

Classification and Environmental and Social Strategy (ESS) Prolade - MEXICO

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1. Project Scope and Objective and IDB Invest Participation

This operation (the "Project") consists of support for Prolade to finance the planting of palm (*Elaeis guineensis Jacq*) for vegetable oil production, which is extracted at Prolade's Extraction Plant. The project, currently being developed in the municipalities of Huimanguillo and Teapa in the state of Tabasco, Mexico, is divided into three stages: the first stage involves planting 2,763 hectares ("ha") of crops, divided into 12 plots; the second stage involves planting an additional 1,300 ha; and the third stage involves planting another 3,000 ha in the following years. The Project will have a duration of 66 years, of which the first three will be for site preparation, the following 60 years for the operation and maintenance of the plantation, and the last 3 years for the Project abandonment stage.

The Project is located in an area with heavily intervened landscapes that have been transformed into agri-ecosystems. Despite the recent trend of increasing natural cover (wetlands and trees) in the region, most of the Project's infrastructure (97%) is in modified habitats: lands used for agriculture (50%), pastures (25.70%), and cultivated forests (20.54 %). The only fragments of natural habitat found within the Project area of influence correspond to secondary tree and shrub vegetation (totaling 2.9%) that will not be affected by the planned activities. There are, however, eight protected natural areas¹ within a one-kilometer strip of the extraction plant and plantations, and two additional ones² within a 10-kilometer radius.

Furthermore, there are also 88 communities within the Project's Area of Direct Influence ("ADI"), with 25 of them registered in the Catalog of Indigenous Localities of the National Institute of Indigenous Peoples ("INPI"). However, there are no indigenous communities located near the Project site, and therefore, the Project activities will not directly affect any indigenous populations.

Archaeological sites Malpasito of the Zoque culture and La Venta of the Olmec culture are located 30 and 40 km from the Project's plantations, respectively. Although there is no record of critical cultural heritage within its area of influence, the Project has a Chance Finds Procedure.

2. Classification and Environmental and Social Strategy

The project has been pre-classified as Category A, in accordance with IDB Invest's Environmental and Social Sustainability Policy (E&SSP), as it will generate environmental and social ("E&S") risks and

¹ Centla wetlands, El Ocote jungle, Saybal-Cavahlná hills, Tapalapa hills, Jolvit range, El Ocote, Centla and Uxpanapa wetlands.

² Zoque jungle and Tectuapan.

impacts of medium to high magnitude, which, among others, include: (i) possible effects on biodiversity, due to the presence of protected areas and, perhaps, critical habitats near the Project areas; (ii) generation of cumulative impacts from existing and planned developments in the area; (iii) generation of risks related to working conditions and management of occupational health and safety (“OHS”) aspects; (iv) generation of possible impacts to indigenous communities; (v) possible heritage or cultural findings in the area.

Contextual risks include minor displacement of smallholder farmers, which can generate social conflict and human rights issues; land tenure disputes and unequal distribution of benefits, which can generate tensions within local communities; intensive use of pesticides, fertilizers, and water resources, which can lead to contamination, soil degradation, and water pollution; fragmentation and alteration of natural habitats, which can affect wildlife populations; and labor and human rights concerns.

To date, the Project has prepared the following environmental studies: (i) an Environmental and Social Impact Assessment (“ESIA”), completed in June 2023; (ii) a Rapid Ecological Assessment (“REA”); (iii) a High Conservation Value Assessment (“HCVA”); (iv) an Impact Assessment & Environmental Management System; and (v) an Environmental Impact Assessment Particular Modality for the Construction and Operation of a Palm Oil Extraction Plant (“MIA”).

Mexican law does not require an environmental license for the development of agricultural plantations. The Extraction Plant has an environmental impact resolution³ and a water concession granted by the National Water Commission (“CONAGUA”) for mixed industrial and agricultural use. To date, the Company has also started the process of obtaining a license for the irrigation systems⁴ from the Secretariat for Environment and Natural Resources (“SEMARNAT”).

The environmental and social due diligence (“ESDD”) process will include a review of the following topics, without being limited to them: (i) Prolade's E&S management systems; (ii) E&S and OHS management policies, plans, and procedures; (iii) the Project's ESIA; (iv) biodiversity, EER, HCVA studies; (v) social baseline studies; (vi) human resources policies; and (vii) planning and implementation of stakeholder engagement processes, including a review of grievance mechanisms and community outreach activities carried out by the Project.

Based on the information received and reviewed so far the Performance Standards (PS) that the Project is likely to trigger 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; PS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources; and PS8 Cultural Heritage. The final determination of the PS triggered by the Project will be done by the end of the ESDD process.

Once the ESDD process is complete, an Environmental and Social Review Summary (“ESRS”) and an Environmental and Social Action Plan (“ESAP”) to close any compliance gaps with IDB Invest's Environmental and Social Sustainability Policy will be prepared and posted on this website.

³ Palm oil extraction plant and wastewater treatment plant No SBSCC-RIA-064-2020 MIA-P-054-2020, of August 6, 2020.

⁴ It has thus submitted an MIA for the Irrigation System Units (09/ MG – 0205 /02/23, of February 22, 2023).

3. Additional Information

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In addition, affected communities can access IDB Invest's Independent Consultation and Investigation Mechanism (ICIM) as follows:

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