
MSME GROWTH INNOVATION AND INCLUSIVE FINANCE PROJECT

Environment & Social Risk Management Framework

Volume I

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**SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA
(SIDBI)**

Executive Summary – Environmental Risk Management Framework for MSME -IIF

In line with the Government of India's (GoI) request, the World Bank is facilitating support for MSME Growth Innovation and Inclusive Finance Project [MSME –IIF] which will focus on financial intermediation to the MSME sector, in India. Small Industries Development Bank of India (SIDBI) is the Borrower and implementing agency for the project.

The Project Development Objective (PDO) is to improve access to finance of MSMEs in manufacturing and service sectors from early to growth stage firms, including through innovative financial products. The MSME-IIF supports financing of such projects and parallel technical assistance (TA) to support such financing.

The financing to MSMEs under the Project will be provided by SIDBI directly as well as through other Participating Financial Institutions (PFIs) through refinancing arrangement. For its direct financing, SIDBI will use loan appraisal criteria and procedures agreed between SIDBI and the World Bank and detailed in the Operations Manual (OM). In the refinancing model, SIDBI is the wholesaler and the PFIs are intermediaries. The PFIs will extend sub-loans to eligible MSMEs and shall approach SIDBI for refinancing these loans.

The project has three components:

- (i) Spurring early stage finance
- (ii) Supporting service sector financing models,
- (iii) Supporting finance to manufacturing MSMEs.

SIDBI has developed and adopted an Environmental and Social Risk Management Framework (ESMF) under SME Finance and Development programme [SMEFDP] through World Bank assistance, which will be continued to be followed under the proposed project

Leveraging the past experience, the safeguards management for the current project will be addressed through a risk based approach and by updating the ESMF. The key components of ESMF will include: (a) identification and preparation of positive list of MSME sectors with reference to their respective pollution potential and environmental regulatory requirements in to three risk categories – low, medium, and high; (b) defining the environmental due diligence as well as management requirements for each risk category; (c) integration of these requirements in to SIDBI's credit risk management; and (d) implementation, monitoring and supervision support including institutional capacity aspects.

While updating the ESMF framework, the applicable in country environmental regulations and WBG policies have been reviewed and the following aspects have been internalized: (a) waste minimization, pollution prevention, and cleaner production approaches; (b) environmental assessment provisions; (b) occupational health and safety aspects. The

Environment, Health, and Safety Guidelines of the World Bank Group have also been integrated, where relevant.

Based on the regulatory framework and the environmental risks associated with different types of units, the MSMEs have been classified as E-I, E-II, and E-III where E-I category units have higher potential for environment risks followed E-II and E-III, where E-III category units are of low risk.

The 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
- Disbursement & Project Monitoring

The Safeguards Due Diligence (SDD) will be carried out as an integral part of loan processing mechanism with relevant management measures integrated as part of credit risk management in the SIDBI's Project Cycle. The project also has provision for detailed safeguards due diligence by the E&S specialist (ESS).

The monitoring and reporting on E&S safeguards management will be carried out at two levels. The first level monitoring and reporting relates to branch level coordination with the MSMEs. The second level of monitoring and reporting pertains to PIU level effort where, the ESS will synthesize the branch level reporting to prepare half yearly reports. In addition, ESS will conduct regular audit and verification of compliance of E&S safeguards requirements. ESS will also cover half yearly monitoring and reporting of status of implementation of E&S management measures and/or compliances for indirect financing cases. The monitoring and reporting efforts will also focus on documenting good practices as well as lessons learnt on regular basis. The half yearly reports will be regularly shared with the World Bank.

For the project's administration and implementation, SIDBI has identified a multi-vertical core team which will serve as the project implementation unit (PIU). The PIU is headed by the Country Head and the PIU members have prior experience of working with the Bank and other multi-lateral and bilateral partners. SIDBI will also undertake orientation and capacity building on Environment and Social aspects of the project targeting credit officers, SMEs and cluster associations, PLIs.

Loan Extension Services (LES) are also proposed as part of the lending activities under component 3 for manufacturing sector wherein depending on the type and categorisation of unit (E I or E II category), the appraisal could include a quick opportunity assessment for overall improvement of the unit which may include energy efficiency, cleaner production, lean management, etc.. Operationalising this effort would require commissioning of consultancy services to provide pool of technical expertise to SIDBI appraisal officers and including technical staff within SIDBI to coordinate LES activities.

The E&S Framework for MSME-IIF project has been shared with the Regional Offices of SIDBI and the feedback has been positive. SIDBI would continue to update the frame work

depending on law of the land and based on consultations from stake holders which would be an ongoing exercise.

SIDBI is confident that MSMEs will stand benefited through this initiative and the whole process will get institutionalized in the financial system.

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ABBREVIATIONS

AAQ	–	Ambient Air Quality
BAT	–	Best Available Technologies
BOP	–	Best Operating Practices
CEPI	–	Comprehensive Environmental Pollution Index
CPCB	–	Central Pollution Control Board
CREP	–	Corporate Responsibility for Environmental Protection
EHS	–	Environmental, Health and Safety
EIA	–	Environment Impact Assessment
ERMF	–	Environmental Risk Management Framework
ESDD	–	Environmental Safeguards Due Diligence
GIIP	–	Good International Industry Practice
GRP	–	Green Rating Program
Gov /GOI	–	Government of India
HVAC	–	Heating Ventilation and Air-Conditioning
MoEF	–	Ministry of Environment & Forests
MSME	–	Micro, Small and Medium Enterprises
OM	–	Operations Manual
PDO	–	Project Development Objective
PFIs	–	Participating Financial Institutions
SIDBI	–	Small Industries Development Bank of India
SPCB	–	State Pollution Control Board
SST	–	Sector-Specific Technologies
TA	–	Technical Assistance
WBG	–	World Bank Group

1. INTRODUCTION

Micro, Small and Medium enterprises (MSME) sector contributes around 45 percent to manufacturing output and about 40 percent of exports (directly and indirectly). Furthermore, entrepreneurship and business creation by MSMEs is crucial for large-scale employment generation. There is widespread recognition within India, and globally, that vibrant MSMEs are a key engine of economic growth, job creation and greater prosperity and that a vibrant entrepreneurial ecosystem fosters innovations and contributes to greater dynamism in the economy. However, the growth of the MSME sector has been constrained due to various factors including due to lack of access to finance. Limited financing to three vital areas – early stage/start-ups, services and manufacturing – within the MSME sector has been a critical constraint.

1.1 MSME Growth Innovation & Inclusive Finance Project – MSME-IIF

The Project Development Objective (PDO) is to improve access to finance of MSMEs in manufacturing and service sectors from early to growth stage firms, including through innovative financial products. The MSME Growth Innovation & Inclusive Finance Project (MSME-IIF) supports financing of service and manufacturing sector firms including early stage firms and parallel technical assistance (TA) to support such financing. The project has three components: (i) Spurring early stage finance (ii) Supporting service sector financing models, (iii) Supporting finance to manufacturing MSMEs.

Small Industries Development Bank of India (SIDBI) is the borrower and the implementing agency for the project. The financing to MSMEs under the Project will be provided by SIDBI directly as well as through other Participating Financial Institutions (PFIs). For its direct financing, SIDBI will use loan appraisal criteria and procedures agreed with the Bank and detailed in the Operations Manual (OM). In the refinancing model, SIDBI is the wholesaler and the PFIs are intermediaries. The PFIs will extend sub-loans to eligible MSMEs and shall approach SIDBI for refinancing these loans.

1.2 Project Beneficiaries

MSMEs in the manufacturing and services sector will be the primary beneficiaries of the Project. In addition, SIDBI and the PFIs will be beneficiaries of the accompanying technical assistance to support their capacity and growth into the financing activities that the project supports.

2. APPROACH TO ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT FRAMEWORK

2.1 ESMF APPROACH

As described in the previous sections of this report, the proposed project will finance MSME sector through lending operations covering Manufacturing and service sectors by SIDBI, and by PFIs through refinancing arrangement. Going by the past trends recorded under “SME Finance and Development Project (SMEFDP)” financed by the Bank, the lending activities would almost be in the brown field units, with few exceptions of green-field projects. In this context, the environmental issues to be adequately addressed include: (a) the current status of target sectors vis-à-vis environmental performance from the regulatory and reputational risks point of view; (b) the environmental impacts of proposed investments in the form of production scaling up or technology up gradation; and (c) environmental impacts in case of greenfield projects – although the new units under MSME sector can only be established in prior-recognized industrial estates or non agricultural lands in industrial / commercial areas or naturally developed clusters except for a few service sector projects which could be on commercial properties. These issues, if not ascertained by SIDBI during loan appraisal, could potentially lead to credit, environmental, regulatory, as well as reputational risks. Importance of such issues would vary from credit risk perspective depending on type and nature of MSME sectors vis-à-vis pollution potential. Also, the issues/risks are not amenable for upfront identification to design a particular environmental management plan to fit all.

Given the foregoing, under SMEFDP, SIDBI has

developed and adopted an Environmental and Social Risk Management Framework (ESMF). The E&S policy developed by SIDBI under SMEFDP, which will be continued to be followed under the proposed project is presented in the Box 1. Using

Box 1: Environment and Social Policy

Small Industries Development Bank of India (SIDBI), the apex institution with the responsibility of promotion, finance and development of Micro, Small and Medium Enterprises (earlier classified as 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
- 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

ESMF, SIDBI has streamlined its lending processes for addressing safeguards risks. Through the previous project, SIDBI has also taken credible initiatives to build the capacity of loan officers.

Leveraging the past experience, the safeguards management for the current project will be addressed through a risk based approach and by updating the ESMF. The key components of ESMF will include: (a) identification and preparation of positive list of MSME sectors with reference to their respective pollution potential and environmental regulatory requirements in to three risk categories – low, medium, and high; (b) defining the environmental due diligence as well as management requirements for each risk category; (c) integration of these requirements in to SIDBI's credit risk management; and (d) implementation, monitoring and supervision support including institutional capacity aspects.

While updating the ESMF approach, the applicable in country environmental regulations and WBG policies have been reviewed and the following aspects have been internalized: (a) waste minimization, pollution prevention, and cleaner production approaches; (b) environmental assessment provisions; (b) occupational health and safety aspects. The limitations noted as part of updating the ESMF include: (a) many of the environmental management retrofits may not be feasible as the project will be mostly covering brown field units with less than one percent of greenfield units in the project portfolio; (b) while the loan processing will include Loan Extension Services as part of the TA to promote cleaner production and energy efficiency, it would not be practically plausible to confirm to WBG emission guidelines; and (c) limitations of WBG's EHS guidelines, especially in the context of lower order of production levels which are much less than the threshold levels defined under EHS guidelines. In this context, the risk management approach defined above would be most appropriate to minimize the environmental issues and it has also been time tested through World Bank financed SME Finance and Development Project and WB-GEF's Financing Energy Efficiency at MSMEs Project.

Based on the above approach, the ESMF is updated considering: (a) Recently updated Environmental Regulations of Government of India as well as World Bank Policies; and (b) SIDBI's Project cycle to facilitate and integrate ESMF in to the lending process/operations. The following sections of the report provide the details on these two aspects.

2.2 REGULATORY FRAMEWORK

Micro, Small, and medium-sized enterprises (MSMEs) 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.

Although the scales of operations are small in nature, the MSME sector also has industrial operations which could lead to adverse environmental impact due to the sheer number of units. Such nature is especially reflected in resource and emission intensive trades such as metal finishing, leather tanning, dry cleaning, printing and dyeing, brewing, food processing, chemical production, etc. High shop floor pollution, occupational health hazards, hazardous waste generation, toxic emissions and effluent 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 in small measure. Exploitation of workforce vis-à-vis payments and work hour structure also continues to prevail in some units within the SME sector.

While their regulatory compliances have been less than desirable in the past, there have been considerable efforts over the last 5 years to mainstream MSME compliances through various initiatives led by Central and State Governments, and banks and financial institutions. The efforts in the recent past to improve regulatory compliances and environmental management at MSMEs include:

- Sensitization of MSMEs about environmental impacts of industries including public health & safety issues.
- Awareness building environmental regulatory obligations, and compliance requirements
- Labour laws and environment, health and safety aspects and the importance in MSME operations
- Combined effluent treatment facilities to address economies of scale
- Adoption of cleaner production methods including integration of Energy Efficiency and lean manufacturing processes.
- Integration of environmental management aspects in to credit risk management by the banks and FIs.

Many of the above initiatives were successfully implemented by the banks and FIs – for example, environmental management through credit risk management is effectively addressed through SME Finance and Development Project financed by the World Bank; Resource/Energy Efficiency is promoted through KfW, JICA, and World Bank – GEF projects; etc. Therefore, it is imperative for the financiers to assess E&S risks more effectively, to minimize credit risks

2.2.1 Legal Provisions

Financial Institutions do not have direct obligation under Indian environmental legislations. However, the E&S risk management framework for SIDBI was developed during 2005 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.

The Ministry of Environment, Forests and Climate Change (MoEF&CC), 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, rules and regulations, prominent of which is Factories Act, 1948 and subsequent amendments. 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.

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 and Rules to ensure environmental perseverance and protection. The relevant Indian Environmental and social laws applicable to SMEs are listed below.

Environment Laws

- Water (Prevention and Control of Pollution) Act, 1974 (as amended in 1988) & Water (Prevention and Control of Pollution) Rules, 1975 (as amended in 2011)
- Water Cess (Prevention and Control of Pollution) Act, 1977 (as amended in 1992) & 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, 1982
- Environment (Protection) Act, 1986 (as amended in 1991) and Environment (Protection) Rules, 1986
- Environmental Impact Assessment Notification, 2006 and subsequent amendments
- Hazardous Wastes(Management, Handling and Transboundary Movement) Rules, 2008
- Municipal Solid Wastes (Management & Handling) Rules, 2000
- The e-waste Management (Management & Handling) Rules 2011
- Bio-Medical Waste (Management and Handling) Rules, 1998
- Noise Pollution (Regulation and Control) (Amendment) Rules, 2000
- The Forest Conservation Act, 1980 (as amended in 1988).
- Coastal Regulation Zone (CRZ) Notification, 2011 and subsequent amendments
- The Wildlife Protection Act, 1972 (amended in 2006)

- CPCB & SPCBs Guidelines for Classification of Industries in to Red, Organic and Green Category.
- CPCB & SPCBs Standards for Emissions or Discharge of Environmental Pollutants from Various Industries
- Eco-sensitive Zones and Protected Area declared under Environmental (Protection) Act 1986 (such as Aravalli Range, Pachmarhi Region, Doon valley, Mount Abu, etc.)

Health & Safety Regulations

- Manufacture, Storage and Import of Hazardous Chemical (MSIHC) Rules, 1989 and subsequent amendments
- Chemical Accident (Emergency Planning, Preparedness and Response) Rules, 1996
- Public Liability Insurance Act, 1991 amended in 1992 and public liability Insurance Rules 1991 amended in 1993
- The National Environment Tribunal Act, 1995
- The National Environment Appellate Authority Act, 1997
- The Biological Diversity Act, 2002 and Biological diversity rules 2004
- National Green Tribunal Act, 2010 (No. 19 of 2010)
- 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 (Amendment) Act 2009

2.2.2 The World Bank Group E&S Safeguards

The World Bank Group, in its policies has stipulated that all investments made should be environmentally sustainable. In addition to country regulations, the safeguards management for MSME-GIIF Project will be in line with the provisions under “*Operation Policy 4.01- Environmental Assessment*” of the World Bank. Also the Environment, Health, and Safety Guidelines of the World Bank Group have also been integrated, where relevant.

2.2.3 Summary of Potential Environmental Risks

Based on the regulatory framework and the environmental risks associated with different types of units, the MSMEs have been classified as E-I, E-II, and E-III where E-I category units have higher potential for environment risks followed E-II and E-III, where E-III category units are of low risk. While this categorization is made for relative understanding of environmental risks, it may be noted that none of the units in absolute terms will be of significant risk to categorize them as “*Category A*” type, as defined in OP 4.01 of the World Bank Policy. This is mainly due to low production capacities of the individual MSME units. Also, the proposed project finances are expected to be mostly deployed for brownfield units in the existing clusters which are recognized by regulatory authorities. **Table-1** provides a summary of potential

environmental risks and categorization thereof. Volume II of ESMF provides a resource of book of each of the MSME sector reflected in the table. The resource book presents: (i) manufacturing process; (ii) summary of environmental issues; (iii) recommended pollution prevention/treatment options; (iv) regulatory obligations to be complied. The resource book is expected to be ready reference for the loan officers.

Table-1: Summary of Potential Environmental Risks¹

Sl. NO	SECTORS	Air Pollution	Water Pollution	Solid/Haz. Waste	CATEGORY
1	Bakeries & Confectionaries	L	M	L	E-II
2	Brick kilns	H	L	L	E-I
3	Ceramics	H	L	L	E-I ²
4	Cement Plant	H	L	L	E-I
5	Dairy and Dairy products	M	H	L	E-I
6	Distilleries	M	H	H	E-I
7	Dye & Dye intermediates	H	H	H	E-I
8	Edible Oil & Vanaspati	L	M	M	E-I
9	Electroplating	H	H	H	E-I
10	Engineering units (Cutting and shaping)	L	L	L	E-III
11	Engineering units (Metal surface treatment)	H	H	H	E-I
12	Flour and Pulse mills	M	L	L	E-II
13	Foundry and Forging units	H	L	M	E-I
14	Food & fruit processes	L	M	L	E-II
15	Glass	H	L	L	E-I
16	Lime Kilns	H	L	L	E-I
17	Natural Rubber	M	L	L	E-II
18	Organic chemical Industries	H	H	M	E-I
19	Paints & varnishes	M	H	M	E-I
20	Pesticides	H	H	H	E-I
21	Pharmaceuticals (bulk drugs)	H	H	H	E-I
22	Pharma (Formulation)	L	M	M	E-II
23	Plaster of Paris	M	L	L	E-II
24	Plastic Products	M	L	L	E-III
25	Pulp and Paper	H	H	M	E-I
26	Rice mills	L	L	L	E-III
27	Soft Drinks	L	M	L	E-II
28	Sports Good Industry	L	L	L	E-III
29	Soaps and Detergents	L	H	L	E-I
30	Stone Crushers	M	L	L	E-II
31	Tannery	L	H	H	E-I
32	Textiles (Dying & Printing)	L	H	H	E-I
33	Cosmetic Products	L	M	L	E-II
34	Meat & Fish Processing / Slaughter House	L	H	L	E-I
35	Refractory (without PNG)	H	L	L	E-I
36	Wood & Wood Products	L	L	L	E-III
37	Electronic & Electrical Goods	L	L	L	E-III
38	Garments &Apparel Manufacturing	L	L	L	E-III
39	Paper & Paper Board Products	L	L	L	E-III
40	Hospitality sector (Hotels / Restaurants, etc.)	L	M	L	E-II
41	Health sector (Hospitals, nursing homes, etc.)	L	L	H	E-I

¹ This will be regularly updated based on country systems and WBG policies

² Air pollution is the major issue. If the unit uses PNG, the category will be categorized as E-II

2.2.4 Social Development (Safeguards)

Land Acquisition: The project will not support any MSME operations that would result in: (i) compulsory land acquisition and physical and/or economic displacement of people (loss of structures, livelihoods and access to common resources. Hence, the World Bank's Policy on Involuntary Resettlement is not applicable. While majority of the start-up and majority of the MSMEs supported under the project are expected to be located in designated industrial zones or areas where commercial enterprises operate from, some MSME project proposals in the manufacturing and service sector could also involve private land purchase in industrial/commercial areas. In most cases, this cost is likely to be met from MSME owners own contribution/equity. However, in some cases this could be funded by project financing, and in such cases proper documentation of such private land transactions and sale agreements would be maintained.

Tribal People: The project will not be working with individual(s) but MSMEs who are the primary beneficiary and stakeholder of this project. The project will be supporting MSME enterprises in the services and manufacturing sectors that typically operate from designated industrial estates/zones or commercial areas across the country. The borrowing MSMEs are not expected to be located in areas with collective presence or attachment of tribal people and as such Indigenous Peoples are not found in sub-project areas. Hence, the project is not anticipated to have impacts on indigenous people, their lands, culture, livelihood or way of life. The World Bank's Policy on Indigenous People is not applicable.

Child and Forced Labour³ : Social issues in Indian MSME sector pertaining to use of child/forced labour also exists in small measure. Exploitation of workforce vis-à-vis payments and work hour structure is also a common phenomenon in MSME sector. SIDBI's environment and social policy promotes and ensures Compliance to applicable Indian labour legislations, including exclusion of any MSMEs that have presence of child labour and forced labour.

³Forced labor means all work or services not voluntarily performed, that is, extracted from individuals under threat of force or penalty. Child labor means the employment of children whose age is below the statutory minimum age of employment or employment of children in contravention of International Labor Organization Convention No. 138 "Minimum Age Convention" (www.ilo.org).

2.3 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) as detailed in Box 2. 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
- Disbursement & Project Monitoring

2.3.1 Project Screening

The loan proposals are sourced at the branches and an officer from the branch is assigned the role of Relationship Manager (RM) for each proposal. The RM conducts preliminary project discussion with the client. The prospective client is apprised of SIDBI's lending policy and various schemes under which the project could be financed. RM receives the filled loan application from the client and checks for the consistency and completion of documentation requirements. Thereafter, a pre-sanction visit to the unit is carried out by the RM. Subsequently, the RM with the approval of BO-Incharge forwards the Visit Report and RM Report along with the loan application and other documents to the concerned Central Loan Processing Cell (CLPC) for detailed appraisal.

BOX 2 : DIRECT AND INDIRECT FINANCING OPERATIONS OF SIDBI

Direct Finance business of SIDBI consists of financial assistance sanctioned & disbursed under its various schemes & products either directly to the units in the Micro, Small and Medium enterprises sector or through other entities / manufacturers / channel partners / intermediaries for the benefit of the units in the Micro, Small and Medium enterprises sector. The credit risk under Direct Finance is borne by SIDBI.

Indirect Finance business of the SIDBI consists of refinance to Primary Lending Institutions (PLIs). 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.

2.3.2 Project Appraisal

The proposals are appraised by Centralized Loan Processing Cells (CLPCs) set up in each regional office. During appraisal, the proposals are rated under Risk Rating Model (RAM), which is reviewed by a team of officers from Risk Management Vertical. The Detailed Appraisal Note (DAN) 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 (SWOT Analysis)
- xi. Eligibility under lines of credit
- xii. Terms of sanction

In respect of existing units having three years track record of profitability, for credit requirements upto exposure of Rs.2 crore; appraisal is done by the branches under Credit Assessment and Rating Tool (CART). For Secured Business Loan to existing MSMEs against immovable property as collateral, a simplified appraisal is undertaken by branches.

Thereafter, the proposals are put up to respective credit committees for sanction.

2.3.3 Loan Sanction

SIDBI's has a Committee system for sanction of assistance under its direct finance schemes. There are various levels of Credit committees: Branch Credit Committees (BCCs), Regional Office Credit & Settlement Committees (RCSCs) and various Head Office Committees and a Board level Executive Committee. The officers in their individual capacity do not have any sanctioning powers. The powers of these Credit Committees are vested under a structured "Delegation of Powers (DoP) approved by the Board of SIDBI. The loan appraisal along with risk rating report duly reviewed by Risk Management Vertical (RiMV) is presented to the Credit Committee, which in turn considers and then sanctions or rejects the project proposal.

2.3.4 Disbursement, Project Follow-up & Monitoring

The RM in the concerned Branch office then completes the pre-disbursement formalities, which include;

- Issue of letter of Intent (LOI) to borrower

- Ensure compliance with pre disbursement conditions including legal formalities relating to creation of security
- Finalise and sign loan agreement
- Process disbursement requests & undertake pre-disbursement visits
- Make disbursement to the borrower or machinery supplier

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 RM in the branches to assess the status of operations and identify any warning signals. In addition, borrowers are required to submit periodic returns, which detail their performance. RM 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.

2.4 APPLICATION OF E&S SAFEGUARDS AS A PART OF SIDBI'S CORPORATE RESPONSIBILITY

SIDBI had developed an Environment and Social Management Framework (ESMF) for its MSME lending in the year 2004. The ESMF has taken into consideration the relevant environmental and social laws and the World Bank's safeguard policies and international standards/guidelines. This framework was adopted by SIDBI under the SME Financing Development Project (SMEFDP) for the World Bank Line of Credit and subsequently for implementation of another World Bank-GEF Project, viz. Financing Energy Efficiency at MSMEs in August, 2010.

In the process of extending its sphere of operations to financing of MSMEs, 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. Integration of E&S aspects in SIDBI's project cycle through various internal circulars issued from time to time has evolved over a period of time and is an integral part of credit risk management process. These requirements have been constituted on the basis of SIDBI's own environmental policies and procedures, and Indian regulations. Time to time, the procedures have also considered policies of multilateral development agencies under various projects financed by World Bank, ADB, and bilateral agencies including KfW, AfD, etc.

The E&S aspects have already been integrated in the credit due diligence process which includes the internal Credit Rating Model of SIDBI and are applicable for all direct lending schemes of SIDBI for MSMEs

The E&S safeguards (including the negative / exclusionary list) as applied by SIDBI in its direct lending operations are indicated in Box 3.

**BOX 3: ENVIRONMENTAL & SOCIAL (E&S) SAFEGUARDS
IN THE DIRECT LENDING OPERATIONS OF SIDBI**

- MSME's financed by SIDBI, required to comply with Indian environmental and labour legislations. Compliance of Indian Environmental & Labour legislations is examined during loan appraisal process and suitable pre or post disbursement conditions are stipulated at the time of sanction of loans, if required.
- Progress of Environmental & Labour legislations compliance is monitored post-financing during project implementation and in operational stages at the time of various site visits.
- Projects based on fly ash products are encouraged.
- 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, 2006 of MOEF.
- 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 MSMEs. However during consortium funding of infrastructure projects, the requirements of lead member institution cover this issue.
- SIDBI does not finance the following (**Negative/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 fibres.
 - 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.
 - Production or trade in ozone depleting substances (ODS) subject to international phase out.
 - Production or trade in pesticides/herbicides subject to international phase outs or bans as agreed by GOI based on Stockholm convention.
 - Projects requiring compulsory land acquisition causing displacement of people or communities from private or public lands or any negative impacts on livelihoods.
 - Projects located in areas of significant settlement of tribal people and adversely affecting the culture, livelihood, and way of life of tribal people
 - Production or activities involving harmful or exploitative form of child labour or forced labour..
 - Projects located in sensitive ecological areas and natural heritage locations.

3. SAFEGUARDS DUE DILIGENCE PROCESS

3.1 DIRECT FINANCE

The Safeguards Due Diligence (SDD) will be carried out as an integral part of loan processing mechanism with relevant management measures integrated as part of credit risk management in the SIDBI's Project Cycle. A DGM level officer of the PIU will be responsible for overseeing overall safeguards implementation. The staff carrying out SDD will include a dedicated E&S Specialist (ESS)⁴ who will provide overall support for safeguards management, conduct and facilitate overall capacity building and awareness programs within SIDBI and its clients, and focus on E1 cases⁵ though also be available for support on other cases as needed), Relationship Managers (RM) at respective branch offices, and Credit Officers (CO) at Central Loan Processing Cells (CLPCs) in regional offices. While the SDD and the integration of resulting management measures in to loan appraisal/credit risk management is detailed below, the institutional mechanism is presented under Section 4.

Step 1: Screening

Procedure: As part of the loan screening, the RM from SIDBI's branch office will interact with the prospective client and identify the loan requirements (refer section 2.3.1 for details). As part of this process, the RM will collect the appropriate details relating to E&S Safeguards along with the Loan Application, which will include: (a) ascertain the current production process; details of proposed up gradation /modernization /expansion with supporting flow diagrams indicating the input output details including wastes / emissions, details / status relating to applicable environmental regulatory compliances submitted by the prospective borrower (format of E&S checklist attached at **Annexure I**, copy of the application submitted by the MSME unit to the Pollution Control Board may also be sought, if required); (b) checking the negative / exclusionary list not suitable for lending (refer Box 3); (c) identify the risk category (E-I / E-II / E-III); (d) undertake site visit and make visit observations, specifically on house-keeping, Occupational safety, and labour aspects – child labour in specific.

Output: Completed SDD Report (format of SDD report attached at **Annexure II**). For all E-II, E-III category cases (including brown and green field) SDD will be attached to the RM's report. For E-I (green and brown field) SDD will be forwarded to for detailed safeguards due diligence by the E&S specialist (ESS). Along with the SDD, ESS will explore opportunities for Loan Extension Services (LES) as part of the proposed parallel technical assistance. As part of this process, Energy Efficiency Cell-EEC (created within SIDBI for the purpose of promoting energy efficiency techniques in

⁴ The safeguards specialist will be dedicated to the safeguards function, will have relevant safeguards management experience and qualifications and will be an integral part of the PIU and will report to DGM within PIU who will oversee safeguards management. The specialist can be a staff member, a consultant expert specifically hired and responsible for carrying out the functions required of the ESS and can be housed in SIDBI or its associate institutions including possibly ISTSL. An additional safeguards specialist may be considered if the number of cases/world load merits this.

⁵ As mentioned above in section 2.12 above, SIDBI credit team has adequate capacity for safeguards management in other cases.

⁵ As mentioned above in section 2.12 above, SIDBI credit team has adequate capacity for safeguards management in other cases.

MSMEs) would also be involved on a need basis, especially in case of air polluting units, with a view to achieve energy efficiency as well as environmental co-benefits. The LES scope as part of the Project Technical Assistance is detailed out under **Annexure III**. The SDD carried out by the E&S specialist will update specific recommendations on loan proposal. Additionally, the typical output from LES team could include: (a) measures to mitigate safeguard risks which could lead to lending recommendations; (b) supplementary loan requirements (which will be jointly followed up by LES team with the appraisal team) for cleaner production including resource efficiency, waste minimization, and pollution prevention; and/or (c) additional studies through technical assistance under the project for future improvements and consideration for lending

Step 2: Loan Appraisal

Procedure: Credit Officer (CO) at CLPC shall undertake desk review of information submitted by the prospective borrower. As part of loan appraisal, CO will review the SDD as well as the SDD prepared by the E&S specialist (for E-I cases only) and assess the risks and recommend suitable measures to cover the risks. The measures will be linked to disbursement conditions/covenants in the detailed appraisal note. Typically, the measures could include: achieving formal Consent for Operation from Pollution control board; establishing effluent treatment plant meeting the regulatory compliance conditions, securing EIA clearance from competent authorities, if required, compliance with health and safety requirements, appropriate storage, handling, and disposal of hazardous wastes, etc.

Output: CLPC shall suitably incorporate in the Detailed Appraisal Note (DAN): (a) highlights of the SDD Report of the RM; (b) CLPC's assessment of the E&S risks; and (c) the measures recommended by it to mitigate / manage the E&S risks.

Step 3: Sanction

Procedure: Based on the information captured in the DAN and the Credit Risk Rating with regard to the categorization of the unit (E-I / E-II / E-III), status of regulatory compliances, E&S risk and mitigation measures proposed therefor, the Credit Committee shall take a considered decision to either sanction or reject the proposal. The Credit Committee may also stipulate suitable pre or post disbursement conditions / covenants over and above those proposed in the DAN for effective management & monitoring of E&S risks.

Output: Minutes of the Sanctioning Credit Committee recording the decision of the committee including additional conditions / covenants, if any stipulated by it.

Step 4: Disbursement, Monitoring & Follow-up

Procedure: The Relationship Manager (RM) at BO processes the disbursement requests from the borrower after completion of necessary loan documentation formalities. RM undertakes a pre-disbursement visit to the unit to see the physical progress of project implementation, check for any warning signals / issues, etc. As a part of the disbursement note, RM also prepares a compliance chart indicating the

status of compliance of various pre-disbursement or other conditions, which include conditions / covenants pertaining to E&S, stipulated by the Sanctioning Credit Committee. After disbursement, the BO undertakes the monitoring and follow-up of the loan account with regular follow-up visits. The findings of the visit are captured by way of visit report as per standard formats.

Output: Disbursement alongwith the compliance chart, pre-disbursement and follow up visit report/(s).

The role and requirements to be followed by the stakeholders under MSME – IIF comprising MSMEs, SIDBI – BOs & CLPCs, Project Implementing (PIU) of SIDBI, etc, are given in **Exhibit 1**.

3.2 INDIRECT FINANCE

The refinancing is carried out by setting institutional annual limits to PLIs, under which refinancing is availed by the respective institutions. 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's credit risk management process for indirect finance to Primary Lending Institutions (PLIs) is restricted to assessment of institutional risks and not individual loan risks. Under indirect finance product, the respective financial institutions are obliged to honour their dues, even if the sub-loans are default or become non-performing. Given this limited liability of SIDBI, the leverage for applying safeguards due diligence is restricted. However, the reputational risks associated with the refinance portfolio need to be appropriately addressed.

As part of streamlining the ESMF procedures, the following steps are proposed which will be updated on time to time basis with due consent from the World Bank:

- (a) All the eligible PLIs will be sensitized about the E&S risks through awareness and capacity building programs and familiarizing them with ESMF provisions (in the past, under SMEFD project, 5 PLIs have adopted the ESMF as part of their corporate lending procedures). In this direction, SIDBI along with GIZ is already working for establishing sustainable banking titled "*Responsible Enterprise Financing Project*";
- (b) SIDBI ESS specialist to carry out safeguards due diligence for selected set of *cluster loans* in the first year or 10 such initial *cluster loans* to establish a simple and practical E&S criteria/template/tool for refinancing product. These *cluster*

loans, as well as the E&S criteria developed will be subjected to World Bank's prior approval and application for the subsequent refinancing loans.

3.3 **STAKEHOLDERS CONSULTATIONS**

The draft E&S Framework and due diligence process was shared with all the 13 Regional Offices of SIDBI. The Regional Offices in turn had shared with the respective branches under their control besides displaying in the branch notice board. The branches were also advised to hold consultations with the industry representatives and local associations. It is learnt that the branches had also discussed with a small group of SMEs to obtain feedback. Formal feedback was received from two regional offices. Some of the feedback is listed hereunder:

- the draft frame work was discussed with some of our entrepreneurs / Industry association who have generally expressed satisfaction over the same.
- getting this information could add to turn around time [TAT]
- clients may not always accept our advice for different reasons and prefer to just comply with law of land. This may have a bearing on business.
-

Exhibit 1: Roles & Responsibilities of Stake Holders for Implementation of Environmental & Social Risk Management Framework			
S. No.	MSMEs	SIDBI – BO & CLPCs	SIDBI - PIU
1.	<ul style="list-style-type: none"> To fully comply with all Central and State or local regulatory requirements To have mandatorily valid Consent to Operate and fully comply with all consent conditions/requirements To conduct self-check for regulatory compliance(s) and rectify the lapses. Submit E&S Questionnaire duly filled in along with the loan application Submit copies of all Regulatory Compliance & other related documents with SIDBI To encourage / explore and include cleaner production and EE measures leading to GHG emissions reductions, improvement in operational efficiencies, etc. To share with SIDBI all regulatory compliance documents, periodic compliance reports, outstanding issues / show cause notices issued by SPCB with respect to violation of norms and remedial actions initiated thereof, including requirement for implementation of any specific emission reduction or pollution prevention measure(s), if any stipulated by the State or Central Pollution Control Board, etc. To provide hindrance free access to 3rd party agencies appointed by SIDBI to during appraisal or pre / post-implementation. To share with SIDBI the best environmental practices undertaken by it like adopting zero effluent initiatives or extent of reuse and recycling, cleaner technologies for better operational efficiencies with concurrent emission reductions, voluntary initiatives to achieve better emission standards than 	<p>Screening Stage : Relationship Manager (RM) at SIDBI BOs</p> <ul style="list-style-type: none"> Review of E&S Questionnaire submitted by the prospective borrower along with the loan application Assessment of Environmental & Social compliances through discussions with the MSME unit and pre-sanction visit including Land / locational / sectoral regulatory issues (Legacy Issues) and Industry specific Regulatory compliances, details of proposed upgradation / modernization / expansion with supporting flow diagrams indicating the input output details including wastes / emissions; checking the exclusionary list not suitable for lending; undertake site visit and make visit observations, specifically on house-keeping, Occupational safety, and land, tribal people and labour aspects – child labour in specific. Identify the risk category (E-I / E-II / E-III); In case of E-II or E-III (including brown and green field), prepare a Safeguards Due Diligence (SDD) Report as a part of the RM's report. For E-I (green and brown field), SDDReport will be forwarded to EEC for detailed screening and exploring opportunities for Cleaner Production and Loan Extension Services (LES). <p>Loan Appraisal Stage : Credit Officer (CO) at SIDBI CLPCs</p> <ul style="list-style-type: none"> Desk review of information submitted by the prospective borrower; SDD Report of RM as well as the Report of the EEC (for E-I cases only) Assess the E&S risks and recommend suitable measures to cover the risks. The measures will be linked to disbursement conditions / covenants in the detailed appraisal note. Complete E&S aspects as part of the Internal Credit Risk Rating Incorporate E&S Risk Assessment and Management section in the Detailed Appraisal Note (DAN). <p>Sanction Stage : Credit Committees at SIDBI</p> <ul style="list-style-type: none"> Based on the information captured in the DAN, Internal Credit Risk Rating and the risk categorization of the unit (E-I / E-II / E-III), status of regulatory compliances, E&S risk and mitigation measures proposed thereof, the Credit Committee shall take a considered decision to either sanction or reject the proposal. The Credit Committee may also stipulate suitable pre or post disbursement conditions / 	<ul style="list-style-type: none"> To co-ordinate, manage and ensure compliance with the ESMF

Exhibit 1: Roles & Responsibilities of Stake Holders for Implementation of Environmental & Social Risk Management Framework			
S. No.	MSMEs	SIDBI – BO & CLPCs	SIDBI - PIU
	<p>regulatory norms through innovative (conventional or non-conventional) measures, among others</p> <ul style="list-style-type: none"> • To comply with any other additional requirements / loan covenants related to revalidation of consent to operate or regulatory compliance so as to be fully compliant at all times through loan tenure. 	<p>covenants over and above those proposed in the DAN for effective management & monitoring of E&S risks.</p> <p><u>Disbursement, Monitoring & Follow-up Stages</u> : Relationship Manager (RM) at SIDBI BOs</p> <ul style="list-style-type: none"> • Process the disbursement requests from the borrower after completion of necessary loan documentation formalities. • Undertake pre-disbursement visit to the unit to see the physical progress of project implementation, check for any E&S warning signals / issues, etc. • Prepare a compliance chart, as a part of the disbursement note, indicating the status of compliance of various pre-disbursement or other conditions, which include conditions / covenants pertaining to E&S stipulated by the Sanctioning Credit Committee. • After disbursement, monitor and follow-up of the loan account with regular follow-up visits. The findings of the visits shall be captured by way of visit report as per standard formats. 	

4. PROJECT INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS

4.1 INSTITUTIONAL ARRANGEMENTS

For the project's administration and implementation, SIDBI has identified a multi-vertical core team which will serve as the project implementation unit (PIU). The PIU is headed by the Country Head and the PIU members have prior experience of working with the Bank and other multi-lateral and bilateral partners. Staff resources have adequate technical as well as fiduciary and safeguards experience.

In addition to the PIU, a consultative committee comprising external experts will be supported by the parallel TA accompanying the project. This committee – with an expected membership of seven to ten experts – will serve as a sounding board and will provide feedback on project progress and initiatives. The committee will meet at least twice yearly and in the initial years, more frequent interactions are expected. Experts will be drawn from angel and early stage investors, financial institutions with experience in any of the project's components, and industry associations and similar stakeholders.

The E&S aspects will be coordinated and managed by an officer not below the rank of Deputy General Manager who shall be the part of the PIU. He shall be supported by an E&S specialist (ESS) dedicated to the safeguards function. For ease of operation and effective management of safeguards due diligence, the ESMF implementation responsibilities will be the responsibility of the ESS who is an integral part of the PIU. In addition, ISTSL/or other firm that may be selected will provide LES which are complementary to improving overall performance of MSMEs in terms of environmental management and resources efficiency as part of parallel technical assistance activities. The ESS will further: (a) coordinate with Energy Efficiency Centre (EEC) of SIDBI for involving them in specific cases of energy efficiency arising out of LES; and (b) coordinate with other banks and financial institutions to facilitate awareness generation programs proposed under the project.

To facilitate project implementation a detailed Operations Manual (OM) is being prepared. The OM includes details on the implementation arrangements, including the principles of the appraisal processes that will be followed, fiduciary and safeguards arrangements (which are also defined in the ESMF), etc.

4.2 CAPACITY BUILDING

SIDBI will be holding either separately or part of other training programmes for orientation and capacity building on Environment and Social aspects of the project targeting credit officers, SMEs and cluster associations, PLIs. This will include screening, appraisal and regulatory requirements related to environment, occupational health and safety, labour, social security/welfare, land, tribal and related issues. Around 3-4 training programmes are targeting in year 1 and additional programmes will be organized as per need.

SIDBI will also facilitate convergence of its existing engagement with different multi-lateral and bi-lateral partners towards resource efficiency, and environmental management across its lending portfolio.

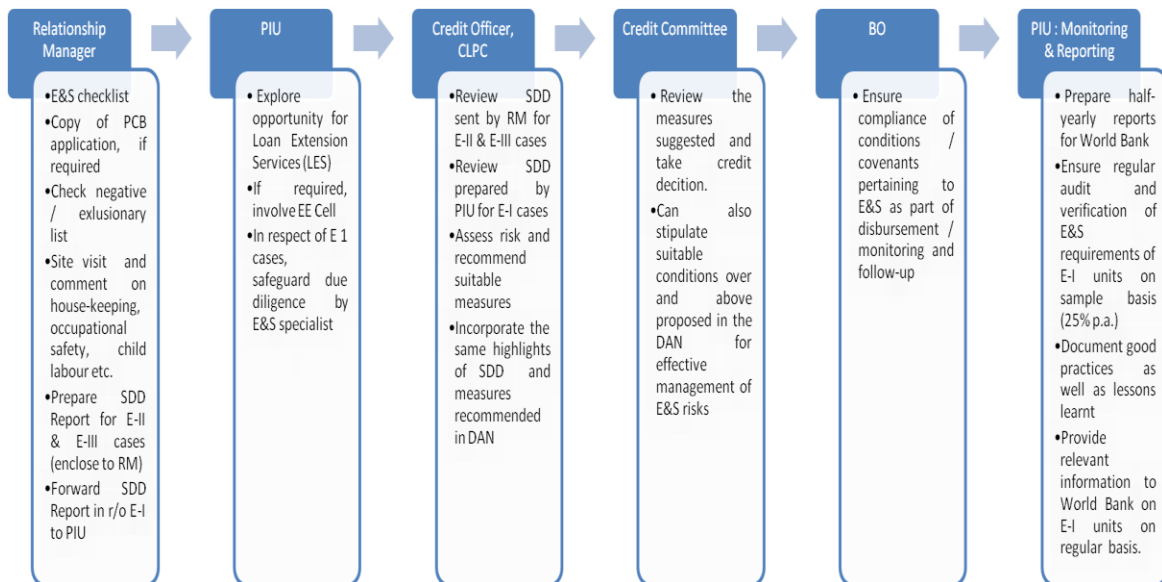
4.3 MONITORING AND REPORTING

The monitoring and reporting on E&S safeguards management will be carried out at two levels. The first level monitoring and reporting relates to branch level coordination with the MSMEs which includes: (a) compliance reporting on agreed lending covenants; (b) training, capacity and awareness generation activities; and (c) annual internal audit on compliance with ESMF provisions. The second level of monitoring and reporting pertains to PIU level effort where, the ESS will synthesize the branch level reporting to prepare half yearly reports. In addition, ESS will conduct regular audit and verification of compliance of E&S safeguards requirements at E-1 category MSMEs, on sample basis, covering at least 25% per annum. ESS will also cover half yearly monitoring and reporting of status of implementation of E&S management measures and/or compliances for indirect financing cases. ISTSL's monitoring and reporting efforts will also focus on documenting good practices as well as lessons learnt on regular basis. The half yearly reports will be regularly shared with the World Bank in November and May (broad structure of report template attached as Annex IV). In addition, SIDBI will provide relevant information for all the E-1 category sub-project to the Bank on regular basis (the reporting format is part of the IUFR and is enclosed as Annexure IV)..Bank's safeguards specialists will work in close collaboration with SIDBI team and to provide necessary inputs.

An organogram representing the work flow is given hereunder:

MSME Growth Innovation and Inclusive Finance Project

Detailed organogram for E&S Framework



Annexure I

Environmental & Social (E&S) Checklist

(To be filled in by the prospective borrower and attached to the Loan Application)

S. No.	Particulars		Guidance Notes
1	Enclose flow charts describing the existing as well as the proposed Manufacturing Process. The flow charts should indicate the input output details including wastes / emissions	Attached Yes/No	
2	Valid Consent(s) /Clearances from SPCB/CPCB	Yes/No/Not Applicable / Applicable	If 'Yes', attach copies and provide evidence for compliance of the consent conditions by the unit. If 'No' or 'Not applicable', state reasons clearly.
3	Has the unit installed pollution control measures to check release of air pollutants into the atmosphere? [Use of Venturi Scrubber/Simple Scrubber, Bag filters, Electro Static Precipitators (ESP) etc.]	Yes/No/Not Applicable	If 'Yes', state since when and summarise the practices and indicate the associated environmental benefits accrued thereof. If 'No', state whether the unit has any such plans in near future.
4	Does the unit comply with SPCB/CPCB's industry specific norms for air emissions?	Yes/No	If 'No', state reasons clearly.
5	Does the unit keep its generated waste at a designated place?	Yes/No	If 'No', state reasons clearly.
6	Is the area of waste storage adequately covered to stop leakages/runoff of chemicals during rains?	Yes/No	If 'No', state reasons clearly.

7	Doestheunitensurethatthewaste/byproductsleavingthepremisesoftheunitaresafelydisposedoff?	Yes/ No	If 'No', statereasons clearly.
8	Doestheunitmapitswaterconsumption(throughflowmeters)foreachofindustrialprocesses?	Yes/ No	If 'No', statereasons clearly.
9	Istheunitrequiredtotreatitsprocesswastewateras per theConsentto Operate(CTO) ²	Yes/ No	If 'No', statereasons clearly.
10	Doestheunittreatitseffluentbeforereleasingit outside thephysicalboundaryofthe unit?	Yes/ No	If 'No', statereasons clearly.
11	Doesthewastewaterreleasedexceedanylimitspecifiedinthewastewaterstandardsissuedby the SPCB/CPCB?	Yes/ No	If 'No', statereasons clearly.
12	Doestheunitdisposesoffallwastewaterthroughsewer system?	Yes/ No	If 'No', statereasons clearly.
13	IsRain WaterHarvesting(RWH)installed in theunitpremises?	Yes/ No /Not Anpli	If 'No', statereasons clearly.
14	Whether the unit has received any noticefor regulatorynoncomplianceorviolationof norms or consentconditions.	Yes/ No	If 'Yes',statereasons,whichledtoindustrybeingnotifiedas'noncompliant'a ndactionsundertakentobecomecompliant. Stateclearly whetherthe issue hasbeenresolved or not. If not, statereasons clearly.
15	Whether the unitcarry out periodical environmental monitoringasper the stipulated regulatory norms or onits own initiative	Yes/ No	If 'Yes', attach copies of last two quarters monitoringreport. If 'No', state reasons clearly fornot conductingperiodicalenvironmental monitoring.

16	Whether the unit has adopted any best environmental practices – like 'Zero Effluent initiatives' or effluent reuse / recycling; 'Cleantechology initiatives', etc.	Yes/ No	If 'Yes', state since when and summarise the practices and indicate the associated environmental benefits accrued thereof. If 'No', state whether the unit has any such plans in near future.
17	Does the unit employ child and / or forced labour for its operations	Yes/ No	
18	Does the project require compulsory land acquisition causing displacement of people or communities from private or public lands having negative impacts on livelihoods?	Yes/ No	
19	Whether the unit / project is located in, areas of significant settlement and/or collective attachment of tribal people.,	Yes/ No	
20	Whether the project activities involve significant adverse impacts or degradation of natural land/or critical habitats.	Yes/ No	
21	Will the project have the potential to have significant impacts on forests?	Yes/ No	
22	Will the project result in damage of the habitat of any species listed in the schedules of the Wildlife Protection Act?	Yes/ No	

23	Whether the project activities involve significant use of banned Pesticides /herbicides	Yes/ No	
24	Whether project activities involve significant alteration, damage, or removal of any critical cultural heritage.	Yes/ No	
25	Whether industry has accreditations like ISO14000; OHSAS 18001 or has received any recognitions for being environmental or sustainable / friendly initiatives or having best EHS practices.	Yes/ No	If 'Yes', provide a list of all such accreditations along with documentary evidence.

To be signed by the promoter

Annexure II

Safeguards Due Diligence (SDD) Report

(To be filled in by the Relationship Manager at the respective BO and should be submitted to CLPC as a part of the RM Report)

RO/ BO :
 Name of the unit :

S. No.	Particulars		Comments / Remarks of the RM
1	Duly filled in E&S checklist submitted by the unit along with necessary attachments / documents	Yes/No	If 'No', state the reasons If 'Yes', confirm adequacy and give brief highlight of the same.
2	Whether the information given in the E&S checklist is generally in line with that observed during the pre-sanction visit particularly on house-keeping, occupational safety, and labour aspects – child labour in specific	Yes/No	If 'No', give details.
3	Whether the unit has valid Consent(s) /Clearances from SPCB/CPCB	Yes/No / Not Applicable / Applied For	If 'Yes', give brief details like Number and date of the letter, issuing authority, nature / name of consent / clearance, validity period, etc, If 'No', state the reasons and possible remedial measures.
4	Is the unit / project eligible for financing in terms of the E&S Guidelines including negative / exclusionary list (refer Box 3)	Yes/No	If 'No', state the reasons.
5	Categorize the unit / project as the E&S Risk Category [E-I, E-II or E-III] – (refer Sectoral Guidebook, E&S Checklist and other documents submitted by unit as well as pre-sanction visit observations)	E-I / E-II / E-III	Briefly state the reasons / provide justification.

[Signature & Name of RM]

Date :
 Place :

Annexure III

Loan Extension Services for MSMEs

Key Learning from Financing EE at MSME Project (WB-GEF Grant Funded)

As a developmental initiative, SIDBI along-with Bureau of Energy Efficiency (BEE) is implementing World Bank – GEF Grant funded Project on “Financing Energy Efficiency at MSMEs” in five targeted MSME clusters in India. The major activities implemented as part of the project include: (a) capacity building for Energy Efficiency (EE) improvement; (b) technical assistance for Investment Grade EE Proposals and implementation hand holding; and (c) knowledge management. The summary learning from the project implementation includes:

1. MSMEs have Limited Institutional, technical and financial capacities, but are slowly becoming aware of the benefits of the Energy Efficiency (EE).
2. Lot of handholding support is required by MSMEs for implementation of EE measures. The handholding support includes: (i) conducting energy audit, (ii) preparation of detailed project report, (iii) guidance and support during implementation of EE measures (including identification & selection of right vendors, technical assistance during erection, commissioning, trial-runs, etc.)
3. MSMEs do not have higher level technical understanding especially in respect of expansion and/or modernization. The technical aspects are purely managed through knowledge and wisdom gathered from vendors or through the experiences shared by fellow MSMEs – *There are limited independent and customized decisions based on strong technical assessment.*
4. On the supply side the technical Consultants are often reluctant to work with MSMEs due to the fear of disputes or non-payment of fees, and limited margins, etc.
5. There are limited or no programs which comprehensively address technical inputs for efficiency improvements, upgradation/scaling up needs, and linkages with loan opportunities - *Linking the EE program with a Loan event can catalyze the EE investments*
6. There are several untapped improvement opportunities (which make commercial sense) like Waste Minimization and Cleaner Production, lean management, Business Development Services (BDS), etc. There is clear demand for such services – *Experience of BDS pilots as part of SMEFD Project was highly encouraging.*
7. Typically, the loan event is the best opportunity for taking up the above initiatives where, the entrepreneurs make up their minds for quantum leap and it is also

amenable to take up such initiatives (especially since the entrepreneur will be prepared for production down time).

Current SIDBI Intervention to Link Loan Event with Technical Services

Learning from the implementation of GEF-WB grant funded project, SIDBI launched an intervention named 4E (End to End Energy Efficiency) Solution. The intervention is expected to help MSMEs adopt energy efficiency measures, provide support during implementation by way of assistance in identification of vendors for EE equipment/technologies and during installation & commissioning, etc. The intervention was launched on World Environment Day – June 5, 2014. Currently the intervention is implemented on a pilot scale covering SIDBI catchment area in Delhi NCR, Uttar Pradesh, Punjab and Haryana. India SME Technology Services Ltd. (ISTSL), an associate institution of SIDBI, is spearheading the intervention. The key services offered under this intervention include:

- Comprehensive technical support including technical studies, need assessment for technology upgradation, vendor identification, handholding through strong implementation support up to commissioning.
- Linking up with ongoing loan event.

While standard operating procedures and business processes are established, the initial demand is encouraging where the entrepreneurs are willing to pay service fee which is nominal (in the range of INR 50,000 to 1,50,000). Although it is too early to conclude, it is noted that the loan event is the best opportunity to promote efficiencies through technical services. There is also increasing feedback that there is considerable appetite for loan extension services as referred in point 6 above.

Initiative Proposed as part of the MSME Growth Innovation and Inclusive Finance Project

Component 3 of the proposed project focuses on lending to manufacturing sector for expansion, modernization/technology upgradation. The lending activities under this component could be supplemented with technical assistance [which could be termed as Loan Extension Services (LES)], where depending on the type and categorisation of unit (E I or E II category), and interest loan appraisal could go through a quick opportunity assessment⁶ for overall improvement of the unit. These services could tap wide range of improvements including energy efficiency, cleaner production, lean management, etc. on the lines of 4E initiative mentioned above. Such an effort could also help systematically monitor and document the overall achievements in development objectives including green agenda which typically include: GHG emission reduction, waste minimization and pollution

⁶ Typically, the opportunity assessment is done through a Walk Through Audit (WTA) which could be completed within a span of one to two weeks (including interaction with unit, logistics for WTA, etc., while the actual WTA would not take more than a day or two)

prevention, lean managed MSMEs, etc. In addition, the available data from WB-GEF project shows that the LES increases the loan size and thereby reducing the transaction costs disbursing the line of credit. In terms of operationalizing this effort, it is required to:

- Commission consultancy services to provide pool of technical expertise to SIDBI appraisal officers,
- Support the project by including technical staff within SIDBI to coordinate LES activities.

Since ISTSL is already offering such services, there are synergies in a collaboration and SIDBI could also, if required, may make use of the services of ISTSL through appropriate mechanisms. Since LES is expected to benefit the loan seeking MSMEs, the expenses for such services could be integrated in to chargeable upfront loan processing fee. Alternatively, depending on availability of grant money, these services could be offered at free of cost initially.

Annexure IV

Six monthly report outline

a) List of cases reviewed and key observations/remarks;

b) Documentation of good practices, if any;

c) Other progress on safeguards/trainings

d) Any other observations

Annexure IV continued

IFR Format for Reporting during Implementation

Interim Unaudited Financial Report				
MSME GROWTH INNOVATION AND INCLUSIVE FINANCE PROJECT				
Loan No _____ IN				
Implementing Agency - Small Industries Development Bank of India				
Details of Loans Disbursed to PFIs for the quarter ended _____				
				In INR
Sr.No.	Item	Actual Eligible Expenditure		
		Current Quarter	Year to Date	Cummulative to Date
1	2	3	4	5
A	<i>Spurring Early Stage and Risk Capital Finance</i>			
i)	PFI 1			
ii)	PFI 1			
iii)	PFI 3			
	<i>.....</i>			
	Total (A)			
II	<i>Supporting Service Sector Financing Models</i>			
i)	PFI 1			
ii)	PFI 1			
iii)	PFI 3			
	<i>.....</i>			
	Total (B)			
III	<i>Supporting Finance to Manufacturing Sector</i>			
i)	PFI 1			
ii)	PFI 1			
iii)	PFI 3			
	<i>.....</i>			
	Total (C)			
	Grand Total (A+B+C)			
	<i>Dy. General Manager/General Manager</i>	<i>General Manager/Chief General Manager</i>		
	<i>SIDBI</i>	<i>SIDBI</i>		
	Information on sub-loans to MSMEs will be prepared by SIDBI and each PFI preferably on EXCEL sheets containing the following fields.			
	Name of the MSME Borrower			
	Location of MSME			
	SIDBI/PFI Branch			
	Type of Activity of the MSME			
	Nature of Loan			
	Environmental Category			
	Loan Sanctioned			
	Date of Sanction			
	Disbursed and claimed up to last quarter			
	Disbursed and claimed during the reporting quarter			
	Total disbursement and claimed till date			