

ENVIRONMENTAL AND SOCIAL REVIEW SUMMARY

Disclaimer

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Project Identification:

<i>Country:</i> Croatia	<i>Project Name:</i> ALH	<i>Project No.:</i> 25519
<i>Region:</i> EUROPE & CENTRAL ASIA		<i>Environment Category:</i> B - Limited
<i>Dept./Div.:</i> CGMS4 - Global Manufacturing & Services/Sector Group IV	<i>Company Name:</i> ALH hotels (567354)	
<i>Project Business Sector:</i> U-AB - Resort Hotel (Including Lodges)		<i>Project Status:</i> Active

Parent Project Identification:

<i>Parent ID:</i>	
<i>Parent Short Name:</i>	
<i>Parent Relationship:</i>	No Relationship

IFC's Disclosure Requirements:

Date ESRS sent to InfoShop & posted on IFC Web site:	
Date of revision (if appropriate):	
Date of clearance by client for factual accuracy	
Local Disclosure Date	
Local Disclosure Date of revised ESRS	
<u>Overview of IFC's scope of review:</u>	

IFC has visited all Adriatic Luxury Hotel's (ALH's) existing hotels in Croatia, and has reviewed their performance with respect to environmental performance, workers health and safety practice, life and fire safety, and ethnic and cultural influence. IFC has also interacted with local officials to understand the hotels usage of local utilities and infrastructure.

Finally IFC and the ALH have agreed a set of principles to ensure the ALH's continued development in full compliance with IFC Policies and Performance Standards during its expansion of operations.

During the visits to the existing hotels selected design specifications and local statistics were reviewed for e.g. air conditioning systems, accident statistics.

Project Description:

The project is to ensure the financial basis for the ALH's continued development as a leading tourism service provider in the Adriatic region. The investment will allow ALH to continue its expansions in the region by acquisitions and establishment of management arrangements, while keeping the upgrading schedules for its existing hotels. The management arrangements include the establishment of a hotel management subsidiary, which will manage and operate hotels kept to the same standard as ALH's own hotels (yet not owned by ALH) under the name of ALH.

Identified Applicable Performance Standards:

This Project is reviewed as a Direct Investment according to IFC's Environmental and Social Review Procedure, and the following Performance Standards (PS) are found to be relevant:

PS1: Social and Environmental Assessment and Management Systems with respect to the Company's management of its environmental, health and safety performance in the construction and operation of hotels, and maintaining compliance with national and local permitting requirements.

PS2: Labor and Working Conditions with regard to fair and safe working conditions and ethnic equality.

PS3: Pollution Prevention and Abatement with regard to sustainable water supply and usage, wastewater treatment and discharge, solid waste sorting and disposal, and air emissions from building heating and cooling.

PS4: Community Health, Safety and Security in respect of life and fire safety.

PS8: Cultural Heritage as some of the hotels and properties are located in historic and culturally important sites.

The appropriateness of a B categorization has been confirmed during visits to all ALH's existing hotels in Croatia.

E & S Categorization Rationale:

All ALH's current hotels are operating in full compliance with the relevant environmental and social parameters of the World Bank sector guidelines. An initial review of the fire and life safety standards used at the individual hotels has also indicated that the company takes its responsibility in this area seriously, with extensive compartmentalization, well signed fire and emergency exits, sprinklers in selected areas, etc. The fire and life safety standard used is according to local Croatian standard, which again is based of standards taken from other EU country standards. ALH has agreed to have the Croatian standards reviewed against internationally recognized standards, and will, if deficiencies are identified have these corrected as parts of the upgrading schedules for each hotel. While the ALH operations are all located in historic locations, they do not disturb or negatively influence any cultural heritage sites. With this in mind the project has potentially limited adverse environmental or social impacts that are few in number, site-specific, largely reversible, and readily addressed through mitigation measures. As a result this is a Category B Project according to IFC's environmental and social review procedures.

Description of key Environmental and Social Issues and Mitigation:

Key environmental and social issues are presented below. ALH has presented plans to address these issues to ensure that the proposed project comply with the environmental and social requirements - the host country laws and regulations and the World Bank/IFC Performance Standards and the applicable environmental, health and safety guidelines. The information about how these potential impacts will be addressed by the sponsor/project is summarized in the paragraphs that follow.

- Social and Environmental Assessment and Management Systems:

In the autumn of 2006 an Environmental and Health & Safety Audit was carried out for all the owned and operated hotels. This audit indicates that ALH has a series of environmental and health & safety systems in place at each of their hotels. These systems ensure that all hotels operate in accordance with local rules and legislation, and in many cases exceed these standards and approach European Union standards, yet these systems do not comprise the full aspects of ISO 14001 (environmental) or OHSAS 18001 (Health & Safety) management systems. To ensure that consistent high standards will be applied universally within a continuously expanding ALH, it has been agreed that ALH will establish a central "Environmental, Health & Safety, and Fire & Life Safety Unit". This unit will ensure that ALH at all times has the necessary internal expertise to achieve compliance with both local rules and regulations, World Bank guidelines, and internationally recognized fire and life safety standards at all its operations, whether owned or under management contract. The new central organization will also be responsible for continuous improvement programs including expanding the waste reduction and recycling initiatives already underway in certain areas

- Labor and Working Conditions:

During the appraisal of ALH's hotels the operating facilities for kitchens, heating and cooling systems, laundry operations, loading docks, etc. were visited and inspected for safe working conditions. The inspections included items like; easy and known availability of fire blankets near oil cookers, internal opening handles in walk-in-freezers and refrigerators, ease of escape in case of emergency, etc. The inspections gave a very positive impression with only minor points to be corrected.

Union membership is free in Croatia and approximately 65% of ALH's employees have chosen to be members of the local unions. The official minimum age for employment is 15 years in Croatia. ALH hotels however, enforces a minimum age of 17 years, with those below 18 (typical cook and waiter trainees) enjoying special young worker protection rights.

The hotels are all located in areas with mixed ethnic population, although ethnic Croatians are the dominant majority. Employment opportunities in the ALH group are strictly offered to applicants based on their qualifications, and as a result the ethnic composition of the staff reflects the local diversity.

Accident data was collected for all ALH's hotels. The analysis shown that no major accidents have occurred at any of the hotels for several years, but minor accidents, typically related to tripping hazards or utensil operations in kitchen operations does appear at a rate that could be improved. Initiatives to reduce the frequency of minor accidents will also belong under the new central Environmental, health & Safety, and Fire & Life Safety Unit.

- Pollution Prevention and Abatement:

ALH has at most of its hotels made a conscious move towards gas based heating systems to limit the air emission to the highest possible extent. Air condition cooling is done by a combination of dry coolers and compact chillers using approved refrigerant in all but one hotel (Bonavia), which will need its cooling system replaced before 2015 according to European Union standards for the phase out of R22. Only one hotel has internal dry-cleaning capability, and the system, using Perchloroethylene, was found in good condition.

The ALH hotels collect and sort waste according to recycling categories wherever possible. Cooking oil from the kitchens is collected in special tanks for handling by an approved handler. Other waste types are either handled by recycling operators or municipal waste handlers. As mentioned above, based on the establishment of central coordination and continuous improvement on environmental and safety standards the degree of sorting for recycling will likely be expanded.

All ALH's hotels are located in city settings and water is supplied by the local utility companies. Wastewater is also discharged to the local sewage treatment authorities.

- Community Health, Safety and Security:

All ALH's hotels, except for the new completely rebuild Bellevue hotel in Dubrovnik, have undergone several renovations during their operational time. They were all designed to follow the latest national fire and life safety standards at the time of their most recent renovation. This means that the hotels display slightly different approaches, with the newest hotels being advanced according to latest national standards inspired by a combination of several of the dominant European standards. Except for the Bonavia hotel in Rijeka, the remaining hotels are built into the steep rock formation leading down to the Adriatic Sea in Dubrovnik. As a result, many floor levels have direct access to ground level escapes. For the latest hotel, the Bellevue, no occupant is more than one level from direct access to ground level escape. The Palace Hotel also has several "ground level exits" (at lowest, top and interim levels), and the Excelsior has full "ground level exits" from both the lowest levels and the top levels of the hotels. The Kompas hotel has ground level exits from the lowest level in the older part of the hotel, as well as from the new upper level. Each interim level in the older part of the Kompas hotel has access to an external (free air) large fire escape staircase in one end of the corridor, and an internal fire staircase in the other end of the corridor. By spot inspections it was found that hotel personnel were well aware of the fire safety requirements and the escape signage for directions and fire escape doors were clear and appropriate. The hotels are not equipped with sprinklers, except for certain public areas and internal garages. There are smoke detectors, fire hoses, extinguishers, and fire alarms throughout the buildings.

The Environmental, Health & Safety, and Fire & Life Safety Unit will, as a condition of the proposed IFC financing, ensure that all buildings, besides complying with the local fire and life safety standard, will be upgraded to comply with one of the established major European standards (e.g. German, British, or French) during the planned upgrade programs. The upgrade programs include a rehabilitation of the older section of the Excelsior Hotel during the winter of 2006-7, and a complete rehabilitation of the Kompas Hotel during the winter of 2007-8.

- Cultural Heritage:

The ALH hotels are not located directly in cultural heritage areas of Dubrovnik. Nevertheless all hotels, except for the Kompas Hotel, have certain restriction related to cultural heritage or natural protection. This includes the older part of the Excelsior Hotel, the Petka hill natural area nearby the Palace Hotel, Villa Miramare a part of the Bellevue Hotel, and the Bonavia Hotel building itself. The need for protecting cultural heritage is well accepted on the Croatian coast, and ALH has long experience in operating hotels under cultural and natural protection restrictions, and see the proximity to, and conservation of, these assets as important to the image of the hotels and their settings.

Client's Community Engagement:

Publication of this ESRS constitutes the client's first community engagement related to its expansion plans. ALH does not have specific acquisition plans available before potential takeovers or management contracts have been agreed with a willing client or seller, and preemptive community engagement on a broader scale has therefore not been possible.

Aside from the proposed expansion plans, ALH has significant community relation activities as a natural consequence of their long term success being determined by their ability to give guests a series of positive experiences in the local environment. Recently, the Adriatic coast has experienced a real estate boom with prices escalating beyond the income range of local residents, and ALH has reacted by engaged in the development of ideas for creating affordable living for its local employees.

Approval Status:





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