

Environmental and Social Management System Arrangement

September 2017

Sri Lanka: Small and Medium-Sized Enterprises Line of Credit Project

Prepared by Commercial Bank for the Asian Development Bank.

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SOCIAL AND ENVIRONMENTAL POLICY

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Responsibility	:	Integrated Risk Management Department

SOCIAL AND ENVIRONMENTAL POLICY

INTRODUCTION

Commercial Bank of Ceylon PLC (the Bank) is a leading private bank which provides personal banking and corporate banking services to customers across Sri Lanka.

As a responsible corporate citizen, the Bank understands that there are social and environmental risks associated with its activities which can create impacts on economies, communities and environments in which it operates; directly or indirectly. Failure to anticipate and manage these risks can have multiple consequences including financial, contextual and reputational. The Social and Environmental Management System (SEMS) of Commercial Bank of Ceylon PLC enables the Bank to assess and manage social and Environmental risks systematically.

This Social and Environmental Policy is an integral part of the Bank's Social and Environmental Management System (SEMS). The Policy sets the pace for suitable procedures and work flows within the framework of SEMS.

The SEMS of the Bank comprises of two subsystems namely "Internal Social and Environmental Management system" and "Social and Environmental Risk Management in Lending"; which will ensure that

- ✓ The Bank is driving sustainable changes in its own operations towards minimizing or offsetting its Environmental and Social Footprint
- ✓ The Banks' lending is made to environmentally sustainable, socially acceptable and economically viable projects

respectively.

In this policy, the term "project" refers to the defined set of business activities for which The Bank financing is sought by the customer or the set of business activities defined in the loan agreement where the Bank financing has already been committed.

SCOPE

The Banks' "Social and Environmental Policy" applies to all the Branches and Departments of the Bank. The Policy will be under the administration and management of Integrated Risk Management Department of the Bank.

POLICY STATEMENTS

- ✓ The Bank as a signatory to the Sustainable Banking principles of Sri Lanka, will work together with other local banks promoting the adoption of "Sustainable Banking principles of Sri Lanka". Further the Bank will proactively participate in Sri Lankan Central Bank's approach to Sustainable Financing.
- ✓ **Managing the Direct Social and Environmental Impacts from the Bank's Operations:**
 - The Banks is committed to manage its direct environmental impacts through different activities that may include but not limited to monitoring, reducing and reporting on the Bank's energy use, greenhouse gas emissions, paper consumption, waste generation and water usage.
 - The Bank strives to create and manage workplaces/branches that reflect its commitment to caring for environment and in particular eco-efficiency¹

¹ Generates more value through technology and process changes whilst reducing resource use and environmental impact throughout the product or service's life.

✓ **Managing Social and Environmental Risks Associated with the Bank's Lending:**

- The Bank ensures that the Social and Environmental performance of the projects it finances within the territory of Sri Lanka, do comply with the relevant Sri Lankan laws and regulations. The Bank strives to ensure that the projects it financed are designed, operated and maintained avoiding social and environmental impacts² and adhering to the best industrial practices³. This is done through a systematic project assessment on its Social and Environmental risks. The Bank ensures that Projects with social and environmental management gaps shall be restructured to meet the applicable regulatory requirements by the application of the mitigation hierarchy⁴ before/along with financing.
- The Bank recognizes the international environmental and social agreements, treaties and conventions to which the Sri Lanka is a signatory. The Bank will not knowingly finance projects that contravene the country's obligations under relevant agreements/treaties /conventions.
- When financing projects operated outside Sri Lanka, the Bank ensures that the Social and Environmental Policy applied at project level regardless of their geographic locations. The projects outside Sri Lanka will be expected to meet the regulations of the host country.
- The Bank ensures that all the projects it finances do comply with the external standards (bench marks) to which the Bank has committed; including IFC performance standards⁵. Any such external standards and guidelines of International Financing organizations/agencies may incorporate into this lending policy and operating procedures of the SEMS from time to time, depending on the Bank's future engagements with such organizations.
- The Bank may refrain from financing a project on environmental and social grounds. The Bank will not knowingly finance projects which either involve or result in forceful physical and/or economical displacement without due compensation and the activities given in the "Banned list" and "Exclusion List", as Annexed to this policy document.

² Environmental and Social impacts refer to any change, potential or actual, to (i)the physical, natural,or cultural environment, and (ii)impacts on surrounding community and workers, resulting from the project activities

³ A best practice is a method or technique that has consistently shown results superior to those achieved with other means, and that is used as a bench mark.

⁴ Mitigation hierarchy refers to the measures taken to avoid environmental and/or social impacts from the project activities and where this is not possible , to implement additional measures that would minimize, mitigate and as the last resort offset and/or compensate any potential residual impacts.

⁵ IFC , a member of the World Bank Group is the largest global development institute focused exclusively on private sector in developing countries and mobilizer of resources to Commercial Bank of Ceylon PLC. IFC has established Eight performance standards for customers to meet throughout the life cycle of project

- The Bank promotes good industrial practices and resource efficiency strategies to minimize environmental impacts and the projects specifically designed to deliver significant environmental or social benefits. The Bank seeks to develop lending schemes /products that help the customers to manage their environmental impacts.
 - The Bank recognizes the timely requirement for climate actions. The Bank is ready to finance climate change mitigation and adaptation projects under “Green financing schemes⁶”
 - The Bank will monitor and evaluate the performance of the projects it financed against the aims of this policy; that is to ensure that all projects financed are operated in compliance with the local regulatory requirements and applicable external standards on a continuous basis, during the currency of the Bank’s financing.
- ✓ The Banks environmental performance and the transparency of and the management of social and environmental risk of the Bank’s lending activities will be reflected through the annual reports.

IMPLEMENTATION ARRANGEMENTS

- The Bank has developed and maintained Social and Environmental Risk Assessment and Management Procedure, appropriate guidance notes and tools to assist in implementation of this policy.
- The Bank will allocate responsibilities and appropriate resources including staff resources for effective implementation of this policy and in turn to manage Social and Environmental Risk Assessment and Management process to ensure/restructure the projects it financed to ones with minimal social and environmental impacts.
- The Bank will ensure that Bank’s staff receives appropriate training on the requirements of this policy.
- The Bank will establish a Web based Project Complaint Mechanism (PCM) to receive and assess the complaints on Bank financed projects.

RESPONSIBILITY FOR INTRODUCING AND AMENDING THE SOCIAL AND ENVIRONMENTAL POLICY

- The Social and Environmental Policy shall be reviewed annually in accordance with the established practice of the Bank.
- The responsibility for formulating, introducing, reviewing, updating and amending Social and Environmental Policy and recommending their approval by the Board of Directors (BOD) is vested in the Credit Policy Committee (CPC).
- The CPC shall also assist and guide the operating staff in interpreting and clarifying these policies, as and when requested to do so. All changes to the policies enumerated herein should be approved by the BOD of the Bank.

⁶ Financing of investments that provides environmental benefits

WHO SHOULD USE THIS DOCUMENT?

- All officers of the Bank , directly or indirectly involved in lending operations should be familiar with the policies set out in this document, and must always act in conformity with such policies.