[FINANCIAL INSTITUTION NAME]

Environmental & 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)

Approved by Senior Management
[Effective Date]

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Environmental & Social Management System

The Environmental & Social Management System (ESMS) is a framework that integrates environmental and social risk management into a Financial Institution's business processes. It is a set of actions and procedures that are implemented concurrently with the Financial Institution's existing risk management procedures.

The ESMS ensures that the Financial Institution's activities are in compliance with its environmental and social standards. It 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.

This Environmental & Social Management System (ESMS) details: 1) the environmental and social policy; 2) procedures to screen projects, assign environmental risk category, and conduct due-diligence to evaluate environmental and social risks; 3) monitoring and record keeping; 4) ESMS review and continuous improvement; 5) external reporting; 6) roles and responsibilities; and 7) budget, training, and Senior Management approval that will be integrated in the existing risk management procedures of [FINANCIAL INSTITUTION NAME] ("the Financial Institution") to evaluate a project's financial risks.

1 ENVIRONMENTAL AND SOCIAL POLICY

The Financial Institution recognizes that all activities and projects are in compliance with the environmental and social standards stated in the Applicable Requirements of the Legal Agreement with the IFC, which include:

- IFC Exclusion List
- Applicable local, provincial and national laws on environment, health, safety and social issues
- IFC Performance Standards

The Financial Institution continually endeavors to ensure effective environmental and social management practices in all its activities, products and services with a special focus on the following:

[Insert text from Exercise #1]



Furthermore, all loan agreements will contain covenants requiring that projects are in compliance with these environmental and social requirements.

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

Signed _____ Effective Date _____

2 PROCEDURES TO SCREEN PROJECTS, ASSIGN ENVIRONMENTAL RISK CATEGORY AND CONDUCT DUE-DILIGENCE TO EVALUATE ENVIRONMENTAL AND SOCIAL RISKS

The following steps are integrated with the Financial Institution's existing risk management procedures for evaluating a project's financial risks.

A. Screening activities of project
At an initial stage of inquiry, the activities of a project under consideration are assessed.

[Insert text from Exercise #2]



If a project involves an excluded activity as listed in the IFC Exclusion List (see Annex A), it will not be considered for financing.

If a project has a history of environmental and social incidents, it will not be considered for financing.

B. Reviewing industry sector and technical aspects of project
Assess the technical aspects of the project, including the project site, environmental issues, community interactions, social issues and labor issues (see checklist in Annex B).

[Insert text from Exercise #2]

Prospective clients must provide all requested information to the Environmental Coordinator prior to the Financial Institution's decision to make an investment.

C. Assigning an environmental risk category to the project
Projects are categorized by environmental risk level (see Annex C) based on four factors:

- Industry sector
- Proximity to environmentally sensitive areas
- Potentially irreversible impacts
- Extent of environmental and social issues

[Insert text from Exercise #2]

D. Conducting due-diligence of project to evaluate Environmental and Social risks
Still at the initial stage of inquiry, project compliance with applicable national laws on environment, health, and safety will be verified.

Depending on the complexity of the project, the industry sector, and environmental risk category, the environmental and social risks must be evaluated. If the project is High-Risk, the Financial Institution will inform IFC prior to making a loan decision.

[Insert text from Exercise #2]

This may consist of a desk review, a site visit or may require a full-scale review conducted by a technically qualified consultant.

3 MONITORING AND RECORD KEEPING

As part of the Legal Agreement with IFC, the environmental and social performance of projects will be monitored and evaluated on a periodic basis to ensure on-going compliance with the Applicable Requirements.

[Insert text from Exercise #3]



For each project, a record of supporting documentation of environmental and social reviews will be maintained. This includes the initial evaluation of environmental and social risks at the time a project is considered for investment as well as records of on-going compliance.

[Insert text from Exercise #3]

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. This involves identifying potential difficulties with operational aspects of ESMS implementation and making changes as necessary; reviewing the scope of ESMS procedures to ensure that emerging environmental and social risks of projects are detected and identified during the due-diligence process; and updating ESMS to reflect revisions in applicable national laws on environment, health, and safety

[Insert text from Exercise #4]



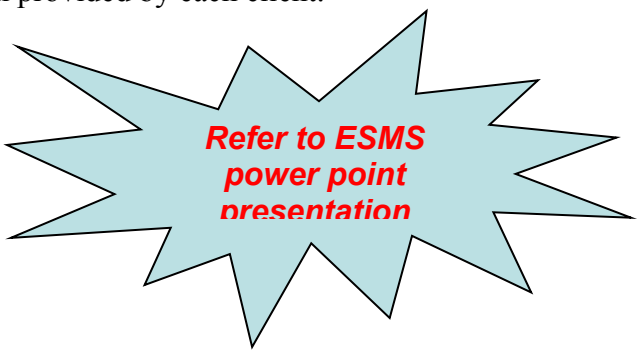
5 EXTERNAL REPORTING

The Financial Institution will immediately report to IFC if clients experience major accidents or incidents that have received media attention.

The Financial Institution will also inform IFC of any High-Risk projects prior to making a loan decision.

The Financial Institutions will prepare an *Annual Environmental Performance Report* according to IFC's standard format (see Annex D). This will be prepared based on the environmental and social performance information provided by each client.

[Insert text from Exercise #5]

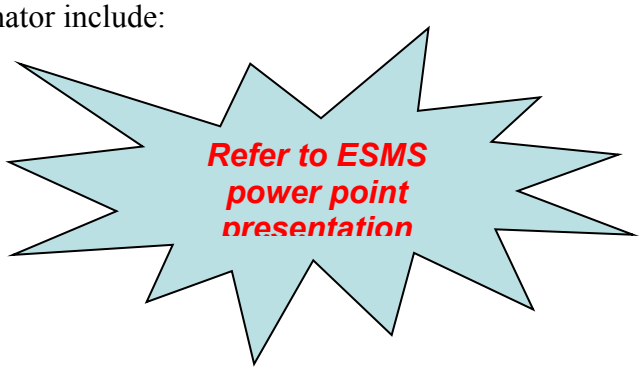


6 ROLES AND RESPONSIBILITIES

[FIRST AND LAST NAME] is the Environmental Coordinator. The Environmental Coordinator will oversee the implementation of the ESMS and ensure that these procedures are integrated with the Financial Institution's business processes for evaluating a project's financial risks.

The responsibilities of the Environmental Coordinator include:

[Insert text from Exercise #6]



The responsibilities of the Loan/Credit Officers include:

[Insert text from Exercise #6]

The Financial Institution's Legal Counsel will ensure that all loan agreements contain covenants requiring that projects are in compliance with applicable national laws on environment, health and safety.

The Financial Institution will 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.

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

7 BUDGET, TRAINING, AND SENIOR MANAGEMENT APPROVAL

To ensure effective ESMS implementation across the Financial Institution, it is necessary to allocate resources to prepare and distribute ESMS documentation and materials, to train staff on ESMS procedures, and to account for staff time to perform their ESMS responsibilities in their day-to-day duties.

[Insert text from Exercise #7]



Finally, the entire ESMS, including the budget and training plan, should be reviewed (see Annex E) and approved by Senior Management to ensure that it is integrated as part of the Financial Institution's standard operating procedures.

[Insert text from Exercise #7]

ANNEX A: IFC EXCLUSION LIST

All financial intermediaries (FIs) must apply the following exclusions:

- 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[1].
- Production or trade in alcoholic beverages (excluding beer and wine)[1].
- Production or trade in tobacco[1].
- Gambling, casinos and equivalent enterprises[1].
- 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[2]/harmful child labor[3].
- 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.

[1] This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.

[2] Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

[3] Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

ANNEX B: ENVIRONMENTAL AND SOCIAL ASSESSMENT

Environmental and Social 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:	☐ Yes ☐ No

Compliance with applicable requirements—*check all that apply*:

- ☐ Exclusion list
- ☐ National regulatory requirements
- ☐ Environmental, health and safety permits granted
- ☐ Injuries and fatalities have occurred (how and when: _____)
- ☐ Labor-related fines (when and why: _____)
- ☐ Environmental incidents and fines (when and why: _____)

Management systems—*check all that apply*:

- ☐ No written environmental and social policy
- ☐ No written human resources policy (e.g., employee rights/non-discrimination)
- ☐ No written fire/safety plan or emergency prevention/preparedness/response plan
- ☐ No environmental, health and safety training for employees
- ☐ No procedures for managing environmental and social risks
- ☐ No designated person in charge of environmental and social issues
- ☐ No internal process for sharing information

Project site—*check all that apply*:

- ☐ Non-urban/undeveloped land
- ☐ Proximity to river/stream/pond/lake/sea
- ☐ Proximity to protected area (e.g., forest/endangered species)/ecologically sensitive area (e.g., wetland/breeding grounds)
- ☐ Proximity to culturally sensitive/indigenous area

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

Community interactions—*check all that apply*:

- ☐ No designated person in charge of responding to questions from the community
- ☐ No procedures for managing community complaints
- ☐ Use of security personnel

Social issues—*check all that apply*:

- ☐ Land acquisition required
- ☐ Displacement/resettlement of local settlements
- ☐ Impact on local settlements/livelihood
- ☐ Impact on indigenous peoples
- ☐ Complaints from neighbors/communities
- ☐ On or adjacent to site of cultural/archaeological importance

Labor issues—check all that apply:

- ☐ No Personal Protective Equipment provided (e.g., safety goggle/hard hat/protective glove)
- ☐ Inadequate employee health and safety measures (e.g., fall prevention/ventilation)
- ☐ Inadequate working conditions (e.g., air quality/lighting/confined spaces/on-site hygiene)
- ☐ Inadequate terms of employment (e.g., working hours/rest breaks/time off/overtime pay)
- ☐ Unequal employment opportunities (e.g., discrimination against gender/ethnic group/age)
- ☐ Payment below minimum wage
- ☐ Employees below minimum age
- ☐ Child or forced labor
- ☐ No process for employees to voice complaints
- ☐ No recognition of employee organizations/labor unions

Additional comments

ANNEX C: PROJECT EXAMPLES BY ENVIRONMENTAL RISK CATEGORY

Examples of High-Risk Projects

- Large dams and reservoirs
- Mining and quarrying
- Forestry and logging (large scale)
- Agro-industries (large scale)
- Industrial plants (large scale)
- Major new industrial estates
- Major oil and gas developments, including major pipelines
- Large ferrous and non-ferrous metal operations
- Large-scale pulp and paper industries
- Large port and harbor developments
- Large 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
- Large-scale textile industries involving wet processes
- Large-scale transportation projects (airports, highways, motorways, railroads)
- Projects in or near to highly sensitive and high value ecosystems
- Projects with large resettlement components and all projects with potentially major impacts on human populations
- Projects affecting indigenous or tribal populations
- Projects which impose serious occupational or health risks
- Projects which pose serious socioeconomic concerns

Examples of 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

Examples of Low-Risk Projects

- Establishment of business services industries (business advisors, accountancy auditors, etc.)
- Establishment of restaurants and other food premises
- Education and training
- Broadcasting (TV, radio, satellite)
- Health and family planning
- Purchase of computer equipment
- Establishment and equipment of art, design, telecommunications studios
- 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)
- Advisory assignment
- Life insurance companies

ANNEX D: IFC REPORTING FORMAT

Environmental & Social Performance Report for Financial Intermediary (FI) Clients

Please provide responses to the questions below. Please include additional sheets or attachments as required to provide details on questions that have been answered Yes.

Name of Organization			
Completed by (name):			
Position in organisation:		Date:	
Reporting period	**From:**	**To:**	

PORTFOLIO INFORMATION

Report Covering Period:	
From:	**To:**

For the reporting period, please provide the following information about your portfolio **where applicable**:

FI Business Lines

Product line	**Description**	**Total exposure outstanding for most recent FY year end (in US$)**	**Average loan or transaction size (in US$)**
Retail banking/Consumer loans	Loans or other financial products for individuals (includes retail housing finance and vehicle leasing)		
Long term: Transactions with tenor greater than 12 months			
SME	Any lending, leasing or other financial assistance to any corporate or legal entity other than an individual, with individual transactions less than US$ 1 million		
Project finance/Large Corporate finance	Any lending, leasing or other financial assistance to any corporate or legal entity other		

	than an individual, with individual transactions larger than US$ 1 million		
Trade finance			
Short term (ST): Transaction with tenor less than 12 months			
ST Corporate finance			
ST Trade finance			
Other			
Microfinance			
Other (if applicable)	Please describe		

Exposure by Industry Sectors

If there is any exposure in the area of SME finance please provide an indicative % of portfolio that these sectors represent of the total SME portfolio.

S. No	Industrial Sector	% of Corporate portfolio)
	Animal Production	
	Apparel	
	Chemicals	
	Collective Investment Vehicles	
	Common Carriers	
	Construction and Real Estate	
	Consumer Goods	
	Crop Production	
	Electrical Equipment, Appliances and Components	
	Fabric Mills	
	Fabricated Metal Product Manufacturing	
	Finance & Insurance	
	Finishing (Dyeing, Printing, Finishing, etc.)	
	Fishing	
	Food & Beverages	
	Forestry	
	Furniture and Related Products	
	Integrated Textile Operation (Spinning, Weaving/Knitting, but no Garment)	
	Internet Projects	
	Leather and Allied Products	
	Machinery and Other Industrial	
	Nonmetallic Mineral Product Manufacturing	

	Oil, Gas and Mining	
	Plastics & Rubber	
	Primary Metals	
	Printing & Publishing	
	Pulp & Paper	
	Spinning (Yarn, Including Integrated with Fiber Production)	
	Telecommunications	
	Textiles - Others	
	Transport Service	
	Transportation Equipment	
	Utilities	
	Warehousing & Storage	
	Wholesale and Retail Trade covering any of the following. Gasoline stations, dry cleaners, printing, large auto and truck fleets, photographic film processing and any operations involving the use of any chemical of biological wastes or materials	
	Wood Products	

If engaged in long term project finance/corporate finance, please provide information as requested of all loan assets meeting the following conditions:

- Longer than 12 months tenor
- Larger than US$ 1 million outstanding exposure

Financial Institution/ Project name	Type of loan (large corporate/ SME/trade finance)	Tenor of loan (months)	Value of exposure (US$ mn)	Industry Sector[4]	Any environmental and social risks and measures taken to mitigate the risks

[4] Please use any standard classification or the sectors listed in the earlier table

Environmental & Social Management System (ESMS)

Policies & Processes	***Yes/No***	
Has your organization developed and implemented an ESMS?		If yes, please attach a copy of the ESMS to this report.
If there is an ESMS already in place, have there been any updates to the ESMS or policy and procedures adopted by your organization during the reporting period?		If yes, please provide a copy of the updates including dates and reasons for the same.
Has senior management signed off on the updated policy/procedure?		If yes, please provide the date and internal communication indicating the same.
Please give details of any transactions rejected on environmental, health, safety or social grounds.		
Please state any difficulties and/or constraints related to the implementation of the environmental and social procedures.		
Please describe how you ensure that your clients and their projects are operated in compliance with the National laws and regulations.		
Please give details of any material environmental and social issues associated with borrowers during the reporting period in particular.		
Capacity	***Yes/No***	
Please provide the name and contact information of the Environmental Officer or Coordinator who has the overall responsibility for the implementation of ESMS.		Please describe the training or learning activities the Environmental Officer or Coordinator attended during year.
Please provide current staffing of other core ESMS persons in the organization involved with ESMS implementation.		Please describe the training provided to the ESMS persons and other team members during year.
What was the budget allocated to the ESMS and its implementation during the year?		Please provide budget details including staff costs and training as well as any actual costs.

Monitoring	*Yes/No*	
Do you receive any non-financial reporting from industrial projects that you finance?		If yes, please describe and provide supporting documents including any environmental and social considerations if applicable.
Do you check for ongoing compliance of your projects with national regulation and any other requirements?		If yes, please describe the process including any environmental and social considerations if applicable.
Please describe how you monitor the client and project environmental and social performance.		Please describe and provide supporting documents and please provide information on the number of projects where a field visit was conducted by staff to review aspects including environmental and social issues.
Please provide details of any accidents/ litigation/ complaints/regulatory notices and fines: - Any incidents of non-compliance with the E&S Requirements - Covenants/ conditionalities imposed by the Bank as a result of any non-compliance		
Reporting	***Yes/No***	
Is there an internal process to report on environmental and social issues to Senior management?		If yes, please explain the process, reporting format and frequency and actions taken if any.
Do you prepare any environmental and social reports: - For other MLAs - Other stakeholders - E&S reporting in the Annual Report - Sustainability reports		If yes, please provide copies of these reports.

Activities on IFC Exclusion List	
If any, please indicate the dollar percentage of loans or investments out of your total outstanding exposure provided to clients who are substantially involved in IFC excluded activities.	_____%
If the percentage is not zero, please explain these exposures and any steps having been taken to reduce such exposure.	

Sustainable finance
Have you made any investments in projects that have environmental and social benefits such as investing in management systems, energy efficiency, renewable energy, cleaner production, pollution management, supply chain greening, corporate social responsibility, community development etc? Please list these in the format provided below:

Project Name	Value financed by the Financial Institution (US$ million)	Type of Environmental and Social benefit[5]

[5] Examples are cleaner production, energy efficiency, renewable energy, carbon finance, management system improvement, sustainable supply chain, corporate social responsibility etc.

ANNEX E: ESMS CHECKLIST FOR SENIOR MANAGEMENT APPROVAL

Environmental & Social Management System (ESMS) Checklist
Name of Financial Institution: _____ **Name(s) of Senior Managers:** _____ **Approval date:** _____
ESMS policy and management commitment—*check all that apply:*
☐ Policy with regard to Environmental and Social (E&S) risk management ☐ ESMS policy approved by Senior Management ☐ ESMS specifies types of investments/loans and activities it applies to (e.g., entire portfolio/investment type)
ESMS process and procedures—*check all that apply:*
☐ Documented process to assess Environmental and Social impacts and risks of its projects ☐ ESMS specifies applicable requirements (e.g., IFC Exclusion List/national laws/IFC Performance Standards) ☐ E&S due diligence process integrated with risk assessment procedures ☐ Project site visits conducted as part of risk assessment procedures ☐ Review of borrower's applicable environment, health and safety permits ☐ Loan agreements contain covenants requiring ongoing compliance with applicable requirements (e.g., national laws)
E&S monitoring and record keeping—*check all that apply:*
☐ Process for monitoring ongoing compliance with applicable requirements ☐ Borrowers required to report accidents/incidents within reasonable timeframe ☐ Borrowers required to provide periodic reports pertaining to E&S performance of projects
ESMS internal feedback and continuous improvement—*check all that apply:*
☐ Process for periodically reporting Environmental and Social performance information internally to senior management ☐ Continuous improvement process in place to revise and update ESMS (e.g., changes in national law/international best practices)
E&S external reporting—*check all that apply:*
☐ Annual reporting on E&S performance to IFC
ESMS roles and responsibilities—*check all that apply:*
☐ Designated ESMS Officer ☐ Designated ESMS Environmental Coordinator(s) ☐ Description of ESMS responsibilities of different roles
ESMS capacity and resources—*check all that apply:*
☐ Process for communicating ESMS policy and procedures across Financial Institution ☐ ESMS includes tools (e.g., checklists/guidance notes) for its implementation ☐ Budget allocated for ESMS training ☐ Training plan for ESMS implementation