

# SOCIAL AND ENVIRONMENTAL MANAGEMENT SYSTEM

MAS Equity Fund III, L.P.



Elaborado para:

MAS Equity Fund III, L.P



Elaborado por:



Bogotá, D.C.  
Mayo de 2017

# SOCIAL AND ENVIRONMENTAL MANAGEMENT SYSTEM

## MAS Equity Fund III, L.P.

Hoja de control

INERCO Consultoría Colombia

	Elaboró	Revisó	Aprobó	Fecha de aprobación:
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En la preparación de este informe, INERCO Consultoría Colombia y MAS Equity Fund III, L.P. utilizaron la información provista por consultores especializados, autoridades nacionales y regionales, así como de otras fuentes no gubernamentales. MAS Equity Fund III, L.P. realizó la verificación de la información que su conocimiento y experiencia le permitió.

Este informe ha sido preparado por INERCO Consultoría Colombia, con un conocimiento razonable y con el cuidado y la diligencia establecidos en los términos del contrato con MAS Equity Fund III, L.P.

Anotaciones:

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Este informe ha sido preparado por INERCO Consultoría Colombia, con un conocimiento razonable y con el cuidado y la diligencia establecidos en los términos del contrato con MAS Equity Fund III, L.P.

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## 1. BACKGROUND

This Social & Environmental Management System (SEMS) details the policy, procedures and workflow that will be followed for investments made by MAS Equity Fund III, L.P (“the Fund”) under the management and administration of the SEMS Officer.

The partners of MAS Equity Partners GP, LLC (“MAS”) manage Fondo Transandino Colombia (“Fund I”), being the first diversified private equity fund established in Colombia, and Fondo MAS Colombia LatAm (“Fund II”).

MAS invests in high-growth Colombian mid-market companies through its manage Funds, partnering with Colombian entrepreneurs to capitalize on the shift in demographics and the rising demand for high-quality goods and services. The Investment Team will leverage its deep local knowledge of the Colombian landscape and execute on its proven value creation plan through operational enhancement, corporate governance and management support.

## 2. SOCIAL AND ENVIRONMENTAL MANAGEMENT SYSTEM

### 2.1 Policy

This overarching statement (the "Statement") is made effective on June 23rd 2014 by MAS Equity Fund III, L.P (the "Fund"). It provides the environmental and social objectives and principles guiding the Fund's investment activities to ensure environmental and social ("E&S") performance. Accordingly, the Fund states that:

1. The Fund will not finance any of the activities found on IFC's Exclusion List<sup>1</sup>.
2. All projects in which the Fund invests will comply with all applicable environmental and social regulations of the host country (ies) in which the projects are located and operate.
3. The Fund will seek to ensure that these same projects are operated in a manner consistent with the IFC's Performance Standards on Social and Environmental Sustainability, as indicated on the IFC's Performance Standards on Social and Environmental Sustainability booklet, effective as of January 1st, 2012.

The aforementioned are the guiding principles that will be priority to the Fund's investment E&S Policy. The following are complementary, but equally important.

4. The Fund will ensure that all projects are reviewed against the Applicable Requirements.
5. Projects will be financed only when they are expected to be designed, built, operated and maintained in a manner consistent with the Applicable Requirements.
6. Best efforts will be made to ensure that all projects are operated in compliance with the Applicable requirements on an ongoing basis, during the currency of the Fund's financing/investment.
7. The Fund will ensure transparency in its activities.
8. The Fund will seek to ensure that the management and the shareholders of the client companies understand the policy commitments made by the Fund in this area.
9. The Fund will inform, raise the awareness of, and train employees in environmental and social risks.

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<sup>1</sup> Please refer to 3.1.1. Procedure 1 – Initial screening.

10. The Fund will continually improve the identification and management of environmental risks in the Group's financial and investment operations.

The above will be considered as E&S policy for the Fund (the "Policy").

The Fund manager states that it will assure conformance with the Policy, and will identify parties to be designated, as responsible of the execution of the Policy. The E&S Fund's policy will be directed to prospective investees and to all the employees of the Fund. It will be communicated by presenting it in the Fund statements and reports, and verbally communicating it to various stakeholders. This Policy shall be known and understood at all levels of the Fund manager's organization.

The Fund manager states that each employee will be granted with the information that will allow them to know of the importance of their responsibility and role regarding the implementation of the Policy.

Signed

Effective Date

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\_\_\_\_\_

## 2.2 Applicable requirements

The Fund will ensure that all projects are reviewed and evaluated against the following Social & Environmental requirements:

- The IFC Exclusion List for all projects. (Details in Annex 3.1.1 Procedure 1 – Initial Screening).
- The applicable national laws on environment, health, safety and social issues and any standards established therein.
- The IFC Performance Standards (Details in Annex 3.1.5. Procedure 5 – IFC Performance Standards).
- The IFC Environmental, Health and Safety Guidelines (details in Annex).

## 2.3 Scope

The social and environmental management system will be integrated with the Fund's existing risk management mechanisms, and it is therefore to be applied to all projects seeking to be financed by MAS Equity Fund III, L.P.





## 2.4 Purpose

The purpose of this Social and Environmental Management System (SEMS) is to ensure that all of the Fund's activities are in compliance with its social and health, safety and environmental principles and standards.

The Fund's social and HSE standards are stated in this document's Applicable Requirements (above).

The SEMS will help the Fund reduce the social and environmental risks which it encounters through its portfolio. Due to the Social and Environmental Due Diligence (SEDD) conducted prior to any investment, the Fund will be able to avoid and manage potential environmental and social risks presented by the investment.

All of the Fund's Investment Agreements will contain the appropriate covenants requiring that projects are in compliance with the Applicable Requirements established in this SEMS.

## 2.5 Procedures

The SEMS includes the following procedures:

- Procedure 1 – Initial Screening
- Procedure 2 – Risk Categorization
- Procedure 3 – Social and Environmental Due Diligence (SEDD)
- Procedure 4 – National Laws and Requirements
- Procedure 5 – IFC Performance Standards
- Procedure 6 – Corrective Actions
- Procedure 7 – Monitoring
- Procedure 8 – Managing Non-compliance
- Procedure 9 – Reporting (Internal and External)
- Procedure 10 – Grievance Mechanism

All of these procedures can be found in Annexes 3.1.1 to 3.1.10. Below there is a brief description of each one of these procedures.

### 2.5.1 Initial screening

The purpose of this initial procedure is to check if the project/activity is included in the IFC's exclusion list.

The Fund is committed to respecting IFC's policies and standards, therefore it will not finance projects included in the Exclusion List.

### 2.5.2 Risk categorization

The objective of this procedure is to guide the SEMS Officer and/or External Consultant when categorizing the project's environmental and social risks. Projects can be:

A) High Risk (Category A): Transactions may typically involve, but is not limited to the following: clients/investees with business activities with significant adverse environmental and social impacts that are sensitive, diverse, or unprecedented<sup>2</sup>. At the time of categorization, environmental and social impacts cannot readily be identified or assessed, and which, therefore, require a formalized and participatory environmental and social impact assessment process.<sup>3</sup>

A potential impact is considered sensitive if it may be irreversible (such as loss of a major natural habitat), affect vulnerable groups or ethnic minorities, involve involuntary displacement and resettlement, or affect significant cultural heritage sites, among other issues. These are example of possible issues, but other may arise.

B) Medium Risk (Category B): Transactions typically involve clients/investees with business activities with specific environmental and social impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures<sup>4</sup> and international best practice. Potential adverse environmental impacts on human populations or environmentally important areas are less adverse than those of High Risk transactions.

C) Low Risk (Category C): Transactions typically involve clients/investees with business activities with minimal or no adverse environmental and social impacts<sup>5</sup>.

The project's category will help the Consultant when carrying out the social and environmental due diligence, since he/she will already know what social and environmental issues deserve special attention. Nevertheless, the Consultant must consider all environmental and social risks associated with the project and its industry sector while developing the SEDD.

### 2.5.3 Social and environmental due diligence (SEDD)

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<sup>2</sup> The Equator Principles. 2013.

<sup>3</sup> European Bank for Reconstruction and Development. Environmental and social policy. 2014.

<sup>4</sup> The Equator Principles. 2013.

<sup>5</sup> Ibid.

The purpose of this procedure is to guide the SEMS Officer or External Consultant when carrying out the SEDD. The SEDD is the systematic identification, quantification and assessment of the environmental and social risks associated with a project/activity seeking to be financed by the Fund. This process also helps to identify environmental and social risks requiring special attention that is, requiring mitigation measures.

The extent of the SEDD depends on the projects categorization. Projects with higher environmental and social risks will require a more thorough assessment than projects classified as low risk.

As a part of the SEDD, the SEMS Officer and/or External Consultant must review the environmental and social legal requirements, as well as the IFC Performance Standards. For this purpose Procedures 4 and 5 have been created.

#### **2.5.4 National laws and requirements**

This procedure was created to guide the SEMS Officer and/or the External Consultant when reviewing the applicable national laws and regulations. Nevertheless, the Consultant should consider all HSE laws and regulations applicable to the specific project.

A guideline of the main/general HSE laws and regulations applicable in Colombia can be found in Annexes 3.3.

#### **2.5.5 IFC Performance standards**

This procedure was created to guide the SEMS Officer and/or the External Consultant when reviewing the applicable IFC Performance Standards according to the project's activities.

#### **2.5.6 Corrective actions**

The purpose of this procedure is to guide the SEMS Officer and/or External Consultant as to when corrective actions need to be established, and how they must be established.

Corrective actions are established with the purpose of mitigating potential environmental and social risks in the context of a transaction to an acceptable level for the Fund.

#### **2.5.7 Monitoring**

The purpose of this procedure is to guide the SEMS Officer and/or External Consultant as to how to monitor ongoing investments.

The purpose of monitoring a client's environmental and social performance is to assess existing and emerging environmental and social risks associated with a client's operations during the duration of a transaction.

#### **2.5.8 Managing non-compliance**

During the monitoring process the Fund may identify environmental and social issues that do not comply with one or more clauses of the legal agreement. This procedure will guide the SEMS Officer and/or External Consultant when handling non-compliance of an ongoing transaction.

The terms of the consequences of a Client's non-compliance with Applicable Requirements will be specified in the legal agreement signed between the Client and the Fund.

#### **2.5.9 Reporting (internal and external)**

The purpose of this procedure is to allow the Fund to have a better understanding of its overall exposure to environmental and social risks through its portfolio.

#### **2.5.10 Grievance Mechanism**

The purpose of this procedure is to allow external stakeholders to express their requests, complaints and/or suggestions through a clear channel. This procedure will also allow the Fund to manage and address grievances from stakeholders in an effective way.

### **2.6 Disbursement**

Environmental and social requirements, as well as corrective actions (if necessary) will be included in the Conditions of Investment, which will be tied to disbursement of funds. The Client must be in compliance with Applicable Requirements in all cases, before any disbursement of funds; this will be specified in the Investment Agreement.

The Fund will inform the Investment Committee of the Investment Conditions to which the Client will be subject to for disbursement of funds through a Disbursement Memo. Such Memo will be submitted to the Investment Committee periodically, after each monitoring of the project.

Through continuous reviewing and monitoring of ongoing investments' E&S performance, the Fund will ensure that Applicable Requirements are being met.

The Fund may, under certain circumstances, give the Client waivers or extensions on some of the Conditions of Investment, but the Fund will be extremely careful in granting such exceptions. In case such exceptions are made, the Fund will inform all relevant stakeholders.

## **2.7 Organization and responsibilities**

### **2.7.1 SEMS officer**

MAS Equity must define a SEMS Officer. The SEMS Officer will have oversight for social and environmental issues, will ensure resources are made available for environmental management, and will sign the Company's annual environmental performance report to IFC. The responsibilities of the SEMS Officer also include:

- During due diligence, the evaluation of environmental compliance of a target client company with Applicable Requirements;
- Supervising projects in the portfolio against on-going compliance with the Applicable Requirements.
- Preparing an annual environmental performance report, based on the annual performance report prepared by the client companies.

The SEMS Officer will ensure that these procedures are implemented for each project, and that records of environmental reviews are maintained.

The SEMS Officer will ensure that all investment decisions are supported by appropriate due diligence documentation (including, but not limited to, an environmental section in each final Investment Memorandum). The Fund will also ensure that the IFC is notified if and when the current SEMS Officer leaves that position, and will provide the IFC the name of the new SEMS Officer.

### **2.7.2 Investment Officer**

The Investment Officer will assist the SEMS Officer in the evaluation of each investment (project). He/she will be the liaison between the SEMS Officer and the Client and the External Consultant. The responsibilities of the Investment Officer may include, but are not limited to:

- Assist the SEMS Officer in reviewing documentation and information.
- Review and coordinate day-to-day tasks performed by the External Consultant.
- Ensure that all investment decisions are supported by appropriate due diligence documentation process.

### **2.7.3 External consultant**

The Fund will hire an External Consultant (“the Consultant”) that will support the SEMS Officer in day-to-day tasks. This may include, but is no limited to, the following<sup>6</sup>:

- Carry out initial project screening and project risk categorization.
- Evaluate the environmental and social compliance of a target clients with the Applicable Requirements (national environmental and social laws and regulations and IFC Performance Standards).
- Collect and review all necessary (additional) documentation for the social and environmental Due Diligence (SEDD), and write the SEDD report.
- Carry out the monitoring process which may include: reviewing the Client’s periodic reports, carrying out site visits, requesting and reviewing necessary documentation and documenting the Client’s environmental and social performance.
- Prepare the Fund’s annual environmental and social performance report, based on the periodic performance reports provided by clients.

#### **2.7.4 Legal counsel**

The Fund Manager (FM) and the SEMS Officer will seek the support of its Legal Counsel during the investment process. The Legal Counsel will support the Fund Manager in adequately mitigating and preventing risks through legal contracts with the investee. The responsibilities of the Legal council will include, but are not limited to:

- Elaborate the necessary documents (e.g. Letter of intent, MOU, convention agreement, etc.), based in the categorization of the project, in order to include the necessary clauses to allow the FM to proceed with the SEDD.
- Include the necessary environmental and social representations, warranties and covenants in the contracts (e.g. Investment Framework Agreement), the execution of the corrective action plan and the IFC performance standards.
- Support the SEMS officer in the monitoring process, by supporting it with the compliance of the covenants and conditions agreed upon in the contracts.

#### **2.7.5 The client**

The Client is responsible for carrying out an initial environmental and social assessment of its current activities and the project it wishes to develop. The Client will also write periodic reports of its ongoing environmental and social performance and will share this information with the Fund.

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<sup>6</sup> The Terms of reference for the Consultant can be found in Annex 3.7. External consultant terms of reference.

The Client must supply all required information by the SEMS Officer or other designated officials by the Fund, in order to facilitate assessment and/or monitoring activities. The Client will agree to respect the environmental and social principles stated in this policy.

## **2.8 Resources and capabilities**

The Fund is committed to its social and environmental policy, therefore it will assign the necessary resources and capabilities for the design and implementation of the Social and Environmental Management System.

For this purpose, the SEMS Officer will work with management to ensure that adequate Fund resources have been committed to allow for the effective implementation of the environmental policy and procedures of the Fund. The SEMS Officer will maintain a file of qualified social and HSE (Health, Safety and Environment) consultants (the External Consultant) who can be called upon to assist in conducting environmental and social reviews.

The External Consultant will need to be technically qualified to be able to carry out the social and environmental due diligence, as well as to monitor ongoing projects' performance with Applicable Requirements.

In addition, the SEMS Officer will organize SEMS training for all Fund staff. The purpose of such training will be to ensure that all staff knows the objectives, components and procedures of the SEMS, so that they can give their inputs on how to improve it and implement it. Above all, it is expected that all staff incorporates social and environmental principles in their daily tasks, and particularly when assessing new investment or business opportunities.

The SEMS, including budget and implementation plan, will be reviewed and approved by Senior Management to ensure that it is integrated as a part of the Fund's standard operating procedures.

## **2.9 Records to be maintained**

For each project, a record of supporting documentation of environmental and social assessment, reviews and monitoring will be maintained. This includes the initial evaluation of environmental and social risks at the time a project is considered for investment as well as records of on-going compliance.

### **2.9.1 Social and environmental due diligence (SEDD) report**



The Social and Environmental Due Diligence (SEDD) Report is the record of the Fund's social and environmental review of a project at the time of considering it for investment. All projects considered for investment will be subject to a SEDD.

The purpose of the SEDD is to review any potential environmental and social risks associated with the business activities of the prospective client, and to ensure that the transaction does not carry environmental and social risks, which could present a potential liability or risk for the Fund.

The SEDD consists of the systematic identification, quantification and assessment of the social and HSE risks associated with a proposed transaction. The extent of the environmental and social due diligence and level of detail is based on the transaction's environmental and social risk category and will vary by transaction.

The SEDD will be carried out by a qualified External Consultant under the supervision of the SEMS Officer.

#### **2.9.2 Disbursement memo to investment committee**

The Fund will inform the Investment Committee and other relevant stakeholders, through a Disbursement Memo, of the Investment Conditions to which the Client will be subject to for disbursement of funds.

The Disbursement Memo should indicate the Client's status of compliance with the Investment Conditions, if the Client needs to implement additional corrective actions, and/or waiver justification, as necessary.

#### **2.9.3 S&E supervision records for projects being supervise**

All ongoing projects will be subject to monitoring. The External Consultant will review the clients' periodic reports on E&S performance and will carry out site visits if necessary. The result of the monitoring process will be a Supervision Report<sup>7</sup>.

#### **2.9.4 Reports to be provided to fund management and to IFC**

The Fund will prepare bi-annual environmental and social performance reports. These reports will be based in aggregated project-specific SEDD and supervision reports, and will identify the

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<sup>7</sup> The summary of the content that the Supervision Report must include are in Annex 3.3.1 Environmental laws and regulations in Colombia.

Fund's environmental and social performance through its portfolio. These reports will be shared with Fund Management and investors.

The internal reports will help the Fund to develop and maintain a watch list of portfolio projects with significant environmental and social performance issues.

Additionally, these reports will constitute the basis of the annual reports the Fund is required to prepare for IFC.

## **2.10 SEMS review and continuous improvement**

The SEMS will be reviewed annually, and adjusted if necessary, to ensure that it remains relevant and effective over time and that it incorporates the Fund's evolving needs.

The External Consultant, when preparing the internal reports will detect emerging environmental and social risks of projects, and will recommend, if necessary, adjustments to the established procedures in order for these risks to be detected during the SEDD. The External Consultant will also collect information amongst the Fund's staff concerning difficulties encountered with operational aspects of the SEMS implementation and ideas for improvement. All of these recommendations, after supervision of the SEMS Officer, will be stated in the Fund's E&S performance internal reports.

The SEMS Officer will decide which of these recommendations will be taken into account, and will inform the Fund Management and Investment Committee of any changes that need to be applied to the SEMS.

The External Consultant, when preparing the bi-annual internal reports, will also track any changes in national laws and regulations concerning the environment, health and safety. Such changes, if any, will also be stated in the reports, and Applicable Requirements will be adjusted consequently.

The SEMS Officer will ensure that all Fund staff is informed of any changes applied to the SEMS, and will organize, if necessary, new trainings on SEMS procedures that have been updated or added.

### 3. ANNEXES

#### 3.1 Procedures

##### 3.1.1 Procedure 1 – Initial screening

###### Purpose

The purpose of this procedure is to identify if the project/activity is included in IFC's Exclusion List.

###### Application

This procedure applies to all projects seeking to be financed by MAS Equity Fund III, L.P.

###### Responsibility and authority

The SEMS Officer will apply IFC's Exclusion List to the project and decide if the project can be financed.

###### Definitions

The IFC Exclusion List: it defines the types of projects that IFC does not finance.

###### Procedure

1. SEMS Officer will apply IFC's Exclusion List to the project. The Exclusion List is the following:
  - Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB, wildlife or products regulated under CITES<sup>8</sup>.
  - Production or trade in weapons and munitions<sup>9</sup>.
  - Production or trade in alcoholic beverages (excluding beer and wine)<sup>2</sup>.
  - Production or trade in tobacco<sup>2</sup>.
  - Gambling, casinos and equivalent enterprises<sup>2</sup>.

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<sup>8</sup> Convention on International Trade in Endangered Species of Wild Fauna and Flora.

<sup>9</sup> This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.

- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
  - Production or trade in unbounded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20 %.
  - Drift net fishing in the marine environment using nets in excess of 2.5 km in length.
  - Production or activities involving harmful or exploitative forms of forced labor<sup>10</sup>/harmful child labor<sup>11</sup>.
  - Commercial logging operations for use in primary tropical moist forest.
  - Production or trade in wood or other forestry products other than from sustainably managed forests.
2. If the project involves an excluded activity, the SEMS Officer will inform the prospective client, and further consideration of investment in the project will be terminated.
  3. If the project does not involve an excluded activity, the SEMS Officer ask the Consultant to check the Client's previous history concerning serious social and/or HSE incidents.
  4. If the Client presents a history of serious social and/or HSE incidents, the SEMS Officer will inform the prospective client, and further consideration of investment in the project will be terminated.
  5. If the Client does not present a history of serious social and/or HSE incidents, the appraisal process will continue. The SEMS Officer will indicate through a written document the Applicable Requirements for the project to the Client.

### Associated documents

The IFC Exclusion List.  
Procedure 2 – Categorization.

### **3.1.2 Procedure 2 – Risk categorization**

#### Purpose

The purpose of this procedure is to establish the criteria to be taken into account when categorizing projects based on their environmental and social risks.

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<sup>10</sup> Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

<sup>11</sup> Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

An environmental and social risk categorization system will enable the Fund to monitor and evaluate its exposure to environmental and social risk aggregated at the portfolio level.

## Application

This procedure applies to all projects seeking to be financed by MAS Equity Fund III, L.P.

## Responsibility and authority

The External Consultant or team of consultants (from here on “the Consultant”) is responsible for categorizing the prospective client’s project. The SEMS Officer will approve of the resulting categorization.

## Definitions<sup>12</sup>

High Risk (Category A): Transactions may typically involve, but is not limited to the following: clients/investees with business activities with significant adverse environmental and social impacts that are sensitive, diverse, or unprecedented. A potential impact is considered sensitive if it may be irreversible (such as loss of a major natural habitat), affect vulnerable groups or ethnic minorities, involve involuntary displacement and resettlement, or affect significant cultural heritage sites, among other issues. These are example of possible issues, but other may arise.

Medium Risk (Category B): Transactions typically involve clients/investees with business activities with specific environmental and social impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures and international best practice. Potential adverse environmental impacts on human populations or environmentally important areas are less adverse than those of High Risk transactions.

Low Risk (Category C): Transactions typically involve clients/investees with business activities with minimal or no adverse environmental and social impacts.

## Procedure

1. The Consultant, with previous knowledge of the prospective client’s screening process, proceeds to categorize the project based on the project’s activities, the industry in which they will be developed, the project’s location and the prospective client’s history and reputation concerning environmental and social issues (including fines and penalties as well as severe accidents concerning social and environmental issues). The categories of the project can be:

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<sup>12</sup> The definitions below have been obtained from the following website: [http://firstforsustainability.org/risk-management/managing-environmental-and-social-risk-2\\_2/components-of-an-esms/risk-categorization-and-managing-portfolio/](http://firstforsustainability.org/risk-management/managing-environmental-and-social-risk-2_2/components-of-an-esms/risk-categorization-and-managing-portfolio/)

- High risk
  - Medium risk
  - Low risk
2. Concerning the project's location, the Consultant will take into account:
- The surrounding land use.
  - Proximity to natural habitats and rivers and lakes.
  - Condition of facilities.
  - Potential ground contamination.
  - Access to utilities such as electrical power, natural gas and water.
3. Concerning environmental issues related to the project, the Consultant will take into account:
- Water use and quality, wastewater, water pollution.
  - Air emissions and quality (air Pollution).
  - Material Use (hazardous and non-hazardous).
  - Wastes (hazardous and non-hazardous).
  - Noise.
  - Land use.
  - Biodiversity.
  - Resource conservation and energy efficiency measures arising from the project.
  - Emergency Management, Pesticide use and management.
4. Concerning social issues related to the project, the Consultant will take into account:
- Labor.
  - Occupational health and safety.
  - Community health and safety.
  - Community engagement.
  - Land acquisition and resettlement.
  - Indigenous and vulnerable people.
  - Cultural/Archeological Heritage.
5. The Consultant will refer to the Format FR-001 Risk Categorization (Annex 3.2.1) in order to obtain guidance for the project's categorization. Ultimately, the Consultant will categorize the project based on his/her judgment with regard to points 2-4 of this procedure.
6. Once the Consultant has categorized the project, he/she will inform the SEMS Officer.

7. The SEMS Officer will approve or not of the resulting categorization. If the SEMS Officer does not approve, the risk categorization process will be reviewed by the Consultant and the SEMS Officer, until the latter gives his/her approval.
8. Based on the potential E&S risks identified for the project, the SEMS Officer will decide if it is cost-effective for the Fund to proceed with the Social and Environmental Due Diligence (SEDD).
9. The SEMS Officer will inform the Investment Committee of his/her decision with the corresponding documentation (Fund Investment Committee environmental and social risk notification memo).
10. The Fund will inform the prospective client of the project's categorization, and of its decision to proceed or not with the appraisal process.
11. If the Fund's decision is to proceed with the process, the SEMS Officer and Legal Counsel will prepare the necessary documentation to seek and ensure the Client's cooperation with the SEDD. The necessary documents may include: Environmental and Social Policy Notification, wording for a mandate letter, a memorandum of understanding and/or a confidentiality agreement.
12. The Fund will communicate to the Client, through the documentation mentioned above, the Fund's environmental and social policy and their intention to carry out the SEDD with the aid of an external consultant.
13. With the Client's agreement and cooperation, the Fund will carry out, with the support of the Consultant, the Social and Environmental Due Diligence (SEDD).
14. In order to carry out the Social and Environmental Due Diligence, the Consultant will refer to Procedure 3 – Social and Environmental Due Diligence.

#### **Associated documents**

Procedure 1 – Screening Process

Procedure 3 – Social and Environmental Due Diligence

Format 1 – Risk Categorization

#### **Expected products**

Fund Investment Committee Environmental and social risk notification memo.

Environmental and Social Policy Notification.



Wording for a mandate letter, Clause 22<sup>13</sup>, Memorandum of understanding and/or Confidentiality Agreement.

### **3.1.3 Procedure 3 – Social and environmental due diligence**

#### **Purpose**

The purpose of this procedure is to indicate how to carry out the Social & Environmental Social Due Diligence (SEDD) as part of the appraisal process. The SEDD aims to review any potential environmental and social risks associated with the business activities of a prospective client to ensure that the transaction does not carry environmental and social risks, which cannot be mitigated.

#### **Application**

This procedure applies to all projects seeking to be financed by MAS Equity Fund III, L.P.

#### **Responsibility and authority**

The External Consultant or team of consultants (from here on “the Consultant”) will carry out the Social & Environmental Social Due Diligence (SEDD). The SEMS Officer will review the SEDD report and ensure that all investment decision are supported by appropriate SEDD documentation.

#### **Definitions**

Social and Environmental Due Diligence (SEDD): involves the systematic identification, quantification and assessment/evaluation of environmental and social risks associated with a proposed transaction (project).

#### **Procedure**

1. The Fund manager/SEMS Officer will inform the prospective client that the Fund will undertake a Social & Environmental Social Due Diligence (SEDD) through an External Consultant as part of the appraisal process.
2. The Fund will hire an external consultant or consultant team to carry out the SEDD.

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<sup>13</sup> Clause 22 can be found in Annex 3.6 Clause 22.

3. The SEMS Officer will decide of the general extent of the SEDD in terms of resources needed, based on the categorization of the project. However the SEDD will consider all risks associated to the project regardless of its categorization, the SEMS Officer will communicate his/her decision to the Consultant.
4. The Consultant will verify background information about the project: description, site, environment setting and land requirements.
5. The Consultant will identify the National Social and Environmental Laws and Regulations that apply to the project<sup>14</sup>. The Consultant will verify that the project complies with required National Social and Environmental Laws and Regulations.
6. The Consultant will verify which IFC Performance Standards are relevant to the project and if the project complies. For this purpose Procedure 5 has been established.
7. The Consultant will proceed to identify the main environmental and social risks presented by the project.
8. After carrying out the Due Diligence, the Consultant will be capture all information in a written report (The SEDD Report), which must contain the following chapters:
  - i. Introduction (Project background)
  - ii. Scope of review and methodology (methodology used, documents reviewed)
  - iii. Environmental and social issues and mitigation (See relevant Performance Standards)
  - iv. Details of Project Consultation and local disclosure undertaken
  - v. Other project specific issues
  - vi. Environment Management and Corrective Action Plan (if required)
  - vii. Summary and Recommendations
  - viii. Financing Covenants or Conditions
9. The recommendations made by the Consultant presented in the SEDD Report will include the necessary actions which must be implemented for the proposed investment to proceed to financial closure. At a minimum, these shall consist of a set of mitigation, management, monitoring and institutional measures to be taken during the project implementation and operation to address any gaps with the Fund's Social and Environmental Policy. The corrective actions that need to be taken to close these gaps shall be presented with

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<sup>14</sup> The list of the minimum requirements concerning National Social and Environmental Laws and Regulations that apply to any business can be found in Annex 3.3. HSE laws and regulations applicable in Colombia.

reasonable timelines and should be thoroughly discussed and agreed with the prospective client.

10. The corrective actions and their timeframe will be defined by the SEMS Officer and the prospective client, with technical advice from the Consultant.
11. If the SEDD Report determines that further environmental or social assessments are needed in order to define or reduce risk uncertainty, such studies/assessments will be financed by the Client. This will be included in the contracts/agreements signed between the Fund and the Client.
12. The SEMS Officer should remain engaged in the due diligence process, and involve other investors or stakeholders in reviewing the due diligence report and determining the soundness of the action plan.
13. The final results of the SEDD should be presented to the Fund's Investment Committee. The Investment Committee will analyze the presented E&S risks, and will verify that such risks are controlled through corrective action plans as well as contractually. The Investment Committee will inform the SEMS Officer if they consider the project should be financed by the Fund.
14. The SEDD report will be sent to IFC for its review prior to any investment decision by the Investment Committee, for the Fund's first three (3) investments, and for all Category A investments.

#### **Associated documents**

Procedure 4 - National Social and Environmental Laws and Regulations.

Procedure 5 - Environmental and social issues and mitigation – IFC Performance Standards.

Terms of reference for the Social and Environmental Due Diligence.

#### **Expected products**

Social and Environmental Due Diligence Report.

SEDD Summary Memo for Fund Investment Committee.

#### **3.1.4 Procedure 4 – National social and environmental laws and regulations**

##### **Purpose**

The purpose of this procedure is to verify if the project complies with local legislation and regulations concerning social and environmental issues.

### Application

This procedure applies to all projects seeking to be financed by MAS Equity Fund III, L.P.

### Responsibility and authority

The External Consultant (from here on “the Consultant”) will verify if the Project complies with local legislation concerning social and environmental issues, as a part of the SEDD.

### Procedure

1. The Consultant will verify that the project complies with local HSE laws and regulations. For this purpose Annex 3.3 has been established to be used as a starting point by the Consultant. A more detailed checklist of applicable HSE laws and regulations must be prepared by the consultant, depending on the project’s industry sector and activities.
2. If the project does not comply with minimum requirements demanded by local legislation concerning environmental and social issues, the Consultant will inform the SEMS Officer, who will inform senior management. The Fund will then inform the prospective client. No further consideration of the investment will be contemplated until the Prospective client is able to demonstrate compliance with local legislation, in a reasonable period of time.
3. If the project does comply with minimum requirements demanded by local legislation the Consultant will proceed to verify if the project complies with IFC Performance Standards, where they apply. In order to carry out such verification the Consultant will refer to Procedure 5 - Environmental and social issues and mitigation - IFC Performance Standards.

### Associated documents

Annex 3.3 – National Laws and Regulations concerning social and environmental issues.

Procedure 3 - Social and Environmental Due Diligence (SEDD).

Procedure 5 - Environmental and social issues and mitigation - IFC Performance Standards.

#### **3.1.5 Procedure 5 – IFC performance standards**

### Purpose

The purpose of this procedure is to verify that the prospective client complies with IFC Performance Standards.

### **Application**

This procedure applies to projects seeking to be financed by MAS Equity Fund III, L.P that have been categorized as medium or high risk.

### **Responsibility and authority**

The External Consultant or team of consultants (from here on “The Consultant”) will verify that the prospective client complies with the IFC Performance Standards as a part of the Social and Environmental Due Diligence (SEDD).

### **Definitions**

IFC Performance standards: eight (8) standards that the client is to meet throughout the life of an investment. They are designed to help the client avoid, mitigate, and manage risks and impacts as a way of doing business in a sustainable way, including stakeholder engagement and disclosure obligations of the client in relation to project-level activities.

Environmental and social risk: is a combination of the probability of certain hazard occurrences and the severity of impacts resulting from such an occurrence.

Environmental and social impacts: refers to any change, potential or actual, to (i) the physical, natural, or cultural environment, and (ii) impacts on surrounding community and workers, resulting from the business activity to be supported.

Good international industry practices (GIIP): defined as the exercise of professional skill, diligence, prudence, and foresight that would reasonably be expected from skilled and experienced professionals engaged in the same type of undertaking under the same or similar circumstances globally or regionally.

### **Procedure**

1. The Consultant will verify that the project complies with applicable IFC Performance Standards, by referring to the checklist in Annex 3.4.
2. If the project does not comply with applicable IFC Performance Standards, a corrective action must be put in place. Please refer to Annex 3.1.6 to see how to manage corrective actions.

3. If the project does comply with applicable IFC Performance Standards, the Consultant will proceed with the SEDD Procedure (Annex 3.1.3).

### **Associated documents**

Procedure 3 – Social and environmental due diligence (SEDD).  
Procedure 4 - National social and environmental laws and regulations.  
Annex 3.4 – IFC Performance standards checklist.  
Annex 3.3 - HSE Laws and regulations applicable in Colombia.

### **3.1.6 Procedure 6 – Corrective action plans**

#### **Purpose**

The purpose of this procedure is to establish the way in which corrective action plans must be agreed on, conducted and presented.

#### **Application**

This procedure applies to all projects seeking to be financed by MAS Equity Fund III, L.P.

#### **Responsibility and authority**

The Consultant, after carrying out the SEDD, will suggest corrective actions and a reasonable timeframe for each action. The SEMS Officer and the prospective client, taking into consideration the Consultant's recommendations, will define the specific actions needed to meet Applicable Requirements and will set a reasonable timeline for these actions.

#### **Definitions**

Corrective Action Plan: a plan which's purpose is to mitigate potential environmental and social risks in the context of a transaction to an acceptable level for the financial institution (Fund).

#### **Procedure**

1. During the appraisal process, the Consultant will determine if the prospective client complies or not with the Applicable Requirements.
2. Where the prospective client is not able to demonstrate compliance with the Applicable Requirements, a Corrective Action Plan must be agreed to between the prospective client

and the SEMS Officer, taking into consideration the Consultant's recommendations, in order for the appraisal process to proceed.

3. Corrective Action Plans must specify all of the necessary actions to bring the project into compliance.
4. A target completion date for each specified action must be agreed and covenanted in agreements signed by the Fund and the prospective client (investee).
5. The prospective client must report to the Fund about the status of completion of the corrective action plan.
6. The SEMS Officer must conclude if the project is or will be able to meet the Applicable Requirements (with Corrective Action Plan if required), based on the SEDD Report, prior to the Fund's decision to make an investment.
7. If the SEMS Officer decides that the Client will be able to comply with Applicable Requirements with Corrective Action Plans, these must be included in the Investment Agreement signed between the Client and the Fund.
8. After the investment has been granted, the project's social and environmental performance will be evaluated on an annual basis, including status for implementation of the Corrective Actions. The benchmark for performance will be the ongoing compliance against the Applicable Requirements. The performance evaluation will be undertaken by:
  - a) The Fund's client companies that will provide annual reports to the SEMS Officer, who may follow up as required with further queries and/or site visits; and
  - b) The SEMS Officer who will provide Performance Reports to the Management and IFC, to be prepared on the basis of the Client's annual reports provided to the SEMS Officer, the SEDD Report and the supervision conducted by the SEMS Officer. For these tasks the SEMS Officer may seek the support of an external consultant.
9. The SEMS Officer will communicate the Investment Committee the clients' annual (or periodic) performance reports.

### **Associated documents**

Procedure 7 – Monitoring.

Procedure 8 – Managing non-compliance.

Corrective Action plans clauses in the investment agreement.

### 3.1.7 Procedure 7 – Monitoring

#### Purpose

The purpose of this procedure is to monitor the Client's ongoing compliance with the environmental and social clauses stipulated in the legal agreement.



## Application

This procedure applies to all projects being financed by MAS Equity Fund III, L.P.

## Responsibility and authority

The SEMS Officer is responsible for monitoring the Client's ongoing compliance with environmental and social issues. For its monitoring tasks, the SEMS Officer may seek the support of an external consultant or team of consultants (from here on "the Consultant").

## Definitions

Monitoring: the purpose of monitoring a client's environmental and social performance is to assess existing and emerging environmental and social risks associated with a client's operations during the duration of the project.

## Procedure

1. The Consultant will verify on an annual basis the Client's ongoing compliance with the environmental and social clauses stipulated in the legal agreement.
2. The Consultant will review the Client's periodic reports (annual) on its environmental and social performance according to the legal agreement, paying special attention to the following:
  - Assessing implementation of any mitigation measures specified in the corrective action plan.
  - Monitoring for valid environmental and social permits or licenses.
  - Any fine and penalty for non-compliance with environmental and social regulations.
  - Recent reports from the relevant regulator or inspection authority confirming compliance with specified laws, including any emissions measurements proving that emissions are below the permitted limits.
  - Environmental and social occurrences including major accidents or incidents associated with a client's/investee's operations such as worker injuries and spills.
  - Media attention to environmental and social issues related to the client/investee.
  - Any complaints submitted by stakeholders about a client/investee.
3. If the SEMS Officer considers it necessary, the Consultant will make supervision site visits. Site visits should be conducted during hours of operation and should focus on the specific risks of the projects and on the implementation of the Corrective Action Plan. A Supervision Report must be prepared after each site visit.

4. The SEMS Officer can also consider making independent environmental and social audits as a part of its overall supervision and monitoring process. A Supervision Report should be prepared after each independent audit.
5. The Fund's staff (SEMS Officer/ External Consultant) should record the environmental and social findings, observations and photographs, if necessary, to insert in the client/investee file.
6. If the environmental and social findings require follow up by the Client, the Fund's staff should develop a corrective action plan with a timeframe for the Client to implement appropriate mitigation measures. For this action please refer to Procedure 6 – Corrective Actions.
7. If the environmental and social findings can be addressed and resolved by the Client in a short period of time, it is not necessary to implement a formal corrective action plan, but nonetheless they need to be documented in the Client's file.
8. The Consultant will write reports of all actions carried out during the monitoring process, and will submit these reports to the SEMS Officer.
9. If during the monitoring process, the Consultant recommends additional corrective actions, the Fund will communicate these additional corrective actions to the Client, following the guidelines provided in Procedure 6 (specific actions with a timeframe).
10. The SEMS Officer will verify that the environmental and/or social issues found through the monitoring process have been resolved after the stipulated timeframe. If the Client failed to address the detected issues in a timely manner, the SEMS Officer/External Consultant will refer to the Managing Non-compliance Procedure.

#### **Associated documents**

Procedure 8 - Managing Non-compliance.

Procedure 6 – Corrective Actions.

Consultant Supervision Terms of Reference (Annex 3.6 – Consultant Terms of Reference).

Supervision Report Summary Guideline (Annex 3.7).

#### **Expected products**

Supervision Reports.

Communications to the Client requiring additional corrective actions or requirements.



### 3.1.8 Procedure 8 – Managing non-compliance

#### Purpose

The purpose of this procedure is to monitor the Client’s ongoing compliance with the environmental and social clauses stipulated in the legal agreement.

#### Application

This procedure applies to all projects being financed by MAS Equity Fund III, L.P.

#### Responsibility and authority

The Fund may hire an external consultant or team of consultants (from here on “the Consultant”) which will be responsible for monitoring the Client’s ongoing compliance with environmental and social issues and will inform when a Client is in situation of non-compliance concerning environmental and social issues. The SEMS Officer, based on the information provided by the Consultant will decide how to manage non-compliance.

#### Definitions

Event of default: an event that entitles the financial institution to cancel a transaction and declare all amounts owed by the client/investee to become immediately due and payable. For transactions that involve complex environmental and social issues, this may include specifying a time period such as 30 days during which the client/investee can resolve the issue after notification by the financial institution.

#### Procedure

1. After an environmental and/or social finding has been made through the monitoring process, the Fund and the Client will agree on a timeframe for resolving the issue.
2. The Fund staff (SEMS Officer and Consultant) will follow up with the Client to resolve the issue(s) within the stipulated timeframe.
3. If the finding involves complex environmental and social issues, the Financial Institution will notify the Client it has a period of time, which has been stipulated in the legal agreement, to resolve the issue(s).
4. If after the stipulated timeframe the Client fails to undertake the necessary corrective plan in a timely manner or fails to resolve the issue(s) of concern, the Fund will act accordingly to

what was established in the Investment Agreement. The Investment Agreement will determine which actions of the Client will generate fines for the Client, and which cases of non-compliance will constitute an Event of Default.

5. In cases of default, the Fund could take legal action against the Client to reduce its exposure to the environmental and social risks associated with the project. This will also be established in the Investment Agreement.

### **Associated documents**

Procedure 7 – Monitoring.

### **3.1.9 Procedure 9 – Reporting (internal and external)**

#### **Purpose**

The purpose of this procedure is to allow the Fund to have a better understanding and monitoring of its overall exposure to environmental and social risks through its portfolio, as well as to report such risks to Fund Management and shareholders.

#### **Application**

This procedure will be applied periodically to all projects being financed by MAS Equity Fund III, L.P.

#### **Responsibility and authority**

The Consultant will prepare periodic reports on the environmental and social risks of the Fund's pipeline and portfolio projects. The SEMS Officer will review, aggregate and summarize such reports for the Fund's Senior Management.

#### **Definitions**

Sustainability reporting: a sustainability report is a report published by a company or organization about the economic, environmental and social impacts caused by its everyday activities. In the case of a Financial Institution, this will include the possible impacts caused by the activities in its portfolio.

## **Procedure**

1. The Consultant will review and compile all environmental and social findings from monitoring Clients' activities.
2. The Consultant will aggregate these findings at a portfolio level and prepare the Fund's environmental and social performance report. This report should include the following information:
  - Portfolio breakdown by business line, industry sector and environmental and social risk category.
  - Overall exposure to environmental and social risk and performance.
  - High-risk transactions and environmental and social due diligence process prior to transaction approval.
  - Major environmental and social risks of individual transactions, including cases of non-compliance.
  - Significant environmental and social accidents or incidents related to a transaction.
  - Implementation and changes in the financial institution's SEMS.
3. The Fund will prepare internal performance reports twice a year, which it will share with the Investment Committee.
4. The Internal reports will constitute the basis of the Fund's E&S Annual Performance Report, which it will share with IFC and other stakeholders.
5. The Fund may follow international sustainability reporting guidelines such as GRI Reporting Guidelines, EPI-Finance 2000, SPI-Finance 2002.

## **Associated documents**

SEDD Reports.

Corrective Action Plans.

## **Expected products**

Bi-annual internal E&S performance reports.

Annual E&S Performance Report (external).

### 3.1.10 Procedure 10 – Grievance Mechanism

#### Purpose

The purpose of this procedure is to indicate how to receive and manage grievances from external stakeholders.

#### Application

This procedure applies to all projects seeking to be financed or being financed by MAS Equity Fund III, L.P.

#### Responsibility and authority

The SEMS Officer will be responsible for verifying that all grievances have been processed and answered.

#### Definitions

Grievance Mechanism: a structured process that addresses disputes or grievances that arise between two or more parties engaged in business, legal, or societal relationships. Grievance mechanisms are used in dispute resolution, and may incorporate conciliation, conflict resolution, mediation, and negotiation.

#### Procedure

1. The Fund will set an e-mail address, where all grievances from stakeholders can be received. i.e.: [grievances@mas-equity.com](mailto:grievances@mas-equity.com)
2. The SEMS Officer will ensure that the e-mail address for receiving grievances is published and visible in the Fund's website, and that a proper communication strategy is employed to inform all stakeholders of this e-mail address.
3. Stakeholders may also send their grievances by mail, to the Funds Headquarters. The SEMS Officer will verify that stakeholders are informed of this.
4. The Fund will designate one person (The SEMS Officer), who will act as a liaison with external stakeholders.
5. The SEMS Officer will ensure that all grievances are answered within 15 working days.

6. Major cases will be reviewed by a formal multi-stakeholder oversight body (i.e. company, representatives of affected communities, NGO's, universities, municipality). The Fund will assure the provision of transparent funding for expert resources, when needed, so that any collection of evidence is independent and unbiased.
7. All cases will be documented and summarized with details about whether the complaint is accepted or not and what is the process and timeline for investigation and resolution. The summarized cases will be reported back to the complainant through letter and/or email; summarized cases will also be included in the Fund's periodic reports on E&S performance.
8. The SEMS Officer will review complaints periodically with the management team to check the effectiveness of the system and cumulative learning that can be integrated into the Fund's systems.



**Associated documents**

Procedure 5 - IFC Performance Standards.

**3.2 Formats**

**3.2.1 Format 1 – Risk categorization**

Entity:	MAS EQUITY FUND III, L.P Colombia	Client:	
Date:		Project:	
Responsible Unit:			
Prepared by:		Approved by:	

Read the following statements and mark with an "X" the appropriate box, according to the characteristics of the project.

CATEGORY A			
		YES	NO
1.	Generates significant environmental impacts that could probably affect third parties (i.e.: local communities, neighbors)		
2.	Construction of dams and reservoirs		
3.	Impact on virgin forests		
4.	Involuntary resettlement of families/communities		
5.	Manufacture on an industrial scale of agrochemicals, including phosphorous, nitrogen or potassium-based fertilizers; basic plant health products and biocides.		
6.	Impact on cultural property (i.e. religious and archeological sites)		
7.	Impact on natural or critical habitats, protected areas or high biodiversity areas including wetlands, coral reefs and mangroves		
8.	Impact on indigenous peoples (indigenous communities, afro-Colombian communities and Rom communities)		
9.	Impact on international waterways		

10.	The project requires an Environmental License issued by the National Authority <sup>15</sup> ; or requires Environmental License issued by Regional Authorities for the following projects: Mining activities; waste-processing and disposal installations for the incineration, chemical treatment or landfill of hazardous, toxic or dangerous wastes; manufacturing of mineral origin chemical substances, alcohols, and inorganic acids and oxygenates; large-scale municipal solid waste-processing and disposal facilities. <sup>16</sup>		
11.	Installations for the gasification and liquefaction of 500 tonnes or more of coal or bituminous shale per day		
12.	Installations designed for the production or enrichment of nuclear fuels, the reprocessing, storage or final disposal of irradiated nuclear fuels, or for the storage, disposal or processing of radioactive waste.		
13	Integrated works for the initial smelting of cast-iron and steel; installations for the production of non-ferrous crude metals from ore, concentrates or secondary raw materials by metallurgical, chemical or electrolytic processes.		
14	Installations for the production of non-ferrous crude metals from ore, concentrates or secondary raw materials by metallurgical, chemical or electrolytic processes.		
15	Large scale waste disposal installations for the incineration or chemical treatment of nonhazardous wastes.		
16	Groundwater abstraction activities or artificial groundwater recharge schemes in cases where the annual volume of water to be abstracted or recharged amounts to 10 million cubic metres or more.		
17	Industrial plants for the: (a) production of pulp from timber or similar fibrous materials; (b) production of paper and board with a production capacity exceeding 200 air-dried metric tonnes per day.		
18	Installations for storage of petroleum, petrochemical, or chemical products with a capacity of 200,000 tonnes or more.		
19	Large-scale tourism and retail development.		
20	Large scale wind power installations for energy production.		
21	Large-scale land reclamation and sea dredging operations.		
22	Large-scale primary agriculture or forestation involving intensification, land use change or conversion of priority biodiversity features and/or critical		

<sup>15</sup> In accordance with Decree 1076 of 2015, article 2.2.2.3.2.2, issued by the Ministry of environment and sustainable development of Colombia.

<sup>16</sup> In accordance with Decree 1076 of 2015, article 2.2.2.3.2.3, Issued by the Ministry of environment and sustainable development of Colombia.

	habitats.		
23	Plants for the tanning of hides and skins where the treatment capacity exceeds 12 tonnes of finished products per day.		
24	Installations for the intensive rearing of poultry or pigs with more than: (a) 85 000 places for broilers, 60 000 places for hens; (b) 3 000 places for production pigs (over 30 kg); or (c) 900 places for sows.		
25	Municipal waste-water treatment plants with a capacity exceeding 150.000 population equivalent.		

CATEGORY B			
		YES	NO
26.	The project requires an Environmental License issued by Regional Authorities <sup>17</sup> except the following projects: Mining activities; waste-processing and disposal installations for the incineration, chemical treatment or landfill of hazardous, toxic or dangerous wastes; manufacturing of mineral origin chemical substances, alcohols, and inorganic acids and oxygenates; large-scale municipal solid waste-processing and disposal facilities.		
27.	Generates wastewater or increases the existing ones		
28.	The environment of the project's location implies possible risks for the project (i.e. flood risk, risk of collapse)		
29.	Generates gases or releases particles into the air or increases the existing ones		
30.	Generates hazardous solid wastes		
31.	Handles and/or uses toxic substances in liquid, solid or gaseous state		
32.	Increases substantially the water consumption of its location area		
33.	Increases substantially the energy consumption of its location area		
34.	The final product becomes a contaminant once it has been used (i.e. used oils)		
35.	Produces high noise levels (inside the work premise and/or in its limiting surroundings)		
36.	Uses ozone-depleting substances (i.e. chlorofluorocarbons, chlorinated solvents)		
37.	Significant impacts in the health and/or security of employees in the work place		
38.	Contamination of soil by previous use of the site.		

<sup>17</sup> In accordance with Decree 1076 of 2015, article 2.2.2.3.2.3, issued by the Ministry of environment and sustainable development of Colombia.

39.	The project requires environmental permits or concessions for the use and exploitation of natural resources.		
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CATEGORY C			
		YES	NO
40.	It has no positive items on categories A and B		

**Category of the Project**

Category A       Category B       Category C

Name and Signature _____
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**3.2.2 Format 2 - Annual social & environmental performance report to IFC**

Please provide responses to the questions below. Please include additional sheets or attachments as required to provide details on questions that have been answered Yes.

Name of organization			
Completed by (name)			
Position in organisation		Date	
Reporting period	From:		To:

**Portfolio information**

Report covering period	
From	To

For the reporting period, please provide the following information about your portfolio **where applicable**:

**Fund's Business Lines**

Product line	Description	Total exposure outstanding for most recent FY year end (in US\$)	Average loan or transaction size (in US\$)
Retail	Loans or other financial products		

Product line	Description	Total exposure outstanding for most recent FY year end (in US\$)	Average loan or transaction size (in US\$)
banking/Consumer loans	for individuals (includes retail housing finance and vehicle leasing)		
<b>Long term:</b>			
<b>Transactions with tenor greater than 12 months</b>			
SME	Any lending, leasing or other financial assistance to any corporate or legal entity other than an individual, with individual transactions less than US\$ 1 million		
Project finance/Large Corporate finance	Any lending, leasing or other financial assistance to any corporate or legal entity other than an individual, with individual transactions larger than US\$ 1 million		
Trade finance			
<b>Short term (ST):</b>			
<b>Transaction with tenor less than 12 months</b>			
ST Corporate finance			
ST Trade finance			
<b>Other</b>			
Microfinance			
Other (if applicable)	Please describe		

#### Exposure by Industry Sectors

If there is any exposure in the area of SME finance please provide an indicative % of portfolio that these sectors represent of the total SME portfolio.

S. No	Industrial sector	% of Corporate portfolio)

S. No	Industrial sector	% of Corporate portfolio)
	Animal production	
	Apparel	
	Chemicals	
	Collective investment vehicles	
	Common carriers	
	Construction and real estate	
	Consumer goods	
	Crop production	
	Electrical equipment, appliances and components	
	Fabric mills	
	Fabricated metal product manufacturing	
	Finance & insurance	
	Finishing (dyeing, printing, finishing, etc.)	
	Fishing	
	Food & beverages	
	Forestry	
	Furniture and related products	
	Integrated textile operation (spinning, weaving/knitting, but no garment)	
	Internet projects	
	Leather and allied products	
	Machinery and other industrial	
	Nonmetallic mineral product manufacturing	
	Oil, gas and mining	
	Plastics & rubber	
	Primary metals	
	Printing & publishing	
	Pulp & paper	
	Spinning (yarn, including integrated with fiber production)	
	Telecommunications	
	Textiles - others	
	Transport service	
	Transportation equipment	
	Utilities	
	Warehousing & storage	
	Wholesale and retail trade covering any of the following. Gasoline	

S. No	Industrial sector	% of Corporate portfolio)
	stations, dry cleaners, printing, large auto and truck fleets, photographic film processing and any operations involving the use of any chemical of biological wastes or materials	
	Wood products	

If engaged in long term project finance/corporate finance, please provide information as requested of all loan assets meeting the following conditions:

- Longer than 12 months tenor.
- Larger than US\$ 1 million outstanding exposure.

Financial institution/ Project name	Type of loan (large corporate/ SME/trade finance)	Tenor of loan (months)	Value of exposure (US\$ mn)	Industry sector <sup>18</sup>	Any environmental and social risks and measures taken to mitigate the risks

<sup>18</sup> Please use any standard classification or the sectors listed in the earlier table.

Social and Environmental Management System (SEMS)

<b>Policies &amp; processes</b>	<b>Yes</b>	<b>No</b>	
Has your organization developed and implemented an SEMS?			If yes, please attach a copy of the SEMS to this report. No
If there is an SEMS already in place, have there been any updates to the SEMS or policy and procedures adopted by your organization during the reporting period?			If yes, please provide a copy of the updates including dates and reasons for the same.
Has senior management signed off on the updated policy/procedure?			If yes, please provide the date and internal communication indicating the same.
Please give details of any transactions rejected on environmental, health, safety or social grounds.			
Please state any difficulties and/or constraints related to the implementation of the environmental and social procedures.			
Please describe how you ensure that your clients and their projects are operated in compliance with the National laws and regulations.			
Please give details of any material environmental and social issues associated with borrowers during the reporting period in particular.			
<b>Capacity</b>	<b>Yes</b>	<b>No</b>	
Please provide the name and contact information of the Environmental Officer or Coordinator who has the overall responsibility for the implementation of SEMS.			Please describe the training or learning activities the Environmental Officer or Coordinator attended during year.
Please provide current staffing of other core SEMS persons in the organization involved with SEMS implementation.			Please describe the training provided to the SEMS persons and other team members during year.
What was the budget allocated to the SEMS and its implementation during the year?			Please provide budget details including staff costs and training as well as any actual costs.



<b>Policies &amp; processes</b>	<b>Yes</b>	<b>No</b>	
<b>Monitoring</b>	<b>Yes</b>	<b>No</b>	
Do you receive any non-financial reporting from industrial projects that you finance?			If yes, please describe and provide supporting documents including any environmental and social considerations if applicable.
Do you check for ongoing compliance of your projects with national regulation and any other requirements?			If yes, please describe the process including any environmental and social considerations if applicable.
Please describe how you monitor the client and project environmental and social performance.			Please describe and provide supporting documents and please provide information on the number of projects where a field visit was conducted by staff to review aspects including environmental and social issues.
Please provide details of any accidents/litigation/ complaints/regulatory notices and fines: <ul style="list-style-type: none"> <li>- Any incidents of non-compliance with the E&amp;S Requirements</li> <li>- Covenants/ conditionalities imposed by the Bank as a result of any non-compliance</li> </ul>			
<b>Reporting</b>	<b>Yes</b>	<b>No</b>	
Is there an internal process to report on environmental and social issues to Senior management?			If yes, please explain the process, reporting format and frequency and actions taken if any.
Do you prepare any environmental and social reports: <ul style="list-style-type: none"> <li>- For other MLAs</li> <li>- Other stakeholders</li> <li>- E&amp;S reporting in the Annual Report</li> <li>- Sustainability reports</li> </ul>			If yes, please provide copies of these reports.

<b>Activities on IFC exclusion list</b>	
If any, please indicate the dollar percentage of loans or investments out of your total outstanding exposure provided to clients who are substantially involved in IFC excluded activities.	_____ %

If the percentage is not zero, please explain these exposures and any steps having been taken to reduce such exposure.	
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Sustainable finance		
Have you made any investments in projects that have environmental and social benefits such as investing in management systems, energy efficiency, renewable energy, cleaner production, pollution management, supply chain greening, corporate social responsibility, community development etc? Please list these in the format provided below:		
Project Name	Value financed by the financial institution (US\$ million)	Type of environmental and social benefit <sup>19</sup>

### 3.3 HSE laws and regulations applicable in Colombia<sup>20</sup>

#### 3.3.1 Environmental laws and regulations in Colombia

##### General regulation

Hierarchy	Regulation No.	Title	Issued by	Date of issue
Decreto	2811	Por el cual se dicta el Código Nacional de Recursos Naturales Renovables y de Protección del Medio Ambiente.	Presidencia de la República	18/Dic/1974
Ley	9	Por la cual se dictan medidas sanitarias (Títulos I, II, V).	Congreso de la República	24/Ene/1979
Ley	99	Por la cual se crea el Ministerio del Medio Ambiente, se reordena el Sector Público encargado de la gestión y conservación del medio ambiente y los recursos naturales renovables, se	Congreso de la República	22/Dic/1993

<sup>19</sup> Examples are cleaner production, energy efficiency, renewable energy, carbon finance, management system improvement, sustainable supply chain, corporate social responsibility, etc.

<sup>20</sup> The laws and regulations presented constitute the general framework applicable to all (most) economic activities in Colombia. Additional laws and regulations may apply according to the industry sector. The Consultant will need to prepare a more elaborate checklist of HSE laws and regulations applicable to the project's industry sector.

Hierarchy	Regulation No.	Title	Issued by	Date of issue
		organiza el Sistema Nacional Ambiental, SINA, y se dictan otras disposiciones.		
Decreto	2858	Por el cual se reglamenta parcialmente el artículo 56 del Decreto-Ley 2811 de 1974 y se modifica el Decreto 1541 de 1978 (Tema: recursos naturales).	Presidencia de la República	13/Oct/1981
Ley	611	Por la cual se dictan normas para el manejo sostenible de especies de Fauna Silvestre y Acuática.	Congreso de la República	17/Ago/2000
Ley	691	Mediante la cual se fomenta el uso racional y eficiente de la energía, se promueve la utilización de energías alternativas y se dictan otras disposiciones.	Congreso de la República	3/Oct/ 2001
Decreto	3683	Por el cual se reglamenta la Ley 697 de 2001 y se crea una Comisión Intersectorial.	Presidencia de la República	19/Dic/2003
Decreto	4688	Por el cual se reglamenta el Código Nacional de Recursos Naturales Renovables y de Protección al Medio Ambiente, la Ley 99 de 1993 y Ley 611 de 2000 en materia de caza comercial.	Presidencia de la República	21/Dic/2005
Decreto	3450	Por el cual se dictan medidas tendientes al uso racional y eficiente de la energía eléctrica.	Presidencia de la República	12/Sep/2008
Decreto	2372	Por el cual se reglamenta el Decreto-ley 2811 de 1974, la Ley 99 de 1993, la Ley 165 de 1994 y el Decreto-ley 216 de 2003, en relación con el Sistema Nacional de Áreas Protegidas, las categorías de manejo que lo conforman y se dictan otras disposiciones.	Presidencia de la República	1/Jul/2010

#### Air

Hierarchy	Regulation No.	Title	Issued By	Date of Issue
Decreto	2206	Por el cual se sustituye el Capítulo XVI de la vigilancia, el control y las sanciones, del Decreto 02 de 1982 sobre emisiones	Ministerio de Salud	2/Ago/1983

Hierarchy	Regulation No.	Title	Issued By	Date of Issue
		atmosféricas.		
Ley	55	Por medio de la cual se aprueba el "Convenio 170 y la Recomendación número 177 sobre la Seguridad en la Utilización de los Productos Químicos en el trabajo", adoptados por la 77a. Reunión de la Conferencia General de la O.I.T., Ginebra, 1990	Congreso de la República	2/Jul/1993
Decreto	948	Por el cual se reglamentan, parcialmente la Ley 23 de 1973, los artículos 33, 73, 74, 75 y 75 del Decreto-Ley 2811 de 1974; los artículos 41, 42, 43, 44, 45, 48 y 49 de la Ley 9 de 1979; y la Ley 99 de 1993, en relación con la prevención y control de la contaminación atmosférica y la protección de la calidad del aire.	Presidencia de la República	5/Jun/1995
Resolución	898	Por la cual se regulan los criterios ambientales de calidad de los combustibles líquidos y sólidos utilizados en hornos y caldera de uso comercial e industrial y en motores de combustión interna de vehículos automotores.	Ministerio de Medio Ambiente	23/Ago/1995
Resolución	1351	Por medio de la cual se adopta la declaración denominada Informe de Estado de Emisiones (IE-1).	Ministerio de Medio Ambiente	13/Nov/1995
Resolución	601	Por la cual se establece la Norma de Calidad del Aire o Nivel de Inmisión, para todo el territorio nacional en condiciones de referencia.	Ministerio de Medio Ambiente	4/Abr/2006
Resolución	627	Por la cual se establece la norma nacional de emisión de ruido y ruido ambiental.	Ministerio de Medio Ambiente	7/Abr/2006
Resolución	909	Por la cual se establecen las normas y estándares de emisión admisibles de contaminantes a la atmósfera por fuentes fijas y se dictan otras disposiciones.	Ministerio de Medio Ambiente	5/Jun/2008
Resolución	910	Por la cual se reglamentan los niveles permisibles de emisión de contaminantes que deberán cumplir las fuentes móviles terrestres, se reglamenta el artículo 91	Ministerio de Medio Ambiente	5/Jun/2008

Hierarchy	Regulation No.	Title	Issued By	Date of Issue
		del Decreto 948 de 1995 y se adoptan otras disposiciones.		
Resolución	1541	Por la cual se establecen los niveles permisibles de calidad del aire o de inmisión, el procedimiento para la evaluación de actividades que generan olores ofensivos y se dictan otras disposiciones.	Ministerio de Medio Ambiente	12/Nov/2013

### Hydric resource

Hierarchy	Regulation No.	Title	Issued By	Date of Issue
Decreto	1681	Por el cual se reglamentan la parte X del libro II del Decreto-ley 2811 de 1974 que trata de los recursos hidrobiológicos, y parcialmente la Ley 23 de 1973 y el Decreto-ley 376 de 1957.	Presidencia de la República	1978
Decreto	2105	Por el cual se reglamenta parcialmente el Título II de la Ley 09 de 1979 en cuanto a Potabilización del Agua.	Presidencia de la República	26/Jul/1983
Decreto	901	Por medio del cual se reglamentan las tasas retributivas por la utilización directa o indirecta del agua como receptor de los vertimientos puntuales y se establecen las tarifas de éstas.	Presidencia de la República	1/Abr/1997
Ley	373	Por la cual se establece el programa para el uso eficiente y ahorro del agua.	Congreso de la República	6/Jun/1997
Resolución	3180	Por la cual se adopta el formulario de registro de vertimientos en el Distrito Capital.	Secretaría Distrital de Ambiente	9/Sep/2008
Resolución	3956	Por la cual se establece la norma técnica, para el control y manejo de los vertimientos realizados al recurso hídrico en el Distrito Capital.	Secretaría Distrital de Ambiente	19/Jun/2009
Resolución	3957	Por la cual se establece la norma técnica, para el control y manejo de los vertimientos realizados a la red de alcantarillado público en el Distrito Capital.	Secretaría Distrital de Ambiente	19/Jun/ 2009
Resolución	1508	Por la cual se establece el	Ministerio de	4/Ago/2010

Hierarchy	Regulation No.	Title	Issued By	Date of Issue
		procedimiento para el recaudo de los recursos provenientes de las medidas adoptadas por la Comisión de Regulación de Agua Potable y Saneamiento Básico para promover el uso eficiente y ahorro del agua potable y desestimular su uso excesivo y su respectivo giro al Fondo Nacional Ambiental (Fonam).	Medio Ambiente	
Decreto	3930	Por el cual se reglamenta parcialmente el Título I de la Ley 9ª de 1979, así como el Capítulo II del Título VI -Parte III- Libro II del Decreto-ley 2811 de 1974 en cuanto a usos del agua y residuos líquidos y se dictan otras disposiciones.	Presidencia de la República	25/Oct/2010

#### Solid and special waste

Hierarchy	Regulation No.	Title	Issued By	Date of Issue
Resolución	2309	Por la cual se dictan normas para el cumplimiento del contenido del [Título III de la Parte 4a. del Libro 1º del Decreto-ley 2811 de 1974] y de los [Títulos I, III y XI de la Ley 09 de 1979], en cuanto a Residuos Especiales.	Ministerio de Salud	24/Feb/1986
Resolución	541	Por medio de la cual se regula el cargue, descargue, transporte, almacenamiento y disposición final de escombros, materiales, elementos, concretos y agregados sueltos, de construcción, de demolición y capa orgánica, suelo y subsuelo de excavación.	Ministerio de Medio Ambiente	14/Dic/1994
Ley	430	Por la cual se dictan normas prohibitivas en materia ambiental, referentes a los desechos peligrosos y se dictan otras disposiciones.	Congreso de la República	16/Ene/1998
Decreto	838	Por el cual se modifica el Decreto 1713 2002 sobre la disposición final de residuos sólidos.	Presidencia de la República	23/Mar/2005

Hierarchy	Regulation No.	Title	Issued By	Date of Issue
Decreto	4741	Por el cual se reglamenta parcialmente la prevención y el manejo de los residuos o desechos peligrosos generados en el marco de la gestión integral.	Presidencia de la República	30/Dic/2005
Resolución	809	Por la cual se deroga la Resolución 189 del 15 de julio de 1994 y se dictan regulaciones para impedir la introducción al territorio nacional de residuos peligrosos.	Ministerio de Medio Ambiente	10/May/2006
Ley	1252	Por la cual se dictan normas prohibitivas en materia ambiental, referentes a los residuos y desechos peligrosos y se dictan otras disposiciones.	Congreso de la República	27/Nov/2008
Ley	1259	Por medio de la cual se instaura en el territorio nacional la aplicación del comparendo ambiental a los infractores de las normas de aseo, limpieza y recolección de escombros; y se dictan otras disposiciones.	Congreso de la República	19/Dic/2008
Resolución	372	Por la cual se establecen los elementos que deben contener los Planes de Gestión de Devolución de Productos Pos-consumo de Baterías Usadas Plomo Ácido, y se adoptan otras disposiciones.	Ministerio de Medio Ambiente	26/Feb/2009
Resolución	1297	Por la cual se establecen los Sistemas de Recolección Selectiva y Gestión Ambiental de Residuos de Pilas y/o Acumuladores y se adoptan otras disposiciones.	Ministerio de Medio Ambiente	8/Jul/2010
Resolución	1511	Por la cual se establecen los Sistemas de Recolección Selectiva y Gestión Ambiental de Residuos de Bombillas y se adoptan otras disposiciones.	Ministerio de Medio Ambiente	5/Ago/2010
Resolución	1512	Por la cual se establecen los Sistemas de Recolección Selectiva y Gestión Ambiental de Residuos de Computadores y/o Periféricos y se adoptan otras disposiciones.	Ministerio de Medio Ambiente	5/Ago/2010
Ley	1672	Por la cual se establecen los	Congreso de	19/Jul/ 2013

Hierarchy	Regulation No.	Title	Issued By	Date of Issue
		lineamientos para la adopción de una política pública de gestión integral de residuos de aparatos eléctricos y electrónicos (RAEE), y se dictan otras disposiciones.	la República	



### 3.3.2 Occupational health and industrial safety laws and regulations in Colombia

#### General regulation

Hierarchy	Regulation No.	Title	Issued By	Date of Issue
Decreto Ley	2663	Código sustantivo del trabajo.	Congreso de Colombia	05/Ago/1950
Ley	9	Por la cual se dictan Medidas Sanitarias.	Congreso de Colombia	24/Ene/1979
Decreto	614	Por el cual se determinan las bases para la organización y administración de Salud Ocupacional en el país.	Presidencia de La Republica	14/Mar/1984
Resolución	2013	Por la cual se reglamenta la organización y funcionamiento de los comités de medicina, higiene y seguridad industrial en los lugares de trabajo.	Ministerio de Trabajo y Seguridad Social	06/Jun/1986
Resolución	1016	Por la cual se reglamenta la organización, funcionamiento y forma de los Programas de Salud Ocupacional que deben desarrollar los patronos o empleadores en el país.	Ministerio de Trabajo y Seguridad Social	31/Jul/1989
Ley	100	Por la cual se crea el sistema de seguridad social integral y se dictan otras disposiciones.	Congreso de Colombia	23/Ago/1993
Decreto	1295	Por el cual se determina la organización y administración del Sistema General de Riesgos Profesionales.	Ministerio de Gobierno	27/Sep/1994

### 3.4 IFC's performance standards checklist

#### PS 1: Assessment and management of environmental and social risks and impacts

##### *Policy*

- Does the company have an overarching policy (statement) defining the environmental and social objectives and principles guiding the company's E&S performance?
- Is this policy backed by the top management of the company?
- Does this policy specify who within the company is responsible for Policy implementation?
- Was this policy communicated to all employs of the company?

### *Identification of risks and impacts*

- Does the company have a system/procedure to screen, identify, analyze, and access the potential risks and impacts related to its business activities/projects?
- Is an emergency preparedness and response system and integrated part of the company's risk management system?
- Does the company conducted Environmental and Social Impact Assessment (green field projects) or any other type of E&S assessments (limited or focused E&S assessments, E&S audits) for the project financed?

### *Organizational capacity and competency*

- Has the company designated specific in-house personnel, including management representative, with clear lines of responsibility and authority for E&S issues?
- Do the delegated personnel possess the knowledge, skills, and experience to implement the E&S policy and to follow established procedures?
- Has the company allocated resources to support its E&S functions?
- Has the company allocated resources to support capacity building of relevant staff on E&S issues?
- Does the company have relevant training programs in place for the E&S personnel?
- Does the company outsource E&S functions to a qualified third party (ies)?

### *Monitoring and review*

- Does the company have procedures in place to track and evaluate E&S performance of its operations?
- Is appropriate environmental and social performance information periodically reported internally to senior management, investors and stakeholders (as relevant)?
- Does the company have a procedure to evaluate and record results of its monitoring activities?

### *Stakeholder engagement*

- Does the company have a mechanism for identify its stakeholders (affected communities and other interested stakeholders in the company's activities)?
- Has the company developed and implemented a Stakeholder Engagement Plan that is scaled to the project risks and impacts and development stage?

- In case company's activities have negative impacts on local communities does the company established a community engagement process for affected communities?
- Does the process of informed consultation and participation took place (when applicable)?

#### *External communications and grievance mechanism*

- Does the company have a procedure to receive and process communications from external stakeholders?
- Does the company have a grievance mechanism – a procedure for receiving, addressing, and recording/documenting complaints and communication from affected communities?
- Does the grievance mechanism ensure that the confidentiality of a person rising the complaint is protected?
- Does the company ensure that the grievance mechanism is easily accessible, understandable and its availability was communicated to affected communities?

#### **PS 2: Labor and working conditions**

##### *Human resources policy and management*

- Does the company have an HR policy that is consistent with requirements of the national law and PS2 requirements?
- Is this Policy clearly understandable and easily accessible to all employees?
- Does the company have policies and procedures for managing and monitoring the performance of third party employers in terms of labor and working conditions?
- Has the company established a grievance mechanism for workers to review and address employee complaints?
- Has the company ensured that contracted workers by third parties, if any, also have access to the grievance mechanism?
- Is there a person responsible to review complaints and follow up on them in a timely and transparent manner?

##### *Working conditions and terms of engagement*

- Has the company documented and communicated in understandable way working conditions and terms of employment to all workers directly contracted (including information on working hours, rest days, overtime procedures, wages, frequency of payments and sick and maternity leave, vacations)?
- Are the terms and working conditions in accordance with any collective agreement (if applicable)?

- Does the company identify migrant workers and ensure that the migrant workers are engaged on substantially equivalent terms and conditions to non-migrant workers?
- Does the company provide accommodation to its workers?
- If so, does the company put in place and implement policies on the quality and management of the accommodation and provision of basic services?

#### ***Worker's organization***

- Does the company allow workers to form and join workers' organizations and negotiate collectively?

#### ***Non-discrimination and equal opportunity***

- Does the company have documented transparent procedures to ensure that employment decisions are not made on the basis of personal characteristics unrelated to job requirements?
- Does the company have any preferential employment policies in place?

#### ***Retrenchment***

- Does the company anticipate retrenchment of a significant number of employees?
- If yes, has the company assessed any alternatives to retrenchment?
- If there are no viable alternatives, is there a retrenchment plan in place?
- If retrenchment has taken place, have workers received notice of dismissal and relevant severance payments mandated by law and collective agreements in a timely manner?

#### ***Protecting the work force***

- Does the company ensure child or forced labor, including trafficked persons, is not used in its operations, including through contractors or in the primary supply chain?
- Does the company check the age of all employees?
- Does the company ensure that young workers (under the age of 18) are not employed in dangerous work and regularly monitor their health, working conditions, and hours of work?

#### ***Occupational health and safety***

- Does the company provide its workers with a safe and healthy work environment?
- Where applicable does the company provide workers with and mandating that workers use personal protective equipment (PPE)?

- Has the company established and implemented occupational health and safety procedures in line with good international industry practices to prevent accidents, injury, and disease?
- Does the company track and report on rates of injury, occupational diseases, lost days, and absenteeism and number of work-related fatalities?
- Does the company have training programs in place for workers on occupational health and safety?
- Does the company have a fire, life and safety plan?

### ***Supply chain***

- Where there is a high risk of significant safety issues related to supply chain workers, has the company requested its primary supply chain to introduce corrective measures to address life-threatening situations?
- Where remedy is not possible, does the company have a plan to shift the primary supply chain?

### **PS 3: Resource efficiency and pollution prevention**

#### ***Resource Efficiency***

- Has the company tracked use of resources and material inputs (including daily use for energy and water)?
- Does the company implement measures for improving efficiency in its consumption of energy, water, and other resources and material inputs that are in line with good international industry practice?
- Is the company a potentially significant consumer of water?

#### ***Greenhouse gas (GHG) emissions***

- What is company's GHG emission (direct and indirect from purchased electricity)?
- Has the company considered options for reducing its GHG emissions?
- In case company's emissions of GHG exceed equivalent of 25,000 tons of CO<sub>2</sub> annually, does the company quantify those emissions on annual basis?

#### ***Pollution prevention***

- Does the company monitor air, land and water release of pollutants?
- Did the company introduce procedures/practices/techniques to avoid, or where avoidance is not feasible to minimize and/or control the intensity and mass flow of their release?

- Where historical pollution such as land or ground water contamination exists, has the company sought to determine whether it is responsible for mitigation measures?
- If it is determined that the company is legally responsible, then has the company resolved these liabilities in accordance with national law, or where national law silent, with good international industry practice?

### ***Waste management***

- Does the company generate significant amount of wastes?
- Does the company have procedures for storage, handling, and disposal of solid wastes?
- In case for hazardous wastes are those procedures in line with good industry international practices?
- Is hazardous wastes disposal conducted by third parties?
- If so, has the company ensured that the contractors are reputable and legitimate enterprises licensed by the relevant government regulatory agencies and obtain chain of custody documentation to the final destination?

### ***Hazardous materials***

- Does the company have procedures for storage, handling, transportation, use and disposal of hazardous materials?
- Has the client assessed alternatives to use of hazardous materials?

### ***Pesticide use and management***

- Does the company use pesticides?
- Does the company purchase, store, use, manufacture, or trade in products that falls in the World Health Organization Recommended Classification of Pesticides by Hazard Classes I a (extremely hazardous) and I b (highly hazardous)?
- If so, has the company established and implemented integrated pest management and/or integrated vector management approaches?
- Does the company select pesticides with the following considerations in mind: low in human toxicity, effective against the target species, known to have minimal effects on non-target species and the environment?
- Are the pesticides properly packaged and labeled (including directions for safe and appropriate use)?
- Have the pesticides been manufactured by an entity licensed by the relevant regulatory agencies?

- Are the pesticides handled, stored, applied, and disposed in accordance with the Food and Agriculture Organization's International Code of Conduct on the Distribution and Use of Pesticides or other good international industry practice?

#### **PS 4: Community health, safety and security**

##### ***Community health and safety***

- Are there communities in close proximity to the company's facilities?
- Does the company have procedures to address community, health and safety issues in the context of its operations?
- Do those procedures/practices take into account safety of company's infrastructure (including buildings and structures) and equipment for local communities?
- Does the company have safety procedures in place to deal with hazardous material release, transport and disposal in order to avoid or to minimize exposure of local communities to those materials?

##### ***Ecosystem services***

- Do company operations have potential negative impacts on ecosystem services?
- If so (i.e. provisioning services, which are the products people obtain from ecosystems, and regulating services, which are the benefits people obtain from the regulation of ecosystem processes), and such impacts may result in adverse health and safety impacts, has the company identified mitigation measures to avoid those impacts?

##### ***Community exposure to disease***

- Does the company have a procedure to deal with avoiding/minimizing exposure of the communities to water-borne, water based, water-related, vector-borne, and communicable (including related to the influx of project labor) diseases that could result from company's operations?

##### ***Emergency preparedness and response***

- Does the company's emergency preparedness and response plan take into account risks and impacts from company's activities to local communities?
- Did the company inform affected communities of significant potential hazards and emergency procedures in an appropriate manner?

##### ***Security personnel requirements***

- Does the company engage security personnel to provide security services at their facilities?
- If so, do the contract provisions include guidelines on how security personnel shall interact with communities in close proximity to the facility?



- Is security personnel armed?
- If so, has the company provided training on the appropriate conduct towards workers and the nearby communities?
- Have there been any allegations of unlawful and/or abusive acts by security personnel towards workers or nearby communities?

#### **PS 5: Land acquisition and involuntary resettlement**

##### ***Project design***

- Is there any land acquisition planned/happened for/in the proposed investment?
- Are there compensation and benefits for displaced persons?
- Has there been any physical and/or economic displacement as a result of land acquisition for this project?
- Has the company or other third party responsible for resettlement provided the compensation for loss of assets at full replacement cost?

##### ***Consultation and grievance mechanism***

- Has the company disclosed all relevant information, consulted with affected persons and communities and facilitated their informed participation in the decision making process relating to resettlement?
- Has the company established an effective grievance mechanism (as required by PS1)?

##### ***Resettlement planning and implementation***

- Has the company considered alternative designs to avoid or minimize economic and physical displacement?
- Has the company identified displaced persons by the project, regardless of the land ownership and rights, and those eligible for compensation and assistance?
- Has the company identified the status of displaced persons according to their legal rights or claim to land?
- Has the cut-off date for eligibility been established and disseminated?
- Has the company prepared a Resettlement Action Plan (RAP) or resettlement framework (if physical displacement is involved) that mitigates the negative impacts of displacement, identifies development opportunities and establishes entitlement for all affected persons?
- Has the company prepared a Livelihood Restoration Plan (if economic but not physical displacement is involved) to offer compensation or other assistance that will establish entitlement for affected persons or communities?
- Were forced evictions carried out as part of this investment?

### ***Private sector responsibilities under government-managed resettlement***

- Was resettlement managed by the government?
- If so, has the company supplemented government actions and bridged the gaps (if applicable) between the government-assigned entitlements and the requirements of PS5?

### **PS 6: Biodiversity conservation and sustainable natural resource management**

#### ***Protection and conservation of biodiversity***

- Has the company identified and assessed the impacts on biodiversity as part of its operations?
- Will modified, natural or critical habitat (as defined by PS 6) be impacted by the company's activities?
  - In the case of areas of modified habitat that include significant biodiversity value, has the company minimized impacts and implemented mitigation measures?
  - In the case of natural habitat, has the company considered alternatives, established consultation with stakeholders and adequately mitigated any potential degradation to achieve no net loss of biodiversity?
  - In the case of critical habitat, has the company demonstrated that no viable alternatives exist, that there will be no measurable adverse impact on species, habitat, and ecological processes, and that the mitigation strategy is designed to achieve net gains of the biodiversity values for which the critical habitat was designated?
- Does the company conduct any operations in legally protected areas?
- If so, has the company demonstrated that proposed operations are permitted, acted consistently with government recognized management plans, and consulted protected area sponsors and managers, affected communities, Indigenous Peoples and other stakeholders (as applicable)?
- Has the company identified any alien species which may be intentionally or unintentionally introduced through its activities?
- If intentional introduction of alien species is planned, has this received appropriate government regulatory approval?
- If alien species are already established in the country or region of proposed operations, has the company exercise diligence in not spreading alien species?

#### ***Management of ecosystem services***

- Do company's operations have potential negative impacts on ecosystem services?
- If so, has the company conducted a systematic review to identify priority ecosystem services (as defined by PS6)?
- Has Affected Communities participated in determination of priority ecosystem services (where applicable)?
- Does the company have direct management control or significant influence over primary ecosystem services?
- If so, has the company managed to avoid adverse impacts on Affected Communities?
  
- Has the company implemented mitigation measure to minimize the impacts and maintain priority services in cases where impacts are unavoidable?
- Sustainable management of living natural resources
- Is the company engaged in the primary production of living natural resources, including natural and plantation forestry, agriculture, animal husbandry, aquaculture, and fisheries?
- If so, is this production (land-based) located on deforested land or land already converted?
- Where primary production practices are codified by globally, regionally, or nationally recognized standards, has the company implemented sustainable management practices in line with one or more of those standards?
- Have company's practices been independently verified or certified?
- In the absence of relevant standards for the particular living natural resource in the country of concern, has the company applied good international industry operating principles, management practices, and technologies?

### *Supply chain*

- Has the company been purchasing primary production that is known to be produced in regions where there is a risk of significant conversion of natural and/or critical habitats?
- If so, has the company established procedures and verification practices to evaluate its primary suppliers and avoid those who adversely impact such areas?

### PS 7: Indigenous peoples

#### *Avoidance of adverse impacts*

- Is it likely that Indigenous people will be adversely impacted as a result of the company's operations?
- Does the ESIA (where applicable) conducted by the company identify the adverse impacts to IPs?
- Has the company identified appropriate measures to avoid or minimize impacts on IPs as well as opportunities for culturally appropriate and sustainable development benefits for IPs?

### *Consultation and informed participation*

- Has the company conducted a process of informed Consultation and Participation with affected IP communities?
- Will company's operations impact lands and natural resources subject to traditional ownership or under customary use of IPs?
- Will company's operation lead to relocation of IPs from lands and natural resources subject to traditional ownership or under customary use?
- Will cultural heritage of IPs be impacted by the company's operations or used for commercial purposes by the company?
- Has the company obtained IPs' Free, Prior and Informed Consent on design, implementation and expected outcomes related to impacts (on lands and natural resources, leading to relocation of IPs, on cultural heritage) affecting communities of IPs?

### *Private Sector responsibility where government is responsible for managing indigenous peoples issues*

- Does the government have a defined role in the management of Indigenous Peoples issues in relation to the company's operation?
- If so, has the company collaborated with the responsible government agency, to the extent feasible and permitted by the agency, to achieve outcomes that are consistent with PS 7?

### **PS 8: Cultural heritage**

#### *Protection of cultural heritage in project design and execution*

- Is the project located in an area where cultural heritage is expected to be found?
- If so, has a Chance Find Procedure been established by the company?
- Will the company's project site contain cultural heritage or prevent access to previously accessible cultural heritage sites being used by, or that have been used by affected communities?
- If so, has the company allowed continued access to the cultural site or provided an alternative access route?
- Is it possible that the project may affect cultural heritage?
- Will the project cause significant damage to critical cultural heritage?
- Is the project located in a legally protected area or a legally defined buffer zone?

### Project use of cultural heritage

- Will the company use cultural resources, knowledge, innovations, or practices of local communities embodying traditional lifestyles for commercial purposes?
- If so, has the company informed these communities of:
  - their rights under national law.
  - the scope and nature of the proposed commercial development.
  - the potential consequences of such development.
- If commercialization has proceeded, has the company:
  - entered into good faith negotiation with the affected community embodying traditional lifestyle.
  - documented their informed participation and successful outcome of the negotiation.
  - provided fair and equitable sharing of benefits from commercialization.

### 3.5 E&S language to be included in pre-investment agreements

“Una vez un proyecto se propone como objetivo de financiamiento, el equipo evaluador de MAS Equity Fund III L.P. (el “Fondo”), adelantará un proceso de debida diligencia sobre mencionado proyecto, respecto de asuntos relacionados con Sostenibilidad Ambiental y Social (“E&S”). Esta revisión se caracterizará dependiendo de la naturaleza y escala de la inversión, y será proporcional al nivel de riesgos e impactos ambientales de cada proyecto”.

“Esta revisión tiene como objetivo que el proyecto se encuentre alineado con la política ambiental y social del Fondo. Esto incluye, pero no se limita al cumplimiento de todas las normas y regulaciones E&S aplicables conforme a la jurisdicción y al tipo del proyecto. Igualmente deberá encontrarse alineado con la Política de la Corporación Financiera Internacional sobre Sostenibilidad Ambiental y Social”.

“La evaluación en materia ambiental y social, se integrará a la evaluación general sobre el proyecto por parte del Fondo, incluyendo la evaluación de los riesgos financieros”.

“Para el desarrollo de esta evaluación, el Fondo podrá solicitar información específica sobre el proyecto. La misma será tratada de conformidad con este acuerdo”.

“El Fondo no financiará actividades o negocios que no proyecten cumplimiento de la política E&S por un periodo razonable de tiempo. Adicionalmente, el Fondo no financiará las actividades que se encuentran en la Lista de Exclusión de la Corporación Financiera Internacional (Anexo 3.1.1. – Initial Screening)”.

“Si resultado del proceso de debida diligencia se encuentra que el proyecto que iba a financiarse incumple con la Política E&S del Fondo, esta se tendrá causal suficiente para terminar el proceso de inversión y significará que el Fondo por ningún motivo invertirá en el proyecto”.

“En caso que se encuentre que el proyecto que iba a financiarse incumple con la política E&S del Fondo, será responsabilidad del proyecto en el que se iba a invertir, pagar a terceros por el proceso de debida diligencia desarrollado”.

### 3.6 Clause 22

ENGLISH	ESPAÑOL
<p>The Management Company, the General Partner and all of the investors (“<u>Fund Parties</u>”) shall have the right to visit, upon reasonable notice, any of the premises where the business of any Portfolio Company is conducted and to have access to the books of account and records of such Portfolio Company to the extent reasonably necessary to monitor compliance with the fund agreements.</p> <p>Without limiting anything in the above paragraph, upon any or all of the Fund Parties’ request, and with reasonable prior notice to the General Partner, the General Partner shall ensure that representatives of the Compliance Advisor Ombudsman, the independent accountability mechanism for the Fund Parties that responds to environmental and social concerns of affected communities and aims to enhance outcomes (the “<u>CAO</u>”) shall be permitted, during normal office hours, to: (i) visit any of the sites and premises where the business of any Portfolio Company is conducted; (ii) inspect any of the sites, facilities, plants and equipment, offices, branches and other facilities of any Portfolio Company; (iii) have access to the books of account and all records of any Portfolio Company; and (iv) have access to those employees, agents, contractors and subcontractors of the Portfolio Company, who have or may have knowledge of matters with respect to which the CAO seeks information. In each case, such access</p>	<p>La Sociedad Administradora, el Socio Principal, y todos los inversionistas (“<u>Partes del Fondo</u>”) tendrán el derecho a visitar, habiendo notificado previamente, cualquiera de las instalaciones en donde el negocio de la Compañía Portafolio se desarrolla. Tendrán igualmente acceso a los libros de contabilidad, y a los registros de dicha compañía, dentro de los límites considerados como razonablemente necesarios, para monitorear el cumplimiento de los acuerdos con el Fondo.</p> <p>Sin limitación a lo anteriormente indicado, cuando requerido por las Partes del Fondo, y habiendo notificado al Socio Principal con suficiente anterioridad, el Socio Principal deberá asegurarse de enviar a miembros del Grupo Auditor de Cumplimiento, mecanismo dispuesto para las Partes del Fondo que propende por el cumplimiento de los objetivos en aspectos ambientales y sociales de las comunidades afectadas por los proyectos que se desarrollan por la Compañía Portafolio. En este sentido, mencionado grupo deberá ser permitido, durante horas hábiles a: (i) visitar; cualquiera de las instalaciones y entornos donde se desarrolla el negocio de las Compañía Portafolio; (ii) a inspeccionar cualquiera de las instalaciones, plantas, equipos, oficinas, subsidiarias, y otras facilidades de la Compañía Portafolio; (iii) a tener acceso a los libros de contabilidad y todos los</p>

ENGLISH	ESPAÑOL
<p>shall be granted solely for the purpose of carrying out the CAO's role, which is: (A) to respond to complaints by persons who have been or are likely to be negatively affected by the social or environmental impacts of projects in which the Fund has made a direct or indirect investment, and (B) to oversee audits of the Fund's social and environmental performance, particularly in relation to sensitive projects, and to ensure compliance with the Funds social and environmental policies, guidelines, procedures and system.</p>	<p>registros de cualquier Compañía Portafolio, y (iv) a tener acceso a aquellos empleados, agentes, contratistas y subcontratistas de la Compañía Portafolio que pudieren tener conocimiento sobre los asuntos relacionados con lo que el Grupo Auditor de Cumplimiento se encuentra revisando. En cada caso, dicho acceso será otorgado únicamente con el propósito de permitir el cumplimiento de las funciones del Grupo Auditor de Cumplimiento, que son (A) responder a las quejas de las personas que han o que podrían verse afectadas por los impactos sociales y ambientales de los proyectos en los que el Fondo ha invertido directo o indirectamente, y (B) supervisar las auditorías en materia ambiental y social del Fondo, particularmente en relación con proyectos delicados, y asegurar el cumplimiento en materia ambiental y social de las políticas, guías, procedimientos y sistemas del Fondo.</p>

### 3.7 External consultant terms of reference

*[This template can be used as a guide for developing a Terms of Reference (ToR) for the Consultant to perform certain aspects of the Environmental and Social appraisal of prospective investments of the Fund, as well as ongoing supervision of the investment portfolio.]*

#### Introduction

The purpose of this Terms of Reference is to ensure that the Consultant performs the environmental and social review of a prospective investment, and later, the ongoing evaluation and supervision of portfolio projects according to the Fund's social and environmental management policies and procedures.

It is the Fund Manager's policy to ensure effective social and environmental management practices in all its activities, products and services. All projects in which the Fund invests must comply with all applicable environmental and health and safety laws and regulations in Colombia. Additionally, the projects must be operated in a manner that is consistent with IFC's Performance Standards.

The results of the Social and Environmental Due Diligence (SEDD) will determine the scope of the environmental and social conditions of the Fund's financing of the project.

The Consultant will receive a copy of the Fund's Social and Environmental Management System (SEMS), in order to ensure that he/she is aware of the Fund's environmental and social policy, the applicable requirements and the procedures of the SEMS.

### **Consultant qualifications**

The External Consultant or team of consultants ("the Consultant") must have substantial experience in the Social, Environmental and Health and Safety review of diverse economic sectors in Colombia, with particular focus on the support of project finance activities.

The External Consultant should have significant knowledge of the Colombian institutions and environment, in order to have the ability to identify quickly and accurately the environmental, social and technological risks according to the project's economic activity and geographical location.

This experience should be demonstrated by:

- Work experiences and knowledge of the social, environmental, and health and safety in the public and private sector, in various economic sectors.
- Experience in developing similar tasks as checking compliance with regulations and Due Diligence.
- Consultancy experience throughout the Colombian territory to companies from various economic sectors and at various stages of projects (consultation with ethnic minorities, archaeological prospecting, engineering, permits management and environmental licensing, construction, operation, change management and closure).
- In the case of a team of consultants or consultancy firm, the working team should be composed of specialists in different areas that can provide specific expertise according to the characteristics of each project.

Additionally, the Consultant must be thoroughly knowledgeable of the Fund's social and environmental management policies and procedures, including the IFC Performance Standards.

### **Scope of work**

The Consultant will conduct the Environmental and Social (E&S) appraisal of a prospective project, as well as the ongoing supervision of E&S performance of a portfolio project consistent with the Fund's policies and procedures. For new project appraisals, the tasks will include:



1. Preliminary Review. Review all available information and documentation related to project environmental and social impacts and risks. Prepare a list of additional information and/or questions that will be needed to continue the appraisal.
2. Project Risk Categorization. Based on Preliminary Review and using the Risk Categorization Format, the Consultant will categorize the project according to its social and HSE risks.
3. Site Visit and Further Review. Conduct site inspections, review facility-based records, and interview key staff, including both sponsor personnel and relevant stakeholders (regulatory officials, community leaders, suppliers, and customers).
4. E&S Performance Gaps and Necessary Corrective Actions Analyses. Analyze project environmental and social performance in relation to the Fund's social and environmental policy, including IFC Performance Standards. Identify these gaps and any corresponding corrective actions that will be necessary. Prioritize these and recommend acceptable and justified implementation schedules.
5. Due Diligence Documentation. Prepare a report (the SEDD report) summarizing the results of the E&S due diligence (SEDD) (which includes actions 1 to 4). The SEDD report shall include a summary of the impacts and risks associated with the project, including the related performance gaps and corresponding correction actions that will be necessary in order for the Fund to invest.

For **supervision** of the Fund's portfolio projects, the tasks will include:

1. Review Monitoring Reports. Review periodic documentation submitted by the project sponsor regarding implementation of any corrective actions included as conditions of investment, as well as overall environmental and social performance. Also, review information submitted by the sponsor concerning significant incidents or fatalities. Identify any follow-up corrective actions that might be necessary.
2. Site Visit and Further Review (Optional). Where directed by the Fund Manager, conduct site visit to confirm E&S performance and/or to investigate incidents. Identify any follow-up corrective actions that might be necessary.
3. Supervision Documentation. Prepare a report summarizing the findings of the supervision activity.

## Schedule

The Consultant shall submit a draft [Due Diligence/Supervision] Report by [insert date]. The final Report shall be submitted within 2 weeks after receiving comments from the Fund Manager on the draft report. All reports should be written and prepared in English and delivered in electronic and hard copy.

### 3.8 Supervision Report Outline

The Supervision report should be prepared by the Consultant after the reviewing and monitoring the project.

The monitoring process should include the following activities<sup>21</sup>:

1. Review Clients' Performance Reports.
2. Site Visit and Further Review (Optional).
3. Supervision Documentation (Supervision Report).

The Supervision Report should include at least the following information:

1. Project Business Status (i.e., construction, operation, expansion, closure).
2. Status of E&S Corrective Action Implementation.
3. E&S Performance (the project's ongoing compliance with the national HSE laws and regulations, as well as with IFC Performance Standards).
4. Significant Incidents and Other Issues.

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<sup>21</sup> These activities are described in detail in the Annex 3.7 External consultant terms of reference.