

1. Overview of Scope of IIC E&S Review

The focus of the E&S review was to ensure that the Client's operations in Brazil conform to the IIC Sustainability Policy, and, where appropriate, propose actions to close any potential compliance gap in form of an Environmental and Social Action Plan.

2. Environmental and Social Categorization and Rationale

The Project has been classified as Category B, according to IIC's Sustainability Policy, since it can produce with low-to-medium magnitude negative impacts. The main E&S risks identified are related to work and labor conditions, efficient use of resources, prevention of the contamination, and health and community safety. Therefore, the Project triggers the following IFC performance standards: Assessment and Management of Environmental and Social Risks and Impacts (PS1); Labor and Working Conditions (PS2); Resource Efficiency and Pollution Prevention (PS3); and Community Health, Safety and Security (PS4).

IFC PS5, PS6, PS7, and PS8 do not apply since the Project will not produce any relevant impacts on biodiversity conservation or natural habitats, is not located near indigenous territories, will not affect any indigenous community, and will not generate any impacts on cultural heritage. The Project also does not require any involuntary resettlement.

3. Environmental and Social Context

The Project is located in an existing industrial area in Cocal do Sul where three of the five corporate plants operate. The fourth plant operates in Criciúma, also in the state of Santa Catarina and the fifth corporate plant operates in another industrial area in Camacari, outside Salvador in the state of Bahia.

In October 2015, private equity fund Kinea acquired 25.9% of the company. As part of Kinea's investment strategy, an action plan of 66 items related to different fields was agreed with management. As a result of this still-on-going action plan, many of Eliane's environmental and social management processes were aligned with international standards and good practices. In addition, Eliane is a former IFC client and, as such, has invested resources in previous projects to be in conformity with international environmental and social practices.

The Client operates 5 production facilities (4 in Santa Catarina state and 1 in Bahia state). In addition, Eliane operates 10 small mines located in three different states; Santa Catarina, Rio Grande do Sul, and Bahia. In 1997, Eliane purchased the Céramus plant located in Camacari, Bahia, 46 km outside of Salvador. The general environmental and social observance within each of the plants is in compliance with IIC Sustainability Policy.

4. Environmental Risks and Impacts and Proposed Mitigation and Compensation Measures

4.1 Assessment and Management of Environmental and Social Risks and Impacts

a. E&S Assessment and Management System

Currently, the Client has an environmental and social management system (ESMS) divided into three components: 1) health and safety; 2) emergency preparedness; and 3) environmental. Eliane is preparing its management system to be ISO 14000 compliant by 2019. The management system includes plans and processes that manage: worker safety, worker health, personal protection equipment (PPE), security, emergency responses, solid waste management, hazardous waste management, water consumption and management, air emissions, energy consumption, 'hot' work, and other emergent risks in all Eliane's production facilities and administrative spaces.

The Client maintains all state and federal environmental and installation licenses for all 5 plants as

well as for its 10 mines up to date.

Kinea's 66 items action plan is currently 74% completed. The remaining items are subject to institutional approval from state environmental licensing agencies.

b. Policy

The Client has policies that detail its mission, values, position towards the environment and commitments to fulfill each. In addition, it has a robust policy on occupational health and safety as well as a code of ethics for all employees. Each policy addresses a specific commitment to sustainability throughout the Client's facilities.

c. Identification of Risks and Impacts

The Client's ESMS can detect and manage risks and impacts originating from all its facilities in Cocal do Sul and Camacari as well as the 10 mines in operation. Through procedures contained in the Analise Preliminar de Risco (APR), Eliane is able to monitor, identify and manage risks and adverse impacts in a way compatible with PS1.

d. Management Programs

The Client has a series of environmental health and safety management plans that aim to mitigate the Project's associated risks. In particular, the plans for the manufacturing facilities include:

- Dust control (Orientação para controle de poeira na indústria cerâmica -CIPA).
- Health and safety in the workplace (Gestão de Saude e Segurança no Trabalho), which also includes a plan for respiratory protection (Programa de Proteção Respiratoria).
- Contractors management (Manual de Orientação para Prestadores de Serviço)
- Emergency responses management, which in addition to covering typical worker related injuries and accidents, also contains procedures for responding to emergencies in hot work as well as working at heights.
- Integrated waste management, that details procedures for handling, storing and disposing of various types of wastes from the production (including dust, solid wastes and hazardous waste).
- Energy consumption, that provides detail as to how the company manages its energy consumption.
- The water management, that describes the waste and residual water treatment systems for processing and the corporate offices.
- Air emissions, that comprises general emissions and those produced by the ovens.
- Environmental management for mining operation.

e. Organizational Capacity and Competency

The Eliane environmental team is composed of one manager (responsible for overall environmental management of the production facilities and management of the mines) and 15 staff members who are in charge of monitoring, executing the corrective actions and well training Eliane's staff. The team is well organized to handle the environmental and social risks that emerge over time in the operations.

f. Emergency Preparedness and Response

The operations have a series of emergency procedures, manuals, and plans that include: (i) spill prevention; (ii) hot work procedures, and (iii) risk analysis procedures. Responses to emergencies, as they relate to worker safety, are handled by a volunteer emergency response team composed of workers trained for that purpose.

g. Stakeholder Engagement

Eliane keeps in close contact with the surrounding local communities via direct communication but also through the municipal government. It has communication plans but not a stakeholder map nor a stakeholder engagement strategy/plan. Therefore, Eliane needs to develop an integrated communication plan that analyzes and maps out a strategy for stakeholder engagement.

4.2 Labor and Working Conditions

a. Working Conditions and Management of Worker Relationships

The working conditions at the production facilities are adequate. Personal protective equipment (PPE) was seen on all workers during the ESDD site visit. The entire workforce is constantly trained in health and safety issues throughout the year and new hires must receive a health and safety training course before they begin work assignments.

98% of all workers belong to the union at the production facilities and worker relationships and contracts are negotiated through it. So far, all contracts have been signed and agreed upon.

b. Protecting the Workforce

c. There is no evidence of child labor nor forced labor in any of Eliane's operations. In Eliane's human resource policy commitment statement, they state that the company adheres to all national labor laws which prohibit child labor.

d. Occupational Health and Safety (OHS)

The Client has a OHS management system, capable of detecting all risks in the ceramic production facilities. The system, that includes contractors who are not directly employed by the Client, records and manages all safety accidents including near misses, loss time, and fatalities.

e. Workers Engaged by Third Parties

Contractual agreements with workers engaged by third parties are obligated to follow the same environmental and health and safety policies and procedures set out by the Client. Contracts with the contractors and subcontractors include the need to follow all provisions set out in the environmental licenses obtained by Eliane, as well as penalties for failing to comply with the latter.

f. Supply Chain

Eliane does not have a large supply chain. Since the only inputs into their manufacturing process are controlled by the company, the remaining inputs are constrained to worker equipment, food, production equipment, and administrative materials. The client's supply chain poses low environmental and social risks.

4.3 Resource Efficiency and Pollution Prevention

a. Resource Efficiency

Greenhouse Gases

The production facilities are powered by natural gas which is purchased on the open market. Natural gas is burned to heat the kilns that make the ceramic tiles. Coal is burned in the atomizer. While the parameters measured and monitored are generally within the national standards, particulate matter emissions are well above the IFC EHS guidelines. An action has been included in the action plan in order to bring these values in line with IFC EHS guideline parameters as well as to measure all the required parameters such as Cadmium, HCl, Lead, etc. which are not being monitored.

CO₂ emissions are also tracked by plant and for the total group based on emissions from the production process. The total annual emissions are 193,043,728 kg CO₂e.

Water Consumption

The Client uses a well water and surface water from the Rio Cocal. The treats all liquid effluents from production in an on-site waste water treatment facility. All wells in each site are licensed under the local environmental authorities. The facilities recycles 95% of all water used.

b. Pollution Prevention

Waste

The company has an effective waste management policy. Currently, it has a contract with a third party to collect, treat, and dispose of wastes from the manufacturing process. Moreover, it constantly monitors and receives reports from the waste removal and disposal company. 95% of total waste and tailings generated in production line are recycled.

In addition, the client employs good recycling programs that take advantage of waste material for other industries. The sludge produced by polishing the porcelain is sent to the cement industry to be used as raw material.

c. Hazardous Materials Management

Hazardous materials are also managed by a third-party company. The contractual agreements requires the disposal company to have an effective ESMS and the disposal of any hazardous materials is monitored by the Client through its own ESMS system. The client has a standard procedure for monitoring contracts and agreements to ensure environmental and social compliance.

4.4 Community Health, Safety and Security

The ESDD identified three main community health and safety concerns: atmospheric emissions which show elevated values for particular matter and dust; traffic management of trucks hauling raw materials and finished products; and worker health and safety. Dust emitted from the plants is controlled through the ESMS system. Standard practices are employed to control dust particles in each site such as watering down roadways where dust particles accumulate. Complaints about dust from local communities are received by the Client's grievance mechanism.

While there is a formal system to deal with these complaints, there is no formalized way to register them. Eliane needs to adopt a grievance mechanism for the community.

The ESDD was not able to verify the existence of a traffic management plan.

a. Security Personnel

The client has developed procedures for security of the facilities however these procedures do not include all of what is required for IFC PS 4, and will need to be revised. Eliane outsources security for its facilities and grounds. Security guards carry weapons and have procedures to document ingress and egress. The ESDD did not identify a full security management plan that contains guidelines for detaining individuals, interactions with local authorities, nor procedures for training with and security firearms.

An action item for this will be included in the ESAP.

4.5 Land Acquisition and Involuntary Resettlement

No individual or group will be required to relocate or be resettled as a result of this project.

4.6 Biodiversity Conservation and Natural Habitats

This project will not impact biodiversity or any natural habitats.

4.7 Indigenous Peoples

This project does not impact indigenous people in any way.

4.8 Cultural Heritage

This project does not have any identified impacts on cultural heritage.

5. Local Access of Project Documentation: <http://www.eliane.com/>

Contact Information

For project inquiries, including environmental and social questions related to an IDB Invest transaction please contact the client (see **Investment Summary** tab), or IDB Invest using the email requestinformation@idbinvest.org. As a last resort, affected communities have access to the IDB Invest Independent Consultation and Investigation Mechanism by writing to mecanismo@iadb.org or MICI@iadb.org, or calling +1(202) 623-3952.