

Netafim, Worldwide #41880

Project description

Netafim is the world's leading manufacturer of micro-irrigation components. From its origins in Israel in 1965, it has since grown to employ nearly 4,100 people in 36 countries, encompassing 29 subsidiaries and 17 manufacturing plants worldwide. It has irrigated over ten million hectares of land and produced over 150 billion drippers used by over two million farmers.

The company manufactures a wide variety of products for use in precision irrigation, either through extrusion or injection molding. It also produces or assembles other equipment to support the deployment of drip irrigation equipment (e.g., pumps, computer terminals, instrumentation) and provides expertise in the design, installation and use of such whole-irrigation solution packages.

The proposed investment is for a \$125 million corporate loan to Netafim Ltd ("Netafim" or "the company"), to support the company's growth in China, Turkey and Africa (the "project").

Overview of IFC's Scope of Review

IFC visited the company's operations in Israel in November 2018. The visit included the manufacturing operations at Kibbutz Magal, approximately 60 km north-east of Tel Aviv, Israel. (Note: All the micro-drip components are manufactured in Israel; assembly of these into extruded pipes, etc. takes place in Israel and in the company's other plants around the world). Other members of the IFC due diligence team visited plants in China and Turkey. The visit to Magal included presentations on the company's Environmental, Health and Safety (EHS) management organization and practices, a full tour of the factory, a review of the current initiatives on digital farming, and meetings with representatives involved in the management of human resources and community engagement programs. IFC met with plant level EHS representatives (from both the Magal and Hatzerim Kibbutz), and those responsible for country-wide management of EHS in Israel and Magal-based production managers. IFC further reviewed documentation supplied to the project's data room regarding management of EHS matters, the latest company sustainability report, and engaged in several telephone conversations with the company's Chief Sustainability Officer (CSO).

Identified Applicable Performance Standards

While all Performance Standards are applicable to this investment, IFC's environmental and social due diligence indicates that the investment will have impacts which must be managed in a manner consistent with the following Performance Standards:

PS1: Assessment and Management of Environmental and Social Risks and Impacts

PS2: Labor and Working Conditions

PS3: Resource Efficiency and Pollution Prevention

PS:4 Community Health, Safety, and Security is not applicable as sites are in industrial areas and accordingly do not pose a risk on communities. In addition, there are no armed security guards present.

PS 5: Land Acquisition and Involuntary Resettlement, PS 6: Biodiversity Conservation and Sustainable Management of Living Resources, PS 7: Indigenous Peoples, and PS 8: Cultural Heritage are not applicable as the land used to locate manufacturing/production facilities is either on long term agricultural land or land designated and used for industrial purposes (i.e. industrial parks), is obtained using market-based transactions without the need for economic or physical resettlement and does not impact indigenous peoples or cultural heritage

Environmental and Social Categorization and Rationale

This is a category B project according to IFC's Environmental and Social Sustainability Policy because the project is expected to generate limited and site-specific E&S impacts that can be avoided or mitigated by adhering to generally recognized performance standards, guidelines or design criteria.

Material E&S risks and impacts include the following: those associated with the manufacturing of the micro-irrigation components, notably the use of energy and water, the efficient use of raw material inputs, the management of wastes and their recycling or proper disposal, and the appropriate management of the company's human resources and compliance with the labor laws of the countries in which the manufacturing operations are located.

Environmental and Social Mitigation Measures

IFC's appraisal considered the environmental and social management planning process and documentation for the project and gaps, if any, between these and IFC's requirements. Where necessary, corrective measures, intended to close these gaps within a reasonable period, are summarized in the paragraphs that follow and (if applicable) in an agreed Environmental and Social Action Plan (ESAP). Through implementation of these measures, the project is expected to be designed and operated in accordance with Performance Standards objectives

PS1 Policy

The company has developed an environmental policy that applies to all aspects of the company's operations; product design, inputs to the manufacturing process, interactions with suppliers in the company's supply chain and waste management of wastes resulting from manufacturing. The policy references compliance with legislation and regulation wherever the company's operations are located. They also have in place a sustainability action plan aligned with the United Nation's Agenda for Sustainable development; specifically, the strategy targets SDGs related to poverty, hunger, gender, availability of water, economic growth, industry and innovation, climate, and biodiversity. There are three elements to the company's approach to sustainability: actions, to embed drip irrigation into as much agriculture operations as possible; education, to improve awareness and uptake of drip irrigation; and, backbone, which addresses the company's operational impacts and what it does to address them. For the purposes of this summary, the management of EHS within the backbone element are the most relevant. In short, these include matters of employee engagement (and labor and working conditions), community engagement, working to reduce the environmental impact of raw materials and other aspects of the manufacturing supply chain, and product development that will promote climate smart agriculture. These aspects are described in more detail in the relevant sections below.

Identification of Risks and Impacts

The company conducts environmental and occupational health and safety risk assessments of its operations as part of its management system; the company is certified to ISO 14001:2015 and OHSAS 18001:2007 for all its operations in Israel. Example environmental assessments include those related to manufacturing/production, waste management and pollution prevention. OHS risk assessments are undertaken for all manufacturing work stations (e.g., there are 165 work stations at Hatzerim). Seventeen risks are mapped, and probability and severity applied to derive a risk priority number or RPN. The hierarchy of risk elimination, risk reduction, engineering control, procedure change and production safety management is followed. This practice, or measures equivalent to this practice (such as use of outside experts) is implemented in all 17 of Netafim's manufacturing operations globally and will be implemented at all new operations.

At the plants in Israel, IFC heard that regulatory requirements are kept current through use of an external resource that provides updates on such on a quarterly basis. This practice also occurs, in some form or another, at all operations globally.

With regard to projects that the company may develop, or in some way participate, in order to demonstrate or promote the greater use of drip irrigation, they will undertake a risk assessment to ensure that their involvement in such projects either avoids or minimizes EHS risks and impacts. Such projects may include large-footprint primary production projects. For example, the company is currently involved in supporting a sugar cane irrigation project in Ethiopia in conjunction with the Government of Ethiopia. Netafim has provided engineering and design, financing solutions, water infrastructure, project management, construction and installation, automation and irrigation

solutions to that project. Although Netafim might not be involved in selecting the site nor managing the operation after installation of the equipment, there might be risks associated with the project which need to be assessed. The need to conduct a risk assessment prior to participation, is addressed in the ESAP (#1).

Supply chains

Inputs required to manufacture drip irrigation components (drippers and dripper lines, sprinklers, filters, valves, etc.) are predominantly plastics (e.g. HDPE) and metals. Such are obtained from reputable companies and thus do not pose risks such as those contemplated by the Performance Standards with regards to supply chains.

Management Programs

The company has established management programs that describe mitigation and performance improvement measures and actions that address the identified environmental and social risks and impacts of the project. Implementation can be demonstrated by compliance with host nations laws and regulations (e.g. permits and licenses); further, many project boards were observed located throughout the operations (and summarized on mobile devices) that present detail and summary information for all manufacturing operations globally. Such as used by managers to oversee compliance with program targets in real time. Such dashboards show whether the company is operating within pre-determined limits, and/or complying with many and varied key performance indicators (KPIs) for each production area (such as incident rates, severity indices, electrical consumption, water consumed per product manufactured, amount of waste recycled etc.).

Organizational Capacity and Competency

The company has established and maintains an organizational structure that defines roles, responsibilities, and authority to implement the management of environmental, OHS and social matters as identified above. Specific personnel have been so designated to fulfill those roles. For example, there is one plant manager per manufacturing plant (who is ultimately responsible for matters of OHS management); this plant manager is supported by a safety officer at each plant, who is part of the global safety team. A list of each was provided to IFC by the company.

A Sustainability Steering Team works alongside the Executive Management Team to set company strategy with regards to matters of EHS. Matters of EHS management are implemented by EHS teams at the plant level. During the appraisal, IFC held conversations with some of the EHS managers; such conversations provided IFC with assurance that the managers (and their reports) were experienced in all aspects of the company's operations and knowledgeable of the inherent EHS risks and impacts found therein. Observations of the Magal manufacturing operation, made during an extensive tour of the extrusion and injection lines, and other assembly operations, confirmed that opinion.

In addition to local or 'home-grown talent' the company exchanges experts in EHS between plants at locations around the world. For instance, individuals now involved in EHS management at Magal had spent several years at the company's Mexico plants, allowing an exchange of ideas and initiatives to take place and promoting a consistent implementation of good practice.

Emergency Preparedness and Response

Each plant in Israel acts according to an emergency manual, following local regulations, that details emergency situations and the reactions to be taken in the event they occur. This includes performing an emergency drill once a year. In each country that hosts Netafim operations, those plants review and respond to emergency situations in accordance with local requirements.

Monitoring and Review

The company has established procedures to monitor and measure the effectiveness of the management programs, as well as compliance with related regulatory requirements. In addition to the dashboard providing real time compliance information with company requirements and KPIs, a monthly report is compiled and submitted from all plants to the HQ in Israel and a management review is held for each plant. Such KPIs are aligned with material reporting requirements of the GRI.

These reports and reviews (IFC reviewed examples from plants in Israel and China) include reporting on EHS KPIs (such as those that pertain to safety, including incidents that may have occurred and the corrective actions taken in response, ongoing rates of natural resource and energy consumption, etc.), highlighting specific gaps and suggesting corrective measures.

Further, annual internal audits (undertaken by staff of one plant auditing another plant) are conducted at each plant and identify non-compliances with corrective actions as well as promoting the sharing of best practices within all manufacturing operations. A safety WhatsApp group allows for ongoing review of safety behaviors. The head of safety at each plant reviews the list of corrective actions that may be generated to ensure timely close out. As per the requirements of the company's certifications, an annual senior management review is conducted to review EHS performance. Based on results from such reviews, senior management is required to take the necessary and appropriate steps to ensure the operations are run in a way that supports the intent of the policies with regards to EHS matters.

As mentioned elsewhere in this summary, the company compiles and reports in a Sustainability Report. The last report was published in 2018. The contents of that report are determined by the Chief Sustainability Officer and other Netafim executives. Contents are based on an assessment of material issues, including 'those known to be important to stakeholders, and a further review of our material impacts and strategy alongside the global Sustainable Development Goals.'

Stakeholder Engagement

Stakeholder engagement takes many forms. For example, external communication ensures that the sustainability report is made available to, and its content informed by, the views of stakeholders. For example, the alignment of the report to the Global Reporting Initiative (GRI) ensures that material issues to stakeholders are addressed and reported upon in the sustainability report. The sustainability action plan, that targets key SDGs through application of innovative drip irrigation practices, came about due to stakeholder input (both internal and external to the organization). Company policies, such as the code of business conduct (Code of Conduct) applies to internal stakeholders (directors, managers and employees) and external stakeholders (such as suppliers and others doing business with Netafim).

The company has mapped its stakeholders at all operations worldwide; for example, they consider customers (e.g. farmers, growers, irrigation managers), employees, distributors, partners and suppliers (the global network of people that interfaces with the company's customers) and policy makers and influencers (e.g. those who influence agricultural policy, such as within government) as stakeholders. In addition, they include social and environmental organizations that interact with elements of the company's value chain, including local communities in the countries where Netafim operates in a similar vein. Stakeholders can submit comments, including grievances, if any, to the company.

PS2

Working Conditions and Management of Worker Relationship

Human Resources Policies and Procedures

The company has local HR policies, a comprehensive procedures manual and a global code of conduct. The contents are shared with new employees during their induction process. The manuals contains information on terms of employment such as, recruitment, probation period, transfers, promotion, and termination. It provides details on work schedule, working hours, overtime hours, remuneration including overtime pay, public holidays and leave, health insurance, pension fund, training and development, staff relations and communications (including a grievance mechanism or GM) and matters of occupational health and safety. The code of conduct references workplace rules and disciplinary actions that could be taken if they are breached. It includes a section on harassment, "*Protection against harassment and sexual harassment*". It also references health and safety and includes references and details regarding protecting the environment and quality of life and caring about communities.

At the time of the appraisal, the company employed nearly 4,100 employees in 36 countries. India was the country with the largest workforce (1,177 employees), followed by Israel (1,123) and the

Americas (984); the rest of the company's operations are grouped under *the rest of the world* (788). Of the 3,564 permanent employees globally (representing 88% of the workforce) 2,973 were males (representing 83% of the workforce) and 591 females (17%). Job types with the organization include those involved in manufacturing (or assembly of drip irrigation components) and those undertaking administrative and management duties. Females typically undertake all type of duties. Those who are not permanent employees undertake duties such as seasonal manufacturing and assembly duties.

Working Conditions and Terms of Employment comply with the laws and regulations of the country where the operation is located. Terms of employment are made available to all employees as described above and in the relevant language.

Workers' Organizations

Not all operations have a workers' organization or a union. Of the employees; in the Americas are covered by collective bargaining agreements 149 (15%); and, those for the rest of the world (23%). Overall, 8.1% of employees are covered by collective bargaining agreements.

Grievance Mechanism

The company has put in place a grievance mechanism (*whistleblower policy*) embedded in the code of conduct. The mechanism for receiving input allows for anonymous reporting (either online or through use of a hotline) at each operation and worldwide. The GM can address sexual harassment complaints. Measures are in place to prevent retaliation against employees who have submitted complaints through the GM. Netafim's compliance office and internal auditor are responsible to address complaints raised through these channels and operation/country management is responsible to implement relevant corrective measures.

Protecting the Work Force

Neither child labor or forced labor is utilized by the company. Minimum age is 18 and age of potential employees is confirmed before any offer of employment is made.

In 2017, the company reported that 2,599 employees had received training (an average of 11 hours per employee), that 1,851 used the company's iLearn platform (a digital platform launched in 2017) offering learning modules to all employees. Content includes core learning and information about Netafim's products, the Code of Conduct, sexual harassment training and new employee orientation. Classroom training is also provided. Leadership program for managers and mentoring programs for senior managers are also available.

The company also employs digital networks (such as Yammer) to connect employees around the world to facilitate knowledge sharing and learning.

Third Party Workers

The company utilizes non-permanent workers, As noted above, these individuals typically perform seasonal type of duties. The company includes these contract workers within its management system; i.e. their health and safety while undertaking duties for the company are provided for. Likewise, such contract workers have a mechanism to raise issues, should they arise, regarding labor and working conditions and the company will respond accordingly.

OHS

As noted above, the company has put in place practices to ensure a safe working environment. All jobs are subject to job safety analyses (JSAs). These JSAs are conducted by the department manager, the designated area safety leader, a worker engaged on that task and a technician/engineer. JSAs are completed for the job itself, as well as activities required during set-up and maintenance. Hard copies of the JSA are required to be signed off by the worker undertaking the job; they are counter-signed by the plant manager.

Injury rates and lost day rates are calculated. Figures provided to IFC show regarding total case incidents rates vary between zero and 5; this compares well with benchmarks. The sustainability report notes that 'injury and lost day rates are calculated per 100 employees and based on production employees only. Injuries are those which incur lost workdays. Minor injuries are not noted. Starting

in 2016, injury rates were calculated using actual work hours, rather than standard average work hours per employee. Injuries and injury rates for 2016-2017 include payroll and non-payroll employees. No fatalities occurred between 2014 -2018.'

Examples of safety initiatives in plants located around the world were discussed during the site visit; they are also summarized in the sustainability report. For example, the safety steering team in Fresno, CA, USA has seen better safety performance by having regular meetings with managers and supervisors, achieving an outcome of only one lost day in 2017. In Valencia, Spain, use of external health and safety experts to conduct safety risk assessments and ongoing employees training resulted in a zero-accident rate. In operations in Peru, a means to engage the entire team (from production to administration to management) led to suggestions to improve safety, many of which were then implemented. Such practices are shared between the plants, the regions and globally. For example, each plant makes and shares a monthly report on OHS; every quarter a meeting with all the plant managers where lost time and severity rates are presented together with the corrective actions that were carried out in response and those still outstanding.

PS3

Resource Efficiency and Pollution Prevention

Resource Efficiency

The client has implemented technically and financially feasible and cost-effective measures for improving efficiency in its consumption of energy, water, as well as other resources and material inputs for core business activities. Details are provided below.

Water Consumption

The manufacturing process (extrusion and injection) does not use much water. Globally, in all manufacturing operations, a total of 152, 047 m³ of water per year was consumed. That which is used, is recirculated within the manufacturing premises and subsequently re-used in the process. Water comes from either boreholes or is supplied by the local municipality, depending on the location of the manufacturing operation. Consumption rates are in line (or below) permitted extraction amounts.

Energy consumption

The main energy inputs to the manufacturing process are in the form of electrical energy (representing 90% or more of total energy needs). The company monitors consumption rates for each operation; in sum, i.e. globally, 3.13 GJ of electrical energy was consumed per ton of raw materials transformed in 2017. The average per annum (for the last 5 years) was 3.152 GJ.

Effluent and waste

Solid wastes (especially plastic waste and off-spec products) are either recycled or disposed of at licensed facilities. Amounts are tracked in an effort to reduce waste as much as possible and re-use that which is generated; for example, in 2017, globally 73% of solid waste was recycled out of a total of 3,400 tons of waste produced.

Hazardous materials

Hazardous materials are managed according to the risk they pose and as described in the Material Safety Data Sheet (MSDS), or its equivalent. Globally, the company has, on average, less than 4 tons of HM in total.

Greenhouse gas emissions

Scope 1 and 2 greenhouse gas emissions are tracked by the company; scope 2 emissions are normalized against production rates. In 2017, 0.51 tons of CO₂ equivalents were produced per ton of raw materials processed. This figure was, on average, 0.532 tons per ton of raw materials for the 5-year period from 2013-2017, for a total (per year) of 62,202 tons GHG equivalent. The company

will continue to track GHG and look for ways to reduce the gross amounts generated (as per their Sustainability Strategy).

PS4

The objectives of this Performance Standard pertain to how a company interacts with local communities and works to anticipate and avoid adverse impacts to them that stem from project activities. It concerns how a company designs and operates their manufacturing plants as well as how a company makes arrangements regarding security in order to protect their assets. Whereas Netafim typically locate their manufacturing operations within industrial areas, the risks and impacts to surrounding communities are minimized or avoided altogether. With regards to security arrangements, Netafim do not currently employ third party security forces. They will, however, continue to review all their operations, and the country context in which they are found, to ensure continual compliance with the objectives of this Performance Standard, especially as they contemplate new projects that are beyond the typical manufacturing operation currently undertaken. The assessment of risk and impacts associated with security arrangements will be part of the overall risk assessment contemplated by ESAP item #1, to ensure future arrangements are in keeping with accepted norms of proportionality and good international industry practice.

Local Access of Project Documentation

This ESRS and the ESAP can be obtained locally from:

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And, through accessing the following website:

Sustainability Reporting at <https://www.netafim.com/en/Sustainable-agriculture/>