



Social and Environmental Management System
(SEMS)

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SEMS Table of Contents

1.	Background	2
2.	Social and Environmental Management System	3
	2.1 Policy	3
	2.2 Applicable Requirements	4
	2.3 Procedures	5
	2.4 Organisation and Responsibilities	5
3.	Annexes	7
	1. Combined EBRD / IFC Environmental and Social Exclusion List	8
	2. IFC Performance Standards	11
	3. Carrying out the Social and Environmental Due Diligence (SEDD)	12
	4. Social and Environmental Due Diligence (SEDD) Report Outline	13
	5. Format for Environmental and Social Performance Report (Template) Fund	15
	6. Format for Environmental and Social Performance Report (Template) Investee Company	16
	7. Categorization: Definitions and Requirements for Environmental Assessment	17

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1. Background

EMSA Capital (EMSA) is a private equity firm investing in underperforming, distressed and other special situation companies across Central and Eastern Europe. As part of its operating procedures and compliance systems, EMSA has developed and implemented across its entire organization, including its portfolio companies the Social & Environmental Management System (SEMS).

This Social & Environmental Management System (SEMS) details the policy, procedures and workflow that will be followed for investments assessed or made by EMSA Capital (the Company) and CEE Special Situations Fund LP (Fund), advised by EMSA Capital.

The Social & Environmental Management System was managed and administrated by Dorian Macovei (“the SEMS Officer”) from 2011-2018. Dorian Macovei was a director with EMSA Capital and had been empowered with full authority to ensure proper organizational-wide implementation, management, and oversight of the SEMS.

Update 2018: After Mr. Macovei’s departure in October 2018, Mrs. Agata Rieser, IR and Administration Manager at EMSA Capital has taken over the E&S agenda under the supervision of Mr. Tomas Holly, Managing Director. Since that time, Mrs. Rieser has participated in several international seminars and trainings for FIs organized by IFC and EBRD and has been cooperating closely with the E&S departments of portfolio companies to fulfil the requirements of E&S audits.

2. Social & Environmental Management System

2.1. Policy

EMSA Capital continually endeavors to ensure effective social & environmental management practices in all its activities, products and services with a special focus on the following:

- i. Ensuring that all activities undertaken by the EMSA and the Fund are consistent with the Applicable Requirements outlined later in this document
- ii. Ensuring that all projects are reviewed against the Applicable Requirements
- iii. Financing projects only when they are expected to be designed, built operated and maintained in a manner consistent with the Applicable Requirements
- iv. Making best efforts to ensure that all projects are operated in compliance with the Applicable requirements on an ongoing basis, during the currency of EMSA and Fund's investment
- v. Ensuring transparency in its activities
- vi. Ensuring that the management and the shareholders of the portfolio investments understand the policy commitments made by EMSA and the Fund in this area.

This Policy will be communicated to all staff and operational employees of the EMSA and the Fund.

2.2 Applicable Requirements

EMSA Capital and the Fund will ensure that all projects are reviewed and evaluated against the following Social & Environmental requirements:

- i. The Exclusion List for all projects
- ii. The applicable national laws on environment, health, safety and social issues and any standards established therein
- iii. The IFC Performance Standards and EBRD performance requirements. (details in Annex)

2.3 Procedures

2.3.1 At an initial stage of inquiry, the SEMS Officer (or other designated officer) will apply Exclusion List (see Appendix A) to the project. If the project involves an excluded activity, the principals of the prospective investees will be so informed, and further consideration of investment in the project will be terminated. Otherwise, the SEMS Officer will indicate the Applicable Requirements for the project.

2.3.2 Following successful passing of the Exclusion list, the SEMS, officer will assign an E&S risk category to the project. In assigning project risk category, the SEMS officer will be guided by the IFC's and EBRD's recommendations. All projects should be grouped into three main categories:

Category A: High risk projects- the project is likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented. A full Environmental Impact Assessment (EIA) is required.

Category B: Medium risk projects- the project may result in specific environmental impacts, but these impacts are site specific and few if any of them are irreversible. A full EIA is not required, environmental assessment focusing on the anticipated impacts is required.

Category C: Low Risk- The project is likely to have minimal or no adverse environmental impacts. No further environmental assessment is required.

2.3.3 Prospective investees will be informed that the EMSA and the Fund will undertake (if required) a Social & Environmental Social Due Diligence (SEDD) as part of the appraisal process.

2.3.4 The SEMS Officer or other designated officer will undertake (or appoint a consultant to undertake) a SEDD as per the guideline in Annex **Error! Reference source not found.** Depending on the complexity of the project, the SEDD can be a desk review, based on a site visit or require a full scale review conducted by a technically qualified person or consultant.

2.3.5 Prospective investees must be able to demonstrate compliance with the Applicable Requirements. Demonstration of compliance must be to the SEMS Officer (or other

designated officer)'s satisfaction, although the opinion of third parties such as regulatory agencies or the IFC can be sought. Where compliance cannot be demonstrated, a Corrective Action Plan must be agreed to in order for the investment to proceed. The plan must specify all of the necessary actions to bring a project into compliance. A target completion date for each specified action must also be agreed and covenanted in agreements signed with the investee.

- 2.3.6 SEMS officer will require that E&S issues are regularly discussed during management meetings with investee companies, in particular progress made with respect to any corrective actions that were included in the initial investment agreement. Regular site visits through facilities/operations will be conducted, as part of the annual monitoring process and depending on the complexity. On a as needed basis, the SEMS officer could appoint external consultants for such regular reviews.
- 2.3.7 Prospective investees must provide all requested information and the SEMS Officer (or other designated officer) must have concluded that the Project is expected to meet the Applicable Requirements (with Corrective Action if required) prior to the Company's decision to make an investment.
- 2.3.7.1. SEMS officer will require Investee companies to submit an annual report to EMSA. Annual report will be based on the template as per Annex 6
- 2.3.8 Social and environmental performance will be evaluated on an annual basis, including status of implementation of the Corrective Actions. The benchmark for performance will be the ongoing compliance against the Applicable Requirements. Performance evaluation will be undertaken by:
 - a) The Company/Fund's client companies, who will provide annual reports to the SEMS Officer (or other designated officer), who may follow up as required with further queries or site visits; and
 - b) The SEMS Officer (or other designated officer), who will provide Performance Reports as per Annex **Error! Reference source not found.** to the Management and IFC, to be prepared on the basis of the Investee's annual reports provided to the SEMS Officer (or other designated officer) and the SEDD and supervision conducted.
- 2.3.9 All investment agreements will contain appropriate environmental representations, warranties, and covenants requiring that projects are in compliance in all material respects with host country environmental, health, safety and social requirements embodied by state general laws and implementing agencies and conducted in accordance with any Applicable Requirements.

2.4 Organization and Responsibilities

- 2.4.1 Agata Rieser is the SEMS Officer. The SEMS Officer will have oversight for social and environmental issues will ensure resources are made available for environmental

management, and will sign the Company's annual environmental performance report to IFC. The responsibilities of the SEMS Officer also include:

- i. During due diligence, the evaluation of environmental compliance of a target investee company with Applicable Requirements;
- ii. Supervising projects in the portfolio against ongoing compliance with the Applicable Requirements.
- iii. Preparing an annual environmental performance report, based on the annual performance report prepared by the investee companies.

2.4.2 The SEMS Officer will ensure that these procedures are implemented for each project, and that records of environmental reviews are maintained.

2.4.3 The SEMS Officer (or other designated officer) will ensure that all investment decisions are supported by appropriate due diligence documentation (including, but not limited to, an environmental section in each final Investment Memorandum). The Company will also ensure that the IFC is notified if and when the current SEMS Officer leaves that position, and will provide the IFC the name of the new SEMS Officer.

2.4.4 The SEMS Officer will prepare and maintain a list of external consultants to conduct the E&S due diligence as well as Terms of Reference for the consultant, to ensure that the scope of the work fully meets the Applicable Requirements.

2.4.5 Legal Counsel will ensure that appropriate environmental representations, warranties, and covenants are incorporated in each stock purchase agreement.

2.5 Resources and Capabilities

2.5.1 The SEMS Officer will work with management to ensure that adequate Company resources have been committed to allow for the effective implementation of the environmental policy and procedures of the Company. The SEMS Officer (or other designated officer) will need to be technically qualified to be able to carry out the due diligence or review work carried out by a consultant.

2.5.2 The SEMS Officer will maintain a file of qualified environmental consultants who can be called upon to assist in conducting environmental reviews.

2.6 Records to be Maintained

2.6.1 Investee documentation should include any corrective action plans that were identified during the due diligence process as well as annual monitoring reports to reflect on-going compliance and progress made with respect to the corrective action plan.

2.6.2 Social & Environmental Due diligence (SEDD) - This is the record of the Company's S&E review of a project at the time of considering of the project for investment and forms

2.6.3 S&E Supervision records for projects being supervised

2.6.4 Reports to be provided to Company management and to IFC

3 Annexes

Annex 1: Combined EBRD/IFC Environmental and Social Exclusion List

1. All financial intermediaries (FIs) must apply the following exclusions:

- a) Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides¹, ozone depleting substances² PCBs³, wildlife or products regulated under CITES⁴ and transboundary movements of waste prohibited under international law⁵.
- b) Activities in the nuclear fuel production cycle (uranium mining, production, enrichment, storage or transport of nuclear fuels) and production of or trade in radioactive materials. This does not apply to: (i) the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC/EBRD consider the radioactive source to be trivial and/or adequately shielded
- c) Production of or trade in weapons and munitions⁶
- d) Production of or trade in alcoholic beverages (excluding beer and wine) ⁶,
- e) Production of or trade in tobacco, ⁶
- f) Gambling, casinos and equivalent enterprises,⁶
- g) Production of or trade in or use of unbonded asbestos fibers ⁷

¹ Reference documents include EU Regulation (EEC) No 2455/92 Concerning the Export and Import of Certain Dangerous Chemicals, as amended; UN Consolidated List of Products whose Consumption and/or Sale have been Banned, Withdrawn, Severely Restricted or not Approved by Governments; Convention on the Prior Informed Consent Procedures for Certain Hazardous Chemicals and Pesticides in International Trade (Rotterdam Convention); Stockholm Convention on Persistent Organic Pollutants; WHO Classification of Pesticides by Hazard

² Ozone Depleting Substances (ODSs): Chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicised 'ozone holes'. The Montreal Protocol lists ODSs and their target reduction and phase out dates. A list of the chemical compounds regulated by the Montreal Protocol, which includes aerosols, refrigerants, foam blowing agents, solvents, and fire protection agents, together with details of signatory countries and phase out target dates, is available from IFC or EBRD

³ PCBs: Polychlorinated biphenyls—a group of highly toxic chemicals. PCBs are likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950-1985.

⁴ CITES: Convention on International Trade in Endangered Species of Wild Fauna and Flora. The lists of CITES protected species are available at www.cites.org/eng/app/index.shtml.

⁵ Reference to documents are: Regulation (EC) No 1013/2006 of 14 June 2006 on shipments of waste; Decision C(2001) 107/Final of the OECD Council concerning the revision of Decision C(92)39/Final on the control of transboundary movements of wastes destined for recovery operations; Basel Convention of 22 March 1989 on the control of transboundary movements of hazardous wastes and their disposal.

⁶ This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.

⁷ In countries that are not EU Member States, EU accession or EU candidate countries, this does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is <20%

- h) Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage,⁸
- i) Commercial logging operations for use in primary tropical moist forest
- j) Production of or trade in wood or other forestry products other than from sustainably managed forests.
- k) Trade in goods without required export or import licenses or other evidence of authorization of transit from the relevant countries of export, import and, if applicable, transit
- l) Drift net fishing in the marine environment using nets in excess of 2.5 km in length
- m) Shipment of oil or other hazardous substances in tankers which do not comply with International Maritime Organization (IMO) requirements⁹
- n) Production or activities involving harmful or exploitative forms of forced labour/harmful child labour¹⁰

2. When financing micro-finance activities, FIs will also apply the following additional exclusions:

- a) Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.
- b) Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.

3. All FIs must refer the proposed financing of the following environmentally or socially sensitive business activities to EBRD for approval.

The principal EBRD Performance Requirement that proposed transactions will be expected to meet is indicated in italics.

- a) Activities involving involuntary resettlement - *EBRD Performance Requirement 5*

⁸ Relevant international conventions include, without limitation: Convention on the Conservation of Migratory Species of Wild Animals (Bonn Convention); Convention on Wetlands of International Importance, especially as Waterfowl Habitat (Ramsar Convention); Convention on the Conservation of European Wildlife and Natural Habitats (Bern Convention); World Heritage Convention; Convention on Biological Diversity.

⁹ This includes: tankers which do not have all required MARPOL SOLAS certificates (including, without limitation, ISM Code compliance); tankers blacklisted by the European Union or banned by the Paris Memorandum of Understanding on Port State Control (Paris MOU); and tankers due for phase out under MARPOL regulation 13G. No single hull tanker over 25 years old should be used.

¹⁰ Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty. Harmful child labour means the employment of children that is economically exploitative, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral or social development.

- b) Activities within, adjacent to, or upstream of designated protected areas under national law or international conventions, sites of scientific interest, habitats of rare/endangered species, fisheries of economic importance, and primary/old growth forests of ecological significance - *EBRD Performance Requirement 6*
- c) Activities within, adjacent to, or upstream of land occupied by Indigenous Peoples and/or vulnerable groups including lands and watercourses used for subsistence activities such as livestock grazing, hunting, or fishing - *EBRD Performance Requirement 7*
- d) Activities which may affect adversely sites of cultural or archaeological significance - *EBRD Performance Requirement 8*
- f) Energy generation using nuclear fuels (excluding electricity import/export) ¹¹
- g) Activities involving the release of GMOs into the natural environment - *EBRD Performance Requirement 6*
- h) Construction of mini-hydro cascades – *EBRD Eligibility Criteria for Small Hydro Projects*
- i) Wind farm development -*EBRD Eligibility Criteria for On-Shore Wind Power Projects*

¹¹ In compliance with EBRD's Energy Policy, the Bank is permitted to use its funding (directly or indirectly through FIs) in relation to nuclear safety improvements, or for the safe and secure management of radioactive waste and spent nuclear fuels, as well as for decommissioning, without a direct link to the closure of high risk reactors. Any other activities in the nuclear fuel production cycle are therefore excluded from financing.

Annex 2: IFC Performance Standards

(Available at the [IFC Website](#))

Annex 3: Carrying out the Social & Environmental Due Diligence (SEDD)

A SEDD is the record of the Company's review of a project at the time of appraisal that ensures that a project is meeting and is expected to continue to meet the Applicable Performance Requirements. A SEDD is based on all or some of the following:

- i. Review of information in the public domain to check for any social and/or environmental controversies/news related to the project
- ii. Review of project and social and environmental documents of the project
- iii. Discussions with the Project Officials
- iv. Site visit and discussions there
- v. Some technical/and S&E knowledge will be required along with knowledge of the technical issues in the project's industrial sector and may require the use of an external consultant if the project is large and complex. Industry sector-wise S&E information is available at the following locations
 - [World Bank Pollution Prevention and Abatement Handbook](#)
 - [IFC Sector guidelines](#)

Annex 4: Social & Environmental Due Diligence (SEDD) Report Outline

Introduction

1. Project background: Project Description, Site and Environment Setting, Land requirement
2. S&E categorization and rationale
3. Applicable Performance Standards: IFC Exclusion List, National Social and Environmental Laws and regulations, the IFC Performance Standards (as relevant)

Scope of review and methodology

(Methodology used, documents reviewed, etc.)

Environmental and social issues and mitigation

(By relevant Performance Standards: examine social and environmental issues and compliance with respective performance standards, identify performance gaps and corrective action plans)

1. Social and Environmental Assessment and Management System
 - Environmental and Social Assessment
 - Management Program
 - Organization
 - Training
 - Community Engagement
 - Monitoring
 - Reporting
2. Labor and Working Conditions
 - Human Resources Policy and Management
 - Worker's Organization
 - Non-Discrimination and Equal Opportunity
 - Retrenchment
 - Protecting the Work Force
 - Occupational Health and Safety
3. Pollution Prevention and Abatement
 - Pollution Prevention, Resource Conservation and Energy Efficiency
 - Wastes
 - Hazardous Materials
 - Emergency Preparedness and Response
 - Ambient Considerations
 - Green House Gas Emissions
 - Pesticide Use and Management
4. Community Health, Safety and Security
 - Community Health and Safety
 - Emergency Preparedness and Response
 - Security Personnel Requirements

5. Land Acquisition and Involuntary Resettlement
 - Project Design
 - Compensation and Benefits for Displaced Persons
 - Consultation and Grievance Mechanism
 - Resettlement Planning and Implementation
 - Physical Displacement
 - Economic Displacement
 - Private Sector Responsibilities under Government-Managed Resettlement
6. Biodiversity Conservation and Sustainable Natural Resource Management
 - Protection and Conservation of Biodiversity
 - Management and Use of Renewable Natural Resources
7. Indigenous Peoples
 - Avoidance of Adverse Impacts
 - Consultation and Informed Participation
 - Impacts on Traditional or Customary Lands under Use
 - Relocation of Indigenous Peoples (IPs) from Traditional or Customary Lands
 - Cultural Resources
8. Cultural Heritage
 - Protection of Cultural heritage in Project Design and Execution
 - Project use of Cultural Heritage

Details of project consultation and local disclosure undertaken

Other project specific issues

Environment Management /Corrective Action Plan, if any

Summary and Recommendations

Financing Covenants/Conditions

Annex 5: Format for Annual Social & Environmental Performance Report _Fund

attached

Annex 6: Format for Annual Social & Environmental Performance Report_Investee Companies

Annex 7: Categorization: Definitions and Requirements for Environmental Assessment

Category A: The project is likely to have significant adverse environmental impacts that are sensitive, diverse or unprecedented. A potential impact is considered “sensitive” if it may be irreversible (e.g., lead to loss of a major natural habitat), affect vulnerable groups or ethnic minorities, involve involuntary displacement and resettlement, or affect significant cultural heritage sites. A full Environmental Impact Assessment (EIA) is required.

Category B: The project may result in specific environmental impacts, but these impacts are site specific and few if any of them are irreversible. In most cases mitigation measures are predetermined Performance Standards, Guidelines, or design criteria. Potential adverse environmental impacts on human populations or environmentally important areas are less adverse than those of Category A projects. Although a full EIA is not required, environmental assessment focusing on the anticipated impacts is required.

Category C: The project is likely to have minimal or no adverse environmental impacts. No further environmental assessment is required.

Category FI: The project involves investment of funds through a financial intermediary in subprojects that may result in adverse environmental impacts, or the FI has operations which may have adverse environmental impacts (e.g. project finance). Verification that the project sponsor is capable of and committed to conducting environmental review of projects and managing relevant operations to ensure that financed projects meet certain environmental requirements is required.

Examples

Several factors influence the categorization of a project, including scale, location, sensitivity and magnitude of impacts. The examples provided below are therefore not categorical - for example, some hotel/tourism developments may be categorized as A, rather than B.

Typical Category A Projects	
Projects affecting indigenous peoples	Construction of dams and reservoirs
Projects involving resettlement of communities/families	Pesticides and herbicides: production or commercial use
All projects which pose serious socioeconomic concerns	Major irrigation projects or other projects affecting water supply in a given region
Projects associated with induced development (e.g. inward migration)	Domestic or hazardous waste disposal operations
Projects which impact on cultural property (e.g. religious and archeological sites)	Hazardous chemicals: manufacture, storage or transportation above a threshold volume
Projects which pose serious occupational or health risks	Oil and gas developments, including pipeline construction
Impacts on protected natural habitats or areas of high biological diversity including wetlands, coral reefs and mangroves	Large infrastructure projects, including development of ports and harbors, airports, road, rail and mass transit systems
Forestry operations	Metal smelting, refining and foundry operations

Mining (opencast and pit)	Large thermal and hydropower developments
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Typical Category B Projects	
Breweries	Hotel/tourism developments
Cement manufacture	Mining (small scale)
Dairy operations	Metal plating
Food Processing	Modernization of existing plants
General manufacturing plants	Pulp and paper mills
Hospitals	Textile Plants

Typical Category C Projects	
Software development	Factoring Companies
Consulting firms	Share registries
Service industries	Stockbroking
Technical assistance	Retail banking