

ADDENDUM TO ESSF

Environmental and Social Safeguards Management for World Bank Financed Sub-Projects

1. **Background.** The purpose of this note is to summarize the process of proposed due diligence process at IIFCL for determining the eligibility of sub-projects for the World Bank financing under the ongoing line of credit and also describe the proposed supervision and monitoring arrangements of those sub-projects.
2. **Environment and Social Safeguards Framework (ESSF).** IIFCL has adopted an ESSF in 2008 and updated this in 2013¹ to deal with the environment and social impacts in those sub-projects financed by the multi-lateral agencies. The provisions and procedures described in this ESSF (2013) along with the provisions of World Bank Safeguard policies will apply while determining the eligibility of sub-projects. The Operation Manual describes the process to be followed in implementation of ESSF provisions. The due diligence process proposed in this note is an addendum to OM against the above background.
3. **Proposed due Diligence Process:** The current process of determining the eligibility of sub-project on case by case basis with the prior review through due diligence process by the World Bank will be replaced with delegation of due diligence process to IIFCL for all categories B and C type of project under the Restructured project – as described in this note. In rare case of category A projects posed to the World Bank financing, the current process of due diligence through the World Bank prior review will continue.
4. **Incentive to Developers.** In order to mainstream the process of integrating environment and social impacts in project preparation and implementation by the developers, IIFCL has introduced a unique incentive scheme of providing rebate of twenty-five basis points in the applicable interest rates to sub-projects that qualify on environmental and social safeguards compliance with ESSF and the World Bank policy provisions. In the restructured project both direct financing and take out financing will be included. The process of ESDD for both categories is described below.
5. **Direct Financing.** IIFCL has taken the responsibility for institutionalizing an appropriate mechanism for review and clearance of due diligence reports, followed by an action plan for mitigation of identified impacts. Under this category, sub-projects that will be given preference for financing by IIFCL are the ones which are at a very early stage of implementation or where the financial closure has not yet happened. IIFCL uses the checklist to categorize the sub-projects based on their level of environmental and social impacts (for details please see **Appendix I**). Based on the categorization, only those sub-projects categorized as B and C will be covered under IIFCL's due diligence process.
6. The GOI's screening criteria for infrastructure development projects do not entail obtaining environmental clearances for water supply and sewerage projects, solar energy, wind power, electrical transmission line, smaller/strengthening road development projects and telecommunication lines under the provisions of EIA Notification 2006, including relevant amendments in subsequent years. As a result, such projects do not require an environmental impact assessment. The environmental safeguard policies of World Bank, however, require environmental assessment for any physical infrastructure project, if it is expected to generate any kind of adverse environmental impacts. Therefore projects belonging to above mentioned sectors also require appropriate environmental planning instruments. In case of direct financing of sub-projects where EIA not mandatory, ESDD shall be focused on identifying applicable environmental impacts and ensure measures for such impacts are adequately addressed.
7. As a first step in determining the eligibility of sub-projects for World Bank financing, the Environment and Social Due Diligence (ESDD) reports will be prepared by IIFCL staff/consultants and/or also external consultants based on the available documents / reports, field visit findings and direct

¹ Also in 2010.

interaction with concerned stakeholders as needed². In case of any sub-projects under review being implemented in the designated tribal areas, and no consultation has been conducted with tribal people then the Developer will hold consultations with the tribal groups to record their views towards the projects and propose measures to enhance the positive benefits of the project to them under their CSR initiatives. The ESDD will be reviewed by the Head of Environmental and Social Management Unit (ESMU). Based on the review findings, IIFCL will hold consultations with the Developer to prepare an action plan by them to propose appropriate mitigation measures for those impacts where no mitigation measures are proposed or proposed measures are inadequate, in line with the Bank's operational policy provisions. Relevant checklists and provisions from the ESSF would be used while preparing the ESDD and action plans. The ESSF and the Annexes to ESSF include the checklists and details of applicable entitlements and actions to be used while preparing ESSD and actions plans. The final ESDD and action plan will be approved by Chief General Manager. As appropriate, the implementation will be linked to the remaining disbursements to ensure that the agreed actions are implemented within the agreed timetable. The action plan in local language will be shared with local people at those places which are easily accessible to local people. IIFCL will involve the World Bank Team in the ESDD process for its first set of sub-projects (Madhya Pradesh Road Strengthening Projects), which will serve as basis for subsequent ESDDs by IIFCL.

8. Sub-Projects Under Take-out Financing (TFS). The take-out financing will deal with sub-projects which are at post-construction/operational phase. As assistance under TFS is sanctioned only after minimum of one year after the start of the commercial operation date (COD), it is expected that safeguard issues as per applicable state, national guidelines/regulations would have been addressed by then. The Take out will be restricted to Highway and Port Terminal sectors. If projects in any other sectors are proposed, then it will be discussed with the World Bank and agreed on the process to be followed for those projects in other sectors. For takeout, the IIFCL will conduct an Environmental and Social Due Diligence (ESDD) study through an independent consultant initially to assess any environment and social related risks applicable during operation phase. The preparation of ESDD will be based on the publicly available documents, discussions with the developer, local community and other stakeholders. The Environmental and Social Due Diligence (ESDD) Report will confirm (from information available in public domain and based upon documents made available by the O&M project team) that:

- The sub-project is in compliance with applicable national social and environmental laws;
- No significant outstanding legal or legacy issues pending and no significant outstanding risks for either IIFCL or the World Bank;
- Social and environmental plans have been implemented during the construction phase of sub-projects as per national policies on safeguards; and,
- The ESDD will also confirm whether any safeguard covenants or issues identified as part of appraisal process are implemented.

9. Some of the important environmental safeguards information that will be covered in the report is:

- a) Record: the status of applicable environmental regulatory clearance obtained as on date; and the compliance and/or compliance reporting with the regulatory clearance conditions
- b) Review the sub-project EIAs including compliance of clearance conditions, and address residual environmental impacts of significance, specifically related to community/common property resources, natural habitats, and cultural properties etc. The ESDD for Take Out shall focus on impacts during operation phase of the sub-project, in addition to point (a) above.

10. Some of the important social safeguards information that will be covered in the report is:

- a) Magnitude of land acquisition and resettlement impacts in the project;

² The level of due of due diligence will vary according to nature and magnitude of safeguards impacts of sub-projects under review. If there are very few impacts, such as for road strengthening, solar or transmission sub-projects, then the level of due diligence will be proportionately simpler.

- b) Outcome of Resettlement and Tribal Development Plan implementation, if applicable;
- c) Outstanding grievance and complaints, if any;
- d) Any court reference cases on land acquisition matters and pending compensation payments; and
- e) Summary of consultations held in affected villages and with other stakeholders during construction phase, if available and based on this, assessment of Implementation status of outcomes of public hearings/consultations;

11. Apart from addressing environmental and social safeguards issues, IIFCL will pursue with the Developer for the preparation and implementation of a "Community Development Plan" to meet the pressing and priority basic amenity needs of the villagers in the project area under their CSR initiatives.. IIFCL will involve the World Bank Team in the process of carrying out ESSD for the first two sub-projects (one each in Highway and Port Terminal) and these two sub-projects will be prior reviewed by the World Bank which will serve as basis for subsequent ESSDs by IIFCL. An indicative checklist on environmental and social safeguards for preparing ESDD report is presented in **Appendix II**.

12. **Disclosure:** The final approved ESDDs, action plans and community Development Plans prepared as part of determining the eligibility of the World Bank financing will be disclosed in the respective websites of Developers and IIFCL. In case of "Category A" projects, the due diligence reports along with action plans will also be disclosed in the Bank's Info Shop.

13. **Supervision and Monitoring.** IIFCL Environment and Social Unit includes a Head, 2 staff and 2 consultants. All of these 5 members will be involved in the due diligence process and supervision of the implementation of action plans and Community Development Plans. External consultant's services will be used as necessary. The developers will submit progress reports on the implementation of agreed plans and any other issues that may emerge during the implementation at a frequency defined in the ESDD, but no less than six monthly. IIFCL will undertake field visits to a sample of relevant sub-projects at least once in 6 months to review the progress on the ground. In addition, Annual audits will be undertaken as needed to review all sub-projects accepted for World Bank financing to review the process followed for categorization, quality and adequacy of due diligence and supervisions of implementation. Any comments observed in the annual audit will be addressed through remedial measures. IIFCL will provide updates on the ESDD and implementation of action plans as part of its periodic progress reporting to the World Bank.

Appendix I

A. Indicative Categorization Criteria for the Sub-Projects - Environmental Impacts

Sl. No.	Environmental Factors	Categorization of Projects			
		Category A	Category B	Category C	Remarks
1.	Impact on Notified eco-sensitive area/eco-sensitive zones/wildlife migratory zones	Project site falls within or on the boundary of notified eco-sensitive zone/area	Significant distance from eco-sensitive area i.e. no significant impacts on eco-sensitive area due to project operations (in line with the provisions in EIA notification)	Minimal impact or no impact on eco-sensitive area	Magnitude of impacts is directly linked with type of project activity.
2.	Impact on important archaeological sites/ cultural heritage sites	Presence of archeologically important sites within corridor of impact and possibility of impacts due to project operations	Do not require any mandatory clearance. No significant impacts; and/or temporary mitigable impacts due to project operations	Minimal impact or no impact on important archaeological /historic monuments	
3.	Cumulative environmental impacts	Contribution to cumulative environmental impacts	Insignificant contribution to cumulative environmental impacts	No contribution to cumulative environmental impacts	
4.	Impact on forest land	Forest diversion of very rich biodiversity areas covering large area at one place and/or forest diversion which would affect health of the forest or severe wildlife crossings	Limited forest diversion in linear projects /involving small area, which do not impact overall health of the forest	Minimal impacts or no forest diversion	Notified Protected forests will also be considered
5.	Impacts on local environment (air, water, land, flora & fauna etc.)	Long term, irreversible and high level impacts on local environment	Short term, temporary low level impacts but mitigable impacts	No or low impacts on local environment	
6.	Scale of tree-felling	Very large-scale tree felling covering large area at one place; or activities affecting sacred groves	Medium-scale tree felling e.g. in linear projects / covering small area at one place	Minimal impacts or small-scale tree felling or no tree felling	
7.	Impacts on water bodies	Long-term, significant and irreversible impacts on water bodies/ aquatic ecosystem or significant reclamation of water bodies	Short-term temporary and mitigable impacts	No impact on water bodies	

B. Indicative Categorization Criteria for the Sub-Projects - Social Impacts

Sl. No.	Social Impacts	Categorization of Projects		
		Category A	Category B	Category C
1.	Impact on Land and physical assets	<ul style="list-style-type: none"> • Major impact on private land • Major impact on fertile/irrigated agricultural land • Involves physical displacement and loss of livelihoods 	<ul style="list-style-type: none"> • Minor/ temporary impact on private land • Impact on less fertile/ barren private agricultural land • Negligible and isolated cases of displacements. 	<ul style="list-style-type: none"> • No private land acquisition and thus no R&R issues involved. • Impact on government land only
2.	Impact on livelihood	<ul style="list-style-type: none"> • Majority of affected people becoming small and marginal farmers in case of land acquisition 	<ul style="list-style-type: none"> • Only few affected people becoming marginal and small farmers/ in case of land acquisition and loss of livelihoods are not significant. 	<ul style="list-style-type: none"> • No such issue involved
3.	Impact on tribal community	<ul style="list-style-type: none"> • Large section of tribal community adversely affected • Projects are implementation in Tribal and impacts on their systems • 	<ul style="list-style-type: none"> • Minor adverse impact on tribal families • Project in Tribal area can ensure the positive benefits to tribal community. 	<ul style="list-style-type: none"> • No adverse impact on tribal community

Checklist for Preparation of Environmental and Social Due Diligence Report (ESDDR) under Takeout Finance Schemes

I. Environmental Safeguards Compliance Status during Operation Phase Activities:

- (i) Status of applicable permits/clearances during operation phase
- (ii) EHS (Environment, Health and Safety) related clauses in O&M agreement
- (iii) Compliance status of Environment Management Measures/Plan during Operation Phase
- (iv) Institutional arrangement in place for implementation and monitoring of EMP
- (v) Emergency Preparedness and Response Plan during Operation Phase
- (vi) Status of Plantation and or compensatory plantation; and current arrangements for maintenance and replacement of casualties
- (vii) Adequate Traffic Management and Road Safety Measures (in case of road projects)
- (viii) Accident/Incident data report along with remedial measures
- (ix) Health and work safety measures
- (x) Community severance issues, if any
- (xi) Outcomes of implementation status of public hearing proceedings, if applicable and available

Status of post-construction phase activities can be included in ESDDR depending upon applicability with regard to project activities during construction phase which are given below:

II. Status of Post-construction Phase Activities:

- (i) Compensatory Afforestation status
- (ii) Rehabilitation of borrow areas status
- (iii) Soil erosion control measures
- (iv) Embankment protection measures
- (v) Redevelopment of quarry Areas, if owned by project developer
- (vi) Restoration of camp sites and plant sites
- (vii) Any enhancement of community assets
- (viii) Provision of any facility out of public demand

Status of Environmental Safeguards related compliance/documentation applicable during Pre-construction/Construction Phase can only be provided in ESDDR if information is available with Operation phase Project Team which is as follows:

III. Environment Safeguards related Documents applicable during pre-construction/ construction stage of any Post-COD Project are as follows:

1. Copy of EIA-EMP Report
2. HSE related clauses in contract documents i.e. Concession/EPC Agreement
3. Copy of various clearances like (Environmental clearance, forest clearance, CRZ Clearance, wildlife clearance, if applicable, Tree-cutting Permission and NOC from various authorities like SPCB and other state level regulatory authorities etc., or status of applicable permits taken during pre-construction and construction Phase, whichever is available
4. Details of Public hearing proceedings (Minutes of public hearing and newspaper cuttings of public hearing notification)
5. Six Monthly compliance reports submitted to MoEF for compliance with Environmental Clearance (EC) Letter's conditions

IV. Social Safeguards information:

- Land acquisition and Resettlement details and its implementation status
- Any pending litigation, court cases, complaints, implementation actions, etc.

- Details of Local Employment generated during construction phase and operation phase and any further plans for employment generation
- Any outstanding implementation actions as originally proposed by the concessioning authority/developer, including those raised during the public hearings, as the case may be
- Identity of any residual implementation actions
- Details of any special effort taken by concessionaire or any project facility provided (such as underpasses, service road in case of road projects) on public demand
- CSR activities undertaken by the concessionaire during the construction and operation phase