1. Overview

- When is an E&S Action Plan required?
  Where the due diligence (DD) process identifies gaps with respect to applicable laws and regulations and/or the FI's requirements and/or expectations, an E&S Action Plan (ESAP) or plans, should be discussed and agreed on with the client.

  The ESAP will detail the specific improvements ('actions') which a client will need to make within a reasonable timeframe in order to bring the business in line with the FI's requirements and expectations (including compliance with applicable regulations). Certain items may be considered sufficiently material to require the client to make changes prior to a credit approval and execution / capital disbursement (i.e. 'conditions precedent'). An ESAP may also contain items which can be completed post credit approval (i.e. 'conditions subsequent' to disbursement) and which a client will need to address within a time bound period. A client will need to be closely monitored to ensure focus on such items continues.

  ESAPs can also address opportunities to add value to the business.

2. Elements of good action plans

A good ESAP should be specific, measurable, achievable, realistic and time-delimited ('SMART'). See Resources for a template.

- Elements of good ESAPs
  - Include a summary of the key gaps / issues identified. Generally, companies/clients find it helpful to understand why an action shall be implemented and the gaps/issues each action aims to address.

  - Include concise (but suitably detailed), accurate and clear descriptions of the actions to be implemented. High-level actions should be avoided (e.g. 'manage waste'). In some cases, one risk can require several actions to ensure appropriate risk management and/or capitalisation on opportunities (e.g. appropriate occupational health and safety management may require: (i) preparation of written management plans, procedures and risk registry; (ii) implementation of risk mitigation measures including change of processes where needed, (iii) development and delivery of an ongoing training programme; and (iv) purchase of protective equipment.

- Contain actions designed to address specific E&S gaps/opportunities and not simply an overarching action for the client to put in place an E&S management system.
- Set realistic and clear timelines for the completion of the actions required with the emphasis on achieving compliance with the applicable regulations and the FI's standards as soon as possible.
- Prioritise the actions in order to emphasize those aimed at addressing the most relevant gaps and high-risk areas.
- Include clear indicators of completion for each of the actions (e.g. installation of a wastewater treatment system, documented, anti-corruption policy).
- Clear allocation of responsibility for each of the actions/tasks.
- In some cases, a cost estimate may be included.
- Where appropriate, include a reference to the relevant standards (e.g. a specific IFC Performance Standard).

3. Discussing ESAP with clients

- Considerations when discussing ESAP with clients

  It is key to discuss ESAPs with clients in order to ensure that each of the actions is understood and that the client can allocate the necessary resources for implementation.

  It is important that the ESAP is discussed and agreed with client management to ensure that: (i) cost/resource implications are understood; (ii) measures and deadlines are realistic; and (iii) management explicitly agrees to implementation.

Once agreed, ESAPs should form part of the legal agreement (e.g. loan agreement). Prioritisation of the risks and impacts allows the deal team to also consider what action would be required if implementation schedules or efficacy targets are not met (e.g. would this trigger a material breach with requirements?)

Where gaps remain serious and a way forward cannot be agreed or where a client is not committed to improvement, the FI should consider whether it shall proceed with the transaction or not.

The presence of E&S risks and impacts or poor E&S performance/capacity in a target business does not exclude credit approval. In fact, in some cases, certain higher E&S risks can translate into greater rewards over the long term with rigorous, committed, and conscientious application of appropriate management measures.