

**Environmental and Social  
Management System**

**for**

**Participating Financial  
Institutions (PFIs)**

**TEMPLATE**

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## **Introduction**

The Environmental & Social Management System (ESMS) is a framework that integrates environmental and social risk management into a Financial Institution's business processes. It is a set of actions and procedures that are implemented concurrently with the Financial Institution's existing risk management procedures.

The ESMS ensures that the Financial Institution's activities are in compliance with its environmental and social standards. It helps the Financial Institution to avoid and manage loans with potential environmental and social risks by conducting environmental and social due diligence prior to loan disbursement and adequate supervision of projects during the term of the loan agreement.

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Activity 1: *In the section below draft the environmental and social policy for your institution.*

*Please make sure to include your institution's commitment to the following:*

- ✓ *Integration of environmental and social considerations into investment decision-making.*
- ✓ *Review of transactions against applicable environmental and social requirements:*
  1. *Relevant national laws on environment, labor, occupational health and safety, and social aspects;*
  2. *Exclusion List;*
  3. *International E&S standards (e.g. IFC Performance Standards<sup>1</sup>, World Bank Safeguard Polices<sup>2</sup>)*
- ✓ *Commitment from senior management to provide the financial and human resources needed to implement the policy.*
- ✓ *Communication of the policy internally at all levels of the institution, and externally.*

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<sup>1</sup> [https://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/policies-standards/performance-standards](https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/performance-standards)

<sup>2</sup> <http://www.worldbank.org/en/projects-operations/environmental-and-social-policies#safeguards>

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**ACTIVITY 2:** *In the following sections please draft the appraisal procedures for your financial institution: Environmental and social assessment and management procedures*

**A: Initial E&S screening procedure**

- ✓ *At what point in the credit review process, are transactions screened against:*
  - *Exclusion List;*
  - *Relevant local E&S laws on environment, labor, occupational health and safety, and social aspects;*
  - *International standards (e.g. using E&S questionnaires)*
- ✓ *What course of action is taken if a client engages in activities under the Exclusion List?*
- ✓ *At what point in the credit review process, does the financial institution investigate if the borrower has criminal charges due to environmental or labor violations?*
- ✓ *What course of action is taken if a borrower has a history of environmental and social criminal charges?*

**B. E&S categorization procedure**

- ✓ *At what point in the credit review process, does the E&S risk categorization of the transaction take place?*
- ✓ *What are the different risk categories?*
  - *What factors do you use to determine the risk category? For example:*
  - *Industry sector: to determine the extent of potential environmental, OHS, labor, and community issues linked to the sector;*
  - *Size/magnitude of client's activities;*
  - *Site: proximity to sensitive receptors (e.g. highly populated areas, schools, hospitals), critical habitats, and protected areas;*
  - *Potentially irreversible impacts;*
  - *Type of transaction.*

**C. In-depth E&S due diligence procedure**

- ✓ *Based on the risk categorization, which environmental and social criteria does the financial institution use to conduct the risk assessment (e.g. national laws and regulations)?*

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- ✓ *Based on the risk categorization, which information do you request from the client to conduct a desk review due diligence? For example:*
  - *environmental licenses and permits;*
  - *company's internal regulations with certificate of compliance with labor laws from relevant authority;*
  - *OHS record with statistics of accidents and work-related illnesses;*
  - *fire safety approvals from relevant authority;*
  - *emergency preparedness and response plan;*
  - *policies and procedures on environment and occupational health and safety;*
  - *completed questionnaire addressing environmental and social requirements of IFC Performance Standard.*
- ✓ *At what point does the financial institution check if the borrower has completed an Environmental Impact Assessment (EIA), if it is required by Jordanian regulations?*
- ✓ *In which cases do you conduct a site visit?*
- ✓ *How do you use the findings of the environmental and social due diligence?*
- ✓ *Under what circumstances do you draw on technically qualified consultants?*

#### **D. Integrating E&S due diligence in decision-making**

- ✓ *At what point in the credit review process, the findings of the environmental and social due diligence are taken into consideration by the credit committee?*
- ✓ *In which cases should the results of the environmental and social due diligence determine the non-approval of a transaction by the review committee?*
- ✓ *How are environmental and social conditions included in the financial agreement? For example:*
  - *environmental and social covenants in financial agreement;*
  - *environmental and social mitigation actions to the financial agreement.*

#### **E. Responsibilities**

- ✓ *Who is responsible for carrying out each of the activities described under this procedure?*

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**F. Reference documents**

- ✓ *What reference documents do you use (e.g. see list of national regulations, Exclusion List, international standards)?*
- ✓ *What tools to do use? (e.g. E&S screening questionnaire)*

**G. Records**

- ✓ *What records do you keep?*
- ✓ *How do you keep records? (e.g. database)*

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**ACTIVITY 3:** *In the following sections please draft the supervision procedures for your financial institution: monitoring environmental and social performance of clients, and managing non-compliances.*

**A. Monitoring environmental and social performance of borrowers**

- ✓ *How the supervision of clients' environmental and social performance is integrated with credit monitoring?*
- ✓ *What information do you require clients to report, and how frequently? For example:*
  - *Progress on agreed environmental and social mitigation actions;*
  - *Data on key environmental and social performance indicators (e.g. wastewater quality and pollution load; lost time accidents);*
  - *Significant events (e.g. major pollution accidents, fatalities) within 3 days of occurring.*
- ✓ *In which cases do you conduct site visits, and how frequently?*
- ✓ *What is done with the information?*

**B. Managing non-compliance**

- ✓ *How do you determine the severity of a non-compliance?*
- ✓ *What do you do if you identify environmental and social non-compliances? For example, depending on the severity of the non-compliance:*
  - *Agree on a timeframe to resolve it;*
  - *If repeat business, factor it into next loan decision;*
  - *If loan has several tranches, withhold next tranche until issue is resolved;*
  - *Request immediate action, including prepayment of the loan.*



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**ACTIVITY 4:** *In the section below please describe the roles and responsibilities of staff in charge of implementing and maintaining oversight of the environmental and social management system.*

*Please make sure to also include who is responsible for overseeing and approving the budget required to put in place the environmental and social management system, including: (i) staff time for development of guidelines and procedures; (ii) staff time for appraisal and supervision, (iii) training, (iv) consultants, (v) logistics for site visits.*

### **1. Roles and responsibilities:**

- ✓ Board of Directors
- ✓ Senior management
- ✓ Risk and Compliance department
- ✓ Business and Operation Departments
- ✓ E&S Officer / focal person
- ✓ Legal Department
- ✓ Internal Audit Department
- ✓ Human Resources
- ✓ Etc.

**ACTIVITY 5:** *Grievance redress mechanism/ procedure – please describe how your financial institution deals with complaints and concerns about its operations (e.g. if the institution supports borrowers who are having negative impacts on surrounding communities)*

- ✓ *What are the channels for people to contact you if they have an inquiry or complaint (e.g. phone number, email)?*
- ✓ *How are these channels publicized (e.g. posted in your website)?*
- ✓ *What is the procedure and the timeline to register and respond to the inquiries/complaints by external stakeholders?*
- ✓ *How are serious complaints investigated?*

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**ACTIVITY 6:** *Environmental and social reporting – in this section describe your reporting activities on environmental and social issues internally and to other external stakeholders*

- ✓ *What is the frequency of the report (e.g. annual)?*
- ✓ *Who has access to the report?*
- ✓ *What information do you include in the report? For example:*
  - *portfolio breakdown by industry sector and identification of high risk transactions;*
  - *cases of non-compliances and E&S incidents related to a transaction;*
  - *progress in ESMS implementation.*

*Besides a regular report, please note if and how:*

- ✓ *Do you inform your key partners/stakeholders when clients experience major incidents that received media attention?*
- ✓ *Do you inform your key partners/stakeholders on high-risk projects prior to loan decision?*

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**ACTIVITY 7:** *In the section below please describe how you monitor the implementation and effectiveness of your ESMS to continuously improve it.*

**Procedure:**

- ✓ *What is the frequency of the ESMS review meetings with senior management?*
- ✓ *Who participates in the senior review meetings?*
- ✓ *What information is presented and discussed during senior review meetings? For example:*
  - *Environmental and social risks at portfolio level and of high risk transactions;*
  - *Environmental and social performance of clients;*
  - *Outcomes of internal audits to verify internal compliance with ESMS procedures;*
  - *Review and approval of resources for ESMS implementation.*
- ✓ *Who is responsible for preparing and organizing the senior review meetings?*
- ✓ *How are ESMS procedures regularly reviewed and revised, and who is responsible for it?*
- ✓ *How are changes in environmental and social legislation tracked, and who is responsible for it?*