



# Environmental Monitoring Report

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Project Number: 40936  
31 August 2009

## PAK: JS Private Equity Fund I

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**Asian Development Bank**

## Annual Environmental and Social Report for Financial Intermediary Clients

Please provide responses to the questions below. Please include additional sheets or attachments as required to provide details on questions that have been answered Yes.

Organization:	<i>JS Private EquityFund I LLC</i>		
Completed by (name):	<i>Safia Shafiq</i>		
Position and contact information:	<i>ESS Manager</i>	Date:	<i>August 31, 2009</i>
Reporting period: mm/dd/yyyy to mm/dd/yyyy	<i>09/01/2008 to 08/31/2009</i>		

### Portfolio Information

#### *Exposure by Industry Sectors*

Please completely list the sectors where the fund invests and provide an indicative % of portfolio.

<b>Industrial Sector</b>	<b>Indicative % of portfolio</b>
Animal Production	
Apparel	
Chemicals	20%
Collective Investment Vehicles	
Common Carriers	
Construction and Real Estate	
Consumer Goods	
Crop Production	
Electrical Equipment, Appliances and Components	
Fabric Mills	
Fabricated Metal Product Manufacturing	
Finance & Insurance	
Finishing (Dyeing, Printing, Finishing, etc.)	
Fishing	
Food & Beverages	
Forestry	
Furniture and Related Products	
Integrated Textile Operation (Spinning, Weaving/Knitting, but no Garment )	
Internet Projects	
Leather and Allied Products	
Machinery and Other Industrial	
Nonmetallic Mineral Product Manufacturing	
Oil, Gas and Mining	

Plastics & Rubber	
Primary Metals	
Printing & Publishing	
Pulp & Paper	
Spinning (Yarn, Including Integrated with Fiber Production)	
Telecommunications	
Textiles - Others	
Transport Service	39%
Transportation Equipment	
Utilities	
Warehousing & Storage	
Wholesale and Retail Trade covering any of the following. Gasoline stations, dry cleaners, printing, large auto and truck fleets, photographic film processing and any operations involving the use of any chemical of biological wastes or materials	
Wood Products	
Advertisement	27%
Broadcasting	14%

**Information on exposures**

Please list all new and existing exposures (please add rows as needed):

Company name, location	Industry sector <sup>1</sup>	Description of project/company <sup>2</sup>	Investment type	Envt category	Environmental issues at approval	Current environmental status/any changes since last report
<b><u>New</u></b>						
<b><u>Existing</u></b>						
Engro Polymer & Chemicals Ltd. (EPCL)	Chemicals	<p>EPCL is a leading petrochemicals company of Pakistan producing different grades of PVC resins. Financing is provided for expansion and backward integration project comprising of :</p> <ul style="list-style-type: none"> <li>– Construction of second PVC plant of capacity 50,000 Tpa to enhance total capacity of EPCL to 150,000 Tpa;</li> <li>– Dismantling, shipping and re-construction of second-hand EDC/VCM plant from USA;</li> <li>– Construction of new chlor-alkali plant to produce chlorine (the basic raw material for EDC production) and caustic soda (saleable by-product); and</li> <li>– Establishment of 65 MW combined cycle gas-fired power plant.</li> </ul>	Ordinary Shares	B	The due diligence of EPCL was based upon the EIA report, findings of the Environmental and Social Review carried out by IFC and EPCL’s documents/reports. EPCL is compliant with national environmental and labour regulations. The Company has agreed upon an ESAP with IFC.	EPCL is following the ESAP agreed upon with IFC. The company’s annual environmental and CSR reports are shared with JSPE. No additional environmental issues have been recorded since the last report.
Optimus Ltd.	Transport Service	Optimus is a land transportation and vehicle lease rental company operating from eight cities in Pakistan. It is the exclusive licensee of the Hertz franchise in Pakistan. Optimus operates two	Ordinary Shares	C	No major environmental or social issues were identified at the time of investment. The company is compliant with national environmental and	<u>HR Policy</u> : The HR Policy is being implemented but due to the company’s restructuring and changes in staffing the progress in this regard has been

<sup>1</sup> Please use any standard classification or the sectors listed in the earlier table

<sup>2</sup> Please describe the nature of the business activity of the project or activity being financed.

		<p>separate businesses: Hertz Lease, offering full service operating leases to corporations and individuals; and Hertz Rent-a-Car. Financing is being provided for converting Optimus from an operating lease company to a vehicle leasing company holding a leasing license. The funds will be used for:</p> <ul style="list-style-type: none"> <li>- Acquisition of leasing company;</li> <li>- Acquisition of Fleet Management System; and</li> <li>- Expansion of existing fleet.</li> </ul>			<p>labour laws. The following are recommended for the remaining period of JSPE investment:</p> <ul style="list-style-type: none"> <li>- Monitoring the company's operations for any unforeseen environmental or social concerns that may emerge in future;</li> <li>- Reviewing the HR Policy as it is developed to ensure that requirements of IFC's PS 2 (Labour and Working Conditions) are fulfilled; and</li> <li>- Assessing Optimus' maintenance and repair facilities (currently being established) for possible adverse environmental impacts.</li> </ul>	<p>slow.</p> <p><u>Training:</u> Defensive Driving Training (DDT) for drivers of short and long term lease vehicles is continuing. The company has printed a detailed instruction booklet for drivers that covers:</p> <ul style="list-style-type: none"> <li>- Company rules and regulations;</li> <li>- Principles and techniques of defensive driving;</li> <li>- Vehicle maintenance; and</li> <li>- Customer relations.</li> </ul> <p>This booklet is in Urdu and is provided to all drivers.</p> <p><u>Maintenance and repair facilities:</u> During the economic downturn cost cutting measures were put in place under which vehicle repair and maintenance has been outsourced.</p> <p><u>Health &amp; Safety:</u> An HSSE audit of Optimus' operations was conducted by Unilever Pakistan Ltd. The audit reports progress in the Defensive Driving Training Programme, medical tests for drivers, vehicle inspection by management and some amendments in policy documents. However, more work is needed in the areas of HSSE Policy, drivers'</p>
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						hiring and induction programme and incident recording and investigation. The report also observes that drivers' resting facilities at Karachi and Lahore require improvement.
Signsource Ltd.	Advertisement	Signsource is an Out of Home ("OOH") advertising company with its head office in Karachi and regional offices in Lahore and Islamabad. The Company has been operating a nationwide network of billboard sites since its incorporation in May, 1999. The scope of the transaction with JSPE is expansion capital. Proceeds will be utilized for: <ul style="list-style-type: none"> <li>- Deployment of street furniture;</li> <li>- Expansion into place based advertising;</li> <li>- Upgradation of static billboard sites to Multi-Flips; and</li> <li>- Organizational re-structuring.</li> </ul>	Ordinary Shares	C	The project is not expected to have any significant environmental or social impacts. Recommendations for duration of JSPE financing are: <ul style="list-style-type: none"> <li>- Work with Company's management to improve the occupational safety of contractual labour;</li> <li>- Review Signsource's draft HR Policy to ensure that all aspects of IFC's PS 2 are addressed; and</li> <li>- Maintain an appropriate level of oversight for the duration of JSPE investment to ensure that unforeseen environmental or social issues do not arise.</li> </ul>	No major changes since last report. <p><u>Life &amp; Fire Safety</u> LFS measures have been instituted at the company's Head Office in Karachi, and are in process in Signsource offices in other cities.</p> <p><u>HR Policy</u> Signsource's HR Policy was reviewed and found to be quite comprehensive.</p> <p><u>Alternate Energy Initiative for Lighting</u> The company had explored the option of installing solar panels for illumination of street furniture but due to financial non-viability the project wasn't implemented.</p>
Sachal Radio	Broadcasting	Sachal Group owns 16 radio station licenses – 14 in Sindh and 1 each in Balochistan and NWFP. Currently, it covers 29% of Pakistan's population and is aiming to be a national network covering more than 60% of the population. Key reasons for investment are strong growth in advertising spend, a fragmented FM Radio sector, a high barrier to entry. Proceeds will be	Preference Shares	C	No major environmental or social issues were identified during the preliminary due diligence (review of company documents).	After the institution of the company's new management a detailed environmental and social due diligence exercise was undertaken. The company Head Office was visited, meetings were held with staff and the HR Policy was reviewed. Some amendments to the Policy have been suggested but have

		utilized for: <ul style="list-style-type: none"> <li>- Organizational restructuring;</li> <li>- Capacity building (set-up of non-operational radio stations, upgradation of current operational systems and network centralization)</li> <li>- Brand building</li> </ul>				not yet been approved by the Board of Directors.
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## Social & Environmental Management System (SEMS) Information

Policies & Processes	Yes/No	
Have there been any updates to the Environmental Policy adopted by your organization?	No	If yes, please provide a copy of the updated policy including date when it was issued and reasons for the same.  <i>JSPE's Environmental Policy was issued on 05/17/2007. No revisions have been made to date.</i>
Has senior management signed off on the updated policy/procedure?	NA	If yes, please provide the date and internal communication indicating the same.
Has the budget for implementation of the policy/procedure been revised from the previous year?	No	If yes, please provide details of the budget allocated and reasons for the change.
Please describe any activities for the last FY for staff training and other internal communication		<ul style="list-style-type: none"> <li>▪ <i>The deal/investment teams are advised on environmental and social aspects of projects on a case to case basis.</i></li> <li>▪ <i>A greater focus is given to environment in internal publications and communications as opposed to previous years.</i></li> </ul>
Give details of any transactions rejected on environmental, health, safety or social grounds	None	
State any difficulties and/or constraints related to the implementation of the environmental procedures		<ul style="list-style-type: none"> <li>▪ <i>Due to low levels of awareness of environmental issues, it is sometimes difficult to convince investee companies to adopt and invest in appropriate environmental systems/procedures and mitigation measures where applicable.</i></li> </ul>
Please describe how you ensure that your clients and their projects are operated in compliance with the National laws and regulations and (if applicable) the IFC Performance Standards		<ul style="list-style-type: none"> <li>– <i>SEMS is followed for every investment made by JSPE.</i></li> <li>– <i>At the deal identification stage a screening procedure is undertaken to classify the project as per IFC categorization (A,B or C). The national environmental and social regulations/ laws the project would be required to fulfill are also ascertained.</i></li> <li>– <i>The compliance requirements to be met by the investee are listed in the Term Sheet, which summarizes the main features of the financing agreement between JSPE and the investee. This is submitted to the investee for negotiation and approval.</i></li> </ul>

		<ul style="list-style-type: none"> <li>– <i>Internal due diligence is carried out. This includes examination of certificates and documents of compliance from regulatory authorities (e.g Labour Dept., EPA), interviews with staff and site visit of facilities.</i></li> <li>– <i>If national law or IFC Performance Standards require an IEE or EIA to be carried out, external consultants are hired for the purpose and an Environmental Management Plan (EMP) may be developed to mitigate impacts.</i></li> <li>– <i>The project is monitored through the life of the investment to ensure continued environmental and social compliance.</i></li> <li>– <i>Monitoring reports are prepared and submitted to senior management. The frequency of the reports is dependent upon the nature of the project .</i></li> </ul>
Please provide two sample internal E&S review reports conducted for projects considered last year. (Only if following IFC's PS is an Applicable Requirement)		<i>Attached</i>
Please give details of any material environmental and social issues associated with investees during the reporting period in particular	<i>None</i>	
Do you consider compliance with national laws as part of your credit review process, when considering potential investments?	<i>Yes</i>	<p>If yes, please describe the process including any environmental and social considerations if applicable.</p> <p><i>Legal due diligence is carried out for every project being considered for investment. With respect to E&amp;S compliance, applicable national laws are identified and the company is required to demonstrate compliance as a precondition to investment.</i></p>
Do you review the operational performance (non-financial) performance of industrial facilities you invest in?	<i>Yes</i>	<p>If yes, please describe the process including any environmental and social considerations if applicable.</p> <p><i>Environmental and social issues in potential investee companies are identified at the beginning of the deal sourcing process and conditionalities for compliance with national laws and IFC Performance Standards are built</i></p>

		<i>into the Investment Agreement. A review system for periodic monitoring is also agreed upon with the investee and is followed strictly. In most cases quarterly reviews are conducted and monitoring reports are prepared.</i>
Do you conduct site visits for any industrial facilities you invest in?	<i>Yes</i>	<p>If yes, please provide % of projects that are covered, and describe the aspects covered in the site visit including any Environmental and Social considerations if applicable.</p> <p><i>Site visits are part of the environmental screening and quarterly monitoring process of all JSPE investments. However, at present JSPE has invested in only one industrial facility, EPCL, which we have not visited. EPCL is directly financed by IFC and is implementing an ESAP agreed upon with IFC, which has been shared with JSPE. As the ESAP's implementation is being directly monitored by IFC, it was not thought necessary to conduct additional monitoring. The company's environmental and social performance reports are shared with JSPE.</i></p>
Do you know whether your clients and their projects are in compliance with the relevant environmental, health and safety regulations of the host country?	<i>Yes</i>	<p>If yes, please describe the process.</p> <p><i>The relevant laws and regulations specific to the client's operational sector are identified and clients are requested to submit documentary proof of compliance. Site visits and meetings/interviews with staff are also conducted.</i></p>
Have you invested in projects that entail acquisition of land?	<i>No</i>	<p>If yes, please explain the extent of land acquisition and any due diligence conducted by you.</p>
Please indicate whether you have worked with with any International Finance Institution (for instance, ADB, EBRD, IDB, NIB, IFC) and have used their environmental and social guidelines.	<i>No</i>	<p>If yes, please provide the dates worked with the IFI and details of any environmental and social procedures followed.</p> <p><i>ADB's Environmental Assessment Guidelines 2003 and sectoral guidelines developed by IUCN for Government of Pakistan are consulted for E&amp;S reviews and assessments.</i></p>
Do you regularly update the Social & Environmental Management System		<p>If yes, please explain frequency and indicate number of updates since start.</p>

(SEMS)?		<i>SEMS was designed and instituted in 2008 and is functioning smoothly. To date any amendments or changes to the system have not been made.</i>
<b>Capacity</b>	<i>Yes/No</i>	
Please provide current staffing of the core SEMS people as well a list other people in the organization involved with the SEMS implementation		<i>Environmental and Social Sustainability (ESS) Manager (1) – responsible for overall management of the ESS Department. Due to the financial downturn and deliberately cautious deployment of the Fund, additional human resource has not been required to date. However, as investment pace picks up and the project portfolio expands, new staff may be hired.</i>
What was the budget allocated to the SEMS and its implementation during the year? Please include staff costs, training as well as any actual costs.	<i>Yes</i>	<i>\$60,000/year budgeted for the position of Environmental &amp; Social Sustainability Manager.</i>
Has the SEMS team undergone any training?	<i>Yes</i>	<i>If yes, please describe the training provided to the Environmental Coordinator and other team members during year.</i>  <i>– A two day workshop on Building Management Systems (BMS) by GBM, CDC and Cisco</i> <i>– UNDP/GEF Workshop on Carbon Credits potential in wind power sector in Pakistan</i>
Does the Fund have regularly scheduled training for other departments in the organization?	<i>No</i>	<i>If yes, please describe the training provided to credit officers, legal officers, marketing officers on implementation of the SEMS and give details regarding training format and frequency.</i>
<b>Monitoring</b>	<i>Yes/No</i>	
Do you receive any non-financial reporting from industrial projects you invest in?	<i>Yes</i>	<i>If yes, please describe and provide supporting documents including any environmental and social considerations if applicable</i>  <i>All industrial and non-industrial projects are regularly monitored for environmental and social sustainability performance and quarterly reports are prepared. As the investee companies typically do not have the capacity of monitoring ESS aspects and preparing reports on their own, JSPE’s ESS department</i>

		<i>undertakes this task.</i>
<p>Please describe how you monitor investee environmental performance. Please provide the following information</p> <ul style="list-style-type: none"> <li>- Number of projects in portfolio classified as category A or B</li> <li>- Number providing annual reports</li> <li>- Number of projects where a field visit was conducted by a bank staff to review aspects include Environmental and Social issues</li> </ul>		<p>If yes, please describe and provide supporting documents.</p> <p><i>Currently there are no Category A projects and only one Category B project (EPCL) in JSPE's portfolio. The EPCL project is also directly financed by IFC. Being a Category B project, an EIA was conducted by a consulting firm and IFC independently carried out an environmental and social review before investment was made. JSPE undertook a due diligence exercise for the project and reviews its annual environmental and CSR reports.</i></p>
<p>Please provide details of any accidents / litigation / complaints /regulatory notices and fines:</p> <ul style="list-style-type: none"> <li>- Any incidents of non-compliance with Applicable Requirements</li> <li>- Covenants/ conditionality imposed by the Bank as a result of any non-compliance</li> </ul>		<p><i>Litigation: Investee company Optimus Ltd. is in litigation with its workers' union. For details please refer to section on Optimus Ltd., Workers' Union (pg. 5) under "Information on Exposure".</i></p>
<p>Do you check for ongoing compliance of your investments with national regulation and any other requirements?</p>	<i>Yes</i>	<p>If yes, please describe the process including any Environmental and Social considerations if applicable</p> <p><i>The portfolio companies are monitored on a quarterly basis for the duration of JSPE investment. All requirements under national laws and regulations are conveyed to the companies and compliance is ensured. Updated compliance documents and certificates are requested from the companies as part of the monitoring process.</i></p>
<b>Reporting</b>	<i>Yes/No</i>	
<p>Is there an internal process to report on environmental and social issues to Senior management?</p>	<i>Yes</i>	<p>If yes, please explain process, reporting format and frequency.</p> <p><i>Quarterly reports are submitted.</i></p>
<p>Do you prepare any environmental reports</p> <ul style="list-style-type: none"> <li>- For other MLAs</li> <li>- Other stakeholders</li> <li>- E&amp;S reporting in the Annual Report</li> <li>- Sustainability reports</li> </ul>	<i>Yes</i>	<p>If yes, please provide copies of these reports.</p> <p><i>E&amp;S reports and updates are included in the Group's Annual Reports and newsletters.</i></p>
<p>Do you have a process to inform IFC of</p>	<i>Yes</i>	<i>Through quarterly Fund Manager reports to</i>

any material change of business?		<i>LPs</i>
Do you inform IFC if there is any incident/accident at one of the projects?	<i>NA</i>	
Do you report to IFC as per the agreed upon schedule and format?	<i>No</i>	<i>There is no agreed schedule for reporting to IFC other than the Fund Manager reports. JSPE adheres to the reporting format for Environmental compliance provided by IFC</i>

**Sustainable finance**

Have you made any investments in projects that have environmental and social benefits such as investing in management systems, energy efficiency, renewable energy, cleaner production, pollution management, supply chain greening, corporate social responsibility, community development etc? Please list these in the format provided below:

Project Name	Value financed by the company (US\$ million)	Type of environmental benefit <sup>3</sup>

<sup>3</sup> Examples are cleaner production, energy efficiency, renewable energy, carbon finance, management system improvement, sustainable supply chain, corporate social responsibility etc.