

BII's relationship with its Financial Institutions (FIs) on environmental and social (E&S) and business integrity (BI) matters begins with verifying alignment, before moving to oversight and support. BII considers each FI's unique characteristics and does not believe in a 'one size fits all' approach to E&S and BI management. BII supports FIs not only to think proactively about their own BI risks and E&S impact, but also to in turn support their own portfolio companies. BII offers guidance and experience through a mixture of one-on-one advice, training sessions that enable peer-to-peer learning, as well as advice from a team of in-house E&S and BI experts. An emerging priority for BII is to work with FI partners on climate change, human rights and gender (BII has staff dedicated to these themes).

BII's ESG Toolkit for Financial Institutions (the FI Toolkit) and the guidance materials herein aim to provide additional support to FIs when developing and implementing E&S and BI management systems throughout the lifecycle of our investment:

- [Alignment with BII's Policy of Responsible Investing prior to commitment](#)

BII conducts E&S and BI due diligence on all our FIs to understand their processes, commitment, capacity, and track record (CCTR), and to develop a time-bound action plan if improvements are required. BII provides guidance on how management systems and resourcing can be improved, rather than simply passing judgement on whether they meet the requirements included in [BII's Policy of Responsible Investing](#). There is increasing evidence that this approach can help FIs to attract other investors and lenders who are looking for FIs with good and effective E&S and BI risk management and value creation strategies. For further information, see [BII's Policy of Responsible Investing](#)

- [Alignment with BII's Policy on Fossil Fuels and Climate Change](#)

BII is committed to combating Climate Change, with key plans outlined in the [Climate Change Strategy](#) and through implementing new policies such as the [Fossil Fuel Policy](#).

Climate change is already impacting the competitive context within which all companies operate, and as FIs sit at the heart of allocating capital and risk, they will and do play a central role in addressing this challenge.

FI portfolios in Africa and South Asia are likely to be increasingly exposed to the

impacts of changing physical conditions (physical risks), and from the rapid decarbonisation of economies to limit climate change to well below two degrees (transition risks). However, FIs have an opportunity to play a role in financing the climate solutions needed to adapt to the changes already experienced today, and the low carbon solutions to secure tomorrow.

BII's investee FIs are encouraged to adopt the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and can find further guidance on taking steps towards implementing these recommendations on the [TCFD website](#). A whole-of organisation approach is needed to manage climate risks and take fullest advantage of climate-driven opportunities. That said, a suite of 'green' products for FIs is emerging. Further guidance on what these are and how to establish these can be found in the [Green Financing section](#).

- [Gender and Diversity](#)

Gender-smart investing and financial inclusion are smart business. We know FIs that perform well on gender inclusivity return greater profit. We also know that women's demand for financial services is increasing, yet often unmet. This presents a significant business and impact opportunity. BII works FI partners to advance gender equality and women's economic empowerment across the value chain from women in senior leadership, women employees, women entrepreneurs, and women clients. Read more on BII's approach to gender [here](#). Tools and guidance on gender diversity for FIs can be found on [BII's Gender Toolkit](#).

### *2X Challenge*

The [2X Challenge](#) calls on DFIs to mobilise their own funds, as well as private capital, to unlock resources that will help advance women as entrepreneurs, as business leaders, as employees, and as consumers of products and services that enhance their economic participation.

As a founding member, BII joined to use innovative ways, including using blended finance, to support investments and initiatives that provide women in developing countries with access to leadership opportunities, quality employment, finance, and enterprise support. BII maintains its commitment to the 2X Challenge and actively looks for investment opportunities to address gender inequalities and empower

women. BII encourages and supports FIs to meet and/or exceed 2X criteria to increase women's representation within banks and their clients.

- [Safeguarding](#)

BII is committed to strong labour and human rights and has a particular focus on safeguarding. BII also has a zero tolerance to safeguarding violations which include gender-based violence and harassment (GBVH), modern slavery, and child exploitation and sexual abuse. In the financial sector, GBVH is a persistent challenge and one BII often works with investees to address. For example, BII may work with FI partners to:

- Help define and establish a company level policy on creating a harassment free work environment;
- Support the development of governance structures and allocation of resources and responsibilities for managing safeguarding;
- Guide FI partners in undertaking risk assessment to identify safeguarding risks;
- Advise on preventative approaches including communication campaigns and training to employees and contractors on safeguarding, as well as grievance and incident management procedure; and
- Advise on monitoring and reporting procedures.

Our detailed guide to our approach to addressing safeguarding issues in the clients BII works with can be found [here](#).

- [Appointing an E&S Coordinator](#)

BII expects its FI partners to appoint an E&S coordinator. Typically, this role should demonstrate appropriate specialist experience for the types of E&S risks and impacts that the FI and its clients are exposed to. For FIs exposed to high E&S risks in its portfolio, a minimum of one fully dedicated and suitably qualified E&S coordinator is

required (see [E&S Risk Categorisation](#) for further details on different FI E&S risk categories) and [Resources](#) for an E&S manager job description template.

- [Reviewing due diligence](#)

To enable BII to assess whether the FI's E&S and BI management system is being implemented effectively and to provide necessary support and advice, BII typically reviews a range of FI documents during E&S due diligence, including a selection of the FI's E&S due diligences, monitoring reports, and credit appraisal papers. From a BI perspective, BII will assess the FI's controls in terms of the financial crime risks they face, their regulatory requirements along with international best practice.

- [FI E&S Action Plan](#)

Prior to investing in an FI, BII will review the FI's E&S Management System and where available, its track record in implementing that system (see [FI E&S Management Systems](#)). Where there are areas that require improvement and where these cannot be achieved prior to closing, BII will agree an E&S Action Plan (ESAP) with FI management to address the outstanding items and support the FI towards improving its E&S policies and procedures. The period post-close when the ESAP is being implemented will typically involve a higher level of ongoing engagement and communication between BII and the FI.

- [FI BI Action Plan](#)

Prior to investing in an FI, BII will review the FI's BI/Financial Crime Compliance (FCC) Management System and where available, its track record in implementing that system (see [FI BI Management Systems](#)). Where there are areas that require improvement and where these cannot be achieved prior to closing, BII will agree an BI Action Plan (BIAP) with FI management to address identified actions and support the FI towards improving its BI policies, procedures and/or training. The period post-close when the BIAP is being implemented will typically involve a higher level of ongoing engagement and communication between BII and the FI.

- [Site Visits](#)

An important element of BII's engagement with our FIs includes periodic conference calls and/or site visits to FIs and, in some cases, performing visits to the FI's clients, particularly those which may be exposed to medium to high E&S risks. These visits are always undertaken with FI partners and mutually agreed in advance. Site visits may also be undertaken when circumstances arise that pose specific areas of concern for BII such as in response to a serious accident or incident, fines, human rights violations, major grievances raised by stakeholders, harmful media reports, or action by the regulator or law enforcement authorities on E&S and BI issues.

These visits enable BII to understand the progress and practical challenges encountered by FIs and their clients when implementing good E&S or BI practices. They also enable BII to better support and advise FIs on how to tackle any challenges they face.

- [Reporting](#)

All of BII's FIs are required to regularly submit an E&S and BI monitoring report at least on an annual basis. This includes details of the E&S and business integrity progress, challenges, and plans for the organisation, as well as changes in the FI's ESMS/BIMS or E&S/BI strategic priorities. The report also includes information on employee numbers and company performance to enable BII to track its development impact alongside reporting on material E&S/BI incidents. See [Resources: BII Annual Monitoring Report](#).

Where possible, BII will work with other investors/lenders in the FI to agree a joint reporting template to reduce the reporting burden on FI partners. BII's basic requirements are captured in our preferred reporting template, but BII accepts other formats as long as they contain the required information.

- [Serious incident reporting](#)

BII requires that any serious incidents at the FI (e.g. material fraud or GBVH incidents (see above)) or serious incidents involving an FI's clients that result in loss of life,

severe permanent injury, or severe permanent damage to health, safeguarding incidents at portfolio companies, a material adverse environmental or social impact, or a material breach of law relating to an environmental, social, or business integrity matters, are reported to us promptly.

Depending on the incident, BII may work with the FI to more fully understand the incident, its impact, and ways of reducing the possibility of further similar incidents. BII has produced a range of good practice guidance on serious incidents and safeguarding which may be useful.

- [Training and guidance](#)

BII provides training for FI's management and staff on a range of E&S and BI topics. BII provides practical training on how to integrate E&S and BI risk management into the FI's governance framework, credit cycle, and more specific technical training on topics of interest to FIs (such as labour rights, working conditions, anti-bribery & corruption, fraud prevention, using the IFC Performance Standards, women's economic empowerment, climate change developmental impact and ways to engage with clients on key E&S/BI topics). These sessions include practical case study work and discussion, enabling participants to learn as much from each other as from the presenters. Contact the BII E&S team to see whether there are any workshops planned for your region.

BII also produces a range of good practice materials and case studies that aim to increase awareness and help FIs successfully integrate E&S issues into their day-to-day activities and credit approvals processes. Typically, these can be accessed from the [Resources](#) Section of this Toolkit.

- [Working with other investors/lenders](#)

Where BII deploys capital alongside other investors including specifically other development finance institutions (DFIs), we will endeavour to work with them to provide aligned feedback and support on E&S and BI matters. For example, if a matter that is material to other investors/lenders is identified following a review of due diligence or annual monitoring report, BII may liaise with other DFIs.

- [Additional support and Value Add](#)

BII is also prepared to spend time assisting FIs to develop and implement their own ESMS or BIMS. This includes assistance with customising tools to incorporate into onboarding/credit approval processes and decision making, considering how E&S and BI risks of clients can best be managed, providing bespoke training for credit and compliance teams, providing advice, or simply answering questions with respect to specific clients or projects being financed.

In addition, BII works with FIs to better identify and act upon opportunities to add value and improve the sustainability of their clients' businesses. These efforts include building their capacity to manage E&S issues, advancing women's economic empowerment, climate change risk assessment, and reporting (including TCFD) and using resources more efficiently. BII draws upon the experience gained across our portfolio of fund managers, FIs and direct investments, as well as our contact networks, to provide advice. See [Value Add](#) for details.