

Leasing ESMS Guidelines

A leasing company (the Company) that receives IFC support should develop and implement an internal process or procedure to ensure its leasing business minimizes the financial, reputational and liability risks arising from environmental and social factors. This internal process or procedure on environmental and social risk management (Environmental and Social Management System or ESMS) includes the components below. The ESMS process/ procedures can be specified based on the types (finance vs. operating leases) and terms of leases (i.e. longer-term leases carry more risks).

1. Policy Statement

The Company adopts a Policy Statement on complying with the applicable environmental and social performance requirements. For instance:

- IFC excluded activities
- Applicable host country social, environmental, and safety laws and regulations regarding the lessees' businesses, the licensing & registration, and the operation and maintenance of leased equipment and assets.

2. Environmental and Social Risk Management Staff

The Company demonstrates management commitment by designating staff and resources for implementing this procedure.

3. A List of Excluded Activities

For example, if the Company is required to apply the IFC Exclusion List, the ESMS contains the list of activities as defined by the IFC Exclusion List to be screened against.

4. Lease Appraisal Process/ Procedures on Leased Equipment and Assets

If the Company's leasing business involves the purchase, repossession, sale, and/ or disposal of equipment and assets, potential environmental and social issues related to such equipment and assets are identified prior to the purchase, repossession, sale, and/ or disposal of equipment and assets to avoid any liabilities through procedures such as E&S regulation compliance check; check on conditions of equipment and assets; and review of repair, maintenance, and accident records (please specify the Company's practices).

If the Company holds responsibility for proper use and maintenance of leased equipment and assets, the Company provides the training and resources to lessees to ensure the proper use and maintenance.

5. Lease Appraisal Process/ Procedures on Lessees' Activities

Upon verifying that lessees' activities do not support activities in the list of excluded activities, the Company identifies the potential environmental and social issues related to (1) the lessees' activities supported by the leased equipment and assets and (2) the operation and maintenance of the equipment and assets.

The Company also verifies the intended use of leased equipment and assets and the lessees' possession of relevant permits and authorization to operate equipment and assets and/ or conduct the activities supported by the leased equipment and assets.

If the Company holds lessees accountable for proper use and maintenance to ensure compliance with host country social, environmental, and safety laws and regulations, the Company confirms that the lessees have adequate resources and/ or are trained for proper use and maintenance of leased equipment and assets.

In cases of non-compliance discovered during the appraisal, the Company should have procedures in place to address non-compliance prior to the lease agreement.

The Company discusses further business opportunities with the lessees to upgrade equipment and assets to meet new or higher environmental standards (e.g., equipment that lowers emissions or minimizes waste or allows alternative fuel use) or to meet export market requirements, if applicable under the given market and regulatory conditions (e.g., availability of alternative fuels; regulatory changes; etc.).

6. Lease Appraisal Process/ Procedures For Leasing in Sensitive Sectors

When leasing to business activities in sensitive sectors and projects with potentially significant environmental and social risks (e.g., mining, oil production), the Company conducts further environmental and social due diligence.

Sensitive Sectors and Projects:

Projects affecting indigenous peoples	Construction of dams and reservoirs
Projects involving resettlement of communities/families	Pesticides and herbicides: production or commercial use
All projects which pose serious socioeconomic concerns	Major irrigation projects or other projects affecting water supply in a given region
Projects associated with induced development (e.g. inward migration)	Domestic or hazardous waste disposal operations
Projects which impact on cultural property (e.g. religious and archeological sites)	Hazardous chemicals: manufacture, storage or transportation above a threshold volume
Projects which pose serious occupational or health risks	Oil and gas developments, including pipeline construction
Impacts on protected natural habitats or areas of high biological diversity including wetlands, coral reefs and mangroves	Large infrastructure projects, including development of ports and harbors, airports, road, rail and mass transit systems
Forestry operations	Metal smelting, refining and foundry operations
Mining (opencast and pit)	Large thermal and hydropower developments

The Company inquires and reviews not only the governmental authorizations and permits but also information available in the public domain in order to avoid the extent possible leasing to businesses that have substantial unresolved environmental and social issues. In such cases, the Company satisfies itself that the activity being undertaken is in compliance with the applicable laws and ensures:

- a. Terms in the agreements include social, environmental, and safety conditions
- b. Lessee undertakes record keeping and reporting to the leasing company
- c. Monitoring and supervision is undertaken if necessary

7. Monitoring Process/ Procedures

The Company verifies whether the leased equipment and assets are used for intended purposes through procedures such as site visits and check on operational records that document the use of equipment for specific activities (please specify the Company's practices). If applicable, the Company also monitors regularly that the leased equipment and assets are operated and maintained properly (e.g., maintenance records, maintenance training, emission control certificates; etc.). In case of non-compliance, the Company confirms that the lessees have resources and are trained for proper use and maintenance of leased equipment and assets.

8. Record Keeping and Reporting

The Company has a system to maintain all the appraisal and monitoring records. Regular reporting to relevant stakeholders (if required) is undertaken.