

Environmental and Social Review Summary AGROFERTIL EXPANSION CAPEX – PARAGUAY

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

Agrofértil, founded in 1993, is a company dedicated to the trade of agricultural inputs, the storage and marketing of grains (soybeans, corn, wheat, among others), and the provision of input financing (fertilizers, seeds, herbicides, insecticides, fungicides, and plant nutrition products) and advisory services to producers in projects such as intelligent agriculture, precision agriculture, and soil correction. The company is headquartered in Ciudad del Este and has 26 branches with 23 grain storage silos located in the eastern and southern regions of the country, which store a total of 617,750 tons of grain. Of the total number of branches and silos, 20 have valid environmental licenses and 6 are in the process of obtaining one. Agrofértil also has a 1,500-hectare farm used for agricultural production located in the district of Itakyry, approximately 112 km from Ciudad del Este. The area used for soybean production is about 954 hectares, which produced 4,704 tons of grain in the last harvest.

At the end of July 2021, the company had 651 permanent employees, of which 86 are female, and 148 fixed-term employees. Its vehicle fleet totals 271 vehicles.

Agrofértil has been a client of the IDB Group since 2005, and the last transaction, involving financing to producers for the purchase of agricultural inputs, is still active. The Project consists of financing for Agrofértil to: i) finance a seed plant forecast to reach, in approximately 5 years, a capacity of 16,000 tons; ii) build silos to expand storage capacity; and iii) purchase agricultural inputs to be sold to and financed for producers.

Personnel responsible for the IDB Invest Social, Environmental, and Corporate Governance Division (SEG) conducted environmental and social due diligence on this transaction during the months of June and July 2021, in a virtual modality, given the conditions imposed by the COVID-19 pandemic.

2. Environmental and Social Categorization and Rationale

The Project has been classified as a Category B operation according with the results of the evaluation and BID Invest's Environmental and Social Sustainability Policy. While the possible environmental, social, and health and safety risks and impacts are considered potentially relevant, they can feasibly be adequately managed through plans, programs, and procedures of known content and widespread use in the sector.

Given the nature and magnitude of the possible impacts and risks identified, the following IFC Performance Standards apply⁽¹⁾: 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; and PS6 (Biodiversity Conservation and Sustainable Management of Living Natural Resources). PS 5, 6, 7, and 8 are not considered to be directly applicable to the transaction.

3. Environmental and Social Context

3.1 General characteristics of the Project's area

Most of Agrofertil's activities and facilities are in the Eastern Region of the country, which makes up 39% of the national territory. This region is subdivided into two sub-regions, the larger one corresponding to the Paraguay River basin itself, and the smaller one to the Paraná River basin. Tropical and subtropical forests predominate there. The Eastern Region has three mountain ranges: the Amambai, Maracaju, and Caaguazú mountain ranges. The highest altitudes are found in the Ybytyruzú mountain range, where the Cerro Tres Kandu stands out at 842 meters above sea level. The mean annual temperature varies between 20°C and 25°C (although it can reach 38°C with a thermal sensation of over 40°C); rainfall can reach up to 1,700 mm per year.

According to the General Directorate of Statistics, Surveys and Censuses (DGEEC, for its acronym in Spanish), in 2017 the population of Paraguay totaled 6,953,646 inhabitants. An estimated 60% of Paraguayans live in cities. The Eastern Region is home to the largest cities, such as Asunción (525,294 inhabitants) and Ciudad del Este (293,817 inhabitants). In the Chaco or Western Region, the rural population is predominant, as there are no large cities but rather small towns. The Paraguayan population is the result of a heterogeneous mix of mestizos, Creoles, and Portuguese, German, Italian, and Mennonite immigrants. According to the 2002 indigenous census, the indigenous population, mostly of Guaraní descent, numbered 84,061 people, distributed in 496 communities located in Asunción and in thirteen districts in the interior of the country.

The Eastern Region has a great variety of birds such as the vulture, the chimango, the sparrowhawk, the owl, the macaw, the bare-throated bell bird, the chalk-browed mockingbird, and the great kiskadee. Mammals include howler monkeys, ocelots, cougars, Geoffroy's cats, tapirs, wild boars, anteaters, and armadillos. The most common fish are common catfish, dorado, corvina, Raphael catfish, stingrays, bagre catfish, patí catfish, and piranhas. The aquatic ecosystem also includes reptiles such as caimans, iguanas and chameleons. Other notable reptiles of this region are the coral snake and the ñandurire. The dominant plant species in the Chaco include lapachos, quebrachos, urundey, pacara earpod trees, the guayacán, the Paraguay *lignum vitae*, the silk floss tree, the guayaibi, the caranday palm, and several laurels, among others. Through its SINASIP (Spanish acronym for the National System of Protected Wildlife Areas), the Ministry of Environment and Sustainable Development (MADES) manages the Protected Wildlife Areas, which have been assigned different management categories. Protected Wildlife Areas are distributed throughout the country. In the Eastern Region, they include the San Rafael Managed Resource Reserve, Caazapá National Park, the Tapyta National Reserve, the Ñacunday National Park, the Kuri'y Wildlife Refuge, the Isla Susu Natural Monument, the Yabebry Wildlife Refuge, and the Ybytyruzú Managed Resource Reserve.

¹ International Finance Corporation (World Bank Group).

The country, especially in the Eastern Region, has lost almost 90% of its original forest cover over the last five decades, mainly due to the expansion of livestock and agricultural activities. The loss of the richness of forest resources and their fragmentation has produced significant negative impacts on soil, water, and biodiversity resources, contributing to climate change and affecting the living conditions of rural communities, especially indigenous communities that depend on forests for their survival.

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

4.1 Assessment and Management of Environmental and Social Risks

4.1.a E&S and Management System

Due to Agrofertil's growth in recent years in terms of the number and capacity of its facilities, vehicles, and personnel, and the resulting increase in environmental and social aspects, as well as occupational hazards associated with its operations, the company will implement a Comprehensive Environmental, Social, and Health and Safety Management System (CMS), based on the existing management system, following the guidelines set forth in IFC Performance Standard 1. This system will consider the results and experience gathered to date and will include the plans, programs, and procedures necessary for continuous improvement.

The CMS will be implemented with the support of an external consultancy firm contracted specifically for this purpose. This process will require restructuring the current Registration, Hygiene, and Environment Department. Agrofertil will designate a lead professional responsible for coordinating the activities of the specialists (environmental, social, and health and safety), responding to third party requirements, and ensuring the implementation and maintenance of the system.

4.1.b Policy

Agrofertil will integrate the current Environmental, Social, and Health and Safety Management Policy into the CMS and, eventually, modify it as appropriate, considering the contents of Agrofertil's Code of Ethics, the applicable provisions of IFC Performance Standard 1, the results of the processes to identify the impacts and risks of the CMS, and the objectives and goals that were identified during the process of establishing the CMS.

4.1.c Environmental, Social, Health and Safety Management Program

Agrofertil shall prepare an Environmental, Social, Health and Safety Management Program that will establish annual objectives and target values based on key performance indicators. This program will include the actions necessary to achieve these objectives, and for each one it will indicate the person responsible for carrying it out and the respective execution period.

4.1.d Identification of Risks and Impacts

Agrofértil will improve the current environmental and occupational hazard identification and assessment matrices, integrating them into the CMS. Legal aspects will be compiled and evaluated in a dedicated matrix. These matrices shall consider, among other aspects, the specifications for identifying and evaluating aspects and risks set out in IFC Performance Standard 1.

4.1.d.1 Environmental and social risks and impacts

The majority of Agrofértil's storage facilities include an access gate with a control booth, a parking area for transport vehicles, an agrochemical storage area, a grain reception, drying and storage area, a firewood storage area, and a living and office area. The facilities are subject to an environmental impact study to be approved by MADES; the agrochemical and grain storage warehouses have certificates of approval from the National Plant and Seed Quality and Health Service (SENAVE, for its Spanish acronym) and the facilities have fire systems approved by the municipality. The vehicles are authorized by the National Transportation Directorate (DINATRAN, for its Spanish acronym) and the SENAVE for the transportation of agrochemicals and fertilizers.

Overall, the most significant potential environmental risks and impacts include the possible contamination of water and soil in the event of poor management of fumigation activities and used containers, with the resulting impacts, and the potential impact on biodiversity and climate due to illegal deforestation; with regard to social issues, health risks related to possible bad fumigation practices and the risk of road accidents involving own vehicles and those of contracted personnel are considered relevant. The possible impact on the health and safety of the Company's own and contracted workers is mainly associated with the handling of vehicles, possible electrical failures and possible fires in grain dryers, possible deficiencies in the handling of agrochemicals in warehouses and silos, ergonomic risks associated with the handling of firewood, and possible deficiencies in the management of air quality and noise in grain dryers.

4.1.d.2 Cumulative Impacts

Agrofértil's activities are not expected to generate significant cumulative impacts, but no such studies have been conducted.

4.1.d.3 Analysis of Alternatives

Given that the Project mainly involves the construction of small or medium-sized facilities in anthropized areas, the environmental studies did not include an alternatives analysis.

4.1.d.4 Gender Risks

According to the information available during the Due Diligence, Agrofértil hires personnel with no discrimination whatsoever with respect to gender or race, prioritizing only the capacity and suitability for the position to be filled. Agrofértil will promote the participation of women and will regularly monitor their representation in the workforce.

4.1.d.5 Climate Change Risk

During the Due Diligence, a first analysis developed by IDB Invest's climate change officer classified the transition risk⁽²⁾ of the project as medium, considering the emissions produced by Agrofertil's own activity (mainly due to vehicle movement and grain drying activities) as well as the risk of illegal deforestation (associated with grain producers' activities). On the other hand, the Project's risk of exposure to adverse climate change events (floods, heat waves, and drought) is considered moderate, with an increasing trend.

4.1.e Identification of legal aspects

Agrofertil will identify and evaluate the legal aspects and other requirements associated with commitments assumed by the company with third parties, either under contract or voluntarily; these aspects will be identified and evaluated using a specific identification matrix, which will be updated as required.

4.1.f Management Programs

Agrofertil will review and, eventually, improve its operating procedures to ensure that they contemplate the management of the identified environmental and social aspects and occupational risks, that responsibilities are properly assigned, and that the records generated are properly managed as provided for in the management documentation procedure.

4.1.g Organizational Capacity and Competency

Agrofertil plans annual training activities for its employees and contractors. In addition to the training courses on impact and risk management associated with Agrofertil's activities, the company will develop an Annual Training Program that includes training and awareness activities on the new CMS. Training activities associated with the implementation of the CMS will be company-wide, and will include members of management, operational leaders, and the staff in general.

4.1.h Management of the documentation

To ensure proper management of the CMS documentation and records generated, Agrofertil will prepare and implement a Documentation Management procedure. This procedure will make it possible to prepare, approve, distribute, conserve, control, and update all CMS documents, preventing the possible application of duplicate or obsolete documentation.

² Transition risk is defined as the financial risk associated with the company's process of transitioning to operations and practices that entail a lower carbon footprint.

4.1.i Emergency Preparedness and Response

Agrofertil has developed an emergency prevention and response plan for each of its administrative sites and for each silo and operating site. In addition, Agrofertil will prepare a general Emergency Prevention and Response Plan, indicating the minimum contents of the specific plans for each site. The specific plans must consider specific emergency scenarios, as well as the results of the matrices for identifying environmental and social aspects and significant occupational hazards that could be associated with the occurrence of emergency events.

4.1.j Accident Management

In terms of accident prevention and response, Agrofertil will develop a new Accident Management procedure. The new assignment of responsibilities arising from the development and implementation of the CMS will require a reformulation of the existing procedure; the new procedure shall include internationally recognized methods for the investigation and identification of the root cause of any accident that has occurred.

4.1.k Management of suppliers and contractors

The contracting of goods and services must be carried out taking into account that any contracted person or firm will not be considered as a third party, but as part of Agrofertil's own management, as required by IFC Performance Standard 1. To this end, Agrofertil will prepare a Goods and Services Supplier Regulation that will be mandatory for all suppliers of goods or services. Each supplier will be required to have a documented commitment to comply with the aforementioned regulations, which will be prepared specifically for each supplier, applying the CMS requirements that are relevant to their activity.

4.1.l Monitoring and Review

Agrofertil will develop and implement an Environmental, Social, and Health and Safety Monitoring Plan to follow up on certain parameters. The threshold values of the parameters measured will correspond to those indicated by the legislation in force and to those set out in the General Environmental, Health and Safety Guidelines (IFC April 2007); in case of overlapping threshold values, the strictest one will be used.

4.1.m Deviations and corrective actions

To ensure that deviations are identified and corrected in a timely manner, Agrofertil will develop and implement documents to record monitoring results, identify and document preventive or corrective actions and their implementation, and evaluate the effectiveness of each action once implemented.

4.1.n Stakeholder Engagement

Regarding the management of third-party complaints and claims, Agrofertil will improve the existing Grievance Mechanism for third parties, taking into account the new stakeholder mapping, the outcomes of having reassigned responsibilities, and the new documentation management, processes associated with the implementation of the CMS. The mechanism should incorporate the possibility of handling anonymous complaints.

4.2 Labor and Working Conditions

4.2.a Working Conditions and Terms of Employment

Personnel under permanent contract are subject to medical checkups at the time of admission and annually thereafter. The current Head of Operational Safety, together with personnel from the Human Resources Department, keeps a record of accidents and possible occupational illnesses. Employees under permanent contracts have health insurance provided by the Social Security Institute (*Instituto de Previsión Social, IPS*). The company offers its employees private health insurance that covers part of medical costs.

Personnel under fixed-term contracts are not unionized. The relationship between Agrofertil's staff and management is reportedly not problematic. Agrofertil's Internal Labor Regulations have been drafted in accordance with the Labor Code.⁽³⁾

Agrofertil will promote the participation of women as part of its workforce, and will regularly monitor the results.

4.2.a.1 Human Resources Policies and Procedures

Agrofertil will establish and implement a Human Resources Policy that incorporates the basic human rights that are expressed in Agrofertil's Code of Ethics, that are associated with legal requirements, or that are required by the IFC Performance Standards. Through this Policy, Agrofertil will commit itself to encouraging the promotion of employees by providing opportunities for growth and development.

4.2.a.2 Mechanism for receiving and resolving internal complaints and grievances

Agrofertil will develop and implement a mechanism for receiving and resolving complaints and grievances from its own personnel and that engaged by third parties, which will include the possibility of registering anonymous complaints or grievances, establishing those responsible for handling them, and determining the deadlines for evaluating and responding to personnel complaints. This mechanism will include, in a specific section, the management of sexual harassment complaints.

³ Dependent and paid work is regulated by the Labor Code, which establishes the rights and duties of the employer and the worker, and regulates their relationship with the State.

4.2.b Occupational Health and Safety

Agrofertil will supervise and monitor occupational health and safety conditions in transportation activities, administrative facilities, silos, and agricultural production centers, covering the scope of activities of its own and contracted personnel. Supplier and contractor activities will also be supervised by Agrofertil on a planned and ongoing basis, to ensure the health and safety conditions stipulated in the CMS.

Agrofertil will ensure that any significant risks identified in the health and safety risk identification and assessment matrices are managed through a specific procedure.

4.3 Resource Efficiency and Pollution Prevention

4.3.a Resource Efficiency

Agrofertil will generate records on its monthly consumption of water, electricity, fuel for vehicles and machinery, firewood from native species, and the amount and destination of waste generated or recycled. The company will establish and implement the necessary actions to comply with the goals and objectives proposed in the Environmental, Social, and Health and Safety Management Program.

4.3.a.1 Greenhouse Gases

Agrofertil is required to continuously improve the efficiency and sustainability of its operations, continue to control potential illegal deforestation by its clients (instructing them on best agricultural practices), and monitor its greenhouse gas emissions annually, presenting estimates for the following period and including the calculation of emissions from the previous period, following the methodology recommended by IDB Invest.

4.3.a.2 Waste, Pesticide and Hazardous Materials and Pollution Prevention

Together with the company Tecnomyl, Agrofertil has implemented the Empty Container Management System (SIGEV); Agrofertil's customers are instructed to perform triple washing or pressure washing and perforation of used containers to avoid their reuse. Containers are collected at 15 collection points set up by Agrofertil and through collection agreements signed with cooperatives and a silo; these containers are used by Tecnomyl to manufacture new containers (30% of the plastic material of these containers is new, to ensure their quality).

Domestic waste generated at the head office and branch offices is collected by municipal collection services. Agrofertil will develop and implement a specific waste management procedure, which will assign responsibilities and include record formats to quantify and record the amount and type of waste generated in administrative facilities, silos, and production facilities.

As reported by Agrofertil, the company does not market any products with chemical components categorized as Class 1a (extremely hazardous) or 1b (highly hazardous) by the World Health Organization (WHO). Agrofertil shall monitor the chemical composition of each agrochemical marketed by the company, to verify the non-acquisition of agrochemicals that include any Class 1a or 1b component.

By improving the existing Agrochemical Transport Operating Manual, Agrofertil will develop and implement a specific procedure for the management of hazardous substances (including purchase, transport, storage, and handling); this document will expressly prohibit the purchase and use of pesticides or chemicals that include any Class 1a or 1b component according to the WHO classification.

4.4 Community Health, Safety and Security

4.4.a Community Health and Safety

Agrofertil's current management to ensure proper transportation and handling of agrochemicals (through the use of the Agrochemical Transportation Operating Manual by carriers) certainly contributes to reducing the risk to third parties involved in the transportation of these hazardous substances. On the other hand, Agrofertil's activity in the recycling of empty containers through the SIGEV, in addition to reducing contamination, contributes to reducing the health risk to the community, considering that some companies illegally recycle empty agrochemical containers to produce other plastic articles of uncertain use.

In order to adequately manage potential impacts and risks to the community, Agrofertil will develop a stakeholder mapping and Stakeholder Engagement Plan, fulfilling the requirements of IFC Performance Standard 4. Through this plan, Agrofertil will enable participation channels for community members, as well as environmental and social communication strategies on aspects of its activities that could eventually affect the quality of life, health, and safety of third parties.

In 2003, Agrofertil, together with Tecnomyl⁽⁴⁾, created the CETEDI (Spanish acronym for Technological Center for Development and Research) foundation to prepare and implement social development projects in the areas of education, health, community development, and improving the productivity of vulnerable human groups in both urban and rural areas.

⁴ Tecnomyl S.A. is one of Agrofertil's main suppliers of agricultural pesticides, representing 81% of the total agrochemicals sold by Agrofertil.

4.4.b Security Personnel

Agrofértil's security personnel are armed. Based on the information available at the time of the due diligence, we verified that contracted companies that provide security services to Agrofértil adequately train their personnel to prevent the improper use of weapons.

4.5 Biodiversity Conservation and Sustainable Management of Living Natural Resources

4.5.a Protection and Conservation of Biodiversity

To verify that soybeans arriving at Agrofértil's storage facilities do not come from illegally deforested or environmentally protected areas, since August 2016 Agrofértil has implemented the GFW⁽⁵⁾ (Global Forest Watch) software tool developed by the World Resources Institute (WRI), through which it can carry out satellite tracking of its customers' farms; In addition, through a clause included in grain storage contracts, Agrofértil undertakes not to store grains produced in illegally deforested fields. The results of this monitoring of forest areas through the application of the GFW tool are reported every four months.

In each Environmental and Social Compliance Report, Agrofértil will report to IDB Invest the findings and actions taken in relation to the results of the supply chain monitoring.

The silo dryers use firewood⁽⁶⁾ during the grain harvest months. Annual firewood consumption (for about 5 months of the year) is estimated at 9,838 tons. Since August 2016, the company has started using eucalyptus wood, avoiding and/or reducing the use of wood from native species; Agrofértil has proceeded to plant eucalyptus in the towns of Santa Rosa, Itakyry, and San Alberto. Agrofértil will record its consumption of firewood from native species in silo dryers and will set annual goals for reducing this consumption and substituting it with eucalyptus wood.

5. Local Access of Project Documentation

The documentation associated with the environmental studies submitted by Agrofértil to the Ministry of Environment and Sustainable Development (MADES), and the corresponding resolutions, can be accessed at the following link: <https://www.mades.gov.py>

⁵ <https://pro.globalforestwatch.org/>

⁶ The volume of firewood used depends on the moisture content of the product when it is received from the field. Corn drying is the process that consumes the most firewood since corn usually enters the silos with a higher moisture content than soybeans. Total annual firewood consumption is estimated at 7,500 tons.