



IFC

**International
Finance Corporation**
World Bank Group

Environmental & Social Management System 101

A Framework for Environmental & Social Risk Management

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What is a Environmental & Social Management System (ESMS)?

- A Environmental & Social Management System (ESMS) is a *framework* that *integrates environmental and social risk management* into a Financial Institution's business processes.
- A ESMS is a *set of actions and procedures* that are *implemented concurrently* with the Financial Institution's existing risk management procedures.
- These procedures can be written down in a *stand-alone* document or *integrated* in a Financial Institution's existing risk management procedures.

Purpose of Environmental & Social Management System (ESMS)

- A ESMS ensures that the Financial Institution's activities are in *compliance* with its environmental and social standards.
- For IFC clients, environmental and social standards are stated in the Applicable Requirements of the Legal Agreement, which include:
 - IFC Exclusion List
 - Applicable local, provincial and national laws on environment, health and safety
 - IFC Performance Standards
- A ESMS helps the Financial Institution to *avoid and manage* loans with potential *environmental and social risks* by conducting environmental and social *due diligence* prior to loan disbursement and adequate *supervision* of projects during the term of the loan agreement.
- The Financial Institutions' loan agreements contain appropriate *covenants* requiring that projects are in compliance with the Financial Institution's environmental and social requirements as stipulated in the ESMS.

Part I. Developing a ESMS

**Could be
integrated
Into risk
management
procedures**

- Core elements of a Financial Institution's ESMS
 1. environmental and social policy
 2. Procedures to screen projects, assign environmental risk category, and conduct due-diligence to evaluate environmental and social risks projects under consideration
 3. Monitoring and record keeping
 4. ESMS review and continuous improvement
 5. External reporting
 6. Roles and responsibilities for implementing the ESMS
 7. ESMS budget, training and Senior Management approval
- Setting up a ESMS: where to start?
 - Using the *ESMS Outline for Financial Institutions*

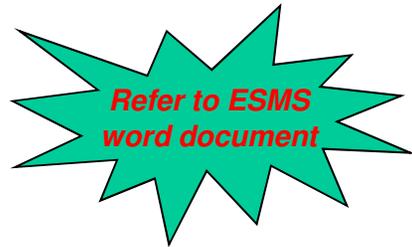
**Refer to ESMS
word document**

1a. environmental and social policy

- A Financial Institution's commitment to its goal and efforts to manage environmental and social risk across its operations
 - Written statement
 - Approved by Senior Management
 - Communicated to all employees, in particular operational staff of the Financial Institution
 - Communicated to all stakeholders including clients

1b. environmental and social policy

- Suggested points to include in a environmental and social policy in addition to any existing policy
 - All activities undertaken by the Financial Institution are consistent with its own environmental and social standards, as well as Applicable Requirements
 - All projects are reviewed against the Applicable Requirements
 - Projects are financed only when they are expected to be designed, built, operated and maintained in a manner consistent with the Applicable Requirements
 - Efforts are made to ensure that all projects are operated in compliance with the Applicable requirements on an ongoing basis, while being financed by the Financial Institution
 - Clients understand the policy commitments made by the Financial Institution in this area



Exercise #1: environmental and social Policy

- In the *ESMS Outline for Financial Institutions*, **write**
 - *Your Financial Institution's environmental and social Policy*
 - *The purpose of the ESMS*
 - *The Financial Institution's actions to integrate environmental and social risk management into the financial risk management process*
 - *The Financial Institution's actions to identify, mitigate and manage environmental and social risks of projects*
 - *The types of investments/loans and activities (e.g., entire portfolio and investment type) to which the ESMS applies*

2a. Procedures to screen and assess project under consideration

- A. Screen activities of project
 - Does it involve an excluded activity as listed in the IFC Exclusion List (see Annex A)?
 - If yes, the project will NOT be considered for financing
 - If no, the project CAN be considered for financing
 - Does the project have a history of environmental and social incidents?
 - If yes, the project will NOT be considered for financing
 - If no, the project CAN be considered for financing
- B. Review industry sector and technical aspects of the project
 - What is the industry sector?
 - Assess environmental and social aspects (see checklist in Annex B)?
 - ✓ Project site
 - ✓ Environmental issues: air emissions, waste water, solid and hazardous wastes, hazardous chemicals and fuels, resource consumption, nuisance
 - ✓ Community interactions
 - ✓ Social issues
 - ✓ Labor issues

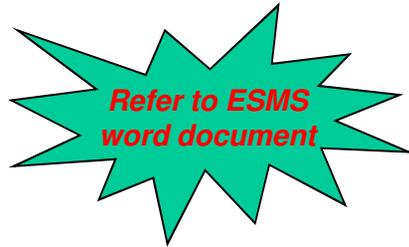
Could be integrated into risk management procedures

2b. Procedures to assign environmental risk category to project

- C. Categorize the project by environmental risk (see project examples in Annex C)
 - Low-Risk
 - ✓ Project with minimal or no adverse social or environmental impacts
 - Medium-Risk
 - ✓ Project with potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures
 - High-Risk
 - ✓ Project with potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented

2c. Conducting due-diligence to evaluate environmental and social risks

- D. Conduct due-diligence to evaluate environmental and social risks
 - Low-Risk, Medium-Risk and High-Risk projects
 - ✓ Does the project comply with all applicable local, provincial/departmental and national laws on environment, health, and safety?
 - If no, require the project to develop a plan for corrective actions (including periodic reporting and monitoring) within a reasonable timeframe to be included as a condition of disbursement in loan agreement
 - ✓ Does the project have all the necessary permits?
 - If no, require project to obtain all necessary permits before proceeding with financing
 - If yes, review copies of the permitE and Snsure that they are current
 - Medium-Risk and High-Risk projects
 - ✓ Conduct site visit, using consultants as necessary
 - ✓ Request action plan to address potential environmental and social risks (including periodic reporting and monitoring) within a reasonable timeframe
 - High-Risk projects
 - ✓ Inform IFC about project prior to loan decision and provide relevant information
 - ✓ Conduct a full-scale environmental and social impact review with a technically qualified consultant
 - ✓ Ensure that project complies with IFC's Performance Standards
<http://www.ifc.org/ifcext/sustainability.nsf/Content/PerformanceStandards>

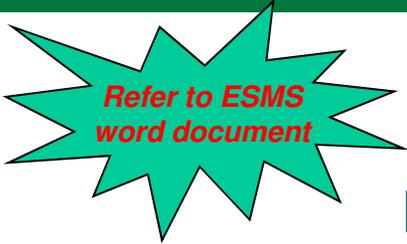


Exercise #2: Procedures to assess and categorize projects

- In the *ESMS Outline for Financial Institutions*, **write**
- *How will your Financial Institution incorporate relevant environmental and social review procedures in its risk management procedures?*
- *The steps of your Financial Institution's procedures and the people responsible for:*
 - *A. Screening project against the IFC Exclusion List and review of project's past history of environmental and social incidents*
 - *B. Reviewing industry sector and technical aspects of project*
 - *C. Assigning an environmental risk category to the project*
 - *D. Conducting due-diligence of project to evaluate environmental and social risks*
- *Applicable local, provincial/departmental and national laws on environment, health and safety that regulate industry sectors of projects in your Financial Institution's investment portfolio*
- *How will your Financial Institution incorporate relevant environmental and social requirements in covenants in loan agreements?*

3. Monitoring and record keeping

- Evaluate the environmental and social performance of on-going projects on a periodic basis (e.g. monthly, quarterly, annually)
 - Request and review periodic reports of projects, including reports of incidents and accidents
 - Follow up with projects to ensure that plans for corrective actions to address potential environmental and social risks are effectively implemented (as required in the terms of the loan agreement)
 - Follow up with projects in cases of non-compliance and ensure these are corrected within a reasonable timeframe with help from consultants as necessary
 - Conduct site visits if necessary
- Keep records for each project
 - Screening against applicable national laws on environment, health, and safety
 - Review of industry sector and technical aspects
 - Environmental risk category
 - Due-diligence to evaluate environmental and social risks



Refer to ESMS
word document

Exercise #3: Monitoring and record keeping

- In the *ESMS Outline for Financial Institutions*, **write**
 - *Who will be responsible for requesting and reviewing periodic reports from projects?*
 - *How will your Financial Institution follow up with clients in cases of non-compliance?*
 - *How will your Financial Institution determine necessary follow-up actions in cases of non-compliance?*
 - *The process for record keeping on the environmental and social performance of each project*

4. ESMS review and continuous improvement

- A ESMS needs to be reviewed periodically to ensure that it remains relevant and effective over time and incorporates a Financial Institution's evolving needs.
 - Keep Senior Management informed on challenges, successes and other important issues associated with ESMS implementation
 - Identify potential difficulties with operational aspects of ESMS implementation and make changes as necessary
 - Review scope of ESMS procedures to ensure that emerging environmental and social risks of projects are detected and identified during due-diligence process
 - Update ESMS to reflect revisions in applicable national laws on environment, health, and safety



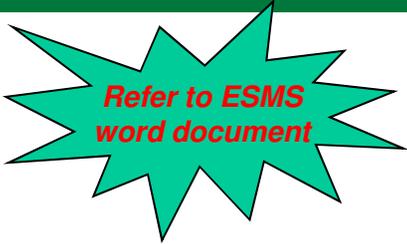
Refer to ESMS
word document

Exercise #4: ESMS review and continuous improvement

- In the *ESMS Outline for Financial Institutions*, **write**
 - *Schedule of periodic reviews (e.g., monthly, quarterly, annually) of the ESMS with relevant staff and Senior Management*
 - *How your Financial Institution (and who) will collect information on difficulties encountered with operational aspects of ESMS implementation?*
 - *How your Financial Institution (and who) will identify emerging environmental and social risks of projects to detect these during due-diligence process?*
 - *How your Financial Institution (and who) will track changes in applicable national laws on environment, health, and safety?*
 - *Who will be responsible for revising the ESMS and informing staff across your Financial Institutions of changes?*

5. External reporting to IFC and other investors

- Report immediately if clients experience major accidents or incidents that have received media attention
- Report on any High-Risk projects prior to loan decision
- Report annually on environmental and social performance (see IFC reporting format in Annex D)
 - Portfolio information
 - Progress on ESMS implementation
 - ESMS assessment procedures
 - ESMS monitoring process
 - environmental and social issues associated with projects
 - Non-compliance of projects



Refer to ESMS
word document

Exercise #5: External reporting

- In the *ESMS Outline for Financial Institutions*, **write**
 - *Who will track if clients experience major accidents or incidents that have received media attention?*
 - *Who will inform IFC on any High-Risk projects prior to loan decision?*
 - *Who will be responsible for preparing the Annual Environmental Performance Report and submitting it to the IFC?*

6. Roles and responsibilities for implementing the ESMS

- Roles
 - ESMS Officer (management-level) with assistance from Environmental Coordinator(s) (operational-level) as necessary
 - Loan/Credit Officers
 - Legal Counsel
- Examples of responsibilities of different roles
 - Set up, implement and revise the ESMS
 - Communicate ESMS requirements
 - Screen projects against Applicable Requirements (e.g., Exclusion List/national laws)
 - Ensure that all loan decisions are supported by appropriate environmental and social reviews
 - Participate in loan decision-making process
 - Determine and include environment, health and safety covenants in loan agreements
 - Monitor and track project performance
 - Report to IFC on accidents/incidents and on an annual basis

*Could be
integrated
into risk
management
procedures*



Refer to *ESMS*
word document

Exercise #6: Roles and responsibilities for implementing ESMS

- In the *ESMS Outline for Financial Institutions*, write
 - *The name of your Financial Institution's ESMS Officer and Environmental Coordinator(s)*
 - *The responsibilities of the ESMS Officer*
 - *The responsibilities of the Environmental Coordinator(s)*
 - *The responsibilities of Loan/Credit Officers*
 - *The responsibilities of Legal Counsel*

7. ESMS budget, training and Senior Management approval

- Budget resources and funds for ESMS
 - ✓ Training on ESMS procedures
 - ✓ Staff time for performing ESMS duties and responsibilities
 - ✓ ESMS documentation and materials
- Organize ESMS training for staff, using consultants as needed, to explain
 - ✓ Purpose and ESMS overview
 - ✓ Overview of investment portfolio by industry sector including environmental and social aspects of industry sectors
 - ✓ ESMS procedures and specific staff expectations during implementation
 - ✓ Updates/revisions to ESMS, as necessary
- Obtain approval and sign-off from Senior Management to ensure that the ESMS meets all necessary criteria (see ESMS checklist in Annex E)



Refer to *ESMS*
word document

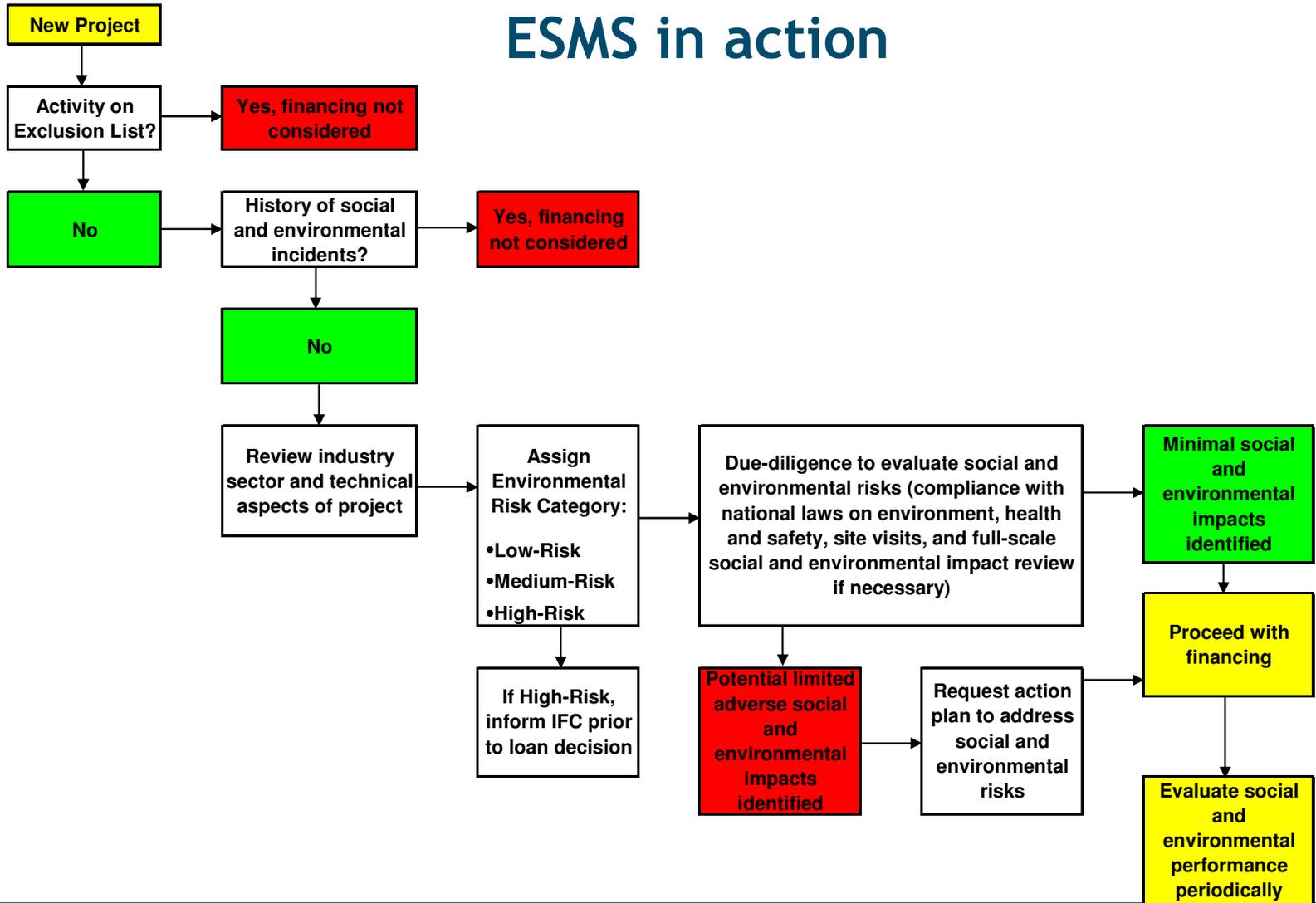
Exercise #7: ESMS budget, training and Senior Management approval

- In the *ESMS Outline for Financial Institutions*, **write**
 - *Create a ESMS training schedule, including use of consultants to develop necessary materials*
 - *Create a ESMS budget*
 - *Review ESMS with Senior Management and obtain sign-off for implementation as part of the Financial Institution's standard operating procedures*

Part II. Implementing a ESMS

- Communicate across the Financial Institution the importance of the ESMS and its implementation
 - ✓ Office memo/email, staff meeting, bulletin board, newsletter
- All staff take action in day-to-day duties
 - ✓ Carry out ESMS responsibilities
 - ✓ Apply ESMS procedures within risk management review process for new loan applications

ESMS in action



Annex A: IFC Exclusion List

- Production or trade in any product or activity deemed **illegal under host country laws** or regulations or international conventions and agreements, or subject to **international bans**, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCBs, wildlife or products regulated under CITES.
- Production or trade in **weapons and munitions**.
- Production or trade in **alcoholic beverages** (excluding beer and wine).
- Production or trade in **tobacco**.
- **Gambling, casinoE and S**quivalent enterprises.
- Production or trade in **radioactive materials**. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
- Production or trade in **unbonded asbestos fibers**. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
- **Drift net fishing** in the marine environment using nets in excess of 2.5 km in length.
- Production or activities involving harmful or exploitative forms of **forced labor/harmful child labor**.
- **Commercial logging operations** for use in primary tropical moist forest.
- Production or trade in **wood or other forestry products** other than from sustainably managed forests.

Annex B

- environmental and social assessment

Social and Environmental Aspects Screening Checklist	
Project name:	Location:
Lending amount (\$m) and financial purpose:	
Industry sector:	Brief project description:
Site visit date:	Additional technical review required:
Reviewed by:	<input type="checkbox"/> Yes <input type="checkbox"/> No
Compliance with applicable requirements—check all that apply:	
<input type="checkbox"/> Exclusion list <input type="checkbox"/> National regulatory requirements <input type="checkbox"/> Environmental, health and safety permits granted <input type="checkbox"/> Injuries and fatalities have occurred (how and when: _____) <input type="checkbox"/> Labor-related fines (when and why: _____) <input type="checkbox"/> Environmental incidents and fines (when and why: _____)	
Management systems—check all that apply:	
<input type="checkbox"/> No written environmental and social policy <input type="checkbox"/> No written human resources policy (e.g., employee rights/non-discrimination) <input type="checkbox"/> No written fire/safety plan or emergency prevention/preparedness/response plan <input type="checkbox"/> No environmental, health and safety training for employees <input type="checkbox"/> No procedures for managing environmental and social risks <input type="checkbox"/> No designated person in charge of environmental and social issues <input type="checkbox"/> No internal process for sharing information	
Project site—check all that apply:	
<input type="checkbox"/> Non-urban/undeveloped land <input type="checkbox"/> Proximity to river/stream/pond/lake/sea <input type="checkbox"/> Proximity to protected area (e.g., forest/endangered species)/ecologically sensitive area (e.g., wetland/breeding grounds) <input type="checkbox"/> Proximity to culturally sensitive/indigenous area	

Annex B

- environmental and social assessment (continued)

Environmental issues—check all that apply:	
<p><i>Air emissions</i></p> <input type="checkbox"/> Boilers <input type="checkbox"/> Generators <input type="checkbox"/> Vehicles and equipment <input type="checkbox"/> Furnaces and incinerators <input type="checkbox"/> Welding and soldering <input type="checkbox"/> On-site burning <input type="checkbox"/> Use of solvents <input type="checkbox"/> Use of fumigation <input type="checkbox"/> Evaporation of chemicals <input type="checkbox"/> Refrigeration plant <input type="checkbox"/> Use of exhaust ventilation	<p><i>Waste water</i></p> <input type="checkbox"/> Waste water discharged to _____ <input type="checkbox"/> Drains and grates <input type="checkbox"/> Oil separators <input type="checkbox"/> Separation tanks or filters <input type="checkbox"/> Reed beds <input type="checkbox"/> Cut-off valves <input type="checkbox"/> Foul sewers and septic tanks <input type="checkbox"/> Water treatment units <input type="checkbox"/> Cleaning operations <input type="checkbox"/> Spraying operations <input type="checkbox"/> De-watering/water pump out
<p><i>Solid and hazardous wastes</i></p> <input type="checkbox"/> Waste generated <input type="checkbox"/> Types of waste: _____ _____ <input type="checkbox"/> Hazardous waste (e.g., waste oils, pesticide washings, solvents, clinical waste, asbestos) <input type="checkbox"/> Waste disposed to _____	<p><i>Hazardous chemicals, fuels, and pesticides</i></p> <input type="checkbox"/> On-site chemicals or fuels storage <input type="checkbox"/> Protective measures against leaks/spills <input type="checkbox"/> Signs of leaks/spills <input type="checkbox"/> On-site spill clean up equipment <input type="checkbox"/> Protective measures against rain <input type="checkbox"/> Signs of corrosion on tanks/containers <input type="checkbox"/> Secured storage areas against theft <input type="checkbox"/> Training on proper handling of chemicals and fuels <input type="checkbox"/> Pesticide use and management
<p><i>Resource consumption</i></p> <input type="checkbox"/> Materials used: _____ <input type="checkbox"/> Use of renewable natural resources <input type="checkbox"/> Use of tools and equipment <input type="checkbox"/> Water source: _____ <input type="checkbox"/> Energy source: _____	<p><i>Nuisance</i></p> <input type="checkbox"/> Dust <input type="checkbox"/> Noise <input type="checkbox"/> Odors <input type="checkbox"/> Fumes <input type="checkbox"/> Vibrations <input type="checkbox"/> Traffic congestion and obstructions

Annex B

- environmental and social assessment (continued)

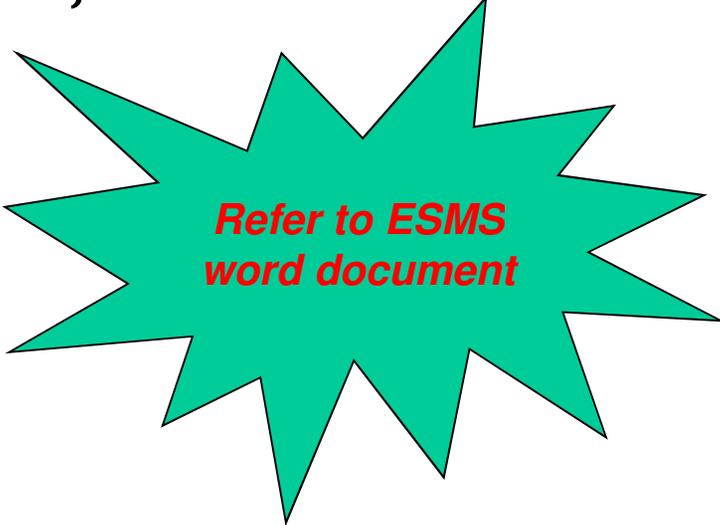
Community interactions—check all that apply:
<input type="checkbox"/> No designated person in charge of responding to questions from the community <input type="checkbox"/> No procedures for managing community complaints <input type="checkbox"/> Use of security personnel
Social issues—check all that apply:
<input type="checkbox"/> Land acquisition required <input type="checkbox"/> Displacement/resettlement of local settlements <input type="checkbox"/> Impact on local settlements/livelihood <input type="checkbox"/> Impact on indigenous peoples <input type="checkbox"/> Complaints from neighbors/communities <input type="checkbox"/> On or adjacent to site of cultural/archaeological importance
Labor issues—check all that apply:
<input type="checkbox"/> No Personal Protective Equipment provided (e.g., safety goggle/hard hat/protective glove) <input type="checkbox"/> Inadequate employee health and safety measures (e.g., fall prevention/ventilation) <input type="checkbox"/> Inadequate working conditions (e.g., air quality/lighting/confined spaces/on-site hygiene) <input type="checkbox"/> Inadequate terms of employment (e.g., working hours/rest breaks/time off/overtime pay) <input type="checkbox"/> Unequal employment opportunities (e.g., discrimination against gender/ethnic group/age) <input type="checkbox"/> Payment below minimum wage <input type="checkbox"/> Employees below minimum age <input type="checkbox"/> Child or forced labor <input type="checkbox"/> No process for employees to voice complaints <input type="checkbox"/> No recognition of employee organizations/labor unions
Additional comments

Annex C: Project examples by environmental risk category

- **High-Risk Projects**
 - Dams and reservoirs; mining and quarrying
 - Large-scale forestry and logging; agro-industries; industrial plants
 - Major new industrial estates; oil and gas developments, including major pipelines
 - Large ferrous and non-ferrous metal operations; pulp and paper industries; port and harbor developments; thermal or hydropower development
 - Manufacture, use or disposal of large quantities of pesticides/herbicides and mineral fertilizers
 - Manufacture, transportation and use of hazardous and/or toxic materials
 - Domestic and hazardous waste disposal operations
 - Large-scale tourism developments; textile industries involving wet processes; transportation projects (airports, highways, motorways, railroads)
 - Projects in or near to highly sensitive and high value ecosystems; with large resettlement components and all projects with potentially major impacts on human populations; affecting indigenous or tribal populations; which impose serious occupational or health risks; which pose serious socioeconomic concerns
- **Medium-Risk Projects**
 - Agribusiness (small scale); city hotels, small scales tourism; general manufacturing
 - Chemical industries, without any bulk storage of inflammable, explosive or hazardous substances; manufacture of plastic products
 - Processing and preservation of fruit and vegetable, fish, meat; vegetable/animal oil production and processing; manufacture of wines and other fermented beverages; dairy products manufacture
 - Manufacture of leather products (except tanning and dyeing); repair and maintenance shops; spinning, weaving and finishing of natural and synthetic fabric; printing
 - Manufacturing of wood products; saw milling; manufacture of veneer, plywood and other wood-based materials; small power plants
- **Low-Risk Projects**
 - Establishment of business services industries (business advisors, accountancy auditors, etc.); advisory assignment; life insurance companies
 - Education and training; broadcasting (TV, radio, satellite); health and family planning; purchase of computer equipment
 - Establishment and equipment of art, design, telecommunications studios; restaurants and other food premises
 - Spinning, weaving and finishing of natural and synthetic fabric; tailoring and dress-making shops; manufacture of leather products and clothing (except where tanning or dyeing is involved)

Annex D: IFC reporting format

- See Annex D of *ESMS Outline for Financial Institutions*



***Refer to ESMS
word document***

Annex E

- ESMS checklist for Senior Management approval

Social & Environmental Management System (SEMS) Checklist
Name of Financial Institution: _____ Name(s) of Senior Managers: _____ Approval date: _____
SEMS policy and management commitment—check all that apply: <ul style="list-style-type: none"> <input type="checkbox"/> Policy with regard to social and environmental (S&E) risk management <input type="checkbox"/> SEMS policy approved by Senior Management <input type="checkbox"/> SEMS specifies types of investments/loans and activities it applies to (e.g., entire portfolio/investment type)
SEMS process and procedures—check all that apply: <ul style="list-style-type: none"> <input type="checkbox"/> Documented process to assess social and environmental impacts and risks of its projects <input type="checkbox"/> SEMS specifies applicable requirements (e.g., IFC Exclusion List/national laws/IFC Performance Standards) <input type="checkbox"/> S&E due diligence process integrated with risk assessment procedures <input type="checkbox"/> Project site visits conducted as part of risk assessment procedures <input type="checkbox"/> Review of borrower’s applicable environment, health and safety permits <input type="checkbox"/> Loan agreements contain covenants requiring ongoing compliance with applicable requirements (e.g., national laws)
S&E monitoring and record keeping—check all that apply: <ul style="list-style-type: none"> <input type="checkbox"/> Process for monitoring ongoing compliance with applicable requirements <input type="checkbox"/> Borrowers required to report accidents/incidents within reasonable timeframe <input type="checkbox"/> Borrowers required to provide periodic reports pertaining to S&E performance of projects
SEMS internal feedback and continuous improvement—check all that apply: <ul style="list-style-type: none"> <input type="checkbox"/> Process for periodically reporting social and environmental performance information internally to senior management <input type="checkbox"/> Continuous improvement process in place to revise and update SEMS (e.g., changes in national law/international best practices)
S&E external reporting—check all that apply: <ul style="list-style-type: none"> <input type="checkbox"/> Annual reporting on S&E performance to IFC
SEMS roles and responsibilities—check all that apply: <ul style="list-style-type: none"> <input type="checkbox"/> Designated SEMS Officer <input type="checkbox"/> Designated SEMS Environmental Coordinator(s) <input type="checkbox"/> Description of SEMS responsibilities of different roles
SEMS capacity and resources—check all that apply: <ul style="list-style-type: none"> <input type="checkbox"/> Process for communicating SEMS policy and procedures across Financial Institution <input type="checkbox"/> SEMS includes tools (e.g., checklists/guidance notes) for its implementation <input type="checkbox"/> Budget allocated for SEMS training <input type="checkbox"/> Training plan for SEMS implementation