

SOCIAL AND ENVIRONMENTAL MANAGEMENT SYSTEMS

For

Intec Capital Limited

CONTENTS

1	INTRODUCTION	4
1.1	PREAMBLE TO THE ESMS	5
1.2	TARGET GROUP	5
1.3	OBJECTIVE	6
1.4	CONTENTS	6
1.4.1	<i>Distribution and Maintenance</i>	6
1.4.2	<i>Updating</i>	6
1.5	USE OF SEMS MANUAL	7
1.5.1	<i>Layout of the document</i>	7
2	ENVIRONMENTAL AND SOCIAL POLICY	8
2.1	SCOPE	8
2.2	OBJECTIVES	9
2.3	GUIDING PRINCIPLES	10
2.4	ENVIRONMENT AND SOCIAL POLICY STATEMENT	10
2.5	EXCLUSION LIST	12
3	SCREENING AND IDENTIFICATION OF ENVIRONMENTAL AND SOCIAL RISKS	14
3.1.1	<i>Environment and Social Risk Criteria</i>	17
3.2	FILLING OF LOAN APPLICATION FORM	17
3.3	SCREENING & DUE-DILIGENCE PROCESS	18
3.3.1	<i>Personal discussion cum site visit & Identification of E&S Risk</i>	18
3.3.2	<i>Gaps and mitigation measures</i>	19
3.3.3	<i>Loan approval and Documentation</i>	19
4	MONITORING AND RECORD KEEPING	20
4.1	MONITORING	20
4.2	REPORTING	20
4.3	INCIDENT/ ACCIDENT REPORTING	20
4.4	RECORD KEEPING	20
5	ESMS REVIEW AND CONTINUOUS IMPROVEMENT	21
6	ROLES AND RESPONSIBILITIES	22
7	BUDGET, TRAINING, AND SENIOR MANAGEMENT APPROVAL	23
	ANNEX A -IFC EXCLUSION LIST	24

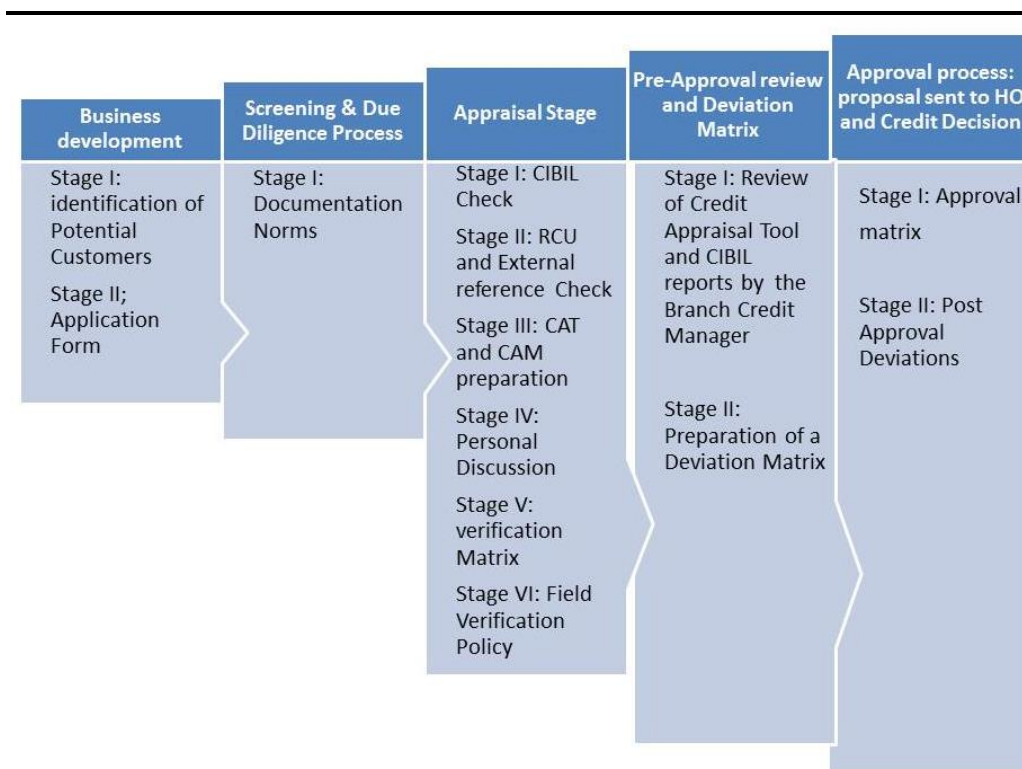
<i>ANNEX B -STANDARD FORMAT FOR EXTERNAL PERFORMANCE REPORTING BY INTEC TO ITS INVESTORS</i>	<i>26</i>
<i>ANNEX C -INTEC'S SEMS ORGANIZATIONAL STRUCTURE</i>	<i>28</i>

Intec is a reputed market leader in SME financing and a leading player in the Non-Banking Financial Company (NBFC) segment. Intec caters to the machinery financing requirements of the auto and engineering, printing and packaging and plastic and injection moulding industries in various parts of India. The Company also works with other sectors such as healthcare and pharmaceuticals, and food-processing to address the financial needs of the Small and Medium Enterprises (SMEs) catering to these sectors. As a 100% subsidiary of Intec, Amulet (should it start any activity) will also be considered under the ESMS.

Intec's business model is based on financing capital equipment manufactured by reliable brands, thus widening the market for such companies on the one hand and facilitating the multi-year use of robust equipment by customers on the other.

Intec, headquartered in New Delhi (India), ~~has a presence spread across 17 locations in Northern, Western and Southern India, covering more than 137 SME clusters across a broad industry spectrum.~~ Intec has a total of ~~270 employees—~~ 55 employees and has established internal procedures to streamline human resource management, customer and manufacturer relationships, fair and ethical code of conduct as well as credit risk management.

Figure 1.1 *Lending Decision Process at Intec*



*Source: Credit Policy Manual of Intec Capital

Intec's all lending decisions are delegated to various credit committees according to the quantum of finance.

1.1

PREAMBLE TO THE ESMS

Intec is a leading Indian Non-Banking Financial Institution (NBFI), providing holistic solutions in financing for acquiring machines to their customers across various sectors.

Intec recognizes Environmental and Social Risk management as important issue that requires systems to monitor and control in line with legal requirements in the sector. Intec is committed to promoting the use of appropriate Environmental and Social Management System (ESMS) in order to improve the management of the environmental and social implications of its portfolio.

The ESMS is aimed to ensure that Intec activities are in compliance with applicable social and environmental standards, in this case:

- IFC Exclusion List; and
- Applicable Indian social and environmental regulatory requirements;

Keeping in context, non-existence of Project Finance ⁽¹⁾ and Corporate Finance ⁽²⁾, the IFC Performance Standards (PS) are not applicable for Intec.

This document puts down a framework to facilitate the implementation of appropriate Environmental and Social Management System (ESMS) in Intec with the prime objective of reducing Environmental and Social impacts of its portfolio. The ESMS policy of Intec is presented in *Section 2*. The ESMS is integrated within the overall credit risk management framework of Intec.

This document will be periodically revised, to incorporate necessary changes required due to either change of business requirements and /or changes in Environmental and Social legal requirements of Intec's clientele base in India.

1.2

TARGET GROUP

The ESMS applies to Intec Capital Limited herein after referred to as 'Intec'. The document applies to the relevant Intec staffs. This manual shall also apply to wholly owned subsidiary Amulate from the day its starts its commercial activity.

(1) If Intec is financing a defined end use where total capital cost of the asset/project is more than \$ 10 million, and Intec exposure for 36 months or more then the borrower will apply all 8 IFC PS.

(2) If Intec is financing a corporate (or some large SMEs) where end use is not defined, and exposure is more than \$ 5mn and for 36 months or more then Intec will ensure IFC PS-1 and PS-2 are applied by the borrower.

1.3

OBJECTIVE

Intec is committed to promote the use of appropriate ESMS in order to improve the management of the environmental and social impacts and associated risk and exposure from its portfolio. The objective of this document is to facilitate and promote:

- Proper implementation and institutionalization of ESMS;
- Fulfillment of E&S legal and multilateral lender's requirements; and
- Measuring, monitoring, reviewing and reporting E&S risks of the portfolio

1.4

CONTENTS

The ESMS Manual delineates Intec's ESMS Policy and the procedures to achieve environmental and social aspirations reflected in the E & S Policy.

The key elements of ESMS Manual are as follows:

- Environmental and Social Policy Statement;
- Risk Assessment Procedures and Guidelines;
- Monitoring and Record Keeping;
- ESMS Review and Continuous Improvement;
- External & Internal Reporting;
- Roles and Responsibilities; and
- Budget, Training and Senior Management Approval

1.4.1

Distribution and Maintenance

A hard copy of this document is available with the E & S Manager. It is the E&S Manager's responsibility to keep departmental staff informed of changes to this document. This manual is version controlled and would be reviewed from time to time. The latest version would be made available. All latest version hard copies will be marked as controlled copy in green. All earlier versions, if available to anybody, must be marked as uncontrolled copy in Red.

1.4.2

Updating

The E&S Manager is responsible for preparing and updating the ESMS Manual periodically in consultation with managing director. The recommended changes if any should be placed and discussed in Management review meeting. Once agreed upon, the changes to the document will require an approval of Managing Director before final corrections to the Manual.

The ESMS Manual is part of the overall Credit Management System at Intec and is integrated with the Credit Manual adopted for loan appraisal process.

Toolkit Access – Intec will provide authorization to key E&S Manager and their authorized branch representatives to use the Environment and Social Risk Procedure Toolkit. The toolkit access, user restrictions, client/project data security and all other relevant functions associated with toolkit usage will be governed by the procedures delineated in this manual and available with E & S manager.

1.5.1 *Layout of the document*

The Social and Environmental Management System for Intec is presented as follows:

<i>Section 1 (this section):</i>	Introduction to Intec and ESMS;
<i>Section 2:</i>	Environmental and Social Policy of Intec;
<i>Section 3:</i>	Assessment of E& S Risks for new projects & procedures to screen Projects;
<i>Section 4:</i>	Monitoring and Record Keeping;
<i>Section 5:</i>	ESMS Review and Continuous Improvement;
<i>Section 6:</i>	External Reporting;
<i>Section 7:</i>	Roles and responsibilities;
<i>Section 8:</i>	Budget, Training, and Senior Management Approval

The ESMS Policies and Procedures are accompanied by the following toolkits designed for Credit Process Team:

Annex A: IFC Exclusion List

Annex B: External Financial Institutional Reporting by Intec to its Investors

Annex C: SEMS Organizational Structure

The Environment and Social Policy (hereinafter also referred to as “ESP” or “the Policy”) will inform, shape and enable Intec to develop processes to recognize and evaluate the environmental and social facets of its operations. Here, the overarching objective is to align Environmental and Social risk management approaches and practices of Intec with those of its customers to synergistically promote sustainable business relationships.

The policy also reinforces the Intec’s commitment to sound sustainability practices of which, “environmental” and “social” initiatives and projects are an integral element.

2.1 SCOPE

Sustainable Development is important for long term socio-economic development. This is especially relevant in the context of sectors wherein the Financial Institution (FI) currently invests.

The word “sustainability” as used in this Policy refers to the principles of Sustainable Development originally propounded by the Brundtland Commission (1987) and subsequently advanced through Inter-Governmental Summits and Agreements such as Rio de Janeiro (1992), the Kyoto Protocol (1997) and Basel guidelines.

The word “environment” as used in this Policy and as defined in its broadest sense refers to the natural habitat, including air, water, land, natural resources, ecosystems, flora, fauna and biodiversity. As a corollary to the word “environment”, “environmental impacts” denote direct and indirect impacts, in the main, manmade interventions, decisions and activities that have an adverse impact on the natural habitat. Indirect impacts refer to “ripple effects” caused by being party to activities or interventions that may have a detrimental impact on the environment. This may also include any negative impact on environment due to project financing.

For the purpose of this policy, environmental considerations include:

- Pollution (Air, Water, Land, Noise)
- Land use, groundwater table, degradation and its contamination
- Waste generation and disposal
- Natural Resource depletion
- Energy use and its Efficiency
- Mining
- Climate Change
- Ozone Impacts and Depletion
- Deforestation

- Habitat and Biodiversity

The word “social” as used in the Policy and as defined in its broadest sense refers to enhancement of larger societal development through responsible business practices that cater to people’s developmental needs. This includes, but is not necessarily limited to addressing health and safety issues and provision of social goods through social infrastructure such as, education, health, sanitation, housing and access to basic amenities like electricity and water. As a corollary to the word “social”, the term “social impacts” refers to the impact of business activities and interventions on larger societal development such that there should be no detrimental impacts on society through the activities of Intec or its customers. Indeed, operations should attempt to foster social cohesion and should also by no means increase social exclusion, or create negative impacts or be regressive in matters of poverty, livelihoods, rehabilitation, indigenous peoples and human rights. Social impacts may also be categorized as direct or indirect.

Social considerations encompass:

- Occupational Health and Safety
- Working Conditions
- Social Infrastructure
- Child Labour and forced labour
- Gender Issues
- Remuneration and minimum wages
- Discrimination
- Indigenous People’s Rights
- Rehabilitation and Resettlement
- Sustainable Livelihoods
- Community Development

2.2 *OBJECTIVES*

Intec seeks to ensure through its ESP, evaluation and assessment processes that the projects it finances:

- are socially and environmentally sustainable;
- respect the rights of staff and local communities; and
- are designed and operated in compliance with applicable regulatory requirements and good international practice.

The due diligence conducted includes the level of social and environmental risks commensurate to the scale and nature of the project being financed. The ESP is integrated with the Credit Risk policy for an overall assessment of the projects. In order to translate the said objectives into successful practical outcomes, Intec lays out a detailed set of internal and external objectives to be

adopted such that the projects are expected to meet, covering key areas of environmental and social impacts and issues:

Objectives:

- i. To maximize development benefits and environmental and social sustainability outcomes in Intec's decisions, activities and operations;
- ii. To develop best practices in environmental and social management, appropriate risk parameters so as to better anticipate environmental and social incidents that could impact the reputation of Intec;
- iii. To ensure that all activities are environmentally and socially viable and compliant to the regulatory environmental and social standards as applicable; and

2.3

GUIDING PRINCIPLES

Environmental and Social Risks are increasingly impacting the way business is conducted and managed. Given the need for environmental and social prudence, the FI will appropriately recognize and evaluate Environmental and Social Risks.

- Identification of projects will be guided by principles of both financial prudence and sustainability;
- Intec will be cognizant with environmental and social due diligence processes to assess early-on priority issues;
- Proposed lending by Intec will be executed as per the Intec's operational programming documents that identify potential environmental challenges and opportunities associated with the lending;
- Intec will anticipate enabling conditions for environmental and social parameters through an appropriate risk management process. Intec aims to develop a systematic approach to identify opportunities for environmental and social improvements through its environmental and social due diligence; and
- It will also develop and maintain Environmental and Social Procedures to assist in implementing this Policy, and will ensure that staff receives appropriate training on the requirements of this Policy.

2.4

ENVIRONMENT AND SOCIAL POLICY STATEMENT

Environmental risk means the risk of causing pollution or destruction of the natural environment (land, water, air, natural habitats, animal and plant species), either through accidental or deliberate actions. Social risk is the risk of a customer not meeting acceptable standards for employment and business ethics, within his own business or by his actions.

Intec recognizes that their primary impact on the natural environment and on social issues is through their relationship with their customers and the lending decisions that they take.

Box 2.1 Social and Environmental Policy Statement

Intec recognizes that all its activities are in compliance with the environmental and social standards stated in the Applicable Requirements of the Legal Agreement with IBEF-IIA, which are included and covered in this policy:

- IFC Exclusion List; and
- Applicable local, provincial and national laws on environment, health, safety and social issues

Intec continually endeavours to ensure effective environmental and social management practices in all its activities, products and services with a special focus on the following:

Legal Compliance: Intec aims to comply fully with all government legislation applicable in the country in which they operate.

Energy and Resource Use: Intec will seek to reduce their per capita consumption of resources, specifically: energy, water, transportation services and paper, wherever practicable opportunities exist.

Hazardous Substances: Intec will work to eradicate the use of ozone depleting substances and to use only refrigerants with a low global warming potential in its own controlled premises.

Procurement: Intec's major operational center procurement processes consider environmental issues surrounding the production, consumption and disposal of products and services. Wherever practicable, Intec procures products derived from sustainable resources. .

Investment Services: Intec gives due consideration to the presence of environmental and social risks in their investment transactions (i.e. Lending transactions).

Air Emissions and Waste Management: Wherever practical, Intec seeks to minimize the production of wastes, and encourage staff to participate in reuse and recycling initiatives. Intec ensures that wastes that are not reused or recycled are disposed of in a safe and responsible manner.

To facilitate this Intec is developing staff awareness through training and internal communications, and invite feedback from other stakeholders on their performance, and undertake periodic reviews of their policy and targets. An E & S manager is responsible for environmental management and provides regular reports on progress to the Managing Director & Board.

This Policy will be communicated to staff and employees of Intec

Signed

Effective Date

(Director)

In nutshell, the lending decisions at Intec will have the following considerations:

- All lending decisions will include consideration of environmental and social issues where appropriate;
- All lending decisions will take into account local laws and regulations.

The risks associated with both environmental and social issues will be properly recognised and evaluated

2.5

EXCLUSION LIST

The capital raised under Intec will not be invested in any of the following businesses or activities that include but are not limited to the Exclusion List specified as follows:

Intec may not be used to finance the following projects:

- Production or activities involving harmful or exploitative forms of forced labor¹/harmful child labor².
- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.
- Production or trade in weapons and munitions³.
- 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 CITES⁴.
- Production or trade in radioactive materials⁵.
- Production or trade in or use of unbounded asbestos fibers⁶.
- Commercial logging operations or the purchase of logging equipment for use in Primary tropical moist forest (prohibited by the Forestry Policy)⁷
- Production or trade in products containing PCBs⁸.
- Production or trade in pharmaceuticals subject to international phase outs or bans⁹.
- Production or trade in pesticides/herbicides subject to international phase outs or bans¹.

¹ Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty

² Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

³ This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.

⁴ CITES: Convention on International Trade in Endangered Species of Wild Fauna and Flora. A list of CITES listed species is available from the Environment Division.

⁵ This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.

⁶ This does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.

⁷ Refer to IFC OP 4.36, Forestry.

⁸ PCBs: Polychlorinated biphenyls—a group of highly toxic chemicals. PCBs are likely to be found in oil filled electrical transformers, capacitors and switchgear dating from 1950-1985.

⁹ A list of pharmaceutical products subject to phase outs or bans is available from the Environment Division.

- Production or trade in ozone depleting substances subject to international phase out². Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.

The IFC's Exclusion List will be expressly followed by Intec. *Refer Annex A for IFC's Exclusion List.*

¹ A list of pesticides and herbicides subject to phase outs or bans is available from the Environment Division.

² Ozone Depleting Substances (ODSs): Chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicized 'ozone holes'. The Montreal Protocol lists ODSs and their target reduction and phase out dates. A list of the chemical compounds regulated by the Montreal Protocol, which includes aerosols, refrigerants, foam blowing agents, solvents, and fire protection agents, together with details of signatory countries and phase out target dates, is available from the Environment Division.

Intec works on a sound business model that focuses on building and nurturing long-term relationships with their stakeholders i.e. machinery manufacturers, suppliers and customers that in turn promotes sustainable growth. The sector wise break-up for percentage of portfolio is presented in **Table 3.1**.

Table 3.1 Sector-wise break-up for Investments in Machinery as on 30th Sept 13.

SN.	Sectors(Assets under Management)	Percentage
1.	Auto	18.92%
2.	Machine Engineering	24.21%
3.	Printing & Packaging	14.69%
4.	Services	8.93%
5.	Education	4.83%
6.	Plastic	5.54%
7.	Construction & Infra	6.45%
8.	Pharma	2.24%
9.	Food processing	0.51%
10.	Others	13.70%
	Total	100.00%

Source: Intec Capital Limited

Intec has tailored its products to suit their specific financial requirements. The group caters to the Micro, Small, and Medium enterprises through financial products suited to the specific groups.

As defined in **Table 3.1**, the sectors Intec is currently exploring its investment opportunities for funding in the various machinery are spread across some specific sectors. Some of these sectors do not have any specific IFC Environmental Health and Safety Guidelines (EHS) Guidelines; hence, the impacts have been identified based on assessment of typical E&S risk involved with the machines involved in the sectors and IFC General EHS guidelines.

It is important to mention though that these guidelines will not be applicable for making lending decision, especially with the present scale of operations and the type of financial products offered by Intec. For now it is expected that the Intec staffs are aware of the typical E&S risk associated with the sectors in which Intec is lending. The three types of industries as classified under Central Pollution Control Board Guidelines as per **Directions u/s 18(1)(b) of Water (P & CP) Act, 1974 regarding Classification of Industries into Red, Green and Orange Category by CPCB letter vide no.B-29012/1/2012/ESS/1540 dtd.04.06.2012.** are:

- Red Category; All those industries employing more than 500 persons and are highly polluting;

- Orange Category: All those industries employing not more than 500 persons and are less polluting; and
- Green Category: All those industries employing less than 500 persons and which have no air emissions.

Table 3.2 *Environmental and Social Risk, Sector-wise Categorization*

SN	Sector Wise Machinery	Applicable reference Framework	EIA Notification, 2006 and as amended till date (Category A/B/B1)s	CPCB Consent Categorization (Red/Orange/Green)
1	Auto	<ul style="list-style-type: none"> MoEF EIA Notification, 2006 and as amended till date CPCB Categorization of Industries 	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> Red Category (Automobiles Manufacturing (integrated facilities)) Automobile servicing, repairing and painting (excluding only fuel dispensing) (Orange Category)
2	Machine Engineering	<ul style="list-style-type: none"> MoEF EIA Notification, 2006 and as amended till date CPCB Categorization of Industries 	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> Orange Category (Engineering and fabrication units (With investment on Plant & Machineries < Rs. 10 Crores))
3	Printing & Packaging	<ul style="list-style-type: none"> MoEF EIA Notification, 2006 and as amended till date CPCB Categorization of Industries 	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> Orange Category (Printing ink manufacturing, Packing materials manufacturing from non-asbestos fibre, vegetable fibre yarn, Printing or etching of glass sheet using hydrofluoric acid) Green Category (Printing press)
4.	Plastic	<ul style="list-style-type: none"> MoEF EIA Notification, 2006 and as amended till date CPCB Categorization of Industries 	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> Orange Category (Reprocessing of waste plastic (excluding PVC)) Green Category (Polythene & plastic processed products manufacturing (virgin plastics))
5	Construction & Infra	<ul style="list-style-type: none"> MoEF EIA Notification, 2006 and as amended till date CPCB Categorization of Industries 	<ul style="list-style-type: none"> Building and Construction projects-Project 8a-category B1- >20000 sq metres <1,50,000 sq metres of built up area. Project 8b- category B1-covering and area ≥ 50 ha and or built up area $\geq 1,50,000$ sq meters. 	<ul style="list-style-type: none"> Orange Category (Building & construction projects more than 20,000 Sq mtr built up area, Infrastructure development project)
6	Pharmaceutical	<ul style="list-style-type: none"> MoEF EIA Notification, 2006 and as amended till date CPCB Categorization of Industries 	<ul style="list-style-type: none"> Synthetic organic chemicals industry (dyes & dye intermediates; bulk drugs and intermediates excluding drug formulations; synthetic rubbers; basic organic chemicals, other synthetic organic chemicals and chemical intermediates) Project 5(f)- Category A if located outside the notified industrial area estate and Category B if located in a notified industrial are/estate. 	<ul style="list-style-type: none"> Red Category (Pharmaceuticals (excluding formulation)) Orange Category (Pharmaceutical formulation and for R&D purpose (for sustained release/extended release of drugs only and not for commercial purpose))
7	Food processing	<ul style="list-style-type: none"> MoEF EIA Notification, 2006 and as amended till date CPCB Categorization of Industries 	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> Orange Category Food & food processing including fruits & vegetable processing

3.1.1

Environment and Social Risk Criteria

The environmental and social risk categorization has been done completely based on the combination of various factors such as understanding of the micro-business and small and medium enterprise operations, nature of the industry, manpower and scale of investment.

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 which explains micro, small and medium enterprises categorization. Investment in plant and machinery (typical nature of Intec's investment) refers to is the original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No.S.O.1722 (E) dated October 5, 2006.

Keeping the above in context, it is understood that Intec's present business operations is limited to financing only equipment and machinery. Depending upon the exposure level, the environmental and social criteria to be followed for typical investment is enlisted in [Table 3.3](#).

Presently only IFC exclusion list and Local laws and regulations pertaining to the sector are considered for compliance.

Table 3.3 *Environmental and Social Screening Risk Criteria*

Aspects	Criteria 1	Criteria 2
Scale of Investment/Exposure limit to each customer	Investment not exceeding Rs.5 Crores (gross)	Investment more than Rs.5 crores (gross)
Type of Sectors to be typically involved	All Sectors	All Sectors
Environment & Social SEMS Requirement	IFC Exclusion List (Compliance by the investee to Applicable laws and regulation is already being covered as part of the Loan agreement.)	IFC Exclusion List Pollution compliance certificate (if applicable) to be taken on record. Applicable National Laws and Legislations (Compliance by the investee to Applicable laws and regulation is already being covered as part of the Loan agreement.)

3.2 FILLING OF LOAN APPLICATION FORM

Once the potential SME is identified and the required documents including loan application form for loan processing are shared with the potential customers, the loan application form is filled through preliminary formalities involving the Know Your Customer documents and the Login Checklist process.

During this step, as one of the preliminary requisites IFC Exclusion List will be followed mandatorily. The login checklist will have this mentioned upfront.

3.3 SCREENING & DUE-DILIGENCE PROCESS

The screening process will take into consideration IFC exclusion list and compliance to the E&S related laws and regulations as identified. The assessment of the E& S risks for new projects is provided in [Figure 3.1](#)

Figure 3.1 E& S Process Flow



3.3.1 Personal discussion cum site visit & Identification of E&S Risk

After the application fulfils the documentation and credit norms as per the guidelines and the E& S indicators, the file is forwarded to the next stage of appraisal. The appraisal stage will entail the CIBIL Check, RCU and External Reference Check (wherever applicable) followed by the CAT/CAM preparation. During the site visit phase, member of credit team and sales team shall assess compliance with respect to detailed E& S screening review parameters and include their findings / observation in Credit Note (CN) and Credit Appraisal Memo (CAM). The key features of the Environmental and social screening would be:

- Identify environmentally derived, potential liabilities for Intec in transactions;
- Assess the awareness, commitment and resources of the client to manage the environmental risks creating those potential liabilities;
- Evaluate the possible financial implications of those environmental risks and client's behaviour to Intec;

- Manage and Control the Intec's exposure to environmentally- derived liabilities.

There will be no categorisation requirement based on the level of risk associated presently.

Note: Based on the understanding of the present scale of investments only confined to the machinery on sectoral basis, it is understood that a detailed Environmental and Social Due Diligence (ESDD) Process and an Environmental and Social Impact Assessment (ESIA) would not be necessitated by Intec.

Personal Discussion (PD) shall be done as per applicable credit policy at office/ factory/ shop.

3.3.2 *Gaps and mitigation measures*

The Branch Credit Manager or Area Credit Manager (ACM) will fill up gap and mitigation, if any based on the findings with respect to preliminary E&S related observations along with Finalized CAM. This could be preferably added as note with the credit approval memo.

CAM is sent to the credit committee for their review. This will actually facilitate the E&S based decision making by the credit committee and facilitate the decision-making process in assessing the likely level of risk, if any.

Approval by Credit Committee

A decision to proceed with the financing is reached on the basis of multiple sources of information for which the E&S risk issues are identified and mitigation measures etc. are also considered for decision making.

The committee also looks at the gaps and mitigation while taking decisions, and also comments on the additional mitigation measures if any which can be possibly added to the existing mitigation suggested which will become part of the term sheet.

3.3.3 *Loan approval and Documentation*

Where mitigation measure commitments are required in order to meet the E&S related regulatory requirements, these are communicated to the prospective client and appropriately formalized in the term sheet. Intec may also choose to decline a relationship or transaction where the E&S issues are substantial or where the client is non agreeable to the E & S terms.

4.1 MONITORING

Intec will encourage customer to comply with environmental laws, regulations, standards and procedures with customers and also encourage customers to develop and implement corrective action plans, in cases where environmental and social safeguards have been contravened. Intec shall also add relevant applicable clauses in the term sheet if any if required by the credit committee.

There will be no requirement of separate dedicated monitoring visit; however in usual course whenever there is a potential site visit Intec's staff will ensure that E&S related compliances are also observed.

Prior to extending financing to existing customer, status of prior ESDD related non-compliances if any should be addressed and reason for non-compliance should be documented.

4.2 REPORTING

The Reporting will be done with respect to the implementation of the SEMS by Intec to the investing FI. The reporting will be done by Intec on an yearly basis as per *Annexure B*.

4.3 INCIDENT/ ACCIDENT REPORTING

Intec clients are also requested to report any major incidents and/or accidents. This condition is not a mandatory requirement and Intec will encourage such reporting to be able to understand typical incident/ accident risk associated with the industries in a better manner.

4.4 RECORD KEEPING

As a part of ongoing monitoring, all documents are to be saved related to documentation collected from client, research outputs and other documentation related to Action Plan, covenant terms agreed by the clients as mitigation measures prior to financing are maintained.

Intec's Environmental and Social Policy on Responsible financing and the Environmental and Social Management Systems will need to be formally approved by the Managing Director and subsequently communicated and rolled out across the organisation.

The ESMS needs to be reviewed annually to ensure that it remains relevant and effective over time and incorporates Intec's and its client's evolving needs.

The review involves the following:

- Identifying potential difficulties with operational aspects of ESMS implementation and making changes as necessary;
- Reviewing the scope of ESMS procedures to ensure that emerging social and environmental risks of projects are detected and identified during the due-diligence process;
- Updating ESMS to reflect revisions in applicable IFC-PS and national laws on environment, health, and safety.

Intec's ESMS framework delineates the governance structure within the deal flow with clearly outlined roles and responsibilities that allows for new client related project screening and approval by the appropriate levels of authority commensurate to the level of risk present.

Intec has clearly outlined roles and responsibilities of its functions with accountability for the implementation of the key elements of ESMS in its business.

Intec will ensure that the investing FI is notified if and when the current E&S Manager or the current Environmental Coordinator leaves that position, and will provide the name of the new E&S Manager or Coordinator appointed.

The roles and responsibilities of individual functional heads under the purview of ESMS framework is outlined in [Table 6.1](#).

Table 6.1 *Roles and Responsibilities*

SN.	Responsibility/ Functional Head	Key Responsibility Areas	Approval Authority
1.	Environmental Co-ordinator / E&S Manager	<ul style="list-style-type: none"> Set up, implement and revise the ESMS Communicate ESMS requirements Assist Business team in assessment of E & S Risk Determine and include environment, health and safety covenants in term sheet. ESMS training need identification, coordinating training & estimating budget Obtain approval and sign-off from Senior Management on Environment and Social policy. . 	Managing Director
2.	Sales team	<ul style="list-style-type: none"> Supporting ESMS implementation at Intec, wherever required 	None
3.	Operations	<ul style="list-style-type: none"> Ensure that all customers have accepted term sheet containing covenants and conditions approved by the Committee (if any) 	Head Operations
4.	Credit Team	<ul style="list-style-type: none"> Assessment using the ESMS framework (ESMS toolkit) Participate in loan decision-making process Provide their decision / recommendation / mitigation measures to Credit Committee for final loan decision. 	Head Credit
5.	Credit Committees	<ul style="list-style-type: none"> Final Loan Decision ESMS Review on an annual basis. 	Credit Committee

Intec would allocate resources to prepare and distribute ESMS documentation and materials, to train staff on ESMS procedures, and to account for staff time to perform their ESMS responsibilities in their day-to-day duties to ensure effective ESMS implementation across the organization.

Intec would assess and track the progress and development of employees and skills with regard to ESMS understanding and performance and undertake training need identification exercise at regular periodic intervals in consultation with the employees and the management.

The training gaps are identified; future training needs defined and training programs rolled out.

The entire ESMS, including the budget and training plan, should be reviewed and approved by the Managing Director of Intec to ensure that it is integrated as part of Intec's overall credit framework.

ANNEX A -IFC EXCLUSION LIST

The IFC Exclusion List defines the types of projects that IFC does not finance.

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements;
- Production or trade in weapons and munitions;
- Production or trade in alcoholic beverages (excluding beer and wine).
- Production or trade in tobacco;
- Gambling, casinos and equivalent enterprises;
- Trade in wildlife or wildlife products regulated under CITES;
- Production or trade in radioactive materials;
- Production or trade in or use of unbonded asbestos fibers;
- Purchase of logging equipment for use in primary tropical moist forest;
- Production or trade in pharmaceuticals subject to international phase outs or bans;
- Production or trade in pesticides/herbicides subject to international phase outs or bans; and
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.

All financial intermediaries (FIs), except those engaged in activities specified below*, must apply the following exclusions, in addition to IFC's Exclusion List:

- Production or activities involving harmful or exploitative forms of forced labor/harmful child labor;
- Commercial logging operations for use in primary tropical moist forest; (prohibited by the Forestry Policy)
- Production or trade in products containing PCBs; and
- Production or trade in ozone depleting substances subject to international phase out.

* When investing in finance activities, FIs will apply the following items in addition to the IFC Exclusion List:

- Production or activities involving harmful or exploitative forms of forced labor/harmful child labor;
- Commercial logging operations for use in primary tropical moist forest;
- Production or trade in products containing PCBs;
- Production or trade in ozone depleting substances subject to international phase out;
- Production or trade in wood or other forestry products from unmanaged forests;

- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals;
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.

In short, if a potential investment involves an excluded activity as listed in the IFC's Exclusion List and that generates a significant proportion of the Company's revenue and profits, the FI will need to ensure that it will not be considered for financing.

Annex B -Standard Format for External Performance Reporting by Intec to its Investors

Environmental and Social Project Performance Reporting by Intec to its investors

□ General Questions

Company Details

Project Name:

Description:

Name of authorized representative:

Signature:

Date:

Reporting Period

ESIPPR reporting period:

□ Management Systems Management Systems

1) *Does the FI have a policy with regard to S&E risk management?*

2) *Does the FI have a documented process to assess the S&E impacts and risks of its projects?*

3) *Does the SEMS specify or indicate the applicable requirements (i.e., the exclusion list, national laws, and/or the Performance Standards)?*

4) *Has the SEMS been approved by senior management?*

5) *Are there dedicated resources allocated to SEMS?*

6) *Are these S&E policies and procedures communicated across the board or across relevant staff in the FI's organization? How are these communicated?*

7) *Has the FI developed a system to regularly update the SEMS and capture updates to legislation, if relevant?*

□ Process and Implementation

1) *Does the FI's staff conduct project site visits prior to, during and after loan application? If so, please have the FI provide evidence of this.*

- 2) *Is ongoing compliance with applicable environmental requirements (e.g. national laws or other procedural requirements etc) incorporated in to the loan agreements with the FI's borrowers?*

Capacity & Quality

- 1) *Is there a designated full-time staff person with responsibility for S&E risk management? What background in terms of S&E risk management and education does the staff person have?*
- 2) *Has the FI identified the training needs for those persons with responsibility for implementing the management program? What is the training plan?*

□ Feedback

Please use this section of the report to give us feedback.

- *Do you understand the environmental requirements of IFC, or do you need additional assistance (e.g., training)?*
- *How could we improve our support to you? Please provide suggestions.*

Figure .1 SEMS Organizational Structure

