

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

IDB Invest's environmental and social review of the Project was conducted during March and April 2018. It included a visit to the field (conducted in April) and to housing projects in various phases of development (Developments Fray Servando, Oriente, Reserva Territorial, Serratón 1 and 2, Reserva Serratón 1, Reserva 2). The review included an analysis of the environmental and social reports received to date, environmental and social documentation related to projects previously carried out by Procsa, and updated information provided by the client with regard to the current operation.

2. Environmental and Social Classification and Rationale

According to IDB Invest's Environmental and Social Sustainability Policy, this project has been classified as a Category B project, given that it could generate low- to medium-intensity environmental and social impacts and risks, most of which are reversible and can be mitigated using standard management measures. The applicable Performance Standards (PS) are: 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 PS8 Cultural Heritage.

3. Environmental and Social Context

Procsa (hereinafter "the Client" or "the Company") is a family business; its core activity is the development, promotion, design, construction and sale of housing developments in the center of Mexico, most of which are classified as middle-income housing. The operation consists of the financing of land acquisition and working capital for the construction and sale of vertical and horizontal housing in Mexico City and the State of Mexico.

The land to be used by Procsa is characteristically located in urban containment areas already equipped with shops, public health and education services and public transport. The sites include areas previously used for industry or commerce (e.g., a site where a parking lot was located) or sites that have not been subject to intervention before (greenfields) provided they are located in urban containment areas. As a matter of policy, Procsa does not purchase lands that contain critical habitat or sites located in ecological reserves or on communal lands like *ejidos*.

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

4.1 Evaluation and Management of Environmental and Social Risks and Impacts

a. Environmental and Social Management System

Procsa has a management system to address environmental and social aspects during the design, construction, operation and maintenance phases of its housing developments, enabling the company to ensure compliance with applicable national and local regulations. In addition, as part of prior operations conducted with IDB Invest, the Client prepares and submits an annual environmental and social monitoring report.

The system in question, the components of which are frequently updated, includes the following management instruments: i) Environmental Regulations for Construction Works, which includes environmental as well as security and occupational health specifications; ii) the Construction Regulations for Mexico City; iii) a Land Acquisition Policy; iv) various directives and regulations covering the areas of occupational health and safety as well as fair and equitable employment, including Codes of Ethics and Conduct, a Personnel Recruitment Protocol, protocols for working at heights; v) policies governing relations with suppliers; vi) assignment of responsibilities for

environmental, social, health and safety matters in the workplace; vii) a program for training and continuous talks given to project personnel on matters related to effluent management, occupational health and safety, labor conditions, solid waste management, and social coexistence among workers; viii) procedures and offices dedicated to community involvement (Community Life Office), including the publication of relevant information and continuous contact with the communities; ix) an internal and external complaints mechanism; and x) a Protocol for Natural Disasters.

Procsa does not have a dedicated Environmental and Social Policy. However, all the components of such a policy are found distributed in different standards, policies and procedures.

Procsa has been certified as a “Socially Responsible Company” by the Mexican Institute of Philanthropy.

b. Policy

Procsa has a series of policies in the area of Human Resources, a Complaints Mechanism and procedures for land purchases and fortuitous finds. All these instruments are continuously monitored and comply with the IFC Performance Standards and IDB Invest’s Sustainability Policy.

c. Identification of risks and impacts

The most important potential environmental and social risks and impacts of the project are: i) land purchases; ii) the permitting process; iii) working conditions during construction; iv) efficient resource use; v) pollution prevention; vi) community safety and health; and vii) the management of the cultural or archeological heritage in the event of fortuitous finds.

The management system and relevant procedures are considered adequate for the identification, management and mitigation of these risks. Procsa has done an analysis of environmental impacts for each of its projects as well as studies of soil quality, urban impact (as applicable) and road impact.

The Company complies with both local and national laws (e.g., Construction Regulations for Works in the Federal District, as amended) and with the commitments from the environmental impact statement (EIS) approved by Mexican environmental authorities.

d. Participation of social stakeholders

Procsa works proactively with the different social stakeholders. Internally, it makes a wide range of services available to its workers, as well as a series of social programs for inclusion in the works. For outside communities, prior to the start of any construction, it conducts consultation processes organized by government delegations, in the context of which decisions are made regarding activities and social assistance measures that are part of the permitting process. For the communities that will eventually inhabit the developments, it makes available community life offices, conducts neighborhood meetings during the construction phase and at least one additional meeting one year after the housing units are sold.

e. External communications and complaint mechanism

Procsa has implemented a Complaints Mechanism that is available to all employees and includes physical mailboxes installed at the construction sites collecting complaints, suggestions or claims, as well as a virtual mailbox on the company’s website. The use of this mechanism is encouraged through posters placed on boards and that also refer to various methods for providing feedback. In addition, the Attention to Guarantees Procedure establishes the rules for handling clients’ claims. As for external communities, the Company uses social media like Facebook as a communication channel and the Community Life Offices set up at all construction sites. It also uses traditional communication channels like its website, conventional and electronic mail and telephone.

4.2 Labor and Working Conditions

The Company complies with national requirements and the Performance Standards with regard to fair, safe and healthy working conditions, both for administrative personnel and those working in construction and maintenance. Its Personnel Recruitment Procedure stipulates Procsa's commitment to offer its employees equal selection opportunities, expressly prohibiting any type of discrimination or the recruitment of minors. This instrument is supplemented by the Personnel Contracting Procedure, which includes, inter alia, stipulations on working hours, days off, leave and employee benefits.

The Rules for Working with Suppliers prescribe the principal rules for the Company's commercial relations with external suppliers.

Procsa has a Procedure for Supervising Works at Height, which includes the application of a review and continuous improvement protocol. The Company also has a Procedure for Triggering Protocols in the Event of Natural Disasters that is applicable whenever there is any threat of natural origin (primarily earthquakes) and that must be followed by all personnel and Group collaborators. In addition, the Company conducts daily talks on occupational safety, the effect of which has been demonstrated in a reduction of labor accidents to nearly zero.

Procsa carries out a series of additional activities to provide its employees with opportunities for learning and inclusion, such as: i) diversity talks and programs for integration of workers from the homosexual, lesbian, bisexual and transsexual (LGBT) community; ii) literacy and academic learning schools; iii) courses on personal finances and health; and iv) talks on the policy and culture of zero tolerance for harassment and discrimination.

4.3 Resource Efficiency and Pollution Prevention

As required by Mexican regulations and before beginning construction activities, Procsa conducts soil quality studies to ensure that there are no contamination and/or hydrocarbon residues. The site is cleaned manually or with machinery, ruling out the use of fire or defoliants. An environmental contingency system is used to measure quality and concentrations of particulates in the air.

Procsa measures the consumption of water and electricity for each dwelling and has various energy efficiency programs for its cooling, heating, and lighting systems and construction materials. It also uses various environmental technologies for the housing units, including smart water and light saving systems. All waste from the construction is collected by a company specialized in recycling and waste management.

As for developments on sites that have not been subject to intervention before (greenfields), the Company conducts biodiversity and ecological studies in addition to those required by law. During the visit, various (not mandatory) special measures to save trees were observed at some sites, including changes in construction plans and procedures.

4.4 Community Health and Safety

Health and safety issues are adequately considered in the design, construction and maintenance of the construction works. The integrity of all dwellings adjacent to the works is certified by a notary. Procsa maintains close communications with the communities, both those living on the intervened sites and those living nearby.

The current license contains some social commitments to be carried out by Procsa, such as donating lands for building public schools or improving public spaces. In addition, the Company has set up a "Community Life Office" at all sites; these are freely accessible by members of the communities

where construction works are carried out or that are adjacent to those. Periodic meetings are also held by Neighborhood Councils.

The Company does not utilize armed security services.

4.5 Land Acquisition and Involuntary Resettlement

Although the project triggers PS5 with respect to the acquisition of land, it does not do so with regard to involuntary resettlement. Procsa primarily acquires lands that have been previously subject to industrial or commercial use and that have the respective residential use permits. Thus, there is no voluntary or involuntary resettlement of the population nor are natural habitats or indigenous communities affected. The location of the lands intended for construction is regulated by urban zoning, which is determined by local and national authorities. The Company has a Pre-Feasibility Study Procedure for Land Acquisition that ensures, among other criteria, that the land title is free and clear. Acquisitions comply with applicable Mexican laws.

4.6 Biodiversity Conservation and Sustainable Management of Natural Resources

The project will not affect any critical habitat given Procsa's policy of only acquiring lands that already have free title and are approved as residential land and not undertaking land conversion projects.

4.7 Indigenous Peoples

The project will not affect any indigenous population.

4.8 Cultural Heritage

Procsa has had a procedure for archeological discoveries since 2015. For sites where there is a greater possibility of fortuitous finds, such as developments in the historical center of Mexico City, additional studies are carried out and, if applicable, the corresponding archeological prospecting and salvaging work is conducted in coordination with archeological and cultural authorities.

5. Environmental and Social Action Plan

Procsa has successfully implemented an Environmental and Social Action Plan (ESAP) under the preceding operation with IDB Invest. No material gaps have been identified with the IDB Invest Sustainability Policy. Nonetheless, the following ESAP is established for the purpose of contributing to a continuous improvement process:

| Issue / Gap | Action | Performance Indicator | Delivery Date |
|---------------------------------|---|---|-----------------------------------|
| Environmental and Social Policy | Consolidate all already existing components in an Environmental and Social Policy | Duly dated and signed Environmental and Social Policy delivered to IDB Invest | 3 months after first disbursement |

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 MIICI@iadb.org, or calling +1(202) 623-3952.