



INTERNATIONAL FINANCE CORPORATION
ENVIRONMENTAL REVIEW SUMMARY

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This Environmental Review Summary is prepared and distributed in advance of the IFC Board of Directors' consideration of the proposed transaction. Its purpose is to enhance the transparency of IFC's activities, and this document should not be construed as presuming the outcome of the Board of Director's decision. Board dates are estimates only.

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Project Identification:

Country: Peru	Project Name: Drokasa	Project No.:23010
Region: South America	Environment Category: B	
Dept./Div.:CES	Company Name: Drokasa	
Project Business Sector: Agribusiness	Project Status:	

Parent Project Identification:

Parent ID:	
Parent Short Name:	
Parent Relationship:	

Document Status:

Date ERS sent to InfoShop	
Local Disclosure Date	
Date revised ERS sent to InfoShop	
Local Disclosure Date of revised ERS	

Project Description:

Drokasa Corporation (the "Group") has requested that the IFC to partially guarantee a US\$30 million equivalent bond/commercial paper program. While raising the profile of the Group, the proceeds will facilitate: (i) the Group's CAPEX investment program; and (ii) debt restructuring on more favorable terms.

Environment Category B Disclosure Requirements:

IFC requires that this document is made available through the World Bank InfoShop and to the locally affected community no less than 30 days prior to project consideration by the IFC Board of Directors.

The Summary of Project Information (SPI) also provides details of where the ERS has been made available to the locally affected community. The SPI must be sent to World Bank InfoShop no less than 30 days prior to project consideration by the IFC Board of Directors.

Environmental and Social Issues:

This is a Category B project according to IFC's Procedure for Environmental and Social Review of Projects because a limited number of specific environmental and social impacts may result which can be avoided or mitigated by adhering to generally recognized performance standards, guidelines or design criteria. The review of this project consisted of appraising technical and environmental social conditions at the following units: Drokasa Peru, Agrokasa, and Farindustria. The following potential

environment, health and safety and social impacts of the projects were analyzed at each site:

- § Environmental health and safety management systems;
- § Occupational health and safety;
- § Ambient and point source air emissions, including workplace air quality;
- § Liquid effluent management, including stormwater drainage and treatment; and
- § Solid waste management.

A description of the Group's operations and findings are presented below.

Drokasa Corporation

The Group is a conglomerate of several businesses: a pharmaceutical production company (Farindustria), a distribution company of pharmaceuticals, agrochemicals, chemicals, health and beauty goods, liquor, and miscellaneous food products (Drokasa Peru), and a horticulture production company (Agrokasa), each of which is discussed below. The Group was formed in 1951 with the merger of the distribution company and the pharmaceutical business. The horticulture business came into existence in 1995. Drokasa Corporation offices are located in a residential neighborhood in the district of Lince. The office building houses all the Group's management and administrative staff. This building is located adjacent to the Farindustria unit.

§ *Environment, health and safety:* The Group's corporate offices (based in Lima) house all the management units: general management, logistics and distribution, sales, human resources, financial, legal, and management systems. The human resources management team is comprised of 16 staff members, including managers, supervisors, and administrative assistants. This group oversees all labor issues of both administrative and production staff. A separate manager has been assigned to Agrokasa (based in Ica, 300 Km. south of Lima) because of its location and the large amount of people employed by that company. Health and safety issues are not overseen by the human resources team; these issues are taken care of by individual units. In 2003, the Group had a work force of approximately 3,000 people, although during peak activities at Agrokasa this rose to 5,000. Lima's operations house approximately 1,800 full time staff: 70 people work in the two storage and distribution warehouses, 247 people in the pharmaceutical unit, 80 people in the Corporate offices, and 1,400 people are distributed between the Corporate offices, a nearby office building, and in the field (selling products). A large percentage of those working in the field seldomly work in the offices. In the entire Group, excluding Agrokasa, there were 5 non-life threatening accidents reported in 2001, 6 in 2002, and 9 in 2003. Each unit has an independent system of tracking and correcting health and safety issues. The Group has maintained very good relations with its neighbors, both in Lima and Ica. The Company takes its social responsibility very seriously and makes efforts to coexist with local stakeholders as harmoniously as possible. The group has no overarching environmental and social mission statement nor does it have an integrated environmental and social management system even though its presence and cooperation activities for more than 50 years within the community is recognized as positive. As part of this Guarantee, the Group will develop a statement of vision and mission for social (including labor practices) and environmental affairs, quality, and occupational health and safety management. Also, an integrated, systematic management program based upon internationally recognized management systems such as ISO 9001-2000 will be established. These tasks will be accomplished in accordance with the attached CAP.

§ *Emissions to the environment:* The Group does not have an integrated emissions monitoring system. As part of the integrated management system the Group will develop monitoring protocols, commence quantitative data collection activities to characterize air emissions, wastewater discharges, and other emissions to the environment. Also, the Group will conduct an emissions gap analysis. Consequently, corrective measures to bring all emissions into compliance with IFC guideline requirements will be implemented in accordance with the attached CAP.

Drokasa Peru

Drokasa Peru (Drokasa) was founded in 1951. This unit imports and distributes perfumes, health and beauty products, liquor, agrochemicals, industrial chemicals, pharmaceuticals, food products, and other miscellaneous products. Drokasa has two storage and distribution centers in Lima (located 1 block from each other), located in the district of Santa Anita. One warehouse holds pharmaceutical products, health and beauty products, food products and the miscellaneous products. The other warehouse is smaller and stores the agrochemicals, industrial chemicals, and liquors.

1. *Environment, health and safety:* Drokasa Peru has 70 staff in their two distribution centers. All of Drokasa's employees receive full work benefits, including medical insurance, social security, paid vacations, etc. This unit has established health and safety procedures and provides training to all their staff regarding health and safety issues. Working conditions are good (including ventilation, heat exposure, and noise), although illumination intensity in one of the pharmaceutical warehouses is being reviewed for future upgrade. Drokasa will undertake technical actions to bring illumination intensity into compliance with IFC's Occupational Health and Safety guideline requirements. Staff are provided with all the necessary protective equipment and no accidents were reported last year. With regards to fire abatement systems, there are some smoke detectors, however, fire extinguishers are distributed strategically throughout each warehouse. As part of this Guarantee, Drokasa will install more smoke detectors in accordance with the attached CAP. Drokasa received a Good Storage Practices certificate from the Health Authority through the Dirección General de Medicamentos (DIGEMID). Transportation services are all outsourced. Drokasa does not conduct any monitoring of the transport vehicles these third parties provide. Similarly repackaging by third parties are not monitored. Drokasa will develop technical specifications for third party contracted services (e.g. transportation, packaging, etc) in accordance with the attached CAP.

2. *Air Emissions:* No air emissions except for those of air conditioning units and a large refrigerated storage unit which use CFCs (Freon¹²). This is an ozone depleting substance which has to be phased out according to the Montreal Protocol mandate, which Peru is a signatory to. A CFC refrigerant replacement plan has been submitted to IFC as outlined in the attached CAP.

3. *Wastewater management:* Bathrooms, kitchens, and wash water is all commingled and disposed of in the municipal sewerage.

4. *Solid Wastes:* Solid wastes generated at each facility are segregated in bins, including plastic, paper, and used oils, and are either sold for recycling collected by municipal service. Packaging material and original product containers, including sacks and cylinders, are disposed of in the local landfill. Return material, including chemicals and medicine, are incinerated or buried in the local municipal landfill. These materials are carefully monitored until final disposal (products are quantified, transportation provides disposal certification – by weight). In addition, personnel from Drokasa, DIGEMID, Superintendencia Nacional de Administración Tributaria (Peru's tax agency), a notary, and personnel from the transportation company in charge of disposing the material register the event. As part of the Guarantee, Drokasa Peru will identify all the areas, if any, that do not comply with World Bank/IFC hazardous material policies and guidelines (e.g. proper storage of wastes, proper disposal of wastes, good house keeping practices, etc). As a result, Drokasa will improve those practices that do not meet IFC requirements in accordance to the attached CAP.

Agrokasa

In 1995, as part of a diversification strategy, the Group invested in horticulture, thus creating Agrokasa S.A. ("Agrokasa"). The Group purchased a 195 ha property called Santa Rita. This land began production in 1996. They then purchased La Catalina, a 1200 ha property, in 1997. Agrokasa today mainly produces asparagus and grapes, although recently they have ventured into the avocado business (26 ha of avocado at La Catalina). The asparagus packaging warehouse (or PELAC) came into operation June 2003. The PELAC facility is equipped with the highest technological standards to process, pack, store and deliver the 90% of their asparagus production capacity.

1. *Environment, health and safety:* Agrokasa has a written policy on training, security, and workplace cleanliness. They have implemented strict quality control procedures, especially within the packaging warehouses. The asparagus warehouse has its own laboratory which conducts daily quality controls on their processes and products. Agrokasa has Good Agricultural and Manufacturing Practices certifications, as well as EUREPGAP Certification. The Centro de Prevención de Riesgo para el Trabajo (CEPRIT) monitors Agrokasa's working conditions, including noise and illumination intensity. Staff have received training in work-related injury prevention, first aid, biosafety, safe use of agrochemicals, and food management. Depending on their work tasks, personnel are provided with all necessary protective equipment. In addition, all personnel are provided with state-of-the-art working utensils and equipment (scissors, trimming scissors, farming accessories, etc). In 2003, 157 non-life threatening accidents were reported. This is low considering the total of 4,097,592 hours worked in 2003. All personnel, including short term, are incorporated into the company roaster as full-time staff; they receive all the work-related benefits, including social security, vacations, etc. Agrokasa's Health and Safety team monitors the correct use of protective equipment. There is a strict control of age, minimum working age is 18. No prohibited agrochemicals are used by

Agrokasa. The personnel in charge of agrochemical application (either manually or by tractor) utilize all the necessary protective equipment. A supervisor constantly monitors their performance. These personnel receives all the necessary training, not only from Agrokasa, but from the agrochemical suppliers (such as Bayer or Basf). All equipment is washed before being reused. Wastewater is disposed of into a septic tank and subsurface leech field disposal system. The Servicio Nacional de Sanidad Agropecuaria (SENASA) has certified all the pesticides in use at the unit. Also, all the pesticides used are EPA registered. Over the past 6 years, agrochemical use has significantly been cut back. This has been due to the increased use of biological pesticides and the more efficient application of agrochemicals. Agrochemical storage in the fields needs upgrading. Although chemicals are kept on concrete floors, these areas don't have containment, and are accessible to all. As part of this Guarantee Agrokasa will conduct an audit identifying all the areas that do not comply with World Bank/IFC hazardous material policies and guidelines (e.g. proper storage of wastes, proper disposal of wastes, good house keeping practices, etc). Consequently, the identified issues will be solved in accordance with IFC guidelines. Storage areas in the administrative offices in both Santa Rita and La Catalina do follow good practice norms (e.g. they are well ventilated, roofed, kept-off-limits from general work-force).

2. **Air Emissions:** Air emission in Agrokasa are minimal as there are no significant air emission sources. The asparagus packaging unit does have a back-up generator, but it is used less than 100 hours per year. The grape packaging warehouses utilizes HCFC (R-22) in their air conditioning systems. The asparagus packaging warehouse also has air conditioning systems which use R-22. The asparagus packaging warehouse also has cooling systems which run on ammonia. Ammonia is not considered an ozone depleting substance, it is an environmentally safer alternative to fluorocarbons. When IFC representatives visited La Catalina, some plastic sacks and containers were being burned on-site. This was taking place in open-air with no emissions abatement equipment. Agrokasa has already undertaken required actions to stop this practice. Agrokasa has invested heavily in dust reduction. Special sealants have been applied on the roads to minimize dust generation.
3. **Liquid Effluent Emissions:** Agrokasa consumes 2.5 million gallons of water a month. All the land is irrigated through drip irrigation managed by a computerized system. The company is constantly implementing newer technology in their fields, and keeping up with world standards. Agrokasa has installed latrines throughout the fields. In La Catalina there are about 140 and in Santa Rita about 40, amounting to more than 8 latrines per hectare. The company has also installed septic tanks with percolating filter systems for the office and sleeping quarters in Santa Rita and for the office complex in La Catalina. All equipment that comes into contact with agrochemicals, including gloves, clothing, protective equipment, as well as plastic containers containing agrochemicals, is triple washed before being used again. Wash water is disposed of into a septic tank and subsurface leech field disposal system. Polypropylene sacs are not washed. All the wash water used in the asparagus packaging unit is collected in a closed canal system that is spread throughout the unit. The water used to wash the asparagus is chlorinated. The disposed water is collected, solids (asparagus cutting) are manually removed and sold as animal feed, the water goes through filters (to remove particles), and the water is then pumped to the irrigation water collection tanks in the fields where it is used to irrigate the land. The grape packaging unit does not use any water, except for that of personnel use and for cleaning. Wastewater is disposed in a septic tank, which in hand leeches into the fields. Potable water dispensers have been placed throughout each field for personnel consumption.
4. **Solid Wastes:** Used oil, batteries, and filters are collected and sold for recycling. Cardboard is also sold for recycling. Non-hazardous wastes (e.g. paper, plastics, glass, and building refuse) are segregated and stored onsite. The general housekeeping of this area needs to be upgraded. Waste is collected infrequently and disposed of in the local landfill, "Santiago Sur", which is operated by the municipality. Large amounts of plastic sacs (made of polypropylene) are generated onsite. Some are cut and used in the fields (as straps), but most are stored and burned. General housekeeping in the vehicle/tractor maintenance workshops also requires upgrading. Agrokasa will undertake required actions to properly dispose wastes and to improve general house keeping. Solid waste management practices will be improved to IFCs satisfaction in accordance with the attached CAP.

Farindustria

Laboratorios Farindustria (Farindustria) was founded in 1956, 5 years after Drokasa Peru was established. Over the years, Farindustria has become one of Peru's largest manufacturers of branded and generic drugs. In 2003 Pharmalab, a joint venture, became wholly owned subsidiary of the Group. Its operation produces solid, liquid, and intra-venous medicines. In addition, they produce creams, talcum, lotions, and perfumes. All raw product components are brought in as bulk. Farindustria only

mixes components together and produces final products, they don't design new products.

1. *Environment, health and safety:* Farindustria's operations follow policies of the Health Ministry, Lima's potable water company (SEDAPAL), and from the Municipality of Lima itself. No accidents reported to date in 2004. Farindustria has developed technical procedures and workplace health and safety policies and procedures. However, they have no environmental policies in place. Housekeeping is excellent. Fire abatement systems consist of fire extinguishers placed throughout the plant and bins full of sand used as fire suppressant material but there are no smoke detectors. As part of this Guarantee, Farindustria will install smoke detectors in accordance with the attached CAP. Each manufacturing unit has unique bio-security measures. After Farindustria merged with Pharmalab during the restructuring of these companies there was a retrenchment of 12 employees. All Peruvian requirements for compensation to retrenched employees have been met.
2. *Air Emissions:* Storage room air conditioning equipment run on CFCs (Freon¹²). A replacement plan has been submitted as outlined in the attached CAP. The unit has a strict air quality control. Air inside manufacturing areas is cleaned through filters, which remove up to 99% of particulates (particulates up to 0.03 microns in size). The intra-venous production area has filters which remove 100% of solids. The air exiting each manufacturing area is also filtered following the same system as incoming air, although it is only filtered up to a 95% solid removal. Odors from the wastewater collection tank are passed through a carbon filter before being vented to the atmosphere. Farindustria has two 100 HP boilers which runs of liquid gas (one is used as back-up). The unit has a backup generator (0.8KWh) which runs less than 100 hr a year.
3. *Liquid Effluent Emissions:* Farindustria sources all its water from the municipal water line. Farindustria consumes 1,580m³ of water per month. The unit disposes approximately 1,200m³/month. This includes sanitary wastewater, process wastewater (wash water) and cooling water (used to condense the boiler vapor). Water used in the manufacturing process goes through a stringent treatment process. Process wastewater consists of plant, equipment, and bottle wash water. All process wastewater produced in the unit, with the exception of that from the cream manufacturing unit, is collected and stored in a tank before disposal into the municipal sewerage. Wastewater from the cream unit is passed through a grease trap as it has a high oil and grease content, before being disposed into the collection tank. Boiler water is in a closed circuit, but condenser water is open. Water used in the boiler is treated in a water softener (cationic resin) and biocides are added to protect the equipment. Farindustria utilizes FDA approved cleaning products. There are drinking water bottles placed through the working places. Sanitary effluent produced by the unit is disposed into the municipal sewerage system. This effluent stream is not commingled with the process effluent, they are discharged separately. Farindustria's process discharge will comply with Peruvian treatment and permissible limit standards for industrial effluents.
4. *Solid Wastes:* Used air filters are disposed of in the local municipal landfill. Wastes generated onsite are segregated in marked bins: plastic, paper, or glass. However, the wastes are all commingled together by the disposal truck. Bottles are not washed before disposal. Oil recuperated in the grease traps is sold. Wastes containing medicine (about 10% of intra-venous units are rejected for quality reasons) or such are ground and are disposed of in the landfill together with the non-hazardous wastes. Once solid waste arrives at the landfill, pickers segregate the garbage and recuperate anything that can be recycled. Lab reactants, such as acids, and other hazardous liquids generated in the unit are collected and disposed of by authorized personnel. Containers used in the microbiological tests are sterilized and washed before disposal or reuse. As part of this Guarantee, Farindustria will conduct an audit identifying all the areas that do not comply with World Bank/IFC hazardous material policies and guidelines (e.g. proper storage of wastes, proper disposal of wastes, good house keeping practices, etc). Consequently, the identified issues will be solved in accordance with IFC guidelines.

Office Building

There are two office building housing Drokasa's Corporation administrative staff and Farindustria, Pharmalab, and Drokasa (called Pharmikasa) sales and administrative team. One is located adjacent to the pharmaceutical unit, and the other a couple of blocks away from this location. All together, both of these offices house 1,400 employees.

1. *Environment, health and safety:* Office buildings have fire abatement equipment consisting of fire extinguishers and have evacuation plans in place, although these need to be upgraded. No smoke detection systems are in place. As part of this Guarantee, the Group's office buildings will install smoke detectors and implement an evacuation plan in accordance with

the attached CAP. These office buildings, as all other Group facilities, will implement life and fire safety measures required to bring each operating facility into compliance with IFC's Occupational Health and Safety Guidelines.

2. *Air Emissions:* No significant air emissions take place in the office building since there are no production activities.
3. *Liquid Effluent Emissions:* The only liquid effluent is domestic sewage which is discharged into the municipal sewerage. This effluent is then disposed by the Municipal company into the ocean without prior treatment. The city of Lima has just concluded the "Mesias" wastewater treatment project, which will reduce the disposal of sanitary effluent by 40%. This new treatment unit consists of three sedimentation lagoons, two settling lagoons, and 15 aerobic lagoons, in addition to a chlorination system. The unit will be able to treat 0.5 m³/second. The 8 million inhabitants of Lima generate approximately 1,500,000 liters of sanitary sewage per day.
4. *Solid Wastes:* Domestic wastes generated by the administrative employees is picked up by the municipal service and disposed of in Lima's municipal landfill.

Proposed Mitigation for Environmental and Social Issues:

The sponsor has presented plans to address these impacts to ensure that the proposed project will, upon implementation of the specific agreed measures, comply with the environmental and social requirements, the host country laws and regulations and the World Bank/IFC environment and social policies and regarding environmental, health and safety guidelines. The information about how these potential impacts will be addressed by the sponsor/project is summarized in the attached CAP.

Conclusion:

Accordingly, IFC concludes that the proposed project will meet the applicable World Bank/IFC environment and social policies and the environmental, health and safety guidelines upon successful implementation of the agreed mitigation measures described in the attached corrective action plan (CAP).

Monitoring and Compliance:

IFC will evaluate the project's compliance with the applicable environmental and social requirements during the lifetime of the project by reviewing the annual monitoring reports (AMRs) prepared for the project covering: (i) the status of implementation of any measures contained in the Environmental and Social Action Plan and (ii) ongoing performance of project-specific environmental, health and safety, and social activities as reflected in the results of periodic and quantitative sampling and measuring programs. Periodic site supervision visits will also be conducted.

Environmental and Social Documentation:

The following, attached supporting document provides further details of environmental and/or social issues and the specific remedial measures that must be undertaken to ensure compliance with IFC policy and guideline requirements: Corrective Action Plan (CAP).

Approval Status:

