

**ANNUAL REPORT**  
**EQUATOR PRINCIPLES**  
**(April 2014 – March 2015)**



## 1. Introduction

IDFC Limited (IDFC) is one of the largest Infrastructure Finance Company in India that caters to infrastructure financing in the Energy, Transportation, commercial and Real estate and Telecom sector. IDFC since its inception has been a pioneer in integrating environmental and social risk management and good governance into its business operations. The ESG agenda of IDFC is influenced by its emphasis on a sound risk culture that includes a robust E&S risk management process and an inclusive approach of working with project promoters in adopting “best in class” sustainability practices. This includes encouraging our clients to adopt good practices on governance, environment and social safeguards, and creating a work environment that helps attract, engage and retain talented employees.

This annual report corresponds to the period April 2014 to March 2015 (FY 15).

## 2. Managing Environment Risk at IDFC

The Environment Risk Group (ERG) is responsible for managing E&S risk in IDFC's lending business. The environment risk group comprises of the Senior Director - Credit & Environment Risk and three Environment Executives reporting to the Chief Risk Officer (CRO). The organogram is shown in Figure 1. The ERG consists of three environmental professionals with qualifications in Environmental sciences, Environmental Planning and Environmental Management and more than 15 years of experience of having worked in infrastructure and industrial projects in various capacities.

The ERG manages E&S risk in IDFC's portfolio by ensuring:

- E&S conformance by the client as per the Equator Principles and applicable national legislative requirements
- Adequacy of environment and social management plans developed by the projects funded by IDFC
- Identification and assessment of Environmental risks associated with various phases (pre-construction, construction and operational) of project development
- Implementation and review of identified environmental management and social development practices and action plans as agreed with the portfolio companies

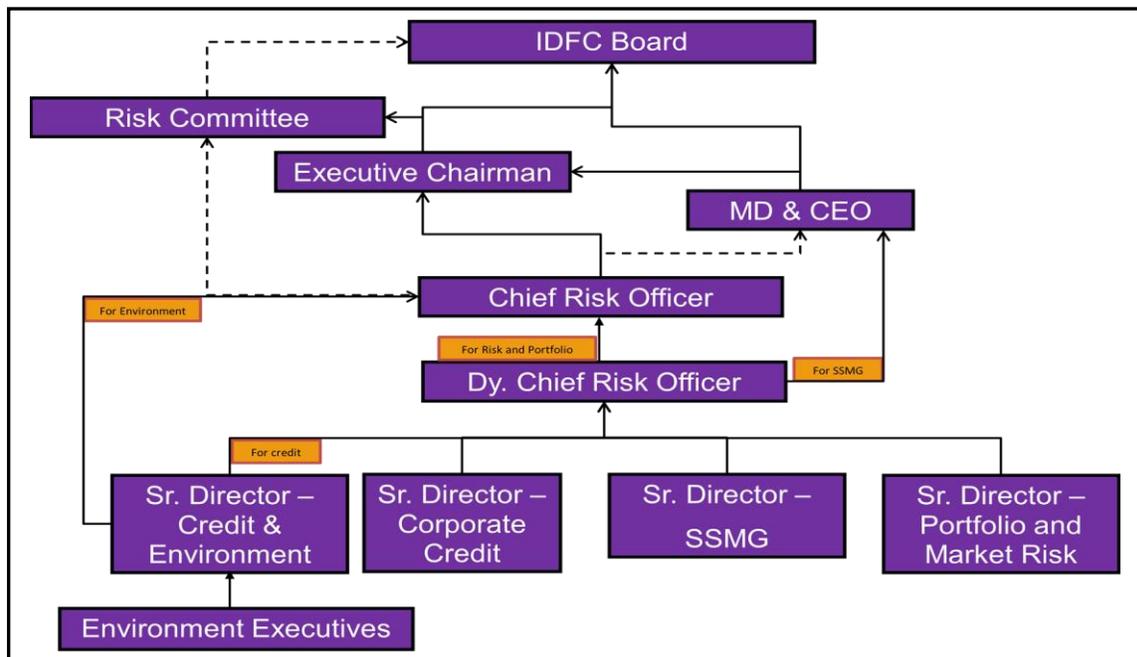


Figure 1: Risk Group Organisation Chart

ERG identifies the environmental risk depending on the project stage at which it is considered at IDFC.

**Appraisal / Sanction stage:** ERG works closely with project proponents, project finance (PF), legal and credit teams to comprehensively evaluate the environmental and social risks of projects as per the Environment and Social due diligence (ESDD) process developed by IDFC which is in line with Equator Principles.

**Pre & Post Disbursement stage:** ERG works closely with project proponent, portfolio and credit group to review and monitor the environmental risk of projects as per the Environment and Social Monitoring Report (ESMR) process.

### **Environmental Categorization**

IDFC categorizes all projects funded by it as either Category A or B or C. This categorization is based entirely on the extent of impacts and not on type of the sector or project and is in accordance with the environmental and social screening criteria of the International Finance Corporation (IFC). The following criteria are used at IDFC to classify projects as either Category A or B or C:

Category A – Use of proceeds is expected to have significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented;

Category B – Use of proceeds is expected to have limited adverse environmental and social risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures; and

Category C – Use of proceeds is expected to have minimal or no adverse environmental and social risks and/or impacts

### **Mainstreaming E&S Due Diligence in the Credit appraisal and review process**

Prior to approval of loan to any project, IDFC undertakes Environmental and Social Due Diligence (ESDD) to determine whether projects are in line with the requirements of Equator Principles, applicable Indian environmental legislations and relevant best practices.

Deal Selection Committee (DSC) at IDFC receives and review the proposal for a detailed due diligence prior to approving the loan. The Project Finance team assigns provisional project environment category to the proposal based on an excel based Environmental categorisation toolkit that takes into account the type of the project, its scale and impact on environment and social aspects. Once DSC approves a proposal, a dedicated environment executive (EE) from the ERG is assigned for the particular deal for undertaking the detailed ESDD for Category A and Category B projects.

Upon completion of due-diligence of the Project by deal team, the deal team makes a presentation to Decision Board (DB). The Dealing Executive from the project Finance team highlights any major E&S issues to the DB after getting inputs from the EE. The EE also prepares an ESDD report which is part of the appraisal note sent to Credit Committee (CC) or Executive Committee (EC) for final sanction. Dealing Executive- Project Finance in consultation with deal team generates the term sheet and subsequently draft Letter of Intent (LoI) where Credit Executive (CE) and Environment Executive (EE) ensure all E&S conditions stipulated by EE in the ESDD report are captured.

Before the first disbursement, EE ensures compliance to E&S conditions and approves the disbursement memo. As per the procedure adopted, EE/Head-ERG is required to approve the first three disbursement memos for a category A or B project and any amendment memo related to any environment and social condition stipulated in the approved term sheet for the Project. Figure 2 shows the integration of E&S due diligence and monitoring in the credit appraisal and review process.

Figure 2: ESDD & Project Appraisal

Environment Appraisal Process				Disbursement	E&S Monitoring and Review
Pre-DSC	Post-DSC	DB	CC/EC		
<b>Environmental categorization by PF as per Env. Tool Kit (A, B &amp; C)</b>	- Resource Allocation • Preliminary Project Review • Env. Categorization (A, B & C)	• E&S Appraisal as per requirements (IFC PS) - Doc. Review - Site visit - Consultations - <b>Independent Review for Cat A projects</b> • E&S Risk Analysis	• ESDD Summary Note • <b>ESAP</b> • ESDD Conditions • ESDD Report as annexure	Compliance check w.r.t ESDD conditions and sign-off on disbursement memo (up-to three disbursements)	• <b>Regulatory Compliance and EP Compliance</b> • <b>Monitoring E&amp;S performance</b> • <b>Independent Monitoring &amp; Review for Cat A projects</b> • Review ESAP and Conditions Compliance
	Environment ↓ PF, Credit	Environment as part of deal team ↓ DB members	Environment as part of deal team ↓ CC/EC Members	Environment ↓ PF, Portfolio, Credit, CRO	Environment ↓ Portfolio, Credit, CRO
<b>PF</b>					

### 3. Environment and Social Due Diligence and Monitoring of Projects

In line with IDFC objectives, ERG conducts environment risk assessment of all category A and category B projects at two stages as described below:

#### i. Environment and Social Due Diligence (ESDD)

ERG undertakes Environment and Social Due Diligence (ESDD) of Projects prior to sanction to ensure the project have adequately identified the E&S risks and designed the environmental management practices commensurate with the project phase - construction or operational phases - in line with the requirements of applicable Indian Environmental Legislations and the Equator Principles. ESDD includes a review of E&S documents and identification of issues to be addressed by the project proponent, project site visits to verify E&S information provided, appointment of independent consultants to assess compliance with Equator Principles (for high risk category projects), a review of applicable EP and regulatory requirements, E&S appraisal and preparation of ESDD report. IDFC stipulates specific loan covenants to mitigate Environment risks associated with the project.

#### ii. Environment and Social Monitoring & Review

ERG also undertakes Environment and Social Monitoring & Review (ESMR) of Category A and Category B portfolio projects after sanction to monitor and ensure compliances to the requirements of applicable Indian Environmental Legislations, Equator Principles and E&S related loan covenants on an ongoing basis. Our ESMR process includes a review of the national regulatory and E&S loan covenant compliances, project site visits to verify Environment, health, safety and social performance, labor amenities and environmental

emission levels with respect to the National as well as the EP Standards and identification of any latent or emergent E&S issues and risks. This entire process is documented in an ESMR report prepared as part of our annual review of our portfolio projects.

#### 4. Equator Principles Reporting

##### 4.1 Project Finance Transactions:

The EP applicable Project Finance (PF) Transactions closed in FY 15 are given in Table 1. All our transactions are in India only.:

**Table 1: Total Number of Equator Principles Project Finance Transactions Closed in FY 15**

Sl. No.	Environment Category	Power	Infrastructure Sector			Region Asia (India)	Independent Review		Non Designated Country (India)
			Transport	Telecom	Commercial Infrastructure & Industrial		Yes	No	
1	A	-	1	-	-	1	1		1
2	B	1	-	-	-	1		1	1
Total	2	1	1	-	-	2	1	1	2

##### 4.2 Project Related Corporate Loans:

None of the project related Corporate Loans came under the ambit of EP in FY 15.

##### 4.3 Project Finance Advisory Services:

IDFC Ltd. did not undertake any Project Finance Advisory Services in FY 15.