

## 1. Overview

All FIs should have an effective system for monitoring and periodically reviewing the adequacy of their ESMS. In order to do this, appropriate records need to be kept, documenting the process followed for each transaction application and the progress made or challenges encountered. Reviewing the successes and challenges faced when implementing the ESMS can reveal important lessons and insights to improve the system and make it more effective. The internal audit function can play a key role in this regard and it is important to make sure they receive appropriate training to evaluate the ESMS appropriateness and level of implementation. Continuous improvement is a key component of the ESMS.

When assigning roles and responsibilities, FIs should be clear about who will conduct performance reviews and how corrective actions/changes to the ESMS will be implemented and approved.

## 2. Guidance and advice

FIs should monitor the adequacy of their ESMS to ensure it is appropriate to deliver the FIs strategy and commitments, manage E&S risks and meet stakeholders' (e.g. investors, regulators) expectations and requirements. Any deficiencies, including lack of capacity/expertise, should be addressed within a reasonable timeframe. Responsibility for monitoring the ESMS adequacy should be clearly identified.

- [Elements of performance management](#)

Performance management comprises:

- Evaluation of the E&S policy against changes in the FI's strategy, applicable laws, priority sectors, geographies, or products. In light of such changes, FIs should evaluate whether the ESMS needs updating.
- Performance evaluations of people assigned responsibility for managing and implementing the ESMS. FIs should assess whether the people responsible for the implementation of the ESMS have the capacity and commitment to continue successfully driving implementation of the system as it evolves.
- Processes to assess how thoroughly and consistently E&S issues are addressed

by credit/transaction officers and client relations personnel (in some cases this is done via internal or external audits). Check whether screening memos, due diligence reports, transaction applications, loan agreements and monitoring reports contain adequate and relevant information, with clear follow-up of key issues between documents demonstrating progress over time. It is useful to compare levels of detail between credit/transaction officers and client relations personnel and deal teams to identify any gaps or inconsistencies.

- Mechanisms to receive and act on feedback from the various teams, which should follow the ESMS.
- Processes to approve changes to the ESMS (may require investor approval).
- Processes to ensure the implementation of corrective actions to improve the system and to address the limitations/development areas identified. For example:
  - Additional training and awareness raising;
  - Improving monitoring mechanisms;
  - The inclusion of E&S performance in personal objectives;
  - Improved tools and guidance;
  - Additional use of consultants to advise the team; and
  - Peer-to-peer learning within the team.
- Assessment of global trends in managing E&S issues in sectors in which the FI is active, as this will help to assess whether the ESMS should be revised and/or whether additional training should be provided. For example, an increased focus on climate change risks in certain sectors could suggest that clients need to be more actively monitored in these sectors.
- Review of E&S value add strategies and interventions being driven across its portfolio to determine whether the FI is meeting the initial objectives set or whether it needs to revise its strategies and procedures to account for different outcomes being achieved or enhanced impacts.

