

Environmental and Social Review Summary

Integrated Utilities

This Environmental and Social Review Summary (ESRS) is prepared by MIGA staff and disclosed in advance of the MIGA Board consideration of the proposed issuance of a Contract of Guarantee. Its purpose is to enhance the transparency of MIGA's activities. This document should not be construed as presuming the outcome of the decision by the MIGA Board of Directors. Board dates are estimates only.

Any documentation which is attached to this ESRS has been prepared by the project sponsor, and authorization has been given for public release. MIGA has reviewed the attached documentation as provided by the applicant, and considers it of adequate quality to be released to the public, but does not endorse the content.

Country:	Morocco
Sector:	Utilities
Project Enterprises:	Redal S.A and Amendis S.A
Environmental Category:	B
Date ESRS Disclosed:	11/27/2013
Status:	Due Diligence

A. Project Description

The proposed project involves a guarantee to Actis Morocco Holdings Ltd., an investment vehicle of Actis (the “Sponsor” or the “Fund”), UK private equity fund and existing client of MIGA, in acquiring two companies¹: Redal S.A (“Redal”) and Amendis S.A (“Amendis”, together the “Projects”) in Morocco from Veolia Environnement Maroc (“Veolia”). Redal and Amendis are integrated utility companies providing: (1) electricity supply, (2) collection, supply and treatment of drinking water from springs, ground water and borings, and (3) sewage treatment and disposal in the three major cities of Rabat, Tangier and Tétouan under separate concessions with local municipalities. Redal has one concession, entered into in 1998 covering the capital city Rabat. Amendis has two concessions, entered into in 2001, covering the cities of Tangier and Tétouan in the north.

Redal covers 3 regions (Rabat, Salé and Skhirat-Temara) which are made up of a total of 10 urban districts, 4 urban municipalities and 4 rural municipalities. As of 12/31/2011, Redal serves about 537,000 customers for power distribution and about 420,000 customers for water and sanitation. The Redal power distribution system is fed by 5 high-voltage (HV) Substations interconnected to the National Office of Electricity and Water (Office National de l'Electricité et de L'Eau Potable – ONEE) transmission network, with a total installed capacity of 585 mega volt-ampere (MVA). The network includes 29 switching stations for the underground medium-voltage (MV 20kV) feeders, 500 km of MV overhead lines and 1,800 km of underground buried cables, about 2,500 step-down transformers (220/318V) and about 3,300 km low-voltage (LV 220/381V) of overhead and underground cables. In order to meet the demand at any given time,

¹ Actis is also purchasing two smaller subsidiaries Amanor and Campus Veolia. Amanor, a construction and services company mainly providing maintenance and cleaning service to Redal and Amendis, and Campus Veolia, providing training services to the employees of Redal and Amendis. MIGA coverage will not include the purchase of Amanor and Campus Veolia.

Redal is constructing 2 new substations (2 x 70 MVA each) expected to be completed by 2016. In addition to upgrades to the existing network over a five-year plan.

As for Redal's water and sanitation service systems, ONEE supplies Redal with drinking water from storage reservoir on the Bouregreg wadi. About 93.7 million cubic meters per year (m³/year as of end of 2011) is delivered to 14 primary reservoirs managed by municipalities. Redal also operates around 7 drilled wells in Témara, Rabat, Salé and to the south of Kenitra, which produced 3.8 million m³ in 2011. The total drinking water distribution network is about 3,800 km in length and interconnected system and conveyance is mainly through gravity with few pumps. As of end of 2011, the sanitation system network is about 1,860 km in length and 22 pumping stations. It is a combined sewer system with few sections in newer developments being equipped with a separate sewer system. All wastewater is discharged either in the Cherrat River, Bouregreg wadi (downstream of the storage reservoir) or in the ocean, through about 40 discharge points. There is no treatment for ocean discharge and secondary treatment for discharge to the Cherrat River. Redal is commissioning a new wastewater preliminary treatment plant with 2 km sea outfall for discharge to the Ocean of sewage from Rabat and is planning the construction of a similar plant in Salé (construction planned for 2015 and operation planned for first quarter 2016).

Amendis concession in Tétouan includes the metropolitan area of Tétouan as well as the Mediterranean coastline called Tamuda Bay and the concession in Tangier includes the metropolitan area of Tangier, Azilah city and the rural municipalities of Boukhalet, Al Barhouine, Al Khalouha, Akouass and Aouma. Amendis has the same system components for power, water and sanitation that are less in length, power capacities, reservoirs, etc. serving about 240,000 customers in Tangier and 190,000 in Tétouan where water supply is also from ONEE. As part of the investment plans in Tangier and Tétouan, Amendis is constructing 2 new HV substations expected to be completed by 2014 and 2015 respectively, and install a Control Center (BCC) which is in progress. In addition, Amendis is upgrading the existing network to optimize the LV distribution network. In Tangier, Amendis is also refurbishing a tertiary treatment plant for water effluent of Boukhalef with operations expected in 2014.

Actis has requested MIGA to cover both Projects for risks of expropriation, transfer restriction, war and civil disturbance and breach of contract for up to 15 years; details are in the Summary of Proposed Guarantee (SPG) disclosed on 11/27/2013.

B. Environmental and Social Categorization

This is a Category B project according to MIGA's Policy on Environmental and Social Sustainability dated October 2013. The Projects are expected to have limited environmental and social (E&S) impacts that will be site-specific, temporary, and none are expected to be significant. Those impacts can be avoided or mitigated by adhering to recognized performance standards, operating procedures, guidelines and design criteria as described in the following sections.

Key E&S issues related to the Projects include: adequate E&S assessment of the impacts of the Projects during network upgrades, construction and operations of treatment plants; the Fund Manager's capacity to manage the Projects' environmental, social, health and safety performance, and engage with local communities in accordance with national requirements and MIGA Performance Standards; assurance of fair, safe and healthy working conditions of Projects' facilities - including those for the contract workers; utilization of equipment and operating

practices that maintain acceptable standards of water quality and maximize conservation of process energy; and management of community health, safety and security.

Information on how these E&S issues are, or will be, addressed by Actis and the Projects to comply with MIGA's Performance Standards and World Bank Group's (WBG) Environmental Health and Safety (EHS) Guidelines is contained in the following sections.

C. Applicable Standards

While all Performance Standards (PSs) are applicable to this MIGA guarantee project, based on our current information the Projects will have impacts which must be managed in a manner consistent with the following PSs:

- PS 1: Assessment and Management of Environmental and Social Risks and Impacts;
- PS 2: Labor and Working Conditions;
- PS 3: Resource Efficiency and Pollution Prevention; and
- PS 4: Community Health, Safety and Security.

E&S issues associated with the following PSs were not encountered during the assessment of the Projects:

- PS 5: *Land Acquisition and Involuntary Resettlement* is not expected to be applicable as the Projects involve no physical or economic displacement;
- PS 6: *Biodiversity Conservation and Sustainable Management of Living Natural Resources* is not triggered as there are no known impacts on conservation or biodiversity within the Projects' area of influence. According to the national program, marine fauna monitoring is conducted at the marine outfall of pretreatment plant effluent. For new/expansion of treatment plants and substations, Environmental Impact Assessment (EIA/ESIA) will be conducted to examine any related issues with discharge of effluent through the ocean outfall;
- PS 7: *Indigenous Peoples* is not expected to be triggered as no known indigenous peoples are within the areas of the Projects; and
- PS 8: *Cultural Heritage* is not triggered as Projects being considered for MIGA guarantee are not located in areas of known historical or cultural significance. For new/expansion of treatment plants and substations, "Chance Find" procedures will be implemented, as part of management system, during construction to ensure proper management of any chance finds of physical cultural resources.

The Projects will be required to comply with the World Bank Group (WBG) Environmental, Health and Safety (EHS) General Guidelines, EHS Guidelines for Electric Power Transmission and Distribution and EHS Guidelines for Water and Sanitation.

D. Key Documents and Scope of MIGA Review

The documents reviewed by MIGA include:

- MIGA environmental and social questionnaires completed by Actis and Projects;
- Concession agreements titled "Delegated management agreement for the sewage disposal and drinking water and electricity supply services" for Rabat, Tangier and Tétouan;
- Veolia Ten-year performance reports titled "Bilan des Performances Contractuelles et Opérationnelles" for Redal, Tangier and Tétouan dated 2012;

- “Due Diligence for Water and Wastewater” dated July 2012 prepared by Actis Consultant;
- “Summary of Technical Due Diligence” for Electricity dated May 2013 prepared by Actis team;
- “Overview of Assets” dated March 2013 prepared by Actis team;
- Actis story dated March 2013;
- Actis ESG Code dated May 2011;
- Actis E&S Due Diligence against Performance Standards dated November 2012;
- Actis Action Plan against Performance Standards; and
- Definitive Application for a MIGA Guarantee;

MIGA’s review of the Projects also included correspondence comprising of environmental and social information submitted by Actis.

E. Key Issues and Mitigation

Key environmental and social (E&S) issues associated with Redal and Amendis business activities are summarized in the paragraphs that follow. Information presented in this section includes, when applicable, the performance of the Fund followed by the performance of the two Projects (specific information of each project is provided when performance differs from one company to another).

PS 1: Assessment and Management of Environmental and Social Risks and Impacts

Environmental and Social Assessment and Management System

Actis manages E&S issues as part of a corporate-level Responsible Investment (RI) management system comprising policies, organization, planning and implementation, monitoring, reviewing, and auditing. The corporate RI system commits Actis to World Bank Group standards, as well as adherence to the UN-backed Principles for Responsible Investment (UNPRI).

Actis also has five (5) policies to address environment, climate change, health and safety, business integrity, and social issues. The Fund assesses the impact of all new investments against each of the five policies as an integral part of the appraisal process. According to PS 1 requirements, Actis has a well-defined Environmental and Social Management System (ESMS) as part of the Fund’s Environmental, Social and Governance (ESG) code. The ESG code is fully integrated with its investment management process from origination, screening, and investment appraisal through to portfolio management against the requirements of the PSs and national E&S laws.

The concession agreements for the Projects were both issued and signed before Moroccan Law no. 12-03 for Environmental Impact Assessment (EIA). However, Amendis and Redal prepared the following EIAs in accordance to national requirements for past and ongoing treatment plant projects:

- Amendis – EIA of wastewater treatment plant and sea outfall in Tangiers (May 2004)
- Amendis – EIA of wastewater treatment plant in Tétouan (March 2005)
- Amendis – EIA of Tamuda Bay wastewater treatment plant (April 2008)
- Redal – EIA of the future wastewater treatment plant in Rabat (February 2006), EIA of the wastewater treatment plant of Rabat city (draft report - September 2013)

- Redal – EIA of the future wastewater treatment plant in Salé (July 2004), EIA of the wastewater treatment plant of Salé city (draft report - October 2013)

Actis has agreed to include in the management system mechanism for the two Projects assessment, management and monitoring in compliance with national requirements/amendments to laws, as well as MIGA PSs.

Morocco Water Law(10-95) requires that any entity discharging into surface water and ground waters requires a prior authorization/water permit from the relevant River Basin Agency. The Projects have appropriate permits in accordance to national requirements. Tamuda Bay has permits for discharging to surface water. Rabat, Salé, Tangier and Tétouan discharge to the sea.

Redal and Amendis have integrated Quality, Safety and Environment (QSE) Management Systems that include the aspects of identification and analysis of E&S risks and identifying corrective actions in an environmental management plan. In addition, the Projects have processes to manage health and safety (H&S) in the workplace. The QSE management system is reviewed annually at the Senior Management level. Amendis is certified in Tétouan for International Organization for Standardization (ISO) 9001:2008 for quality management systems since December 13, 2010 and certified for wastewater pre-treatment plant in Tangiers for ISO 14001:2004 for environmental management systems since January 24, 2012. In addition, Amendis is also certified to British standard Occupational Health and Safety Advisory Services (OHSAS) 18001:2007 for occupational health management systems since 2010 for Tétouane and 2012 for Tangiers. Certifications are issued by IMANOR (Service Standards Moroccan Industrial) and Bureau Veritas Quality International (BVQI). Redal is also certified for ISO 9001:2008 and OHSAS 18001:2007 since 2006 and 2011 respectively while is working toward ISO 14001:2004 certification.

In order to ensure consistent implementation of the management systems, Actis is planning to create strong governance structures for both Projects including Health, Safety and Environment (HSE) function and Board subcommittees including ESG audits in accordance to an agreed timeframe.

Management Programs

Actis programs for implementation of the ESMS include assigning new investments a risk rating in environmental, climate change, health & safety, business integrity and social issues to determine the appropriate level of management and monitoring required. The inherent risk ratings are reviewed on annual basis. As part of the fund's E&S due diligence on the Redal and Amendis Projects during the investment decision process, Actis worked with a number of advisers and consultants to identify the key E&S issues and identified corrective actions in an action plan for the Projects against the applicable PSs.

Redal and Amendis use QSE performance indicators as part of the management systems. The QSE management system outlines review programs on monthly and quarterly basis where Committee on Health, Safety and Working Conditions (*le comité d'hygiène, de sécurité et des conditions de travail - CHSCT*) is responsible for assessing risks and identifying corrective actions.

Organizational Capacity and Competency

The Fund has internal specialists competent in the areas of the Actis 5-policies. Each specialist's role is to provide advice within the organization and to investee companies, both during the initial investment process and afterwards during the portfolio management of investee companies through to exit of the Fund from investment.

On Redal and Amendis levels, the primary responsibility for QSE lies with the Branch Executive, from Head office(s), who reports to the corporate committee on implementation of the management systems. The Projects are piloting assigning a "QSE Manager" role, in each project, to be based in the operational department who is responsible for monitoring system implementation and operation on a daily basis. The Department for QSE management system will report to the Steering Committee for Operational support (DSO) regularly to ensure leadership and consistency of the QSE management system under three operational divisions. Actis agreed to include training program for the Projects' QSE Managers to ensure proper implementation of the systems.

Emergency Preparedness and Response

Flooding is the most significant risk for Redal and Amendis concessions, and the Projects have flood prevention and management plans that were developed in coordination with different government stakeholders. Actis have identified additional actions to ensure flood management plans are robust. The Projects have procedures for identifying emergency situations, such as potential threat to the surrounding communities from a catastrophic failure of the infrastructure, and response mechanisms. Actis agreed that Redal and Amendis will update the procedures, in a written emergency preparedness and response plan and procedures manual, to include any other significant risks identified through the improved governance process.

The Projects confirm that training in first-aid is provided and annual reviews are conducted. Evacuation and emergency simulations are conducted annually and monitored in the context of safety action plans in accordance with established safety procedures under the procedure "Manage OHS at work".

Monitoring and Review: Actis monitors investments periodically against pre-determined metrics relating to environmental, safety and social/community parameters. In addition, regular site visits by the Fund's Energy and ESG teams and appointed advisors, is conducted to assess and evaluate progress against the action plans developed as part of the due diligence. On an as needed basis, technical assistance and advice on implementation of action plans is sought through external consultants. Actis internally reports on the implementation of its procedures on annual basis. Actis issues a fund's carbon footprint statement that includes a summary of the development impact of the fund under management. Amendis and Redal prepare annual internal environmental reports that contain QSE management system's environmental performance indicators.

Stakeholder Engagement and Grievance Mechanism: The Projects have communication processes that highlight the different communication channels (i.e. media, marketing posters, SMS) including vis-à-vis stakeholders. There is a system to receive grievances from stakeholders by phone (24/7) or mail to Redal/Amendis offices; each grievance is forwarded to the relevant department that in turn sends a letter to the author of the grievance that address concern raised. The reliability of this process still needs to be improved. Actis is planning to establish a communication plan and further formalize the grievance mechanism procedures at the Projects' level to ensure building good community relations and manage stakeholders' relationship. Similar

to other investments of Actis with MIGA, Actis will review the existing call centre and consider whether additional services are required to manage grievances and other issues raised by stakeholders.

PS 2: Labor and Working Conditions

Redal and Amendis employ about 1,631 and 2,141 employees respectively with female staff representing about 20% and 16% of total workforces. According to concession agreements, the Projects are required to hire 130 employees from the Sahara region (Saharawis), and the Projects comply with concession requirements.

Human Resources Policies and Procedures: The Projects confirmed that their Human Resources (HR) policies and procedures reflect Morocco guidelines for “Workers of Enterprises in Production, Transportation, and Distribution of Electricity”, and their requirements of the national Labor Code. Redal and Amendis are also governed by internal regulations that are evolving to adapt to the Moroccan legislative environment. Actis agreed that the Projects will review the HR policies and procedures to reflect the requirements of PS 2.

Working Conditions and Terms of Employment: 95% of employees are on a full-time basis, with contracts that specify the rights and responsibilities, compensation and benefits. All hired employees undergo a probation period of 6 months. Employee benefits include social insurance for all staff. The Projects confirmed that contract conditions are aligned with the national Labor Code and protocols signed with social partners including Collective Bargaining Agreements. The remaining 5% are contractors who are on similar contract terms.

Workers’ Organizations: Moroccan Labor Code and the Projects’ Staff Regulations provide for the existence of representative bodies in two forms: (1) Wage delegates to communicate to management individual complaints for which no union membership is required; and (2) Trade union delegates to provide to management collective grievances. More than 95% of staff is in a union (top management is not unionized).

Non-Discrimination and Equal Opportunity: The Projects confirmed that their policies comply with national requirements and that both are equal opportunity employers.

Retrenchment: Actis confirmed that there are no current retrenchment plans. Redal and Amendis are involved in recruitment plans to replace retirees.

Grievance Mechanism: The companies seem to have a grievance mechanism where worker’s representatives (employees or trade union representatives) can present a set of claims and grievances individually and/or collectively to the HR department. As part of the HR policies review, Actis will ensure that the grievance mechanism will fully comply with the requirements of PS2.

Child and Forced Labor: Redal and Amendis do not employ forced labor or children as, consistent with national law, all employees are above the age of 18. Age verification is done via a notarized birth certificate and visit to the medical center at the workplace. The Projects’ purchase procedures and policies also prohibit service providers/third parties from employing children under the age of 18.

Occupational Health and Safety (OHS)

As indicated earlier, both Projects are certified for OHSAS 18001. There is training for workers on health and safety at work and awareness raising based on the level of risk at each job. Workers' health records are kept at each project's medical center. Personal protection equipment (PPE) is provided to all workers according to job specification hazards.

In accordance to the quality management systems, the Projects record workplace accidents, frequency, severity, traffic accidents and loss ratio. Performance is reported to Committee on Hygiene and Safety (in each project) that evaluates activities related to periodic reviews and action plan(s). Records over the past three years indicate that number of accidents can be brought down. According to Actis' due diligence and action plan, health and safety audits will be conducted to ensure full compliance with MIGA PSs and EHS guidelines.

The Projects' main offices and facilities are equipped with fire alarm systems, fire extinguishers, and fire egress routes. The companies conduct fire drills at least once a year.

As noted, the Projects' future expansion plans include construction of wastewater plants and update of electrical systems and network. Actis will ensure that any construction activity carried out by contractors comply with MIGA PSs and EHS guidelines, while proper health and safety clauses are included in all contracts.

PS 3: Resource Efficiency and Pollution Prevention

Resource Efficiency: MIGA's assessment considered the Projects' operations with regard to resources consumption (water, energy, fuel), efforts to optimize resource inputs, waste minimization and management practices. The Projects are not involved in power production and resource usage was mentioned earlier in project description regarding water distribution. According to the concession agreements, government/municipalities are responsible to provide water source and account for about 97% of water source for water distribution. Power transmission is fairly simple which generates minimal wastes and emissions. The table below reflects the resource usage for the Projects.

Utility type	Redal	Amendis (Tangier)	Amendis (Tétouane)
Oil/Fuel/Diesel (m3/annum)	629	323	290
Process Water (State source) (m3/annum)	229,000	103,000	55,000
Discharged Effluent (m3/annum)	70,077,356	33,349,556	19,498,000

Diesel/fuel usage is limited to company vehicles. Redal has its own diesel pumping station with on-site underground storage tank that is well equipped with containment equipment.

Pollution Prevention

Redal's and Amendis' plants confirmed compliance with the relevant national environmental laws/standards: Maritime Fisheries, Law no.11-03, Water Law 1995 and the implementing decree 1607. Although not required by legislation, Actis will be working with Redal and Amendis to establish a formal monitoring system for pollution discharges. Actis will ensure that the implementation processes to monitor the quality of water in the outflow discharge points for the Projects are in compliance with WBG EHS guidelines.

The quality of the exhaust air is also monitored at the output of existing deodorization in Tangiers and Rabat, and results are incompliance with national requirements.

For Projects future expansions, Actis confirmed that the EIA study will assess impact of discharge of effluent to the ocean. Design of the wastewater treatment plant(s) and the ocean outfall will take into consideration and mitigate any potential impacts that may be identified during the EIA process, in addition to meeting local regulatory requirements and MIGA PSs.

Wastes: Redal and Amendis have established procedures for waste management that include methods for storage, sorting, transport and treatment of waste generated by different activities. Sludge waste amount to about 480 and 3,340 m³ at Redal and Amendis respectively. Sludge is stored in bins, disposed-off at a landfill and plans are being undertaken for reuse of sludge for agricultural purposes.

Hazardous Materials Management - Polychlorinated biphenyls (PCBs): Redal and Amendis participate in the National Program for safe management and disposal of PCBs, led by the Ministry of Environment, UNDP and UNIDO. Redal received an award in July 2013 for environmentally sound disposal of PCB, issued by the Minister of Energy, Mines, Water and Environment. Actis indicated that PCB has been removed from all transformers. However, the Fund's technical due diligence indicated that traces may be found in contaminated oil from transformers older than 25 years. At present, potentially contaminated oil is stored by Amendis in Tangiers. Contacts are on-going with external companies to treat or incinerate this oil. Such a process was already set up by Redal. Actis is planning to identify and close out any outstanding PCB issues in an agreed timeframe.

PS 4: Community Health, Safety & Security

Community Health and Safety

As indicated earlier, Redal and Amendis facilities are within urban and semi-urban communities and the Projects are committed to continuously assessing risks and impacts to the health and safety (H&S) of the affected communities. Actis is familiar with PS 4 requirements and similar to other Projects with MIGA and IFC, the Fund will work with the Projects to ensure establishing preventive and control measures consistent with good international industry practice (GIIP).

The Projects supply treated water that meets World Health Organization (WHO) standards for potable water quality. Redal and Amendis monitor treated water quality on continuous basis at laboratory facilities

Risks to surrounding communities from the failure of water storage and transmission infrastructure are very limited. All water, wastewater treatment plants and distribution facilities managed by Amendis and Redal have appropriate security arrangements. As indicated earlier, the Projects will update the emergency response plan procedures to address any potential threat to the surrounding communities from a catastrophic failure of the infrastructure (as described in the section on Emergency Preparedness and Response above).

Security Personnel: Redal and Amendis use unarmed security personnel, and Actis agreed that the Projects will be required to manage its private security in accordance with PS 4 as well as local laws.

F. Environmental Permitting Process and Community Engagement

According to the Redal and Amendis concession agreement dated 1998 and 2001 respectively, permitting requirements have been met.

Actis agreed that for new/future expansion Projects that involve construction and physical installations within urban areas, environmental permitting will be sought and community engagement will be implemented as per PS 1 requirements and the National EIA law.

G. Availability of Documentation

There are no attachments to this ESRS document.