

If the FI does not already have an ESMS in place, they should start by considering how management of E&S matters can be integrated into its existing operations and processes. The guidance below is intended to help FIs to start designing an ESMS. For detailed guidance see [FI E&S Management Systems](#).

Also, all FIs will be required (to differing degrees) by regulation to implement and operate a financial crime compliance or business integrity (BI) governance framework to manage key financial crime risks including: money laundering, terrorist financing, sanctions, fraud, bribery and corruption, tax evasion and market abuse. Regulations would typically also require a whistleblowing mechanism to be established for employees or third parties to raise misconduct concerns for review. For a detailed guidance on implementing a BIMS, see [FI BI Management Systems](#).

- [Reviewing context and needs](#)

A good ESMS should be tailored to the specific strategy and characteristics of an FI and 'off the shelf' solutions should be avoided. Reviewing the individual context and designing a bespoke ESMS will ensure its continued relevance and use. FIs should consider, *inter alia*, their business strategy, priority industry sectors and regions, type of financial services provided to their clients, the associated E&S risks, impacts and opportunities, and applicable legal and investors'/lenders' requirements. This includes consideration for changing local, national, or international policy on key E&S topics and assessing implications from a legislative and/or operational perspective. FIs should also consider how organisational priorities might change over time and how new lending practices may require different approaches. Assessment of experience to date (e.g. from past and/or existing clients) is also very helpful in order to draw lessons learned and enhance the systems as needed. Lastly, FIs may find it helpful to map out and understand the role and E&S requirements of both current and possible future investors/lenders (to ensure that they are well-positioned to meet the evolving landscape of complex requirements and expectations) and central bank/financial regulators. Both these stakeholder groups are increasingly focused on the needs for the financial sector to integrate climate change considerations into lending decisions, and this issue is (in part) addressed via ESMS scope and focus.

The ESMS should be tailored **to the types and magnitude of E&S risks** that the FI is likely to encounter from a day-to-day business perspective as part of the clients it finances. It is also important for the FIs to be mindful of their leverage and ability to influence their clients' E&S practices. It is key to develop and implement an ESMS

commensurate to the scale and complexity of the E&S risks that the FI faces. The best management systems are not necessarily those supported by the longest and most detailed documents and procedures, but those that speak directly to an FI's strategy, activities, priority sectors, and locations and addresses pertinent risks, impacts, and opportunities in adequate but not unnecessary detail.

Finally, engagement with all transaction teams is necessary to build an accurate picture of current practices and how E&S management can be effectively integrated into existing transaction approval processes. Many FIs already include E&S aspects in their day-to-day business engagement even if these are not part of a standalone ESMS document (e.g. transaction/credit manuals generally include a reference to the need to assess E&S risks). Therefore, it will be important to first identify any gaps in existing processes and consider how to embed the new E&S practices into the culture and language of the organisation.

- [Who should lead the process of designing an E&S management system?](#)

Experience has shown that it is best to appoint at least one person from senior management to oversee the ESMS, or respective management systems, even if other team members such as the E&S Coordinator may be responsible for the systems' development and implementation across the organisation. An ESMS will only be effective if it is well implemented, which requires clear commitment from top management. It is therefore important to ensure that executive management is involved from the beginning to provide the high-level commitment and strong internal support that will be necessary to ensure that: (i) E&S is appropriately integrated into the FI's overall business strategy and credit approval process, (ii) that E&S is taken seriously at all levels of the organisation, and (iii) any resourcing requirements are addressed as they arise.

- [Defining the scope of the ESMS](#)

As a starting point, FIs shall consider applying the ESMS to all its activities. However, the following shall be considered when defining the scope of the ESMS:

- Certain elements of the ESMS may not apply to all the FI transactions/activities

- (e.g. retail clients will not be required to comply with international E&S standards). FIs shall clearly define which elements of the ESMS will apply to all or some of the transactions. Investors/lenders (such as BII) may also have specific requirements around the scope of application of the ESMS.
- The development of an ESMS for an FI generally occurs only after the FI has been established for some time, at which point the FI already has an existing portfolio of clients and credit. Bringing new E&S requirements to existing credits is generally difficult to enforce given that the loan agreements have already been signed. It is therefore recommended that once the ESMS is developed, it is initially implemented for new credit lines with an incentive to apply its principles but not necessarily its requirements to existing credits. This could include discussing E&S aspects that are relevant for a specific client's activities through a Client Relationship Manager, even when E&S requirements are not built into the loan agreement.
 - Application of new ESMS requirements for existing clients should be put in place in case of facilities that require amendments/renewal of the initial contractual/loan agreement (relating to amount or specific conditions) and which would occur after the development of the ESMS.
 - The scope of the ESMS as defined in this toolkit is focused on credit products, including, but not limited to, the following:
 - Term Loans: Long, Medium, Short-term loans/working capital
 - Syndicated Loans
 - Bonds
 - Lines of Credit
- [Assigning roles and responsibilities](#)

Each FI will be different when it comes to assigning roles and responsibilities within management and its transaction/credit analysis team. It will depend on a number of

factors such as size of the FI, transaction/credit team size and structure, portfolio composition, and the financing model/strategy. However, any structure should include appointing a senior executive/manager and trained/qualified professionals to take accountability and responsibility of the ESMS respectively.

- **Accountability i.e. senior management providing support and oversight - E&S Manager:** There should be oversight and support at a high level. Therefore, a member of top/senior management who plays a role in the transaction/credit risk management function could be appointed as the E&S Director/Manager. This person should be able to ensure adequate time, resources, and commitment are being allocated to E&S matters in the FI throughout the entire transaction process and should act as a check and balance point to ensure E&S risks and opportunities are properly managed.
- **Responsibility - E&S Coordinator and Officer(s):** The FI should appoint a person with the time, experience, and knowledge to take on day-to-day responsibility for ensuring ESMS is implemented in practice. The appointed E&S Coordinator should hold a senior position in the business, having access to necessary resources, whether financial or staff time, to ensure that sufficient capacity (internal staff or external expertise) is available to effectively oversee and implement the ESMS. The E&S Coordinator should be responsible for communicating potential issues to the FI's executive management, such as areas where the organisation would benefit from additional support, capacity, and/or guidance, and for identifying opportunities to enhance value-add on clients' E&S risk management or internal E&S initiatives. In some instances, the E&S Coordinator may decide to appoint additional E&S resources (i.e., E&S Officers) to support them in the implementation of their duties. These members should have the ability to talk to client management and be involved in due diligence and monitoring and ideally, have some independence from the Deal Officers leading the transaction. FIs may also consider hiring an external E&S Consultant to support the implementation of the ESMS, particularly if there is a large exposure to transactions with high E&S risks.
- **Responsibility - Transaction teams:** Finally, it is important to build capacity and assign E&S responsibilities to relevant members of credit/transaction teams to ensure that E&S matters are effectively integrated into the transaction approval process and across the transaction cycle. These resources should work closely with the appointed E&S Coordinator and/or Officers. This will help to fully

integrate E&S considerations across the organisations and into the core functioning of the FI, thereby improving the chances of successful implementation against set objectives.

- [Engaging with colleagues](#)

An increasing number of FIs now have a requirement or ambition to address E&S issues. Due to this, some FI professionals with previous experience in institutions with established ESMSs may already understand the value-add in addressing E&S related risks and opportunities when working with clients in high-risk sectors, such as extractives or infrastructure. Similarly, there may also be some colleagues with a nascent understanding of how E&S can and should be integrated into a successful credit approval process. In developing an ESMS, it is vital that all FI staff understand the business case for E&S risk management to ensure that the new procedures are integrated into existing processes and are effectively implemented. This shall include trainings, forum discussions and constant engagement across the organisation on the Bank's ESMS and requires collaborations across various departments such as risk management, HR, Comms, legal etc.

- [Engaging with Investors](#)

Many investors and all Development Finance Institutions (DFIs) will have expectations as well as experience around E&S management and performance. Engaging early on with investors to understand their requirements is key and, in many cases, investors can provide guidance regarding E&S management. Early engagement with investors also allows the FI to benefit from investors' expertise and guidance and maximise consistency and alignment of E&S requirements across investors.

- [Deciding when and how to engage consultants](#)

All FIs will need to consider whether and when to use third party consultants. In some cases, external advice may be needed to help develop and implement the ESMS in

addition to specific transaction support. Factors that may be considered when deciding when to engage consultants in the development of the ESMS include the size of the FI, the inherent E&S risk profile of its portfolio composition, and availability of internal resources to develop the ESMS commensurate to the breadth and complexity of the FI's operations and lending activities. For example, it would be more likely for a commercial bank with sizeable exposures in high risk sectors such as extractives and construction to require a consultant in the development of its ESMS in comparison an FI with a strategy that focuses mostly on supporting MSMEs and retail clients.

- [Continuous improvement](#)

The effectiveness of an ESMS is based on whether it can provide clear guidance to identify and manage E&S risks, impacts, and opportunities across the FI's portfolio, during the entire transaction cycle, while remaining flexible in adapting to changes in the FI strategy, systems, or transaction processes (e.g. a change in the FI's sector focus or transaction approval process) or across the industry. It is important to regularly review and revise the system (e.g. once a year) to reflect the FI's current structure and to incorporate the lessons learned from past ESMS implementation. There should be a clear approval process for any resulting updates to the system.