

1. Overview

FIs may need to commission or review specialist assessments on E&S matters to inform pre-credit approval, or during portfolio management to assess a client's ongoing management of specific risks, impacts or opportunities including legal and regulatory requirements and ESAPs. The need to conduct specialist E&S reviews may be as a result of:

- In-house capacity constraints of the FI
- Travel or other restrictions for physical site visits
- E&S risk areas which require assessment by a specialist e.g. indigenous people, large resettlement etc.

In these instances, the FI may commission E&S specialist reports to ensure that the E&S risks in the project are adequately assessed and can be incorporated in the approval process to prevent any E&S related incidents in the future which may disrupt project progress and ultimately affect performance of the risk asset.

- [Main types of E&S assessments and reports](#)
 - E&S Due Diligence (ESDD)
 - E&S Impact Assessment (ESIA).
 - Limited or focused E&S assessments.
 - E&S Audits

See also [BII Guidance: Working with Consultants.](#)

2. Environmental and social due diligence

- [What is it?](#)

An environmental and social due diligence (ESDD) is an evaluation undertaken to understand E&S risks of a transaction and to assess compliance with a specific set of requirements/ standards ('standards') as determined by the FI's policy commitment and ESMS requirements. ESDDs are typically commissioned by the Relationship Team in the FI alongside the E&S specialists.

The ESDD is carried out to identify E&S risks associated with a proposed credit application and to prevent E&S risks and impacts which could present a potential liability (including reputational risk) to the FI and lead to non-performance of the loan by the FI's client. ESDD, in the case of FIs, typically includes an assessment of:

- Key E&S risks and impacts associated with the client's existing operations or, in some cases, risks linked to greenfield Projects.
- Areas of non-conformity/gaps with the IFC Performance Standards and/or any additional international standards alongside any actions to address these gaps.
- Whether certain industry-specific E&S and/or occupational, health and safety standards are being achieved (legal or voluntary).

An ESDD will be useful in establishing a starting point for the identification of corrective actions and how a client's E&S practices or respective management systems might need to be strengthened going forward.

The main difference between an ESDD and other type of E&S assessments detailed below is that with an ESDD (even when conducted for a greenfield Project), its primary purpose is to inform lenders about the risks and impacts which could affect the transaction. The ESDD can be carried in-house or commissioned to a qualified third party depending on transaction specific E&S risks and the in-house capacity of the FI.

- [What does it cover?](#)

The Terms of Reference (ToRs) of an ESDD can be flexible according to the E&S risks associated with a transaction. However, below are the key sections that should be covered in all ESDDs:

- **Scope:** The scope of the ESDD should cover the operations of the client supported by the FI financing (in case of a general purpose loan, this means all operations whereas project finance transactions may require an assessment of project specific risks), review of available documents and assessment of relevant sites of operation.
- **Limitations:** Where the ESDD has limitations, these should be incorporated (e.g. limitations regarding site visits, availability of documents etc.).
- **Process:** Summary of the process which was followed (e.g. documentation review and site visits).
- **Identify risks:** Describe E&S risks which could present a potential liability (including reputational risk) to the FI or materially impact the valuation.
- **Describe key findings/issues/gaps against applicable standards:** Explain the main E&S issues associated with the asset (e.g. air emissions, wastewater effluents, hazardous waste generated, historical pollution and contaminated sites, fatality/ accident data, land acquisition issues, occupational health and safety, public/community safety, stakeholder engagement, land acquisition, labour management and standards, impacts on cultural resources, internal and external grievances, disputes).
- **Materiality of the findings:** Provide information on the materiality of each of the findings according to the E&S requirements prescribed by the FI's ESMS (i.e. gaps against applicable requirements and how can each of the findings affect the client and/or the FI's credit line).
- **Remediation measures:** Describe the remediation actions to be implemented to address the gaps. These mitigation measures should be clearly spelled out in form of an E&S Action Plan detailing timelines, deliverables and responsible parties and included in the legal documentation between the client and the FI.
- **Opportunities:** Consider and identify improvement opportunities, e.g. energy efficiency, cleaner technologies, water use reduction, emission reduction, safer working conditions, community development programs.

- [What to look for in an ESDD](#)

In situations where the FI receives an ESDD commissioned by others it is important to check the adequacy of the DD against the institution's own ESMS, as well as general scope and adequacy of ESDD undertaken (i.e. a typical quality assurance test against the ESDD provided)

- **Scope and limitations:** Does the ESDD cover all the facilities, activities and aspects that should be assessed? Are there any material limitations which could significantly reduce the relevance/adequacy of the ESDD?
- **Expertise:** Was it completed by a sufficiently qualified team? (Check for qualifications and any accreditation, experience, international and local expertise. Look specifically for experience in the issue or activity being evaluated and expertise in the applicable standards.)
- **Requirements/reference framework:** Does the ESDD clearly state its scope and aim (i.e. to assess alignment of a potential client with the FI's expectations)? The ESDD should include a clear and concise description of the requirements of the applicable standards.
- **Analysis/assessment against applicable standards:** Does the ESDD adequately assess current practices and performance compared to the applicable standards identified (e.g. IFC Performance Standards, past practice or industry standards)? Are the ESDD findings based on an adequate review of the necessary data in areas where there are specific risks for a particular client (for example - accident statistics, effluent data, wages paid, hours worked)?
- **Findings/next steps/ESAP:** Are gaps against applicable standards clearly identified (along with magnitude/scale/potential and actual impact)? Does the ESDD assess management and mitigation measures and identify additional corrective actions required to ensure compliance? Is the ESAP credible and fit for purpose and does it reflect the applicable requirements identified for the particular transaction as well as FIs general policy requirements (e.g. FI's Exclusion List, Sustainability Policies etc.)

While the scope of the ESDD and applicable requirements will be commensurate with the risks associated with a specific project, some topics are relevant for all

transactions including labour and working conditions, supply chains risks, as well as the capacity, commitment and track record (CCTR) of the client. The FI should strive to ensure that these topics are covered are duly assessed and reflected in the final report.

3. Environmental and social impact assessment

- [What is it?](#)

An Environmental and Social Impact Assessment (ESIA) is an **in-depth study by technical specialists** to establish the E&S baseline prior to development, and assess the potential negative and positive impacts of a new Project or expansion of operations, including (where necessary) measures to avoid, minimise, mitigate or offset negative impacts. Typically, they are commissioned by the client to address regulatory (or financing) needs and they relate to new (greenfield) operations. E&S audits (below) focus on pre-existing (brownfield) operations

- [When is it typically required?](#)

- **Legal requirement:** ESIA's are usually a requirement under host country environmental legislation before planning permission or operating permits are approved. Most emerging market countries' environmental legislation includes a schedule of the types of Projects or activities for which ESIA's would be required and the typical information to be included in such studies. However, the legislation on the scope may be limited to the environmental aspects of projects in some countries, where only Environmental Impact Assessment (EIA) is required. In such cases, the lenders/FIs should assess whether the legally required EIA provides the social baseline or whether an expanded scope is needed.
- **Financial institutions:** Development Finance Institutions (DFIs) and Equator Principles Finance Institutions (EPFIs) require an IFC Performance Standard compliant ESIA for all Category A ('High' risks/impacts), and, as appropriate, Category B ('Medium' risks/impacts) Projects.

- When is it typically commissioned, and who commissions them?

An ESIA is usually completed prior to credit approval for a Project. An ESIA is commissioned by the Project sponsor/client.

- What is the FI's role?

ESIAs are the responsibility of the client company/Project sponsor. The FI's role is to:

- Ensure the ESIAs are completed by competent experts and to the appropriate methodology and standards. The ESIA must conform to the requirements of the host country's laws and regulations, including the relevant disclosure of information and public consultation requirements. It can be the case that ESIAs assess impact against national standards (but not IFC PS or other standards that the FI may require) and (to the extent possible) it is important to engage clients early so as to define the FI's needs to ensure the ESIA can reflect this as well as domestic legislation. This is to avoid circumstances where FIs require sponsor to commission additional and subsequent work (with attendant, cost, timing, and disbursement consequences).
- Review the results and analyse what they mean for the FI's proposed transaction, taking into account the cost of mitigation measures and the ability to add value. Again, the FI might commission an external expert to review the ESIA and assist in determining headline issues or conditions precedent (often as part of a ESDD process).

- What does it cover?

The breadth, depth and type of analysis should be proportionate to the nature and scale of the proposed operations' potential E&S impacts. An ESIA should be undertaken by an experienced team of professionals and should include site work as appropriate. Key elements are:

- **Screening and Scoping:** a rapid, high-level assessment to determine whether a

full ESIA is required and what level of assessment is needed and identification of key issues and impacts that the ESIA will need to address.

- **Examination of Alternatives:** An assessment of technically and financially feasible alternatives and rationale of selecting the particular project.
- **Stakeholder Identification and Baseline Data:** Identification of stakeholders (focusing on those directly affected) and existing receptors and sources of impact and economic and social baseline data.
- **Consultation undertaken:** As part of the ESIA key groups that are affected by the project should be consulted as well as relevant regulatory bodies. The ESIA should include the methodology of these consultations, justification for the groups consulted (including focus group discussions or additional consultation with vulnerable groups where needed) and an assessment of the outcome. Which groups/individuals were consulted as part of the ESIA
- **Impact assessment:** Assess both positive and negative E&S impacts in terms of magnitude, significance, reversibility, extent and duration. The possibility for cumulative impacts should also be considered. (For further information refer to [IFC Good Practice Handbook – Cumulative Impact Assessment and Management: Guidance for Private Sector in Emerging Markets](#)). Quantitative data should be employed to the extent possible, and opportunities for E&S enhancement should be identified. E&S impacts should be assessed for relevant phases of the Project such as: construction, operation and maintenance, and decommissioning.
- **Mitigation/management measures:** Identify technically and financially feasible measures to prevent or minimise E&S impacts to acceptable levels. Also outline measures to enhance positive E&S aspects within the Project’s area of influence.
- **Assessment of residual impacts:** Assess the nature and significance of any residual E&S impacts (after mitigation). Proposed contingency planning measures (i.e. emergency planning) should be described and their adequacy evaluated.
- **Documented assessment process:** The ESIA report should detail the methodology, details of the assessment and resulting corrective actions that

should be established with clearly stated outcomes or targets, timeframes, responsibilities and resources required. This will also include respective E&S management plans that should be developed to mitigate the risks identified.

- [What to look for in an ESIA](#)

In reviewing the ESIA the FI should consider the following:

- **Scope and limitations:** Does it adequately consider the scope of the operations in terms of phase of development, timescale, physical footprint, associated facilities and up/downstream activities? Are all E&S impacts assessed? Are feasible project alternatives examined and the rationale for the particular project provided? Are there any significant limitations which could affect the relevance of the assessment? (e.g. ESIA's won't typically address labour and working conditions as employment would not have started or CCTR)
- **Adequacy and completeness of consultation, stakeholder engagement and baseline data:** Did the report include all relevant source of data for economic and social baseline? Did the ESIA reached to the right people for consultation? What was the process followed? Is there evidence that the consultation outcome influenced the design as appropriate?
- **Expertise:** Was it completed by a sufficiently qualified team? (Check for qualifications and any accreditation, experience, international and local expertise).
- **Assessment process/data points:** Does the assessment include data points that are relevant to the specific issues being investigated (accident statistics, effluent data, lowest wage paid, longest hours worked) which can verify the current status and be used as benchmarks for improvements where action is required? Is there a need for assessments that should be conducted over a period of rather than in one particular point in time (e.g. biodiversity or environmental assessments which require initial baseline studies, or studies that require seasonal factors)?
- **Standards:** To what standards has the ESIA been completed (national standards,

IFC Performance Standards and applicable WBG EHS Guidelines. Are these sufficient for the FI's requirements?)

- **Management plan:** Does it include a mitigation and management plan that details specific actions, timelines, actual resources required? For example, 'improve emissions quality' is not specific enough.

- Plans generated through an ESIA

Typically an ESIA will define a range of plans and mitigation processes (often captured in construction or operational management system requirements (e.g. HAZOP) which should be built into ESAPs). Additionally, there may be sector or thematic plans that are transaction specific - some common examples (not comprehensive) are provided below:

Livelihood Restoration and Resettlement Action Plan (LRRAP):

- Prepared by an external independent expert as part of the ESIA, or, where full ESIA's are not required, prepared as a limited E&S assessment for expansion activities.
- Commissioned by the client to address the implications of physical or economic displacement of host communities.
- Includes an assessment of baseline conditions, community mapping, and the extent of physical or economic displacement, resulting in a plan to avoid, minimise or compensate any displacement according to requirements of [IFC Performance Standard 5](#).

Biodiversity Management Plan (BMP):

- Prepared by an independent expert as part of the ESIA, or as a limited E&S assessment for expansion activities where full ESIA's are not required.
- Addresses the implications of the client's activity in relation to biodiversity

considerations and residual impacts that cannot be mitigated.

- Includes an assessment of baseline conditions, biodiversity mapping and the extent of potential biodiversity loss, resulting in a plan to avoid, reduce/minimise or offset any biodiversity loss according to requirements of [IFC Performance Standard 6](#).

Stakeholder engagement plan:

- Developed based on the public consultation process, including details of how the client will continue to engage with affected communities, the mechanism through which third party grievances will be received, recorded and managed.
- Outlines the process for engaging with Affected Communities and other interested parties around new developments, activities or expansions of a business and offers opportunities to collect their input and document any concerns. For further information refer to [Doing Better Business Through Effective Public Consultation and Disclosure: A Good Practice Manual as a guide](#).
- Specific attention and a management plan may be required if the Project has or is likely to have impacts in relation to Indigenous Peoples (IPs). See [IFC Performance Standard 7](#).

4. Limited or focussed environmental and social assessments

- [What is it?](#)

A limited or focused E&S assessment has a narrower scope and/or higher level of assessment when compared to a full ESIA. This type of assessment may be required in situations where client activities or projects present specific activities with potentially limited adverse environmental and social risks and/or impacts, and therefore the development of a full-scale ESIA is not required by the host country's environmental

assessment laws and regulations or by applicable international standards. These types of studies may also be required during the monitoring phase, in case a particular E&S risk area is identified through client monitoring reports, incidents or adverse media (e.g. labour disputes, significant OHS issues, environmental spills, revocation of permits etc.)

- When is it typically required?

The circumstances in which these studies are required may include:

- Modernisation and upgrade of existing production facilities that do not involve major expansions or transformations.
- Real estate Projects in urban areas and/or developed areas where the associated infrastructure is already in place (e.g. power, water, sewage).
- Development of social infrastructure such as health and education facilities with specific potential environmental and social (including labour, health, safety and security) risks and/or impacts identified during screening and scoping.
- In cases where particular E&S issues are identified during the regular monitoring activities that require further investigation.

- What will trigger a limited or focussed E&S assessments?

E&S assessments focused on a specific E&S risk associated with a transaction may be required in case of changes to scope or operations beyond what was initially assumed or planned. In these cases, the scope of E&S assessments would be limited to environmental and social risks regarding the new operations. Focused E&S assessments may also be required if there are evidence of impacts that were not initially predicted or realization of potential impacts that were assumed.

- What might the scope be?

Examples of focused assessments include:

- Air pollutant emissions and air quality impact studies.
- Noise and vibration studies.
- Contamination investigations and assessments (useful for greenfield Projects on newly acquired land, or businesses targeted for potential acquisition in a company's growth plan).
- Traffic studies along transport corridors.
- Social baseline
- Evaluation of labour and working conditions, terms of employment and health and safety.
- Resettlement evaluations.
- Water resource impact studies

- What does it cover?

The approach and focus of the study will be determined by the issue(s) being investigated, which should be clearly specified. The study should be proportionate to the nature and scale of the E&S impacts associated with the Project. The assessment(s) should be undertaken by experts in the issue.

- What to look for in a limited/focused assessment

In reviewing the focused E&S assessments, the FI should factor in similar considerations discussed in the ESIA section. This includes ensuring that the scope of the operations in term of the activity being investigated, expertise of the team

undertaking the assessment and compliance with national, international standards and relevant best practice guidance.

5. E&S audits

- [What is it?](#)

E&A Audits are conducted to assess E&S performance of a client by reviewing the practices and performance of a pre-existing operation. E&S Audits typically aim to assess the effectiveness of the management system in general or for a particular risk area such as labour/ working conditions, health and safety or energy audits.

- [When is it typically required?](#)

Many companies will have internal E&S Audits as part of their regular monitoring processes. These are typically conducted internally by various teams responsible for certain aspects of the business such as OHS or environment. External E&S audits are typically required in the below cases.

- Certification to be awarded or retained (e.g. Fairtrade, FSC, ISO 450001, SA8000, ISO 22000 etc.).
- As part of regular monitoring activities for an independent assessment of the management system.
- In order to identify areas of improvement such as energy efficiency.
- As a response to a particular issue identified during monitoring e.g. increased number of H&S incidents or labour disputes.

There may also be cases of E&S audits commissioned by a third party such as labour or environmental audits conducted by regulatory agencies. Though not required by the FI, these reports can be an important source of information to assess E&S

performance of a company.

- [What to look for in an audit](#)

During the review of an E&S audit, the FI should factor in similar considerations mentioned in previous sections. This includes the sufficiency of the scope to cover issues being investigated in the client's operations, the skillset of the team undertaking the exercise, assessment against relevant standards as they apply to issue being investigated and points of data collection.

6. Conclusion

When determining the type of specialist E&S assessment to be commissioned as part of the credit appraisal process, FIs need to consider several factors such as availability of technical expertise in-house, project size, possibility of a site visit and any particular E&S issues requiring additional expertise. The scope and contents of the report and the technical expertise required will be a factor of the E&S risks and impacts of a project, national regulations and the FI's internal ESMS requirements. While the ESDD will be the main report produced by the FI to inform credit decisions, other specialist E&S assessments detailed in this section can provide insights into a potential or existing clients' E&S performance and should be consulted as needed. Further guidance on how to engage consultants are provided in the ['Working with Consultants'](#) section and [Resources](#).