

ESMS for FIs: A Primer

<p>What is a Environmental and Social Management System (ESMS)</p>	<p>It is the management system (both formal and informal) consisting of procedures, management commitment, delineation of roles and responsibilities and guidance that a bank/PE fund follows to review and manage the E&S issues and risks associated with its investments.</p>
<p>E&S Policy</p>	<p>A policy, serving as a brief declaration of an organization's commitment to sustainable development and management of E&S issues. This is often publicly disclosed but certainly always communicated internally.</p>
<p>E&S Procedure</p>	<p>The Procedure detailing how the organization addresses E&S and sustainability issues as part of its investment operations.</p> <p>Procedures are normally step by step instructions focusing on what needs to be done and by whom at various stages of the investment cycle (including supervision). Reference is often made to guidelines.</p> <p>A procedure may be stand-alone or constitute part of the Credit or other Operational procedures of the bank/PE fund.</p> <p>Procedures should be documented and communicated to ensure that all existing and new staff are aware of the process.</p>
<p>E&S review guidelines</p>	<p>These serve as guidance to responsible officers in the bank/PE fund on how to carry out the various steps outlined in the E&S Procedure. The guidelines can be simple for low risk installations and more sophisticated for high risk installations. These should help provide a guide on what to look for when conducting an E&S review and can include:</p> <ul style="list-style-type: none"> • A checklist of documents (such as regulatory clearances) to be reviewed • Questions to ask the client during a site visit • Aspects to look at during the site visit such as housekeeping, visible contamination etc
<p>Record keeping</p>	<p>This is a vital aspect of an ESMS where the review and analysis conducted and the mitigation or corrective measures required as applicable as per the Procedure are recorded in the credit decision documents.</p>
<p>Categorization</p>	<p>To ensure that the extent of the review is commensurate with the nature of risk, categorization is a useful step in procedures where based on basic information about a project such as sector and scale, the level of E&S risk the project could pose is determined. This also enables the bank/PE fund to determine the extent and sophistication of the E&S review. Examples of categorization are High, Medium, and Low risk or Category A, B, C and FI.</p>
<p>Guidance on industrial sectors</p>	<p>These are sector specific guidelines that outline the key E&S issues associated with a sector and provide technical guidance to credit officers and engineers involved in the appraisal of industrial and other facilities.</p>