Environmental and Social Management System

Outline for Financial Institutions

*(This document is provided as an outline to enable a Financial Institution Client of IFC to develop a Environmental & Social Management System considering their internal credit and management processes. Please contact the IFC Environmental or Social Specialist for further guidance)*

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# Background

This Environmental & Social Management System (ESMS) details the policy, procedures and workflow that will be followed for investments made by (“the Company”) under the management and administration of (“the Environmental Coordinator (or other designated officer)”).

# Environmental & Social Management System

## Policy

The Company continually endeavors to ensure effective Environmental & Social management practices in all its activities, products and services with a special focus on the following:

* Ensuring that all activities undertaken by the Company are consistent with the Applicable Requirements outlined later in this document
* Ensuring that all projects are reviewed against the Applicable Requirements
* Financing projects only when they are expected to be designed, built operated and maintained in a manner consistent with the Applicable Requirements
* Making best efforts to ensure that all projects are operated in compliance with the Applicable requirements on an ongoing basis, during the currency of the Company’s financing
* Ensuring transparency in its activities
* Ensuring that the management and the shareholders of the client companies understand the policy commitments made by the Company in this area.

This Policy will be communicated to all staff and operational employees of the Company.

Signed Effective Date

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## Applicable Requirements

The Company will ensure that all projects are reviewed and evaluated against the following Environmental & Social requirements

* The IFC Exclusion List for all projects
* The applicable national laws on environment, health, safety and social issues and any standards established therein
* The IFC Performance Standards (Details in Annex )

## Procedures

### At an initial stage of inquiry, the Environmental Coordinator (or other designated officer) will apply IFC’s Exclusion List (see Appendix A) to the project. If the project involves an excluded activity, the prospective client will be so informed, and further consideration of financing for the project will be terminated. Otherwise, the Environmental coordinator will indicate the Applicable Requirements for the project.

### When the Environmental Coordinator (or other designated officer) indicates that the project does not involve an excluded activity, the prospective client will be informed that the Company will undertake (if required) a Environmental & Social Social Due Diligence (ESDD) as part of the appraisal process.

### The Environmental Coordinator or other designated officer will undertake (or appoint a consultant to undertake) a ESDD as per the guideline in Annex 3.2. Depending on the complexity of the project, the ESDD can be a desk review, based on a credit officer’s site visit or require a full scale review conducted by a technically qualified person or consultant.

### The client company must be able to demonstrate compliance to the Applicable Requirements. Demonstration of compliance must be to the Environmental Coordinator (or other designated officer)’s satisfaction, although the opinion of third parties such as regulatory agencies or the IFC can be sought. Where compliance cannot be demonstrated, a Corrective Action Plan must be agreed to in order for the investment to proceed. The plan must specify all of the necessary actions to bring a project into compliance. A target completion date for each specified action must also be agreed.

### Prospective clients must provide all requested information and Environmental Coordinator (or other designated officer)must have concluded that the Project is expected to meet the Applicable Requirements (with Corrective Action if required) prior to the Company’sdecision to make an investment.

### Environmental and Social performance will be evaluated on an annual basis, including status of implementation of the Corrective Action. The benchmark for performance will be the on going compliance against the Applicable Requirements. Performance evaluation will be undertaken by:

1. The Company’s client companies, who will provide annual reports to the Environmental Coordinator (or other designated officer), who may follow up as required with further queries or site visits; and
2. The Environmental Coordinator (or other designated officer), who will provide Performance Reports as per Annex 3.4 to the Management and IFC, to be prepared on the basis of the Client annual reports provided to the Environmental Coordinator (or other designated officer) and the ESDD and supervision conducted.

### All investment agreements will contain appropriate environmental representations, warranties, and covenants requiring that projects are in compliance in all material respects with host country environmental, health, safety and social requirements embodied by state general laws and implementing agencies and conducted in accordance with any Applicable Requirements.

## Organization and Responsibilities

### [FIRST AND LAST NAME] is the Environmental Manager. The Environmental Manager will have oversight for environmental and social issues, will ensure resources are made available for environmental management, and will sign the Company’s annual environmental performance report to IFC.

### The Environmental Coordinator is [FIRST AND LAST NAME].

### The responsibilities of the Environmental Coordinator include:

* During due diligence, the evaluation of environmental compliance of a target client company with Applicable Requirements;
* Supervising projects in the portfolio against on-going compliance with the Applicable Requirements.
* The preparation of an annual environmental performance report, based on the annual performance report prepared by the client companies.

### The Environmental Coordinator will ensure that these procedures are implemented for each project, and that records of environmental reviews are maintained.

### The Environmental Coordinator (or other designated officer) will ensure that all investment decisions are supported by appropriate due diligence documentation (including, but not limited to, an environmental section in each final Investment Memorandum). The Companywill also ensure that the IFC is notified if and when the current Environmental Manager or the current Environmental Coordinator leaves that position, and will provide the IFC the name of the new Environmental Manager or Coordinator.

### Legal Counsel will ensure that appropriate environmental representations, warranties, and covenants are incorporated in each stock purchase agreement.

## Resources and Capabilities

### The Environmental Manager will work with management to ensure that adequate Company resources have been committed to allow for the effective implementation of the environmental policy and procedures of the Company.

### The Environmental Coordinator (or other designated officer) will need to be technical qualified to be able to carry out the due diligence or review work carried out by a consultant.

### The Environmental Coordinator will maintain a file of qualified environmental consultants who can be called upon to assist in conducting environmental reviews.

## Records to be Maintained

### Environmental & Social Due diligence (ESDD)

This is the record of the Company’s E&S review of a project at the time of considering of the project for investment and forms

### E&S Supervision records for projects being supervised

### Reports to be provided to Company management and to IFC

# Annexures

## Exclusion List

(Available at [IFC Website](http://www.ifc.org/ifcext/enviro.nsf/Content/IFCExclusionList))

## IFC performance Standards

(Available at the [IFC Website](http://www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards))

## Carrying out the Environmental & Social Due Diligence (ESDD)

A ESDD is the record of the Company’s review of a project at the time of appraisal that ensures that a project is meeting and is expected to continue to meet the Applicable Performance Requirements. A ESDD is based on all or some of the following

* Review of information in the public domain to check for any social and/or environmental controversies/news related to the project
* Review of project and environmental and social documents of the project
* Discussions with the Project Officials
* Site visit and discussions there
* Some technical/and E&S knowledge will be required along with knowledge of the technical issues in the project’s industrial sector and may require the use of an external consultant if the project is large and complex. Industry sector-wise E&S information in available at the following locations
* [World Bank Pollution Prevention and Abatement Handbook](http://lnweb18.worldbank.org/essd/envext.nsf/51ByDocName/PollutionPreventionandAbatementHandbookOverview)
* [IFC Sector guidelines](http://www.ifc.org/ifcext/enviro.nsf/Content/EnvironmentalGuidelines)

## Suggested ESDD report outline

Cover issues as applicable

### Background

Project Description, Site and Environment Setting, Land requirement,

### Compliance with Applicable Requirements

Exclusion list, National Regulatory requirements, (Performance Standards if required)

### Environment Issues

Air Pollution, Water Pollution, Solid and Hazardous Wastes, Noise, Site Health and Safety, Chemical Hazards and Emergency Management,

### Resources Utilization

Water, Construction material, Other

### Sensitive Receptors

Local Human settlements, Local Ecologically sensitive areas, Sites of cultural importance

### Social Issues

Land Acquisition, Rehabilitation and Resettlement, Indigenous Peoples, Impact on local livelihood, Public Opinion and Consultation

### Labor Relations

No Child or forced labor, Compliance with national labor laws

### Project consultation and local Disclosure

### Other project specific issues

### Environment Management /Corrective Action Plan

### Summary and Recommendations

### Financing Covenants/Conditions

## Format of Performance Reporting to IFC

*Template provided separately*

## Guidance on Categorization

*Provided separately if required*