

Screening and categorisation

E&S in the transaction cycle

OBJECTIVES

- Confirm compliance with the FI's policy and basic requirements.
- Identify early key issues that may have a significant impact on the transaction and/or DD process.
- Build a common understanding with the client of E&S requirements, risks and opportunities.
- Enable the FI to plan the E&S DD.

ACTIVITIES

ENSURE COMPLIANCE WITH EXCLUSION LIST

- Ensure that all transaction's comply with any applicable lists of excluded/prohibited activities.

ENSURE COMPLIANCE WITH KEY BUSINESS INTERGRITY (BI) REQUIREMENTS

- Identify 'red flags' early. BI issues can significantly impact the E&S DD or breach the FI's policies and investor's requirements.

IDENTIFY KEY E&S RISKS, IMPACTS AND OPPORTUNITIES

- Identify the key E&S aspects (risk, impacts and opportunities) of a transaction considering the client or project characteristics.

CATEGORISE AN TRANSACTION'S INHERENT E&S RISKS AND IMPACTS

- Assign an inherent E&S risk/impact category to each transaction. Take into account the type of transaction (e.g., type, amount and tenor of loan, etc), and client/project characteristics (i.e., status (brownfield vs. greenfield), phase (construction, operation, decommissioning), scale, location, sector, etc), sponsors and supply chain issues.

CONFIRM APPLICABLE E&S STANDARDS

- Identify which E&S standards to be applied to each transaction in accordance with the FI's ESMS.

BUILD A COMMON UNDERSTANDING WITH THE CLIENT

- Build a common understanding of the key E&S aspects to be managed and assess the client's willingness and capacity to address them. Present the E&S business to the client.

DEFINE THE SCOPE OF AND PLAN THE E&S DD

- Define key E&S factors to be assessed at DD and allocate the resources required to conduct an adequate DD.

OUTPUTS

- Identification of 'no go' issues and 'red flags'.
- Understanding of key E&S aspects of the transaction.
- Assignment of an inherent E&S risk/impact categorisation.
- Preliminary view of client's commitment and ability to manage E&S.
- Plan and budget for DD.
- If appropriate, E&S section in the screening memorandum prepared by the FI's transaction team for the CC.
- Outline potential implications for FI's strategy and portfolio composition

Abbreviations: CCTR: commitment, capacity and track record; DD: due diligence; E&S, environmental and social; FI: Financial Institution, CC: Credit Committee; IFC: International Finance Corporation.

KEY TOOLKIT RESOURCES

E&S in the transaction cycle: screening and categorisation (includes an inherent E&S risks/impacts categorisation system)

E&S screening checklist

Sector profiles

E&S topics

Business integrity

CDC Code of Responsible Investing

Reference materials