

Environmental and Social Review Summary (ESRS) Indufoam – EL SALVADOR

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1 General Information of the Project and Scope of IDB Invest's Environmental and Social Review

This transaction consists of a corporate loan in favor of Industrias de Foam, S.A. de C.V. ("Indufoam" or the "Company"), a foam, mattress, pillow, and furniture manufacturer located in El Salvador. The investment will allow the Company to (i) build a new foam block building; (ii) purchase and install solar panels on the roofs of the new building; and (iii) finance equipment and working capital needs (the "Project").

The environmental and social due diligence ("ESDD") process included an analysis of the documentation provided by the Company, as well as a visit to the plant and the Project site. This visit included meetings with the Company's environmental consultant, the personnel responsible for human resources and occupational health and safety, physical safety, and with the Company's unskilled workers.

2 Environmental and Social Categorization and Rationale

The Project has been classified as a Category B operation according with BID Invest's Environmental and Social Sustainability Policy since it will likely generate the following impacts and risks among others: i) possible deterioration of working conditions and occupational health and safety ("OHS") risks for workers; ii) possible fires; iii) the generation of both hazardous and non-hazardous solid waste; iv) induction of vibrations and noise generation by heavy vehicular traffic; and v) deterioration of the health and safety of the local community due to construction activities. These impacts and risks are estimated to be of medium intensity.

The Performance Standards (PS) triggered by the Project are: i) PS1: Assessment and Management of Environmental and Social Risks and Impacts; ii) PS2: Labor and Working Conditions; iii) PS3: Resource Efficiency and Pollution Prevention; and iv) PS4: Community Health, Safety, and Security.

3 Environmental and Social Context

3.1 General Characteristics of the Project's site

Indufoam's facilities are located in the San Andrés canton, Ciudad Arce, Department of La Libertad, 45 km from San Salvador, El Salvador. Access to the Company's facilities begins on the Pan-American Highway at kilometer 34 ½, continuing along a semi-paved road that crosses several rural hamlets. Indufoam's plant is bordered to the north, south, and west by land dedicated to crops and livestock, and to the east and southeast by the Company's administrative offices.

The industrial complex covers approximately 96,000 m² with a roofed area of about 30,000 m². The new foam¹ building will be located on Indufoam premises, covering an area of 1,761 m², and will be built over a period of 10 months. Solar panels with a total capacity of approximately 500kW will be installed on the roofs of the new facility.

3.2 Contextual Risks

The Project is subject to natural hazards, such as earthquakes, storms, and hurricanes. However, they represent a moderate to low risk in terms of both possible damage to the physical infrastructure and for employees or third-party workers.

The perception of insecurity and events related to sexual violence are a problem that women face on a daily basis in Ciudad Arce², especially in public spaces such as streets, parks, public transportation, as well as private homes.

4 Environmental Risks and Impacts and Proposed Mitigation and Compensation Measures

4.1 Assessment and Management of Environmental and Social Risks and Impacts

4.1.a Environmental and Social Management System

Indufoam complies with the requirements established in El Salvador's environmental and labor legislation. Nevertheless, it has yet to develop an Environmental and Social Management System ("ESMS") and, for the time being, it has limited internal capacity in terms of environmental and social ("E&S") functions. Given the above, the Company will hire an Environmental, Health, and Safety ("ESHS") Manager and seek the support of a consulting firm to develop and implement its ESMS.

4.1.b Policy

Indufoam will develop and implement a general policy outlining its E&S and occupational health and safety ("OHS") commitments.

4.1.c Identification of Risks and Impacts

4.1.c.i Direct and Indirect Impacts and Risks

The Company's identification of E&S risks is not systematic and is often limited to a review of the OHS risks associated with existing production activities. Indufoam will therefore develop and

¹ The main component of the foam is polyurethane, which is obtained by mixing toluene diisocyanate (TDI) and polyol to create a liquid that is heated and whipped into a foam. After being formed, the foam is poured into a mold and moved to a curing area to be stored while it cools. It is then cut into smaller components, such as foam mattresses. Indufoam is fully equipped to carry out the foam manufacturing process, which includes foam production, cutting, sewing, upholstery, and packaging of mattresses and related products.

² Cooperación, ORMUSA and Collectiu. 2022. Participatory diagnosis of security with a gender perspective in Ciudad Arce. <https://observatoriociudadarce.org/wp-content/uploads/2023/01/Diagnostico-Ciudad-Arce-2022.pdf>

implement a procedure to systematically identify E&S risks for its existing activities and for all phases of the Project.

4.1.c.ii Analysis of Alternatives

Since the new building will be located on the Company's existing premises, the analysis of alternatives for the Project was carried out considering only technical aspects.

4.1.c.iii Cumulative Impact Analysis

Due to the characteristics of the Project, its aggregate contribution to the effects of other undertakings is considered immaterial.

4.1.c.iv Gender Programs

The Company's Protocol against Sexual Violence in the Workplace ratifies Indufoam's commitment to providing a healthy work environment and outlines a series of actions aimed at preventing gender-based violence (such as awareness-raising activities and training on sexual harassment). Neither the protocol nor its preventive actions, however, have been implemented.

4.1.c.v Climate Change Exposure

Due to its location, the Project's exposure to climate change risks is considered moderate in terms of the effects of frequent rainfall and flooding. Its exposure to the financial risk associated with the process of transitioning to practices that imply lower carbon generation is considered low.

Indufoam, aware of the risk of possible flooding caused by extreme rainfall as a result of climate change, built a 56,000 m³ capacity water reservoir in 2021 to retain and mitigate the flooding of the surrounding watercourses that used to flood the area every winter, impeding the movement of local people and causing soil erosion.

4.1.d Management Programs

Indufoam conducts some informal activities to mitigate E&S impacts, such as generating renewable energy and reusing waste in the production process. Nevertheless, to date, since it lacks a formal ESMS, it has not documented the corresponding procedures. Similarly, although the Company has developed a formal program to prevent and manage OHS risks, its implementation is still modest.

4.1.e Organizational Capacity and Competency

Indufoam has no personnel assigned to E&S management responsibilities to date. Staff awareness of these issues is limited, despite the fact that some E&S roles and responsibilities have begun to be defined. Labor issues are managed by the head of human resources, while responsibility for OHS issues falls to an industrial safety supervisor. For environmental issues, the Company has the support of an external expert who verifies compliance with local regulatory requirements.

4.1.f Emergency Preparedness and Response

Indufoam has developed a detailed Emergency and Evacuation Plan in line with local legal requirements. The plan, which considers emergencies generated by fires, earthquakes, floods, and landslides, also includes the creation of an emergency brigade, regular personnel training, and annual drills. However, none of the actions specified in the plan were implemented during 2022.

4.1.g Monitoring and review

Indufoam reports its water and electricity consumption and waste generation annually to the Ministry of the Environment and Natural Resources ("MARN"). Nevertheless, at present, it does not formally monitor its E&S performance.

4.1.h Stakeholder Engagement

Although Indufoam engages in an open dialogue with the communities and undertakes a series of social actions in the San Andres canton (such as remodeling schools and streets), to date, it has not formally identified the external stakeholders in its area of influence, nor has it documented how it will maintain a systematic dialogue with them.

4.1.i External Communication and Grievance Mechanisms

External communications are managed casually by Indufoam management with community leaders and other stakeholders. Nevertheless, to date, the Company has no formal mechanism in place to receive and manage possible complaints from external stakeholders.

4.2 Labor and Working Conditions

4.2.a Working Conditions and Management of Worker Relationships

Indufoam has 360 direct employees, approximately 30% of whom are women.

4.2.a.i Human Resources Policies and Procedures

Indufoam has a number of policies that state its commitment to ensuring the health and safety of its workers, rejecting discrimination, and offering equal opportunities to all employees. Nevertheless, the Company has yet to develop a formal Human Resources Policy.

All Indufoam employees have a written contract that includes the terms of the employment relationship and working hours. Even so, for those workers who currently receive a variable salary, Indufoam will include in their contracts a description of the salary calculation per work produced, always respecting the legal minimum wage.

In addition to employment contracts, Indufoam's Internal Labor Regulations include information on labor rights, including working hours, overtime, rest days, breaks, grievance mechanisms, and disciplinary measures, among others. Although labor conditions are communicated during the

induction process for new employees, workers do not currently receive a copy of the Internal Labor Regulations when they join the Company.

4.2.a.ii Working Conditions and Terms of Employment

Indufoam's working hours are 44 hours per week, Monday through Saturday, complying with local legislation. In addition to the requirements established by labor law, the Company provides its employees with other benefits including: i) group life and hospital medical insurance; ii) scholarships for employees' children; iii) supermarket certificates; and iv) free transportation services for personnel coming from the Soyapango or San Salvador area.

4.2.a.iii Workers' Organizations

Labor laws in El Salvador recognize the rights of workers to assemble, form and join workers' organizations, and to bargain collectively. Although the Internal Labor Regulations recognize workers' right of association, there are currently no unions or workers' associations within Indufoam that have reached any collective bargaining agreement with the Company.

4.2.a.iv Non-discrimination and Equal Opportunity

Indufoam is an equal opportunity employer. Hence, the Company has established guidelines for non-discrimination because of race, religion, color, sex, age, national origin, or special abilities, with regard to recruitment, hiring, training, promotion, and other employment terms and conditions.

4.2.a.v Retrenchment

Except for minor variations in the number of employees in response to market requirements, the Project does not foresee any material reductions in its workforce.

4.2.a.vi Grievance Mechanism

Employees may present their requests or complaints in labor matters verbally or in writing to their immediate supervisor or to the head of human resources. Nevertheless, at present, Indufoam has no mechanisms in place to allow employees to make complaints confidentially and anonymously.

4.2.b Protecting the Workforce

The ESDD process did not discover child or forced labor.

4.2.c Occupational Health and Safety

The Occupational Health and Safety Policy states Indufoam's commitment to complying with local legislation concerning the prevention of risks that may cause accidents or occupational illnesses.

The Occupational Risk Prevention Management Program includes (a) an OHS risk analysis for several of the activities carried out in the Company, (b) preventive measures to avoid the materialization of

risks, (c) general guidelines to manage occupational accidents, and (d) indicators to measure the frequency of accidents. Nevertheless, the program has not been fully implemented and will be updated to: (i) include an OHS risk analysis for all activities performed; (ii) incorporate a risk analysis for tasks that have generated accidents; (iii) add a safety training plan to be used in the induction process for new employees and periodically to reinforce the knowledge of long-time employees; (iv) include the format of the accident log for both direct and indirect workers; (v) develop the occupational health program to prevent occupational diseases; and (vi) describe when and how the safety inspection program will be implemented.

For the construction phase of the Project, Indufoam will develop an Occupational Health and Safety Plan describing the OHS guidelines that site contractors must apply in the planning, development, and execution of their activities as a prerequisite to the start of work. These guidelines will oblige contractors to: i) have qualified personnel; ii) prepare OHS risk matrices and written procedures to mitigate them; iii) train their personnel; and iv) be subject to daily inspections to ensure their proper management of OHS issues.

4.2.d Provisions for People with Disabilities

Although Indufoam does not discriminate against employees based on disability, to date the Company has no employees with disabilities on its payroll.

4.2.e Workers Engaged by Third Parties

Indufoam will ensure that its policies and procedures are extended to cover the labor practices of the Project's contractors and subcontractors. The Company will also monitor the performance of its contractors and ensure that labor conditions comply with contractual requirements, Salvadoran regulations, and international requirements. Monitoring will include regular scheduled and unscheduled audits, a review of internal contractor monitoring reports and documentation, as well as a review of complaints logged by contractor and subcontractor employees.

4.2.f Supply Chain

Although El Salvador is a signatory to several International Labor Organization (“ILO”) conventions, including the prohibition of child labor and forced labor³, the Company will nevertheless develop or incorporate into its policies the prohibition of child labor and forced or involuntary labor in its supply chain.

³ Social Security (Minimum Standards) Convention, 1952 (No. 102), Working Environment (Air Pollution, Noise and Vibration) Convention, 1977 (No. 148), Collective Bargaining Convention, 1981 (No. 154), Maternity Protection Convention, 2000 (No. 183) and Violence and Harassment Convention, 2019 (No. 190).

4.3 Resource Efficiency and Pollution Prevention

4.3.a Resource Efficiency

Indufoam has implemented several actions aimed at achieving a more efficient use of resources, such as: i) investment in technology to reconvert and reincorporate leftover materials (foam, polyester fibers, fabric, etc.) into production processes, reduce raw material requirements, and minimize discarded solid waste; ii) the use of eco-friendly packaging (cardboard and biodegradable plastic); and iii) the elimination of pollutants and inputs that are harmful to health (such as methylene chloride) in the manufacture of foams. In 2018, the Company installed a solar power generation plant on its rooftops, with an installed capacity of 5MW. Indufoam consumes approximately 20% of the energy generated in its production processes and sells the rest to the power grid.

4.3.a.i Greenhouse Gases

Indufoam has no fixed sources of greenhouse gas emissions. The Company generates non-material and non-quantified mobile source emissions from the use of fossil fuels in its transportation fleet.

4.3.a.ii Water Consumption

The foam manufacturing process does not consume significant amounts of water. Water is used mainly for cleaning the warehouses, showers, and toilets. Water is supplied by a well located on the Company's premises and by collecting rainwater in the retaining pond. Groundwater consumption during 2022 was 15,278 m³. The Company is in the process of registering the well with the Salvadoran Water Authority ("ASA") to comply with the General Water Resources Law approved in December 2021.

4.3.b Pollution Prevention

4.3.b.i Waste

Indufoam generates recyclable waste which is segregated, properly stored, and then sold to natural persons (cardboard, plastic, wood and paper) or authorized companies (scrap metal and fabric discards) for subsequent recycling. It also generates hazardous waste, including chemical product drums, paint cans, and lubricants; and biological-infectious waste, which is segregated on site for final disposal by a duly authorized company.

Sanitary sewage is discharged into a septic system, and the accumulated solids are disposed of by a certified company. Similarly, wash water from the chemical areas is piped to septic tanks and solid waste is disposed of by an authorized company.

Although the Company has developed some protocols for waste segregation and disposal, it has yet to document procedures for hazardous waste and wastewater management.

4.3.b.ii Hazardous Materials Management

Indufoam's production process involves the use of hazardous and flammable materials including isocyanates, paints, additives, polyols, and lubricants, which are currently temporarily stored in conditions that do not meet the required standards. Consequently, Indufoam will both adapt the storage sites for these materials and develop and implement a procedure for their management.

4.4 Community Health, Safety and Security

4.4.a Community Health and Safety

The new foam block building will be designed to comply with local building codes and U.S. National Fire Protection Association ("NFPA") Life and Fire Safety ("L&FS") Standards.

4.4.b Security Personnel

Indufoam has outsourced physical security services to a company authorized by the local authorities. Security personnel carry weapons and have been trained in human rights.

The Company, however, has neither developed a procedure to assess and manage the risks associated with physical security services nor included provisions aligned with the United Nations Voluntary Principles on Security and Human Rights in the contract with the firm that provides this service.

4.5 Land Acquisition and Involuntary Resettlement

Since the Project will be located on the Company's land, no land acquisition will be required. The Project will not result in involuntary physical or economic displacement.

4.6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

The Project will be located in an environment highly modified by human activities, and in a place of little significance in terms of biodiversity. The wood used to manufacture mattresses and furniture is imported and comes from forests certified under the Sustainable Forestry Initiative seal, while the wire rod used in the mattresses is processed from recycled scrap.

4.7 Indigenous Peoples

The Project will have no direct or indirect impacts on Indigenous communities.

4.8 Cultural Heritage

No evidence of archaeological remains or vestiges have been identified at the Project site. Even so, Indufoam will develop a chance find procedure for the construction of the new building.

4.9 Local Access of Project Documentation

The documentation relating to the Project can be accessed at the following link:
<https://indufoam.com/>