

THARDEEP MICROFINANCE FOUNDATION

This policy "**Environmental and Social Risk Management Policy and Procedure**" approved by the TMF Board in its 13th meeting dated 21 December 2018 contains 1 to 8 pages.

Enclosed as original.



Company Secretary





Thardeep Microfinance Foundation – TMF
[A Company set up under Section 42 of the Companies Ordinance, 1984]

Environmental and Social Management System
Environmental and Social Risk Management Policy and Procedures

December 2018



1 INTRODUCTION

Environmental and social sustainability is a core part of TMF's commitment to responsible finance. This environmental and social risk management policy and procedures of Thardeep Microfinance Foundation (TMF), stipulates guiding principles and underlying processes for effective implementation of TMF's commitment to environmental and social sustainability. It covers the integration of Environmental and Social Management (ESRM) practices in its lending activities.

TMF is set up under section 42 of company's ordinance 1984 as guarantee limited company and providing microfinance services.

The policy and procedures document seek to introduce a systematic approach to the management of relevant environmental and social issues, and the risks inherent therein, in TMF business processes and operations.

This document is also aligned with TMF's mandate to provide financial services that are creative and responsible and, as such, forms an integral part of TMF's overall Risk Management Framework.

TMF endeavors to assist its borrowers to maintain the relevant environmental and social standards. TMF core benchmarks are:

Guidelines by the regulatory authorities of Pakistan

This document underscores TMF's commitment to sustainable finance in its business relationships and sets the pace for suitable procedures and workflows which will ensure TMF's compliance with applicable environmental and social legislation and regulatory requirements, as well as those of international financial institutions providing support to TMF.

2 STRUCTURE OF THIS DOCUMENT

This document outlines TMF's approach to the implementation of appropriate ESRM that aims to reduce E&S risks and impacts associated with its lending/ refinancing activities. It primarily seeks to implement *Principle 1 - Our Business Activities: Environmental and Social Risk Management*, it is, therefore, an integral part of the TMF's Environmental and Social Management System (ESMS).

TMF is committed operationalizing and promoting an appropriate Environmental and Social Management System (ESMS) for itself – as well as for the borrowers on-lends in-order to effectively assess and manage the E&S risk exposure. The ESMS is a framework that integrates ESRM into overall procedures for lending operations managed by TMF.

Core components of the ESMS are as follows:

1. ESRM policy with clearly specified applicable E&S requirements and standards (Section 3);
2. ESRM procedures for screening, identification, assessment, mitigation, and monitoring of E&S risks; these procedures include record keeping, disclosure, and reporting (Section 4);
3. Capacity, roles and responsibilities within the organizational structure of for managing E&S risks (Section 5);



4. Guidance and tools: Practical resource materials for implementing ESRM provisions internally by TMF; these tools are developed and improved on an on-going basis.

3 ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT POLICY

3.1 Policy Approach

1. TMF strives for positive development outcomes in the activities it supports. TMF believes that an important component of achieving positive development outcomes is the environmental and social sustainability of these activities, which TMF expects to achieve through the application of this Policy.
2. TMF recognizes that with its core business being primary microfinance, TMF is exposed to some level of Environmental and Social (E&S) risk through the lending activities, which can represent a financial, legal, and/or reputational risk to TMF. The E&S risk associated with TMF's lending activities depends on factors such as the specific E&S circumstances associated with the microfinance operations.
3. TMF approach acknowledges that identification and management of E&S risks is a shared responsibility between TMF and borrowers. Therefore, this Policy aims to clearly define scope, applicable requirements, and actions to be taken by borrowers to support the objectives of effective E&S risk management.

3.2 Policy Objectives

Specific objectives of this Policy are to:

1. Integrate ESRM considerations into the TMF financing decision-making processes.
2. Fully implement and comply with national requirements for E&S risk management
3. Set out requirements for the borrowers for environmental and social risk screening associated with primary lending service.
4. Promote greater transparency and accountability on E&S issues internally and externally through disclosure and reporting.

3.3 Scope of Application

This Policy applies to TMF's microfinance lending activities across the Pakistan.

3.4 Applicable Environmental and Social Requirements

Borrowers will be required, as part of their credit assessment process, to integrate TMF applicable E&S requirements consisting of the following three components:

1. Applicable national, state, and local laws and regulations
2. TMF exclusion List of microfinance loans ineligible for TMF financing based on associated environmental and social risk and impacts (Annex 1).

3.5 Environmental and Social Due Diligence and Supervision



1. TMF will integrate E&S due diligence and supervision in its lending activities described in paragraph 9 and in line with TMF applicable E&S requirements described in section 3.4 of the Policy.
2. TMF will conduct E&S due diligence of borrowers when loan is provided.
3. Due diligence of mortgage and loan portfolios submitted by borrowers for financing will be conducted as follows:
 - a. E&S screening will be integrated in borrowers due diligence / credit assessment process based on the TMF applicable E&S requirements. Such arrangements will be formalized as part of TMF e appraisal application. In particular, with the request for loan, borrowers will be required to provide to TMF a confirmation for adequate implementation of E&S due diligence and screening measures.
 - b. TMF will review and verify E&S information provided by borrowers in the loan application as part of its acceptance criteria for the loan approval prior to financing.

3.6 Communications and Disclosure

1. TMF will ensure transparency in its activities through adequate disclosure of its E&S policy and requirements, as well as overall commitments to supporting sustainable finance.
2. E&S policy and procedures will be visibly placed on TMF website. TMF is also committed to reporting on its ESRM activities in accordance with the TMFs obligations and the requirements of other investors, as applicable.

3.7 Changes to Policy and New Policy Development

1. TMF's ESRM policies and procedures are reviewed and approved by Board.
2. TMF will review the ESRM Policy when needed to ensure its adequacy in line with any changes in TMF's operations, compliance with relevant national laws and alignment with funding bilateral or multilateral lender and investor requirements, as relevant. The review will also ensure that the overall approach to assessing and managing E&S risk remains relevant and aligns with ESRM national and international best practices and standards.
3. TMF may, as necessary, also develop complementary E&S policies, procedures and tools to address specific risks more comprehensively.

4 ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT PROCEDURES

4.1 Purpose

ESRM Procedures set out institutional arrangements and processes that will be implemented at the TMF and borrowers' level and aim to support the implementation of TMF's Environmental and Social Risk Management Policy. These procedures describe how TMF considers all factors about ESRM while lending activities.

These procedures are an integral part of TMF's Risk Management Framework, are embedded in the overall lending screening and appraisal process, and form part of TMF's lending decision-making. TMF's ESRM Procedures are based on the principle of continuous



improvement. These procedures incorporate roles and responsibilities of borrowers' with regard to implementation of E&S risk due diligence and screening measures set out by TMF.

4.2 Structure

TMF will incorporate ESM guidelines into its loan application process and borrowers have to accept the same.



ANNEX 1: TMF EXCLUSION LIST

This list is intended to outline the criteria under which TMF, as part of its acceptance criteria for the loan application, will not refinance loans where such loans are deemed by TMF be associated with the following:

1. Production or trade in any product or activity deemed illegal under Pakistan's laws or regulations or international conventions and agreements
2. Production or trade in pharmaceuticals, pesticides/herbicides, ozone depleting substances, polychlorinated biphenyls (PCBs) subject to international phase outs or bans
3. Trade in wildlife or wildlife products regulated under Convention on International Trade in Endangered Species
4. Production or trade in weapons and ammunitions
5. Production or trade in alcoholic beverages
6. Production or trade in tobacco
7. Gambling, casinos, and equivalent enterprises
8. Production or trade in radioactive materials (this does not apply to the purchase of medical equipment, quality control measurement equipment, and any equipment where the radioactive source is considered to be trivial and/or adequately shielded.)
9. Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations
10. Production or trade in or use of unbounded asbestos fibers
11. Unsustainable fishing practices, such as drift net fishing in the marine environment using nets in excess of 2.5 km length, electric shocks, or explosive materials
12. Production or trade in wood or other forestry products other than from sustainably managed forests
13. Production or activities involving harmful or exploitative forms of forced labor or harmful child labor
14. Any activities involving significant degradation or conversion of natural and/or critical habitats and/or any activities in legally protected areas



15. Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals (gasoline, kerosene, other petroleum products, textile dyes, and so on)
16. Production or activities that have adverse impacts, including relocation, on the lands, natural resources, or critical cultural heritage subject to traditional ownership or under customary use by Indigenous Peoples⁸
17. Activities involving significant adverse impacts on critical cultural heritage



ANNEX 2: E&S PERFORMANCE CRITERIA

Area	Description
1. Systems and capacity	
E&S Staffing and Capacity	<i>Staff formally designated to manage E&S issues Internal training developed and implemented to sensitize relevant field staff on the required E&S screening process, criteria, and documentation</i>
E&S policy and Procedures	<i>Development of a written E&S policy, procedures aimed to internalize the E&S screening process within the borrower</i>
Management Commitment	<i>Level of management commitment to incorporate E&S aspects into the borrower's risk management practices including resource provision and endorsement</i>
2. Implementation	
Compliance with Applicable Requirements	<i>Adequate implementation of the E&S screening process, including application of TMF E&S requirements</i>

