

## 1. Scope of Environmental Review

IDB Invest's review included meetings with Mabe's management teams in their offices in Queretaro, Mexico, at their Technology and Project Center, and included discussions with the heads of Environment, Human Resources (HR), Sustainability and Supply Chain Management. The evaluation included an assessment of the conglomerate's general environmental and social management across its facilities, and approach to supply chain management. A site visit was carried out at one of the group's plants, which produces refrigerator and gas stove parts. The visit took place January 8-10, 2019. The due diligence included a review of supporting information such as environmental management plans, manuals, and procedures, HR policies, occupational health and safety (OHS) programs, waste management, workplace and environmental monitoring data (e.g. air emissions and effluents), emergency procedures, and sustainability strategy plans under discussion.

Given the nature of this facility to provide payment services exclusively to Mabe's network of SME suppliers, the emphasis of this review was focused on environmental and social (E&S) management and labor and working conditions at the producer level (Mabe), and management programs focused on Mabe's suppliers and their compliance with basic environmental and social requirements.

## 2. Environmental and Social Categorization and Rationale

According to the IDB Invest Environmental and Social Sustainability Policy, the Project has been classified in Category B (medium risk), since its potential environmental and social risks and impacts are limited, are largely reversible, and can be mitigated via measures that are readily available in the context of the operation.

The IFC Performance Standards triggered in this operation are the following:

- Performance Standard 1: Assessment and Management of E&S Risks and Impacts
- Performance Standard 2: Labor and Working Conditions
- Performance Standard 3: Resource Efficiency and Pollution Prevention

## 3. Environmental and Social Context

Grupo Mabe (Mabe) is dedicated to the design, assembly, and sales of household appliances. The company was founded in 1946 and offers a range of domestic products including refrigerators, stoves, microwaves, air conditioners, and washers and dryers, among others. The Group has a total of eight production facilities located in Mexico, Ecuador, Colombia and Argentina. It is in strategic relationships with GE Appliances and Haier.

Its corporate operations are headquartered in Mexico City, with a Technology and Project Center and five production facilities across the country. All facilities are located within industrial parks with no direct impacts on neighboring communities. The conglomerate relies on a network of roughly 800 suppliers, which operate principally in the provision of raw inputs and services including steel, plastics, maintenance, and transport. Its SME suppliers are primarily in the transport, maintenance, and services business.

## 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* - Mabe has a well-refined model for environmental and social (E&S) management that is thoroughly integrated throughout its operations and production facilities. Mabe has worked extensively to establish a culture of environmental, health and safety

awareness, which is executed out of the Human Resources team. While it has not implemented ISO 14001, Mabe is in the process of certifying all plant facilities under Mexico's Cleaner Production standard. To date, four of its six Mexican facilities have received the certification standard, and for which Mabe conducts periodic internal and external audit of its EHS management as part of its continuing certification process. Certification is renewed every two years.

*b. Policy* - All management actions fall out of the group level Environmental Policy, which Mabe formalized in 2018 and which extends to all employees, contractors and suppliers. It has been formally approved by senior management, and specifies which areas are responsible for implementation of aspects of the policy, including human resources, process management, and environmental management. The policy has been communicated to all employees and is made available on Mabe's internal intranet site.

*c. Identification of Risks and Impacts and Management Programs* - Identification of risk is managed at the company level and in accordance with defined policies, procedures, and management plans according to both internal policies (Waste Management, Personal Protective Equipment, Occupational Health and Safety to name a few) as well as the Cleaner Production standard it applies. Mabe has implemented a program of 'lean management' to identify opportunities for both product and health and safety performance improvements throughout the production cycles of its various plants. All machines include simple illustrated visual and written guidance on key risks and health and safety mitigation actions for operation. Of the one plant visited, it had reported no accidents in the previous 320 days. Health and safety managers within plants hold regular meetings to share and discuss learnings, and once annually all Vice Presidents of plants meet to share similar health and safety meetings.

*d. Organizational Capacity and Competency* - Mabe has a well-established management team focused on environmental performance, health and safety, and sustainability at large within each of its operating plants. At the Technology and Project Center visited, which serves as the model for other plants, Mabe's EHS team included 21 professionals dedicated to health, safety, training, emergency management, supply chains and audits, high risk operations, chemical management, monitoring and evaluation, and overall policies and procedures, among others. Sustainability goals represents a new priority for Mabe this year with a focus on carbon, energy managements, water, lifecycle analysis, eco-products and overall communication. The group plans to publish its first corporate wide Sustainability Report according to GRI Guidelines in 2019.

*e. Emergency Preparedness and Response* - Each operating plant has an Emergency Committee, and specific emergency procedures based on the risks that may affect the business. These take into account the capacity of nearby emergency services, and in adjacent businesses within the same industrial parks. The respective managers are responsible for ensuring that the requirements of each plan are implemented and met, with the necessary personnel, equipment and facilities. Emergency management plans are documented, accessible and communicated clearly. Exercises and checks are carried out twice annually to evaluate and improve the management capacity in the face of crisis situations or emergency response, including contacting and participation of external organizations. The plans and procedures for emergency situations are periodically reviewed and incorporate the lessons learned from incidents and previous exercises. Training programs have been developed and are given frequently to underscore key learnings.

*f. Monitoring and Review* - Mabe practices a continual improvement process guided by their Environmental Policy and lean management procedures. As part of this process, plants define respective goals for how to reduce impacts and improve efficiency, documenting and reporting on progress and new procedures. Key Performance Indicators (KPIs) for emissions, waste, water, etc. are set out under the Cleaner Production Standard. Employee-identified improvement opportunities

are encouraged and incentivized. Changes are highlighted through posted placard displays throughout the production cycle. Performance is reported internally and will also be included in its forthcoming and first 2019 Sustainability Report.

*g. Stakeholder Engagement* - There are no external communities in the vicinity of Mabe's plants as they are located in established industrial parks. Mabe places emphasis on enhancing opportunities for production line workers and their families. This focus represents a focal point for their wider stakeholder engagement program. There are some philanthropic activities undertaken annually that provide an opportunity for Mabe employees to give back to wider society.

*h. External Communication and Grievance Mechanisms* - Mabe has both internal and external grievance mechanisms that attend to clients, communities, and employees. The company's Compliance Policy provides details on how grievances should be reported and acted upon. Mabe has an independent ombudsman based within the legal team to attend to serious concerns.

## 4.2. Labor and Working Conditions

*a. Human Resources Policies and Procedures* - Mabe has in place HR policies and procedures that cover recruitment, ethics, induction and training, diversity and inclusion, performance evaluation, promotion, and disciplinary action. All new employees undergo an induction and training process, which describes core values and available policies.

*b. Working Conditions and Terms of Employment* - Mabe provides clear terms of employment, which are defined in internal rules and regulations, and are provided to employees on hiring. They include benefits, hours of work and overtime, life insurance, health insurance, etc., which exceed legal minimum requirements in Mexico. Mabe has a range of programs oriented towards employee engagement, work/life balance, continuing education, and retirement planning. Continuing education programs and on-the-job training emphasize product quality, leadership, and career advancement, and are oriented at distinct ages and employee functions.

*c. Managing Supply Chains* - Through its long-standing relationship with GE, Mabe has adopted and implemented a wide-reaching supply chain management program, called Supplier Responsibility Guidelines. This program exists for the evaluation of local and international suppliers against local law. The program was initiated in 2000 and has evolved into a comprehensive group-wide program that includes continuing assessment of its 800 suppliers and integration with GE's own supplier assessment program. Mabe has direct responsibility for evaluating 200 (25%) of the total supplier base. Evaluation assesses licensing, permitting, HR issues related to pay, child and forced labor, working hours, housing conditions, and health and safety, among others. Suppliers are ranked according to traffic lights (red, yellow, and green). Any supplier found to have red risks is immediately suspended until the identified issue is resolved; yellow and green risks have 60 days to remedy the problem. The nature of the rating dictates the frequency of the monitoring from annual to every three years. Suppliers are also required to comply with Mabe's own overreaching Environmental Policy.

*d. Non-discrimination and Equal Opportunity* - Mabe's HR policies includes provisions related to non-discrimination based on race, nationality, disability, social class, sex, religion and/or political ideas. It is an equal opportunity employer that extends equal employment opportunity to all applicants and its selection decisions are merit base. The minimum hiring age is 18 years old, and Mabe is in compliance with the local law and IFC PS2. In addition, in compliance with the local requirements as well as IFC PS 2 there is no forced labor in either its or its contracted operations. Mabe has in place a process to evaluate and audit third-party labor.

*e. Training* - Training is a point of differentiation for Mabe as employees undergo extensive education across a range of subjects through both on-line and face-to-face trainings. Mabe's culture of excellence places emphasis on collective learning and breaking 'black boxes' of information where knowledge is not shared. All new employees undergo an extensive induction process where they are trained on formal policies as well as job functions. A program initiated in 2012 seeks to broaden 'project' team experience by relocating workers across territories in order to bring together diverse project teams in designing new products.

*f. Occupational Health and Safety* - For the assembly plants, Mabe relies on Safety Manuals to ensure effective management of OHS risks for the employees. The Safety Manual is based on a hazard identification and risk assessment (HIRA) that has been undertaken at each plant. All machines provide detailed illustration of risks and mitigation measures, and teams report back to plant heads for OHS on any additional risks identified. Avoiding accidents remains a top safety goal within Mabe with strong performance to date. During the site visit, employees were observed following strict PPE protocols wearing hard hats, shoes, ear plugs, goggles, etc. This applies to Mabe's employees and contract workers working at its assembly units.

### **4.3 Resource Efficiency and Pollution Prevention**

*a. Greenhouse Gases* - Mabe initiated a program in 2016 to measure and ultimately reduce GHG emissions. The program is focused on three of its Mexico plants, each of which produces in excess of 25K tons of CO<sub>2</sub>. Scope 1 and 2 emissions for these three plants totaled 106,210 tons in 2017, and represents a small reduction from 2016. Mabe's efforts are carried out based on the requirements of Mexico's national legislation and follows WRI's GHG Protocol for measuring and reporting as well as ISO14064. The results of these efforts and targets will be established in the forthcoming 2019 Sustainability Report. Following this year's results, Mabe intends to extend this to its other production plants and include Scope 3 emissions through its suppliers.

*b. Water Consumption* - Water is a resource that to date has not yet been targeted but will be a focus under this year's commitments to publish targets and initiate reduction plans.

*c. Pollution Prevention* - Mabe follows strict pollution prevention guidance as dictated by their Cleaner Production certification requirements. Solid wastes are collected, sorted, recycled and ultimately sold to one of three government-licensed collectors. Hazardous wastes include waste oil, waste batteries, foam waste, and chemical containers, among others, which are also collected by a government authorized company.

**5. Local Access of Project Documentation** There is no project associated with this loan for which public access to project documentation is not required.

**6. Environmental and Social Action Plan** There is no action plan required.