

## 1. Overview

- [Introduction](#)

Properly briefed and with the right experience, external E&S consultants can help build a FI's understanding of the E&S impacts, risks and opportunities facing a client, their approach to specific issues of concern and how these can be addressed.

It is likely that FIs will need to engage external E&S advisors to support them with the E&S DD or monitoring of high risk and, in some cases, medium risk/impact transactions. External advisors may also be engaged where DD or monitoring activities discover serious concerns about a client's past or current performance, or to look at one particular aspect of a business that is a cause for concern (e.g. occupational health and safety). The knowledge and expertise of consultants should build on and complement that of in-house staff, rather than duplicate it.

They may also be contracted to do a one-off gap analysis (looking, for example at how a company's E&S management system (ESMS) might be improved), providing advice on documents produced by the client company or project, or offering a second opinion on difficult issues.

Therefore, consultants can be engaged across a wide range of work, such as ESDDs, Environmental and Social Impact Assessments (ESIAs), limited and focused E&S assessments, E&S Audits and during monitoring activities. This Guidance focuses on advisors engaged by the FI to conduct external E&S DD and/or monitoring of a FI's client or project. The following guidance is intended to make working with external consultants as straightforward as possible and ensure it is done so it adds as much value as possible to the client, FI and other stakeholders (e.g. Investors).

Refer to [Resources](#) for samples of Terms of Reference (ToR) for E&S DD, which can also be adapted to independent E&S monitoring activities.

## 2. When to engage consultants

- [When might E&S consultants need to be commissioned?](#)

External E&S expertise might be required at the following points in the credit cycle, to

address an area in which internal resources do not have requisite expertise, markets/geographies where lack of familiarity with the regulations or where there are restrictions for a site visit.

- **Due diligence (DD):** For 'High' and 'Medium-high' risk clients or where a FI feels internal resources could be complemented.
- **Monitoring:** For 'High' and 'Medium-high' risk clients, supplementing the in-house E&S function (e.g. during monitoring and reporting stage to assess performance on specific E&S issues) or to assist with improvements and help build value.

FIs should use in-house expertise to develop ToRs, evaluate and commission proposals, interpret final reports and extract key recommendations and findings for use in key credit documents.

- When might business integrity consultants need to be commissioned?

External expertise might be required at the following points in the credit cycle:

- **Due diligence:** When due diligence has revealed rumours or facts that call into question the business practices of the client, its sponsor or directors.
- **PEP:** When a politically exposed person (PEP) is involved in a transaction as a mechanism for establishing their source of wealth.

FI's should use in-house expertise to develop ToRs, to evaluate and commission proposals, interpret final reports and extract key recommendations and findings for use in key credit documents.

### 3. Drafting terms of reference

- [Scope of work and deliverables](#)

Whether contracting external expertise for due diligence or for monitoring purposes, it is important to carefully consider the scope of the work and the desired deliverables such as an assessment of the target client's assets to identify required site visits, before writing the ToR. If it is not feasible for the consultant to visit all assets, then a representative sample of assets/activities (including those presenting the highest risks) should be chosen. Remember to also think about upstream and downstream risks and impacts (e.g. supply chains, distribution) and consider how these might be assessed.

Be clear about any applicable standards that will form the reference framework for the assessment (e.g. simple local legislation or supplementary requirements of IFC Performance Standards and/or other international standards). Be sure to specify if you are looking for a gap analysis of an existing study or E&S Action Plans against applicable standards, or whether you are looking for new information. Also highlight that the studies commissioned should not only be about compliance, but about avenues to improve the business operations and provide long-term value.

In some cases, the FI may want to engage with consultants and listen to their advice before finalising the ToRs, considering their past experience in E&S assessments. In this case, it is important to ask about any perceived concerns or limitations, and a realistic timescale to complete their work.

Be clear about the deliverables expected (e.g. A detailed report, including an executive summary of key E&S risks, impacts and opportunities, E&S Action Plans to address areas of concern etc.).

It is important to not only review final reports and deliverables, but also to discuss the findings with the experts. They might provide verbal feedback which will supplement the written report if there are items identified that may not have been included in the paper. Generally, it is useful to do this after production of a draft final report, to discuss any areas where you feel clarification is required prior to production of the final report.

If the document includes an E&S Action Plan, the FI should ensure this is realistic and appropriate, as the FI may need to negotiate/discuss the E&S Action Plan with the

client post-credit approval without the consultant's support.

Remember that there are some observations that an external expert may prefer to discuss verbally rather than formalising in the report. The FI should seek to assess client commitment themselves starting with the first interactions at the screening stage. For this reason, it may be useful for staff from the FI deal team to accompany external experts to site as part of building client relations.

- [Writing the terms of reference](#)

The following points should be included in the ToRs for the consultants.

**Context:**

- Provide background information and set the context for the expert study you intend to commission.
- Provide an introductory paragraph about your institution, its E&S policy and strategic focal areas.
- Introduce the client and facilities to be investigated.
- Provide information on the nature of the transaction and financing provided.

**Nature and purpose of the study:**

- Specify the nature and purpose of the study required. State the purpose of the study and what the information provided would be used for (e.g. to determine compliance, to investigate opportunities to add value, to assess possible liabilities prior to acquisition, to review an already completed study such as an ESIA, or to identify strengths and weaknesses in the ESMS).
- State the audience for whom the information/study is designed.
- Provide enough information to allow the proposed consultant to plan man-hours of appropriate team members with relevant expertise and costings for travel and

other inputs. Overviews of existing or likely E&S risks and impacts are key.

- Introduce the applicable requirements/reference framework against which the study should be undertaken. Specify that the IFC Performance Standards and ILO conventions are the benchmark. The reference framework could also include sectorial guidelines or specific industry standards.
- Include a minimum list of documents to be reviewed.

### **Timing and scope:**

- Provide clear guidance on the timing of the investigation and other project milestones. Indicate when the study is likely to be commissioned and when the final report and presentation should be given.
- Give clear guidelines as to the minimum number of sites to be visited, along with clear instructions on which sites are essential. Alert the client to imminent site visits.
- Ensure the consultant is fully briefed on any expected future growth plans for the client company, especially where this involves new sites, as this will impact on the management systems that will need to be in place.

### **Expected outputs:**

- Include a list of headings or draft contents page for the final report.
- Ask for separate recommendations for what the client should do and recommendations for what the FI could do to support the client.
- Indicate that a final presentation and discussion of the findings will also be required.

## 4. Selecting consultants

- [Experience and credentials: What to look for](#)

FIs should seek to hire consulting firms or individuals based on the experience and expertise of the proposed team/individual. Some FIs select consultants by calling for capability statements, and then evaluating and interviewing applicants carefully to compile a shortlist for the deal in question. Other FIs prefer to have a small team of experts on retainer, available at short notice and knowledgeable about the FI's E&S requirements.

Beware of conflicts of interest. Ensure the selected consultant is not currently working for or has not previously worked for the target client and is not working for any other parties involved in the transaction.

It is also worth bearing in mind that E&S expertise can be sourced not only from consultancies or individual experts, but also from industry experts with detailed operational experience of good practices in a particular sector. Sometimes, the work may need to be split between a number of consultancies with different specialties (e.g. an international E&S consultancy subcontracting a specialist piece on contaminated land). In these instances, adequate coordination of work should be particularly considered.

Working with consultants with the following experience and credentials are recommended:

- **Experience with and a robust understanding of the applicable standards**, such as the IFC Performance Standards, ILO Conventions, World Bank EHS guidelines, local and international E&S laws and regulations in the countries being assessed and how these relate to both local norms and formal international standards.
- **Relevant expertise in the specific field that needs to be evaluated**, such as the adequacy of Environmental and Social Impact Assessments or occupational health and safety management. Note that many consultants may not have expertise on both environmental and social aspects, especially for certain areas of expertise (e.g. biodiversity, Indigenous Peoples, cultural heritage, involuntary resettlement). Ensure the team of consultants has suitable knowledge and

experience.

- **Geographic experience** in the same country and/or region in which the client operates (or will operate).
- **Industry/sector experience** (i.e. textiles, palm oil, power, oil & gas etc.) and experience of the relevant industry or regional standards (i.e. FCS, HACCP, Roundtable on Sustainable Palm Oil, Nigerian Sustainable Banking Principles etc.).
- **Experience in delivering transaction support** to the financial sector can be useful as a bridge between technical E&S findings and recommendations, and the requirements and limitations of the FI.

It is also important to consider the scale and geographic spread of the consultant's capacity in terms of the client's operations and the FI's location. It is important for the consultant(s) to cover all relevant facilities and supply chains, especially if they are spread over a region and these are material to the scope of the work required.

It is not only the organisation's experience and track record that is relevant, but the capacity of the individual staff members proposed for the work. FIs should follow a similar approach to selecting appropriate consultants for commercial or market diligence. They should:

- Ask for CVs/resumes of the staff proposed for the work. Look for technical credentials, past experience and the relationship with the firm (e.g. are they an Associate as opposed to permanent employees) and evaluate the competencies of who is doing specific tasks.
- Ask who will be performing the different tasks such as desk research, site visits and final report review.
- Understand whether the consultancy will commission any additional locally based expertise or partners for additional insight. Again, be clear on who will be performing the different tasks, and under how much supervision. Also check on the capacity of any locally based experts engaged.
- Ensure that at least one senior manager will take responsibility for the work and

be the point-person for project management.

- Ask to see examples of previous similar work (this may be difficult for a due diligence exercise in which case previous experience in the particular sector/geography should be reviewed).
- Ask for references from other clients.