



**UC Inclusive Credit Private Limited (UCIC)**  
**ENVIRONMENTAL, SOCIAL RISK AND GOVERNANCE POLICY**

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## 1. Introduction

### 1.1 Background

This policy articulates UCIC's strategic commitment towards Environmental and Social (E&S) risk management and makes this an integral part of its Risk Management practices. Managing E&S Risk is an integral part of UCIC's sustainable development initiative and credit risk assessment process.

This policy is aligned with the performance standard 1 of International Finance Corporation (IFC) on environmental and social risk management which are globally accepted.

### 1.2 Objectives

- Strategies to address the risks and their potential impacts.
- Incorporating E&S Risk considerations into all financing activities.
- Excluding financing clients whose business activities fall within the exclusion list.
- Communicating E&S expectations to all staff, borrowers and other external stakeholders.
- To strengthen environmental and social risk management processes and reduce the risk arising from E&S issues in the portfolio to ensure better risk mitigation and enhance long term shareholder returns.
- To facilitate enhancing UCIC's staff's capabilities to identify E&S risks to ensure better portfolio quality.

### 1.3 Review

This policy shall be reviewed annually or as and when warranted.

### 1.4 Rationale

The adoption of this policy is not only a "morally" good decision; it also enables UCIC to effectively assess and manage the portfolio while ensuring profitability, reputation and prospects of future business. It also stems from the understanding that this policy will aid UCIC in building up a portfolio that seeks to support Borrowers who are concerned about addressing these issues by building sustainable business models.

The other important rationale is that UCIC's transaction with the borrower can represent a financial, legal and reputational risk to the lender. As E&S issues are inherent to businesses, almost all borrowers would be exposed to some degree of E&S Risk and in most cases, borrowers may have control over the E&S issues associated with their business operations and can take necessary steps to mitigate the risks.

#### 1.4.1 Terms of Reference

The terms of reference (TOR) are as follows:

- Working with those companies that
  - a) Develop and deliver financial products and services that enable financial inclusion programme for marginalized and economically weaker sections of the society,
  - b) Operate in other impact sectors (including but not limited to agriculture and food processing, healthcare, education, Cleantech, women empowerment)
- To find out the E&S Risks these prospective Borrowers are exposed to while undertaking due diligence. Capture those E&S risks in the appraisal note to make the decision objective

and comprehensive from E&S risk perspective. In parallel, guide the Borrower on the risks and advise them periodically to build processes and systems around the business to mitigate those risks.

- Continue practicing and promoting gender diversity and social inclusion in UCIC and educating the Borrowers to do the same.
- Other objectives as UCIC deems fit for adoption from time to time with the guidance of the Credit Committee (CC) and the Board.

### 1.5 Engagement with External Stakeholders

UCIC will engage with external stakeholders like investors, lenders, regulators, various industry associations, trade bodies etc., on regular basis, in order to voice its opinion and share feedback and suggestions on regulatory policies that could help the ecosystem focus on E&S issues.

UCIC's officials will ensure that such engagements follow the below mentioned principles:

- Engage in a responsible manner,
- Ensure fairness while voicing opinions,
- Address grievances of external parties.

## 2. Exclusion List

In accordance with IFC exclusion list, UCIC will ensure that our loan is not used to fund the following activities/ businesses:

S. No.	List of Excluded Activities
1.	Production or trade in any product or activity deemed illegal under Indian laws or regulations or international conventions and agreements, or subject to international bans, such as certain specified pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's, wildlife or products regulated under CITES
2.	Production or trade in weapons and munitions or components/accessories thereof
3.	Production or trade in alcoholic beverages (excluding beer and wine)
4.	Production or trade in tobacco and tobacco-based products
5.	Gambling, casinos and equivalent enterprises
6.	Pornography and/or prostitution
7.	Racist and/or anti-democratic media
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 IFC considers the radioactive source to be trivial and/or adequately shielded
9.	Production of, or trade in, or use of un-bonded asbestos fibres. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%
10.	Drift net fishing in the marine environment using nets in excess of 2.5 km. in length. Marine and coastal fishing practices such as large-scale pelagic drift net fishing, fine mesh net fishing, harmful to vulnerable and protected species in large numbers and damaging to biodiversity and habitats
11.	Production or activities involving harmful or exploitative forms of forced labour (Forced labour means all work or service, not voluntarily performed that is extracted from an individual under threat of force or penalty)/harmful child labour

12.	Commercial logging operations for use in primary tropical moist forest
13.	Production or trade in wood or other forestry products other than from sustainably managed forests
14.	Projects in or impacting World Heritage Sites unless it can be demonstrated through an environmental assessment that the project will not result in degradation of the protected areas and will produce positive environmental and social benefits
15.	Extraction or infrastructure projects in or impacting protected area Categories I, II, III and IV (Strict Nature Reserve/Wilderness Areas and National parks, Natural Monuments and Habitat/ Species Management Areas), as defined by the International Union for the Conservation of Nature (IUCN). Projects in IUCN Categories V (Protected Landscape/Seascape) and VI (Managed Resource Protected Area) must be consistent with IUCN management objective unless it can be demonstrated through an environmental assessment that the project will not result in the degradation of the protected area and will produce positive environmental and social benefits. Production of or trade in radioactive materials, including nuclear reactors and components thereof
16.	Projects involving the construction of dams that significantly and irreversibly disrupt natural ecosystems upstream or downstream of the dam or alter natural hydrology or inundate large land areas or impact biodiversity or displace large number of inhabitants (5000 persons or more) or impact local inhabitants' ability to earn a livelihood
17.	Cement manufacturing with an annual production rate of greater than one million dry weight tons
18.	Quarries, mining or processing of metal ores or coal
19.	Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products
20.	Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such people and has adverse impact on cultural heritage
21.	Exploration and development of offshore oil and gas reserves. Pipelines, terminals and associated facilities for the large-scale transport of gas, oil and chemicals
22.	Plants for tanning of hides and skins where the treatment capacity exceeds 12 tonnes of finished products per day

## 2.1 Clarifications

For borrowers with multiple lines of business, where one or more lines of business fall within the exclusion list, the financing activity is permitted in following cases:

- If the excluded activities form less than 20% of the company's overall revenue, or
- If funding can be clearly established towards an activity which is not on the exclusion list. In the case of supplies to Armed forces, non-arms related products are not to be considered, in the exclusion list. Such products include food, dairy products, poultry products, poultry and dairy-feed related products and other non-armament related supplies and services.

### **3. E&S Risk Assessment Process**

The assessment of E&S Risk is an integral part of UCIC's credit sanctioning process, as detailed in the following paragraphs.

#### **3.1 Screening**

As a part of its commitment to E&S causes, UCIC does not finance activities as per Exclusion list, subject to clarifications as mentioned at 2.1 above.

#### **3.2 E&S risk approval**

Management approval is mandated for any deviation from the policy norms.

#### **3.3 Corrective Action Plan**

The E&S due diligence process also helps to identify necessary mitigation measures to reduce/mitigate the E&S risks. In case unmitigated E&S Risk issues are observed, a Corrective Action Plan ("CAP") should be prepared by the Borrower (existing or prospective) if they are desirous of availing UCIC's funding. Such corrective action plans (CAPs), including but not limited to getting a detailed ESG audit done must be mutually agreed and should have clearly defined timeframe of 3-6 months for implementation and monitoring mechanisms based on such an audit.

#### **3.4 Documentation**

The legal agreements of UCIC would include necessary clauses on E&S matters. The UCIC sanction letter shall state compliance with UCIC's E&S policy as mandatory condition prior to availing of the facility. Implementation of CAP, if not already shared by the borrower with UCIC during the diligence process, is also to be documented which would give UCIC legal recourse in case of non-compliance.

#### **3.5 Monitoring & Review**

Annual or as when the need arises E&S reviews are to be conducted and CAP implementation is to be monitored and any significant changes are to be documented.

### **4. GOVERNANCE**

UCIC's Governance Policy envisages adherence to the highest standards of transparency and accountability in all areas of its operations and in interactions with all its stakeholders, including its customers, shareholders, lenders, employees, regulator(s), government agencies and others.

#### **4.1 Board of Directors**

The Board of Directors are at the core of the governance practice, formulating, directing and overseeing how the company's management and its employees adhere to the governance norms and protect the long-term interests of all stakeholders. An "Independent Board" shall ensure the highest standards of governance. The Board shall comprise of, inter alia, representative(s) of the management team, independent directors / nominee directors/observers of institutional investors whenever applicable. UCIC shall not appoint any member who is/whose entities are classified as wilful defaulters by RBI or ineligible as per other applicable laws and regulations.

The Board shall be supplemented from time to time, as required by applicable law, by various sub-committees including audit committee and remuneration committee, comprising primarily of non-executive and independent directors. The Board shall take periodic updates from the management

team to assess business performance, level of compliance to various laws and statutes and steps taken to enhance stakeholders' value creation.

#### **4.2 Internal Controls**

The adequacy of the internal control system shall be commensurate with the scale of operations. This will include appointment of internal auditor as well who will periodically assess the various process and systems of the Company and report to management and Board on a periodic interval, suggesting modification, change, updating of processes and systems. The efficiency of the operation of Internal Financial Controls (IFC) shall be certified by the statutory auditors annually.

#### **4.3 Participative Management**

There is a clear demarcation between the supervisory role of Board of Directors and the executive function of management team. The duties of the Managing Director are clearly defined. UCIC has constituted various committees at operational levels to invite greater participation of executives and staff, to harvest their collective knowledge, skills and expertise. These committees, through their respective leads/senior management, shall furnish regular reports to the Sub-Committees of the Board/ Board of Directors as applicable. While shareholders have already agreed to create an ESOP pool, the management team is working on the right ESOP plan / scheme to encourage active involvement and 'sense of ownership' among senior management team.

#### **4.4 Reporting, Compliance with Laws and Ethical standards**

Transparency is ensured through various mechanisms including publishing the annual financial statements prepared as per applicable accounting standards, periodic statutory reporting to various government agencies/ regulators, newsletters/ MIS to shareholders and lenders, periodical conduct of the Board meeting and regularly updating the Company website with such data/documents as per regulatory requirements. All guidelines and regulations as per the moral code of conduct and those issued by the concerned regulators shall be strictly complied with. UCIC ensures adherence to anti-corruption, anti-bribery and whistle blower policies formulated and approved by the Board of Directors. The systems and procedures shall be constantly reviewed to ensure due conformance with ethical standards.

The Company shall also adhere to the paragraph 21 of the Performance Standard 2 as published by International Finance Corporation :

#### **“Child Labor**

21. The client will not employ children in any manner that is economically exploitative, or is likely to be hazardous 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. The client will identify the presence of all persons under the age of 18. Where national laws have provisions for the employment of minors, the client will follow those laws applicable to the client. Children under the age of 18 will not be employed in hazardous work. All work of persons under the age of 18 will be subject to an appropriate risk assessment and regular monitoring of health, working conditions, and hours of work.”

Further, the Company shall also comply with the Child and Forced Labor Policy as annexed hereto with this Policy as Annexure-1.

**4.5 Corporate governance in portfolio entities**

As an extension of its corporate governance standards, UCIC will also endeavour to work closely with its portfolio entities to ensure compliance with important corporate governance guidelines. It will primarily work with corporate entities having presence of institutional investors/lenders, thus facilitating a broader composition of Board of Directors. UCIC shall, through due diligence exercises, loan covenants, insist on these entities to have adequate mechanisms thereby adhering to corporate governance standards including furnishing of periodic financial information, compliance with applicable statutory and regulatory norms and strictly following applicable accounting standards while furnishing audited financial statements and information regarding related party transactions.

## **Child and Forced Labor Policy of UC Inclusive Credit Private Limited**

### **❖ Preamble and Intent:**

According to International Labour Organization (ILO) statistics published in May 2002, there are an estimated 352 million children aged 5-17 engaged in some form of economic activity around the world. Of these 352 million, 246 million are either (i) below their country's minimum age for employment; (ii) working in occupations that jeopardize the physical, mental or moral wellbeing of a child; or (iii) working as slaves, prostitutes or bonded laborers.

UC Inclusive Credit Private Limited ("UCIC", "the Company" is an impact focussed lending institution) believes in the philosophy of inclusion across all its spheres of activities. A big part of our inclusion is ensuring that the employees of the Company and its stakeholders work with dignity and respect. In line with the same This Policy captures UCIC's intent in enforcing a strong policy against employment of child and forced labor in the Company and also for ensuring that none of its borrower or its vendor companies encourage any kind of child and forced labor.

### **❖ Implementation of this policy:**

#### **1. Within UCIC:**

- The management of UCIC is aware of the applicable national regulations in this regard and strives to implement the same in full spirit.
- For the employees of UCIC, the expectation for all full-time employees is to have a graduate degree which would mean that the minimum age of the employees in most cases would be 18 years.
- Having said that, UCIC does offer periodical internship to students undergoing their graduate programmes (even to those who are adolescents i.e less than 18 years of age but more than 14 years of age) for giving them practical exposure of the work carried out. UCIC ensures that these interns operate in the most comfortable and cohesive work environment as per applicable provisions of Child Labour (Prevention and Regulation) Amendment Act. Please note that these internships are totally voluntary in nature and are offered to only those students who elicit keenness to seek an exposure to a professional work environment and also as a part of curriculum of educational institutes that they are studying in.

#### **2. Suppliers and Vendors:**

The vendors of UCIC include security, housekeeping, stationary suppliers, legal, technical and consulting service providers;

- UCIC shall ensure that all these suppliers and vendors who work on UCIC assignments are compliant with the requirements of this Policy.



### 3. Borrowers:

- UCIC takes a declaration from all of its Borrowers on them being compliant with local and national regulations (including but not limited to regulations against child and forced labour);
- In addition a key component of UCIC's due diligence process is to visit and observe the field operations of prospective borrowers. The visiting team of UCIC, to the best of its abilities, tries to ascertain the level of fair practices employed by the prospective borrower while dealing with its employees including but not limited to compliance with the regulations.
- The Loan agreements executed with these Borrowers authorise UCIC to trigger events of default, terminate the relationship with borrowers which are non-compliant with the regulations and recall the outstanding amounts of loans.

#### ❖ **Reporting, monitoring and mitigation of non-compliance to this policy:**

- The key to compliance of this Policy would be to take an undertaking from prospective borrowers regarding their compliance to the aforesaid mentioned policy in place before onboarding vendors and borrowers (and also from the existing one);
- Further, UCIC as a part of its quarterly monitoring takes detailed data from each of its
- Borrowers on cross section of the employees of each of the Borrower which includes the number of employees engaged in the said business, gender, age groups of employees and organisational hierarchy profile.
- As stated above, the non-compliant companies shall be flagged for taking remedial measures within a timeline post which it will trigger an event of default.