



DISCLOSURE FOR ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEMS (ESMS)

BACKGROUND

The Government of Malawi, in 2020, obtained credit from the International Development Association (IDA) which is aimed at increasing access and usage of financial services, promote entrepreneurship and capabilities of Micro Small and Medium Enterprises (MSMEs) in Malawi including addressing Covid-19 implications. The project is designed to be implemented over a period of 5 years from 2020 to 2025 with the entire amount financed by an IDA loan from the World Bank (WB).

Through the Project Implementation Unit (PIU) housed at the Reserve Bank of Malawi, **Wealthnet Finance Plc** was identified as a participant financial institution for the implementation of the project through the FInES project's Line of Credit and signed a service a Subsidiary Financing Agreement (SFA) on 26th January 2021.

As part of the project, Participating Institutions are also required to comply with Environmental Safeguards and Social Standards. This disclosure therefore seeks to present the contents of the Wealthnet Finance Plc's Environmental Safeguards Management System (ESMS). This disclosure serves to fulfil the requirement set by World Bank Environmental and Social Framework and the Government of Malawi Environmental Management Legislature.

OBJECTIVES

The FInES Project has the following objectives among others;

1. Promote entrepreneurship of Micro, Small and Medium Enterprises (MSMEs).
2. Financial Inclusion.

QUALIFICATIONS

Wealthnet Finance Plc to qualify as a participating partner was asked to have the following;

- a) Environmental and Social Management System.
- b) Appropriate Management Information System.
- c) Grievance Handling Mechanism.
- d) Established Monitoring and Evaluation system as the loans under the project requires effective pre- and post-disbursement monitoring.
- e) Separate FinES funded loans from
- f) the rest of the portfolios funded by Wealthnet Finance.
- g) All clients be properly identified.

THE ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM

The purpose of Environmental and Social Management System (ESMS) is to understand and manage risks that arise from environmental and social concerns with focus on managing risks and not on avoiding risks. It encourages responsible financing practices but not reducing or restricting financing. Wealthnet Finance Plc will not finance business activities that are inherently irresponsible and managing these risks are not feasible.

When financing, Wealthnet Finance Plc (WF) also recognizes the importance of addressing the causes and the consequences of climate change for projects. WF will take appropriate initiative to support such projects with zero or low carbon emission, climate change mitigation projects and other climate resilient projects.

The purpose is to:

- a) Identify, evaluate and manage the environmental and social risks and the associated financial implications.
- b) Examine the environmental and social issues and concerns associated with potential business activities.

The following are some of the sources of environmental risks; air emissions, inefficient use of energy, excessive use of water, un-controlled disposal of wastes, illegal discharge of untreated hazardous substances, land contamination, sound pollution etc. While the sources of social risks include unhealthy and unsafe working conditions, inadequate measures for community health, safety and security, exploitation of indigenous people and cultural heritage, violation of human rights etc.

WHEN TO APPLY ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM (ESMS)

ESMS shall be applied when assessing environmental and social (E&S) risks on all loans. As much as the Environment Management Act (2017) provides a list of projects requiring and not requiring an Environmental and Social Impact Assessment (ESIA), the ESMS procedure shall apply to all projects regardless of whether or not mentioned in this law and its associated regulations.

TRAINING

Credit officers appraising loan applications shall understand the Environment and Social Risk Identification and Assessment Procedure, these are the procedures which provides a flow chart to be followed when identifying, assessing and monitoring environmental & social risks aspects while integrating in credit approval process. Credit officers shall then complete Environmental and Social impact assessment checklist. WF will arrange annual trainings for the entire organisation to equip them with knowledge on how to deal with issues of Environment and Social issues.

ENVIRONMENT AND SOCIAL STATEMENT

WF is committed promoting environmentally friendly and sustainable development in the full range of its credit products. Environmental and social sustainability is believed to be a fundamental aspect of achieving outcomes consistent with its Credit Policy. It is therefore recognised those projects that foster environmental and social sustainability rank among the highest priorities of its activities. In line with this, WF will only finance projects and businesses that manage their

social and environmental impacts in a responsible manner in accordance with the Malawian Environment Management Act of 2017 and also in line with the World Bank's Environmental and Social Policy.

CATEGORIZATION

The Environment and social risks have been categorized into three different levels and these are:

Category A – High Risk

These are business with high potential adverse environment/social risks impact that are diverse, irreversible or even unprecedented.

Category B- Medium risk

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

Category C -Low risk

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

WF will observe the following points for both environmental and social aspect for the projects it intends to finance:

- a) The businesses financed should observe environmental safety standards and regulatory requirements in line with the country's laws;
- b) The business should provide equal opportunity to all social or gender groups in terms of employment and business relations;
- c) The business has social acceptance from the surrounding community;
- d) The business observes and eliminates negative impact of business on cultural heritage objects, sites and structures like archaeological sites, graves etc;
- e) The business observes labour standards and working conditions including occupational health and safety;
- f) The business abstains from financing businesses that use child and forced labour;
- g) The business observes and eliminates negative impact of business on cultural heritage and involuntary resettlement; and
- h) The business abstains from financing projects and businesses that are in the Exclusion List as per below.

BUSINESS LIST EXCLUDED FROM ACCESSING LOANS

The list below are various businesses and purposes that cannot qualify for Credit facilities in accordance with WF Credit policy:

1. Production or trade in any product or activity deemed illegal under Malawian laws or regulations or international conventions and agreements;
2. Production or trade in weapons or ammunitions;
3. Gambling, casinos and equivalent enterprises;
4. Production or trade in alcoholic beverages (excluding beer and wine);
5. Activities targeting tobacco manufacturing, processing, or specialist tobacco distribution, and activities facilitating the use of tobacco;
6. Trade in wildlife or wildlife products regulated under Convention on International Trade in Endangered Species (CITES);

7. Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where WF considers the radioactive source to be trivial and/or adequately shielded;
8. Production or trade in or use of unbounded asbestos fibres;
9. Any activities involving significant degradation or conversion of natural and/or critical habitats and/or any activities in legally protected areas;
10. Activities damaging to national monuments and other cultural heritage;
11. Unsustainable fishing practices such as drift net fishing in the marine environment using nets in excess of 2.5 km in length, electric shocks, or explosive materials;
12. Production or trade in wood or other forestry products other than from sustainably managed forests;
13. Production or trade in pharmaceuticals, pesticides/herbicides, ozone depleting substances, polychlorinated biphenyls (PCBs) subject to international phase outs or bans;
14. Production or activities involving harmful or exploitative forms of forced labour or hazardous child work;
15. Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals (gasoline, kerosene, other petroleum products, textile dyes etc.);
16. Production or activities that have adverse impacts, including relocation, on the lands, natural resources, or critical cultural heritage subject to traditional ownership or under customary use by historically underserved traditional local communities;
17. Activities involving land acquisition and/or restrictions on land use resulting in involuntary resettlement or economic displacement;
18. Military or police equipment or infrastructures, and equipment or infrastructure which result in limiting people's individual rights and freedom (i.e. prisons, detention centres of any form) or in violation of human rights;
19. Activities involving live animals for experimental and scientific purposes; and
20. Loans to finance projects which have no Environmental and Social Impact Assessment (ESIA) while they are legally supposed to have a mandatory ESIA.

GOVERNANCE

Responsibility for implementing this Environmental and Social Management System has been assigned to the Risk and Compliance Department. The department is responsible for ensuring that all environmental, social and related risks are identified, evaluated and managed. The department is headed by Risk Manager and supported by staffs trained in environmental and social risk management. The management of E&S risks will involve the whole governance structure. The governance practices, processes and responsibilities by which Environmental and Social Risk are managed as shown in the below table:

LEVEL	COMMITTEE	ROLE AND RESPONSIBILITY
Board	Board of Directors	Oversight and overall direction of the business
Executive	Executive Management.	Managing all the business of the institution. Answerable to the Board.
	Risk and Compliance Committee	Manages all risks within the institution through, provide independent assurance that institution's risk management,

		governance and internal controls processes are operating effectively.
	Credit Committee	Responsible for all credit issues including risk of the entire credit portfolio.
	Asset and Liabilities Committee (ALCO)	Manages the institution's assets and liabilities.

IDENTIFICATION AND ASSESSMENT OF ENVIRONMENT & SOCIAL RISKS

The objective of Risks Identification and assessment procedures is to provide a step-by-step guidance on screening, assessment, decision, control and monitoring of Environmental and Social Risks.

The Risk and Compliance Manager with the help of Business Operations Manager shall be responsible for final determination of the project E&S categorization based on categorization done in the E&S risk assessment form or appraisal filled by institution officers during site visits.

RISKS MONITORING AND REVIEW

The Risk and Compliance will ensure that all projects which WF finances are kept in constant monitoring throughout the loan tenure. The main objective is to ensure that projects are implemented and operated in compliance with prevailing regulatory requirements and other international best practice.

Projects shall be monitored through all stages of construction, operation and decommissioning. The monitoring shall aim at enhancing positive impacts and eliminate or minimize negative impacts of the projects as outlined during the process of Environmental and Social Impact Assessment and included in the Environmental and Social Management Plans.

Monitoring will ensure that loan agreements are being adhered to and any departure from agreement, will mean WF should take remedial measures and advise the client so that the client achieves desired level of compliance. In case the client fails to comply with the agreed remedial measures, WF may take such action and/or exercise such remedies contained in the loan facility agreements that deemed appropriate.

MONITORING PROCESS:

1. Periodic site visits by the environmental and social risk analysts. During site visit, a form named 'Post-loan Disbursement E&S Risk Monitoring checklist' shall be used while focusing on implementation of EMP/ESMP section as analyzed in the EIA report.
2. For all high risks E&S projects and medium risks that need close follow up, conducting site visit and review the 'E&S Risk Assessment Form' to confirm/re-categorize the project proposal received from business unit.

Review and ensure compliance with grievance mechanism during site visit.

1. Maintain a database of approved loans from an E&S perspective.
2. Periodic preparation of reports to the management detailing environmental and social risk status of various projects.
3. Annual preparation of E&S compliance reports including mandatory Annual Environmental Performance reports.

GRIEVANCES REDRESS MECHANISM-GRM

Wealthnet Finance Plc (WF) being a public institution operates in an open environment and has an open-door policy that enhances support, friendship and professional collaboration. The institution is committed to adhering and conforming to standards and procedures of accountability and transparency in all its business operations, which are taking deposits and giving out loans as set out in its governance policies. In this regard WF will continue addressing the environmental impact of its business activities, affecting directly or indirectly with those doing business with WF.

SCOPE OF THE GRM

The GRM applies to all project related complaints in connection with projects financed by the Financial Inclusion and Entrepreneurship Scaling (FInES) Project. It will also apply to FInES funded projects regardless of the proportion of participation in the total loan agreement.

PURPOSE OF GRIEVANCES REDRESS MECHANISM-GRM

Grievance Redress Mechanism (GRM) aims at providing guidelines on managing and responding to various project related complaints as received from project affected individual, organization or community. The procedure will apply during all main stages of project cycle, initiation, construction, operation and closure.

WF will require its clients to have in place a grievance mechanism to be able to receive and assist, resolve project-affected parties concerns and grievances arising from the project. The grievance mechanism should be appropriate for anticipated project risks and impacts. However, the interested and affected parties can resort to channel their project related grievance directly to WF using email: ceo@wealthnetfinance-maw.com or Tel: +265 985 349 488.

OBJECTIVES OF GRM

Major objectives are:

- 1 Build up a relationship of trust amongst WF, project staff, affected parties and other project stakeholders;
- 2 Ensure transparency in its dealings with stakeholders including affected parties through proper communication; and
- 3 Resolve environmental and social grievances in the Project areas in a systematic and timely manner to safeguard interests of Wealthnet Finance Plc and community as a whole.