

INVESTMENT, CLASSIFICATION, AND ENVIRONMENTAL AND SOCIAL REVIEW SUMMARY

A. Investment Summary tab

Disclosed Date:	August 7, 2020
Project Name:	Farmalisto
Project Number:	13020-01
Investment Type:	Equity
E&S Category:	B
Projected Board Approval Date:	September 8, 2020
Company Name:	Farmalatam Holding Inc.
Sector:	Social Infrastructure
Financing Requested:	Up to US\$8 millions
Financing Currency:	USD
Project Country:	Regional
Team Leader:	Javier Barsantini

Project Scope and Objective and participation of IDB Invest:

IDB Invest is considering a capital investment of up to US\$8 million in Farmalatam Holding Inc. ("Farmalatam" or the "Company"). Farmalatam¹ is a leading home healthcare technology platform in Latin America that provides comprehensive healthcare solutions to patients. Farmalatam is a 100% digital pharmacy with no physical stores, which distributes pharmaceutical products. In addition, it provides home health and telemedicine services through its digital platform "CARE24". Since its incorporation in 2014, the Company has developed a user and partnership base, demonstrating its readiness to move on to the next phase and achieve greater scales. Farmalatam currently operates in Colombia, Mexico, and Peru.

The capital round will allow Farmalatam to support its growth plan as follows: (i) finance current operations to support expected growth through investments in marketing, information technology, and human resources, among others; (ii) finance strategic acquisitions of related businesses in Latin America; and (iii) promote its regional expansion.

This investment will require the implementation of reforms in order to strengthen its policies and controls in its operation - particularly to ensure equitable prices in the context of the health crisis

¹ www.farmalisto.com

and thereafter. Furthermore, Farmalatam is committed to implementing improvements in corporate governance.

The objectives of investing in Farmalatam are (i) to help support the growth of the digital economy and stimulate productivity in the pharmaceutical sector through a disruptive, technology-enabled business model with sizable addressable markets; (ii) to contribute to reducing the cost of medicine and expand access to cheaper costs in target markets; and (iii) to support access to medical services and home treatments.

B. Classification and Environmental and Social Strategy

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

Farmalatam Holding Inc. (hereinafter, the “Company”) consists of two companies aimed at providing health products and services through a technological platform, which combines the experience of the pharmaceutical industry with e-commerce. The Company was created in Colombia in 2013 under the commercial name Farmalisto S.A.S. (hereinafter, the “Enterprise” or “Farmalisto”) and is dedicated to the online sale of pharmaceutical products. It extended its operations to Mexico in 2014 and to Peru in 2019.

In 2018, the Company enlarged its operations with the creation of CARE24 S.A.S. (“CARE24”), which is Colombia's first online home-based Health Care Institution (IPS, for its acronym in Spanish). CARE24 is also geared toward providing home health services using a digital platform. With both enterprises, the Company provides, through its digital platform, comprehensive health solutions, providing users with access to products and services in the market at competitive prices.

This operation will allow Farmalisto to extend its capacity to serve clients nationwide in Colombia, Mexico, and Peru, and CARE24 to enter the market and extend its services to patients in Mexico and Peru. The scope of the IDB Invest Environmental and Social Review included an analysis of the Company’s information and documents, as well as online meetings with the staff responsible for management systems and human and operating resources of the Farmalisto and CARE24 parent company in Colombia, as well as its main suppliers and contractors. The Environmental and Social Due Diligence (ESDD) Process did not include visits to the Company's facilities due to travel restrictions implemented by the Colombian government in response to the Covid-19 pandemic.

2. Environmental and Social Categorization and Rationale

In accordance with the IDB Invest Environmental and Social Sustainability Policy, the project has been classified as a Category B operation, given that it may generate, among others, the following impacts and risks: (i) increased generation of hospital waste, and (ii) generation or increase of occupational health and safety risks for workers. Such impacts and risks are estimated to be minor.

The Project will trigger the following Performance Standards (PS):

PS 1: Assessment and Management of Environmental and Social Risks and Impacts

PS 2: Labor and Working Conditions

PS 3: Resource Efficiency and Pollution Prevention

PS 4: Community Health, Safety and Security

3. Environmental and Social Context

Farmalisto's business model is based on a user-friendly technology platform that includes an extensive catalog of products (over 11,000) and health services. The Company delivers products and services 24/7 while maintaining strict confidentiality; furthermore, it has direct contact with the user and accepts all payment methods to facilitate their experience on the platform and the purchase of its products. Both technology and customer service management allow the Company to generate information that benefits the patient, e.g. reminders to users with a history of purchasing products for chronic conditions so that they do not discontinue their treatment. Product delivery is carried out by companies qualified in the handling of pharmaceutical products, ensuring that cold chains, care, and verification of medical prescriptions are maintained during delivery. The Company has staff dedicated to advising and supporting users during the purchase process.

Through its statutes, CARE24 emphasizes the need to comply with the regulations set forth by the Colombian Ministry of Health, specifically with: the Obligatory System for Quality Assurance in Health Care (SOGCS, for its acronym in Spanish) established by Decree 1011/2006, the Single Habilitation System (SUH, for its acronym in Spanish) defined by Resolution 2003/2014, the Information System (Indicators) in accordance with Resolution 256/2016, and the Audit Program for the Improvement of Health Care Quality (PAMEC, for its acronym in Spanish). CARE24 health services in Colombia have several qualifications granted by the Ministry of Health and Social Protection: general medicine, optometry, pharmaceutical services, pediatrics, occupational therapy, respiratory therapy, chronic home care without respirator, acute patient, nutrition and diet, physiotherapy, phonology and language therapy, dermatology, and nursing. In addition, CARE24 has health professionals with the authorizations, registrations, and qualifications required in the Republic of Colombia to provide health services.

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

Farmalisto has a Quality Management System (QMS) for its operation in Colombia certified under ISO 9001:2015 in 2018 and re-certified with the Colombian Institute of Technical Standards and Certification (ICONTEC, for its acronym in Spanish) in 2019. It also has an Occupational Health and Safety (OHS) Management System. Both systems have mechanisms that allow for annual monitoring and evaluation.

Farmalisto's programs in Colombia have been adapted to its operations in Mexico and Peru, where, while the management systems of the parent company have been adopted, they are at an earlier stage of implementation and development. Bearing in mind that the regulatory framework of each country in which the Company operates is different, Farmalisto's practice has been to align itself with the most stringent regulations, thus raising the standards of its operations.

4.1.b Policy

Farmalisto has one policy that regulates its quality management system and another for its occupational safety management system. CARE24 declares its commitment to environmental conservation and protection in accordance with local law as one of the cornerstones of its comprehensive waste management plan. The Company's management programs establish its commitment to the environment through compliance with the regulations governing it, preventing pollution, and performing adequate waste management. However, these precepts will need to be included as the focal points of its Environmental, Social, and Occupational Health and Safety Policy.

4.1.c Identification of Risks and Impacts

Farmalisto has a risks and opportunities matrix that is part of its QMS and is updated to November 2019. CARE24 has a risk map that consolidates key threats and defines actions to prevent identified risks and ensure safer processes.

4.1.d Management Programs

The commitment to continuous improvement, as well as control of existing and potential risks in the care of users, are part of the Company's management systems. Each activity is documented through the established processes for which objectives, indicators, and actions for improvement are defined when applicable. The most relevant environmental aspect in the Company's operations is waste management, implementing a Comprehensive Waste Management Plan that includes ongoing review and continuous improvement processes for the programs and activities it comprises.

CARE24 has specific programs and manuals within the scope of its health services operations, such as a patient safety manual and a process to monitor adverse events and incidents in home care.

4.1.e Organizational Capacity and Competency

The Company's QMS and OHS is the responsibility of the Quality Coordinator, who is supported by an Occupational Health and Safety Specialist and collaborates with the Head of Human Management. This team is responsible for implementing the Quality Management and Occupational Health and Safety Systems (QMOHSS). The Company also has multidisciplinary working committees that address different topics. For example, CARE24 has Quality, Clinical Records, Patient Safety, Environmental and Health Management, and Technical-Scientific Committees.

4.1.f Emergency Preparedness and Response

The Company has an Emergency Plan that assesses risks and identifies vulnerabilities, which contains a communication plan and various action plans for each type of emergency. The Emergency Plan contains blueprints of the Company's buildings, meeting points, the location of emergency exits, and the location of fire extinguishers.

The Emergency and Contingency Plan for Farmalisto's main office has been updated in March 2020. The Company also has first aid, evacuation, and fire control brigades. There is also a contingency plan for refrigerated medicines to ensure that thermolabile medicines remain within appropriate temperature ranges in the event of a power outage or suspension of service in the storage area.

CARE24 has a biosafety manual that considers actions to manage occupational accidents and includes protocols for chemical spills and accident management. The Comprehensive Waste Management Plan contains an Industrial Safety Program and a Contingency Plan, which defines what to do in the event of hazardous liquid and chemical spills.

4.1.g Monitoring and Review

Farmalisto and CARE24 undergo ongoing assessments by regulatory bodies that evaluate their compliance with technical and quality requirements to develop processes for the reception, storage, and distribution of pharmaceutical and medical products. At the level of Farmalisto's operations, online tracking of an order's delivery status is performed, ensuring that the corresponding requirements are met.

Farmalisto reports its operations to the Occupational Risk Insurance Company (ARL, for its acronym in Spanish), the Ministry of Labor, the Secretariat of Health, and the Superintendency of Industry

and Trade of Colombia. Reports include, but are not limited to, occupational accidents, occupational diseases, the assessment of minimum standards and improvement plans, new workers' affiliation, changes in the physical site at the pharmaceutical facility, and grievances received from clients. CARE24 has an audit program to improve the quality of health care. It sends regular reports to the District Health Secretariat and District Environmental Secretariat, in keeping with the Hospital Waste Information System (SIRHO, for its acronym in Spanish). In addition, the Comprehensive Waste Management Plan includes reference to internal waste management accountability and auditing.

The external audit conducted in the Company is carried out in two ways: (i) by the various government agencies (Ministry of the Environment, District Health Secretariat, National Institute of Food and Drug Oversight "INVIMA for its acronym in Spanish"), Farmalisto's management system certifier, and the laboratories; and (ii) the audit that the Company conducts on its suppliers of biowaste final disposal services (ECOCAPITAL), which includes an annual visit to the treatment plant to assess aspects such as the supplier's compliance with legal regulations in physical facilities, processing of current legal documentation, and waste collection, transport, and storage.

The Comprehensive Waste Management Plan contains management indicators related to the waste destination (recycling, incineration, and landfills) and a detail of the training provided in this regard (training carried out, personnel trained, etc.).

4.1.h Stakeholder Engagement

As part of its QMS, Farmalisto has mapped its stakeholders, which are classified as internal clients, regulatory and control entities, external suppliers, consumers, and competitors. The relationship requirements and expectations are identified for each.

In response to the health emergency due to Covid-19, Farmalisto and CARE24 have activated protocols to provide free remote guidance to the community. As part of their Social Responsibility actions, they have also made small donations of products such as diapers and personal toiletries to senior adult households.

4.1.i External Communication and Grievance Mechanisms

Farmalisto has an internal and external communications matrix that identifies the company's main processes and operations, as well as the topics to be communicated, when to communicate, to whom communicate, how to communicate, and who is in charge of such communication. This matrix also identifies the recipients of communications (suppliers, authorities, laboratories, and customers) based on the issues identified.

The Company has a grievance mechanism that is enabled on the Farmalisto and CARE24 web pages. Through this mechanism, the Company receives petitions, grievances, claims, and requests (PGCR) and consolidates them and tracks their response through a technology platform called Zendesk, ensuring the traceability of each case. The Company has a person dedicated to tracking and following up on the PGCRs received.

The CARE24 grievance mechanism is activated when a patient considers that the health care provider assigned to care for the patient has not provided satisfactory health services, has requested some type of compensation for executing such services, or in general any other actions he or she deems irregular.

The Company's PGCR is managed under the Colombian Personal Data Protection Standards, which recognizes and protects the right of all people to know, update, and rectify the information collected on them in databases or archives that are subject to treatment by public or private entities.²

4.2 Labor and Working Conditions

4.2.a Working Conditions and Management of Worker Relationships

Farmalisto's OHS Management System Policy establishes its commitment to promote and maintain the physical, mental, and social status of workers through safe and suitable work. The Company also has a policy that: (i) prohibits harassment in the workplace; (ii) prohibits alcohol and drug abuse; and (iii) upholds the commitment to eliminate discrimination against people with disabilities. Likewise, its Internal Labor Regulations establish the mechanism for addressing any worker's grievance or complaint. The Company also has a Coexistence Handbook.

CARE24 benefits from Farmalisto's infrastructure, equipment, personnel, and systems (accounting, human resources, administrative, etc.). It has a small structure, with only 5 direct workers, who are included in Farmalisto's accounting management, and about 50 associated physicians.

The Company has two committees appointed by its general management to manage the responsibilities inherent to its management systems: (i) the Joint Committee on Occupational Health and Safety (COPASST, for its acronym in Spanish), and (ii) the Coexistence Committee. In addition, Farmalisto has an induction plan, a Key Positions manual, and a Call Center manual. Workers have contracts that fulfill all legal requirements and that specify the associated working conditions in terms of deadlines, schedules, holidays, etc. Induction processes are subject to ongoing review by the OHS Management System.

Farmalisto carries out regular performance evaluations of its staff, which allows it to design improvement plans. These assessments include communication, leadership, motivation, safety, attitude, work environment, etc., divided by Company area. The Human Management department

² <https://www.sic.gov.co/proteccion-de-datos-personales>

has implemented surveys aimed at covering issues of job satisfaction, job evaluation, and active breaks, as well as reviewing compliance with training, wellbeing, and occupational health and safety plans. Finally, having applied the evaluation mechanism detailed in Resolution 0312 of 2019 of the Colombian Ministry of Labor, which sets forth the minimum standards for the OHS Management System, Farmalisto achieved a score of 87.5, indicating acceptable performance.

Farmalisto has no registered trade union organization. However, the Company respects workers' rights to free association and affiliation.

Most of the employees at all levels of Farmalisto are women, who have equal working conditions with men. There is paid maternity leave, as required by law.

4.2.b Protecting the Workforce

As part of its OHS Management System (OHSMS), Farmalisto has a risk identification and control matrix for its call center operations, general services, warehouse, courier, and administrative operations. CARE24 has a Biosafety Manual that includes a review of personal protection elements, biosafety standards for care personnel, and occupational accident management, indicating immediate and post-occurrence procedures. This Manual seeks to stimulate the use of safety elements, reduce biohazard accidents, maintain a safe environment, train personnel, and standardize cleaning and disinfection processes for home care equipment.

Each year, contractors must file the certificate of assessment of their OHSMS issued by the ARL along with proof of Social Security payments (health, pension, and occupational risk coverage), in order to evidence compliance, improvement, and progress regarding the minimum standards of the OHSMS.

4.2.c Occupational Health and Safety

Farmalisto's OHSMS requires that: (i) workers receive training on the Occupational Health and Safety Management System; (ii) occupational diseases, incidents, and accidents are recorded, reported, and investigated; and (iii) workers undergo medical checkups. It also establishes the need to identify hazards, evaluate and assess risks, and define the emergency prevention, preparedness, and response plan whereby risks are assessed, vulnerabilities are identified, and communication plans, as well as other action plans, are established.

In response to COVID-19, supplementary protocols have been implemented, such as the use of gloves and masks, disinfection of glasses, change of clothes and implementation of triage consultations through the call center.

4.2.d Workers Engaged by Third Parties

The Company's direct workers perform call center, procurement, and delivery tasks. The home delivery service has been outsourced to a sole contractor who is supervised directly by Farmalisto. This contractor is key to the success of the business and the end customer experience, so delivery persons receive training directly from Farmalisto, including about PGCR care.

Farmalisto monitors its contractors' compliance with the management standards of the QMOHSS through the certificate of evaluation of their QMOHSS issued by the ARL, which has the responsibility to offer coverage to workers to prevent, protect, and attend to the effects of occupational diseases and workplace accidents.

As a routine practice, Farmalisto holds regular meetings with its suppliers and contractors, in which it tracks performance indicators and reviews operations and surveys of its clients' perception of the work performed. From 2020 onwards, Farmalisto's QMS audit program will also include suppliers and contractors. This program will focus on the review of contractual commitments and, in the event of non-compliance, will ask the supplier or contractor in question for action plans to remedy such breaches.

4.2.e Supply Chain

The evaluation and re-evaluation of suppliers is implemented by Farmalisto within its QMS and is carried out annually. The QMS also has a procurement procedure for the procurement of goods and services applicable to Farmalisto and CARE24. Finally, within the framework of contracting policies and procedures, the contracts of business partners, service providers, contractors and employees lay down agreements and responsibilities between the parties for the fulfilment of legal obligations incumbent on each party.

4.3 Resource Efficiency and Pollution Prevention

Waste from damaged or expired Farmalisto products is treated under CARE24's comprehensive waste management plans, as CARE24 maintains a contractual relationship with the supplier who collects and disposes of such waste. As part of its operations, Farmalisto generates domestic waste (non-hazardous, biodegradable, recyclable, and plastic) that is collected by the service company of the city of Bogotá; and medicines that may have been damaged during handling, which are returned directly to the suppliers because Farmalisto is not authorized to destroy them.

Given that the amount of hazardous waste is kept to less than 10 kilograms per month, in accordance with Decree 4741 of 2005, Farmalisto is not required to keep a record of it. Rejected products are return to the distributor with a letter specifying the cause of return. The laboratories

provide a written response to the letter by attaching a statement of destruction or simply replacing the product or issuing a credit note.

Products that are returned by the consumer are governed by Resolution 371/2009 of the Colombian Ministry of Environment, which regulates the management of post-consumer product returns. Through this regulation, Farmalisto undertakes to encourage post-consumer product returns, collaborating with the plans of each manufacturer for temporary storage while awaiting collection. Thus, "rejected and returned" products are deposited in a special area and then handed over for incineration by their distributor (laboratory, etc.). Farmalisto keeps a record of returned goods, which specifies the products handed over for incineration.

CARE24 has a Comprehensive Management Plan for Hospital, Hazardous, and Chemical Waste, which includes drugs, expired drugs and low-risk drug waste (at CARE24, all drugs used are low-risk). It also considers worker training, including behavioral biosafety aspects, as an integral part of this.

4.4 Community Health, Safety and Security

The procedure for dispensing products considers that the purchase of medicines whose label has the legend "sale under medical prescription" or whose technical data sheet states that the product is "for delicate use", is only done under prescription. Fulfilling this requirement is the responsibility of the pharmaceutical chemist, the call center agent, or the delivery persons, depending on who is handling the product, but always based on the records in the Zendesk platform and the physical files. Similarly, the distributors ensure that when the medicine is delivered, the person receiving it is the prescription holder. There are procedures for delivery persons to ensure that priority deliveries (which have special preservation conditions) are properly transported and that the customer verifies that the product arrived in good condition.

The Emergency Plan defines a "Mutual Assistance Committee" that considers neighboring companies as an emergency contact network. The contractor in charge of deliveries has a road safety plan and a Code of Ethics.

4.5 Land Acquisition and Involuntary Resettlement

The scope of this Operation does not trigger this Performance Standard.

4.6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

The scope of this Operation does not trigger this Performance Standard.

4.7 Indigenous Peoples

The scope of this Operation does not trigger this Performance Standard.

4.8 Cultural Heritage

The scope of this Operation does not trigger this Performance Standard.

5. Local Access of Project Documentation

The documentation related to the project can be accessed at the following links:

<https://www.farmalisto.com.co/>

<https://www.care24.com.co/>

6. Environmental and Social Action Plan

6.1 The Project's Environmental and Social Action Plan (ESAP) is summarized as follows:

FARMALISTO PROJECT
Environmental and Social Action Plan (ESAP)

No.	Aspect	Action	Deliverable	Completion date
PS 1: Assessment and Management of Environmental and Social Risks and Impacts				
1.1	Policy	1. In the existing policy review, include the principles and objectives that ensure a good environmental and social performance of Farmalisto and CARE24 operations (Colombia, Mexico, and Peru).	1. Environmental and Social Sustainability Policy for CARE24 and Farmalisto, duly signed.	1. Before the first disbursement.
1.2	Identification of Risks and Impacts	1. Complement the OHS risk matrix with environmental and social aspects, identifying existing controls and assessing associated risks.	1. Updated risk matrix, including environmental and social aspects.	1. 30 days after the first disbursement.
PS 2: Labor and Working Conditions				
2.1	Working Conditions and Management of Worker Relationships	<ol style="list-style-type: none"> 1. Ensure that all human resources policies are properly signed. 2. Carry out an annual policy review. 3. Disseminate policies to workers and suppliers. 	<ol style="list-style-type: none"> 1. QMOHSS Policy signed by the company's legal representative. 2. Evidence of the annual policy review. 3. Evidence of the dissemination of the Policy to workers and suppliers 	<ol style="list-style-type: none"> 1. 30 days after the first disbursement. 2. 30 days after each calendar year. 3. 30 days after the first disbursement.
2.2	Communication and Grievance Mechanisms	<ol style="list-style-type: none"> 1. Consolidate the grievance mechanism for Company workers (Farmalisto and CARE24), defining steps and response times, and incorporating the option of receiving complaints anonymously. 2. Socialize the mechanism with direct workers and those engaged by third parties. 3. Extend the mechanism to workers engaged by third parties. 	<ol style="list-style-type: none"> 1. Grievance mechanism for Company workers that defines steps and response times and incorporates the option of receiving grievances anonymously. 2. Evidence of socialization of the mechanism with direct workers and those engaged by third parties. 3. Evidence of having extended the grievance mechanism to workers engaged by third parties. 	<ol style="list-style-type: none"> 1. 30 days after the first disbursement. 2. 45 days after the first disbursement. 3. 60 days after the first disbursement.

C. Additional Information

For inquiries about the Project please contact Farmalatam Holding Inc.

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