1. About this E&S briefing note

This E&S Briefing Note is designed to help financial institutions (FIs) quickly familiarise themselves with their client-level environmental and social management systems (ESMS). It is not intended to be a detailed technical guidance document.

This guidance is based on international standards. Each FI shall determine in its E&S management system (ESMS), under which circumstances/transactions its clients will be required to develop and implement their own ESMS as per international standards. As a minimum, FIs shall always require their clients to comply with the applicable E&S laws and these may require the development of an ESMS with some or all of the elements covered under this Briefing Note.

Formal specific technical guidance based on international standards is provided at the end of this Briefing Note and in the Resources section of the toolkit, including International Finance Corporation (IFC) 2012 Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts. FIs should also refer to BII Environmental and Social Checklist for guidance on how to assess the adequacy of a client's ESMS.

This E&S Briefing Note provides an overview and generic guidance. FIs should carefully consider each company/client based on its specific characteristics and circumstances including scale, location, technology, management capacity and commitment, and track record. Risks, impacts and opportunities relating to a particular client or sector can also change over time for a number of reasons (e.g. changes in the applicable laws and regulations or in the type of the client's activities or client portfolio). FIs may need to engage external experts in some situations (see 'Advice for FIs' section below).

The term 'company' refers to FIs' corporate clients (including small and medium enterprises) and both are used interchangeably throughout the guidance.

2. Introduction

An ESMS is more than a set of documents. An effective ESMS is a dynamic and continuous process initiated and supported by management, and involves engagement between the client, its workers, local communities directly affected by the client's operations and, where appropriate, other stakeholders. Drawing on the elements of the established business management process of 'plan, do, check, and act', the ESMS entails a structured approach to managing environmental and social matters on an ongoing basis. A good ESMS appropriate to the nature and scale of a client's E&S risks and impacts can lead to improved financial, social and environmental outcomes.

- Component of a client-level ESMS as per international standards

  An ESMS should comprise the following elements (for further guidance refer to 'Advice for FIs' below):

  - Policy.
  - A system to identify E&S risks and impacts.
  - Organisational capacity and competency.
  - Management programmes.
  - Emergency preparedness and response.
  - Stakeholder engagement.
  - Monitoring and review.

  To the extent possible, clients should involve its workers, local communities directly affected by its operations and, where appropriate, other stakeholders in developing and implementing the ESMS. FIs should assess whether the client's ESMS encompasses these seven key elements, and whether they are sufficiently robust to address the likely E&S risks and opportunities facing the business.

3. Why financial institutions and their clients should address this topic

- Risks for the business

  Failure to implement a robust ESMS could lead to numerous risks including:

- Fines and penalties.
- Loss of license to operate.
- Environmental and social liabilities.
- Excessive expenditure in managing E&S risks and impacts.
- Reduced production efficiency and product quality.
- Higher staff turnover.
- Reputational damage.
- Reduced access to markets, clients and investors.
- Loss of market share.
- Disruption of operations.
- Market devaluation.

- Opportunities for the business

  The benefits realised by adopting good ESMS include but are not limited to:

  - Risk reduction and impact avoidance/mitigation, including avoiding costs associated with E&S incidents and potential remedial actions which they may require.
  - Better operational efficiency.
  - Greater employee retention and productivity.
  - Improved external relations and public image.

- Increased access to markets and investors which demand robust E&S management.
- Enhanced credibility.
- Long term financial and operational viability.

4. Advice for financial institutions

All clients, regardless of sector, should put in place an environmental and social management system (ESMS), appropriate to the size and nature of the business. Through effective implementation of their ESMS, clients should be able to demonstrate at a minimum compliance with applicable local laws and regulations, identifying and mitigating key risks associated with their operations. Additionally, FIs should ensure that clients comply with the FIs investor requirements which may go beyond achieving legal compliance.

Separately, FIs and clients should assess whether there is a case for going beyond the requirements mentioned above as this could have benefits for the business.

In relatively rare circumstances, clients may have to address complex issues such as economic or physical displacement of communities and/or adverse and significant impacts on biodiversity, Indigenous Peoples and/or cultural heritage. These subjects frequently require particular attention and may require: (i) the client to engage external specialists for the development and implementation of management plans; and/or (ii) the FIs engaging consultants to assist during due diligence (DD) and monitoring.

BII environmental and social checklist provides guidance on how to assess the adequacy of a company's ESMS and a matrix of typical environmental and social issues encountered in different sectors.

4.1 General Advice

- ESMS commensurate with level of the E&S risks and impacts

  FIs should consider whether any ESMS is commensurate with the level of E&S risks and impacts associated with the client's activities, customers and relevant supply chains. The best ESMS is not the most complex or comprehensive one in terms of documents and reports but the one which allows a client to efficiently and effectively identify and manage E&S risks and impacts and improve E&S performance over time.

Some clients (e.g. those with high E&S risks and impacts) may need to engage specialist consultants to design and assist with the implementation of an ESMS, or to assess the adequacy of an existing ESMS.

The elements of an ESMS, as per international standards, are covered below. FIs shall determine, in the FI's E&S management system, under which circumstance their clients will be required to develop and implement an ESMS as per international standards. FIs shall always require their clients to at least comply with the applicable laws.

- ESMS development vs. ESMS implementation

There is a significant difference between developing (i.e. documenting the policy and management plans) and implementing the ESMS (i.e. following the documented policies, management plans and continuous identification of areas for improvement).

FIs should bear in mind that some clients may not have a fully documented E&S management system, but still manage their key E&S risks relatively effectively. In this case all that is required is to strengthen the management plans. By contrast, some clients may have very robust written E&S management system that has not been effectively implemented due to practical challenges, unclear roles and responsibilities or lack of commitment.

It also should be noted that an advanced ESMS may be fully integrated into business operations, rather than available as a documented system that can be provided for desk review during DD.

- Continuous improvement

One of the key objectives of a management system is the continuous improvement of the clients E&S performance. Therefore, it is important for clients and investors to understand what the key E&S factors are and prioritise them when it comes to defining Key Performance Indicators (KPIs) and, more broadly, establish a business/project-level ESMS. An ESMS should not be seen as a 'tick-box' exercise as this will lead to a sub-optimal use of human and financial resources and may not improve the client's E&S performance overtime or may do it in an inefficient manner.

In order to achieve continuous improvement, an ESMS should always be able to evolve as needed as the client and/or the circumstances change. See 'Monitoring and review' below.

- Certified ESMS systems

Some clients may have independently certified management systems. FIs should not assume that a client with a certified management system will have a more robust management system than a client without certifications. While independent certification provides additional assurance and can contribute to improving the client's ESMS, experience shows that certification bodies use varying degrees of vigour when auditing management systems. FIs should consider reviewing independent audits/reports to assess their adequacy and check whether the conclusions and observations of such reports are consistent with observations during DD or ownership and monitoring stages.

Additionally, it should be noted that the scope of a certification system may be limited (e.g. may only cover environmental aspects or occupational health and safety issues), and other relevant aspects (e.g. labour conditions, biosecurity) may not be covered.

It should be noted that obtaining independent verification/certification can have significant cost and it is important to ensure that having a certified management system will add value to the client and investors (e.g. by reducing the client's E&S risks, helping to gain access to other markets/clients, attracting new investors or reducing risk of default).

4.2 Elements of an ESMS

- Policy

  The policy should:

  - Clearly articulate the E&S objectives and principles that guide the client to achieve sound E&S performance.
  - Provide a framework for the E&S assessment and management process.
  - Specify that the client will comply with the local and international applicable laws and regulations and, where appropriate, with international standards (e.g. IFC Performance Standards).
  - Specify the individuals who will be accountable and responsible for the implementation of the policy.
  - Be communicated to and available to all levels of the organisation.
  - Approved by a representative of the senior management team and dated.

- Identification of risks and impacts

  FIs should ensure that clients have a practical process for identifying E&S risks and impacts. This process should not only consider E&S risks and impacts directly generated by the FI's client's operations but also those from contractors and supply chains. This will typically lead to the identification of opportunities for improvement. The identification process should be commensurate with the level of E&S risks and impacts and consistent with Good International Industry Practice (GIIP). This can take different forms from environmental and social impact assessment, HAZOP, workplace risk assessment, food safety assessment, etc.

- Organisational capacity and competency

As set out above, an ESMS it is more than a set of documents. A key component of any ESMS is organisational capacity and competency. Even the best-written policies, systems and procedures cannot be successfully implemented without the necessary human and financial resources. This is a key factor in the overall effectiveness of an ESMS and proportionate to the value derived for the FI and its clients as part of the ESMS implementation process.

Therefore, FIs should ensure clients establish, maintain and strengthen as necessary an organisational structure that defines roles, responsibilities and authority to implement the ESMS. Specific personnel with the necessary skills and expertise (including management representatives), clear lines of responsibility and authority should be designated. Additionally, sufficient management sponsorship and human and financial resources should be provided on an ongoing basis.

- Management programmes

FIs should always ensure that clients have developed and implemented management programmes that describe the mitigation and performance improvement measures to address the identified E&S risks and impacts and, where applicable, capitalize on opportunities. Depending on the nature and scale of the E&S risks and impacts, the management programmes may consist of some documented combination of operational procedures, practices, checklists, management plans and Action Plans (e.g. waste management plans, human resource management, etc). The management programmes are typically addressing the key E&S risks of company that are relevant to their sector as detailed in the World Bank Group Environmental, Health and Safety Guidelines and the Sector profiles section.

In relatively rare circumstances, clients may have to address complex issues such as economic or physical displacement of communities and/or adverse and significant impacts on biodiversity, Indigenous Peoples and/or cultural heritage. This needs particularly careful attention and requires the implementation of specific management plans.

- Emergency preparedness and response

Clients should implement emergency preparedness and response systems so that the client, in collaboration with appropriate and relevant third parties, will be prepared to respond to accidents and emergency situations (e.g. fires, natural disasters, floods, etc) in a manner appropriate to prevent and mitigate any harm to people and/or the environment.

The emergency preparedness and response activities should be periodically reviewed and revised, as necessary, to reflect changing conditions.

Where applicable, the client should assist, inform and collaborate with potentially Affected Communities and local government agencies in their preparations to respond effectively to emergency situations, especially when their participation and collaboration are necessary to ensure effective response.

- Stakeholder engagement

  Clients need to identify key stakeholders (e.g. Affected Communities) at both the strategic business and customer levels. Companies should inform and consult them about key concerns and develop plans to address these effectively. Strong, constructive, responsive and ongoing stakeholder relationships are usually essential for the successful management of businesses E&S risks and impacts. Inappropriate stakeholder engagement may lead to complicated situations (e.g. social disorder) which could be easily avoided though the implementation of a robust stakeholder engagement process.

  FIs should assess whether a client appears to understand who its key stakeholders are, and how effective their management of those relationships is. FIs should bear in mind that the nature, frequency and level of effort of stakeholder engagement may vary considerably and should always be commensurate with the level of E&S risks and impacts.

  FIs should assess whether the client can demonstrate that it addresses the needs and sensitivities of key stakeholders effectively. Special attentions should be paid to clients affecting Indigenous Peoples and/or other type of vulnerable communities or groups.

  Informed consultation and participation (ICP): Clients that are likely to have significant adverse impacts on local communities should be able to demonstrate that they have followed an ICP process, which involves a more in-depth exchange of views and information than a standard consultation process, including an organised and iterative consultation that leads to the client incorporating the views of the Affected Communities into their decision-making process (on matters that affect them directly e.g. proposed mitigation measures and the sharing of development benefits and opportunities).

FIs should also determine whether the client has processes in place to communicate with key stakeholders on an ongoing basis, either formally or informally.

External communications: FIs should ensure that clients implement and maintain a procedure for external communications that includes methods to:

- Receive and register external communications from the public.
- Screen and assess the issues raised and determine how to address them
- Provide, track, and document responses, if any; and
- Adjust the management programme, as appropriate. In addition, clients are encouraged to make publicly available periodic reports on their environmental and social sustainability.

Grievance mechanism: FIs should bear in mind that Affected Communities may raise grievances, particularly if the client's operations generate significant risks and/or adverse impacts on communities. In these cases, the focus should be placed on how the client deals with these grievances, including those which may not be considered fair. Where the client's operations significantly affect communities and no grievances have been registered, FIs should investigate whether this is due to an ineffective grievance mechanism or a consequence of good E&S performance.

Clients should also have a grievance mechanism to allow workers to raise any concerns. FIs should ensure that these grievances are properly registered and managed.

- Monitoring and review

An ESMS should be designed to evolve. The client's E&S performance and the adequacy of the client's ESMS should always be monitored in order to identify areas for improvement and if necessary, implement corrective actions. FIs should ensure clients have implemented appropriate procedures to monitor compliance with any related legal and/or contractual obligations and regulatory requirements and, more broadly, measure the effectiveness of the ESMS. The level of monitoring should be commensurate with the E&S risks and impacts and with compliance requirements.

In order to achieve the above, clients would typically:

- Define Key Performance Indicators (KPIs).
- Record relevant information to track performance. It is important for clients to think carefully about which information should be collected in order to avoid collating irrelevant data.
- Establish practical and efficient operational controls.
- Conduct internal and/or commission external inspections and audits to assess progress against desired outcomes.

The client's monitoring programme should be overseen by the appropriate level in the organisation. Senior management in the client organisation will receive periodic performance reviews of the effectiveness of the ESMS.

5. Further resources

- Further information and guidance
    - International Finance Corporation (IFC) 2012 Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts.
    - IFC 2012 Guidance Note 1: Assessment and Management of Environmental and Social Risks and Impacts.
    - IFC Environmental and Social Management System Implementation Handbook

- Certification standards
  - ISO 14001:2004 – Environmental Management System.
  - IBS OHSAS 18001 Occupational Health and Safety Management.
  - SA 8000:2004 – Social Management Systems