

1. Scope of the Environmental and Social Review

Induglob is an Ecuadorian company founded in 1972 that manufactures and assembles appliances for domestic use (white goods) and their parts and components. The Company started operations in the city of Cuenca, Ecuador, where its production plant is located, with an annual production of approximately 820,000 appliances. The Company also rents warehouses in the Zhucay Community, where it stores inventory of raw materials and finished goods.

Due to the growth in the demand for its products, Induglob has seen the need move its production activity to the Pampa Vintimilla sector, where it owns an approximately 30-hectare plot of land where it will build a new factory with sufficient room to meet its current and future operating needs. The plant in Cuenca will be dismantled once construction in Pampa Vintimilla is completed. The new plant will also have warehouse space to store the inventory that is currently located in Zhucay. Induglob's products are marketed in Ecuador and in 19 other countries in Latin America and the Caribbean. They comply with quality regulations from countries such as Chile, Colombia, Venezuela, and Peru.

IDB Invest conducted the Environmental and Social Due Diligence (ESDD) on February 19-21, 2019. It included visits to the existing Induglob plant and warehouses and to the plot of land in the Pampa Vintimilla sector, where the new plant will be built.

The following Performance Standards apply: (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; (iv) PS4: Community Health, Safety, and Security; and (v) PS8: Cultural Heritage.

The application of PS5, Land Acquisition and Involuntary Resettlement, is not foreseen, as the Project will be developed within the company's own land. PS6, Biodiversity Conservation and Sustainable Management of Living Natural Resources, would not apply either, (the new plant will be located in a modified habitat), nor would PS7, Indigenous Peoples (not identified in the Project development area).

2. Environmental and Social Classification, and Its Fundamentals

According to IDB Invest's Environmental and Social Sustainability Policy, this is a category B project, as it could have moderate and mitigable environmental and social impacts, as can be seen in the Environmental and Social Action Plan (ESAP) Annex.

3. Environmental and Social Context

The key environmental and social risks related to the Project include: (i) occupational health and safety risks for workers; (ii) use of resources, such as energy and water sources; (iii) generation of solid (hazardous and non-hazardous) and liquid (domestic and industrial wastewater) waste; (iv) emission of pollutants into the atmosphere (mainly combustion gases from construction machinery and equipment); (v) vibration and noise generation by plant equipment as well as by heavy vehicular traffic; and (vi) risks to the local community's health, safety, and security due to the construction activities.

4. Environmental risks and impacts, and proposed mitigation and compensation measures

4.1. Assessment and Management of Environmental and Social Risks and Impacts

4.1.1. Environmental and social assessment and management system

Induglob's Environmental, Social, Health, Safety, and Security Management System (ESMS) consists of a series of policies, manuals, and procedures designed to continually identify hazards and assess and manage the risks associated with Industrial Safety, Physical Safety, Occupational Health, and Environmental Management. The Company has valid certifications: ISO 9001 2015, BASC 4, and SART. Induglob has implemented a Lean Management System (LMS), which helps it to identify performance improvements regarding products, health, safety, and security in the plant's production processes and warehouses.

4.1.2.Policies

As part of the LMS, Induglob has a mission statement that broadly expresses compliance with local regulations regarding the environment and employee health, safety, and security. The Corporate Policy should be improved by incorporating aspects related to employee working conditions and community health, safety, and security objectives.

The Corporate Policy was developed jointly with the Senior Management and its dissemination was delegated at a departmental level. It is communicated to employees during their induction process and it is placed in the different departments for all to see. As part of this investment, the Company will enhance its Corporate Policy so that it complies with PS1. Once updated, the policy will be communicated to employees, contractors, and major suppliers.

4.1.3.Identification of Risks and Impacts

The Industrial Safety and Environmental Management Coordinator is responsible for planning, identifying, measuring and assessing risks who under the supervision of the Human Talent Manager and in collaboration with the heads of the areas involved, assesses the identified risks and proposes measures to control them. The proposed measures are implemented through process updates.

Induglob adequately identifies the dangers inherent to each work position and the environmental risks by completing a Risk Assessment Matrix. The construction and operation stages are included in the identification of risks and impacts. For each identified risk, a control measure, a monitoring frequency (depending on the degree of impact), and the person responsible for their execution and verification is defined. As part of its ESMS, the Company additionally performs monthly inspections in order to update the risk matrices and to determine the appropriate controls. The measures to control significant environmental impacts are communicated during the Company's annual training plan.

The Company will update its risk management procedure so that it regularly identifies the risks and impacts that its operations may have on the community.

4.1.4.Management Programs

Induglob has an Environmental Management Plan (EMP) approved by the Ministry of Environment of Ecuador (MAE, for its acronym in Spanish), whose implementation is audited by an external consulting firm every two years, the most recent being completed in December 2017. The EMP and the ESMS procedures include, among others, the following aspects: (i) impact prevention and mitigation; (ii) occupational health, safety and security; (iii) noise mitigation; (iv) waste management; (v) effluent treatment; (vi) emergency preparedness and response; and (vii) monitoring and follow-up. The Environmental Permit and the EMPs for the new plant are in the process of being approved by the MAE. The draft EMP evaluated during the due diligence is suitable and includes programs similar to those adopted for the existing plant. The Company will develop management program procedures for the construction phase that will include the issues inherent to communities.

Induglob will prepare a Closing Plan three months before the tentative closure date of the Plant. The Company needs to formalize the management system's procedures for community participation, including a grievance mechanism; it should also develop Environmental and Social Management procedures with a Code of Conduct for the security personnel in its facilities and in the communities, in accordance with the requirements set forth in paragraphs 12-14 of PS4 and with the Voluntary Principles on Security and Human Rights of the United Nations.

4.1.5.Organizational Capacity and Competence

Induglob has an established organizational structure with a defined authority, roles, and responsibilities to implement the ESMS, comprising (i) a Human Resources, Environmental, Occupational Health and Safety Officer with managerial responsibilities, reporting directly to the General Manager of the Company; (ii) a Head of Personnel Administration and Industrial Safety, to whom the personnel administration, occupational health, Industrial Safety and environmental management, and physical safety coordinators report; and (iii) a social responsibility coordinator. Additionally, to comply with local regulations, every two years the Company contracts external consultants that validate its compliance with the Environmental and Social Management Plan. The most recent external audit was conducted in December 2017. Induglob will expand the Environmental and Social Management functions to be applied during the construction phase.

The Company will define a procedure to measure the effectiveness of the formal training program that allows disseminating knowledge about the Environmental and Social Management System.

4.1.6.Emergency Preparedness and Response

Induglob has an alarm and fire-fighting system; it trains its employees and visitors so that they can respond to emergencies that require evacuating the premises. The Emergency Brigade comprises volunteer plant and administrative staff. The trainings are conducted at the facilities at least twice a month, during working hours.

At least once a year, Induglob performs environmental emergency simulations in which all areas of the company must participate, which can be done either in parts or all together. Similarly, the Company conducts safety drills at least once a year for the entire plant, in coordination with the Manufacturing Manager. As of 2019, fire drills shall be carried out with the participation of the local fire department. The fire drills will include the inspection and certification of fire detection and control systems, as well as that of mechanical and electrical equipment.

The Company will reinforce its Emergency Preparedness and Response Plan for both the construction and the operation stage, complying with the World Bank's Performance Standards and General Environmental, Health, and Safety Guidelines (the "General Guidelines").

4.1.7.Participation of Social Actors

In compliance with Ecuadorian legislation, Induglob has held two formal meetings with the population as part of the approval of the Environmental and Social Impact Assessment (ESIA). The first meeting was held in April 2018 and included the parishes of Pampa Vintimilla, Javier Loyola, and Juan Pablo II. The main objective of the second meeting, held in February 2019 after obtaining approval for its updated EMP, was to inform the community of the modifications made to the ESIA. This last meeting shall result in the Company updating the EMP in accordance with the community's observations, aimed at prioritizing local employment and providing a vehicle bypass to avoid transportation impacts on the community (dust, accidents, etc.), and, once updated, it shall convene a final formal meeting with the population in order to communicate to the community that the

suggestions were incorporated into its management system procedures. Pursuant to the requirements of local legislation, the convocations were published in written media, broadcast on the radio, and posted in the offices of the Provincial DAG of Cañar.

Induglob will draw up an ESMS policy and procedures for interaction and communication with the different social actors, which will include identification of the actors, their expectations, and the communication channels with these parties. The procedure shall include the appointment of a Community Liaison Officer.

4.1.8.External Communication and Grievance Mechanism

Induglob currently does not have a systematic method for its external communications with the communities or the general public; these communications are handled in an ad hoc manner. Nor there is a formal mechanism to receive the community's grievances and act on them. The grievance mechanism will also include and address complaints related to security personnel. Induglob will implement an external communications procedure and an effective community grievance mechanism (personalized and anonymous complaints) that allows evaluating, addressing, documenting and reporting on complaints and concerns regarding the Company's environmental and social performance.

4.1.9.Monitoring and Evaluation

As part of the LMS, the Company has adopted the 5S audit method, in which the different process managers follow-up on a bimonthly basis on a number of key issues, such as waste management, the use of personal protective equipment (PPE), and cleanliness and order in the workplace. Induglob's environmental monitoring program is conducted in accordance with its Environmental Aspects Assessment and Impacts Matrix, which is updated on a monthly basis.

The Company will implement a procedure for the Corporate Management System to formally document the monitoring results and use them in the risk assessments. In addition, the Company will draft a management system procedure for reporting follow-up results in meetings with the Senior Management to determine whether the ESMS is effective and in compliance with its policies.

4.2.Labor and working conditions

4.2.1.Working Conditions and Management of Labor Relations

Induglob has 2,121 employees, 295 of whom are women. Currently, approximately 4% of its employees are disabled.

a. Human Resources policy, working conditions and terms of employment:

The Company lacks a written Human Resources Policy, although it has developed an Internal Regulation approved by the Ministry of Labor Relations that includes a series of standards and training for personnel in order to prevent occupational risks. The Company shall produce a Human Resources Policy that complies with the guidelines of PS2.

Induglob seeks to hire, retain, and motivate its employees by promoting an environment of respect and safety at work. The Company has an on-site doctor who offers preventive medical services, as well as physiotherapy services. Induglob also offers its employees other benefits, such as: (i) a Company-operated, on-site mini market where employees can purchase food and basic household products at cost; and (ii) a subsidized cafeteria service for staff through a recognized local contractor that provides a healthy and balanced diet.

Induglob is also part of a group of companies in Ecuador that offers the Dual Training Program with the Industrial Technology Center of the Universidad Politécnica Salesiana, which seeks to connect young technicians and technologists in the production sector during their academic training. In 2018, 22 young people benefited from the Dual Training Program, two of whom were women.

The minimum wage paid by Induglob is US\$410, higher than the national minimum wage of US\$394. The Company has no migrant workers. Induglob offers transportation services to employees who live in neighboring communities such as Azogues.

No reduction of the workforce is expected during this Project.

The ESDD process did not discover child labor or forced labor.

The Company will semiannually report the status of any pending labor processes to date, as well as that of others that may arise in the future.

b. Trade unions

There are currently no unions or workers' associations that have reached any collective bargaining agreement within Induglob. No reference was found regarding any restriction or limitation of freedom of association in the Company's work regulations. In addition, Ecuadorian labor laws protect workers' right to form and join the trade union of their choice, participate in collective bargaining agreements, and go on strike. The Company will update its ESMS to include explicit references to the fact that it allows free association and collective bargaining among its employees. These references will be communicated to all employees.

c. Non-discrimination and equal opportunities

The Induglob Code of Ethics states that there will be no discrimination among employees. However, this Code of Ethics has not been disseminated among its employees, and Induglob's internal manuals do not expressly refer to equal opportunities and non-discrimination. Nonetheless, the Company is obliged to comply with Ecuadorian law and PS2, which clearly prohibits discrimination and ensures equal opportunities for all possible workers regardless of sex, religion, or race. The Company will train its Employees in the Code of Ethics and update its ESMS to include express references to equal opportunities and non-discrimination.

d. Grievance response mechanism

Induglob does not currently have a grievance mechanism for its workers. The Company shall implement a grievance response mechanism so that workers (and organizations, when applicable) can communicate their concerns regarding the workplace, either anonymously or not.

4.2.2. Occupational Health, Safety, and Security

Induglob complies with Ecuador's health and safety laws and regulations. Occupational health and safety risks are analyzed for each of the functions that comprise the production process; based on the risks identified, the Company determines the PPE that must be used. During the due diligence, IDB Invest observed that the PPE required for each work function was clearly defined, but concluded that the health, safety, and security management could improve, mainly, in the utilization of PPE in some work functions. The Company will monitor and report annually to IDB Invest the Lost Time Injury Frequency Rate (LTIFR). The LTIFR is the number of injuries resulting in lost time that occur in a workplace per 1 million man-hours worked.

Plant employees are regularly trained to report unsafe actions and conditions, in order to avoid accidents. The Company also keeps track of all accidents that occur in its facilities, which are analyzed by the Continuous Improvement Department so as to identify root causes and to propose process and/or PPE modifications with the aim of eliminating or reducing the risk of recurrence. Over the past 12 months, the Company has reported a total of 16 incidents, resulting in a total of 626 days of disability. None of them resulted in a fatality. Almost all of the incidents consisted of cutting wounds in the pressing area. The Company has documented procedures to investigate the root cause of accidents and propose corrective measures. A high number of accidents related to cuts, contusions, and bone fractures was identified in the major pressing, stove assembly, and enameling areas. The Company: a) Will carry out an Occupational Health and Safety (OHS) gap analysis and investigate the accidents in order to define the factors that cause them and the injuries sustained in the pressing area; b) Submit the results of the OHS gap analysis and evidence of the implementation of the corrective measures adopted to eliminate the factors identified as the causes of the accidents; c) Ensure that current and new employees receive adequate training (repeatedly, throughout the year) and are competent to carry out their duties and responsibilities safely; d) Update and implement the OHS Management System Procedures to reduce the number of such accidents by 90% in a year; e) Report to IDB Invest the progress made in terms of accident reduction on a quarterly basis; f) Submit a final report to IDB Invest, including an attestation by the OHS Manager that gives evidence of the correction of all deficiencies.

4.2.3.Third-party Workers

The construction workers for the new plant will be hired by the construction company and its subcontractors. It is expected that the workers will be hired locally, so it will not be necessary to build dormitories or worker camps. Induglob will submit the following: (i) the employment procedures and evidence of their implementation for third-party workers, whose hiring and firing conditions shall comply with local regulations and PS2, including the basic standards of PS2 to avoid child labor and forced labor and ensure non-discrimination, freedom of association, and collective bargaining; and (ii) a Contractor's Manual that includes the basic legal requirements, the basic norms of the PS2, the grievance mechanism, and the rules to be followed by outsourced personnel, such as their conduct in social, occupational health, safety, and environmental terms.

4.3.Resource Efficiency and Pollution Prevention

4.3.1.Resource Efficiency

The power supply source is through the public power grid. The plants' energy consumption is 6,463,300KWh. The Environmental Impact Assessment estimates a 15% reduction in power consumption by improving machinery sequencing for production processes.

Induglob uses water from the public water supply network to cover the basic needs of employees, as an input for production processes, and to clean the facilities. Its annual water consumption is 17.82 million liters. Water for the new plant will be supplied by the Municipal Drinking Water Company of Azogues (EMAPAL, for its acronym in Spanish). The designs include a roof water (rain water) harvesting system to feed the irrigation system of surrounding green areas and other secondary systems which, added to the reduction of leaks in the internal system, is expected to result in a 10% reduction in drinking water consumption compared to the current plant.

4.3.2.Pollution Prevention

Induglob consumes 291,586 liters of diesel in its production processes and in the transport of raw materials and finished products to its warehouses. The new plant in Pampa Vintimilla considers

replacing diesel boilers for LPG condensation boilers (in the pickling process) and building the warehouses on the premises. This is expected to reduce CO₂ emissions by 525.75 tons per year. Induglob monitors its atmospheric emissions semiannually; they have been shown to be in compliance with the national legislation and General Guidelines.

The Company has implemented a noise mitigation and prevention program by installing acoustic panels on the upper part of the outer walls and additional insulation works within the production process facilities. Induglob measures the noise at its existing plant semiannually; they also comply with the General Guidelines. In some places, the measurements are higher than those allowed by local regulations. An impact assessment has indicated that the noise is generated by external sources, such as traffic in avenues adjacent to the Company's premises. For the new plant, the Company has foreseen a series of activities to avoid, reduce, and monitor noise generation during the implementation and operation stages.

The Company will monitor and report annually to IDB Invest the PM₁₀ and PM_{2.5} Particulate Matter measurements in the painting and enameling processes area.

4.3.3.Waste

The domestic and rainwater waste generated is sent to the public sewer system. The effluents generated during the emptying of the chrome plating, galvanizing, and pickling tanks are transported to the Wastewater Treatment Plant, where they undergo a chemical treatment to precipitate heavy metals (chromium, nickel, zinc). The latest available data reflect a pH, nickel, chromium, and cyanide levels that surpass the maximum levels allowed under the General Guidelines. The Company will develop a database to continuously monitor the quality of the water discharged into the public sewage system by the Water Treatment Plant. The Company will compare the quality levels of the current effluents at the existing plant and those projected for the future plant with the World Bank's General Environmental, Health, and Safety Guidelines for pH (limits 6-9), total nickel (upper limit 0.5 mg/l); total chromium (limit 0.5 mg/l); and total cyanide (limit 0.07 mg/l) concentrations, and submit a report to IDB Invest. If the current and/or projected values exceed the limits, Induglob will submit to IDB Invest a Pre-Treatment Improvement Plan for pH and nickel, chromium, and cyanide concentrations, so that they comply with the parameters of the World Bank's General Environmental, Health, and Safety Guidelines. The Company will monitor the quality of the water discharged by the Wastewater Treatment Plant on a monthly basis and report this to IDB annually.

The sludge resulting from the wastewater is managed as hazardous waste and collected by Hazwat Cia. Ltda., a company certified by the MAE. The liquid remnant is discharged into the public sewage system. In the case of industrial effluents, the Company will evaluate the wastewater quality at the discharge point and compare it with Ecuadorian regulations and the World Bank's General Environmental, Health, and Safety Guidelines, and report this annually to IDB Invest. If any deviation from these Guidelines should occur, the Company will submit to IDB Invest, for its approval, a plan to achieve compliance.

The common waste generated by the use and cleaning of the facilities is removed by the Municipal Cleaning Company of Cuenca (EMAC EP, for its acronym in Spanish). Recyclable industrial waste such as wood (from pallets and raw materials packaging), metal waste from the production process, cardboard, plastics, and flex foam are removed daily by Metalaustro, a management company accredited by the MAE.

4.3.4.Handling of Hazardous Materials

Induglob generates, manages and appropriately removes around 14 types of hazardous waste generated by the Company's production processes and services. This hazardous waste consists of, among others, used ink or toner cartridges, active biohazardous waste resulting from medical care provided at the medical center, lights, lamps, fluorescent tubes, used energy-saving light bulbs that contain mercury and adsorbent material contaminated with hydrocarbons. The final disposal is performed by Hazwat Cia. Ltda. and EMAC EP.

4.3.5. Community Health, Safety, and Security

Induglob shall develop ESMS procedures for its own and contracted transportation. The procedures shall consider: (i) the assessment of possible access routes to be used; (ii) the identification of traffic hazards; (iii) speed limits and speed zone restrictions; and (iv) traffic controls, such as information panels, temporary roads, pedestrian walkways, vehicle roadways, and parking lots. The development of the Project's traffic management plan and its implementation shall include close coordination with neighboring residences and the local transit authorities.

Induglob will produce an Emergency Preparedness and Response Plan, which shall involve the communities when planning the emergency response and consider evacuation and first aid procedures when appropriate.

Induglob manages the grievances it receives from the community through forms that are completed jointly with a Company employee, who follows up the grievance until the problem is solved. However, there is no formal ESMS procedure to document the external grievance response mechanism. As part of the investment, the Company will formalize management system procedures for community participation, including a grievance mechanism.

4.3.6. Security Personnel

Induglob contracts with a security company that has been accredited and qualified by the competent authority. The Company will develop Environmental and Social Management procedures with the aim of providing a Code of Conduct for security personnel in its facilities, and, in relation to each identified risk, will perform its management activities in accordance with the requirements set forth in paragraphs 12-14 of PS4 and with the Voluntary Principles on Security and Human Rights of the United Nations. The procedures of the ESMS will consider the means or channels that locals may use to submit grievances about the Company's security personnel or arrangements. The Company will ensure that all security personnel receives adequate training (repeatedly, throughout the year) on ESMS procedures in security matters.

Induglob will implement a response system for incidents involving security personnel, so that such incidents are recorded and managed using disciplinary measures as required.

4.3.7. Cultural Heritage

There are no signs of archaeological remains or vestiges at the Project site. However, given that the new plant will be located in the vicinity of the Cojitambo Archaeological Complex, the Company shall develop and adopt an ESMS Chance Find Procedure that shall also be mandatory for all contractors and subcontractors.

5. Local Access to Project Documentation

Until the final public session, the Project's ESIA will be available for consultation and suggestions on the Company's website^[1], that of the Provincial Government of Cañar^[2] and that of CTotal^[3] (the consulting firm that prepared the ESIA).

6. IDB Invest Contact Information

For project inquiries, including environmental and social issues related to an IDB Invest transaction, please contact the client (see **Investment Summary** sheet), or e-mail IDB Invest at requestinformation@idbinvest.org. As a last resort, affected communities can access IDB Invest's Independent Consultation and Investigation Mechanism by emailing mecanismo@iadb.org or MICI@iadb.org, or by calling the telephone number +1(202) 623-3952.

[1] www.indurama.com

[2] www.gobiernodelcanar.gob.ec

[3] www.ctotal.com.echttp://www.ctotal.com.ec/proyectos_ejecutados.html