

PT INDONESIA INFRASTRUCTURE FINANCE
OPERATIONS MANUAL

**SOCIAL & ENVIRONMENTAL
MANAGEMENT SYSTEM**

DECEMBER 2019

The information provided in this Operation Manual is designed to provide information on IIF S&E risk management including institutional arrangements, policies, principles, and procedures. The existence of this document is regulated by the Shareholder Agreement, which is prohibited without prior consent of the Supranational Investor to be amended, as well as waiver of application, and scope, or effect of the SEMS including the S&E requirements.

If you have any questions about this SEMS document, please send it by e-mail to the sneteam@iif.co.id

ABBREVIATIONS

ADB	Asian Development Bank
AMR	Annual Monitoring Report
ASEPR	Annual Social and Environmental Performance Report
AMDAL	<i>Analisis Mengenai Dampak Lingkungan</i> (Environmental Impact Assessment)
ANDAL	<i>Analisis Dampak Lingkungan</i> (Environmental Impact Analysis)
ASSEMR	Annual Social Safeguard and Environmental Monitoring Report
BOC IC	Board of Commissioner Investment Committee
BOD IC	Board of Director Investment Committee
CAP	Corrective Action Plan
CSO	Civil Society Organization
COD	Commercial Operation Date
CRO	Chief Risk Officer
DEG	Deutsche Investition und Entwicklungsgesellschaft
EA	Environmental Assessment
EHS	Environmental Health and Safety
EIA	Environmental Impact Assessment
EMP	Environmental Management Plan
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
FI	Financial Intermediary
FPIC	Free Prior Informed Consent
GHG	Greenhouse Gas
GIIP	Good International Industry Practice
Gol	Government of Indonesia

GRM	Grievance Redress Mechanism
ICR	Implementation Completion Report
IEE	Initial Environmental Examination
IFC	International Finance Corporation
ILO	International Labor Organization
IIF	Indonesia Infrastructure Finance
IPM	Integrated Pest Management
IPP	Indigenous Peoples Plan
IVM	Integrated Vector Management
PAM	Project Appraisal Memorandum
PAP	Project Affected People
PID	Project Information Document
RAP	Resettlement Action Plan
RKL	<i>Rencana Pengelolaan Lingkungan</i> (Environmental Management Plan)
RMC	Risk Management Committee
RPL	<i>Rencana Pemantauan Lingkungan</i> (Environmental Monitoring Plan)
S&E	Social and Environmental
SEBD	Social and Environmental Business Development
SED	Social and Environmental Division
SEDD	Social and Environmental Due Diligence
SEM	Social and Environmental Manager
SEMS	Social and Environmental Management System
SEP	Social and Environmental Principles
SIA	Social Impact Assessment
SMI	Sarana Multi Infrastruktur
SPV	Special Purpose Vehicle

TOR	Terms of Reference
UKL	<i>Upaya Pengelolaan Lingkungan</i> (Environmental Management Efforts)
UPL	<i>Upaya Pemantauan Lingkungan</i> (Environmental Monitoring Efforts)
WHO	World Health Organization

DEFINITION OF TERMS

Adat is a local and traditional institutions, customs, laws and dispute resolution systems used in many parts of Indonesia

AMDAL *Analisis Mengenai Dampak Lingkungan* is an Integrated Social and Environmental Impact Assessment - is mandated by Law No.32 of 2009 and implemented in accordance with Government Regulation No. 27 of 1999. The AMDAL entails the preparation of four inter-linked documents, namely:

- *Kerangka Acuan* (KA ANDAL - Terms of Reference), outlining the proposed scope of environmental impact assessment;
- *Analisis Dampak Lingkungan* (ANDAL - Environmental Impact Analysis), identifying significant positive and negative impacts of a project/activity;
- *Rencana Pengelolaan Lingkungan* (RKL - Environmental Management Plan), documenting proposed management efforts of significant impacts; and
- *Rencana Pemantauan Lingkungan* (RPL - Environmental Monitoring Plan), documenting proposed monitoring efforts to complement environmental management efforts

An AMDAL describes the entire process including the ANDAL, RKL and RPL. The AMDAL serves to identify and evaluate potential S&E risks and impacts generated by a proposed project and to develop appropriate management and monitoring programs to avoid, minimize or compensate negative impacts and maximize positive impacts.

ANDAL *Analisis Dampak Lingkungan* or Environmental Impact Analysis is a thorough and in-depth study of the significant impacts that changes social and environmental aspects fundamentally caused by the planned activities of a project.

Client or Project/Borrower means an entity of which undertakes or intends to undertake development or a construction activity or company (operating assets) that is 'proposed to be funded' or 'funded' by IIF. The terms are used interchangeably.

Due Diligence is a process of investigation/audit, performed by IIF, into the details of a potential investment, such as an examination of operations and management and the verification of material facts, especially from Environmental and Social safeguards point of views.

Founding Shareholders consist of Supranational Investors (IFC, ADB and DEG), and SMI.

Favorable Actions are a set of activities or programs - approved by the targeted IP groups through consultation processes and allowed by regulation - that positively creating benefit to the socio-economic and cultural aspect of the IP. The Favorable actions has four main objectives; (1) Maintaining good relationship with the IP groups, (2) avoid, minimize, or compensate adverse impacts,

(3) Enhance the positive benefit for the targeted IP groups, (4) Ensure that the project benefit delivered to the targeted IP groups in an equitable manner.

HSE (Health, Safety and Environment) refers to a unit or division, within a company that is responsible to assess, design, manage, and monitor effectiveness of the S&E mitigation framework for the respective project.

IIF Social & Environmental Principles (SEP): are a set standard for identifying and managing S&E risk. SEP is a part of IIF S&E requirements for its clients, which are aligned with the principles and objectives of the Founding Shareholders S&E policies and standards, focusing on IFC Performance Standard 2012.

Involuntary Resettlement refers to social and economic impacts that are permanent or temporary and are caused (i) by acquisition of land and other fixed assets, (ii) by change in the use of land, or (iii) restrictions imposed on land as a result of an IIF operation.

Indigenous Peoples (IP) refers to a distinct, vulnerable, social and cultural group possessing the following characteristics in varying degrees of: (i) self-identification as members of a distinct indigenous cultural group and recognition of this identity by others; (ii) collective attachment to geographically distinct habitats or ancestral territories in the project area and to the natural resources in these habitats and territories therein or those who have lost the collective attachment to distinct habitats because of forced severance, conflict, government resettlement programs, land dispossession, natural disasters or incorporation of their territories into an urban area; (iii) customary cultural, economic, social or political institutions that are separate from those of the dominant society and culture; and (iv) a distinct language, often different from the official language of the country or region.

Indigenous Peoples Plan (IPP) is a project-specific and time-bound plan, or set of plans, prepared by the Borrower outlining the actions to minimize and/or compensate for adverse impacts on Indigenous Peoples, or enhancing positive ones, in a culturally appropriate manner in line with SEP 7. IPP should aim at: (i) promoting the participation of Indigenous Peoples in project preparation and implementation; (ii) ensuring benefit from development interventions that affect Indigenous Peoples and (iii) providing effective safeguards against adverse impacts.

Project Affected Peoples (PAP) means people who may be beneficially or adversely affected by IIF-financed business activity.

S&E Requirements (or Applicable Requirement) consist of Exclusion List, applicable Indonesian laws on environment, health, safety and social issues, IIF's SEP, and Corrective Action Plan (CAP).

Strategic Investors constitutes the entities such as Sumitomo Mitsui Banking Corporation (SMBC) that have invested in IIF.

Supporting Documents are set of documents to support IIF's OM - SEMS which are used as reference to the SED operation, containing: Regulations (related to GoI S&E Regulations), Procedures (such as

SOPs, etc.), Guidelines (such as guidelines, tools, ToR, etc.) and Template (consisting of forms, checklists, templates, Outline reports, etc.).

Voluntary land transactions refer to market transactions in which the seller is not obliged to sell, and the buyer cannot resort to expropriation or other compulsory procedures if negotiations fail.

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1. INTRODUCTION

1.1. The Operations Manual

1. This Operations Manual (“OM”) describes PT Indonesia Infrastructure Finance’s (“IIF”) Social and Environmental Management System (“SEMS”) approved by the Board, which puts into practice IIF’s commitments to Management System sustainability and details the social and environmental (“S&E”) requirements, procedures, institutional arrangements, allocation of responsibilities between IIF and its clients and workflows that IIF follows for offering its products and services.

2. The SEMS is accompanied by Supporting Documents such as Regulations, Procedures, Guidelines, and Templates to help S&E Division (SED) implement the S&E value and IIF Social and Environmental Principles (SEPs). Further specific practical manuals will be provided separately from this OM.

3. The manual describes how to carry out the following:

- Integrated project assessment to identify S&E impacts, risks and opportunities;
- Management of S&E performance of the projects.

4. The SEMS is intended for use primarily by IIF staff. It may also be useful to prospective IIF clients, to help them understand the S&E requirements of IIF.

1.2. IIFs Financial Products and Type of Project

5. IIF has two main financial products:

- **Funded-based products** (e.g.: project finance, corporate loan, subordinated debt, mezzanine funding, equity investment¹) - involve actual disbursement of IIF funds; and
- **Non-funded-based products** (e.g. guarantee, take-out financing, underwriting facility, trade finance²) - involve contingent disbursement of IIF funds. If a Project/Borrower to which IIF has provided a guarantee defaults on its loan obligations to another financial institution or other investors, only then IIF is required to pay the loan instead of the Project/Borrower.

6. Other than funded-based and non-funded-based products, IIF has fee-based products, which are not covered in this SEMS.

¹ There are other funded-based financing types such as Working capital loan; Bridging loan; Refinancing; Bond & Sukuk; Mutual fund; Preferred Shares, etc.

² Please see Annex E

7. IIF will offer different financial products and will consider for Project/Borrowers with different levels of preparedness or readiness for implementation. There will be three types of project stages:

- **Type 1** – Project/Borrowers in the early entry/stages of preparation or Project that has not been constructed;
- **Type 2** – Project/Borrowers under construction or with facilities that have already been constructed but not yet operating; and
- **Type 3** – Project/Borrowers have reached Commercial Operation Date (COD) or already have operating assets.

8. The SEMS will be applied to Project/Borrowers in each of these types. However, the specific activities undertaken in assessing, managing and monitoring S&E impacts of a particular Project/Borrower may be different based on financial product categories and type of project stages.

1.3. Updating the Operations Manual

9. The operation manual (SEMS) will be revised as practicable to ensure consistency with requirements of the laws and regulatory requirements of the Republic of Indonesia and the Founding Shareholders Agreement, as well as to strengthen their effectiveness, and reflect the experiences and lessons learned during implementation. **Update on IIF OM-SEMS requires approval from Founding Shareholders.**

10. Change or update of Supporting Documents needs approval from BOD and/or BOC Level.

2. SOCIAL AND ENVIRONMENTAL MANAGEMENT SYSTEM

11. The Social and Environmental Management System (SEMS) details operating procedures, institutional arrangements, and workflows that will be followed for investments made by IIF and capacity building initiatives to ensure avoidance, minimization and/or mitigation of risks and impacts that may arise from the projects that it funds.

12. IIF as a non-bank financial institution is committed to follow management system as set out in this SEMS which includes IIF SEP, institutional arrangements and workflow that will be followed to identify and manage IIFs S&E risks and impacts that may arise in the project/operation of its investment.

13. This SEMS systematically covers the entire project cycle. When making its investment, IIF will ensure that the investment complies with IIF's lending procedures national legislations and IIF's Founding Shareholders requirements; IIF's exclusion list and IIF SEP (see Section 2.2 and Annex B).

14. The objectives of IIF's SEMS are to:

- Ensure Project/Borrower comply with all applicable national and local S&E requirements, requirements of IIF's Founding Shareholders, IIF Exclusion List (Annex A) and IIF's SEP, whichever stringent;
- Ensure that S&E safeguards are integrated by Project/Borrowers into the project design prior to its financing and in its implementation during the construction and operational phases;
- Provide operational guidance to its staff and Project/Borrowers in preparing projects for an appraisal at IIF, conducting subsequent monitoring and reporting, and in undertaking corrective actions.

15. The SEMS enables IIF to frame and deliver its S&E Policy that applies to all products and services offered by IIF. This IIF SEMS is taking into account:

- Indonesian laws and regulations;
- IFC Performance Standards (PS), dated January 01, 2012;
- ADB Safeguard Policy Statement; and
- World Bank Safeguard Operation Policies.

2.1. S&E Requirements

16. IIF will ensure that all projects are reviewed and evaluated against the following S&E Requirements (or "Applicable Requirements"):

- Exclusion List (refer to Annex A);
- Applicable Indonesian laws on environment, health, safety and social issues; and
- IIF’s SEP, issued in December 2019 (refer to Annex B and Section 2.2). Principles are aligned with the objective and key requirements of IIF’s Founding Shareholders as defined in the Shareholders Agreement dated March 19th, 2012, as amended from time to time;
- Corrective Action Plan (CAP) of the Project/Borrower.

2.2. IIF’s S&E Principles (SEP)

17. The following table lists the Principles that will be followed by IIF. A detailed description of each of Principles is included in Annex B.

Table 2.1: IIF Social and Environmental Principles (SEP)

No	SEP	Objective
1	Social and Environmental Assessment and Management System (SEMS)	<ul style="list-style-type: none"> • To identify and evaluate S&E risks and impacts of the project. • To adopt a mitigation hierarchy to anticipate and avoid, or where avoidance is not possible, minimize, and, where residual impacts remain, compensate/offset for risks and impacts to workers, PAP, and the environment. • To promote improved S&E performance of clients through the effective use of management systems. • To ensure that grievances from PAP and external communications from other stakeholders are responded to and managed appropriately. • To promote and provide means for adequate engagement with PAP throughout the project cycle on issues that could potentially affect them. • To ensure that relevant S&E information is disclosed and disseminated.
2	Labor and Working Conditions	<ul style="list-style-type: none"> • To promote fair treatment, non-discrimination, and equal opportunity of workers. • To establish, maintain, and improve the worker-management relationship. • To promote compliance with national employment and labor laws.

No	SEP	Objective
		<ul style="list-style-type: none"> • To protect workers, including vulnerable categories of workers such as children, migrant workers, workers engaged by third parties, and workers in the client’s supply chain. • To promote safe and healthy working conditions, and the health of workers. • To avoid the use of forced labor.
3	Pollution Prevention and Abatement and Climate Change	<ul style="list-style-type: none"> • To avoid or minimize adverse impacts on human health and the environmental pollution from project activities. • To promote sustainable use of resources, including energy and water. • To reduce project-related GHG emissions.
4	Community Health, Safety and Security	<ul style="list-style-type: none"> • To avoid and minimize adverse impacts on the health and safety of the PAP during the project life from both routine and non-routine circumstances. • To ensure that the safeguarding of personnel and property is carried out in accordance with relevant human rights principles and in a manner that avoids or minimizes risks to the PAP.
5	Land Acquisition and Involuntary Resettlement	<ul style="list-style-type: none"> • To avoid, and when avoidance is not possible, minimize displacement by exploring alternative project designs. • To avoid forced eviction. • To anticipate and avoid, or where avoidance is not possible, minimize adverse social and economic impacts from land acquisition or restrictions on land use by (i) providing compensation for loss of assets at replacement cost and (ii) ensuring that resettlement activities are implemented with appropriate disclosure of information, consultation, and the informed participation of those affected. • To improve, or restore, the livelihoods and standards of living of displaced persons. • To improve living conditions among physically displaced persons through the provision of adequate housing with security of tenure at resettlement sites.

No	SEP	Objective
6	Biodiversity Conservation and Natural Resource Management	<ul style="list-style-type: none"> • To protect and conserve biodiversity. • To maintain the benefits from ecosystem services. • To promote the sustainable management of living natural resources through the adoption of practices that integrate conservation needs and development priorities.
7	Indigenous Peoples (IP)	<ul style="list-style-type: none"> • To ensure that the development process fosters full respect for the human rights, dignity, aspirations, culture, and natural resource-based livelihoods of Indigenous Peoples. • To anticipate and avoid adverse impacts of projects on Indigenous Peoples, or when avoidance is not possible, to minimize and/or compensate for such impacts. • To promote sustainable development benefits and opportunities for Indigenous Peoples in a culturally appropriate manner. • To establish and maintain an ongoing relationship based on informed consultation and participation with the Indigenous Peoples affected by a project throughout the project's life-cycle. • To ensure the Free, Prior, and Informed Consent (FPIC) of the PAP of Indigenous Peoples when the circumstances described in this Performance Standard are present. • To respect and preserve the culture, knowledge, and practices of Indigenous Peoples.
8	Cultural Property and Heritage	<ul style="list-style-type: none"> • To protect cultural heritage from the adverse impacts of project activities and support its preservation. • To promote the equitable sharing of benefits from the use of cultural heritage.

2.3. Grievance Redress Mechanism (GRM)

18. During the project lifecycle or loan tenor, IIF establishes and implements GRM to be used as a channel for PAP members or other stakeholders to contact IIF. The channel will be specific and accessible by the public and will be in the form and language understandable to the public where IIF investments are located (Indonesia). Through this mechanism, IIF will receive, record and respond to

inquiries, concerns or formal complaints from external stakeholders. The specific contact for GRM will be announced in public domain such as IIF's website. The GRM will include an assignment of an employee to record grievances and work with relevant personnel to investigate such grievances, determine the necessary responsive actions, and retribute on the outcome. The assigned employee will follow up on the status of each grievance received and document the process and outcomes.

2.4. Public Information Disclosure

19. As part of transparency and accountability of IIF in term of S&E aspects of its investments, all S&E documents such as ESIA's, ESMPs, Resettlement Action Plans (RAPs), Indigenous Peoples Plans (IPPs) whichever applicable for every new project/client, will be disclosed on IIF's or clients' website or other venues prior to or at the same date with the financial close of the projects (or the signing of the loan agreement).

2.5. Social & Environmental Reporting

20. SED shall prepare the ASEPR as defined in the Shareholder Agreement to each Founding Shareholders. SED also produces regular reports to IIF management and/or shareholders, such as Quarterly Risk Management Report (QRMR), and Annual or Semi-Annual Project Review Report.

3. OPERATING PROCEDURES

21. This chapter details the steps and actions that are mandated as per the SEMS to be followed by IIF during the entire project financing cycle. The project workflow/business process comprises the following three stages:

- **Pre-Approval stage** – In this stage, IIF carries out all procedures required before the principal approval of the project, including screening against Exclusion List, National Law and SEP which is important to obtain a preliminary categorization that commensurate to the S&E risks and impacts (see below in 3.1);
- **Appraisal and Approval stage** - In this stage, IIF performs all procedures required before the project is appraised for funding (see 3.2); and
- **Post Approval stage** - In this stage, IIF performs all procedures required for project monitoring of the project's S&E performance during the project operation cycle until the project close a financial agreement with IIF (see below 3.3.).

22. Business process follows its project workflow from inception, pre-screening, due diligence, and approval as well as post-approval, monitoring and supervision. The process involves a close working relationship between SED, investment team, and other related department. IIF uses SEMS to ensure consistent and effective implementation of S&E management practices in all its activities, products and services. The workflow process can be broadly divided as shown in Figure 3.1.

23. During our assessment process, other than this OM, IIF is also supported by Supporting Documents consisting of Implementing Procedures, Guidance, and Templates. For issues that are not covered by the Supporting Documents, IIF will use IFC EHS Guidelines or other Development Financial Institutions Guidelines as examples of Good International Industry Practice (GIIP).

Figure 3.1: Graphic of Workflow/Business Process

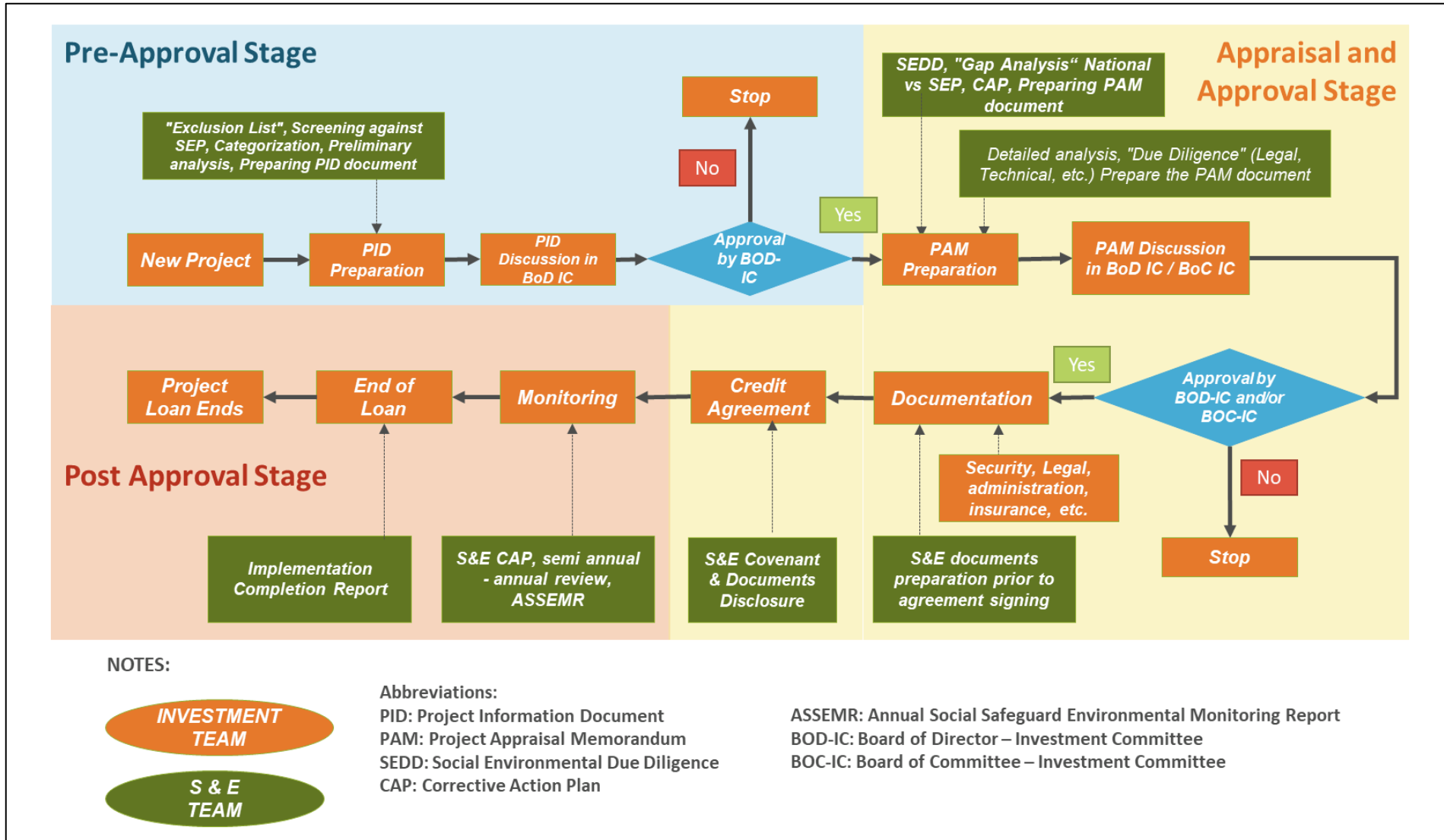
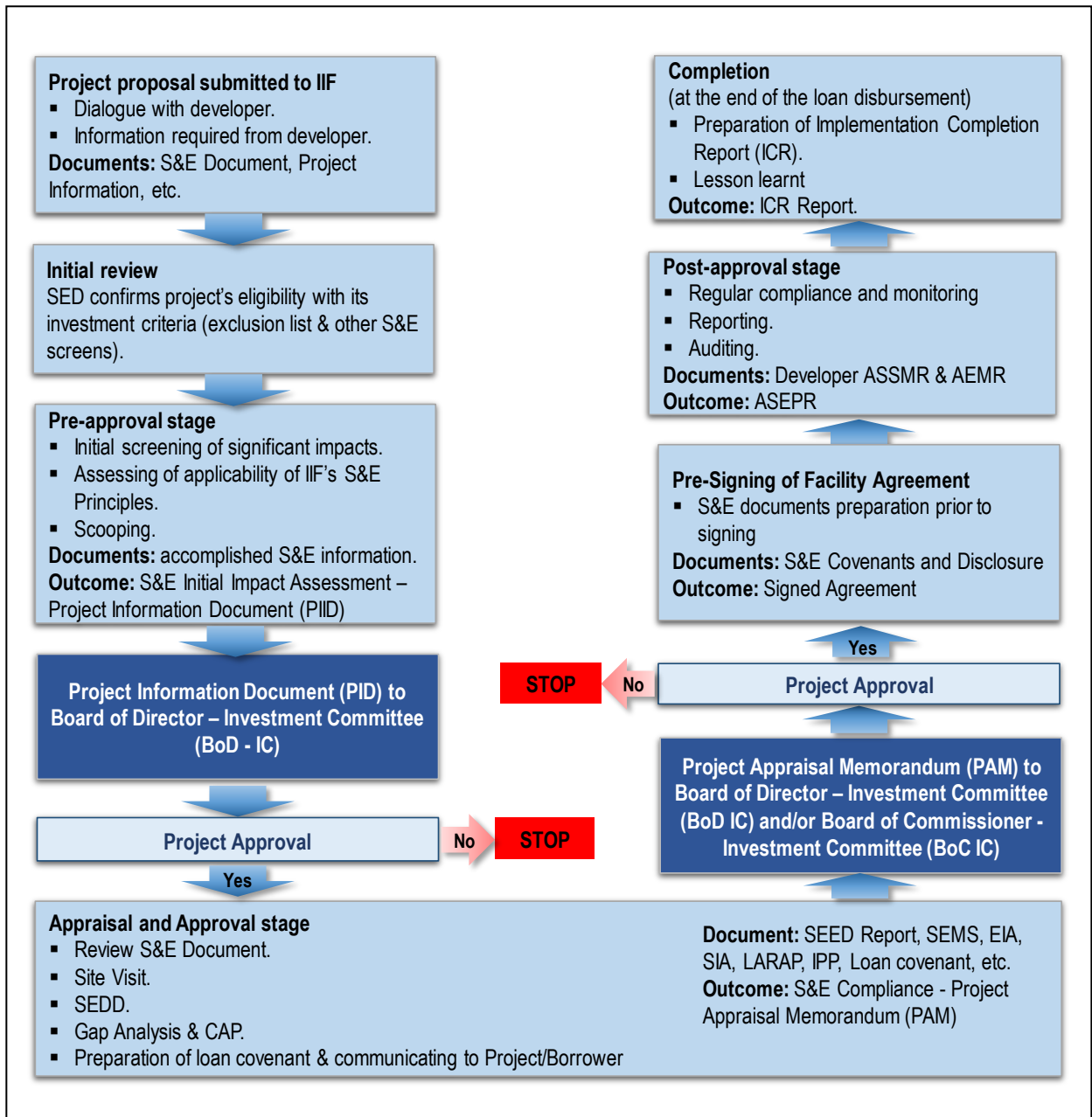


Figure 3.2: Graphic of S&E Workflow



3.1. S&E Operating Procedures: Pre-Approval Stage

24. The project identification stage will start with a discussion with potential Project/Borrower, either from public or private sector, regarding the project, its needs and IIF's requirements. This is the first step in the project life cycle and it eventually leads to a decision with respect to accepting a new proposal for a detailed appraisal.
25. S&E assessment at the pre-approval stage will include the following activities:
- Obtain basic project information and S&E Document, if available, from the Project/Borrower;
 - Verify that the proposed business activity based on the information provided by the Project/Borrower is not on the list of prohibited or excluded investments (Annex A – Exclusion List);
 - Conduct a preliminary screening against Exclusion List, National Law and, SEP which are important to obtain a preliminary categorization that commensurate to the S&E risks and impacts;
 - Carry out an initial review of assessments, analyses and design documents that have been prepared by client or Project/Borrower, if available, during Project Information Document (PID) preparation, and ensure no reputational risks for IIF; as well as no legacy issues or no pending legal disputes or liabilities;
 - Perform initial screening of project activities and identify potential S&E risks and impacts. Also, if the documents are available, assess whether the activities involve land acquisitions, involuntary resettlements, protected area, affect Indigenous Peoples or ethnic minorities, and cultural heritage;
 - Based on this initial assessment, the proposed investment will be classified as category A, B, or C (refer to Annex D for Social & Environmental Screening Categories) and the corresponding level of environmental assessment i.e. Environmental Social Impact Assessment (ESIA), Environmental Social Management Plan (ESMP) or Initial Environmental Examination (IEE);
 - If the project qualifies after initial review, SED will prepare Preliminary S&E Impact Assessment and to be incorporated in the PID, and submitted to the Board of Directors – Investment Committee (BoD IC) for approval; and
 - During the BoD IC meeting, all observations, comments, input from BoD IC members and the final decision will be recorded in the Minutes of Meeting (MoM).

3.2. S&E Operating Procedures: Appraisal and Approval Stage

26. After PID approval by BoD IC, S&E assessment at the appraisal and approval stage will include the following activities:

- SED will request Project/Borrower to provide S&E documents³, including SEMS, EIA & SIA, EMP, RAP, IPP, whichever relevant, for the project along with applicable government consents and permits. In the event of documents being unavailable, then the client should prepare such documents accordingly;
- SED or Project/Borrower will appoint an independent S&E consultant, if necessary, to conduct SEDD including desk review on S&E Documents; If appointed by the borrower, then the consultant should report directly to IIF (SEDD reports should not be revised/edited by Borrower prior to IIF);
- Obtain, review and investigate the information available in public domain regarding any incidents, adverse impacts on local communities or environment or adverse S&E social performance associated with any proposed project.
- Conduct site visits by S&E Specialist and/or consultant. The purpose of the site visit is to verify information provided by the client or Project/Borrower prior to the site visit, the S&E specialist and/or consultant prepares a site visit plan and ensures that the plan covers the following, but not limited to:
 - Discussion with the company and related party within the organization, including associated facilities, and/or supply chain for construction and operations; Interviews with contractors' staff, representatives of PAP; and Informal interaction with local CSO and local government administration, etc. and
 - Visit and observation to the sites and/or operating facilities.
- S&E Specialist confirms the initial S&E categorization assigned to the project at this stage and also review the scoping as determined during the pre-approval stage;
- If the project involves involuntary land acquisition/resettlement, ascertain requirement for a Resettlement Action Plan - RAP (see SEP 5 in section 2.2 and Annex B). For type 2 or type 3 project, ascertain requirement for Land Audit, followed by corrective actions as necessary;
- If the project significantly affects Indigenous Peoples, the SEDD should ascertain the requirement for an Indigenous Peoples Plan - IPP (SEP 7, section 2.2);

³ S&E Documents i.e. typically EIA, IEE, RAP, IPP, etc. for the project.

- After the site visit, SEDD report acceptable to SED will be prepared to also include CAPs, approved by S&E Manager (SEM) and Deputy Head of S&E Business Development (SEBD), that will be discussed with Project/Borrower;
- Communicate the terms and conditions and S&E covenants to the Project/Borrower and obtain their consent;
- Based on the SEDD report, SED will prepare S&E Compliance and incorporate it in the Project Appraisal Memorandum (PAM), approved by SEM and SEBD, and submit to BoD IC and/or Board of Commissioner of Investment Committee (“BoC-IC”) for loan approval;
- During BoD-IC and/or BoC-IC meeting, all observations, comments, input from BoD-IC and/or BoC-IC members and the final decision will be recorded in the MoM; and
- Upon approval, legal documents are signed. The legal documents specifying IIF’s terms and conditions, including S&E requirements and operational policies requirements.

27. The SED will prepare the relevant documents based on the result of the assessment at this stage including:

- SEDD Report;
- Recommendation of S&E CAP and Loan covenants; and
- Resume of S&E Assessment including CAP based on the SEDD report to be incorporated in the PAM and submit to BoD IC and/or BoC IC for Project Approval.

28. The client will disclose project S&E documents such as ESIA, EIA reports such as Resettlement Action Plans (RAPs), Indigenous Peoples Plans (IPPs), etc., on IIF’s website, or sponsor/client or Project/Borrower’s website in a timely manner and will disclose the relevant information in a public place accessible and understandable to affected groups, local CSO and other stakeholders.

3.3. S&E Operating Procedures: Post-Approval Stage

29. This stage comprises regular monitoring, supervision and auditing of S&E compliance conditions for the investments and corrective action plan proposed as part of the SEDD report. This stage requires the Project/Borrowers to submit regular reports with regard to compliance with S&E covenants of the loan, i.e. Annual Social Safeguard & Environmental Monitoring Report (ASSEMR), etc.

30. S&E Steps at the post-approval stage will include the following activities:

- Regular compliance monitoring including implementation of EMP;
- Monitor compliance with loan covenants/Borrower’s Commitment and Project/Borrower performance against IIF SEP and relevant national regulations;

- Assess and monitor implementation of S&E CAP and mitigation measures, and check for adherence to ambient standards (air, emission and water quality whichever applicable); monitoring by field visits/ investigations, if required;
 - Obtain, review and investigate information available in public domain and interview to Project/Borrower as necessary regarding incidents, adverse impacts on local communities or environment or adverse environmental or social performance associated with the project;
 - Conduct compliance monitoring at the defined frequency as per the loan covenants;
31. The above will be the responsibility of the Social & Environmental Specialist in the SED, in coordination with consultants engaged by SED for specialized input. As part of the monitoring and evaluation process, SED will prepare an annual monitoring report for all Projects/Borrowers, namely Annual Social and Environmental Performance Report (ASEPR).
- Reporting:
 - Report on the compliance of S&E covenants of financing and implementation of corrective action plan at frequent intervals to be defined in the investment agreement;
 - Report on the implementation of various mitigation plans including EMP, RAP/IPP, if available at defined frequency; and
 - Prepare reports on SED performance on S&E safeguards and submit to stakeholders/board annually through ASEPR.
 - Social & Environmental audit & supervision for selected category A conducted by an independent S&E consultant.
32. Documents at this stage will include the following:
- ASSEMR to be submitted by the Project or Borrower to IIF;
 - ASEPR prepared by IIF to all Founding Shareholders; and
 - If necessary, Quarterly Monitoring Reports by the Project/Borrower during construction stage and/or operation stage.

3.4. Project Completion Stage

33. After completion of the project, i.e. when IIF's exits the investment, SED will prepare Implementation Completion Report (ICR) that includes reporting of lessons learned and good practices followed.

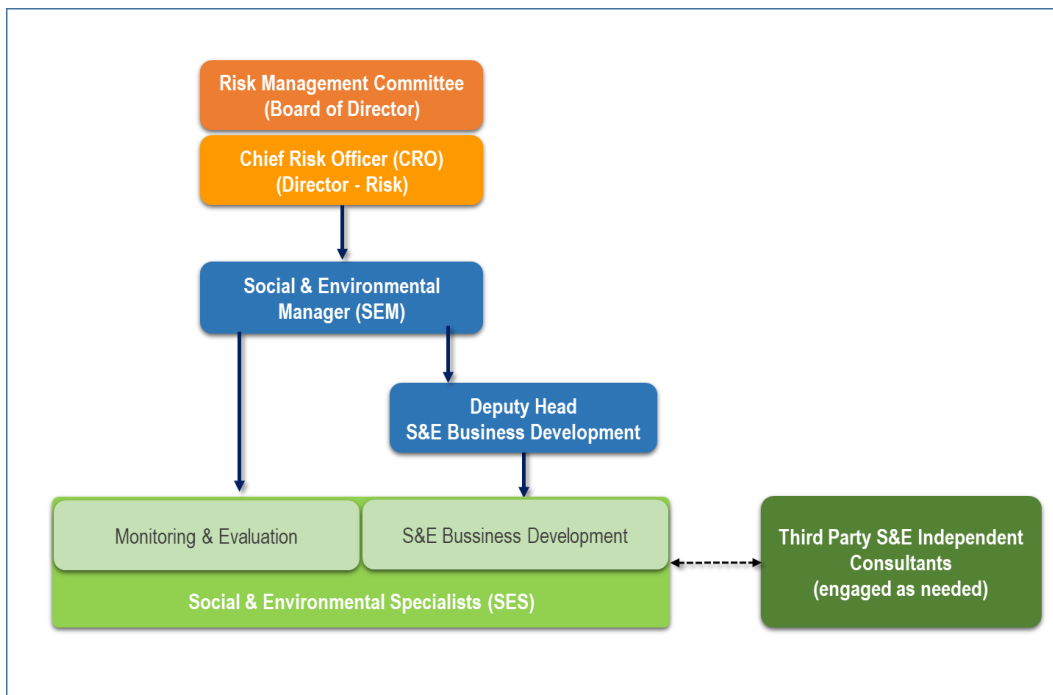
4. ORGANIZATION AND RESPONSIBILITIES

4.1. Organization Structure

34. SED will be responsible for overseeing the S&E requirements and will function as an extension to the Risk Management Committee. The SED is headed by a full time Social and Environment Manager (SEM), who is responsible for all functions of the SED. Deputy Head of S&E Business Development (SEBD) assists SEM in preparing S&E aspect of new project. The SED shall be suitably staffed with S&E Specialists to assist SEM in the review and preparation of memos to the Board including other responsibilities described in Section 4.2.

35. Projects that have significant S&E impacts may require additional expertise and special attention. For such projects, the SED may engage third party S&E Consultants to support the activities listed in section 4.2 of this manual. The following figure illustrates the structure of the SED.

Figure 4.1: Organization structure for Social and Environmental Division



4.2. SED Roles and Responsibilities

36. The following sections describe the roles and responsibilities of each member of the SED.

4.2.1. Social and Environment Manager (SEM)

37. The roles and responsibilities of an SEM are listed below:

- Oversee implementation of SEMS;
- Ensure integration of S&E risk assessment in due diligence and risk management committees;
- Submit the memo (PID and PAM) to Chief Risk Officer (CRO) – Risk Director;
- Review and approve recommendation corrective actions based on the findings of SEDD;
- Review and approve S&E Requirement including S&E covenants in the loan agreements;
- Monitor and supervise the projects/borrower’s compliance and performance to ensure on-going compliance with applicable S&E performance requirements and implementation of corrective plans;
- Direct the capacity building initiative to improve quality of SEDD and supervision;
- Recruit and manage staff for SED;
- Update the SEMS as needed to ensure consistency with requirements of the founding shareholders (as defined in the Shareholders Agreement) and laws and regulations of the Republic of Indonesia;
- Regular reporting on S&E Performance to Founding Shareholders and to the management on portfolio S&E performance and on-going compliance with IIF’s SEP;
- Inform Founding Shareholders of any S&E Claims against IIF and/or its clients;
- Interact and consult with investors and co-lenders; and
- Manage S&E related to all fee-based assignments and ensure that fee-based assignments are carried out in conformity with S&E Policy and Principles.

4.2.2. Deputy Head of S&E Business Development (SEBD)

38. The roles and responsibilities of Deputy Head SEBD are listed below:

- Support SEM;

- Manage Social & Environmental Specialist in conjunction to the preparation of new project;
- Prepare S&E assessment documentation related to new Project;
- Ensure integration of S&E risk assessment in due diligence process;
- Finalize recommendation corrective actions based on the gap's analysis during SEDD;
- Prepare the memo (PID and PAM), confirming project compliance with IIF's requirements;
- Prepare and include the required S&E covenants in the loan agreements;
- Propose the capacity building initiative to improve quality of SEDD;
- Together with SEM, update the OM SEMS and its Supporting Documents as needed to ensure consistency with requirements of IIF, Shareholders Agreements and laws and regulations of the Republic of Indonesia; and
- Maintain relationship with S&E Consultants.

4.2.3. Social & Environmental Specialist(s)

39. The roles and responsibilities of a Social & Environmental Specialist are listed below:

Business Development:

- Conduct compliance reviews;
- Conduct field visits;
- Perform screening and scoping of the proposed infrastructure projects;
- Conduct/supervise Social and Environment Due diligence process;
- Prepare the memo (PID and PAM), confirming project compliance with IIF's requirements;
- Prepare corrective action plans and propose S&E covenants to be included in investment agreements;
- Assist in grievance mechanisms, stakeholder engagement including public consultations and disclosures;
- Preparation of project specific TORs for EIAs, SIAs, RP, IPP or other required studies;
- Maintain all records during pre-approval stage and approval stage;

- Hire external qualified S&E consultants as per requirements (if required); and
- Provide S&E training to IIF staff.

Monitoring & Evaluation:

- Monitor and supervise the projects/borrower's compliance and performance to ensure on-going compliance with applicable S&E performance requirements and implementation of corrective plans;
- Monitor of implementation of grievance mechanisms, stakeholder engagement including public consultations and disclosures;
- Prepare the memo (PID and PAM), confirming project compliance with IIF's requirements for facility renewal of existing project;
- Prepare corrective action plans and propose S&E covenants to be included in investment agreements for facility renewal of existing project;
- Prepare progress and performance reports for various investors;
- Prepare ICR once IIF exit the investment;
- Maintain all records during post approval stage;
- Conduct information dissemination and annual learning workshops for IIF; and
- Conduct training, consultation and dissemination of IIF's SEP for Project/Borrower.

40. The Terms of Reference (TOR) of SED staff members are available in Annex C.

4.3. Social and Environmental Independent Consultant

41. External consultants are hired on a case-by-case basis where professional advice is sought on a S&E matter of material importance and/or where the information provided by Client Company is not sufficient to determine to which degree client is complying with IIFs S&E policy requirements and ensuring the Project/Borrowers comply with S&E Requirement⁴. In particular, IIF uses independent consultancy companies with a good track record in IFC Performance Standards or other International standard for all category A projects and advisably those category B projects that are involving some specific features that can have significantly larger adverse S&E impacts (Greenfield components, legacy issues, resettlement, impact on biodiversity, Indigenous Peoples, etc.).

⁴ Please see Paragraph 17

4.4. Risk Management

4.4.1. Board of Director (BOD) - Investment Committee (BOD - IC)

42. Generally, collectively or individually, members of the Board of Directors (BoD) are responsible for coordinating, leading, maintaining and managing the assets of IIF in the Company's best interest.

43. Specifically related to Risk Management and Control, the Board of Directors is responsible for:

- Ensuring that the Company has a proper and systematic process to identify, measure, and control risks;
- Ensuring that the proper systems and processes have been implemented in measures to monitor and report on the main risks faced by the Company;
- Monitoring and evaluating management processes and assessing the adequacy of Risk Management and internal control systems, financial reporting, and compliance procedures;
- Ensuring the availability of an effective control system to establish:
 - Reliability and integrity of information;
 - Compliance with prevailing policies, procedures, plans, and regulations;
 - Maintenance of the Company's assets;
 - Economic and efficient use of resources; and
 - Achievement of pre-determined operational objectives.
- Conducting annual evaluations of the Company's internal controls in order to ensure that all essential aspects of internal control have been considered and assessed. The results of these evaluations will be presented in a public statement and will cover a period of time until the approval of the Company's Annual Report;
- Establishing clear organizational structure, duties, and responsibilities, including the appointment of the Management; and
- Utilizing audit results from internal and external auditors in the best interest of the Company.

4.4.2. Board of Commissioners - Investment Committee (BOC - IC)

44. The Board of Commissioners - Investment Committee (BOC - IC) was established to carry out supervisory functions, especially in relation to investment proposals and IIF's business portfolio. The main duties of the BOC-IC are as follows:

- To provide opinion and/or recommendations on credit/investment provision to be approved by the Board of Directors;
- To evaluate and present evaluation reports pertaining to the performance of the Company's investment portfolio, including but not limited to loans, equity and treasury investments;
- To review the Company's credit and investment policies and provide feedback for the formulation/revision of such policies;
- To take on additional responsibilities relating to the Company's investment activities, policies or other matters mandated from time to time by the BOC.

4.4.3. Risk Management Committee (RMC)

45. The Risk Management Committee (RMC) of the Board of Directors is responsible for actively monitoring the Risk Management of IIF's business activities as well as providing recommendations in formulating the Company's Risk Management policies and strategies.

46. In relation to Risk Management measures in the Company, the duties of the RMC are as follows:

- To provide strategic formulation of the Company's Risk Management policies and framework, which include the establishment of limits for said framework and the formulation of contingency plans for adverse conditions;
- To oversee the evaluation and management of the overall risk composition in IIF's portfolio, minimize potential risks at the project or the portfolio level, foster a Risk Management culture at all levels, and ensure that the Risk Management Department is able to perform independently;
- To investigate, analyze, and take any necessary action with regards to business decisions that deviate from general procedures;
- To evaluate proposals related to new activities and products, measure the desirability and capacity of IIF to undertake those new activities and products through a risk perspective, and evaluate proposals for associated changes in policies and procedures;
- To monitor the adequacy of IIF's capital against identified risks in accordance with prevailing regulations and the Company's risk tolerance;
- To evaluate the effectiveness of Risk Management policies and procedures, formulate the necessary amendments to existing Risk Management policies and procedures, evaluate the adequacy of internal controls, and regularly review Management Information System (MIS) reports;

- To conduct regular reviews to evaluate the appropriateness of risk assessment methodologies;
- To review and approve the Quarterly Risk Management report produced by the Risk Management Department; and
- To review and propose any changes, if required, to any risk parameters or indicators to the Risk Oversight Committee of the Board of Commissioners for further approval by the Board of Commissioners.

5. CAPACITY BUILDING

5.1. Capacity Building Initiatives

47. The SEMS envisages a capacity-building plan for IIF staff and Project/Borrower to advance the S&E mainstreaming in the project cycle. Training will be conducted for both Project/Borrowers, and IIF staff. Training could be delivered outsourced hired by IIF.

48. The initiatives are as follows, but not limited to:

- Induction, training and refresher training for all IIF staff on S&E issues of infrastructure projects and S&E Policy, Principles, Procedures and Guidelines, including periodic training on emergency preparedness and response;
- Awareness workshops for the Project/Borrowers, including the S&E consultant, on norms, procedures and IIF's S&E review and due-diligence requirements to achieve effective implementation of early steps in preparation of EIA/SIA such as screening and/or scoping and guidelines of IIF, as well as preparation of RAP and IPP;
- IIF will ensure that at least one of its senior representatives and SED staff receives S&E safeguard training under a recognized program;
- Training to IIF staff may cover guidance on such topics such as adequacy of impact assessment, EMP provisions, and costing by IIF S&E specialist and social & environmental covenants in the loan agreement; and
- Provide guidance to Project/Borrowers to adopt and enhance its own SEMS;

5.2. SED Training

49. It is mandatory for all SED staff to refresh, enhance and improve the capacity and skills through attending mandatory training every year. The training could cover material of each elements of IIF's SEP or any course/training/seminar/workshop related to S&E aspect.

OPERATION MANUAL

ANNEXES

ANNEX A. EXCLUSION LIST OF IIF

List of Activities that will not be financed by IIF

1. Any activity with the use of radioactive materials⁵.
2. Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forest or old growth forests.
3. Drift net fishing or fine mesh net fishing in the marine environment.
4. Introduction of genetically engineered organisms.
5. Gambling, casinos and equivalent enterprises.
6. Mining or excavation of live coral.
7. Production of lead paints.
8. Production or trade in tobacco.
9. Production or trade in radioactive materials (including nuclear reactors and components thereof).
10. Production or trade in products containing PCBs or other hazardous chemicals subject to international phase outs or bans.
11. Production or trade in alcoholic beverages.
12. Production or trade in weapons and munitions (including paramilitary materials).
13. Production and/or use of asbestos containing products.
14. Production, dissemination and sale of pesticides subject to international phase outs or bans.
15. Production or trade in or use of un-bonded asbestos fibers.
16. Production or trade in wood or other forestry products from unmanaged forests.
17. Production or trade in ozone depleting substances subject to international phase out.
18. Production or trade in pharmaceuticals subject to international phase outs or bans.
19. Production or trade in pesticides/herbicides subject to international phase outs or bans.

⁵ This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where is considered the radioactive source to be trivial and/or adequately shielded.

20. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.
21. Production or activities involving harmful or exploitative forms of forced labor/harmful child labor.
22. Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals.
23. Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.
24. Purchase of logging equipment for use in primary tropical moist forest.
25. Trade in wildlife or wildlife products⁶.

⁶ Wildlife products regulated under CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora)

ANNEX B. IIF'S SOCIAL AND ENVIRONMENTAL PRINCIPLES

1. PRINCIPLE 1 (SEP 1): SOCIAL AND ENVIRONMENTAL ASSESSMENT AND MANAGEMENT SYSTEM (SEMS)

1. SEP 1 underscores the importance of managing S&E performance throughout the life of a project (any business activity that is subject to assessment and management). An effective SEMS system is a dynamic, continuous process initiated by management and involving communication between client, its workers, and the local communities directly affected by the project (the PAP). Drawing on the elements of the established business management process of “plan, implement, check, and act,” the system entails the thorough assessment of potential S&E impacts and risks from the early stages of project development, and provides order and consistency for mitigating and managing these on an ongoing basis. A good management system appropriate to the size and nature of a project promotes sound and S&E performance, and can lead to improved financial, S&E project outcomes. This Principle applies to projects with social or environmental risks and impacts that should be managed, in the early stages of project development, and on an ongoing basis.

2. Client will establish and maintain a SEMS appropriate to the nature and scale of the project and commensurate with the level of S&E risks and impacts. The Management System will incorporate the following elements:

- (i) Policy;
- (ii) S&E assessment;
- (iii) Management program;
- (iv) Organizational capacity and competency;
- (v) Emergency preparedness and response;
- (vi) Stakeholder engagement and Grievance Redress Mechanism;
- (vii) Monitoring and review; and
- (viii) Reporting.

3. Human rights should be respected to avoid infringing on the human rights of others and address adverse human rights impacts business may cause or contribute to. It is acknowledged each of Principles has elements related to human rights dimensions that a project may face in the course of its operations. As such any relevant human rights issues in each project will be addressed through project due diligence against these Principles.

1.1. Policy

4. Client will establish an overarching policy defining S&E objectives and principles that guide the project to achieve sound S&E performance⁷. The policy provides a framework for S&E assessment and management process, and specifies that the project (or business activities, as appropriate) will comply with applicable laws and regulations of the jurisdictions in which it is being undertaken, including those laws implementing Indonesia's obligations under international law. The policy should be consistent with Principles of the Performance Standards. Under some circumstances, clients may also subscribe to other internationally recognized standards, certification schemes, or codes of practice and these too will be included in the policy as appropriate. The policy will indicate who, within client's organization, will ensure conformance with the policy and be responsible for its execution (with reference to an appropriate responsible government agency or third party, as necessary). Client will communicate the policy to all levels of its organization.

1.2. Social and Environmental Assessment

5. Client will conduct a process of S&E Assessment that will consider in an integrated manner the potential S&E (including labor, health, and safety) risks and impacts of the project. The Assessment process will be based on current information, including an accurate project description, and appropriate S&E baseline data. The Assessment will consider all relevant S&E risks and impacts of the project, including the issues identified in SEP 2 through 8, and those who will be affected by such risks and impacts. Applicable Indonesian laws and regulations pertaining to S&E matters, including those laws implementing Indonesia's obligations under international law, will also be taken into account.

6. Risks and impacts will be analyzed in the context of the project's area of influence. This area of influence encompasses, as appropriate the following:

- (i) the primary project site(s) and related facilities that client (including its contractors) develops or controls, such as power transmission corridors, pipelines, canals, tunnels, relocation and access roads, borrow and disposal areas, construction camps;
- (ii) associated facilities that are not funded as part of the project (funding may be provided separately by client or by third parties including the government), and whose viability and existence depend exclusively on the project and whose goods or services are essential for the successful operation of the project;
- (iii) areas potentially impacted by cumulative impacts from further planned development of the project, any existing project or condition, and other project-related developments that are realistically defined at the time the S&E Assessment is undertaken;

⁷ This requirement is a stand-alone, project-specific policy and is not intended to affect (or require alteration of) existing policies client may have defined for non-related projects, business activities, or higher-level corporate activities.

- (iv) Areas potentially affected by impacts from unplanned but predictable developments caused by the project that may occur later or at a different location. The area of influence does not include potential impacts that would occur without the project or independently of the project; and
- (v) Indirect project impacts on biodiversity or on ecosystem services upon which PAP' livelihoods are dependent.

7. Risks and impacts will also be analyzed for the key stages of the project cycle, including pre-construction, construction, operations, and decommissioning or closure. Where relevant, the Assessment will also consider the role and capacity of third parties (such as local and national governments, contractors and suppliers), to the extent that they pose a risk to the project, recognizing that client should address these risks and impacts commensurate to client's control and influence over the third-party actions. The impacts associated with supply chains will be considered where the resource utilized by the project is ecologically sensitive, or in cases where low labor cost is a factor in the competitiveness of the item supplied. The Assessment will also consider potential trans-boundary effects, such as migration birds, pollution of air, or use or pollution of international waterways, as well as global impacts, such as the emission of greenhouse gasses.

8. The Assessment will be an adequate, accurate, and objective evaluation and presentation of the issues, prepared by qualified and experienced persons. In projects with significant adverse impacts or where technically complex issues are involved, clients may be required to retain external experts to assist in the Assessment process.

9. Depending on the type of project and the nature and magnitude of its risks and impacts, the Assessment may comprise a full-scale S&E impact assessment, a limited or focused environmental or social assessment, or straightforward application of environmental siting, pollution standards, design criteria, or construction standards. When the project involves existing business activities, social and/or environmental audits may need to be performed to determine any areas of concern. The types of issues, risks and impacts to be assessed, and the scope of the community engagement can also vary considerably, depending on the nature of the project, and its size, location, and stage of development.

10. Projects with potential significant adverse impacts that are diverse, irreversible, or unprecedented will have comprehensive S&E impact assessments. This assessment will include an examination of technically and financially feasible⁸ alternatives to the source of such impacts, and documentation of the rationale for selecting the particular course of action proposed. In exceptional circumstances, a regional, sectoral or strategic assessment may be required.

⁸ "Technical feasibility" is based on whether the proposed measures and actions can be implemented with commercially available skills, equipment and materials, taking into consideration prevailing local factors such as climate, geography, demography, infrastructure, security, governance, capacity and operational reliability. "Financial feasibility" is based on commercial considerations, including the relative magnitude of the incremental cost of adopting such measures and actions compared to the project's investment, operating and maintenance costs and whether this incremental cost could make the project nonviable to client.

11. Narrower scopes of Assessments may be conducted for projects with limited impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.

12. Projects with minimal or no adverse impacts will not be subject to further assessment beyond their identification as such.

13. As part of the Assessment, client will identify individuals and groups that may be differentially or disproportionately affected by the project because of their disadvantaged or vulnerable status⁹. Where groups are identified as disadvantaged or vulnerable, client will propose and implement differentiated measures so that adverse impacts do not fall disproportionately on them and they are not disadvantaged in sharing development benefits and opportunities.

1.3. Management program

14. Taking into account the relevant findings of the S&E Assessment and the result of consultation with PAP, client will establish and manage a program of mitigation and performance improvement measures and actions that address the identified S&E risks and impacts (the management program).

15. Management programs consist of a combination of operational policies, procedures and practices. The program may apply broadly across client's organization, or to specific sites, facilities, or activities. The measures and actions to address identified impacts and risks will favor the avoidance and prevention of impacts over minimization, mitigation, or compensation, wherever technically and financially feasible. Where risks and impacts cannot be avoided or prevented, mitigation measures and actions will be identified so that the project operates in compliance with applicable laws and regulations and meets requirements of SEP 1 through 8. The level of detail and complexity of this program and the priority of the identified measures and actions will be commensurate with the project's risks and impacts.

16. The program will define desired outcomes as measurable events to the extent possible, with elements such as performance indicators, targets, or acceptance criteria that can be tracked over defined periods, and with estimates of the resources and responsibilities for implementation. Recognizing the dynamic nature of the project development and implementation process, the program will be responsive to changes in project circumstances, unforeseen events, and the results of monitoring.

Action Plan

17. Where client identifies specific mitigation measures and actions necessary for the project to comply with applicable laws and regulations and to meet requirements of SEP 1 through 8, client will prepare an Action Plan. These measures and actions will reflect the outcomes of consultation on S&E

⁹ This status may stem from an individual's or group's race, color, sex, language, religion, political or other opinion, national or social origin, property, birth or other status. Client should also consider factors such as gender, ethnicity, culture, sickness, physical or mental disability, poverty or economic disadvantage, and dependence on unique natural resources.

risks and adverse impacts and the proposed measures and actions to address these. The Action Plan may range from a brief description of routine mitigation measures to a series of specific plans¹⁰. The Action Plan will:

- (i) Describe the actions necessary to implement the various sets of mitigation measures or corrective actions to be undertaken;
- (ii) Prioritize these actions;
- (iii) Include the time-line for their implementation;
- (iv) Be disclosed to the PAP; and
- (v) Describe the schedule and mechanism for external reporting on client's implementation of the Action Plan.

1.4. Organizational Capacity and Competency

18. Client will establish, maintain, and strengthen as necessary an organizational structure that defines roles, responsibilities, and authority to implement the management program, including the Action Plan. Specific personnel, including management representative(s), will have the knowledge, skills, and experience necessary to perform their work, including current knowledge of the Indonesia's regulatory requirements with clear lines of responsibility and authority should be designated. Key S&E responsibilities should be well defined and communicated to the relevant personnel and to the rest of the organization. Sufficient management sponsorship and human and financial resources will be provided on an ongoing basis to achieve effective and continuous S&E performance.

19. The S&E risks and impacts identification process will consist of an adequate, accurate and objective evaluation and presentation, prepared by competent professionals.

Training

20. Client will train employees and contractors with direct responsibility for activities relevant to the project's S&E performance so that they have the knowledge and skills necessary to perform their work, including current knowledge of the host country's regulatory requirements and the applicable requirements of SEP 1 through 8. Training will also address the specific measures and actions required under the management program, including the Action Plan, and the methods required to perform the action items in a competent and efficient manner.

1.5. Emergency Preparedness and Response

21. Where the project involves specifically identified physical elements, aspects and facilities that are likely to generate impacts, the SEMS will establish and maintain an emergency preparedness

¹⁰ For example, Resettlement Action Plan, Biodiversity Action Plan, Hazardous Materials Management Plan, Emergency Preparedness and Response Plan, Community Health and Safety Plan, and Indigenous Peoples Development Plan.

and response system so that client, in collaboration with appropriate and relevant third parties, will be prepared to respond to accidental and emergency situations associated with the project in a manner appropriate to prevent and mitigate any harm to people and/or the environment. This preparation will include the identification of areas where accidents and emergency situations may occur, communities and individuals that may be impacted, response procedures, provision of equipment and resources, designation of responsibilities, communication, including that with potentially PAP and periodic training to ensure effective response. The emergency preparedness and response activities will be periodically reviewed and revised, as necessary, to reflect changing conditions.

1.6. Stakeholder Engagement and Grievance Redress Mechanism

22. Strong, constructive and responsive relationships between IIF client and the PAP are essential for the successful management of a project's S&E impacts. Therefore, stakeholder engagement is the basis to achieve this goal.

23. Stakeholder engagement is an on-going process that involves, in varying degrees, the following elements: stakeholder analysis and planning, disclosure and dissemination of consultation, and grievance redress mechanism. The nature, frequency and level of effort of stakeholder engagement may vary considerably and will commensurate with the project's risks, adverse impacts, and the project's phase of development.

1.6.1. Stakeholder Analysis and Engagement Planning

24. IIF client will identify the range of stakeholder that may be interested in their actions and consider how external communications might facilitate a dialog with all stakeholders. Client will identify the project's PAP and will meet the relevant requirements. Where applicable, a Stakeholder Engagement Plan will be developed and implemented according to the project risks and impacts and development stage, and be tailored to the characteristics and interests of the PAP. Where applicable, the plan will include differentiated measures to allow the effective participation of those identified as disadvantaged or vulnerable. When the stakeholder engagement process depends substantially on community representatives, client will make every reasonable effort to verify that such persons do in fact represent the views of PAP and they can be relied upon to faithfully communicate the results of consultations to their constituents.

1.6.2. Disclosure

25. Disclosure of relevant project information helps PAP and other stakeholders understand the risks, impacts and opportunities of the project. Where client has undertaken a process of S&E Assessment, client will publicly disclose the Assessment document. Client will provide PAP with access to information on the purpose, nature and scale of the project, whenever necessary, the duration of proposed project activities, any risks to and potential impacts on such communities. For projects with adverse social or environmental impacts, disclosure should occur early in the S&E Assessment process and in any event, before the project construction commences.

1.6.3. Consultation

26. If PAP may be subject to risks or adverse impacts from a project, client will undertake a process of consultation in a manner that provides the PAP with opportunities to express their views on project risks, impacts, and mitigation measures, and allows client to consider and respond to them. Effective consultation is a two-way process that:

- (i) should be based on the prior disclosure of relevant and adequate information, including draft documents and plans;
- (ii) should begin early in the S&E process;
- (iii) will focus on the S&E risks and adverse impacts, and the proposed measures and actions to address these;
- (iv) will be carried out on an ongoing basis as risks and impacts arise. The consultation process will be undertaken in a manner that is inclusive and culturally appropriate; and
- (v) should be free of external manipulation, interference, coercion or intimidation.

27. Client will tailor its consultation process to the language preferences of the PAP, their decision-making process, and the needs of disadvantaged or vulnerable groups.

28. For projects with significant adverse impacts on PAP, the consultation process will ensure their free, prior and informed consultation and facilitate their informed participation. Informed participation involves organized and iterative consultation, leading to client's incorporating into their decision-making process the views of the PAP on matters that affect them directly, such as proposed mitigation measures, the sharing of development benefits and opportunities, and implementation issues. Client will document the process, in particular the measures taken to avoid or minimize risks to and adverse impacts on the PAP.

29. The consultation process should capture both men's and women's including vulnerable groups views and reflect men's and women's different concerns and priorities about impacts, mitigation mechanisms and benefits.

1.6.4. Grievance Mechanism

30. Client will respond to PAP' concerns related to the project. If client anticipates ongoing risks to or adverse impacts on PAP, client will establish a grievance mechanism to receive and facilitate resolution of the PAP' concerns and grievances about client's S&E performance. The grievance mechanism should be scaled to the risks and adverse impacts of the project and have PAP as its primary user. It should address concerns promptly, using an understandable and transparent process that is culturally appropriate and readily accessible to all segments of the PAP, and at no cost and without retribution. The mechanism should not impede access to judicial or administrative remedies. Client will inform the PAP about the mechanism in the course of its stakeholder engagement process.

1.7. Monitoring and Review

31. As an element of its Management System, client will establish procedures to monitor and measure the effectiveness of the management program. In addition to recording information to track performance and establishing relevant operational controls, client should use dynamic mechanisms, such as inspections and audits, where relevant, to verify compliance and progress toward the desired outcomes. Appropriate level of personnel in client's organization should oversee the monitoring program and receive periodic assessments of the effectiveness of the management program, based on systematic data collection and analysis. For projects with significant impacts that are diverse, irreversible, or unprecedented, client will retain qualified and experienced external experts to verify its monitoring information. The extent of monitoring should be commensurate with the project's risks and impacts and with the project's compliance requirements. Monitoring should be adjusted according to performance experience and feedback. Client will document monitoring results, identify, and reflect the necessary corrective and preventive actions in the amended management program. Client will implement these corrective and preventive actions and follow up on these actions to ensure their effectiveness.

1.8. Reporting

32. Client will provide periodic reports that describe progress with implementation of the Action Plan on issues that involve ongoing risk to or impacts on PAP, and on issues that the consultation process or grievance mechanism has identified as of concern to those communities. If the management program results in material changes in, or additions to, the mitigation measures or actions described in the Action Plan on issues of concern to the PAP. These reports will be in a format accessible to the PAP. The frequency of these reports will be proportionate to the concerns of PAP but not less than annually.

2. PRINCIPLE 2 (SEP 2): LABOR AND WORKING CONDITIONS

33. SEP 2 recognizes that protection of the fundamental rights of workers should accompany the pursuit of economic growth. Through a constructive worker-management relationship, and by treating the workers fairly and providing them with safe and healthy working conditions, clients may create tangible benefits. Failure to establish and foster a sound worker-management relationship can undermine worker commitment and retention and can jeopardize a project.

34. Applicability of this Principle is established during the S&E Assessment process, while implementation of the actions necessary to meet requirements of this Principle is managed through IIF client's SEMS Management System. The assessment and management system requirements are outlined in SEP 1. Requirements set out in this Principle have been in part guided by a number of international conventions negotiated through the International Labor Organization (ILO) and the United Nations (UN)¹¹.

35. Throughout this Principle, the term "workers" is used to refer to employees of IIF client or the developer, as well as to certain types of non-employee workers. application of this Principle will vary depending on the type of workers, as follows:

- Employees: All requirements of this Principle, except for requirements under Sections 0 and 0 apply below; and
- Non-Employee Workers: Requirements of Section 0 applies.

36. Supply chain¹² issues are addressed in Section 0.

¹¹ These conventions are:

ILO Convention 87 on Freedom of Association and Protection of the Right to Organize

ILO Convention 98 on the Right to Organize and Collective Bargaining

ILO Convention 29 on Forced Labor

ILO Convention 105 on the Abolition of Forced Labor

ILO Convention 138 on Minimum Age (of Employment)

ILO Convention 182 on the Worst Forms of Child Labor

ILO Convention 100 on Equal Remuneration

ILO Convention 111 on Discrimination (Employment and Occupation)

United Nations Convention on the Rights of the Child, Article 32.1

UN Convention on the Protection of the Rights of all Migrant Workers and Members of their Families

¹² Supply chain refers to both labor and material inputs for the life cycle of a good or service.

2.1. Working Conditions and Management of Worker Relationship

2.1.1. Human Resources Policy and Procedures

37. IIF client will adopt a human resources policy and procedures appropriate to its size and workforce that sets out its approach to managing employees consistent with requirements of this Principle. Under the policy, IIF client will provide employees with information regarding their rights under national labor and employment law, including their rights related to wages and benefits. This policy will be clear and understandable to employees and will be explained or made accessible to each employee upon taking employment.

2.1.2. Working Relationship

38. IIF client will document and communicate to all employees and workers directly contracted by IIF client their working conditions and terms of employment, including their entitlement to wages and any benefits.

2.1.3. Working Conditions and Terms of Employment

39. Where IIF client is a party to a collective bargaining agreement with a workers' organization, such agreement will be respected. Where such agreements do not exist, or do not address working conditions and terms of employment (such as wages and benefits, hours of work, overtime arrangements and overtime compensation, and leave for illness, maternity, vacation or holiday) IIF client will provide reasonable working conditions and terms of employment that, at a minimum, comply with national law.

40. If applicable, client will identify migrant workers and ensure that they are engaged on substantially equivalent terms and conditions to non-migrant workers carrying out similar work.

41. Client will put in place and implement policies on the quality and management of the accommodation and provision of basic services if accommodation services are provided to workers. The accommodation services will be provided in a manner consistent with Principles of non-discrimination and equal opportunity. Workers' accommodation arrangements should not restrict workers' freedom of movement or of association.

2.1.4. Workers' Organizations

42. Indonesia where national law recognizes workers' rights to form and to join workers' organizations of their choosing without interference and to bargain collectively, IIF client will comply with national law. IIF client will not restrict alternative means for workers to express their grievances and protect their rights regarding working conditions and terms of employment. Client should not seek to influence or control these mechanisms.

43. IIF client will not discourage workers from forming or joining workers' organizations of their choosing or from bargaining collectively and will not discriminate or retaliate against workers who participate, or seek to participate, in such organizations and bargain collectively. IIF clients will engage

with such worker representatives. Worker organizations are expected to fairly represent the workers in the workforce.

2.1.5. Non-Discrimination and Equal Opportunity

44. IIF client will not make employment decisions based on personal characteristics unrelated to inherent job requirements. IIF client will base the employment relationship on the principle of equal opportunity and fair treatment and will not discriminate with respect to aspects of the employment relationship, including recruitment and hiring, compensation (including wages and benefits), working conditions and terms of employment, access to training, promotion, termination of employment or retirement, and discipline. Client will take measures to prevent and address harassment, intimidation, and/or exploitation, especially in regard to women. Principles of non-discrimination apply to migrant workers.

45. IIF client will comply with Indonesian law for non-discrimination in employment. When national laws are silent on non-discrimination in employment, IIF client will meet this Principle. Special measures of protection or assistance to remedy past discrimination or selection for a particular job based on the inherent requirements of the job will not be deemed discrimination.

2.1.6. Retrenchment

46. IIF client will develop a retrenchment plan including to mitigate the adverse impacts of retrenchment on employees, if it anticipates the elimination of a significant number of jobs or a layoff of a significant number of employees. The plan will be based on the principle of non-discrimination and will reflect IIF client's consultation with employees, their organizations and, where appropriate, the government.

2.1.7. Grievance Mechanism

47. IIF client will provide a grievance mechanism for workers (and their organizations, where they exist) to raise reasonable workplace concerns. IIF client will inform the workers of the grievance mechanism at the time of hire and make it easily accessible to them. The mechanism will involve an appropriate level of management and address concerns promptly, using an understandable and transparent process that provides feedback to those concerned, without any retribution. The mechanism will also allow anonymous complaints to be raised and addressed. The mechanism will not impede access to other judicial or administrative remedies that might be available under law or through existing arbitration procedures, or substitute for grievance mechanisms provided through collective agreements.

2.2 Protecting the Work Force

2.2.1. Child Labor

48. IIF client will not employ children in a manner that is economically exploitative or is likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical,

mental, spiritual, moral, or social development. Client will identify the presence of all persons under the age of 18. Where national laws have provisions for the employment of minors, IIF client will follow those laws applicable to IIF client. Children below the age of 18 years will not be employed in dangerous work. All work of persons under the age of 18 will be subjected to an appropriate risk assessment and regular monitoring of health, working conditions, and working hours.

2.2.2. Forced Labor

49. IIF client will not employ any forced labor, which consists of any work or service not voluntarily performed that is exacted from an individual under threat of force or penalty. This covers any kind of involuntary or compulsory labor, such as indentured labor, bonded labor or similar labor contracting arrangements. IIF client will not employ trafficked persons¹³.

2.3. Occupational Health and Safety

50. IIF client will provide the workers with a safe and healthy work environment, taking into account inherent risks in its particular sector and specific classes of hazards in IIF client's work areas including physical, chemical, biological and radiological hazards, and specific threats to women. Client will take steps to prevent accidents, injury and disease arising from, associated with, or occurring in the course of work by minimizing, so far as reasonably practicable the causes of hazards. In a manner consistent with good international industry practice¹⁴, client will address areas including: the identification of potential hazards to workers, particularly those that may be life threatening, provision of preventive and protective measures, including modification, substitution, or elimination of hazardous conditions or substances; training of workers; documentation and reporting of occupational accidents, diseases and incidents; and emergency prevention, preparedness and response arrangements.

2.4. Non-Employee Workers

51. For purpose of this Principle, "non-employee workers" refers to workers who are (i) directly contracted by client or contracted through contractors or other intermediaries; and (ii) performing work directly related to core functions essential to client's products or services for a substantial duration. Policies and procedures for managing and monitoring the performance of such employers in relation to requirements of this Principle will be established by client. When IIF client contracts non-employee workers directly, IIF client will use commercially reasonable efforts to apply requirements of this Principle, except for Sections 0, 0, and Section 0. With respect to contractors or other intermediaries procuring nonemployee workers, IIF client will use commercially reasonable efforts to: (i) ascertain that these contractors or intermediaries are reputable and legitimate enterprises; and (ii)

¹³ Trafficking persons is the recruitment, transportation, transfer, harboring or receipt of persons by means of the threat or use of force or other forms of coercion, abduction, fraud, deception, abuse of power or of a position of vulnerability or of the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation. Women and children are particularly vulnerable to trafficking practices.

¹⁴ Defined as the exercise of professional skill, diligence, prudence and foresight that would reasonably be expected from skilled and experienced professionals engaged in the same type of undertaking under the same or similar circumstances globally

require that these contractors or intermediaries apply requirements of this Principle except for Sections 0, 0, and 0.

52. Non-employee workers will have access to a grievance mechanism. Client will extend its own grievance mechanism to serve non-employee workers in cases their employers are not able to provide a grievance mechanism.

2.5. Supply Chain

53. The adverse impacts associated with supply chains will be considered where low labor cost is a factor in the competitiveness of the item supplied. Client will inquire about and address child labor and forced labor in its primary supply chain¹⁵, consistent with Sections 0 and 0 above. If child labor or forced labor cases are identified, client will take appropriate steps to remedy them. Client will monitor its primary supply chain on an on-going basis in order to identify any significant changes in its supply chain and if new risks or incidents of child and/or forced labor are identified, client will take appropriate steps to remedy them.

54. To the extent applicable, relevant and possible, client will introduce procedures and mitigation measures to ensure that primary suppliers within the supply chain are taking steps to prevent or to correct life-threatening situations if there is a high risk of significant safety issues related to supply chain workers. The ability of client to fully address these risks will depend upon client's level of management control or influence over its primary suppliers. Where remedy is not possible, client will consider shift the project's primary supply chain over time to suppliers that can demonstrate that they are complying with this Principle.

¹⁵ Primary suppliers are those suppliers who, on an ongoing basis, provide goods or materials essential for the core business processes of the project.

3 PRINCIPLE 3 (SEP 3): POLLUTION PREVENTION AND ABATEMENT AND CLIMATE CHANGE

55. SEP 3 recognizes that increased economic activity and urbanization often generate increased levels of pollution to air, water, and land, and as well as consume finite resources in a manner that may threaten people and the environment at the local, regional, and global level¹⁶. There is also a growing global consensus that the current and projected atmospheric concentration of greenhouse gases (GHG) threatens the public health and welfare of current and future generations. At the same time, more efficient and effective resource use and pollution prevention¹⁷ as well as and GHG emission avoidance and mitigation technologies and practices have become more accessible and achievable in virtually all parts of the world.

56. This Principle outlines a project-level approach to resource efficiency and pollution prevention and control in line with these internationally disseminated technologies and practices. In addition, this Principle promotes the private sector's ability to integrate such technologies and practices as far as their use is technically and financially feasible and cost-effective in the context of a project that relies on commercially available skills and resources.

57. The applicability of this Principle is determined during S&E risks and impacts identification process, while implementation of the actions necessary to meet the requirements of this Principle is managed through the client's S&E Management System. The assessment and management system requirements are outlined in SEP 1.

3.1. General Requirements

58. During the design, construction, operation and decommissioning of the project (the project life-cycle) client will consider ambient conditions and apply resource efficiency and pollution prevention principles and techniques that are best suited to avoid or, where avoidance is not possible, minimize or reduce adverse impacts on human health and environment while remaining technically and financially feasible and cost-effective¹⁸. Principles and techniques applied during the project life cycle will be tailored to the hazards and risks associated with the nature of the project and consistent with

¹⁶ For the purposes of this Principle, the term "pollution" is used to refer to both hazardous and non-hazardous pollutants in the solid, liquid, or gaseous forms, and is intended to include other forms such as nuisance odors, noise, vibration, radiation, electromagnetic energy, and the creation of potential visual impacts including light.

¹⁷ For the purpose of this Principle, the term "pollution prevention" does not mean absolute elimination of emissions, but the avoidance at source whenever possible, and, if not possible, then subsequent minimization of pollution to the extent that the Principle objectives are satisfied.

¹⁸ Technical feasibility is based on whether the proposed measures and actions can be implemented with commercially available skills, equipment, and materials, taking into consideration prevailing local factors such as climate, geography, infrastructure, security, governance, capacity and operational reliability. Financial feasibility is based on commercial considerations, including relative magnitude of the incremental cost of adopting such measures and actions compared to the project's investment, operating, and maintenance costs.

Good International Industry Practice (GIIP)¹⁹, as reflected in various internationally recognized sources, including IFC's Environmental, Health and Safety Guidelines (EHS Guidelines).

3.1.1. Pollution Prevention, Resource Conservation and Energy Efficiency

59. Client will avoid the release of pollutants or, when avoidance is not feasible, minimize or control the intensity or load of their release. This applies to the release of pollutants due to routine, non-routine or accidental circumstances with the potential for local, regional, and trans-boundary impacts²⁰. In addition, client should examine and incorporate in its operations resource conservation and energy efficiency measures by implementing technically and financially feasible and cost-effective²¹ measures for improving efficiency in its consumption of energy, water, as well as other resources and material inputs, with a focus on areas that are considered as core business activities. Such measures will integrate Principles of cleaner production into product design and production processes with the objective of conserving raw materials, energy, and water.

3.1.2. Wastes

60. Client will avoid the generation of hazardous and non-hazardous waste materials. Where waste generation cannot be avoided, client will reduce the generation of waste, recover, and reuse the waste in a manner that is safe for human health and the environment. Where waste cannot be recovered or reused, client will treat, destroy, or dispose of it in an environmentally sound manner that includes the appropriate control of emissions and residues resulting from the handling and processing of the waste material. If the generated waste is considered hazardous,²² client will adopt GIIP alternatives for its environmentally sound disposal while adhering to the limitations applicable to its trans-boundary movement.²³ When hazardous waste disposal is conducted by third parties, client will use contractors from that are reputable and legitimate enterprises with a license from the relevant government regulatory agencies and obtain chain of custody documentation to the final destination. Client should ascertain whether licensed disposal sites are being operated to acceptable standards, if client will use these sites. Where this is not the case, clients should reduce waste sent to such sites and consider alternative disposal options, including the possibility of developing their own recovery or disposal facilities at the project site.

¹⁹ GIIP is defined as the exercise of professional skill, diligence, prudence, and foresight that would reasonably be expected from skilled and experienced professionals engaged in the same type of undertaking under the same or similar circumstances globally or regionally. The outcome of such exercise should be that the project employs the most appropriate technologies in the project-specific circumstances.

²⁰ In reference to trans-boundary pollutants, including those covered under the Convention on Long-range Trans-Boundary Air Pollution.

²¹ Cost-effectiveness is determined according to the capital and operational cost and financial benefits of the measure considered over the life of the measure. For the purpose of this Principle, a resource efficiency or GHG emissions reduction measure is considered cost-effective if it is expected to provide a risk-rated return on investment at least comparable to the project itself.

²² As defined by international conventions or local legislation.

²³ Trans-boundary movement of hazardous materials should be consistent with national, regional and international law, including the Basel Convention on the Control of Trans-Boundary Movements of Hazardous Wastes and Their Disposal and the London Convention on the Prevention of Marine Pollution by Dumping of Wastes and Other Matter.

3.1.3. Hazardous Materials Management

61. Client will avoid or, when avoidance is not feasible, minimize or control the release of hazardous materials resulting from their production, transportation, handling, storage and use for project activities. Client will avoid the manufacture, trade, and use of chemicals and hazardous materials subject to international bans or phase-outs due to their high toxicity to living organisms, environmental persistence, the potential for bioaccumulation, or potential for depletion of the ozone layer²⁴, and consider the use of less hazardous substitutes for such chemicals and materials.

3.1.4. Emergency Preparedness and Response

62. Client will be prepared to respond to process disruption accidents, and emergency situations in a manner appropriate to the operational risks and the need to prevent their potential negative consequences. This preparation will include a plan that addresses the training, resources, responsibilities, communication, procedures, and other aspects required to effectively respond to emergencies associated with project hazards. Additional requirements on emergency preparedness and response are found in SEP 4.

3.1.5. Technical Guidance

63. Client will refer to the current version of the EHS Guidelines when evaluating and selecting pollution prevention and control techniques for the project. These Guidelines contain the performance levels and measures that are normally acceptable and applicable to projects. When host country regulations differ from the levels and measures presented in the IFC EHS Guidelines, clients will achieve whichever is more stringent. If less stringent levels or measures are appropriate in view of specific project circumstances, client will provide full and detailed justification for any proposed alternatives. This justification will demonstrate that the choice for any alternate performance levels is consistent with the overall requirements of this Principle.

3.2. Ambient Considerations

64. To address adverse project impacts on existing ambient conditions²⁵, client will: (i) consider a several factors, including the finite assimilative capacity²⁶ of the environment, existing and future land use, existing ambient conditions, the project's proximity to ecologically sensitive or protected areas, and the potential for cumulative impacts with uncertain and irreversible consequences; and (ii) promote strategies that avoid or, where avoidance is not feasible, minimize or reduce the release of pollutants, including strategies that contribute to the improvement of ambient conditions when the project has the potential to constitute a significant source of emissions in an already degraded area.

²⁴ Consistent with the objectives of the Stockholm Convention on Persistent Organic Pollutants and the Montreal Protocol on Substances that Deplete the Ozone Layer. Similar considerations will apply to certain World Health Organization (WHO) classes of pesticides.

²⁵ Such as air, surface and groundwater, and soils.

²⁶ The capacity of the environment for absorbing an incremental load of pollutants while remaining below a threshold of unacceptable risk to human health and the environment.

These strategies include, but are not limited to, evaluation of project location alternatives and emissions offsets.

65. Where historical pollution such as land or ground water contamination exists, client will seek to determine who has the legal liability to manage this contamination since this liability will vary according to various circumstances. Client may bear this responsibility due to its own past actions or inactions or may have taken on this liability when acquiring the site. In other cases, contamination may have been identified and provision made legally to isolate client from such liability when acquiring the site. If it is determined that client is legally responsible, then these liabilities will be resolved in accordance with national law, or where this is silent, with GIIP.²⁷

3.3. Greenhouse Gases

66. Client will promote the reduction of project-related greenhouse gas (GHG) emissions in a manner appropriate to the nature and scale of project operations and impacts.

67. During the development or operation of projects that are expected to or currently produce significant quantities of GHGs, client will quantify direct emissions from the facilities owned or controlled within the physical project boundary and indirect emissions associated with the off-site production of power used by the project. Quantification and monitoring of GHG emissions will be conducted annually in accordance with internationally recognized methodologies.²⁸ In addition, client will evaluate technically and financially feasible and cost-effective options to reduce or offset project-related GHG emissions during the design and operation of the project. These options may include, but are not limited to, carbon financing, energy efficiency improvement, the use of renewable energy sources, alterations of project design, emissions offsets, and the adoption of other mitigation measures such as the reduction of fugitive emissions and the reduction of gas flaring.

68. The significance of a project's contribution to GHG emissions varies between industry sectors. The threshold for this Principle is 25,000 tones CO₂ equivalent per year for the aggregate emissions of direct sources and indirect sources associated with purchased electricity for own consumption. This or similar thresholds will apply to such industry sectors or activities as energy, transport, heavy industry, agriculture, forestry, and waste management in order to help promote awareness and reduction of emissions.

69. To the extent the above threshold is not met, client shall prepare, and IIF shall monitor, a periodic plan to list down steps to reduce the emissions of GHG over time, taking into consideration client's resources as well as technically and financially feasible as well as cost-effective.

²⁷ This may require coordination with national and local government, communities, and the contributors to the contamination, and that any assessment follows a risk-based approach consistent with GIIP as reflected in the EHS Guidelines.

²⁸ Estimation methodologies are provided by the Intergovernmental Panel on Climate Change (IPCC), various international organizations, and relevant host country agencies.

3.4 Water Consumption

70. When the project is a potentially significant consumer of water, client shall adopt measures that avoid or reduce water usage so that the project's water consumption does not have significant adverse impacts on others, besides applying the resource efficiency requirements of this Principle. These measures include, but are not limited to, the use of additional technically feasible water conservation measures within client's operations, the use of alternative water supplies, water consumption offsets to reduce total demand for water resources to within the available supply, and evaluation of alternative project locations.

3.5. Pesticide Use and Management

71. Client will, where appropriate, formulate and implement integrated pest management (IPM) and/or integrated vector management (IVM) approach targeting economically significant pest infestations and disease vectors of public health significance. Client's IPM and IVM program will integrate coordinated use of pest and environmental information along with available pest control methods, including cultural practices, biological, genetic, and, as a last resort, chemical means to prevent economically significant pest damage and/or disease transmission to humans and animals.

72. When pest management activities include the use of chemical pesticides, client will select chemical pesticides that are low in human toxicity, known to be effective against the target species, and that have minimal effects on non-target species and the environment. When client selects chemical pesticides, the selection will be based upon requirements that the pesticides be packaged in safe containers, be clearly labelled for safe and proper use, and that the pesticides have been manufactured by an entity currently licensed by relevant regulatory agencies.

73. Client will design its pesticide application regime to (i) avoid damage to natural enemies of the target pest, and where avoidance is not possible, minimize, and (ii) avoid the risks associated with the development of resistance in pests and vectors, and where avoidance is not possible minimize. In addition, pesticides will be handled, stored, applied, and disposed of in accordance with the Food and Agriculture Organization's International Code of Conduct on the Distribution and Use of Pesticides or other GIIP.

74. Client will not purchase, store, use, manufacture, or trade in products that fall in WHO Recommended Classification of Pesticides by Hazard Class **Ia** (extremely hazardous); or **Ib** (highly hazardous). Client will not purchase, store, use, manufacture or trade in **Class II** (moderately hazardous) pesticides, unless the project has appropriate controls on the manufacture, procurement, or distribution and/or use of these chemicals. These chemicals should not be accessible to personnel without proper training, equipment, and facilities to handle, store, apply, and dispose of these products properly.

4. PRINCIPLE 4 (SEP 4): COMMUNITY HEALTH, SAFETY AND SECURITY

75. SEP 4 recognizes that project activities, equipment, and infrastructure often bring benefits to communities including the provision of employment, services, and opportunities for economic development. However, projects can also increase the potential for community exposure to risks and impacts arising from climate change, equipment accidents, structural failures, and releases of hazardous materials. Communities may also be affected by impacts on their natural resources, exposure to diseases, and the use of security personnel. While acknowledging the public authorities' role in promoting the health, safety and security of the public, this Principle addresses client's responsibility to avoid or minimize the risks and impacts to community health, safety and security that may arise from project related-activities, with particular attention to vulnerable groups. The level of risks and impacts described in this Principle may be greater in projects located in conflict and post-conflict areas.

76. The applicability of this Principle is determined during the S&E Assessment process, while implementation of the actions necessary to meet the requirements of this Principle is managed through client's S&E Management System. The assessment and management system requirements are outlined in SEP 1.

77. This Principle addresses potential risks and impacts to the Project Affected People (PAP) from project activities. Occupational health and safety standards are outlined in SEP 2, and environmental standards to prevent impacts on human health and the environment due to pollution are elaborated in SEP 3.

4.1. Community Health and Safety Requirements

4.1.1. General Requirements

78. Client will evaluate the risks and impacts to the health and safety of the PAP during the design, construction, operation, and decommissioning of the project and will establish preventive measures to address them in a manner commensurate with the identified risks and impacts. These measures will favor the prevention or avoidance of risks and impacts over minimization and reduction.

79. Where the project poses risks to or adverse impacts on the health and safety of PAP, client will disclose the Action Plan and any other relevant project-related information to enable the PAP and relevant government agencies to understand these risks and impacts and will engage the PAP and relevant agencies on an ongoing basis consistent with requirements of SEP 1.

4.1.2. Infrastructure and Equipment Safety

80. Client will design, construct, and operate and decommission the structural elements or components of the project in accordance with good international industry practice²⁹, taking into consideration safety risks to third parties or PAP, and will give particular consideration to potential exposure to natural hazards, especially where the structural elements are accessible to members of the PAP or where their failure could result in injury to the community. Structural elements will be designed and constructed by qualified and experienced professionals, and certified or approved by competent authorities or professionals. When structural elements or components, such as dams, tailings dams, or ash ponds, are situated in high-risk locations, and their failure or malfunction may threaten the safety of communities, client will engage one or more qualified experts with relevant and recognized experience in similar projects, separate from those responsible for the design and construction, operation and decommissioning to conduct a review as early as possible in project development and throughout the stages of project design, construction, and commissioning. For projects that operate moving equipment on public roads and other forms of infrastructure, client will seek to prevent the occurrence of incidents and accidents associated with the operation of such equipment.

4.1.3. Hazardous Materials Management and Safety

81. Client will avoid or minimize the potential for community exposure to hazardous materials that may be released by the project. Where there is a potential for the community (including workers and their families) to be exposed to hazards, particularly those that may be life-threatening, client will exercise special care to avoid or minimize their exposure by modifying, substituting or eliminating the condition or substance causing the hazards. Where hazardous materials are part of existing project infrastructure or components, client will exercise special care when conducting decommissioning activities in order to avoid exposure to the community. In addition, client will exercise commercially reasonable efforts to control the safety of deliveries of hazardous materials and of transportation and disposal of hazardous wastes and will implement measures to avoid or control community exposure to pesticides in accordance with Sections 3.1.3 on Hazardous Material Management and 3.5 on Pesticides Use and Management as outlined in SEP 3.

4.1.4. Environmental and Natural Resource Issues

82. Client will avoid or minimize the exacerbation of impacts caused by natural hazards, such as landslides or floods that could arise from land-use changes due to project activities.

83. Client will also avoid or minimize adverse impacts due to project activities on soil, water, and other natural resources used by the PAP.

²⁹ Defined as the exercise of that degree of skill, diligence, prudence and foresight that would reasonably and ordinarily be expected from skilled and experienced professionals engaged in the same type of undertaking under the same or similar circumstances globally.

4.2. Ecosystem Services

84. The project's direct impacts on ecosystem services may result in adverse health and safety risks and impacts to PAP. Ecosystem services are limited to provisioning and regulating services, with respect to this Principle and as defined in SEP 6.³⁰ The diminution or degradation of natural resources, such as adverse impacts on quality, quantity, and availability of freshwater,³¹ may result in health-related risks and impacts. Client will identify those risks and potential impacts on priority ecosystem services that may be exacerbated by climate change, where appropriate and feasible. Client will implement mitigation measures in accordance with SEP 6 for those unavoidable impacts and SEP 5 for the use of and loss of access to provisioning services.

4.3. Community Exposure to Disease

85. Client will avoid or minimize the potential for community exposure to water-borne, water-based, water-related, vector-borne disease, and other communicable diseases that could result from project activities, taking into consideration differentiated exposure to and higher sensitivity of vulnerable groups. Where specific diseases are endemic in communities in the project area of influence, client is encouraged to explore opportunities during the project life cycle to improve environmental conditions that could help reduce their incidence.

86. Client will avoid or minimize transmission of communicable diseases that may be associated with the influx of temporary or permanent project labor.

4.4. Emergency Preparedness and Response

87. Client will assess the potential risks and impacts from project activities and inform PAP of significant potential hazards in a culturally appropriate manner. Client will also assist and collaborate with the community and the local government agencies in their preparations to respond effectively to emergencies, especially when their participation and collaboration are necessary to respond to such emergencies. If local government agencies have little or no capacity to respond effectively, client will play an active role in preparing for and responding to emergencies associated with the project. Client will document its emergency preparedness and response activities, resources, and responsibilities, and will disclose appropriate information in the Action Plan or other relevant document to PAP and relevant government agencies.

4.5. Security Personnel Requirements

88. When client directly retains direct or contracted worker's or contractors to provide security to safeguard its personnel and property, then the client will assess risks to those within and outside the project site posed by its security arrangement. In making such arrangements, client will be guided by

³⁰ For example, land use changes or the loss of natural buffer areas such as wetlands, mangroves, and upland forests that mitigate the effects of natural hazards such as flooding, landslides, and fire, may result in increased vulnerability and community safety-related risks and impacts.

³¹ Freshwater is an example of provisioning ecosystem services.

principles of proportionality, good international practices in terms of hiring, rules of conduct, training, equipping and monitoring of such personnel, and applicable law. Client will make reasonable inquiries to ensure that those security providers are not implicated in past abuses and, will train them adequately in the use of force (and where applicable, firearms) and appropriate conduct toward workers and the PAP, and require them to act within the applicable law. Client will not support sanction any use of force except when used for preventive and defensive purposes in proportion to the nature and extent of the threat. A grievance mechanism should allow the PAP to express concerns about the security arrangements and acts of security personnel.

89. If government security personnel are deployed to provide security services for client, client will assess risks arising from such use and encourage the relevant public authorities to disclose the security arrangements for client's facilities to the public, subject to overriding security concerns.

90. Client will consider and, where appropriate investigate any credible allegations of unlawful or abusive acts of security personnel, take action (or urge appropriate parties to take action) to prevent a recurrence, and report the unlawful and abusive acts to public authorities when appropriate.

5. PRINCIPLE 5 (SEP 5): LAND ACQUISITION AND INVOLUNTARY RESETTLEMENT

91. Involuntary resettlement refers both to physical displacement (relocation or loss of shelter) and to economic displacement (loss of assets or access to assets that leads to loss of income sources or means of livelihood) as a result of project-related land acquisition³². Resettlement is considered involuntary when affected individuals or communities do not have the right to refuse land acquisition that result in displacement. This occurs in cases of: (i) lawful expropriation or restrictions on land use based on eminent domain³³; and ii) negotiated settlements in which the buyer can resort to expropriation or impose legal restrictions on land use if negotiations with the seller fail.

92. Unless properly managed, involuntary resettlement may result in long-term hardship and impoverishment for affected persons and communities, as well as environmental damage and social stress in areas to which they have been displaced. For these reasons, involuntary resettlement should be avoided or at least minimized. However, where it is unavoidable, appropriate measures to mitigate adverse impacts on displaced persons and host communities³⁴ should be carefully planned and implemented. Experience demonstrates that the direct involvement of client in resettlement activities can result in cost-effective, efficient, and timely implementation of those activities, as well as innovative approaches to improving the livelihoods of those affected by resettlement.

93. Negotiated settlements help avoid expropriation and eliminate the need to use governmental authority to remove people forcibly. Negotiated settlements can usually be achieved by providing fair and appropriate compensation and other incentives or benefits to affected persons or communities, and by mitigating the risks of asymmetry of information and bargaining power. Clients are encouraged to acquire land rights through negotiated settlements wherever possible, even if they have the legal means to gain access to the land without the seller's consent.

94. The applicability of this Principle is established during the S&E Assessment process, while implementation of the actions necessary to meet requirements of this Principle is managed through client's SEMS. The assessment and management system requirements are outlined in SEP 1.

95. This Principle applies to physical or economic displacement resulting from the following types of land transactions:

- Type I: Land rights or land use rights for a private sector project acquired through expropriation or other compulsory procedures;
- Type II: Land rights or land use rights for a private sector project acquired through negotiated settlements with property owners or those with legal rights to land, including

³² Land acquisition includes both outright purchases of property and purchases of access rights, such as rights-of-way.

³³ Such restriction may include restrictions of access to legally designated nature conservation areas.

³⁴ A host community is any community receiving displaced persons.

customary or traditional rights recognized or recognizable under the laws of the country, if expropriation or other compulsory process would have resulted upon the failure of negotiation;³⁵

- Type III: Project situations where involuntary restrictions on land use and access to natural resources cause a community or groups within a community to lose access to resource usage where they have traditional or recognizable usage rights;³⁶
- Type IV: Project situations requiring evictions of people occupying land without formal, traditional, or recognizable usage rights;³⁷ or
- Type V: Restriction on access to land or use of other resources including communal property and natural resources such as marine and aquatic resources, timber and non-timber forest products, freshwater, medicinal plants, hunting and gathering grounds and grazing and cropping areas.³⁸

96. This Principle does not apply to resettlement resulting from voluntary land transactions (i.e., market transactions in which the seller is not obliged to sell and the buyer cannot resort to expropriation or other compulsory procedures if negotiations fail). It also does not apply to impacts on livelihoods where the project is not changing the land use of the affected groups or communities.³⁹

97. In the event of adverse economic, social, or environmental impacts from project activities other than land acquisition (e.g. loss of access to assets or resources or restrictions on land use), such impacts will be avoided, minimized, mitigated or compensated for through the process of S&E Assessment under SEP 1. If these impacts become significantly adverse at any stage of the project, client should consider applying requirements of SEP 5, even where no initial land acquisition was involved.

³⁵ These negotiations can be carried out by the private sector company acquiring the land or by an agent of the company. In the case of private sector projects in which land rights are acquired by the government, the negotiations may be carried out by the government or by the private company as an agent of the government.

³⁶ In such situations, affected persons frequently do not have formal ownership. This may include freshwater and marine environments. This Principle may also apply when project-related biodiversity areas or legally designated buffer zones are established but not acquired by client.

³⁷ While some people do not have rights over the land they occupy, this Principle requires that non-land assets be retained, replaced, or compensated for; relocation take place with security of tenure; and lost livelihoods be restored.

³⁸ Natural resource assets referred to in this Principle are equivalent to ecosystem provisioning services as described in SEP 6.

³⁹ More generalized impacts on communities or groups of people are covered in SEP 1. For example, disruption of access to mineral deposits by artisanal miners is covered by SEP 1.

5.1. General Requirements

5.1.1. Project Design

98. Client will consider feasible alternative project designs to avoid or at least minimize physical or economic displacement, while balancing environmental, social, and financial costs and benefits, paying attention to impacts on the Affected People who are poor and vulnerable

5.1.2. Compensation and Benefits for Displaced Persons

99. When displacement cannot be avoided, client will offer displaced persons and communities' compensation for loss of assets at full replacement cost and other assistance to help them improve or at least restore their standards of living or livelihoods, as provided in this Principle. Standards for compensation will be transparent and consistent within the project. Where livelihoods of displaced persons are land-based, or where land is collectively owned, client will offer land-based compensation, where feasible. Possession of the acquired land will only be taken by client only after compensation has been made available.⁴⁰ Client will provide opportunities to displaced persons and communities to derive appropriate development benefits from the project.

5.1.3. Consultation

100. Following disclosure of all relevant information, client will consult with and facilitate the informed participation of affected persons and communities, including host communities. This process should be conducted as part of the stakeholder engagement as described in SEP 1. In relation to the resettlement and livelihood restoration processes, client will apply a decision-making process that includes options and alternatives, where applicable. Project disclosure will continue during the implementation, monitoring, and evaluation of compensation payment, livelihood restoration activities and resettlement to achieve outcomes that are consistent with the objectives of this Principle.

5.1.4. Grievance Mechanism

101. Client will establish a grievance mechanism consistent with SEP 1 to receive and address specific concerns about compensation and relocation that are raised by displaced persons or members of host communities, including a recourse mechanism designed to resolve disputes in an impartial manner.

5.1.5. Resettlement and Livelihood Restoration Planning and Implementation

102. Where involuntary resettlement is unavoidable, either as a result of a negotiated settlement or as a result of expropriation, client will carry out a census with appropriate socio-economic baseline

⁴⁰ For some cases where it is not possible for client to pay all compensation before taking possession of the land (e.g. when the ownership of the land is disputable), the possession of the land should be identified and agreed on a case-by-case basis, and compensation funds should be made available for example through deposit into an escrow account before displacement.

data to identify the persons who will be displaced by the project, to determine who will be eligible for compensation and assistance, and to discourage inflow of people who are ineligible for these benefits. In the absence of host government procedures, client will establish a cut-off date for eligibility. Information regarding the cut-off date will be well documented and disseminated throughout the project area.

103. Where affected persons do not accept the compensations offers that meet requirement of this principle, and thus, expropriation or other legal procedures are initiated, client will explore opportunities to collaborate with the responsible governmental agency and when permitted, will play active role in the resettlement planning, implementation and monitoring.

104. Resettlement Action Plan (RAP) and/or Livelihood Restoration Plan implementation is completed when the adverse impacts of the resettlement have been addressed and consistent with the relevant plan as well as the objectives of this principle. Client will document all transactions to acquire land rights, as well as compensation measures and relocation activities. Client will also establish procedures to monitor and evaluate the implementation of resettlement plans and take corrective action as necessary. A resettlement will be considered complete when the adverse impacts of resettlement have been addressed in a manner that is consistent with the objectives stated in the resettlement plan or framework as well as the objectives of this Principle. The evaluation will include, at a minimum, the following:

- Review of the totality of mitigation measures implemented by client;
- Comparison of implementation outcomes against agreed objectives; and
- Conclusion as to whether the monitoring process can be concluded.

5.2 Displacement

105. Displaced persons may be classified as persons: (i) who have formal legal rights to the land they occupy; (ii) who do not have formal legal rights to land but have a claim to land that is recognized or recognizable under the national laws⁴¹; or (iii) who have no recognizable legal right or claim to the land they occupy⁴². The census will establish the status of the displaced persons.

106. Land acquisition for the project may result in the physical displacement of people as well as their economic displacement. As a result, requirements for both physical displacement and economic displacement may apply.

5.2.1. Physical Displacement

107. When the project involves physical displacement, client will develop a Resettlement Action Plan. The Resettlement Action Plan is designed to mitigate negative impacts of the physical displacement,

⁴¹ Such claims could be derived from adverse possession or from customary or traditional law.

⁴² Such as opportunistic squatters and recently arrived economic migrants who occupy land prior to the cut-off date.

identify any development opportunities, set resettlement schedule and establish the entitlement of all categories of affected persons.

108. If people living in the project area must move to another location, client will: (a) offer displaced persons choices among feasible resettlement options, including adequate replacement housing or cash compensation where appropriate; and (b) provide relocation assistance suited to the needs of each group of displaced persons, with particular attention paid to the needs of the poor and the vulnerable. Alternative housing and/or cash compensation will be made available prior to relocation. New resettlement sites built for displaced persons will offer improved living conditions. Client will respect social and cultural institutions of the displaced persons and any host communities.

109. In the case of category (i) and (ii) displacement, client will offer the choice of replacement property of equal or higher value, equivalent or better characteristics and advantages of location, or cash compensation at full replacement value where appropriate.⁴³

110. In the case of category (iii) of displacement, client will offer them a choice of options for adequate housing with security of tenure so that they can resettle legally without having to face the risk of forced eviction. Where these displaced persons own and occupy structures, client will compensate them for the loss of assets other than land, such as dwellings and other improvements to the land, at full replacement cost, provided that these people occupy the project area prior to the cut-off date for eligibility. Compensation in kind will be offered in lieu of cash compensation where feasible. Based on consultation with such displaced persons, client will provide relocation assistance sufficient for them to restore their standards of living at an adequate alternative site⁴⁴. Client is not required to compensate or assist those who encroach on the project area after the cut-off date.

111. Where communities of Indigenous Peoples are to be physically displaced from their communally held traditional or customary lands under use, client will meet the applicable requirements of this Principle, as well as those of SEP 7.

112. Client will not carry out any forced evictions⁴⁵ except in accordance with Indonesian law and requirements of this principle.

5.2.2. Economic Displacement

113. If land acquisition for the project causes loss of income or livelihood, regardless of whether or not the affected people are physically displaced, client will meet the following requirements:

⁴³ Payment of cash compensation for lost assets may be appropriate where: (a) livelihoods are not land-based; (b) livelihoods are land-based but the land taken for the project is a small fraction of the affected asset and the residual land is economically viable; or (c) active markets for land, housing, and labor exist, displaced persons use such markets, and there is sufficient supply of land and housing. Cash compensation levels should be sufficient to replace the lost land and other assets at full replacement cost in local markets.

⁴⁴ Relocation of informal settlers in urban areas often has trade-offs. For example, the relocated families may gain security of tenure, but they may lose advantages of location.

⁴⁵ Forced Evictions: permanent or temporary removal against the will of individuals, families and/or communities from the homes and/or lands, which are occupied without provision of appropriate forms of legal and other protection.

- Promptly compensate economically displaced persons for loss of assets or access to assets at full replacement cost;
- In cases where land acquisition or restrictions on land use affect commercial structures, compensate the affected business owner for the cost of re-establishing commercial activities elsewhere, for lost net income during the period of transition, and for the costs of the transfer and reinstallation of the plant, machinery or other equipment;
- Provide replacement property (e.g., agricultural or commercial sites) of equal or greater value, at full replacement cost where appropriate, to persons with legal rights or claims to land which are recognized or recognizable under the national laws;
- Compensate economically displaced persons who are without legally recognizable claims to land for lost assets (such as crops, irrigation infrastructure and other improvements made to the land) other than land, at full replacement cost. Client is not required to compensate or assist opportunistic settlers who encroach on the project area after the cut-off date;
- Provide additional targeted assistance (e.g., credit facilities, training, or job opportunities) and opportunities to improve or at least restore their income-earning capacity, production levels, and standards of living to economically displaced persons whose livelihoods or income levels are adversely affected as follow:
 - For affected persons whose livelihoods are land-based, as priority, replacement land that has a combination of productive potential, locational advantages and other factors at least equivalent to that being lost;
 - For affected persons whose livelihoods are natural resource-based and where project related restrictions to land or use of other resources apply, client will implement measures to either allow continued access to affected resources or provide access to alternative resources with equivalent livelihood-earning potential and accessibility. Benefits and compensation associated with natural resource usage may be collective in nature rather than directly oriented towards individuals or households; and
 - If due to some circumstances, client is not able to provide land or similar resources as described above, client will provide alternative income earning opportunities (e.g. credit facilities, training, cash or employment opportunities).
- Provide transitional support to economically displaced persons, as necessary, based on a reasonable estimate of the time required to restore their income-earning capacity, production levels, and standards of living.

114. Where communities of Indigenous Peoples are economically displaced (but not relocated) as a result of project-related land acquisition, client will meet the applicable requirements of this Principle, as well as those of SEP 7.

5.3 Private Sector Responsibilities under Government-Managed Resettlement

115. Where land acquisition and resettlement are the responsibility of the host government, client will collaborate with the responsible government agency, to the extent permitted by the agency, to achieve outcomes that are consistent with the objectives of this Principle. In addition, where government capacity is limited, client will play an active role during resettlement planning, implementation and monitoring, as described in the ensuing paragraphs.

116. For type 2 or type 3 project⁴⁶ involving land acquisition and resettlement, typical documents required is a land due diligence or land audit study, followed by corrective actions.

117. In the case of Type I transactions (acquisition of land rights through expropriation or other legal procedures) involving physical or economic displacement, and Type II transactions (negotiated settlements) involving physical displacement, client will identify and describe government resettlement measures. If these measures do not meet requirements of this principle, client will prepare a Supplementary Resettlement Plan (or a framework) that, together with the documents prepared by the responsible government agency, will address the relevant requirements of this Principle (the General Requirements and requirements for Physical Displacement and Economic Displacement above). Client may need to include in its Supplementary Resettlement Plan:

- (i) Identification of the affected persons and impacts;
- (ii) Description of regulated activities, including the entitlements of displaced persons provided under applicable laws and regulations;
- (iii) Supplemental measures proposed to bridge any gaps between such entitlements and requirements of this Principle; and
- (iv) The financial and implementation responsibilities of the government agency and/or client in the implementation of this Supplementary Resettlement Plan.

118. In the case of Type II transactions (negotiated settlements) involving economic (but not physical) displacement, client will identify and describe the procedures that the responsible government agency plans to use to compensate affected persons and communities. If these procedures do not meet the relevant requirements of this Principle, client will develop its own procedures to supplement government action.

119. If permitted by the responsible government agency, client will, in collaboration with such agency: (i) implement its plan or procedures established in accordance with paragraphs above; and

⁴⁶ Type 1 – Project/Borrowers in the early entry/stages of preparation or Project that has not been constructed; Type 2 – Project/Borrowers under construction or with facilities that have already been constructed and not yet operating; and Type 3 – Project/Borrowers has reached Commercial Operation Date (COD) or operating assets.

(ii) monitor resettlement activity that is undertaken by the government agency until such activity has been completed.

5.4. Land Acquisition Procedures in the Indonesian Context

120. The above principles provide the overarching guidance. Specific guidance on issues related to application of this Principle in Indonesia is provided in separate document (Supporting Documents). For operational purposes, the Social and Environment Management Division of IIF shall ensure that SEP 5 and such document are complied with.

6. PRINCIPLE 6 (SEP 6): BIODIVERSITY CONSERVATION AND NATURAL RESOURCE MANAGEMENT

121. SEP 6 recognizes that protecting and conserving biodiversity⁴⁷, maintaining ecosystem services, and sustainably managing natural resources are fundamental to sustainable development. This Principle reflects the objectives to conserve biological diversity and promote use of renewable natural resources in a sustainable manner. This Principle addresses how clients can avoid or mitigate threats to biodiversity arising from their operations as well as sustainably manage renewable natural resources.

122. The applicability of this Principle is established during the S&E Assessment process, while implementation of the actions necessary to meet requirements of this Principle is managed through client's SEMS. The assessment and management system requirements are outlined in SEP 1.

123. Based on the Assessment of risks and impacts and the vulnerability of the biodiversity and the natural resources present, requirements of this Principle are applied to projects in all habitats, whether or not those habitats have been previously disturbed, whether or not they are legally protected, and potentially impact on or are dependent on ecosystem services over which client has direct management control or significant influence.

124. When avoidance of impacts on biodiversity and ecosystem services is not possible, measures to minimize impacts and restore biodiversity and ecosystem services should be implemented. Predicting project impacts on biodiversity and ecosystem services over the long term on biodiversity and ecosystem services, client should adopt a practice of adaptive management in which the implementation of mitigation and management measures are responsive to changing conditions and the results of monitoring throughout the project's lifecycle.

6.1. Protection and Conservation of Biodiversity

125. In order to avoid or minimize adverse impacts to biodiversity in the project's area of influence, client will assess the significance of project impacts on all levels of biodiversity as an integral part of the S&E Assessment process. The Assessment will take into account the differing values attached to biodiversity by specific stakeholders, as well as identify impacts on ecosystem services. The Assessment will focus on the major threats to biodiversity, which include habitat destruction and invasive alien species.

⁴⁷ Biodiversity is defined as "the variability among living organisms from all sources including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are a part; this includes diversity within species, between species, and of ecosystems."

126. The mitigation hierarchy for the protection and conservation of biodiversity includes biodiversity offsets, which may be considered only after appropriate avoidance, minimization, and restoration measures have been applied.⁴⁸

127. A biodiversity offset should be designed and implemented to achieve measurable conservation outcomes⁴⁹ that can reasonably be expected to result in no net loss and preferably a net gain of biodiversity. However, a net gain is required in critical habitats. A biodiversity offset should be designed to the “like-for-like or better” principle⁵⁰ and must be carried out in alignment with best available information and current practices. External experts with offset design knowledge and implementation must be involved during the development of an offset.

6.2. Habitat

128. Habitat is defined as a terrestrial, freshwater, or marine geographical unit or airway that supports assemblages of living organisms and their interactions with the non-living environment. For the purposes of implementation of this Principle, habitats are divided into modified, natural, and critical.

129. Habitat destruction is recognized as the major threat to the maintenance of biodiversity. Habitats can be divided into natural habitats (which are land and water areas where the biological communities are formed largely by native plant and animal species, and where human activity has not essentially modified the area’s primary ecological functions) and modified habitats (where there has been apparent alteration of the natural habitat, often with the introduction of alien species of plants and animals, such as agricultural areas). Both types of habitat can support important biodiversity at all levels, including endemic or threatened species.

6.2.1. Modified Habitat

130. Modified habitats may contain a large proportion of plant and/ or animal species of non-native origin, and/or where human activity has substantially modified an area’s primary ecological functions

⁴⁸ Biodiversity offsets are measurable conservation outcomes resulting from actions designed to compensate for significant residual adverse biodiversity impacts arising from project development and persisting after appropriate avoidance, minimization and restoration measures have been taken.

⁴⁹ Measurable conservation outcomes for biodiversity must be demonstrated in situ (on the ground) and on an appropriate geographic scale (e.g., local, landscape level, national, regional).

⁵⁰ The principle of “like-for-like or better” indicates that biodiversity offsets must be designed to conserve the same biodiversity values that are being impacted by the project (an “in-kind” offset). In certain situations, however, areas of biodiversity to be impacted by the project may be neither a national nor a local priority, and there may be other areas of biodiversity with like values that are a higher priority for conservation and sustainable use and under imminent threat or need of protection or effective management. In these situations, it may be appropriate to consider an “out-of-kind” offset that involves “trading up” (i.e., where the offset targets biodiversity of higher priority than that affected by the project) that will, for critical habitats, meet requirements of Critical Habitat of this Principle.

and species composition⁵¹, which may include areas managed for agriculture, forest plantations, reclaimed⁵² coastal zones, and reclaimed wetlands.

131. This Principle applies to those areas of modified habitat that include significant biodiversity value, as determined by the risks and impacts identification process required in SEP 1. Client will exercise care to minimize any conversion or degradation of such habitat, and will, depending on the nature and scale of the project, identify opportunities to enhance habitat and protect and conserve biodiversity as part of their operations.

6.2.2. Natural Habitat

132. Natural habitats are areas composed of viable assemblages of plant and/or animal species of largely native origin, and/or where human activity has not essentially modified an area's primary ecological functions and species composition.

133. In areas of natural habitat, client will not significantly convert or degrade⁵³ such habitat, unless the following conditions are met:

- There are no technically and financially feasible alternatives;
- The overall benefits of the project outweigh the costs, including those to environment and biodiversity; and
- Any conversion or degradation is appropriately mitigated according to the mitigation hierarchy.

134. Mitigation measures will be designed to achieve no net loss of biodiversity where feasible, and may include a combination of actions, such as:

- Identification and protection of set-asides;⁵⁴
- Restoration of habitats during operations and/or post-operations;

⁵¹ This excludes habitat that has been converted in anticipation of the project.

⁵² Reclamation as used in this context is the process of creating new land from sea or other aquatic areas for productive use.

⁵³ Significant conversion or degradation is: (i) the elimination or severe diminution of the integrity of a habitat caused by a major, long-term change in land or water use; or (ii) modification of a habitat that substantially reduces the habitat's ability to maintain viable population of its native species.

⁵⁴ Set-asides are land areas of the project site or areas over which client has management control, that are excluded from development and are targeted for the implementation of conservation enhancement measures. Set-asides likely have significant values and/or provide significant ecosystem services at local, national and/or regional level. Internationally recognised approaches or methodologies (e.g. High Conservation Value, systematic conservation planning) can be used to define the set-asides.

- Offset of losses through the creation of ecologically comparable area(s) that is managed for biodiversity,⁵⁵ and
- Minimizing habitat fragmentation (e.g. biological corridors).

6.2.3. Critical Habitat

135. Critical habitat is a subset of both natural and modified habitat that deserves particular attention. Critical habitat includes areas with high biodiversity value⁵⁶, including habitat required for the survival of critically endangered or endangered species⁵⁷; areas having special significance for endemic or restricted-range species; sites that are critical for the survival of migratory species; areas supporting globally significant concentrations or numbers of individuals of congregator species; areas with unique assemblages of species or which are associated with key evolutionary processes or provide key ecosystem services; and areas having biodiversity of significant social, economic or cultural importance to local communities.

136. In areas of critical habitat, client will not implement any project activities unless the following requirements are met:

- No other feasible alternatives to develop the project on non-critical modified or natural habitats within the region;
- There are no measurable adverse impacts on the ability of the critical habitat to support the established population of species or the functions of the critical habitat; and
- There is no reduction in the population⁵⁸ of any recognized critically endangered or endangered species⁵⁹.

137. When client can meet the above requirements for critical habitats, client will describe the mitigation strategy in a Biodiversity Action Plan. The main goal of the Biodiversity Action Plan will be to achieve net gains⁶⁰ of biodiversity values.

⁵⁵ Clients will respect the ongoing usage of such biodiversity by Indigenous Peoples or traditional communities.

⁵⁶ Such as areas that meet the criteria of the World Conservation Union (IUCN) classification.

⁵⁷ As defined by the IUCN Red List of Threatened Species or as defined in any national legislation.

⁵⁸ Net reduction is defined as singular or cumulative loss of individuals that affects the species' ability to persist at the global and/or regional/national scales for many generations or over a long period. The potential net reduction scale (i.e. global and/or regional/national) is based on the species' listing on either IUCN Red List and/or regional /national lists. Species listed on both the (global) IUCN Red List and the national/regional lists, the net reduction will be based on the national/regional population.

⁵⁹ As defined by the IUCN Red List of Threatened Species or as defined in any national legislation.

⁶⁰ Net gains can be achieved through a biodiversity offset and/or through implementation of in-situ (on-the-ground) programs to enhance habitat and protect & conserve biodiversity.

6.3. Legally Protected Areas

138. In circumstances where a proposed project is located within a legally protected area⁶¹, or an internationally recognized area, will meet the following requirements:

- Act in a manner consistent with defined protected area management plans;
- Consult protected area sponsors and managers, local communities, and other key stakeholders on the proposed project; and
- Implement additional programs, as appropriate, to promote and enhance the conservation aims of the protected area.

6.4. Invasive Alien Species

139. Intentional or accidental introduction of alien, or non-native, species of flora and fauna into areas where they are not normally found can be a significant threat to biodiversity, since some alien species can become invasive, spreading rapidly and out-competing native species.

140. Client will not intentionally introduce any new alien species (not currently established in the country or region of the project) unless this is carried out in accordance with the existing regulatory framework for such introduction, if such framework is present, or is subject to a risk assessment (as part of client's S&E Assessment) to determine the potential for invasive behavior. Client will not deliberately introduce any alien species with a high risk of invasive behavior or any known invasive species and will exercise diligence to prevent accidental or unintended introductions.

6.5. Management of Ecosystem Services

141. Ecosystem services are the benefits that people and businesses derive from ecosystems, which are categorized into four services:

- (i) Provisioning services which are the products people obtain from ecosystems;
- (ii) Regulating services which are the benefits people obtain from the regulation of ecosystem processes;
- (iii) Cultural services which are the nonmaterial benefits people obtain from ecosystems; and
- (iv) Supporting services, which are the natural processes that maintain the other services.

142. Ecosystem services valued by humans are often supported by biodiversity. Hence, impacts on biodiversity can often adversely affect the delivery of ecosystem services.

⁶¹ An area may be designated as legally protected for different purposes. This Principle refers to areas legally designated for the protection or conservation of biodiversity, including areas proposed by governments for such designation.

143. If it is indicated, from the risks and impacts identification process, that the project is likely to have adverse impact to ecosystem services, client will implement a systematic review to identify priority ecosystem services. These prioritized ecosystem services are two-fold:

- (i) Services on which project operations are most likely to have an impact and hence, it will result in adverse impacts to the PAP; and/or
- (ii) Services on which project is directly dependent for its operations (e.g. water).

144. In the case when impacts to the prioritized ecosystem services are unavoidable, client will minimize such impacts and implement mitigation measures to maintain their value and functionality. For impacts on priority ecosystem services on which the project depends, client should minimize such impacts and implement measures to increase resource efficiency of the operations (as outlined in SEP 3). Additional provisions for ecosystem services are included in SEP 4, 5, 7 and 8.

6.6. Supply Chain

145. In the case when client purchases primary production from regions where there is a significant risk of natural and/or critical habitats conversion, client will evaluate its primary suppliers. Client will include, as part of its SEMS, systems and verification practices with the following objectives:

- (i) Identify the source of the supply and the habitat type;
- (ii) Provide on-going review of client's primary supply chains;
- (iii) Limit procurement from suppliers that contribute significantly to conversion of natural and/or critical habitats; and
- (iv) Shift client's supply chain over time to suppliers that do not significantly impacting natural and/or critical habitats, where possible.

146. Client's control over influence of its primary suppliers will play significant contribution to client's ability to address supply chain issues.

7. PRINCIPLE 7 (SEP 7): INDIGENOUS PEOPLES

147. The applicability of this Principle is established during the S&E Assessment process, while implementation of the actions necessary to meet requirements of this Principle is managed through client's SEMS. The assessment and management system requirements are outlined in SEP 1.

148. There is no universally accepted definition of "Indigenous Peoples" (IP). Indigenous Peoples may be referred to in different countries by such terms as "Indigenous ethnic minorities," "aboriginals," "hill tribes," "minority nationalities," "scheduled tribes," "first nations," or "tribal groups."

149. In this Principle, the term "Indigenous Peoples" is used in a generic sense to refer to a distinct vulnerable social and cultural group possessing the following characteristics in varying degrees:

- Self-identification as members of a distinct indigenous cultural group and recognition of this identity by others;
- Collective attachment to geographically distinct habitats or ancestral territories in the project area and to the natural resources in these habitats and territories therein or those who have lost the collective attachment to distinct habitats because of forced severance, conflict, government resettlement programs, land dispossession, natural disasters or incorporation of their territories into an urban area;
- Customary cultural, economic, social, or political institutions that are separate from those of the dominant society or culture; and
- An indigenous language, often different from the official language of the country or region.

150. Ascertaining whether a particular group is considered as Indigenous Peoples for the purpose of this Principle may require technical judgment or inputs from competent professionals.

7.1. General Requirements

7.1.1. Avoidance of Adverse Impacts

151. Client will identify through a process of S&E Assessment all communities of Indigenous Peoples who may be affected by the project within the project's area of influence, as well as the nature and degree of the expected social, cultural (including cultural heritage⁶²), and environmental impacts on them, and avoid adverse impacts whenever feasible.

152. When alternatives have been explored and avoidance is not feasible, client will minimize, restore, and/or compensate for these impacts in a culturally appropriate manner commensurate with the nature and scale of such impacts and the vulnerability of the affected communities of Indigenous

⁶² Additional client requirements on protection of cultural heritage are set out in SEP 8.

Peoples. Client's proposed action will be developed with the informed participation of affected Indigenous Peoples and contained in a time-bound plan, such as an Indigenous Peoples Plan (IPP), or a broader community development plan with separate components for Indigenous Peoples⁶³.

7.1.2. Participation and Consent

153. Client will establish an ongoing relationship and meaningful consultation with the PAP of Indigenous Peoples from as early as possible in the project planning and throughout the life of the project. In projects with adverse impacts on PAP of Indigenous Peoples, the consultation process will ensure their Free, Prior, Informed Consent (FPIC) and facilitate their informed participation on matters that affect them directly, such as proposed mitigation measures, the sharing of development benefits and opportunities, and implementation issues.

154. The process of community engagement will be culturally appropriate and commensurate with the risks and potential impacts to the Indigenous Peoples. In particular, the process will include the following steps:

- Involve Indigenous Peoples' representative bodies (for example, councils of elders or village councils, among others) as well as members of the PAP of Indigenous Peoples;
- Be inclusive of both women and men and of various age groups in a culturally appropriate manner;
- Provide sufficient time for Indigenous Peoples' decision-making processes.⁶⁴

155. Facilitate the Indigenous Peoples' expression of their views, concerns, and proposals in the language of their choice, without external manipulation, interference, or coercion, and without intimidation; and ensure that the grievance mechanism established for the project, as described in SEP 1, is culturally appropriate and accessible for Indigenous Peoples.

156. FPIC applies to project design, implementation, and expected outcomes related to impacts affecting the communities of Indigenous Peoples. There are at least three circumstances where FPIC applies: (i) If a project involves a commercial development of Indigenous Peoples' natural resources within their customary lands; (ii) if a project involves physical displacement of Indigenous Peoples resulting in adverse impacts on their identity, culture and livelihoods; and (iii) if project involves commercial development of Indigenous Peoples' cultural resources and traditional knowledge. When any of these circumstances apply, client will engage external experts to assist in the identification of the project risks and impacts. Consent refers to a collective expression by the affected Indigenous Peoples communities, through individuals and/or their recognized representatives, of broad community support to the concerned project activities. As such, to achieve FPIC, unanimity is not

⁶³ The determination of the appropriate plan will require technical judgment. A community development plan may be appropriate when Indigenous Peoples are integrated into larger PAP.

⁶⁴ Internal decision-making processes are generally but not always collective in nature. There may be internal dissent, and decisions may be challenged by some in the community. The consultation process should be sensitive to such dynamics and allow sufficient time for internal decision-making processes to reach conclusions that are considered legitimate by the majority of the concerned participants.

necessarily required. FPIC can also be achieved when individuals or groups within community explicitly disagree. The following should be documented:

- Mutually accepted process between client and PAP; and
- Agreement evidence between parties as the outcome for the negotiations.

7.1.3. Mitigation and Development Benefits

157. Client will seek to identify, through the process of FPIC of the PAP of Indigenous Peoples, mitigation measures that are in line with the mitigation hierarchy as described in the SEP 1 as well as opportunities for culturally appropriate and sustainable development benefits. Such opportunities should be commensurate with the degree of project impacts, with the aim of improving their standard of living and livelihoods in a culturally appropriate manner, and to fostering the long-term sustainability of the natural resource on which they depend. Client will document identified mitigation and development benefits and deliver them in a timely and equitable manner to the PAP of Indigenous Peoples.

158. Laws, institutions and customs of the PAP of Indigenous Peoples will be taken into account for the determination, delivery and distribution of compensation and other benefit sharing measures. Compensation eligibility can occur on a collective or individual basis or a combination of both. Where control of resources, assets and decision-making are predominantly collective in nature, client will make efforts to ensure that, where possible, benefits and compensation are collective, and take account of intergenerational differences and needs.

159. Some factors can be used by client to determine how the PAP of Indigenous Peoples should benefit from the project. These factors include, but not limited to, the nature of the project, project context and the vulnerability of the communities. Client should develop opportunities that aim to meet the goals and preferences of the Indigenous Peoples including to improve their living and livelihood standard in a culturally appropriate manner. Client should also foster the long-term sustainability of the natural resources on which the Indigenous Peoples depend.

7.2. Special Requirements

160. Because Indigenous Peoples may be particularly vulnerable to the project circumstances described below, the following requirements will also apply, in the circumstances indicated, in addition to the General Requirements above. When any of these Special Requirements apply, client will retain qualified and experienced external experts to assist in conducting the Assessment.

7.2.1. Impacts on Traditional or Customary Lands under Use

161. Indigenous Peoples are often closely tied to their traditional or customary lands and natural resources on these lands. While these lands may not be under legal ownership pursuant to national law, use of these lands, including seasonal or cyclical use, by communities of Indigenous Peoples for their livelihoods, or cultural, ceremonial, or spiritual purposes that define their identity and community, can often be substantiated and documented.

162. If client proposes to locate the project on, or commercially develop natural resources located within, traditional or customary lands under use, and adverse impacts⁶⁵ can be expected on the livelihoods, or cultural, ceremonial, or spiritual use that define the identity and community of the Indigenous Peoples, client will respect their use by taking the following steps:

- Client will document its efforts to avoid or at least minimize the size of land proposed for the project;
- Client will document its efforts to avoid or at least minimize the impacts on natural resources and natural areas of importance (e.g. loss of access to assets or resources or restrictions on land use resulting from client's project) to the Indigenous Peoples;
- Client will identify and review all property interests and traditional resource uses prior to land purchase and lease; and
- The Indigenous Peoples' resource use will be documented by experts in collaboration with the PAP of Indigenous Peoples without prejudicing any Indigenous Peoples' land claim.⁶⁶ The assessment should be gender inclusive and specifically consider women's role in the management and use of these resources;
- The PAP of Indigenous Peoples will be informed of their rights with respect to these lands under national laws, including any national law recognizing customary rights or use;
- Client will offer PAP of Indigenous Peoples at least compensation and due process in the case of commercial development of their land and natural resources, along with culturally appropriate sustainable development opportunities, including:
 - Client will provide land-based compensation or compensation-in-kind in lieu of cash compensation⁶⁷;
 - When the project results in loss of access to and loss of natural resources independent of project land acquisition, client will ensure the PAP of Indigenous Peoples will have continued access to natural resources, identify the equivalent replacement resources for them or, provide compensation and alternative livelihoods;

⁶⁵ Such adverse impacts may include impacts from loss of access to assets or resources, or restrictions on land use, resulting from project activities.

⁶⁶ While this Principle requires substantiation and documentation of the use of such land, clients should also be aware that the land might already be under alternative use, as designated by the host government.

⁶⁷ If, under some circumstances, client is not able to provide suitable land replacement, client will provide such verification. In this case, client will provide non-land-based income-earning opportunities over and above cash compensation to the PAP of Indigenous Peoples.

- When the project will utilize resources that are central to the identity and livelihood of the PAP of Indigenous Peoples, client will ensure fair and equitable share of benefits associated with that use of resources; and
 - Client will provide the PAP of Indigenous Peoples access, usage and transit on land it is developing and subject to health, safety and security considerations.
- Client will enter into good faith negotiation with the PAP of Indigenous Peoples and document their informed participation and their consent as a successful outcome of the negotiation.

7.2.2. Relocation of Indigenous Peoples from Lands and Natural Resources Subject to Traditional Ownership or Customary Use

163. Client will consider feasible alternative project designs to avoid the relocation of Indigenous Peoples from their communally held⁶⁸ traditional or customary lands and natural resources. If such relocation is unavoidable, client will not proceed with the project unless FPIC has been reached as described above. Any relocation of Indigenous Peoples will be consistent with the Resettlement Planning and Implementation requirements of SEP 5. Where feasible, the relocated Indigenous Peoples should be able to return to their traditional or customary lands, should the reason for their relocation cease to exist.

7.2.3. Critical Cultural Heritage

164. Client will put as a priority, the avoidance of project impacts on to critical cultural heritage⁶⁹ that is essential to the identity and/or cultural, ceremonial and spiritual aspects of Indigenous Peoples. When this avoidance cannot be achieved, client will obtain the FPIC of the PAP of Indigenous Peoples.

165. Where a project proposes to use the cultural heritage such as knowledge, innovations, or practices of Indigenous Peoples for commercial purposes, client will inform the PAP of Indigenous Peoples of: (i) their rights under national law; (ii) the scope and nature of the proposed commercial development; (iii) the potential consequences of such development and (iv) obtain their FPIC. Client will also ensure that fair and equitable share of benefits are achieved from the commercialization of such cultural resources.

⁶⁸ Where members of the PAP of Indigenous Peoples individually hold legal title, or where the relevant national law recognizes customary rights for individuals, requirements of SEP 5 will apply, rather than requirements under this heading.

⁶⁹ Critical Cultural Heritage includes natural areas with cultural and/or spiritual value such as sacred groves, sacred bodies of water and waterways, sacred trees and rocks.

8. PRINCIPLE 8 (SEP 8): CULTURAL PROPERTY AND HERITAGE

166. SEP 8 recognizes the importance of cultural heritage for current and future generations. Consistent with the Convention Concerning the Protection of the World Cultural and Natural Heritage, this Principle aims to protect irreplaceable cultural heritage and to guide clients on protecting cultural heritage in the course of their business operations. In addition, requirements of this Principle on a project's use of cultural heritage are based in part on standards set by the Convention on Biological Diversity.

167. The applicability of this Principle is established during the S&E Assessment process, while implementation of the actions necessary to meet requirements of this Principle is managed through client's SEMS. The assessment and management system requirements are outlined in SEP 1.

168. For the purposes of this Principle, cultural heritage refers to:

- (i) tangible forms⁷⁰ of cultural heritage, such as tangible property, structures, and sites having archaeological (prehistoric), paleontological, historical, cultural, artistic, and religious values;
- (ii) unique natural environmental features or tangible objects that embody cultural values, such as sacred groves, rocks, lakes, and waterfalls; and
- (iii) intangible forms of culture that are proposed to be used for commercial purposes, such as cultural knowledge, innovations and practices of communities embodying traditional lifestyles, are also included. Requirements of this Principle apply to cultural heritage regardless of whether or not it has been legally protected or previously disturbed. This principle does not apply to cultural heritage of Indigenous Peoples; SEP 7 describes these requirements.

⁷⁰ Tangible cultural heritage is considered a unique and often non-renewable resource that possesses cultural, scientific, spiritual, or religious value and includes moveable or immovable objects, sites, structures, groups of structures, natural features, or landscapes that have archaeological, paleontological, historical, architectural, religious, aesthetic, or other cultural value.

8.1. Protection of Cultural Heritage in Project Design and Execution

8.1.1. Internationally Recognized Practices

169. In addition to complying with relevant national law on the protection of cultural heritage, including national law implementing the host country's obligations under the Convention Concerning the Protection of the World Cultural and Natural Heritage and other relevant international law, client will protect and support cultural heritage by undertaking internationally recognized practices for the protection, field-based study, and documentation of cultural heritage. When the project risks and impacts assessment process identifies a chance of impacts to cultural heritage, client will retain qualified and experienced experts to assist in the Assessment.

8.1.2. Chance Find Procedures

170. Client is responsible for siting and designing a project to avoid significant damage to cultural heritage. When the proposed location of a project is in areas where cultural heritage is expected to be found, either during construction or operations, client will implement chance find procedures⁷¹ established through the S&E Assessment. Client will not disturb any chance finds further until an Assessment by a competent specialist is made and actions consistent with requirements of this Principle are identified.

8.1.3. Consultation

171. Where a project may affect cultural heritage, client will consult with PAP within the host country who use, or have used within living memory, the cultural heritage for long-standing cultural purposes. Client will consult with the PAP to identify cultural heritage of importance, and to incorporate into client's decision-making process the views of the PAP on such cultural heritage. Consultation will also involve the relevant national or local regulatory agencies that are entrusted with the protection of cultural heritage.

8.1.4. Community Access

172. Client will allow continuous access to the cultural sites or provide alternative access route, based on the PAP consultation above and subject to health, safety and security considerations for the project site contains cultural heritage or prevents access to previously accessible cultural heritage sites used by, or that have been used by, PAP within living memory for long-standing cultural purposes.

⁷¹ A chance find procedure is a project-specific procedure that outlines the actions to be taken if previously unknown cultural heritage is encountered.

8.1.5. Removal of Replicable Cultural Heritage

173. In the case the project involves replicable⁷² tangible cultural heritage (but not critical), client will apply mitigation measures that favor avoidance of removal. When this is not avoidable, client will implement the following mitigation hierarchy:

- Client will minimize adverse impacts of the project and apply in-situ restoration measures. This should ensure maintenance of the value and functionality of the cultural heritage, including any supporting ecosystem processes (in line with requirements of SEP 6);
- If on-site restoration is not feasible, client will restore the functionality of the cultural heritage at a different location, including the supporting ecosystem processes;
- When the project involves permanent removal of historical and archaeological artefacts and structures, client will carry out the process in accordance to requirements in this Principle; and
- Client will compensate for loss of tangible cultural heritage when it can be demonstrated that minimization of adverse impacts and restoration to maintain the value and functionality of the cultural heritage is not feasible and where tangible cultural heritage is used by the PAP for long-standing cultural purposes.

8.1.6. Removal of Non-Replicable Cultural Heritage

174. Cultural heritage is best protected by preservation in its place, since removal is likely to result in irreparable damage or destruction of the cultural heritage. Client will not remove any nonreplicable cultural heritage⁷³, unless the following conditions are met:

- There are no technically or financially feasible alternatives to removal;
- The overall benefits of the project outweigh the anticipated cultural heritage loss from removal; and
- Any removal of cultural heritage is conducted by the best available technique.

⁷² Replicable cultural heritage is tangible form of cultural heritage that can themselves be moved to another location or can be replaced by a similar structure or natural features to which the cultural values can be transferred by appropriate measures. Client can consider archaeological or historical sites as replicable if the particular eras and cultural values represented are well represented by other sites and/or structures.

⁷³ Nonreplicable cultural heritage may relate to the social, economic, cultural, environmental, and climatic conditions of past peoples, their evolving ecologies, adaptive strategies, and early forms of environmental management, where the (i) cultural heritage is unique or relatively unique for the period it represents, or (ii) cultural heritage is unique or relatively unique in linking several periods in the same site.

8.1.7. Critical Cultural Heritage

175. Critical cultural heritage consists of one or both of the following types of cultural heritage:

- (i) the internationally recognized heritage of communities who use, or have used within living memory the cultural heritage for long-standing cultural purposes; and
- (ii) Legally protected cultural heritage areas, including those proposed by host governments for such designation.

176. Client will not significantly alter, damage, or remove any critical cultural heritage. In exceptional circumstances, where a project impacts on critical cultural heritage are unavoidable, client will: (i) meet requirements of Paragraph 169 above; and (ii) conduct a good faith negotiation with and document the informed consultation and participation of the PAP and the successful outcome of the negotiation. Client will retain external experts to assist in the assessment and protection of critical cultural heritage.

177. Legally protected cultural heritage areas are important for the protection and conservation of cultural heritage, and additional measures are needed for any projects that would be permitted under the applicable national laws in these areas. In circumstances where a proposed project is located within a legally protected area or a legally defined buffer zone, client, in addition to requirements for critical cultural heritage cited above in Paragraph, will meet the following requirements:

- Comply with defined national or local cultural heritage regulations or the protected area management plans;
- Consult the protected area sponsors and managers, local communities and other key stakeholders on the proposed project; and
- Implement additional programs, as appropriate, to promote and enhance the conservation aims of the protected area.

8.2. Project's Use of Cultural Heritage

178. Where a project proposes to use the cultural heritage, including knowledge, innovations, or practices of local communities embodying traditional lifestyles for commercial purposes⁷⁴, client will inform these communities of:

- (i) their rights under national law;

⁷⁴ Including, but not limited to, commercialization of traditional medicinal knowledge or other sacred or traditional technique for processing plants, fibers or metals.

- (ii) the scope and nature of the proposed commercial development; and
 - (iii) the potential consequences of such development.
179. Client will not proceed with such commercialization unless it:
- (i) enters into a process of meaningful consultation which uses a good faith negotiation with the affected local communities embodying traditional lifestyles;
 - (ii) documents their meaningful consultation and the successful outcome of the negotiation; and
 - (iii) provides for fair and equitable sharing of benefits from commercialization of such knowledge, innovation, or practice, consistent with their customs and traditions.

ANNEX C. TERMS OF REFERENCE FOR IIF SED STAFF

Social and Environment Manager (SEM)

Title:	Social and Environment Manager (SEM)
Department/Division:	Risk Department/ Social and Environment Division (SED)

1. IMMEDIATE REPORTING RELATIONSHIPS:

The position reports to: Director, Risk who in turn reports into the Risk Management Committee of the Board of Directors.

The following staff positions report to SEM: Deputy Head of Social & Environmental Business Development (SEBD); Social and Environment Specialists; Administrative Staff (if any).

2. JOB PURPOSE:

Lead the planning, implementation and supervision of the SED vision, goals, strategies and work plan in supporting overall IIF goals.

Oversee quality of work and ensure the achievement of objectives of the division.

Lead and support external and internal relations, coordination and consultation initiatives for the division.

Lead and provide guidance on day-to-day operational issues and compliance with IIF Social and Environment Principles (SEP). Work with problems and issues that may involve high risk.

3. EXPECTED OUTCOMES:

a. Principles

- Lead, promote and facilitate the implementation of IIF SEP;
- Oversee the implementation of IIF's Social and Environment Management System (SEMS), report on lessons learned and good practices and recommend enhancements to IIF SEP; and
- As needed, update IIF SEP to ensure consistency with requirements of the founding shareholders and laws and regulations of the Republic of Indonesia.

b. Guidance Function

- Ensure S&E Policy is endorsed and actively communicated internally and externally;

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- Ensure S&E contribution and approval in due diligence and risk management committees;
 - Submit the memo to Director, Risk Management, confirming project compliance with application requirements as described in the SEMS, as well as compliance with any related legal and/or contractual obligations and regulatory requirements;
 - Monitor and measure the effectiveness of the SEMS program;
 - Prepare and include the required S&E covenants in the loan agreements;
 - Interact and consult with investors and co-lenders.

c. Knowledge Sharing

- Direct the capacity building initiative to improve quality of SEDD in project development and implementation, as well as external party.

d. Division Operations Management

- Lead the effective day-to-day operations of the division and provide guidance on S&E issues and IIF SEP;
- Lead and facilitate effective division coordination and cooperation with other IIF committees, divisions and other internal stakeholders;
- Undertake the performance management of the division, including motivation of staff; and
- Manage budget and resource allocation for the division.

e. Staff Supervision

- Recruit and manage staff for SED and ensure the overall quality of their work;
- Manage the performance of staff by providing clear direction and regular monitoring and feedback on performance; and
- Provide coaching and mentoring to staff and ensure their on-going learning and development.

4. CORE COMPETENCIES:

a. Technical Knowledge and Skills

- Applies technical knowledge and skills in managing the division and efficient use of resources;
 - Works at the leading edge of own technical specialism to ensure that the division achieve its goals; and
 - Recognized as IIF's spokesperson in the specialist area.
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b. Achieving Results

- Ensures work of own division contributes to achieving IIF results;
- Regularly reviews progress to ensure work of the division is on target; and
- Becomes a role model for output quality.

c. Working Together

- Leads teams in a way that demonstrates the value of diversity in different views, culture, nationality, and gender; and
- Able to mediate in conflict resolution.

d. Learning and Knowledge Sharing

- Requires others to create learning opportunities for staff and clients;
- Communicates an expectation of improvement and innovation; and
- Initiates and develops knowledge sharing networks.

e. Managing Staff

- Manages the performance of staff fairly and consistently and according to IIF human resources policy;
- Plans and implements learning and development of staff;
- Allocates work fairly; and
- Creates an environment where teams benefit from cultural diversity in different views, culture, nationality, and gender.

f. Leadership and Strategic Thinking

- Focuses work of the division on achieving relevant IIF objectives;
 - Makes positive contributions to policy development; and
 - Engenders commitment in others to achieving IIF strategic objectives.
-

5. KEY RELATIONSHIPS:

Supervisor (Director Risk): Work planning, performance feedback, results assessment, and personal development.

External Clients: Knowledge sharing and capacity development, development of regional partnerships and external networks.

Internal Clients: Support for project identification and development, implementation and compliance monitoring, knowledge sharing and capacity development.

6. EDUCATION REQUIREMENTS:

A university degree in engineering, applied science, social sciences; preferably at post-graduate level or its equivalent.

7. RELEVANT EXPERIENCE AND OTHER REQUIREMENTS:

- Suitability to undertake the responsibilities mentioned above at the required level;
- At least 10 years of relevant professional experience in project management, S&E assessment; and S&E management, planning and implementation;
- A comprehensive knowledge and understanding of relevant Indonesian laws and regulations;
- Proven management and leadership qualities;
- Excellent oral and written communication skills in English and Bahasa Indonesia; and
- Knowledge and understanding of multilateral financing institutions S&E policies.

Deputy Head of Social and Environment Business Development (SEBD)

Title:	Deputy Head of Social and Environment Business Development (SEBD)
Department/Division:	Risk Department/ Social and Environment Division (SED)

1. IMMEDIATE REPORTING RELATIONSHIPS:

The position reports to: S&E Manager (SEM).

The following staff positions report to SEBD: Social and environment Specialists; Administrative Staff (if any)

2. JOB PURPOSE:

Support SEM in term of planning, implementation and supervision of the SED vision, goals, strategies and work plan in support of overall IIF goals.

Prepare of S&E review, assessment and documentation of new project, allocate of human resources i.e. S&E Specialist to manage and preparation of new potential Project initiatives.

Oversee quality of work and ensure the achievement of objectives of the business development unit.

Maintain relationship with S&E consultant, support external and internal relations, coordination and consultation initiatives for the division.

Monitor on day-to-day operational issues and compliance of the new Project with IIF Social and Environment Principles (SEP). Work with problems and issues that may involve high risk.

3. EXPECTED OUTCOMES:

a. Principles

- Ascertain the Project has been assessed, provide mitigation action as necessary and comply with IIF SEP;
- Promote and facilitate the implementation of IIF SEP;
- Oversee the implementation of IIF's SEMS, report on lessons learned and good practices and recommend enhancements to IIF SEP; and
- As needed, update IIF SEP to ensure consistency with requirements of the founding shareholders and laws and regulations of the Republic of Indonesia.

b. Guidance Function

- Ensure S&E Policy is endorsed and actively communicated internally and externally;
- Ensure S&E contribution and approval in due diligence and risk management committees;
- Together with SEM, submit the memo to CRO - Director, Risk Management, confirming project compliance with application requirements as described in the SEMS, as well as compliance with any related legal and/or contractual obligations and regulatory requirements;
- Prepare and include the required S&E covenants in the loan agreements;
- Finalize corrective actions based on the findings of SEDD; and
- Interact and consult with investors and co-lenders.

c. Knowledge Sharing

- Direct the capacity building initiative to improve quality of SEDD in project development and implementation, as well as external party.

d. Division Operations Management

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- Lead the effective operations of business development unit and provide guidance on S&E issues and IIF SEP;
 - Facilitate effective unit coordination and cooperation with other IIF committees, divisions and other internal stakeholders;
 - Undertake the performance management of the unit, including motivation of staff; and
 - Manage resource allocation for the unit.

e. Staff Supervision

- Recruit and manage staff for SED and ensure the overall quality of their work;
 - Manage the performance of staff by providing clear direction and regular monitoring and feedback on performance; and
 - Provide coaching and mentoring to staff and ensure their on-going learning and development.
-

4. CORE COMPETENCIES:

a. Technical Knowledge and Skills

- Applies technical knowledge and skills in managing the unit and efficient use of resources;
- Works at the leading edge of own technical specialism to ensure that the unit achieve its goals; and
- Recognized as IIF's spokesperson in the specialist area.

b. Achieving Results

- Ensures work of own unit contributes to achieving IIF results;
- Regularly reviews progress to ensure work of the unit is on target; and
- Becomes a role model for output quality.

c. Working Together

- Leads teams in a way that demonstrates the value of diversity in different views, culture, nationality, and gender; and
- Able to mediate in conflict resolution.

d. Learning and Knowledge Sharing

- Requires others to create learning opportunities for staff and clients;
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- Communicates an expectation of improvement and innovation; and
 - Initiates and develops knowledge sharing networks.

e. Managing Staff

- Manages the performance of staff fairly and consistently and according to IIF human resources policy;
- Plans and implements learning and development of staff;
- Allocates work fairly; and
- Creates an environment where teams benefit from cultural diversity in different views, culture, nationality, and gender.

f. Leadership and Strategic Thinking

- Focuses work of the division on achieving relevant IIF objectives;
 - Makes positive contributions to S&E policy development; and
 - Engenders commitment in others to achieving IIF strategic objectives.
-

5. KEY RELATIONSHIPS:

Supervisor (SEM): Work planning, performance feedback, results assessment, and personal development.

External Clients: Knowledge sharing and capacity development, development of regional partnerships and external networks.

Internal Clients: Support for project identification and development, implementation and compliance monitoring, knowledge sharing and capacity development.

6. EDUCATION REQUIREMENTS:

A university degree in engineering, applied science, social sciences; preferably at post-graduate level or its equivalent.

7. RELEVANT EXPERIENCE AND OTHER REQUIREMENTS:

- Suitability to undertake the responsibilities mentioned above at the required level;
 - At least 7 years of relevant professional experience in project management, S&E assessment; and S&E management, planning and implementation;
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- A comprehensive knowledge and understanding of relevant Indonesian laws and regulations;
- Proven management and leadership qualities;
- Excellent oral and written communication skills in English and Bahasa Indonesia; and
- Knowledge and understanding of multilateral financing institutions S&E policies.

Social Specialist

Title:	Social Specialist
Committee/Division:	Risk Department/ Social & Environment Division (SED)

1. IMMEDIATE REPORTING RELATIONSHIPS:

The position reports to: S&E Manager (SEM) or Deputy Head of SEBD

The following staff positions report to the social specialist: Administrative Staff (if any)

2. JOB PURPOSE:

Promoting the implementation of IIF's SEP on SEMS, social assessment, labor, land acquisition and involuntary resettlement, Indigenous Peoples and cultural heritage.

3. EXPECTED OUTCOMES:

a. Principles

- Promote and facilitate the implementation of IIF's SEP on social assessment, labor, land acquisition and involuntary resettlement, Indigenous Peoples and cultural heritage in close cooperation with project developers; and
- Report on lessons learned, good practices, and recommend enhancements to IIF's SEP.

b. Guidance and Advisory Function

- Review Social Impact Assessment Reports, Resettlement Action Plans, Indigenous Peoples Development Plans, Labor Management Plans, Community Development Plans, Public Communications Plans, among others, and recommend enhancements to assure compliance with IIF's social policies;
- Prepare corrective action plans and propose S&E covenants to be included in investment agreements;

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- During project processing, undertake social due diligence, conduct field visits, and assist in public consultations and disclosure activities to support the implementation and ensure compliance with IIF's SEP; and
 - Monitor and supervise the projects to ensure on-going compliance with applicable S&E performance requirements and implementation of corrective plans.

c. Knowledge Sharing

- Prepare guidelines, handbooks and information materials on social Principles for use by project developers;
- Prepare training programs and conduct annual learning workshops for internal staff and project developers; and
- Undertake project implementation reviews and prepare annual report to Management on performance of various projects with a view to recommend respect to IIF's SEP.

4. CORE COMPETENCIES:

a. Technical Knowledge and Skills

- Able to provide solutions to complex problems using technical knowledge and skills in relation to project design and implementation;
- Applies a high level of technical expertise in work relating to social dimensions of projects; and
- Uses technical expertise to advice and support IIF project.

b. Client Orientation

- Focuses own and other efforts on understanding and meeting client needs (e.g. government agencies, private sector parties, non-government organizations);
- Able to work effectively with clients; and
- Seeks feedback on quality of service and makes improvements.

c. Achieving Results

- Ensures own work contributes to achieving IIF goals;
- Regularly reviews progress to ensure work is on target; and
- Prioritizes own and others' work to achieve key results areas.

d. Working Together

- Develops the team skills of team members;
- Encourages cooperation within and between teams and promotes the value of diversity in teams, such as in different views, culture, nationality, and gender; and
- Facilitates conflict resolution within the team.

e. Learning and Knowledge Sharing

- Helps staff to find a variety of ways to learn and develop;
 - Empowers staff to make improvements; and
 - Encourages the team to learn from each other.
-

5. KEY RELATIONSHIPS:

Supervisor (SEM or Deputy Head of SEBD): Work planning, performance feedback, results assessment, and personal development.

External Clients: Knowledge sharing and capacity development, development of regional partnerships and external networks.

Internal Clients: Support for project identification and development, implementation and compliance monitoring, knowledge sharing and capacity development.

6. EDUCATION REQUIREMENTS:

A university degree in an applied social science, e.g. sociology, anthropology, economics, development or human geography or other related fields; preferably at post-graduate level or its equivalent.

7. RELEVANT EXPERIENCE AND OTHER REQUIREMENTS:

- Suitability to undertake the responsibilities mentioned above at the required level;
 - At least 5 years of relevant professional experience in social impact assessment, social development/resettlement/Indigenous Peoples planning and implementation;
 - A comprehensive knowledge and understanding of relevant Indonesian laws and regulations and social and cultural environments and of issues related to land acquisition, involuntary resettlement, labor, Indigenous Peoples, among others;
 - Strong interpersonal, leadership, team, and negotiation skills;
 - Excellent oral and written communication skills in English and Bahasa Indonesia; and
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- Knowledge and understanding of multilateral financing institutions social policies.

Environment Specialist

Title:	Environment Specialist
Committee/Division:	Risk Department/ Social and Environment Division (SED)

1. IMMEDIATE REPORTING RELATIONSHIPS:

The position reports to: S&E Manager (SEM) or Deputy Head of SEBD

The following staff positions report to environment specialist: Administrative Staff (if any)

2. JOB PURPOSE:

Promoting the implementation of IIF's SEP on SEMS, environmental assessment, pollution prevention and abatement, community health, safety and security, biodiversity conservation and sustainable natural resource management.

3. EXPECTED OUTCOMES:

a. Principles

- Promote and facilitate the implementation of IIF's SEP on environmental assessment, pollution prevention and abatement, community health, safety and security, biodiversity conservation and sustainable natural resource management in close cooperation with project developers; and
- Report on lessons learned and good practices and recommend enhancements to IIF's SEP.

b. Guidance and Advisory Function

- Review environmental assessment reports, environmental management plans, public health action plans, environment, health and safety plans among others, and recommend enhancements to assure compliance with IIF's policies and Principles;
- Prepare corrective action plans and propose S&E covenants to be included in investment agreements;
- During project processing, undertake environmental due diligence, conduct field visits, and assist in public consultations and disclosure activities to support the implementation and ensure compliance with IIF's SEP; and

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- Monitor and supervise the projects to ensure on-going compliance with applicable S&E performance requirements and implementation of corrective plans.

c. Knowledge Sharing

- Prepare guidelines, handbooks and information materials on environmental Principles for use by project developers;
- Prepare training programs and conduct annual learning workshops for internal staff and project developers; and
- Undertake project implementation reviews and prepare annual report to Management on performance of various projects with a view to recommend respect to IIF's environmental Principles.

4. CORE COMPETENCIES:

a. Technical Knowledge and Skills

- Able to provide solutions to complex problems using technical knowledge and skills in relation to project design and implementation;
- Applies a high level of technical expertise in work relating to environmental dimensions of projects; and
- Uses technical expertise to advice and support IIF project.

b. Client Orientation

- Focuses own and other efforts on understanding and meeting client needs (e.g., government agencies, private sector parties, non-government organizations);
- Able to work effectively with clients; and
- Seeks feedback on quality of service and makes improvements.

c. Achieving Results

- Ensures own work contributes to achieving IIF goals;
- Regularly reviews progress to ensure work is on target; and
- Prioritizes own and others' work to achieve key results areas.

d. Working Together

- Develops the team skills of team members;
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- Encourages cooperation within and between teams and promotes the value of diversity in teams, such as in different views, culture, nationality, and gender;
 - Facilitates conflict resolution within the team;
 - Learning and Knowledge Sharing;
 - Helps staff to find a variety of ways to learn and develop;
 - Empowers staff to make improvements; and
 - Encourages the team to learn from each other.
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5. KEY RELATIONSHIPS:

Supervisor (SEM or Deputy Head of SEBD): Work planning, performance feedback, results assessment, and personal development.

External Clients: Knowledge sharing and capacity development, development of regional partnerships and external networks.

Internal Clients: Support for project identification and development, implementation and compliance monitoring, knowledge sharing and capacity development.

6. EDUCATION REQUIREMENTS:

A university degree in engineering or applied science (e.g. civil/chemical/mining/sanitary, biology, geology, geography, forestry or other related fields) preferably at post-graduate level or its equivalent.

7. RELEVANT EXPERIENCE AND OTHER REQUIREMENTS:

- Suitability to undertake the responsibilities mentioned above at the required level;
 - At least 5 years of relevant professional experience in environmental assessment; environmental, health and safety audit; and environmental management, planning and implementation;
 - A comprehensive knowledge and understanding of relevant Indonesian laws and regulations;
 - Strong interpersonal, leadership, team, and negotiation skills;
 - Excellent oral and written communication skills in English and Bahasa Indonesia; and
 - Knowledge and understanding of multilateral financing institutions environmental policies.
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ANNEX D. SOCIAL AND ENVIRONMENTAL SCREENING CATEGORIES OF PROJECTS

Table Social and Environmental Screening Categories of Projects

No.	Project Type	Project Categorization
1	<p>High Risk Project:</p> <p>Business activities with potential significant adverse environmental and/or social risks and impacts that are diverse, irreversible or unprecedented.</p> <hr/> <p>For Environmental:</p> <p>Projects with anticipated significant adverse on environment. It requires an adequately prepared - Environmental and Social Impact Assessment (ESIA) with Environmental Management Plan (EMP) and Environmental Monitoring Report (EMR) to obtain environmental clearance.</p> <hr/> <p>For Involuntary Resettlement (IR)</p> <p>Projects where 200 or more people will experience major involuntary resettlement impacts, which are defined as being physically displaced from housing, or losing 20% or more of their productive (income-generating) assets, or contextually related to the situation</p> <p>It requires a full Resettlement Action Plan</p> <hr/> <p>For Indigenous Peoples (IP)</p> <p>A project's impact is also significant, positively or negatively: (i) affects IP/EMs' customary rights of use and access to land, assets and natural resources; (ii) changes IP/EMs' socioeconomic status; (iii) affects IP/EMs' cultural and communal integrity; (iv) affects IP/EMs' health, education, livelihood, and social security status; or (v) alters or undermines the recognition of indigenous knowledge.</p>	A

No.	Project Type	Project Categorization
	<p>For projects significantly affecting IP/EMs, an Indigenous Peoples Plan (IPP) should be prepared</p>	
2	<p>Medium Risk Project:</p> <p>Business activities with potential limited adverse S&E risks and impacts, that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.</p>	B
	<p>For Environment:</p> <p>The project is anticipated to have limited adverse S&E risks and impacts, that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures therefore assessment for Category B projects will have a narrower scope, commensurate with the anticipated limited impacts of these types of projects. The examples are transmission lines and substations; rehabilitation projects of power plants, factories, or roads within the same corridor or footprint; and other developments.</p> <p>It requires the preparation of Initial Environmental Examination (IEE) with an environmental mitigation and monitoring programs. If in case the IEE is not considered sufficient, an ESIA will be performed</p>	
	<p>For Involuntary Resettlement (IR)</p> <p>Projects where fewer than 200 people will experience major involuntary. It requires the preparation of an Abbreviated Resettlement Action Plan, that contains a minimum and sufficient requirement for this assessment and commensurate with the anticipated level of risks and impacts.</p>	
	<p>For Indigenous Peoples (IP)</p> <p>Projects that are expected to have limited impacts on IP. It requires a specific favorable action to Indigenous Peoples in the project design or in related plans (e.g. a Resettlement Action Plan).</p>	

No.	Project Type	Project Categorization
3	<p>Low Risk Project:</p> <p>Business activities with minimal or no adverse S&E risks and impacts</p> <hr/> <p>For Environment:</p> <p>Projects with minimal or no anticipated adverse environmental impacts. Category C projects require no impact assessment studies.</p> <hr/> <p>For Involuntary Resettlement (IR)</p> <p>No involuntary resettlement impacts are expected.</p> <hr/> <p>For Indigenous Peoples (IP)</p> <p>No Indigenous Peoples impact is expected.</p> <hr/>	C

ANNEX E. TYPES OF IIF'S FINANCING AND S&E ASSESSMENT

Type of financing	Definition	IIF's Exposure	Example	Approach to S&E risk management
<u>Funded-based Financing</u>	All fund-based financing involves actual disbursement of money to the project or company.			
Project Finance	Senior loan provided to a Special Purpose Vehicle ("SPV", i.e. the project company) for developing a project, with repayment source from the project's revenue and/or assets.	To the cash-flow of the project	IIF provides term loan to the SPV for constructing and operating a power plant.	S&E risk assessment conducted at project level as per applicable requirements.
Corporate Loan	Senior loan provided to a company with multiple income source, for the purpose of a specific project, with repayment source from the company's revenue and/or assets and/or the company's affiliated parties.	To the balance sheet of the borrower and guarantor (if any)	IIF provides term loan to a holding company that has multiple operating subsidiaries.	S&E risk assessment conducted on: <ul style="list-style-type: none"> • S&E management systems at the corporate level to undertake and implement projects as per the applicable S&E requirements; • For financing to a specific operating asset: financed assets level audit as per applicable S&E requirements; • For financing to an asset portfolio: sample of financed

Type of financing	Definition	IIF's Exposure	Example	Approach to S&E risk management
Subordinated Debt	Loan provided to either an SPV or a company, whereby IIF's claim is junior/ secondary to the senior lenders.	Similar to the Project Finance and Corporate Loan, depending whether the loan provided to an SPV or a company.	IIF provides cash deficiency support to a toll road company, with repayment period starting after senior loan fully repaid.	assets as per applicable S&E requirements Similar to the Project Finance and Corporate Loan, depending whether the loan provided to an SPV or a company.
Mezzanine	Loan provided to either an SPV or a company, whereby IIF's claim is junior/ secondary to the senior lenders and has possibility to settle the loan with equity.	Similar to Corporate Loan, and value of the investee company.	IIF provides convertible loan to a company to develop several power plants, with an option to settle the loan principle with the borrower's newly-issued shares	Similar to Corporate Loan, with financing to assets portfolio.
Equity Investment	Subscription to an SPV or a company's shares. This includes financing in the form of mandatory convertible loan.	To the value of the investee company.	IIF invests in shares of a holding company that has subsidiaries managing infrastructure assets.	Similar to Corporate Loan with financing to assets portfolio.

There are other funded-based financing types such as Working capital loan; Bridging loan; Refinancing; Bond & Sukuk; Mutual fund; Preferred Shares, etc. Nonetheless, these financing types shall be able to be categorized in accordance to the list above.

Type of financing	Definition	IIF's Exposure	Example	Approach to S&E risk management
<u>Non-Funded based Financing</u>	There is contingent disbursement of funds.			
Guarantee (Including credit enhancement)	Guarantee provided in favor of a third party, that an SPV or a company should comply with certain conditions in future.	To the performance of the SPV / company	IIF issued guarantee to senior lenders that the IPP shall pay the principal and interest due amount.	Depends on the financing structure, to follow the Project Finance or Corporate Loan approach respectively.
Take-out Financing	Guarantee provided to an SPV or a company that IIF shall take-out the remaining outstanding loan if the existed lenders were not willing to extend the repayment period.	Similar to the Project Finance and Corporate Loan, depending whether the loan provided to an SPV or a company.	IIF provides guarantee to the SPV that IIF will undertake the refinancing risk for the remaining outstanding of the senior loan.	<ul style="list-style-type: none"> • Similar to the Project Finance and Corporate Loan, depending whether the loan provided to an SPV or a company.
Underwriting facility	IIF undertake to raise funding for certain amount, to an SPV or a company.	Similar to Project Finance or Corporate Loan, depending whether the loan provided to an SPV or a company.	IIF appointed by an SPV as Mandated Lead Arranger & Book runner ("MLAB") to raise senior loan portion of a Public Private Partnership (PPP) project.	Similar to Project Finance or Corporate Loan, depending whether the loan provided to an SPV or a company.

Type of financing	Definition	IIF's Exposure	Example	Approach to S&E risk management
Trade Finance (e.g. Letter of Credit, Standby Letter of Credit, Bank Guarantee)	<p>IIF, in collaboration with commercial banks, to provide trade finance facility to an SPV or a company.</p> <p>The payment to the trade facility is sourced from Funded Facility.</p>	Similar to the Project Finance or Corporate Loan, depending whether the loan provided to an SPV or a company.	IIF provides term loan and LC facility to an IPP. The LC will be used to import the turbine. Payment to the LC claim document is sourced from drawdown of term loan.	Similar to Project Finance or Corporate Loan, depending whether the loan provided to an SPV or a company.

Remarks:

IIF will continue to improve and expand the facility structure, to meet with the need of project developers to finance the infrastructure project. SED will assess and decide the best fit of the proposed new loan structure against the list above, to decide the best approach to S&E risk management.