

## THARDEEP MICROFINANCE FOUNDATION

This policy "Environmental and Social Risk Management Policy and Procedure" approved by the TMF Board in its 13<sup>th</sup> 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

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## 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.

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#### **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**



