



Environmental and Social Management (ESM) Policy

October, 2024

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Abbreviations

CSR	Corporate Social Responsibility
E&S	Environmental and Social
ESM	Environmental and Social Management
ESMS	Environmental and Social Management System
MSME	Micro, small and medium enterprises

Revision History

Reviewed on	16.10.2024
Next review date	

1 Introduction

1.1. Background

Potential environmental or social liabilities are characteristic of every financial transaction, as business activities have inherent potential to cause damage to the environment (i.e., air, water, land, flora and fauna) or to people (i.e., employees, customers, neighbors, the community). For some business activities this inherent potential can be quite low (e.g., services), while for others it can be quite high (e.g., some production activities).

The effective management of E&S risks enhances KRK's internal risk management process, the quality of its portfolio and its image with external stakeholders.

It is important that KRK clients responsibly manage the E&S risks associated with their business activities, to avoid incurring unexpected financial (fines, etc.), legal (liability for property damages or personal injury), and/or market (reputation, loss of market share) liabilities. In the same way, KRK needs to manage its exposure to environmentally or socially irresponsible clients, to avoid, incurring unexpected financial (e.g., loan default, decrease in value of assets held for collateral), legal (liability for clean-up of collateral assets taken as a result of a loan default) and/or market liabilities (reputational damage, loss of market share).

1.2. Rationale

KRK is aware of the increasing expectation of financial institutions to not only create long-term economic value but also environmental and social value for a wide range of stakeholders, including customers, regulators, shareholders, investors, employees and civil society.

Developing an Environmental and Social Risk Management System is crucial firstly, to demonstrate that KRK has a deliberate intention to commit to E&S goals and secondly, to meet shareholders and investors requirements and expectations. KRK's ambition to rate amongst the best microfinance institutions in Kosovo hinges on its adoption of robust risk management principles that considers all forms of risk in decision-making, including Environmental and Social Risks.

KRK is committed to incorporating Environmental and Social Risk considerations in its business operations and aims to follow international best practice in developing a framework to manage these risks effectively.

1.3. ESMS

An Environmental and Social Management System is a set of policies, procedures, tools and internal capacity to identify and manage a financial institution's exposure to the environmental and social risks. It is targeted to effectively appraise and manage the E&S derived risks and opportunities (associated with lending) within the context of its existing credit risk appraisal process and associated documentation. The ESMS is fully integrated in the KRK's organizational structure, planning activities, responsibilities, processes procedures and practices. The Environmental and Social Management System states KRK's commitment to environmental and social management and explains its procedures for identifying, assessing and managing environmental and social risk of financial transactions.

KRK's ESMS consists of:

- Environmental and Social Policy, describing the commitment to conducting its business in an environmentally and socially responsible manner.

Our financing activities are executed with appropriate consideration for environmental, social, health, safety and labor aspects.

- E&S Risk Management Procedures, which when followed ensure compliance of the operations with its Environmental and Social Policy.
- E&S Risk Management Tools which enable non-technical staff to more easily and effectively implement the key aspects of the Procedures.
- Institutional Capacity, human, technical, and financial resources required to effectively implement the E&S Policy and Procedures and monitor and report on its E&S Performance to management and stakeholders.

2 ESM Policy

The ESMS policy serves as a formal declaration of KRK's dedication to operating its business in a manner that takes into consideration its impact on the environment and society. This document outlines KRK's principles, values and objectives regarding environmental sustainability and social responsibility.

2.1. Purpose

KRK provides financial services to MSMEs and individuals who do not have access to such services, with a focus on the agricultural sector. In doing so, KRK is committed to make sure that the economic development that it supports through its lending activities goes hand in hand with the environmental and social advancement of the areas where it operates and the enterprises that it finances. The purpose of the ESM policy is to promote the establishment of a **healthy environment** for the **current population of Kosovo** as well as its **future generations** by gradually enhancing the environmental standards and by promoting economic development and social welfare through the provision of loans.

2.2. Policy Approach

The following principles guide the E&S Policy focus:

- Social Values and Social Mission implementation
- Improved Risk Management
- Stakeholder Focused Business Strategy
- Sustainable Financing
- Legal compliance

2.3. Policy Statement

KRK endeavors to ensure and enhance effective social and environmental management practices in all its activities with a special focus on the following:

- *Ensuring that social and environmental safeguards as defined by the applicable Kosovo social and environmental legislation are adequately integrated by KRK and its clients prior to its financing and in its implementation.*
- *Ensure that Relevant International E&S Best Practices are integrated as far as practical for the client prior to/soon after its financing and in its implementation.*
- *Integration of social and environmental risk management into its internal risk management analysis;*
- *Influencing interested parties, especially clients and other domestic financial institutions to be more socially and environmentally responsible;*
- *Ensuring transparency in its Social and Environmental Management System components;*
- *Fostering open, transparent and inclusive engagement with all stakeholders to ensure their voices are heard and considered in our decision-making processes.*

In purpose of fostering sustainable practices and social impact, KRK has established comprehensive internal and external Environmental and Social (E&S) objectives, as follows:

Internal Environmental Objectives:

- *We will minimize waste by evaluating operations and ensuring they are as efficient as possible.*
- *Our staff will be encouraged to reduce energy waste by turning off lights, fans, air conditioners, computers, when rooms are not being used, as well as fuel waste.*
- *Our staff will be encouraged to reduce water waste and to use containers of drinking water that can be recycled.*
- *Our staff will be encouraged to privilege soft files to printed paper and to recycle paper by re-using paper printed only on one side.*
- *We will setup a printer friendly email signature for all staff.*
- *Acquisition of new assets will take into consideration energy savings and environmental concerns when applicable (example: isolation options, reduced fuel consumption in vehicles (or less polluting fuel), etc.).*

Internal Social Objectives:

- *Our staff will be/is encouraged to participate in team-building activities, celebrate achievements, and contribute to a positive and collaborative work environment.*
- *Our staff will be/is encouraged to uphold a respectful and inclusive workplace environment by resolving conflicts constructively, supporting colleagues facing challenges, and advocating for a harassment-free workplace.*

- *Our staff will be/is encouraged to take advantage of training and development opportunities to enhance their skills, pursue career growth, and participate in leadership development programs.*
- *Our staff will be/is encouraged to actively promote diversity and inclusion by participating in inclusive hiring practices and fostering a supportive workplace culture.*
- *Our staff will be/is encouraged to engage in open communication and transparency by sharing feedback, ideas, and concerns, and staying informed about company goals and performance.*
- *Our staff will be/is encouraged to prioritize their well-being by utilizing health benefits and embracing work-life balance practices.*
- *Our staff will be/is encouraged to support corporate social responsibility initiatives by getting involved in community activities, promoting sustainable practices, and contributing to social causes.*

External Social objectives:

- *Reach out to the clients with no access to banks, with no collateral and with small and informal businesses;*
- *Reach out to clients with low income;*
- *Maintain the share of rural and urban clients;*
- *Promote the gender equality (by measuring of percentage of female clients);*
- *Ensure client's satisfaction and service quality;*
- *Increase KRK market share in terms of number of clients, geographic area coverage, portfolio quality and growth;*
- *Contribute to business development by business type and*
- *Improve living condition and EE investment.*

External Environmental objective of KRK is to work with our clients to minimize the environmental impact. Through these efforts, KRK endeavors to act as catalyst for positive social transformation, contributing to the reaching well-being and sustainable progress of Kosovo.

2.4. Applicable Environmental and Social Requirements

Commensurate with the environmental and social risk associated with clients/investees in its portfolio, KRK has defined the environmental and social standards that establish the E&S requirements for transactions.

In general, these standards include:

- **Exclusion List:** A list of excluded activities that KRK will not finance because of environmental and social implications or other concerns of the organizations or its shareholders. This list is the initial stage of evaluating a potential financial transaction and it's integrated in the ESMS Procedure in Annex A.
- **Environmental and Social Regulations:** The activities of KRK's clients should meet the national legal regulations including the following:
 - a) Law on Environmental Protection,
 - b) Law on Nature Protection,
 - c) Labor Law,
 - d) Law on Safety & Health at Work and
 - e) Law on Air Protection from Pollution

3 Approval and Entering into Force

This Policy has been approved by the KRK's Board of Directors and will enter into force on the date when the Board of Directors approves/signs it.

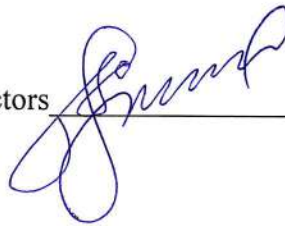
The document signed by the Board of Directors will disseminated to all KRK relevant staff. The ultimate responsibility for its execution lies with KRK's CEO.

This document approved by the Board of Directors replace all other documents related to Environmental and Social Management Policy.

This Policy is in compliance with the CBK regulations, applicable laws and other KRK internal documents.

Date of approval: 16.10.2024

Chairman of the Board on behalf of the Board of Directors



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