**Outline of High-Risk Financial Institutions E&S Management System (ESMS) Manual**

## Table of Contents

## Acronyms

## Definitions

## INTRODUCTION

Briefly introduces the ES Management system (ESMS) in relation to the FI context.

## ESMS OVERVIEW

### Purpose

Describes what the ESMS aims to achieve.

### Scope and Applicability

Defines the boundaries of the ESMS. This will need to detail 1) whether the ESMS only applies to a specific credit/product line of the FI’s portfolio such as retail transactions and 2) when the ESMS comes into effect (especially if some procedures are not going to be applied retrospectively). It should also cover the E&S requirements based on the sector, project size, product type, loan size and tenure amongst other factors. This section also discusses how the ESMS would work in instances where the FI co-finances with other FIs.

### Structure

Provides a short overview and graphical illustration of the key components making up the ESMS. Each component will be described in the subsequent sections of the document. This graphical illustration should make clear reference to the broader Credit Risks review process of the FI to reflect the integration of the various stages of E&S DD into the credit approval process and key functions or Departments involved.

## E&S POLICY, STANDARDS AND COMMITMENTS

### E&S Policies and Principles

Describes E&S policies and principles adopted by the Bank. These are commonly based off internationally accepted E&S standards and norms and form the cornerstone of the ESMS and will be communicated with relevant stakeholders. Other policies that may be read in conjunction with the E&S policy are referenced here – for example Climate Change Policy, HR Policies, etc.

### Describes E&S policies and principles adopted by the FI. Commitment to E&S

### Outlines any procedural commitments the bank makes to achieve sound E&S management and ensure internal E&S objectives are met. For example, incorporation of E&S into credit approvals processes and decision-making adoption of specific exclusions, disclosure of E&S performance information, etc.

### Applicable E&S Standards

Outlines the applicable internationally and nationally accepted E&S standards and guidelines that the FI and its clients will be required to adopt.

## E&S Strategic Focus (e.g. Green / Climate Finance)

Should the FI have ambitious strategies / approaches around specific E&S mandates, this section would elaborate on elements of this strategic focus including key objectives, frameworks adopted (e.g. task force on climate-related financial disclosures, EU taxonomy, green bond principles, etc.), approach, etc.

## E&S CREDIT PROCEDURES

### E&S Screening

#### *Credit’s Go / No Go Assessment*

This generally refers to the FI’s Exclusion List.

#### *Credit’s E&S Categorisation and E&S Due Diligence Scoping*

This generally takes the form of a matrix with types of credit showing horizontally and client’s sectors showing vertically. The intersection is an E&S risk level (high, medium, low) for the credit application.

#### *Information request to Clients around E&S Management*

E&S information is typically requested along with other general information requested from clients, including legal and financial information. The FI may choose to develop a bouquet of documents required from the client to provide efficiency and consistency in its information request requirements.

### E&S Due Diligence

#### *Internal ESDD*

Details when and how the FI will conduct ESDD through its internal resources. This will be for transactions with lower E&S risks as well as some medium E&S risk transactions, depending on the in-house capacity.

#### *External ESDD*

Details when and how the FI will conduct ESDD through potentially external experts/consultants and in what instances. This will be for transactions in sectors with relatively higher E&S risks as well as in cases where there are restrictions on physical site visits.

#### *E&S Action Plan*

Details how the FI will define ESAPs as a result of findings from the ESDD process and its contents including timelines that are in line with the specific provisions of the credit being provided (agreement, first disbursement, etc.), responsibility, and deliverables required as evidence of completion.

### E&S Appraisal and Validation

#### *E&S Review during Credit Committee*

Details the format of E&S information to be shared with the Credit Committee and how this will inform the credit approval process.

#### *E&S Conditions into Loan Agreements / Facility Agreement*

This includes standard E&S clauses for E&S compliance, notification of major accidents, E&S reporting and ESAP implementation. This may not be a one-size-fits-all type approach, with more clauses being included to credit lines with higher E&S risks.

### E&S Monitoring & Reporting

#### *ESAP Monitoring*

Provides information on the frequency and process of monitoring Client’s implementation of agreed ESAP.

#### *E&S Key Performance Indicator (KPI) Monitoring*

Describes measurable indicators to reflect various E&S indicators in the FIs ESMS and serves as a means to track performance against them. This may include number of transactions approved, ESDD’s undertaken, ESAP implementation objectives met, number of employees trained on FI’s ESMS etc.

#### *E&S Incident Reporting*

Details the instance in which FI requires clients to provide reports on E&S incidents and format of the report. The FI may also develop a template to share with clients.

#### *Annual E&S Reporting*

Describes the FI’s approach to annual E&S monitoring both to internal and external stakeholders.

#### *E&S Visits and Interviews*

Details how and when site visits and interviews should be conducted as part of monitoring activities for transactions with different E&S risks.

### ESMS Process Summary

Provides a graphical illustration of the E&S Risk Management process described in the previous sections.

## E&S ORganisational Structure

Outlines specific E&S roles and responsibilities for relevant personnel both internally and externally to successfully implement the ESMS. Ideally an organogram describing the E&S governance structure, reporting lines and the group the function sits in may also provide a clearer description of the E&S function in the FI. This section should also include internal and external training programs planned to ensure staff has sufficient capacity to implement a robust E&S risk management process.

## OTHER FI E&S-Related[[1]](#footnote-1) PROCEDURES

### Labour and Working Conditions

### Internal Grievance Management

### Emergency Preparedness and Response

## TRAINING AND CAPACITY BUILDING

Outlines the FI’s commitment to training and building the capacity of its employees to support the successful implementation of the ESMS. This should include general training plans across the FI both during employee induction and more targeted trainings for key stakeholders in the implementation of the ESMS.

## STAKEHOLDER ENGAGEMENT ON E&S MATTERS

Outlines the importance of proactive on-going dialogue, information sharing and interactions between the FI and its internal and external stakeholders in order to achieve E&S objectives. The section describes specific internal and external communication mechanisms set up for the FI to share E&S information and receive E&S-related grievances from stakeholders affected by projects financed by the FI.

## PERIODIC ESMS REVIEW

Discusses triggers in the FI system that may result in the review of its ESMS. Factors to be considered include: a periodic timeframe, emerging trends in the industry and progress in the implementation of the existing ESMS. The periodic review should include instances when an internal and external audit of the FI’s ESMS will be required.

## ANNEXURES – List of Tools to support ESMS Implementation

Annex 1: Environmental and Social Policy

Annex 2: Exclusion List

Annex 3: E&S Screening Procedure

Annex 4: E&S Screening Checklist

Annex 5: Example Sector and E&S Risk Categorisation List

Annex 6: External E&S Due Diligence Terms of Reference

Annex 7: E&S Due Diligence Assessment Questionnaire - Relationship Manager

Annex 8: E&S Due Diligence Evaluation Questionnaire – Client

Annex 9: Example of Sectorial E&S Guidelines

Annex 10: Environmental and Social Action Plan Template

Annex 11: Credit Committee E&S Information Memo

Annex 12: Credit Committee E&S Appraisal and Validation Procedure

Annex 13: E&S Credit Agreement Procedure

Annex 14: E&S Client Site Visit Report Template

Annex 15: Annual E&S Monitoring Report Template

Annex 16: E&S Incident Reporting Procedure

Annex 17: E&S Incident Reporting Form

Annex 18: E&S Incident Register

Annex 19: E&S Roles and Responsibilities Procedure

Annex 20: E&S Grievance Management Procedure

Annex 21: Grievance Form

Annex 22: Grievance Register

Annex 23: Example E&S Training Plan Template

Annex 24: Example ESMS Training Materials

Annex 25: E&S Periodic Review and Internal Audit Procedure

1. These may be managed by other aspects of the FI’s business such as Human Resources, Facility Management, Operational Risk Management etc. [↑](#footnote-ref-1)