

## Environmental and Social Review Summary (ESRS) Merqueo – COLOMBIA and MEXICO

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

Merqueo SAS ("Merqueo" or the "Company") is a Colombian venture launched in 2015 as one of the country's first online supermarkets. The cornerstone of the business is its technological platform, together with its retail offering, logistics, and user experience. Merqueo's platform enables customers to access a wide variety of products at more competitive prices than a regular supermarket, thus saving them time and money. The Company, which has operations in Bogotá, Medellín, and Cali in Colombia, began an international expansion process in February 2020 with the opening of its first warehouse in Mexico City.

This operation (the "Operation") consists of a direct capital investment in the Company to support the consolidation of its growth, continue developing its marketing strategies, and expand its operations within the countries where it is already established and others in the region through its e-commerce platform, a modality which has gained increasing relevance due to the COVID-19 pandemic.

The scope of IDB Invest's environmental and social review included: i) analysis of the Company's information and documents; ii) remote meetings with personnel responsible for overseeing Merqueo's management, human resources and operations systems; and iii) a virtual tour of one of its warehouses in Bogotá. The Environmental and Social Due Diligence ("ESDD") process did not include visits to the Company's facilities due to travel restrictions imposed by the Colombian government in relation to the COVID-19 pandemic.

### 2. Environmental and Social Categorization and Rationale

This has been classified as Category B project under the IDB Invest Environmental and Social Sustainability Policy, due to the fact that it may generate, among others, the following impacts and risks: (i) an increase in solid waste generation (both common and recyclable); (ii) the generation of hazardous waste; (iii) the generation or increase of traffic in areas close to its distribution centers; and (iv) the generation or increase of occupational health and safety risks for workers (employees and outsourced personnel). These impacts and risks are deemed to be of low intensity.

The Operation will trigger the following Performance Standards (PS): i) PS 1: Assessment and Management of Environmental and Social Risks and Impacts;; ii) PS 2: Labor and Working Conditions; iii) PS 3: Resource Efficiency and Pollution Prevention; and iv) PS 4: Community Health, Safety and Security.

### **3. Environmental and Social Context**

#### **3.1 General characteristics of the operation site**

The Company's operations are primarily conducted in urban areas through its distribution chain and warehouses suitable for the storage of merchandise and preparation and shipping of orders. These warehouses are distributed in different areas of the cities where it operates and have been selected in order to optimize the Company's distribution channels. They usually have two floors to facilitate the movement of personnel and stock rotation. Merqueo estimates that a new warehouse can be opened in just two weeks, as it has been able to optimize its shelving system to make it easily scalable.

The Company has an exclusive warehouse for fruits and vegetables, which are classified to guarantee product quality before being labeled and packaged for delivery at its own expense. Merqueo also has 10 own brands, which represent approximately 40 products at more competitive prices (detergents, dish soap, legumes, etc.). With regard to its distribution channels, Merqueo outsources its transport fleet, but the Company ensures that the vehicles have the required permits for the products they transport.

Unlike other businesses, the COVID-19 pandemic has been a growth opportunity for Merqueo, as it enables users to make supermarket purchases online from the comfort of their homes. Although Merqueo's operations are technology-based, the Company allows customers to pay in cash, enabling the unbancarized population to access this service and benefit from lower prices in their purchases. Merqueo is able to offer lower prices than regular supermarkets because it has eliminated intermediary costs. To achieve this, the Company negotiates directly with suppliers and manufacturers, directly controlling the supply chain, receipt of products, storage, recruitment, transport, and order deliver to customers' homes.

#### **3.2 Contextual risks**

As it carries out its operations in urban areas and major cities, the Company may be exposed to public demonstrations, which on some occasions are suppressed with a disproportionate use of police force.<sup>1</sup>

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

#### **4.1 Assessment and Management of Environmental and Social Risks and Impacts**

##### **4.1.a E&S Assessment and Management System**

Merqueo has implemented an Integrated Management System (“IMS”) that includes environmental, social, and occupational health and safety (“ESOHS”) issues and covers all of its operations, with adaptations based on local regulations (Colombia and Mexico). The IMS also has a manual (approved in October 2019) that covers all of its management programs. It also includes an ESOHS manual for

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<sup>1</sup> Annual Report of the United Nations High Commissioner for Human Rights (OHCHR), 2019, Situation of human rights in Colombia, which can be viewed at the following link: [https://www.hchr.org.co/documentoseinformes/informes/altocomisionado/A\\_HRC\\_43\\_3\\_Add.3\\_AdvanceUneditedVersion-2019-2.pdf](https://www.hchr.org.co/documentoseinformes/informes/altocomisionado/A_HRC_43_3_Add.3_AdvanceUneditedVersion-2019-2.pdf).

Merqueo contractors and subcontractors, which aims to minimize risks through the prevention of workplace accidents and occupational illness.

The IMS has specified the executives responsible for its application, as well as the necessary physical, financial, and technological resources for its implementation. Despite being relatively recent (developed in 2019), 67% of the IMS had already been implemented by December 2019, and 90% by August 2020.

#### 4.1.b Policy

The Company has developed a comprehensive ESOHS policy (approved in March 2019) based on the requirements of the ISO 14001:2015 standard, which is disclosed internally to both employees and contractors. This policy is reviewed annually and updated based on business requirements and any legal changes that may occur.

#### 4.1.c Identification of Risks and Impacts

The Company has implemented a matrix approved in March 2019 to monitor environmental aspects and impacts, through which it assesses the impacts defined in the corresponding environmental programs and operational controls, when applicable. The matrix also identifies health and safety hazards and risks, as well as legal risk management requirements, objectives, targets, and programs. The scope of this analysis includes all Merqueo employees and contractors who provide services on behalf of the Company.

The matrix is reviewed on a regular basis and whenever changes are registered in processes or operations, when warehouses are expanded, or when new conditions are detected that affect the Company's operations (changes in legislation, regulations, etc.).

#### 4.1.d Management Programs

The Company has implemented an annual ESOHS work plan, which has been developed based on the six objectives<sup>2</sup> outlined in Merqueo's ESOHS policy. This plan includes targets, indicators, and actions for each component associated with the policy and has the necessary financial, human, and other resources for its implementation, in addition to a schedule containing all actions and the executives who are responsible for them.

One significant environmental aspect for Merqueo's operations is waste management. As such, the IMS includes (organic and inorganic) waste management controls and indicators, recycling, and the requirement to maintain waste disposal or delivery certificates.

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<sup>2</sup> The objectives include: (i) identifying environmental hazards and aspects, and evaluating and assessing environmental risks and impacts to establish the respective controls; (ii) protecting the health and safety of all employees, contractors and subcontractors, promoting care of the environment and pollution prevention, and contributing to community development; (iii) compliance with applicable national occupational risk and environmental regulations; (iv) implementing health promotion programs aiming to improve employee wellbeing; (v) promoting a healthy workplace and providing training on health, safety, and environmental best practices; and (vi) implementing and maintaining an emergency prevention, preparedness, and response plan.

The IMS also contains the following key components: i) Supplier and Contractor Management Procedure; ii) Healthy Lifestyle and Environment Program; iii) Fumigation Program (trap and fumigation reports); iv) Emergency Plan (including spill kit use procedure); v) procedure to specify ESOHS objectives, targets, and programs; vi) Inspection Procedure (including environmental issues); and vii) Training and Awareness Procedure.

#### 4.1.e Organizational Capacity and Competency

Merqueo has an interdisciplinary team that is responsible for ESOHS issues, with defined roles and responsibilities and the support of senior management. The Company implements an annual training program that includes inductions to the IMS and the Comprehensive Management Policy, as well as training on environmental issues. The program assesses learning on each issue through indicators.

Merqueo's 10-person ESOHS team is led by an ESOHS director and has three areas: environmental (one person), health and safety (eight people), and road safety (one person). Each area has developed annual work plans, their actions are in line with the commitments of the Comprehensive Management Policy, and performance indicators have been specified for each target.

#### 4.1.f Emergency Preparedness and Response

Merqueo has implemented an Emergency Master Plan which requires each commercial site and office to develop an emergency plan based on their own risks. Each individual plan is controlled independently in order to manage the corresponding risks. Employees and contractors from various shifts participate in the emergency response identification and planning process. The resulting plan includes: i) regular training for all personnel; ii) drills schedule (with and without warning); iii) regular reviews and updates; iv) documentation and registration maintenance protocols; and v) spill kit use procedures. Senior management actively participates in the monitoring of the Emergency Master Plan.

Drills are scheduled in all shifts on a regular basis. After drills have been carried out, reports are generated to identify findings, recommendations, and corrective actions, and their incorporation as improvements in the emergency plans is assessed. Each work center has an emergency brigade that receives specific training, and its members actively participate in simulations. The warehouses have emergency alarms, first aid areas, fire extinguishers, spill response equipment, and safe areas. Routine inspections are carried out and emergency equipment receives maintenance.

With regard to road safety, Merqueo has implemented a Comprehensive Road Safety Policy and General Road Accident Response Protocol. Merqueo's road safety management system includes indicators, targets, human resources (contractors or hired drivers), induction processes, regular inspections, preventive inspections, and safe infrastructure. Heat maps are developed for the cities where the Company operates, identifying areas that may be subject to flood, strike, robbery, and assault risks in order to share this information with drivers and optimize delivery routes. Finally, Merqueo has an accident response hotline that delivery personnel can call in the event of an accident to receive instructions on how to proceed and attend to injured parties until specialized medical assistance arrives.

#### 4.1.g Monitoring and Review

The Company has implemented a monitoring plan that covers all risk areas. In addition to indicators, this plan includes procedures and assigns responsibilities for registering, analyzing, and reporting results. Merqueo has established, implemented, and maintains a procedure for handling failures to comply with its requirements, as well as corrective and preventive actions. Based on the above, the Company reviews the IMS once a year to determine the level of fulfillment of the work plan and schedule, the effectiveness of monitoring strategies and measures, any changes that may need to be implemented, the adequacy of allocated resources, etc.

The Company is subject to inspections by three official bodies in Colombia: the Regional Health Department, the National Institute of Drug and Food Surveillance (“INVIMA” for its acronym in Spanish) and the Fire Department. Both the Regional Health Department and the INVIMA inspect, control, and oversee compliance with Resolution 2674 of 2013 regarding the distribution and handling of food. For that reason, Merqueo has a Quality Area and Operations Department that ensure compliance with regulations, carry out the corresponding monitoring, and are responsible for updating the IMS.

Merqueo requests an annual technical review of each warehouse by the Fire Department's Risk Management Area to assess compliance with basic human safety and fire protection regulations.

Merqueo carries out monitoring actions and ensures the required measures are implemented for the conservation of cold food products, health registers, and product separation and segregation in warehouse storage areas. To achieve this, it carries out routine inspections to ensure correct handling of food products in accordance with product data sheets and current regulations.

The monitoring and assessment of contractors and suppliers is outlined in manuals and procedures specifically designed for that purpose, which form part of the IMS. The Company's records include, among other aspects, an assessment of contractors' environmental and occupational health and safety management; their ESOHS work plan; and the monthly ESOHS reports that they are required to submit. The procedures indicate the minimum requirements that each supplier must adhere to, such as the legal documentation required based on its industry. For example, transport companies are required to provide valid technical and mechanical certificates.

#### 4.1.h Stakeholder Engagement

Merqueo identifies external groups that may be affected by or influence its operations. The Company has provided a link on its sales platform for customers or users to contact it; it has a blog where it regularly publishes information of interest about the Company (operations, activities, etc.); and it maintains an active presence on the principal social media channels.

The Company has implemented several mechanisms to receive and respond to internal and external queries. These mechanisms are defined in the Communications Procedure, which forms part of the IMS. Petitions, grievances, claims, and requests (“PGCRs”) formulated by users are processed by the help center provided on the sales platform. This mechanism addresses PGCRs within 48 hours following their receipt. If conditions with the user permit, PGCRs are resolved within a maximum period of five (5) business days after being processed, as stipulated by current legislation and Merqueo's internal policies.

Additionally, the Company has implemented processes to document the receipt and investigation of grievances and to report any decisions made. PGCRs are managed with a system called *Zendesk*, which provides indicators focused on response time and resolution of the ticket entered.

The Company has participated in the District Environmental Excellence Program (“PREAD” for its acronym in Spanish) of Bogotá Municipality as part of its Action Plan with Authorities. As part of this initiative, it carries out environmental education activities with customers, as well as stores, schools and other companies, and has designed an environmental awareness campaign. On a community level, this plan includes building relationships with NGOs with a view to generating strategic partnerships and working on social and environmental initiatives as part of its corporate social responsibility (CSR) scheme.

The NGO partnerships developed by Merqueo involve foundations such as *Verde Olivo* and *Alas Cinco*, which support low-income families and the recycling community. Under these partnerships, the Company has donated products due to expire that remain in good condition. Other foundations have received donations of recyclable material, such as *Sol de los Andes* (for children with cancer) and *Tapitas por Patitas* (for stray animals), which sell the donated material and cover some of their operating expenses with the funds raised. A third initiative is the donation of lightly used work clothes that remain in good condition to *Fundación Niños de los Andes*, whose members use it to work in the foundation's vegetable gardens to provide food for the children they support. Finally, in Bogotá the Company also collaborates with *Banco de Alimentos* (a food bank) and *Fundación Fuente de Vida* (“FUNDEVI” for its acronym in Spanish).

## 4.2 Labor and Working Conditions

### 4.2.a Working Conditions and Management of Worker Relationships

Merqueo has more than 1,000 employees. It complies with all legal requirements for employers, including social security payments (healthcare, pensions, and occupational risks) and social benefits (service bonus, vacations, unemployment insurance, and interest). Contracts are for an indefinite duration or fixed term, and the benefits offered to employees include partnerships with various companies for employees to access better rates on the services offered (gyms, English courses, funeral insurance, etc.). Additionally, employees receive a monthly discount coupon to use at Merqueo.

Merqueo's operating model provides two ways of accessing the distribution chain: one for independent suppliers who register with the Company (trucks, motorbikes), and another for companies that provide the required service. As such, Merqueo's delivery fleet is not in-house, but rather is made up of independent professionals and external companies. In both cases, there are requirements to join Merqueo, depending on the type of vehicle used. However, all drivers must have: i) professional risk insurance; ii) compulsory traffic accident insurance (“SOAT” for its acronym in Spanish); and iii) up-to-date technical and mechanical vehicle checks and all other legally required inspections.

Many Merqueo customers pay drivers directly in cash upon delivery of the required products, and drivers handle the money received at their own risk. As such, the final payment to drivers is carried out on a

fortnightly basis, deducting the amounts received in cash from fees generated for the service provided in the period.

#### 4.2.a.i Human Resources Policies and Procedures

Merqueo has implemented a comprehensive policy (environmental, social, and occupational health and safety) to ensure compliance with regulations, which is reviewed periodically. It has also implemented a Policy for the Prevention of Alcohol, Tobacco, and Psychoactive Substance Consumption and Carrying of Weapons, Industrial Health and Safety Regulations, a COVID-19 Prevention Protocol, a Code of Conduct, and Internal Work Regulations.

#### 4.2.a.ii Working Conditions and Terms of Employment

The Company has two types of work regime: one for its administrative personnel, who have flexible working hours under a trust-based contract, where employees are free to choose their working hours and are not required to complete the legal maximum work day; and another for operating personnel, who have rotating shifts (8 hours with a 15-minute break or a maximum of 9 hours with one lunch hour), and one paid rest day per week, as well as overtime and surcharges.

#### 4.2.a.iii Workers' Organizations

The Company has established the following committees in its operations: the Workplace Relations Committee, the Joint Occupational Health and Safety Committee ("JOHSC"), and the Road Safety Committee. These committees hold regular meetings that are recorded via meeting minutes, guaranteeing the communication, participation, and consultation of employees on safety, occupational health, environmental, and social issues.

#### 4.2.a.iv Grievance Mechanism

The grievances and claims management mechanism for employees is based on self-reporting of working, health, and environmental conditions. These reports are channeled through mailboxes installed in the Company's warehouses and offices. These mailboxes are reviewed periodically, and the Workplace Relations Committee is informed if grievances are submitted that involve harassment, internal disputes, etc. An email address and ethics hotline have also been created to enable grievances to be submitted anonymously. Additionally, direct employees and contractors can report grievances to their supervisor in person. The grievances received are investigated in accordance with the issue involved, and corrective action plans are developed when applicable.

#### 4.2.b Protecting the Workforce

Merqueo only hires individuals who have reached legal working age. Its Human Talent Recruitment Area is responsible for compliance with hiring processes and the Internal Work Regulations, which specify tasks that are prohibited for women (e.g. industrial painting) and individuals younger than 18 years of age, especially when these tasks involve high exposure to risks to their health or physical integrity.



#### 4.2.c Occupational Health and Safety

Merqueo has specific training requirements for employees exposed to potential hazards and emergency situations. The hazards to which employees and contractors are exposed are identified on all levels (physical, chemical, biological, electrical, noise, temperature, work at heights, driving industrial vehicles, traffic, fire, and explosion) for their management. Exposure to carbon monoxide, noise, light, and temperature is monitored in the workplace.

The identification and assessment of risks are reviewed on a regular basis and whenever there are changes in processes and operations, or when facilities are expanded. The Company has implemented a procedure for reporting and investigating accidents, incidents, and occupational illness in order to identify the causes, events, and situations that give rise to such issues and implement corrective measures to eliminate or minimize risks and avoid their recurrence. Additionally, the Company's occupational health area has implemented preventive health programs focused on hearing conservation, preventive medicine, management of biomechanical risks, manual handling management, and work in cold rooms, among others.

From the fourth quarter of 2018 to date, Merqueo has implemented an inspection plan to detect occupational and environmental risks. Its annual ESOHS training program has been updated to incorporate issues related to the COVID-19 pandemic.

#### 4.2.d Workers Engaged by Third Parties

To manage and align contractors, the Company has implemented the Merqueo Contractors Manual, which requires all contractors to comply with the Company's ESOHS policies, the Policy for the Prevention of Alcohol, Tobacco and Psychoactive Substance Consumption and Carrying of Weapons, and the Road Safety Policy. According to the manual, contractors are responsible for: i) establishing an occupational health and safety management system for their employees, in accordance with current regulations; ii) managing safety risks for their personnel and own teams or the Company's teams; and iii) potential environmental impacts that may be generated by their activities. As such, controls have been implemented to ensure that contractors make social security payments for their employees, use personal protective equipment correctly, and prepare an ESOHS management report and ESOHS work plan.

#### 4.2.e Supply Chain

Merqueo has implemented a supplier and contractor management procedure as part of its IMS that outlines the process for purchasing goods and managing contractors; ensures legal compliance on occupational health and safety and environmental issues; and enables compliance with standards, rules, regulations, procedures and instructions to be verified and monitored. This procedure has been in force since September 2019.



### 4.3 Resource Efficiency and Pollution Prevention

#### 4.3.a Resource Efficiency

In general, Merqueo's energy consumption is related to the lighting of work areas and functioning of equipment, while water consumption is basically for human use and cleaning of work areas.

Merqueo has implemented improvements in energy savings, making adjustments in its administrative areas and changing light fittings to improve lighting and reduce energy consumption. This initiative was launched with a pilot project in the Company's Montevideo warehouse, located in Bogotá, which resulted in energy savings of 1,250 kWh/month. Other pilot activities include the installation of light and movement sensors to avoid lights needing to be turned off manually, optimizing energy savings.

At the end of April 2019, the Company changed the size of its plastic bags and reduced their weight. In 2020, it has aimed to replace these bags with cardboard boxes. It has also identified the importance of reducing the use of plastic wrap<sup>3</sup>, and in 2020 it stated its intention to replace the plastic wrap it currently uses with a product with a lower plastic content.

The Company has conducted campaigns and programs to reduce paper consumption, save water, and ensure efficient water use. Additionally, as part of its IMS, it has established metrics to monitor water and energy consumption. For example, to increase water savings, the Company proposed a maximum monthly average consumption of 0.95m<sup>3</sup> for 2020. This goal would be achieved through restroom modifications, rainwater harvesting channels, changes to faucets, and the installation of eco-friendly urinals. In relation to energy use, the Company set the goal of achieving a maximum monthly average consumption of 12.8 kWh per person for 2020.

#### 4.3.a.i Greenhouse Gases

One of the main tenets of Merqueo's operations is that, compared to the large premises occupied by traditional supermarkets to receive customers, Merqueo's online supermarket is more efficient in terms of energy use and greenhouse gas emissions, as people are not required to travel to its physical installations.

The Company calculated its carbon footprint for 2019, reporting emissions generated by its operations of approximately 780 tons of CO<sub>2</sub> equivalent per year. Its sources of CO<sub>2</sub> include: fixed and mobile sources related to its commercial operations, which account for 49% of emissions; purchased energy (electricity), which accounts for 3%; and indirect mobile sources (air transport), which accounts for 48%. To reduce its carbon footprint, the Company has undertaken tree planting initiatives and is currently implementing a project to install solar panels and movement sensors in its distribution centers.

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<sup>3</sup> Plastic wrap or stretch film is a thin plastic film that is usually made of linear low-density polyethylene ("LLDPE") to wrap and group items.

#### 4.3.a.ii Water Consumption

The IMS includes metrics to control water consumption. In that regard, the Company has implemented pedals to operate faucets for handwashing, preventing up to 15 m<sup>3</sup>/month of water from being wasted. This improvement will also serve to avoid contact with faucets, reducing the possibility of spreading COVID-19.

#### 4.3.b Pollution Prevention

To comply with both current environmental legislation and the provisions of its IMS, the Company has implemented a Comprehensive Waste Management Plan whose objective is to ensure the suitable management of all waste generated in its operations (conventional, hazardous, and post-consumer waste). As part of this plan, and in order to control and maintain records of the waste generated, during 2020 scales have been installed in distribution centers.

For the management of post-consumer and hazardous waste (batteries, light bulbs, etc.), Merqueo has identified four certified service providers, which are responsible for the final disposal of these items.

One of Merqueo's initiatives to reduce waste generation is to store the security tape on plastic boxes used to deliver orders to be donated to the NGOs with which it maintains partnerships. In 2019, almost 200kg of this material was donated. Another initiative that will be implemented in 2020 includes replacing the cleaning products currently used in work areas with biodegradable products.

### 4.4 Community Health, Safety and Security

#### 4.4.a Community Health and Safety

The Company has implemented a Comprehensive Road Safety Policy and General Road Accident Response Protocol. A qualified coordinator in the ESOHS team is dedicated exclusively to these issues.

Based on the orders that must be delivered during the day, Merqueo provides delivery routes to its drivers, as well as a heat map identifying dangerous areas (areas prone to robbery, assault, strikes, or flooding). The Company has also implemented an Emergency Response Plan that is reviewed annually by the Fire Department to certify that its facilities comply with basic human and fire safety regulations. Finally, at a product level, Merqueo ensures compliance with Resolution 2674 of 2013 in relation to the distribution and handling of food, both in its warehouses and during distribution.

#### 4.4.b Security Personnel

Since 2017, Merqueo has contracted specialized security services provided by Securitas Colombia, which include comprehensive monitoring and private security in its facilities in order to reduce, prevent, deter, or thwart disturbances or threats that violate or may violate the lives, physical integrity or legitimate use of property of those who receive protection. Because Merqueo's customer-facing operations are managed online, its distribution centers are not open to the general public. As such, the security service

is limited primarily to the direct relationship with employees, contractors, and suppliers involved in its commercial operations.

#### **4.5 Land Acquisition and Involuntary Resettlement**

The Company carries out its operations in urban areas, and as such no involuntarily physical or economic displacement is required.

#### **4.6 Biodiversity Conservation and Sustainable Management of Living Natural Resources**

The Company carries out its operations in urban areas, and as such there are no biodiversity conservation or wildlife management risks.

#### **4.7 Indigenous Peoples**

The Company carries out its operations in urban areas of Bogotá, Medellín, and Cali in Colombia, as well as in Mexico City, where indigenous communities or peoples are not affected.

#### **4.8 Cultural Heritage**

The Company is not located in a current or potential cultural heritage site, and as such this Performance Standard does not apply.

### **5. Local Access of Project Documentation**

The documentation related to the project can be accessed at the following links: <https://blog.merqueo.com/> and <https://merqueo.com>.