



Environmental and Social Policy requirements

Abbreviations	
Business Development Department	BDD
Chief Risk Officer	CRO
Development Financial Institution	DFI
Environmental and Social Risk Management	ESRM
Environmental and Social Management System	ESMS
Environmental and Social	E&S
Pakistan Mortgage Refinance Company Limited	PMRC
Risk Management Committee	RMC
Risk Management Department	RMD
Securities and Exchange Commission of Pakistan	SECP
World Bank	WB
State Bank of Pakistan	SBP

1. Introduction

Environmental and social (E&S) sustainability is a core part of PMRC's commitment to responsible finance. This ESRM Policy and Procedures of PMRC stipulates guiding principles and underlying processes for effective implementation of PMRC's commitment to E&S sustainability. It covers the integration of ESRM practices in its refinancing activities. PMRC is a private sector driven Company with the public purpose of bridging the funding cost of residential mortgages and promoting the availability and affordability of good housing in Pakistan by providing its Customers (primary mortgage lending institutions) including conventional and Islamic financial institutions, with increased access to liquidity and longer-term funds in the mortgage market in its role as an intermediary between capital markets and mortgage lending institutions.

As part of the eligibility criteria as given in the Credit Risk Management Policy and Master Refinance Agreement, mortgage loan acceptable to PMRC should have a property title in the name of the borrower(s) and fully disbursed to or for the account of the Mortgagor and there is no obligation for the Customer to advance additional funds thereunder. Furthermore, PMRC will not take any construction risk nor will it be involved in developer financing. Individual mortgage loan that are fully disbursed have immaterial E&S risk to the Customers therefore PMRC's E&S risk will be very low. However, E&S risks arise when refinancing is supported / guaranteed by mortgage portfolios where they were originated for properties constructed in an environmentally and socially unsustainable way that translates into either credit or reputational risks to Customers and PMRC (for example, where properties are built without a proper environmental assessment can become lost collateral if they are located in land slide prone areas). It should be noted that PMRC and Customers have limited leverage over the supply side of the market and risk management approach is, therefore, focused on an exclusion based model.

E&S Policy underscores PMRC's commitment to sustainable finance in its business relationships and sets the pace for suitable procedures and workflows which will ensure PMRC's compliance with applicable E&S legislation and regulatory requirements, as well as those of international financial institutions providing support to PMRC.

This document highlights the key features of PMRC E&S Policy to show commitment towards sustainable finance and also serve the purpose of guiding the Primary Mortgage lenders about PMRC E&S policy.

2. Structure of the Document

This document outlines PMRC's approach to the implementation of appropriate ESRM that aims to reduce E&S risks and impacts associated with its refinancing activities.

PMRC's business consists of refinancing mortgage loan tranches presented by primary mortgage lenders (its Customers). These tranches consist of eligible mortgage loans originated by primary lenders to individuals/households in Pakistan, who may be employed or self-employed. Eligible housing loans are those intended for the refinancing of acquisition of residential housing. PMRC business, therefore, covers refinancing of eligible loans originated by primary mortgage lenders for purposes of increasing their ability to provide access to more affordable mortgage loans to households.

PMRC is committed to operationalizing and promoting an appropriate Environmental and Social Management System (ESMS) for itself as well as for the financial institutions it lends to in order to effectively assess and manage the E&S risk exposure. The ESMS is a framework that integrates ESRM into overall procedures for business operations supported by PMRC.

As a wholesale financial intermediary, PMRC focuses its ESMS on the following important aspects: (1) establishing a clear set of requirements for primary mortgage lending institutions that would seek refinancing from PMRC and some of whom may be, at the same time, PMRC's shareholders; (2) procedures for review and supervision of E&S risk management processes aimed to meet PMRC's requirements, including a list of excluded activities and establishing an adequate screening procedures at the primary lenders' level; (3) appropriate stakeholder engagement, grievance mechanism, disclosure and reporting; (4) capacity building among Customers.

As primary mortgage lenders will apply for refinancing with PMRC in the course of its operations, putting in place ESMS at their level will involve:

- (i) Raising awareness about the importance of E&S risks specifically for their mortgage finance portfolios and links of E&S aspects to credit, reputational, and legal risks in financing;
- (ii) Assistance with developing or strengthening E&S policies, screening procedures, monitoring procedures, and grievance mechanisms specifically for housing/mortgage finance (providing templates, guidance, tools, questionnaires etc.);
- (iii) Guidance and tools would support the ESMS. These will be practical resource materials for implementing ESRM provisions internally by PMRC and among Customers. These tools are developed and improved on an on-going basis in the course of PMRC's operations;
- (iv) Training and capacity building on how to implement these processes in their own operations.

3. PMRC Environmental and Social Policy

3.1. Policy Approach

- PMRC strives for positive development outcomes in the activities it supports. PMRC believes that an important component of achieving positive development outcomes is the environmental and social sustainability of these activities, which PMRC expects to achieve through the application of this Policy.
- PMRC's business consists of refinancing mortgage loan tranches presented by primary mortgage lenders (its Customers). PMRC business, therefore, covers refinancing of eligible loans originated by primary mortgage lenders for purposes of increasing their ability to provide access to more affordable mortgage loans to households.
- PMRC recognizes that with its core business being primary mortgage refinance, it is exposed to some level of Environmental and Social (E&S) risk through the mortgage lending activities of Customers, which can represent a financial, legal, and/or reputational risk.
- Mortgages to households themselves carry very limited E&S risks. However, it would be important for the project to ensure that such financing does not support albeit indirectly environmentally and socially unsustainable supply side activities (such as impacts such as land availability/ resettlement, illegal forced evictions, compromised building safety are among top risks that have materialized in similar facilities in other countries and must be mitigated). Not doing so may result in credit or reputational risks to PMRC and its Customers. In particular, E&S issues can have adverse risks and impacts associated with (i) the quality of the collateral (properties in the mortgage portfolios presented to for refinancing by PMRC and (ii) the ability of the mortgage borrowers to repay these loans.
- PMRC, therefore, is committed to support its Customers to institutionalize, and implement adequate policies, procedures, and practical tools for environmental and social risk screening of primary mortgages originated by them that would be subsequently presented to PMRC for refinancing.
- PMRC approach acknowledges that identification and management of E&S risks is a shared responsibility between PMRC and Customers. Therefore, this Policy aims to clearly define scope, applicable requirements, and actions to be taken by Customers to support the objectives of effective E&S risk management. In particular, PMRC will encourage its Customers (Primary mortgage lenders) to adopt and follow an ESMS at their level.

3.2. Policy Objectives

Specific objectives of this Policy are as follows:

- Integrate ESRM considerations into PMRC's refinancing decision-making processes.
- Fully implement and comply with national, bilateral and multilateral lenders' requirements for ESRM as applicable to Pakistan's financial sector.
- Promote greater transparency and accountability on E&S issues internally and externally through disclosure and reporting.
- Set out requirements for the Customers for environmental and social risk screening associated with primary mortgage lending
- Have a system in place that reduces E&S impacts stemming from PMRC's own operations.

3.3. Scope and Applicability

This Policy applies to PMRC's refinancing activities. PMRC, as part of its Credit Risk Management Policy accepts loan as collateral which are fully disbursed (no construction risk or developer financing). E&S risk of PMRC and the Customers is limited to individual mortgage loan therefore it is considered very low.

3.4. Applicable Environmental and Social Requirements

- The Customer will be required, as part of their credit assessment process, to integrate applicable E&S requirements consisting of the following three components (in line with PMRC lenders and shareholder requirements, including World Bank OP/BP4.03 (Performance Standards for Private Sector Activities and relevant WBG EHS Guidelines):
 - a. Applicable national, state, and local laws and regulations (mandatory as part of the Master Refinance Agreement);
 - b. PMRC List of Excluded Activities for mortgaged properties ineligible for PMRC refinancing based on associated environmental and social risk and impacts (Annex 1) (mandatory as part of the Master Refinance Agreement);
 - c. PMRC Environmental and Social Screening Criteria (Annex 4).
- As a minimum condition of eligibility to receive financing from PMRC, Customers will put in place, if required, over a reasonable period of time, the following institutional systems and capacity to enable E&S screening against the requirements as described in the paragraph above:
 - a. Customer has written E&S screening procedures for housing loans reflecting PMRC's applicable E&S requirements;
 - b. Customer designates staff with clearly defined responsibilities and adequate qualifications for E&S risk management and develops internal capacity to conduct E&S screening among its staff involved in housing finance.

- In addition to minimum eligibility criteria, Customers will be requested to enhance their E&S systems and capacity based on the principle of gradual improvement by developing monitoring procedures, stakeholder engagement and grievance mechanisms, internal E&S capacity building plans, and participating in training activities. These would be captured in E&S action plans as described in Section 3.5.
- PMRC will require Customers to maintain labor management procedures as expressed in their Human Resource policies for its own workforce in line with national laws.

3.5. Environmental and Social Review and Supervision

- PMRC will integrate E&S review and supervision in its refinancing activities in line with PMRC applicable E&S requirements described in section 3.4 of the Policy. Structure of the E&S review process is presented in Annex 2.
- PMRC will conduct E&S review of the Customers at the institutional level (specific to Customer's housing finance operations only), as well as at the level of the mortgage portfolios to be refinanced.
- As part of its E&S review of the Customers, PMRC will review Customers procedures and capacity to conduct E&S screening. Where PMRC determines that the Customer does not have adequate systems and capacity as described in section 3.4 of this Policy (with details in Annex 3), PMRC and the Customer will agree on a time bound action plan for improvement over a reasonable period of time. This action plan will be agreed in writing and included legal covenants and agreements with the Customer, as appropriate.
- Review of mortgage portfolios submitted by Customers for refinancing/ guarantees will be conducted by PMRC as follows:
 - a. E&S screening will be integrated in Customers' review / credit assessment process based on the applicable E&S requirements. Such arrangements will be formalized as part of PMRC refinancing conditions to Customers (i.e. Master Refinancing Agreement). In particular, with the request for each tranche of mortgage refinancing, Customer will be required to provide to PMRC a representation form (Annex 5) detailing (i) description of the Customer's E&S screening measures and (ii) the outcomes of the E&S screening process of the mortgage portfolio in the form of confirmation that the portfolio submitted for refinancing is, to the best of the knowledge of the Customer, in compliance with applicable E&S requirements. Customers will be required to maintain adequate documentation of the process and outcomes of E&S screening;
 - b. PMRC will obtain reasonable assurance for the E&S information provided by Customers in the in the form of warranties. This may require undertaking additional review measures to commensurate with the E&S risk profile of each mortgage portfolio.
- PMRC during annual review of the mortgage portfolio will include the review of the screening process of the Customers to ensure reasonable implementation of the ESMS.

3.6. Capacity Building

- PMRC recognizes that the primary responsibility for management of E&S risks and impacts rests with its Customers. PMRC, therefore, is committed to support PMLs to institutionalize, and implement adequate policies, procedures, and practical tools for environmental and social risk screening of primary mortgages originated by them that would be subsequently presented to PMRC for refinancing.
- PMRC will, therefore, exercise reasonable efforts to support its Customers in meeting PMRC's E&S requirements. PMRC shall prepare and maintain an E&S Capacity Building Plan that will include (i) capacity enhancement at PMRC level through appointment of qualified E&S staff and training of its credit staff; (ii) support to its Customers in developing systems and capacity for E&S risk management measures specific to lending in the housing finance sector and assistance in enhancing of the Customers' E&S screening procedures and tools.

3.7. Communications and Disclosure

- PMRC will ensure transparency in its activities through adequate disclosure of its ESRM policy and requirements, as well as in its overall commitment to supporting sustainable finance.
- PMRC is committed to reporting on its ESRM activities. A summary of ESRM Policy and Procedures will be placed in PMRC's website and will also be reflected in its Annual Reports.

3.8. Changes to Policy and New Policy Development

- PMRC will review the ESRM Policy on an annual basis to ensure its adequacy is in line with any changes in PMRC's operations, compliance with relevant national laws and alignment with funding bilateral or multilateral lender and investor requirements, as relevant. The review will also ensure that the overall approach to assessing and managing E&S risk remains relevant and aligns with ESRM national and international best practices and standards.

4. PMRC Environmental and Social Procedures

4.1. Purpose

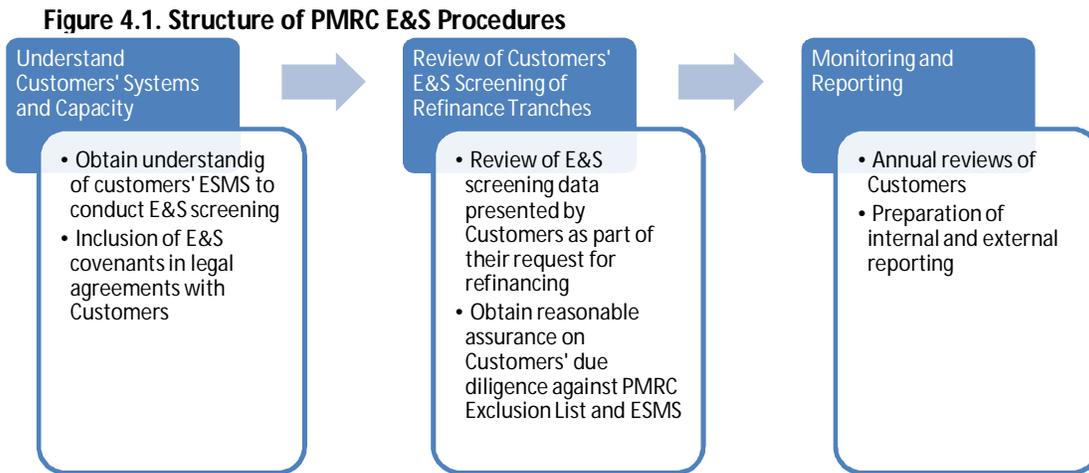
ESRM Procedures set out institutional arrangements and processes that should be implemented at PMRC and Customers and aim to support the implementation of PMRC Environmental and Social Policy. These procedures describe how PMRC conducts its review on its refinancing activities under consideration, as well as its supervision of Customers to whom refinancing has been provided. The procedures identify the relevant functions and individuals involved in implementation.

These procedures are an integral part of PMRC's Risk Management Framework, are embedded in the overall refinancing screening and appraisal process, and form part of PMRC's refinancing decision-making. PMRC's ESRM Procedures are based on the principle of

continuous improvement. These procedures incorporate roles and responsibilities of Customers with regard to implementation of E&S risk review and screening measures set out by PMRC.

4.2. Structure

PMRC ESRM Procedures consist of three main parts as presented in Figure 4.1.



ANNEX 1: LIST OF EXCLUDED ACTIVITIES

This list is intended to outline the criteria under which PMRC, as part of its acceptance criteria, will not refinance primary mortgage loans underwritten by participating banks and non-bank financial institutions, i.e., Primary Mortgage Lending Institutions (Customers) where such loans are deemed by PMRC be associated with the following:

1. Real estate construction deemed illegal or non-compliant according to Applicable Laws.¹
2. Properties or land associated with illegal forced evictions of previous owners or occupants.²
3. Properties built on land from which government agencies or builders have removed / involuntarily resettled local communities, including squatters or encroachers, without proper compensation.³
4. Properties involving outstanding land disputes.
5. Properties built in locations and / or in a manner that involves significant degradation or conversion of critical habitats⁴ and/or legally protected areas.⁵
6. Properties built in locations and / or in a manner that involves significant adverse impacts on critical cultural heritage.^{6,7}

Footnotes

1. Examples include unauthorized construction; housing construction in zones not designated as residential; encroachment on public / government land or private land etc.

2. Permanent or temporary removal against their will of individuals, families and/or communities from the homes and/or land which they occupy, without the provision of, and access to, appropriate forms of legal or other protection. Prohibition on forced evictions does not, however, apply to evictions carried out by force in accordance with national law and is conducted in a manner consistent with basic principles of due process, including provision of adequate advance notice, meaningful opportunities to lodge grievances and appeals, and avoidance of the use of unnecessary, disproportionate or excessive force. These criteria will apply where land associated with such evictions was subsequently used for construction of housing developments in which Participating Banks and Non-Bank Financial Institutions are seeking to originate mortgages.

3. Resettlement activities should follow the process through which adverse social and economic impacts are minimized through (i) providing compensation for loss of assets at replacement cost defined as the market value of the assets plus transaction costs and (ii) ensuring that resettlement activities are implemented with appropriate disclosure of information, consultation, and the informed participation of those affected. These criteria will apply where land associated with such resettlement / displacement was subsequently used for construction of housing developments in which Participating Banks and Non-Bank Financial Institutions are seeking to originate mortgages.

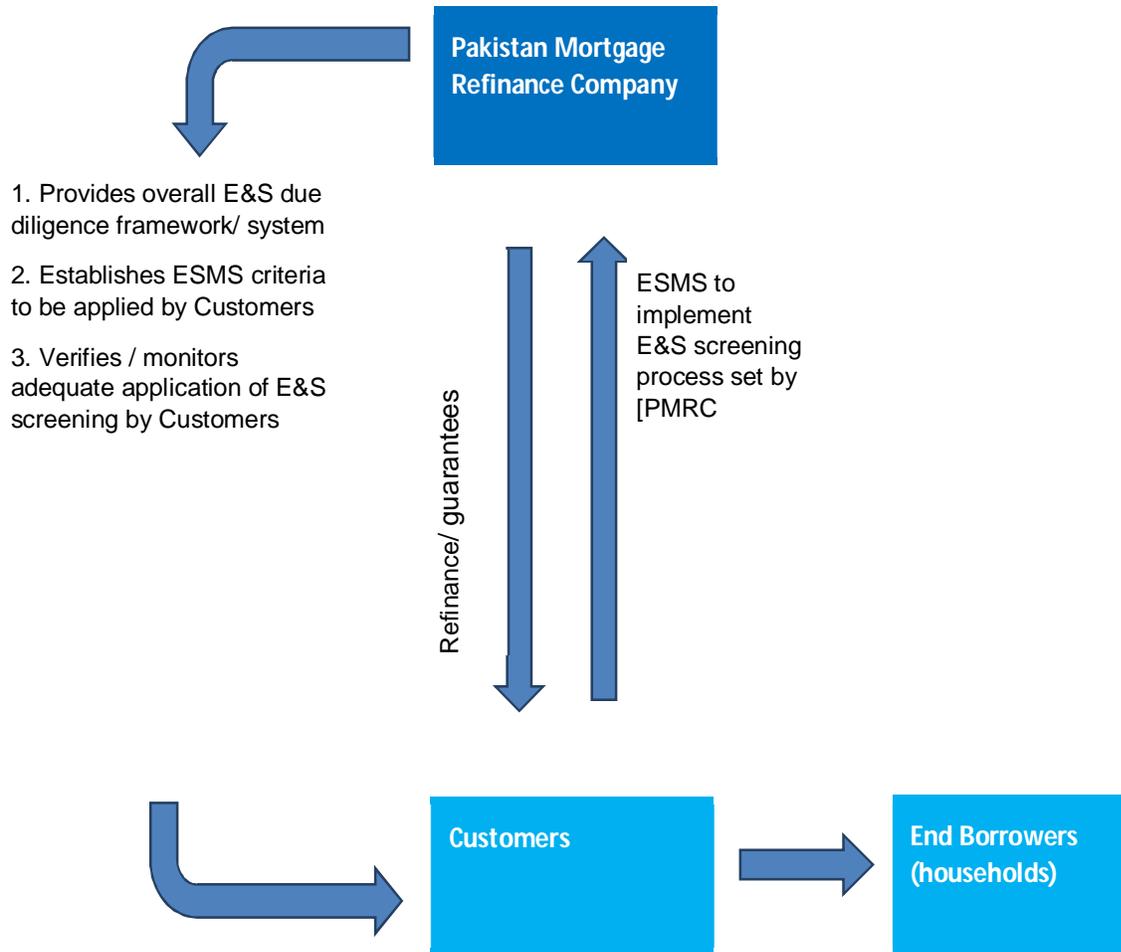
4. Critical habitat is a subset of both natural and modified habitat that deserves particular attention. Critical habitat includes areas with high biodiversity value that meet the criteria of the World Conservation Union (IUCN) classification, including habitats of significant importance for critically endangered or endangered species as defined by the IUCN Red List of Threatened Species; habitats of significant importance for endemic or restricted-range species; habitats supporting globally significant concentrations of migratory species and /or congregatory species; areas with unique assemblages of species or which are associated with key evolutionary processes. Primary Forests or forests of High Conservation Value (HCV) shall be considered Critical Habitats. HCV areas do not directly correspond with definitions for modified, natural and critical habitat. The HCV Resource Network, an internationally-recognized group, provides information and support on the evolving usage of HCV to ensure a consistent approach. <https://www.hcvnetwork.org/>

5. These criteria will apply where land associated with such degradation or conversion was subsequently used for construction of housing developments in which Participating Banks and Non-Bank Financial Institutions are seeking to originate mortgages and/or these impacts are likely to occur or continue post-construction.

6. Critical cultural heritage consists of one or both of the following types of cultural heritage: (i) the internationally recognized heritage of communities who use, or have used within living memory the cultural heritage for long-standing cultural purposes; or (ii) legally protected cultural heritage areas, including those proposed by host governments for such designation.

7. These criteria will apply where land associated with such impacts was subsequently used for construction of housing developments in which Participating Banks and Non-Bank Financial Institutions are seeking to originate mortgages and/or these impacts are likely to occur or continue post-construction.

ANNEX 2: ORGANIZATIONAL STRUCTURE OF E&S REVIEW PROCESS



1. Provides overall E&S due diligence framework/ system
2. Establishes ESMS criteria to be applied by Customers
3. Verifies / monitors adequate application of E&S screening by Customers

Refinance/ guarantees

ESMS to implement E&S screening process set by [PMRC]

E&S screening with relevant documentation maintained, such as:

- IEE or EIA for the housing development / housing scheme/ residential complex development, in which the concerned mortgage property is situated, in line with Pakistan legislation¹ (where IEE or EIA had been conducted)
- Approved Building Plan
- Completion Certificate
- Lease

ANNEX 3: ESMS REQUIREMENTS FOR THE CUSTOMERS

Area	Description
1. Systems and capacity	
E&S Staffing and Capacity	<i>Staff formally designated to manage E&S issues Internal training developed and implemented to sensitize relevant investment staff on the required E&S screening process, criteria, and documentation</i>
HR Policy	<i>Development and maintenance human resource management policy for its workforce in line with Pakistani laws.</i>
Management Commitment	<i>Level of management commitment to incorporate ESMS aspects into the Customer's risk management practices including resource provision and endorsement</i>
2. Implementation	
Compliance with Applicable Requirements	<i>Adequate compliance with Applicable E&S Requirements by requiring internal E&S checklist checking the following necessary documents:</i> <ul style="list-style-type: none"> • <i>Approved Building Plan</i> • <i>Completion Certificate</i> • <i>Lease</i>
Documentation	<i>Adequate documentation is maintained by the Customer and available upon request from PMRC</i>

ANNEX 4: PMRC ENVIRONMENTAL AND SOCIAL SCREENING CRITERIA OF MORTGAGED PROPERTIES

Criteria	Screening questions	Documents to be reviewed maintained by Customer and other ESDD actions to be taken
1. Building safety	<ul style="list-style-type: none"> (i) Have the properties been constructed in compliance with relevant national and local laws and regulations? (ii) Are the properties located in areas clearly designated as residential? (iii) Are additional review measures in place, as deemed necessary by Customers and consistently implemented? 	<p>Approved Completion certificate issued by competent authorities and drawings for buildings – new purchase of apartments or houses</p> <p>Approved Submission drawings and working/ construction drawings for home construction and renovation financing, by competent authorities</p>
2. Locations prone to natural disasters	<ul style="list-style-type: none"> (i) Does the Customer assess susceptibility of the properties to natural hazards? (ii) Are there measures in place to mitigate associated risks? 	<p>NOC of Environmental Protection Agency (EPA), meaning review of IEE or EIA – where such IEE or EIA had been conducted¹ - prepared for the housing development / housing scheme/ residential complex development, in which the concerned mortgage property is situated, in line with Pakistan legislation²</p> <p>Approved Submission drawings and construction/ structural drawings</p>
3. Locations hazardous to human habitation	<ul style="list-style-type: none"> (i) Does the Customer assess risks related to locations hazardous to human habitation (e.g. waste dump sites/ landfills)? (ii) Does the Customer exclude properties in such areas from financing? 	<p>NOC of Environmental Protection Agency (EPA)</p> <p>Lease issued by concerned authority</p>
4. Access to basic services	<ul style="list-style-type: none"> (i) Does the Customer take into account access to basic services in properties financed? (ii) Does the Customer exclude properties in locations lacking access to basic services from financing? 	<p>Site survey report issued PBA accredited Surveyor and search report to include confirmation that access to basic services is/ will be provided (and by whom)</p>

¹ If no IEE or EIA had been conducted, the Customer will document its efforts to obtain it (such as request to EPA or DA) and outcomes of this process. The Customer will ensure its own due diligence is completed and documented as specified in the Policy (e.g. surveyor's reports).

² While no IEE or EIA would understandably be conducted or required for single homes, all housing schemes after 1997 in Pakistan require IEE and EIA and notifications are reported in newspaper, especially if located in environmentally sensitive / prone to disasters zones. Any housing schemes without IEE or EIA done after 1997 are considered illegal.

<p>5. Properties built in locations and / or in a manner that may have adverse impacts on the lands, natural resources, or critical cultural heritage that are used as livelihoods by vulnerable local communities.³</p>	<p>(i) Does the Customer conduct an assessment of whether such impacts may be present (e.g. in certain locations where Customers have high concentration of their mortgage lending such as large-scale new housing developments/ colonies)?</p>	<p>NOC of Environmental Protection Agency (EPA)</p> <p>Site survey report issued PBA accredited Suveyor</p>
<p>6. Properties built in locations and / or in a manner that may have adverse impacts on Indigenous Peoples⁴</p>	<p>(i) Does the Customer conduct an assessment of whether such impacts may be present (e.g. in certain locations where Customers have high concentration of their mortgage lending such as large-scale new housing developments/ colonies)?</p>	<p>Site survey report issued PBA accredited Suveyor</p>
<p>7. Household activities hazardous to the environment and / or human health and safety</p>	<p>(ii) Does the Customer consider household activities hazardous to the environment and / or human health and safety (e.g. storage or use of hazardous chemicals) in its assessment process?</p> <p>(iii) Does the Customer have measures in place to mitigate potential risks (e.g. by including appropriate language in loan documentation with end borrowers)?</p>	<p>Approved submission drawings and approved completion drawings by competent authorities.</p> <p>Site/field resport</p> <p>Written confrmaiton from end borrowers that such activities will not be conducted on the properties</p>

³ Vulnerable local communities refers to those communities that may be most marginalized in the country context and lack access to resources and public services.

⁴ *In Pakistan, Indigenous Peoples meeting the World Bank criteria are only found in the Kailash Valley in Pakistan. Involvement or any adverse impacts on IPs are not expected in this project, as the project is not expected to work in that area.*

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