

## **Environment and Social Management Policy (ESMP)**

### **1. Background**

The Micro, Small and Medium enterprises (MSME) sector in India contributes around 45 percent to manufacturing output and about 40 percent to exports (directly and indirectly). The MSME sector is the second largest contributor to India's gross domestic product (GDP), next to Agriculture, and is a major contributor to employment generation.

Small Industries Development Bank of India (SIDBI), set up on April 2, 1990 under an Act of Indian Parliament is the Principal Financial Institution for the promotion, financing and development of the MSME sector and for coordination of the functions of other institutions engaged in similar activities in India.

SIDBI is committed to promote sustainability and encouraging green practices in the MSME sector. SIDBI has developed an Environment and Social Management Policy (ESMP) to manage the various risks like credit, legal, reputational risks, etc. which may arise from the environmental and social issues associated with the projects implemented by SIDBI or its financial intermediaries.

Due to the nature and scale of their operation, MSMEs individually have minimal environmental and social impact. However, to promote their growth in a sustainable manner and to gradually improve their performance in environmental and social areas, SIDBI is implementing various programmes with the support from multilateral/bilateral agencies.

### **2. Principle guiding the organisation**

As an environmentally and socially responsible organization, SIDBI through this ESMP will be promoting and financing the projects that will mitigate or have least environment and social impact. SIDBI has adopted the ESMP and developed procedure to evaluate the projects to ensure that there are minimum negative externalities and would focus on creating positive externalities through its projects and activities.

The ESMP developed by SIDBI recognizes the importance of environment and social safeguards of its financial partners and its intermediaries. To achieve sustainable development objectives, the ESMP would be reviewed regularly to take cognizance of its partner institution and organization and would incorporate the safeguards to achieve fine balance between economic, environment and social well-being. The ESMP would generally guide SIDBI's operation and elaborates SIDBI's commitment towards improving MSME environment and social performance, therefore:

1. The operations/programs/projects would generally be guided by ESMP and the project would be generally guided by procedures stated in the policy.
2. SIDBI ESMP is committed to generally comply with all relevant regulatory and legislative requirement and would also incorporate requirements of its partners institutions and organizations



3. The ESMP would generally provide enabling mechanism to incorporate the ESS Principles for promoting and strengthening inclusion of Social and environment safeguards in lending operations, programs and projects.
4. The procedures, roles and responsibilities defined in the policy would generally ensure the compliance of SIDBI's operations and activities with Government of India's (GoI) ESS principles.
5. The performance standards adapted in this policy would ensure that the development objectives are achieved without compromising the environment and social well being

Thus, with an objective to ensure that adverse environmental and social impacts are substantially avoided or appropriately mitigated and compensated in SIDBI's assisted projects.

Further, SIDBI got accredited to the Green Climate Fund (GCF). As a part of the accreditation process, we are committed to put in place Environment and Social Management policy for SIDBI at the earliest.

### **3. Objectives**

The objectives of ESMP of SIDBI are to,

- formulate strategies to ensure sustainable growth of Indian MSME sector contributing to the Government of India's commitment towards combating climate change.
- comply with relevant environmental and social policies, laws, and regulations of Government of India and E&S safeguards of international partners / donors.
- avoid, minimize and mitigate the adverse environmental and social impacts/risks due to projects assisted directly by SIDBI or through its financial intermediaries.
- provide guidance and mechanisms needed for E&S compliance during project implementation by SIDBI and its financial intermediaries.

### **4. Scope and Coverage**

The applicability of the ESMP at present will be extended to the following types of projects / programmes approved by SIDBI from the date of this policy. The scope and coverage will be reviewed for modification as considered necessary by the SIDBI's Management. Broad areas of scope & coverage are mentioned below:

- (i) All climate change related proposals and programmes implemented with the financial support from GCF.
- (ii) Project proposals and programmes with loan size above INR 300 million extended by SIDBI under its direct assistance to MSMEs.
- (iii) All the climate change related project proposals from the financial intermediaries / implementing entities of SIDBI with the loan size above INR 5000 million.
- (iv) The policy shall generally be prescribed for projects and programmes supported with refinance assistance based on its impacts.



## 5. Applicability of E&S Compliance

As a general rule the projects / programmes will be evaluated against the domestic norms, rules and Acts prescribed by Govt. of India, concerned State Governments or their representatives / agencies for E&S compliance.

## 6. Environment and Social Management Policy

Environmental and social management policies are fundamental to ensuring that SIDBI does not support projects/programmes that unnecessarily harm the environment, the vulnerable communities or contributes to poverty, social inequality or gender discrimination.

Further, SIDBI shall:

- (a) Identify and assess environmental and social risks of each project at stage of the project/programme design.
- (b) Adopts measures to avoid or minimize or mitigate or manage the environmental and social (E&S) risks during project implementation; it may monitor the status of those measures during and at the end of implementation.
- (c) Create awareness among all stakeholders on E & S aspects, there by accelerating sustainable growth of MSME sector.

## 7. Environment and Social Performance Standards (PS)

All projects / programmes supported by SIDBI for GCF financed activities shall generally be designed and implemented to safeguard the following nine Environmental and Social Performance Standards (PS), which are in line with the international best practices for assessment of environmental and social risks e.g. International Finance Corporation (IFC), Adaptation Fund, Green Climate Fund (GCF), the World Bank etc.

These performance standards establish the criteria that the Borrower or the Beneficiary and the Project shall comply with through the entire project life cycle, so as to ensure that adverse E&S impacts are avoided/ appropriately mitigated and compensated. These E&S Performance Standards are as follows:

- **PS 1: Assessment and management of environmental and social risks and impacts**

SIDBI or its financial intermediaries shall (i) Identify funding proposal's environmental and social risks and impacts; (ii) Adopt mitigation hierarchy: anticipate, avoid; minimize; compensate or offset; (iii) Improve performance through an environmental and social management system; and (iv) Engage affected communities or other stakeholders throughout funding proposal cycle. This includes communications and grievance mechanisms.

- **PS 2: Labour and working conditions**

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. Through the policy, SIDBI will encourage the project proponent to the continually improve the occupational health and safety conditions at the project site.

- **PS 3: Resource efficiency and pollution prevention**

SIDBI alongwith its financial intermediaries and other stakeholders will promote the projects which will result in minimal / no impact on environment and human health and avoid or result in reduced waste generation from the activity. The project will be screened effectively to verify these objectives and it will be ensured through regular monitoring / follow-up visits that the proponent manage and reduce these impacts throughout the project cycle.

- **PS 4: Community health, safety and security**

SIDBI along with its financial intermediaries through the implementation of this policy ensures that the project activities will have minimal impact on health, safety and security of the communities recognizes that the project implementation and will encourage the borrowers to avoid or manage such risks effectively.

- **PS 5: Land acquisition and involuntary resettlement**

SIDBI or its financial intermediaries 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.

- **PS 6: Biodiversity conservation and sustainable management of living natural resources**

SIDBI through the implementation of the policy ensures that the project activities shall not affect biodiversity and should complement sustainable management of living natural resources and will encourage the borrowers to avoid or manage such risks effectively.

- **PS 7: Indigenous people**

SIDBI's project is not anticipated to have impacts on indigenous people, their lands, culture, livelihood or way of life. However, during the project screening stage, SIDBI will ensure that their project or its financial intermediaries will not have any adverse effect on indigenous people in the project area.

- **PS 8: Cultural heritage**

SIDBI will not assist projects which have adverse impact on the Cultural Heritage or historical monuments of the country.

- **PS 9: Gender equity and women empowerment**

SIDBI strongly believes that gender equity and women empowerment is important for economic development. SIDBI will encourage the borrowers to minimize the gender related risks from business activities and unintended impacts. SIDBI is committed to gender equality and equity and creating opportunities for women through its activities internally and externally.



## 8. Environmental and Social Management System

The financial intermediaries / implementing entities assisted by SIDBI shall be responsible for screening all projects / programmes to determine the extent to which the E&S risks, including all risks associated with performance standards identified above. Financial intermediaries / implementing entities proposing projects/ programmes shall ensure that the E&S impacts of such projects/programmes are thoroughly assessed; that measures are identified for avoiding, reducing or mitigating all environmental and social impacts; and that the implementation of such measures is monitored and reported on through the life of the project/programme.

Wherever, the financial intermediaries / implementing entities does not have the requisite capabilities for assessing and managing E&S Risks, SIDBI will guide them either through its own staff and/or through Consultants and the cost for the same will be a part of the Project Cost.

## 9. Environment and Social Management Policy – Implementation Plan

### 9.1 Screening and Categorisation of E & S Risk

SIDBI or its financial intermediaries shall screen the projects that the proposed project / programmes are not in the Negative / Exclusionary List of projects provided in **Appendix– I**.

Based on the regulatory framework and the environmental risks associated with different types of units, MSMEs sectors have been classified as B1, B2, B3 and B4, where B1 category units have higher potential for environment risks followed by B2, B3 and B4, where B4 category units have the lowest risk.

B1 to B4 categories are equivalent, respectively, to the Central Pollution Control Board's (CPCB) Red, Orange, Green and White categories, and are equivalent to high, medium, and low risk, as indicated in the table below:

Categories		
SIDBI	CPCB	Risk Level
B1	Red	High
B2	Orange	Medium
B3	Green	Low
B4	White	Low

A CPCB guidance document<sup>1</sup> on categorization of industries can be referred to ascertain the pollution potential & sector of the unit to categorize the unit as B1, B2, B3 and B4. The declaration from the promoter on Environmental & Social risks associated with the applicable project/ programme will be obtained and screened through a checklist covering all aspects of community, health, safety and security (refer **Appendix - II**).

<sup>1</sup> CPCB's Guidance Document on classification of Industrial Sectors:  
[https://cpcb.nic.in/uploads/Latest\\_Final\\_Directions.pdf](https://cpcb.nic.in/uploads/Latest_Final_Directions.pdf)





## 9.2 Assessment of E & S Risk

Further to this initial screening, the project/ programme proponent is required to submit all the relevant information/ details to SIDBI or its financial intermediaries.

SIDBI or its financial intermediaries shall screen the potential risks and the environmental and social compliance of the project/ programme through document verification, site visits and/ or consultation based on the information submitted by the by the customers in Annexure-II.

Upon screening and considering the E & S risks, the assessing authority may take suitable decision on approval of the project/ programme.

## 9.3 Monitoring, Reporting and Evaluation

Implementing entities monitoring and evaluation of projects/programmes supported by SIDBI shall address all environmental and social risks identified by the implementing entity during project/programme assessment, design, and implementation. The implementing entities' annual project/programme performance reports shall include a section on the status of implementation of any environmental and social management plan, including those measures required to avoid, minimize, or mitigate environmental and social risks. The reports shall also include, if necessary, a description of any corrective actions that are deemed necessary. The mid-term and terminal evaluation reports shall also include an evaluation of the project/programme performance with respect to environmental and social risks.

## 9.4 Public Disclosure and Consultation

Implementing entities shall identify stakeholders and involve them as early as possible in planning any project/programme supported by SIDBI. The results of the environmental and social screening and a draft environmental and social assessment, including any proposed management plan, shall be made available for public consultations that are timely, effective, inclusive, and held free of coercion and in an appropriate way for communities that are directly affected by the proposed project/programme.

The scope and frequency of stakeholder engagement for funding proposals supported by GCF will depend on the nature and scale of the project and its potential risks. The process of stakeholder engagement will involve the following:

- a. Stakeholder identification; identify individuals, groups and organizations that are affected by the project.
- b. Plan engagement with stakeholders; provide a strategy and timetable for sharing project information. Ensure participation by women and vulnerable section.
- c. Disclosure of information; the project/ programme proponent will disclose project information to allow stakeholders to understand the risks and impacts of the project. The purpose, nature and scale of the project, duration of proposed project activities will be shared. Potential impacts with regard to environment, worker health and safety, social impacts on communities, and proposed mitigation plans shall be provided. The information will be disclosed in relevant local language.



- d. Addressing and responding to grievances; the project/ programme proponent will respond to concerns and grievances of project-affected parties related to the environmental and social issues of the project in a timely manner.

The Stakeholders consultations shall be documented and shall include information on the stakeholders consulted, summary of the feedback received and a brief explanation of how the feedback were taken into account into project planning and execution.

The project/ programme proponent will provide information to project-affected parties and other interested parties throughout the life cycle of the project in a manner appropriate to the nature of their interests.

SIDBI, through its website will publicly disclose the Environmental and Social Impacts Assessment (ESIA), Environmental and Social Management Plan (ESMP), or any other related reports with respect to project and programme funding proposals supported by GCF, that have an environmental or social impact as soon as it is received and wherever it is applicable, as per Information Disclosure Policy.

## **9.5 Grievance Redress Mechanism**

The implementing entities shall identify a grievance redress mechanism (GRM) that provides people affected by projects/programmes supported by SIDBI with an accessible, transparent, fair and effective process for receiving and addressing their complaints about potential or actual environmental or social harms caused by any such project/programme. The mechanism can be national, local, or institution- or project-specific.

SIDBI is open to receiving and registering external communications the people affected by projects/programmes supported by SIDBI. SIDBI has put in place a web-enabled registration form for complaints / grievances, where customers or people affected with a grievance can visit the Bank's website ([www.sidbi.in](http://www.sidbi.in)) and register a complaint online through the online complaints/ grievance form. For further details, please refer to SIDBI's procedure on institutional -specific GRM<sup>2</sup>.

## **10. Roles and Responsibility:**

### **10.1 Roles and Obligations of Implementing Entities:**

The Implementing Entity is responsible for assessing projects and their environmental and social impacts, preparing safeguard plans, and engaging with affected communities through information disclosure, consultation, and informed participation following all policy principles and safeguard requirements. The Implementing Entity will submit all required information, including assessment reports, safeguard plans/frameworks, and monitoring reports, to SIDBI for review.

### **10.2 Roles and Obligations of SIDBI:**

10.2.1 SIDBI is responsible for screening projects undertaking due diligence; and reviewing the Implementing Entity's social and environmental assessments and plans to

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<sup>2</sup> [https://www.sidbi.in/files/publicationreport/Grievance Redressal Policy 19052020.pdf](https://www.sidbi.in/files/publicationreport/Grievance%20Redressal%20Policy%2019052020.pdf)



ensure that safeguard measures are in place to avoid, wherever possible, and minimize, mitigate, and compensate for adverse social and environmental impacts in compliance with SIDBI's Environmental and Social Performance Standards, determining the feasibility of SIDBI's financing; helping the Implementing Entities in building capacity to deliver the safeguards; and monitoring and supervising the Implementing Entity's social and environmental performance throughout the project cycle. In particular the following procedure will be undertaken by SIDBI as a part of its overall environmental management system:

10.2.2 Prior to providing any loans to a customer, SIDBI will verify that the proposed business activity is not on the Bank's prohibited activities list (as provided in Annexure-I)

10.2.3 For all proposals received from Clients, SIDBI shall undertake an initial assessment of whether the relevant business activities of the customer, in the reasonable opinion of the Bank, have the potential to have an adverse environmental or social impact as per the Performance Standard PS1 TO PS9 as identified at para 7 above.

10.2.4 For GCF related projects Environmental and Social Impact Assessment (ESIA) or Environmental and Social Management Plan, as applicable, would be conducted by implementing entities as per requirement of this policy and GCF E&S Policy.

10.2.5 In the event that SIDBI determines, in its reasonable opinion, that the relevant business activities of the customer have the potential to have an adverse environmental or social impact, it shall, prior to providing any loans, advisory or other services to such customer undertake a detailed and comprehensive assessment as part of the due diligence process in order to reasonably satisfy itself that the relevant business activities of the customer comply with all applicable environmental & social requirements

10.2.6 In the event that SIDBI or its financial intermediary is not able to reasonably satisfy itself that the project / programme activities of the customer comply with all applicable environmental & social requirements, they shall either:

- (i) decline to provide any loan, grant, advisory or other services to such customer; or
- (ii) offer to provide the relevant loan, advisory or other services subject to the condition that the customer shall implement an agreed corrective action plan within a specified period of time

10.2.7 SIDBI may conduct awareness programmes on the ESMP for intermediaries/implementing entities and would impress upon them to adopt it.

## **11. Organizational Capacity and Competency**

Implementing Entities' key E&S responsibilities would be defined and communicated and supported with technical and financial resources. Technical staff with direct responsibility for the project/programme performance would have the knowledge, skills and experience necessary to understand and ensure implementation of E & S Performance Standards. SIDBI would also build organizational and manpower competencies related to E&S responsibilities.





## 12. Implementation and Monitoring

The ESMP would be implemented at the organization level in a phased manner. If required, SIDBI may allocate appropriate resources to ensure effective implementation of the policy. The process would include the following actions:

- In-house capacity building of credit officers to identify, assess, monitor and report E & S performance associated with projects/ programmes
- Development and maintenance of the relevant systems and procedures to implement, monitor, review and reporting.
- Support financial intermediaries to incorporate similar systems in their organizations

## 13. Benefits on Implementation of the policy

The Environmental & Social (E&S) safeguard issues, if not ascertained by SIDBI during project appraisal, could potentially lead to credit, legal, environmental, regulatory, as well as reputational risks. Importance of such issues depending on type and nature of project / programmes vis-à-vis pollution potential. Thus, implementation of this policy would alleviate all the credit, legal, environmental, regulatory & reputational risks and will help improve the Bank's positioning & corporate image as a responsible lender in the market.

## 14. Review Mechanism

Based on gaining experience in the implementation of the ESM policy activities and operational modalities, SIDBI will be able to align its policies, processes, procedures, and project and programme design. In the light of this, the SIDBI shall review its ESMP once in a five (5) years.

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**Negative / Exclusionary List of projects**

- (i) Production or activities involving harmful or exploitative form of child labour or forced labour. (forced labor means all work or service not voluntarily performed, that is extracted from an individual) child labor (child labor means the employment of children whose age is below the statutory minimum age of employment in India.
- (ii) Production or trade in weapons and munitions.
- (iii) Production or trade in alcoholic beverages (excluding beer and wine).
- (iv) Production or trade in tobacco.
- (v) Gambling, casinos and equivalent enterprises.
- (vi) Trade in wildlife or wildlife products regulated under CITES (reference [www.cites.org](http://www.cites.org)).
- (vii) Production or trade in radioactive materials.
- (viii) Production or trade in or use of unbounded asbestos fibres.
- (ix) Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forest (prohibited by the Forestry policy).
- (x) Production or trade in products containing PCBs.
- (xi) Production or trade in pharmaceuticals subject to international phase outs or bans.
- (xii) Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
- (xiii) Production or trade in ozone depleting substances (ODS) subject to international phase out.
- (xiv) Production or trade in pesticides/herbicides subject to international phase outs or bans as agreed by GOI based on Stockholm convention.
- (xv) Projects requiring compulsory land acquisition causing displacement of people or communities from private or public lands or any negative impacts on livelihoods.
- (xvi) Projects located in areas of significant settlement of tribal people and adversely affecting the culture, livelihood, and way of life of tribal people.
- (xvii) Projects located in sensitive ecological areas and natural heritage locations.



**Appendix - II**

**Environmental & Social (E&S) Checklist**

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

S.No.	Particulars	Response	Remarks
<b><u>A. Environmental Aspects</u></b>			
1	Environmental Clearance from MoEFCC* / SEIAA**	Yes / No / Not Applicable / Applied For	<ul style="list-style-type: none"> <li>If 'Yes', attach copy of the same.</li> <li>If 'Applied For', attach copy of the application submitted by the MSME unit to the concerned SPCB or the receipt copy of the fee paid to the SPCB.</li> </ul>
2	Valid Consent(s) / Clearances from SPCB/CPCB	Yes / No / Not Applicable / Applied For	<ul style="list-style-type: none"> <li>If 'Yes', attach copy of Consent to Establish (CTE) / Consent to Operate (CTO).</li> <li>If 'Applied For', then attach copy of the application submitted by the MSME unit to the concerned SPCB or the receipt copy of the fee paid to the SPCB.</li> </ul>
3	Whether the unit has received any notice for regulatory non-compliance or violation of norms or consent conditions or faced any litigation or material settlement of convictions in court	Yes/No	If 'Yes', state reasons, which led to industry being notified as 'non-compliant' and actions undertaken to become compliant. State clearly whether the issue has been resolved or not. If not, state reasons clearly.
4	Compliance of consent - for eg. Installation of pollution control measure suggested as per consent	Yes / No / Not Applicable	list out deviations if any
<b><u>B. Social Aspects</u></b>			
3	Does the unit employ child and / or forced labour for its operations	Yes/No	
4	Does the unit employ Occupational, Health and Safety related measures for its operations <i>[For example: Workers wearing Gloves, helmet, mask during operations (especially during welding operations), installation of fire safety measures (e.g. workable / usable fire</i>	Yes/No	



S.No.	Particulars	Response	Remarks
	<i>extinguishers having pressure gauge needle in green zone), etc.]</i>		
5	Does the unit comply with labour welfare requirements like ESI /EPF etc	Yes / No	
6	Does the unit have occupational facilities such as canteen / restroom / toilet for the worker	Yes/ No	
7	Does the unit employ women? If yes, whether separate facilities such as toilet / rest room provided to them	Yes / No	
8	Does the project / unit is located in the notified industrial area / cluster / Special Economic Zone etc	Yes / No	If no, the following questions are to be answered
9	Does the project require compulsory land acquisition causing displacement of the people / Involuntary resettlement	Yes / No / Not Applicable	
10	Does the unit / project is located in, areas of significant settlement and / or collective attachment of tribal people / Indigenous People	Yes / No / Not Applicable	
11	Does the project involves signification alteration / damage / removal of any critical cultural heritage	Yes / No / Not Applicable	



S.No.	Particulars	Response	Remarks
12	Is the project / unit located closer (within 10 KM) to any eco sensitive zone such as national parks / reserved forests	Yes / No / Not Applicable	

\* Ministry of Environment, Forest and Climate Change

\*\* State Environment Impact Assessment Authority

**(Promoters Signature)**

