

## Environmental and Social Review Summary (ESRS) Compañía de Empaques S.A. - COLOMBIA

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

Compañía de Empaques S.A. ("CESA" or "the Company") is a company that produces and markets packaging materials from natural fique and synthetic polypropylene fibers. The 78,000 m<sup>2</sup> plant is located in Itagüí, Department of Antioquia, Colombia.

The transaction consists of financing for the Company's working capital and capital expenditure program, which includes the procurement of machinery to increase its production capacity and the implementation of new technologies to improve productivity and develop circular economy initiatives (the "Project").

The Project's Environmental and Social Due Diligence (ESDD) involved the assessment of the technical, environmental, occupational health and safety (OHS) and social security documentation submitted by the Company. Given the mobility restrictions imposed by the COVID-19 pandemic, the assessment included telephone calls with the Company's Quality, Environment, Human Resources, OHS, and Supply Chain teams, in addition to virtual meetings with representatives of CESA's unions. The ESDD process included an on-site visit in March 2021 by a consultant hired by IDB Invest, who visited CESA's facilities and interviewed employees in the operational area.

### 2. Environmental and Social Categorization and Rationale

The Project has been classified as a Category B operation according with IDB Invest's Environmental and Social Sustainability Policy since it will likely generate the following impacts, among others: (i) labor and OHS risks for employees and in the supply chain; (ii) use of resources such as energy and water; (iii) generation of solid (hazardous and non-hazardous) and liquid (domestic and industrial wastewater) waste; (iv) air emissions (volatile organic compounds, combustion gases and particulate matter from the boilers); and (v) community health and safety, given the impact of cargo transport subcontracted by the Company. These impacts and risks are estimated to be moderate and easily managed, from a Project perspective.

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**

CESA is located at Carrera 42 No.86-25 in the San Fernando neighborhood, belonging to District 4 of the urban municipality of Itagüí, located in the Aburrá Valley, south of the city of Medellín, Colombia. CESA's area of direct influence comprises commercial industrial companies and residences in the San Fernando neighborhood.

#### **3.2 Contextual risks**

Anti-union violence is a serious obstacle to the exercise of freedom of association in Colombia, which has historically been subject to all kinds of persecution. Since the signing of the peace agreement between the FARC and the Colombian State in 2016, according to the National Trade Union School of Colombia, violations of the right to life, liberty and integrity of trade unionists, including 119 homicides of trade union leaders, have been reported.

The Aburrá Valley is one of the most industrialized places in Colombia due to its large number of textile and manufacturing companies, being the second urban center of the country, after Bogotá. High levels of population density and industrialization have contributed to a deterioration in the municipality's environmental conditions, with levels of Particulate Matter (PM<sub>2.5</sub>), Volatile Organic Compounds (VOC) and noise exceeding the maximum levels allowed by the World Bank's (WB) General Environmental, Health, and Safety (EHS) Guidelines.

The Aburrá River (or Medellín River) is one of the most polluted rivers in Colombia since, to date, approximately 16% of the wastewater generated in Medellín and the Aburrá Valley is discharged, untreated, into the river. Through Empresas Públicas de Medellín (EPM), the municipality is making significant investments to treat the wastewater generated.

### **4. Environmental Risks and Impacts and Proposed Mitigation and Compensation Measure**

#### **4.1 Assessment and Management of Environmental and Social Risks**

##### **4.1.a E&S Assessment and Management System**

CESA's Environmental and Social Management System (ESMS) consists of a series of policies, manuals and procedures to evaluate, support and comply with the requirements set forth in the local environmental regulations and under ISO 9001:2015 certification standards. The need to document and improve ESMS management policies and programs was identified during the ESDD.

##### **4.1.b Policy**

The Company has adopted an Integrated Environmental, Health and Safety Policy (EHS) largely aligned with PS-1, although it does not address how community engagement is to be handled and has yet to be disseminated internally and externally.

#### 4.1.c Identification of Risks and Impacts

CESA has procedures in place to identify environmental and OHS risks through the use of evaluation matrices. The Company evaluates OHS risks for each task associated with the production process, defining control methods that include the assignment of Personal Protective Equipment (PPE). Control measures have been defined for the identified environmental risks, as well as the frequency with which they should be carried out and a monitoring plan for prioritized risks. The matrices are updated when new projects are implemented, changes occur in the processes, new legal requirements arise or when the results of internal and external auditing processes warrant their adjustment.

##### 4.1.c.i Gender Risks

The Company is in the process of developing an explicit policy to address its commitments to the prevention of sexual harassment and gender-based violence.

CESA manages gender risks as part of its Integrated Management System. Specifically, the Company has procedures to manage gender risks in i) OHS areas, ii) cases of emergency, and iii) physical security management. Women are represented at the highest levels of the organization and on the employee committees that manage workplace harassment and OHS issues.

##### 4.1.c.ii Climate Change Exposure

CESA is exposed to chronic natural hazards. It is low for drought (long-term) and moderate for changes in precipitation.<sup>1</sup> The Company's exposure to transitional risks is low, as it actively pursues circular economy and bioeconomy initiatives.

#### 4.1.d Management Programs

CESA's ESMS procedures include the following aspects: (i) occupational health and safety for direct and indirect employees; (ii) hazardous waste and water resource management; (iii) air emissions control; and (iv) emergency prevention and response. For the time being, they do not include procedures to manage environmental and social risks and impacts in the supply chain.

#### 4.1.e Organizational Capacity and Competency

CESA has a person responsible for managing the Integrated Management System, who coordinates with the different areas to manage EHS risks. Although CESA has appointed specific personnel with clear guidelines regarding duties and with the knowledge, skills, experience, responsibilities and authority to manage environmental and social issues, the ESDD process identified the need for a specific role for engaging with stakeholders in the Company's area of influence.

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<sup>1</sup> Reflects the change in the threat of drought by the end of the century, considering climate change (% change in the occurrence of drought days for the period 2070 - 2099 in relation to 1976-2005). Percentage changes between -100% and +25% are considered "low".

Additionally, employees are actively involved in identifying and managing EHS risks through the Labor Coexistence Committee and the Joint Occupational Health and Safety Committee (COPASST, for its acronym in Spanish). The Labor Coexistence Committee consists of eight employees and is responsible for preventing, receiving and managing cases of workplace harassment. 37.5% of its members are women. The COPASST also consists of eight employees and its duties include i) managing OHS-related requests, complaints and suggestions, and ii) participating in the evaluation of work-related incidents and accidents. The COPASST includes only one woman.

The Company provides sufficient resources (administrative, human and economic) to manage the EHS issues related to its line of business.

#### 4.1.f Emergency Preparedness and Response

CESA has fire detection systems in its Datacenter and finished product warehouses. The latter are equipped with a smoke detector system and manual fire alarm buttons. The Company has 218 fire extinguishers distributed throughout the premises, as well as a control center with 89 video cameras that allow continuous monitoring of the different areas.

The Company has developed an Emergency Preparedness and Response Plan (EPRP) that has been disseminated to companies in its area of direct influence. This plan identifies risk scenarios (fire, earthquakes, spills, among others) and defines specific procedures to be followed for different emergency levels. CESA has an emergency brigade of volunteer employees, distributed at different levels and work shifts, who receive training in first aid, firefighting techniques, rescue and salvage; they also receive ongoing training. The Company also conducts annual drills that the Emergency Committee uses to prepare a report documenting improvement opportunities and action plans when evacuation or emergency response is required. The drills take into consideration the needs of employees with difficulties in moving quickly, including persons with reduced mobility due to illness or accident, persons with hearing disabilities and pregnant women. CESA has identified "sponsors" in the sections where these people are located, who will accompany them in emergency situations. Nevertheless, the Company will update the EPRP to incorporate measures for evacuating people with special needs and reduced mobility.

There was no evidence of demarcation of evacuation routes or meeting points during the tour of the operational areas. It was therefore impossible to determine whether the signaling is adequate in the dark.

#### 4.1.g Monitoring and Review

Monitoring, oversight and auditing activities are an integral part of the ESMS assessment. CESA's senior management receives quarterly reports evaluating the Company's environmental and social performance, as well as progress in the implementation of action plans. In addition to verifying its regulatory compliance and monitoring its environmental and social performance, CESA proactively identifies underperforming areas and proposes corrective and preventive actions. As part of the monitoring and evaluation process, the Company identifies and proposes improvements to its ESMS and establishes annual improvement plans and targets with commitments to improve its environmental and social (E&S) performance.

The annual management review, however, does not include the review of key performance indicators (KPIs) that address OHS issues, including the analysis of lost time incident rates and frequencies, accident-free days, etc.; environmental issues, including the calculation of greenhouse gas and other emissions, water use and energy efficiency, etc.; and social issues, including follow-up on the number of environmental and social complaints from the communities.

#### 4.1.h Stakeholder Engagement

CESA communicates regularly with the companies in its direct area of influence, which are members of the Aguacatala Mutual Aid Committee (CAMA, for its acronym in Spanish). The CAMA meets every two months to i) address issues such as protection of the environment and the surrounding community; ii) address OHS issues; and iii) coordinate support and communication between companies and authorities for the prevention and response to major emergencies.

The Company, however, has yet to develop a Stakeholder Engagement Plan that identifies the types of stakeholders that may be interested in or affected by its operations, outlines the channels of communication with these parties, details how environmental and social performance will be regularly reported to stakeholders and the general public, and indicates who, within the Company, will be responsible for liaising with the communities.

#### 4.1.i External Communication and Grievance Mechanisms

The Company still lacks a procedure for receiving and processing communications from external stakeholders, nor does it have a documented mechanism (formal registry) to address complaints from the communities in the area of influence.

## 4.2 Labor and Working Conditions

### 4.2.a Working Conditions and Management of Worker Relationships

CESA has 466 direct employees and 1,001 indirect employees, under union contracts.<sup>2</sup>

#### 4.2.a.i Human Resources Policies and Procedures

The Company still lacks a human resources policy consistent with PS-2 requirements. However, all direct employees have a contract describing their employment relationship with the Company. In addition, the Internal Labor Regulations explain in detail the working hours, rest days, overtime pay, the rights and duties of both employees and the Company, disciplinary practices and causes for termination of employment. The working conditions of indirect employees are described in the union contract, which specifies the work to be performed, the compensation to be received, the benefits of each employee, social security affiliation and other benefits to which employees are entitled.

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<sup>2</sup> The union contract is one of the three forms of collective labor contracting in Colombia, in which the employment relationship is formalized between the company and its two unions.

#### 4.2.a.ii Working Conditions and Terms of Employment

The work week is 48 hours per week in day and night shifts, with a daily paid break of 15 minutes for the consumption of food provided by the company. The terms of employment comply with the Union Contracts agreed between the Company and the unions. Interviews with employees were conducted during the on-site visit, who indicated that they were aware of their terms of employment (including working hours, frequency of payments, disability, maternity leave, paid annual leave, among others). There have been no significant strikes, protests or labor problems in the last 30 years.

#### 4.2.a.iii Workers' Organizations

CESA complies with the principle of freedom of association for its employees without fear of reprisals or retaliation. Approximately 80.75% of the workforce, among members participating in the union contract and members employed directly by the company, is affiliated to the Sindicato de Trabajadores de la Compañía de Empaques S.A. (SINTRAEMPAQUES) and/or the Sindicato de Trabajadores de la Industria Plástica de Colombia (SINTRAINDUPLASCOL) workers unions, with whom the company has signed a union contract in 2000 that is in force until December 2022. Additionally, CESA signed a Collective Bargaining Agreement with the unions in 2019 that is in force until December 2029.

Through dialog with CESA and union representatives, the Company's employees are free to be part of the labor organization under collective bargaining agreements. Compliance with the union contract is verified by both Company and union representatives.

#### 4.2.a.iv Non-discrimination and Equal Opportunity

In compliance with national legislation, CESA offers equal opportunities to its workers regardless of race, color, gender, age, nationality, ethnic origin, religion, belief, sexual orientation, marital status, disability, political tendencies or any other basis of this nature.

#### 4.2.a.v Retrenchment

CESA has no plans to reduce its workforce in the future. If necessary, however, the Company will develop a workforce reduction plan prior to demobilizing personnel.

#### 4.2.a.vi Grievance Mechanism

The Company promotes an open-door policy in which direct and indirect employees can submit their questions, complaints and suggestions. All requests, concerns and suggestions from employees related to OHS issues are communicated to the Occupational Health and Safety Committee. Complaints of workplace harassment are received and processed by the Labor Coexistence Committee. The manner in which these mechanisms operate, however, is not documented in an ESMS procedure.

#### 4.2.b Protecting the Workforce

CESA does not support, promote, or tolerate child labor, nor does it coexist with forced or compulsory labor practices.

#### 4.2.c Occupational Health and Safety

CESA provides its workers with a safe and healthy environment in which to carry out their activities. Its operational areas are kept clean and with the required equipment to protect the health and safety of its employees.

CESA's OHS Management System substantially complies with the requirements of national legislation and PS-2 in that: i) it adequately identifies potential hazards to employees through risk matrices; ii) it establishes preventive and protective measures for unacceptable risks, including the provision of PPE; iii) it includes initial and refresher training for workers on OHS issues; and iv) it establishes procedures for documenting work-related accidents, illnesses and fatalities, as well as for identifying, analyzing, and eliminating the causes through the implementation of corrective and preventive actions.

OHS risks are detected for all workers, regardless of gender. However, in line with International Labor Organization (ILO) conventions, CESA's Internal Labor Regulations (ILR) prohibit the hiring of women for industrial painting jobs involving the use of white lead, lead sulfate or similar substances. In addition, CESA has procedures in place to address the OHS risks of pregnant women in order to ensure their safety.<sup>3</sup>

Uniforms and Personal Protective Equipment (PPE) are provided according to the size and sex of the worker. The Company orders uniforms and PPE from specialized companies, according to the gender and build of the person in question. To ensure their comfort, pregnant women have their traditional outfit changed to one that better suits their condition. Dressing rooms for changing and putting on uniforms, and restroom facilities, are segregated by gender.

In order to safeguard the physical integrity and health of its workers, CESA has programs to prevent the generation of diseases related to noise exposure in the workplace, exposure to chemicals and particulate matter, as well as musculoskeletal diseases resulting from exposure to repetitive movements, awkward postures and load handling. CESA's occupational health programs include pre-employment checkups and regular evaluations, risk factor identification and assessment in all areas of the company, and the establishment of control measures at the source.

CESA keeps statistics and reports on work accidents occurring with its direct employees, including a cause analysis, and makes recommendations and takes measures to prevent recurrence. During the last 12 months the company reported a total of 231 accidents (direct and indirect), resulting in a total of 1,967 days of disability, a Lost Time Injury Frequency Rate (LTIFR) of 53.42 and a Lost Time Injury Severity Rate (LTISR) of 454.85. The LTIFR reported by the U.S. Department of Labor for the

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<sup>3</sup> For this purpose, the occupational physician performs a job evaluation and, if necessary, the worker is transferred to a different shift or job depending on her pregnancy and health status.

textile industry<sup>4</sup> (NAIC Code 313) during 2019 is 9.36. This indicates that CESA has a higher lost time accident frequency rate than the industry average. The Company does not currently disaggregate such data by gender in order to obtain useful information on how women are affected at work compared to men.

Workers, through the COPASST, participate in the investigation of incidents and occupational accidents and collaborate in the determination of corrective measures to prevent their recurrence.

#### 4.2.d Provisions for People with Disabilities

The Company promotes decent employment for underprivileged populations and the economic development of families by allowing the coexistence of employees from the same family. For more than 30 years, CESA has had social inclusion programs that allow the integration of the prison population. It also facilitates the employment of persons with sensory hearing disabilities and persons with cognitive disabilities. To date, there are 43 persons with disabilities on the payroll.

#### 4.2.e Workers Engaged by Third Parties

Approximately 68% of the workforce is represented by indirect workers bound to the Company through the union contract signed by the Company and its unions. Affiliates are not CESA workers since it is a collective employment contract relationship between the Company and the unions, nor are they employees of the union since there is no subordination as the relationship is one of equality and the union exercises only their representation. Under the Union Contract, the Company and the Unions have agreed to pay members sums of money equivalent to a value that is above the legal minimum wage, social security contributions and parafiscal contributions.<sup>5</sup> In addition to their regular compensation, unionized workers under union contracts receive bonuses, allowances and loans from the unions that exceed those they would normally receive from a direct employer. For its part, the Company extends restaurant, transportation, recreation and training benefits to members, at the request of the unions.

Affiliates participating in the union contract have their own work regulations, different from those of CESA, called the Union Contract Regulations. This regulation is approved by the union's assembly, and explains the workday, rest days, overtime pay, the rights and duties of both participating members and the Union, disciplinary practices and causes for termination of the membership agreement.

#### 4.2.f Supply Chain

The two main raw materials used by CESA are polypropylene for the manufacture of synthetic sacks and fique for the production of natural fiber sacks. The Company purchases fique from more than 20,000 farmers located mainly in the Cauca and Nariño Departments, the later in the south of Colombia.

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<sup>4</sup> <https://www.bls.gov/iif/oshsum.htm>

<sup>5</sup> Parafiscal contributions are contributions that employers are required by law to make to the Family Compensation or Subsidy Funds, the Colombian Family Welfare Institute and the National Training Service.



CESA has a Supply Chain Policy. However, this policy does not address the issues of child and forced labor, nor does it demonstrate the Company's commitment to ensuring the safety of workers in the supply chain. The Company also lacks procedures to identify risks and impacts in its fiqu supply chain related to labor issues (child labor and forced labor and significant occupational health and safety risks), and to manage such risks.

### 4.3 Resource Efficiency and Pollution Prevention

#### 4.3.a Resource Efficiency

CESA continually seeks opportunities to improve its efficiency in the consumption of energy, water and raw materials. Some initiatives in this regard include: i) the installation of water meters in the systems that consume the most water in order to monitor their efficiency and evaluate improvement plans based on the associated consumption; ii) changing lighting to more efficient technology (LED); and iii) the implementation of new technologies to reduce the consumption of raw materials and develop circular economy initiatives.

##### 4.3.a.i Greenhouse Gases and Emissions

CESA generates particulate matter (PM<sub>10</sub>) and greenhouse gases (GHG) such as NO<sub>x</sub> and SO<sub>x</sub>, derived from the operation of the boiler that supplies thermal energy to the restaurant, mesh and dyeing sections. Volatile Organic Compounds (VOC) such as benzene, ethylbenzene, toluene and xylene are generated in the flexographic process. The Company has implemented state-of-the-art equipment and replaced the use of coal with fiqu residue as biomass and implemented other measures (bag filter and high efficiency cyclone) to reduce the emission of GHGs, VOCs and particulate matter.

In compliance with local environmental legislation, every two years the Company conducts an evaluation of the air pollutant emissions generated by its operations. The results for PM<sub>10</sub> and GHGs yielded in the latest monitoring report (2019) are below the values established in the WB General EHS Guidelines. The VOC levels, monitored annually, reported for 2020 levels higher than those indicated in the General EHS Guidelines for the textile industry. CESA will submit an analysis of alternatives to reduce VOC emissions to the levels of the EHS Guidelines.

##### 4.3.a.ii Water Consumption

CESA is supplied by the public water and sewer system and has two potable water storage tanks of 30,000 liters each. The Company consumes 56,055 m<sup>3</sup> of water annually to cover its domestic and industrial needs.

#### 4.3.b Pollution Prevention

Domestic and industrial wastewater are mixed, so it is not possible to know with certainty the amount of industrial effluent. The Company estimates that 80% is of domestic origin and the remainder is process water. Wastewater from the extrusion and cooling processes receives primary treatment (grease traps) at the Company's facilities. CESA, however, does not have a Wastewater

Treatment Plant to treat domestic and industrial wastewater before it is discharged to the public sewer system.

The Company performs an annual characterization of its discharges. The latest available data reflect levels of total suspended solids, fats and total hydrocarbons above the limits established in local regulations. In addition, phosphorus and nitrogen levels exceed the maximum levels allowed under the WB General EHS Guidelines. CESA will submit an analysis of alternatives for the adoption of cleaner production procedures to improve the quality of its effluents.

#### 4.3.b.i Waste

CESA promotes the continuous improvement of its processes in order to reduce associated impacts. One of the most important efforts is the circular economy, through which the Company seeks to reuse the waste generated in its operations for other processes.<sup>6</sup> The Company also promotes among its employees the awareness of waste sorting and classification in order to reduce the amount of material disposed of in landfills.

Recyclable waste (plastic, paper, cardboard, scrap metal, glass) is collected at collection points located inside the plants and is transported and stored in a specific warehouse, where it is sorted before being sold as industrial surplus. Similarly, ordinary waste is collected at specific sites located at the plant and then transferred to a collection center before being delivered to a company that disposes of it in landfills licensed and authorized by the Colombian environmental authority. Organic waste generated during the preparation of food for the employees is disposed of by an authorized supplier that is licensed to compost it.

Hazardous waste (rags contaminated with inks, solvents, alcohol and/or oils, contaminated containers, electrical waste, among others) are temporarily stored at the collection center and removed by a licensed supplier approved by the environmental authority, who carries out the final disposal under the parameters established by Colombian regulations.

The Company, however, lacks an adequate site for waste management and storage. The company has not properly signposted these areas, nor has it installed pallets or other elements to isolate the bags from the floor, or containment dikes to prevent spills.

#### 4.3.b.ii Hazardous Materials Management

CESA has conducted and documented an analysis of the use of substitutes of hazardous materials for less polluting materials, as well as the elimination of chemicals or hazardous materials subject to international bans or in the process of being phased out. The Company has suitable storage and handling sites for hazardous materials (paints, caustic soda, oils and other chemical substances).

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<sup>6</sup> Such is the case of fique waste used as fuel for steam generation and the development of a sack that replaces the inner bag with a film adhered to the woven sack, thus reducing the generation of plastic waste.

#### 4.3.b.iii Pesticide Use and Management

To control rats and mice on its premises, CESA has contracted a specialized company that uses pesticides classified as Ia (extremely hazardous) and Ib (highly hazardous) according to the World Health Organization. CESA will, however, evaluate the substitution of these compounds for less toxic ones.

#### 4.4 Community Health, Safety and Security

##### 4.4.a Community Health, Safety and Security

CESA contracts companies to provide freight transportation services. In order to prevent road safety-related accidents, the Company has procedures in place to ensure that these companies have road safety plans, alcohol and drug testing protocols, and other requirements aimed at preventing accidents. Compliance with the foregoing is audited annually by the Company.

##### 4.4.b Security Personnel

CESA has contracted a security company that has been accredited and qualified by the competent authority. At the Company's request, the security provider has female guards on all shifts to ensure that any body searches on women are done by another woman.

The Company, however, has yet to develop an ESMS procedure for assessing and managing security risks. In addition, the contract with the security company does not include the obligation to comply with the requirements set forth in paragraphs 12-14 of PS-4 and with the United Nations Voluntary Principles on Security and Human Rights.

#### 4.5 Land Acquisition and Involuntary Resettlement

The Project will not require land acquisition or involuntary resettlement, as it will be developed within the Company's properties.

#### 4.6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

Given that the Project will be developed within the Company's existing properties, no impact on biodiversity or living natural resources is foreseen. However, as part of the ESMS, the Company will develop a procedure to identify, evaluate and manage the potential risk of conversion of natural or critical habitats in its fiqu supply chain.

#### 4.7 Indigenous Peoples

The project will not affect any indigenous peoples.

#### 4.8 Cultural Heritage

The Project generate any cultural heritage impacts.

## **5. Local Access of Project Documentation**

The documentation relating to the Company can be accessed at the following link:

<https://ciaempaques.com.co/es/nuestra-compa#accionistas>