

FINDINGS OF THE CORPORATE SAFEGUARDS AUDIT: ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM ARRANGEMENT

1. Welspun Renewables Energy Limited (WREL) is one of the leading renewable power developers in India. As of November 2013, the company had 309 megawatts (MW) of operational projects (289 MW of solar projects in Andhra Pradesh, Gujarat, Madhya Pradesh, Maharashtra, and Rajasthan; and 20 MW of wind projects in Rajasthan), 211 MW of projects under construction (119 MW solar and 92 MW wind), and a pipeline of 1.2 gigawatts (GW) of projects at various stages of development.¹ The project will help the company reach at least 600 MW of operational projects by March 2016.

2. This transaction is considered general corporate finance in terms of the Asian Development Bank (ADB) Safeguard Policy Statement (2009). The ADB project team conducted its due diligence on WREL at the corporate and project level. An external firm² was also commissioned to conduct a corporate audit of WREL's current environmental and social management system (ESMS) and the company's past and current performance against the objectives, principles, and requirements of the Safeguard Policy Statement and by other financing institutions' requirements, i.e., the International Finance Corporation Performance Standards (2012). The findings of the environmental and social due diligence and external audit and recommended corrective actions are presented in the following sections.

A. Audit Findings

1. Policy Coverage

3. WREL's environmental and social management system is embodied in its Business Excellence Manual.³ The company has adopted a risk-based approach in assessing the viability of a project and this includes potential environmental and social risks of a project. In particular, criterion 4a of the manual on partnership and sustainability outlines WREL's commitment to environmental and social sustainability. WREL has also established an Environment, Health, Safety and Sustainability Policy which clearly stipulates achieving regulatory compliance as its objective. WREL has also developed a stand-alone contractor environment, health, and safety (EHS) manual as part of its contractor management system, and an emergency preparedness and response plan at the corporate level. WREL also has a human resources policy, corporate social responsibility (CSR) policy, and land procurement and environmental and social risk assessment systems. The audit finds many duplications and crosscutting information and objectives in WREL's policy documents.

2. Screening, Categorization, Planning, and Review Procedures

4. WREL's policy requirements for the identification of environmental and social risks, environmental impact assessment, and environmental mitigation measures are set out in the Business Excellence Manual, which discusses WREL's commitment to environmental and social sustainability. This commitment has been structured as an integrated approach by WREL

¹ The complete list of project and project details are provided in Details of Implementation Arrangements, and Financial Analysis (accessible from the list of linked documents in Appendix 2).

² ERM India Private Limited has been commissioned by WREL to undertake conduct a corporate audit of its current ESMS and WREL's past and current performance against the objectives, principles, and requirements of ADB's Safeguard Policy Statement and prepare a corrective action plan..

³ The Business Excellence Manual is based on CII Exim Bank Business Excellence Model and ISO standards such as ISO 9001, ISO 14001, and ISO 18001.

for managing the company's environmental and social risk profile throughout the lifecycle of its projects, i.e., from land acquisition for the plant to construction phase of activities, operations and maintenance, all the way to decommissioning. Among its processes are site selection, identification, assessment, and management of environmental and social risks, which set out the procedures, requirements, responsibilities, and reporting and record keeping related to the management of environmental impacts. The company has also developed an EHS manual for contractors covering environmental, health, and safety guidelines, and specific environmental requirements regarding air pollution control, effluent discharge, and waste management practices during construction. This EHS manual is appended to the contractor agreement as part of the standard terms and conditions of a contract document for contractors. At the corporate level WREL has established an emergency preparedness and response plan and corresponding control procedure, which covers the emergency management, evacuation procedure, and communication plan. It also has a procedure to cover corrective and preventive measures in response to potential environmental impacts. As part of its EHS management process, nine reporting formats (human resources, personal protective equipment [PPE] inventory, PPE issue records, firefighting equipment record, accident and/or incident reporting, safety violation reporting, inspection and training logging, water consumption, and weather monitoring) have been developed by the corporate EHS department.

5. WREL has put in place a land evaluation and procurement system and process. As part of the screening system, the following aspects are covered: adequacy of land availability for project footprint; type of land, terrain, contour, and soil condition; ownership status and number of owners; number of potentially impacted families; common property area; and presence of scheduled castes and scheduled tribes. It also has arrangements such that land required for a project will only be procured when it meets statutory, regulatory, and local laws and requirements of financial institutions through affordable and approved environmental and social initiatives. However, the threshold on when measures are considered affordable is unclear. It is also unclear whether such threshold includes indicators on when social safeguards impacts are considered significant. WREL's definition of "potentially impacted families" needs to be clarified to ensure that it covers both landowners as well as other users of land. WREL has no procedures for a categorization system aligned with the ADB definition of significance of environmental and social impacts and its screening criteria does not include all of the activities in ADB's Prohibited Investment Activity List.

6. As part of WREL's system, conducting environmental and social impact assessment and preparing environmental and social management plans for its projects are integral to the project planning process. Disclosure of environmental and social impact assessment (ESIA) findings and mitigation measures and engagement with local communities is also embodied in WREL's business process.

7. Due diligence also found that, where land has been acquired by other parties, e.g., the government or other developers, no audit is required in WREL's existing systems to verify the absence of any unresolved land acquisition and resettlement or livelihood-related impacts. Though scheduled tribes were identified as present in villages in selected WREL projects, analysis of potential beneficial and adverse impacts to scheduled tribes who may be considered as indigenous peoples under ADB's Safeguard Policy Statement is typically not undertaken.

3. Organization Structure and Staffing

8. The audit highlighted that an appropriate number of corporate and project site EHS personnel have the skills and experience to handle EHS issues. In line with the findings of the

audit, WREL commits to developing a comprehensive corporate ESMS and taking corrective steps to enhance the quality of ESMS application at the project level prior to the first disbursement under this project.

9. WREL has established dedicated teams for EHS, human resources and general administration (HRGA), CSR, and land acquisition. Managers are permanently established at the corporate level and oversee project implementation through intermittent site visits and interaction with on-site personnel. They are responsible for strategy and policy development, procurement of resources, training, monitoring, and supervisory roles and responsibilities. The audit has observed that the current management structure is flexible in regard to personnel assignment between the corporate and project levels. The current practice is that staff members lower than manager from the EHS, HRGA, and CSR departments can be stationed at the site level during the initial phase of the project to manage EHS, human resource, and CSR aspects. After project commissioning, the EHS roles and responsibilities would be passed on to the site manager and other technical staff. The audit recommends that WREL's current EHS management structure needs to be reviewed and improved to delineate the roles and responsibilities of the EHS staff at the corporate level and project site level. The audit confirms that the staff members at the corporate and project level are generally aware of the EHS manual and procedures, including emergency plans that have specific guidelines, training, drills, and records for implementing the manual.

10. CSR is managed by a vice-president with one person for the site implementation, while land procurement is managed by personnel from the business excellence team at the WREL holding company level and one liaison officer at the project level. The land evaluation procedure is managed by the CSR team in close coordination with commercial, finance, project management office, and other teams as per requirements.

4. Training Requirements

11. WREL does not have a structured training program and no dedicated training mechanism in place for corporate and project EHS personnel. Training records showed that one on-site training has been conducted, and there has been no training held at the corporate level for corporate EHS staff.

5. Monitoring and Reporting

12. The audit confirms that WREL's compliance monitoring and reporting is being implemented at the corporate and project level. WREL's reporting system is structured in the form of monthly departmental review meetings at the corporate level which cover the summary of important EHS-related activities carried out, pending, and proposed. An environmental and social monitoring report covering human resources, PPE inventory, PPE issue records, firefighting equipment record, accident and incident reporting, safety violation reporting, inspection and training logging, water consumption, and weather monitoring has been developed by the corporate EHS department. Annual consolidated CSR reporting is also being carried out by WREL, however, this reporting system does not document local employment opportunities to villagers in the project area nor does it provide sex-disaggregated data. An annual environmental statement is submitted to each concerned state pollution control board.

6. Public Consultation, Information Disclosure, and Grievance Redress Mechanism

13. WREL has established a grievance management policy and principle for redressing grievance at the corporate level for employees, and at project level. The audit observed that grievances and complaints can be resolved through direct communication with the immediate supervisor. In case grievance cannot be resolved at the supervisor level, it can be escalated up to the chief executive level. Although WREL has established a grievance management policy and assigned a principal person at the project level, it has been noted that there is no grievance redress mechanism for other project stakeholders such as customers, vendors, community, and external institutions.

7. Gender and Development

14. WREL's senior management is committed to increasing the company's employment of female staff and will endeavor to increase the percentage of female staff from 10% in 2013 to 15% by 2018. However, this target is not found in any of WREL's corporate documentation nor is there a date set by which WREL intends to meet such target. Although small in absolute numbers, a 50% increase in the female staff base is significant in this sector where the majority of potential applicants are still men. The audit and due diligence finds that, based on interviews of WREL staff, WREL provides equal opportunities for men and women and the company policy is sensitive to the special needs and vulnerabilities of women.

15. At the community level, WREL's CSR policy covers eight main areas of intervention—ethical business conduct, human rights, local stakeholder engagement, workplace health and safety, environmental policy, employee relation, empowerment of women, and education. However, it does not detail specific gender measures at various stages of project implementation, including meaningful consultation with women during design or providing equal opportunities for employment of women during construction and subsequent operation of the facilities.

8. Labor and Social Protection

16. WREL has put in place a structured Human Resources Management Services Policy and Employee Handbook at the corporate level for its employees. The policy and handbook have key policies including on sourcing and hiring, harassment and bullying, grievance redressal, rewards system, and welfare policy. WREL has a structured code of conduct which takes into account unacceptable conduct, working hours, attendance, leave, salaries, and benefits. WREL periodically engages a third-party agency to assess employee satisfaction with respect to its human resources policy and systems.

17. As part of its contractor management process, WREL is yet to establish any contractor or vendor management guidelines or evaluation systems for managing labor-related risks at the contractor level, such as child, bonded, or forced labor, and there are no labor management systems at the contractor level to address discrimination, lack of permit or licenses, or nonpayment of wages. Due diligence done by the project team noted that there is no reporting mechanism on contractors' compliance with national labor requirements.

B. Environmental and Social Performance of Selected Welspun Renewables Energy Limited Projects

1. Compliance with Applicable Laws and Regulations

18. Environmental and social impact assessments, including the development of environmental and social management plans, are being conducted for WREL's projects. The audit found WREL to be in compliance with local regulatory permits and clearances. No untoward health and safety incidents have been reported. WREL's EHS management team has overall responsibility for obtaining appropriate permits and approvals from various government agencies, and ensuring all operations are consistent with local and national regulatory requirements. The contractor will comply with the environmental, health, and safety management measures as reflected in the contract document. However, the audit observed that the implementation of an environmental and social management plan (ESMP) at the project level is quite weak at the site level. Based on the review of the ESMP and onsite observations for the Neemuch solar project, monitoring as stipulated in the ESIA was not being carried out.

2. Implementation and Compliance with Environmental, Health, and Safety Standards

19. The audit included a review of environmental and social management, including land acquisition practices, for three of WREL's projects at different stages of implementation: (i) the 20 MW wind power plant at Dangri Jaisalmer, Rajasthan (in operation); (ii) the 130 MW solar power plant at Neemuch, Madhya Pradesh (about to be commissioned); and (iii) the 60 MW solar power plant at Thuraiyur, Tiruchirapalli (Trichy), Tamil Nadu (under construction).

20. WREL has registered with the United Nations Framework Convention on Climate Change on 19 November 2012 under the program of activities for the Clean Development Mechanism, and an unlimited number of its projects can be added without undergoing the complete Clean Development Mechanism project cycle over a life time of 28 years. WREL is in compliance with the applicable government requirements and has obtained all clearances and permits and sought approvals and regular renewals, including no-objection certificates from *gram panchayat* (local villages). Although not required under national laws, WREL, through its external consultants, has prepared environmental and social impact assessment reports for its projects, and obtained "consent to establish" prior to project commissioning. WREL has complied with the conditions stated in the consent to establish and consent to operate.

21. Land used for the Dangri and Neemuch projects was all state-owned land allocated to the project on a lease basis for a period of 30 years, whereas land for the Thuraiyur project is being purchased through negotiated settlement. Land for all three projects falls under the dry land category and is primarily barren with little seasonal agricultural or grazing activity. While there were scheduled tribes in villages close to where WREL projects are located, no tribal lands were affected and no indigenous peoples were found to have been affected. The audit did not find any outstanding noncompliance issues in the facilities audited with respect to involuntary resettlement and indigenous peoples.

C. Corrective Actions and Environmental and Social Management System Arrangement

22. The project team's due diligence and external expert's corporate audit confirmed that (i) WREL's existing objectives and environmental and social principles, policies, and systems were

not fully aligned with requirements of ADB safeguards and social requirements; and (ii) while there are existing systems and procedures to screen, assess, and address environmental and social risks arising out of its portfolio of solar and wind power projects, there are still improvements required to ensure compliance and effective implementation. However, WREL is committed to adopting best practices and norms to achieve its commitment to environmental and social sustainability through the ESMS as per international standards and best practices available, including the International Finance Corporation Performance Standard and ADB's Safeguard Policy Statement. Prior to ADB's equity subscription, WREL will be required to establish an ESMS addressing the gaps identified in the audit. Specific improvements required are detailed in para 22.

23. **Policy coverage.** WREL will be required to commit to restructure its various policies, handbooks, and manuals into a single ESMS covering policy objectives, mission, scope, and guidance structure. This ESMS should be supported and approved by its highest decision-making body and communicated to all employees, contractors, and stakeholders.

24. WREL's policy statements will (i) be aligned with the principles the ADB Safeguard Policy Statement safeguards requirements 1-3, and ADB's Social Protection Strategy;⁴ (ii) comply with applicable national laws, regulations, and standards on environment, health, safety, involuntary resettlement, land acquisition, indigenous peoples, and physical cultural resources; (iii) include assurance of appropriate consultation and transparency at the project site level; and (iv) integrate environmental and social risk into its internal risk management.

25. **Screening, categorization, planning, due diligence, and review procedures.** WREL will be required to adopt a categorization system aligned with the ADB definition of significance of environmental and social impacts. WREL will also adopt ADB's project categorization system which defines significance of involuntary resettlement and indigenous peoples impacts, and ensures that the screening system excludes land entailing physical or economic displacement from procurement or acquisition and also excludes those activities in ADB's Prohibited Investment Activity List. WREL will develop an EHS manual that covers guidelines on EHS management within WREL and its project assets, and integrate such manual into its ESMS.

26. **Organizational structure and staffing.** WREL will be required to maintain the current management structure at the corporate level and supplement its project staff to improve the monitoring and implementation of project-level ESMPs. The ESMS manager at the corporate level will be responsible for review and monitoring of ESMS implementation and environment and social safeguard concerns. At the plant level, a dedicated ESMS officer will be assigned, based on the plant size criteria (a small plant, i.e., 10 MW and below, can be effectively supported by an ESMS person dedicated to a site within that state and/or corporate resource; similarly, if 2–3 plants are located within the same site or nearby, they can share the ESMS resource), and have responsibility for ESMP implementation, particularly during the construction phase. The ESMS officer will work closely with the project site manager and will oversee contractor compliance.

27. WREL has also engaged external experts to conduct capacity building to increase the capability of its corporate and project environmental and social staff to oversee implementation of the ESMS. Capacity building topics will include ADB policies and requirements for environmental and social safeguards, updates on local and national laws and regulations, social impact assessment and safeguard planning, and implementation and monitoring of the ESMS.

⁴ ADB. 2001. *Social Protection Strategy*. Manila.

These will be integrated into WREL's overall training program. The audit recommends that WREL allocates the necessary staff and budget to implement the ESMS at the corporate and site levels.

28. **Monitoring and reporting.** The audit recommends that EHS guidelines for the contractor should cover monitoring and reporting and the EHS manual should adequately document the reporting mechanisms, lines of communication, and monitoring systems. WREL's compliance monitoring and reporting will be aligned with ADB Safeguard Policy Statement requirements. WREL will be required to prepare and submit an annual environmental and social performance report detailing how corrective actions of the audit report have been implemented at the corporate and project levels. Apart from monitoring and reporting on safeguard implementation, the ESMS will include arrangements for monitoring and reporting other social dimensions through incorporation of indicators and measures covering compliance with labor laws and employment generation for local communities during construction and plant operation.

29. **Public consultation, information disclosure, and grievance mechanism.** WREL will be required to put in place a stakeholder identification or analysis framework to clearly identify relevant stakeholders at the project level and the need to prepare a stakeholder engagement plan. WREL's ESMS will include the need to conduct meaningful consultations with stakeholders including affected persons, paying particular attention to women and disadvantaged or vulnerable groups. WREL will improve the current grievance redress mechanism to clearly delineate the registration mechanism for grievances, flow of grievance for redressal, acknowledgement complaint recording, consultation, issue investigation, feedback mechanism, mitigation action, follow-up, general time frame for resolution, and delegation of responsibilities. In line with the audit recommendations, detail of the procedures for consultation and disclosure requirements will be incorporated in the ESMS.

30. **Gender and development.** WREL will be encouraged to target an increase in the percentage of female staff from 10% in 2013 to 15% and requested to adopt a practicable time frame to achieve such target, e.g., in the next 5 years or by 2018. HRGA will be requested to include such target in its human resources hiring policy. At the community level, consistent with WREL's CSR policy objective of empowering women, its ESMS will include arrangements to make best efforts for meaningful consultation with women during the conduct of environmental and social assessments, design and implementation of community programs, achievable targets for employment of women during construction and subsequent operation of the facilities, and monitoring and reporting on benefits and assistance provided to women. WREL's CSR department, which is currently headed by a woman, will be encouraged to hire female staff as well as ensure that entities, consultants, or organizations engaged to implement CSR activities include female staff. WREL has a community development and engagement plan for 2013–2015. Among the programs that may be implemented for women are health, animal husbandry, education, community-based environmental activities, and livelihood activities. Women are also expected to benefit from other activities such as training on dairy farming, goat raising, and poultry farming; forming self-help groups; and exposure to job fairs.

31. **Labor and social protection.** As part of its contractor management process, WREL will be required to establish contractor or vendor management guidelines or evaluation systems for managing risks related to permanent labor (excluding daily wage labor) at the contractor level. For daily wage labor, WREL will ensure that will be no child labor or forced labor is used, and contractors will implement all occupational health and safety requirements. A reporting mechanism will be developed on the compliance of WREL and its contractors with national labor requirements and internationally recognized core labor standards.