

## 1. Overview

All FIs should report to relevant internal stakeholders and investors (and potentially to other stakeholders) on the implementation and progress of their ESMS and the E&S performance of their organisation and clients. It is fairly standard for this to be an annual report, although some FIs also include E&S aspects in their quarterly reports. Many FIs also increasingly use other communication channels to discuss E&S matters in a more proactive manner including *ad hoc* calls or emails, Advisory Committee meetings, investor days and inviting investors on site visits, etc. These help to build a mutually supportive relationship between the FI, its staff and its investors.

In addition to investor reporting, FIs are increasingly reporting progress externally in the form of a publicly available sustainability report, providing an overview of their E&S/sustainability performance at both an FI, client and portfolio level. Another common type of reporting that FIs undertake is through an annual Integrated Report. This includes reporting on the FI's strategy, governance, performance and prospects in the context of its operating environment and its stakeholders, and how this leads to the creation of value over the short, medium, and long term. This type of reporting is guided by various standards and guidelines (see some examples in 2.4 Public disclosure/Sustainability Reporting below).

## 2. Guidance and advice

- [Engagement with potential investors/lenders](#)

It is important that the FI looking for investors (including lenders) discloses sufficient information on its E&S management to potential investors, as this could attract / re-assure investors and/or expedite their due diligence process. A well-conceived and robust ESMS will signal to a potential investor that the FI's approach and commitment are solid. Where the FI has a track record, information demonstrating how it has supported and enhanced its clients' management of E&S risks can offer good starting points for engagement with investors. Investors may ask to see examples of due diligence, E&S coverage in loan agreements and E&S reports to investors.

However, some FIs may not have fully designed an ESMS when they contact investors. In these cases, investors such as BII may be able to provide guidance on how to develop it in alignment with investors' expectations and widely accepted international good practice.

- [Reporting to Investors](#)

Many investors (and all DFIs) require FIs to report regularly (at least annually) on the E&S performance of their portfolios and of the institution itself. The purpose of this reporting is twofold. Firstly, it allows investors to assess how E&S risks and improvements have been managed across the FI portfolio, what challenges may have been encountered, and how these were addressed. Secondly, it offers an opportunity for investors to check that the FI is still being managed in line with the E&S commitments made by the FI, and/or whether there have been any material changes to the FI's portfolio, strategy, management or focal sectors to justify a change in scope of, or approach to, E&S management. Reporting should also address the steps the FI has taken to ensure continued implementation of its ESMS, such as additional training, recruitment and partnerships with external advisors or re-assignment of internal responsibilities.

An example of a reporting template could be found [here](#).

- [Ongoing engagement with Investors](#)

FIs should consider contacting investors to get guidance on E&S management and have regular meetings or calls to discuss E&S performance. Ongoing communication enables a constructive and trusting relationship to be built up between FIs and investors that can be mutually beneficial. Many DFIs, including BII, welcome being contacted for advice regarding E&S matters (e.g. challenges faced by FIs). DFIs can draw upon their experience and may be able to suggest solutions or possible ways forward - or put the FIs in touch with others who might be able to help.

An increasing number of FIs incorporate E&S into their mainstream investors' communications as E&S is increasingly seen as a material feature of the FI's performance that should be reported together with other information. For example, climate change-related disclosures will become a mainstream in the nearer term. Investors typically welcome good reporting on E&S matters.

In addition to this, it is becoming increasingly common for FIs to set up E&S/sustainability committees to oversee E&S performance across the organisation. These committees typically meet on a quarterly to annual basis and can be a good forum for on-going engagement with investors on E&S matters.

- [Public disclosure/Sustainability Reporting](#)

The take up of publicly available E&S, Sustainability or Integrated Reporting by FIs is growing momentum. This is in part down to increasing calls for transparency by central banks/regulators, with national standards being developed alongside international frameworks (i.e. Global Reporting Initiative, EU Taxonomy, etc.). In addition to this, some investors now actively encourage the FIs in which they invest to report publicly on their approach to managing E&S risks in their portfolio to encourage public transparency in the investment sector.

Over and above increasing regulatory drivers, external E&S/sustainability reporting can also help FIs measure and understand their performance, set goals and targets, and manage change more effectively. It is also the key platform for communicating real-world impact - whether positive or negative. In addition to this, it is also a key differentiating factor between those FIs that are leading and those which are reactive in this complex area. However, it is important to understand that effective reporting on E&S performance requires clear processes (a good “control environment”) for gathering, entering and collating data. These processes must be robust and leave a clear audit trail to enable the FI to satisfy any requirements for internal or external audit. Reports should also focus on providing a balanced, objective and complete snapshot of the FI’s investment portfolio. To contextualise the reporting, information on the FI’s ESMS should be included. Additionally, examples of how these E&S values and approaches have contributed to improving performance or mitigating client risk should be given.

In addition to including this information in annual E&S, Sustainability or Integrated Reports it is also common practice to include key highlights or case studies on E&S performance on the FI’s website.

For further guidance on reporting good practice, there are several sustainability frameworks and reporting standards recognised internationally. The major providers of non-financial reporting guidelines include the following:

- [Global Reporting Initiative \(GRI Sustainability Reporting Standards\)](#).
- [Sustainability Accounting Standards Board \(SASB\)](#).
- [Task Force on Climate-related Financial Disclosures \(TCFD\)](#).

- [The International Integrated Reporting Council \(IIRC International Framework\)](#).
  - [EU Sustainable Finance Disclosure Regulation \(SFDR\)](#).
  - [EU Non-Financial Reporting Directive \(NFDR\)](#).
  - [Financial Accounting Standards Board \(FASB\)](#).
  - [International Financial Reporting Standards \(IFRS\)](#).
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- [Grievance Mechanisms](#)

Grievance mechanisms are important tools for assessing and managing social risks as well as harnessing opportunities to build credible relationships with stakeholders. This allows FIs to take a proactive approach to resolving and managing stakeholder perceptions and expectations, therefore preventing the escalation of issues that may lead to reputational damage for the FI or the disruption of activities in a project the FI has financed. Grievance mechanisms may also help FIs and their clients to identify stakeholder needs which they can support through community investments and CSR initiatives, thereby enhancing social licence to operate. However, it is important that CSR is not considered as synonym to stakeholder engagement since the latter is a multi layered process including identification of various stakeholders and proactive and ongoing engagement through consultation.

Developing a mechanism to address affected communities' concerns and complaints is an important pillar of stakeholder engagement as it creates opportunities for companies and their host communities to identify problems and collaborate on how to solve them, strengthening their social license to operate. The need for an FI to have a Grievance Mechanism is particularly critical in investments where vulnerable communities such as minority groups or low-income households are impacted, in high-risk sectors such as extractives, project finance transactions which require land acquisition or are likely to have impacts on biodiversity/cultural heritage, and regions in which security risks can be reduced through robust sector engagement activities. While the primary target of the complaint may be the projects financed by the FI, having an internal and effective external grievance mechanism ensures the FI is informed about potential issues in its portfolio in a timely manner and shows its

commitment transparency and accountability.

Grievance mechanisms are effective when the target audience perceives them as a trustworthy and responsive system for resolving their problems. The effectiveness of the grievance mechanism relies on its accessibility, transparency and cultural appropriateness. A grievance mechanism that is properly designed and implemented is mutually beneficial to all parties involved and increases the likelihood of resolving disputes in a timely manner before they result in more formal methods which may have adverse implications on the project timelines and ultimately affect the FI's client's ability to meet repayment obligations.

The topic alongside further readings are further explored under [External Stakeholder Engagement](#) in the E&S Topics section of the toolkit.