

**Annex II**  
**Environmental and Social Strategy (ESS)<sup>1</sup>**  
**ECOM Coffee Renovation Project (RG-L1065)**

**I. Overview**

- 1.1 The Coffee Renovation Project will be a pilot to demonstrate the feasibility of providing affordable long term loans and related technical assistance to small and medium-sized coffee growers in Central America and other coffee growing countries affected by the rust plague. The first pilot will be with ECOM, a global commodity merchant with operations in Nicaragua, Honduras, Costa Rica, Peru and Mexico (the “target countries”) and with coffee roaster and retailer industry participants. Total project costs are estimated at US\$50 million of which the IDB will finance an A-Loan of US\$17.5 million and the Canadian Climate Fund (C2F) will finance US\$5 million. The beneficiaries will be existing small and medium-sized producers in the supply chain of ECOM, either directly or through cooperatives, in the target countries. A parallel FOMIN TA program will constitute a key risk mitigator for the Project, and address agronomy, financial operation, and climate adaptation issues, among others.
- 1.2 As this project involves on-lending for renovation of coffee plantations, the operation is being treated as a Financial Intermediary (FI) for purposes of environmental and social due diligence. Given the focus in agriculture at both the individual and cooperative level, there is the potential for small to moderate environmental and social risks. The client currently has a system to manage environmental and social (E&S) issues and risks, and has been recognized by international standards/bodies (Rainforest Alliance, EBRD, IFC) for its sustainability programs and management in coffee and other commodities. Early indication suggests this to be a low to moderate risk operation.

**II. Environmental and Social Impacts and Risks**

- 2.1 Based upon the nature of this operation, there may be moderate direct environmental, social or health and safety (ESHS) and labor risks and impacts. To that end specific environmental due diligence is required. The potential key ESHS and labor risks and impacts associated with this operation are those related to ECOM’s trading and finance operations, and could include: (i) financial, legal and reputational credit risks associated with ECOM’s existing trading/finance activities; and (ii) direct ESHS risks and impacts related to renovation finance associated with IDB’s funds as proposed through this loan.

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<sup>1</sup> This ESS will be made available to the public in accordance with the Bank’s policy on information disclosure. The ESS does not represent either the Bank’s approval of the Project or verification of the ESS completeness or accuracy. The Bank, as part of its due-diligence on the feasibility of the Project, will assess the environmental and social aspects. This assessment will be presented in the Project Environmental and Social Management Report that will be prepared by the Bank, and will be made available to public prior to consideration of the Project by the Bank’s Board of Executive Directors.

- 2.2 *Financial, legal and reputational credit risks:* Financial and legal credit risks refer to potential negative effects on ECOM's ability to collect on sub-loans and/or to repay the IDB due to environmental and social issues (e.g. liabilities, law suits, fines, health and safety problems) associated with its existing activities. Based on early indication, we do not have reason to believe there are issues. Reputational risks associated with ECOM's involvement in projects, companies or activities are at present unknown.
- 2.3 *Direct ESHS impacts associated with projects financed by the:* The proposed operation may generate ESHS impacts. These will vary depending on site specific locations, though are expected to be minimal in light of the intended activity (coffee plant renovation), and the average loan amount of US\$4,500 per hectare. The environmental impacts could include stress on water resources, soil erosion, pesticide use, eutrophication of aquatic environments, biodiversity impacts, and crop residues and other solid waste general among others. Social impact may be related to physical and chemical hazards, particularly related to pesticide exposure. It is estimated that the beneficiaries will be 2,640 small-scale farmers with less than 5 hectares of land, and 917 medium-scale farmers with greater than 5 hectares of land.
- 2.4 *E&S Risk management capacity:* ECOM's E&S risk management capacity is estimated to be high. Early indication suggests that ECOM's E&S risk management approaches includes work around sustainable certification, inclusive business development with local communities, and agronomy advisory to address issues of sustainable long-term management. As noted, a FOMIN is designing a TA that will provide direct and mandatory training to individual farmers to address agronomy, financial operation, and climate adaptation issues. Current estimates indicate a budget of US\$600 per farmer over the life of the loan.

### **III. Status and Compliance**

- 3.1 Given that this is a financial intermediary operation and according to Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this transaction is not categorized. However, based on an initial assessment of the environmental and social impacts and risks of the operation and the management capacity of the client, this operation is classified as low to moderate.

### **IV. Strategy for Environmental and Social Due Diligence**

- 4.1 The environmental and social due diligence for the proposed facility will verify the operation's compliance with the Bank's Environment and Safeguards Compliance Policy and guidelines. In addition, the due diligence will address those issues that are relevant to the proposed operation.
- 4.2 Therefore, the environmental and social due diligence required for this operation will comprise the following steps:
- An assessment of ECOM's compliance status with the applicable country environmental, social, health and safety, and labor regulatory requirements as well as with any relevant

conventions and treaties which have been ratified by Nicaragua, Honduras, Costa Rica, Peru and Mexico;

- An assessment of ECOM's current commodity portfolio, to establish potential reputational risks associated with involvement in projects, companies or activities considered unacceptable to the IDB;
- An assessment of ECOM's existing Environmental and Social Management System and its adaptability to this operation considering the amount of the loans and potential financing sectors;
- An assessment of the capacity of current credit appraisal, approval, and monitoring procedures (exclusion list, checklists, action plans) to manage environmental and social liabilities, risks and/or impacts of sub-borrower renovation operations;
- An assessment of current procedures that should, at a minimum, be able to: (i) include provisions for lending officers to be trained and qualified to identify ESHS issues/liabilities; and (ii) include the consideration of environmental and social issues in the loan analysis that:
  - eliminate operations which are on the IDB exclusion list;
  - filter high-risk projects that may involve potential impacts on protected areas, indigenous peoples, physical or economic displacement of vulnerable groups, or other significant social and environmental impacts (i.e. pollution, overexploitation of resources, impacts to health and safety of neighboring communities, etc.);
  - verify compliance of the environmental, social, health and safety and labor (ESHS) laws and regulations applicable to sub-loans;
  - assess and manage potential risks and ESHS liabilities that may be associated with sub-loans.
- An identification of any environmental, social and occupational health and safety liabilities in facilities and operations and if required, an assessment of the adequacy of action plans to properly resolve them;
- An assessment of ECOM's procedures to ensure that lending, finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g. age, gender, cultural heritage, etc.);
- Define the ESHS mitigation and management measures required for the program to meet the requirements of the Bank's safeguard policies.

4.3 The results of the due diligence will be presented in an Environmental and Social Management Report and summarized in the Loan Proposal to establish the environmental, social, health and safety, and labor requirements for the operation which should also be reflected in the loan agreement.