

Environmental and Social Review Summary (ESRS) Agripac – Ecuador

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1. General information on the scope of IDB Invest's Environmental and Social Review

Agripac is an Ecuadorian company founded in 1972 that produces, distributes, and sells agricultural and industrial supplies. It boasts the largest domestic distribution network of agro-industrial products. It is an existing client of IDB Invest, and this would be its fourth transaction with the client. The first was approved in 2012, the second in 2015, and the third in 2018.

IDB Invest performed virtual due diligence on the project and reviewed environmental information from different reports, environmental audits, and fact sheets, as well as internal documents on Agripac's policies and procedures.

2. Environmental and Social Categorization and Rationale

The project has been classified in Category B, in accordance with IDB Invest's Environmental and Social Sustainability Policy since it will likely generate the following impacts among others. These impacts and risks are estimated to be moderate and mitigable. The main risks associated with the project include: (i) functionality of environmental and social monitoring and management systems, (ii) fire safety; (iii) monitoring and management of agrochemical handling; (iv) emissions monitoring and control; and (v) supply chain sustainability.

The Performance Standards (PS) triggered by the Project are: i) PS1: Assessment and Management of Environmental and Social Risks and Impacts; ii) PS2: Labor and Working Conditions; iii) PS3: Resource Efficiency and Pollution Prevention; iv) PS4: Community Health, Safety, and Security. If these PSs are applicable, Agripac will immediately inform IDB Invest.

3. Environmental and Social Context

3.1 General Characteristics of the Project's site

Agripac has five production plants: Balanfarina (feed processing) located at Km 4.5 of the Durán - Tambo highway, Guayas; Agrigrain (corn and soybean storage and rice and soybean processing) at Km 6 ½ of the Quevedo highway; El Empalme, Los Ríos; Celtec (fractioning and storage of agrochemicals and fertilizers) at Km 15 ½ of the highway to Daule, Guayaquil, Guayas; Laquinsa (formulation of agrochemicals and industrial chemicals) at Km 5.5 of the Durán - Tambo highway, Durán, Guayas; and the Emsemillas Plant (conditioning, packaging and storage of certified seeds and fractioning of aquaculture fertilizers and cat litter) located at Km 4.5 of the Durán - Tambo highway, Durán, Guayas. In addition to 13 storage centers and 194 points of sale throughout the country. Additionally, they provide aerial fumigation services through the company Aeroagripac.

3.2 Contextual Risks

The company's sites are located in a coastal area with moderate exposure to earthquakes. Information related to climate change is detailed in the section on climate change exposure.

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

4.1 Assessment and Management of Environmental and Social Risks and Impacts

4.1.1 E&S Assessment and Management System

Grupo Agripac S.A. has implemented an Environmental and Social Management System (ESMS) at the corporate level, covering the five plants (Celtec, Laquinsa, Balanfarina, Agrigrain, and Emsemillas) and Headquarters. The Group has triple certification in ISO 14001:2015, ISO 9001:2015 and ISO45001:2018, since 2010. In 2014, Balanfarina also obtained GLOBALG.A.P. certification in good agricultural practices for the shrimp feed production line, guaranteeing food quality throughout the value chain, as well as care for the environment, worker health and well-being, animal welfare, and even the integrated management of crops and pests. In 2017, the Ministry of Agriculture, Livestock, Aquaculture and Fisheries, together with Agrocalidad, granted this same plant the Good Manufacturing Practices certification, which certifies its raw materials and how it operates, as well as the quality control of the processes implemented.

In 2019 Agripac was the winner of the Environmental Respect Awards, an event organized by the multinational CORTEVA which awards the companies with the best environmental performance in the Andean region, taking first place.

4.1.2 Policy

Agripac's Board of Directors plays an active role in the management of environmental and social aspects. It is committed to disseminating and maintaining the Corporate Environmental Policy, and overseeing the performance of the ESMS to ensure that it operates properly and effectively. The policy is systematically reviewed and disseminated internally and externally.

4.1.3 Identification of Risks and Impacts

In order to manage the risks and impacts of the ESMS, Agripac has procedures in place to manage the risks associated with internal operations, contractors, subcontractors, third parties, and primary suppliers to address the significance of risks and impacts on communities. The risk assessment is reviewed when there are changes in processes, activities, or technological changes in the operations, as well as when there are expansions or any change in the dynamics of the neighboring communities. All levels of the company and external stakeholders are considered.

4.1.3.1 Gender Risks

The company is aligned with the Constitution of the Republic of Ecuador, which prohibits discrimination, and with the Ministry of Labor's Protocol for the Prevention and Response to Cases of Discrimination, Labor Harassment and/or any form of violence against women in the workplace. In addition, the company offers benefits for pregnant and breastfeeding women in accordance with labor regulations, including time off and change of assignments if necessary. The company

must create a policy for the prevention of sexual harassment and gender-based violence that applies both internally and to subcontractors and update the grievance and complaints mechanisms to allow for reports of this nature. It must specify who will oversee its review, which sanctions to apply, how to protect whistleblowers, etc.

Female participation has been considered in the participation and consultation procedure; however, stakeholders determine their representatives and interlocutors according to their own parameters. No female groups have been identified within the Project's area of direct and indirect influence. The company's sanitary facilities are separated by gender and the transportation service offered by the company to its employees provides suitable conditions for both men and women.

The company must sign the statement of support for the Women's Empowerment Principles and complete the WEP gender equality measurement tool.

The transaction will feature advisory services and performance-based incentives, which will be financed by the IDB in its capacity as administrator of the We-Fi to incentivize Agripac to grow its customer base of women-led or women-owned SMEs ("Women SMEs").

4.1.3.2 Climate Change Exposure

The areas where the plants are located are exposed to sea level rise (moderate-high in a limited area) and changes in precipitation by the end of the century, as a result of climate change. In addition, plants currently face moderate exposure to river flooding, which may increase to high exposure as the climate continues to change. Finally, while there is currently little exposure to heat waves, under a scenario with significant emissions and resulting climate change (RCP 8.5) there may be high exposure to heat waves as the century progresses. For Agripac, reducing GHG emission levels, especially those associated with agrochemical production, improving operational efficiency, and promoting climate-smart agriculture solutions are climate opportunities.

4.1.4 Management Programs

Management programs include measures to manage environmental and social (E&S) risks and impacts. There are company-wide quantifiable objectives and targets and procedures for periodic review and updating; likewise, Agripac has management procedures for its ESMS that ensure community participation, including an external grievance mechanism; it also has management procedures for managing the E&S, occupational health and safety (OHS), and labor aspects of the supply chain.

4.1.5 Organizational Capacity and Competency

Agripac has organizational capacity and competencies, it has professional staff to manage E&S aspects with defined roles in all its plants and at the corporate level. In addition, it has personnel in charge of the management and implementation of the ESMS.

Agripac has the staff to manage the E&S aspects of agricultural product procurement in the supply chain, as outlined in the ESMS Origination Policy.

4.1.6 Emergency Preparedness and Response

All Agripac facilities have developed and implemented emergency preparedness and response plans in accordance with local OHS legal standards and ISO 45001:2018 requirements. Emergency preparedness and response planning is carried out in coordination with the competent local authorities, including the participation of the Fire Department, the ResponsibleCare Mutual Aid Committees, and industries in the direct and indirect areas of influence. Agripac's SGAS has forms that detail and evaluate the internal and external response in terms of time and efficiency. The Emergency Preparedness and Response Plans of each facility must be updated considering the identified physical climate hazards and natural disasters (earthquakes, floods), along with the effects that chronic hazards (changes in precipitation patterns, sea level rise, heat waves) may have on the project in the coming years.

4.1.7 Monitoring and Review

Agripac monitors and reports the E&S performance of its operations to senior management using Key Performance Indicators (KPIs).

4.1.8 Stakeholder Engagement

Agripac has mapped various stakeholders and has defined the communication channels, frequency, and topics to be discussed with each one. The company actively participates in mutual aid committees with stakeholders in the direct area of influence, sharing environmental, health, and safety information pursuant to the codes and commitments of the ResponsibleCare program.

The company supports various foundations, especially the Juconi Foundation, which works with vulnerable children in situations of violence and risk, so that they can have a better future within their own families.

4.1.9 External Communication and Grievance Mechanisms

Agripac has an external communication mechanism as part of its Communication, Participation, and Consultation Procedure that uses the best available communication channels and a grievance mechanism. The management system procedure implemented will include the dissemination of the grievance mechanism, how people can register complaints with Agripac publicly or anonymously, and how responses will be submitted. It has involved the community's key stakeholders to receive and manage complaints, and has communicated the mechanism to suppliers and contractors. As part of its aerial spraying procedure, Aeroagripac has included customer involvement management, ensuring that the communities living in the areas to be sprayed are informed in a timely manner.

4.1.9.1 Ongoing Reporting to Affected Communities

Agripac prepares a biannual Environmental and Social Sustainability Report based on Global Reporting Initiative (GRI) standards.

4.2 Labor and Working Conditions

4.2.1 Working Conditions and Management of Worker Relationships

Agripac has 1,371 employees throughout the country, of whom 620 are administrative staff (208 women and 412 men), 39 executives (8 women and 31 men) and 712 operational staff (8 women and 704 men).

4.2.2 Human Resources Policies and Procedures

For human resources management, Agripac has a remuneration policy in excess of the amounts established by law, as well as Company Internal Regulations, a Recruitment, Selection, and Performance Evaluation Procedure, a Training and Competencies Procedure, an Absenteeism Policy and Procedure, and an induction and Initial Training Procedure for the position and work area.

4.2.3 Working Conditions and Terms of Employment

Agripac complies with Ecuadorian labor regulations and offers its workers additional benefits (health and food subsidies, recreational activities, talks, celebration of festivities, savings and credit plans, vaccination campaigns and medical dispensaries in the plants).

4.2.4 Workers' Organizations

Agripac does not have an employee association or trade unions, and its workers have not signed collective agreements. The Ministry of Labor, through the Directorate of Labor Organizations, promotes, evaluates and controls the processes for the registration and operation of labor organizations, whether associations, unions, or works councils. Workers and employers, without any distinction whatsoever, have the right to form the associations, unions, or work councils of their choice, to join them or to withdraw from them, in accordance with the law and the bylaws of the respective associations.

4.2.5 Non-discrimination and Equal Opportunity

Respect and equal treatment are part of Agripac's work philosophy, and it manifests this by maintaining fair working conditions and growth options, regardless of physical ability and gender. Its workforce is made up of employees ranging in age from 18 to 72 years old, which allows for a diversity of knowledge and criteria. Agripac has employees with more than 10 years of seniority.

4.2.6 Grievance Mechanism

Agripac has an Internal Grievance and Complaints Procedure for Agripac employees that mentions the steps to be followed in each of the departments. This includes strict confidentiality and a direct line of communication with Human Resources (HR), which has the last word in resolving conflicts; all grievances and complaints are recorded by the HR coordinator of each unit in order to provide appropriate follow-up. Additionally, complaint mailboxes are available. Any employee can also approach HR in person to discuss such situations. This procedure is posted on the Intranet, to which all coordinators in each of the departments have access.

4.2.7 Protecting the Workforce

Company employees are affiliated to the Ecuadorian Social Security Institute. All Agripac facilities have a Fire Prevention and Firefighting System validated by the Fire Department of each locality, carrying out periodic drills and training of the brigade.

Technical personnel certified in NFPA standards were hired to design the fire prevention and firefighting system and ensure compliance with Ecuador's Fire Prevention Law for the expansion of Balanfarina. The system has automatic fire detection and alarms, CO₂ extinguishers, dry chemical powder as appropriate, and a water supply system. All these installations have been approved by the Duran Fire Department, the highest authority in fire prevention and firefighting.

4.2.8 Child Labor and Forced Labor

Agripac does not employ minors and rejects forced labor as a matter of corporate policy.

4.2.9 Occupational Health and Safety

Agripac has developed an Internal Health and Safety Regulation approved by the Ministry of Labor Relations that includes a series of standards and training for personnel to prevent labor risks. It also includes emergency drills, brigade structuring for emergency services, internal signage, strict compliance with movement regulations for workers, visitors and suppliers. Workers are provided with personal protective equipment (PPE) and its use is mandatory, including for contractors. Agripac assesses the health status of every worker who enters the company and performs annual occupational assessments with general and special examinations according to the worker's exposure and the hazard identification and risk assessment matrix. Annual occupational monitoring is performed by companies qualified by the Ecuadorian Accreditation Service (SAE, for its acronym in Spanish).

In 2020, Agripac allocated 2,075 hours of training on issues related to Safety, Health and Environment, many of which were dedicated to COVID-19 management and prevention. To date in 2021, the company has allocated 1,403.45 hours of training mainly related to OHS and HR.

Balanfarina's occupational noise levels at some monitored points exceed the permissible limits of 85dB established in the Worker Health and Safety and Work Environment Improvement Regulations; however, based on the results of the monitoring, the company has provided PPE at all points, training in hearing protection (correct use and benefits), health surveillance through annual audiometries and occupational examinations, and preventive maintenance of equipment and machinery. The Company must reduce and mitigate occupational noise levels and prove compliance with permissible limits at Balanfarina. At the Laquinsa plant, the level of occupational noise does not exceed the permissible limits.

The Balanfarina, Laquinsa, and Celtec environmental noise level measurements follow the maximum permissible limit of 70dB for the use of industrial land established by the Ecuadorian Standard for Environmental Noise Levels for Fixed and Mobile Sources of 2015, which is equal to that required by the General Guidelines of the WB. The monitoring is performed according to the Environmental Management Plan of each plant's environmental license by a firm endorsed by the Ecuadorian Accreditation Service (SAE) and using internationally recognized methodologies.

At Celtec, in order to ensure the correct operation of the dust extraction systems, corrective maintenance was performed, and the extraction hoods and blower motors were changed from 2HP to 3HP, the impeller was changed to a larger diameter impeller, resulting in a higher captured

air velocity. Ducts, accessories, and hoses were also replaced. This is in addition to a periodic control of air flow in installed equipment and the incorporation of established collection frequencies in the Maintenance Plan, applied quarterly in low season and monthly in high season (3 months duration). The effectiveness of these changes has been validated through occupational and environmental hygiene monitoring (PM10 / PM2.5) of the operators and in the area of direct influence, the results of which are within the parameters established in the WBG General Guidelines. Laquinsa is within the established parameters.

Agripac S.A. has a Health Surveillance Plan for each of its production units and Head Office, which detail the procedures to be applied according to the risks involved in each of the sites. Medical reports are reported annually to IDB Invest.

There have been no fatal accidents at Agripac and the low accident rates demonstrate the implementation of good OHS practices.

In 2020, the company was 100% compliant with the Ministry of Labor's Occupational Health and Safety regulations.

4.2.10 Provisions for People with Disabilities

Personnel with special abilities work permanently in the company in appropriate activities in relation to their knowledge, physical abilities, and individual aptitudes, seeking to uphold the principles of equity and diversity. Agripac currently has 43 differently abled employees on its payroll.

4.2.11 Workers Engaged by Third Parties

Agripac S.A. has Instructions for the Selection and Evaluation of Service Providers to ensure that suppliers that provide services to Agripac comply with all the requirements established by the company and that their performance is monitored.

4.2.12 Supply Chain

Agripac's logistics chain comprises various local and international suppliers that provide raw materials and packaging material, with a total of 380 suppliers, of which 35% are national and 65% international. In 2020, Agripac implemented the Plan Maíz Origination Policy, which details the Supplier Code of Conduct, stating that it does not tolerate child or forced labor and that all suppliers must provide PPE to their collaborators, must not use indigenous land, and must comply with environmental standards so as not to affect natural habitats or critical habitats. The Supplier Code of Conduct is signed by each Plan Maíz supplier and also requests the geo-referenced coordinates of the location of the land, which are entered into the Global Forest Watch PRO (GFW PRO) geo-referencing system to determine the location of the crops and discard those in areas of environmental or cultural importance.

4.3 Resource Efficiency and Pollution Prevention

4.3.1 Resource Efficiency

4.3.1.1 Greenhouse Gases

The power supply source for all plants is through the public power grid. Energy consumption for the plants during 2020 was: Laquinsa 235.46 MWh, Celtec 148.18 MWh, Balanfarina 17,441.52

MWh, Emsemillas 1,811.48 MWh and Agrigrain 102.13 MWh. Each of the companies must take inventory of Greenhouse Gases (GHG), including stationary and mobile sources, and report this annually.

4.3.1.2 Water and electricity consumption

Laquinsa uses water from the public mains for domestic use and collects rainwater which it uses as a solvent in its processes. Celtec captures water from the public mains for domestic use. In Balanfarina, the water used for steam generation and domestic use arrives at the plant in tankers. The water used at Emsemillas is delivered by tankers and is used for domestic purposes. Agrigrain is the only plant that uses groundwater for domestic use and has a well whose water use is authorized by the Undersecretary of the Guayas Hydrographic Demarcation. Annual water consumption for the same year was: Laquinsa 6,486m³, Celtec 2,607m³, Balanfarina 27,656m³, Emsemillas 3,515m³ and Agrigrain 639m³.

Between 2019 and 2020, energy consumption at Agrigrain was reduced owing to the purchase of the Emsemillas plant and the transfer of certified seed processing activities to this new plant. On the other hand, water consumption rose due to civil engineering works and an increase in the production volume. In Balanfarina the power and water consumption increased due to the increase in production and the reception and processing of raw materials, respectively. In Celtec, energy consumption increased due to increased production.

4.3.2 Pollution Prevention

The industrial effluents generated at the plants result mainly from cleaning containers, floors, and equipment. These effluents are collected by a company certified by the Ministry of the Environment (MAE), which is also in charge of their final disposal. Sanitary effluents from all the plants are sent to septic tanks that are maintained periodically.

Agripac performs periodic monitoring of atmospheric emissions, air quality, noise and lighting in the different plants. Particulate matter measurements for Balanfarina, Laquinsa, and Agrigrain complied with the levels required in the WBG General Guidelines. For the formulation of pesticides, Laquinsa and Celtec require the measurement of Volatile Organic Compounds (VOCs) and the results show that, to date, the companies comply with national regulations and international standards of the Occupational Safety and Health Administration (OSHA) and the American Conference of Governmental Industrial Hygienists of the United States (ACGIH). The new balanced pet food and aquaculture feed extrusion lines have different systems for the control of atmospheric emissions and particulate matter, including sleeve filters in raw material reception hoppers, prior to distributor or hopper filling, The dryers also have a system of air filters connected to cyclones that collect all the particulate material that could come from that source before expelling the air into the environment.

4.3.2.1 Waste

The management of non-hazardous waste (non-recyclable, paper, cardboard, plastic) is carried out at five collection points which house different types of waste that are taken to the recycling warehouse, or to the area where non-recyclable waste is disposed of. All waste is then collected by handlers authorized by the Ministry of Environment or sent to landfills, as appropriate.

4.3.2.2 Hazardous Materials Management

Waste classified as hazardous (e.g., containers with agrochemical residues) are packaged, weighed, labeled, and temporarily stored in hazardous solid or liquid waste warehouses, as appropriate.

Celtec and Laquinsa use and produce solvents that are mostly biodegradable, although some, such as toluene, are toxic organics. For this purpose, Agripac has a procedure for the Environmental and Biological Control of Solvent Exposure implemented in the plants where these types of products are handled.

To control the use of R-22 refrigerant gases or chlorofluoromethanes, Agripac has launched a program to gradually change the refrigeration systems that still use them. Likewise, practices to ensure the correct maintenance of these systems are carried out, ensuring that this refrigerant gas does not leak into the atmosphere and that they are correctly managed by the maintenance service contractor. Agripac will continue to phase out ozone-depleting refrigerants subject to international phase-out as listed in the Montreal Protocol.

4.3.2.3 Pesticide Use and Management

Agripac's practices follow the World Health Organization (WHO) guidelines on pesticides and comply with the Andean Standard and the Andean Manual for the Registration and Control of Pesticides for Agricultural Use, as well as with the International Code of Conduct on the Distribution and Use of Pesticides of the Food and Agriculture Organization (CICOU/FAO).

In view of the company's conviction regarding its influence on the market and the positive impact it can generate on the environment and people, on February 28, 2019 Agripac S.A. created the Commercial and Technical Policy aimed at eliminating the use, distribution, and sale of pesticides in classes corresponding to extremely hazardous (1A) and extremely hazardous (1B) classes in a period not exceeding 3 years; Agripac also committed not to add new products (beyond those already offered) corresponding to Classes Ia and Ib to its current offering. Some products have already been discontinued, and for others the company is in the process of finding substitutes.

Agripac continues to promote among its customers the use of Integrated Pest / Disease Control Programs (IPDM) through its field days and technical talks given by the commercial area.

4.4 Community Health, Safety and Security

4.4.1 Infrastructure and Equipment Design and Safety

4.4.2 Hazardous Materials Management and Safety

Agripac has procedures for handling the transport of hazardous substances and a valid environmental license, and has developed, as part of its ESMS, activities related to driver and traffic safety in accordance with the principles described in the general guidelines on Environment, Health and Safety (EHS). These include vehicle delivery and reception records, signing of a vehicle use and maintenance contract detailing the employee's obligations with the vehicle and all applicable safety conditions (attending lectures and training, carrying a valid license, among others), preventive and corrective maintenance programs, satellite monitoring system in case of loss or theft, as well as speed control, annual defensive driving lectures, zero (0) accident awards, and permanent reminders via e-mail to drivers who are speeding.

4.4.3 Community Exposure to Disease

For the proper management of the pandemic, Agripac S.A. developed the Corporate Biosecurity Protocol that aims to establish biosecurity measures for employees, visitors, suppliers, contractors, and customers in the facilities, as well as measures to be implemented outside the workplace for the protection of workers and their families, in order to reduce the risk of infection or exposure to COVID-19 during the health emergency.

4.4.4 Emergency Preparedness and Response

The Fire Prevention and Firefighting System and the emergency plans of Agripac's production units include risk mapping and identification from the plants to the community and from the community to the plants, detailing the safe distances between the industrial plants and their areas of influence and the related risks. Celtec and Laquinsa also comply with ResponsibleCare's codes of conduct and participate in mutual aid committees with neighboring industries for emergency response.

4.4.5 Security Personnel

Agripac hires a duly accredited security service company qualified by the competent national authority in each of its production and service units, which has been evaluated as indicated in the Personnel Selection and Hiring Procedure. This security company has Functional Guidelines applicable to each work site, detailing the rules of conduct for security agents during their on-duty shifts. Similarly, as part of the selection activities for security agents, this company performs an exhaustive review of résumés, checking criminal records and police records, occupational examinations including psychological tests, home address and living environment of these people, supported by induction and training programs on issues related to the correct use of force and proper use of firearms, appropriate equipment such as protective equipment, weapons, information management software, and digital mechanisms for communication.

4.5 Land Acquisition and Involuntary Resettlement

Agripac owns the land its plants are located on, which are in industrial sectors. In 2019, Agripac acquired an industrial plant for the processing of certified seeds (currently the Emsemillas plant), which had an up-to-date environmental permit. In acquiring this new plant, Agripac was able to verify, by means of environmental technicians, that there were no environmental liabilities, and thus, having obtained the corresponding environmental permits in the name of Agripac S.A., operations began. No resettlement or economic displacement took place for this acquisition.

4.6 Biodiversity Conservation and Natural Habitats

All of Agripac's plants have valid environmental permits and Intersection certificates that prove that they do not intercept the National System of Protected Areas, protected woodlands, or State Forest assets. None discharges into surface waters.

To this end, Agripac is currently analyzing E&S aspects in its supply chain as indicated in section 4.2.12. Supply Chain

5. Local Access of Project Documentation

Agripac provides additional information about its corporate social responsibility and sustainability on its website <https://agripac.com.ec/home/>