



Summary of the Development Finance Corporation's (DFC's) Environmental and Social Management System (ESMS)

INTRODUCTION

The Development Finance Corporation (DFC) has developed and implemented an Environmental and Social Management System (ESMS) to identify, assess, manage, and monitor in a proportionate manner the environmental and social risks and impacts associated with DFC's loan products and services. In addition, the ESMS will enable DFC to identify opportunities for improving positive impacts, especially considering climate resilient outcomes and other environmental and social objectives. The ESMS was endorsed by its Board and Management on November 6, 2023.

This document summarizes each element of DFC's ESMS. Detailed information on the ESMS can be obtained by contacting the DFC through the contact information on DFC's website.

The ESMS shall comply with good international Environmental & Social (E&S) practices, which include the International Finance Corporation (IFC) Performance Standards (PS) 1 to 8, the World Bank Environmental and Social Standard 9 on Financial Intermediaries, and the World Bank Environment, Health, and Safety (EHS) Guidelines (general and industry-specific). The ESMS shall also observe all applicable national environmental & social laws and regulations, as well as international agreements and treaties to which Belize is a party/signatory to. Where the contents of the ESMS conflict with such international treaties/agreements, then the latter shall prevail.

The ESMS is comprised of the following elements:

- a. An Environmental and Social Policy Statement,
- b. Identification of Risks and Impacts,
- c. Management Programs,
- d. Organizational Capacity and Competency,
- e. External Stakeholder Engagement and Communication, and
- f. Monitoring, Review and Reporting.

ENVIRONMENTAL AND SOCIAL POLICY STATEMENT

The DFC considers it necessary to conduct its activities in a way that respects and protects the environment and the wellbeing and rights of the communities.

The increased global awareness of environmental and social issues and their impact on societies and communities has led to the development of national plans, programs, and policies, as well as international agreements dedicated to, or with a strong focus on, the protection of the natural, physical, and human environment. DFC has made support statements to the objectives of such agreements in its Climate Change Policy (CCP, May 2021), Gender Equality Policy and Action Plan (2020-2023) (GEPAP, April 2020), Investment Policy (IP, March 2023), and Stakeholder Engagement and Communication Policy (March 2023).

DFC is committed to a continual and systematic improvement of the environmental and social performance of its credit operations, demonstrated through the implementation of an Environmental and Social Management System (ESMS). The ESMS integrates environmental and social considerations into DFC's decision-making and operations, especially related to the lending and on-lending/blending process.

DFC's ESMS sets not only DFC's commitments to a sound environmental and social practice on its credit operations (E&S policies) but provides a detailed description of the necessary processes and procedures to carry out the business process supporting the alignment of the national legislation with best international practice, specifically the IFC Performance Standards on Environmental and Social Sustainability (2012).

Under the context of the ESMS and the embedded E&S policies, DFC is committed to:

- Complying with E&S requirements: DFC will comply, and mandate compliance of its clients (direct borrowers and financial intermediaries) with all applicable national E&S laws and regulations, international E&S treaties, and agreements that Belize is signatory / party to, and relevant and applicable best international practice.
- Refusing financing for certain types of projects:
DFC will not finance projects that:
 - are included in DFC's Exclusion List;
 - do not comply with Belize's legal regulations or with international agreements that Belize is signatory / party to;
 - may have adverse environmental and social impacts or risks which cannot be mitigated or modified through technical changes to an acceptable level, and no adequate offset can be envisaged; and/or
 - lack proven financial and technical capacity to mitigate adverse environmental and social impacts or risks to an acceptable level, or, when this is not possible, to offer adequate offset.

DFC will not provide loans to financial intermediaries (FI):

- where the FI fails to honour a covenant to develop and maintain an ESMS as a condition of DFC's credit.

Alternatively, DFC could review the ESMS of the FI and decide on its adequacy if:

- the FI did not develop and/or does not maintain an ESMS;
- the scope and complexity of the existing ESMS is not commensurate with the level of E&S risk associated with the FI's portfolio;
- the FI's existing or proposed portfolio includes activities on the DFC's Exclusion List; and/or
- the FI's existing or proposed portfolio includes activities that do not comply with Belize's legal regulations or with international agreements that Belize is signatory / party to.

- Mainstreaming of E&S issues in its on-lending/blending operations: avoidance of pollution to air, water and soil; sustainable management and usage of natural and physical resources; protecting and conservation of biodiversity; safe pesticide management; climate change mitigation and adaptation; protection of labor rights; appropriate working conditions; occupational health & safety; refusal of child, forced and trafficked labor; ensure community health, safety and security; respect for human rights; gender equality and social inclusion (GESI) ; fair management of land and assets ownership; adequate economical and physical resettlement; proper consideration of Indigenous Peoples rights, dignity, aspirations, culture, and livelihoods; protection of cultural heritage.
- Applying the impacts mitigation hierarchy: DFC will take action to avoid adverse environmental and social impacts and, where this is not possible, take measures seeking to minimize, mitigate, compensate for, or offset the adverse impacts of the projects it finances.
- Undertaking informed financing: DFC will integrate processes and procedures to screen, categorize, and undertake due diligence of environmental and social impacts, risks, and opportunities of the candidate projects.
- Keeping open communication channels: DFC will openly work with the borrowers to assure that they undertake an informed and adequate process of E&S risks and impact assessment, mitigation, and monitoring.

- Improving institutional capacity: DFC will continuously develop and improve institutional capacity and designate E&S professionals with competence and experience to apply and communicate the above-listed principles to clients and business partners. Sufficient management support and human and financial resources will be provided on an ongoing basis to achieve effective and continuous environmental and social performance.

The successful implementation of the ESMS and the effective application of DFC's E&S commitments depend on the joint efforts of several parties at the institution. Specifically:

- The DFC Board of Directors will:
Support the implementation of the ESMS by:
 - ensuring that the spirit of this policy statement and the ESMS is reflected in all relevant Board decisions.
 - actively promoting this policy statement and the DFC as an E&S sensitive institution.
 - using individual and collective influences to engender buy-in for E&S action within DFC, national agencies, and the country.
- DFC Management will ensure that:
 - the entire organization is made aware of this policy statement and each person understands its role in its implementation.
 - information is disseminated as envisaged to the public and target groups to promote the philosophy enshrined in this policy statement.
 - resources of the DFC are deployed in support of this policy statement.
 - the capacity of staff is built as required to facilitate the fulfillment of DFC's responsibilities in accordance with this policy statement.
 - products and services are developed in accordance with this policy statement.
 - agreements and strategic alliances with relevant entities are pursued in furtherance of national climate/ E&S commitments and DFC's green/ sustainability agenda.
 - systems are put in place to facilitate ESMS implementation, monitoring and evaluation.
- The DFC Environmental and Social Safeguards (ESS) Specialist / Climate Champion (ESS Specialist/CC) will:
 - ensure project's compliance with DFC's ESMS requirements.
 - work closely with DFC staff and management to manage E&S risks in the projects in line with the recommendations of DFC's ESMS.
 - retain overall responsibility for implementation, monitoring and continual improvement of the ESMS.
 - ensure that the ESMS is updated yearly, and that these updates do not result in deviations to the requirements set forth by the ESS.
- DFC Staff will:
 - familiarize themselves with this E&S policy statement and any products and related policies (Stakeholder Engagement and Communication, Climate and Gender) designed to advance it.
 - participate in trainings that enable execution of DFC's ESMS, including application of E&S tools and procedures developed pursuant to this policy statement.
 - promote DFC's E&S policies as well as measures with potential to improve E&S performance of DFC's existing and prospective clients.
 - record data that may inform the enhancement of future product development and ESMS review.

This E&S Policy Statement is communicated to all levels of DFC's organization, is publicly available on DFC's webpage and is visually displayed at DFC's headquarters.

This E&S Policy Statement is endorsed without reservation by the Board and Management of the DFC. It will be cited in all DFC agreements, requiring compliance by the respective parties to the agreement. The DFC will ensure that this policy is understood and implemented by all Corporation employees, clients, and other stakeholders.

DFC policies, procedures and promotional products will be revised to incorporate E&S considerations in congruence with this policy as appropriate.

IDENTIFICATION OF RISKS AND IMPACTS

The DFC has put in place a systematic, documented system for identification and prioritization of E&S and climate risks and impacts of financed activities, especially for all housing and productive sector loans.

The identification and prioritization system includes procedures and processes to assess and screen projects:

1. **Initial Eligibility Assessment:** DFC orients the client to its products and services. Here the Relationship Officer or other frontline staff engages in an initial exchange with the client to educate the individual on DFC's loan programs, products, and services, as well as on its green agenda;
2. **Screening:** The initial screening of the project against the applicable E&S national laws and regulations and the IFC Performance Standards will indicate whether the project may pose social or environmental risks that need to be further analyzed through additional steps of the loan evaluation process;
3. **Categorization:** Based on the results of the screening process, the applicant's project will be classified into one climate risk category using the results of the Preliminary Climate and Disaster Risk Screening Form and into one E&S risk category using the E&S Risk Categorization Form;
4. **Environmental and Social Due Diligence:** An Environmental and Social Due Diligence will be undertaken by DFC during the loan appraisal/approval and negotiation processes to understand and evaluate the client's policies and procedures for identification, assessment, management, monitoring and reporting of environmental and social risks, and to gain insight on the client's planned risk mitigation measures for the project. The Environmental and Social Due Diligence will assess any gaps that may exist between the client's policies and procedures and the DFC's E&S standards incorporated in the ESMS; and
5. **Climate and Disaster Risk and Vulnerability Assessment:** For all projects that have been rated as having moderate, high, or very high disaster or climate risk during the rapid screening stage, an internal Climate and Disaster Risk and Vulnerability Assessment will be undertaken to determine what resilience measures should be incorporated into project design and whether potential disaster risk levels warrant even further assessment.

MANAGEMENT PROGRAMS

Based on the results of the Environmental and Social Due Diligence and of the E&S Screening and Categorization, DFC will establish management programs that, in sum, will describe mitigation and performance improvement measures and actions that address the identified environmental and social risks and impacts of the candidate project or of the project portfolio.

Management programs at the level of DFC's institutional ESMS consist of sets of commitments to be applied by the direct borrower and monitored by the institution:

- Environmental and Social Action Plan (ESAP) - for all Category A and B projects, in case the environmental and social due diligence process detected gaps with DFC's E&S Standards.
- E&S Code of Practice for all Category C projects in forest areas.
- Reduced Impact Logging Code for all commercial logging projects.
- E&S loan covenants for all projects.

ORGANIZATIONAL CAPACITY AND COMPETENCY

DFC will designate specific in-house personnel, including management representative(s), with clear lines of responsibility and authority for environmental and social issues, will allocate financial resources, and will commit to a timeline to implement the ESMS. The organizational structure will be maintained and strengthened as needed to ensure the environmental and social safeguard function is adequately staffed. DFC will also ensure appropriate

levels of training/ capacity-building to ensure that its environmental and social safeguard and credit staff are adequately equipped to implement DFC's ESMS.

The DFC's roles and responsibilities for the implementation of the ESMS include the following:

- **Chief Executive Officer:** Overall responsibility for the ESMS implementation, including its integration in the loan operations, and approving annual budgetary allocations to ensure the appropriate levels of technology to implement and monitor the system; ensure sufficient allocation of funds for ESMS implementation; endorsement of the E&S Policy and the DFC's Exclusion List.
- **Environmental and Social Safeguard Specialist/Climate Champion:** Leads the efforts to mainstream climate resiliency in all DFC operations; generates climate awareness among staff and the public; identify climate and gender gaps in DFC's lending programs and make recommendations to close these gaps; develops and update ESMS implementation plan and timeline; enhances staff capability through training and other capacity building efforts; forges alliances with Climate and Environmental and Social stakeholders; identifies and develops climate/gender equality opportunities or specific changes to DFC's working modalities; responsible for ESMS implementation, monitoring and continual improvement; and prepares annual E&S training expense budgets.
- **Relationship Officer:** First point of contact at DFC for the loan applicants and borrowers; provides initial information regarding E&S requirements; conducts Initial Eligibility Assessment, Risk Screening and Risk Categorization with support from the ESS Specialist/CC; conducts regular monitoring and reporting on the borrower's loan and business progress; conducts at least one site visit and project inspection regarding financial issues; establishes mechanisms for financially monitoring client submissions including compliance instruments such as loan covenants; and provides ad-hoc support to the ESS Specialist/CC in monitoring and reporting of the client's E&S performance.

To perform the above-described duties & responsibilities within the ESMS, induction and refresher trainings will be provided to the persons acting within the various management, credit, and E&S roles. As a result of the Training Needs Assessment (TNA), the following capacity building and training measures to support the implementation of the ESMS at DFC are proposed:

- Induction training in detail on the ESMS for all existing DFC staff but focusing on the capacity building needs of the loan management staff, including ESMS application to projects or investments.
- Induction training in detail on the ESMS for upcoming new staff - as needed via ESS Specialist/CC.
- High-level introduction to the ESMS for the Executive Management and the Board of Directors.
- Refresher training and training on-demand concerning essential ESMS amendments for existing DFC staff.
- Refresher training to ESS Specialist/CC on latest developments under national regulations and international ESS.

EXTERNAL STAKEHOLDER ENGAGEMENT AND COMMUNICATION

The guidelines and tools to be used for external stakeholder engagement and communication are described in DFC's Stakeholder Engagement and Communication Policy. These include consultation and disclosure requirements for financed projects and DFC's Grievance Redress Mechanism (GRM). During the development of the DFC's ESMS, consultations with stakeholder groups were conducted, to understand stakeholder views and needs and to ensure meaningful stakeholder input into the ESMS, Stakeholder Engagement and Communication Plan, and GRM.

Additionally, the DFC will ensure that its external stakeholder engagement and communication mechanism is known and accessible to stakeholders by making the details for contacting the DFC publicly available and easily accessible:

- phone number: (501) 822-2350/2360
- e-mail address: info@dfbelize.org
- physical address of the DFC where the public can meet with DFC's staff: Bliss Parade, City of Belmopan, Cayo District, Belize (P.O. Box 40)

The DFC has also made stakeholders aware of the existence of its ESMS through disclosure of this ESMS summary on its website (<https://www.dfcbelize.org/dfc-environmental-and-social-management-system-policy-esms/?wpdmc=dfc-policies>) and on the World Bank's website (<https://projects.worldbank.org/en/projects-operations/document-detail/P172592?type=projects>).

MONITORING, REVIEW AND REPORTING

The performance of DFC's ESMS will be monitored at three different levels. At the Client level, DFC will monitor and report on the E&S performance of the direct borrowers and FIs, by assessing compliance with the requirements and by monitoring the E&S performance. At the System level, DFC will continuously monitor and review its ESMS to assure continual improvement and compliance with the E&S policies and the ESS. At the Lenders, climate agencies and other stakeholders' level, DFC will fulfill the monitoring and reporting obligations towards IFI-agreements.

Periodic reporting of progress and monitoring results will be done by the E&S personnel to the senior management. At the DFC Board of Directors (BOD) level, ESS monitoring will be done through quarterly updates.