



SPANDANA

# Policy on Environment and Social Management Systems



**Spandana Sphoorty Financial Limited**

*Transforming Lives Through Income generating loans to women*



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## Document Control

### Document History

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## A. Introduction:

Spandana remains steadfast in its commitment to the highest standards of environmental and social responsibility across every facet of our operations. Our Environmental and Social Management Systems Policy (ESMS) stands as a testament to this commitment, serving as our guiding compass in mitigating adverse environmental and social impact, and promoting responsible practices in the domain of microfinance. It is our solemn duty to ensure that our actions consistently align with our deeply rooted values, ultimately serving the best interests of society at large.

Within this commitment, our micro loan products for Women Entrepreneurs are an example of our dedication to environmental and social risk management. Our micro loans are tailor-made for women entrepreneurs, addressing the financial needs of women striving for a secure financial future.

Started with the mission of providing formal means of financing to millions of unserved and underserved women entrepreneurs in 1998, Spandana continues to tread this path by introducing financial products that are easy to understand and delivering them right at the door step of our borrowers. These attributes exemplify Spandana's core mission, while reflecting the commitment to managing environmental and social risks effectively.

## B. Scope and Objectives:

The ESMS Policy applies to all aspects of Spandana's lending operations. The primary objectives of this Policy are as follows:

*Screening Process:* The screening process, integral to our ESMS, begins at the initial stages of project. This involves evaluation of, at the outset, potential environmental and social implications of any business activity.

*Compliance:* The Policy strives to ensure compliance with all applicable environmental, social laws and regulations within India (including but not limited to Reserve Bank of India (RBI) guidelines) and globally, to the extent applicable. It shall also ensure compliance with health, safety and performance standards including but not limited to International Finance Corporation (IFC) Performance Standards.

*Involvement of Functions:* The scope of ESMS will engage various functions within Spandana, including but not limited to operations, risk management, Compliance and Sustainability teams. These functions will collaborate to ensure a comprehensive approach to managing environmental and social aspects.

*Risk Management:* The ESMS will facilitate a systematic identification, assessment and mitigation of environmental and social risks associated with our operations, thereby, enabling their early identification of any such potential risks.



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*Transparency:* Maintain transparent and ethical practices by communicating our commitment to environmental and social responsibility to all stakeholders.

*Sustainability:* Promote sustainable and responsible lending practices that contribute positively to the well-being of communities and the environment.

*Social Inclusion:* Ensure that our loan products are accessible to all segments of the society, including marginalized and vulnerable communities.

In summary, the ESMS process begins with the screening of potential projects, involving various functions within Spandana, and extends through risk assessment, compliance, transparency, sustainability, and social inclusion, ensuring a holistic approach to environmental and social management throughout all phases of our operations.

## C. Governance Mechanism:

Spandana shall establish a dedicated governance mechanism to oversee the implementation of the ESMS, through an ESG Committee. The ESG Committee shall oversee the implementation and monitoring of the Policy. The ESG committee shall apprise Audit committee of the Board semi-annually or as and when required on the progress of various initiatives taken up by the organization.

## D. ESMS Framework:

Spandana, shall ensure that its comprehensive screening and evaluation framework assesses potential business activities based on their environmental and social impact. This framework includes the exclusion of activities listed in the provided ineligible loans list.

Spandana's commitment to responsible lending includes a no-go zone for activities prohibited under the International Finance Corporation (IFC) guidelines.

### **The following purposes are not eligible for loans from Spandana:**

- 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.



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- 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 pharmaceuticals subject to international phase outs or bans.
- Production or trade in pesticides/herbicides 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 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.

**Additionally, the exclusion list includes a few activities that extends beyond IFC Exclusion List:**

- Politician or a person associated with a political party or having political influence.
- Production or trade in pornography, or the provision of products or services of substantially similar nature.

## E. Environment & Social Risk Categorization

In our ongoing commitment to responsible financial practices and ethical lending, Spandana places a strong emphasis on the categorization of environmental and social risks. The primary objective of this categorization is not only to classify the extent of risks associated with various activities but also to ensure a clear stance of abstaining from financing or advancing loans for specific activities that carry such risks.

### E.1 Environment Risk Categorization:

<b>Category</b>	<b>Description</b>	<b>Examples</b>
<b>Red</b>	Characterized by the expectation of substantial, irreversible, diverse, or unprecedented adverse environmental impacts that extend beyond the physical	Activities involving 1. Large-scale deforestation in an ecologically sensitive area or a project causing significant soil contamination with hazardous materials falls into this category



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	works' immediate sites or facilities.	2. Major industrial construction project near a vital waterway, which poses a high risk of polluting the river with toxic chemicals.
<b>Amber</b>	Exhibits the potential for environmental impacts, but these effects are of a relatively minor magnitude, and they can be effectively reversed.	<ol style="list-style-type: none"> <li>1. Microenterprises that temporarily increase water usage in an area with ample water resources or</li> <li>2. Small-scale construction project with minor soil disturbance can be categorized as having less significant environmental risks.</li> </ol>
<b>Green</b>	Insignificant or virtually non-existent adverse environmental consequences that they are almost imperceptible.	Businesses that do not significantly alter the local ecology, such as small retail shops, or activities with minimal water or energy consumption.

## E.2 Social Risk Categorization:

Category	Description	Examples
<b>Red</b>	A subproject, if executed without appropriate protective measures, has the potential to result in significant adverse social repercussions.	Activities displacing a large number of indigenous or vulnerable communities without their free, prior, and informed consent or causing significant disruption to local livelihoods and cultural practices.
<b>Amber</b>	Subprojects that may have some social implications, but these are limited in scope and can be mitigated through community engagement and compensation.	Small-scale infrastructure projects that affect a few households by temporarily relocating them, but with appropriate measures, the impact can be minimized.
<b>Green</b>	Subprojects with minimal social risk that have little to no social impacts on the community.	Home-based enterprises that do not involve any labor disputes or community displacement and operates in accordance with local norms can be considered to have minimal social risk.



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In every instance, Spandana is dedicated to comprehensive evaluation and effective management of these risks to ensure that our lending activities consistently adhere to responsible environmental and social practices.

## F. Training:

Spandana, shall provide training to its staff, partners, and stakeholders on environmental and social responsibilities. This training shall ensure that everyone involved in lending activities is aware of the ESMS requirements and their role in upholding these standards.

## G. Monitoring E&S Risk:

Spandana, shall ensure a robust monitoring system to continuously assess and manage environmental and social risks associated with its lending activities. This includes regular assessments of portfolio risk, monitoring of risk mitigation measures, and reporting on performance.

## H. Advocacy, Engagement, and Communication:

Spandana, shall actively engage with stakeholders, including clients, employees, regulators, and local communities, to promote responsible lending practices. We shall advocate for environmental and social responsibility within the industry and communicate our commitment through transparency and disclosure.

## I. External Reporting:

Spandana, shall produce regular reports on its environmental and social performance, which will be made available to stakeholders and the public. This reporting will demonstrate our commitment to responsible microfinance and adherence to the ESMS.