

Environmental and Social Review Summary (“ESRS”)
Paladin Latin America Zero Carbon Affordable Housing Fund / 13426-01
Regional (mostly in Mexico, Colombia, Brazil, and Peru)

Original language of the document: English
Issuance date: July 2021

- 1. Scope of Environmental and Social Review:** The environmental and social (E&S) review of the proposed transaction consisted of a desk review of the E&S Management System (“ESMS”) of Paladin Realty Partners (“Paladin” or the “Fund Manager”), as well as discussions with members of the Investment Committee and the Environmental and Social Managers of Paladin. This is a new client for IDB Invest; however, Paladin had previously managed five Equity Funds focused on real estate investments in Latin America with the participation of other Development Finance Institutions which fostered the development of its current ESMS based on international standards (including IFC performance standards).
- 2. Environmental and Social Categorization and Rationale:** The proposed transaction will support sub-projects with moderate risk. Consequently, in accordance with IDB Invest's Sustainability Policy, the Fund has been categorized as FI-2. The Fund focuses exclusively on the development of housing that will be certified under the IFC EDGE (Excellence in Design for Greater Efficiencies) standard. The housing will be targeted to middle income populations in Brazil, Colombia, Mexico and Peru, with an average investment of US\$2.5 to US\$3.5 million in a period of 3 years and a term of 5 to 6 years for each sub-project. The Fund estimates to invest in 10 to 15 sub-projects. Sub-projects classified as Category A (high-risk) and activities that are listed in IDB Invest’s exclusion list shall not be able to procure financing by the Fund.
- 3. Environmental and Social Risks and Impacts:** The E&S risks of this transaction are related to Paladin’s ability to assess and manage the risks associated with its investments that are mostly linked with the construction phase (e.g., health and safety, labor, pollution prevention, etc.). All housing developments will be located in urban areas. The E&S risks and impacts associated with the subprojects are likely to be moderate. In 2021 IFC recognized Paladin Realty as EDGE Champion for their commitment to promoting green building construction in Latin America by the implementation of a resource-efficient design that reduces carbon emissions, water usage and waste generation.
- 4. Mitigation Measures:** Paladin has an Environmental and Social Management System (ESMS) that is applied to all its investments. Paladin’s ESMS includes an exclusion list, procedure analysis, E&S categorization, and guidelines for developing E&S action plans. Paladin implements the GRESB Real Estate Assessment and the International Finance Corporation’s (IFC) Performance Standards. Paladin has an Environmental, Social and Governance (ESG) Committee formed by one member of the Investment Committee and members from each of its local offices (Brazil, Colombia, Mexico, and Peru), who are responsible for the implementation of the ESMS. Paladin has a Human Resources Policy that integrate the principles of non-discrimination and equal opportunity, as well as a Grievance Mechanism for its employees. Stakeholder grievances or inquiries will be received through Paladin's website (<https://paladinrealty.com/contact-us>), and will be recorded according

to their type, to resolve them in a timely manner. Paladin also publishes an annual impact report aligned with the Sustainable Development Goals (SDGs).

Paladin will be required to ensure that all sub-projects implement the ESMS in compliance with the IDB Invest exclusions list, the applicable local E&S laws and IFC Performance Standards. Paladin will also be required to submit the first three Due Diligence reports to review and approve: (i) the E&S categorization; and (ii) the proposed action plan. Members of the Investment Committee and the Fund's Environmental Managers will be required to take Environmental and Social Risk Management training.

5. Environmental and Social Action Plan (“ESAP”):

Item #	Action	Description	Deliverable	Completion Date
1.	Update the existing ESMS	<p>Update the ESMS to include:</p> <ul style="list-style-type: none"> • Applicability criteria of IFC PS in accordance with IDB Invest Sustainability Policy¹ • Application of the ESMS provisions to main subcontractors and suppliers 	ESMS updated Proof of Personnel training	9 months after financial closure
2.	Review of the first three E&S Assessments	Paladin will send the first three fund transactions to IDB Invest for review and feedback of the E&S assessments, in order to: (i) confirm E&S categorization and (ii) assess the proposed action plan.	E&S assessment reports and action plans	When the first three transactions have been made.
3.	Capacity Building and training	Members of the Investment Committee and Fund's Environmental Managers will be required to take training on the implementation of IFC's performance standards (PS). Ensure that all new personnel receive the same training.	E&S training certificates	12 months after financial closure

6. Contact Information: For project inquiries, including environmental and social questions related to an IDB Invest transaction please contact the client (see **Investment Summary** tab), or IDB Invest using the email requestinformation@idbinvest.org. As a last resort, affected communities have access to the IDB Invest Independent Consultation and Investigation Mechanism by writing to mecanismo@iadb.org or MICI@iadb.org, or calling +1(202) 623-3952.

¹ For project finance and corporate loans with tenor of not less than 36 months and funding defined assets as part of a project amounting to at least US\$10 million of total capital cost, compliance with all PSs is required.