

Environmental and Social Review Summary

Hyundai Motor Pakistan Project

This Environmental and Social Review Summary (ESRS) is prepared by MIGA staff and disclosed prior to the date on which MIGA's Board of Directors considers 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 MIGA's Board of Directors. Board dates are estimates only.

Any documentation that 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:	Pakistan
Sector:	Manufacturing
Project Enterprise:	Hyundai Nishat Motor (Private) Ltd.
Environmental Category:	B
Date ESRS Disclosed:	November 21, 2017
Status:	Due Diligence

A. Project Description

Hyundai Nishat Motor (Private) Ltd. (HNMPL), a consortium of Nishat Group, Sojitz Corporation and another local partner, plans to establish a facility to assemble and distribute Hyundai vehicles in Pakistan. The Project consists of the design, construction, and operation of a greenfield motor vehicle assembly plant, and the establishment of flagship dealerships in Karachi and /or Lahore (hereafter referred to as 'the Project'). The assembly plant will consist of a body shop, paint shop and assembly shop with inspection line, test course, motor pool, warehouses and utilities. The plant will be located on approximately 60 acres within the M3 Industrial City in Faisalabad in Punjab province.

The plant initially proposes to assemble three (3) different 'completely knocked down' (CKD) models based on current and anticipated demand in Pakistan. CKD kits and some component parts will be imported from South Korea, while other parts will be sourced locally. The number of component parts sourced locally is expected to increase over time as HNMPL plans to invest in the development of local supply chains.

M3 Industrial City, a Special Economic Zone designated by the Federal Government of Pakistan, is developed and managed by Faisalabad Industrial Estate Development and Management Company Ltd (FIEDMC). FIEDMC is managed by a Board of Directors comprising 13 industrialists, 3 representatives of trade associations and 5 officials from the Government of Punjab. M3 Industrial City is proposed to become the largest industrial estate in Pakistan occupying approximately 4,535 acres. There are currently 20 companies operating in the Industrial City. The following services are provided by FIEDMC to tenants of the Industrial City: power supply, water supply, telephone connection, firefighting and emergency response and security services. A combined effluent treatment plant is planned (supported by the World Bank), and there are also plans for the development of a solid

waste disposal facility. FIEDMC indicates that tenants will eventually have access to amenities, including recreational centers, a mosque, police station, employment exchange, playgrounds and parks, medical clinic, banks, hotels and petrol stations.

The Project is in a rural area, and there are no settlements in the immediate vicinity. The closest sensitive receptor (private residences) is located approximately 2 km from the site. The Project site is currently vacant. The land was acquired by FIEDMC for the development of the Industrial City in 2005, and the plot where the Project will be located is currently owned by Nishat Group. Prior to acquisition, the Project site was primarily barren due to the salinity of the soil. Construction of the assembly plant is anticipated to start in 2018 and be completed by the end of 2019. Operation is scheduled to start in early 2020. Target annual production capacity is 30,000 units, and the plant is expected to build up production gradually from 7,000 units in 2020 to 30,000 from 2023. There is currently little information available on the exact locations of the flagship dealerships, but it is expected that they will be established in 2018.

B. Environmental and Social Categorization

The Project is categorized as B according to MIGA's Policy on Environmental and Social Sustainability.

Key E&S issues and risks associated with the project include: (i) the company's E&S management and monitoring systems, (ii) management of labor and working conditions, and operational health and safety (OHS), and (iii) monitoring and management of air emissions, waste, wastewater and hazardous materials.

C. Applicable Standards

While all Performance Standards are applicable to this investment, based on our current information 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
- PS4: Community Health, Safety and Security

The Project (except for the flagship dealerships) is within the M3 Industrial Zone, and the land for the Project was acquired from private owners and the Government in 2005. Land acquisition was undertaken as per Pakistani law. There are currently no outstanding grievances or court cases related to land acquisition. The site is currently vacant, and no physical or economic resettlement will be required. Land and / or existing buildings for the flagship dealerships will be acquired through willing buyer / willing seller transactions or commercial lease agreements. Thus, PS5 Land Acquisition and Involuntary Resettlement does not apply.

The Project is not expected to have any significant impact on terrestrial or aquatic biodiversity or ecosystem services, and therefore, PS 6 Biodiversity Conservation and Sustainable Management of Living Natural Resources is not applicable. No indigenous people, archaeology

or culturally significant structures were identified in the area affected by the Project; therefore, PS7 and PS8 do not apply. Regardless, the Project will be required to development and implement a 'Chance Find Procedure' during construction (ESAP Action #9).

In addition, the World Bank Group (WBG) Environmental, Health and Safety (EHS) General Guidelines and Guidelines for Metal, Plastic & Rubber Products Manufacturing apply to this Project.

D. Key Documents and Scope of MIGA Review

The following documents were reviewed by MIGA:

- Greenfield Auto Manufacturing Plant: A Project of Hyundai Nishat Motor (Private) Limited. Environmental and Social Impact Assessment Report. Integrated Environmental Consultants. September 2017
- Greenfield Auto Manufacturing Plant: A Project of Hyundai Nishat Motor (Private) Limited. ESIA Report – Gap Analysis. October 2017
- Information Memorandum for Project of Assembly and Distribution of Hyundai Motor Company Vehicles. Sojitz Corporation. August 2017
- M-3 Industrial City, Faisalabad Environmental and Social Impact Assessment. Prepared by Osmani and Company for Faisalabad Industrial Estate Development and Management Company (FIEDMC). May 2007
- Land acquisition records. Department of Revenue. August 2005

MIGA's review also included a site visit to the Project site and M3 Industrial City, as well as meetings with project sponsors (Sojitz and Nishat Mills), ESIA consultant, FIEDMC, Government authorities (including the Punjab Environmental Protection Department (EPD)) and representatives of local communities.

E. Key Issues and Mitigation

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

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

Environmental and Social Assessment and Management System:

An Environmental and Social Impact Assessment (ESIA) was prepared for the Project by an independent consultant, as per Pakistani requirements. The ESIA was submitted to the Punjab EPD in September 2017, and comments from the EPD are expected by the end of October 2017. Once comments have been received and the ESIA revised (if required), there will be a 30 day disclosure period followed by a public hearing. In addition to the ESIA, a Gap Analysis was undertaken of the ESIA against MIGA's Performance Standards. The Gap Analysis identified and addressed a number of gaps, including lack of information on the social context and estimates of air, noise and effluent emissions during operations.

The ESIA also did not provide an assessment of potential cumulative impacts; however, an ESIA was also undertaken for the establishment of the M3 Industrial City. Management of cumulative environmental and social impacts associated with the development of the zone is also a component of a separate World Bank program (*Punjab Jobs and Competitiveness Program for Results*).

Sojitz Corporation has an ISO 14001 certified corporate E&S management system (ESMS). As a condition of the contract of guarantee, MIGA will require HNMPL to establish an Environmental and Social Management System (ESMS) (ESAP Action #1), which will include establishment of a health, safety and environmental (HSE) unit and stand-alone project-specific Environmental Management Plans (EMPs) for the construction and operations phases (ESAP Actions #2, #3 and #4). The EMPs will include a summary of responsibilities, potential impacts, mitigation measures and monitoring requirements. MIGA will also require HNMPL to obtain ISO 14001 and OHSAS 18001 certification for the facility (ESAP Action #5).

Monitoring and Reporting:

During construction and operations, HNMPL will submit monitoring reports to the Punjab EPD (frequency and content to be prescribed in the No Objection Certificate (NOC)). As a condition of the Contract of Guarantee, HNMPL will also provide MIGA with an Annual Environmental and Social Monitoring Report (AMR).

Organizational Capacity and Training:

During construction and operation technical management will be provided by Sojitz Automotive Division, which has experience establishing vehicle assembly facilities in emerging markets. A construction contractor will be engaged for the construction phase, and Sojitz will provide overall construction management. Some technical staff will be brought in from Japan, but a majority will be hired locally. As indicated above, as part of the ESMS, HNMPL will establish an EHS unit. The unit will be fully staffed by suitably qualified HSE professionals. The construction contractor will also be required to have a suitably qualified EHS manager, and WBG EHS requirements will be included in the construction contracts. There will be a need for HSE training during both construction and operations, and therefore, the ESMS will include a HSE training plan for all staff and contractors (ESAP Action #6).

Emergency Preparedness and Response:

In cooperation with the Punjab Emergency Services (also referred to as “1122”), FIEDMC provides emergency response services to tenants of the zone. A fire station with ambulances and firetrucks has been constructed within the industrial city, and is fully operational. As part of the ESMS, the Project will prepare a project-specific Emergency Preparedness and Response Plan (ESAP Action #7).

PS2: Labor and Working Conditions

It is estimated that approximately 1,000 people will be engaged for the construction of the Project. A majority will be engaged through the construction contract and sub-contractors. It is anticipated that 300 people will live on site in temporary accommodation during construction. The accommodation camp will be established and managed by the construction contractor, and HNMPL will require the contractor to develop and implement a Worker Accommodation Plan

to ensure that the onsite camp is at a standard consistent with the requirements of IFC / EBRD Guidelines for Worker Accommodation (ESAP Action #10).

During operations, the assembly plant will employ over 500 people, a majority of which will be employed by HNMPL. No employees are expected to reside at the site during operations. Shuttle bus transportation will be provided for employees from the Project site to central drop-off areas in Faisalabad and other surrounding towns.

Human Resources Policies and Procedures:

HNMPL will develop a Human Resources (HR) Policy and Plan in line with PS2 requirements (including non-discrimination and equal opportunity, employee grievance mechanism, performance appraisals, workers' organization, OHS, and training and development) for its staff (ESAP Actions #11 and #12). During operations, all employees directly engaged by HNMPL will have employment contracts. Contracts will define remuneration, working conditions and the rights and responsibilities of both parties. Remuneration will be at least minimum wage and overtime will be provided, as necessary, in line with national labor laws. The company has confirmed that they will not hire workers below 18 years of age which is in line with national regulations.

The Project is committed to equal opportunity employment; however, the automobile industry in Pakistan is heavily dominated by men, and therefore, most employees are likely to be male. Regardless, the Project will endeavor to consider and develop ways to overcome potential barriers to female employment, including development of Work Place Anti-Harassment Policies (ESAP Action #13); considering provision of female-friendly transportation to and from site and offering maternity leave benefits in line with national requirements.

Workers Organization

There is no national automobile workers' union in Pakistan; however, HNMPL confirmed that employees will have the right to form a union and collectively bargain (as per national laws). There are also no rules or laws to discourage or prevent employees working in the Industrial Zone from forming unions.

Grievance Mechanism

As indicated above, an employee grievance mechanism will be established as part of the HR management plan. HNMPL will ensure that contractor employees also have access to the grievance mechanism.

Occupational Health and Safety

The Plant will utilize partially automated, computer-controlled processes and machines to assemble vehicles. No major cutting, bending, or pressing operations will take place as all parts will arrive 100% prepared for the final assembly process. The primary health and safety risks include: chemical exposure, noise and vibration exposure, and use of machinery with moving parts. HNMPL will ensure that job hazard risk analyses will be undertaken for each step in the assembly process, and preventative and mitigation measures will be identified and

implemented. Adequate personal protective equipment will be provided to all the employees and contractors.

HNMPL is in the process of developing an Occupational Health & Safety (OHS) Management System, OHS Procedures and OHS Training Procedures for the Project (ESAP Action #14). MIGA will require HNMPL to achieve OHSAS 18001 certification for the facility. Accident and incident rates will be tracked (in Lost Day Accidents / Million Man Hours (LDA/MMH)), and the statistics will be reported in the AMR submitted to MIGA.

Workers Engaged by Third Parties:

The construction contractor and any sub-contractors will be required to comply with HNMPL's HR Policy, OHS policies and procedures and national labor and health and safety laws. HNMPL will develop and implement a Contractor Management Plan to guide supervision of contractors on site to ensure compliance with HNMPL HR policy, national labor laws and Project HSE requirements (ESAP Action #15). HNMPL will monitor contractors HSE performance, and any accidents or incidents by a third-party worker will be recorded in the general recording system and included in the overall statistics for the site.

Supply Chain:

HNMPL plans to establish a local supply chain to source materials and components for the Project. It is anticipated that within 5 years, local suppliers will provide approximately 40% of components. HNMPL will develop a plan for supply chain management (ESAP Action #16), which will include: i) appropriate environmental, social and health and safety standards to be applied to the supply chain; ii) transparency and resource efficiency in the supply chain; iii) consideration of sustainability in purchasing requirements; and iv) procedures for audit and evaluation of suppliers.

PS3: Resource Efficiency and Pollution Prevention

Resource Efficiency

Energy for the Project will be supplied from the grid, and will be used throughout the plant. At full capacity, daily electricity consumption is expected to be approximately 59,680 kwh. In addition to grid electricity, the Project will install a back-up power system comprised of five diesel generators, each with an installed capacity of 1,000 KVA. The process will also require the use of natural gas in the paint shop mainly for baking process. At full capacity, gas consumption is expected to be 2,721 m³/day. The Project will monitor and report on resource efficiency (i.e. unit of energy and water used per vehicle assembled) in the Annual Monitoring Report submitted to MIGA. After the first year of operation, the project will undertake an energy audit to identify opportunities to improve efficiency (ESAP Action #17).

Water for the process will be obtained via a 30 m deep tube well installed on site. At full capacity, water consumption will be approximately 50 m³ per hour. Water will be recycled through the process as much as possible. The plant is expected to generate about 2 m³ per hour of effluent.

Greenhouse gas emissions from vehicle manufacture and assembly typically account for approximately 4% of total life-cycle emissions from motor vehicles. Based on use of the national grid for electricity and natural gas in the paint shop, greenhouse gas emissions from the plant are estimated to be approximately 16,000 tCO₂e per year at full capacity. The company will quantify annually the GHG emission in line with an international methodology, and will report emissions to MIGA in the Annual Monitoring Report.

The Project will also result in indirect greenhouse gas emissions through the use of the end product. Vehicles produced by the Project will be designed to meet the Euro-II or higher emission standard.

Pollution prevention

The Project will result in the generation of solid and hazardous waste, liquid effluent and air emissions. An environmental monitoring program will be developed as part of the EMPs for construction and operations to monitor water use, effluent discharge, air emissions, solid and hazardous waste generation and hazardous materials management.

Water and Wastewater: As indicated above, the Project will result in approximately 2 m³ per hour of effluent. Effluent is expected to have a low pH, high chemical oxygen demand and elevated levels of heavy metals and phosphate. Effluent will be treated onsite prior to discharge to the Industrial City sewer system. After treatment, the wastewater discharged is expected to meet the effluent standards provided in the WBG EHS Guidelines for Metal, Plastic and Rubber Products Manufacturing. The Industrial City does not currently have a wastewater treatment plant, but the construction of a combined effluent treatment plant is planned; however, the timeline for development is not known as it will depend on financing.

Air Emissions: During construction, air emissions will primarily include dust and vehicle exhaust emissions. The impact of these emissions will be localized to the immediate project area. Most emissions to air generated during motor vehicle assembly are volatile organic compounds (VOCs) emitted from painting and finishing operations (paint storage, mixing, applications, and drying). The Project has estimated that VOC emissions will be less than 75 mg/Nm³ in line with WBG EHS Guideline standards. Other potential air emissions include carbon dioxide, nitrogen oxides (NO_x) and particulates. Monitoring data from a similar facility operated by Sojitz indicates that all emissions are expected to be below WBG EHS guideline standards. The Project may generate emissions through use of back-up generators, however these are anticipated to be used infrequently. The impact of Project construction and operations on ambient air quality is expected to be minimal.

Noise: As there are no nearby sensitive receptors, impacts from noise generation during both construction and operation are expected to be negligible. Noise generated at the site is expected to be within World Health Organization guidelines for industrial areas.

Solid and Hazardous Waste: Detailed waste management plans for construction and operation, including expected sources and quantities of domestic waste, measures to reduce solid waste and end-use / disposal plans for each waste stream will be prepared as part of the site-specific EMPs. During construction, solid waste generated is expected to include spoil, packaging material and general domestic solid waste. Most of the spoil generated will be re-used on site as fill material. Packaging material will be re-used as much as possible. Remaining waste will be collected by a local company with a waste disposal permit from the Punjab EPA. Hazardous

waste materials (e.g. used oil, oily rags) will be appropriately stored on site, and then sold on the secondary market or collected by an authorized contractor.

During operations, the majority of solid wastes by volume will result from packaging (e.g. reusable packaging including metal racks, bins and containers and disposable packaging including wood pallets, cardboard, plastic, polystyrene and polythene film). Other solid wastes include scrap metal and sludge generated from effluent treatment. Reusable packaging will be collected and returned to suppliers for reuse. Disposable packaging will be collected and disposed of at an appropriate landfill site. Scrap metal will be sold on the secondary market. As during construction, hazardous waste materials will either be sold for reuse or collected by an authorized contractor.

Hazardous Materials Management: During operations, hazardous materials, including paint, solvents and hydrocarbons will be used and stored on site. HNMPL will prepare a Hazardous Materials Management Plan (ESAP Action #18) consistent with the requirements of WBG General EHS Guidelines to ensure that measures are put in place to avoid or minimize accidents or the uncontrolled releases of hazardous materials during their handling, storage and use.

PS4: Community Health, Safety and Security

As the Project is located within the M3 Industrial City, and there are no communities in the immediate vicinity of the Project, the potential impacts on community health and safety are expected to be limited. The most significant risk is associated with the use of heavy vehicles to transport raw materials and finished products to and from the Project site. Traffic movements are expected to be approximately 8 buses, 6 light vehicles and 10 heavy vehicles per day during construction and approximately 25 light vehicles, 12 buses and 60 heavy vehicles per day during operations. As the Project is located immediately off the M3 highway, vehicle traffic to and from site is not expected to travel through any residential areas. The M3 Industrial City is designed to handle significant heavy and light vehicle traffic. The Project road use is not expected to significantly increase traffic loads on national highways or through the Industrial City.

The Project will also potentially have indirect community safety risks associated with use of the product. Vehicles produced by the manufacturing facility will be designed to meet locally required safety standard. Vehicles will have seatbelts, airbags and immobilizer safety features.

Security Arrangements:

The Project will prepare a Security Management Plan in line with the requirements of PS 4 (ESAP Action #19). The site will have two levels of security: (i) FIEDMC provides security for the Industrial City, including guards posted at the entry / exit points; (ii) the site itself will be fully enclosed with one gated entrance. The entrance will be guarded by a security contractor. Employees will be issued with identification badges, and access will be restricted to authorized persons.

F. Environmental Permitting Process and Community Engagement

An ESIA was undertaken for the Project, as per local legislation. The ESIA was submitted to the Punjab EPD in September 2017, and comments from the EPD are expected by the end of November 2017. A public hearing will take place toward the end of November, and the ESIA will be updated and resubmitted to Punjab EPD once any comments received have been

addressed in the document. Once the EPD is satisfied with the ESIA, it will issue a 'No Objection Certification' (NOC) for the construction phase. The NOC is typically provided with several conditions that must be followed during construction. Once the construction phase is complete, the Project will submit another application to EPD for a NOC for operations. This application will include an EMP for the operations phase. The EPD will also review compliance with the conditions of the initial NOC prior to issuing a NOC for operations. Implementation of the EMP is typically a condition of the operations NOC.

Stakeholder engagement was undertaken as part of the ESIA process for the Project, and community comments and concerns were incorporated in the draft ESIA. A public hearing will also be held prior to finalizing the ESIA. HNMPL will develop and implement a Stakeholder Engagement Plan for the Project, which will include a grievance redress mechanism (ESAP Action #8).

In addition to the Project ESIA, stakeholder engagement was undertaken as part of the ESIA process for the establishment of the Industrial City, and it is expected that FIEDMC will be developing a stakeholder engagement plan for the industrial city.

MIGA supports its clients (as defined in MIGA Policy on Environmental and Social Sustainability) in addressing environmental and social issues arising from their business activities by requiring them to set up and administer appropriate grievance mechanisms and/or procedures to address complaints from Affected Communities.

In addition, Affected Communities have unrestricted access to the Compliance Advisor/Ombudsman (CAO), the independent accountability mechanism for MIGA. The CAO is mandated to address complaints from people affected by MIGA-guaranteed business activities in a manner that is fair, objective, and constructive, with the goal of improving environmental and social project outcomes and fostering greater public accountability of MIGA.

Independent of MIGA management and reporting directly to the World Bank Group President, the CAO works to resolve complaints using a flexible, problem-solving approach through its dispute resolution arm and oversees project-level audits of MIGA's environmental and social performance through its compliance arm.

Complaints may relate to any aspect of MIGA-guaranteed business activities that is within the mandate of the CAO. They can be made by any individual, group, community, entity, or other party affected or likely to be affected by the environmental or social impacts of a MIGA-guaranteed business activity. Complaints can be submitted to the CAO in writing to the address below:

*Compliance Advisor/Ombudsman
International Finance Corporation
2121 Pennsylvania Avenue NW
Room F11K-232
Washington, DC 20433 USA
Tel: 1 202 458 1973
Fax: 1 202 522 7400
E-mail: cao-compliance@ifc.org*

G. Availability of Documentation

- Greenfield Auto Manufacturing Plant: A Project of Hyundai Nishat Motor (Private) Limited. Environmental and Social Impact Assessment Report. Integrated Environmental Consultants. September 2017
- Environmental and Social Action Plan (ESAP) for the Hyundai Nishat Motor Project. November 2017

The above listed documentation is available electronically as PDF attachments to this ESRS at www.miga.org. It is also available for viewing at the following locations:

- mou.zhonglei@sojitz.com