

SUMMARY OF THE INVESTMENT, CLASSIFICATION, AND ENVIRONMENTAL AND SOCIAL STRATEGY

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A. Investment Summary Tab

Disclosed Date:	July 16, 2020
Project Name:	Vicunha Ecuador Tercera Operación
Project Number:	13127-01
Investment Type:	Working Capital Financing
E&S Category:	C
Projected Board Approval Date:	September 4, 2020
Company Name:	Vicunha Ecuador S.A.
Sponsoring Entity:	Not applicable
Sector:	Manufacturing
Financing Requested:	US\$10,000,000
Financing Currency:	US Dollars
Project Country:	Ecuador
Team Leader:	Gabriel Jiménez

B. Environmental and Social Review

1. General Information on the Operation

This transaction (the "Operation" or "Transaction") is the third operation undertaken with Vicunha Ecuador S.A. (the "Client" or the "Company"), which is part of a major Brazilian textile manufacturing group (Vicunha Brasil). The Operation seeks to provide financial assistance to the Client, who has been forced to materially decrease the operations of its Quito plant since March and its exports since April 2020, as a result of the measures adopted by the Government of Ecuador to cope with the COVID-19 global pandemic. The Transaction consists of providing the Client with working capital to: i) extend the maturity of outstanding payments for existing loans granted by Inter-American Development Bank (IDB); and ii) finance the Company's working capital needs to recover its operations.

2. Scope of IDB Invest's Environmental and Social Review

The Operation's environmental and social analysis consisted of a documentary review of the Client's environmental and social performance over time, emphasizing compliance with the following Performance Standards (PS): PS1: Assessment and Management of Environmental and Social Risks and Impacts; PS2: Labor and Working Conditions; PS3: Resource Efficiency and Pollution Prevention; and PS4: Community Health, Safety, and Security.

3. Environmental and Social Classification and Rationale

The Operation is classified as a Category C operation under IDB Invest's Environmental and Social Sustainability Policy, since its incremental impacts are practically negligible and the resources stemming from it are meant to provide liquidity to the Client while the exceptional measures adopted by the Company and the impacts produced by the COVID-19 pandemic are still in effect.

4. Environmental and Social Risks

4.1 Assessment and Management of Environmental and Social Risks and Impacts

The Company holds a valid environmental license issued by the Ecuadorian Ministry of the Environment ("MAE"), which includes an Environmental Management Plan that comprises plans and actions focused on reducing and mitigating potential environmental impacts generated by the operation of the Client's plant in Ecuador. These prevention, mitigation, or compensation actions have been carried out under a solid environmental and social management system implemented by the Company in recent years, which also includes actions to engage the surrounding communities.

The environmental review has verified that the Company has substantially and continuously complied with local environmental regulations, regularly sending its Environmental and Social Compliance Reports to both the MAE and the municipal sectoral authorities.

4.2 Labor and Working Conditions

General labor and working conditions are very well regulated in Ecuador in terms of working hours, salaries, vacations, labor compensations, work systems, among others.

Since Ecuador is a signatory to ILO Convention 105, Ecuadorian legislation prohibits child labor in general terms, except for minors between the ages of 15 and 18, who are allowed to perform certain types of light work, given that all of the following conditions are met: (i) the proposed tasks are not harmful to their health or their physical or mental development; (ii) their parents, relatives, or guardians have authorized them to work; (iii) the proposed work does not interfere with their studies; (iv) the number of working hours does not exceed 30 hours per week if the minor is still in school; and (v) the work day does not exceed 8 hours in any case. It also prohibits forced or unpaid labor, as well as discrimination against workers on the basis of their race, skin color, sex or sexual orientation, heritage, marital status, religion, political participation, and nationality, among others. Similarly, freedom of association and trade unions are constitutional rights in Ecuador.

The Company complies with the requirements of the Ecuadorian State regarding labor and working conditions.

4.3 Resource Efficiency and Pollution Prevention

At the local level, the company has (uncertified) integrated management systems based on the ISO 9001, ISO 14001 and OHSAS 18001 standards; and at the corporate level, it applies the "Kaizen"¹ continuous improvement method. This situation certifies a good environmental and social management. The Operation is a commercial transaction for payment deferral and working capital, and as such it will not generate pollution or demand the use of additional natural resources.

4.4 Community Health, Safety, and Security

The Company has emergency prevention and response plans in place, duly approved in its EMP. The review has shown that, to date, no situations have arisen which could have endangered the health or safety of the population.

5. Proposed Management Measures

Reports submitted by the Company to IDB Invest show that the management measures contained in the plans and programs approved by the Environmental Permit and the current Environmental and Social Action Plan have been implemented as planned. Notwithstanding, there are some opportunities for improvement to better align them with the PS.

6. Environmental and Social Action Plan

This Environmental and Social Action Plan seeks to align the actions proposed in the original operation (EC-L1148)—whose design follows the IDB Group's Environmental and Social Policies—with IDB Invest's Sustainability Policy.

No.	Item	Action	Deliverable	Completion Date
PS 1: Assessment and Management of Environmental and Social Risks and Impacts				
1.1	Environmental and Social Management System	<ol style="list-style-type: none"> Implement the EMP approved by the local environmental authority. Update the EMP to make it fit the requirements of IDB Invest's Sustainability Policy. 	<ol style="list-style-type: none"> EMP Compliance Report; and Updated EMP 	<ol style="list-style-type: none"> Together with the Environmental and Social Monitoring Report (ESMR). One year after the signing of the loan agreement.
PS 2: Labor and Working Conditions				
2.1	Grievance Mechanism	Internal dissemination of the Company's Ethics and Conduct Channel.	<ol style="list-style-type: none"> Disclosure records Evidence of the management of the Ethics and Conduct Channel 	<ol style="list-style-type: none"> Three months after the signing of the loan agreement. Together with the periodic ESMR.
2.2	Occupational Health, Safety, and Security	<ol style="list-style-type: none"> Submit the annual occupational risk assessment determining exposure limits to physical, chemical, biological, and psychosocial agents, by job post; 	<ol style="list-style-type: none"> Annual occupational risk assessment report; Updated Health and Safety Plan; and 	<ol style="list-style-type: none"> Together with the periodic ESMR. Six months after the signing of the loan agreement. Together with the periodic ESMR.

¹ Continuous Improvement Process which consists of actively integrating all the workers of an organization in its continuous improvement processes, through small contributions.

No.	Item	Action	Deliverable	Completion Date
		2. Update the EMP's Health, Safety and Security Plan, including control measures to eliminate, replace or mitigate occupational hazards; and 3. Submit the implementation of the Health Surveillance Plan for the Early Detection of Occupational Diseases and Injuries.	3. Evidence of the implementation of the Medical Surveillance Plan	
2.3	Workers engaged by third parties	Devise a procedure that includes all the Company's actions to control and monitor contractors' environmental, health, and safety obligations (E&S), in line with PS2 requirements.	1. E&S control and monitoring procedure for contractors. 2. Evidence of implementation	1. Six months after the signing of the loan agreement. 2. Together with the periodic ESMR.
PS 3: Resource Efficiency and Pollution Prevention				
3.1	Water consumption	Prepare a plan to reduce consumption or reuse water.	Water resource efficiency plan.	Six months after the signing of the loan agreement.
3.2	Pollution prevention	1. Prepare an updated ambient noise baseline study 2. Prepare and implement an Action Plan to meet current local environmental regulations and IFC regulations on ambient noise.	1. Baseline study of ambient noise 2. Action Plan 3. Ambient Noise Monitoring Reports	1. Six months after the signing of the loan agreement. 2. One year after the signing of the loan agreement 3. Together with the periodic ESMR.
3.3	Pollution prevention	1. Comply with permissible effluent discharge limits to meet current local environmental regulations and IFC standards. 2. Obtain the MAE's Hazardous Waste Generator Registry.	1. ETA effluent monitoring reports 2. Hazardous Waste Generator Registry	1. Together with the periodic ESMR 2. One year after the signing of the loan agreement.
PS 4: Community Health, Safety, and Security				
4.1	Design and security of infrastructure and equipment	1. Audit the fixed firefighting system in compliance with the local fire department regulations and verify compliance with NFPA standards.	Firefighter's Certificate in line with NFPA standards or from a third party.	Together with the periodic ESMR.

C. Additional Information

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For questions and comments to IDB Invest please contact:

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Additionally, affected communities can access the IIC's Independent Consultation and Investigation Mechanism (ICIM) as follows:

Phone number: +1 (202) 623-3952
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