

Environmental and Social Review Summary (ESRS) Megacable – MEXICO

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1. Overview of the operation

The transaction consists of a revolving, uncommitted Reverse Factoring line to be provided by IDB Invest to Megacable Holdings SAB de CV and its subsidiaries (the “Megacable” or the “Anchor Company”), for an amount of US\$20 million (the “Transaction”). IDB Invest may, at its sole discretion: purchase from and discount to the supplier’s credit rights payable by Megacable, previously confirmed by the latter, through an eligible electronic platform.

Megacable is a Mexican cable operator and provider of internet and phone service. Its supply pool in Mexico is comprised of over 5,000 suppliers, mostly Micro, Small, and Medium-sized Enterprises (MSMEs).

Through this Transaction, IDB Invest seeks to facilitate access to financing at competitive prices to Megacable’s MSMEs suppliers in Mexico, through the discount or monetization of credit rights arising from the sale of goods and/or services of said suppliers to Megacable. The maximum tenor of the credit rights to be discounted to the suppliers is expected to be 180 days.

Reverse Factoring solutions are directed towards facilitating access to affordable finance to suppliers, mostly MSMEs. Management of environmental and social risks is delegated to and executed by (i) the Anchor Company when IDB Invest purchases directly confirmed credit rights payable by the Anchor Company.

2. Scope of IDB Invest's environmental and social review

The environmental and social analysis of the proposed operation consisted of a documentary review of the Anchor Company's environmental and social performance, with an emphasis on compliance with the following Performance Standards (PS): PS1 - Assessment and Management of Environmental and Social Risks and Impacts; PS2 - Labor and Working Conditions; and PS3 - Resource Efficiency and Pollution Prevention. Particularly, IDB Invest’s due diligence involved a review of Megacable’s procurement processes through publicly available information, call conferences and communications with Megacable’s procurement and human resource managers, and a review of documentation provided by Megacable. Documents reviewed included its Code of Ethics (CoE) and procurement procedures.

3. Environmental and social classification and its justification

In accordance with IDB Invest's Environmental and Social Sustainability Policy, the Project has been classified in Category C because the incremental impacts it will generate are low or none and can easily be manageable from the perspective of the Project.

4. Environmental and social risks

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

Policy. Megacable has a Code of Ethics (CoE) and an Internal Labor Regulation that guides the behavior of those who are part of the company to promote full compliance with local laws and the highest standards of personal and professional integrity are followed in all aspects of their activities. Megacable will update its CoE to address health and safety at work, forced labor, child labor, discrimination, freedom of association, environment, and grievance mechanism. Megacable shall communicate the updated CoE to its employees and suppliers and shall require suppliers to sign up to the revised CoE as a condition of engagement.

Identification of Risks and Impacts. The Environmental and Social (E&S) risks relate to the Anchor Company's commitment and capacity to manage environmental and social risks, labor and working conditions, and resource efficiency and pollution prevention. Risks at the level of the suppliers relate to such issues as environmental licensing (both from an operational and from a reliable resource purchasing point of view), occupational health and safety, and potentially waste management, among others.

Management Programs. Megacable has an established procurement procedure for the selection of suppliers and the scoring of their performance. Purchase orders are evaluated by a procurement committee, comprised of staff from eight different departments, based on the supplier's technical capacity and financial offer. Megacable does not currently have environmental and social criteria to screen/select suppliers aligned with IFC's Performance Standards on Social and Environmental Sustainability. Instead, suppliers are rated as approved or conditioned depending on their performance when carrying out assigned projects, especially in complying with the established technical specifications.

Megacable will update its procurement procedures to include the evaluation of E&S aspects and to classify suppliers according to their E&S performance. The updated procurement procedure will incorporate E&S criteria to reflect applicable IFC PS, the mechanism (e.g. questionnaire/sustainability guideline) for collecting E&S information and the incorporation of E&S parameters within the company's existing rating system. Megacable will include E&S evaluation criteria as part of its tender process (along with technical and financial criteria) and will communicate E&S criteria to its suppliers as part of their existing onboarding program.

Megacable will update its contractual agreements with its suppliers to reflect PS2 and PS3 requirements. Alternatively, it will require a written statement in which the suppliers certify: (i) compliance with current labor and Occupational Health & Safety (OHS) legislation, in particular the prohibition of child labor and forced labor, non-discrimination, gender equality, and ensuring safe working conditions; and (ii) compliance with applicable environmental legislation, in order to minimize environmental impacts through control of its atmospheric emissions, adequate management and treatment of liquid and solid waste, and the rational use of natural resources in its processes.

Organization Capacity and Competency. Megacable will nominate a responsible person to monitor the implementation of the new procurement process, review its effectiveness, and enhance it as needed.

Monitoring and Review. Following the implementation of the suppliers' rating procedure, Megacable will review the effectiveness of the program and will enhance it as appropriate in coordination with IDB Invest.

4.2. Labor and Working Conditions

Overall, working conditions are very well regulated in Mexican labor and OHS legislation in terms of working hours, wages, vacations, workers' compensation, labor regimes, and safe working conditions, among other aspects.

Megacable's updated procurement procedures will incorporate labor clauses in contractual agreements with suppliers (or alternatively, require supplier's affidavit of compliance) to reflect PS2 requirements regarding labor and working conditions.

4.3. Resource Efficiency and Pollution Prevention

Megacable carries out annual and permanent campaigns with the objective of managing natural resources and conserving the environment, including: (i) a paper collection and recycling campaign in partnership with recycling companies; (ii) a "Life Without Plastic" campaign, through which Megacable is eliminating the use of bottles of this material, while encouraging employees to use metal or polycarbonate containers; and (iii) a campaign for the sustainable disposal of batteries, which are collected and sent to a hazardous waste management company in order to reduce the impact and risk associated with them.

5. Proposed management measures

Consistent with the IDB Invest Sustainability Policy, Megacable will be required to manage the associated environmental and social risks of their supply chain with a supply chain policy and ensure that end-beneficiaries (i.e. suppliers) are in compliance with the requirements of local environmental and social legislation, as applicable, and the IDB Invest Exclusion List.

6. Additional Information

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In addition, as a last resource, affected communities can access IDB Invest's Independent Consultation and Investigation Research (ICIM) in the following way:

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