

**ANNEX D - ENVIRONMENTAL & SOCIAL MANAGEMENT REPORT (ESMR) AND
ENVIRONMENTAL & SOCIAL ACTION PLAN (ESAP)
ECOM Coffee Renovation Program,
(NI-L1088)**

I. Project Description and Background

- 1.1 The ECOM Coffee Renovation Project is in response to the reduced productivity of the coffee farms in Nicaragua 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 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. The Project involves a risk-sharing structure under which up to US\$30 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 Nicaragua to finance on-farm investments in agronomic practices and technologies that improve climate resilience.
- 1.4 The project will channel up to US\$30 million in Sub-Loans to eligible farmers, of which the IDB will fund up to US\$12 million.

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

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.

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. As the concentration of sub-lending is exclusively in coffee, averaging between US\$8,000 to US\$201,000 per loan, and for purposes of roya renovation, this operation is considered to be of primarily moderate risk, and is classified as FI-2.

- 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.

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. In Nicaragua, the rust epidemic is believed to have resulted in crop loss of 10% to 22%. 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 It is estimated that roughly 500 producers², with coffee farms ranging in size from 5 -200 hectares, will receive renovation finance from ECOM.³ Recipients will be focused in Nicaragua's three major coffee growing regions – Jinotega, Matagalpa and Nueva Segovia. While the eligibility criteria for farmer selection are still being defined, a farmer must be an existing ECOM customer, in good financial standing, and have passed a high level E&S screening. In order to smooth the effects of cash flow and income loss resulting from removal of Roya infected plants, the renovation program will take place over a 3-5 year period with a three year grace period on the renovation loan. Up to 30% of a farmer's stand will be phased out, thus minimizing disruption to production. The cost of renovation ranges between US\$4,600/hectare for small farmers⁴ to US\$5,300/hectare for medium and large farmers. The sub-loans will range in size on average from US\$8,000 for small farmers to US\$201,000 for large farmers with any one sub-loan not to exceed US\$1 million. Before renovation the average yield is around 10 quintals/hectare while after renovation, the

² ECOM currently finances 800 coffee producers in Nicaragua. Of these, 138 receive long-term finance.

³ The breakdown of farms to be renovated is 43% small (less than 12 hectares), 44% medium (12-50 hectares), and 13% large (greater than 50 hectares).

⁴ In small farms, the expectation is that owners will invest their own labor rather than hire hence the lower cost/hectare.

average yield can increase over three times. Throughout the program, farmers will receive 4 field visits annually from SMS's agronomist technicians, who will provide assistance on all aspects of planting and cultivation. This assistance is categorized into four areas: (i) management, (ii) productivity and quality, (iii) environmental responsibility, and (iv) social performance. These elements are further discussed in Section IV.

- 3.3 Given the design of the program, the potential environmental and social risks and impacts of these activities are likely to be mostly low to moderate. Although these impacts include pesticide use and exposure to chemical hazards, 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, they are expected to be avoided or adequately managed through ECOM's ESMS described below.

B. Environmental and social risks associated with ECOM's facilities and human resources practices

- 3.4 ECOM has stated that they have no material health issues (including legal claims) and do not have any material employee or labor disputes. ECOM has also indicated that its finance application and analysis process is equitable, fair, and unbiased in terms of social factors (e.g., gender, age, ethnicity, or cultural heritage). ECOM's guidelines for employee compensation (salary, pay raise, benefits) and analysis (evaluations) are based on the local legislation, following also Nicaraguan labor regulations. This is defined in their HR labor policy.

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.⁵
- 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,

⁵ 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.

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

B. Training on Environmental and Social Risk Management

- 4.4 Any new sub-loan under consideration is evaluated by a credit analyst and SMS technician. SMS technicians undergo extensive annual training on environmental and social issues, particular to coffee farm management and certification. Training is provided by a centralized ECOM team, and adheres to good practice guidance as defined under the various certification labels mentioned. The proposed Standard Operating Procedures will provide more structured training guidance.

V. Environmental and Social Requirements

- 5.1 This operation involves SME lending for coffee renovation with sub-loans ranging on average between US\$8,000 and US\$201,000 with any one sub-loan not to exceed US\$1 million. Based on IDB’s environmental and social due diligence of ECOM’s Nicaraguan operations, corporate ESMS and SMS approach, the conditions described below are required to be fulfilled for the Project, as a condition of lending from both IDB and IFC, prior to loan approval/financial close and throughout the life of the loan, and in form and substance satisfactory to IDB:
- (i) Comply with all applicable Nicaraguan 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; and (c) the Fundamental Principles of the Rights at Work; and (d) ECOM’s ESMS including the SOPs.
 - (ii) Prior to disbursement of the first sub-loan, have completed and implemented the Standard Operating Procedures for farm management. Ensure that IDB and IFC are provided opportunity to comment on an initial and final draft of the SOP, and that the ESMS (including SMS) is consistent with IFC Performance Standard 1. The upgraded ESMS will be presented to IFC/IDB by May 31st.

- (iii) Comply with the agreed Environmental and Social Action Plan (ESAP - see Annex 1), and report accordingly to IFC and IDB.
- (iv) In addition to the products and activities included in the IDB Exclusion List, the Borrower will not use the proceeds of the IDB loans in accordance with a covenant as follows: "**High Risk Activities**. The IDB Loan will not be used to finance any Sub-Loans that finance activities that: (i) support IDB Category A Projects; (ii) adversely affect lands, territories or intellectual property of or have potentially significant adverse impacts on indigenous communities; or (iii) result in the involuntary resettlement or displacement of livelihood activities, unless a Resettlement Plan is approved by the IDB prior to Sub-Loan approval.
- (v) Present an Annual Environmental and Social Compliance Report (ESCR) with information on the roya renovation portfolio, including an aggregated report by groupings of small, medium, and large scale producers with SMS environmental and social performance data for all sub-borrowers in question, certification performance reached, the number of action plans oriented towards certification, and any high risk issues identified and actions taken or proposed to be taken to address them.
- (vi) Notify IDB of any noncompliance with any environmental, health and safety, social and labor requirement of the loan agreement and any significant environmental, social, labor, health and safety accident, impact, event, claim, material complaint or other known risk, and if necessary take corrective action.
- (vii) Provide access to all relevant documentation, facilities and personnel and cooperate fully with any inspection or audit by the Bank or its designated consultants including making the necessary arrangements with sub-borrowers.

5.2 The IDB will supervise the environmental and social aspects related to the use of the proceeds of the IDB loan, annually or as otherwise deemed necessary by IDB, either by an in-house specialist or with external consultants (costs to be included in the annual supervision fee). If necessary, IDB will require corrective measures or improvements to the ESMS to ensure satisfactory management of impacts and risks.

Annex 1 - Environmental & Social Action Plan (ESAP) – IFC/IDB

Roya Renovation p33969

ESAP Task	Required Completion Date
PS1 - Assessment and Management of Environmental and Social Risks and Impacts	
<p>1.0 Atlantic will adhere to Ecom’s PS1 compliant corporate management system (ESMS) to conduct an Environmental and Social Due Diligence of each of the loans to farmers participating in the Roya Renovation project. The E&S due diligence will typically include but not be limited to: i) review of production or activities involving harmful or exploitative forms of child labor, ii) on-farm occupational health and safety, and appropriate use of PPE, iii) workers’s accommodations, iv) agrochemical hazards, v) WHO banned pesticides and pesticide management, vi) fertilizer management, vii) assessment of effluent management at participating farmers wet mills and potential pollution to surface waters, and, viii) likelihood of illegal deforestation/land conversion.</p> <p>Findings, gaps, and corrective action plans (CAP) will be presented in a due diligence report. The CAP will indicate the detailed description of each of the E&S tasks of the CAP, and timeline to reach compliance with Ecom’s and Atlantic’s environmental and social policy, IFC PS, and WBG EHS General and Industry specific Guidelines.</p> <p>Atlantic will keep a record of the Due Diligence reports and progress against CAP’s of each of the participating farmers throughout the life of the Roya Renovation project. These will be presented to IFC and IDB each year in the Roya Renovation AMR.</p>	Report each year in the p33969 AMR
<p>2.0 The first 10 sub-loans for the Roya Renovation project in Nicaragua, prior to disbursement by Atlantic, will be reviewed by IFC and IDB to ensure the effective implementation of Ecom’s environmental and social management system, the soundness of the CAPs, and, if required, IFC/IDB will suggest supplemental actions to address any performance gaps in the ESMS, and in the risk assessment procedure.</p>	Report first 10 sub-loans prior to disbursement by Atlantic.
<p>3.0 Atlantic will track Key Performance Indicators (KPIs) on its procurement from certified farmers, direct purchases from known farmers, and purchases from intermediaries with and without traceability to farmers. The data will be reported annually in the p33969 AMR.</p>	Report each year in the p33969 AMR
PS2 - Labor and Working Condition	
<p>6.0 Atlantic will review and revise its training program to address Worst Forms of Child Labor (ILO 182) and Minimum Working Age (ILO 138). Atlantic will ensure that all farmers who receive loans under the Roya</p>	Report each year in the p33969 AMR

ESAP Task	Required Completion Date
<p>program receive training to prevent and monitor child labor. Atlantic will track training effectiveness and to the extent possible, impacts observed in the field.</p>	
<p>PS3 - Resource Efficiency and Pollution Prevention</p>	
<p>7.0 For farmers with own wet mills, Atlantic will provide training on best practice in effluent management and develop management plans where necessary to improve effluent management. The training and action plans will promote and share best practice of green technology, including the implementation of appropriate solutions at unsophisticated wet mills of the coffee producers relying upon low technology not involving high capital or operational investments. Such green practices could include the zero waste wet mill technology used by Ecom in Vietnam, and the small units for depulping in Ethiopia.</p>	<p>Report each year in the p33969 AMR</p>
<p>8.0 Continue to identify and eliminate the use of WHO Class 1a and 1b chemical formulations in all farmer operations and report to IFC/IDB. Class 2 pesticides will be used under appropriate controls (PPE and safe handling facilities). Also, Atlantic will train farmers in integrated pest and disease management, and will promote internally and by suppliers/Roya Renovation participating farmers the use of adequate PPE based upon MSDS and/or ICSCs for the chemical materials used. Atlantic will also fully incorporate all updated pest and disease management procedures into the management procedures manual.</p>	<p>Incorporate data into p 33969 AMR for 2014 and onwards</p>
<p>PS6 Biodiversity Conservation and Sustainable Natural Resources Management</p>	
<p>10.0 Increase over time the training on preventing deforestation at the supplier level (Atlantic extension staff and participating farmers in Roya Renovation). And, will provide documentary evidence annually in the AMR to demonstrate training on preventing deforestation, and events of deforestation. As indicated under PS1, Monitoring and Reporting (KPI's), each year in the AMR, Atlantic will report progress on compliance with PS6 supply chain related requirements.</p>	<p>Report each year in the p33969 AMR</p>