

Fusion Finance Limited

(formerly known as Fusion Micro Finance Limited)

E&S POLICY

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Environmental and Social Policy Statement

Fusion endeavours to ensure and enhance effective environmental and social management practices in all its activities with a special focus on ensuring that environmental and social safeguards as defined by the applicable Indian environmental and social legislation are adequately addressed and implemented in the organization's operation (organizational and business).

The framework also endeavours to ensure transparency and accountability in its Environmental and Social Management approach and that it is available for reference and understanding across the organization for all employees.

To be able to undertake these initiatives in a structured and systematic manner on a continual basis, Fusion has adopted an Environmental and Social Management framework, the different aspects of which are addressed in this section.

Key Features of the Policy:

- Integrates environmental and social thinking into Fusion's organizational functions.
- Aims to integrate environmental and social aspects in Fusion's existing loan cycle as appropriate.
- Is devised to be user friendly with limited documentation structures for effective implementation.
- Sets a process for ensuring loan activities comply with local and applicable laws & regulations.

Integration of Environmental and Social Management in Business Operations

Microfinance loans are considered low risk with respect to environmental and social risks. The sectors in which Fusion's clients are usually active have limited impact on environment and society because of their scale, size, and nature of business.

A brief of the company's target customer segment and risk profile outlined below:

1. **Target Customers:** Women in Rural/Peri-Urban parts of the country with Annual Household income not exceeding Rs 3 Lacs (\$3800 @ Rs 79 = 1 USD). 93% of our portfolio is in the Rural parts of the country.
2. **Purpose for Loan:** Income Generation Loans which help them contribute towards their Household Income and in turn helps improve the living standards of the family.
3. **The Product Size** of each Loan is capped depending on the customer cycle (years with Fusion). For example, 1st cycle loan given to new customers is capped at Rs 40000/ \$506 (ranges from Rs 20000 to Rs 40,000, \$253 to \$506). Similarly, the loan amount is capped for Cycle 2/3/4/5 but the maximum loan amount offered is Rs 70000 (~ \$950)
4. **Nature of Livelihood Activity:** Broadly the categories are Agri & Allied, Animal Husbandry, Crafts/Cottage Industry items manufacture, Selling/Making daily consumables in the village.

5. From a Customer Selection Criteria and Risk Assessment standpoint:

- We have our list of excluded activities; wherein any customer conducting/participating in any activity on that list will not be eligible for loan from Fusion.
- Of all the eligible customers and nature of their activities as described above, none of these activities lead to a significant sustainable damage to the environment and the society. - Our total customer base is ~3 MM and there are no cross-border transactions as they are involved in local activities -Rupee denominated. Their customers /suppliers are local villagers/nearby town dwellers.
- Given the nature and size of their business activity, the monthly revenue generated is adequate mostly only to sustain the livelihood and service the debt taken which is also capped by RBI as being equal to the amount wherein monthly instalments cannot exceed 50% of assessed Household Income per month.
- All of them, once they avail a loan, have a track record with the Credit Bureau which is assessed for taking financial exposures (This is mandatory). Credit Bureau is also checked for all customers and defined household members even if they are taking a loan for the first time.
- Also, as the model is Group Lending, each customer is known well to the other in the Group and in the village and hence the KYC mechanism is very comprehensive which combines Reference Checks conducted as also mandatorily validating the government issued UID (Unique Identification Document – Aadhar) and any other document on the RBI approved list.
- We also have a policy of validating the loan utilization (Loan Utilization Check) which is Audited regularly. Additionally, we have well-defined Risk policy in place.

Fusion is committed and aims to integrate environmental and social aspects in existing loan appraisal systems and standard operating procedures as mentioned below:

A. Application and Appraisal – During application and appraisal stage, all loans will be assessed as per Fusion’s exclusion list (*Refer to Annexure 1*). At the time of application, the purpose of loan is recorded. Loan purpose stated by the prospective clients in the loan application form will be subject to appraisal as per Fusion’s exclusion list (*Annexure 1*).

The exclusion list will be used at this point to reject applications whose stated purpose falls within activities in Fusion’s exclusion list. In addition, Fusion’s exclusion list will be mandatorily displayed on the ‘notice board’ of all the branches for the reference of branch employees to assess loan applications on possible environmental and social risks.

B. Risk Categorization

- **High Risk:** Business activities with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented.
- **Medium Risk:** Business activities with potential limited adverse environmental or social risks and/or impacts that are fewer in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.
- **Low Risk:** Business activities with minimal or no adverse environmental or social risks and/or impacts.

The company considers the environmental and social aspects at various levels of its business operation process as outlined in the **Operational Policy**. The **extract** of the same policy is mentioned below:

I. Social & Environment Policy

Fusion over the years has brought in greater focus in all its lending initiatives to include social & environmental dimensions given the nature of livelihood and operating ecosystem of our customers. Hence, we view our clients as important partners in achieving our development mandate.

Fusion has adopted an exclusion list (*Annexure 1*) to ensure better commitment and adherence to management of environmental and social risks.

II. Continuous Group Training (CGT)

CGT is the group training program which is compulsory for all the group members. No client can be admitted in the microfinance program of Fusion without successfully completing it. Continuous Group Training (CGT) is conducted to train the members on the purpose of the loan, Fusion's policies, details of loan offering, governing terms & conditions, and modalities of forming group/centre along with understanding and acceptance of JLG.

- Criteria for a person to be an eligible client is defined in Fusion's credit policy which also includes new guidelines as issued by the RBI in April 2022.
- Customers having businesses that fall in the exclusion list (*Refer to Annexure 1*) are rejected and considered not eligible for the loan. The same is evaluated by the Relationship Officer during the CGT.

III. Group Recognition Test (GRT)

GRT is a process conducted by the Branch Manager (BM) to verify that the group complies with the laid down customer selection guidelines/policies and have clear understanding of loan product and governing terms & conditions as shared by the Relationship Officer during the process of CGT as explained above. Additionally, the Branch Manager also validates that none of the customers are engaged in business activities that are on Fusion's Exclusion List (*Refer to Annexure 1*).

IV. Loan Utilization Check (LUC) – this is a post disbursement check

Loan utilization process is undertaken to ensure that the loan amount is put to proper use by the borrowers. It is essential to ensure that the loans sanctioned to the members are utilized effectively. The purpose is to mitigate the credit-risk. Loans must be used as soon as borrowed and invested in whatever income generating activity the client has taken it for. At the same time, it also validates that the loan amount is not being used for activities mentioned under the Exclusion List (*Refer to Annexure 1*).

C. Management Oversight

Senior Management shall oversee the adherence to the E&S policy at the organizational level. The compliance shall be reviewed during the Management Risk Committee (MRC) and appropriate action would be taken as and when required to reduce the potential risk exposure of the customers and the company.

D. Policy Implementation and Responsibility

- Branch Manager/Relationship Officer – Responsible for conducting initial screening of the proposed occupation by the person seeking loan approval by referring to the exclusion criteria.
- Credit Team – Assessment of the application form and rejection if the occupation criteria found to be falling under the exclusion list.

E. Training

- The training on E&S policy including Exclusion List shall be done by the Learning & Development (L&D) team to train the employees on a regular basis.
- The employees are also trained on the Exclusion List through digital learning platform.

F. Monitoring

For effective monitoring, the details of the loan will be stored in the MIS. The loan details of clients will be assessed on a sample basis annually to ensure that there are no deviations from the existing process in place.

G. Reporting

Reporting will be done if any high-risk cases have been identified during the annual monitoring process.

H. Internal Auditing

Compliance and adherence to the policy will be done by Internal Audit department annually

Annexure 1

List of Excluded Activities

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements.
 - Production of, or trade in, arms (i.e. weapons, munitions or nuclear products, primarily designated for military purposes).
- Production or trade in alcoholic beverages (excluding beer and wine).
- Trade in Endangered or protected wildlife or wildlife products regulated under CITES.
- Production or trade in radioactive materials¹.
- Production or trade in or use of unbounded asbestos fibres.
- Purchase of logging equipment for use in primary tropical moist forest.
- Production or trade in pharmaceuticals subject to international phase outs or bans
- Production or trade in pesticides/herbicides and waste subject to international phase outs or bans.
 - Unsustainable fishing methods such as blast fishing and drift net fishing in the marine environment using nets in excess of 2.5 kilometres in length; .

¹ This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment in which the radioactive source could reasonably be considered to be trivial or adequately shielded.

- Production or activities involving harmful or exploitative forms of forced labour²/harmful child labour³ or a safeguarding violation⁴.
- Any businesses, if any of the following activities represents a substantial portion of such business:
 - Gambling, gaming casinos and equivalent enterprises.
 - Tobacco or tobacco related products
 - Pornography
- 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.
- Prostitution
- Production of or trade in, coal
- Significant alteration, damage or removal of any critical cultural heritage⁵.
- Additionally, no discrimination is practiced towards the people on basis of ethnicity, disability, political affiliation, sexual orientation, caste and religion

2 Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty as defined by ILO conventions. 3 Persons may only be employed if they are at least 14 years old, as defined in the ILO Fundamental Human Rights Conventions (Minimum Age Convention C138, Art. 2), unless local legislation specifies compulsory school attendance or the minimum age for working. In such cases the higher age shall apply. 4 A "safeguarding violation" means any action or series of actions that: (a) Involves any work or service which is exacted from any person under the menace of any penalty and for which that person has not offered themselves voluntarily, or that otherwise contravenes the requirements of the ILO Conventions; (b) Contravenes the requirements of ILO Core Labour Convention 190 (Violence and Harassment), or that otherwise involves the exploitation, abuse or harassment (being any form of unwanted verbal, non-verbal or physical conduct, whether by force or under unequal or coercive conditions) of any person that is directed at such person because of their perceived or real sex or gender, or that disproportionately affects people of a particular sex or gender; or Involves the exploitation or abuse of a child.5 Critical cultural heritage consists of (i) the internationally recognized heritage of communities who use, or have used within living memory the cultural heritage for long-standing cultural purposes; and (ii) legally protected cultural heritage areas, including those proposed by host governments for such designation