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IFC STATEMENT IN RESPONSE TO COLUMBIA LAW SCHOOL REPORT ON TEA PLANTATIONS IN INDIA

IFC welcomes Columbia Law School's report (the Report), which highlights the difficult environment and legacy of tea plantations in India. This research is valuable, and we encouraged our client, Amalgamated Plantations Private, Ltd. (APPL), to provide Professor Rosenblum and his colleagues with appropriate access to its facilities.

The tea sector is India's largest private employer. Its challenges are well known. Across Assam and other tea plantation areas, poverty is deeply entrenched. IFC chose to partner with APPL, as a company that has adopted strong environmental and social sustainability standards and is committed to their implementation. APPL is also providing opportunities for workers to share in the benefits of growing the company.

APPL has undertaken considerable efforts to improve employee welfare, including through building and renovating houses and sanitation facilities, and the employee share ownership program. After a comprehensive set of audits for all 24 estates during the 2011-2013 period, the Company doubled its budget for building and renovation in April 2013. This will accelerate its ability to address the deficiencies highlighted in the Report. The employee share ownership program is also showing attractive returns for the 70 percent of APPL employees who have chosen to participate. Further details on these programs are provided at the bottom of this statement and will be elaborated on in a separate statement by APPL.

As the report highlights, significant work remains to be done and IFC has an important obligation in the ongoing improvement of APPL's tea plantations. Given the large number of estates, the company's large workforce and other legacy issues, the implementation of standards may vary between tea estates. APPL has agreed with IFC to make specific changes to improve the effectiveness and application of its environment and social programs. Such changes include more effective stakeholder engagement and strengthening employee grievance redress procedures. An ongoing review by IFC's compliance and accountability mechanism will also inform our continued work with APPL.

We appreciate the considerable work done by the research team on the challenges facing the tea industry in India. We are reviewing their findings together with APPL and will take into account their recommendations as we continue to work to improve conditions on the ground.

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Information on Employee Share Ownership Program

When IFC invested in APPL in 2009, the tea industry in India was undergoing deep restructuring, with major producers exiting the plantation business. IFC saw an opportunity to secure employment for over 30,000 permanent workers and to work with a long-term partner committed to adopting higher standards for labor and environmental conditions in an industry where few operators demonstrate interest or capacity in promoting sustainability.

IFC chose to invest and support the creation of an employee share plan to sustain employment at Tata Group's tea plantations in 2009 – these plantations then became known as the Amalgamated Plantations Private Ltd.

An important component of IFC's engagement has been to empower employees by making them stronger stakeholders. However, despite investing in common equity for its own account, IFC was conscious that the employee share ownership program ("ESOP") needed to have a higher level of protection for employee interests.

While IFC took the equity risk for itself, through its initial investment in 2009 (and subsequent rights issue in January 2014), it worked with APPL to ensure that for their equity participation, the employees were provided protection of capital as well as a minimum guaranteed return for a significant period of four years.

IFC's support enabled the ESOP to have the following protections and benefits:

- Rather than have employees take equity risk in APPL when it was freshly divested out of Tata Tea, employees were provided the opportunity to invest through Compulsorily Convertible Cumulative Participatory Preference Shares ("CCCPPSs"), with principal protection and guaranteed dividends of 6% per annum for 4 years.
- The CCCPPSs bought by employees were offered at INR 10 per share. In June 2013, each share was assigned a fair value of INR 27 following an audit by a reputable consulting firm.
- In addition to the principal protection and equity gains, the CCCPPS holders have received the same dividend as common shareholders, an average rate 10 percent per annum in the last 4 years, well above the minimum guaranteed 6 percent.
- To enable the employees to subscribe, APPL arranged loans from local banks payable over seven years, on which APPL bears the interest cost.
- The employees have similar exit rights as IFC.
- Further, a trust has been formed to ensure that employees leaving the company (or the families of those dying while in service) are provided an exit at a valuation performed yearly by a reputable consulting firm.

Given the low level of awareness and literacy in a significant percentage of the employees. IFC took a number of steps during the design and roll out of the ESOP, including:

- organizing stakeholder consultations during the ESOP design phase with representatives of estates and workers;

- conducting 54 trainings at ten centers covering all 20 estates in Assam to educate the employees on the benefits and risks of share ownership; and
- holding follow-on trainings a year later, at four tea estates in Assam on the subject of "Financial Literacy and Savings".

These efforts were in addition to actions taken by APPL to communicate with the workers.

Information on IFC's Work with APPL to Improve Working and Living Conditions

We continually monitor and supervise client progress and work with them to address all areas of concern.

Over the last five years, IFC has worked with APPL to set in place an Environmental and Social Management System (ESMS), and improve governance practices. We welcome the continued dialogue with Professor Rosenblum and others as we work to ensure a positive development outcome in a very poor area of India.

Prior to IFC's involvement in the project, APPL had embarked upon a long-term goal to invest in and rehabilitate the plantations, as well as a process of certifications with recognized global certification initiatives, including SA8000 and the Ethical Tea Partnership (ETP). Through the implementation of these systems and related actions, including audits that APPL has completed over the past several years, the company has demonstrated improvements in its plantations.

Towards the welfare of APPL's employees, IFC has continuously engaged with APPL to resolve issues, identify improvement needs through supervision and audits and to agree on Action Plans with APPL.

These include independent Occupational Health and Safety Audits and site visits completed for all 24 estates by end 2013; stepping up the SA8000 program with 22 of the 24 estates now visited by the auditors as part of the certification 2011-2013 and; a more than doubling of the budget for financial year starting April 2013 towards the renovation/upkeep of housing and sanitation facilities.

IFC agrees with the Report's contention that *"…the weaknesses of SA8000 relate not so much to the standards themselves as to their implementation"*. IFC also agrees with the Report's statements that effective implementation of the SA8000 certified management system would address all the key findings Statements and References at footnotes 412 to 420 of the Columbia Law School Report (pp 102 and 103) of the Report related to labor working and living conditions The Report states at pp 102 "Many of the SA8000 provisions speak directly to problems identified by workers in regard, for example, to unsanitary latrines and inadequate housing".

In the context of the Report's findings, it may be noted that SA8000 standards, among other provisions, require compliance with all applicable laws. In APPL's case, this includes compliance with the Plantation Labor Act (PLA). The SA8000 standards lay down criteria for occupational health and safety including:

- provisions for access to clean toilet facilities;
- access to potable water and where applicable, sanitary facilities for food storage
- requirements that any dormitory facilities provided for personnel are clean, safe, and meet the basic needs of the personnel;
- requirements for freedom of association and collective bargaining;
- requirements for working hours and overtime;
- provisions for overtime wages at premium rates;
- requirements for implementation of a management system that includes appropriate procedures for grievance mechanism with confidentiality protection and non-retribution; and
- procedures for stakeholder engagement.

Since 2009, APPL has done major renovation of **2856 houses**, **461 latrines** and **105 bathing enclosures**. In addition, APPL has constructed **93 labor houses**, **442 latrines**, **58 bathing enclosures** and installed over **400 water points**; APPL is committed to increase this pace in 2014.

IFC was engaged with APPL on labor unrest and labor issues in 2009 and 2010. In 2010, when the then South Asia Regional Director was fully informed of all the facts related to cases of human rights violations through a meeting with US Officials, he immediately escalated within IFC senior management, sought an internal review of the facts, and escalated to APPL management. In addition, in that year, IFC hired an independent consultant to perform an Occupational Health and Safety (OHS) Audit of APPL to uncover and address issues. A detailed, on-site audit was carried out for eight estates and a document audit was done for the remaining 16 estates. Since then, APPL has commissioned additional detailed on-site OHS audits, all of which indicate progressive improvement. Through these systems and related actions, the company has improved its plantations, including increasing budgets for upgrades in labor accommodations and related facilities.

IFC and APPL are fully aware that there is more to be done to address living conditions and poverty at APPL and throughout the tea industry. We know plantation workers live a fragile, tenuous existence with few opportunities for economic advancement.

IFC has also monitored the project with information gained from reports at various plantations; information made available through Annual Monitoring Reports and site visits; detailed document reviews; and regular interactions with APPL management. IFC determined that there was a need to improve the effectiveness and consistent application of APPL's Environment and Social Management Systems (ESMS) including implementation of the SA8000 certified management system.

In implementation of its ESMS, IFC has identified the following areas as requiring improvement:

a) organization structure, staffing and capacity to effectively implement the Environment & Social management system;

b) consistency in implementation of the E&S management system across estates;

c) procedures to effectively follow up and implement corrective actions identified as part of the system audits; and

d) efficiency of stakeholder engagement procedures, particularly employee grievance redress procedures.

To address these areas and ensure consistent improvement across its operations, APPL has agreed with IFC to:

a) integrate the various systems (ISO, ETP, SA8000, Rain Forest Alliance and IFC Performance Standards) it has in place to simplify implementation;

b) provide clear and detailed instructions for staff and management that reduce scope for interpretation, so they are easy to communicate, comprehend, implement, monitor and compare;

c) seek expert advice on the interpretation of standards and the detailing of system requirements to identify, adapt and adopt good practices from within the Company, within the industry and from other industries as well;

d) create a core team at the corporate level to enable continuous improvement, advise each plantation management group on interpretation of standards, monitor consistent application and follow up on improvement actions, and to share good practices between plantations and from industry;

e) create a pool of internal auditors, with full understanding of the standards and systems;

f) train all employees through tailored programs; and

g) develop and implement a comprehensive external and internal communication strategy.

IFC will provide guidance and monitor APPL's implementation of these measures and its progress in meeting the IFC Performance Standards.