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ENVIRONMENTAL & SOCIAL RISK MANAGEMENT FRAMEWORK MANUAL
FOR
SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

Prepared for:

SIDBI

Prepared by:



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LIST OF ABBREVIATIONS

CEE	Centre For Environmental Education	WTO	World Trade Organisation
CO	Credit Officer		
CFC	Chloro – Floro Carbon		
CPCB	Central Pollution Control Board		
CRZ	Coastal Regulatory Zone		
DFID	Department For International Corporation		
EIA	Environmental Impact Assessment		
E&S	Environment and Social		
EPTRI	Environmental Planning and Training Institute		
EPA	Environment Protection Act		
FI	Financial Intermediatories		
GOI	Government of India		
IDBI	Industrial Development Bank of India		
IDFC	Infrastructure Development Finance Corporation		
IFC	International Financial Corporation		
IIT	Indian Institute of Technology		
LOI	Letter of Intent		
MoEF	Ministry of Environment and Forest		
MNC	Multinational National Organisation		
NEERI	National Environmental Engineering And Research Institute		
NOC	No Objection Certificate		
NPC	National Productivity Council		
ODS	Ozone Depleting Substances		
PSRA	Post Sanction Reporting Authority		
SFC	State Financial Corporation		
SIDBI	Small Industries Development Bank of India		
SIDC	State Industrial Development Corporation		
SME	Small And Medium Enterprise		
SPCB	State Pollution Control Board		
SSI	Small Scale Industries		

1.0 INTRODUCTION

The adoption of environmental and social risk management techniques and procedures are becoming important for financial institutions across the world, driven on one hand by increasing awareness of environmental issues among customers and shareholders, and on the other hand by strict liability as a result of pressure from society and governments. Regulations related to businesses and environment, are being constantly upgraded in India, which often creates uncertainties for companies investing significant financial resources in their ventures. Consumer reactions and other environmentally motivated actions create serious regulatory and non-regulatory risks that may reduce a company's market or affects its financial strength thus reducing their capacity to repay loans to financial institutions.

In India, banks and financial institutions are currently not liable for its borrower's environmental performance (i.e where an industry that has borrowed funds and as part of their operations has contaminated the environment or caused pollution). However they are exposed to indirect (credit) risk that may arise from either a borrower's inability to repay loans due to environmental issues or reduced value of collateral property (e.g. site contamination). Emerging trends in India, such as tightening environmental laws & enforcement, increased public pressures and litigation indicate that environmental risks have already started assuming significance.

In its capacity as a nodal lending and development agency for the SME¹ sector, SIDBI performs the following functions:

- ☐ Promotion
- ☐ Financing
- ☐ Development of industry in the small scale sector
- ☐ Co-ordinating the functions of other institutions engaged in similar activities

In the past, SIDBI has implemented various initiatives to create environmental awareness amongst SSI units. These include conducting awareness campaigns and cleaner production workshops. Most of these programs having been conducted in association with various state and national agencies such as NEERI, NPC, IIT, CEE, EPTRI etc.

Through various circulars, SIBDI has tried to incorporate environmental safeguards in its internal credit processes, during financing of projects.

Recognising the importance of E&S concerns in the context of the SME sector, SIDBI has taken the initiative of integrating E&S risk management systems into its financing operations. This is in

¹ For the purpose of this project, Small and Medium Enterprises (SMEs) are defined as the enterprises having investment in plant and machinery upto 10 crores or turnover less than 100 crores.

addition to its various efforts as a development agency to assist the SME sector in improving its environmental and social performance.

This Environmental and Social Risk Management Framework document provides details of environment and social procedures to be adopted by SIDBI for its lending operations. The procedures incorporated in this framework aims to assist the credit officers in assessing E&S risks at early stages of project life cycle and outlines the risk management provisions that can be incorporated in order to ensure environmentally sound investments by the Bank.

The Framework (as discussed in this manual) has been developed in consultation with SIDBI team and is based on feedback received during workshop organised in Delhi with Credit officers from Northern region and senior officers from Head office (Lucknow). A Due diligence exercise have also been conducted across various regions, for the priority sector industries of SIDBI, to understand environmental issue in respective sectors, prior to finalisation of this manual. This framework has been developed such as to enable its smooth integration with the current credit management system and is not as a stand - alone document. This has been done to facilitate adoption / implementation of the framework without altering or impeding the current process flow.

1.1 GUIDANCE TO USE OF THE MANUAL

Environment and Social risk management framework manual is intended to assist SIDBI to incorporate Environment and Social risk

aspects in their lending procedures. The structure of this manual is as follows

Environment and Social Policy, highlights SIDBI's commitment for environmental protection and social security related to its sphere of business.

Regulatory Framework summarises Indian environmental and social legislations relevant to SMEs, and The World Bank's E&S safeguards. Credit officer evaluating project proposal should be aware of legal requirements of the borrower to assess regulatory risk to the project. A summary of these requirements are provided in Annexure – II of this document. As the environmental and social laws in India are updating, CO is required to aware of recent changes in these legislation and thus liability of the project proponent

SIDBI's E&S Requirements outlines the guiding principles for this framework based on SIDBI's policy, Indian regulations and The World Bank's safeguards. The credit officer is required to follow these requirements in all of the projects undertaken by him. During project screening stage and initial interaction with client, CO shall check the project against Exclusionary list (provided in section 3.2) and other requirements, to ensure its consistency with SIDBI's policy.

E&S Management Plan, describes the detailed procedures to be followed for respective category of the project. These procedures are divided into four stages and integrated to SIDBI's project cycle, which are;

- Project Screening: at this phase E&S risk categorisation of the project is carried out. CO is required to check the category of project against the list provided in Annexure - V
- Project Appraisal: details the process followed during the appraisal stage, CO should integrate the process stipulated in section 5.2 during appraisal of any project and preparation of the Loan appraisal report. CO is also advised to refer sectoral guidebook while appraising the project, to understand environmental issues and legal obligations associated concerned sector of the project.
- Loan Sanction and Disbursement: Credit committees to ensure, implementation of pre- disbursement condition prior to finalisation of loan agreement
- Project Monitoring: E&S monitoring report is provided in Annexure – III that need to be filled during site visits during monitoring stage.

Institutional Arrangement, provide the organisational structure, roles and responsibilities required to implement this framework and outlines the training modules, for the capacity building of SIDBI's staff and participating banks.

2.0 ENVIRONMENT AND SOCIAL POLICY

Small Industries Development Bank of India (SIDBI), the apex institute with the responsibility of promotion, finance and development of Small Scale Industries (SSI) in India, strives to promote sustainable development for all small and medium enterprises.

SIDBI's initiatives in the past and future are aimed to reduce environmental and social risks by promoting:

compliance to applicable Indian environmental and labour legislations
cleaner production methods
energy and water saving methods
utilization of appropriate technologies
no use of child labour and forced labour

As the projects financed by SIDBI are small and medium, it will ensure the above by:

- ☐ capacity building of their staff on environmental and social risk management procedures and
- ☐ regular training and awareness of their staff
- ☐ creating awareness for industry borrowers
- ☐ strengthening Environment and Social procedures by integrating E&S consideration in all Phases of life cycle.
- ☐

- ☐ updating Environment and Social Management Framework at regular intervals.

3.0 REGULATORY FRAMEWORK

Small and medium-sized enterprises (SMEs) are amongst the most important sectors of India's economy. Owing to their labour intensive operations, they provide employment opportunity for millions of individuals and have contributed largely towards economic development of the nation.

The SME sector is typically associated with high adverse environmental and social impact due to the sheer number of units, and dominance in resource and emission intensive trades such as metal finishing, leather tanning, dry cleaning, printing and dyeing, brewing, food processing, fish farming, textile manufacturing, chemical production. Moreover, their compliance status is less than desirable resulting in adverse impacts on public health and environment.

Some of the defining characteristics of the SME sector which contribute to poor levels of environmental control in operations are,

- ☐ lack of understanding of environment, public health & safety issues.
- ☐ limited awareness on legal obligations
- ☐ non-regularised labour encourages poor environment practices.
- ☐ due to economies of scale, it is not easy to adopt cleaner technologies or install expensive pollution control equipment.

Therefore, it is imperative for the financiers to assess E&S risks more effectively, to safeguard themselves from the associated credit risks.

High shop floor pollution, occupational health hazards, hazardous waste generation, toxic emission and discharge, low energy efficiency, polluting processes, etc are some key environmental issues of SME sector. Social issues in Indian SME sector pertaining to use of child/forced labour also exists. Exploitation of workforce vis-à-vis payments and work hour structure is also a common phenomenon in SME sector.

3.1 LEGAL PROVISIONS

Financial Institutions do not have direct obligation under Indian environmental legislations. However, the E&S risk management framework for SIDBI has been developed considering legal obligations of SIDBI's SME portfolio under Indian environmental & social laws. In addition, elements of World Bank's safeguard policies and international standards/ norms have been incorporated in the design of the framework.

Ministry of Environment and Forest (MoEF) of Government of India, periodically formulates / update environmental acts, which

further supplemented by rules and regulations. Central Pollution Control Board (CPCB) acts as the central agency for overall coordination with state agencies, State pollution Control Boards (SPCBs), are mandated to enforce provisions of the rules. SPCB however, have been vested with authority to make those rules more stringent as per the requirement of the state.

Regulatory requirements vis-à-vis social issues are governed by various acts of the government, prominent of which is Factories Act, 1948 and Factories Act (amended), 1987. These detail various measures to be taken by any industry operator for health and safety of the workers. Issues of use of child labour, forced labour, compensation, working hours, right to form associations, etc. have been addressed by the Indian government under corresponding acts and rules listed in the following section.

3.1.1 INDIAN ENVIRONMENTAL AND SOCIAL LEGISLATIVE FRAMEWORK

Indian constitution provides the basic principles of environment protection and preservation through Articles 48A and 51A (g), included during 42nd amendment in 1976. These articles provide that:

- ☐ The State shall endeavour to protect and improve the environment and to safeguard the forests and wildlife of the country (Article 48A).

- ☐ Every citizen of India has a duty to protect and improve the natural environment and to have compassion for living creatures (Article 51A (g)).

Based on above principles, Government of India, has laid downs various Acts to ensure environmental perseverance and protection. The relevant Indian Environmental and social laws applicable to SMEs are listed below. These are discussed in detail vide Annexure –II.

Environment laws

- ☐ Water (Prevention and Control of Pollution) Act, 1974 (as amended 1988) & Water (Prevention and Control of Pollution) Rules, 1983
- ☐ Water Cess (Prevention and Control of Pollution) Act, 1977 (as amended 1988) & Water Cess (Prevention and Control of Pollution) Rules, 1978.
- ☐ Air (Prevention and Control of Pollution) Act, 1981 (as amended in 1987) and Air (Prevention and Control of Pollution) Rules, 1983
- ☐ Environment (Protection) Act, 1986 and Environment (Protection) (Amendment) Rules, 1996
- ☐ Environmental Impact Assessment Notification, January 1994 (as amended in May 1994)
- ☐ Hazardous Waste Management Rules, 1989 and the Hazardous Wastes (Management and Handling) Amendment Draft Rules, 2004
- ☐ Forest Conservation Act, 1927, Forest Conservation Act 1980 (as amended in 1988) and Forest Conservation Rules 1981 (as amended in 1992 and 2003)

- ☐ Coastal Regulation Zone (CRZ) Notification, December 1990 (as amended in June 1997 and 2001).
- ☐ The Wild Life Protection Act, 1972 (amended in 2002)

Health & Safety Regulations

- ☐ Manufacture, Storage and Import of Hazardous Chemical (MSIHC) Rules, 1989 and MSIHC (Amendment) Draft Rules, 1999
- ☐ Chemical Accident (Emergency Planning, Preparedness and Response) Rules, 1996
- ☐ Public Liability Insurance Act, 1991
- ☐ The Insecticides Act, 1968 and the Insecticide Rules, 1971.
- ☐ Factories Act, 1948, Factories Rules, Factories (Amendment) Act, 1987 and Model Rules

Social Laws

- ☐ Child Labour (Prohibition and Regulation) Act, 1986
- ☐ Bonded Labour System (Abolition) Act, 1976
- ☐ Minimum wages act, 1948
- ☐ Workmen's Compensation act 1923

Apart from these rules and regulations, respective state governments stipulate specific pollution norms/ guidelines. SIDBI branch offices need to be aware of these local requirements, to aid in evaluation of projects in their region.

3.1.2 THE WORLD BANK GROUP E&S SAFEGUARDS

The World Bank group, in its operational directives has stipulated that all investments made should be environmentally sustainable. Since SIDBI has obtained a line of credit from The Bank, its operational procedures needs to be consistent with those of The Bank.

The environmental safeguards and concerns of The World Bank group are endorsed by operational policies of the group. These policies form the guiding principles for assessing the environmental and social acceptability of the project². The World Bank's safeguard policies are listed below and are discussed in Annexure - II .

- ☐ OP 4.01 Environmental Assessment.
- ☐ OP 4.20 Indigenous People
- ☐ OP 4.04 Natural Habitat
- ☐ OP 4.12 Involuntary Resettlement
- ☐ OP 4.36 Forestry
- ☐ OP 4.09 Pest Management
- ☐ OP 4.11 Cultural property
- ☐ Policy on Forced Labour & Child Labour

² Project here refers to the activity being financed by the World Bank, in this case being the line of credit provided to SIDBI.

3.2 SIDBI E&S REQUIREMENTS

Mandated as “Development Bank” for Small Scale Industries (SSIs) by Government of India, SIDBI management has adopted various environmental safeguards, which are incorporated in its lending procedures through various circulars. In the process of extending its sphere of operations to financing of SMEs, SIDBI has developed comprehensive Environment and Social requirements to address E&S risk that may be arise due to its lending operations in these sectors.

These requirements have been constituted on the basis of SIDBI’s own environmental policies and procedures, Indian regulations and the World Bank policies (see Annexure – III for relevant references). These requirements forms the guiding principles based on which this *Environmental and Social Risk Management Framework* has been formulated. SIDBI’s E&S requirements for this framework are as follows.

1. SIDBI does not finance the following (**Exclusionary List of projects**);

- ☐ Production or trade in any product or activity deemed illegal under Indian laws or regulations or international conventions and agreements.
- ☐ Production or trade in weapons and munitions.
- ☐ Production or trade in alcoholic beverages (excluding beer and wine).

- ☐ Production or trade in tobacco.
 - ☐ Gambling, casinos and equivalent enterprises.
 - ☐ Trade in wildlife or wildlife products regulated under CITES.
 - ☐ Production or trade in radioactive materials.
 - ☐ Production or trade in or use of unbounded asbestos fibers.
 - ☐ Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forest (prohibited by the Forestry policy).
 - ☐ Production or trade in products containing PCBs.
 - ☐ Production or trade in pharmaceuticals subject to international phase outs or bans.
 - ☐ Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
2. SME’s financed by SIDBI, are required to comply with Indian environmental and labour legislations.
 3. SIDBI monitors the progress of compliance of environmental and labour legislations after financing during project implementation and operational stages.
 4. SIDBI does not finance production or trade in ozone depleting substances (ODS) subject to international phase out.
 5. SIDBI does not finance production or activities involving harmful or exploitative form of child labor or forced labor
 6. SIDBI encourages projects based on fly ash products.
 7. Loss of Land / source of income/ livelihood, impact on community and cultural property resources, safeguard of tribal / marginalized and vulnerable groups are not applicable for direct financing SMEs. However during

consortium funding of infrastructure projects, the requirements of lead member institution cover this issue.

8. SIDBI requires that the promoter has carried out environmental assessment, if the project falls under the list of specified industries covered under Environment Impact Assessment notification, 1994 of MOEF.
9. SIDBI will not finance production or trade in pesticides/herbicides subject to international phase outs or bans as agreed by GOI based on Stockholm convention.
10. SIDBI requires that for projects involving pest management, the promoter have capacity to promote and support safe, effective and environmentally sound pest management programs.
11. Participating banks taking refinance from SIDBI under this line of credit, will be required to adhere to the above requirements. Environmental and Social Indicators would be reflected as a part of periodic audit reports, to be carried out at regular intervals.
12. All SIDBI's Credit scoring tools would incorporate environmental & social parameters.

4.0 SIDBI'S PROJECT- CYCLE

This section provides a review of SIDBI's Project cycle. This is intended to serve as a baseline for the subsequent stages of the project involving the development of appropriate E&S risk management systems for the institution. The baseline review will enable the development of an E&S risk management system that is compatible and therefore most conducive to being integrated with the existing systems and procedures.

SIDBI's business activities are divided into two streams viz. Direct Finance (DF) and Indirect Finance (IF). This E&S risk management framework primarily targets to direct finance projects and project cycle for these projects comprise of following key activities

- Project Screening
- Project Appraisal
- Loan Sanction and Disbursement
- Project Monitoring

4.1 PROJECT SCREENING

At this stage credit officer conduct preliminary project discussion with the client. The prospective client is appraised for SIDBI's lending policy and various schemes under which the project could be financed.

Once credit officer is assured that the proposed project is in line with SIDBI's mandate and policy, loan application form is handed

TEXT BOX 4.1 : DIRECT AND INDIRECT FINANCING OPERATIONS OF SIDBI

The *Indirect Finance* business of the Bank consists of refinance to State Level Institutions (or SLIs, such as SFCs and SIDCs) and commercial banks. The procedures associated with the refinancing activities of SIDBI are relatively straightforward. An institutional limit is assigned by SIDBI, under which refinance is obtained by the concerned institution. Generally, refinance is sought for a cluster of loan accounts, with no set periodicity. The information furnished to SIDBI is limited to basic details such as loan size, location, promoter's contribution, portion for which refinance is being sought.

SIDBI does not carry any credit risk for the loans accounts it finances through such route, and the financial institution is obliged to honour its dues under the refinance, even in case of non-payment by the client. Accordingly, SIDBI's credit risk management process for indirect finance is restricted to assessment of institutional risk and not individual loan risk. However SIDBI proposes to implement E&S management procedures for indirect finance in phased manner by adopting E&S Indicators during audits undertaken periodically

The Direct Finance side of the business consists of core project lending, marketing finance, export finance, direct discounting of bills and resource support for Small and Medium sector enterprise.

to the client. Legal documentation requirements corresponding to various phases of project cycle are also communicated to the client.

Credit officer receives the filled loan application from the client and checks for the consistency and completion of documentation requirements. Follow ups are conducted in case of incomplete information and time line is established for fulfilment of the documentation.

4.2 PROJECT APPRAISAL

Credit officer initiate the loan appraisal process through desk review and assessment of

- Creditworthiness of borrower
- Financial rate of return
- Financial structure
- Project/ borrower / other risk

Site investigations are also carried out, if necessary, in order to assess the following

- Suitability of site
- Availability of inputs
- Access to the market
- Technical and engineering design
- Implementation as per stated design
- Construction, operation and maintenance arrangements.

At this stage, credit officer in consultation with the client, lists the modifications, if required to be made in structure of the proposal. Once the initial project review is completed, CO prepares detail loan appraisal report as per the format. The Loan appraisal report of any project covers following aspects

- i. Introductory, promoters & management
- ii. Technical aspects (including location, technology, utilities, effluent disposal, manpower etc.)
- iii. Project cost and means of finance
- iv. Financial/ other parameters
- v. Schedule of drawal and repayment of the loan
- vi. Arrangements made/ proposed to be made for working capital
- vii. Market and selling arrangements
- viii. Financial and economic viability
- ix. Status of government approvals
- x. Favourable and risk factors of the project
- xi. Eligibility under other lines of credit
- xii. Terms of sanction

The appraisal report is tabled to the credit evaluation committees for review.

4.3 LOAN SANCTION / DISBURSEMENT

SIDBI has a Committee system for sanction of assistance under its direct finance schemes. The loan appraisal report is presented to the Credit Committee, which in turn appraises and then sanctions or rejects the project proposal. Power and composition of the credit committee constituted at the branch level is based on the volume of business and seniority of the officer heading the branch. Disbursement sanction power of credit committee is capped and deviations, if any, are referred for approval to appropriate levels of decision-making, as per pre-defined delegated authorities.

The appraisal report is further processed using an *internal rating model* (applicable to limited verity of projects). This rating model evaluates the proposal on four broad risk aspects, namely-

- a) Financial risk
- b) Management risk
- c) Operational & Business risk
- d) Industry risk

Occasionally, external credit rating agencies are also consulted in special cases (mainly restricted to large borrowers).

Credit committee discusses and subsequently approves pre- letter of intent terms (if any) and approval is granted for the project subject to fulfilment of stipulated conditions.

Credit officer then completes the pre- disbursement formalities, which include;

- Issue letter of Intent (LOI) to borrower
- Discuss terms of loan agreement for the proposal
 - ③ Interest rate
 - ③ Repayment Schedule
 - ③ Security / guarantees
 - ③ other loan conditions
- Ensure compliance with pre disbursement conditions including legalities relating to creation of security.
- Finalise and sign loan agreement

4.4 PROJECT MONITORING, AUDITS AND RECOVERY

The monitoring function covers (i) end use of funds (ii) operations of the assisted units vis-à-vis projections (iii) compliance with terms of sanction (iv) securities offered/ charged and related documentation (v) detection of warning signals, deterioration in credit quality & changes in management structure etc.

This involves periodic visits to assisted units, to enable the credit officer to assess the status of operations and identify any warning signals. In addition, borrowers are required to submit periodic returns, which detail their performance. CO prepares site visit reports as per standard format.

Project completion report is sought from the borrower after project implementation is completed. If required, external agencies are also retained for independent review of the project

SIDBI's monitoring process also includes the following

- Each of the branch offices with more than 5 direct finance accounts has a Default Review Committee, which reviews all accounts including standard accounts at least once a month. Minutes of these meetings are sent to the concerned Regional Office.
- For direct loan accounts with over Rs.50 million in outstanding, a Credit Monitoring Cell is being proposed at the Zonal and Head Offices. In addition to the detailed Annual review for these accounts, a quarterly short review is being introduced.
- The Post Sanctioning Reporting Authority (PSRA) examines decisions on broad parameters as a measure to ensure quality of decision-making on an ongoing basis, which acts as an additional check. Observations by the PSRA, if any, serve as a guide to the sanctioning authority.

Loan recovery mechanisms are enforced in case of default.

5.0 E&S RISK MANAGEMENT PLAN

This section discusses the E&S risk management plan for the direct finance business of SIDBI. It encompasses only projects associated with small and medium enterprises, and not infrastructure projects.

The overall aim of the E&S risk management plan is to ensure compliance with the SIDBI E&S Requirements laid out in Section 3.2 of this manual.

It has been recognized that the E&S risk management plan needs to be kept extremely streamlined, given the nature of SIDBI's business and market, namely,

- ☐ small transaction sizes, and
- ☐ Informal management systems with majority of clients.

Accordingly, E&S risk management steps have been integrated into the existing project life cycle without modifying the basic procedural flow. Moreover, incremental E&S risk management steps have been kept to the minimum.

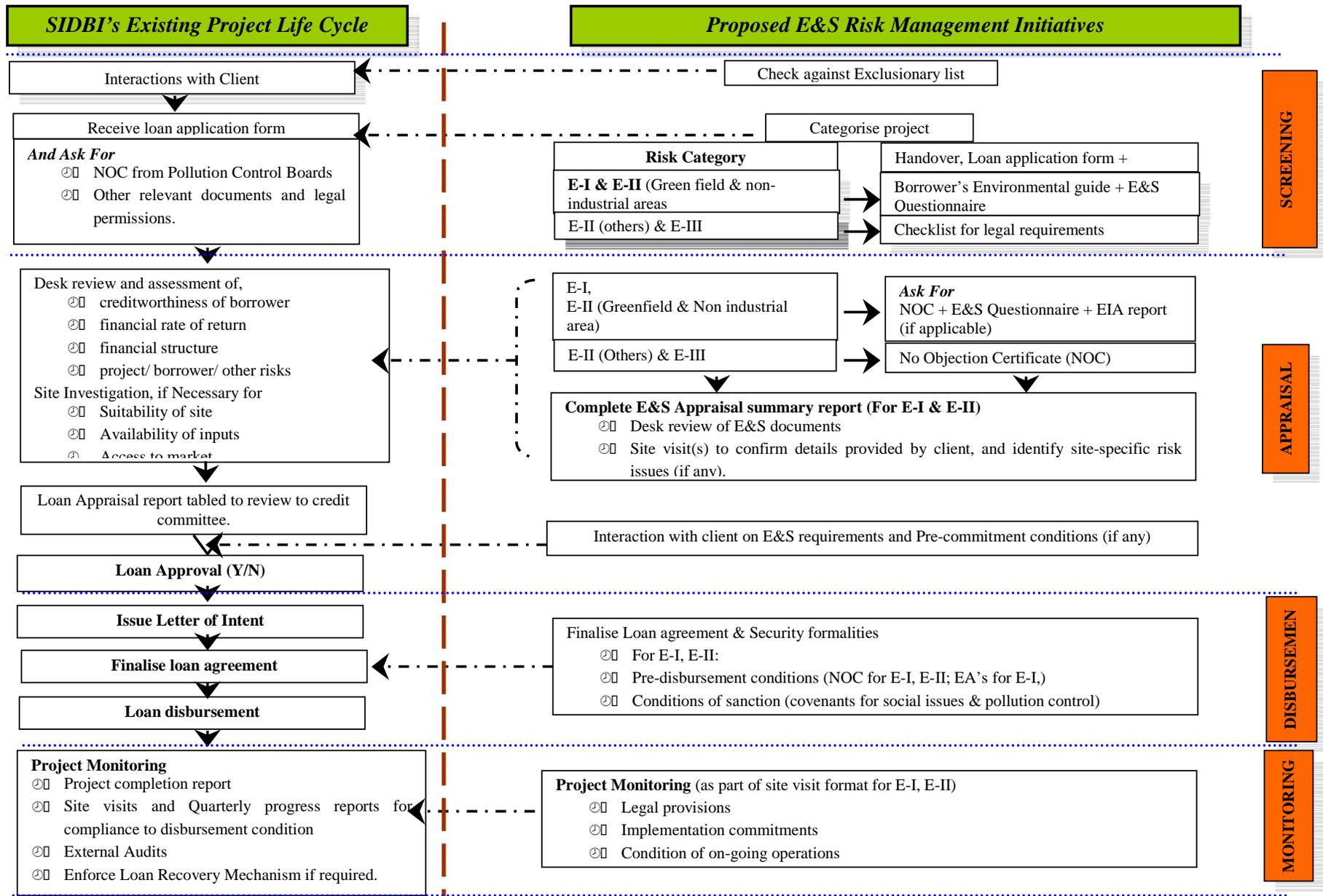
E&S Risk Management flowchart is as described in the subsequent figure

NOTE:- [E&S Risk Management will be addressed for SIDBI's other lines of business in the following manner:-

Indirect Finance - SIDBI will introduce E&S requirements in a phased manner, through adoption of E&S Indicators in audits that will be conducted for participating banks / FI's at periodic intervals.

Direct Finance of Infrastructure projects – This is usually in done under consortium finance where the lead financier typically performs the E&S due diligence exercise on behalf of the consortium. Due care will be taken by SIDBI to confirm that this is being done in case of the infrastructure projects that it is co-financing.]

PROCEDURE FLOW FOR E&S RISK MANAGEMENT SYSTEM



5.1 PROJECT SCREENING

In the course of the preliminary interactions with the client, the CO will ascertain the proposed project's nature of activity and confirm that the project is eligible for financing, by checking against SIDBI's Exclusionary List (refer section 3.2). On confirming the same, the CO will assign the appropriate E&S Risk Classification based on following section.

5.1.1 ENVIRONMENTAL AND SOCIAL RISK CLASSIFICATION

The target sectors of SMEs financed by SIDBI are diverse in nature having correspondingly varied environment and social risks associated with them. The environmental and social risk based classification is developed to facilitate early categorisation of the projects (at the screening stage), into pre-defined E&S risk bands. The objective of this classification is to identify those projects, which have significant environment, and social issues associated with them and might pose credit risk to SIDBI, if financed without necessary mitigants / safeguards.

The proposed risk classification will be carried out at the screening stage by the credit officers, and will form the basis for determining E&S risk management measures required to be followed in subsequent stages of the project life cycle. Also, these classifications will help the decision makers at all levels to identify appropriate loan conditions and monitoring requirements.

Identification of the risk classification at an early stage of the project life cycle is desirable since it would reduce the processing time for loan applications from Non- polluting industries.

SIDBI's environmental and social risk classification corresponds to Indian environmental legislations, World Bank's Environment and social safeguard policies and international best practices / guidelines.

SIDBI has decided that social issues are priority and need to be addressed equally for all sectors. So social issues related to child labour, forced labour, common property resource etc needs to be considered while appraising all direct financing projects. The credit officer (CO) should ensure that the borrower has developed programs for safe working practices for the workers. Infrastructure projects, which SIDBI undertakes primarily on co-financing basis, with other institutional financiers such as IDBI, IDFC etc. have social issues management plan, built into the financing framework as per guidelines already existing with the institutional lenders. Thus the sectors have not been classified on the basis of social issues, but only on environmental issues.

Three environmental risk categories have been developed for classification of projects, namely,

- ☐ E-I Industries with high pollution potential.
- ☐ E-II Industries associated with significant pollution, but to a lesser extent than E-I industries.
- ☐ E-III Industries that do not contaminate environment or have an acceptable levels of discharge.

NOTE:- [The proposed classification is also in concurrence with Red, Orange, Green categories, specified by Ministry of Environment and Forest under Doon Valley Notification.]

This risk classification is based on the E&S risk profiles at the sectoral level i.e. the characteristic pattern of emissions/ effluents generated by a typical facility in a particular sector. Accordingly, the risk classification may be arrived at, at the project screening stage, once it is ascertained which sector the project will fall under. Sectors falling under aforesaid categories are provided in **Annexure – V**.

It is realised that such a risk classification is based on a generalisation, and some facilities of a sector may deviate from this generalisation. However, this slight dilution in accuracy of assessment is considered to be justified given the benefits of quick decision-making, as also reduced cost of assessment (as against a more detailed facility specific classification). Moreover, in case of a specific project that *significantly* deviates from the characteristic sector profile, the CO may assign a higher/ lower risk category

giving full justification for the same. The steps that follow would then correspond to the specific risk category assigned.

The environmental legislation of the country is constantly evolving and MoEF through various notifications in gazetteer updates the Acts and corresponding rules. Accordingly, necessary modifications and updation procedures to the E&S risk classification system is part of this framework. .

The **Sectoral Guidebook** is developed to aid credit officers in assessing the environmental issues associated with the sectors covered under E-I, E-II and E-III categories. The profiles of the sectors are captured under the following heads

- ☐ Process description
- ☐ Basic pollution process
- ☐ Critical pollutants
- ☐ Summary of key environmental issues
- ☐ Recommended pollution prevention measures
- ☐ Cleaner production options
- ☐ Legal obligations

TEXT BOX 5.1: DOCUMENTATION AND KEY CONSIDERATIONS FOR CREDIT OFFICERS DURING SCREENING STAGE

Where the project falls under E-I, Greenfield E-II and E-II in non-industrial area, the CO would ask the project proponent to submit the E&S Questionnaire (Provided in **Annexure - I (A)**) along with the other loan documentation.

The E&S Questionnaire may be sought even in case of other categories of projects, if the CO perceives potential E&S risks in such projects; for instance, in case of other E-II facilities.

- ☐ using an outdated (and ‘dirty’) technology, or
- ☐ releasing effluents into a freshwater body being used for domestic/ agricultural purposes or,
- ☐ having a high density of population in the vicinity (even if located in an industrial area).

On receipt of loan documentation, the CO would need to confirm the completeness of documents including those relating to E&S aspects viz.

- ☐ E&S Questionnaire (where applicable)
- ☐ EIA report, including Environment Management Plan (where applicable)
- ☐ NOC/ Consent to Operate
- ☐ Other applicable legal approvals based on nature of operations (CO can check against the List of E&S Legal Requirements provided in this Manual as well as the Sectoral Database).
- ☐ Gaps in documentation if any.

Some of the other aspects that need to be borne in mind during the Screening stage are as follows:

- ☐ E&S Risk classification needs to be done based on the *facility, and not the commercial entity* under which the facility is operating. The latter may have multiple facilities having diverse nature of activities.

- ☐ For E&S risk management purposes we are only concerned with the facility being financed. In case of multiple activities being undertaken at the same facility, the classification would be based on the specific activity being financed or else the dominant activity at the facility. However, caution needs to be exercised here, in case any high-risk activities are being undertaken at the facility – the CO is advised to adopt caution to ensure effective addressal of E&S risks.
- ☐ Where any of the legal approvals are not available, the CO should ascertain reasons for the same, and initiate aggressive follow-ups to obtain copies of them.
- ☐ With respect to EIAs, the CO should keep the concerned SPCB’s list of sectors for which EIA’s are mandated, and cross check if the particular project is required to get an EIA done.
- ☐ In case the EIA requirement is applicable to the project, obtain a copy of EIA report where needed. If however, it is not available for some reason, the CO should ascertain if an EIA has been or is being conducted and the credibility of the agency performing the EIA.
- ☐ While the E&S Questionnaire has been worded as if for a new project, in case of a project involving expansion/modernization at an existing facility, the questions asked in the questionnaire should be assumed to imply incremental increase in that risk aspect. For example, for air emissions, it may be treated to imply whether or not the proposed project will result in additional air emissions, and if so, what safeguards are proposed for the same.

5.2 PROJECT APPRAISAL

After the completion of loan documentation, a desk review is undertaken of the same. The project details would be reviewed for E&S risk aspects and provision of relevant safeguards. Specifically, the following documents would be reviewed:

- ☐ E&S Questionnaire (where applicable)
- ☐ EIA report (where applicable), including Environment Management Plan
- ☐ NOC and other legal approvals

This review should be cross checked against the Sectoral Database to note E&S risks characteristic of the project activity and safeguards required to mitigate these risk(s). *Importantly, the CO should review the conditions stipulated in the NOC / Consent to Operate and check whether these have been addressed in the project design.*

Internal circulars issued by the Credit Management Department should be borne in mind while processing the proposal. These circulars would address specific regulatory, sectoral, technological developments taking place from time to time.

The Desk Review would be followed up with a site visit(s) to review addressal of E&S risk aspects and safeguards (at least the significant ones) as stated in the

- ☐ E&S Questionnaire
- ☐ EIA report (where applicable), and
- ☐ NOC / Consent to Operate/ Hazardous waste

The officer during the site visit can also refer to the Sectoral Database to identify specific risk aspects that need to be checked during the site visit.

Based on the above evaluations and discussions with the borrower, a decision would be taken on whether or not to proceed with the proposal. If yes, the CO would proceed with preparation of the E&S appraisal summary report as per format provided in Annexure –II.

A summary of the key E&S risks and safeguards would be presented under the section on “Effluent Disposal” in the current appraisal form. In case of E-III projects, the E&S appraisal report would not be necessary, but E&S risk aspects (if any) would be described in the relevant sections (viz. “Effluent Disposal” and “Utilities”) of the appraisal form itself.

SIDBI has developed Credit Rating Model and is applied to certain category of projects. Wherever this model is used, the E&S risk aspects can be addressed through the instruction provided in **Text Box – 5.2**

TEXT BOX 5.2: INSTRUCTIONS FOR INTERPRETATION OF CREDIT RATING MODEL FROM E&S RISK PERSPECTIVE

SIDBI has developed a **Credit Rating Tool** and is used for certain category of projects. Where this model is being used, E&S aspects are primarily addressed under the parameter “Pollution Control/ Environmental norms”, for which three levels of performance have been defined. The credit officer is required to interpretate these levels of performance as discussed below.

- ☐ Non-polluting – This would typically correspond to projects under the E-III category. There may be some projects under the E-II category where clean technologies have been adopted.
- ☐ Polluting but provisions of pollution control equipment/ effluent disposal made in the project – This would be applicable to a project under E-I or E-II category, having adequate provision of pollution control equipment/ effluent disposal. Where loans are being extended to existing facilities, the CO should also attempt to ascertain the reliability of operation of the pollution control equipment/ treatment systems. In case, the facility has adequate equipment, but is not operating these properly then a ‘C’ rating should be assigned.
- ☐ Polluting industry – This rating would be assigned to projects under E-I or E-II having inadequate facilities for pollution control/ treatment. It may also be assigned where adequate facilities have been provided for, but are not operated regularly or properly, resulting in release of emissions/ effluents beyond acceptable levels.

In addition to the above, E&S aspects need to be borne in mind while evaluating some other parameters of the Rating Model as well. These are as follows

Management Risk

Management Initiatives/ Tie-Ups - A useful indicator of management commitment and performance, in the environmental context, is the companies ISO 14001 certification.

Operational & Business Risk

Location - The CO needs to consider sensitive areas in the vicinity of the site such as high density of surrounding population, eco-sensitive habitat, and historical monuments. This would be particularly important in the case of projects involving hazardous substances/ wastes.

Technology/ Concept of propose project – Use of cleaner processes/ technologies should be considered in the assessment of this parameter. Typically, cleaner production processes are also the more technologically up-to-date ones, and therefore represent no contradiction with the conventional basis for assessing this parameter.

Quality of Primary and Collateral Security – In projects involving the hazardous substances or generation of hazardous wastes, the CO needs to evaluate the risk of site/ groundwater contamination (past, or potential in future) arising from leakages etc. This is important since it can significantly reduce the market value of the property.

Impact of WTO & Other provisions – In the current context, use or movement of several substances / products is banned or controlled by various international treaties. These include CFC’s, pesticides, azodyes etc.. The list may be expected to increase with globalisation of trade as well as environmental concerns. CO’s would need to be alert to these provisions, especially in the case of facilities having exports or products that are finally directed to an international market, due to their increased vulnerability to such provisions.

Some of the **key aspects** that need to be borne in mind during the Appraisal stage are as follows:

- ☐ While evaluating the project for legal compliance on the E&S aspects, the CO should be aware of requirements not only as per national legislation but also state level regulations (this is especially applicable to pollution norms, impact assessments and guidelines for water use).
- ☐ The CO should confirm that the cost of the proposed environmental infrastructure is properly tied up with the financial overlays. Cost details of the environmental infrastructure may be obtained from the Environment Management Plan provided in the EIA, and/ or the E&S Questionnaire.
- ☐ As mentioned earlier, the CO should attempt to evaluate the use of cleaner technology options in the project (under the Section on Technical Aspects). Information on this is provided in the Sectoral Database and would be updated periodically.
- ☐ In the case of the site visit(s) undertaken prior to approval of the loan, special care should be taken to review storage systems for hazardous substances, and systems to handle emergency situations such as leakages/ explosions/ fires. Risks of contamination should be carefully assessed where the project site is being taken as security for the loan.
- ☐ For E_I & E-II, CO should check the applicability of public liability insurance. In case the same has not been obtained by the client, the CO should advice to strictly adhere to the requirements
- ☐ For expansion/ modernization projects being financed by SIDBI, the officer concerned would need to also review the existing operations for E&S risk aspects, since those could result in closure/ suspension of operations for the entire facility. Where possible, especially in case of E-I projects an environmental audit should be conducted of the existing facility to identify potential risk areas.
- ☐ For expansion/ modernization projects of existing facilities involving the use of hazardous substances, and where there is a new client relationship being established for SIDBI, a due diligence exercise is desirable.
- ☐ Management commitment to addressal of E&S risks can be assessed from the management measures being/ proposed to be instituted at the facility eg. Environmental audits, identification of responsibility for functioning of pollution control equipment, monitoring facilities. A useful indicator of the adoption of these measures is the ISO 14001 certification.
- ☐ Where the unit is supplying services or product to large MNC's, the CO should be aware of the facility's ability to meet the buyer's E&S requirements.

5.3 LOAN SANCTION/ DISBURSEMENT

The Appraisal report, along with the E&S appraisal summary report would be submitted for approval to the Credit Committee. Apart from other aspects of the credit evaluation, the Committee would also review the E&S risks / safeguards analysed in the Appraisal report, including the E&S questionnaire. Clarifications if any should be obtained from the client, and where required, modifications incorporated in the Appraisal Report.

If the proposal gets approved, the CO would proceed with deciding the terms of sanction. Pre-commitment conditions if any, would be reassured or required by the Credit Committee, and the same would be communicated to the client. Once these have been complied with, a Letter of Intent may be issued to the client.

Detailed terms of sanction would be discussed with the client. On finalisation of these, a Loan Agreement would be prepared and signed. Requisite terms/ conditions to cover E&S risk aspects would need to be incorporated in the Loan Agreement, in consultation with the client. The CO would ensure compliance with the Pre-disbursement conditions, and then release the first instalment of the Loan.

While conditions of sanction to cover E&S risks would need to be decided on a case-to-case basis depending on the specific project details, in general the following options exist to cover risks:

- ☐ Control the risk - clauses in credit agreement, indemnities, warranties, covenants, certificates. These provide contractual control over client activities.
- ☐ Transfer the risk - guarantee/ indemnifications by a third party eg. parent company or govt. agencies, syndication.
- ☐ Finance the risk - establishment of an environmental contingency fund, reclamation or remediation bond or Letter of Credit.
- ☐ Insure the risk (or risk transfer for a fee) to cover sudden or gradual events.

A few pointers in the context of SIDBI's E&S Risk Management framework are provided below.

Pre-commitment conditions

- ☐ In case of greenfield E-I projects where EIA's are required as per legislation, an EIA should be insisted upon prior to issuance of a Letter of Intent. Even if a report is not provided to SIDBI at this stage, it should be confirmed – possibly in writing from the client - that such an exercise has been or is being completed by a knowledgeable environmental consultant.

Pre-disbursement conditions –

- ☐ In case of all E-I and E-II projects, NOC's should be available prior to disbursement.
- ☐ For greenfield E-I and E-II projects, an EIA (where applicable), should have been completed and a copy of the EMP made available to SIDBI.

- ☐ In case of projects involving the generation of hazardous wastes and being disposed of through external agencies, a copy of the contractual arrangements and name of agency should be made available to SIDBI.

5.3.1 OTHER CONDITIONS OF SANCTION

- ☐ For expansion/ modernization projects in the categories given below, the client should have an environmental auditing system in place, or else SIDBI should undertake a due diligence exercise prior to disbursal.
 - E-I category (new clients, or projects using/ generating hazardous substances)
 - E-II category (involving use/ generation of hazardous substances).
- ☐ Where there have been instances of past problems in adherence to pollution norms as indicated by notices/ letters from the SPCB, a letter would be obtained from the management confirming that pollution control equipment would be operated to ensure adherence to legal norms.
- ☐ In sectors/ regions typically associated with use of child labour or forced labour, a management confirmation would be obtained that such categories of labour would not be used in the facility’s operations.

- ☐ In projects involving operations that may be associated with potential emergency/ disaster situations such as explosions, gas leaks, fires etc., a management confirmation may be obtained that necessary emergency response systems have been provided for at the project facility.

The following table broadly summarises the risk mitigants that can be used for different categories of projects.

TABLE 5.1: RISK MITIGATION MATRIX

Category		Risk Mitigants
E-I	All	NOC (Pre-Disb)
	Greenfield	EIA being done / completed (Pre-Comm)
	Expansion/ Modernisation	Environmental audit/ Due diligence, especially in case of new client relationships, or facilities involving use/ generation of Hazardous Substances.
E-II	All	NOC (Pre-Disb)
	Greenfield	EIA being done/ completed (Pre-Disb)
	Expansion/ Modernisation	Environmental audit/ Due diligence, especially in facilities involving use/ generation of Hazardous Substances.

In the above listing, no specific suggestions have been made to finance or insure E&S risks given the current absence of legislation transferring liability for environmental damages to financiers.

However, liabilities have been assigned to offending companies, and where sizeable, these have an impact on the financier’s credit exposure to the client. Therefore, the option of financing/ insuring E&S risks needs to be considered in cases where the Bank is exposed to potentially high levels of E&S risk.

5.4 PROJECT MONITORING/ RECOVERY

Subsequent to disbursement of the loan, the CO will undertake on-going monitoring of the project to confirm the installation of environment control facility, through site visits and progress reports submitted by the client. The following periodicity has been stipulated for this purpose

TABLE 5.2: MONITORING FREQUENCY

MONITORING REPORT	FREQUENCY
Progress reports from customers During implementation	Quarterly
On commencement of operations	Half-yearly
Progress reports by CO	Quarterly

In case of all E-I and E-II projects, the site visit reports and quarterly progress reports by the CO would incorporate E&S risk aspects as well as per the formats provided (refer Annexure-I). These would include, status of legal approvals, worker health & safety measures,

condition of pollution control facilities, signs of site contamination and so on.

In addition, for Greenfield E-I and E-II projects, as also E-I and E-II projects involving the use or generation of hazardous substances, it would be desirable, if the following checks were performed:

On completion of the implementation phase, a due diligence exercise to confirm installation of requisite pollution control/ treatment facilities as stated in the project design documents.

In the Operational phase, a periodic (e.g. annual) audit to identify any potential E&S risks that may be emerging, thereby enabling the CO to initiate necessary follow up action to address the same.

The Environment and Social risk management Plan is summarised in the Table 5.3

5.5 CONDITIONS FOR INDIRECT FINANCE

Commercial Banks seeking refinance from SIDBI will adhere to SIDBI’s E&S risk management framework for all project financing done by them under the refinance line. At regular intervals, SIDBI’s Central Credit department will do a sample review of the refinanced portfolio of the participating bank to confirm adherence to requirements under this framework.

TABLE 5.3: ENVIRONMENT AND SOCIAL RISK MANAGEMENT PLAN

STEP	PROCESS	E&S Manual Reference	OUTPUT
1. PROJECT SCREENING			
Initial customer request	Discussions with borrower to assess the eligibility of project based on SIDBI lending policies. Check against exclusionary list. Classify project into E&S risk classification – E-I, E-II or E-III. Issue Loan Application form Issue Borrowers Guide Issue E&S Questionnaire and Borrower’s E&S Guide in case project falls in one of the following categories: <ul style="list-style-type: none"> ☐ E-I ☐ E-II Greenfield ☐ E-II located in non-industrial area 	Annexure - IV Annexure –I & BEG	Decision on whether or not to proceed further with loan processing
Receive project information	Receive Loan Application form, E&S Questionnaire, EIA (if applicable), NOC and other applicable approvals (check against list of E&S legal requirements). Check for complete information & documentation Follow up for gaps (if any)	Sectoral Guidebook	Collation of necessary details/ documents on loan proposal
2.PROJECT APPRAISAL			
Appraise loan proposal	Review and assessment of loan proposal.	Section 5.2	Loan Appraisal
	Identify key E&S risks and note safeguards required to mitigate the risk, from the Sectoral Database for relevant sector of industry.	Sectoral Database	Report with decision to
	Site investigation, if necessary. Review for addressal of E&S risk aspects as		accept proposal as

STEP	PROCESS	E&S Manual Reference	OUTPUT
	<p>stated in E&S Questionnaire, EIA report and NOC conditions. Also check for any signs of site contamination (past or potential in future), especially if land is being provided as collateral for the loan.</p> <p>Modifications (if any) made to structure of proposal, in consultation with borrower</p> <p>Complete Loan Appraisal report, including E&S Appraisal summary report as per format provided in Annexure- II</p>	Annexure -II	<p>submitted</p> <p>accept with modifications</p> <p>reject</p>
3. LOAN SANCTION/ DISBURSEMENT			
Approvals from appropriate authority	<p>Appraisal report tabled for review to Credit Committee</p> <p>Modifications made/ Clarifications sought based on observations of Credit Committee</p> <p>Discuss pre-Letter of Intent terms (if any) with borrower and ensure compliance with the same.</p>	Section 5.3	Approval obtained for the project.
Complete pre-disbursement formalities for loan	<p>Issue Letter of Intent to borrower.</p> <p>Discuss terms of Loan Agreement for the proposal</p> <ul style="list-style-type: none"> ☐ interest rate ☐ repayment schedule ☐ security/ guarantees ☐ other loan conditions <p><i>Incorporate E&S terms/ conditions to cover E&S risk aspects identified as part of appraisal.</i></p> <p>Finalise & sign loan agreement</p>	Section 5.4	<p>Letter of Intent issued</p> <p>Loan Agreement signed</p>

STEP	PROCESS	E&S Manual Reference	OUTPUT
	Ensure compliance with pre-disbursement conditions including legalities relating to creation of security.		
Disbursement of loan	Disburse first instalment of loan		First instalment disbursed
4. PROJECT MONITORING, AUDIT & RECOVERY			
Ensure conformity to standards during construction, operation and maintenance	Obtain progress reports from customers (quarterly during project implementation and half-yearly on commencement of operations). Field visits by credit officer. Prepare quarterly progress reports as per formats, <i>including section on E&S risk aspects</i> . Also review for any change in industry/ market/ regulatory environment.	Annexure -III	Quarterly progress reports
Ensure compliance to loan disbursement conditions	Disburse subsequent instalments Obtain Project completion report from borrower		Project Completion Report
Audit project	Audit project with the help of external/ corporate consultants.		Audit report
Ensure no defaults occur in repayment	Enforce loan recovery mechanism (if required) in case of default.		Recovery of payments

6.0 INSTITUTIONAL ARRANGEMENTS

Head office, which is located in Lucknow is the key decision making body of SIDBI and is responsible for policy level decisions and implementation of various systems and procedures. Zonal offices namely Mumbai (West zone), Delhi (North Zone), Chennai (South Zone) and Kolkata (East zone) are In-charge of SIDBI's direct lending operations in respective zones. SIDBI has 40 Branch offices located in all major cities of the country.

Branch offices undertake direct finance operations of SIDBI and the Credit officers deputed in these offices are responsible for accepting loan application forms, screening, communication with client and monitoring. However SIDBI has committee based loan appraisal and approval procedures. For all project proposals under direct finance, Credit Committees are constituted at different levels viz. branch office, zone office and head office. The composition of these committees is dependent primarily on size of loan and includes specialists in their respective fields.

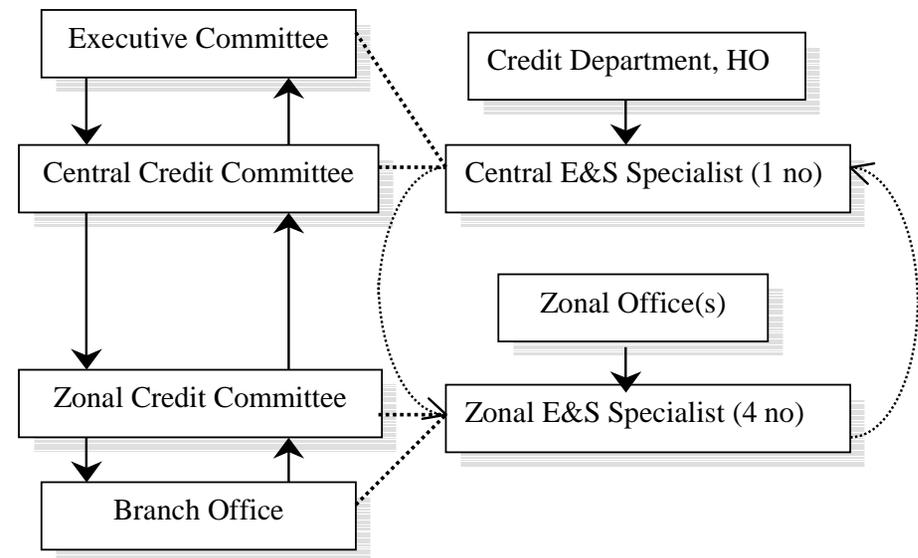
6.1 ORGANIZATIONAL STRUCTURE – E&S RISK MANAGEMENT FRAMEWORK.

In order to ensure that the Environmental and Social policy and framework are operationalised, SIDBI has developed an organizational support structure to complement the existing structure. Environmental and social risk management framework has

been designed to be compatible with the existing organisational structure to facilitate integration with the same.

SIDBI would identify five nodal officers from its pool of credit officers, to form a core group on E&S issues. This core group of E&S Specialists will receive appropriate training from a group of technical experts as well as external institutions on identifying, screening, mitigating and managing E&S issues in industries. Four of these officers will be located at the Zonal level (one in each Zone) and the fifth officer will be located at the Head Office (Credit Department), in Lucknow.

The reporting structure of these officers is shown as below;



6.2 RESPONSIBILITY ALLOCATION

Based on the E&S framework a responsibility allocation matrix has been developed as below.

TABLE 6.1 : RESPONSIBILITY ALLOCATION

S.NO.	ROLE	PROCESS	RESPONSIBILITIES
1	Credit Officer	Screening	<ul style="list-style-type: none"> ☐ Check Eligibility of borrower as per SIDBI's E&S Requirements. ☐ Categorize Project in E-I, E-II and E-III categories ☐ Issue E&S Questionnaire and Borrower's E&S Guide in case project falls in one of the high risk categories ☐ Receive Loan application form and filled E&S Questionnaire, EIA and NOC as applicable (refer E&S legal requirements and sectoral guidebook).
		Appraisal	<ul style="list-style-type: none"> ☐ Desk review and assessment of loan proposal. ☐ Identify key E&S risks and note safeguards required to mitigate the risk, from the Sectoral Database. Check whether these are provided for under the project. ☐ Review for addressal of E&S risk aspects as stated in E&S Questionnaire, EIA report and NOC conditions. ☐ Complete Loan Appraisal report, including E&S Appraisal report as per format provided in Annexure –II
		Sanction / Disbursement	<ul style="list-style-type: none"> ☐ Appraisal report tabled for review to Credit Committee ☐ Modifications made/ Clarifications sought based on observations of Credit Committee ☐ Discuss pre-Letter of Intent terms (if any) with borrower and ensure compliance with the same. ☐ Issue "Letter of Intent" to borrower. ☐ Incorporate E&S terms/ conditions to cover E&S risk aspects identified as part of appraisal.
		Monitoring / Recovery	<ul style="list-style-type: none"> ☐ Obtain progress reports from customers (quarterly during project implementation and half-yearly on commencement of operations). ☐ Field visits ☐ Prepare quarterly progress reports as per formats, including section on E&S risk aspects. ☐ Review for any change in industry/ market/ regulatory environment. ☐ Obtain Project completion report from borrower

S.NO.	ROLE	PROCESS	RESPONSIBILITIES
2	Zonal Credit Committee	Appraisal	<ul style="list-style-type: none"> ☐ Review E&S annexure to the appraisal report ☐ Decides E&S terms / condition to cover E&S risk ☐ Decision on Investment with / without modification to the project.
		Sanction / Disbursement	<ul style="list-style-type: none"> ☐ Check E&S pre- disbursement conditions are met before loan disbursement. ☐ Ensure SIDBI's E&S requirements are fulfilled prior to disbursement.
3	Central Credit Department	Policy	<ul style="list-style-type: none"> ☐ Periodical review of Policy and E&S Requirements. ☐ Coordination of capacity building exercise and training of staff ☐ Review of participating banks portfolios.
4	Risk Management Department	Monitoring / Recovery	<ul style="list-style-type: none"> ☐ E&S Risk Monitoring ☐ Identifying E&S issues related to NPA
5	Central E&S Specialist	Monitoring and Updation	<ul style="list-style-type: none"> ☐ Update E&S risk management framework in light of change in E&S Legal provisions and communicate to respective SIDBI branches. ☐ Review on sample basis E&S annexure to LA document and site visits reports. ☐ Coordinate Training program for Credit officers and E&S specialists ☐ Coordinate Training programs for Credit Officers from the Participating banks.
6	Zonal E&S Specialist	Appraisal and Site monitoring	<ul style="list-style-type: none"> ☐ Review and assessment of loan proposal for E1 categories, where required. ☐ Identify key E&S risks and note safeguards required to mitigate the risk, from the Sectoral Database. Check whether these are provided for under the project. ☐ Site investigation if necessary. Check for any signs of site contamination (past or potential in future), especially if land is serving as collateral for the loan. ☐ Review for addressal of E&S risk aspects as stated in E&S Questionnaire ☐ Review EIA report and NOC conditions if submitted by the project proponent. ☐ Assist Credit Officers to complete E&S Appraisal report as per format provided in Annexure – II. ☐ Coordinate training programs and capacity building exercise at zonal level. ☐ Coordinate with Central E&S Specialist for updation of E&S Management system and procedures

6.3 TRAINING PROGRAM

As a part of its capacity building initiatives, SIDBI would provide formal training to its personnel to develop comprehensive understanding of environmental and social issues and the associated risks with financing of SME's. Thus a training program has been devised for employees at different levels. This training program aims to provide SIDBI's employees with the necessary expertise to recognize E&S issues at factory sites, and develop suitable safeguards to protect SIDBI from associated E&S risks. These training programs would to be conducted with the help of local and national training institutions and individual technical experts. The SIDBI E&S team will identify select courses offered by the premier institutions in India and develop an E&S training plan.

The Central E&S specialist, with the assistance of the Zonal E&S specialist(s) will coordinate these training programs. In the first phase, these training programs will be conducted at SIDBI's Head office and the Zonal offices. All SIDBI branch offices will designate employees to be trained, based on their sphere of business and target portfolios. Based on this input the Central E&S specialist will customise the course contents to suit the needs of the concerned zonal/ branch office, as also its specific regulatory context. Two types of training will be conducted, namely-

- ☐ Awareness training
- ☐ Competence training

Awareness training will be imparted to all senior staff of SIDBI (officer grade and above) on a rotational basis. This training program will mainly cover an appreciation of E&S issues, SIDBI's environmental policy and vision, E&S initiatives and E&S requirements to be implemented. To provide *competence training*, needs identification will be done by the branch offices, based upon the type of industries in their lending portfolios. At least one credit officer from each branch and zonal office having the following basic skills would be selected to receive the competence training:

- ☐ Engineering degree in civil/ chemical / environment/ mechanical.
- ☐ Science graduate with masters in geology/ biology/ mathematics etc.
- ☐ At least 5 years of experience in handling direct finance portfolios.
- ☐ Good communication skills in English.

Competence training programs will have a primary focus on effective implementation of the E&S framework document and legal requirements. These will also cover tools and techniques used for effective implementation like due diligence audits, environmental management systems, pollution prevention, and cleaner production. The following table provides an outline of the awareness and competence training modules to be prepared.

TABLE 6.2 : AWARENESS AND COMPETENCE TRAINING MODULES

SL. NO	MODULE	COURSE OUTLINE	DURATION	FREQUENCY	TARGET AUDIENCE
A. Awareness Training					
1	SIDBI's E&S policies	<ul style="list-style-type: none"> ☐ SIDBI's E&S policy, requirements and initiatives 	30 min.	Once Every year for all staff	All Staff & Participating banks
2	E&S Regulations	<ul style="list-style-type: none"> ☐ Introduction to Indian regulatory framework and environmental & social legal requirements for SMEs and implementation bottlenecks ☐ E&S requirements of major funding institutions like World Bank, IFC, DFID. 	30 min	Once Every year for all staff	All staff
3	Introduction to causes of pollution and its consequences on environment	<ul style="list-style-type: none"> ☐ Introduction to air, water and land pollution. ☐ Global environmental issues ☐ Case studies of Industrial processes and associates environmental impacts. 	60 min	Once Every year for all staff	All staff
B. Competence Training					
1	Introduction to SIDBI E&S framework and procedures	<ul style="list-style-type: none"> ☐ E&S Framework principles ☐ E&S Forms and formats and check sheets ☐ Environmental & social regulation in India (Acts and rules) ☐ E&S Risk Classification of SME ☐ Project appraisal methodology ☐ Risk management and mitigation techniques ☐ Monitoring requirements 	4 Hrs (every three months on rotational basis)	Once Every Six months	Selected Credit officers
				Once Every Year	Senior management
2.	Pollution prevention techniques	<ul style="list-style-type: none"> ☐ Cleaner production practices ☐ Cleaner production initiatives for E-1 categories 	4 Hrs (every three months on	Once Every Six months	Selected Credit officers

SL. NO	MODULE	COURSE OUTLINE	DURATION	FREQUENCY	TARGET AUDIENCE
		<ul style="list-style-type: none"> ☐ Air pollution control techniques ☐ Waste water treatment techniques ☐ Hazardous substances management ☐ Occupational health and safety Management 	rotational basis)	Once Every Year	Senior management
3.	Social Audits and assessment	<ul style="list-style-type: none"> ☐ Corporate social responsibility ☐ Social audit principles ☐ Project effected persons identification and management ☐ Social issues and their management measures 	1 day	Once Every Six months	Selected Credit officers
4.	Environment due diligence and assessments	<ul style="list-style-type: none"> ☐ Due diligence principles ☐ Contamination identification and assessment of pollution levels ☐ Techniques to perform environment audits ☐ Environment impact assessment (EIA) and reporting ☐ Site visits and exercises 	1 day	Once Every Six months	Selected Credit officers
5.	Environmental management systems	<ul style="list-style-type: none"> ☐ Introduction to environment management systems (EMS) and benefits ☐ EMS implementation techniques ☐ Monitoring and measurement of environmental performance 	1 day	Once Every Six months	Selected Credit officers

ANNEXURE –I: FORMS & FORMATS

ANNEXURE I(A): ENVIRONMENT AND SOCIAL QUESTIONNAIRE
(ANNEXURE TO LOAN APPLICATION FORM)

E&S CATEGORY -----

I. ENVIRONMENTAL ASSESSMENT

	Environmental Assessment	Y/N	If Yes, please specify details	Environmental Management Measures
1.	Is the project site in an area <u>not</u> designated for industrial/ commercial use?			
2.	Will the project generate any air emissions?			
3.	Will the project generate any of the following? i. Industrial Waste Water ii. Leakages iii. Any other (please specify) <i>If Yes, provide details of mode of disposal (e.g. river, lake, drain, open land, horticulture use in factory).</i>			
4.	Will the project generate hazardous solid waste? (for e.g sludge's, oils, waste chemicals etc.) <i>If yes, please provide details of mode of disposal.</i>			
5.	Will the project involve handling of hazardous/ dangerous chemicals in its operations? <i>If yes, please provide list of chemicals handled.</i>			
6.	Will the project cause noise pollution?			

	Environmental Assessment	Y/N	If Yes, please specify details	Environmental Management Measures
7.	Will the project cause any health hazard to employees?			
8.	Will the project create smell and/ or smoke?			
9.	Will the project cause any fire hazards (e.g. fuel storage)? <i>If Yes, please provide details of emergency management systems.</i>			
10.	Will project involve use of water in its operations? <i>If Yes, please provide source of water supply and water efficiency measures adopted (e.g. reuse/ recycling).</i>			
11.	Will the project result in cutting of trees?			
12.	Will the project result in damage of the habitat of any species listed in the schedules of the Wildlife Protection Act?			
13.	Has an EIA been done for the project? <i>If Yes, please provide name of consultants & when the study was conducted</i>			
14.	Does the management propose to; (a) Conduct environmental audits (b) Install environment management systems?			

II. POLLUTION CONTROL EQUIPMENT / TECHNIQUES AND ASSOCIATED COSTS (Please provide details of pollution control equipment, treatment and disposal facilities provided for under the project, and their associated costs.)

III. SOCIAL ASPECTS (Please provide details of initiatives adopted to avoid use of child labour or forced labour either directly or through contractors, as part of the project.)

IV. LEGAL REQUIREMENTS

Sl. No	Requirements under Indian Environmental Legislations	Applicable (Yes/ No)	If Yes, status of requirement
1.	Clearance from MoEF (EIA Notification 1994)		
2.	Valid Air Consent (Air Act, 1981)		
3.	Valid Water Consent (Water Act, 1974)		
4.	Hazardous waste authorization (EPA, 1986)		
5.	Payment of Water Cess (The Water Cess Act, 1977)		
6.	Provide Safety reports to concerned authorities (Manufacture, storage and import of hazardous chemical rules, 1989)		
7.	Prepared On-site emergency plan (Manufacture, storage and import of hazardous chemical rules, 1989)		
8.	Public liability Insurance (Public Liability Insurance Act)		
9.	Submission of environmental statement (EPA,1986)		
10.	Registration of dangerous machines (The Dangerous Machine Act, 1983)		

V. PAST TRACK RECORD

(Has this facility or any other facility under the same management been associated with environment related legal violations (viz. notices been issued by concerned authorities) or public protests/ legal action in the past 3 years? If yes, please provide details.)

ANNEXURE I(B): ENVIRONMENTAL AND SOCIAL APPRAISAL SUMMARY REPORT FORMAT
(APPLICABLE FOR E-I AND E-II CATEGORIES)

Project Background	
1. Site location and environmental setting (<i>briefly summarise site location with reference to surrounding landuse</i>)	
2. Exclusion from Negative List (<i>briefly indicate the project description and its exclusion from the negative list of projects</i>)	
3. Environmental Issues (Provide assessment of expected pollution levels and adequacy of proposed pollution control measures)	
i) Air pollution (<i>include emissions from in process and utilities</i>)	
ii) Water pollution. (<i>include emissions from in process and utilities</i>)	
iii) Solid and hazardous waste. (Include types of wastes and handling / disposal measures)	
iii) Hazardous / Dangerous chemicals / fuels. (<i>include types of chemicals, fuels and</i>	

<i>handling and storage measures)</i>	
iv) Noise	
v) Produce or use of banned Pesticides / herbicides (<i>For e.g DDT, Aldrin, Dieldrin, Benzene Hexa chloride etc.</i>)	
vi) Use of Ozone Depleting Substances (<i>for e.g. chloro fluoro carbons in refrigeration, aerosols, solvents, air-conditioning etc.</i>)	
vii) Environment Management Systems / Audits	
4. Resource Utilisation	
i) Water Consumption	
ii) Fuel	
5. Social Issues (<i>provide note if project involves use of child labour / forced labour</i>)	
i) Involvement of Child labour / Forced labour in operations / hazardous processes	

6. Health and Safety	
i) Proposed health and safety measures.	
ii) Emergency planning	
iii) Status of Public Liability Insurance <i>(If applicable)</i>	
7. Legal requirements	
Status of Legal requirements / Obligations <i>(briefly mention which NOC 's / consents have been obtained)</i>	
8. Proposed Conditions for Sanction	
Pre- disbursement	
Post disbursement	

ANNEXURE I(C) : E&S SITE VISIT REPORT FORMAT
(ANNEXURE TO EXISTING SITE VISIT REPORT)

1. Name of the Client	
2. Location	
3. Date of site visit	
4. Name of visiting officer	

1. Legal Status (Check all the relevant legal documents / permits are updated or not)	
2. Pollution Control equipments (Check for all pollution control equipments, as proposed in loan application format, are installed on site. If Yes, are they functioning properly?)	
3. Health & safety measures / procedure adopted by the unit.	
4. Social Issues Observed (Use of child labour / forced labour)	
5. Recently implemented / planned initiatives for overall environmental improvement within / outside the unit	

ANNEXURE –II: LEGAL REQUIREMENTS

1.0 INDIAN ENVIRONMENTAL & SOCIAL LEGISLATIONS

1.1 WATER (PREVENTION AND CONTROL OF POLLUTION) ACT, 1974 (AMENDED 1988) & WATER (PREVENTION AND CONTROL OF POLLUTION) RULES, 1983

The Act is first environmental legislations introduced in 1974. The Water Act, empowers Central and State Pollution Control Board, to lay adequate procedures for prevention and control of water pollution. Under this act SPCBs are authorized to prohibit discharge of wastewater into stream or sewer or land disposal of polluting manner, not in accordance with the standards laid down by SPCB. The Act specifies certain obligations, responsibilities and rights that are to be recognized by the project proponents. Under this act all new facilities requires to obtain “Consent to Establish” prior to taking any steps to establish an industry, operation, or process or any treatment and disposal system which is likely to discharge effluents. “Consent to operate” is also required to be obtained by, all such facilities, before starting of commercial operations, and needs to be renewed periodically. The consents are generally issued with certain conditions, in terms of furnishing information periodically and meeting discharge standards all the time. Non compliance to these conditions may lead to revoke of consent by SPCB and closure notice may be served to the industry. SPCBs are also empowered to

regulate / stoppage of electricity and water supply in case for non conformity to these conditions and discharge of effluents beyond the prescribed standards.

1.2 WATER CESS (PREVENTION AND CONTROL OF POLLUTION) ACT, 1977 (AS AMENDED 1988) & WATER CESS (PREVENTION AND CONTROL OF POLLUTION) RULES, 1978.

This Act provides for the levy and collection of a Cess on water consumed by organizations and was specifically developed to augment the resources of the State Pollution Control Board. General obligation of the industry, under this act includes timely payment of water cess to SPCB, if the industry falls under 16 classified industries, mentioned in this act. To facilitate the same, project proponent is required to affix water consumption meter, at the location specified by SPCB. Pollution control Boards are empowered to inspect any industry for the provision of implementation of this acts.

1.3 AIR (PREVENTION AND CONTROL OF POLLUTION) ACT, 1981 (AS AMENDED IN 1987) AND AIR (PREVENTION AND CONTROL OF POLLUTION) RULES, 1983

The Air Act, 1981 provides for the prevention, control and abatement of air pollution. This Act spells the Government's powers, and obligations, responsibilities & rights of organizations that are contributing in some way towards air pollution. This Act also empowers SPCBs to declare any area within the state as air pollution control area and restrict establishment and operation of any industrial plant / process likely to emit air pollutants into the atmosphere. Central pollution control board (CPCB) under this act has proposed industry specific air emissions standards, SPCBs can decide to ratify these standards or can adopt the stringent. Obligation of project proponent under this acts includes obtaining of "Consent to Establish" prior to establishment of any industrial plant / process within located air pollution control area. The industry is also required to obtain "consent to operate" after trial run and before starting of their respective commercial operations. This consent is generally issued with certain conditions, in terms of furnishing information periodically and meeting emissions standards all the time. Non compliance to these conditions may lead to revoke of consent by SPCB and closure notice may serve to the industry. SPCBs are also empowered to regulate / stoppage of electricity and

water supply in case for non conformity to these conditions and discharge of effluents beyond the prescribed standards.

1.4 ENVIRONMENT (PROTECTION) ACT, 1986 AND ENVIRONMENT (PROTECTION) (AMENDMENT) RULES, 1996

The Environment (Protection) Act, 1986 was introduced as an umbrella legislation that would provide a holistic framework for the protection and improvement of the environment. In terms of responsibilities, the Act and the associated Rules requires for obtaining environmental clearances for specific types of new / expansion projects (addressed under EIA notification) and also for the submission of an environmental statement to the State Pollution Control Board annually. The Act and the associated Rules also provides environmental standards across a variety of industry sectors. While it recognizes the legislation introduced prior to 1986, many of the subsequent regulations have been introduced as Rules or notifications within the scope of this Act.

1.5 ENVIRONMENTAL IMPACT ASSESSMENT NOTIFICATION, JANUARY 1994 (AS AMENDED IN MAY 1994)

Under this notification, environmental clearance is required from the MoEF for large scale government and public sector undertaking projects. EIA Notification of 1994, has been made statutory in 30

identified activities and details of procedures for obtaining the environmental clearance including time schedules for decision-making. Under this notification, the project proponent is required to conduct Environmental Impact Assessment (EIA) for the proposed project / modification, as per the specified format. MoEF employs project evaluation committee, which consist of experts in various environmental disciplines and representative from local NGO. On the basis of recommendation of this committee, clearance is granted for the project.

Out of these 30 listed activities, 14 projects such as petroleum refineries, river valley projects etc., are exempted from, provisions under this notification, if the investment if less than Rs 50 Crores. However rest 16 categories, require clearance, irrespective of the size and investments. These categories includes, Bulk drug & pharmaceuticals, dye and dye intermediates, H- acid industry etc.

In the same year, MoEF published a Handbook of Environmental Procedures and Guidelines, 1994, which gives the details of the project coverage, which require environmental clearance, guidelines for investors, the documentation required, the environmental appraisal procedure along with flowcharts, post-project monitoring, brief description of the requirements under other environmental legislation. This handbook also includes explanatory notes and a detailed general questionnaire against which information needs to be furnished. In addition, sector-specific questionnaires have also been introduced. All these questionnaires are in the process of revision.

MoEF has also published the Environmental Guidelines for various industrial sectors, covered under this act, as mentioned previously to help project proponents in incorporating environmental considerations at an early stage in the project planning. These guidelines include (i) its purpose, (ii) general comments on EIA (iii) the items to be covered in an environmental impact statement / EIA report, (iv) the items to be dealt with in an EMP, (v) how impacts need to be identified across physical resources (hydrology, surface water quality, air quality impacts, soils, and noise impacts), ecological resources (fisheries, forestry, wildlife and ecosystems), human use values (navigation, flood control and land use), quality of life values (socioeconomic, socioeconomic, resettlement, public health, aesthetics, archaeological / historical values), (vi) measures for the mitigation of adverse impacts (air quality, noise, and relocation), (vii) environmental monitoring, and (viii) management considerations in hilly areas.

1.6 HAZARDOUS WASTE MANAGEMENT RULES, 1989 AND THE HAZARDOUS WASTES (MANAGEMENT AND HANDLING) AMENDMENT DRAFT RULES, 1999

Introduced as a set of Rules within the scope of the Environment Protection Act, 1986, Hazardous Waste Management Rules, 1989 was introduced to ensure proper handling and disposal of hazardous wastes. These rules were subsequently amended in the year 1999 &

2003. Under these rules, it is required for the generator of Hazardous waste / transporter / manager of hazardous waste facility to obtain an authorization from the State Pollution Control Board.

Hazardous Waste (Management and Handling) Amendment Rules, 2003 substitute or modify specified in the earlier rules issued in 1989. The specific rules that have undergone substantial modifications include the following.

- ☐ Identification of hazardous waste based on process involved in production and concentration of hazardous substances in waste stream.
- ☐ The occupier and the operator of any waste handling facility have been given responsibility and not only the occupier, as was the case earlier.
- ☐ Authorization and analysis fees have been increased, ninety days for providing the authorization has been stipulated and the process has been strengthened.
- ☐ For transporting, the linkages with the Motor Vehicles Act, 1988 and additional requirements have been included.

The list of processes generating hazardous wastes has been further elaborated. These include cleaning of barrels which have held chemical substance, purification process for air / water, waste treatment processes, performance of vehicle maintenance / repair work and all actions related to lubricating / system oil.

1.7 FOREST CONSERVATION ACT, 1927, FOREST CONSERVATION ACT 1980 (AS AMENDED IN 1988) AND FOREST CONSERVATION RULES 1981 (AS AMENDED IN 1992 AND 2003)

The Forest Conservation Act, 1980 (as amended in 1988) provide for the conservation of forests and for matters connected with it. Under this Act, the Forest Conservation Rules, 1981 was formulated. These rules include (i) the kind of details that need to be included in proposals for dereservation of forests or use of forest land for non-forest purposes, (ii) details on which Government authority should receive the proposals, and (iii) the mechanism for the review of the proposals. These rules carry annexes on (i) form for the proposal, (ii) legal advice on mining leases, (iii) regularization of encroachments on forestland, (iv) guidelines for laying transmission lines through forest areas, (v) applicability of cost-benefit analysis, and (vi) parameters for evaluation of loss of forests.

MoEF has published the Consolidated Guidelines for Diversion of Forest Land under the Forest (Conservation) Act, 1980, which clearly specifies (i) the type of projects that come under the purview of the Forest Conservation Act, (ii) the procedures & guidelines for the afforestation

**1.8 COASTAL REGULATION ZONE (CRZ)
NOTIFICATION, DECEMBER 1990 (AS AMENDED
IN JUNE 1997 AND 2001).**

The CRZ notification aims to protect environmental damages along the coastal areas and prohibits a range of activities within the coastal regulation zone (CRZ). Under these notifications, CRZ are defined as the areas located between Low Tide line and 500 m from High Tide line. Rules classifies the coastal zone into four categories – CRZ I to CRZ IV – based on the type of the coastal stretch, and specify the nature of activities allowed within each of these zones.

As per the CRZ notification, all coastal States and Union Territories have prepared their respective Coastal Zone Management Plans (CZMPs) and this has been approved by the Central Government. It is then the States / Union Territories responsibility to regulate the developmental activities as per the provisions of the approved CZMPs and CRZ notifications. Therefore, any proposed project in the coastal states would have to be cleared by the States or Union Territories and it should be seen to be in line with their respective CZMPs. It also includes guidelines for development activities whenever it is allowed.

**1.9 MANUFACTURE, STORAGE AND IMPORT OF
HAZARDOUS CHEMICAL (MSIHC) RULES, 1989
AND MSIHC (AMENDMENT) DRAFT RULES, 1999**

MSIHC Rules were introduced within the framework of the Environment Protection Act, 1986 and aims to address environmental issues related to the hazardous chemicals. These rules were further amended in the year, 19 Given that these Rules deal with hazardous chemicals, they also have significance from the viewpoint of health and safety. These Rules define 684 hazardous chemicals. Through a categorization based on the extent of severity of these hazardous chemicals, there are different requirements placed for the manufacture, storage and import of hazardous chemicals.

Under these rules, “the occupier” is required to provide the concerned authorities, detailed note on planned facilities as per format specified in Schedule -7 of these rules. In case, the occupier requires storage of hazardous chemicals more than “threshold quantities” as specified under these rules, is required to provide isolated storage to these chemicals. Also he is required to prepare On- Site emergency plan for the facility and submit to concerned authorities.

1.10 CHEMICAL ACCIDENT (EMERGENCY PLANNING, PREPAREDNESS AND RESPONSE) RULES, 1996

The Rules compliment those on accident prevention in the MSIHC Rules. These rules define major accident hazard installations to include industrial activity, transport and isolated storage at a site handling hazardous chemicals in quantities specified. To tackle emergencies, these rules provide for a four-tier crisis management set-up at the local, district, state and central level. Identified as Crisis Groups, the Central Crisis Group shall be the apex body in the country to deal with and provide expert guidance for planning and handling of major chemical accidents. The list of hazardous and toxic chemicals, their threshold quantities and associated classifications are same as those given in the MSIHC Rules, 1989.

1.11 PUBLIC LIABILITY INSURANCE ACT, 1991

This Act requires for providing immediate relief to non - workmen or damage to property from an accident occurring while handling specified hazardous substances. For this purpose, the Act requires that an insurance policy needs to be undertaken for the purposes of providing relief. The act also, stipulates provision for environmental relief fund, which may be used for providing funds for relief of the affected people / property, in case of an accident. The owner is required to contribute to this fund based on investments in the facility.

1.12 THE INSECTICIDES ACT, 1968 AND THE INSECTICIDE RULES, 1971

The Insecticides Act, 1968 regulates the import, manufacture, sale, transport, distribution and use of insecticides with a view to prevent risk to human beings or animals, and for matters connected there with. This Act empowers the Central Government to constitute a Central Insecticides Board to advise the Central and State Governments on technical matters arising out of the administration of this Act. This Act also empowers to constitute a Registration Committee to register insecticides, formation Central Insecticides Laboratory and appointment of Insecticide Inspectors to check above said activities of the board. The act empowers central government to regulate the production and use of insecticide in country. Recently Central government under this act has banned use of pesticides which are proposed to phase out under POP convention.

The Insecticide Rules, 1971 addresses the functions of the Board, Registration Committee, Laboratory, and packing and labelling of insecticides, and provisions regarding protective clothing, equipment and other facilities for workers during manufacture, formulations, transport, distribution and application.

1.13 FACTORIES ACT, 1948, FACTORIES RULES, FACTORIES (AMENDMENT) ACT, 1987 AND MODEL RULES

The Factories Act 1948 is a Central enactment applicable throughout the country and is enforced by the State Governments. While this Act was developed with the factory worker as a focus, there are several health and safety issues addressed in this legislation as a part of its chapters. Under this act there are three important schedules that are frequently referred in the context of health and safety requirements. These are as follows:

- ☐ The First Schedule containing the list of industries involving hazardous processes including SMEs like foundries, metallurgical, tanneries, chemicals, etc.
- ☐ The Second Schedule enlisting permissible levels of certain chemical substances (117 of them) in the work environment
- ☐ The Third Schedule enlists the list of notifiable diseases

To assist in the implementation of the requirements of the Factories Act, 1948, Rules have been developed. The powers of making rules under the Act are vested in the State Governments, as they are the enforcing authority. While each of the States have developed their own rules, a typical set of rules is described here with the aid of the Delhi Factories Rules, 1950.

Of the several rules are listed as legal requirements and some of them include health & safety provisions. These are as follows: issuance of health & safety guidelines by the Chief Inspector, duties of a certifying surgeon, disposal of trade wastes and effluents, level of humidification allowed, illumination requirements, provision of civic amenities, safety precautions related to specific type of equipment, protection of eyes, safety committee, duties of the safety officer, fire protection equipment required, interlocking arrangements, health and safety policy, information dissemination and disclosure, occupational health centers, decontamination facilities, first aid appliances, ambulance room establishment, special provisions related to dangerous operations that involve high noise level, notification of accidents dangerous occurrences, and maintaining a register of the same.

Following the Bhopal disaster, extensive amendments were made to the Factories Act and the Factories (Amendment) Act, 1987 was released. All of these amendments was directed towards ensuring that there was full and informed co-operation between the employers and the workers in ensuring occupational health and safety. Some of the salient features of the amendments made in 1987 include the following:

- ☐ Duties of the occupier to ensure health and safety of the workers were defined.
- ☐ A health and safety policy was mandated.

- ☐ The term ‘hazardous processes’ was included in the Act and stricter requirements were imposed on the commencement of these processes.
- ☐ An emergency and disaster control management plan for a hazardous installation was made a requirement.
- ☐ Promotion of participants of workers and cooperation between workers and management in maintaining safety and health in a work place through the constitution of a safety committee was required.
- ☐ Powers of the Inspectors and the severity of the penalties were both enhanced.

With the amendment of the Act, it was the responsibility of the respective State Governments to elaborate its provisions through developing State-specific Rules. However, to ensure consistency and uniformity in the making of Rules by the State Governments, the Ministry of Labor prepared “Model Rules”, so that they could be the basis for establishing the State Rules. However, the Delhi Factories Rules described as a typical example incorporates these Model Rules. In general, these Model Rules are available to industry for them to proactively act in advance of the notifications that are likely in their states of operation. The main features of the Model Rules that have been prescribed for modifications are described here:

- ☐ Facets regarding who is a competent person to carry tests, examination and others in connection with safety and health issues.

- ☐ Issue of guidelines and instructions by the Chief Inspector as per the need, and the occupier’s responsibility to maintain records evidencing the follow-up to these guidelines.
- ☐ Establishment of a safety committee and their conduct
- ☐ Site Appraisal committee and their functioning. In the prescribed site suitability application, the proponent needs to furnish data related to the various processes and the occupational health and safety issues associated with the same.
- ☐ Establishment of a health and safety policy
- ☐ Collection, development and dissemination of information in the form of Material Safety Data Sheets.
- ☐ Disclosure of information to the workers in factories carrying on a hazardous process and undertaking a review of the same annually.
- ☐ Disclosure of information to the general public when hazardous processes is involved.
- ☐ Disclosures of information to the local authority, district emergency authority and the chief inspector when hazardous processes is involved.
- ☐ Formulation and submission of an emergency plan and a disaster control and management plan when carrying on a hazardous process.
- ☐ Maintenance and submission of information on industrial wastes.
- ☐ If the disclosure information is found to be confidential by the occupier, then the need to bring it to the notice of the Chief Inspector.
- ☐ Medical examination, its scope and periodicity
- ☐ Establishment of occupational health centers and its facilities.
- ☐ Ambulance van and the equipment therein.

- ☐ Decontamination facilities that are required wherever there are hazardous processes
- ☐ Ensuring availability of health records to the workers
- ☐ Qualification requirements of supervisors for hazardous processes.

1.14 CHILD LABOUR (PROHIBITION AND REGULATION) ACT, 1986

It defines a child as "a person who has not completed their fourteenth year of age". It does not prohibit child labor per se but it prohibits the engagement of children in certain employment's and to regulate the conditions of work or children in certain other employments. It regulates the hours and conditions of work for child labourers, and prohibits the employment of children in twenty-five hazardous industries.

- ☐ No child shall be employed or permitted to work in any of the following occupations:
 - ☐ Transport of passengers, goods; or mails by railway
 - ☐ Cinder picking, clearing of an ash pit or building operation in the railway premise.
 - ☐ Work in a catering establishment at a railway station, involving the movement of vendor or any other employee of the establishment from one platform to another or into or out of a moving train.
 - ☐ Work relating to the construction of railway station or with any other work where such work is done in close proximity to or between the railway lines.

- ☐ The port authority within the limits of any port.
- ☐ Work relating to selling of crackers and fireworks in shops with temporary licenses

In any workshop wherein any of the following processes is carried on.

- ☐ Beedi making
- ☐ Carpet Weaving
- ☐ Cement manufacture including bagging of cement.
- ☐ Cloth printing, dyeing and weaving.
- ☐ Manufacture of matches, explosive and fire works.
- ☐ Mica cutting and splitting.
- ☐ Shellac manufacture
- ☐ Soap manufacture
- ☐ Tanning.
- ☐ Wool cleaning
- ☐ Building and construction industry
- ☐ Manufacture of slate pencils (including packing)
- ☐ Manufacture of products of agate
- ☐ Manufacturing processes using toxic metals and substances such as lead, mercury, manganese, chromium, cadmium, benzene, pesticides and asbestos

No child shall be required or permitted to work in any establishment in excess of number of hours prescribed. A period of work on each day shall not exceed three hours and no child shall work for more than three hours before he has had an interval for rest for at least one hour. No child shall be permitted or required to work between 7 P.m. and 8 a.m.

No child shall be required or permitted to work overtime.

Violations shall be punishable with imprisonment which shall not be less than three months which may extend to one year or with fine which shall not be less than ten thousand rupees but which may extend to twenty thousand rupees or with both. Any other violations under the Act shall be punishable with simple imprisonment, which may extend to one month or with fine, which may extend to ten thousand rupees or with both.

1.15 BONDED LABOUR SYSTEM (ABOLITION) ACT, 1976

The Bonded Labour System (Abolition) Act purports to abolish all debt agreements and obligations arising out of India's longstanding bonded labor system. It is the legislative fulfillment of the Indian Constitution's mandate against begar and forced labor. It frees all bonded laborers, cancels any outstanding debts against them, prohibits the creation of new bondage agreements, and orders the economic rehabilitation of freed bonded laborers by the state. It also criminalizes all post-act attempts to compel a person to engage in bonded labor, with maximum penalties of three years in prison and a 2,000 rupee fine.

1.16 MINIMUM WAGES ACT, 1948

The appropriate government shall fix the minimum rates of wages payable to employees employed in a scheduled employment. It will review at such intervals not exceeding five years, the minimum rates of wages so fixed and revise the minimum rates if necessary. The minimum rates of wages may be fixed as a minimum time rate or a minimum piece rate or as a guaranteed time rate. It will be applied to all scheduled employments in respect of which minimum rates of wages have been fixed under this act. Any employer who contravenes any of the provisions of this Act or any order made there under shall be punishable with fine, which may extend to Rs.500.

1.17 WORK MEN'S COMPENSATION ACT 1923

The act specifies the employer's liability for compensation to the employee in the following situations. –

- ☐ a) If personal injury is caused to a workman by accident arising out of and in the course of his employment, his employer shall be liable to pay compensation in accordance with the provisions

Provided that the employer shall not be so liable –

- (a) in respect of any injury which does not result in the total or partial disablement of the workman for a period exceeding three days;

(b) in respect of any injury, not resulting in death or permanent total disablement, caused by an accident which is directly attributable to –

- (i) the workman having been at the time thereof under the influence of drink or drugs, or
- (ii) the willful disobedience of the workman to an order expressly given, or to a rule expressly framed, for the purpose of securing the safety of workmen, or
- (iii) the willful removal or disregard by the workman of any safety guard or other device which he knew to have been provided for the purpose of securing the safety of workmen,

If a workman employed in any employment specified in Schedule contracts any disease specified therein as an occupational disease peculiar to that employment, or if a workman, whilst in the service of an employer in whose service he has been employed for a continuous period of not less than six months (which period shall not include a period of service under any other employer in the same kind of employment) in any employment specified in Part B of Schedule , contracts any disease specified therein as an occupational disease peculiar to that employment, the contracting of the disease shall be deemed to be an injury by accident within the meaning of this section and, unless the contrary is proved, the accident shall be deemed to have arisen out of, and in the course of, the employment is liable for compensation by the employer

If a workman employed in any employment specified in Part C of Schedule contracts any occupational disease peculiar to that employment, the contracting whereof is deemed to be an injury by accident within the meaning of this section, and such employment was under more than one employer, all such employers shall be liable for the payment of the compensation in such proportion as the Commissioner may, in the circumstances, deem just.

2.0 WORLD BANK'S E&S SAFEGUARDS

2.1 OP 4.01 ENVIRONMENTAL ASSESSMENT.

The World Bank requires all projects to undergo an environmental assessment process, however the depth and type of analysis required in based on nature, scale and potential environmental impacts associated with the project. The extent of environmental and social investigation required is determined at the screening stage. For example Category A projects requires detailed Environmental Impact Assessment as per specified Table of Content for EA report (refer Annex B of OP.4.01), where as, no further EA action is required beyond screening, for category C projects. Also for category A projects, the sponsor is required to retain an independent environmental expert to carry out EA for the proposed facility.

The Bank advices the project sponsor for EA requirements. If EA partly / wholly completed before the Bank's involvement then, environmental & social experts of the bank review the report to ensure it's consistency to the Bank's environmental and social policies. Sometimes, they require additional EA work including public consultation and disclosure.

2.2 POLICY ON FORCE LABOUR & CHILD LABOR

The Bank do not supports any project which involves forced labour or harmful child labour. Forced labour and child labour for this purpose are defined as follows.

- ☐ **Forced Labor** consists of all work or service, not voluntarily performed, that is exacted from an individual under threat of force or penalty.
- ☐ **Harmful Child Labor** consists of the employment of children that is economically exploitative, or is likely to be hazardous to, or interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

The Bank also requires the project sponsor to comply with the host country's core labor standards and related treaties ratified by that country.

2.2.1 OP 4.20 INDIGENOUS PEOPLE

Indigenous people describe the social groups with a social and cultural identity distinct from the dominant society that makes them vulnerable to being disadvantageous in the development process. This directive provides the policy guideline to ensure that indigenous people are benefited from development projects and to avoid potentially adverse effects on indigenous people caused by the project.

2.3 OP 4.04 NATURAL HABITAT

This policy stipulates the conservation of natural habitat in all projects assisted by the World Bank Group. The bank does not support any project involving the significant conversion of natural habitats unless there is no feasible alternatives for the project and its siting.

2.3.1 OD 4.12 INVOLUNTARY RESETTLEMENT

The directive provides the procedures and guidelines that borrower are expected to meet in operations involving involuntary resettlement.

2.4 OP 4.36 FORESTRY

World Bank ensures that all supported projects, do not have adverse impacts on the forested areas. The bank does not finance any commercial logging operation or purchase of logging equipment for use in tropical moist forest. The bank involvement in forest sector is conditional on the project sponsor's commitment to undertake sustainable management and conservation – oriented forestry.

2.5 OP 4.09 PEST MANAGEMENT

World Bank supports a strategy to promote the use of biological or environmental control measures and reduces reliance on synthetic chemical pesticides. The Bank requires project sponsor to select pesticides based on WHO recommended *Classification of pesticides by Hazard and Guidelines to Classification*. The selected pesticide should fulfil the following criteria

- ☐ Should have negligible adverse effect on human health
- ☐ Proved to be effective against the target species.
- ☐ Must have minimal effect on non-target species and the natural environment.
- ☐ Their use must take into account the need to prevent the development of resistance in pests.

2.6 OP 4.11 CULTURAL PROPERTY

The World Bank policy regarding cultural properties is to assist in their preservation. The bank normally rejects proposals that will significantly damage non-replicable cultural property, and will assist only those projects that are sited or designed so as to prevent such damage. The bank requires detailed investigation scientific study by the project sponsor, for any such property encountered in the project. The project proponent is required to internalise all costs, including training and strengthening of institutions involved in perseverance of nation's cultural property, to the over all project costs.

2.7 IFC’S ENVIRONMENT & SOCIAL REVIEW PROCEDURE

International Finance Corporation, a private sector lending arm of The World Bank Group conducts detailed environmental and social review of the projects as apart of project appraisal process. Environmental and social review outlines the process by which, IFC determines the adequacy of the project sponsor’s environmental assessment for a proposed project and works with the project sponsor to address environmental and social issues and opportunities associated with the project. The purpose of the environmental and social review is to ensure that the project complies with applicable IFC environmental and social polices and meets the host nation’s environmental and social legal requirements. IFC’s environmental and social review procedure involves following steps.

Project Screening

The purpose of project screening is to decide on the extent of environmental assessment required for the project. At this stage, based on project data sheets (PDS) provided by proponent, the project is categorised in environmental review categories i.e A, B, C and FI.

Project Appraisal

Project sponsor is required to submit environmental and social information to IFC as required under the specific category. During project appraisal stage, data gaps or other deficiencies in

environmental assessment are identified by environment and social specialists appointed by IFC. Normally IFC requires the project sponsor to retain an advisory panel of independent, internationally recognized environmental and social specialists to advice on all aspects of the project relevant to the EA, including during project implementation. During the environmental and social appraisal process, IFC works with the project sponsor to enhance project benefits or correct any deficiencies.

After completion of appraisal, IFC hold an Investment Review Meeting (IRM) to review recommendations for environmental and social initiatives to be under taken by project sponsor during implementation and operational phase of the project. Investment department prepares a Summary of Project Information (SPI) and is disclosed to the public through the bank’s info shop.

Environmental and Social Clearance Memorandum

Upon the satisfaction, that the project can comply with applicable IFC policies and meet the guideline, the environmental division issues the environmental and social clearance memorandum to the investment department. The ESCM clears the project for Boards consideration.

Board Approval

On the basis of IRM and ESCB, the board takes the decision for investment in the project.

Investment Agreement

After project approval, the investment officer, in consultation with the lawyer and environmental and social development specialists, ensures that environmental and social requirements are reflected in the IFC legal documentation for the project. The investment agreement contains covenants which require the project company to comply with IFC and host country requirements.

- ☐ Commercial logging operations or the purchase of logging equipment for use in Primary tropical moist forest
- ☐ Production or trade in products containing PCBs
- ☐ Production or trade in pharmaceuticals subject to international phase outs or bans
- ☐ Production or trade in pesticides/herbicides subject to international phase outs or bans
- ☐ Production or trade in ozone depleting substances subject to international phase out
- ☐ Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.

2.8 IFC'S EXCLUSIONARY LIST

IFC does not finance the following projects:

- ☐ Production or activities involving harmful or exploitative forms of forced labor¹/harmful child labor².
- ☐ Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.
- ☐ Production or trade in weapons and munitions.
- ☐ Production or trade in alcoholic beverages (excluding beer and wine).³
- ☐ Production or trade in tobacco
- ☐ Gambling, casinos and equivalent enterprises
- ☐ Trade in wildlife or wildlife products regulated under CITES
- ☐ Production or trade in radioactive materials
- ☐ Production or trade in or use of unbonded asbestos fibers

**ANNEXURE –III: SIDBI'S
REQUIREMENT AND RELEVANT
REFERENCES**

SIDBI'S REQUIREMENT AND RELEVANT REFERENCES

S. No	SIDBI Requirement	SIDBI Reference	World Bank Reference	GOI Reference
1	SME's financed by SIDBI, are required to comply with Indian environmental and labour legislations.	PFD Circular No 17 / 1998 – 1999 , Detailed Appraisal Note		
2	SIDBI monitors the progress of compliance of environmental and labour legislations after financing during project implementation and operational stages.	PFD Circular No 17 / 1998 – 1999, Site visit report		
3	SIDBI does not finance production or trade in ozone depleting substances (ODS) subject to international phase out.	PFD Circular No: 36/ 2000 - 2001		The ODS (Regulation & Control) Rules, 2000.
4	SIDBI does not finance production or activities involving harmful or exploitative form of child labor or forced labor		IFC – Annex A, exclusionary criteria	Child Labour (P&R) Act 1986. Bonded Labor System (abolition) Act, 1976.
5	SIDBI encourages projects based on fly ash products.	PFD Circular No. 37 / 2002 - 2003		
6	Loss of Land / source of income/ livelihood, impact on community and cultural property resources, safeguard of tribal / marginalized and vulnerable groups are not applicable for direct financing SMEs. However during consortium funding of infrastructure projects, the requirements of lead member institution cover this issue.		OP 4.10, OP 4.11, OP 4.12	Land Acquisition Act, 1894.
7	SIDBI requires that environmental assessment has been carried out by the promoter, if the project falls under the list of specified industries covered under Environment Impact Assessment notification, 1994 of		OP 4.01	EIA Notification, 1994.

S. No	SIDBI Requirement	SIDBI Reference	World Bank Reference	GOI Reference
	MOEF.			
8	SIDBI will not finance production or trade in pesticides/herbicides subject to international phase outs or bans as agreed by GOI based on Stockholm convention.		IFC – Annex A, exclusionary criteria	The Insecticide Act, 1968.
9	<p>SIDBI in its lending to SME's will not finance the following;</p> <p>Production or trade in any product or activity deemed illegal under Indian laws or regulations or international conventions and agreements.</p> <p>Production or trade in weapons and munitions.</p> <p>Production or trade in alcoholic beverages (excluding beer and wine).</p> <p>Production or trade in tobacco.</p> <p>Gambling, casinos and equivalent enterprises.</p> <p>Trade in wildlife or wildlife products regulated under CITES.</p> <p>Production or trade in radioactive materials.</p> <p>Production or trade in or use of unbounded asbestos fibers.</p> <p>Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forest (prohibited by the Forestry policy).</p> <p>Production or trade in products containing PCBs.</p> <p>Production or trade in pharmaceuticals subject to international phase outs or bans.</p> <p>Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.</p>		IFC – Annex A, exclusionary criteria	<p>The Wild life protection Act, 1972.</p> <p>The Forest (Conservation) Act, 1980</p>
10	SIDBI requires that for projects involving pest management, the promoter has capacity to promote and support safe, effective and environmentally sound pest management programs.		OP 4.09	
11	Participating banks taking refinance from SIDBI under this line of			

S. No	SIDBI Requirement	SIDBI Reference	World Bank Reference	GOI Reference
	credit, will be required to adhere to the above requirements. Environmental and Social Indicators would be reflected as a part of periodic audit reports, to be carried out at regular intervals.			
12	All SIDBI's Credit scoring tools would incorporate environmental & social parameters.			

ANNEXURE –IV : SIDBI'S PROJECT CYCLE

SIDBI'S PROJECT CYCLE

STEP	PROCESS	OUTPUT
1. PROJECT SCREENING		
Initial customer request	Discussions with borrower to assess the eligibility of project based on SIDBI lending policies. Check against exclusionary list. Issue Loan Application form	Decision on whether or not to proceed further with loan processing
Receive project information	Receive Loan Application form Check for provision of complete information & documentation Follow up for gaps (if any)	Collation of necessary details/ documents on loan proposal
PROJECT APPRAISAL		
Appraise loan proposal	Desk review and assessment of, <ul style="list-style-type: none"> ☐ creditworthiness of borrower ☐ financial rate of return ☐ financial structure ☐ project/ borrower/ other risks Site investigation if necessary, to assess, <ul style="list-style-type: none"> ☐ suitability of site ☐ availability of inputs ☐ access to market ☐ technical and engineering designs ☐ implementation as per stated designs ☐ construction, operation and maintenance arrangements. 	Loan Appraisal Report with decision to accept proposal as submitted accept with modifications reject

STEP	PROCESS	OUTPUT
	<p>Decide whether or not to proceed with preparation of loan appraisal report.</p> <p>Modifications (if any) made to structure of proposal, in consultation with borrower</p> <p>Complete Loan Appraisal report</p>	
LOAN SANCTION/ DISBURSEMENT		
Approvals from appropriate authority	<p>Appraisal report tabled for review to Credit Committee</p> <p>Modifications made/ Clarifications sought based on observations of Credit Committee</p> <p>Discuss pre-Letter of Intent terms (if any) with borrower and ensure compliance with the same.</p>	Approval obtained for the project.
Complete pre-disbursement formalities for loan	<p>Issue Letter of Intent to borrower.</p> <p>Discuss terms of Loan Agreement for the proposal</p> <ul style="list-style-type: none"> ☐ interest rate ☐ repayment schedule ☐ security/ guarantees ☐ other loan conditions <p>Finalise & sign loan agreement</p> <p>Ensure compliance with pre-disbursement conditions including legalities relating to creation of security.</p>	<p>Letter of Intent issued</p> <p>Loan Agreement signed</p>
Disbursement of	Disburse first instalment of loan	First instalment disbursed

STEP	PROCESS	OUTPUT
loan		
4. PROJECT MONITORING, AUDIT & RECOVERY		
Ensure conformity to standards during construction, operation and maintenance	Obtain progress reports from customers (quarterly during project implementation and half-yearly on commencement of operations) Field visits by credit officer Prepare quarterly progress reports as per formats. Review for any change in industry/ market/ regulatory environment.	Quarterly progress reports
Ensure compliance to loan disbursement conditions	Disburse subsequent instalments Obtain Project completion report from borrower	Project Completion Report
Audit project	Audit project with the help of external/ corporate consultants	Audit report
Audits in repayment of loan	Enforce loan recovery mechanism (if required) in case of default.	Recovery of payments

ANNEXURE –V : E&S RISK CLASSIFICATION

CATEGORY E-I [HIGH POLLUTION POTENTIAL]

This category corresponds to the ‘Red Category’ industries designated by pollution control boards, because some of the processes in these industries are hazardous in nature. Installation of adequate pollution control equipment or access to a common treatment system is a necessity of these industries as their environmental impacts of their processes pose a significant risk to the local community. The environmental performance requirements for these industries under Indian legislations are relatively stringent. Some of these industries such as Pesticides, dye and dye intermediate, etc. requires clearance from MoEF and thus have to conduct Environmental Impact assessment (EIA). Also owing to high pollution load, cost of pollution control equipment, to meet the regulatory requirements is higher for these industries. This category includes the following sectors.

- ☐ Auto ancillary units involving metal surface treatment and electroplating of vehicle parts
- ☐ Chemical manufacturing (organic & inorganic)
- ☐ Cosmetic products involving use of aerosols.
- ☐ Cement Plant
- ☐ Dye & Dye intermediates.
- ☐ Foundry.
- ☐ Paint & varnishes
- ☐ Pesticides / insecticides
- ☐ Pharmaceuticals

- ☐ Rolling & pickling units
- ☐ Tanneries
- ☐ Textile (Dying & printing units only)
- ☐ Projects involving rehabilitation and relocation of indigenous people.

CATEGORY E-II [MEDIUM POLLUTION POTENTIAL]

These categories of projects are in concurrence with Orange category of MoEF as specified in Doon valley notification. These industries have relatively less environmental impact as compared to E-I industries, however they may pose significant environmental risks, if located in sensitive ecological areas. The following sectors are included in this category.

- ☐ Dairy & dairy products
- ☐ Edible oil & Vanaspati
- ☐ Glass
- ☐ Ceramics
- ☐ Meat & fish processing / Slaughter house.
- ☐ Rice mil / Dal mill / flour mill
- ☐ Rubber (type manufacturing / re-trading units)
- ☐ Stone crushers.
- ☐ Health care establishments
- ☐ Paper & paper board
- ☐ Plastic moulding
- ☐ Refractory
- ☐ Wood & wood products.

The Environmental impacts of these sectors are dependent on location of the industry. The credit officer is required to appraise the project proposal in conjunction to the proposed site of unit and decide on appropriate Risk Management measures as described in the Risk Management Plan (refer section 7.0). Some of the deviations in the process flow for category E-II sectors are

- ☐ **E-II Greenfield**, refers to those projects under category e-II, which are proposed to be established as “a new facility” (Greenfield) and not an extension / acquisition of any existing unit.
- ☐ E-II projects located in non- industrial areas, refer to those units which are not located on any notified industrial areas.

CATEGORY E-III [LOW POLLUTION POTENTIAL]

This category includes all those industries, which do not pose significant environmental risk as they do not contaminate environment or have acceptable levels of discharges. This category of industries is in concurrence to green industries as specified by MoEF and pollution control board. The E-III category includes the following sectors:

- ☐ Agro products
- ☐ Cement / concrete products
- ☐ Electronic & electrical industry
- ☐ Hotel & resorts
- ☐ Leather Products (without leather treatment).
- ☐ Service sector industries

- ☐ Garments & apparel manufacturing (not including dying & printing operations)

Since SIDBI is expanding its sectoral SME portfolio, some of the industries financed may not be a part of above sectors. Under these circumstances the concerned officer is required to assess the pollution potential of the prospective industry in light of relevant applicable environmental legal provisions and Red, Orange and Green category notification by SPCBs and Doon valley notification. The officer would also need to communicate this to the central credit department, to facilitate updation of the classification.

The environmental legislation of the country is constantly evolving and MoEF through various notifications in gazetteer updates the Acts and corresponding rules. Accordingly, necessary modifications and updation procedures to the E&S risk classification system is part of this framework. .

