDB Invest in gender related issues in ways that make sense for the business.

The company has adopted a formal Corporate HR policy, which is extended to all operations. This policy covers terms of employment, such as wages and benefits, hours of work, overtime compensation, maternity, vacation, non-discrimination, sexual/moral harassment, hiring period, compensation, promotions, salary increases, and termination of contract procedures. There are no unions or collective bargaining negotiations. HR management holds meetings with workers to discuss action items and emerging issues. APB has built a Medical Center and implemented lactation room facilities. The company has plans and is implementing measures to obtaining SA8000 certification. Pampa Baja has a policy statement against the use of both child labor and forced labor at its operations.

Employee Corporate Grievance Mechanism (GM): The company relies on a formal internal grievance procedure, which is part of its HR policy. Pampa Baja will review the Corporate GM procedure to ensure that worker grievances can be presented anonymously and communicate the updated GM to all employees; records will be maintained on actions taken by Pampa Baja, feedback provided, and signed agreement by the employee on resolution of each grievance.

Occupational Health and Safety: The due diligence review of IDB Invest found that the OHS management at APB has room for improvement, as OHS aspects are managed at different levels throughout company operations, and some would welcome an improvement in the use of Personal Protective Equipment (PPE) to upgrade employee safety during operations. OHS practices and statistics require record and monitoring. At the Corporate level, in Olmos and Majes, the company will perform an OHS gap analysis to update and fully implement OHS Management System Procedures, including training and enforcement of the use of PPE (by employees and contractors). The company will investigate costs related to liability insurance and compensation payouts, lost time accidents; fatalities and other preventable accidents including fires, materials spills, transport, project potential reductions in insurance premiums, etc. The company will submit a final report to IDB Invest and include a certification from the Pampa Baja task manager that all observed deficiencies have been corrected. APB will improve the system for recording the statistics for OHS, accidents and near misses, including reporting the LTIFR (Injuries per million hours worked), and LTISR (Lost days per million hours worked).

Field hydration of Workers: Field workers at the two company locations are exposed to potential dehydration, since most work is done under conditions of full sun exposure. The current practice to provide drinking water to workers requires improvement. The company will develop new corporate management system procedures that will command adequate daily hydration for each worker, and water shall be available in the field within short distances. Potable Water shall be available at all facilities in the Office Compound in Olmos and Majes.

Ammonia Safety Management: The dairy operations at APB in Majes have cooling units that use ammonia as refrigerating agent. The company has implemented safety procedures and these need to be aligned with the applicable international standards, such as those of the International Institute of Ammonia Refrigeration - IIAR. Gaps and any required modifications need to be addressed and a safety plan shall be implemented to ensure ammonia safety and management will comply with country regulatory limits, WBG General EHS guidelines, and IIAR. The plan shall include training, scheduled mock drills, and a proactive regularly communication plan to all employees and contractors.

4.3 PS3 - Resource Efficiency and Pollution Prevention

Resource Efficiency: The company sources electric power from the national grid. During 2017, energy consumption was 2,414,943 kWh for Majes and 1,912,092 kWh for Olmos. In Majes the company uses solar energy to heat water for showers. Water is provided by the Irrigation Administration Offices at both H2Olmos and Majes-Siguas. In Olmos each Ha purchased carries an allotment of 9,930 M3/annum. In Majes the allocation is 15,500 M3/annum/Ha.

Irrigation Water at Olmos: Management of water consumption for the avocado orchards is at the core of successful operation as water becomes an increasingly scarce resource in many places. Irrigation water use for avocados plantations in Peru demand between 16,000 and 18,000 M3/annum/Ha. Considering that the allocation in Olmos represents roughly half that amount, APB will execute a water resources management plan delineating options to make up for the difference. The plan is centered first on increasing water use efficiency, with the consideration of two scenarios of irrigation water use: the first scenario is quite ambitious and considers water use around 12,500 M3/annum/Ha while the second estimates water consumption around 15,500 M3/annum/Ha. APB will need to balance its water supplies through a combination of surface (Olmos allocation), groundwater, and the eventual purchase of water from other uses (whenever possible). The use of ground water around the areas where Pampa Baja operates has been growing affecting the aquifer replenishment. In Majes, the ANA (National Water Authority in Peru) has granted surface and groundwater water licenses and the production system is 100% sustained. In Olmos, Pampa Baja has

obtained a permit that allows the drilling of up to 14 wells. Two wells been already drilled, and results of the capacity tests are available. The license application at ANA is underway. The updated water resources management plan to be submitted by APB will delineate options and possible time tables for the drilling of wells and the submission of water license requests to ANA. This should take into account crop maturity and respective water needs over time.

Greenhouse Gas Emissions: The avocado orchards, function to sequester carbon that helps to offset the company carbon emissions. Pampa Baja will implement a Management System procedure for Emissions Inventory of Greenhouse Gases to be reported annually to IDB INVEST. This will include quantifying emissions from dairy livestock at Majes. The GHG emissions baseline will be year 2018.

Pesticide Use and Management: Chemical pesticides are purchased, handled, stored, and applied and containers disposed of in accordance with the Food and Agriculture Organization's (United Nations) International Code of Conduct on the Distribution and Use of Pesticides. Information provided by APB shows that chemical formulations at Majes and Olmos contain active ingredients listed under categories Ia (Extremely Hazardous) and Ib (Highly Hazardous), based on the World Health Organization (WHO) Classification of Pesticides by Hazards. Pampa Baja shall eliminate the use of WHO Class Ia/Ib pesticides; provide adequate PPE based upon MSDS and/or ICSCs for the materials used; present to IDB INVEST documentary evidence of the training of employees handling pesticides specifically in the use of adequate Personal Protection Equipment (PPE) based upon MSDS and/or ICSCs. Further, APB will continuously monitor the cholinesterase levels in workers applying pesticides. The company has appropriate controls on management of Class II (Moderately Hazardous) pesticides.

Integrated Pest and Disease Management Programme (IPDM): Pest and disease control methodologies are defined at both locations by Pampa Baja agronomists. The company reports use of some 90 pesticides of different WHO categories. This is obviously a large number of chemical formulations and it is often considered an indication of pests becoming resistant. Environmental and human toxicity issues while not documented can increase with current practices. With business as usual, the cost of pesticide use will likely increase every season. All of the above indicates that there is very compelling case at APB for the development and implementation of an IPDM to shield the company from changing scenarios of pest and disease. In addition to better financial returns, benefits include: i) improvement of the long-term competitiveness of company; ii) business continuity in case of pest or disease outbreaks; and, iii) adaptation to climate change. APB will implement a Corporate Integrated Pest and Disease Management (IPDM) system. This represents an opportunity for closer collaboration between the client and IDB Invest through the eventual provision of technical assistance to make available to APB world class scientific knowledge and lessons learned in Peru and in other countries for the development of their own programme which would be tailored to its reality and needs.

4.4 PS4 - Community Health, Safety and Security

Community Health and Safety: The principal potential risks related to the immediate neighbors from the company's operations include the potential for dust generation and accidents due to an increasing truck fleet and volume of traffic used to transport products including chemical formulations. APB will develop a company Code of Conduct for engagement of neighbors; further enhance ESMS procedures to minimize transport health and safety risks to host and local communities. The company will develop an external grievance mechanism (GM) for neighbors to express concerns.

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.