DREAM FINANCIAL SERVICES LIMITED

Live Your Dream

DISCLOSURE FOR ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM (ESMS)

2024

Financial Inclusion and Entrepreneurship Scaling (FInES) Project

Regulated by the Reserve Bank of Malawi

BACKGROUND

The International Development Association (IDA) granted credit to the Malawian government in 2020 to boost financial services usage and accessibility, foster entrepreneurship, and enhance the capacity of Malawi's Micro, Small, and Medium-Sized Enterprises (MSMEs), including addressing the consequences of COVID-19. The project will be carried out over five years, from 2020 to 2025, and its whole cost will be covered by an IDA loan from the World Bank (WB).

Dream Financial Services Limited was recognized as a participating financial institution for the project's implementation through the FInES project's Line of Credit by the Project Implementation Unit (PIU), which is based at the Reserve Bank of Malawi. On January 26, 2021, the parties signed a Subsidiary Financing Agreement (SFA).

The project requires that participating institutions adhere to social standards and environmental safeguards as part of the initiative. Therefore, this disclosure aims to provide the Environmental Safeguards Management System (ESMS) contents of Dream Financial Services Limited. The World Bank Environmental and Social Framework and the Government of Malawi Environmental Management Legislation have established requirements that this disclosure satisfies.

OBJECTIVES

The FInES Project has the following objectives among others:

- Promote Micro, Small, and Medium Enterprises (MSMEs) entrepreneurship.
- To foster financial inclusion.

QUALIFICATIONS

As an eligible participating partner, Dream Financial Services Limited is required to have the following:

- Environmental and Social Management System.
- The right information system for management.
- The grievance redress process.
- A system for monitoring and evaluation to allow for efficient pre- and post-disbursement monitoring.
- Separate records for FInES-supported loans from other loans.
- Accurate identification of every client.

THE ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM

Understanding and controlling risks resulting from environmental and social problems is the aim of the Environmental and Social Management System (ESMS), which places more emphasis on risk management than risk avoidance. It does not limit or decrease financing; rather it promotes appropriate financing practices.

Dream Financial Services Limited will refrain from financing fundamentally reckless operations for which risk management is impractical.

Dream Financial Services Limited acknowledges that addressing the causes and effects of climate change for projects is crucial when providing finance. Dream Financial Services will take the necessary steps to support

climate change mitigation initiatives, projects with zero or low carbon emissions, and other climate-resilient projects.

Additionally, things that contribute to the environment being at risk include air pollution, energy waste, water overuse, improper waste disposal, unlawful release of untreated hazardous materials into the environment, contaminated land, and noise pollution.

Unhealthy and dangerous working conditions, insufficient safety and security measures for the community, exploitation of Indigenous people and their cultural heritage, and human rights violations are some of the causes of social risks.

WHEN TO APPLY THE ESMS

Dream Financial Services Limited will endeavour to ensure that all loans are evaluated for environmental and social (E&S) hazards using the ESMS. The Environment Management Act (2017) lists projects that need and do not require an Environmental and Social Impact Assessment (ESIA); nonetheless, all projects, whether or not they are listed in this law and the rules that go along with it, must follow the ESMS protocol.

TRAINING

The Environment and Social Risk Identification and Assessment Procedure, which offers a flow of events to be followed when identifying, assessing, and monitoring environmental and social risk aspects while integrating into the credit approval process, is something that credit officers who are evaluating loan applications must be aware of.

The Environmental and Social Impact Assessment Checklist must then be completed by credit officers. Dream Financial Services Limited plans to host yearly training for all employees, providing them with the necessary skills to address environmental and social challenges.

ENVIRONMENT AND SOCIAL STATEMENT

In all of its credit products, Dream Financial Services Limited is dedicated to supporting sustainable and ecologically friendly development.

It is well known that attaining results in line with its credit policy requires a basic commitment to environmental and social sustainability. As a result, it is acknowledged that initiatives that promote social and environmental sustainability are among its top priorities. Accordingly, Dream Financial Services Limited will only provide funding to enterprises and projects that responsibly manage their social and environmental impacts in compliance with the Malawian Environment Management Act of 2017 and the Environmental and Social Policy of the World Bank.

CATEGORIZATION

The environmental and social risks have been categorized into three different levels:

> **Category A — High Risk**
> These are businesses with high potential adverse environmental or social risk impacts that are diverse, irreversible, or even unprecedented.

Category B — Medium Risk

Those businesses or activities with potential limited adverse environmental or social risks and/or impacts that are few, generally site-specific, largely reversible, and readily addressed through mitigation measures.

Category C — Low Risk

These are businesses or activities with minimal or no adverse environmental or social risks and/or impacts.

Dream Financial Services Limited will observe the following points for both environmental and social aspects of the projects it intends to finance:

- The businesses financed should observe environmental safety standards and regulatory requirements in line with the country's laws.
- The business should provide equal opportunity to all social or gender groups in terms of employment and business relations.
- The business has social acceptance from the surrounding community.
- The business observes and eliminates the negative impact of business on cultural heritage objects, sites, and structures such as archaeological sites and graves.
- The business observes labour standards and working conditions, including occupational health and safety.
- The business abstains from using child and forced labour.
- The business observes and eliminates negative impacts on cultural heritage and prevents involuntary resettlement.
- The business abstains from activities that appear in the Exclusion List below.

BUSINESSES EXCLUDED FROM ACCESSING LOANS

The list below shows various businesses and purposes that do not qualify for FInES funding per the Subsidiary Financing Agreement.

- Production or trade in any product or activity deemed illegal under Malawian laws or regulations or international conventions and agreements.
- Production or trade in weapons or ammunition.
- Gambling, casinos, and equivalent enterprises.
- Production or trade in alcoholic beverages (excluding beer and wine).
- Activities targeting tobacco manufacturing, processing, or specialist tobacco distribution, and activities facilitating the use of tobacco.
- Trade in wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species.
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment, or any equipment where the radioactive source is understood to be trivial and adequately shielded.
- Production of, trade in, or use of unbounded asbestos fibres.
- Any activities involving significant degradation or conversion of natural and/or critical habitats, or any activities in legally protected areas.
- Activities damaging to national monuments and other cultural heritage.
- Unsustainable fishing practices such as drift net fishing in the marine environment using nets over 2.5 km in length, electric shocks, or explosive materials.
- Production or trade in wood or other forestry products other than from sustainably managed forests.
- Production or trade in pharmaceuticals, pesticides and herbicides, ozone-depleting substances, and polychlorinated biphenyls (PCBs) subject to international phase-out or bans.
- Production or activities involving harmful or exploitative forms of forced labour or hazardous child work.
- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial-scale usage of hazardous chemicals such as gasoline and kerosene.
- Production or activities that have adverse impacts, including relocation, on the lands, natural resources, or critical cultural heritage subject to traditional ownership or customary use.
- Activities involving land acquisition and/or restrictions on land use resulting in involuntary resettlement or economic displacement.
- Military or police equipment or infrastructure, and equipment or infrastructure which results in limiting people's rights and freedom, such as prisons and detention centres.
- Activities involving live animals for experimental and scientific purposes.
- Loans to finance projects that have no Environmental and Social Impact Assessment (ESIA) while they are legally required to have a mandatory ESIA.

GOVERNANCE

The Risk and Compliance Department has been tasked with putting this Environmental and Social Management System into practice. The department is in charge of making sure that every risk associated with the

environment, society, and other factors is recognized, assessed, and managed. The Chief Operations Officer oversees the department, which is staffed by individuals with social and environmental risk management training. The entire governance structure will be involved in the management of E&S risks. The procedures, roles, and governance methods that manage social and environmental risk are displayed in the table below.

LEVEL	COMMITTEE	ROLE AND RESPONSIBILITY
Board	Board of Directors	Oversight and overall direction of the business
Executive	Executive Management	Responsible for managing all the business of the institution
Executive	Risk and Compliance Committee	Identification, assessment and management of environmental and social risks

IDENTIFICATION AND ASSESSMENT OF ENVIRONMENTAL & SOCIAL RISKS

The purpose of the methods for identifying and assessing risks is to offer detailed instructions for the identification, evaluation, control, and monitoring of environmental and social risks.

The Chief Operations Officer and the Risk and Compliance Officer collaborate to determine the final project E&S classification. This determination will be made using the classification completed on the E&S risk assessment form or the evaluation completed by institution officers during site visits.

RISK MONITORING AND REVIEW

Throughout the term of the loan, Dream Financial Services Limited's initiatives will be continuously monitored through Risk and Compliance. Ensuring that projects are managed in accordance with the existing legal standards and other international best practices is the major goal.

All phases of a project's development, operation, and decommissioning will be monitored. As stated during the Environmental and Social Impact Assessment process and incorporated in the Environmental and Social Management Plans, the monitoring will seek to maximize positive outcomes and eliminate or reduce negative impacts of the projects.

Monitoring will make sure that loan agreements are followed, and if there is a deviation from the terms of the agreement, Dream Financial Services Limited will take corrective action and notify the customer to bring the client's compliance level up to standard. Dream Financial Services Limited may take appropriate action and/or execute remedies specified in the loan facility agreements if the customer disregards the agreed-upon corrective measures.

Monitoring Process

1. Recurring site visits by the environmental and social risk analysts. A document called the "Post-loan Disbursement E&S Risk Monitoring Checklist" will be utilized during the site visit, with an emphasis on the implementation of the EMP/ESMP portion as examined in the EIA report.

2. Conducting site visits and reviewing the "E&S Risk Assessment Form" to confirm or reclassify the project proposal obtained from the business unit is necessary for all high-risk and medium-risk E&S projects that require close monitoring.
3. During the site visit, review the grievance system and make sure it is being followed.
4. Keep an E&S perspective database of loans that have been approved.
5. Creation of reports regularly for management that include the environmental and social risk status of different projects.
6. E&S compliance reports, including the required Annual Environmental Performance reports, are prepared annually.

GRIEVANCE REDRESS MECHANISM (GRM)

As a public organization, Dream Financial Services Limited (DFS) fosters a friendly and supportive atmosphere through its open-door policy, which also fosters professional collaboration. In all of its business operations, including receiving deposits and disbursing loans by its governance rules, the institution is dedicated to upholding and conforming to norms and procedures of accountability and transparency. In this sense, DFS Ltd will keep addressing how its operations influence the environment, whether directly or indirectly through those with whom it does business.

Scope of the GRM

Regarding projects funded under the Financial Inclusion and Entrepreneurship Scaling (FInES) Project, the GRM applies to any complaints about such programs.

Purpose of the GRM

The Grievance Redress Mechanism (GRM) seeks to offer standards for handling and reacting to different types of project-related complaints from individuals, organizations, or communities impacted by the project. The process will be followed at the beginning, during construction, during operation, and at the end of the project cycle.

To hear and assist in resolving issues and grievances raised by project-affected parties, DFS Ltd will require its clients to have established a grievance procedure. The grievance procedure must be suitable for the projected risks and effects of the project.

> **How to raise a grievance**
>
> Interested and impacted parties may direct their grievances on the project to DFS Ltd:
> **Email:** info@dreamfinance.co.mw
> **Phone:** +265 886 899 899

Objectives of the GRM

One of the main goals is to establish trust between DFS Ltd, project personnel, affected parties, and other project stakeholders. Another is to guarantee transparency in all interactions with stakeholders, including affected parties, using appropriate communication. Lastly, the third goal is to promptly and methodically address environmental and social complaints in the project areas to protect Dream Financial Services Limited's interests and those of the community at large.