



Environmental, Social & Governance Management System

December 2022

Table of Contents

1	Overview of Lok Fund IV	2
1.1	About Lok Capital	3
1.2	Lok Fund IV	3
1.3	Background to Development of ESG-MS	3
1.4	Reference Framework for Development of ESG-MS	3
2	ESG Policy of Lok Capital	5
2.1	ESG Policy Statement	5
2.2	ESG Operational Principles	5
3	Implementation of ESG Policy	9
3.1	Approval & Communication.....	9
3.2	Implementation Mechanism.....	9
3.3	Structure of the ESG-MS	9

Abbreviations

AIIB	Asian Infrastructure & Investment Bank
EHS	Environment, Health & Safety
E&S	Environmental and Social
ESG	Environmental, Social and Governance
ESG-AP	Environmental, Social & Governance Action Plan
ESG-DD	Environmental, Social & Governance Due Diligence
ESG-MS	Environmental, Social & Governance Management System
IC	Investment Committee
IFC	International Finance Corporation
IFC-PS	IFC Environmental and Social Performance Standards
ILO	International Labour Organisation
MLRO	Money Laundering Reporting Officer
MSME	Micro, Small, Medium Enterprises
NBFC	Non-Banking Finance Company

1 Overview of Lok Fund IV

1.1 About Lok Capital

Lok Capital ("Lok") was founded in 2004 as a platform to foster inclusive growth in India. Adopting the venture approach, the company makes long-term equity investments and provides management support to their partner investees.

"Inclusion" is defined by applying a combination of criteria such as income, value of owned assets, quality of life and access to basic needs. Lok strives to integrate customers into the economic value chain and believes that this approach will lead to more inclusive and progressive India.

Lok Capital is one of Asia's oldest impact investors focussed on the core impact objectives on the pillars of Intent, Access, Affordability, Quality and Sustainability.

The investment philosophy revolves around partnering with entrepreneurs and companies across a wide range of backgrounds that have proven execution ability, innovative ideas and a strong passion to create viable solutions.

1.2 Lok Fund IV

The strategy of Lok Fund IV is a natural extension of Lok's 17 year track record, with a stronger focus on leveraging technology for creating development impact in financial services, healthcare, climate and agriculture sectors. The US\$ 150 – 180 million fund will make direct equity investments with ticket sizes of US\$ 5 to 20 million in growth stage businesses in these sectors.

The focus sectors of investment in Lok Fund IV are:

- a) Financial Services and Fintech – Small finance banks, NBFC, insurance
- b) Health-tech – tech first models that are asset light, medical devices
- c) Agri-tech – tech first models that are asset light, farm to retail supply chain, warehousing, food & beverage
- d) Climate-tech - electric mobility, charging infrastructure, battery management, data and tech companies

1.3 Background to Development of ESG-MS

Lok Capital recognizes that their activities through their investments in different businesses has the potential to cause both, adverse and beneficial environmental, social and governance (ESG) impacts. The need to address these impacts in a structured manner and take measures at the appropriate stage is also understood.

1.4 Reference Framework for Development of ESG-MS

The ESG-MS has been developed with reference to the following frameworks:

- a) Applicable local, national and international environmental and social (including occupational health and safety) legislation
- b) International Finance Corporation's Performance Standards, 2012

- c) The World Bank Group General Environmental, Health and Safety (EHS) Guidelines, April 2007
- d) The World Bank Group Sector Specific EHS Guidelines (relevant to Lok focus sectors)
- e) Client Protection Standards and Client Protection Pathway
- f) AIIB Environmental & Social Framework, 2021
- g) DFC Environmental & Social Policy & Procedures, 2020
- h) British International Investment (BII) Policy on Responsible Investment 2022
- i) FMO Sustainability Policy

For all investment opportunities, the ESG-MS will be implemented in compliance to Indian regulations. However, in cases where international ESG safeguards listed above are applicable and there is a difference from Indian regulations, more stringent of the two requirements would be adhered.

2 ESG Policy of Lok Capital

2.1 ESG Policy Statement

The Environmental, Social and Governance Policy of Lok Capital emphasises their commitment towards integrating environmental and social thinking and governance in their investments. The Policy Statement and ESMS have been formally adopted by the top management, thereby establishing suitable procedures, and is applicable from the date of acceptance of the ESMS. The Internal Controls Manual of the Fund Manager (Lok Advisory Services Pvt. Ltd.) dated 28 January 2020 shall form an integral part of the ESG Policy of the Lok Fund IV.

Lok Capital's Environmental, Social and Governance Policy

Lok Capital is a pioneer in the financial inclusion space and believes in creating a tangible impact on the lives of the underserved. To achieve inclusion in a holistic manner, Lok Capital understands that environmental, social and governance aspects need to be integrated in businesses. Therefore, Lok Capital is committed to conduct its business in a sustainable, fair, transparent and responsible manner to overcome adverse risks and add value to its investments.

Lok Capital will remain committed to ensuring compliance of investments with all relevant Indian environmental, social and governance legal requirements and those asked by the investors on a proactive basis. In doing so, Lok Capital will take cognizance of Investee Company capacities, limitations and affordability.

In all investments, Lok Capital will encourage protection of environment; conservation of natural resources; cognizance of climate change impacts; employment of good labour practices that are impartial, gender sensitive and open to consultations; providing safe and healthy workplaces; business practices are free of corruption and fraudulent practices; and businesses do not participate in money laundering activities. Lok Capital will proactively engage with the stakeholders ensuring timely resolution of grievances.

2.2 ESG Operational Principles

The ESG policy statement is supported through operational principles provided in the subsequent text. These principles are applicable to Lok Capital and their investments. The Policy and Principles are implemented in Lok Capital through management procedures provided in this framework document.

a) Compliance to ESG Safeguards:

- Applicable Indian Environmental and Social (including health and safety) policy and legal requirements
- British International Investment Policy on Responsible Investing 2022
- Applicable International Finance Corporation's (IFC) Environmental and Social Performance Standards (IFC-PS)
- World Bank Group's Environmental, Health and Safety Guidelines – General and Sector specific

- International Labour Organization's core labour standards and basic terms and conditions of employment
- Client Protection Standards and Client Protection Pathway
- AIIB Environmental & Social Framework, 2021
- DFC Environmental & Social Policy & Procedures, 2020
- FMO Sustainability Policy

b) ESG Management Systems:

- Establishing, implementing and maintaining systems for managing ESG impacts and risks through policy, procedures, resource allocation, monitoring and reporting.
- Lok Fund IV will not invest in items featuring in the Exclusion List. Refer **Annex 1**.

c) Good Working Conditions and Fair Labour Practices:

- Providing safe and healthy workplaces and mitigating health impacts related to the work.
- Treating all employees fairly and equally in terms of recruitment, remuneration and progression irrespective of gender, race, colour, language, disability, political opinion, gender, age, religion and origin.
- Remunerating employees and paying social benefits in a fair manner.
- Encouraging employees to share ideas and thoughts to the management through regular consultations.
- Preventing sexual harassment of women.
- Not employing child labour or forced/ penalty labour.

Note: Employees means workers directly engaged as well as contracted workers engaged through third parties

d) Climate Conscious

- Measuring carbon footprint of the businesses.
- Adopting best practices and technologies to optimize its carbon footprint.
- Enabling resilient practices of adaptation through the process of transition.

e) Environment Protection and Resource Efficiency:

- Preventing pollution and associated impacts and risks by reducing material and energy inputs, avoiding use of hazardous materials, improving process efficiencies and minimizing waste generation, where relevant.
- Developing and implementing appropriate control measures to manage pollution, that cannot be prevented, in air emissions, wastewater and solid wastes through reuse,

recycle, recovery followed by treatment, destruction, or disposal in an environmentally sound manner, where relevant.

f) Community Health, Safety and Security:

- Avoiding or minimizing the impact on water quality and availability for the community.
- Avoiding or minimizing the potential for community exposure to air pollution and diseases due to business activities.
- Avoiding or minimizing the potential for community exposure to hazardous materials and wastes.
- Ensuring structural safety of investments, where relevant.
- Assisting and collaborating with the community and local government agencies in responding to emergency situations;
- Assessing and mitigating risks posed by the security arrangements to those within and outside the business operations;
- Ensuring protection of customer data and personally identifiable information.

g) Engaging with Stakeholders:

- Not discouraging employee associations and providing opportunity to present their views to the management through dialogue.
- Engaging with the community proactively to resolve concerns, where relevant.
- Establishing customer feedback mechanism and analysing inputs for service improvement.
- Evaluating primary supply chain on environmental and social aspects and influencing adoption of sustainable practices.
- Reporting to relevant stakeholders in a planned manner.

h) Borrower Protection (where relevant):

- Designing financial products that are affordable, flexible and suiting borrower interests, excluding waiver of borrower rights under host country law.
- Preventing over-indebtedness by performing adequate due diligence on the borrower's repayment capacity, and designing appropriate loan repayment schedules and using collaterals and guarantees judiciously
- Communicating necessary information about the product clearly, timely and in a language understood by the borrower.
- Pricing the product affordable to borrowers while allowing the financial institution to be sustainable.

- Conveying in writing in a language understood by the borrower, by means of a sanction letter, the loan sanctioned along with the terms and conditions including the rate of interest and the method of application.
- Treating borrowers fairly and respectfully, free of discrimination through code of ethics for staff, incentivizing good client relations and responsible use of agents.
- Respecting individual client data in accordance with host country law and regulations and implementing appropriate mechanisms to maintain client confidentiality on personal data.

i) Primary Supply Chain

- Assessing ESG risks of the primary supply chain and engaging with legitimate businesses.
- Discouraging employment of child labour and forced labour in its primary supply chain
- Requiring the primary supply chain to obtain all licenses and permits applicable to the business
- Influencing the primary supply chain to fulfil the requirements under national labour laws, pay fair wages, and provide good working conditions.

j) Business Integrity

- Adopting and maintaining a whistleblowing mechanism proportionate to the risks in the business
- Ensuring that employees and third parties representing the business do not engage in bribery and corruption
- Not engaging in money laundering practices and any financing of terrorism
- Establishing mechanisms to counter fraud and cyber security

3 Implementation of ESG Policy

3.1 Approval & Communication

The ESG Policy and Principles have been approved by the top management and duly ratified by the Board of Directors. The policy will be effective from **15 December 2022**. The Policy and Principles are applicable to all investments of Lok Fund IV from the date of effect.

The Policy and Principles will be communicated to all employees through training programs. A summary of the ESG-MS is disclosed on the Fund Manager's [website](#). The ESG Policy and its requirements will be communicated to relevant stakeholders (investors, portfolio companies etc.) through appropriate channels.

The Lok Fund IV External Grievance Redress Mechanism can be accessed on the [Fund Manager's website](#). Stakeholders can raise grievances to the Fund's limited partner AIIB (Asian Infrastructure and Investment Bank) via the mechanism available on its website. Click [here](#).

3.2 Implementation Mechanism

Lok Fund IV has developed an Environmental, Social & Governance Management System (ESG-MS) to implement the ESG Policy. Under the ESG-MS, the procedures and tools for ESG risk and opportunity identification, management, and monitoring have been developed and integrated with the investment cycle. The institutional structure with roles and responsibilities of various departments towards implementation of the ESG-MS has been defined.

The ESG Policy and ESG-MS will be reviewed on an annual basis by the top management, to ensure its continuing suitability, adequacy, and effectiveness. Where a need for revision in the ESG Policy statement is realized, the revised policy document will be placed before the Board for approval before implementation.

3.3 Structure of the ESG-MS

The ESG-MS is structured using Deming's Plan-Do-Check-Act cycle of management systems and includes the system components specified in IFC Performance Standards 1. The requirements from the reference framework have been suitably factored in the design of ESG-MS. The structure of ESG-MS for Lok Fund IV is presented in **Figure 1**.

The ESG-MS is supported by Annexes and Tools.

- The Annexes that serve as reference guides for the Fund on aspects related to ESG-MS implementation in portfolio companies.
- The Tools are templates supporting implementation of the ESG-MS procedures. These will be maintained as records demonstrating implementation of the ESG-MS at the portfolio company and Fund levels.



Figure 1: Structure of ESMS for Lok Fund IV

Annex 1: Lok Fund IV Exclusion List

- a) Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances subject to international phase outs, PCB's, wildlife or products regulated under CITES
- b) Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations.
- c) Activity, production of, use of, trade in, or distribution of arms (i.e. weapons, munitions or nuclear products, primarily designated for military purposes)
- d) Production or trade in alcoholic beverages (excluding beer and wine)
- e) Production or trade in tobacco
- 1. Gambling, casinos and equivalent enterprisesⁱ
- f) 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
- g) Production or trade in use of asbestos fibres whether or not bonded. asbestos fibresⁱⁱ.
- h) Drift net fishing in the marine environment using nets in excess of 2.5 km. in length
- i) Production or activities involving harmful or exploitative forms of forced laborⁱⁱⁱ/harmful child labor^{iv}
- j) 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
- k) Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples
- l) Commercial logging operations for use in primary tropical moist forest
- m) Production or trade in wood or other forestry products other than from sustainably managed forests
- n) Racist and anti-democratic media
- o) Significant alteration, damage, or removal of any critical cultural heritage^v
- p) Destruction^{vi} of High Conservation Value areas
- q) Activities prohibited by legislation of the Member in whose territory the Project is located or by international conventions relating to the protection of biodiversity resources or cultural resources, such as, Bonn Convention, Ramsar Convention, World Heritage Convention and Convention on Biological Diversity.^{vii}
- r) Shipment of oil or other hazardous substances in tankers that do not comply with IMO requirements (IMO, MARPOL, SOLAS and Paris MOU).^{viii}

- s) 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.

ⁱ 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. "Substantial" means more than 10% of a financed institution's/company's consolidated balance sheet or earnings. For Financial Institutions, "Substantial" means more than 10% of a Financial Institution's underlying portfolio volume.

ⁱⁱ In special circumstances, if necessary to enable a Investee to transition from the use of bonded asbestos to alternative materials, the Fund may agree with the Investee on a reasonable transition period, provided that the asbestos content of the materials being used is less than 20 percent. Projects involving disposal of asbestos are not prohibited, provided a suitable asbestos management plan is adopted for such disposal.

ⁱⁱⁱ Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

^{iv} 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

^v 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.

^{vi} Destruction means the (1) elimination or severe diminution of the integrity of an area caused by a major, long-term change in land or water use or (2) modification of a habitat in such a way that the area's ability to maintain its role is lost.

^{vii} Convention on the Conservation of Migratory Species of Wild Animals (Bonn Convention) - <https://www.cms.int/>; Convention on Wetlands of International Importance, especially as Waterfowl Habitat (Ramsar Convention) - <https://www.ramsar.org/>; Convention Concerning the Protection of the World Cultural and Natural Heritage - <https://whc.unesco.org/en/convention/>; Convention on Biological Diversity - <https://www.cbd.int/>

^{viii} Noncompliance with International Maritime Organisation (IMO) requirements: tankers that do not have all required International Convention for the Prevention of Pollution from Ships (MARPOL) or International Convention for the Safety of Life at Sea (SOLAS) certificates (including, without limitation, International Safety Management Code compliance), tankers banned by the Paris Memorandum of Understanding on Port State Control (Paris MOU), and tankers due for phase out under MARPOL regulation 13G. No single hull tanker over 25 years old should be used. [http://www.imo.org/en/About/Conventions/ListOfConventions/Pages/International-Convention-for-the-Prevention-of-Pollution-from-Ships-\(MARPOL\).aspx](http://www.imo.org/en/About/Conventions/ListOfConventions/Pages/International-Convention-for-the-Prevention-of-Pollution-from-Ships-(MARPOL).aspx)