Export-Import Bank of India

Environment, Social and Governance Policy for Sustainable Development / Responsible Financing

(March 2022)

Background

1. The Bank recognizes that sustainable development is an institutional commitment and an integral part of its pursuit of both good corporate citizenship and the fundamentals of sound business practices. In order to become a reality, sustainability needs to be integrated across the institution's policies, processes and operations. In other words, sustainability is central to the corporate identity and culture itself. Responsible Finance is all about good governance, strong emphasis on capital preservation and its quality, effective risk management, and proactive social and environmental intervention. Responsible Finance requires integrating Environmental, Social and Governance [ESG] risk management into an FI's business strategy and decision-making processes. Accordingly, the Board, at its meeting held on July 15, 2016, approved the 'Environment, Social and Governance Policy of the Bank for Sustainable Development / Responsible Financing'. The policy is subject to review by the Board periodically based on the market developments, experience of the Bank and revisions in regulatory guidelines.

2. The Indian Banks Association [IBA] had been working on a sustainability framework for Banks. The Working Group of senior bankers and eminent professionals, which was set up by IBA, was tasked with generating the concept of responsible financing and creating training capacity in the financial institutions [FI] to percolate the concept. The Working Group finalised the 'National Voluntary Guidelines [NVGs] for Responsible Financing'. These guidelines lay down 8 principles, which cover different aspects of ESG responsibilities to informed business action; details as under :

Principle 1: Ethical conduct and E&S Governance
Principle 2: Integration of E&S risk management in business activities
Principle 3: Minimizing environmental footprint in internal operations
Principle 4: Environmentally friendly products, services and investment
Principle 5: Enabling inclusive human and social development
Principle 6: Stakeholder engagement
Principle 7: Commitment to human rights
Principle 8: Disclosure

3. Each principle details its 'Description and Applicability' and 'Areas of Disclosure'. The principles are supplemented with implementation guidance, which would enable FIs to integrate the ESG principles in their business decision making, structure and processes. The Bank's current policy is guided by the NVGs.

Objectives of the Policy

4. The objectives of the ESG Policy are :

a. Promoting ESG Competitiveness of Indian Companies;
b. Contributing to Government's Carbon Neutrality Goal;

c. Expanding Social Value creation; and
d. Enhancing predictability, transparency, and accountability of Bank's financing decisions through measurement and management of ESG risks.

I) ***ESG an integral part of Key Performance Indicators [KPIs]*** – To give a push to the ESG and Sustainability initiatives of the Bank, ESG Metrics and Responsible Financing has been included as one of the KPI for the Bank. The Bank would be setting targets for itself such as [Illustrative List] :

- Process Improvements [such as in appraisal and risk assessment] to align with the ESG principles;
- Green Finance and Social Impact Finance;
- Raising ESG Compliant Resources;
- Adoption of Best HR and Corporate Governance Practices;
- Initiatives to reduce the Carbon Footprint in Operations of the Bank, etc.

These would be monitored on an annual basis. Integration with KPIs would achieve the objective of effective oversight by the Top Management and the Board. These KPIs would be disseminated within the organization to achieve the objective of desired alignment of all employees and ensure transparency.

II) ***Integration with Credit Appraisal for ESG Risk Assessment*** **–** The Equator Principles ensure that the Projects that are financed are developed in a manner which is socially responsible and reflects sound environmental management practices. The Equator Principles are intended to serve as a common baseline and framework for financial institutions to identify, assess and manage environmental and social risks when financing projects. The negative impacts of the Project affected ecosystems, communities and the climate should be avoided where possible. If these impacts are unavoidable, these should be minimized and mitigated and where residual impact remains, Borrowers should provide remedy for human rights impact or offset environmental impact as appropriate.

A) ***Commercial Loans including Buyer's Credit under NEIA*** :
It is proposed that the Bank, drawing from Equator Principles, would adopt the following for commercial facilities [funded and non-funded] and Buyer's Credit under the National Export Insurance Account [NEIA] :

i) Check every proposal against an Exclusion List [as at ***Appendix***] and do an assessment. If the proposal falls in the Exclusion List, the financing will be a 'no-go' from the Bank. If the proposal is in conformity, risk categorization of the Company / Borrower as per ESG parameters will be carried out.

ii) In cases where the Project cost is more than ₹ 500 crore or financing [in case of non-project loans (whether funded or non-funded)] is more than ₹ 200 crore, the Bank will, as a part of its internal review and due diligence, categorise the Project / Borrower [in case of non-project loans] based on the magnitude of potential environmental and social risk impacts including those related to Human Rights, Climate Change and Bio-Diversity. Such categorisation shall be based on the International Finance Corporation [IFC]'s environmental and social categorisation process.

iii) Based on the due diligence, projects / Borrowers will be categorised into High, Moderate and Low risk as under :

Parameters	High Risk Category	Medium Risk Category	Low Risk Category
Environment	A proposed investment is classified as High Risk if it is likely to have significant adverse environmental impacts that are sensitive, diverse or unprecedented.	A proposed investment is classified as Medium Risk if its potential adverse impacts on environmentally important areas are less adverse than those of High Risk investments but more adverse than Low Risk investments.	A proposed investment is classified as Low Risk if it is likely to have minimal or no adverse environmental impact.
Social	A proposed investment is classified as High Risk if it is likely to have significant adverse impacts on human populations that are sensitive, diverse or unprecedented.	A proposed investment is classified as Medium Risk if its potential adverse impacts on human populations are less adverse than those of High Risk investments but more adverse than Low Risk investments.	A proposed investment is classified as Low Risk if it is likely to have minimal or no adverse impact on human populations.
Governance	The proposed investment does not have any elements of good corporate governance.	The proposed investment has only some elements of good corporate governance.	The proposed investment has strong elements of good corporate governance.

- ✓ For Projects under High Risk Category [for Social and Environment Risk], Independent Environment and Social Impact Assessment [ESIA] [which may be part of TEV] will have to be submitted.
- ✓ All projects under High Risk Category and Medium Risk Category [if considered necessary] would have to be referred to the Environmental Social and Corporate Governance Committee [ESCGC] [erstwhile Responsible Finance Committee] for its recommendation.
- ✓ In case of projects falling under Medium Risk Category, if the ESCGC considers that an ESIA is necessary, it would stipulate the same and would give its recommendation on the matter only upon receipt of the ESIA.
- ✓ The above categorization will be done on a prospective basis.

iv) In large syndicated / consortium lending transactions involving infrastructure projects and core industries which are perceived to carry higher Environmental and Social Risks, requisite ESIA is normally carried out by the consortium. Further, Exim Bank is usually a minority lender in such projects. Accordingly, Exim Bank would accept assessment of Environment and Social Risks as carried out by the consortium or as included in TEV and will not insist upon a separate ESIA.

v) In the instances where Exim Bank is proposing to assist projects in which Multilateral Financial Institutions [MFIs] are also co-lenders, Exim Bank may, at its option, not insist on separate ESIA since MFIs have very high appraisal standards and stringent compliance requirements as regards Environmental and Social impact issues for participating in any project.

vi) Reference to the ESCGC would be made after in-principle clearance by the Preliminary Screening Committee and obtention of necessary and relevant data points. Presently, the ESCGC comprises of Officials from the Bank who at arm's length from the proposal i.e. the Sponsor will not be a part of the Committee for the particular proposal. The ESCGC may seek opinion from industry experts / subject experts if it is considered that technical expertise required is not internally available with the Bank.

vii) A note detailing the findings / risks identified in ESIA and suggested measures proposed to address / mitigate the same would be presented to the ESCGC. The Committee may advise any additional due diligence or additional measures / mitigants to be undertaken to address sustainability / governance issues. The ESCGC would have the authority to reject the proposal.

viii) Once the proposal clears the above due diligence, Bank will proceed with the normal credit processes.

ix) In case mitigants are stipulated which need monitoring, the monitoring and review of Borrower's / Project's ESG performance post disbursement of funds / facility through reporting procedures shall also be done.

B) ***Lines of Credit*** :

- Exim Bank extends the Government of India [GOI] supported Lines of Credit [GOI-LOCs] to the of foreign governments or their nominated agencies under the Indian Development and Economic Assistance Scheme [IDEAS] guidelines, issued by the Ministry of Finance, Department of Economic Affairs vide OM no. 21/3/2015-IDEAS dated December 07, 2015. The IDEAS Guidelines stipulates the terms of credit, classification of countries, requirement of import of goods and services from India, as well as operational guidelines on selection of projects, bidding and procurement procedures, award of contracts, monitoring of projects and evaluation etc. The LOCs are funded, operated and monitored by Exim Bank [lending Bank] as the operating vehicle of the GOI.
- In case of the projects, the detailed project report [DPR] needs to be made available for preparation before according approval for the LOC by GOI. The DPRs generally address Environment and Social impact of the project in light of the local laws and requirements.
- Presently, as per the Operational Guidelines of the IDEA Scheme, while preparing the DPR a commitment from Borrowing Government regarding environment clearances, allotment of land and security of Indian personnel etc., for the relevant Ministries of the host / borrower country forms part of DPR.

C) ***Concessional Financing Scheme*** :

- Government of India [GOI] has approved the Concessional Financing Scheme to enable Exim Bank to offer concessional finance to support Indian companies bidding for strategically important infrastructure projects overseas.
- Exim Bank extends the credit under CFS for and on behalf of the Government of India. The Scheme envisages GOI to provide counter guarantee and interest equalisation support to Exim Bank to offer concessional finance to any foreign Government or foreign Government owned or controlled entity, if any Indian company succeeds in getting contract for the execution of a project tendered by such foreign entity and the project is considered strategically important. The strategic importance of the project is decided by an Empowered Committee of GOI, comprising officials from various Government Ministries and the Deputy National Security Advisor.

- The projects undertaken under CFS are subject to local procurement guidelines of the borrower government. Since it is the responsibility of the borrower government to comply with the ESG norms applicable to the projects covered under the CFS scheme, Exim Bank may take yearly confirmation from the borrower government regarding its compliance with the ESG norms.

III) ***Proactive finance for Sustainability*** – Bank would be incentivizing and proactively looking for financing projects which catalyse Bank's objective of Sustainable Development and Responsible Financing. The Bank would be looking to strengthen climate change related finance and also environmentally and socially conscious financing.

As an approach to sustainable financing, Exim Bank has been promoting various programs domestically and internationally. The Bank has been funding (i) water projects in Sri Lanka, Uganda and Cameroon (ii) Irrigation Projects in Suriname and (iii) connectivity projects in Maldives, Zambia, Ghana. In addition, Bank has been financing projects in renewable energy, energy efficiency, waste management, water management, mass transportation and energy efficient transport. Bank is implementing the Capacity Building with United Nations Development Program [UNDP] and the Capacity Building of Micro, Small and Medium Enterprises in the North East India for Export Competitiveness. Similarly, Grass Root Initiatives and Development [GRID] program addresses the livelihood needs of the underserved sections of society by creating new business opportunities for enterprises working with traditional artisans and rural entrepreneurs. The Bank had successfully launched a 5 year Reg S Green Bond issue of USD 500 mn during April 2015. More recently, in October 2019, the Bank issued its first ever Socially Responsible Bond for USD 50 million. The funds raised from the bond were allocated to infrastructure projects in the Mekong Region covering projects in Cambodia, Myanmar and Vietnam.

It is in this context that the Bank in December 2021, has developed the Environmental, Social and Governance Framework under which it intends to issue sustainability bonds and loans and use the proceeds to finance or refinance in whole or in part, existing or future projects that advance the transition towards a sustainable economy and provide social benefits in developing countries. The Framework defines eligibility criteria in Six Green [Eligible Green Categories - Renewable Energy, Sustainable Waste and Water Management, Pollution Prevention and Control, Clean Transportation, Green Buildings, Energy Efficiency] and Four Social Areas [Access to Essential Services and Basic Infrastructure, Food Security and Sustainable Food Systems, MSME Financing, Affordable Housing]. The Bank's ESCGC [erstwhile Sustainability Finance Committee] will decide eligible projects in accordance with the Framework's eligibility criteria. In addition, ESCGC will conduct review of the all the eligible projects and recommend remedial action w.r.t. projects which are no longer eligible as per the Framework.

IV) ***Disclosure*** **-** Bank will disclose and report ESG performance in public domain / to key stakeholders.

V) ***Capacity Building*** **-** Bank will be training its officials on issues pertaining to Sustainable Finance by nominating them to programmes / events. For example, Training Officers on ESG Risk Assessment Framework and its application in credit appraisal.

VI) ***Collaboration on ESG with other Institutions*** **-** Bank shall collaborate with Government, Regulator, Developmental Financial Institutions, Agencies, Banks and likeminded organisations so that the objectives of sustainability i.e. strengthening climate change related finance, environmentally and socially conscious financings and investments which would result in :

- Promoting ESG Competitiveness of Indian Companies
- Contributing to Government's Carbon Neutrality Goal
- Expanding Social Value creation

Bank has been part of deliberations led by the Indian Bank Association [IBA] on Sustainability Framework for Banks. Exim Bank has signed Memorandum of Understanding [MOU] with the development Banks of BRICS nations to further its sustainability commitment. It is proposed that the Bank would continue to draw from the deliberations under the IBA framework.

VII) ***Governance aspects*** - The Risk Management Committee of the Board, which provides oversight of the Bank's risk management function, also reviews the Bank's policies, including those related to ESG. Further, Bank has a Lender's Fair Practices Code [hosted on the website] which includes the Grievance Redressal mechanism. Also, a Whistle-blower Policy is in place in the Bank.

Appendix
[Refer para 4]

Exclusion List

The following are the restricted activities:

1. Production or activities involving harmful or exploitative forms of forced labor[1]/ harmful child labor[2].
2. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.
3. Production or trade in alcoholic beverages [excluding beer and wine].[3]
4. Production or trade in tobacco.[3]
5. Gambling, casinos and equivalent enterprises.[3]
6. Trade in wildlife or wildlife products regulated under CITES.[4]
7. Production or trade in radioactive materials.[5]
8. Production or trade in or use of unbonded asbestos fibers.[6]
9. Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forest.[7]
10. Production or trade in products containing PCBs.[8]
11. Production or trade in pharmaceuticals subject to international phase outs or bans.[9]
12. Production or trade in pesticides/herbicides subject to international phase outs or bans.[10]
13. Production or trade in ozone depleting substances subject to international phase out.[11]
14. Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
15. Production or trade in wood or other forestry products other than from sustainably managed forests.
16. Production or trade in weapons and munitions *[Except for those in receipt of approvals from Government of India]*.[3]

A reasonableness test will be applied when the activities of the project company would have a significant development impact but circumstances of the country require adjustment to the Exclusion List.

Notes:

[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 of IFC.

[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 <20%.

[7] Please refer IFC Independent Evaluation Group (IFC OP 4.36) on *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 of IFC.

[10] A list of pesticides and herbicides subject to phase outs or bans is available from the Environment Division of IFC.

[11] 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 of IFC.

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