

# 1. Overview

There is no standard way to organise roles and responsibilities; every FI is different. The structure of the ESMS should take into account the FI's structure, commitments and capacity to address E&S matters.

- **Common elements of good practice are:**
  - Formally assign a senior manager or a board member (many Development Finance Institutions (DFIs) refer to this person as the 'E&S Manager') for overseeing ESMS implementation to ensure accountability.
  - Formally assign at least one person to coordinate ESMS implementation (many DFIs refer to this person as the 'E&S Coordinator') with sufficient knowledge, commitment and seniority to ensure its effective application. Cascade responsibilities across the institution, as appropriate.
  - Establish day-to-day working practices to ensure the ESMS is implemented effectively.
  - Ensure sufficient resources and training are provided.
  - Put in place effective checks and balances to ensure adequate ESMS implementation and to avoid conflicts of interest.
  - Establish effective internal communication on E&S matters to ensure alignment with set FI E&S objectives, as well as effective coordination and collaboration within and between different FI functions on such matters.
  - Develop a robust training and capacity building programme to ensure sufficient understanding of E&S matters/continuous learning/improvement.
  - Define where E&S responsibilities sit within the organisational structure. The establishment of E&S/ESG committees to oversee the FI's E&S performance and strategy shall be considered.

## 2. Guidance and advice

FIs are advised to develop a flow chart/table (see diagram below) and accompanying documentation to indicate how ESMS implementation aligns with the operational credit process (i.e. who is responsible for ensuring E&S matters are addressed at each stage of the transaction cycle and how this is done: identification, screening, due diligence, decision making and ongoing monitoring and reporting). It can also indicate how E&S responsibilities have been assigned and where specific expert E&S input (internal or external) is likely to be required.

[CLICK TO VIEW DIAGRAM](#)

- [Accountability for the ESMS](#)

Ideally, accountability for the ESMS should reside with a senior manager/executive or a board member of the FI ('E&S Manager'). The role of the senior executive includes approving the policy, leading and ensuring its proper implementation, ensuring E&S matters are discussed at Transaction approval or Credit Committee (CC) meetings and reporting to senior management and investors/lenders. When assigning the E&S Manager role, the FI's structure, culture and processes, as well as the existing time commitments of the individual(s), should be taken into account to ensure that adequate time and resources are devoted to driving the ESMS. While they are not expected to be E&S experts, the E&S Manager should be fully and vocally supportive of the objectives of the E&S policy, have a good general understanding of E&S matters and be able to drive positive change in the FI.

The E&S Manager may assign responsibilities to other senior staff members who will lead the assessment of the adequacy of the due diligence for each deal before the CC in order to provide a 'check and balance' mechanism. This may be one person or several people depending on the size (and organisation) of the FI and the different credit products they offer. In any case, the FI shall make sure that the CC members are appropriately trained on E&S matters so that they have a reasonable understanding of how these can positively or negatively affect a transaction, a client and/or the FI.

For larger FIs, it is common practice for the E&S Manager position to sit under the Risk or, in some cases, under the Credit team. In the former instance, the E&S function plays more of a control role (second line of defence), while in the latter

instance the E&S function is more of an internal E&S advisor with direct exposure to the transaction pipeline and transaction flow (first line of defence). Regardless of the primary functions above, the E&S Manager should have a senior position in the organisation (where they are able to influence decisions) and exposure to the board.

It shall be noted that FIs may decide to appoint an E&S Manager who does not sit under the Risk or Credit teams (e.g. Compliance). Appointment of this function into a communications, CSR or related roles is generally not appropriate given the role and agency required.

Additionally, some FIs may put in place E&S Committees that take responsibility for the ESMS implementation together with other matters. For further guidance on E&S Committees can be found [here](#).

- [Responsibility for the ESMS](#)

To ensure effective implementation of ESMS, an E&S Coordinator with sufficient influence, experience, capacity and commitment should be appointed. The E&S Coordinator will have a direct or dotted reporting line to the E&S Manager and is responsible for operationalising the ESMS and its day-to-day implementation. This includes ensuring that the ESMS is applied consistently and effectively, undertaking reviews of the system and acting as the main point of contact for clients, FI staff and investors on E&S matters. The E&S Coordinator should also take responsibility (as relevant) for external and internal E&S communications. Depending on the FI's ambitions for E&S management, the E&S Coordinator and the E&S Manager should be seen as E&S ambassadors for the organisation, communicating the FI's efforts on E&S through conferences, thought leadership pieces, social media, etc., and participating in and contributing to associations, industry bodies and growing research in areas linked to the organisation's key E&S theme areas.

Generally, the E&S Coordinator would be a fully dedicated E&S specialist (except for FIs presenting low E&S risks). As appropriate, the FI shall appoint dedicated E&S Officers to support them and credit teams in the implementation of E&S duties. The level of experience and number of E&S professional(s) in a FI will depend upon a number of factors, including (i) the FI's current and expected portfolio's size and E&S risks, (ii) the FI's ambitions and long-term strategy in terms of E&S management, and (iii) how responsibility for E&S implementation is allocated.

FIs with significant expected or current exposure to transactions/sectors with medium to high E&S risks (for example, infrastructure, extractive industries, large agribusiness, heavy manufacturing activities) shall assign E&S responsibilities to a fully-dedicated and suitably qualified E&S professional(s) within the FI to act as the E&S Coordinator. Alternatively, they may retain an external E&S professional(s) with suitable qualifications to support the FI's E&S Coordinator and relevant teams.

The E&S Officers should be appropriately trained and have a good understanding of E&S matters but do not necessarily need to be E&S specialists. As stated above, this will depend on a number of factors, but primarily on the E&S risks the FI is exposed to.

- Resources and training

ESMS development and implementation will require financial (budget) and nonfinancial (staff) resources which should be planned adequately. It is also important to ensure that appropriate training is provided to Management, Credit, Risk, Relationship Management/Business Development, Legal and other teams with responsibilities under the FI's ESMS. Such training and capacity building initiatives shall provide staff members with improved E&S knowledge and the necessary skills to engage effectively on E&S issues at both the FI and client level, in addition to enhancing general awareness and buy-in around E&S within the organisation.

The assigned E&S Manager, E&S Coordinator and E&S Officer(s) shall also receive training, particularly if these are not suitably qualified E&S professionals. For FIs exposed to high risk sectors/transactions, it is expected that the E&S Coordinator and E&S Officers (as appropriate) are suitably qualified E&S professionals, in which case they would generally deliver the training to other staff. Importantly, E&S Coordinators and E&S Officers shall have strong environmental and/or social technical skills and relevant experience. These professionals may need some financial training to better understand the FI's business. Experience has shown that the appointment of E&S professional to these roles has a bigger and more significant effect than appointing and training financial / commercial staff to the role.

It should be noted that in some instances, particularly when the FI has limited E&S expertise or capacity despite exposure to significant E&S risks, investors may require additional capacity improvements such as targeted E&S training, recruitment of

additional and suitably qualified E&S professionals, and/or support provided by external E&S experts.

- [Day-to-day implementation of the ESMS](#)

Experience shows that FIs that have most effectively implemented an ESMS have a board/senior management committed towards the implementation of robust ESMS's, well-trained and fully-committed staff who understand that consideration of E&S matters needs to be integrated into their core business activities and responsibilities, and whose objectives and remuneration covers E&S management.

The E&S Coordinator should be tasked, at a minimum, with management of the ESMS. In the case of an FI with significant exposure to medium-high/high risk sectors or activities, this E&S Coordinator should be a fully-dedicated E&S specialist(s) or, the FI shall retain suitably qualified external E&S professionals, although this option is generally less effective and efficient than in-house capacity.

The ESMS implementation will involve several teams. As a result, it is important that the E&S Coordinator, with the support of the E&S Manager and other key teams (e.g. Credit), develops procedures to ensure all the teams involved in the ESMS are appropriately trained and clear about each team's responsibilities. Appointed E&S Officers, relationship managers and credit team members will typically have important roles in ESMS implementation and hence should understand the business case for E&S management. Additionally, these members should ideally have experience in successfully engaging with clients around E&S management. Relationship managers play a key role in engaging clients on E&S matters. Therefore, they shall receive training on E&S matters and specifically on the business case/opportunities around robust E&S management practices as this can significantly contribute to influence better E&S practices at the client level. More broadly, it is paramount to offer training to the board, senior management and all the team members who have E&S responsibilities in the transaction cycle and implementation of the ESMS.

- [Checks and balances](#)

As noted previously, it is important to put in place appropriate control mechanisms

(‘checks and balances’) to ensure that the FI’s E&S performance is assessed against set objectives on a periodic basis. These include reviewing and, as appropriate, auditing E&S performance at the operational level to confirm whether E&S matters are assessed properly throughout the transaction cycle, in accordance with the E&S policy. FIs may adopt different approaches depending on their structure and size, E&S risk profile, business strategy, investor expectations and requirements, and the ambitions, requirements and objectives outlined in the E&S policies and procedures. This could include dissemination of relevant E&S performance data (e.g. annual, bi-annual or quarterly E&S reports) to management and other selected stakeholders for their review and feedback (e.g. Board, Credit Committees, E&S Committees, investor forums, etc.) and/or periodic assessments and/or audits to review and report on E&S performance against set E&S objectives and commitments. Identifying key E&S performance goals, objectives and targets and determining what ‘success’ means for the organisation is an important part of developing a robust E&S performance monitoring and reporting system.

The FI’s board typically provides an important ‘check and balance’ role for information being disseminated at an institutional level. Having senior people on the board with the knowledge and commitment to evaluate E&S matters ensures that E&S aspects are effectively considered across the organisation. Similarly, the CC and other transaction-related committees will play an important role in reviewing E&S performance information disseminated at a client or portfolio level. Therefore, FI’s should ensure the CC and/or other committees receive E&S training to provide members with the knowledge and necessary skills to engage effectively on these matters.

The FI’s internal audit team shall play an important function in ensuring that the FI is appropriately implementing its ESMS. Most FIs conduct internal audits at least on an annual basis and this shall include a review of the ESMS implementation. Some FIs also engage external advisors to gain an independent view of the appropriateness of its ESMS.

FIs should ensure that information on clients’ E&S performance is also subject to adequate checks and balances commensurate with the E&S risk. Therefore, the FI should ensure that applicable E&S performance information is reported to the CC (and/or other committees) on a routine basis, who will then oversee E&S performance of these clients during the monitoring and reporting stage of the transaction cycle (refer to section on Performance Management for further guidance).

- **Training**

When designing and implementing training sessions and programmes, FIs should:

- Identify the specific training requirements for various teams in the FI;
- Define the content of the training;
- Decide how the training will be delivered;
- Decide who will deliver the training;
- Define when the training will be delivered and its frequency as appropriate (refresher training sessions are always recommended); and
- Establish a system to evaluate the effectiveness of the training programme.

Developing an appropriate training programme is key to ensuring a robust ESMS implementation. A training programme should not be a one-off event. Instead, it should include the sharing of experiences and lessons learnt, as well as more specialised training as the ESMS becomes better established. FIs should include E&S training as part of the onboarding training for new staff, and good practice increasingly aligns career development/ progression for commercial/ relationship managers (in part) with evidence that they are able to support and deliver E&S objectives.

Generally, all staff within the FI should participate in some level of capacity building to understand transactions' E&S dimensions and how they relate to the FI's lending practices, as well as on the actual functioning of the ESMS and the procedures involved. Professionals with direct client contact should be able to confidently and clearly articulate the FI's E&S requirements, as well as identify potential E&S risks and opportunities.

### **Running in-house training**

The advantage of in-house training is that transaction teams (e.g. Credit and Relationship Managers) can be brought together to discuss deals and lessons learned without breaching confidentiality concerns. In-house training can be run either by experienced in-house E&S staff or by external experts. Experience has shown that

interactive training, including case studies and evaluation of real-life deals, is particularly successful at building familiarity and confidence across the FI staff.

The design of the training programmes should take the FI's portfolio and strategy and credit team's time constraints, key concerns and needs into account. Some FIs have found it useful to integrate E&S training into general FI training arrangements such as adding E&S modules in induction training and credit risk-related courses. In addition, planning for regular refresher training, or at least discussion groups and periodically publishing E&S case studies on the FI's intranet/communication channels, assists in keeping the ESMS at the front of mind.

An effective training programme may not rely entirely on internal or external training sessions but may also include some on-the-job training (e.g. shadowing a consultant to site visits). Since there may not be relevant training programmes available on all topics, this can be a good way to increase knowledge and awareness. Similarly, if some team members have more experience than others on E&S matters, setting up a peer-to-peer learning system should be encouraged.

### **Learning from experience**

In developing training programmes and resources, it is important to take the context and experiences of the FI and its team into account. Engagement with all team members following a training exercise is necessary to assess the adequacy of the session. It is important to regularly follow up post-training sessions to see which elements of the training had the smallest or the greatest impact. It is also useful to keep an eye on what E&S training is generally available in the market and which E&S topics are currently trending.

- [Staying informed and keeping up to date](#)

Participating in global or regional FI networks or initiatives such as the [United Nations Environment Programme Finance Initiative \(UNEP FI\)](#), [UN Global Compact](#), [World Business Council on Sustainable Development](#), [Banking Environment Initiative](#), [Sustainable Banking Network](#), [Equator Principles Association](#) and [Task Force on Climate-related Financial Disclosures \(TCFD\)](#) has the advantage of keeping professionals with E&S responsibilities up to date with regulatory developments, changes in approach to E&S management, key issues emerging, and corresponding



tools to manage these. It can be useful to not only focus on networks or bodies relevant to the FI sector, but also to participate in initiatives in the sectors which the FI focuses on.

- Internal Communications

Effective internal communication and engagement mechanisms will improve coordination and collaboration within and between functions within the FI, and ensure that objectives and targets, performance requirements and responsibilities around E&S matters are clearly understood at all different levels of the organisation.

Suggested objectives for internal communication on E&S include the following:

- Dissemination of E&S management strategy, actions, guidelines, objectives and targets, and instructions on the implementation where appropriate;
- Open communication within the organisation on E&S matters, ensuring that information relating to E&S issues are communicated in a format and language(s) that is accessible to its management and staff;
- Ensuring that E&S issues are included in the agendas for management and committee meetings; and
- Actively promoting E&S awareness by disseminating information such as environmental performance indicators, sharing of E&S experience and best practices among staff, disclosing information on the FI's products linked to E&S (e.g. green bonds, climate finance).

Examples of channels to be used for internal communication on E&S matters include the following:

- Meetings (including board and committee meetings);
- Direct communication through e-mails/company intranet/company messaging platforms;

- Face-to face-engagements, e.g. with selected teams or functions;
- Newsletters;
- Reports (produced annually, bi-annually or quarterly);
- Department or function meetings (held weekly, bi-weekly, monthly or quarterly depending on the department);
- Staff offsite (held annually or bi-annually);
- Leveraging successful engagement with clients so that they reflect on the benefits of good E&S practices (enabled by the FI);
- Office noticeboards and posters; and
- Staff training and awareness campaigns.

All FI staff should also be encouraged to provide feedback on E&S related topics through their line manager and/or supervisor.

- Capacity building initiatives/tools

Several Development Finance Institutions (DFIs) and organisations offer E&S capacity building and resources for FIs. Examples include:

- **BII**: Offers a variety of training initiatives (introductory workshops and specialist technical workshops), as well as more detailed and tailored E&S training responding to specific requests from FIs. Contact [esgtoolkit@bii.co.uk](mailto:esgtoolkit@bii.co.uk) for more information.
- **FIRST (Financial Institutions: Resources, Solutions and Tools) for Sustainability**: A platform for financial institutions to get information and learn about the benefits of environmental and social risk management and how to identify and take advantage of environmental business opportunities. This includes guidance and tools to understand and manage the risks that

environmental and social issues present for financial institutions.

- **International Finance Corporation (IFC):** Offers periodic regional training for the financial sector broadly, specifically the [Sustainability Training and E-Learning Program \(STEP\)](#). The training is designed for managers and staff of FIs including banks, private equity funds, and others. Contact regional offices for further information.
- **German Investment and Development Corporation (DEG):** Delivers capacity building through partnerships with regional consultancies that offer bespoke advisory programmes and mentoring to FIs, including those with no prior exposure to E&S issues. DEG also contributes to regional training and capacity building under initiatives such as the Sustainable Banking Principles in Nigeria and the Sustainability Finance Initiative of the Kenya Bankers Association. Contact regional DEG investment staff for further information.
- **FMO:** Delivers periodic regional workshops on E&S risk management to the financial sector and to private equity. Contact regional FMO officers for further information and see [FMO E&S tools](#).
- **UN PRI:** Offers training to investment professionals globally through the [PRI Academy](#). This course is designed to educate investment professionals about E&S issues and how they impact business and investment decision-making.
- **UNEP FI (United Nations Environment Programme Finance Initiative):** Offers online training on E&S risk assessment for the financial sector, as well as one-day, face-to-face introductory, sector-specific or advanced training sessions. The latter are often convened by national financial sector bodies such as banks or banking associations but can also be delivered in-house.
- **USSIF (The Forum for Sustainable and Responsible Investment):** Offers online and live courses on the fundamentals of sustainable and responsible investment to financial professionals through its Centre for Sustainable Investment Education.
- **Global Impact Investing Network (GIIN):** Offers training in various aspects of impact investing, some of which are relevant to FIs with products that are impact focused.

