**CDC ENVIRONMENTAL AND SOCIAL TRANSACTION SCREENING CHECKLIST FOR FINANCIAL INSTITUTIONS**

**Introduction**

This checklist supports the CDC Sector Profiles and should be used in conjunction with them and, where appropriate, the relevant E&S Topics. It aims to provide guidance for Financial Institutions (FIs) on the key potential environmental and social (E&S) aspects associated with a prospective transaction that should be assessed during the screening stage of the transaction cycle to inform the decisions around how to structure the E&S due diligence.

**Important**

This checklist provides a general overview of typical E&S topics/issues which may be encountered for a particular client’s business or project. However, it is important to assess every new transaction based on its own specific circumstances and risk factors including the type of financing, main business activities, scale of operation, technology, location, as well as the client’s commitment capacity and track record. For example, depending on the clients’/projects’ operations and locations, issues such as negative impacts on Indigenous Peoples and cultural heritage may apply. See E&S Topics, Sector Profiles, [IFC Performance Standards](http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Our+Approach/Risk+Management/Performance+Standards) and [World Bank Group EHS Guidelines](http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/our+approach/risk+management/ehsguidelines) for further information. Similarly, different opportunities may be associated with every prospective transaction.

This guidance is divided into themes and a series of questions are provided to help guide the E&S screening process. Hints and tips are provided to FI’s to assess the completeness and quality of responses. Sources of verification and further guidance are also provided.

Not all questions will be relevant. The table below will help FI’s to focus their attention on the most common and relevant topics for any transaction. FI’s will need to be guided by prior experience, the comments and guidance of consultants and experiences of others (including potentially the [IFC Projects Database](http://ifcextapps.ifc.org/ifcext/spiwebsite1.nsf/$$Search?openform)) as sources of information and guidance.

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| **E&S Screening**  It is common that during the screening stage of a transaction the depth of knowledge and amount of information available to the FI is limited. Therefore, the FI must rely on information contained within the transaction application as well as inherent credit type, sector and geographical related characteristics and publicly available information. If possible, specific E&S information and documentation should be requested from the client/project to inform the screening process.  The FI should conduct a high-level review of the available information from an E&S perspective, to ensure that the transaction aligns with the FI’s E&S policies and exclusion list. Importantly, this process supports the FI to identify any ‘no-go’ issues early on in the process, which may stop the transaction from moving to the next stage of the approval process such as the client undertaking a prohibited activity listed on a FI’s exclusion list, transactions with E&S issues outside of the FI’s risk tolerance or policy, etc. In addition, screening seeks to save the FI time and resources and guides the subsequent stages of the transaction cycle. Please note that this is not an exhaustive checklist. |

| **Transaction Details to Consider** | **Verification and information sources** | **Hints and tips** |
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| ***Transaction Details*** | | |
| * What type of client is seeking the funding (i.e., individuals, corporations, small to medium enterprises, governmental organisations, bank, etc)? * What is the nature of the transaction? This includes: * Type of credit (I.e., project finance / project related corporate loans, corporate finance, corporate debt, retail banking, consumer loans, retail credit, mortgages, letters of credit/guarantee, trade finance, etc); * Duration of the credit (i.e., long, medium, or short term); * Client/project industry sector focus (i.e., agriculture, infrastructure, manufacturing, energy, etc); * Client/project geographical focus (i.e., country profile) * Stage of project lifecycle (i.e., concept and design, construction, operational, etc) * Is this a repeat client for the FI? If yes, are there any previous records available for review? | Review:   * Transaction application * Previous records, if repeat client | * Transaction details will be contained in the project/client’s transaction application. From an E&S perspective, it is important to understand and contextualise the type of client/project and details of the prospective transaction as themagnitude and types of E&S risk exposure facing the FI varies significantly depending on the type of transaction (including geographical and sectorial focus). These key factors inform the E&S risk categorisation process and influence the level of E&S Due Diligence (ESDD) undertaken. |
| ***E&S Exclusion List*** | | |
| * Does the transaction involve one or several activities included on the FI’s Exclusion List? * If the client has various activities (i.e., holding company, group, conglomerate, etc.), what is the share of its activities involved in the excluded activities? | Review:   * Transaction application * Previous records, if repeat client * FI’s E&S policies * FI’s E&S Exclusion List. | * Every transaction should be screened against the FI’s exclusion list to ensure that no prohibited activities are triggered. If an exclusion is triggered, the transaction should be rejected and the rationale for this decision formally documented. |
| ***External Factors Review*** | | |
| * Has there been any allegations of bribery or corruption and/or money-laundering in relation to the client/project or its staff members? * Has the client/project been subject to any class actions, prosecutions, or lawsuits in relation to E&S issues? * Has the client/project been subject to any significant fines, penalties or claims associated with E&S non-compliances? * Has there been any major labour issues (i.e., strikes, worker action, instances of child or forced labour, etc.) associated with the client/project? * Has there been/will there be any land acquisition because of the clients’ activities/project which will result in physical or economical displacement? * Has the client/project had any significant complaints or grievances from external stakeholders, including NGO’s, interest groups or local communities? * Has the client/project undertaken any large-scale retrenchments? * Has the client/project experienced multiple fatalities, fire/explosion, environmental accident (chemical spills) or pollution? | Hold meetings with (as appropriate):   * Internal Sector Experts, if any * Credit Analysts * Syndication partners   Review:   * Publicly available information * Previous records, if repeat client | * In order to identify any historical records of E&S issues associated with the client/project, the FI should perform an External Factors Review (EFR). An EFR involves reviewing public sources of information in a methodological and systemic manner by searching key words (e.g., client/project name, executive management names, physical addresses, countries, human rights, labour strikes, fines, etc) and recording any key findings. Example public resources may include: * Company website and annual reports. * Google Search and Google Maps satellite view to show the layout of the client’s company or project operations and their proximity to other land uses – residential, rivers, natural habitats etc. * Media search (e.g. via internet and specialist data providers, online media aggregators and social media). * Comparison to competitors (where reliable information is available). * Co-financers (DFIs, other FIs, etc.) sometimes disclose the findings of their ESDD for clients/projects in which they invest (e.g.,  [IFC Projects Database](http://ifcextapps.ifc.org/ifcext/spiwebsite1.nsf/$$Search?openform)). * Where possible, the EFR findings can be supplemented by a review any information provided to the FI through preliminary engagement with the prospective client or other informants / stakeholders (i.e. potential co-financers, industry bodies, etc.). |
| ***E&S Risk Categorisation*** | | |
| * What are the high level material E&S risks, impacts and opportunities associated with the clients/projects? * Does the client/project trigger IFC PS 5 to 8 (i.e., land acquisition and resettlement, Indigenous people, cultural heritage, biodiversity loss, etc.)? | Review:   * Preliminary document review * Transaction application * E&S Sector Profiles * E&S Guidelines * E&S Risk Categorisation System | * Prospective transactions should be assessed on a case-by-case basis, to account for inherent sector and country/geographic specific risks as well as any specific transaction risks. For example, some transactions may not present the same E&S risks or impacts than other transactions within the same sector or industry. See the E&S Risk Sector Profile Table below for additional guidance. * Key supporting sectorial resources/guidelines to help identify any material E&S risks, impacts and opportunities associated with the transaction include CDC Sector Profiles, E&S Briefing Notes, [IFC Performance Standards](https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards), [World Bank General and Sectorial Environmental Health and Safety (EHS) Guidelines](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines), [ILO Fundamental Conventions,](https://www.ilo.org/global/standards/introduction-to-international-labour-standards/conventions-and-recommendations/lang--en/index.htm) etc. * Some transaction specific factors that should be considered which may influence the E&S risk categorisation include the clients/projects use of proceeds, clients/projects nature of subsidiaries, client/projects business plan; clients/projects sector focus; type of technology/techniques; scale of clients/projects operations; location of clients/projects operations; clients/projects use of contractors and risks related to the supply chain. * To determine and categorise the transaction, in a systematic and consistent manner, according to its E&S risk exposure, an appropriate E&S risk categorisations system should be utilised by FI. See the CDC’s Inherent E&S Risks/Impacts Categorisation System below for additional guidance. Every FI E&S risk categorisation system is different and there is no single way to assign E&S risk categories. * The E&S categorisation can be revised when new E&S information becomes available during the proceeding transaction lifecycle stages. |
| ***E&S Due Diligence Plan*** | | |
| * Based on the initial E&S risk categorisation, what type of ESDD is required to successfully assess E&S issues associated with the transaction (i.e., ESDD performed by an external provider or internal E&S resources, ESDD with specialist input, etc)? * Which E&S standards and guidelines (i.e., local legislation, IFC Performance Standards, etc) are applicable to the transaction and should be assessed against? * What are the timelines for the ESDD assessment? * What are the estimated costs for the ESDD? * What are the required outputs of the ESDD assessment (i.e., E&DD report, Environmental and Social Action Plan (ESAP), etc)? * What are the next steps for the transaction (i.e., decision to proceed with the transaction to the next stage or not, develop an ESDD Terms of Reference (ToR) to appoint a third party, confirm timing for ESDD, etc)? | Review:   * E&S Screening Guidance * Preliminary Screening Assessment * Risk categorisation | * It is important to scope the level of ESDD commensurate with the E&S risk categorisation assigned during screening. This ensures that E&S risks, impacts and opportunities are sufficiently interrogated prior to disbursement, to safeguard the FI against reputational risk, additional capital costs, etc. * High risk transactions (i.e., Category A) should undergo a thorough ESDD, supported by an external consultant, and should include: * Review of E&S documentation; * Reputational review of the client/project or of the purpose of the credit facility (based on public information); * E&S interviews with the client/project (i.e., management team and/or relevant E&S teams); * Site visit (conducted by the FI transaction team and/or the E&S Officer); and * Formalisation of an ESDD report including a summary and an E&S Action Plan (ESAP). * To ensure that all appointed external consultants are competent, knowledgeable and qualified to carry out the ESDD as well as execute the assessment in accordance with the FI’s E&S policies and other prescribed E&S requirements, an ESDD Terms of Reference (ToR) should be set. This should include description of the transaction, objectives of the ESDD, applicable standards and guidelines, outputs, timelines and desired consultant qualification. |

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| **MOST FREQUENT AND RELEVANT RISK, IMPACTS AND OPPORTUNITIES PER SECTOR**  Indicative E&S risks and opportunities by sector:  • • Indicates that this topic can typically generate significant business risks in a sector if not well managed  • Indicates that this topic (i) typically generates less significant business risks in this sector if not well managed and /or (ii) is less frequently encountered in the sector.  Blank Topic very unlikely to be relevant**.**  ★ Indicates significant opportunities to add value in this sector by proactively addressing the topic |

|  | ***General E&S management*** | ***Labour and working conditions*** | ***Pollution prevention and resource use efficiency*** | ***Community health, safety and security*** | ***Biodiversity conservation and natural resources management*** | ***Land acquisition and involuntary resettlement*** | ***Indigenous People and cultural heritage*** |
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| **Design and Construction Phase** | • • | • •★ | • • | • • | •• • | • • | •• • |
| **Agribusiness and Aquaculture** | • • | • •★ | • •★ | • •★ | • •★ | • •★ | • / • • |
| **Power** | • • | • •★ | • •★ | • •★ | •• • | •• • | • |
| **Fisheries** | • • | • •★ | • | • | • •★ |  | • |
| **Education** | • • | •★ | • | • |  |  |  |
| **Food and Beverages** | • | •★ | •★ | • | • |  |  |
| **Forestry** | • • | • •★ | •★ | • •★ | • •★ | • •★ | •• • |
| **Healthcare** | • | •★ | •★ | • |  |  |  |
| **Hospitality** | • | •★ | •★ | • | •★ |  | •★ |
| **Infrastructure** | • • | • •★ | •★ | • • | • •★ | • •★ | •• • |
| **Manufacturing** | • • | •• •★ | •• •★ | • | • |  |  |
| **Mining** | • • | • •★ | • •★ | • • | • •★ | • •★ | •• • |
| **Oil and Gas** | • • | • •★ | • •★ | • • | • • | • • | •• • |
| **Pharmaceuticals** | • | •★ | •★ | • |  |  |  |
| **Retail** | • | •★ | •★ | • |  |  |  |
| **Telecoms** | • | •★ | •★ | • |  | • |  |