Environmental and Social Review Summary (ESRS)
Automaq – PARAGUAY

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1. General Information of the Project and scope of IDB INVEST's E&S Review

Automotores y Maquinarias SAECA ("Automaq" or the "Company") is a Paraguayan family business with over 60 years of market experience in importing, selling and repairing agricultural and construction machinery, Peugeot and Citroën automobiles, and spare parts and tires in the retail market. This is the IDB Group's second transaction with Automaq. The first one, approved in 2013, fulfilled all its financial, environmental and social obligations. The proposed transaction (the "Project") consists in a working capital credit line to finance the import of agricultural machinery.

Automaq started operating in 1961 in the automobile market to later expand onto other segments, such as agricultural and construction machinery. Nowadays, the agricultural machinery sector is its major interest, accounting for 60% of the Company's revenue by importing and dealing John Deere, Komatsu, Bomag and Clark equipment, Peugeot and Citroën automobiles, and Michelin and BF Goodrich tires. The Company renders post-sales services for its products, including repairing and maintenance, and sells spare parts. It has 21 branches, strategically distributed nationwide, comprising offices, repairs shops, stores and showrooms.

The environmental and social due diligence (ESDD) carried out for the Project was completed virtually, given the mobility restrictions derived from the COVID-19 pandemic. The process involved discussions with the Company's management and staff from the environmental and social area, as well as the analysis of technical, environmental, social, and health and safety documentation.

2. Environmental and Social Classification, and Rationale

Under IDB Invest´s Environmental and Social Sustainability Policy, the Project was categorized as a category B project since it could give rise to low to medium intensity risks and impacts, which are also predictable and manageable applying well-known sector plans and procedures.

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) PS 3: Resource Efficiency and Pollution Prevention; and (iv) PS 4: Community Health, Safety and Security.

3. Environmental and Social Context

3.1 Project Area Overview

Automaq has 21 facilities distributed nationwide, 12 of which are located in Asuncion and Greater Asuncion, whereas the remaining 9 are in or near the urban centers of the following cities: Hernandarias, Ciudad del Este, Santa Rosa del Aguaray, Dr. JE Estigarribia – Campo 9, Filadelfia, Pedro

Juan Caballero, Santa Rita, and Boquerón – Loma Plata. Several different activities are carried out in those sites, namely, (i) the sales of new and used automobiles, including repairs service and sales of spare parts; (ii) the sales of tires, including fit, alignment and balancing services; and (iii) the sales of agricultural, construction and forestry equipment, including repairs service and sales of spare parts.

The car showrooms and service sites are located in urban centers, whereas those used for selling and servicing construction or agricultural machinery are mainly located near the national roads and less densely populated places, where they have a larger open area to display and store larger equipment. All Automaq's facilities are situated in highly anthropized, suburban or peri-urban areas, and most of them are rented from third parties. All facilities have all the relevant permits issued by the applicable authority.

Automaq employs about 400 people, almost all of whom are in its payroll.

3.2 Contextual Risks

The main contextual risk is associated with the violence derived from robberies to individuals or stores as well as other criminal acts (mainly related with drug trafficking). Overall, these are deemed as medium risks, but they could be high in certain specific places in some cities (such as Ciudad del Este).

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 Management System

Automaq's current environmental and social management is based on the Safety, Occupational Health and Environment Program (the "SSOMA Program" [1]), aimed to prevent, control or eliminate the risks and impacts associated with accidents, and damages to property or the environment that might be caused by accidents, spills or fires. The Program assigns the responsibilities, activities and the documents needed to manage those risks and impacts.

The Company does not have an Environmental & Social Management System (ESMS) for its activities. Automaq will prepare and adopt an ESMS to be applied to all the activities performed by payroll and contracted personnel, always assuring the continuous improvement cycle is observed: plan, do, check and provide feedback.

4.1.b Policy

Automaq's comprehensive safety, occupational health, environment, alcohol and drug use policy states, among other things, the principles of: (i) legal compliance, (ii) pollution prevention, and (iii) occupational disease and injuries prevention. Even though this policy is considered overall suitable, the Company will update it to be aligned with the international environmental standards and will distribute it across the Company, to the stakeholders and the general public.

[1] SSOMA: Seguridad, Salud y Medio Ambiente

4.1.c Identification of Risk and Impacts

Automaq's Workshop Risk Matrix identifies the occupational health and safety risks; each of them can be categorized as acceptable, moderate or intolerable, and the magnitude of its potential consequences and the probability of occurrence can be determined. However, this matrix does not include environmental or social risks or impacts, or specify the places or areas where the activities under consideration are carried out. Consequently, as part of the ESMS, Automaq will prepare specific matrices to identify and assess the potential environmental and social impacts as well as the associated occupational risks. The assessment will be site-specific and will take into consideration its characteristics and the activities performed there.

4.1.c.i Direct and Indirect Impacts and Risks

The occupational risks and environmental and social impacts associated with the Company's activities include the following: (i) work and occupational health and safety risks related with the workshops and maintenance activities (physical risk from the use of machinery, hearing risk, ergonomic risk, electrical risk and eventual risk of poisoning with hazardous substances); (ii) increase in water and energy demands; (iii) generation of waste, both solid (hazardous and non-hazardous) and liquid (mainly wastewater from the workshops and vehicle washing facilities and used lubricants); (iv) potential spills of hazardous products (lubricating oils, hydraulic oils and fuels); (v) atmospheric emissions of gas; and (vi) eventual impacts on the road safety due to the transportation of machinery along the major and side roads.

4.1.c.ii Analysis of Alternatives

No alternatives have been analyzed because the Project does not expect substantial modifications to the type and magnitude of the risks and impacts associated with Automaq's activities.

4.1.c.iii Cumulative Impacts

The Project will not generate any substantial incremental impacts. Nevertheless, its activities will contribute to increasing three valuable environmental components: traffic around its urban sites, environmental noise, and air pollution.

4.1.c.iv Gender Risks

The gender gap in Latin America and the Caribbean is enormous; it is defined as differential, unequal access to work, education, economic and political participation opportunities based on sex or gender. This gap is supported by widespread cultural rules for what is acceptable for men and women, and is exacerbated by weak legal safeguards or inadequate social response. The gender gap leads to gender-based discrimination, unequal access to public services, to educational differences, to work and pay gaps and lower rates of political participation. The gender gap rate for Paraguay is at par with other five countries at 0.7, which is better than only one country out of the other 26 countries in the region[2].

[2] https://www.statista.com/statistics/803494/latin-america-gender-gap-index-country/

Gender-based violence and harassment (GBVH) are also a major problem in Latin America and the Caribbean, which holds the highest rate worldwide. A total of 37 femicides were reported in Paraguay in 2019, which was the fifth lowest amid 16 countries in the region[3]. Gender-based violence has been exacerbated by the COVID-19 pandemic. The most recent report issued by the UN Committee on the Elimination of Discrimination against Women about Paraguay declares that the country has shown some progress in the last few years in terms of legislation and government programs, but some areas of concern still remain[4].

In order to mitigate the gender risks, Automaq included the concept of zero tolerance for work and sexual harassment, and violence against women in its Code of Ethics. The Company has committed to: (i) implementing programs, projects and campaigns to raise awareness companywide; (ii) setting up mechanisms to help in and manage work and sexual harassment cases; and (iii) creating strategic alliances with organizations that specialize in designing and implementing actions in this regard.

In order to systematize the implementation of the actions included in the Code of Ethics under the ESMS, Automaq will prepare a procedure to manage reports on sexual harassment, discrimination or any other type of gender-based violence with strict confidentiality, and preventing any form of retaliation.

4.1.c.v Climate change exposure

The financial risk generated by the Company adopting operations and practices that involve a low carbon generation is considered low, in terms of the emissions caused by Automaq's own activity (mainly associated with vehicle movement). Also, Automaq's risk of exposure to adverse climate-change events (mainly floods and heat waves) is deemed moderate, though creeping up.

4.1.d Management Programs

Automaq's SSOMA Program describes the responsibilities and the basic elements needed to manage safety, occupational health and environmental issues. This is supported by the Safety, Occupational Health and Environment Manual to inform the workers across branches of the most frequent risks involved in their activities, as well as the general preventive measures to be adopted to avoid them.

When preparing the ESMS, the Company will: i) perform a review and eventually update the existing management Programs (plans, programs and procedures); ii) prepare new programs as indicated in the environmental social action plan; iii) implement, monitor and control its implementation by payroll and contracted personnel; iv) identify and implement corrective actions to guarantee continuous improvement.

4.1.e Organizational Capacity and Competency

The Company's environmental and health and safety management is run by a SSOMA technician, who reports to the Human Resources department. This technician is responsible for preparing, implementing and monitoring the SSOMA Program, and of following up on it. He is helped by the

[3] Number of femicides in Latin America per country in 2019 | Statista.

[4] CEDAW PARAGUAY

branch managers and the workshop heads to execute these tasks. The Human Resources department has a Corporate Social Responsibility Coordinator (RSE) who identifies and maintains the relations with the community.

As part of the ESMS, Automaq will create an environmental, social and health and safety division, which will report directly to Management and will aim to guarantee the implementation and maintenance of the ESMS. The area will be led by an environmental and social specialist; the staff will have well-defined responsibilities and competences, and shall be properly qualified and suitably experienced, and receive regular training in international best practices.

Automaq will also prepare and implement an annual training plan. It will include the most significant environmental aspects and occupational risks, whether they are identified with the corresponding matrices, new legislation passed, new technologies adopted and by type and severity of the personal accidents occurred. The plan is expected to identify the type of course or training to be delivered (including emergency drills), the recipients of the training courses, the dates and sites selected for delivering each course, the people in charge of delivering the courses and the formats to record attendance.

4.1.f Emergency Preparedness and Response

Automaq's strategy for emergency preparedness and response includes procedures that consider the risks associated with the tasks carried out at the Company's workshops. They include rules of procedure in case: (i) fires break out (including evacuation plans); (ii) first aid is needed (CPR, bleeding, wounds, burns, faints, seizures, chemicals or materials entering the eyes, and poisoning); and (iii) oil spills need to be contained. However, the procedures are scattered across documents (SSOMA Manual, Special Procedures Manual, safety procedures), which makes it difficult to be effectively implemented when an emergency situation arises.

Consequently, as part of the ESMS, Automaq will prepare and implement an emergency prevention and response plan for each one of the Company's sites or operating units, based on specific emergency scenarios. Those plans will include, at least, the following: (i) the preventive actions and installations (for example, installation and operation of fire detection and suppression systems); (ii) the creation of emergency brigades; (iii) the internal and external communication channels (with the fire brigade and local public agencies); (iv) the actions requiring the engagement of third parties; (v) the materials and human resources required; (vi) the need for training; and (vii) the investigation, analysis and record processes. Some of the emergency scenarios associated with natural causes to be especially considered include those related with floods and significant severe climate events.

4.1.g Monitoring and Evaluation

Just as specified in the Environmental and Social Action Plan, Automaq will prepare and implement a Monitoring and Supervision Plan to assure compliance with the legislation in force and other environmental and social requirements applicable to the Company. The plan will include actions to measure and monitor the environmental, social and health and safety parameters, as well as pre-selected performance indicators.

4.1.h Stakeholder Engagement

The RSE Coordinator is in charge of engaging with the stakeholders. However, a Community Engagement Plan will be prepared to manage the social aspects, which will involve: (i) mapping, analyzing and planning the engagements with identified stakeholders; (ii) a mechanism for disclosure of information, queries and communications with the stakeholders; and (iii) a grievance mechanism which will receive anonymous grievances.

4.1.h.i Information Disclosure

The Community Engagement Plan will also define the guidelines for the Company to disclose environmental and social information to the stakeholders, including: (i) replies to queries submitted by the community; (ii) changes to the management programs and the emergency prevention and response procedures; and (iii) specific measures to prevent or mitigate environmental or social impacts.

4.1.h.ii Informed Consultation & Participation

As the Project is a working capital financing transaction, it does not require a consultation and participation process.

4.1.h.iii Indigenous People

Automaq's sites are located in urban areas which do not interfere with territories or areas of indigenous interest. In this regard, no indigenous communities are expected to be affected.

4.1.h.iv Private Sector Responsibilities under Government-Led Stakeholder Engagement

Given the Project's characteristics, no stakeholder engagement process is expected to be carried out by the government.

4.1.i External Communication and Grievance Mechanisms

4.1.i.i External Communication

The Project-related environmental and social external communications will be considered in the Community Engagement Plan. Automaq's environmental, social and health and safety division (to be created) will have the necessary capacities to manage the process.

4.1.i.ii Grievance Mechanism for Affected Communities

As part of the Community Engagement Plan, Automaq will implement a community grievance mechanism which is easy to understand and access, culturally suitable, and with no cost or retaliatory implications for those exposing a problem or a concern.

4.1.i.iii Provisions to Address Vulnerable Group Grievances

Even though the Project is not expected to affect vulnerable groups, the grievance mechanism to be implemented by Automaq will include procedures to record grievances coming from these groups.

4.1.i.iv Reporting to Affected Communities

As expressed in the Community Engagement Plan, in case a community ends out affected by Automaq's activities, the manager of the environmental, social and health and safety area will be responsible for informing the community about how those activities are progressing and how the corresponding preventive or corrective measures are being implemented.

4.2 Labor and Working Conditions

4.2.a Working Conditions and Management of Worker Relationships

4.2.a.i Human Resources Policies and Procedures

Automaq's Human Resources Policy establishes the procedures for recruiting, selecting and hiring personnel, as well as the guidelines to assess their performance, professional development and the pay and benefits scheme. The rules for hiring employees as well as the guidelines and code of conduct, and the benefits and pay procedures are described in the Human Resources Policy and the Human Resources Procedures Manual.

4.2.a.ii Working Conditions and Terms of Employment

The Roles Manual specifies the profiles of each position. The Human Resources Procedures Manual describes the responsibilities and the procedures to calculate compensation, commissions, deductions, and pay, and to prepare the social security forms and registrations.

4.2.a.iii Worker Organizations

Even though workers have absolute freedom to unionize or join the existing unions, Automaq's personnel currently does not belong to any trade union.

4.2.a.iv Non-discrimination and Equal Opportunity

Automaq's Code of Ethics ratifies the Company's commitment to promoting equal opportunities at work, assuring that: (i) no discriminatory act takes place for reasons of sex, age, race, social or cultural origin, nationality or any disability, political opinion or religious beliefs; and (ii) workers are hired and promoted based on their qualities and expertise, making sure they are treated with dignity and respect for their private life and no favoritism.

4.2.a.v Women Engagement

Automaq has made efforts to add women to its work force, even in areas where they are not traditionally hired; for example, the Company's workshops. Currently Automaq's work force is made up of 21% of women, with 50% of the managerial positions occupied by women, which is unusual in

Paraguay. Hiring women has been supported by an agreement signed between the Company and the Ministry of Labor to support women's training in technical areas.

4.2.a.vi Retrenchment

The Project will not hire any additional staff. Consequently, no retrenchment is expected once it is completed.

4.2.a.vii Grievance Mechanism

Employee grievances are internally dealt with by the Human Resources department. The Ethics Committee receives grievances through boxes, printed notes, email and telephone lines, and they are treated confidentially (if required). Once the grievance is analyzed and the course of action is decided, the outcome is informed to Human Resources, which, if applicable, will apply the relevant sanctions. In order to systematize the reception and resolution of employee grievances, Automaq will update the currently used mechanism, making sure that each grievance is managed until it is resolved, the resolution times are respected and the people dealing with the grievance are appointed. The updated mechanism, which shall allow for anonymous reports, shall keep the matter confidential, guarantee there will be no retaliatory actions against the person submitting the grievance and it will be applied to all payroll and contracted workers.

4.2.b Protecting the Workforce

4.2.b.i Child Labor

Paraguay is signatory of several International Labor Organization (ILO) Conventions. In 2009 the Paraguayan government, together with workers', employers' and ILO organizations signed a tripartite agreement called National Program for Decent Work, which establishes, among other things, that forced labor and child labor shall be eradicated across the country.

The environmental and social due diligence (ESDD) did not detect any indications of child labor in Automaq. Additionally, considering the type of activity performed by Automaq, the risk of its suppliers and contractors using child labor is very low.

4.2.b.ii Forced Labor

The ESDD process did not detect any forced labor at Automaq. Like in the case of child labor, the risk of forced labor being used for the activities carried out by Automaq and its supply chain is low.

4.2.c Occupational Health and Safety

The health and safety risks are currently managed via the SSOMA Program, using the provisions in the Safety, Occupational Health and Environment Manual. However, as part of its ESMS, Automaq will develop and implement specific programs to manage the health and safety risks.

4.2.d Provisions for Individuals with Disabilities

Some of Automaq's facilities are designed with mobile disabilities in mind. Nevertheless, several sites are still not suitably equipped for disabled people. In this sense, the Company will develop and adopt a phased plan to make offices, canteens and toilets suitable for disabled people and will include emergency procedures that consider their evacuation, before hiring personnel with this condition.

4.2.e Workers Engaged by Third Parties

Automaq has few workers engaged by third parties; cleaning and security personnel, and occasionally, staff hired for specific or maintenance tasks. However, the comprehensive SSOMA policy and its regulations establish that all health and safety programs are applicable to Automaq's payroll personnel as well as that engaged by third parties and to visitors.

4.2.f Supply Chain

The main components of Automaq's supply chain are vehicles, agricultural and construction machinery, tires, spare parts and lubricants. Except for a few locally manufactured spare parts, the components are imported. Even though Automaq has no control over the employees' working conditions at their suppliers' facilities, the latter are internationally well-known companies with a reputation for their good practices when managing their human resources. Therefore, the labor risks within the supply chain are low.

4.3 Resource Efficiency and Pollution Prevention

4.3.a Resource Efficiency

The Company's control and budget area monitors the fuel consumed by the fleet to estimate the cost per kilometer. Any discrepancy with the standard consumption levels is reported for further investigation. Water is mainly consumed for washing machinery and vehicles at the Company's sites. A total of 9 out of the 21 sites have vehicle washing facilities on premise.

The water and energy consumed by Automaq is supplied by public utilities companies. The Company is currently not measuring the amount of water consumed in those processes. Automaq will prepare and implement a program to optimize the use of water and energy, which will include goals, deadlines and responsibilities.

4.3.a.i Greenhouse Gases

Paraguay's electrical grid is fully based on renewable sources[5], so consumption does not generate greenhouse gases (GHG). The largest amount of GHG is generated by the use of vehicles. Automaq has a fleet of 125 vehicles of their own (mainly cars and pickups, and 5 medium trucks) and 17 rented pickups . In order to keep the fleet up-to-date and in good operating condition, Automaq replaces the vehicles when they have run 250,000 km.

[5] Itaipú and Yacyretá binational hydroelectrical power plants, and Acaray national hydroelectrical power plant.

Automaq will estimate the annual GHG emission for the prior year as well as the amount to be generated the following year.

4.3.b Pollution prevention

4.3.b.i Wastes

Solid, semi-solid and liquid waste is treated as instructed in Automaq's Special Procedures Manual.

Automaq has entered into agreements with companies that recycle cardboard paper, metallic tanks and other recyclable products. Moreover, Automaq set up collection points for recyclable materials, by virtue of an agreement signed with EcoPunto, where its employees and the community members can dispose of recyclable materials (plastic, aluminum, paper and cardboard paper) in an effort that the Company is looking to extend to other branches. Recycling solid wastes comprises: (i) separation at source of plastic, cardboard paper, paper and other wastes that can be reused; (ii) selective collection; (iii) final sorting of recyclable materials; and (iii) further sale of recyclable materials.

Used tires are handled through a company that treats them to get specific substances, such as asphalt, charcoal and hydrocarbons.

Hazardous wastes generated by Automaq (used oils, batteries, filters, etc.) are collected, transported and treated by certified companies. Used oils are delivered to a company that recycles hydrocarbons and retrieves energy and asphalt components.

Domestic solid wastes are collected by the municipal service, except for those at the Chaco branch, where they are collected and managed by a private company.

Liquid wastes generated at the vehicle and machinery washing facilities are collected and treated with oil-solid separation systems before they are poured into the municipal sewerage. Oils and solids are collected and managed by an authorized company. The quality of the treated effluents is not analyzed before they are poured into the sewerage.

Automaq will set up and implement a program to repair or build systems for the primary treatment of machinery wash water at each of the Company's operating units, where applicable. The quality of the treated effluents will be monitored annually. Moreover, Automaq will establish and implement a specific procedure to manage the washing facilities and the systems to treat the associated effluents.

4.3.b.ii Hazardous Materials Management

The areas where the Company stores lubricating oils have water-proof flooring and a fire detection system. Automaq, however, will install spill barriers to prevent materials from coming out of the facilities.

4.3.b.iii Management and Use of Pesticides

Automaq hires authorized companies for plague control tasks. The companies use products with the sanitary authorization of the DIGESA [6] (National environmental health office). The Company shall verify that the products used for plague control have no 1a or 1b substances, as per the IPCS/OMS toxicological classification (2009). If they do, Automaq will trigger a replacement plan.

4.4 Community Health and Safety

4.4.a Community Health and Safety

Automaq's activities that could impact the health, safety and security of the neighboring communities are mainly connected with possible road accidents due to vehicle and agricultural machinery moving along major and side roads. Automaq will prepare and implement a specific procedure to move machinery along major and side roads in order to mitigate this effect.

4.4.a.i Infrastructure and Equipment Design and Safety

All Automaq facilities have fire detection and suppression equipment, with alarms connected to central monitoring positions, including manual push buttons, hydrants, pumps connected to diesel generators and portable extinguishers. The specific prevention and emergency plans to be used in the facilities will make them safer in terms of fire prevention and control. Also, providing all lubricating oil storage facilities with spill barriers will prevent soil pollution caused by oil leaking out of the facilities.

To keep the property safe, the sites have alarm systems connected to central monitoring stations by motion sensors, glass-break and open-door sensors, video surveillance and security personnel.

4.4.a.ii Ecosystem Services

Given the fact that Automaq's facilities are located in areas that are highly intervened by human activity, the Project will not affect the ecosystems.

4.4.a.iii Community Exposure to Disease

Automaq has a stable, mainly local work force with low turnover; so the probability that the Project will generate an incremental exposure to disease for the members of the community is highly low.

4.4.a.iv Emergency Preparedness and Response

Although the emergencies that could affect Automaq are not expected to have effects on the community, the emergency prevention and response plans for each operating unit will include the analysis of the potential effects of an emergency over a neighboring community, while addressing the need to engage the community institutions to respond in the event of and control such situations (fire brigade, medical emergencies, environmental authorities, Police, Patrulla Caminera [road police], etc.).

[6] DIGESA – Dirección Nacional de Salud Ambiental

4.4.b Security Personnel

Automaq hires security companies regulated by Paraguayan legislation to keep its business facilities safe. Security guards are armed.

Automaq will establish protocols aligned with the international best practices to be applied by the companies rendering property security services.

5. Local Access of Project Documentation

The documents linked to the Environmental Impact Declarations submitted by Automaq to the Ministry of Environment and Sustainable Development (MADES) can be accessed at: https://www.mades.gov.py https://www.mades.gov.py