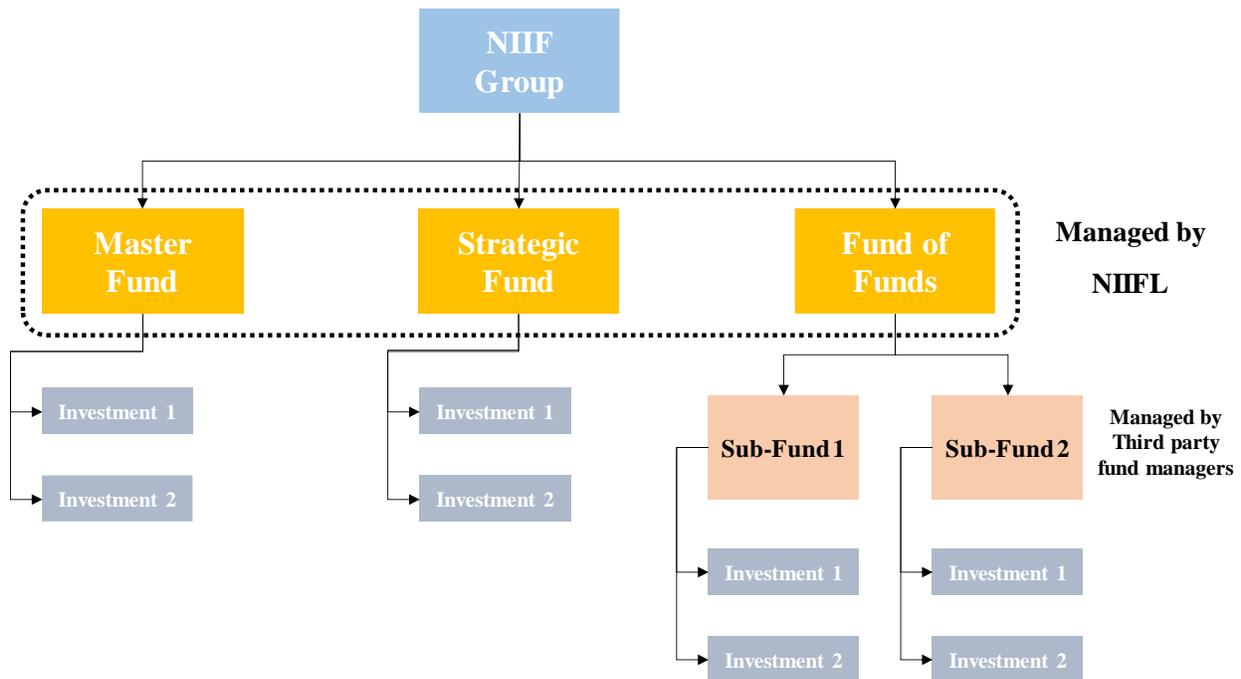


NIIFL E&S Management Policy

National Investment and Infrastructure Fund Limited (“NIIFL”), an institution anchored by the Government of India, will act as the investment manager to alternative funds set up under the NIIF umbrella / group. The funds are proposed to be collaborative investment platforms for International as well as Indian investors and are expected to focus primarily, but not exclusively, on the infrastructure sector including but not limited to energy, transportation, housing, water and waste management. NIIFL managed funds will invest into companies as well as third-party managed funds. The funds may take majority or minority stakes in their investments.

A schematic has been provided below to illustrate the structure outlined above.



Note¹

This Policy shall be applicable to all funds directly managed by NIIFL and to third-party managed sub-funds set up under the NIIF Fund of Funds (FoF). NIIFL and third-party managers of sub-funds are collectively referred to as Fund Management throughout this policy document.

Overview of NIIFL’s Environment and Social Management Framework (ESMF)

The NIIFL’s ESMF comprises of the following key elements:

- Environmental and Social (E&S) Management Policy
- E&S Management Principles
- E&S Management Procedures and Guidelines

¹ NIIF may set up other funds in addition to the three funds outlined above in the schematic.

This document presents the salient features and provisions of NIIFL's E&S Management Policy. The other two elements of NIIFL's ESMF will be stand-alone documents and will provide more comprehensive details and requirements that are specified in this NIIFL's Policy document.

NIIFL E&S Management Policy

Vision

NIIFL envisions that each investment made by it directly or through third-party managed sub-funds in which NIIF has invested, is in compliance with India's national and state governments' environment and social objectives and requirements that are promulgated through prevailing sector specific institutional policies, regulations and guidelines. Where E&S risks are significant, NIIFL resolves to use good international industry practices² for investments made under NIIF FoF. For greater clarity, direct investments made by NIIFL will endeavor to use good international industry practices however at a minimum, will be in compliance with country / state level applicable laws and regulations.

Mission

NIIFL will strive to achieve its vision in each of its investments by formulating and implementing an ESMF with the following objectives:

- a. Demonstrate leadership and excellence in managing the projects sustainably on E&S aspects through a risk management approach along with regulatory compliance approach;
- b. Promote good environment and social practices in design and development of Projects;
- c. Establish compliance to Indian government's regulatory requirements and standards on E&S aspects as a minimum basic requirement of each funded Project;
- d. Invest in Projects³ and protect and enhance their value by ensuring they identify and manage environmental and social risks associated with their activities to As Low as Reasonably Practicable (ALARP) through their life cycles;
- e. Periodically review and update NIIFL's ESMF in line with national E&S requirements and good international industry practice in environmental and social risk management
- f. Evaluate material E&S risks and impacts of each funding proposal covering all phases of Project life cycle and their ability be managed to ALARP through compliance with national E&S requirements and where relevant with good international industry practices;
- g. Formulate and integrate E&S risk mitigation strategies appropriately at each stages and phases of the Project using appropriate tools and mechanisms;
- h. Develop a culture of engagement through communication on E&S risk management, commitment through legally binding and measurable objectives and transparency through a reporting mechanism in all its direct and indirect investments;
- i. Periodically monitor and evaluate E&S risk management performance of each Project and reformulate strategies, if necessary; and
- j. Provide long term committed support to develop, institute, operate and periodically monitor & review Fund Level Environmental and Social Management Systems (FL-ESMS) for sub-funds managed by third-party fund managers under the FoF strategy. FL-ESMS will carry-over and incorporate the vision and mission statements of NIIFL ESMF through its fund life cycle.

² Good international industry practices refer to applicable E&S requirements of the respective investors in the NIIF FoF.

³ "Project" refers to any specific project that is being developed by the Proponent or Investment Proponent.

NIIFL E&S Policy Requirements

The key requirements of NIIFL's E&S policy in line with its vision and mission objectives include the following:

- I. NIIFL E&S Management Principles
- II. Screening & Categorization of projects/investments
- III. E&S Due Diligence (ESDD)
- IV. Monitoring and Evaluation
- V. E&S Management Organization
- VI. Information Sharing
- VII. NIIFL sub-funds managed by third-party managers
- VIII. NIIFL Roles and Responsibilities
- IX. Supporting documents for Policy implementation

I. NIIFL E&S Management Principles

Every Project/investment done by Fund Management will be mandatorily guided by the following E&S Management Principles that are developed as stand-alone documents and play an integral and critical part of NIIFL's E&S Management Policy. All the Principles outlined here are applicable on various Project/investments made by the funds managed by NIIFL and/or third-parties and will be enforced through FL-ESMS. The requirements of each of these principles will be analyzed in detail by Fund Management during the ESDD process prior to investment (discussed elsewhere in this policy document) and incorporated in the investment agreements in the form of a mutually agreed E&S Action Plan (ESAP). The investments will be subject to binding covenants in the investment agreement.

Principle 1: Environmental & Social Risk Assessment and Management Systems.

This principle essentially mandates that every project or business activity⁴ funded by NIIFL or by third party managers of its sub-funds irrespective of its categorization under NIIFL's E&S Management Policy will institute and operate an appropriate Environmental and Social risk identification, assessment and Management System (ESMS) that addresses all the requirements specified in NIIFL's E&S Management Principles 2 through 4. The ESMS will be instituted and operated at an appropriate level in the Investment Proponent⁵'s or Sponsor's⁶ organizational hierarchy. This will be determined at the time of ESDD undertaken prior to investment decision and incorporated as part of ESAP.

Principle 2: Environmental Risks and Management

This principle will cover all matters relating to identification and assessment of risks and impacts on environmental resources that will be caused by the development of the Project or business activity to be funded and management strategies to be formulated to mitigate the risks and impacts. Risks and impacts must be mitigated and managed to ALARP, by demonstrating that residual environmental impacts are consistently in compliance with the applicable standards and managed on best effort basis to benefit local communities relying on environmental resources.

⁴ "Business activity" refers to various activities undertaken by the Proponent including, but not limited to, project design, development, construction, operation & maintenance and or delivery of specific services etc.

⁵ "Investment Proponent" or "Proponent" refers to the project or company to which funding is being provided from the funds directly managed by NIIFL or by third-party managed sub-funds set up under NIIF FoF.

⁶ "Sponsor" refers to the owner/promoter of the Project or company that is seeking investment from the funds directly managed by NIIFL or by third-party managed sub-funds set up under NIIF FoF.

Principle 3: Human Resources Management

This principle will cover all matters relating to engagement of human resources through the Project life cycle. The principle will cover all aspects of human resources engagement including but not limited to: direct employment, contractual employment, employment offered through third party or petty contractors, occupational health and safety aspects in the workplace, working conditions and terms of employment including equal opportunities, grievance mechanism, prohibition of child or forced or bonded labor practices. The principle will require, that the Investment Proponent complies to prevailing national and state level policies, regulations and guidelines published by concerned line ministries in the government. Risks and impacts must be mitigated and managed through the implementation of a transparent management of human resources, and an effective internal grievance mechanism covered by this Human Resources Management principle. The principle requires that the Investment Proponent on best effort basis apply the requirements under this principle on its supply chain.

Principle 4: Social Risks and Management

This principle will cover all matters relating to identification and assessment of risks and impacts on social aspects that will be caused by the development of the Project or business activity to be funded and management strategies to be formulated to mitigate the risks and impacts. The principle will cover all risks and impacts on social sector including: involuntary land acquisition; physical and economic displacement of project affected peoples (PAPs); vulnerable PAPs; scheduled tribes identified and recognized by national regulatory framework; and cultural and historical resources relevant to local communities. The principle will require, that the Investment Proponent complies to prevailing national and state level policies, regulations and guidelines published by concerned line ministries in the government related to concerned social sectors and where determined at screening in line with good international industry practices.

In investments that are likely to cause potential, significant, adverse impact on any or all of the social aspects covered under these principles discussed above, NIIFL expects the Investment Proponent/Sponsor to meaningfully engage with every affected stakeholder as per prevailing Indian government policies, regulations and guidelines in this regard and where determined at screening in line with good international industry practices.

II. Screening and Categorization

Every investment done by Fund Management is screened for material E&S risks and impacts including the industry wide risk based on preliminary information available at Stage 1 of the investment process. The early stage E&S risk assessment will rely on primary information furnished by Investment Proponent/Sponsor and relevant contextual information available from reliable and accurate secondary sources

Based on the screening assessment, each investment done by Fund Management will be categorized as per the guidelines below. The primary objective of categorization is to ensure appropriate E&S risk assessment by investment proponent and management oversight by NIIFL and third-party managers of its sub-funds. Based on the categorization, the Fund Management will determine level of E&S risk, corresponding instruments to be deployed, information disclosure and stakeholder engagement for the investment.

The referential for categorization of the project or activities include EIA Notification, 2006 of the Ministry of Environment and Forest (MoEF) in the Government of India, industry classification published by Central Pollution Control Board (CPCB) and good international industry practices.

The E&S categories are:

Category A: Projects or business activities with significant adverse environmental or social risks and/or impacts that are direct or indirect, diverse, across different locations, persistent over a period, irreversible, cumulative, or unprecedented will be classified under this category.

Category B: Projects or business activities with limited adverse environmental or social risks and/or impacts that are direct or indirect, markedly site-specific, manageable over a period, largely reversible, and readily addressed through mitigation measures.

Category C: Projects or business activities with minimal adverse environmental or social risks and/or impacts.

Category FI: NIIFL investments in sub-funds that will be managed by financial intermediaries (such as 3rd party fund managers under Fund of Fund investments) will be classified, in three tiers, under this category. Such financial intermediaries are required to meet NIIFL's E&S policy requirements as well as E&S requirements of other institutional investors of the sub-fund as applicable. This category is further divided into:

- **FI-A:** when a NIIFL sub-fund's proposed portfolio includes or is expected to include, substantial fund investments to projects or business activities that fall under Category A explained above.
- **FI-B:** when a NIIFL sub-fund's proposed portfolio includes or is expected to include, substantial fund investments to projects or business activities that fall under Category B explained above.
- **FI-C:** when a NIIFL sub-fund's proposed portfolio includes or is expected to include, substantial fund investments to projects or business activities that fall under Category C explained above.

The outcome of early stage E&S screening assessment and classification of project activity as per categorization criteria defined above will be documented and shared with the Investment Committee of NIIFL / third party managed sub-funds to enable its investment decisions and proceed to next stage of the investment. Recording the E&S inputs in the investment decision is a mandatory requirement of the policy.

III. Environmental and Social Due Diligence (ESDD)

As part of the Project or business activity appraisal process that includes due diligence from financial, legal, technological and other aspects, undertaking ESDD process is also a key and mandatory requirement under this policy and applies to all investments made by the Fund Management.

Every investment done by Fund Management is expected to meet the requirements of NIIFL's E&S Management Principles through a mutually agreed E&S Action Plan (ESAP) between the Fund Management and Investment Proponent /Sponsor. ESAP and other covenants relating to E&S aspects is to be integrated into investment agreements to be signed between Fund Management and Investment Proponent/Sponsor. Any delays in implementing or poor/ ineffective implementation of the ESAP and E&S related covenants will be treated as violation of investment agreement provisions and appropriate actions will be initiated against the Investment Proponent/Sponsor as provided in the investment agreement.

The scope of ESDD will be determined by the stage of the investment. Every investment may have stages such as: conceptual, planning & design, procurement of contractual services, construction, operation & maintenance, and decommissioning or exit covering its entire life cycle. Fund Management will determine the scope of ESDD considering the stage of investment and extend of E&S related assessment and management work undertaken by the Investment Proponent/Sponsor at that stage.

The approach to ESDD will be to ensure regulatory compliance as well as identify and address all material E&S risks through the Project life cycle. The scope of environmental and social due diligence (ESDD) of every investment to be funded will typically include:

- (a) collect all relevant E&S information, records, and documentation based on a checklist that covers all aspects and requirements of NIIFL E&S Management Principles;
- (b) undertake desk based review of collected information;
- (c) plan and undertake site inspections that will include consultations with project management team (importantly with E&S Management team, if any) and relevant stakeholders;
- (d) analyze and compare the environmental and social performance of the Project or business activity with respect to the requirements of NIIFL's E&S Management Principles and provisions of the NIIFL's sectoral E&S Guidelines (if available) which include at a minimum the prevailing national regulations, standards and guidelines applicable to the project or business activity and for high risk aspects, good international industry practice;
- (e) identify the gaps therewith and formulate Environmental and Social Action Plan (ESAP) that needs to be mandatorily implemented during remaining phases or stages of project execution;
- (f) Consult and mutually agree with the Investment Proponent/Sponsor on every individual action item proposed in the ESAP and the corresponding deliverables with respective timelines; and
- (g) Get the Investment Proponent/Sponsor to sign off the ESAP document which will then become a critical operative part of a larger investment agreement that will be eventually signed between Fund Management and the Investment Proponent/Sponsor.

IV. Monitoring and Evaluation

Every investment done by Fund Management will be periodically monitored for effective implementation of ESAP items and other E&S related covenants as mutually agreed and recorded in the investment agreements.

FL-ESMS will institute and operate a project oversight mechanism that will run through the investment agreement period. The project oversight mechanism will include any or all the following methods:

- (a) field supervision visits to funded Project site or business activity location; consultation with stakeholders of the Project during the site visit; compiling supervision observations in a standardized report format and sharing the feedback with Project/E&S management team in the form of specific action items to be completed within mutually agreed timelines. The frequency of such field supervision visit by the Fund Management is: at least once in a financial year in Category A projects; at least once in three years in the case of Category B projects; and at least once in five years in the case of Category C projects. Any significant and adverse E&S events (such as legal action/proceedings, community opposition, fatal accident/incident) reported in invested projects could warrant immediate field visit by the fund management;
- (b) use by Investment Proponent of independent third-party E&S firms or individual experts or competent internal resources, to supervise the project and undertake compliance audit;
- (c) review of regulatory compliance reports that are generated and submitted by Investment Proponent to concerned regulatory agencies, a copy of which will be shared with Fund Management on a quarterly / annual basis. Compiling review observations in a standardized report format and sharing the feedback with Investment Proponent in the form of specific action items to be completed within mutually agreed timelines; and
- (d) periodical desk-based follow-up with project/E&S management team on the action items discussed above.

Based on the outcome of project oversight mechanism discussed above, each investment will be rated objectively (as good/satisfactory/unsatisfactory/poor) on the E&S performance based on standardized E&S parameters that will be derived from the requirements of NIIFL E&S Management Principles 1 through 4. Fund Management will work with investments that are rated unsatisfactory or poor in two consecutive oversight assessments or over a period of two years to improve upon the E&S performance. Specific action items with timelines to improve the E&S performance and hence the ratings will be mutually agreed with Investment Proponent for implementation. In case the Investment Proponent fails to improve the performance or fails to implement agreed action items, fund manager will seek remedies as provided in the investment agreements. Fund manager will also factor E&S performance record of existing Investment Proponents/Sponsors in investment decision making if they approach for repeat investing opportunities.

The regulatory compliance reports that are to be submitted by the Investment Proponent to various E&S related regulators will also be shared with Fund Management after the end of each financial year which will be reviewed by the fund manager within 3 months of such submission. Investment proponent should notify the Fund Manager within 72 hours of any significant and adverse E&S event including, but not limited to, legal actions/notices issued by regulators or others, levy of penalty/fine, pollution complaints beyond project boundary, fatality, occurrence of multiple bodily harm, restricted access to resources and other such adverse E&S events.

V. E&S Management Organization

NIIFL will maintain in-house E&S capacity at all time in the form of specialist resources and the oversight from a member of the senior management team, with additional external resources available through punctual or long-term contracting. Third-party fund managers of various sub-funds in which NIIFL has invested should formulate and institute an appropriate organizational structure to operate and maintain the FL-ESMS discussed under Section VII below and be accountable to NIIFL. The third-party fund managers depending on the work load and investments in the pipeline, should at the least identify an in-house E&S coordinator to deliver various roles and responsibilities expected under FL-ESMS and additionally can hire individual consultant/ consultancy firm services for delivering specific services required under FL-ESMS. The E&S manpower resources recruited in-house or hired on project basis shall have at least 7 years of relevant experience in managing E&S aspects.

VI. Information Disclosure

NIIFL commits to disclose a summary of E&S risk aspects assessed and corresponding E&S management strategies formulated along with periodical updates on E&S performance for every investment subject to relevant investment agreement conditions agreed with Limited Partner (LP) investors of the fund. NIIFL will ensure that portfolio sub-funds managed by third party fund managers under NIIF's FoF will have in place a communication mechanism to address legitimate third-party enquiries on their own E&S processes and outcomes as well as E&S impacts and performances of their portfolio investments. NIIFL may delay disclosure of certain information that it would otherwise make publicly available because of market conditions, or legal or regulatory requirements.

VII. NIIFL Funds Managed by Third Party Managers – Institute Fund Level ESMS

As described in the first section of the E&S Policy, by way of its FoF strategy, NIIFL will be investing in various sub-funds which in turn will be investing in Projects or business activities. These sub-funds will be managed by third-party fund managers and may include other independent investors besides NIIF. While different co-investors in each of these sub-funds may have their respective E&S Management Framework requirements which the third-party fund manager needs to integrate into or address through its FL-ESMS,

from an NIIFL's perspective, NIIFL is committed to provide long term support to formulate, institute and strengthen every such third-party fund manager's FL-ESMS through the fund life cycle.

The FL-ESMS will carry-over and incorporate all the elements outlined in NIIFL's E&S Management Framework and replicate a system that will cover all the requirements outlined in this policy document. The key goal of such FL-ESMS shall be to continuously strive to deliver NIIFL's vision and mission objectives through its fund life cycle and through every project or business activity that it finances. As a basic minimum, the FL-ESMS shall have the following, systemic elements that are formulated, instituted and operated through the fund life cycle and applied to each of the investments made by the Fund:

- Fund Level E&S Policy
- E&S Organization in the Fund
- Roles and Responsibilities of the Fund through the investment life cycle
- Formulation of E&S Management Procedures (as an internal guidance document setting up systems, process, procedures and variety of standardized tools)
- Screening and categorization
- Application of NIIFL E&S Management Principles and Sectoral Guidelines, if any
- Appraisal process – E&S Due Diligence
- Stakeholder engagement including complaints or grievances handling mechanism
- Formulation of E&S Action Plan (ESAP) that sets E&S goals and targets to meet NIIFL ESMF requirements
- Enforcement of ESAP implementation through legal tools – integrating E&S related legal clauses and covenants into Investment Agreement
- Annual E&S Performance Monitoring and Reporting by each of the Investment Proponents
- Fund Level Project Supervision and performance assessment
- Annual Reporting to NIIFL

VIII. NIIFL Roles and Responsibilities

As the principal manager of various funds (Master Fund, Fund of Funds and Strategic Fund), NIIFL has several roles and responsibilities under this Policy as highlighted below:

- Institute and operationalize ESMF within NIIFL (including its own version of FL-ESMS as described under Section VII above) and work with various third-party fund managers of NIIFL invested sub-funds to replicate a similar ESMF at their respective fund level organizations.
- Annual reporting to its investors and stakeholders on the E&S performance of the portfolio of investments
- Annual review and evaluation of Fund Level ESMF and ESMS based on fund managers' annual reports. Every fund manager will annually report to NIIFL on the E&S performance of the portfolio of investments managed by the respective funds
- NIIFL will commit to periodically revising, updating and strengthening its ESMF and all its elements in line with applicable laws and policies in India by periodically holding consultative workshops with all concerned stakeholders.

IX. Supporting Documents for Policy Implementation

Effective operation and implementation of NIIFLs E&S Policy pronouncements will be ensured through the following supporting documents that will be made available to all concerned stakeholders of NIIFL:

- NIIFLs Environment and Social (E&S) Management Principles that lays out E&S aspects that are to be managed in every fund investment;
- NIIFLs Environmental and Social Review Procedures, which will lay out NIIFLs internal procedures for environmental and social due diligence, assessment and management in each of its investments;
- Generic Fund of Fund (FOF) Manager Level E&S Management Systems (FL-ESMS) in compliance to NIIFL E&S Policy;
- NIIFLs E&S Management Procedures and Guidelines - Internal guidelines for FOF Managers; and
- NIIFLs E&S Management Procedures and Guidelines - External guidelines for Investment Proponents (General and Industry-specific).