NATIONAL BANK FOR FINANCING INFRASTRUCTURE AND DEVELOPMENT

Environmental and Social Management System (ESMS)

Summary of the Gap Assessment and Strengthening Roadmap

Public Disclosure Summary | August 18, 2026

A. Purpose and Context

1. The National Bank for Financing Infrastructure and Development (the 'Institution') was established by the Government of India in 2021 under the National Bank for Financing Infrastructure and Development Act, 2021 as a dedicated Development Finance Institution (DFI). The act mandates the Institution to support the development of long-term non-recourse infrastructure financing in India including development of bonds and derivatives markets necessary for infrastructure financing with a view to foster sustainable economic development in India. The Institution is strategically positioned to act as a catalytic platform that crowds in domestic and foreign capital without proportionately expanding public balance-sheet exposure.

2. The Institution is partnering with the World Bank Group and other International Financial Institutions (IFIs) to take this model to scale. The engagement comprises parallel operations—an IBRD loan and payment guarantee under the Unlocking Private capital for Long-term Infrastructure Financing and bond-market Transformation Project (UPLIFT, P513529), which supports the Institution in establishing a credit enhancement facility to enable infrastructure projects to raise commercial financing from India's bond market at scale; and a MIGA Non-Honoring of Financial Obligations (NHFO) guarantee, which provides non-payment coverage for commercial lenders financing the Institution's on-lending to eligible infrastructure sub-projects, and parallel financing from the Asian Development Bank (ADB)—together mobilizing significant IFI support within a programmatic pipeline. MIGA and IBRD operations are processed under the World Bank's Environmental and Social Framework (ESF), and specifically Environmental and Social Standard 9 (ESS9) on Financial Intermediaries, with the IFC Performance Standards applied to sub-projects where this delivers outcomes materially consistent with ESS9.

3. A defining feature of this engagement is the adoption of a single ESMS for the Institution, structured for multi-IFI use and presenting a single client interface to IBRD, MIGA, and ADB. The architecture of the system is intentionally open: it is designed to be compatible with the requirements of other international financial institutions that may engage with the Institution in the future, without requiring institutional redesign. This approach reduces institutional burden, signals coherence, and positions the Institution for the full programmatic pipeline.

4. As part of preparing its ESMS for IFI-financed operations, the Institution undertook in 2026 a comprehensive assessment of its existing system against the requirements of the WB ESF/ESS9, the IFC and MIGA Performance Standards, and the Joint MDB Paris Alignment framework. The assessment was carried out in close cooperation with, and reviewed by, the World Bank Group. This note summarizes the approach taken, the principal findings, and the roadmap through which the Institution will strengthen its ESMS. It is disclosed in the spirit of transparency that underpins the Institution's engagement with its IFI partners. A summary of the enhanced ESMS will be disclosed separately once the system has been finalized and adopted.

B. A Strong Existing Foundation

5. The Institution's strengthening agenda builds from a position of strength. In 2025, the Institution's Board of Directors approved its Environment & Social Policy (E&S Version 2.0) and with supporting Environmental and Social Management System (ESMS Version 2.0) was approved by the competent sub-committee —a comprehensive system organized around twelve key environmental and social topics broadly aligned with the thematic scope of the WB ESF (ESS1–10) and the IFC Performance Standards (PS1–8). Environmental and social considerations are embedded at multiple stages of the Institution's credit appraisal process.

6. The system is supported by dedicated governance structures. An E&S Committee reviews the environmental and social aspects of proposed investments; an E&S Lead anchors implementation of the ESMS, including environmental and social due diligence (ESDD), the setting of Environmental and Social Action Plans (ESAPs), capacity building, and reporting; and a dedicated E&S team undertakes due diligence for higher-risk sub-projects and monitors ESAP implementation. A 90-day external grievance mechanism is operational, and the Institution prepares annual E&S portfolio reporting.

7. The Institution has also demonstrated forward-looking institutional ambition. A proprietary biodiversity screening tool and a climate risk screening and assessment framework are each under development at the institution's own initiative—evidence of a client moving ahead of, rather than catching up to, evolving international practice. To reinforce delivery capacity, the Institution has engaged a panel of nine experienced E&S consultancy firms to support due diligence and implementation.

8. Against this backdrop, the IFI engagement calls for targeted strengthening rather than system redesign. The assessment described below identifies where the Institution's already-substantial system can be calibrated to the specific requirements that apply to IFI-financed operations.

C. A Deliberate and Proactive Assessment

9. The Institution approached the gap assessment as an exercise in institutional maturity. Rather than wait for requirements to be imposed, the Institution proactively benchmarked its system against international standards, drawing on the WB ESF/ESS9, the IFC and MIGA Performance Standards, the ADB Safeguard Policy Statement, and the Joint MDB Paris Alignment framework that took effect in January 2026.

10. The assessment was structured across the full architecture of an ESMS: the scope and policy coverage of the system; the thematic environmental and social standards; the core processes of screening, due diligence, categorization, and monitoring; stakeholder engagement, disclosure, and reporting; institutional capacity and implementation; and the review arrangements that govern cooperation with IFIs. Each area was examined to identify where enhancements would be needed and to sequence them in a logical, risk-proportionate order.

11. The result is a clear, prioritized roadmap. The findings are summarized below not as a catalogue of shortcomings, but as a structured agenda for bringing a strong existing system to full consistency with IFI requirements for the operations they finance.

D. Findings and Areas for Strengthening

12. The assessment grouped its findings into six areas. In each, the Institution's current practice provides a foundation on which the enhancements for IFI-financed operations will build. Consistent with the single-ESMS, multi-IFI design, these enhancements will be delivered through an IFI-specific addendum and will apply to IFI-financed operations, leaving the remainder of the Institution's portfolio governed by its existing ESMS.

13. **Scope and applicability.** The Institution's existing ESMS applies primarily to lending and equity and engages where its contribution exceeds a defined transaction threshold. For IFI-financed operations, the Institution will extend the definition of "investment" to capture the full range of financing instruments it supports, including guarantees, bonds, and partial credit enhancements; apply risk-proportionate screening to all such operations irrespective of transaction size; and require the identification of associated facilities. The Institution will, through the ESMS addendum, align its exclusion list with joint IFI requirements, including the activities identified as universally non-aligned under the Joint MDB Paris Alignment framework, and will apply these exclusions for IFI-financed operations. The Institution's existing ESMS includes an override provision for projects on the exclusion list; however this override mechanism will be ring-fenced and will not apply to IFI-financed operations, for which exclusions are absolute. For entry at the operations phase, including refinancing, dedicated guidance will be introduced requiring a pre-investment environmental and social audit and an equivalence assessment against applicable IFI standards, with identified corrective actions reflected in legal covenants.

14. **Screening, categorization, and due diligence.** Building on the Institution's existing sector-specific screening and due-diligence tools—which provide a solid foundation—the Institution will introduce mandatory early-stage desktop screening for all IFI-financed operations, covering project footprint, location sensitivity, associated facilities, cumulative impacts, and borrower track record. The Institution will adopt a four-tier risk categorization (High, Substantial, Moderate, and Low) aligned with IBRD and ADB practice, and will complete environmental and social due diligence prior to credit approval for High and Substantial risk operations. Environmental and social clearance will be a formal prerequisite for credit approval for IFI-financed operations, with due diligence findings treated as binding inputs to financing decisions rather than advisory considerations. Risk reassessment will be evidence-based and outcome-driven, replacing the current practice of automatic time-based risk downgrade after two years of operation; any reduction in risk classification will be linked to demonstrated ESAP completion and monitoring results. Independent verification will be applied for High and Substantial risk operations. The mitigation hierarchy—avoid, minimize, mitigate, compensate—will be formally incorporated.

15. **Thematic environmental and social standards.** The Institution will align the substantive standards applied to IFI-financed operations with the relevant ESSs and Performance Standards across six thematic areas. On land and resettlement, any non-minor physical or economic displacement will serve as a screening trigger, with independent verification of impacts replacing the previous 200-person numerical threshold and borrower self-declaration. On indigenous peoples and vulnerable communities, the Institution will operationalize the screening of Scheduled Tribes as the applicable proxy for Indigenous Peoples under Indian law, applying criteria for Free, Prior and Informed Consent (FPIC), Tribal Development Plans, and culturally appropriate consultation proportionate to project risk. On labor and working conditions, provisions will be strengthened consistent with PS2 for direct and contracted workers, covering occupational health and safety, worker grievance mechanisms, codes of

conduct, and systematic prevention of gender-based violence, sexual exploitation and abuse, and sexual harassment (GBV/SEA/SH). On community health and safety, the Institution will require systematic assessment of traffic safety, labor-influx risks, security-related risks, and community exposure to hazards where relevant. On cultural heritage, coverage will be broadened beyond formally designated monuments to encompass tangible and intangible heritage, with mandatory chance-find procedures for all construction-phase IFI-financed projects. On biodiversity, the Institution will build on its proprietary biodiversity screening tool to expand screening beyond the existing 5 km eco-sensitive zone criterion to cover Key Biodiversity Areas (KBAs), critical habitats, migratory corridors, and potential critical habitats outside formally protected areas, with Biodiversity Action Plans and no-net-loss approaches applied where relevant. Underpinning all thematic areas, the Institution will integrate climate considerations into its credit appraisal processes, including screening for physical and transition climate risks for long-lived infrastructure assets, aligned with IFI methodologies and backed by IFI, and full Paris Alignment screening consistent with the Joint MDB framework that took effect in January 2026 — embedded as a sub-project eligibility criterion in the applicable legal agreements.

16. **Stakeholder engagement, disclosure, and reporting.** The Instituiton will apply a risk-proportionate approach to engagement and disclosure for IFI-financed operations. This includes embedding Stakeholder Engagement provisions for its operations into the legally binding Environmental and Social Commitment Plan; maintaining a publicly accessible external communications mechanism through which parties may raise E&S-related queries; and applying a tiered approach to sub-project disclosure. For higher-risk sub-projects, borrowers will be required to disclose the Environmental and Social Action Plan summary, grievance mechanism information. For lower-risk sub-projects, compliance with national disclosure requirements will apply, with corrective actions tracked through the Institution's monitoring system. Sub-borrowers on higher-risk operations will be required to undertake structured stakeholder engagement and maintain project-level grievance mechanisms, with these obligations set through sub-loan or investment agreements. The framework further includes structured incident reporting with notification of serious incidents within established timeframes, and predictable, structured E&S reporting to IFI partners.

17. **Capacity and implementation.** The Institution's E&S function is reinforced by its consultancy panel, which provides surge capacity. To meet the enhanced requirements, the Institution will pursue a phased capacity-strengthening plan that combines technical assistance for early implementation and support of external E&S consultancies and if considered need with incremental internal staffing and specialist skills in needed areas such as biodiversity, resettlement, labor, and climate. This is complemented by Environmental and Social Hands-on Enhanced Implementation Support (HEIS) from the World Bank during preparation and early implementation.

18. **IFI review arrangements.** During early implementation, High and Substantial risk operations will be subject to prior review through the Hands-on Expanded Implementation Support (HEIS) model, under which World Bank E&S or HEIS specialists work alongside the Institution's team on individual transactions, integrating the prior review function directly into the Institution's transaction cycle rather than as a separate sequential approval gate. This model combines quality assurance with on-the-job capacity building. As the Institution's implementation capacity and track record are demonstrated, the programme will transition progressively to post review for Substantial risk operations. These arrangements are governed through the Environmental and Social Commitment Plan and legal agreements rather than embedded in the ESMS itself, preserving the stability of the system while allowing the intensity of review to adjust over time.

E. The Strengthening Roadmap

19. The enhancements above will be delivered through the IFI ESMS addendum—a single, multi-IFI system serving IBRD, MIGA, and ADB. Designed to present one client interface, it brings the Institution's system to material consistency with the requirements that apply to IFI-financed operations while avoiding duplication across institutions.

20. The strengthening process is anchored in firm institutional commitments. The IFI ESMS addendum will be adopted by the Institution's Board of Directors as a condition of effectiveness for the World Bank operation, and key actions are reflected as time-bound commitments in the Environmental and Social Commitment Plan (ESCP) agreed with the Bank.

21. A guiding principle of the design is ring-fencing: the enhanced requirements apply to IFI-financed operations and do not alter the management of the remainder of the Institution's portfolio. This allows the Institution to meet IFI requirements precisely where they apply, without disruption to its broader business.

22. Implementation is risk-proportionate and phased. Requirements scale with the level of environmental and social risk, ensuring that effort is concentrated where it matters most, while HEIS provides hands-on support that combines capacity building with quality assurance during the early period. Where India's national systems deliver outcomes equivalent to IFI requirements, the Institution will rely on them—focusing on the substance of outcomes rather than the form of instruments—with the addendum addressing residual gaps.

F. Governance, Ownership, and Next Steps

23. The strengthening process carries strong institutional ownership. The Institution's senior management have demonstrated clear commitment to preparing and adopting the IFI ESMS addendum, reflecting both the strategic significance of the IFI engagement and the Institution's own ambition to operate at the level of international good practice.

24. The Institution will continue to engage transparently as this work advances. The Institution will disclose a summary of its enhanced ESMS once it has been finalized and adopted and will maintain a publicly accessible channel through which external parties may raise environmental and social queries or concerns relating to IFI-financed operations, consistent with the requirements of ESS10.

25. Through this process, the Institution is converting an already-strong system into one fully equipped to support a multi-billion-dollar, multi-IFI infrastructure program—advancing India's development priorities while upholding the environmental and social standards expected of a leading development finance institution.