

ANNEX D - ENVIRONMENTAL & SOCIAL MANAGEMENT REPORT (ESMR)

ECOM Coffee Renovation Facility, (RG-X1220)

I. Project Description and Background

- 1.1 The ECOM Coffee Renovation Facility (“the Project”) is in response to the reduced productivity of the coffee farms in Central America, Mexico and Peru caused by a combination of two main factors: (i) the coffee rust (“roya”) emergency in the region, caused partly by changes in local weather patterns often attributed to climate change and (ii) a poor farm management system, specially affecting small farmers with reduced access to technical and financial services. This low productivity is widely impacting farmers’ source of income and requires urgently the renovation of affected and ageing coffee trees.
- 1.2 The Project, which is being developed jointly with the IFC, the MIF, the Canadian Climate Fund for the Private Sector in the Americas (“C2F”), the Global Agriculture and Food Security Program (“GAFSP”) and possibly other donors, addresses a key market failure - the lack of viable long-term financing alternatives, accompanied by appropriate risk mitigants, required for coffee farmers to renovate their plantations on a sustainable basis. The Project bundles long-term credit and technical assistance with the objective of enabling a series of individual coffee supply chains in the region to renovate their plantations and adapt to the effects of climate change and gain knowledge on better farm management practices.
- 1.3 The Project has been developed with ECOM, a global coffee trader and exporter with operations in Nicaragua, Honduras, Costa Rica, Peru and Mexico (the “Target Countries”). The Project involves a risk-sharing program under which up to US\$100 million of long-term loans for coffee renovation (“Sub-Loans”) will be channeled to coffee farmers who participate in the supply chains of ECOM in the Target Countries to finance on-farm investments in agronomic practices and technologies that improve climate resilience.
- 1.4 The first phase of the Project will provide financing to ECOM’s Nicaragua operations, where ECOM has the most developed resources required to implement the Project. The first phase will channel up to US\$30 million in Sub-Loans to eligible farmers, of which the IDB will fund up to US\$12 million. Management requests delegation from the Board of Executive Directors to approve individual IDB A Loans of up to US\$40 million to ECOM subsidiaries under the Project and up to US\$12.2 million in C2F Partial Credit Guarantees (PCGs) to be used in the Target Countries, following the completion of required due diligence in each case.
- 1.5 All phases will undergo a similar and separate Environmental and Social Management Approval and Review Process that will include (1) Environmental and Social Due Diligence similar to that undertaken for ECOM/Atlantic Nicaragua, including an in-country visit as necessary, (2) preparation, presentation, and publication of an ESMR specific to ECOM’s management of E&S issues in each particular country, (3) application of environmental and social requirements specific to that country, and (4)

annual monitoring and supervision. Each separate ESMR will be submitted to the IDB's Quality and Risk Review for clearance, prior to approval by SCF. The underlying assumption is that an Environmental and Social Management System equivalent to the one applied to ECOM/Atlantic Nicaragua operations will be implemented in each of the other countries.

II. Project Status and Compliance

- 2.1 Based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this Project is classified as a financial intermediary and as such is not categorized according to its potential environmental and social (E&S) impacts and risks.
- 2.2 ECOM has been a client of IFC's since 2006. Through this relationship, ECOM has developed a corporate level Environmental and Social Management System (ESMS) that works to address all nine sections of IFC Performance Standards,¹ and is applied to ECOM's global operations. At a local level, environmental and social issues have largely been managed through ECOM's Sustainable Management Services arm, which focuses on farm management and certification.
- 2.3 ECOM has confirmed that it is in compliance with Directive B.2 (country laws and regulations) of IDB Environmental and Safeguards Compliance Policy, complying with all applicable legal and regulatory environmental, social, health and safety, and labor (ESHS&L) laws and regulations. ECOM aims to have its Sub-Borrowers achieve compliance with national environmental, social, health, safety and labor standards, and with a sub-set of borrowers certification under relevant industry standards, such as UTZ, Starbucks, Fair Trade, and 4Cs. With each new project, compliance with country laws and local operation of each ESMS will be evaluated

III. Environmental and Social Risks and Impacts

A. Potential risks and impacts associated with ECOM's coffee operations

- 3.1 The objective of this loan is to support farmers through long-term renovation loans that will increase the productivity and financial sustainability of their coffee plantations, which have been affected by the outbreak of roya. Treatment options can include topical fungicides and pruning (rehabilitation), or removal and replacement (renovation). This project is focused on renovation, and will allow ECOM to provide certified roya resistant seeds and/or plantlets (options of hybrids and traditional varieties) to producers, together with a technical assistance package to support farmers in the successful implementation of renovation activities and improvement of agricultural practices.
- 3.2 While under this Facility, the specific risks and impacts cannot be identified as due diligence on the participating project sponsor at a country level has not yet been conducted, the potential environmental and social risks and impacts of these activities are likely to be

¹ This includes: policy, identification of risks and impacts, management programs, organizational capacity and competency, emergency preparedness and response, stakeholder engagement, external communications and grievance mechanisms, ongoing reporting to affected communities, and monitoring and review.

mostly low to moderate. Based on a participating project under this Facility in Nicaragua (NI-L1088), the impacts will likely involve pesticide use, exposure to chemical hazards, possible environmental contamination of soil and water sources due to pesticides, waste water treatment of processed waters from onsite wet mills, excessive water use in primary coffee processing at wet mills, and possible use of underage laborers. It will be expected that these impacts will be avoided or adequately managed through an Environmental and Social Management System.

IV. Environmental and Social Management

A. ECOM's Environmental and Social Management System (ESMS)

- 4.1 At the corporate level, ECOM has developed an ESMS that aims to be compliant with IFC Performance Standard 1. This system is currently being upgraded and in coordination with ECOM's Sustainability Management System (SMS) will be the governing system to manage environmental and social issues for sub-loans granted under the renovation project. The corporate ESMS will evaluate a minimum set of environmental and social issues consistent with IDB Policy and the IFC Performance Standards.²
- 4.2 The concept to SMS was to give ECOM's primary coffee buyers (Starbucks, Nestle, Green Mountain Coffee) the ability to have a more detailed understanding of the coffee's origin and the conditions under which it was cultivated. The principles that formed the SMS farm management guidelines were based on sustainability certification standards present in the global coffee market and derived from the four dominant international standards: Fair Trade, Starbucks, Utz and 4Cs. SMS amalgamated these four standards and their associated indicators into one standard, which it calls the 'SMS Standard'. It includes four key areas that producers are assessed against in operating as an ECOM supplier: (i) management, (ii) productivity and quality, (iii) environmental responsibility, and (iv) social performance. In the first phase of SMS, ECOM developed (i) a web based system, and (ii) the SMS Standard. The 'Farm Module' and online tracking system permit any of ECOM's 19 technicians in Nicaragua visiting a producer to log data via a tablet that provides detailed information on farm management practices. In adding a farmer to the system, the SMS technician can baseline the farm against a set of indicators consistent with certification across the four operating areas mentioned above. With each producer, the SMS technician will screen against the minimum eligibility requirements defined by ECOM's corporate ESMS, and may define an Action Plan which the farmer can address over a fixed period. The SMS technicians assess progress against the Action Plan during their bi-annual farm visits.
- 4.3 In a second and ongoing phase of SMS, ECOM is developing a set of Standard Operating Procedures (SOPs), which technicians will use in order to provide consistent advice to farmers relative to a host of renovation and farm management practices (e.g. fertilizer

² The screening will address issues of child labor, on-farm occupational health and safety, worker's accommodations, agrochemical hazards, banned pesticides, fertilizer management, effluent management, illegal deforestation/land conversion.

application, water use, pruning, herbicide use, etc.). ECOM will not disburse any sub-loans under this Facility until the SOP has been finalized and approved.

- 4.4 The application of the IFC Performance Standards and the SMS will be evaluated in each subsequent ECOM operation under this Facility.

V. Environmental and Social Requirements

- 5.1 For each participating ECOM country operation under this Facility, IDB will require at a minimum compliance with all applicable local country environmental, social, health and safety, and labor legal and regulatory requirements, and in relation to the financing of farmers to ensure that each loan complies with: (a) in-country laws and regulations; (b) the IDB List of Excluded Activities for Non-Sovereign-Guaranteed (NSG) operations; (c) the Fundamental Principles of the Rights at Work; and (d) ECOM's ESMS, which will be operated at a local level and will be consistent with IFC Performance Standard 1.
- 5.2 Each participating ECOM country operation will undergo an individual and tailored environmental and social due diligence (ESDD) and will require an individual and tailored Environmental and Social Management Report (ESMR), which will be annexed to each individual Loan Proposal. The requirements determined as a result of the ESDD and set out in the ESMR will be translated into the covenants, representations and guarantees, or other applicable clauses of each ECOM Loan Contract under the Facility. Where necessary, a specific environmental and social action plan will be agreed.