

FRAMEWORK FINANCING AGREEMENT
(Second India Infrastructure Project Financing Facility)

Parties This Framework Financing Agreement (“FFA”) dated 6 October 2009 is between India Infrastructure Finance Company Limited (“IIFCL” or the “Borrower”), India (the “Guarantor”), and Asian Development Bank (“ADB”).

MFF Investment Program IIFCL is committed to and will implement the Second India Infrastructure Project Financing Facility (IIPFF II), of which the Roadmap and Investment Program is an integral part. Both the IIPFF II and the Roadmap and Investment Program are described in Schedule 1 hereto (the Roadmap and Investment Program).

The total ADB financing under the Roadmap and Investment Program, over the period fiscal year (FY) 2009 to fiscal year (FY) 2013 is expected to be \$700 million equivalent.

Multitranche Financing Facility The Multitranche Financing Facility (the Facility) is intended to finance subprojects under the Roadmap and Investment Program provided that such subprojects comply with the criteria set out in Schedule 4 hereto and that understandings set out in this FFA are complied with.

The subprojects will be included in accordance with the Guarantor's Scheme for Financing Viable Infrastructure Projects through a Special Purpose Vehicle called the India Infrastructure Finance Company Limited issued on 4 January 2006 and further amended on 23 April 2007, 14 January 2008, 5 February 2008, and 5 March 2009, and as further amended from time to time.

Framework Financing Agreement This FFA does not constitute a legal obligation on the part of ADB to commit any financing. ADB has the right to refuse any financing request made by IIFCL, cancel the uncommitted portion of the Facility, and withdraw IIFCL's right to request any financing tranche under the Facility. Financing tranches may be made available by ADB provided matters continue to be in accordance with the general understandings and expectations on which the Facility is based and which are laid out in this FFA.

This FFA does not constitute a legal obligation on the part of IIFCL to request any financing. IIFCL has the right not to request any financing under the Facility. IIFCL also has the right, at any time, to cancel any uncommitted portion of the Facility.

IIFCL, India, and ADB may exercise their respective rights to cancel the Facility or any uncommitted portion thereof, and ADB may exercise its right to refuse a financing request, by giving a written notice to such effect to the other parties. The written notice will provide an explanation for the cancellation or refusal and, in the case of a cancellation, specify the date on which the cancellation takes effect.

Financing Plan

The financing plan for the subprojects is summarized below.

Indicative Financing Plan FY2009–FY2013

(\$ million)

Source	Total	%
Asian Development Bank	700	6.36
Local Market Borrowings ^a	5,000	45.45
Foreign Borrowings ^b	5,300	48.18
Total	11,000	100.00

^a Funds that the IIFCL will raise from the domestic market including insurance and pension funds and the national savings scheme.

^b Foreign borrowings include bilateral and multilateral sources and funds that the IIFCL will raise from the international capital markets.

Source: Asian Development Bank and India Infrastructure Finance Company Limited estimates.

Financing Terms ADB will provide loans to finance subprojects under the IIPFF II, as and when the latter are ready for financing, provided IIFCL is in compliance with the understandings hereunder and the subprojects are in line with those same understandings. Each loan will constitute a tranche.

Each tranche may be financed under the terms different from the financing terms of previous or subsequent tranches. The choice of financing terms will depend on the subprojects, capital market conditions, and ADB's financing policies, all prevailing on the date of signing the legal agreement for such tranche.

Tranches may be provided in sequence or simultaneously, and some may overlap in time with each other.

Commitment charges are not payable on the Facility. They are payable only on financing actually committed by ADB as a loan. ADB rules on commitment charges, which are in effect when the legal agreements are signed for a tranche, will apply with respect to such tranche.

Amount

The maximum financing amount available under the Facility is \$700 million. It will be provided in individual tranches from ADB's ordinary capital resources in amounts not less than \$100 million.

Availability Period

The last date on which any disbursement under any tranche may be made will be 31 December 2014. The last financing tranche is expected to be executed no later than 31 March 2014.

Terms and Conditions

IIFCL will cause the proceeds of each tranche to be applied to the financing of expenditures of the Roadmap and Investment Program, in accordance with the conditions set forth in this FFA and the legal agreements for each tranche.

Execution	IIFCL will be the Executing Agency. The Executing Agency will implement the Roadmap and Investment Program in accordance with the principles and assurances set forth in Schedule 1 to this Agreement, and as supplemented in the legal agreements for each tranche.
Periodic Financing Requests	<p>IIFCL may request, and ADB may agree, to provide loans under the Facility to finance subprojects under the Roadmap and Investment Program upon the submission of a periodic financing request (PFR). Each PFR should be submitted by IIFCL and confirmed by India. IIFCL will make available to subborrowers the proceeds of the tranche in accordance with the related PFR, and the legal agreements for the tranche.</p> <p>Each individual tranche will be for an amount of no less than \$100 million, or its equivalent. ADB will review the PFR[s] and, if found satisfactory, prepare the related legal agreements.</p> <p>The subprojects for which financing is requested under the PFR will be subject to the selection criteria set out in Schedule 4 hereto, satisfactory due diligence, and preparation of relevant safeguards and fiduciary frameworks, and other documents. ADB and IIFCL will agree on a Facility Administration Manual and a schedule to initiate these activities, as soon as possible after the date of this Agreement, but prior to the effective date of the legal agreements for the first tranche.</p> <p>Until notice is otherwise given by IIFCL, Chairman and Managing Director will be IIFCL's authorized representative for purposes of executing PFRs. Likewise, until notice is otherwise given by India, Joint Secretary, Director or Deputy Secretary Department of Economic Affairs, Ministry of Finance will be India's authorized representative for purposes of executing PFRs.</p>
General Implementation Framework	The Facility will be implemented in accordance with the general framework set out in Schedule 3 hereto.
Procedures	<p>Tranches to be provided under the Facility will be subject to the following procedures and undertakings.</p> <ul style="list-style-type: none"> (i) IIFCL will have notified ADB of a forthcoming PFR in advance of the submission of the PFR. (ii) IIFCL will have submitted a PFR in the format agreed with ADB. (iii) ADB may decline to authorize the negotiation and execution of any legal agreement for a tranche. (iv) If ADB confirms acceptance of the PFR, the legal agreements will be negotiated and executed by the parties.
PFR Information	<p>The PFR will substantially be in the form attached hereto, and will contain the following details:</p> <ul style="list-style-type: none"> (i) Loan tranche(s) amount; (ii) Description of the subproject to be financed under the tranche(s);

- (iii) Detailed cost estimates and financing plan for the overall tranche(s) and the subprojects;
- (iv) Implementation arrangements specific to the subprojects;
- (v) Confirmation of the continuing validity of and adherence to the understanding in this FFA;
- (vi) Confirmation of compliance with the provisions under previous loan agreements, as appropriate; and
- (vii) Other information as may be required under the Facility Administration Manual, or reasonably requested by ADB.

Safeguards Attached as Schedule 5 are references to the safeguards frameworks that will be complied with during the implementation of the Facility.

The environmental and social safeguards framework (ESSF) will also apply to each subproject financed under the Facility.

Procurement All goods and services to be financed under the IIPFF will be procured in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time) as applicable to this Facility (para. 3.12 thereof).

Retroactive Financing Under each tranche, ADB may, subject to its policies and procedures, allow on request retroactive financing of eligible expenditures for IIPFF II up to (20%) of the proposed individual loan, incurred prior to loan effectiveness but not earlier than 12 months before the date of signing of the related legal agreement. IIFCL acknowledges that any approval of advance contracting and/or retroactive financing will not constitute a commitment by ADB to finance the related project.

Disbursement The loan proceeds shall be disbursed in accordance with ADB's *Loan Disbursement Handbook* (January 2007, as amended from time to time).

Monitoring, Evaluation, and Reporting Arrangements A set of indicators for monitoring, which includes satisfactory implementation of resettlement, and evaluating the performance of the Investment Program and each subproject in relation to the goals, purposes, and outputs of each, will be agreed upon with ADB in reference to the design and monitoring framework given in Schedule 2 within no more than 3 months from the signing of the Facility (in the case of the Investment Program) and each Legal Agreement (in the case of an individual tranche). Results of the analyses, comments, and conclusions on the performance of the Investment Program, and its subprojects will be incorporated in every quarterly report to ADB.

Schedule 2 hereto sets as the design and monitoring framework for the Facility against which the implementation effectiveness will be evaluated.

Undertakings Attached as Schedule 6 are the undertakings provided by IIFCL.

Representations and Warranties India and IIFCL represent and warrant that

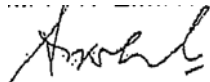
- (i) IIFCL is a company duly incorporated and validly existing under

- the (Indian) Companies Act 1956;
- (ii) IIFCL is authorized and empowered to implement India's *Scheme for Financing Viable Infrastructure Projects*;
 - (iii) the entry into and performance by IIFCL of the transactions contemplated herein are in accordance with its memorandum and articles of association and do not conflict with any applicable law or regulation or any agreement or instrument binding upon it or any of its assets; and
 - (iv) no approvals of the Reserve Bank of India or any other regulatory authority are necessary for the entry into and performance by IIFCL of the transactions contemplated herein.

Guarantee

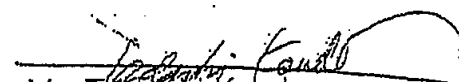
India will provide a sovereign guarantee, in form and substance acceptable to ADB for the term of each loan, as a condition precedent to the effectiveness of each loan requested by IIFCL and provided by ADB pursuant to the terms of this agreement.

INDIA INFRASTRUCTURE FINANCE
COMPANY LIMITED



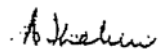
By: Mr. S. S. Kohil
Chairman and Managing Director
Date: 6 October 2009

ASIAN DEVELOPMENT BANK



By: Mr. Tadashi Kondo
Country Director, INRM
Date: 6 October 2009

INDIA



By: Ms. Anuradha Thakur
Director (ADB)
Date: 6 October 2009

ROADMAP AND INVESTMENT PROGRAM

A. Road Map

1. It is well-established that reliable and high quality infrastructure is a critical determinant of productivity to support a high level of economic growth and to reduce poverty.¹ Insufficient infrastructure capacity results in lower productivity, higher transport and logistic costs, and reduces competitiveness resulting in slower growth. The priority accorded to infrastructure by the Government of India (the Government) can be judged from the stated goal to increase infrastructure investment from 4.5% to 9% of gross domestic product (GDP) during the 11th Five-Year Plan (FYP) period, FY2007–FY2011. The investment requirements are required to support an average annual GDP growth target of 9%. Based on the targeted growth rate and the identified deficit, the required infrastructure investment is estimated at approximately \$514 billion or gross capital formation of 11% in infrastructure by the terminal year of the 11th FYP.

2. As of 2008, an analysis of infrastructure capacity under construction or fully constructed reveals that only the power subsector has achieved capacity expansion in line with 11th FYP targets, while the ports, airports, and roads subsectors are at 85%, 75%, and 50%, respectively.² This is reflected in the situation prevailing in utilities of ports, roads, railways, and airports subsectors which are operating close to or beyond capacity. It takes an average of 21 days to clear cargo in India compared with 3 days in Singapore. The Jawaharlal Nehru Port Trust in Mumbai, which handles 60% of India's container traffic, has berths for nine cargo vessels while Singapore's main port can handle 40. India's national highways account for only 2% of the total highway network and only 12% of them or 8,000 kilometer (km) are dual carriageways.³ The situation is equally alarming with regard to urban roads as evidenced by a sharp drop in the average speed of traffic in Delhi from 27 kilometer per hour (kph) in 1997 to 10 kph currently. With regard to power, peak demand exceeds supply by almost 15% given that several planned capacity initiatives for the 11th FYP are yet to come on line. World Bank estimates suggest that 9% of potential industrial output in India is lost to power cuts. Some 600 million Indians have no electricity at all.

3. **Infrastructure Sector Reforms.** These investment requirements are well beyond the resource deployment capacity of the Government, in light of rising fiscal deficits.⁴ The Government is thus pursuing a policy of expanding infrastructure investments from the private sector emphasizing public-private partnerships (PPP). The policy reform agenda for the infrastructure sector in India has thus been driven by a two-fold objective, namely (i) develop an enabling environment to develop commercially viable PPP projects, and (ii) develop a financing model to deliver specialized project financing and risk mitigation products. In the first instance,

¹ The 11th FYP policy framework indicates that the percentage of the population below the official poverty line has appreciably declined from 36% in fiscal year (FY)1993 to 28% in FY2004. However, the rate of decline in poverty has not accelerated along with the growth in GDP, and the incidence of poverty among traditionally marginalized groups has shown an insignificant decline. Further, given population growth, the absolute number of poor has declined only marginally from 320 million to 302 million during the same period. Other indicators of deprivation suggest that the proportion of the population deprived of a minimum level of living is much higher. For example, National Family Health Survey-3 shows that almost 46% of the children in the 0–3 years age group suffered from malnutrition in FY2005 showing almost no decline from the level of 47% reported in 1998 by the National Family Health Survey 2.

² McKinsey. 2008. *Building India, Financing and Investing in Infrastructure*. New Delhi.

³ Of the remaining national highways 50% are two-laned and 38% are single-laned.

⁴ The fiscal situation in India has deteriorated since the FY2008 budget when the fiscal deficit was recorded at around 3% of GDP. The combined fiscal deficit of the central and state governments is now expected to cross 11% of the GDP due to the stimulus packages announced by the Government in response to the global financial crisis.

the objective is to undertake reforms to facilitate private sector participation either via wholly private sector companies or via public-private partnership (PPP) type initiatives. Thus, the reforms seek to follow international best practices in the Indian context to (i) ensure long-term stability of cash flows, (ii) reduce regulatory risk, and (iii) optimally allocate risk and determine commensurate returns. In the second instance, the reforms have been driven by the need to channel financing to the sector through a mix of credit enhancement mechanisms, 'risk capital' infusion, financial market development, and incentivization. The table below provides a snapshot of the PPP-related infrastructure policy reform framework undertaken on a subsector-wise basis.

Table 1: Infrastructure Policy Reform Framework

Sector	Reforms Undertaken
Roads and Highways	<ul style="list-style-type: none"> • To specify the policy and regulatory framework on a transparent basis, an MCA for PPPs in national highways has been mandated. • FDI of up to 100% permitted in road sector. • An NHDP, involving a total investment of \$56 billion up to FY2011–FY2012, has been established. • NHA has been designated as the apex government body for implementing the NHDP. All contracts, whether for construction or BOT, are awarded through competitive bidding. • To attract private investment in road development, maintenance, and operation, the NH Act 1956 was amended in June 1995. <ul style="list-style-type: none"> – Private parties can invest in the NH projects, levy, collect, and retain fee from users and is empowered to regulate traffic on such highways in terms of the provisions of the Motor Vehicle Act 1988.
Indian Railways	<ul style="list-style-type: none"> • Implementation of (i) dynamic pricing policy, (ii) tariff rationalization, (iii) non-peak season incremental freight discount scheme, and (iv) empty flow direction freight. • Innovative pricing structures introduced to suit the needs of customers to retain existing customers and attract new customers from road haulage firms.
Urban Sector	<ul style="list-style-type: none"> • The 74th amendment to the constitution for decentralization of power to the ULBs is being implemented to improve urban governance and development. • The MoUD has decided to introduce a common act governing all the metro rail transit systems. • Tax-free status to municipal bonds approved. • Government has developed a model municipal law to help states and ULBs to enact legislation consistent with reforms. <ul style="list-style-type: none"> – The basic objectives of the law (passed in October 2003) are to implement provisions of the 74th Constitutional amendment for empowerment of ULBs. • In March 1999, the Parliament approved the repeal of the Urban Land (Ceiling and Regulation) Act 1976—removing a major constraint on urban development and facilitating development of excess land. • Guidelines have been issued by MoUD (in early 2004) to sensitize states and ULBs on policy and procedural issues to facilitate PSP.
Aviation	<ul style="list-style-type: none"> • New Civil Aviation policy tabled in Parliament. New policy highlights of the new policy are <ul style="list-style-type: none"> – Route dispersal guidelines to be replaced with a subsidy-based system; and – Minimum equity required to start a new airline to be raised from \$7.64 million to \$12.74 million. • AAI Act amended to provide legal framework for airport privatization.
Ports	<ul style="list-style-type: none"> • 100% FDI under the automatic route permitted. • 100% income tax exemption for 10 years. • TAMP has been established to regulate the ceiling for tariffs charged by major ports/port operators.

Sector	Reforms Undertaken
	<ul style="list-style-type: none"> • Many major ports now operate largely as landlord ports. • International port operators have been invited to submit competitive bid for BOT terminals on a revenue-share basis.
Power	<ul style="list-style-type: none"> • Electricity Act 2003 and National Electricity Policy 2005 passed advocating competition, reduced technical and commercial losses, and remunerative returns on investments. • CERC has been set up for determining tariffs for central power projects and 18 SERCs have been created. • Working group examining policy issues with respect to coal, gas, and transport for the subsector. • Income tax holiday for a block of 10 years in the first 15 years of operation, waiver of capital goods import duties on mega power projects (above 1,000 MW generation capacity). • 100% FDI permitted.

AAI = Airports Authority of India, BOT = build-operate-transfer, CERC = Central Electricity Regulatory Commission, FDI = foreign direct investment, MOuD = Ministry of Urban Development, MCA = model concession agreement, MW = megawatt, NH = National Highways, NHAI = National Highway Authority of India, NHDP = National Highway Direct Program, PPP = public-private partnership, PSP = private sector participation, SERC = State Electricity Regulatory Commission, TAMP = Tariff Authority for Major Ports, ULB = urban local body.

Source: Planning Commission

4. **Financial Sector Reforms.** With regard to debt market development, reforms focus on the need to provide long-term funding to infrastructure. This has been constrained due to sector risks and the inability of the financial markets to absorb corporate debt issuances of required maturity. Thus, projects carry significant risks the coverage costs of which are passed on to end-beneficiaries. With regard to debt market development, the Government is committed to implementing recommendations of the 'High Level Expert Committee on Corporate Bonds and Securitization' (Patil Committee Report) which has emphasized several action areas including (i) the need for providing credit enhancement (to inject 'implicit risk capital'); (ii) enhancing the investor base in longer maturity issuances (pension and insurance funds); (iii) creating a clearance and settlement system; and (iv) allowing repossessions with corporate paper (to create liquidity in the instrument), etc.

5. Initiatives being considered by the Government to support the development of the corporate bond market include (i) allowing domestic financial institutions greater leeway to invest in corporate bonds; (ii) steadily raising the limit on foreign investment in corporate bonds; (iii) amending the bankruptcy code so that the rights of unsecured creditors are protected; (iv) reducing transactions costs in issuing and trading corporate bonds, including repeated disclosures and high stamp duties; (v) reducing the artificial preference of banks for loans by subjecting loans and bonds to similar mark-to-market requirements with respect to interest rate exposure.

6. With regard to mobilizing financing for infrastructure projects developed through PPPs, India Infrastructure Finance Company Limited (IIFCL) was set-up⁵ with the specific mandate to play a catalytic role in infrastructure financing by leveraging resources and specialized skills in the market. IIFCL functions under its own operating paradigm known as its Scheme which guides IIFCL's business plan and operations manual. The provisions of the Scheme enable IIFCL to play a central role in implementing the new business model for financing infrastructure. The Scheme facilitates (i) long-term financing; (ii) improved risk transfer, assessment, and management of large infrastructure projects; (iii) professional project development and

⁵ IIFCL was set up on 5 January 2006 as a wholly owned Government company under the Companies Act 1956.

appraisal; (iv) risk-based pricing; (v) refinancing; and (vi) augmenting scarce risk capital. The Scheme and the evolving environment allow IIFCL to diversify its portfolio across sectors and projects and to inject an additional layer of credit enhancement and risk capital into the market and draw in funds that would not otherwise be available for infrastructure. IIFCL leverages the project development expertise available with complementary institutions such as Infrastructure Development Finance Company (IDFC), Infrastructure Leasing and Financial Services (IL&FS), etc. by requiring professional project structuring and appraisal as part of project selection. To finance its asset portfolio, IIFCL is expected to tap a variety of sources including domestic and international debt markets and multilateral development banks and bilateral agencies.

B. Strategic Context

7. ADB's country operations and business plan 2009⁶ and India country partnership strategy 2009–2012, which are closely aligned with the Long-Term Strategic Framework (2008–2020), have been designed to support the Government's efforts towards addressing the binding constraints to [infrastructure development] laid down in the 11th FYP.⁷ The 11th FYP highlights infrastructure development, agriculture and water management, and employment generation while emphasizing inclusive growth. In addition, the Government has also facilitated private investment which is manifested through PPPs in the infrastructure sector. Supporting the same, ADB strategies will also (i) support the process of inclusive and environmentally sustainable growth in India; (ii) catalyze investment through the use of innovative business and financing modalities (e.g., PPP, non-sovereign operations, tapping the carbon market, and greater co-financing); (iii) strengthen, among others, the results orientation of project design and implementation; and (iv) support for regional cooperation. In addition, in line with the three pillars of the Energy Policy 2009,⁸ ADB supports energy sector development which is a major part of infrastructure in India to promote (i) energy efficiency; (ii) maximize energy access; and (iii) promote energy sector reform and capacity building.

C. Successes and Challenges

8. The above measures have led to significant gains in the transportation sector. With regard to roads and highways, four-laning of the golden quadrilateral⁹ is nearing completion. Further, four-laning of 7,166 km under the National Highway Development Program (NHDP)-I and 2,440 km under the National Highway Development Program (NHDP)-II have been completed up to December 2008 as has the four-laning of 7,166km under NHDP-I and 2,440 km under NHDP-II. In the railway sector, the rapid rise in international trade and domestic cargo has placed a great strain on the Delhi-Mumbai and Delhi-Kolkata rail capacity. The Government has, therefore, decided to build dedicated freight corridors in the Western and Eastern high-density routes at an investment of around \$5 billion. Requisite surveys and project reports are in progress and work is expected to commence within a year.

9. In the power sector, notwithstanding the presence of a comprehensive legislation (Electricity Act 2003 and National Electricity Policy 2005) with several reform-oriented provisions, progress remains elusive in many parts of the country which are plagued by chronic shortages, poor quality, and heavy losses (up to 40% in certain sectors). Government-owned power utilities in some states, however, seem to have managed to stem the rot for now but it

⁶ ADB. 2008. *India Country Operations and Business Plan 2009*. Manila.

⁷ Please see <http://planningcommission.nic.in/plans/planrel/fiveyr/11th/11default.htm>.

⁸ ADB. 2009. *Energy Policy*. Manila.

⁹ The 5,846 kilometer long road network connecting Chennai, Delhi, Kolkata, and Mumbai is known as the Golden Quadrilateral.

remains to be seen whether they will be able to sustain the achievements and checkmate the risk of policy reversals while they remain under public ownership. The Government has launched ultra mega power projects to quickly add sizeable generation capacity.

10. With regard to ports, cargo handling at the major ports is projected to grow at 7.7% CAGR until the end of the 11th Five-Year Plan (FYP) period and traffic is estimated to reach 877 million tons. Containerized cargo is expected to grow at 15.5% CAGR over the next 7 years. While the Government dominated maritime activity in the past, policy direction is now oriented to encouraging the private sector to take the lead in port development activities and operations. Major ports now operate largely as landlord ports and international port operators have been invited to submit competitive bid for build-operate-transfer (BOT) terminals on a revenue share basis.

11. In the context of the evolving policy space, infrastructure projects in India are perceived as having higher risk. Risks are considered to be partly higher as projects are typically undertaken not by established utilities with strong balance sheets but by special purpose companies executing individual projects on a build-operate-transfer (BOT) basis. Project financing on a non-recourse basis implies that lenders have recourse only to the revenue stream of the project to meet debt service obligations. Thus, risks will differ from project to project, depending on sector and project specific characteristics. Given the nature of the risks and the involvement of several participants including project sponsors, lenders, government agencies, and regulatory authorities, mitigation arrangements are usually complex. Arrangements typically involve detailed legal and contractual agreements that specify the obligations of different participants set forth to clear penalties for nonperformance and offer protection to investors against actions beyond their control. For these reasons, the development of satisfactory risk mitigation arrangements is difficult and time consuming. Lack of experience with such arrangements, and inadequate appreciation of their necessity on the part of local governments can lead to delays in project implementation.

12. In the above context, capacity building has focused on improving the awareness of city officials and political executives in commercial and operational issues impacting PPP development. Commercial and operational issues are likely to include understanding the 'true' cost of operations, user charge structures, alternative revenue generation possibilities (such as carbon emission credits, recycling, etc.), credit ratings, debt leveraging, and development of key performance criteria such as loss reductions, among others.

13. Legal, regulatory and policy issues that could potentially constrain private sector (including foreign) investment funds flowing into subsectors are being identified and mitigating strategies are being laid out. Stakeholder concerns will also have to be addressed under this activity as well as suggestions made for mitigating concerns. The stakeholders will include civil servants at the central, state, and local levels, civil society, nongovernmental organizations, political executives, private sector officials, financial intermediaries, end-beneficiaries, and those affected by a project's social and environmental impacts. On the funding side, analysis to identify key obstacles to the provision of long tenure competitive finance to urban projects as well as potential collaborators for funding bankable projects and probable lending criterion are also being explored. Based on an agreed PPP impediment audit and mitigation framework, the subsectors and subprojects that are amenable to PPP structuring would have to be identified for immediate support.

D. Policy Framework

14. The ongoing strategy of the Government is to fill the infrastructure deficit in the country by implementing projects significantly through PPPs. In this regard, the Government's policy agenda is to further strengthen the PPP framework in all sectors and facilitate financing to viable projects. A brief description of the ongoing policy reform agenda is included in the table below.

Table 2: Policy Reform Agenda

Sector	Ongoing Reform Agenda
Roads and Highways	<ul style="list-style-type: none"> • Steps have been taken for restructuring and strengthening of NHAI, which is the implementing agency for the national highways program. • Institutional mechanisms have been established to address bottlenecks arising from delays in environmental clearance, land acquisition, etc. • Contracts for projects for North-South-East-West corridors under NHDP are expected to be awarded by December 2009.
Railways	<ul style="list-style-type: none"> • Tariff rationalization and effective cost allocation mechanism have been proposed. • PPP modality envisaged on new routes, railway stations, logistics parks, cargo aggregation, and warehouses. • Introduction of commercial accounting and information technology are proposed.
Urban Sector	<ul style="list-style-type: none"> • Pooled financing mechanism for capital investments under a state level borrowing umbrella is proposed to enhance market access for ULBs. • Reforms include need for rationalization of stamp duty, repeal of Urban Land Ceiling and Regulation Act, and reform in Rent Control Act. • 62 out of 63 cities have signed the Memorandum of Agreement with the Government for identified urban reforms.¹⁰ 11 cities have moved to e-Governance and 23 cities have shifted to accrual-based double entry accounting. • A City Challenge Fund is proposed as an incentive grant for developing creditworthy institutions.
Aviation	<ul style="list-style-type: none"> • An independent Airports Economic Regulatory Authority Bill is under consideration. • An MCA is being developed for standardizing and simplifying airport PPPs. • Proposals for revamping the AAI are likely to be finalized soon. • Major airports such as Chennai and Kolkata are proposed to be taken up for modernization through the PPP route. • A second greenfield airport being planned at Navi, Mumbai to be developed through PPP at an estimated cost of \$2.5 billion. • Thirty-five city airports are proposed to be upgraded through PPP with envisaged investment of \$357 million over the next 3 years;
Ports	<ul style="list-style-type: none"> • MCA is being formulated to expand PPP to operation of new berths. • Significant investment on BOT basis by foreign players including (i) Maersk for JNPT and Mumbai, (ii) P&O Ports for JNPT, Mumbai and Chennai, (iii) Dubai Ports International for Cochin and Vishakhapatnam, and (iv) PSA Singapore for Tuticorin.
Power	<ul style="list-style-type: none"> • Increasing private sector participation is proposed in generation and distribution. <ul style="list-style-type: none"> ○ Distribution licences for several cities are already with the private sector. ○ Several large generation projects have been planned in the private sector. • Government decided to add 20,000 MW of generation capacity by FY2012 through implementation of UMPPs of 4,000 MW through private sector. • Government has asked states to work out multi-year tariffs.

AAI = Airports Authority of India, BOT = build-operate-transfer, FY = fiscal year, JNPT = Jawaharlal Nehru Port Trust, MCA = model concession agreement, MW = megawatt, NHAI = National Highways Authority of India, NHDP = National Highway Development Program, PPP = public-private partnership, ULB = urban local body, UMPP = ultra mega power project.

Source: Planning Commission

¹⁰ Reforms to be undertaken under Jawaharlal Nehru National Urban Renewable Mission (JNNURM), to be eligible for funding under the same.

E. Investment Program

15. Between the 10th and 11th FYPs, the shares of different sectors in total infrastructure investment remains largely unchanged as may be seen in Table 3. In the transport sector, shares of ports and airports have increased in line with the policy thrust on removing transport bottlenecks to trade and the emphasis on attracting private investment through PPPs. Although relative sector shares of roads and railways are projected to decrease slightly, the volumes of projected investments in these sectors in the 11th FYP would more than double as compared to the expenditure anticipated in the 10th FYP. Political economy and performance issues in water supply and sanitation have historically slowed the pace of investment in the sector. In view of the pressing need to increase coverage, a renewed thrust to investment in water supply and sanitation, particularly in urban areas, is being given under the 11th FYP. Even so, although the share of water supply and sanitation in total infrastructure investment would decrease slightly, the projected amount is more than double the expenditure anticipated in the 10th FYP. The growth in private investment in telecommunications is expected to continue and underscores the significant increase in the share of the sector.

16. The private sector category includes PPP projects as well as pure private sector projects. While the former must be based on a concession agreement with the government such as for toll roads, ports, and airports, the latter are market-based such as in telephony and merchant power stations. Investment in irrigation, rural roads, other roads in backward and remote areas, and in the water supply and sanitation sector will be undertaken almost entirely by the public sector. However, in telecom, port, and airport sectors, private investment is expected to constitute more than 61% of total investment during the 11th FYP. For the electricity sector, it would rise to 28% and for the road sector to 34%. The shares of public and private investment in total infrastructure investment during the 11th FYP are projected to be about 70% and 30%, respectively, in contrast with 80% and 20%, respectively, during the 10th FYP. However, if we focus on the increment in investment in the 11th FYP over the 10th FYP, increased private investment is expected to provide 37.96% of the increase.

Table 3: Infrastructure Investment

Sector	10th FYP		11th FYP	
	Anticipated Investment		Projected Investment	
	\$ billion	% share	\$ billion	% share
Electricity	72.96	33.49	166.63	32.42
Roads and Bridges	36.22	16.63	78.54	15.28
Telecommunications	25.84	11.86	64.61	12.57
Railways	29.91	13.73	65.45	12.73
Irrigation	27.88	12.80	63.33	12.32
Water Supply and Sanitation	16.20	7.44	35.93	6.99
Ports	3.52	1.61	22.00	4.28
Airports	1.69	0.78	7.74	1.51
Storage	1.20	0.55	5.59	1.09
Gas	2.43	1.11	4.21	0.82
Total	217.86	100.00	514.04	100.00

Source: Planning Commission

17. As of end May 2009, IIFCL had a pipeline of 86 sanctioned subprojects with a total project cost of Rs1,434.30 billion (\$30 billion), of which IIFCL's financing is estimated at Rs183.47 billion (\$3.8 billion). Furthermore, its lending pipeline is expected to grow on average of 25 subprojects per year during investment program period (FY2009–FY2012). As a result of

these asset additions, IIFCL's balance sheet is expected to grow to around \$9 billion–\$11 billion during the same period.

18. IIFCL's business plan projects a cumulative loan sanction of around \$4.8 billion and disbursements of \$2.2 billion including subdebt for FY2009, compared with \$3.8 billion and \$900 million in FY2008. The disbursements are expected to be supported by a higher utilization of lines of credit from multilateral and bilateral institutions. IIFCL also projects an operating profit of \$45 million in FY2009 compared with \$20 million in FY2008. Significant expansion is expected in the power sector with the upcoming ultra mega power projects which are expected to reach financial closure in FY2009. Further, IIFCL is expected to leverage the expanding PPP opportunities in the road sectors. As many as 17 projects are expected to be awarded, concessions with a total project cost of \$2.4 billion offering a good potential for expanding IIFCL's financing. A listing of IIFCL's sanctions by sector is available at <http://iifcl.org/sanctions0309.doc>.

F. Capacity Development Program

19. As per amendments to the Scheme, IIFCL no longer has access to a guarantee from the lead bank. This requires IIFCL to undertake a credit risk assessment of the subproject and price loans accordingly. In this connection, technical assistance (TA) support¹¹ provided by ADB is assisting IIFCL in building capacity to implement its credit risk appraisal and management strategy. ADB assistance is supporting purchase and installation of hardware and software. Further, while the Scheme does not require IIFCL to undertake an environmental and social safeguards due diligence of projects, ADB's policies require ADB to ensure that all projects funded with ADB resources meet ADB's environmental and social safeguards policy and procedural requirements. Thus, technical assistance (TA) is being provided on an ongoing basis to further strengthen IIFCL's capacity in implementing the environment and social safeguard framework (ESSF) in line with national and ADB requirements.

¹¹ ADB. 2007. *Technical Assistance to India for Capacity Development for India Infrastructure Finance Company Limited*. Manila (TA7030-IND approved on 14 December for \$500,000).

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact Improved overall availability and reliability of physical infrastructure</p>	<p>Reduction in peak and average energy deficit (2007 baseline: 124,568 MW; 2012 investment target: \$134 billion)</p> <p>Widening of national highways in line with National Highways Development Project (2007 baseline: 66,590 km; 2012 investment target: \$63 billion)</p> <p>Achieving targeted GDP growth of 9% per annum</p>	<p>International and domestic business climate surveys</p> <p>Annual reports on infrastructure availability including Planning Commission studies</p> <p>Economic Survey of India, industry reports, and relevant government publications</p>	<p>Assumptions Continued priority accorded to infrastructure development</p> <p>Continued priority accorded to financial sector development</p> <p>Increased efficiency of infrastructure investment</p> <p>Strong Government commitment to IIFCL</p> <p>Risks Dilution of Government commitment to infrastructure and PPP</p> <p>Modification of IIFCL's Scheme</p>
<p>Outcome Increased private sector participation in infrastructure projects, particularly through PPP</p>	<p>Private investment in infrastructure to reach 30% of overall infrastructure investment during 11th FYP (baseline: 17% of infrastructure investment from private sector in 2007)</p> <p>Increased leveraging of private sector resources (baseline: IIFCL's financing currently leverages seven times its own resources from the private sector)</p>	<p>Planning Commission reports</p> <p>Economic Survey of India</p> <p>Relevant government publications</p>	<p>Assumption Government policy encouraging PPPs continues</p> <p>Risks Dilution of Government commitment to infrastructure and PPP</p> <p>Deepening of global economic and financial crisis</p>
<p>Outputs 1. Long-term funding for IIFCL to provide long-term financing to subprojects developed through PPPs</p>	<p>Reduction in asset and liability tenor gap during FY2009–FY2013 (baseline: 25% duration gap in 10, 15, and 20 year maturities)</p>	<p>Quarterly, semiannual, and annual reports of IIFCL including its board of directors' semiannual reports</p> <p>ADB review mission</p>	<p>Assumptions IIFCL's long-term lending mandate continues</p> <p>IIFCL undertakes structured borrowing program based on risk-return considerations and</p>

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
	<p>Increased duration of financing provided by IIFCL for subprojects during FY2009–FY2013</p> <p>Full utilization of IIPFF II (\$700 million; FY2013)</p>	<p>reports including midterm review documents, and analysis of IIFCL's duration gap</p>	<p>subproject financing requirements</p> <p>Risks The Government amends IIFCL's Scheme de-emphasizing long-term lending mandate</p> <p>IIFCL's portfolio quality deteriorates leading to shortening of its lending terms</p> <p>Regulatory and policy risks leading to above</p>
<p>2. Financing of 14 infrastructure subprojects as provided in the FFA</p>	<p>Catalyzing private sector investment of around \$7.7 billion for financial closure of 14 identified subprojects by FY2013</p> <p>700 km of roads built; 3,200 MW of power generation capacity brought online</p>	<p>IIFCL's annual reports, IPPMS data, and PMU progress reports</p> <p>Investment bank reports of IIFCL bond issuances</p> <p>IIFCL's annual reports</p> <p>IIFCL website which provides related information on the amendments of the Scheme</p>	<p>Assumptions Rating assessments and reviews are rigorous and conducted on time</p> <p>IIFCL is committed to be rated by international rating agencies</p> <p>The mandate of IIFCL, as supported by the Government, is committed to supporting PPP project financing</p> <p>Risk Change in Government's priority and commitment in supporting PPP initiatives</p>
<p>3. Improved institutional capacity of IIFCL in areas of (i) governance framework, including risk management systems; and (ii) implementation of updated ESSF</p>	<p>Development and adoption of integrated risk management system and installation of risk management tools including software and hardware, deal documentation formats, pricing tools, and risk appraisal templates by end of December 2009 (completion of system installation)</p> <p>IIFCL continues to be rated annually by</p>	<p>IIFCL ALM data</p> <p>ADB's review missions including midterm review documents</p> <p>Rating agencies' reports</p> <p>IPPMS data and PMU's progress reports</p> <p>Consultant reports</p> <p>IIFCL's compliance certificates for subprojects</p>	<p>Assumptions High quality consultant reports prepared on time</p> <p>IIFCL staff are able to adapt to the new risk management and pricing systems</p> <p>Rigorous and timely reviews conducted</p> <p>Timely availability of required documents from subborrowers</p>

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
	<p>international credit-rating agencies during the loan period</p> <p>Updated ESSF implementation commences in 2009, and the updated ESSF is fully adopted and implemented by FY2010</p>	<p>IIFCL PMU's quarterly progress reports, and board of directors' semiannual reports</p>	<p>Risks</p> <p>Trained staff may leave IIFCL</p> <p>Staff capability may decline in the absence of continuous training</p> <p>Counterpart staff from IIFCL and subborrowers are not made available on time for the ESSF</p> <p>Delay in obtaining the required documents from subborrowers</p> <p>Nonavailability of qualified staff and resources</p>
<p>Activities with Milestones</p> <p>Part A: Preparatory Activities</p> <p>1.1 Identify and finalize subproject pipeline to be financed by ADB's funds (March 2009)—completed.</p> <p>1.2 Update common ESSF (August 2009).</p> <p>1.3 Augmentation of staff resources and capacity in IIFCL's PMU to conduct environmental and social safeguards due diligence of subprojects (by December 2009).</p> <p>1.4 Commence due diligence of subprojects (March 2009).</p> <p>Part B: Additional capacity development (to second quarter 2010)</p> <p>2.1 Strengthen capacity building for credit risk management and appraisal, and operating procedures (by July 2010).</p> <p>2.1.1 Adopt operating guidelines and manuals, and strengthen capacity for IIFCL resource management and project risk assessment (by December 2009) including</p> <ul style="list-style-type: none"> - adoption of credit risk assessment processes, - implementation of internal controls, - development of pricing tools and risk appraisal templates, - implementation of internal rating system and rating migration, and - installation of resource management system (program software and hardware). <p>2.1.2 Adopt operating guidelines for</p> <ul style="list-style-type: none"> - accounting policies, - human resource policies, - board procedures, - loan pricing based on project risk appraisal, and - legal procedures. 			<p>Inputs</p> <p>ADB</p> <p>\$700 million</p> <ul style="list-style-type: none"> - First tranche of \$210 million - Second tranche of \$250 million - Third tranche of \$240 million <p>Government/IIFCL</p> <p>Counterpart staff</p> <p>Office accommodation and transport</p> <p>Administrative services</p> <p>Facilitation for meetings</p> <p>Obtaining necessary information from subborrowers and/or lead syndicators</p> <p>Participation in tripartite meetings</p>

<p>Activities with Milestones</p> <p>Part C: Tranche release progress and reporting (continues to 2014)</p> <p>3.1 PFR1 for the first tranche of \$210 million was signed and submitted in FY2009.</p> <p>3.2 Indicate first tranche disbursement requirements (third quarter 2009).</p> <p>3.3 Fully utilize the first tranche of \$210 million by the end of FY2010.</p> <p>3.4 Submit PFR for the second tranche of \$250 million for tranche release no later than 31 March 2011.</p> <p>3.5 Submit PFR for the third tranche of \$240 million for tranche release no later than 31 March 2014.</p> <p>3.6 Fully utilize the second and third tranches no later than 31 December 2014.</p>	
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ADB = Asian Development Bank, ALM = asset-liability management, ESSF = environmental and social safeguards framework, FFA = framework financing agreement, FYP = Five-Year Plan, GDP = gross domestic product, IIFCL = India Infrastructure Finance Company Limited, IPPMS = investment program performance management system, km = kilometer, MW = megawatt, PFR = periodic financing request, PMU = project management unit, PPP = public-private partnership, RBI = Reserve Bank of India.

IMPLEMENTATION FRAMEWORK

A. Implementation Arrangements

1. Unless modified or amended in related loan or project agreements, the Second India Infrastructure Project Financing Facility (IIPFF II) will be implemented as below.

2. **Executing Agency.** India Infrastructure Finance Company Limited (IIFCL) will be the executing agency for IIPFF II.

3. IIFCL, as mandated by the Government of India (India), is assuming an apex role in financing infrastructure projects in India through the public-private partnership (PPP) modality. Policy direction and strategic oversight for IIFCL's operation and the implementation of the IIPFF II will be provided by IIFCL's Board of Directors. The Borrower, as the project management agency, shall ensure that the project management unit (PMU) of IIFCL shall monitor the screening and selection of qualified projects with the consortium of lenders, and also day-to-day implementation. The PMU shall be responsible for ensuring that all qualified projects are in compliance with the environment and social safeguard framework (ESSF) and applicable national and state policies relating to environment, resettlement, and indigenous peoples. The PMU shall be staffed with existing resources of the Borrower, and supported by consultants to be provided under the technical assistance of ADB. The PMU staff shall comprise specialists with expertise in risk management and project advisory work. A senior officer reporting directly to the chairman and managing director of the Borrower shall be appointed for ensuring compliance with the ESSF. The PMU shall also have a dedicated financial/accounting officer to monitor project accounts and process claims.

4. **Subproject and Subborrower Selection Criteria.** The Scheme provides the details of the definitions, eligibility criteria, appraisal, and monitoring and lending terms to subprojects. Thus, the eligibility requirements for subproject and subborrower selection criteria of IIPFF will adhere to the Scheme which includes, *inter alia*, appraisal of the subproject by the designated specialized appraisal agency for technical, economic, and commercial viability and review and acceptance of the results of the appraisal by the lead bank.¹ In addition, subborrowers will meet the following eligibility criteria under IIPFF. Subborrowers will

- (i) be selected in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time);
- (ii) have adequate resources and financial capability to raise resources to complete and operate the relevant subproject successfully;
- (iii) not be in default under any prior loan from the Borrower or from any of the participating members of the consortium of lenders;
- (iv) be able to provide security as required by the consortium of lenders;
- (v) maintain appropriate financial records of income and expenditure to the satisfaction of the Borrower and ADB; and
- (vi) comply with and cause each subproject to comply with ADB's safeguard requirement and national and state policies, laws, and regulations relating to

¹ IIFCL's Scheme requires IIFCL to only finance commercially viable projects and provide financing on commercial terms and price loans accordingly. Thus, all aspects of project economics and credit worthiness with regard to subprojects are subject to extensive due diligence prior to loan approval by IIFCL. Further, as the Scheme requires IIFCL to finance subprojects in critical infrastructure subsectors only, the positive development impact is a given.

environment, resettlement, and indigenous peoples applicable at the date of the relevant periodic financing request (PFR) is submitted.

5. **Approval Procedure for Subprojects.** Subprojects under the IIPFF will be prepared and processed as follows.

- (i) IIFCL will review the preliminary designs and cost estimates for all subprojects proposed under the respective tranches as approved by the lending consortium.
- (ii) Prior to the preparation of each PFR, the applicability and relevance of the common environmental and social safeguards framework (ESSF) for environmental assessment, involuntary resettlement, and indigenous peoples will be reviewed and updated to ensure its relevance and consistency with applicable country frameworks and ADB's environmental and social policy and procedural requirements.
- (iii) In formulating each new PFR, IIFCL will conduct due diligence on potential candidate subprojects to ascertain their compliance with the ESSF. IIFCL will submit its findings to ADB for information and review, together with other relevant supporting safeguard documents, including as applicable the initial environmental examination, environmental assessment report, and environmental management plan, or environmental audit and collective action plans. ADB's findings will be forwarded to IIFCL. If any noncompliance is found during such a review, ADB will request a corrective action plan to ensure IIFCL meets ADB's requirements. IIFCL will prepare such corrective action plan and submit it to ADB for review and approval. In addition, any subproject that will be financed under the Facility will follow the approved common ESSF.
- (iv) IIFCL will submit the compliance certificate, along with the PFR, to ADB for approval.

B. Procurement and Disbursement

6. All goods and services to be financed under the Facility will be procured in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time). The executing agency shall cause the subborrower to (i) adopt to the extent possible, international competitive bidding procedures when the amount of the investment is unusually large and economy and efficiency can be gained by following such procedures; and (ii) ensure that the goods and works to be financed by subloans shall be purchased at a reasonable price, account being taken also of relevant factors such as time of delivery, efficiency, and reliability of the goods, and their suitability for the subproject and, in the case of consulting services, of their quality and the competence of the parties rendering them. For build-operate-transfer (BOT) projects and variants, if the subborrower or engineering, procurement, and construction contractor is selected through competitive bidding among international entities in accordance with procedures acceptable to ADB, such subborrower or contractor may apply its own procedures for procurement provided that such procurement is for goods and works, and consulting services supplied from, or produced in, ADB member countries. The individual loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time)² under Chapter 11 for development finance institutions (DFI) using direct payment, reimbursement, and imprest funds procedures.

² ADB's Loan Disbursement Handbook 2007 can be downloaded at www.adb.org/documents/handbooks/loan_disbursement/default.asp.

C. Accounting, Auditing, and Reporting

7. IIFCL, through the PMU, will establish and maintain separate records for works, goods, and services financed out of loan proceeds. IIFCL will maintain separate project accounts according to generally accepted accounting principles for all expenditures incurred under the IIPFF and the subprojects, whether out of loan proceeds or from other sources and record in a transparent manner all funds received from the Government and ADB.

8. Detailed consolidated annual project accounts, as maintained by the IIFCL through the PMU, will be audited by independent auditors whose qualifications, experience, and terms of reference (TOR) are acceptable to ADB and will be submitted to ADB within 6 months at the end of the fiscal year (FY). The annual audit report will specifically include a separate audit opinion on the use of loan proceeds and compliance with financial loan covenants. IIFCL has been made aware of ADB's policy regarding the delayed submission of audits and the requirements for a satisfactory and acceptable audit of accounts.

D. Performance Monitoring and Evaluation

9. IIFCL will be responsible in establishing an investment program performance monitoring system (IPPMS) acceptable to ADB no later than 3 months from the signing of this framework financing agreement (FFA) and the first PFR. The PMU will monitor the performance of IIPFF in line with the investment program performance monitoring system (IPPMS). For the IPPMS, the IIFCL will first select a set of clearly measurable performance monitoring indicators relating to implementation and improvements and institutional development and capacity building milestones including those in the design and monitoring framework (Schedule 2 of the FFA). IIFCL will establish the baseline data for each of the selected indicators within 6 months of the date the first loan under the Multitranches Financing Facility (MFF) takes effect. IIFCL will also submit quarterly progress reports in the format to be attached to the facility administration memorandum. The IIFCL will submit to ADB a facility completion report within 3 months of the completion of all ADB-supported activities and subprojects.

E. Project Review

10. ADB will, at its discretion, conduct reviews of the management, financial, and operational performance of the borrower and subprojects financed under the IIPFF initially after the closing of withdrawals. The review will include procurement procedures utilized by the IIPFF-financed infrastructure projects.

11. The performance of IIPFF will be reviewed periodically at three levels—by IIFCL, (through the PMU on a quarterly basis), semi-annually by IIFCL's Board of Directors, and annually by ADB. The review of performance for each quarter by the PMU will be completed by the 10th day of the month following the quarterly review. IIFCL's Board of Directors will review the performance semi-annually and will forward the semi-annual progress reports to ADB by the 10th day of the month following the semi-annual review. ADB will review the quarterly progress and semi-annual reports during the annual review missions and during the tripartite reviews chaired by the Government. In addition, a midterm review of the investment program will be conducted in FY2010–FY2011. The review will cover contract awards and disbursement, implementation progress including progress against institutional development and capacity building milestones, social and environmental aspects, and the status of the IPPMS. The midterm review will identify problems or weaknesses in the implementation arrangements,

suggest nominal changes in scope, outputs, and due diligence, and agree on suggested changes.

F. Governance and Anticorruption Policy

12. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to examine and review directly any alleged corrupt, fraudulent, collusive, or coercive practices relating to the subprojects under the Multitranche Financing Facility (MFF). To support these efforts, relevant provisions of ADB's *Anticorruption Policy* (1998, as amended from time to time)³ are included in the loan regulations for the projects under the IIPFF. In particular, all subprojects financed by ADB in connection with the IIPFF shall include provisions specifying the right of ADB to review and examine the records and accounts of the borrowers, subborrowers, suppliers, and contractors relating to the subprojects.

13. IIFCL will ensure that accountability and transparency are maintained through stakeholder meetings and publication of progress reports through the duration of the investment program. IIFCL will ensure that internal procedures and controls are instituted, maintained, and complied with to prevent any corrupt, fraudulent, collusive, or coercive practices. IIFCL will report annually to IIFCL's Board of Directors and ADB.

³ ADB's Anticorruption Policy can be downloaded from www.adb.org/documents/policies/anticorruption/default.asp.

SELECTION CRITERIA AND APPROVAL PROCESS FOR SUBPROJECTS

A. Selection Criteria Under the Scheme

1. The Scheme provides India Infrastructure Finance Company Limited (IIFCL) with its mandate and defines its operational paradigm with regard to financing infrastructure subprojects in India. The Scheme was notified by the Ministry of Finance and Department of Economic Affairs vide O.M. No. 10/12/2005-INF dated 13 April 2006. Under the provisions of the Scheme, the same may be reviewed by the Government at the end of 5 years or earlier if required. The Scheme was first amended on 23 April 2007 and subsequently there have been additional¹ amendments to expand and further define the role of India Infrastructure Finance Company Limited (IIFCL) in line with the state of play in the evolving infrastructure financing scenario in India. The office memorandums notifying the amendments are attached as Annexes 1, 2, 3, and 4 hereto.

1. Definitions

2. In this Scheme, unless the context otherwise requires

- (i) **Empowered Committee** means a Committee set up for the purposes of this Scheme under the chairmanship of Secretary (Economic Affairs) and including Secretary, Planning commission, Secretary (Expenditure), *Secretary (Financial Sector) and in his absence Special Secretary/Additional Secretary (Financial Sector)* and Secretary of the line Ministry dealing with the subject.
- (ii) **IIFCL** means the India Infrastructure Finance Company Ltd. (A company incorporated under the Companies Act 1956).
- (iii) **Lead Bank** means the financial institution (FI) that is funding the project and is designated as such by the inter-institutional Group or consortium of FIs provided the risk exposure of IIFCL is less than that of the lead bank in a project.
- (iv) **Long-term Debt** means the Debt provided by the IIFCL to the project company where the average maturity for repayment exceeds 10 years (8.5 years in the case of India Infrastructure Finance Company [IIFC] (UK) Ltd.).
- (v) **Private Sector Company** means a company in which 51% or more of the subscribed and paid-up equity is owned and controlled by private entities;
- (vi) **Project Company** means the company which is implementing the infrastructure project for which assistance is to be given by IIFCL.
- (vii) **Project Term** means the duration of the contract or concession agreement for a public-private partnership (PPP) project.
- (viii) **Public Private Partnership (PPP) Project** means a project based on a contract or concession agreement between a Government or a statutory entity on the one side and a Private Sector Company on the other-side for delivering an infrastructure service on payment of user charges.
- (ix) **Public Sector Company** means a company in which 51% or more of the subscribed and paid-up equity is owned and controlled by the Central or a State Government, jointly or severally, and includes any undertaking designated as such by the Department of Public Enterprises and companies in which majority stake is held by the public sector companies other than FIs.

¹ The amendments to the Scheme of 30 April 2007 and 5 March 2009 are contained in office memorandum 1/78/2006-IF.I and 1/78/2005-FI, respectively. Other amendments not contained in the above are contained in the endorsed minutes of Empowered Committee meetings.

- (x) **Total Project Cost** means the lower of the total capital cost of the project:
- (a) As estimated by the Government/statutory entity that owns the project.
 - (b) As sanctioned by the lead bank.
 - (c) As actually expended.
- but does not include the cost of land incurred by the Government/statutory entity.

2. Eligibility

3. IIFCL shall finance only commercially viable projects. Viable projects may also include those projects that will become viable after receiving viability gap funding under a government scheme.

4. In order to be eligible for funding under this Scheme, a project shall meet the following criteria.

- (i) The project shall be implemented (i.e., developed, financed, and operated for the Project Term) by (see Annex 1 for amendment)
 - a. a Public Sector Company,
 - b. a Private Sector Company selected under a public-private partnership (PPP) initiative, and
 - c. a Private Sector Company

Provided that the special purpose vehicle (SPV) shall assign overriding priority to public-private partnership (PPP) projects that are implemented by Private Sector Companies selected through a competitive bidding process.

Provided further that a Private Sector Company, other than that defined in the first proviso above, would not be eligible for direct lending by the special purpose vehicle (SPV) and may be funded only through the refinance mode. The total lending for such private projects shall not exceed 20% of the lending program of the SPV in any accounting year. The eligibility for direct lending and/or raising the limit of 20% will be reviewed at the end of one year having regard to the progress made in funding public sector and PPP infrastructure projects.

5. As per amendment on Annexes 1 and 2, IIFCL may also lend directly to projects set up by Private Companies subject to the following conditions.

- (i) The service to be provided by the infrastructure project is regulated or the project is being set up under a memorandum of understanding arrangement with the central government, any state government, or a Public Sector Undertaking.
- (ii) The tenor of IIFCL lending should be larger than that of the longest tenor commercial debt by at least 2 years.
- (iii) Direct lending plus the refinance business, if any, on account of this category of borrowers (Private Sector Companies not selected through a competitive bidding process) should not exceed 20% of the total lending by IIFCL in any accounting year. This limit is the same as the limit currently imposed for the refinance window.
- (iv) Provided that, in case of railway projects that are not amenable to operation by a Private Sector Company, the Empowered Committee may relax the eligibility criterion relating to operation by such company.
- (v) The project should be from one of the following sectors:

- a. Roads and bridges, railways, seaports, airports, inland waterways, and other transportation projects;
- b. Power;
- c. Urban transport, water supply, sewage, solid waste management, and other physical infrastructure in urban areas;
- d. Gas pipelines;
- e. Infrastructure projects in special economic zones; and
- f. International convention centers and other tourism infrastructure projects.

Provided that the Empowered Committee may, with approval of the Finance Minister, add or delete any sector/subsectors from this list.

6. Only such projects which are implemented by the borrowing company directly, or through an SPV, on a nonrecourse basis, shall be eligible for financing by IIFCL (see amendment on Annexes 1 and 2). The amendments would be subject to maintaining an escrow account which entrusted to any bank involved in financing of the project and the discretion with regard to the bank would be that of IIFCL's Board.

7. In the event that IIFCL needs any clarification regarding eligibility of a project, it may refer the case to the Empowered Committee for appropriate directions.

3. Appraisal and Monitoring

8. With regard to monitoring, the Lead Bank shall be responsible for regular monitoring and periodic evaluation of compliance of the project with agreed milestones and performance levels, particularly for purpose of disbursement of IIFCL funds. However, the disbursement of loans by IIFCL is subject to the appraisal being done by reputed appraising institutions and the lead Bank reviewing, accepting and adopting the appraisal report.

4. Lending Terms

9. The IIFCL may fund viable infrastructure projects through the following modes:
(i) Long-term debt;
(ii) Refinance to banks and financial institution (FI)s for loans, with a tenor exceeding 10 years granted by them; and
(iii) Any other mode approved by the Government from time to time

10. The project company will have the right to choose any of the modes of lending given above. The terms at which the project company can access long-term debt shall not be inferior to the terms at which refinanced debt is available to the Project Company.

11. The total lending by the IIFCL to any project company shall not exceed 20% of the total project cost. Loans will be disbursed in proportion to debt disbursements from financial institutions (FI)s.

12. The rate of interest charged by IIFCL shall be such as to cover all funding costs including administrative costs and guarantee fee, if any.

13. IIFCL may disburse the loans on a pro-rata basis in terms of the project in-terse agreement/common loan agreement into the escrow account simultaneously along with the

other banks in consortium through the real time gross settlement (RTGS) after receiving the conformation notice regarding the drawdown date from the Lead Bank/lenders' agent.

14. Recovery of loans advanced by IIFCL shall be the responsibility of the Lead Bank. Recovery of IIFCL loans shall be pari passu with project debt (other than subordinate debt) until 80% of the project debt (other than subordinate debt) of the Lead Bank and FI consortium (inclusive of interest due) has been recovered. Thereafter, the Lead Bank/FI consortium would assume the payment risk as guarantors of the IIFCL loan from that stage onwards (see Annex 1 for amendment).

15. The charge on project assets shall be pari passu with project debt (other than subordinate debt) and will continue beyond the tenure of project debt (other than subordinate debt) until such time the amounts lent by IIFCL, together with interest and other charges thereon, remain outstanding.

16. IIFCL, The Lead Bank, and the project company shall enter into a tripartite agreement for the purposes of this Scheme. The format of such tripartite agreement shall be prescribed by the Empowered Committee from time to time.

17. In the first 2 years of operation of the Scheme, projects meeting the eligibility criteria could be funded on a first-come-first-served basis. In later years, if need arises, funding may be provided based on an appropriate formula, to be determined by the Empowered Committee that balances needs across sectors in a manner that would broad-base sectoral coverage and avoid pre-empting funds by a few large projects.

5. Lending to PPP Projects

18. A project awarded to a Private Sector Company for development, financing, construction, maintenance, and operation through PPP shall be accorded priority for lending under this Scheme.

19. In case of PPP projects, the Private Sector Company shall be selected through a transparent and open competitive bidding process.

20. PPP projects based on standardized/model documents duly approved by the respective government would be preferred. Stand-alone documents may be subjected to detailed scrutiny by the IIFCL.

21. Prior to inviting offers through an open competitive bid, the concerned government or statutory entity may seek 'in principle' approval of the IIFCL for financial assistance under the Scheme. Any indication given by IIFCL at the pre-bid stage shall not be treated as a final commitment. Actual lending by IIFCL shall be governed by the appraisal of the Lead Bank carried out before financial closure of the project.

B. Additional Selection Criteria Under IIPFF

22. In addition, subborrowers will meet the following eligibility criteria under IIPFF.

- (i) Be selected in accordance with ADB's *Procurement Guidelines*.
- (ii) Have adequate resources and financial capability to raise resources to complete and operate the relevant subprojects successfully.

- (iii) Will not be in default on any prior loan from the Borrower or from any of the participating members of the consortium of lenders.
- (iv) Be able to provide security as required by the consortium of lenders.
- (v) Maintain appropriate financial records of income and expenditure to the satisfaction of the borrower and ADB.
- (vi) Comply and cause each subproject to comply with ADB's, national and state policies, laws and regulations relating to environment, resettlement, and indigenous peoples.

C. Approval Procedure for Projects and Subprojects

23. Subprojects under the IIPFF will be prepared and processed as follows.

- (i) IIFCL will review the preliminary designs and cost estimates for all subprojects proposed under the respective tranches as approved by the lending consortium.
- (ii) Prior to the preparation of each periodic financing request (PFR), the applicability and relevance of common environment and social safeguard framework (ESSF) for environmental assessment, involuntary resettlement (IR), and indigenous peoples (IP) will be reviewed and updated to ensure their relevance and consistency with the applicable country legal frameworks.
- (iii) In the formulation of each new periodic financing request (PFR), IIFCL will review potential ongoing subprojects to ascertain their compliance with the environment and social safeguard framework (ESSF). These review reports will be submitted to ADB together with other relevant safeguard documents for information and review. If any major noncompliance is found during such a review, ADB will request a corrective action plan which will be prepared by IIFCL and will be submitted to ADB for review and approval. In addition, any subproject which will be financed under IIPFF will follow the approved common ESSF.
- (iv) IIFCL will submit safeguard compliance certificate along with the PFR to ADB for approval.

24. Each PRF will specify the tranche amount, the conversion instruments, the financing terms, list of subprojects, cost estimates and financing plan, implementation arrangements, and the amount and purpose of retroactive financing, if any, requested. The PFR should also specify the actions necessary (and those already accomplished) to make the project ready for financing. Further, the PFR will be accompanied by the appraisal reports for the listed subprojects including the environmental assessment report² and appropriate resettlement plan and indigenous peoples plan, if any, provide cost estimates and detail the financing plan, spell out the implementation arrangements, confirm the continuing validity and adherence to the provisions of the FFA, confirm compliance with the provisions under previous loan agreements and the project agreement as appropriate, and provide other information required under the facility administration memorandum to be prepared and agreed upon between ADB, the Government, and IIFCL to facilitate the implementation and processing of the Facility.

² For subprojects categorized as environment category B-sensitive or category A-sensitive, ADB's 120-day rule for the submission of the periodic financing request will apply.

F. No. (I/78/2006-IF.I
 Government of India
 Ministry of Finance
 (Banking Division)

Jeevan Deep Building, 3rd Floor
 Sansad Marg, New Delhi
 Dated April 23, 2007

Office Memorandum

The undersigned is directed to refer to the Scheme for Financing of Infrastructure through India Infrastructure Finance Company Limited (IIFCL), the scheme being hereafter referred to as SIFTI, as contained in the Ministry of Finance, Department of Economic Affairs O.M. No. 21/12/2005-INF dated 4 January 2006 and to convey the approval of the Government to the following.

1. Amendment in the definition of `Lead Bank' in Para 3.1 (c) of SIFTI as follows.
 "3.1(c) Lead Bank means the Financial Institution (FI) that is funding the project and is designated as such by the Inter-Institutional Group or consortium of Financial Institutions provided the risk exposure of IIFCL is less than that of the lead bank in a project"
2. IIFCL would be regulated directly by the Government and a sui generis regulatory regime for IIFCL may be brought into operation at the earliest.
3. In order to avoid frequent references to the Cabinet on procedural matters, modifications to the SIFTI may be made at the level of Empowered Committee already set-up under the Scheme subject to the approval of the Finance Minister and the Prime Minister. The constitution of the Empowered Committee under the Scheme, as contained in para. 3 (1) (a) of SIFTI, would be broad-based and the Secretary (FS) and in his absence Special Secretary/Additional Secretary (FS) may be included in the Empowered Committee.
4. Para. 5.2 (a) of SIFTI stands clarified so as to enable IIFCL to lend directly to projects set up by private companies subject to the following conditions.
 - i. The service to be provided by the Infrastructure is regulated or the project is being set-up under an MOU arrangement with the Central Government, any State Government, or a PSU.
 - ii. The tenor of IIFCL lending should be larger than that of the longest tenor commercial debt by at least two years.
 - iii. Direct lending, plus the refinance business, if any, on account of this category of borrowers (private sector companies not selected through a competitive bidding process) should not exceed 20% of the total lending by IIFCL in any accounting year (this limit is the same as the limit currently imposed for the refinance window).
5. Para. 5.3 of SIFTI is clarified so that only such projects, which are implemented by the borrower company directly, or through a special purpose vehicle, on a non-recourse basis, shall be eligible for financing by IIFCL.
6. There is no need to insist on guarantee by the Lead Bank as provided in para. 7.6 of

SIFTI and on tripartite agreement provided in para. 7.8 of SIFTI, but IIFCL must position on its staff, personnel with expertise in risk assessment and the regulatory norms that should govern IIFCL should be defined and brought into operations at the earliest.

I am further to state that an Oversight Committee of Secretaries would be constituted for reviewing the working of the IIFCL on a bi-annual basis.

A rectangular box containing a handwritten signature in cursive script, which appears to be 'M. Sahu'. Below the signature, the date '25/04/07' is written in a similar cursive style. There is also some faint, illegible text below the date.

(M. Sahu)

Under Secretary to the Government of India

No. I (76)/2006-IF.I
Government of India
Ministry of Finance
Department of Economic Affairs
(Banking Division)

Jeevan Deep Building,
Sansad Marg, New Delhi, 30 April 2007

Chairman & Managing Director
India Infrastructure Finance Company Limited
1201-1207, Naurang House,
K.G. Marg,
New Delhi – 110001


Subject: **Amendments to SIFTI**

Sir:

1. I am directed to refer to our O.M. of even number dated 23 April 2007 communicating amendments to SIFTI. In this regard, I am further to state that the amendments to para. 5.3 of SIFTI would be subject to maintaining an escrow account which may be entrusted to any bank involved in financing of the project and the discretion with regard to the bank would be that of the Board of Directors of IIFCL.

2. I am to request you to ensure compliance with the foregoing in all the proposals.

Yours faithfully,


01.05.07
(M. Sahu)
Under Secretary (IF.I)

180

IMMEDIATE

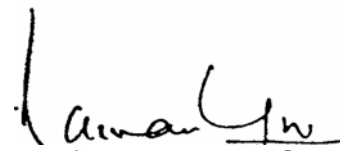
F. No. 18/18/2006-IF-1
Government of India
Ministry of Finance
(D/o) Financial Services

Jeevan Deep Building, 3rd Floor,
Parliament Street, New Delhi
Dated 5 February 2008

OFFICE MEMORANDUM

Subject: **Minutes of the 4th Meeting of the Empowered
Committee held on 14 January 2008 under the
chairmanship of Secretary (EA)**

The undersigned is directed to enclose herewith a copy of the minutes of the 4th meeting of the Empowered Committee, constituted under the Scheme for Infrastructure Financing through India Infrastructure Finance Company Limited (IIFCL), held on 14 January 2008 under the chairmanship of Secretary (EA) for necessary action and record.



(Raman Kumar Gaur)

Undersecretary to the government of India
Telephone 011-2374 8715

Encl. as above.

1. Secretary (Economic Affairs), North Block, New Delhi
2. Member Secretary, Planning Commission, New Delhi
3. Secretary, D/o Expenditure, North Block, New Delhi
4. Secretary, D/o Financial Services, New Delhi
5. CMD, IIFCL, New Delhi

Minutes of the Fourth Meeting of the Empowered Committee on the Scheme for Infrastructure Financing through IIFCL held on 14 January 2008 under the Chairmanship of Finance Secretary

The Fourth Meeting of the Empowered committee on the Scheme for Infrastructure Financing through IIFCL (SIFTI) was held on 14 January 2008 at North Block, New Delhi. The following were present in the meeting:

1. Finance Secretary (In Chair)
2. Secretary, Department of Financial Services
3. Advisor to Deputy Chairman, Planning Commission
4. Additional Secretary, Department of Expenditure
5. Chairman and Managing Director, IIFCL

Chairman and Managing Director, IIFCL presented the agenda before the Committee.

1. **Confirmation of the minutes of the third meeting of Empowered Committee held on 7 December 2007.** The minutes of the third meeting of the Empowered Committee held on 7 December 2007 were circulated to all the members vide DFS OM No. 18/18/2006-IF-1 dated 1 January 2008. The minutes were confirmed in the meeting.

2. **Proposal to release IIFCL's loan through lead bank/escrow account.** In terms of para. 7.5 of SIFTI, IIFCL is required to release its funds/disbursement to the projects through the lead bank, as and when due. The lead bank/financial institution (FI) consortium will make disbursements on behalf of IIFCL and seek reimbursement which shall be made within one month of receiving a demand, with necessary particulars from the lead bank.

IIFCL explained that as per the prevailing lending practice, consortium banks/financial institution (FI)s disburse the loan to the project on a pro-rata basis directly to the escrow account through real-time gross settlement (RTGS), on receipt of confirmation from the lead bank/lenders agent. It was further explained that the disbursement mechanism for the approved loan to the project is decided upfront in the lenders' meeting at the time of financial closure where participating banks/FIs agree to disburse their proportion of loan to the project on a pro-rata basis directly to the escrow account. Inter-se agreement and other documents are executed to the satisfaction of all participating lenders, including IIFCL, based on the agreement arrived at the lenders' meeting.

In view of the position explained above and the practical constraints in routing/releasing the funds through the lead bank, it was decided that IIFCL may continue to disburse the loans on a pro-rata basis in terms of the project inter-se agreement/common loan agreement into the escrow account simultaneously along with the other banks in the consortium through the RTGS after receiving the confirmation notice regarding the drawdown date from the lead bank/lenders' agent appointed during the inter-institutional meetings.

3. **Debt-Equity Ratio of road projects sanctioned by IIFCL.** In the third meeting of the Empowered Committee held on 7 December 2007, it was advised that an analysis of the debt-equity ratio in respect of the road sector projects sanctioned by IIFCL may be placed before the Empowered Committee. Accordingly, an analysis of 42 road sector projects sanctioned by IIFCL, comprising 15 projects on annuity basis and 27 projects on build-operate-transfer basis, was placed before the Empowered Committee along with the details of the debt-equity ratio.

The Empowered Committee noted the information and advised that in the future, the debt-equity ratio in respect of such projects considered for financing may not exceed 4:1.

4. **Average maturity of loans sanctioned by IIFCL.** The issue regarding IIFCL's request to review the concept of average maturity for repayment of long-term loans being provided by IIFCL with special reference to para 3.1(d) of the SIFTI was discussed. IIFCL informed the Empowered Committee that it has sanctioned loans for infrastructure projects with a door-to-door tenor of 12 years and above.

After a detailed discussion on the subject, it was decided that the Department of Financial Services would analyze the matter and may refer it to the Empowered Committee after due analysis. In the meanwhile, IIFCL should sanction loans in accordance with para. 3.1(d) of SIFTI which requires the average maturity of repayment of long-term debt to IIFCL exceeds 10 years.

5. **Debenture Redemption Reserve.** Section 117C of Companies Act 1956 stipulates that companies, not defined as public financial institutions under Section 4A of the Act, issuing debentures shall create a debenture redemption reserve for the redemption of such debentures from out of their profits every year until such debentures are redeemed. Banks and All India Financial Institutions (AIFIs) are not required to create such DRR.

IIFCL's long-term borrowings are guaranteed by the Government of India. As per the Government scheme, the Company has been set up for a specific purpose of financing viable infrastructure projects and its functioning is on sui-generis basis governed by SIFTI. Given the mandate under SIFTI, creation of DRR may lead to substantial losses to the Company every year by creating provisions for such reserves. The Company has approached the Government seeking exemption from the provision of creation of DRR in line with banks and AIFIs.

The Empowered Committee noted this information.

6. **Appraisal of the project by lead bank.** Para. 6.1 of SIFTI stipulates that the lead bank shall present its appraisal of the project for the consideration of the IIFCL for financing a project, based on such appraisals, the IIFCL may consider and approve funding to the project.

IIFCL requested the Empowered Committee to approve the continuation of IIFCL's practice of sanctioning viable infrastructure projects appraised by the reputed appraising institutions/banks/international financial institutions. The disbursement of loans by IIFCL is, however, subject to the appraisal being done by reputed appraising institutions, the lead bank accepting and adopting the same. IIFCL shall disburse the loan only after getting the sanction from the lead bank.

The Empowered Committee approved the proposal.

7. **Any other item—subordinate debt.** The issue of IIFCL giving subdebt instead of primary debt was discussed. It was agreed that this may better fit with IIFCL's business model. The Chairman of IIFCL was requested to study the issue and bring a proposal to the next meeting of the Empowered Committee.

F. No. 1/78/2005-IF-I
Government of India
Ministry of Finance
Department of Financial Services

Jeevan Deep Building
Parliament Street, New Delhi
Dated 5 March 2009

OFFICE MEMORANDUM

Subject: **Amendment to SIFTI**

The undersigned is directed to refer to the Scheme for financing of Infrastructure through India Infrastructure Finance Company Limited (IIFCL), the scheme being hereinafter referred to as SIFTI, as contained in the Ministry of Finance, Department of Economic Affairs O.M. No. 0/12/2005-INF dated 4 January 2006 and to say that the following amendment in SIFTI, recommended by the Empowered Committee have been approved by the Finance Minister and by the Prime Minister:

I. Amendment in the definition of long-term debt in para. 3.1(d) of SIFTI as follows:

"3.1(d) long-term debt means the debt provided by the IIFCL to the project company where the average maturity for repayment exceeds 10 years (8.5 years in the case of IIFC (UK) Ltd.)."

II. Amendment in Clause 7 of SIFTI by addition of the following after Clause 7.9:

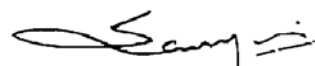
Subordinate Debt

7.10 Under Clause 7.1(c) of SIFTI, IIFCL has been allowed by the Government to provide debt which ranks lower in security than the project debt carrying a pari passu charge (the 'subordinate debt') to finance the PPP projects subject to the following conditions:

- (a) The project should have been awarded through open competitive bidding;
- (b) It should have been approved by the Public-Private Partnership Approval Committee (PPPAC) under the guidelines for formulation, appraisal, and approval of PPP projects or by the Empowered Institution under the guidelines for financial support to PPP in infrastructure;
- (c) The concession agreement should provide for an escrow account that would secure the annual repayment of subordinate debt before returns on equity are paid;
- (d) In case of termination of concession agreement, the concessioning authority will pay in terms of termination payment at least 80% of the subordinate debt on account of a concessionaire default or concessioning authority default during operation period of the concession in the escrow account as mentioned in the model concession agreement (MCA). Where MCA is not available, a similar provision should be incorporated;

- (e) Subordinate debt shall not exceed 10% of the total project cost and shall form part of the maximum limit of 20% as specified in para. 7.3 of the SIFTI. The limits of overall exposure of IIFCI to subordinate debt may be redefined after one year after assessing IIFCL's experience in this area;
- (f) Subordinate debt to be borrowed by the project company from any or all sources shall not exceed one half of its paid up and subscribed equity;
- (g) Interest on subordinate debt shall be 2% to 3% higher than the highest interest charged by any bank in the consortium of lenders for the project;
- (h) There may be a moratorium of 4 to 5 years on repayment of principal and interest due in respect of subordinate debt. IIFCL may take this aspect into account while assessing the project's viability;
- (i) Repayment of principal shall not commence before 6 to 7 years from the commercial operation date (COD) of the project and shall extend between a period of 12 to 15 years from COD.
- (j) Subordinate debt lenders shall have second charge on all assets (including receivables) of the Borrower, both present and future, to secure the subordinate debt as mentioned in the loan agreement. The said second charge to secure subordinate debt shall rank pari passu with all lenders for their subordinate debts. The above-mentioned second charge of subordinate debt lenders shall be subordinate to the first pari passu charge of the senior lenders for their senior debts; and
- (k) Subordinate debt shall not be converted into equity.

The above amendment in SIFTI will have prospective effect and IIFCL is requested to carry out the above amendments in SIFTI and give it necessary publicity.



(Sanjeev Kumar Jindal)
Deputy Secretary
Tel: 2334 0846

To: (as per attached list)

SAFEGUARDS REQUIREMENTS AND SOCIAL DEVELOPMENT POLICIES

1. India Infrastructure Finance Company Limited (IIFCL) will ensure to comply with all safeguards requirements outlined in this Schedule during the processing and implementation of subprojects and other project components.
2. Prior to the preparation of each periodic financing request (PFR), India Infrastructure Finance Company Limited (IIFCL) will ensure that the subproject is screened to ascertain whether it will have any environmental and social impacts that would trigger ADB's Environment, Involuntary Resettlement (IR), and Indigenous Peoples (IP) policy safeguards, using the screening instruments provided in the environmental and social safeguard framework (ESSF). If it does, IIFCL will discuss with the subborrower how to formulate adequate planning instruments to address such policy safeguard issues prior to the preparation of the periodic financing request (PFR).
3. In case of an ongoing subproject prior to the preparation of PFR, IIFCL will review to ascertain whether it would trigger ADB safeguards policies. If it triggers major safeguard issues, IIFCL will require the subborrower to address them adequately following the guidelines outlined in the ESSF attached in Annex A.
4. In both of the above cases, IIFCL will issue the safeguards policy compliance certificate. A copy of the certificate will be sent to ADB for information.

ENVIRONMENTAL AND SOCIAL SAFEGUARDS FRAMEWORK (ESSF)
India Infrastructure Financing Company Limited (IIFCL)

I. Introduction

A. About IIFCL

1. IIFCL was incorporated on 5 January 2006 under the Companies Act 1956 as a wholly government-owned company.
2. IIFCL is an apex financial intermediary for purposes of the development and financing of infrastructure projects and facilities in the country. IIFCL renders financial assistance through
 - (i) Direct lending to eligible projects
 - (ii) Refinance to banks and financing institutions (FIs) for loans with a tenor of 5 years or more
 - (iii) Any other method approved by the Government of India (India)
3. IIFCL is adopting a focused approach by addressing projects from the following sectors.
 - (i) Roads & bridges, railways, seaports, airports, inland waterways, other transportation projects
 - (ii) Power
 - (iii) Urban transport, water supply, sewerage, solid waste management, and other physical infrastructure in urban areas
 - (iv) Gas pipelines
 - (v) Infrastructure projects in special economic zones
 - (vi) International convention centres, other tourism-related infrastructure
 - (vii) Infrastructure projects in Special Economic Zones
 - (viii) Other infrastructure projects, as may be determined from time to time
4. In order to be eligible for funding under the “Scheme for Financing Viable Infrastructure Projects through the India Infrastructure Finance Company Limited” (the Scheme), a project shall meet the following criteria:
 - (i) The project shall be implemented (i.e., developed, financed, and operated for the project term) by
 - a. a public sector company
 - b. a private sector company selected under a private-public partnership (PPP) initiative
 - c. a private sector company
 - (ii) Provided that the special purpose vehicle (SPV) shall assign overriding priority to PPP projects that are implemented by private sector companies selected through a competitive bidding process.
 - (iii) Provided further that a private sector company, other than that defined in the first proviso above, would not be eligible for direct lending by the SPV and may be funded only through the refinance mode (see Annex 1, Schedule 4, for amendment).
 - (iv) The total lending for such private projects shall not exceed 20% of the lending program of the SPV in any accounting year. The eligibility for direct lending and/or raising the limit of 20% will be reviewed at the end of one year having

regard to the progress made in funding public sector and PPP infrastructure projects (see Annex 1, Schedule 4, for amendment).

5. IIFCL shall finance only commercially viable projects.
6. The ESSF shall be composed of the Environmental Management System Framework (EMS) and the Social Safeguards Framework (SSF).
7. Both the EMS and SSF are applicable for all subprojects financed from Asian Development Bank (ADB) resources by IIFCL, through direct lending and refinance operations and to both public and private sector companies. All lead banks and subborrowers interested in seeking financial assistance from IIFCL, where finance from ADB is used, will therefore need to conduct business in a manner such that IIFCL can be compliant with this EMS and SSF.

B. Purpose of the EMS

8. The Environmental Management System (EMS) Framework defines policy procedures, roles, and responsibilities for managing adverse environmental impacts/risks due to projects that are financed by IIFCL.
9. This EMS has been prepared as part of IIFCL's commitment to comply with the India's policies, law and regulations, as well as to follow the development partners' (e.g., ADB, World Bank, Kreditstalt für Wiederaufbau (KfW), and Japan Bank for International Cooperation (JBIC)) safeguard policies.

C. Purpose of the SSF

10. The Social Safeguards Framework (SSF) defines and outlines policies, procedures, roles, and responsibilities for managing involuntary resettlement (IR) impacts and risks, and effects on indigenous (tribal) peoples of subprojects that are financed by IIFCL through the India Infrastructure Project Financing Facility (the Facility).
11. This SSF is a part of the commitment of IIFCL to comply with the India's policies, law and regulations, and to comply with external lenders/development partners' (e.g. ADB, World Bank, KfW, and JBIC) safeguard policies ("Lenders' policies"). The SSF provides guidelines for the Environmental and Social Safeguards Management Unit (ESMU) to be established by IIFCL to fulfill the social commitments.

II. Environmental Management System (EMS)

A. Objectives of EMS

12. The objectives of EMS are
 - (i) To avoid and to minimize adverse environmental impacts/risks due to projects that will receive finance from IIFCL, especially in environmentally sensitive locations or areas.
 - (ii) To ensure that adverse environmental impacts/risks are well-mitigated to achieve applicable environmental standards.
 - (iii) To comply with applicable national, state laws and regulations, and environmental safeguards requirements of development partners.

- (iv) To provide guidance to lead banks/designated lead syndicator and subborrowers in preparing projects for appraisal at IIFCL and in conducting subsequent monitoring, reporting, and in undertaking corrective actions.

B. India's Environmental Policy and Regulatory Framework

13. India has the responsibility for protection and improvement of the environment, enshrined in Articles 48A and 51A (g) in the constitution under the 42nd amendment as adopted in January 1977. These articles provide that

- (i) The state shall endeavor to protect and to improve the environment and safeguard forests and wildlife of the country (Article 48A).
- (ii) Every citizen is bound to protect and improve the natural environment and to have compassion for living creatures [Articles 51A (g)].

14. The Ministry of Environment and Forests (MoEF) is the prime regulatory body of India for formulating environmental policies, laws and rules, and accords Environmental Clearance (EC) for any developmental project as in schedule of the Environmental Impact Assessment (EIA) Notification dated 14 September 2006 under the Environmental (Protection) Act, 1986.

15. The following are the key operational principles of India's Environmental Policy and Regulatory Framework.

- (i) The EIA system is concerned primarily with assessing the direct and indirect impacts of a project on the biophysical and human environment and ensuring that these impacts are addressed by appropriate environmental protection and enhancement measures.
- (ii) The EIA system aids proponents incorporating environmental considerations in planning their projects as well as in determining the environment's impact on their project.
- (iii) Project proponents are responsible for determining and disclosing all relevant information needed for a methodical assessment of the environmental impacts of their projects.
- (iv) Review of the EIA by Central Regulatory Authority/State Environmental Impact Assessment Agency (SEIAA) is guided by the following criteria (i) that environmental considerations are integrated into the overall planning, and (ii) that the assessment is sound and the proposed environmental mitigation measures are effective.
- (v) Effective regulatory review of the EIA depends largely on timely, full, and accurate disclosure of relevant information by project proponents and other stakeholders in the EIA.
- (vi) Social interaction shall be conducted by the proponent for the project is a result of a meaningful public participation, which shall be assessed as part of the EC application, based on concerns related to the project's environmental impacts.

16. To achieve effective implementation of these operational principles, India updated its EIA Notification in September 2006. Table 1 provides highlights of the major improvements.

**Table 1: Major improvements in New EIA notification 2006
as compared to old notification (1994)¹**

EIA Notification 2006	EIA Notification 1994 (including amendments)
<p>Decentralization of Clearance Process. Projects in Schedule 1 have been divided into two categories, category A and B. Category A project will require clearance from the central government (MoEF). Category B will require clearance from the state government. State governments will first classify if the B project falls under B1 or B2 category. B1 projects will require preparation of EIA reports while remaining projects will be termed as B2 projects and will not require EIA report.</p>	<p>Proponent desiring to undertake any project listed in Schedule 1 had to obtain clearance from the central government.</p>
<p>Screening Process. Well-defined screening process with projects divided into two categories.</p>	<p>The project proponent assesses/screens if the proposed activity/project falls under the purview of environmental clearance, than the proponent conducts an EIA study either directly or through a consultant.</p>
<p>Scoping Defined. The new notification defines and includes scoping. The entire responsibility of determining the Terms of Reference (ToR) will depend on the Expert Appraisal Committee. This will be done in cases of Category A and Category B1 projects. The final ToR shall be displayed on the website of the MoEF and concerned State/Union Territory Environment Impact Assessment Authority (SEIAA).</p>	<p>Scoping was not applicable. The ToR was completely decided by the proponent without any public consultation.</p>
<p>Public Consultation. All Category A and Category B1 projects or activities have to undertake public consultation except for six activities for which public consultation has been exempted. Some of the projects exempted include expansion of roads and highways, modernization of irrigation projects, etc. Some of these may have potential social and environmental impacts.</p> <p>The responsibility for conducting the public hearing still lies with the state PCBs.</p> <p>The public consultation will essentially consist of two components—a public hearing to ascertain the views of local people and obtaining written responses of interested parties.</p> <p>The notification makes provision that MoEF shall promptly display the summary of draft EIA report on its website and also make the full draft EIA available in the ministry's library at New Delhi for reference.</p> <p>No postponement of the time, venue of the public</p>	<p>The project proponent has to write to SPCB to conduct public hearing.</p> <p>The state boards would be responsible for publishing notices for environmental public hearings in at least two newspapers widely circulated in the region around the project, one of which shall be in the vernacular language of the locality concerned.</p>

¹ This comparison is based on info.

EIA Notification 2006	EIA Notification 1994 (including amendments)
<p>hearing shall be undertaken, unless some untoward emergency situation occurs and only on the recommendation of the concerned district magistrate. This was not a part of the earlier notification.</p> <p>The SPCBs or Union Territory Pollution Control Committee shall arrange to video film the entire proceedings. This was also absent in the earlier notification and may be considered as a good move to ensure that public hearing is proper.</p>	

EIA = Environment Impact Assessment, MoEF = Ministry of Environment and Forests, PCB = pollution control board, SEIAA = State/Union Territory Environment Impact Assessment Authority, SPCB = State Pollution Control Boards, ToR = terms of reference.

17. A detailed description of the EIA and EC system of India is presented in Annex E-1 (Overview of the Environment Impact Assessment Process of the Government of India). The EMS of IIFCL captures the improvements of the new EIA notification by following process steps as stated in Annex E-1 (Overview of the Environment Impact Assessment Process of the Government of India).

C. Commonality of India's Framework with Environmental Safeguard Systems of Development Financing Institutions (DFIs)

18. IIFCL's EMS is based on India's Environmental Policy and Regulatory Framework as outlined in Section III. This EMS, in addition to India's Environmental Policy and Regulatory Framework, considers the Environment Safeguard Systems (ESS) of its development partners, notably development financing institutions (DFIs) such as the World Bank (WB), Asian Development Bank (ADB), Kreditanstalt für Wiederaufbau (KfW), and Japan Bank for International Cooperation (JBIC).

19. In order to assess equivalence between India's Environmental Policy and Regulatory Framework (as specific to environmental clearance process) and ESS of the above development partners, IIFCL considered elements as outlined in Table 2.

Table 2: Elements considered to assess equivalence between India's Environmental Policy and Regulatory Framework and ESS of Key Development Partners to IIFCL

Item	
Overview	<ul style="list-style-type: none"> • Purpose of their application • Topic/Scope • Projects requiring environmental assessment (EA) • Legal requirements/standards applied • General responsibilities • Timing
Screening	<ul style="list-style-type: none"> • Screening process • Screening tools • Categories • Overriding criterion for categorization

Item	
	<ul style="list-style-type: none"> EA activities as a result of screening Screening responsibilities
Terms of Reference (ToR) for EA	<ul style="list-style-type: none"> Responsibilities for ToR preparation and review Tools and method to be used Standards applied
EA documentation	<ul style="list-style-type: none"> Contents Responsibilities for preparation of EA studies Responsibilities for reviewing EA studies Language in which EA studies are reported
Impact mitigation	<ul style="list-style-type: none"> Principles of mitigation Environmental Management Plan (EMP)
Consultation and disclosure	<ul style="list-style-type: none"> Public consultation requirements Information disclosure requirements
Implementation and monitoring	<ul style="list-style-type: none"> Responsibilities for ensuring implementation of EMP

EA = environmental assessment, EMP = Environmental Management Plan, ToR = terms of reference.

20. Annex E-2 (Comparative Assessment of Environmental Safeguard Process, Procedures, and Practices) presents a detailed comparison between India's Environmental Policy and Regulatory Framework and ESS of key DFIs on this basis. This comparison shows that India's Environmental Policy and Regulatory Framework have significant commonalities with the ESS of WB, ADB, KfW, and JBIC. The differences are limited to categorization, public consultation, references to the standards and can be closed through stepping up and customizing the EMS as per the operational experience.² The scope of the EMS may also be broadened at a later date to explicitly address other related safeguards of DFIs, for instance safeguards on Natural Habitat, Dam Safety, and Cultural Properties of WB.

21. Adoption of India's environmental policy and regulatory framework with procedures appropriate to IIFCL, supported by guidance to lead banks/subborrowers and a system of prioritized monitoring, audit, and disclosure will therefore lead to a safeguard system that is equivalent to the practices followed by the DFIs.

D. Structure of IIFCL's EMS

22. As per the ESS at the DFIs (especially WB and ADB), IIFCL falls into category FI (financial intermediary) and is obligated to develop and operate an EMS with adequate institutional capacity to ensure satisfactory implementation of DFI's environmental safeguards.

² India uses thresholds for categorization in addition to project type and location. Some DFIs like the World Bank and Asian Development Bank recommend a two-stage public consultation process as against single step public hearing followed by India. In addition, there is a period of 120 days of disclosure for category A and select category B (B-sensitive) projects as per the World Bank/Asian Development Bank. The World Bank/Asian Development Bank recommended standards as per the Pollution Prevention Abatement Handbook (PPAH). India follows national standards as prescribed by the Central Pollution Control Board (CPCB). The State Pollution Control Boards (SPCB) can, however, specify stricter standards than the national standards depending on the sensitivity of the location.

23. Accordingly, an EMS needs to be developed, guided by an environmental policy and procedures that will ensure that all projects processed and financed by IIFCL are compliant to applicable environmental laws and regulations and do not result into unmitigated and significantly adverse environmental impacts/risks.

24. Given the requirement of compliance and considering the comprehensiveness of India's EIA and EC system (as outlined in section IV), IIFCL's EMS has been developed around India's environmental policy and regulatory framework. IIFCL's EMS follows project categorization as per Indian (e.g. A/B1/B2) and processes like scoping, public hearing, review, monitoring, and mainstreams key outcomes like Environmental Management Plans (EMPs) in project design and implementation.

25. In order to meet the requirements of category FI (especially that of WB and ADB), IIFCL's EMS has been structured to reflect the following.

- (i) Environmental and social policy
- (ii) Operational steps viz environmental procedures as practiced in project processing and in the project life cycle
- (iii) Annual environmental audit and its disclosure
- (iv) Allocation of responsibilities—especially between IIFCL and lead banks/subborrowers
- (v) Institutional structure to operate the EMS
- (vi) Capacity development plan especially for lead banks and subborrowers

26. Each of the above key elements of the EMS is explained in the sections below.

E. Policy Statement of IIFCL's EMS

27. IIFCL's EMS is guided by IIFCL's environmental and social policy as below.

- (i) IIFCL gives due importance to Environmental and Social (E&S) considerations in appraising and financing infrastructure projects to minimize adverse impacts and risks to the environment and people that may be affected.
- (ii) IIFCL is committed to comply with all relevant E&S policy and legislative requirements and laws of the lands with which it engages and remain responsive to the E&S requirements of its development partners.

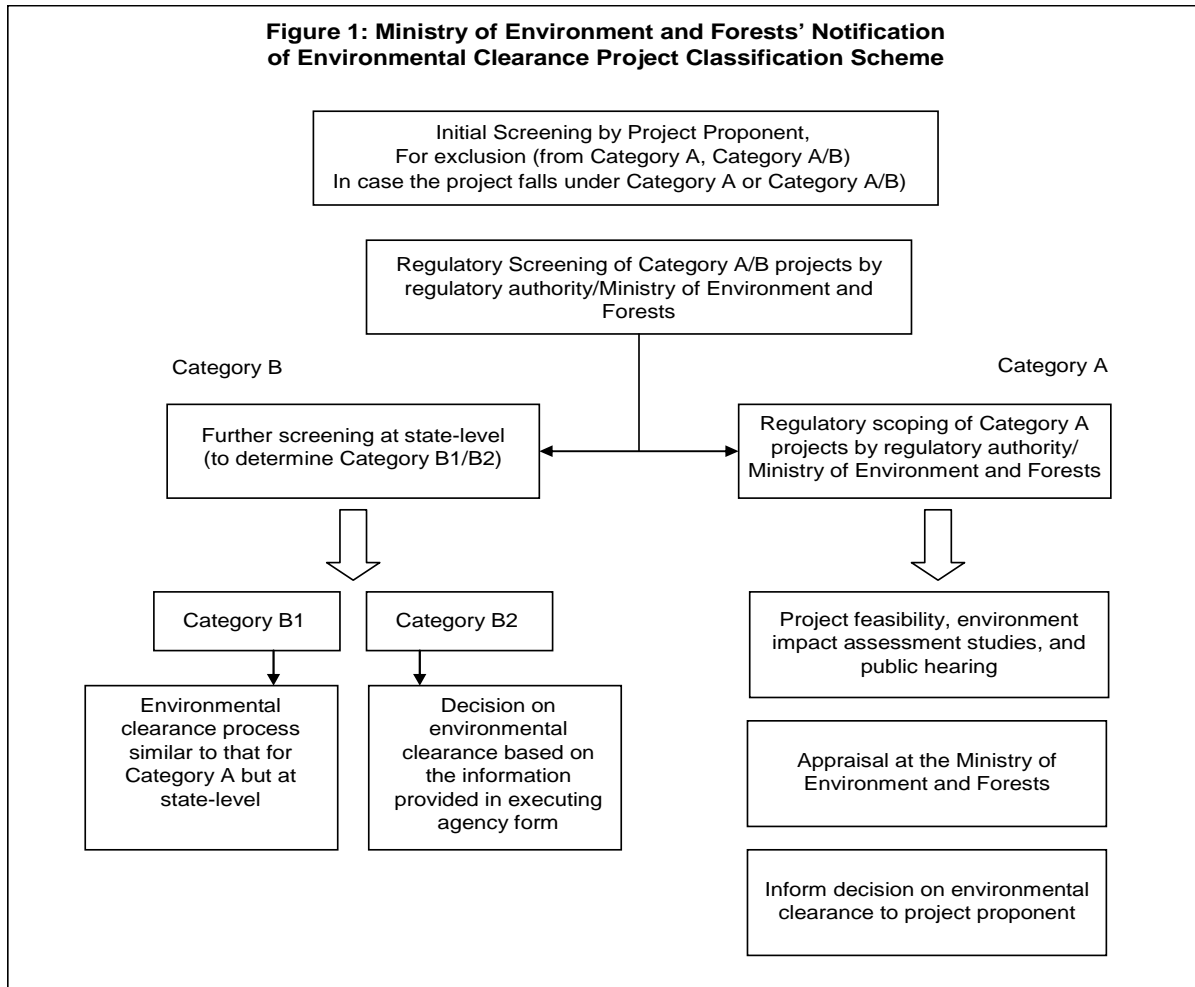
28. This policy statement emphasizes IIFCL's sensitivity and concern to environmental and social issues, commitment towards compliance, and responsiveness towards environmental and social requirements of its development partners.

F. Operational Steps of IIFCL's EMS

29. MoEF's notification on environmental clearance (EC) follows a project classification scheme as A, B1, and B2 (see Figure 1). This classification factors project type, size, and sensitivity of location (see Annex E-3: Specified Requirements for Environmental Clearance as Listed in the Environment Impact Assessment Notification, MoEF, 2006). IIFCL's EMS will use this categorization to prioritize the appraisal and monitoring process followed by the EMS.

30. As explained in Annex E-3 (Specified Requirements for Environmental Clearance as listed in the Environment Impact Assessment Notification, MoEF, 2006), projects under category

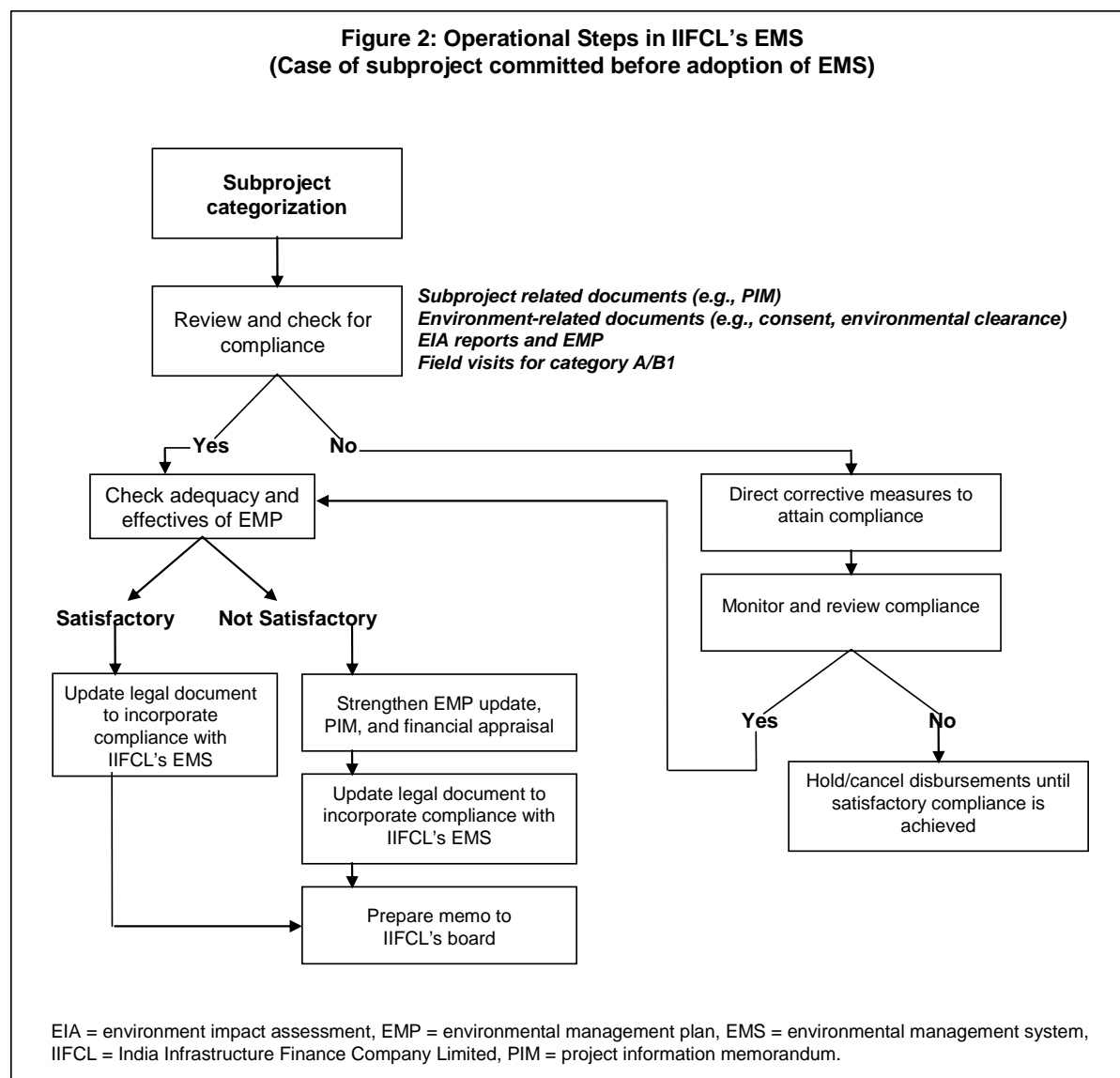
A and B1 require EIA and are processed for EC at MoEF and state-level, respectively. Category B2 does not require EIA but needs information to be submitted in a prescribed format to the State Department of Environment for review. Projects under category B1 may get re-categorized into A if general conditions (GCs) are violated that consider site sensitivity.



31. The operational steps of IIFCL's EMS consider 2 scenarios.
- (i) Projects that have been appraised and agreed to be financed before establishment and operation of EMS.
 - (ii) Projects that are not yet committed for finance and will undergo EMS.
32. Steps for each of the above are described below.
33. **Case A.** Projects that have been appraised and agreed to be financed before establishment and operation of EMS.
34. For this case, below are the following steps.
- (i) Categorize subprojects as per A/B1/B2 following guidelines of MoEF as in the latest EIA notification. Refer to Annex E-3 (Specified Requirements for Environmental Clearance as Listed in the Environment Impact Assessment Notification, MoEF, 2006).
 - (ii) Categorize subprojects as per ESS guidelines. If there is more than one development partner and if the categorization differs, then assign strictest of the categories.

- (iii) If there is a difference between categorization carried out by MoEF's EIA notification and categorization by the framework, then the strictest amongst the two categories will be followed.
- (iv) Wherever there is no clear guidance available in MoEF's EIA notification for subproject categorization, then the ESSF scheme of categorization will be followed.
- (v) Check for environmental compliance. See Appendices 4, 5, 6, and 7 for applicable laws and regulations. Focus should be to verify consents from SPCB (consent to establish and operate), environmental clearance from State Department of Environment/MoEF, CRZ, and forest clearances, if applicable, and whether processes and procedures, especially related to public consultation and disclosure (e.g. public hearing) are correctly followed. On public consultation and disclosure, IIFCL will ensure the subproject proponent conducts consultation with affected groups and local NGOs at least twice during subproject preparation—once during the early stage of EA preparation and when the draft EA report is available. Consultation should also be ongoing during implementation. To facilitate the required consultations with project-affected groups and local NGOs, IIFCL will ensure that the subproject proponent provides relevant information on the subproject's environmental issues in a form and language(s) accessible to those being consulted. IIFCL will also ensure compliance with the 120-day disclosure requirement for category A or B subprojects deemed sensitive. Compliance should also address conformity with the standards and approaches recommended by the Pollution Prevention and Abatement Handbook of the World Bank. In case of the subproject EA report, recommend adoption of alternative emission levels and approaches to pollution prevention and abatement to best reflect national legislation and local conditions, the EA report must justify the levels and the approaches chosen for the project or site.
- (vi) Identify gaps, if any, on environmental compliance. If there are no gaps, then review the EIA reports and adequacy of Environmental Management Plans (EMPs). See Annex E-8 (EIA/SIA Review Checklist) as guidance. For Category A and B1 projects, include field visit of environmental specialist.
- (vii) If there are gaps on environmental compliance, then direct lead banks/subborrowers time targeted actions to attain compliance. Hold disbursements until compliance is achieved.
- (viii) Monitor and review whether the agreed gap-filling measures are satisfactorily met in the stipulated time. If there is a consistent default, then cancel any further disbursements.
- (ix) For compliant projects, if review of EMP shows its adequacy and appropriate reflection in the project costs, then update legal documents to reflect applicability of IIFCL's EMS as binding during the period of engagement. Take appropriate approval of the board.
- (x) If review of EMP shows its inadequacy and/or inappropriate reflection in project costs, then update PIM as well as redo financial appraisal to reflect on strengthened/improved EMP. Re-assess commercial viability of the project.
- (xi) Obtain board approval for the revisions. Update legal documents that reflect applicability of IIFCL's EMS as binding during the period of engagement.

35. Figure 2 describes the above steps.



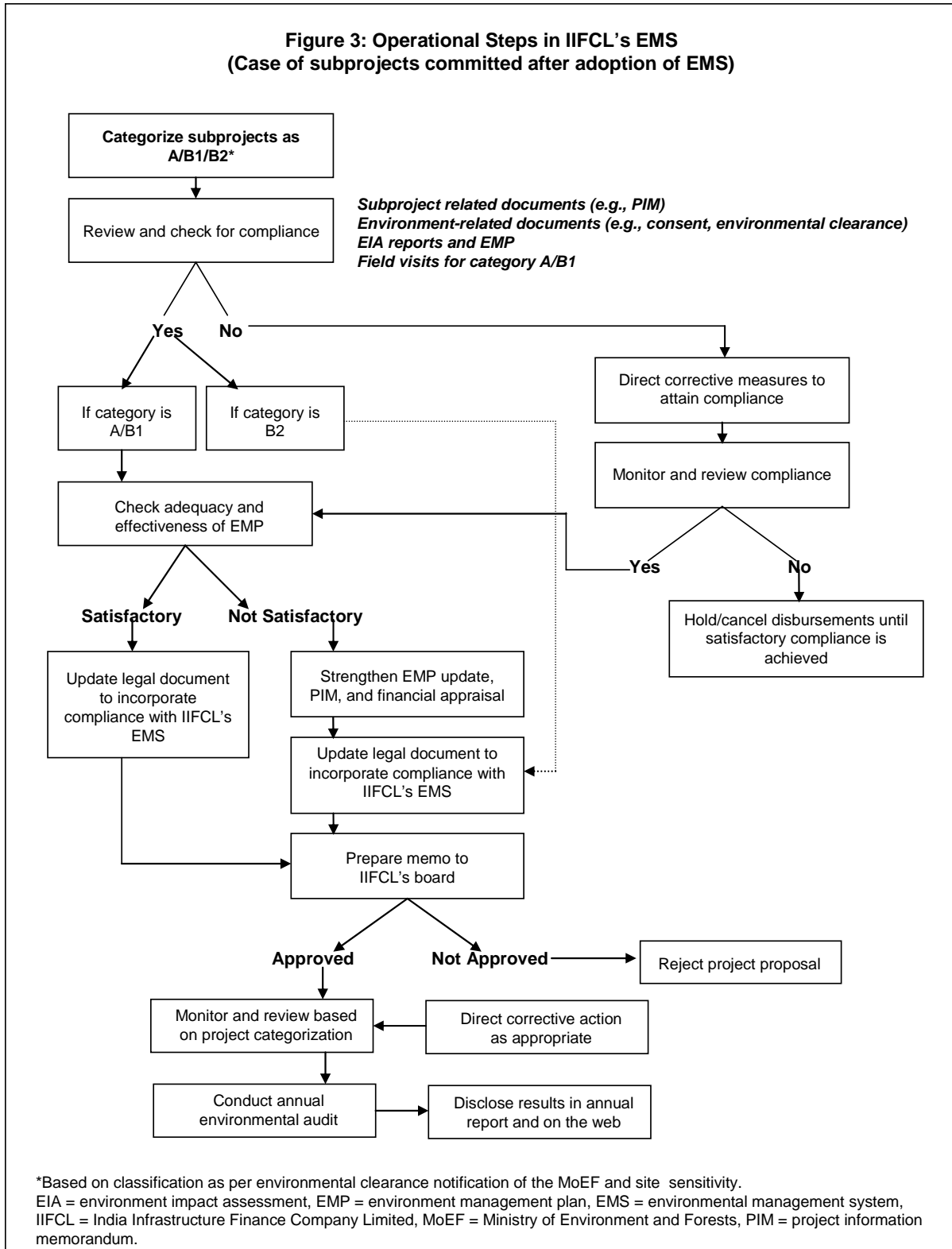
36. **Case B.** Projects that will be appraised after the adoption of IIFCL's EMS.

37. Following steps will be followed by IIFCL in carrying out the requirements of EMS for projects that are not yet committed.

- (i) Categorize subprojects as per A/B1/B2 following guidelines of MoEF as in the latest EIA notification. Refer to Annex E-3 (Specified Requirements for Environmental Clearance as Listed in the Environment Impact Assessment Notification, MoEF, 2006).
- (ii) Categorize subprojects as per ESS guidelines. If there is more than one development partner and if the categorization differs, then assign strictest of the categories.
- (iii) If there is a difference between categorization carried out by MoEF's EIA notification and categorization by the ESSF, then the strictest amongst the 2 categories will be followed.

- (iv) Wherever there is no clear guidance available in MoEF's EIA notification for subproject categorization, then the ESSF's scheme of categorization will be followed.
 - (v) Check for environmental compliance. See Annexes E-4 (Summary of Key E&S Legislations in India), E-5 (Environmental Rules and Notifications Relevant to Infrastructure Projects), E-6 (E&S Regulations and Obligations, and Areas of Applicability at Project Sites), and E-7 (Prohibited Activities in CRZ: Coastal Regulation Zone Notification, 1990, Amended 2001) and for applicable laws and regulations. Focus will be to verify consents from SPCB (consent to establish and operate), environmental clearance from State Department of Environment/MoEF, CRZ, and forest clearances, if applicable, and whether processes and procedures, especially related to public consultation and disclosure (e.g. public hearing) are correctly followed. On public consultation and disclosure, IIFCL will ensure the subproject proponent conducts consultation with affected groups and local NGOs at least twice during subproject preparation—once during the early stage of EA preparation and when the draft EA report is available. Consultation should also be ongoing during implementation. To facilitate the required consultations with project-affected groups and local NGOs, IIFCL will ensure that the subproject proponent provides relevant information on the subproject's environmental issues in a form and language(s) accessible to those being consulted. IIFCL will also ensure compliance with the 120-day disclosure requirement for category A or B subprojects deemed sensitive. Compliance should also address conformity with the standards and approaches recommended by the Pollution Prevention and Abatement Handbook of the World Bank. In case the subproject EA report, recommend adoption of alternative emission levels and approaches to pollution prevention and abatement to best reflect national legislation and local conditions, the EA report must justify the levels and the approaches chosen for the project or site.
 - (vi) Identify gaps, if any, on environmental compliance. If there are no gaps, then review the EIA report and adequacy of Environmental Management Plans (EMPs). See Annex E-8 (EIA/SIA Review Checklist) as guidance. For Category A and B1 projects, include field visit of environmental specialist.
 - (vii) If there are gaps on environmental compliance, then direct lead banks/subborrowers time targeted actions to attain compliance. Hold preparation of memo to the board until satisfactory compliance is achieved
 - (viii) For compliant projects, review EMP for its adequacy and appropriate reflection in the project costs. If EMP is satisfactory, then prepare memo to the board with any additional recommendations. Ensure that legal documents reflect applicability of IIFCL's EMS as binding during the period of engagement. Take appropriate approval of board.
 - (ix) If review of EMP shows its inadequacy and/or inappropriate reflection in project costs, then direct the lead banks/SPV to update PIM as well as redo financial appraisal to reflect on strengthened/improved EMP. Assess commercial viability of the revised project. Prepare memo to the board on this basis. Ensure that legal documents that reflect applicability of IIFCL's EMS as binding during the period of engagement.
38. Figure 3 describes the above steps.
39. For both cases

- (i) Based on categorization of the projects that are financed (i.e. A/B1/B2), conduct monitoring of compliance and effectiveness of the EMP.
- (ii) Conduct independent annual environmental audit and report to the board and development partners.

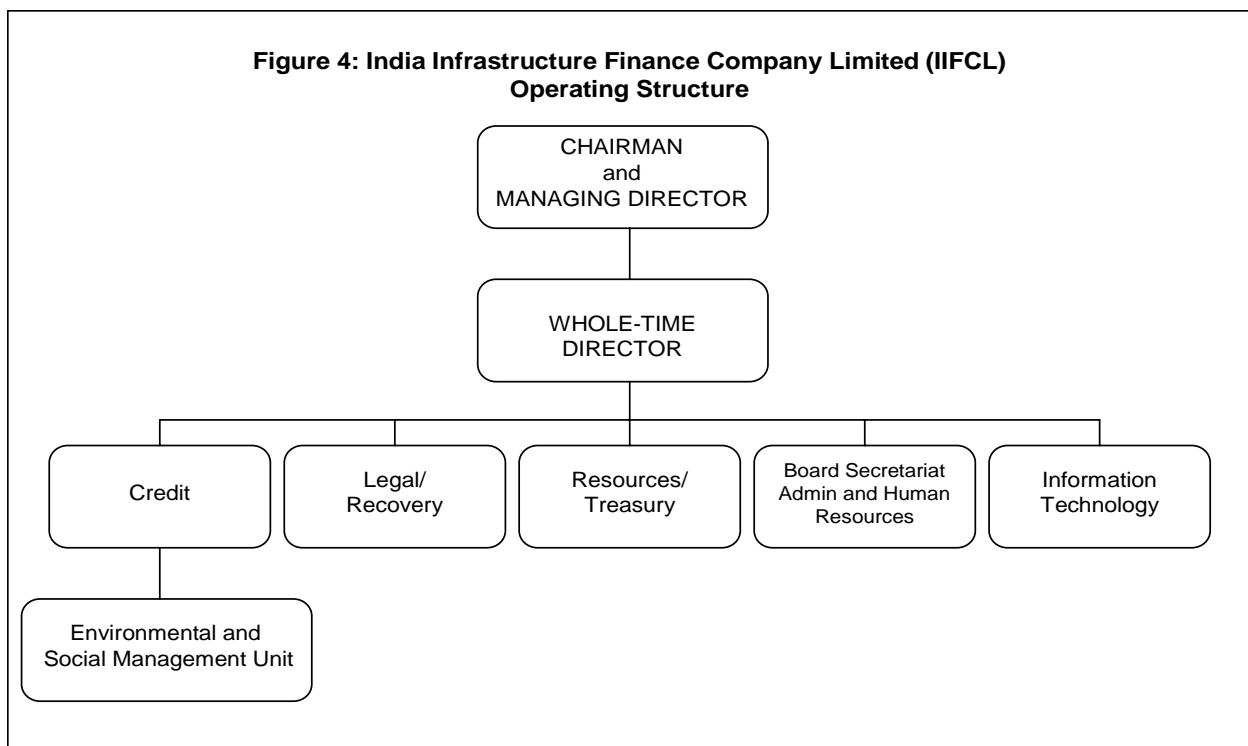


G. Institutional Structure to Operate the EMS

40. IIFCL's board comprises a Chairman and Managing Director (CMD) and a whole-time Director (WTD) nominated by Government of India. Apart from these two WTDs, Government of India has nominated 3 experts and 2 officials as part-time directors of the company.

41. IIFCL operates with a lean and thin structure to keep overheads to the minimum. The operating team comprises dedicated professionals drawn from different banks, FIs, and government departments.

42. Keeping this in mind and considering the operational steps of EMS, it is proposed to set up an Environmental and Social Management Unit (ESMU) at IIFCL. Figure 4 shows the organizational structure.



43. Figure 5 shows the composition and contracting arrangements under ESMU. As shown in this figure, ESMU will be headed by a full time staff of IIFCL who could be either invited on deputation from other organizations or recruited. This person should have masters in environmental science/engineering/planning with at least 10 years of experience in conducting/reviewing environmental and social assessments. Familiarity with Indian regulations and procedures will be essential and exposure to ESS at DFIs will be desirable.

44. In order to assist in the review and preparation of memos to the board, ESMU will draw specialists under a contract with a competent Project Management Consultant (PMC-I). PMC-I will be identified through competitive bidding. PMC-II will provide one full-time environmental and one full-time social assessment specialist. These two specialists will work at IIFCL and report to the ESMU Head. The environmental specialist should have masters in environmental science/engineering/planning with at least five years of experience. Previous experience in preparing EIAs and obtaining EC at center and state-levels for infrastructure projects will be

essential. The social assessment specialists will have masters in social development and allied areas with at least five years of experience in the preparation of Resettlement Action Plans (RAP) and Indigenous Peoples Development Plans (IPDP). These specialists will deliver the following services.

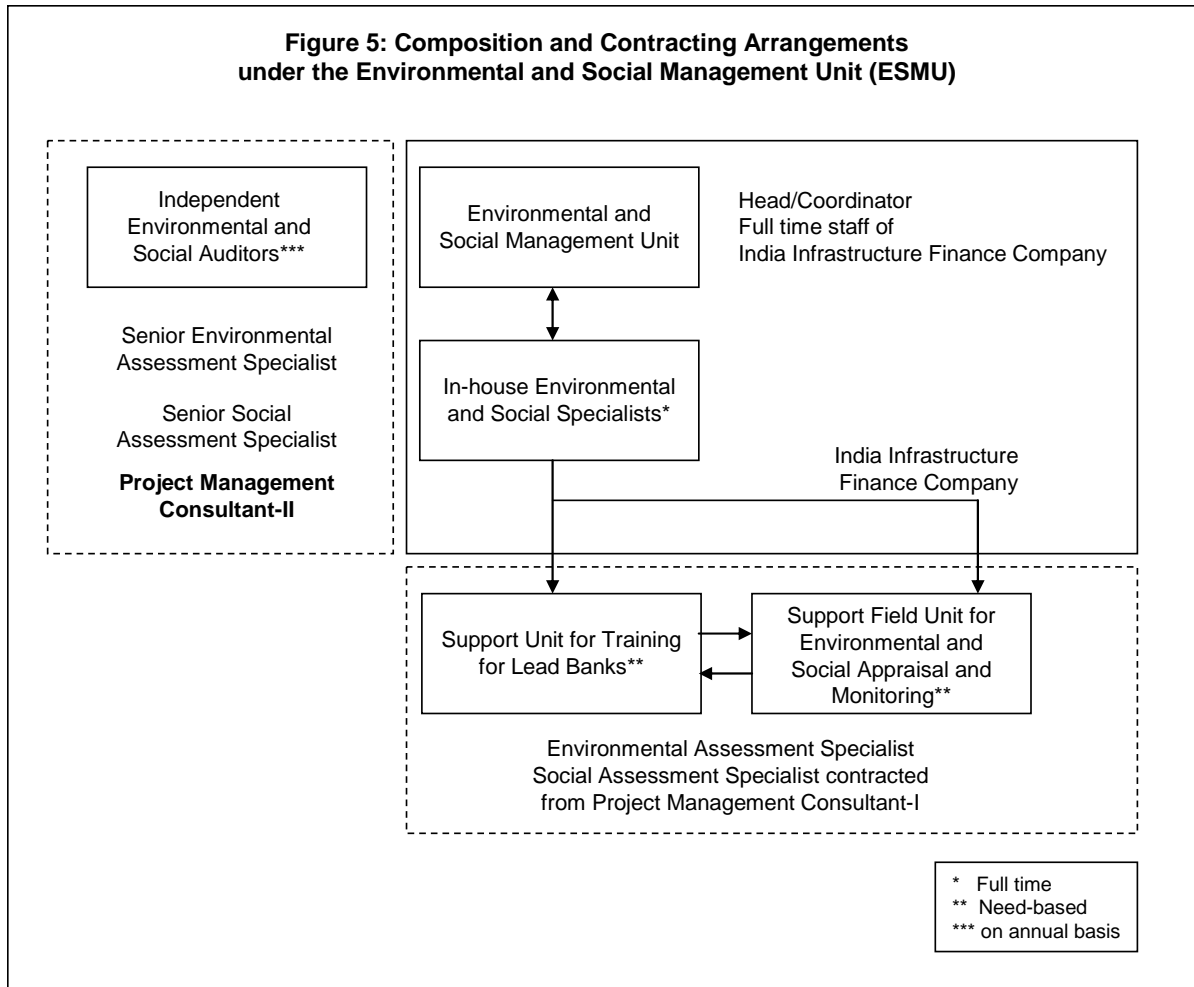
- (i) Conduct compliance review.
- (ii) Check adequacy and effectiveness of EMPs/RAPs/IPDPs.
- (iii) Develop conditions as loan covenants that stipulate requirements or outcomes of EMP/RAP/IPDPs.
- (iv) Prepare memo for the board on this basis.
- (v) Prepare sector specific checklists, guidelines, monitoring, and reporting formats to strengthen EMS. These guidelines will make use of the materials developed by India and DFIs (Appendices 9, 10, 11, 12, 13, and 14 illustrate such guidance materials of relevance to lead banks/subborrowers. PMC-I will build a compendium to this effect and provide to the lead banks/subborrowers).
- (vi) Coordinate with field environmental and social specialists for assessment, monitoring, and review as required.
- (vii) Coordinate with lead banks/subborrowers to support independent environmental and social auditors (PMC-II) for preparing IIFCL's Annual Environmental and Social report.
- (viii) Prepare progress and performance reports for various development partners.
- (ix) Coordinate with training specialists provided by PMC-I to conduct training program for lead banks/subborrowers on project processing under EMS/Social Safeguards Framework (SSF).
- (x) Update EMS/SSF based on operational experience.

45. PMC-I will support the ESMU on a need basis for the following.

- (i) Conduct field visits for assessments, monitoring, and reviewing (especially for category A and B1 projects).
- (ii) Conduct awareness and training program on IIFCL's EMS for lead banks/subborrowers.

46. This support will not be in-house but provided using the pool of resources available at PMC-I.

47. Figure 5 below provides the details.



H. Conduct of Annual Environmental Audit and its Disclosure

48. IIFCL will conduct annual environmental and social audit through independent consultants (PMC-II). The audit process will consider project categories for better focus and optimization. Figure 6 below explains this concept.

I. Reporting to Development Partners' Requirements

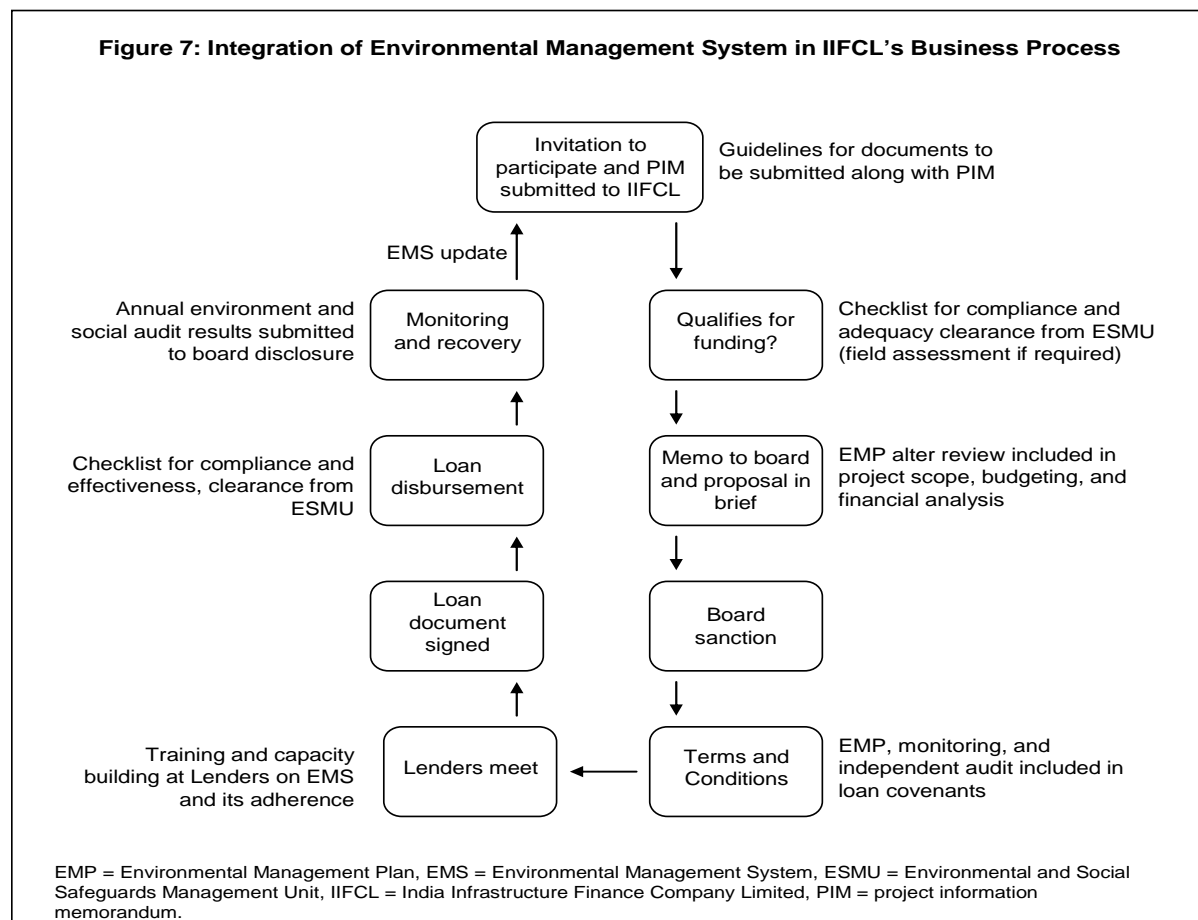
51. Apart from the annual environmental audit reports, IIFCL will need to prepare reports, from time to time, as required by various development partners. While making Periodic Finance Request (PFR) to ADB, for instance, reporting on environmental performance of past subprojects and correction action plans are required/proposed apart from management of environmental issues of proposed subprojects that are under preparation.

52. Such reports will be prepared by the ESMU of IIFCL, in consultation with the development partners, under the support of PMC-I, building on the regular monitoring and review process under EMS as well as annual environmental audit. Annex E-17 (Illustrative Formats for Reporting to the Donors) provides a reporting format.

53. Appendices 18 and 19 provide an outline of terms of references (ToRs) for contracting PMC-I and PMC-II considering their functions and roles from Sections VII to XI. IIFCL will call for bids from reputable environmental consulting organizations and recruit PMC-I and PMC-II. The contracts will be valid for a period of 3 years but tenable only based on performance indicators. IIFCL will have every right to ask for replacement of staff, if so desired.

J. Mainstreaming EMS in IIFCL'S Project Processing

54. IIFCL will mainstream the EMS described above in its business process. Figure 7 below shows such an integration of EMS.



K. Allocation of Responsibilities

55. Proposals to IIFCL will typically arise from lead banks/designated lead syndicator and subborrowers either for seeking direct lending or for refinance.

56. Lead Bank means an FI that is funding the project and is designated as such by the inter-institutional group or consortium of FIs provided the risk exposure of IIFCL is less than that of the lead bank in a project.

57. The lead bank/designated lead syndicator and subborrowers shall present its appraisal of the project for the consideration of IIFCL. IIFCL will not normally be required to carry out any independent appraisal of the project. Hence, lead banks/designated lead syndicator and subborrowers will be expected to provide IIFCL all the required documentation (consents, clearances, EIA reports) in line with the requirements of IIFCL's EMS.

58. Similarly, the lead banks/designated lead syndicator and subborrowers shall be responsible for regular monitoring and periodic evaluation of compliance of the project with agreed milestones and performance levels particularly for purposes of disbursement of IIFCL funds. It shall send periodic progress reports in such form and, at such times, as may be prescribed by IIFCL. The lead banks/designated lead syndicator and subborrowers will therefore be responsible to report environmental compliance of the project to IIFCL in the formats as prescribed by the EMS. Table 3 summarizes allocation of responsibilities on this basis.

Table 3: Allocation of Responsibilities

Tasks	Primary Responsibility	Secondary responsibility
Submit all documentation related to environmental consents, clearances, etc. and EIA/EMP reports	Lead Bank/Subborrower	
Check environmental compliance	ESMU/IIFCL	PMC-I
Check adequacy and effectiveness of EMP	ESMU/IIFCL	PMC-I
Update PIM and EMP; conduct financial appraisal	ESMU/IIFCL	PMC-I
Specify conditionalities and update legal document	ESMU/IIFCL	PMC-I
Prepare memo to IIFCL Board	ESMU/IIFCL	
Implement EMP	Lead Bank/SubBorrower	
Conduct monitoring	Lead Bank/Subborrower	
Meet environmental compliance	Lead Bank/Subborrower	
Conduct monitoring and evaluation	ESMU/IIFCL	PMC-I, Lead Bank/Subborrower
Conduct annual environmental audit and disclose the annual environmental audit report	ESMU/IIFCL	PMC-I, Lead Banks/Subborrower
Conduct awareness and training	ESMU/IIFCL	PMC-II
Update EMS document	ESMU/IIFCL	PMC-I

EIA = Environmental Impact Assessment, EMP = Environmental Management Plan, EMS = Environmental Management System, ESMU = Environment and Social Safeguards Management Unit, IIFCL = India Infrastructure Finance Company Limited, PIM = project information memorandum, PMC = Project Management Consultant.

L. Capacity Development Plan

59. IIFCL has signed a Memorandum of Understanding (MOU) for cooperation/participation in infrastructure finance together with several banks/FIs. These include Andhra Bank, Bank of Baroda, Canara Bank, Corporation Bank, HUDCO, IDBI Bank, IDFC, IL&FS, Indian Bank,

Indian Overseas Bank, Oriental Bank of Commerce, Syndicate Bank, UTI Bank, Vijaya Bank, and Punjab National Bank.

60. Except IL&FS and IDFC, none of the above banks have environmental and social safeguard frameworks.

61. Since the effectiveness of IIFCL's EMS depends considerably on the understanding and preparedness of lead banks/designated lead syndicator and subborrower, it is important that IIFCL makes effort to sensitize the lead banks/subborrowers on management of environmental and social issues, provides guidance, and encourages them to build requisite capacities.

62. IIFCL, with the assistance of PMC-I, will offer lead banks/designated lead syndicator and subborrowers a short program (1 to 2 days duration), at least 2 times a year, to explain IIFCL's EMS, its importance and benefits. It will further encourage lead banks/subborrowers in particular to consider adopting the proposed EMS. IIFCL may, on this basis, provide incentives e.g. tapered monitoring and/or fast track project processing when proposals are received/approved as arising from lead banks/subborrowers that follow EMS equivalent to IIFCL in their operations.

63. Annex E-20 (Outline Training Programme for Lead Banks/SPVs on IIFCL's EMS) provides an outline of sample training program for lead banks/subborrowers.

M. EMS Update

64. IIFCL's EMS will be maintained on its website for the purposes of sharing and towards receiving any comments or suggestions.

65. The EMS will be reviewed each year, especially after the results of annual environmental and social audit. Based on the experience gained and considering further changes, if any, in India's environmental policy and regulatory framework or in the ESS of DFIs, the EMS document will be appropriately updated. This task will be the responsibility of IIFCL's ESMU.

III. Social Safeguards Framework (SSF)

A. Context

1. Objectives of the SSF

66. A key objective of the SSF is to provide guidance to lead banks and subborrowers in preparing projects for appraisal at IIFCL and in conducting subsequent monitoring, reporting, and in undertaking corrective actions. Lead Bank means an FI that is funding the infrastructure project and is designated as such by the inter-institutional group or consortium of FIs, provided the risk exposure of IIFCL is less than that of the lead bank in a project.

67. The Facility will make investments in companies with significant operations in Indian infrastructure. In some circumstances, such development or expansion may cause IR impacts on people. With these and other circumstances, the lives and livelihoods of tribal people may be affected as well. In such cases, relevant Indian legislation and policies would apply as would either or both of the lenders' Involuntary Resettlement (IR) and Indigenous Peoples (IP) policies (as reflected in this framework).

68. Other key objectives for this SSF are to ensure that project-affected people benefit from the proposed subprojects to the extent possible and that they are consulted about the subproject throughout the life of the subproject.

69. The IIFCL will ensure that IR impacts of any subproject submitted for financing under the facility are dealt with in accordance with the following.

- (i) Applicable Indian and state laws and regulations governing land acquisition, compensation, relocation, and resettlement (see section 6B below).
- (ii) The lenders' policies on IR.

70. Objectives for managing IR impacts and risks are

- (i) To avoid IR, wherever feasible.
- (ii) To minimize resettlement, where population displacement is unavoidable.
- (iii) To ensure that affected people receive assistance so that they will be at least as well off as they would have been in the absence of the project.

71. The term 'affected person' includes any people, households, firms, or private institutions who, on account of changes that result from the project, will have their (i) standard of living adversely affected; (ii) right, title, or interest in any house, land (including residential, commercial, agricultural, forest, and/or grazing land), water resources, or any other moveable or fixed assets acquired, possessed, restricted, or otherwise adversely affected, in full or in part, permanently or temporarily; and/or (iii) business, occupation, place of work or residence, or habitat adversely affected, with or without displacement.

72. Resettlement plans will pay particular attention to addressing the needs of the poorest affected people and vulnerable groups who are at high risk of impoverishment and further marginalization.

73. IIFCL will ensure that impacts of any subproject on indigenous (tribal) people will be dealt with in accordance with the following.

- (i) Applicable Indian national and state laws and regulations governing tribal development
- (ii) The lenders' policies on indigenous peoples

74. Objectives for managing project impacts on tribal peoples are

- (i) To achieve the greatest possible reduction of poverty and vulnerability among the affected indigenous (tribal) peoples.
- (ii) To minimize negative impacts, if they are unavoidable.
- (iii) To ensure transparency and accountability of any mechanism applied as part of project intervention.
- (iv) To deliver culturally appropriate programs and benefits.
- (v) To ensure meaningful consultations regarding the scope and delivery of compensatory mechanisms and benefits

2. The Social Policy of IIFCL

75. The SSF is guided by IIFCL's Environmental and Social Policy as below. See also Annex S-1 (Review of Policy and Legal Framework) for a fuller description of the policy and legal framework.

- (i) IIFCL gives due importance to Environmental and Social (E&S) considerations in appraising and financing infrastructure projects to minimize adverse impacts and risks to the environment and people that may be affected.
- (ii) IIFCL is committed to comply with all relevant E&S policy and legislative requirements and laws of the lands with which it engages and remain responsive to the E&S requirements of its development partners/lenders.
- (iii) This policy statement emphasizes IIFCL's sensitivity and concern to environmental and social issues, commitment towards compliance, and responsiveness towards the E&S requirements of its development partners.

B. Outline of Social Safeguard Activities

1. Two Pathways for Social Safeguards

76. Two pathways for social safeguards due diligence are established. The first applies to all projects not yet committed to by IIFCL at the time of functioning of the ESMU in IIFCL (within 90 days of its establishment). The procedural steps for such projects are set out below.

- (i) Screening of proposed subprojects for resettlement effects and impacts on tribal peoples.
- (ii) Preparation of resettlement plan (short or full), if necessary, and submission as part of the Project Information Memorandum (PIM).
- (iii) Preparation of Tribal Development Plan (short or full), if necessary, and submission as part of the Project Information Memorandum (PIM).
- (iv) Appraisal of Resettlement Plan (RP) and/or Tribal Development Plan (TDP) revisions, if necessary.
- (v) Setting of loan conditionality to include social (resettlement and tribal peoples) safeguard covenants.
- (vi) Revision of RP and/or TDP on completion of detailed subproject design.
- (vii) Implementation of RP and/or TDP.
- (viii) Monitoring of RP and TDP.
- (ix) Subproject closure shall be linked to satisfactory completion of social activities undertaken for a RP and/or TDP.

77. The second pathway applies to all subprojects already sanctioned by the IIFCL board at the time of the functioning of the ESMU (within 90 days of its establishment). For such projects, the process would be as follows.

- (i) Categorize the effects of the subprojects as to whether they warrant the equivalent of a full or short RP and/or a full or short TDP. See Annexes S-2 (Resettlement Screening Checklist) and S-3 (Tribal Peoples Effects Screening Checklist).
- (ii) Check for social compliance based on the above categorization(s). See Annexes S-4 to S-9 for applicable laws and regulations.

- (iii) Identify gaps, if any, in social compliance. If there are no gaps, then review all relevant RP and/or TDP reports. For full Resettlement and/or TDPs, include field visit of social safeguards specialist.
- (iv) If there are gaps on social compliance, then direct lead banks/subborrowers time-targeted actions to attain compliance. Hold disbursements until compliance is achieved.
- (v) Monitor and review whether the agreed gap-filling measures are satisfactorily met in the stipulated time. If there is a consistent default, then cancel any further disbursements.
- (vi) For compliant projects, if review of plan(s) shows their adequacy and appropriate reflection in the project costs, then update legal documents to reflect applicability of IIFCL's commitment to the RP and/or TDP as binding during the period of engagement. Take appropriate approval of the board.
- (vii) If review of the RP and/or TDP shows their inadequacy and/or inappropriate reflection in project costs, then update PIM as well as redo financial appraisal to reflect on strengthened/improved social safeguard plans. Re-assess commercial viability of the project. Obtain board approval for the revisions. Update legal documents that reflect applicability of IIFCL's social safeguard plans as binding during the period of engagement.
- (viii) Revise RP and/or TDP on completion of detailed subproject design, as necessary.
- (ix) Implement RP and/or TDP.
- (x) Monitor RP and/or TDP.
- (xi) Link subproject closure to satisfactory completion of social activities undertaken for an RP and/or TDP

2. Social Safeguards Screening

78. When a subborrower submits a subproject for financing to the lead bank for financing and if the IIFCL is a contributor to that financing, IIFCL will review the feasibility study reports which include social and environmental safeguard studies. The IIFCL will (through its own ESMU, or an agent; see Section 9 below) and in consultation with the subborrower, decide whether any activities of the prospective subproject may cause IR and/or have significant impacts on tribal peoples. A checklist for assessing potential IR impacts forms Annex S-2 (Resettlement Screening Checklist), while Annex S-3 (Tribal Peoples Effects Screening Checklist) includes a similar checklist for effects on tribal peoples. In the event that such screening by IIFCL indicates that either IR or tribal peoples effects appear likely, IIFCL will require, through the lead bank from the subborrower adequate safeguard planning instruments such as an RP and/or tribal people development plan prepared in accordance with this SSF.

79. The IIFCL, based on reports received from the subborrower and the analysis of its ESMU and in consultation with the lenders, will assess the magnitude of IR impacts and determine whether a short or full RP is required for the subproject. A full RP will be required where resettlement is 'significant.' IR is 'significant' when 200 or more people will experience major impacts, which are defined as being physically displaced from housing or losing 10% or more of their productive assets (income generating).

80. Similarly, as regards impacts on tribal peoples, a determination will be made as to the magnitude of the significance of impacts and whether a short or full TDP is required. The impacts of subprojects on tribal peoples will be considered significant, if they positively or negatively (i) affect their customary rights of use and access to land and natural resources; (ii)

change their socioeconomic status; (iii) affect their cultural and communal integrity; (iv) affect their health, education, livelihood, and social security status; or (v) alter or undermine the recognition of indigenous knowledge.

3. PIM guidelines for the preparation of Social Safeguards Planning Documents

a. Procedure for Prospective Investments with IR and/or Significant Effects on Tribal Peoples

81. The project sponsor, in consultation with the ESMU, will prepare an RP and/or a TDP as described below and include such plans as part of the PIM to be submitted to IIFCL for review.

b. Plan Principles

82. The subborrower will prepare an RP according to agreed upon principles as embodied for IR in

- (i) The Draft National Policy on Resettlement and Rehabilitation (NPRR 2006)
- (ii) The Land Acquisition Act of 1894 and as amended
- (iii) Relevant state laws and regulations
- (iv) The lenders' IR policies

83. The subborrower will prepare a tribal peoples development plan according to agreed upon principles as embodied for tribal peoples development in

- (i) India's forestry, minerals, and mines legislations and regulations
- (ii) India's common property rights and legislation
- (iii) Relevant state laws and regulations
- (iv) The draft "National Tribal Policy: A Policy for the Scheduled Tribes of India," proposed by the India's Ministry of Tribal Affairs in 2006
- (v) The lenders' IP policies

84. In the case of varying standards among the various applicable policies (Indian national, state, agency, external funding facilities), the highest provisions available will be used to mitigate subproject impacts.

c. Resettlement Plans

85. The subborrower will prepare either a short or a full RP, depending on the magnitude and complexity of resettlement as determined by the social safeguards screening process described above. The scope of short and full resettlement plans is outlined in Annexes S-4 (Scope of Short Resettlement Plan) and S-5 (Scope of Full Resettlement Plan).

86. In the formulation of an RP for a subproject, the following issues should also be addressed adequately.

- (i) The subproject should explore alternatives to avoid IR and if avoidance is not feasible to minimize land acquisition and involuntary resettlement.
- (ii) The policy application should not be too restrictive. Significance of resettlement impacts will guide planning.

- (iii) The plan should include all project-affected people irrespective of whether they are property owners or not.
- (iv) The cut-off date for eligibility should be the date of first notification for land acquisition.
- (v) Compensation for loss of assets must be at replacement value (see Annex S-6: Paying Replacement Value).
- (vi) A comprehensive entitlement matrix is formulated to describe entitlements of each category of APs (see Annex S-7: Sample Entitlements Matrix Format).
- (vii) Full compensation must be paid prior to taking over the land and other assets.
- (viii) The plan must clearly focus on income/livelihoods improvement in the post-resettlement period.
- (ix) Information should be disseminated in a timely fashion, consultations held with all affected persons, and plan versions and monitoring reports disclosed at regular intervals in local languages.
- (x) Independent monitoring system should be incorporated in the plan.
- (xi) Impact assessment must be clearly focused.
- (xii) Detailed timetable for RP implementation
- (xiii) Detailed budget and sources of budget for compensation, relocation, and rehabilitation of APs.

87. Key elements of an RP include (i) loan or investment description, with the likely scope, extent, and magnitude of the resettlement effects; (ii) screening procedures for pipeline investments or components; (iii) resettlement policy principles and eligibility criteria that are consistent with the policy and cover all investments, subprojects, and components under the loan; (iv) resettlement entitlements; (v) resettlement design criteria; and (vi) administrative, resourcing, and financing arrangements for preparation, approval, implementation, monitoring, and evaluation of full or short RPs (see Annexes S-4 [Scope of Short Resettlement Plan] and S-5 [Scope of Full Resettlement Plan], respectively, for detailed outlines of plans, and Annex S-7 [Sample Entitlements Matrix Format] for the format of a resettlement entitlements matrix).

d. Tribal Development Plans (TDPs)

88. The subborrower will prepare either a short or a full TDP depending on the magnitude and complexity of project impacts as determined by the social safeguards screening process described above.

89. An acceptable TDP addresses the (i) aspirations, needs, and preferred options of the affected tribal peoples; (ii) local social organization, cultural beliefs, ancestral territory, and resource use patterns among the affected tribal peoples; (iii) results and framework of a process of free, prior, and informed consultations; (iv) potential positive and negative impacts on tribal peoples; (v) measures to avoid, mitigate, or compensate for the adverse project effects; (vi) measures to ensure project benefits will accrue to tribal peoples; (vii) an action plan of measures to ensure that tribal people receive social and economic benefits that are culturally appropriate; (viii) accessible procedures for grievance redress; (ix) benchmarks for evaluating the outcomes of the TDP; (x) measures to strengthen social, legal, and technical capabilities of government institutions to address tribal peoples issues; (xi) the possibility of involving local organizations and non-governmental organizations (NGOs) with expertise in tribal peoples issues; and (xii) budget allocation and monitoring.

90. A TDP, as an integral part of the project design, includes provisions for project implementation, monitoring, and evaluation. The TDP is time-bound, with an adequate budget for its implementation.

91. The scope of short and full TDPs is outlined in Annexes S-8 (Scope of Short Tribal Development Plan) and S-9 (Scope of Full Tribal Development Plan).

e. Complaints and Grievance Procedures

92. Both the RP and the IPDP will separately outline procedures to handle grievances. Grievance redress mechanisms for affected people will be established with adequate representation of affected people and genders. The grievances will be redressed at the local level in a consultative manner and with full participation of the affected households, or their representatives, along with project officials and local government representatives. In case the grievances are resolved within 15 days of their filing, the complainants will forward the same to IIFCL. In case the grievances still remain unresolved within 20 days of their filing, or the decision of the subborrower is not acceptable to the household, the aggrieved party may forward their complaints to a court of law. All costs incurred in resolving the complaints will be borne by the subborrower. The IIFCL will document all complaints received.

f. Consultation and Disclosure

93. Subborrowers will conduct consultations with a broad range of stakeholders during subproject development and implementation. The objectives of such consultations are to (i) engage stakeholders in the selection of RP and/or TDP priorities and program design (i.e. goals, objectives, activities, etc), and (ii) provide stakeholders with opportunities to assess the subproject. Subproject consultations on program design and implementation involve a range of stakeholders including government, NGOs, civil society organizations, and the communities affected. These consultations occur on a formal and informal basis and may involve (i) pre-design consultations to ensure that the program will reflect priorities and/or needs, experiences, and lessons learned of the various stakeholders; and (ii) consultations with target groups/beneficiaries as part of program design and implementation.

94. Wherever an RP is required, affected people will be consulted on compensation and/or resettlement options, including relocation sites, and socioeconomic rehabilitation. Pertinent resettlement information will be disclosed to the affected people at key points in their own language(s), and specific opportunities provided for them to participate in choosing, planning, and implementation options. The disclosure will be in a manner accessible to the affected people where there are differing levels of literacy skills. Grievance redress mechanisms for affected people will be established with adequate representation of affected people and with an adequate multi-gender presence. The RP will be made available to them prior to its implementation in their own language(s) with details on their entitlements.

95. Whenever a TDP is required, tribal peoples will be consulted during the preparation of the plan. They will be informed of project details, project benefits, possible adverse impacts, and the mitigation measures proposed. Their views will be taken into account in finalizing the plan. The TDP will be translated into the tribal language and made available to the affected people before implementation. The disclosure will be in a manner accessible to the affected people where there are differing levels of literacy skills. The tribal institutions and organizations in the affected area will also be involved in implementing the TDP and in resolving any disputes that may arise.

96. Both drafts, RP and TDP, will be made publicly available upon submission to the IIFCL as part of the PIM as will the final versions of the plans prior to their implementation. Plans may be revised after submission as part of the PIM in response to (i) requests for revision during the appraisal process; and/or (ii) significant changes in the subproject during implementation. Such revised plans will also be made available both to the plan-affected people and to the public.

g. Plan Budgets and Financing

97. The Facility is committed to safeguarding the social effects of the various subprojects upon the lives and livelihoods of affected people. Adequate provision for financing both the RP and the TDP from the subproject's annual budget will be made. The budget includes costs of compensation, relocation and rehabilitation, social preparation, benefits-sharing, and livelihood programs, as well as costs for planning, management, supervision, monitoring, and evaluation, land taxes, land fees, and physical and price contingencies. Similarly, resettlement plans should also reflect the timeframe for resettlement planning and implementation.

h. RP and/or TDP Appraisal Guidelines

98. The IIFCL (or its agent) will appraise the RP and/or TDP submitted by the subborrowers as part of the PIM against the requirements for plans as stated in Annexes S-4 (Scope of Short Resettlement Plan), S-5 (Scope of Full Resettlement Plan), S-8 (Scope of Short Tribal Development Plan), and S-9 (Scope of Full Tribal Development Plan).

i. Conditionality and Covenants

99. Loan disbursement shall be contingent on satisfactory compliance with the obligations incurred through adoption of an RP and/or TDP. These arrangements for loan covenants will be reflected in the board note approving subprojects.

100. Also to be covenanted are the remedial procedures to be followed to bring the plan(s) into compliance if monitoring discloses that RP or TDP are not in compliance with the safeguards in the approved framework.

j. Monitoring and Evaluation

101. Monitoring and evaluation requirements will be defined as part of each RP and/or TDP. In addition, each subborrower will engage an external independent monitoring agent to undertake external monitoring of the plan(s). Reporting and monitoring formats will be prepared for both internal and external monitoring. Annual external monitoring reports will be submitted to the lenders. See Annex S-10 (Draft ToR for an External Agency for Monitoring and Evaluation) for sample ToR for an external monitoring and evaluation agency.

102. One key function of the external monitoring would be to ascertain whether any unanticipated impacts on tribal peoples or unanticipated resettlement effects become apparent during project implementation. In such cases, the external monitor would assist the subborrower to assess the significance of the impacts and identify measures to mitigate any adverse impacts and ensure that benefits accrue to the tribal peoples. IIFCL's ESMU would be informed of and review such measures and their implementation. The external monitor would also certify compliance with the requirements of the RP and/or TDP.

k. Reporting

103. The ESMU will prepare an annual report to participating development partners summarizing

- (i) Progress reports based on each subborrowers' operations which have IR impacts and/or impacts on tribal people
- (ii) List of pipeline investments with likely IR or tribal peoples impacts, for the forthcoming year

C. Capacity and Implementing Arrangements

1. Environment and Social Safeguards Management Unit (ESMU)

104. The IIFCL will establish an Environmental and Social Safeguards Management Unit (ESMU). This unit will receive training in (i) screening prospective subprojects for IR and tribal effects; (ii) plan preparation and appraisal; (iii) plan monitoring; and (iii) reporting. The ESMU initially will have consultants to assist it in reviewing project proposals. It could also contract with an external agency to carry out the social safeguard assessment, guidance, appraisal, monitoring, and reporting functions for which IIFCL will be responsible. The ESMU will appoint two persons on its staff to be Safeguards Liaison Officers (resettlement/tribal and environment) who will oversee and coordinate internal reviewing and approvals process. Selection of the external agency will be to the lenders' satisfaction.

105. The ESMU's Social Safeguards Liaison Officer (SSLO) could be either invited on deputation from other organizations or recruited. This person will have a masters or higher degree in social science with at least ten years of experience in conducting/reviewing social assessments and working with resettlement and tribal issues in India. Familiarity with India's regulations and procedures will be essential and exposure to social safeguards at MDBs will be desirable.

106. The SSLO will deliver the following services.

- (i) Conduct compliance review of each subproject submitted for financing.
- (ii) Check the adequacy and effectiveness of RPs/TDPs.
- (iii) Prepare a memo for the IIFCL board.
- (iv) Develop conditions as loan covenants that stipulate requirements or outcomes of RPs/TDPs.
- (v) Coordinate with subproject social specialists for assessment, monitoring, and review as required.
- (vi) Coordinate with subproject social specialists and subproject external monitors for preparing IIFCL's annual environmental and social report.
- (vii) Prepare sector specific checklists, formats, and guidelines to supplement the SSF. These guidelines will fully make use of materials developed by India and MDBs.
- (viii) Interface and provide guidance to the lead banks/subborrowers on project processing under the SSF.
- (ix) Update SSF based on operational experience.

2. Capacity Development Plan

107. Since the effectiveness of IIFCL's application of the IR and tribal peoples safeguards measures depends considerably on the understanding and preparedness of the lead banks/designated lead syndicator, it is important that IIFCL makes effort to sensitize the lead banks/designated lead syndicator on management of social issues, provide guidance, and encourage them to build requisite capacities.

108. IIFCL will offer lead banks/subborrowers short programs (1-2 days duration), at least 2 times a year, to explain IIFCL's obligations, their importance, and benefits.

3. IIPFF Roles and Responsibilities: IIFCL and Lead Banks

109. The IIFCL, through the ESSMU, will be responsible for (see also Figure 1).

- (i) Ensuring that lead banks and sponsors of potential subprojects for IIFCL financing are aware as early as possible of the requirements of this SSF to facilitate adherence to its requirements.
- (ii) Determining during initial discussions with the subborrower whether the proposed subproject will involve IR (including making use of Annex S-2 [Resettlement Screening Checklist]).
- (iii) Determining during initial discussions with the subborrower whether the proposed subproject will significantly affect the lives and livelihoods of tribal peoples (including making use of Annex S-3 [Tribal Peoples Effects Screening Checklist]).
- (iv) Assessing the magnitude of IR and determining whether a short or full RP is required to address resettlement impacts.
- (v) Assessing the magnitude of impacts on tribal peoples and determine whether a full or short TDP is required to address tribal peoples issues.
- (vi) In the event that IR appears likely, guiding the proposed subborrower to prepare and submit to IIFCL for approval an RP prepared in accordance with the SSF as part of its PIM (see PIM guidelines).
- (vii) In the event that impacts on tribal peoples appear likely, guiding the subborrower to prepare and submit to IIFCL for approval a TDP prepared in accordance with the SSF as part of its PIM (see PIM guidelines).
- (viii) Evaluating the RP for compliance with principles listed in SSF and making recommendation to the IIFCL Board as to its adequacy and compliance.
- (ix) Evaluating the TDP for compliance with principles listed in SSF and making recommendation to the IIFCL board as to its adequacy and compliance.
- (x) Upon plan(s) approval(s), monitoring (or arranging for monitoring) the timely and effective implementation of the RP and/or TDP, including preparation of monitoring and evaluation reports.

110. The responsibility of complying with safeguards policy requirements is with each subborrower. But the facility will make sure such compliance is achieved by the subborrower prior to approval of the loan.

111. Proposals to IIFCL will typically arise from lead banks/designated lead syndicator and subborrowers either for seeking direct lending or for refinance.

112. The lead bank/designated lead syndicator and subborrower shall present its appraisal of the subproject for consideration of IIFCL. The IIFCL will not normally be required to carry out any independent appraisal of the project. Hence, the lead bank/designated lead syndicator and subborrower will be expected to provide IIFCL all the required documentation (consents, clearances, reports) in line with the requirements of IIFCL's SSF.

113. The subborrowers will be responsible for planning, preparing, financing, disclosing, and implementing an RP (including land acquisition and the payment of compensation) and/or TDP in accordance with this SSF and the applicable policies, laws, and regulations. Subborrowers will engage the requisite social scientific expertise in both IR and tribal development matters to help carry out the necessary studies, analyses, and document preparation. Such experts will also need to oversee subborrower implementation of any plans developed. Qualifications should include familiarity with devising resettlement plans according to both national and international standards and with the cultures and social structure of tribal groups.

114. Such qualified experts will assist the subborrowers in

- (i) Screening projects for IR effects or impacts on tribal peoples.
- (ii) Assessing the magnitude of resettlement and determining whether a short or full RP is required.
- (iii) Ensuring that the requirements of this SSF as regards land acquisition and the payment of compensation are being carried out.
- (iv) Assessing the magnitude of impacts on tribal peoples and determine whether a short or full TDP is required.
- (v) In the event that IR appears likely preparing and submitting to IIFCL for approval an RP prepared in accordance with this SSF as part of its Project Information Memorandum (see PIM guidelines).
- (vi) In the event that impacts on tribal peoples appear likely preparing and submitting to IIFCL for approval of a TDP prepared in accordance with this SSF as part of its Project Information Memorandum (see PIM guidelines).

115. Upon plan approval(s), the above experts may be engaged by the subborrower to help implement the RP and/or TDP, including preparation of monitoring and evaluation reports.

116. The lead bank/designated lead syndicator and subborrower shall be responsible for regular monitoring and periodic evaluation of compliance of the project with agreed milestones and performance levels particularly for purposes of disbursement of IIFCL funds. It shall send periodic progress reports in such form and, at such times, as may be prescribed by IIFCL. The lead banks/subborrowers will therefore be responsible to report RP and/or TDP compliance of the project to IIFCL in the formats as prescribed by the plans.

Table 1: IIPFF Roles and Responsibilities

Tasks	SPV (Lead Bank/designated lead Syndicator/SubBorrower)	ESMU/IIFCL	Output
Ascertain IR or tribal impacts	<ul style="list-style-type: none"> • Conduct discussions, studies on safeguard compliance as part of feasibility studies 	<ul style="list-style-type: none"> • Discussions with subborrowers and lead banks 	<ul style="list-style-type: none"> • Studies on resettlement or tribal impacts

Tasks	SPV (Lead Bank/designated lead Syndicator/SubBorrower)	ESMU/IIFCL	Output
Confirm IR or tribal impacts	<ul style="list-style-type: none"> • Consult ESMU/IIFCL 	<ul style="list-style-type: none"> • Field visits (optional) • Decision on full or short plans 	<ul style="list-style-type: none"> • Decision on preparing RP or TDP
Prepare RP	<ul style="list-style-type: none"> • Plan preparation • Consultations • Disclosure 	<ul style="list-style-type: none"> • Give guidance 	<ul style="list-style-type: none"> • RP (full or short)
Prepare TDP	<ul style="list-style-type: none"> • Plan preparation • Consultations • Disclosure 	<ul style="list-style-type: none"> • Give guidance 	<ul style="list-style-type: none"> • TDP (full or short)
Submit RP/TDP	<ul style="list-style-type: none"> • With PIM • Revise as necessary 	<ul style="list-style-type: none"> • Appraise plans • Critique and approve 	<ul style="list-style-type: none"> • Plan appraisal(s) with recommendations for change, if any
Recommendation to IIFCL		<ul style="list-style-type: none"> • Add conditionality provisions 	<ul style="list-style-type: none"> • Conditionality provisions
Update RP/TDP	<ul style="list-style-type: none"> • Update plans in PIM and elsewhere as project design changes 	<ul style="list-style-type: none"> • Update legal provisions 	<ul style="list-style-type: none"> • Updated legal provisions
RP and/or TDP implementation	<ul style="list-style-type: none"> • Subproject operations 		<ul style="list-style-type: none"> • Project implementation reports
Monitoring/evaluation report	<ul style="list-style-type: none"> • Internal monitoring • Reporting 	<ul style="list-style-type: none"> • External monitoring • Evaluation • Reporting 	<ul style="list-style-type: none"> • External monitoring reports • Evaluation report

ESMU = Environment and Social Safeguards Management Unit; IIFCL = India Infrastructure Finance Company Limited; IR = involuntary resettlement; PIM = Project Information Memorandum; RP = Resettlement Plan; SPV = special purpose vehicles; TDP = Tribal Development Plans.

PERIODIC FINANCING REQUEST

Date: 6 October 2009

To: Asian Development Bank
#6 ADB Avenue
Mandaluyong City, Metro Manila

ATTENTION: Director General,
South Asia Department

Sir/Madam:


**Re: Second India Infrastructure Project Financing Facility II;
Periodic Financing Request (PFR)# 1**

Please refer to the Framework Financing Agreement (FFA) for the Second India Infrastructure Project Financing Facility (IIPFF II) dated 6 October 2009 between Asian Development Bank (ADB), India Infrastructure Finance Company Limited (IIFCL), and India. Expressions defined in the FFA shall have the same meanings herein.

Pursuant to the provisions of the FFA, the IIFCL requests ADB to process this Periodic Financing Request (PFR) for a tranche, in the form of a loan from ADB's ordinary capital resources (OCR). The proposed financing amounts, terms, conditions, and financing plan are specified in Attachment A hereto. Descriptions of the subprojects, for which financing is hereby requested, are set out as part of the Attachment.

India hereby confirms that a guarantee in a form and substance acceptable to ADB will be executed and issued, and be confirmed as the valid and binding obligation of India, as a condition precedent to the requested tranche becoming effective.

By: India Infrastructure Finance Company Limited



Mr. S. S. Kohli
Chairman and Managing Director

By: India



Ms. Anuradha Thakur
Director (ADB)
Department of Economic Affairs (DEA)
Government of India

ATTACHMENT A

Project Description, Cost Estimates, and Financing Plan	<p>The list and the description of the 14 subprojects attached hereto are indicated for financing under the requested PFR is attached.</p> <p>The total cost of the 14 subprojects is estimated at \$8.4 billion, inclusive of taxes, duties, and interest and other charges on the loan during construction, against which IIFCL sanctioned \$731 million).</p>
Loan Amount and Terms	<p>The request is for a loan of \$210.0 million from the ordinary capital resources (OCR) of the Asian Development Bank (ADB) provided under ADB's London interbank offered rate (LIBOR)-based lending facility, a 0.15% commitment charge, with a 25-year term including a grace period of 5 years, an interest rate determined in accordance with ADB's LIBOR-based lending facility and such other terms and conditions as agreed in the FFA and under further supplemented under the loan agreements.</p>
Periods of Loan Utilization	<p>The last date on which any disbursement request under this tranche is expected to be made on 31 March 2011.</p>
Retroactive Financing	<p>Under each tranche, ADB may, subject to its policies and procedures, allow on request retroactive financing of eligible expenditures for IIPFF II up to 20% of proposed individual loan, incurred prior to loan effectiveness but not earlier than 12 months before the date of signing of the related legal agreement. IIFCL acknowledges that any approval of advance contracting and/or retroactive financing will not constitute a commitment by ADB to finance the related project.</p>
Implementation Arrangements	<p>The executing agency (EA) will be the IIFCL.</p> <p>IIFCL, as mandated by India, is to assume an apex role in financing infrastructure projects in India and fostering PPP projects. Policy direction and strategic oversight will be provided by IIFCL's Board of Directors. A Project Management Unit (PMU) will be established by IIFCL to monitor, screen, and select subprojects in consultation with the consortium of lenders and monitoring day-to-day implementation. The PMU will be staffed with existing staff to the extent possible with consultant support to fill in gaps in staff availability and capability. The PMU staff will comprise specialists with expertise in risk management and project advisory. A senior officer, reporting directly to the Chairman and Managing Director, will be appointed for ensuring compliance with the common ESSF. The PMU will have a dedicated financial/accounting officer to monitor project accounts and process claims. The PMU will be responsible in the identification, screening, and selection and monitoring of all subprojects ensuring conformity with the state, national policies, and the ESSF.</p> <p>Subproject and Subborrower Selection Criteria. The Scheme provides the details of the definitions, eligibility criteria, appraisal, and monitoring and lending terms to subprojects. Thus, the eligibility</p>

requirements for subproject and subborrower selection criteria of IIPFF will adhere to the Scheme. In addition, subprojects will meet the following eligibility criteria under IIPFF.

- (i) Each subborrower and subproject shall satisfy at all times the selection criteria as set out in the Scheme, which includes, *inter alia*, appraisal by a specialized and designated appraisal agency for technical, economic, and financial viability, and review and acceptance of the results of the appraisal by the lead bank;
- (ii) Without limitation to paragraph (a) above, each subborrower shall:
 - (a) be selected in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time);
 - (b) have adequate resources and financial capability to raise resources to complete and operate the relevant subproject successfully;
 - (c) not be in default under any prior loan from the Borrower or from any of the participating members of the consortium of lenders;
 - (d) be able to provide security as required by the consortium of lenders;
 - (e) maintain appropriate financial records of income and expenditure to the satisfaction of the Borrower and ADB; and
 - (f) comply with and cause each subproject to comply with ADB's safeguard requirements and national and state policies, laws, and regulations relating to environment, resettlement, and indigenous peoples applicable at the date the relevant PFR is submitted.

Approval Procedure for Subprojects. Subprojects under the IIPFF will be prepared and processed as follows.

- (i) IIFCL will review the preliminary designs and cost estimates for all subprojects proposed under the respective tranches as approved by the lending consortium.
- (ii) Prior to the preparation of each PFR, the applicability and relevance of the common ESSF for environmental assessment, involuntary resettlement, and indigenous peoples will be reviewed and updated to ensure its relevance and consistency with applicable country frameworks and ADB's environmental and social policy and procedural requirements.
- (iii) In formulating each new PFR, IIFCL will review potential ongoing subprojects to ascertain their compliance with ESSF. These review reports will be submitted to ADB together with other relevant safeguard documents for information and review. If any major non-compliance is found during such a review, ADB will request a corrective action plan, which will be prepared by

IIFCL and submitted to ADB for review and approval. In addition, any subproject which will be financed under the Facility will follow the approved common ESSF.

- (iv) IIFCL will submit the compliance certificate, along with the PFR, to ADB for approval.

Procurement and Disbursement

The EA shall ensure that all the procurement of goods and services financed by the IIPFF will be carried out in accordance with ADB's *Procurement Guidelines (2007, as amended from time to time)*,¹ as applicable to this Facility (para. 3.12 thereof). The individual loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook (2007, as amended from time to time)*. Imprest funds are requested from the loan proceeds as allowed. It is also requested to allow advance contracting and retroactive financing as may be approved by ADB management.

Readiness of the Project for Implementation

- (i) IIFCL has sanctioned 86 subprojects for its financing.
- (ii) A common ESSF has been developed. SSF has been uploaded on the relevant ADB website for public disclosure and is adopted.
- (iii) The new business plan, including HR plan, has been approved.

Safeguards

For the first PFR, the Environmental and Social Safeguards Framework (ESSF) developed and adopted by IIFCL under ADB's assistance is available at the following IIFCL's webpage:

http://www.iifcl.org/whatsnew_details.php?wid=18

Second and subsequent PFRs will reflect the ESSF amended to reflect ADB's *Safeguard Policy Statement (2009)* and related norms, principles, and procedures.

¹ ADB. February 2007. Procurement Guidelines. Manila.

UNDERTAKINGS

1. The Guarantor and IIFCL ensure that under the Multitranche Financing Facility (MFF):
 - (i) The Guarantor remains committed to the implementation of the Guarantor's Scheme for Financing Viable Infrastructure Projects through a Special Purpose Vehicle called the India Infrastructure Finance Company Limited issued on 4 January 2006 and further amended on 23 April 2007, 14 January 2008, 5 February 2008, and 5 March 2009 and as further amended from time to time. In the event of any change in the Scheme, the Government, IIFCL and ADB will assess the potential impact on the Facility and evaluate any change in scope, amendment, or continuation, as appropriate, of the Facility;
 - (ii) IIFCL complies, at all times, with the prudential norms as made applicable to it by the Guarantor, including capital adequacy, income recognition, classification, and provisioning of nonperforming assets;
 - (iii) IIFCL maintains a debt service coverage ratio of at least one and has no arrears in the repayment of its current debt obligations;
 - (iv) The subprojects and subborrowers meet the eligibility criteria agreed with ADB, including financial and economic viability and positive developmental impact;
 - (v) The onlending rates to subborrowers are market-based and adequate to cover all costs and risks associated with onlending including any foreign exchange risk;
 - (vi) The subborrowers adopt and implement appropriate procurement procedures that are based on competitive bidding and foster economy, efficiency, and transparency;
 - (vii) A subloan to a subborrower is made for only such subprojects that involve procurement of goods, works, and consulting services from ADB's developing member country (DMC)s and the amount of which is at least equal to the size of the subloan for each subproject.

2. IIFCL also makes the undertakings set out below.
 - (i) IIFCL shall provide long-term finance to eligible infrastructure subprojects in accordance with the requirements of its Scheme. IIFCL shall select subprojects for financing in accordance with the selection and approval criteria set out below. IIFCL shall ensure that the eligibility requirements for subproject and subborrower selection criteria of the Second India Infrastructure Project Financing Facility (IIPFF II) adhere to the Scheme which includes, *inter alia*, (a) an appraisal of the subproject by the designated specialized appraisal agency for technical, economic, and commercial viability, and review and acceptance of the results of the appraisal by the lead bank; and (b) that subborrowers will:
 - be selected in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time);
 - have adequate resources and financial capability to raise resources to complete and operate the relevant subproject successfully;
 - not be in default under any prior loan from the Borrower or from any of the participating members of the consortium of lenders;
 - be able to provide security as required by the consortium of lenders;
 - maintain appropriate financial records of income and expenditure to the satisfaction of the Borrower and ADB; and

- comply with and cause each subproject to comply with ADB's safeguard requirement and national and state policies, laws, and regulations relating to environment, resettlement, and indigenous peoples applicable at the date of the relevant periodic financing request (PFR) is submitted.

3. IIFCL shall ensure that all subprojects are submitted to ADB for prior review, unless otherwise agreed between ADB and IIFCL and subprojects under the IIPFF II are prepared and processed as follows:

- (i) IIFCL will review the preliminary designs and cost estimates for all subprojects proposed under the respective tranches as approved by the lending consortium.
- (ii) Prior to the preparation of each PFR, the applicability and relevance of the common environmental and social safeguards framework (ESSF) for environmental assessment, involuntary resettlement, and indigenous peoples will be reviewed and updated to ensure its relevance and consistency with applicable country frameworks and ADB's environmental and social policy and procedural requirements.
- (iii) In formulating each new PFR, IIFCL will conduct due diligence on potential candidate subprojects to ascertain their compliance with the ESSF. IIFCL will submit its findings to ADB for information and review, together with other relevant supporting safeguard documents, including as applicable the initial environmental examination, environmental assessment report, and environmental management plan, or environmental audit and collective action plans. ADB's findings will be forwarded to IIFCL. If any noncompliance is found during such a review, ADB will request a corrective action plan to ensure IIFCL meets ADB's requirements. IIFCL will prepare such corrective action plan and submit it to ADB for review and approval. In addition, any subproject that will be financed under the Facility will follow the approved common ESSF.
- (iv) IIFCL will submit the compliance certificate, along with the PFR, to ADB for approval.

4. The environmental management system framework, as set out in the ESSF, is implemented in accordance with its terms acceptable to ADB to ensure that each subproject is undertaken in compliance with applicable environmental laws of India, relevant State of India, and ADB's *Environmental Policy* (2002) or ADB's *Safeguard Policy Statement* (2009), effective at the time the relevant PFR is submitted. Further, that for each subproject, the initial environmental examination (IEE), environmental impact assessment (EIA), and the environmental management plan (EMP), as applicable, are submitted to ADB for review and approval before IIFCL submits the PFR, and that for any category A or environmentally sensitive B subproject, the IEE or summary EIA is made available to the public 120 days before a PFR is submitted to ADB.

5. The social safeguards framework, as set out in the ESSF, is implemented in accordance with its terms and satisfactory to ADB, and that each subproject, which involves land acquisition and has resettlement impacts, is undertaken in compliance with all the applicable laws of India, the relevant State of India, and ADB's *Involuntary Resettlement Policy* (1995) or ADB's *Safeguard Policy Statement* (2009), effective at the time the relevant PFR is submitted. Further, the resettlement plans for those subprojects proposed for financing under this PFR are submitted to ADB for approval for ADB financing. Furthermore, each subborrower is required by IIFCL to ensure that (i) all land and rights-of-way required for subprojects are obtained in a timely manner, (ii) the provisions of the resettlement plans are implemented in accordance with

its terms, (iii) all compensation and resettlement assistance is given to the affected persons prior to their dispossession and displacement and commencement of civil works, (iv) resettlement plans are updated upon completion of the detailed design and submitted to ADB for approval prior to commencement of civil works, (v) adequate staff and resources are committed to supervising and monitoring implementation of the resettlement plans, and (vi) an independent agency acceptable to ADB and IIFCL is engaged by the subborrower to monitor and evaluate results of implementation of resettlement plans and forward reports to ADB and IIFCL as required.

6. Subprojects do not adversely affect vulnerable groups, such as indigenous peoples, and, in the event of any impact or their involvement, IIFCL will implement the social safeguards framework as set out in the ESSF in accordance with its terms to ensure compliance with ADB's *Policy on Indigenous Peoples* (1998) or ADB's *Safeguard Policy Statement* (2009), effective at the time the relevant PFR is submitted.

7. As per its Scheme, IIFCL shall only finance commercially viable projects and provide financing on commercial terms and price loans accordingly. Thus, IIFCL or identified project appraisal agencies will undertake extensive due diligence for all aspects of project economics and credit worthiness with regard to subprojects prior to loan approval by IIFCL.

8. Accountability and transparency in IIFCL are maintained in its operations through the stakeholder meetings and publication of progress reports through the duration of the Facility. Internal procedures and controls are instituted, maintained, and complied with to prevent any corrupt, fraudulent, collusive, or coercive practices and to ensure conformity with ADB's *Anticorruption Policy* (1998, as amended to date). The Borrower shall ensure that all contracts financed by ADB in connection with the subprojects specify the right of ADB to review and examine the records and accounts of the subborrowers, suppliers, and contractors as they relate to the subprojects. All contracts financed by ADB in connection with the subprojects specify the right of ADB to review and examine the records and accounts of the subborrowers, suppliers, and contractors, as they relate to the subprojects.

9. IIFCL shall ensure that its annual report to its board of directors, and ADB, includes a report upon and discussion of the implementation of its Corporate Governance Framework. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to examine and review any alleged corrupt, fraudulent, coercive practices relating to Qualified Projects.

10. IIFCL shall establish an investment program performance monitoring system (IPPMS) acceptable to ADB within 3 months from the signing of the FFA. For the IPPMS, IIFCL will select a set of clearly measurable performance monitoring indicators relating to implementation, improvements, institutional development, and capacity building milestones, including those in the design and monitoring framework. IIFCL shall, through the PMU, review the performance of the Facility against the DMF on a quarterly basis which shall be completed by the tenth day of the month following the quarterly review. The Board of directors shall review the performance of the Facility semi-annually and shall forward semiannual progress reports to ADB by the tenth day of the month following the semiannual review. ADB will review the quarterly progress reports and semiannual reports and undertake the annual review missions and during the tripartite reviews chaired by the Guarantor. In addition, a midterm review of the investment program will be conducted in FY2011.

11. IIFCL shall facilitate ADB's annual reviews of management, financial, and operational

performance of IIFCL and subprojects financed under the Facility after the closing of withdrawals. Such reviews will include environmental and social safeguard implementation and procurement procedures used by the subprojects.

12. IIFCL shall develop and maintain the capacity of the PMU staff to perform the responsibilities of the PMU, including developing and maintaining specialist capacity and expertise to conduct and implement environmental and social safeguards due diligence by (i) developing and training existing staff with such capacity and expertise, and/or (ii) engaging staff or consultants with such capacity or expertise.

13. IIFCL shall implement the recommendations set out in the manpower assessment study, which assessed the human resources of the Borrower and made recommendations for additional human resource requirements and was approved by the board of directors of the Borrower on 14 June 2009 (the "Human Resources Assessment") in accordance with the procedures described therein. IIFCL shall also update ADB on the status of implementation of the Human Resources Assessment in each quarterly progress report provided to ADB.

LIST OF SUBPROJECTS
(\$ million)

Sl. No.	Name of Company	Project	Project Cost	Loan Sanctioned to IIFCL	Loan Allocated to IIFCL	Disbursement until 31 March 2009
1.	BSC-C and C-Kurali Toll Road Ltd.	Road project of Kurali Kiratpur section on NH-21	84.00	9.26	9.26	3.16
2.	Gorakhpur Infrastructure Co. Ltd.	Road project of Gorakhpur bypass road on NH-28	133.63	21.58	16.46	0.00
3.	L&T Halol Shamlaji Tollways Private Limited	Augmentation of existing road on Halol-Godhra-Shamlaji State Highway-5 in Gujarat	2,778.92	49.40	Not yet finalized	0.00
4.	L&T Rajkot Vadinar Tollway Private Limited	Road project from Rajkot to Vadinar on state highway-25 in Gujarat	225.60	49.40	Not yet finalized	0.00
5.	Pink Pink City Expressway Private Limited	Strengthening of the existing carriageway on the Gurgaon-Kotputli-Jaipur section of NH -8	619.39	49.40	46.10	0.00
6.	Pondicherry-Trindivanam Tollway Ltd.	Road project of Pondicherry-Tindivanam road section of NH-66	64.76	12.86	10.04	3.24
7.	SEW Navayuga Barwani tollways Pvt. Ltd.	Road project on NH-3	160.97	25.73	24.70	4.47
8.	Vijaywada Tollway Pvt.Ltd.	Road stretch project on NH-5	165.50	30.87	19.55	0.00
9.	Coastal Gujarat Power Ltd.	4,000 MW (5x800 MW units) coal-based ultra mega thermal power project in Kutch	3,504.32	380.52	370.52	60.07
10.	Gayatri-Jhansi Roadways Ltd. "UP2"	Road project between Jhansi band Lalitpur on NH-25/26 on BOT basis	86.66	15.43	15.43	7.93
11.	Gayatri-Jhansi Roadways Ltd. "UP3"	50km road on stretch between Jhansi and Lalitpur on NH-25/26 on BOT basis	64.34	12.35	10.49	8.14
12.	Gwalior-Jhansi Expressways Limited	Construction, Operation and Maintenance of Km 16 to Km 96 stretch on NH-75	148.48	29.81	20.79	2.88
13.	Malaxmi Highways Pvt. Ltd.	Four Laning of Lakhnadon-Seoni on NH-7 on BOT annuity basis	58.61	11.29	10.29	6.81
14.	MSRDC	Bandra-Worli Sealink Project	279.95	31.87	30.87	20.58
	Total (Rs10,000,000)		38,634.47	3,371.04		541.01
	Total (\$ million)		8,375.13	730.77		117.28

BOT = build-operate-transfer, IIFCL = India Infrastructure Finance Company Limited, MW = megawatt, MSRDC = Maharashtra State Road development Corporation Limited, NH = national highway.

Note. \$1 = Rs46.13 as on 15 October 2009.

Source: India Infrastructure Finance Company Limited.