

Environmental and Social Review Summary (ESRS) PROCSA III - Mexico

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

Procsa (the "Client" or the "Company") is a family-owned company founded in 1960, whose main endeavor is the development, promotion, design, construction, and marketing of housing spaces in Mexico City (vertical housing) and the State of Mexico (horizontal housing). Procsa focuses on the new middle-income housing market.

This transaction is intended to finance land acquisition, refinance debt, and provide working capital for the development, construction, and marketing of vertical and horizontal housing (the "Project" or the "Transaction").

Since Procsa is an existing client of IDB Invest, the Environmental and Social Due Diligence ("ESDD") process did not include a site visit and was limited to updating the Company's information and meeting with its management and operations teams. Since the projects to be financed by this transaction cannot be determined beforehand, the ESDD process included an analysis of a sample of the real estate projects that make up the current portfolio (Tlalpan, Peñones, Sur 16, Alto Serratón II).

2. Environmental and Social Categorization and Rationale

The Project has been classified as a Category B operation according with BID Invest's Environmental and Social Sustainability Policy since most of the identified environmental risks and impacts are considered limited, site-specific, and easily mitigated. These include the following: (i) hazardous and non-hazardous solid waste generation; (ii) air emissions; (iii) noise pollution; (iv) wastewater generation; (v) possible soil pollution; (vi) increased occupational health and safety risks for direct and indirect workers; (vii) potential impact on archeological remains; and (viii) increased possibility of accidents due to the increase in heavy traffic.

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) PS3: Resource Efficiency and Pollution Prevention; iv) PS4: Community Health, Safety, and Security

2.1 General Characteristics of the Project's site

The land used by Procsa is in urban areas characterized by the availability of commerces, public health and education services, and public transportation. These lands predominantly consist of areas of industrial or commercial use (e.g., car parking) and a portion of undisturbed urban sites located far from critical habitats, ecological reserves, or communal areas such as common-use lands.

As part of Procsa's strategy to build vertical developments in Mexico City ("CDMX"), the Company predominantly engages in converting industrial zones to residential use. To this end, it acquires land used as industrial or warehouse space and converts it into housing areas.

2.2 Contextual Risks

The State of Mexico, one of the 32 federal states of the United States of Mexico, has the highest population (17 million) and population density in the country. Its main problem is insecurity, which is experienced with varying intensity by municipality and social group.

In the month of July 2022, 2,331 homicide victims were registered throughout Mexico, i.e., an average of 75 per day. Six states accounted for 49% of the homicides: Guanajuato, Michoacán, Baja California, Mexico State, Jalisco and Chihuahua. In absolute numbers, Guanajuato topped the monthly list with the most deaths, with a total of 295, representing almost 10 murders per day. It is followed by the State of Mexico, with 208; Michoacán, with 170; Chihuahua, with 163; Baja California, with 159; and Jalisco, with 151.¹

Due to the geographic dispersion of Procsa's housing developments in the State of Mexico, as well as the nature of its business (the conversion of industrial zones into housing centers), its ventures will be exposed to insecurity. To mitigate this risk, Procsa considers crime rates as a factor in the selection and feasibility of new housing developments.

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

3.1 Assessment and Management of Environmental and Social Risks and Impacts

3.1.a E&S Assessment and Management System

Procsa has different internal procedures and regulations in terms of environmental care, occupational health and safety, and community relations.

Different areas are responsible for environmental, social, labor, and occupational health and safety management. These areas perform reviews that are reported to General Management, who follows up on their execution. Procsa will develop a comprehensive document of its environmental, social, labor, and occupational health and safety management, i.e., an Environmental and Social Management System.

3.1.b Policy

Procsa has a Code of Ethics, Code of Conduct, General Policies and operational documents (such as the sustainability compliance matrix) that set out the Company's commitment to environmental protection and address some labor issues. Nevertheless, Procsa will develop and adopt an integrated environmental, social, and occupational health and safety (OHS) policy, which will be

¹ <https://www.milenio.com/estados/conoce-indices-delinuencia-edomex-julio-2022>

communicated to all its workers, including contractors and temporary employees, as well as external stakeholders.

3.1.c Identification of Risks and Impacts

Procsa performs an environmental and social impact analysis for each of its projects, including soil quality studies, urban impact studies (where applicable), and road impact studies. Thus, each housing project has an Environmental Impact Statement ("EIS") prepared as required by applicable environmental regulations, which identifies the potential environmental risks and impacts derived from construction activities, and establishes measures to manage such risks.

3.1.c.i Direct and Indirect Impacts and Risks

The Company complies with both local and national laws (for example, the Construction Regulation for Works in the Federal District and its amendments), as well as with the commitments required by the Mexican environmental authorities through the EISs.

3.1.c.ii Analysis of Alternatives

During the process of identifying new sites for its projects, Procsa conducts an analysis of alternatives that includes, among others, criteria such as: current land use; sustainable availability of water resources; woodland analysis (environmental remediation); and susceptibility of the site to natural phenomena.

3.1.c.iii Cumulative Impact Analysis

The environmental impact assessments conducted by the Company as part of the environmental licensing process do not require cumulative impact studies. The main cumulative impacts that this type of development tends to generate, however, concern the increase in vehicular traffic and the increased burden on public services (electricity, drinking water, sewage, health, and education). As a general rule, all of these impacts are managed by the municipalities where these new housing developments are located.

3.1.c.iv Gender Risks

Mexico is the second most populated country in Latin America, with more than 122 million inhabitants, of which 52.2% are women.

At the federal level, Mexico has made significant progress in achieving women's rights and gender equality, especially in the following aspects: strengthening national laws to ensure equality between men and women; institutions with a strong gender focus; and increased public resources for gender equality. Since 2017, Mexico's gender equality index has steadily increased to stand at 0.757 in 2021 (only 24% of women would be less likely to have the same opportunities as men).²

² <https://datosmacro.expansion.com/demografia/indice-brecha-genero-global/mexico>

Procsa conducts awareness campaigns on gender equity and gender-based violence, and requires that all its employees and contractors comply with its Code of Ethics and Conduct. Currently, 45% of the Company's management positions are held by women.

3.1.c.v Climate Change Exposure

As part of the assessment of the land to be acquired and subsequently developed, Procsa conducts soil stability and hydrology studies to determine landslide and flood risks. Due to the geographic area in which Procsa operates, no climate risk studies have been deemed necessary.

As these civil works are located in urban or peri-urban areas, the exposure of the Company's projects to climate change is relatively low. Nevertheless, the designs include hydraulic works that have been designed to evacuate the possible climate change-related increase in runoff water that could occur during the life of the projects.

3.1.d Management Programs

Procsa has several management programs in place in the areas of environmental management, site safety, personnel management, community life, land acquisition policies, etc. As part of its EDGE certification,³ the company is developing other programs focused on resource efficiency.

Procsa has different areas responsible for environmental, social, labor, and occupational health and safety management. These areas perform reviews that are reported to General Management. Procsa will develop a comprehensive document of its environmental, social, labor, and occupational health and safety management.

3.1.e Organizational Capacity and Competency

Procsa still lacks assigned personnel with exclusive responsibility for environmental and social management. Nevertheless, this responsibility is divided between the Administration Department (Human Resources-Safety and Hygiene Management), the Operations Department (Community Life Quality Management) and the various superintendents, who verify environmental compliance and occupational health and safety at the site level.

3.1.f Emergency Preparedness and Response

Procsa has the "Activation of Natural Disaster Protocols" procedure, which includes a series of provisions in the event of earthquakes. Nevertheless, the Company will develop an Emergency Plan to contain procedures for coping with other types of hazards (floods, landslides, fires, rallies, and thunderstorms). Based on this, it will also adopt specific emergency plans for each project, which will be adapted to the specific threats to which each development is exposed. Periodically and abiding by the civil protection program, the Company will conduct drills with the participation of local residents.

³ EDGE green building certification helps create resource-efficient buildings easily, intelligently, and affordably.

3.1.g Monitoring and Review

The monitoring and evaluation of environmental, social, and occupational health and safety issues at each site is the responsibility of each superintendent, who relies on external consultants to prepare monthly compliance reports on environmental prevention, compensation, and mitigation measures established by local authorities.

3.1.h Stakeholder Engagement

As part of the process for obtaining the environmental license for each of its projects, Procsa holds open meetings in each municipality where they are located, in which any stakeholder can access the EIS and present their doubts and concerns before the license is issued by the environmental authorities.

3.1.h.i Disclosure of Information

Procsa provides the communities that will eventually inhabit its housing developments with community life offices, holds neighborhood meetings during the construction phase and, one year after the sale of the housing units, organizes at least one additional meeting.

3.1.h.ii Informed Consultation and Participation

As part of the licensing process, prior to the start of any construction, Procsa undertakes consultation processes (organized in coordination with government delegations) with external communities. The activities and social care measures that will be part of the licensing requirements are decided based on these events.

3.1.h.iii Indigenous Peoples

Procsa's housing developments are only located in areas where the Secretary of Urban Development and Housing ("SEDUVI") has verified that no indigenous peoples are present.

3.1.i External Communication and Grievance Mechanisms

Procsa has a Third Party Grievance Procedure, which is part of its Internal Policies and Guidelines Manual. The legal and construction management areas are responsible for its implementation.

3.1.i.i External Communication

The Community Quality of Life Unit ("CQLU") is responsible for maintaining a positive relationship between the Company and the communities of the housing developments built. The latter are divided into two groups: i) the communities surrounding the developments; and ii) the communities (clients) that are part of the developments. The CQLU is responsible for establishing a governance structure in its client-communities and accompanying them for the first year. The relationship with the surrounding communities is predominantly one of consultation and socialization of the grievance mechanism.

3.1.i.ii Grievance Mechanisms for Affected Communities

Procsa, through its Third Party Grievance Procedure, handles complaints from neighbors affected by the development of its projects under construction. The reception of grievances and complaints at the construction site is handled by the superintendent or the foreman; the legal department is responsible for following up and attending to them; and the Administration and Construction Department is in charge of resolving and responding to them.

Procsa, as required by Mexican law, must obtain a Publicity Card for all works to be executed in Mexico City, which must be displayed for 15 days at the entrance of the property or building where the works will be carried out so that neighbors and citizens can request more information about what is to be done and express, if applicable, their disagreement with what is planned.

The Warranty and Hidden Defects Attention Procedure establishes the rules for handling customer complaints.

3.1.i.iii Provisions for addressing vulnerable groups' grievances

The Group encourages the reception of grievances from vulnerable groups by socializing its grievance mechanism.

3.1.i.iv Ongoing Reporting to Affected Communities

External communications are handled by Procsa through the social media of the Community Quality of Life (CQLU) offices deployed at all sites. The Company also uses traditional communication channels such as conventional and electronic mail and the telephone.

The Company has put the Community Quality of Life Unit at the disposal of the communities that will eventually inhabit the housing developments, holding periodic neighborhood meetings during the construction phase and at least one meeting with the community at least one year after the sale of the housing units.

3.2 Labor and Working Conditions

3.2.a Working Conditions and Management of Worker Relationships

Procsa provides all its employees with the benefits and entitlements established in Mexican labor regulations. The Company provides accommodation and meals to workers working at construction sites who require them. Procsa currently has a total of 462 employees, 43 of whom are women.

For construction work, the Company frequently hires local labor under individual contracts for specific work as required by the Federal Labor Law.

3.2.a.i Human Resources Policies and Procedures

Procsa's human resources policies and procedures, contained in its Internal Policies and Guidelines Manual, regulate its relations with its direct employees.

3.2.a.ii Working Conditions and Terms of Employment

Procsa employees' working conditions (working hours, overtime accounting and payment, disciplinary measures, and grounds for termination of employment) comply with the provisions of the Federal Labor Law. Workers use the personal protective equipment provided by the Company.

3.2.a.iii Workers' Organizations

As required by Mexican law, Procsa allows the free association of workers and collective bargaining. In this regard, almost all its workers are members of the *Confederación de Trabajadores de México* (Mexico Worker's Confederation, CTM)

3.2.a.iv Non-discrimination and Equal Opportunity

The Personnel Recruitment Procedure stipulates Procsa's commitment to providing its employees with equal opportunity for selection, expressly prohibiting any type of discrimination or the recruitment of minors. This instrument is complemented by the Personnel Hiring Procedure, which includes, among other aspects, stipulations on working hours, rest days, leaves of absence, and labor benefits.

Procsa conducts several additional activities to provide learning and inclusion opportunities for its employees, such as: i) diversity talks and integration programs for workers from the gay, lesbian, bisexual and transgender ("LGBT") community; ii) literacy and academic learning schools; iii) personal finance and health courses; and iv) talks on the zero-tolerance policy and culture regarding harassment and discrimination.

3.2.a.v Retrenchment

Procsa has not reported any collective layoffs in the last three years, nor does it have any plans for downsizing its workforce.

3.2.a.vi Grievance Mechanism

Procsa has implemented an Internal Grievance Mechanism for all employees. Since the Company realized that the physical mailboxes at the construction sites were not being used, it adopted two resolutions: i) it changed its strategy for receiving grievances using group sessions at the construction sites, where, in addition to training, it promotes the collection of suggestions and grievances; and ii) it created a virtual mailbox on the Company's intranet.

3.2.b Protecting the Workforce

Mexico is a signatory to several conventions and treaties of the International Labor Organization (ILO) related to the rights of workers. Procsa does not employ child labor or engage in forced labor practices.

3.2.c Occupational Health and Safety

Procsa has a Work at Heights Supervision Procedure that also includes a review and continuous improvement protocol. The Company also has a Natural Disaster Protocol Activation Procedure to respond to earthquakes. Its Occupational Safety Program provides daily lectures to personnel to prevent accidents. Procsa has not recorded any accidents resulting in lost work time in the last two years.

3.2.d Provisions for People with Disabilities

Procsa supports the inclusion of persons with disabilities in two aspects: i) all its housing development projects are designed for the access and mobility of persons with disabilities, such as ramps, exclusive parking lots, and adequate restrooms; ii) due to the nature of the activities carried out, and for the safety of site employees, it only considers hiring persons with disabilities for office positions, whether in corporate or sales offices. Procsa's offices have access ramps and elevators. Likewise, the Company has several provisions that regulate and encourage the hiring and coexistence of persons with disabilities.

3.2.e Workers Engaged by Third Parties

Persons engaged by third parties enjoy the same privileges and obligations as those employed directly by Procsa.

3.2.f Supply Chain

In addition to construction contractors and subcontractors, Procsa has corporate and local suppliers, who supply it with materials and provide services.

The Company has a procedure for the purchase of goods and services. One hundred percent of its suppliers are national (Mexican), most of them with offices in the municipalities where Procsa's housing developments are located.

3.3 Resource Efficiency and Pollution Prevention

3.3.a Resource Efficiency

The housing produced by Procsa is equipped with devices that reduce the consumption of electricity, gas, and water, such as: low electricity consumption light bulbs, low gas consumption heaters, and water saving devices in showers (ecological fixed shower) and bathrooms (ecological toilets with lower water consumption). Several homes include solar water heaters. In addition, Procsa designs rainwater collection systems on the rooftops of its housing developments, which store rainwater for reuse in toilets.

Since the beginning of 2022 and with the support and technical assistance of IDB Invest, Procsa is in the process of EDGE certification for one of its developments (Vías 7). In coming years, the Company plans to follow the same certification process for all its operations.

3.3.a.i Greenhouse Gases

Construction-related activities generate greenhouse gas ("GHG") emissions such as NO_x, SO_x and CO_x, which are associated with the use of vehicles and machinery. This risk, however, is mitigated by contracting transportation companies that comply with the guidelines established by the Ministry of the Environment through RAMIR accreditation and Environmental Verification Certification.

3.3.a.ii Water Consumption

Procsa manages authorizations to obtain a supply of well water from the National Water Commission ("CONAGUA") in those developments located in the State of Mexico where the municipal authorities lack the necessary infrastructure, or it is deficient. The Company has permits for the use of two wells (Serratón and Reserva), from which it abstracts 172,100 m³ and 103,000 m³ annually, respectively.

In Mexico City, water is provided by the Mexico City Water System (SAGMEX).

3.3.b Pollution Prevention

EDGE certification of Vías 7 would allow 55% savings in energy and 28% savings in water. These results are expected upon certification of the rest of the housing developments.

The Secretariat of the Environment ("SEDEMA") verifies that the vehicles used in construction works are in adequate condition and that they comply with environmental emission standards.

Procsa promotes the installation of natural gas and low gas consumption instantaneous heaters in the housing it builds.

3.3.b.i Waste

The Company has a waste management plan that provides for the classification, storage, and disposal of organic, recyclable, and inert waste. Waste collection is carried out by the municipal government.

3.3.b.ii Hazardous Materials Management

The Company has a hazardous waste management protocol that provides for its management and disposal by an authorized company.

Although Procsa does not use or generate hazardous waste in the building process, hazardous waste may occur in some of the housing developments that require demolishing structures.

3.3.b.iii Pesticide Use and Management

The land is cleared manually or with machinery and the material generated is disposed of in authorized dumps, as required by the Secretary of Ecology.

3.4 Community Health, Safety and Security

3.4.a Community Health and Safety

To prevent particulate and dust emissions in the area, Procsa periodically irrigates with treated water. Also, to protect against dust caused by dragging light materials, it builds perimeter fences and temporary deposits for waste from the construction site.

The working hours set by the Company for the works (between 8:00 a.m. and 6:00 p.m.) allow for noise generation to be controlled and avoid disturbing the neighboring communities.

Procsa designs the accesses to its construction sites in such a way that they do not affect vehicular traffic. In the event of work being performed on public roads, the Company installs preventive, informative, or restrictive signage; it also cordons off areas and places protective elements, and provides traffic management personnel or "flaggers", whose mission is to order the flow of vehicles and pedestrians in construction zones.

Procsa has specific mechanisms to mitigate the impacts that the influx of workers from outside its worksites may have on the neighboring towns. These mechanisms include the dissemination of the Code of Ethics, adequate facilities with recreational activities, and personnel control by superintendents. In addition, Procsa usually employs a workforce that has been with the Company for several years, which adheres to its standards and has demonstrated good conduct when working on the housing developments.

3.4.b Security Personnel

Procsa subcontracts security services with a company that has been accredited and qualified by the competent authority. Procsa's security personnel are not armed.

3.5 Land Acquisition and Involuntary Resettlement

Procsa's housing developments will not produce physical or economic involuntary resettlement, given that the lands required for the execution of its projects are usually acquired from their owners through voluntary purchase and sale agreements. Additionally, as part of its operating procedures, Procsa ensures that land acquisition does not generate this type of displacement.

3.6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

Procsa's housing development projects are in heavily intervened industrial, urban, or peri-urban areas and are therefore of little ecological or biological interest. Procsa does not have any projects that may require the rescue of flora or fauna.

3.7 Indigenous Peoples

Procsa's housing projects are developed on intervened urban sites that will not affect native populations or overlap with land used for traditional purposes.

3.8 Cultural Heritage

Although the projects to be developed by Procsa will be implemented in heavily disturbed areas, there is always the possibility that archaeological or cultural find may be recorded during the earthworks. Although Procsa has an Archaeological Finds Policy, the Company will develop and adopt a Chance Finds Procedure, which will be mandatory for its personnel and contractors.

4. Local Access of Project Documentation

For more information on the Company, please visit idilica.com.mx, which contains details of Procsa's housing developments.