

Environmental and Social Review Summary (ESRS) Project 14128-01 - Veneza Paraguay - Paraguay

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

Veneza Inversiones PY S.A. (hereinafter "Veneza", the "Client" or the "Company") is owned by the Durli Group (hereinafter "Durli"), which has been a client¹ of IDB Invest since 2018 and operates a leather factory in the Paraguarí municipality, Paraguay. Veneza is planning to build a rendering plant in Paraguay (hereinafter the "Project") with a processing capacity of 480 tons per day of animal by-products extracted from beef tallow, bone meal, meat meal and blood.

The Environmental and Social Due Diligence ("ESDD") process included *on-site* technical visits by the IDB Invest team, interviews and meetings with Durli employees, managers, senior executives, and with Paraguarí city representatives. The ESDD process also included a review of relevant environmental, social, health and safety information provided by the Client, which basically comprised: (i) the business strategy; (ii) an Environmental Impact Assessment ("EIA") for the Project, approved by the Paraguayan Environment and Sustainable Development Ministry ("MADES"); (iii) environmental and social ("E&S") corporate policies and procedures; (iv) occupational health and safety program management; (v) supplier management; (vi) solid waste and effluent management; and (vii) community engagement. Other environmental and social aspects were addressed in accordance with Paraguayan legislation and good international industry practices.

2. Environmental and Social Categorization and Rationale

The Project has been classified as a Category B operation according with IDB Invest's Environmental and Social Sustainability Policy (ESSP) since it presents low to medium intensity risks and impacts, which can be mitigated by measures that are practical in the context of the proposed business. These risks and impacts include: i) occupational health and safety issues during the construction and operating phases; ii) E&S management of suppliers in accordance with IDB Invest policies; iii) product traceability to origin at slaughterhouses; iv) use and discharge of hazardous chemicals and effluent management.

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; and v) PS6: Biodiversity Conservation and Sustainable Management of Living Natural Resources.

¹ Information about the previous business can be found at <https://idbinvest.org/en/projects/durli-brazil>

3. Environmental and Social Context

3.1 General Characteristics of the Project's site

The plant will be installed in a predominantly rural region near Paraguarí in the IX Department of the Republic of Paraguay, which is 65 km from Asunción along International Route N° 1 Mcal. Francisco Solano López that connects the capital to Encarnación in the south of the Eastern region.

Paraguarí houses approximately 24,000 of the department's 230,000 residents. The latest census data indicates that its population is predominantly young, as 90% are under 64 years old. Paraguarí's economy has historically been based on agriculture and extensive cattle ranching together with associated activities, such as slaughterhouses and tanneries. However, ecotourism has recently been developed based on several annual attractions, such as mountain biking, rappelling, hiking, and other attractions.

The Project's estates are in the Chaco Humero ecoregion, in a transitional grasslands area in the southern region of Paraguay. Habitats within the Project have been used for logging and agricultural development since colonial times. Together with the proliferation of cattle ranching since the last century, these uses have resulted natural vegetation being converted into extensively modified habitats. Maps published by the Instituto Paraguayo del Indígena indicate that there are no Indigenous communities within a 20 km radius of the Project.

The Project region has several informal tanneries, where environmental issues, such as effluents and waste, are poorly managed. In fact, some of the industry's biological by-products, such as bones, blood and fat, are not correctly treated. Veneza's animal by-product recycling plant is an opportunity to improve the performance of these small and medium-sized companies in the region, since this plant will be an appropriate destination for by-products not used to produce meat and leather.

3.2 Contextual Risks

Paraguay is a generally safe country. However, similarly to many countries in the region, it is exposed to petty and violent crime, such as smuggling, money laundering, etc. Paraguay has not suffered any terrorist attacks recently.

The main contextual risk to the Project is associated with robbery with violence from individuals or commercial premises and other crimes mostly associated with drug trafficking. These risks are fairly low in Paraguarí municipality, although they may be medium to high in specific areas of some cities, such as the capital and the country's largest cities.

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

The Environment and Sustainable Development Ministry ("MADES") approved the plant's EIA² and issued an environmental license for the Project (Environmental Impact Statements or "EIS") in September 2021. The Environmental Management Plan ("EMP") to construct the Project and its corresponding Social Management Plan ("SMP"), which includes programs for the construction and operating phases, were approved during the authorization process.

As described in the Environmental and Social Action Plan, Veneza will develop and implement an Environmental and Social Management System ("ESMS") to manage all the social, occupational health and safety, human resources and environmental issues at the plant. The ESMS will be aligned with PS1 requirements. This system will also comply with the operating policy, with the basic procedures to control quality, and with construction standards regarding pollution emissions, solid waste, occupational health and safety, personal protective equipment, fire safety and hazardous materials management, etc. The ESMS will support Veneza on the management of all aspects of its business and how it communicates its senior executives' decisions to its employees.

4.1.b Policy

Durli has an overall corporate sustainability policy that describes the Company's commitments and guiding principles for conducting its business in an environmentally and socially responsible manner. The Company also has several related policies including a policy specifically on socio-environmental traceability throughout its supply chain.

As required under the ESAP, Veneza will replicate Durli's policy while respecting the specific characteristics of its business. It will disclose the General Policy to all employees, contractors, suppliers and external stakeholders using the best communication procedures.

4.1.c Identification of Risks and Impacts

The EIA for the plant has identified the potential impacts during the design, construction and operating phases of the Project. The main risks and negative impacts relate to: I) generating of solid and liquid waste; II) occupational safety risks; III) changing soil permeability; IV) eliminating specific vegetation; V) air pollution due to traffic; VI) noise generation; VII) other risks and negative impacts.

Under its ESMS, the Company will update its practices to incorporate the management of E&S risks and impacts.

² "Environmental Impact Study" - July 2020 - which can be found on the Project's website at <https://idbinvest.org/es/proyectos>

4.1.c.i Gender Risks

There is a significant gender gap in Latin America and the Caribbean that is defined as differential and unequal access to financial, political, educational and labor opportunities based on gender. This gap is reinforced by widespread cultural attitudes regarding acceptable roles for men and women that are exacerbated by weak legal protection and inadequate social responses. The gender gap generates discrimination, unequal access to public services, educational differences, wage and labor gaps, and delays in political participation. Paraguay's gender gap index is 0.71, which is the same as three other countries. It is ranked 17th out of the 22 countries that were evaluated.³

Gender-based violence and harassment ("GBVH") is also a major problem in Latin America and the Caribbean, as this region has the highest rate in the world. There were 36 femicides in Paraguay during 2020, which was the sixth lowest femicide rate among the 18 countries in the region⁴. GBVH was exacerbated by the COVID-19 pandemic. The latest report on Paraguay by the United Nations Committee on the Elimination of Discrimination against Women indicates that its laws and governmental programs have made progress in recent years, although there are still areas of concern.

Under the proposed investment, the Company will prepare internal educational campaigns that aim to prevent gender-based violence, and they will be rolled-out every year.

4.1.c.ii Climate Change Exposure

The Project was reviewed and its exposure to physical and natural disaster risks was assessed, as well as to the risk of transitioning to low carbon by 2050. The Project site is exposed to natural hazards, such as river flooding and droughts, according to historical data. This data has been modeled to analyze to what extent these will be exacerbated by climate change. The Project area is also exposed to heat waves under both a high emissions pathway (RCP 8.5)⁵ and a low emissions pathway (RCP 4.5). Finally, it is moderately exposed to water shortages. Therefore, the Project's exposure to physical climate risks is considered moderate.

However, the affected flood zone in these scenarios is the western corner of the plot containing the Caañabé Creek, given the favorable topography and relief of the site. Therefore, the flood risk for the site as a whole is assessed as low.

4.1.d Management Programs

The Project will adopt best available techniques ("BAT") and best environmental practices ("BEP") to reduce emissions into the air, liquid effluents, noise, and solid waste produced by its industrial processes.

³ <https://www.statista.com/statistics/803494/latin-america-gender-gap-index-country/>

⁴ <https://www.statista.com/statistics/827170/number-femicide-victims-latin-america-by-country/>

⁵ The latest report from the Intergovernmental Panel on Climate Change (IPCC) defines several scenarios as Representative Concentration Pathways (RCPs) with a range of Greenhouse Gas (GHG) emissions and concentrations, in order to explore potential future climatic scenarios. The four scenarios are not forecasts, but potential conditions in the future according to a range of possibilities described by the research. Scenario RCP8.5 has high GHG emissions. Scenarios RCP6.0 and RCP4.5 are medium mitigation scenarios.

As part of its ESMS, the company will: i) review and eventually supplement the plans, programs and procedures suggested in the EIA; ii) develop new programs as described in the Environmental and Social Action Plan; iii) designate employees and contracted staff to implement and monitor them; and iv) identify and implement corrective measures to ensure continuous improvement.

4.1.e Organizational Capacity and Competency

Veneza is selecting manufacturers to supply it with equipment. The Company will not rely on a single supplier for its materials and construction works ("EPC"), but will negotiate four major contracts for the construction phase covering earthworks, civil works, equipment and automation. It will designate employees and outsourced staff to manage its Environmental, Health, Safety and Social ("EHSS") issues during the construction phase.

The Project ESMS will establish the environmental and social structure required to implement all the EHSS processes during the construction and operating phases. These are environmental, social, occupational health and safety programs, plans and procedures. Veneza will hire an environmental, social, health and safety officer during the operating phase, who will report directly to the Board and ensure that the ESMS is implemented and maintained.

4.1.f Emergency Preparedness and Response

The EIA for the plant contains a preliminary hazard analysis to identify potential hazardous events that could lead to an occupational incident. No catastrophic or critical hazards were identified.

Veneza will develop an Emergency Preparedness and Response Plan ("EPR") within its ESMS that establishes the measures and procedures that will minimize the likelihood of an emergency, mitigate the impact of an emergency, recover from an emergency and return to business as normal. This plan will identify the significant emergencies within the plant's operating and response procedures.

4.1.g Monitoring and Review

The EMP describes the environmental monitoring program required by the authorization process. However, it lacks a unified and structured approach to capture all the environmental parameters required for decision-making. Therefore, Veneza will include an environmental and social monitoring protocol for all Project components within its ESMS that describes: i) the monitoring parameters; ii) the monitoring method; iii) the monitoring location and frequency; and iv) the appropriate references, such as the Paraguayan regulations, the World Bank Group's ("WBG") Environmental, Health and Safety Guidelines ("EHS"), and the Good International Industry Practice ("GIIP") guidelines adopted by the Project.

4.1.h Stakeholder Engagement

Currently, Durli's senior management in Paraguay is responsible for the engagement with stakeholders. However, Veneza will develop a Stakeholder Engagement Plan to manage the social aspects that will include: (i) stakeholder participation mapping, analysis and planning; (ii) a stakeholder information inquiry and communication mechanism; and (iii) a grievance capture and resolution mechanism that includes anonymous complaints.

4.1.i External Communication and Grievance Mechanisms

External environmental and social communications associated with the Project will be included in the Stakeholder Engagement Plan. The Company will implement a community grievance capture and resolution mechanism within the Stakeholder Engagement Plan that will be free, understandable, culturally appropriate, easily accessible, and protects those submitting a grievance from any kind of retaliation.

4.2 Labor and Working Conditions

4.2.a Working Conditions and Management of Worker Relationships

The Project will directly employ about 40 people during the peak construction phase and more than 60 people during the operating phase.

Paraguay's laws govern all labor standards and address all aspects of employee relations, including unacceptable forms of work, occupational health and safety, freedom of association and working conditions. All labor standards equally apply to contractor's employees.

4.2.a.i Human Resources Policies and Procedures

Although Veneza does not have a Human Resources (HR) policy, the Company uses Durli's HR policy and regulations. Durli's HR Policy describes the procedures governing the recruitment, selection and hiring of employees, and guidelines covering performance evaluation, professional development and the remuneration and benefits system. Veneza will prepare and implement its own HR policy, which will comply with Paraguay's laws and PS2 requirements.

4.2.a.ii Working Conditions and Terms of Employment

All Veneza employees will complete a probationary period before getting an indefinite contract and will receive induction training that includes the Company's code of conduct and ethics, occupational health and safety standards, benefits, deductions, timekeeping, and salary and overtime pay. All the contractor's employees assigned to the Project will have a fixed-term or indefinite contract beyond the probationary period and will also receive induction training on Veneza's code of conduct and ethics, grievance mechanism and occupational health and safety standards.

4.2.a.iii Workers' Organizations

Durli's employee policy has an explicit provision that respects employee's rights to collective bargaining and freedom of association. Veneza has not yet established collective bargaining agreements with local trade unions for the construction and operating phases.

4.2.a.iv Non-discrimination and Equal Opportunity

People will be selected on the basis of their technical ability and behavior, regardless of their gender, race, nationality, ethnic, social or native origin, religion or creed, disability, age or sexual orientation.

Durli has implemented an equal opportunity and non-discrimination policy that establishes the Company's commitment to promote, guarantee and respect equal rights, opportunities, participation and integration for all its employees, including gender equity, inclusion and non-discrimination.

In this operation, Veneza will prepare a selection program that encourages equal opportunities for all employees, to improve employee equity and greater gender equality during the operating phase.

4.2.a.v Grievance Mechanism

Durli has included an employee grievance mechanism as part of its Human Resources activities. However, Veneza does not yet have a formal employee grievance procedure within its ESMS. The Company will establish a procedure within its ESMS as required by the ESAP, to ensure that all employee complaints are received, recorded, notified, and resolved, and files will be kept of all the associated measures taken, which will be reported to employees in each case. The grievance mechanism will also receive anonymous complaints.

4.2.b Protecting the Workforce

Paraguay is a signatory to several International Labor Organization ("ILO") conventions. The Government of Paraguay, together with labor organizations, employer organizations and the ILO signed a Tripartite Agreement in 2009 called the Decent Work Country Program, which eradicated forced and child labor in Paraguay.

Durli's HR Policy will be adopted by Veneza and the Company's contractors. It explicitly prohibits the use of child and forced labor.

4.2.c Occupational Health and Safety

Veneza Paraguay will follow the OHS model implemented by similar businesses in Brazil, where environmental and social issues are managed through the corporate department, which has a structure that includes a Director, a Manager, a Coordinator and where each production unit has an environmental analyst and an OHS technician.

Employee protective equipment and controls are described in the Risk Management Program ("RMP"), according to the identified risks. All employees are provided with personal protective equipment and collective protection measures are adopted, when possible.

Nevertheless, Veneza will prepare and implement specific management programs within its ESMS to manage its health and safety risks.

4.2.d Workers Engaged by Third Parties

Third parties should only hire employees during the construction phase and for occasional and maintenance work during the operating phase. Nevertheless, Veneza will prepare and implement an E&S manual for contractors, so that third party companies can comply with Veneza's corporate requirements, Paraguayan legislation and PS2 requirements.

4.2.e Supply Chain

The main components of Veneza's supply chain are animal by-products, such as fats, which mainly come from Paraguay's main meat processing plants. Although Veneza has no control or influence over the working conditions of its suppliers' employees, these suppliers are considered to have good human resource management practices. Therefore, labor risks in its supply chain are assessed as low.

4.3 Resource Efficiency and Pollution Prevention

4.3.a Resource Efficiency

The Project uses state-of-the-art equipment and efficient processes to control its water and electricity consumption. The best practices and procedures already implemented by other Durlí Group plants will be replicated at this plant, while respecting the specific characteristics of its business.

The energy consumed by Veneza will be supplied by public utilities. Water for the construction and operating phases will be collected from a deep-water well exclusively used by the Project, as authorized by a certificate issued by the General Directorate for Water Resources Protection and Conservation in Paraguay.

4.3.a.i Greenhouse Gases

Paraguay's electrical grid is fully supplied with electricity from renewable sources⁶, so electricity consumption does not generate significant greenhouse gases ("GHG"). The most important source of GHG emissions will be from vehicles and boilers, as the latter must use firewood due to natural gas not being available in the Project's region.

⁶ Itaipú and Yacyretá binational hydroelectric power plants, and the Acaray national power plant.

Veneza will follow market practice by preparing a GHG emissions inventory and include the results in its regular environmental and social performance reports.

4.3.b Pollution Prevention

4.3.b.i Waste

Veneza's facilities will use containers to store the waste generated during production. These will depend on the characteristics of that waste and the monthly volumes. Solid waste will be segregated at source by selectively collecting it. Each Company sector will be equipped with clearly identified collectors large enough to accommodate the solid waste being generated.

All solid waste will be stored at the waste center until final disposal. The waste center will be managed by a waste collection operator, who will collect waste every day from the industrial park's internal and external waste collectors and will re-classify and separate the waste, when necessary.

Hazardous waste generated by Veneza, such as used oil, batteries, filters, etc. will be collected, transported, and processed by certified companies. Used oil will be delivered to a company that recycles hydrocarbons and recovers their energy and asphalt components, while solid domestic waste will be removed by a private company.

4.3.b.ii Pesticide Use and Management

Veneza will hire companies that are qualified to control pests and that use products that are registered with the General Directorate of Environmental Health ("DIGESA"). The Company will verify that pest control products do not contain substances classified as 1a or 1b, according to the IPCS/WHO(2009) toxicological classification. If they do, then Veneza will substitute them.

4.3.b.iii Air Quality and Atmospheric Emissions

The main sources of atmospheric emissions at Veneza's facilities will be wood-fired boilers and diesel generators used for contingencies. Boilers and generators will have regular maintenance inspections to optimize their efficiency. Emissions from boilers will be monitored annually, or as specified in the licensed conditions for the respective facility. Veneza will also compare its emissions to the reference values established in the World Bank Group's (WBG) general EHS guidelines and Paraguayan legislation.

4.3.b.iv Liquid Effluents and Wastewater

The Company's internal floors will have a drainage system that collects and channels any liquid effluents generated during production and cleaning. This system will consist of metallic channels and pass-through boxes embedded at strategic locations in the ground and adapted for areas outside the Company. Effluents from production and other generation points will flow to the effluent treatment plant through buried PVC or galvanized steel pipes.

The effluent treatment plant will have a treatment capacity 30 m³/day. Effluents will be treated using a dissolved air flotation system followed by an Australian pond system consisting of anaerobic and optional treatments, which will remove organic and nitrogenous matter from the effluent.

Industrial effluent will be divided into two distinct streams according to their physical and chemical characteristics and the flow rate, thus ensuring that the effluent treatment system is efficient. The treated effluents will be used as fertigation in neighboring areas, which will be cultivated with eucalyptus and forage grasses.

Effluent quality will be monitored to ensure compliance with Paraguayan regulations and the WBG's general environmental, health and safety guidelines. It will be reported to IDB Invest on a yearly basis.

4.4 Community Health, Safety and Security

4.4.a Community Health and Safety

Veneza's business could impact the health and safety of neighboring communities and the main risk is road accidents due to the movement of vehicles. However, the potential impacts of the Company's vehicular traffic are not significant, based on the remote location of the plant in relation to urban centers and communities.

4.4.a.i Infrastructure and Equipment Design and Safety

The industrial plant will be equipped with fire detection and extinguishing equipment, with alarms connected to monitoring centers, including manual alarm buttons, hydrants, pumps connected to diesel generators, and portable extinguishers. It is expected that the specific prevention and emergency plans for these facilities will enhance fire prevention and control.

Although emergency events that could affect Veneza are not expected to affect the community, the emergency prevention and response plan will analyze the potential effects of an emergency on neighboring communities and whether the community's institutions are required to control such situations, such as firefighters, medical emergencies, environmental authorities, police, highway patrols, etc.

4.4.b Security Personnel

Veneza will use security companies regulated by Paraguayan law to guard the industrial plant. Security guards will not be armed.

4.5 Land Acquisition and Involuntary Resettlement

The Project does not involve any physical or economic displacement of the population. The land used by Veneza is owned by the Company and has been used in a similar manner for decades without any significant changes.

4.6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

4.6.a General

The vegetation that formerly predominated in the area around the plant is now reduced to small forest fragments scattered throughout the region. The land was initially used for small scale farming of perennial crops, but now it is mainly used for grazing.

The plant will be located in an area used for agriculture, so vegetation will not be eliminated.

4.6.b Protection and Conservation of Biodiversity

The Paraguari department has suffered environmental degradation and is one of the most affected regions in Paraguay. It is ranked fourth in deforestation, after the Alto Paraná, Itapuá, and Caaguazú departments. Vegetation resources have been almost totally degraded and only a few patches remain on plateaus, such as on hills, private properties and along the banks of the Paraguay river.

4.6.c Sustainable Management of Living Natural Resources

The Durli Group's supplier verification systems identify the origin of its purchases, and to a limited extent, the habitat of registered properties. They provide continual analyses of the main suppliers in its supply chain, but this does not yet apply to secondary suppliers. They limit purchases to those suppliers that can demonstrate that they are not significantly transforming natural habitats, especially the Brazilian Amazon, as the Company is focused on zero deforestation, which will be extended to the other biomes in Brazil and Paraguay where suppliers are registered.

Currently, there are no specific experiences and traceability models that apply to the entire supply chain for rendering plants, as these involve widely diversified supplier profiles from large slaughterhouses to small supermarkets and butchers. However, Veneza will benefit from the traceability and socio-environmental monitoring systems operated by large meat processing plants and tanneries, such as Durli Leathers, which already have responsible purchasing policies and origin verification systems.

The Durli Group will integrate Veneza into its traceability strategy and will encourage the Project to promote good practice and improve traceability at smaller suppliers.

4.6.d Supply Chain

Durli's supplier management system monitors environmental issues covering the entire supply chain. Supplier selection for the leather supply chain requires submitting that supplier to the industrial traceability process, which is initiated during the registration of a supplier/property by the Company's purchasing department.

The supplier's information is registered on the Company's platform, which is automatically verified to public geo-monitoring data, for example, any deforestation incidents. The platform also checks whether the supplier's properties overlap any protected areas.

Subsequently, if the supplier does not comply with legislation, or adhere to Durli's commitments and guidelines, then it is classified as unsuitable. Geo-reference data monitoring involves properties in all Brazilian biomes. However, suppliers can only be automatically blocked for socio-environmental irregularities if they are within the legal boundaries of the Amazon region.

Veneza will benefit from this supplier traceability program within its proposed business scope and from the traceability programs operated by meat processing plants that supply leather to the Durli Group, who will also supply their by-products.

4.7 Indigenous Peoples

The Project will not encroach into indigenous areas, or directly impact Indigenous peoples.

4.8 Cultural Heritage

The Project is located in a mature agricultural farming area. Therefore, ND 8 does not apply to this project.

5. Local Access of Project Documentation

The documentation relating to the project can be accessed at the IDB Invest website (<https://idbinvest.org/es/projects>). More information on the Company can be found at <http://www.durlicouros.com.br>.