

## ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM: AUDIT FINDINGS AND DETAILS OF ARRANGEMENT

1. Incorporated in 1995, G R Infraprojects Limited (GRIL) is primarily engaged in road construction across 14 states in India. GRIL's business operations include civil construction, development and ownership of roads and highways, and manufacturing units for highway construction inputs. The project, which will provide \$20 million to GRIL for the procurement of road construction equipment, is the second investment of the Asian Development Bank (ADB) in GRIL, following an initial investment in 2019 to purchase road construction equipment.<sup>1</sup>
2. In compliance with the requirements of its Safeguard Policy Statement (SPS) (2009) for general corporate finance, ADB categorized the project C for environment, involuntary resettlement, and indigenous peoples because of the minimal environmental and social impacts associated with the use of proceeds. ADB's loan will not be used to acquire land for construction activities or road development and will not affect indigenous peoples or scheduled tribes.
3. Following Annex 4 of ADB SPS, Special Requirements for Different Finance Modalities, ADB undertook a desktop review of GRIL's current environmental and social management procedures and its past and current performance against the objectives, principles, and requirements of the SPS. This involved a detailed review of the environmental and social audit that was undertaken in 2019 for ADB's previous loan to GRIL, including engagement with the company to discuss implementation of the various measures the company was required to adopt as set out in the corrective action plan. This review deemed GRIL's performance against the existing corrective actions satisfactory. (Confidential information redacted.)

### A. Policy Coverage

4. GRIL developed and implemented a health, safety, and environment (HSE) standard manual in December 2019, which covers environmental management, occupational health and safety systems, and quality management. The HSE standard manual, which commits GRIL to broad health and safety objectives, is supplemented by an HSE procedures manual, an HSE construction operations manual, and associated forms and checklists.<sup>2</sup> Together, these documents provide a comprehensive suite of policies and procedures to effectively manage environmental, health and safety, and social and labor issues across GRIL operations. The documents were drafted with reference to International Organization for Standardization (ISO) 14001:2005, ISO 45001:2018, and International Labour Organization conventions relevant to occupational health and safety.<sup>3</sup> GRIL also maintains a comprehensive list of applicable regulations pertaining to all aspects of its operations and indicates in matrix format how these are incorporated into company policies and procedures, their implementation status, and the need for ongoing monitoring and review.
5. As an existing client of ADB, GRIL was required to enhance its policies and standard operating procedures regarding, among others, social and labor issues across its operations. Accordingly, GRIL formulated a range of human resources policies that align with SPS requirements, regulatory requirements, and International Labour Organization conventions.

<sup>1</sup> ADB. 2019. [\*Report and Recommendation of the President to the Board of Directors: Proposed Senior Secured Debt Financing Facility to GR Infraprojects Limited for the Highway Equipment Finance Project in India\*](#). Manila.

<sup>2</sup> These documents are referred to as policies, standard procedures, formats, records, and registers.

<sup>3</sup> ISO 14001 sets out the requirements for an environmental management system. ISO 45001 is the international standard for occupational health and safety.

These policies and procedures have also been made applicable to contractors through statements in the HSE standard manual, the subcontractor compliance management policy (implemented in December 2019), and respective contractual obligations. GRIL is partially managing effectiveness of these policies by monitoring its employee grievance redressal management policy and procedure. ADB notes that no labor-related complaints were received in the 12 months prior to the desktop review.

6. GRIL has implemented stakeholder engagement procedures to promote dialogue with workers, and the company operates a worker whistleblower policy to receive complaints or work- and workplace-related risks and activities. In line with ADB SPS requirements, GRIL is extending these procedures to include external parties to create engagement avenues for stakeholders to approach GRIL. This would also allow (i) stakeholders to raise complaints directly to GRIL or (ii) GRIL to act as a medium for complaints regarding, for example, the state's land acquisition process on sites where GRIL operates as the construction contractor.

## **B. Screening, Categorization, Planning, and Review Procedures**

7. As an engineering, procurement, and construction contractor, GRIL is not responsible for obtaining any environmental or social permits or clearances, including for land, under India's Environment (Protection) Act, 1986 and the associated rules. ADB understands that environmental assessments and associated approval remain the responsibility of the project proponent.<sup>4</sup> GRIL maintains a comprehensive register of regulations that are applicable to the company's scope of work as a construction contractor. This includes submission of regular monitoring reports that summarize air emissions and noise data from equipment to the relevant regulatory authority. Where hazardous waste is generated, or groundwater is abstracted, GRIL obtains no objection certificates and records all such environmental (and social) mitigation measures and associated approvals on a project-specific legal and statutory compliance status report with photographic evidence or documentary approval. ADB reviewed the latest status report and found it comprehensive and compliant. GRIL will enhance future reports to include any measures in environmental certificates allocated to contractors as relevant to the company's scope of work. GRIL will also obtain the requisite consents from respective state pollution control boards to establish and operate the construction plants and equipment procured under the facility.

8. ADB's prohibited investment activity list is not currently utilized by GRIL during the screening of its activities and potential environmental risks. GRIL will update the identification process included in procedure 3 (covering determination of significant environmental aspects) of its HSE procedures manual to ensure that equipment and machinery are not used for prohibited activities.

9. GRIL has a detailed procurement process that includes a review of technical capability and performance of suppliers. In addition, GRIL undertakes semiannual checks of equipment, including confirmation of validity of pollution under control certificates. A vehicle and equipment log are maintained at the project level to monitor the condition, insurance, and certificate status. This will be enhanced to capture the applicable Bharat Stage VI or better emission standard for construction vehicles and the Bharat Stage IV emission standard for construction equipment procured utilizing ADB's loan proceeds.<sup>5</sup> GRIL will report annually to ADB that all equipment and

<sup>4</sup> Government of India, Ministry of Environment and Forests. 2010. *Environmental Impact Assessment Guidance Manual for Highways*. New Delhi.

<sup>5</sup> Government of India, Ministry of Road Transport and Highways. 2019. [\*Finalized Draft \(March 2019\): Automotive Industry Standard\*](#). New Delhi.

plants meet (i) applicable statutory obligations and (ii) other requirements under the SPS that are relevant to ADB's agreed use of proceeds.

10. GRIL has a mechanism to ensure that the services and products it procures conform to specified requirements that do not pose any health and safety risks. GRIL evaluates and selects suppliers and subcontractors based on their ability to supply products and services following the project and contract requirements, the company's HSE requirements, ISO 14001:2015 and ISO 45001:2018 requirements, and environmental and local requirements of India. GRIL has also established criteria for selection, evaluation, and reevaluation.

11. GRIL's HSE procedures include identification of hazards, risk assessment and control measures, and determination of significant environmental aspects. GRIL developed a 'determination of significant environmental aspects procedure' to ensure that all activities, products, or services of GRIL that may have an environmental impact (such as emissions to air, releases to water, waste management, contamination of land, use of raw materials and natural energy resources, and noise and nuisance) are assessed to establish performance targets that can be achieved through the implementation of environmental management programs. ADB reviewed the register that records environmental impacts and noted it highlights the need to adhere to periodic maintenance.

### **C. G R Infraprojects Limited's Land Acquisition and Resettlement Systems and Practices**

12. No involuntary resettlement impacts or impacts on indigenous peoples or scheduled tribes are expected as a result of this financing, since ADB proceeds will be used for the purchase of equipment and machinery only. In its role as an engineering, procurement, and construction contractor, GRIL operates on guidance from the developer (often the state) on when it has clearance to enter areas where construction activities have been planned, relying on regulatory authorities for handover of land or removal of any encumbrance before commencement of construction. Such acquisition is undertaken through government expropriation or client purchase agreements, and GRIL has limited influence on that process. However, indirect risks associated with potential legacy land acquisition issues (e.g., stakeholders unsatisfied with government acquisition or even holdouts, whereby properties are not vacated in time) have been identified as potentially evident in locations where equipment procured using ADB funds may be deployed. To address these risks and recognizing the borrower's limited role in land acquisition or managing legacy issues, additional measures that were adopted as part of the initial ADB loan (footnote 1) included an enhanced stakeholder engagement procedure, including external party grievance mechanism. GRIL will need to develop specific engagement steps to enhance risk management associated with how it accesses areas that have been acquired by third parties (such as state actors) including protocols for various scenarios that it may face to avoid potential conflict with community members. Additional screening measures to avoid situations whereby equipment purchased through the ADB loan is used in situations of forced evictions by the authorities will be appended to the prohibited investment activities list screening process to be undertaken on a best-effort basis. These will be required to be submitted in a manner satisfactory to ADB prior to disbursement.

13. The audit undertaken by ADB in 2019 as part of Phase 1 reviewed the process through which GRIL acquires lands for its internal business operations. The audit found that, as corporate policy, GRIL buys or leases lands where it is required for its internal use such as equipment storage, manufacturing units and offices. Such transactions are undertaken through negotiated purchase settlements with individual landowners, and in some instances through long-term leases

from landowners, based on mutually agreed terms. Involuntary resettlement issues and impacts have therefore not occurred; all existing offices, workshops, or manufacturing units are located on purchased or leased lands. The company plans to buy or lease lands for all its future usage on a negotiated basis. The due diligence by ADB for Phase 2 has determined no change to this course of action or procedural approach.

#### **D. Identifying and Managing Impacts on Indigenous Peoples**

14. No impacts on indigenous peoples are expected, as ADB proceeds will be used for the purchase of equipment and machinery.

#### **E. Organization Structure, Staffing, and Training**

15. (Confidential information redacted.)

16. (Confidential information redacted.)

#### **F. Monitoring and Reporting**

17. Ongoing monitoring and reporting remain limited to stating compliance with statutory requirements for emissions, adhering to internal key performance indicators for health and safety, and producing an annual report on corporate social responsibility activities. Reporting of labor statistics, stakeholder engagement activities, and internal and external grievances is not undertaken. ADB will enhance the existing annual reporting requirements to include these aspects, which GRIL will provide annually.

#### **G. Public Consultation, Information Disclosure, and Grievance Redress**

18. GRIL has developed a standard procedure for communication, participation, and consultation that complies with ISO 45001 and ISO 14001. GRIL has also developed an employee grievance redressal management (GRM) policy, whistleblower facility, and complaints procedure. The GRM Policy includes time frames for escalation and resolution. A grievance log is maintained, which largely contains issues associated with employee facilities in the workplace; the majority are closed within the requisite deadline assigned for each.

19. For highway projects, the project manager is responsible for day-to-day stakeholder engagement. However, this is limited to communication with regulatory authorities, contractors, the client, and internal employees regarding project progress and execution. The vice president (highways) coordinates with a similar stakeholder group to enable approvals and payments. GRIL has not developed or standardized strategy or procedures for engaging with stakeholders at the corporate level. ADB understands that community grievances related to project developments are directed to the regulatory authorities responsible for permitting and subsequently forwarded to GRIL. As part of the audit undertaken for the 2019 loan, GRIL was required to enhance its engagement procedures to ensure appropriate guidance and protocols are in place to manage engagement with community stakeholders systematically, including the collection of grievances from community members. GRIL continues to enhance these procedures and ADB will monitor implementation through review of GRIL's annual safeguard and social performance reports in which GRIL will document the stakeholder engagement activities and associated external grievances.

## **H. Due Diligence Findings and Corrective Actions**

20. Due diligence included a desktop review of documents provided by GRIL and interviews with GRIL employees in the project management, environmental, health and safety, and human resources functions. The review identified that the company has existing policies and procedures, but there remain some gaps in compliance with ADB's SPS. Recommendations of the audit have been agreed with the company in a corrective action plan with specific time frames and responsibilities for implementation. The actions are as follows:

- (i) screen activities utilizing proceeds from ADB's loan to ensure compliance with the prohibited investment activity list;
- (ii) develop specific measures within the overarching stakeholder engagement plan to ensure management of risks associated with GRIL's access to lands acquired by third parties; and
- (iii) report annually to ADB on environmental and social performance, including acquisition of construction equipment and vehicles that meet the applicable statutory emission standard obligations under the relevant Bharat Stage.