

IL&FS ENVIRONMENTAL AND SOCIAL
POLICY AND FRAMEWORK

VOLUME I: ENVIRONMENTAL
AND SOCIAL POLICY OF IL&FS





INFRASTRUCTURE LEASING & FINANCIAL SERVICES LIMITED

**IL&FS ENVIRONMENTAL AND SOCIAL POLICY AND FRAMEWORK
(ESPF)**

**VOLUME I:
ENVIRONMENTAL AND SOCIAL POLICY
OF IL&FS**

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1 ENVIRONMENTAL AND SOCIAL POLICY OF IL&FS

1.1 Preamble to the E&S Policy of IL&FS

The application of the ESR has provided IL&FS an edge over its contemporaries. However, certain fundamental changes made it necessary to update the ESR

- 1.01 Established in 1988, Infrastructure Leasing & Financial Services Limited (IL&FS) is one of India's leading infrastructure development and financing companies. IL&FS provides a complete array of services necessary for successful project completion; visioning, documentation, finance, development, management, technology and execution
- 1.02 IL&FS services are also delivered through its subsidiaries and associate companies. These subsidiaries/associate companies cover a wide range of sectors including airports, clusters, finance, mass transit, ports, power, rail, real estate, renewable energy, roads, solid waste management, telecom, urban development and water
- 1.03 In an effort to proactively add value, lower risk and enhance sustainability in its projects, IL&FS developed its Environmental and Social Report (ESR), in 1995 with a view to (a) mainstream Environmental and Social (E&S) considerations in the overall project cycle, (b) set examples of environmentally sound and socially acceptable practices, and (c) inspire and encourage all stakeholders, including partners and co-investors towards continual improvement in the spheres of project development, implementation, monitoring and closure. This ESR was approved by the Board of IL&FS on 27th November 1995 and became effective at such time, making IL&FS the first non-banking financial company in India to internalise E&S considerations in project development
- 1.04 Composed of three parts, i.e. E&S Statement of IL&FS, Operational Procedures, and Organisation Requirements, the ESR became a core document that laid down IL&FS's E&S commitment and provided process guidance for sound integration of E&S issues in the development of infrastructure projects. However, the passage of over ten years since the ESR's first implementation and the internal and external transformations in and around IL&FS, emphasised a need to update the ESR
- 1.05 In over ten years since the ESR was introduced, some national policies and legislation were amended, while new ones were introduced. For example, the year 2006 saw the introduction of India's first National Environmental Policy. Since 2003, India also has its own National Resettlement

The integration of E&S issues throughout the project cycle is important and is achievable at a relatively marginal cost. There is evidence to suggest that the accompanying E&S risks have been offset or lowered

and Rehabilitation Policy (NRRP), the latest version being approved by the Union Cabinet in 2007. India is also now either a signatory of or responsive towards global Multilateral Environmental Agreements (MEAs) not previously addressed in the ESR. For example, India became a signatory to the Convention on Biological Diversity in 1992, while the Kyoto Protocol to the United Nations Framework Convention on Climate Change was ratified in 2002. It was imperative that the ESR be brought up-to-date with the latest legislative and globally recommended and agreed codes of conduct

- 1.06 Auditing projects that implemented the ESR over the past ten years evaluated ground level experiences and contributed to knowledge on the effectiveness of the implemented E&S procedures. The feedback received is that the integration of E&S issues is important throughout the various stages of the project cycle – concept, design and implementation, and that this is achievable at a relatively marginal cost. While the net benefits of this integration have not been quantified so far, there is evidence to suggest that the accompanying E&S risks have been offset or lowered. In sum, the application of the ESR has provided IL&FS an edge over its contemporaries. For instance, the Vadodara-Halol Toll Road Project was adjudged by the World Bank as a best practice example for Environment Risk Mitigation and Social Rehabilitation Plan. Similarly, owing to the application of the ESR, the Ahmedabad-Mehsana Road Project was considered by the World Bank as a best practice example for E&S assessment

Given the broadening business canvas of IL&FS and ground-level experiences of ESR implementation, there is a strong need for IL&FS to adopt a more elevated version of the ESR

- 1.07 Cognizant of the emerging trend of mainstreaming E&S¹ considerations into financial operations, be it loans, equity or merchant banking, IL&FS ratified its support to sustainability in finance by signing the United Nations Environmental Programme Finance Initiative (UNEP FI) Statement of Commitment on December 5, 2006. An extract of the statements, which are aspirational, voluntary declarations of intent and unilateral non-binding commitments of a non-contractual nature, reads, “We members of the financial services industry recognize that sustainable development depends upon a positive interaction between economic and social development, and environmental protection, to balance the interests of this and future generations...” In this new role, IL&FS joined a global partnership of over 160 banks, insurers and fund managers not mandated but committed to sustainable development, environmental management and fostering public awareness and communication. All infrastructure activities of IL&FS have been duly supported by its financial services side. However, the ESR applied only to infrastructure projects. An update to the ESR was necessary to highlight this changing face of the IL&FS Financial Services
- 1.08 The ESR was process-driven and concentrated mainly on outputs. However, given the broadening business canvas of IL&FS and ground-level experiences of ESR implementation, there was a strong need for IL&FS to adopt a more elevated version of the ESR. It is envisaged that this version shall be an outcomes-oriented framework, unlike the previous ESR. Through the adoption of this framework, it is envisaged that focus will be broadened from the process of implementation alone to tangible results. These aspirations formed the basis for the development of an updated document - the Environmental and Social Policy and Framework (ESPF) Manual

¹ The term Environmental and Social (E&S) encompasses the aspects of critical habitats, cleaner production processes, greenhouse gas emissions, occupational health and safety, community health and safety, hazardous waste management, pest management and physical cultural resources.

The IL&FS ESPF was developed through a consultative mechanism

- 1.09 It is important that any framework adopted by IL&FS be a commonly understood approach that emphasises continual enhancements. In this vein, the IL&FS ESPF is structured using Deming’s PDCA Cycle. The PDCA essentially follows a Plan-Do-Check-Act pattern that advocates continual improvement. It forms the basis for the Environmental Management Systems Standard or EMS 14001, Occupational Health & Safety Assessment Series OHSAS 18001, Social Accountability SA 8000 and other standards
- 1.10 The ESPF in its design has suitably factored the environmental and social safeguards of development financial institutions keeping in mind IL&FS business
- 1.11 IL&FS being a signatory to UNEP FI has taken due consideration towards fulfilling UNEP Statement of Commitment by Financial Institutions (FI) on Sustainable Development. The ESPF through its policy, principles and operational procedures strives to influence its clients in fulfilling their responsibility for environmental protection
- 1.12 The IL&FS ESPF was developed over a year through a consultative mechanism at the Corporate and Business Vertical levels. A Training Workshop was dedicated to the ESPF; resultant inputs over its documentation from specially-formed Working Groups of the IL&FS Infrastructure and Finance Services, completed the consultation process. Figure 1 shows the resulting structure of the IL&FS ESPF
- 1.13 The ESPF has been subsequently revised based on learnings from its implementation and customisation in IL&FS group companies



Figure 1: Structure of the IL&FS ESPF

1.2 The IL&FS E&S Policy Statement

- 1.14 The E&S Statement of IL&FS from the erstwhile ESR was metamorphosed into the current E&S Policy, which is displayed below



The Environmental and Social Policy of IL&FS

Infrastructure Leasing & Financial Services (IL&FS) Limited is driven by its mission to develop, implement, operate, finance and participate in infrastructure projects through Public Private Partnerships, as well as to provide value-added financial services

The IL&FS Environmental and Social Policy and Framework (ESPF) is founded on the concept of Sustainable Development and thereby recognises Environmental and Social (E&S) considerations in its business operations to add value, minimize impacts and risks to increase effectiveness of infrastructure projects. IL&FS strives to conserve natural resources, protect the environment and restore standards of living for those affected by its operations

The ESPF applies to the business canvas of IL&FS including its subsidiaries and associate companies

IL&FS is committed to comply with its E&S policy, applicable laws of the land and be responsive to existing and emerging global E&S concerns on a proactive basis

Chairperson

Managing Director

Date:

- 1.15 The E&S Policy has been approved by the Board of IL&FS on 5th May, 2008

2 ENVIRONMENTAL AND SOCIAL PRINCIPLES OF IL&FS

2.1 IL&FS E&S Principles

The Guiding Principles and Operational Principle are applicable to not just new infrastructure projects / transactions / advisory services but also in cases where IL&FS may procure a stake in the project at a later stage of the project cycle.

Engagement Principle mirroring the ideology of the IL&FS ESPF shall apply when does not / cannot exercise complete control over the organisation or business activity

IL&FS is committed to comply with E&S regulations and legal requirements with due credence to local and

- 2.01 The **Guiding Principles, Operational Principle and Engagement Principle** form the core of the IL&FS ESPF
- 2.02 The Guiding Principles and Operational Principle are applicable to not just new infrastructure projects / transactions / advisory services² but also in cases where IL&FS may procure a stake in the project at a later stage of the project cycle.
- 2.03 The Guiding Principles embody the spirit of the IL&FS ESPF. They are non-negotiable and shall apply to IL&FS subsidiaries and associate companies. Through its Guiding Principles, IL&FS commits to (a) adding value to projects/ transactions/ advisory services it undertakes, (b) integrating E&S concerns into the decision-making process, and (c) minimising exposure to E&S risks
- 2.04 The **Operational Principle** provides guidance to IL&FS, its subsidiaries and associate companies as well as third parties involved in project execution in enacting the ESPF. It is intended to provide appropriate focus on E&S viability in projects / operations, transactions and advisory services, not just to IL&FS subsidiaries, joint venture companies and associate companies, but also to third parties involved in project execution. The procedures following the principle are flexible and adaptable; the manner of their application will be commensurate with the nature of the activities of the subsidiary / associate company, its products and services, and the locations and conditions in and under which it operates
- 2.05 In projects and / or transactions and / or advisory services where IL&FS does not / cannot exercise complete control over the organisation or business activity, IL&FS has devised **Engagement Principle** for the organisation to observe during the course of such engagements. This Principle mirrors the ideology of the IL&FS ESPF
- 2.06 IL&FS is committed to comply with E&S regulations and legal requirements with due credence to local, national and global concerns. Thus, besides meeting local and national laws as a minimum, the institution will also abide by commitments made by India at the global level on E&S issues
- 2.07 IL&FS will also endeavour to move beyond compliance issues by promoting and incorporating suitable technologies and practices in their projects as far as their use is technically and

global concerns. IL&FS will also endeavour to move beyond compliance issues and reflect the E&S Principles followed by its co-investors and partners in its operational procedures in a harmonious manner

financially feasible, and cost-effective

- 2.08 IL&FS will attempt to reflect the E&S principles followed by its co-investors and partners in its operational procedures in a harmonious manner
- 2.09 IL&FS recognises the importance of ensuring the proper management of E&S risks for each project / transaction / advisory service. Major E&S problems could adversely affect operations, earnings and hence, loan servicing obligations. Consequently, IL&FS places significant emphasis on not just E&S impacts, but also on E&S risk identification, assessment, allocation and management at the project level. The following sections outline the Guiding Principles, Operational Principle and process, and Engagement Principle for IL&FS's infrastructure and financial services

² The term "projects" refers to infrastructure projects being developed and implemented by subsidiaries/ associate companies, "transactions" refer to loans, equity participation and "advisory services" refers to services such as consulting provided by associate companies/subsidiaries to projects/transactions

2.2 Guiding Principles of the IL&FS ESPF

Add value to, lower risk in and increase sustainability of all IL&FS projects / transactions / advisory services

The six Guiding Principles are:

1. Precautionary
2. Preventive
3. Mitigative
4. Participatory
5. Compensatory
6. Restorative

- 2.10 The Guiding Principles, when implemented as discussed in this section, serve as an instrument to add value to, lower risk in and increase sustainability of all IL&FS projects / transactions / advisory services
- 2.11 The Guiding Principles (a) through (c) are designed such that they follow an imperative hierarchy. The measures and actions to address identified impacts/risks will favour the avoidance and prevention of impacts over minimisation, mitigation, or compensation, wherever technically and financially feasible
- 2.12 The Guiding Principles (d) through (f) concern the elements of engagement, compensation, and restoration, and are common to all projects undertaken by IL&FS
- 2.13 The ESPF commits each project / transaction/ advisory service to the following Guiding Principles
- a) **The Precautionary Principle** or “Do no harm” principle; when an activity raises threats of harm to human health or the environment, precautionary measures will be taken even if some cause and effect relationships may not be fully established on scientific grounds
 - b) **The Preventive Principle**; excluding activities which are regulated or prohibited under International Agreements and by National Laws, preventing adverse E&S situations by revisiting the project concept, minimising the release of polluting wastes to amounts that do not affect the environment adversely, avoiding or minimising resettlement of people due to land acquisition, conserving natural resources and protecting biodiversity and/or minimising health and safety hazards
 - c) **The Mitigative Principle**; mitigating adverse E&S impacts by meeting required State/National Policies and Legislations, incorporating Environmental Management Plans (EMPs) and Resettlement Action Plans (RAPs) into the Project Cycle, and following international / national best practices without affecting the financial viability of the project. This principle also extends to evaluating the impacts/risks that may result from the implemented mitigation measures themselves
 - d) **The Participatory Principle**; ensuring public participation and community consultation, as applicable and relevant, which will be free of external manipulation, interference,



or coercion, and intimidation, and conducted on the basis of timely, relevant, understandable and accessible information

- e) **The Compensatory Principle;** assisting project-affected persons in improving or at least restoring their livelihoods and standards of living in real terms relative to pre-displacement levels or to levels prevailing prior to the beginning of project implementation, whichever is higher, wherever relevant and within the scope of the project
- f) **The Restorative Principle;** restoring the natural condition of the project site after completion of construction and decommissioning, wherever relevant and within the scope of the project

2.3 Operational Principle of the IL&FS ESPF

The Principle and the process laid down provide a cue to the risk reduction controls to be invoked as part of the overall project / transaction / advisory service cycle. They should be adapted depending on the nature of service offered by IL&FS

- 2.14 The Operational Principle mirrors one or more of the Guiding Principles of the IL&FS ESPF. The Principle and the process laid down provide a cue to the risk reduction controls to be invoked as part of the overall project/ transaction/ advisory service cycle.
- 2.15 It is important that the Operational Principle be adapted depending on the nature of service offered (i.e. infrastructure or finance, where it is possible that the latter may also provide a service related to infrastructure projects).
- 2.16 **The Operational Principle:** The Guiding principles will be used to identify risk, formulate controls, implement & manage risk reduction measures for IL&FS infrastructure projects, financial service (loans and equity) transactions and advisory services. The procedures laid out will enable to carry out or cause to carry out E&S risk management (assessment + rating + mitigation + monitoring). The process will involve the following actions:
- a) **Screening and Categorization;** to use an E&S screening and categorisation process for each proposed project / transaction / advisory service at the initial stage of assessment (along with other initial screening done during business as usual), to examine broadly the likely E&S risks and impacts of the project, to determine whether to proceed with the project and if proceeding with the same, to categorise each project based on the magnitude of its potential E&S impacts and risks. Project/ transaction/ advisory services categorisation will be affected in accordance with the appropriate E&S Risk Rating calculated. This rating determines the typical level of inherent E&S risk related to a particular business activity, to assist project / transaction / advisory services staff in judging the appropriate levels of E&S investigation that should be carried out, suitability of risk reduction controls to be applied, and intensity of E&S risk control and monitoring to be invoked
 - b) **E&S Risk Assessment;** depending on the outcome of the E&S Risk Rating process and the impacts/risks involved, to conduct an E&S risk assessment to address the relevant E&S impacts/risks of the project / transaction / advisory service, and to propose suitable risk reduction controls that are preventive, mitigative, compensatory and restorative in nature

The E&S Risk Rating forms the core of the IL&FS ESPF. It determines the typical level of inherent E&S risk related to a particular business activity, to assist project / transaction / advisory services staff in judging the appropriate levels of E&S investigation that should be carried out, suitability of risk reduction controls to be applied, and intensity of E&S risk control and monitoring to be invoked

after an analysis of the impacts/risks of all project alternatives where available, including the mitigative measures themselves

- c) **E&S Risk Management & Monitoring**; depending on the outcome of the E&S risk assessment, to undertake preparation of a Management and Monitoring Plan, describe and prioritise the actions needed to implement the risk reduction controls, corrective actions and/or monitoring measures necessary to manage the impacts/risks identified in the assessment, including the provision of safe and healthy working conditions for staff / labour. The measures include (but not limited to) the following, where relevant:
- i. To comply with all relevant national E&S policies, laws, regulations and permit requirements. Where a project / transaction / advisory service is not in compliance, to work with the Corporate Sustainability Cell of IL&FS to achieve compliance
 - ii. Covenants; to incorporate E&S covenants in the contract documentation / transaction agreement to ensure that E&S considerations in EMPs and RAPs are duly implemented and to insulate IL&FS against all E&S risks associated with the project / transaction / advisory services
 - iii. Where relevant and within the scope of services, depending on the outcome of the E&S Risk Rating process, to ensure engagement of project-affected persons in a structured and culturally appropriate manner, the process ensuring consultation, disclosure and community engagement continues throughout IL&FS's association with that project;
 - their free, prior and informed consultation and facilitating their informed participation as a means to establish whether a project has reasonably incorporated affected peoples' concerns within the framework of applicable legislation;
 - that the process and results of the consultation, including any actions agreed resulting from the consultation are documented,
 - that information disclosure takes place in a culturally appropriate manner and in the local language, of requisite documents at appropriate stages of the project cycle, and
 - that depending on the outcome of the categorisation, scaled to the impacts/risks of the project, a grievance mechanism is established with adequate women representation, where relevant and feasible as part of the engagement process

- iv. Where relevant and within the scope of services, to ensure that compensation to project-affected persons will at a minimum, broadly conform to the spirit of applicable National legislations. Where resettlement and rehabilitation policies exist at the State level, IL&FS will factor the said policy into the Social Entitlement Framework. Further, where gaps exist in policies at the National and State levels, IL&FS will bear in mind international good practices in the area of resettlement and rehabilitation including gender analysis while drafting the said Social Entitlement Framework.
- v. Where relevant and within the scope of services, to ensure that Indigenous People (termed as Scheduled Tribes in India) are suitably recognized in lieu of the Indian Constitution wherever applicable, conforming to the spirit of National legislations. A social impact assessment as per legislation, that is culturally appropriate and gender-sensitive will be adopted to identify potential project impacts, both positive and adverse. An Indigenous People's Plan will be prepared to ensure their inclusion and active participation in project benefits in a culturally appropriate manner. Further, international good practices will be referred to where gaps exist in the policies at National and State levels in the area of Indigenous People
- vi. Depending on the outcome of the E&S Risk Rating process, and where relevant, to ensure the preparation and implementation of a decommissioning /closure plan, which must address:
 - an analysis of impacts/risks at this particular stage of the Project Cycle;
 - where appropriate, application of pollution prevention and control technologies and practices (techniques) that are best suited to avoid or, where avoidance is not feasible, minimize or reduce adverse impacts on human health and the environment while remaining technically and financially feasible and cost-effective; and
 - compensatory and / or restorative measures to be undertaken for ecological enhancement
- vii. Commensurate with the impacts/ risks of the project/ transaction/ advisory services and its applicable regulatory requirements, to monitor its compliance and progress towards desired outcomes on a regular basis throughout its lifetime or till the end of IL&FS's association with the project, whichever is earlier



- d) **Periodic Audit;** to conduct a periodic audit through qualified external / third party / the Corporate ESPF Cell (as the case may be) of the E&S assessment, management plans, engagement process and associated documentation in order to assess compliance with and effectiveness of the Guiding Principles of the IL&FS ESPF
- e) **Document Update;** to periodically update risk reduction controls to incorporate relevant developments in the arena of E&S management

2.4 Engagement Principle of the IL&FS ESPF

Engagement Principles mirroring the ideology of the IL&FS ESPF shall apply when IL&FS /associate companies/ subsidiaries cannot exercise complete control over the organisation or business activity

2.17 In projects and/or transactions and/or advisory services where IL&FS /subsidiaries /associate companies/ joint ventures cannot exercise complete control over the organisation or business activity, IL&FS has devised Engagement Principle for the organisation to observe during the course of such services

2.18 The Engagement Principle mirrors the ideology of the IL&FS ESPF. They serve to further IL&FS's aspiration to inspire and encourage all stakeholders, including partners and co-investors towards continual improvement in their areas of operation

2.19 **The Engagement Principle;**

IL&FS Group recognizes the need to encourage sustainability among different stakeholder groups – primarily staff, customers/ clients and community.

IL&FS /associate companies/ subsidiaries/ joint ventures while engaging in business with organizations will encourage them to observe the following:

- (a) Comply with national E&S, health and safety-related local laws, as a minimum
- (b) Take account of the E&S impact of their operations (through an E&S Assessment in cases involving loss of biodiversity or habitat, climate change, deterioration in land, water and/or air quality, substantial displacement, and other issues where the negative E&S impacts could be significant) and take steps to mitigate any E&S risks
- (c) Take account of their impact on employees, contractors, the local community and all others affected by their operations (through appropriate consultation, and through a Social Assessment in cases involving involuntary resettlement, religious/cultural property, vulnerable groups, and other issues where the negative E&S impacts could be significant) and take steps to mitigate any E&S risks

Staff at IL&FS /associate companies/ subsidiaries/ joint ventures, in their business activities, should endeavour to adhere to the following environmental aspects to the extent feasible. Compliance with this environmental commitment and applicable laws is the responsibility of every staff:

- a) Resource conservation, Responsible use of resources, Minimal impact on the natural environment and Sustainable consumption – This includes, but is not limited to, efficient use of fossil fuels, land, water, minerals and other natural resources with an effort towards greater use of renewable energy, conservation and protection of biodiversity and optimal management of land to enhance habitats for wildlife and ecosystems.
- b) Staff should follow the operational aspects of the Environmental and Social Policy Framework (ESPF) while managing environmental and social risks to the business.

2.20 The Engagement Principle will be implemented through the following actions:

- (a) IL&FS shall use an E&S risk categorisation process for each proposed project/ transaction/advisory service as early as possible, to examine broadly its likely E&S risks and impacts. The E&S risk categorisation will determine the typical level of inherent E&S risk related to a particular project/ transaction/ advisory service, and will assist staff in judging the appropriate levels of E&S investigation that should be carried out, and suitability of risk reduction controls to be applied, and intensity of E&S risk control and monitoring (if any) to be invoked
- (b) IL&FS shall attempt that for such engagements, the E&S impacts and risks identified during assessment, requirements on developing EMPs/RAPs and other monitoring and corrective mechanisms are recommended to the client, as appropriate
- (c) Periodic training and sustainability awareness activities for staff at IL&FS