

Introduction

Financial institutions (FIs) shall have an ESMS commensurate with the level of E&S risks and impacts associated with their activities, portfolio and the services and products they offer, taking into account the FI's capacity and structure. It should be noted that an ESMS is more than a set of documents. It is the way in which a FI ensures that E&S considerations are integrated in the day-to-day business activities, as well as across their pipeline and client portfolio. The documents and procedures form part of the FI's management system.

This section provides guidance on designing and implementing the relevant ESMS elements required to manage E&S factors associated with the FI's current and potential clients (referred to in the toolkit as 'ESMS'). Guidance on the E&S policies and procedures related to the FI itself (i.e. not the E&S risks associated with the FI's clients) will be completed in due course.

An ESMS should include the following key elements (See [Resources](#) for further guidance and sample template of a FI ESMS structure):

- **E&S policy:** The framework for the whole management system. The policy should articulate the objectives and principles that guide the FI, applicable requirements and E&S standards that apply to the FI and its clients, and accountability and responsibility for its implementation.
- **Roles, responsibilities and oversight/E&S Capacity:** A clear definition of who is responsible for developing, driving and overseeing the implementation of the ESMS, stating who will participate in each element of ESMS implementation. This includes roles and responsibilities of different teams (e.g. Credit, Risk, E&S team) as well as communication, training and capacity building activities to enhance awareness and buy-in around the concept of E&S and what it means for the organisation.
- **Procedures:** What needs to be done at the various stages of a transaction cycle to operationalise the objectives and requirements set out in the FI's E&S policy. These should be underpinned by specific tools to ensure consistent application.
- **Performance management/continuous improvement:** Periodic reviews to refine and improve the systems as well as to gauge progress against set E&S objectives and activities. This seeks to enhance value for both the FI and its clients through gaining a better understanding of what works and areas of improvement. The FI will need to

consider and describe how, when, and by whom these reviews are undertaken (generally, the FI's audit team will be part of the performance management and continuous improvement process).

- **External communication:** The FI should consider the variety of channels available to communicate with investors, regulators and other stakeholders such as groups affected by the investment of an FI about how the management system is functioning alongside the E&S performance of its investment portfolio. This will include categorising stakeholders according to their specific interests and influence and developing appropriate tools for engagement and the dissemination of information that is relevant for that specific stakeholder group. Some investors, such as BII and other Development Finance Institutions, will have specific periodic reporting requirements and templates to be filled out by the FIs. These templates can be built into the FI's ESMS as needed.

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