



**Environmental and Social Management System**

**Environmental and Social Risk Management  
Policy and Procedures**

**Summary for Public Disclosure**

**February 2017**

## 1 INTRODUCTION

Environmental and social sustainability is a core part of NMRC's commitment to responsible finance. This environmental and social risk management policy and procedures of Nigeria Mortgage Refinance Company (NMRC), stipulates guiding principles and underlying processes for effective implementation of NMRC's commitment to environmental and social sustainability. It covers the integration of Environmental and Social Management (ESRM) practices in its lending activities.

NMRC 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 Nigeria by providing Mortgage Lending Institutions (MLIs), particularly Primary Mortgage Banks and Deposit Money Banks, with increased access to liquidity and longer terms funds in the mortgage market in its role as an intermediary between capital markets and mortgage lending institutions.

The policy and procedures document seeks to introduce a systematic approach to the management of relevant environmental and social issues, and the risks inherent therein, in NMRC business processes and operations.

This document is also aligned with NMRC's mandate to provide financial solutions that are creative and responsible and, as such, forms an integral part of NMRC's overall Risk Management Framework.

NMRC endeavours to assist its clients (MLIs) to maintain the relevant environmental and social standards. NMRC core benchmarks are:

- Central Bank of Nigeria (CBN) Guidelines on Sustainable Banking Principles by Banks, Discount Houses and Development Finance Institutions in Nigeria July 2012<sup>1</sup>;
- The Environmental and Social Policies and Guidelines of the World Bank Group.

This document underscores NMRC's commitment to sustainable finance in its business relationships and sets the pace for suitable procedures and workflows which will ensure NMRC's compliance with applicable environmental and social legislation and regulatory requirements, as well as those of international financial institutions providing support to NMRC.

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<sup>1</sup> <https://www.cbn.gov.ng/out/2012/ccd/circular-nsbp.pdf>

## 2 STRUCTURE OF THIS DOCUMENT

This document outlines NMRC's approach to the implementation of appropriate ESRM that aims to reduce E&S risks and impacts associated with its lending/ refinancing activities. NMRC's policy and procedures are designed in line with the Central Bank of Nigeria recommended Nigerian Sustainable Banking Principles (NSBPs), listed in Annex 1. It primarily seeks to implement *Principle 1 - Our Business Activities: Environmental and Social Risk Management*, while supporting implementation of all other NSBPs. It is, therefore, an integral part of the NMRC's Environmental and Social Management System (ESMS).

NMRC committed to operationalizing and promoting an appropriate Environmental and Social Management System (ESMS) for itself – as well as for the financial institutions it on-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 lending operations supported by NMRC.

Core components of the ESMS are as follows:

- ESRM policy with clearly specified applicable E&S requirements and standards (Section 3);
- ESRM procedures for screening, identification, assessment, mitigation, and monitoring of E&S risks; these procedures include record keeping, disclosure, and reporting (Section 4);
- Capacity, roles and responsibilities within the organizational structure of NMRC and MLIs for managing E&S risks (Section 5);
- Guidance and tools<sup>2</sup>: Practical resource materials for implementing ESRM provisions internally by NMRC and among MLIs; these tools are developed and improved on an on-going basis.

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<sup>2</sup> Guidance and tools are not included in this document and will be developed and improved during ESMS implementation.

### 3 ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT POLICY

#### 3.1 Policy Approach

1. The Nigeria Mortgage Refinance Company (NMRC) is primarily aimed at increasing the liquidity within the mortgage sub-sector and availability of mortgage credit in Nigeria, reduce mortgage and related costs, and make residential housing more affordable. NMRC's primary role is to serve as a mortgage liquidity facility that will be a source of long-term liquidity is to act as a bridge between mortgage lenders and the capital markets.
2. NMRC strives for positive development outcomes in the activities it supports. NMRC believes that an important component of achieving positive development outcomes is the environmental and social sustainability of these activities, which NMRC expects to achieve through the application of this Policy.
3. In furtherance of the objectives of this Policy, NMRC commits to abide by and operate its business activities in line with the nine (9) Nigerian Sustainable Banking Principles.
4. NMRC recognizes that with its core business being primary mortgage refinance/ guarantees (i.e. secondary market transactions), NMRC is exposed to some level of Environmental and Social (E&S) risk through the mortgage lending activities of MLIs, which can represent a financial, legal, and/or reputational risk to NMRC. The E&S risk associated with NMRC's lending activities through MLIs depends on factors such as the specific E&S circumstances associated with the MLIs' operations. 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 NMRC by MLIs) and (ii) the ability of the mortgage borrowers to repay these loans.<sup>3</sup>
5. NMRC, therefore, supports the MLIs 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 NMRC for refinancing.
6. NMRC approach acknowledges that identification and management of E&S risks is a shared responsibility between NMRC and MLIs. Therefore, this Policy aims to clearly define scope, applicable requirements, and actions to be taken by MLIs to support the objectives of effective E&S risk management.
7. NMRC is committed to collaborate with MLIs and other stakeholders along the housing supply chain to fulfil its role as a catalyst of sustainable housing finance at the national level. In particular, NMRC will encourage MLIs to adopt and follow the Nigerian Sustainable Banking Principles (NSBPs).

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<sup>3</sup> In line with the NMRC operational model, these loans will be backed up by collateral in the form of an assignment of rights over part of the lenders' mortgage portfolio. The mortgage lender retains the loans on its balance sheet and any loan which is no longer performing has to be replaced with a performing loan. Thus, credit risk is predominantly borne by the MLIs.

### 3.2 Policy Objectives

8. Specific objectives of this Policy are to:
- Integrate ESRM considerations into the NMRC refinancing/ guarantee decision-making processes.
  - Fully implement and comply with national requirements for E&S risk management in Nigeria's financial sector (namely, the Nigerian Sustainable Banking Principles), as well NMRC's bilateral and multilateral lenders.
  - Set out requirements for the MLIs for environmental and social risk screening associated with primary mortgage lending.
  - Promote greater transparency and accountability on E&S issues internally and externally through disclosure and reporting.

### 3.3 Scope of Application

9. This Policy applies to NMRC's lending activities as prescribed in NMRC's Regulatory and Supervisory Framework, i.e. refinancing of fully secured mortgage loans and Issuing guarantee for mortgage loans as part of its off-balance sheet engagements.<sup>4</sup>

### 3.4 Applicable Environmental and Social Requirements

10. MLIs will be required, as part of their credit assessment process, to integrate NMRC applicable E&S requirements consisting of the following three components:
- a. Applicable national, state, and local laws and regulations.<sup>5</sup>
  - b. NMRC Exclusion List of mortgage loans ineligible for NMRC refinancing based on associated environmental and social risk and impacts (Annex 1).
  - c. NMRC Environmental and Social Screening Criteria (Annex 4).
11. As a condition of eligibility to receive financing from NMRC, MLIs will put in place the following minimum institutional systems and capacity to enable E&S screening against the requirements set by NMRC as described in paragraph 10 above:
- a. MLI has a written E&S policy and procedures reflecting the NMRC E&S requirements;
  - b. MLI designates staff with clearly defined responsibilities for E&S risk management;
  - c. MLI develops internal capacity to conduct E&S screening.
12. NMRC will require MLIs to develop and maintain labor management procedures for its own workforce in line with national laws.

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<sup>4</sup> This Policy does not cover other permissible activities under NMRC's Regulatory and Supervisory Framework (dated August 5, 2013), namely:

- Investment in debt obligations issued or guaranteed by the Federal Government of Nigeria or any of its agencies, which shall not be less than 50 per cent of the MRC's total investments.
- Issuing bonds and notes to fund its purchase of eligible mortgages.
- Other activities as may be prescribed by the CBN from time to time.

<sup>5</sup> Among other criteria, NMRC will ensure that each MLI, as part of its underwriting criteria, will ensure that the loan application will contain questions regarding conditions related to home ownership, occupancy and land tenure.

### 3.5 Environmental and Social Due Diligence and Supervision

13. NMRC will integrate E&S due diligence and supervision in its lending activities described in paragraph 9 and in line with NMRC applicable E&S requirements described in section 3.4 of the Policy. High-level structure of the E&S due diligence process is presented in Annex 2.
14. NMRC will conduct E&S due diligence of MLI' at the institutional level, as well as at the level of the mortgage portfolios to be refinanced.
15. As part of its E&S due diligence of MLIs at the institutional level, NMRC will review MLIs' policies, procedures, and capacity to conduct E&S screening. Where NMRC determines that an MLI does not have adequate systems and capacity as described in paragraph 11 of this Policy, such MLI will not be eligible for NMRC refinancing unless a time-bound action plan for improvement is developed and agreed with NMRC.
16. Due diligence of mortgage portfolios submitted by MLIs for refinancing/ guarantees will be conducted as follows:
  - a. E&S screening will be integrated in MLIs' due diligence / credit assessment process based on the NMRC applicable E&S requirements. Such arrangements will be formalized as part of NMRC on-lending conditions to MLIs. In particular, with the request for each tranche of mortgage refinancing, MLIs will be required to provide to NMRC a confirmation letter describing (i) steps taken for adequate implementation of E&S due diligence and screening measures and (ii) the outcomes of the E&S screening process of the mortgage portfolio. MLIs will be required to maintain adequate documentation of the process and outcomes of E&S due diligence and screening.
  - b. NMRC will review and verify E&S information provided by MLIs in the confirmation letter as part of its acceptance criteria for the mortgage portfolio prior to refinancing. This may require undertaking additional due diligence measures commensurate with the E&S risk profile of each mortgage portfolio.
17. NMRC will maintain a program and procedures for supervision of the E&S screening processes applied by MLIs. This program will include periodic visits to MLIs to verify policies, procedures, capacity, and documentation that supports MLI's confirmation of adequate E&S due diligence and screening measures.
18. MLIs will be required to prepare and submit an Annual Environmental and Social Performance report to NMRC.

### 3.6 Communications and Disclosure

19. NMRC will ensure transparency in its activities through adequate disclosure of its E&S policy and requirements, as well as overall commitments to supporting sustainable finance.
20. A summary of E&S policy and procedures will be visibly placed on NMRC website and reflected in annual reports. NMRC is also committed to reporting on its ESRM activities in accordance with the NSBPs obligations and the requirements of other investors, as applicable.

### **3.7 Changes to Policy and New Policy Development**

21. NMRC's ESRM policies and procedures are reviewed and approved by senior management.
22. NMRC will review the ESRM Policy every two years to ensure its adequacy in line with any changes in NMRC'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.
23. NMRC may, as necessary, also develop complementary E&S policies, procedures and tools to address specific risks more comprehensively.

## 4 ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT PROCEDURES

### 4.1 Purpose

ESRM Procedures set out institutional arrangements and processes that should be implemented at the NMRC and Mortgage Lending Institutions (MLIs) level and aim to support the implementation of NMRC's Environmental and Social Risk Management Policy. These procedures describe how NMRC conducts its due diligence on its lending activities under consideration, as well as its supervision of MLIs to which refinancing has been provided. The procedures identify the relevant functions and individuals involved in implementation.

These procedures are an integral part of NMRC's Risk Management Framework, are embedded in the overall lending screening and appraisal process, and form part of NMRC's lending decision-making. NMRC's ESRM Procedures are based on the principle of continuous improvement. These procedures incorporate roles and responsibilities of MLIs with regard to implementation of E&S risk due diligence and screening measures set out by NMRC.

### 4.2 Structure

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

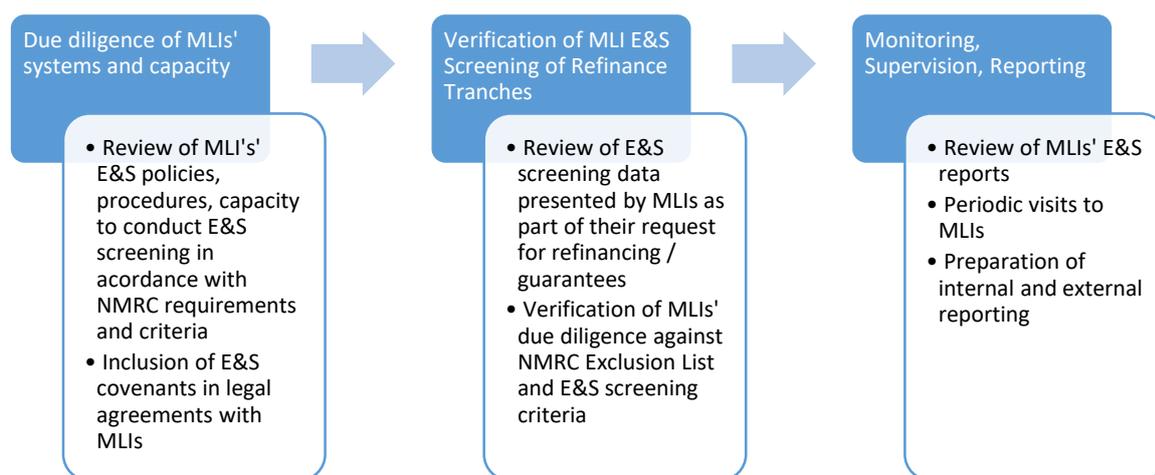


Figure 4.1. Structure of NMRC E&S Procedures

## ANNEX 1: NMRC EXCLUSION LIST

This list is intended to outline the criteria under which NMRC, as part of its acceptance criteria for the collateral, will not refinance primary mortgage loans underwritten by member Mortgage Lending Institutions (MLIs) where such loans are deemed by NMRC be associated with the following:

1. Real estate construction deemed illegal or non-compliant according to applicable national and local laws and regulations.<sup>6</sup>
2. Properties built on land from which government agencies or builders have removed / involuntarily resettled local communities, including squatters or encroachers, without proper compensation.<sup>7</sup>
3. Properties involving outstanding land disputes.
4. Properties built in locations and / or in a manner that involves significant degradation or conversion of critical habitats<sup>8</sup> and/or legally protected areas.<sup>9</sup>
5. Properties built in locations and / or in a manner that involves significant adverse impacts on critical cultural heritage.<sup>10, 11</sup>

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<sup>6</sup> Examples include unauthorized construction; housing construction in zones not designated as residential; encroachment on public / government land or private land etc.

<sup>7</sup> This criteria will only apply to such resettlement / displacement that took place specifically in anticipation or preparation for the housing construction activities for which primary mortgages had been subsequently originated by MLIs.

<sup>8</sup> 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 required 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/>

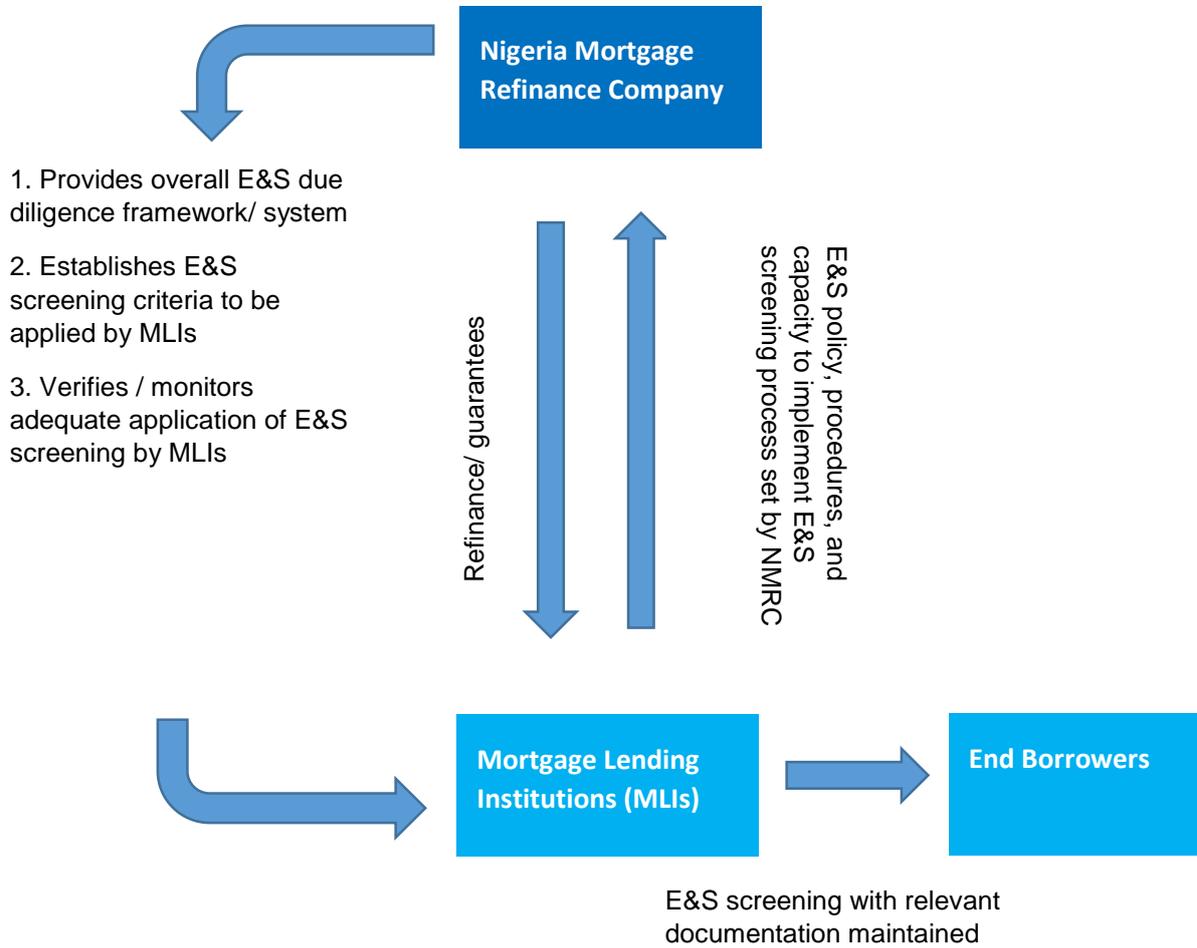
<sup>9</sup> This criteria will only apply where such degradation or conversion took place specifically in anticipation or preparation for the housing construction activities for which primary mortgages had been subsequently originated by MLIs and/or are likely to occur or continue post-construction.

<sup>10</sup> 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.

<sup>11</sup> This criteria will only apply where such impacts took place specifically in anticipation or preparation for the housing construction activities for which primary mortgages had been subsequently originated by MLIs and/or are likely to occur or continue post-construction.

## ANNEX 2: ORGANIZATIONAL STRUCTURE OF E&S DUE DILIGENCE AND SUPERVISION PROCESS

Figure A2-1. E&S Due Diligence Structure



**ANNEX 3: E&S PERFORMANCE CRITERIA**

<b>Area</b>	<b>Description</b>
<b>1. Systems and capacity</b>	
<b>E&amp;S Staffing and Capacity</b>	<i>Staff formally designated to manage E&amp;S issues Internal training developed and implemented to sensitize relevant investment staff on the required E&amp;S screening process, criteria, and documentation</i>
<b>E&amp;S policy and procedures</b>	<i>Development of a written E&amp;S policy, procedures aimed to internalize the E&amp;S screening process within the MLI and formally adopted by MLI's Senior Management</i>
<b>Management Commitment</b>	<i>Level of management commitment to incorporate E&amp;S aspects into the MLI's risk management practices including resource provision and endorsement</i>
<b>2. Implementation</b>	
<b>Compliance with applicable requirements</b>	<i>Adequate implementation of the E&amp;S screening process, including application of NMRC E&amp;S requirements</i>
<b>Documentation</b>	<i>Adequate documentation is maintained by the MLI and available upon request from NMRC Appropriate language is incorporated in financing agreements and other relevant documentation with end borrowers Annual E&amp;S reports are prepared and submitted in a timely manner to NMRC</i>

**ANNEX 4: NMRC ENVIRONMENTAL AND SOCIAL SCREENING CRITERIA OF MLIs**

Criteria	Screening questions
<b>1. Building safety</b>	<ul style="list-style-type: none"> <li>(i) Have the properties been constructed in compliance with relevant national and local laws and regulations?</li> <li>(ii) Are the properties located in areas clearly designated as residential?</li> <li>(iii) Are additional due diligence measures in place, as deemed necessary by MLIs, and consistently implemented?</li> </ul>
<b>2. Locations prone to natural disasters</b>	<ul style="list-style-type: none"> <li>(i) Does the MLI assess susceptibility of the properties to natural hazards?</li> <li>(ii) Are there measures in place to mitigate associated risks?</li> </ul>
<b>3. Locations hazardous to human habitation</b>	<ul style="list-style-type: none"> <li>(i) Does the MLI assess risks related to locations hazardous to human habitation (e.g. waste dump sites/ landfills)?</li> <li>(ii) Does the MLI exclude properties in such areas from financing?</li> </ul>
<b>4. Access to basic services (e.g. water supply and sanitation)</b>	<ul style="list-style-type: none"> <li>(i) Does the MLI take into account access to basic services in properties financed?</li> <li>(ii) Does the MLI exclude properties in locations lacking access to basic services from financing?</li> </ul>
<b>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 and / or historically underserved traditional local communities.<sup>12</sup></b>	<ul style="list-style-type: none"> <li>(i) Does the MLI conduct an assessment of whether such impacts may be present (e.g. in certain locations where MLIs have high concentration of their mortgage lending such as large-scale new housing developments/ colonies)?</li> </ul>
<b>6. Household activities hazardous to the environment and / or human health and safety</b>	<ul style="list-style-type: none"> <li>(i) Does the MLI 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?</li> <li>(ii) Does the MLI have measures in place to mitigate potential risks (e.g. by including appropriate language in loan documentation with end borrowers)?</li> </ul>

<sup>12</sup> Vulnerable and / or historically underserved traditional local communities refers to those communities that may be most marginalized in the country context and lack access to resources and public services.