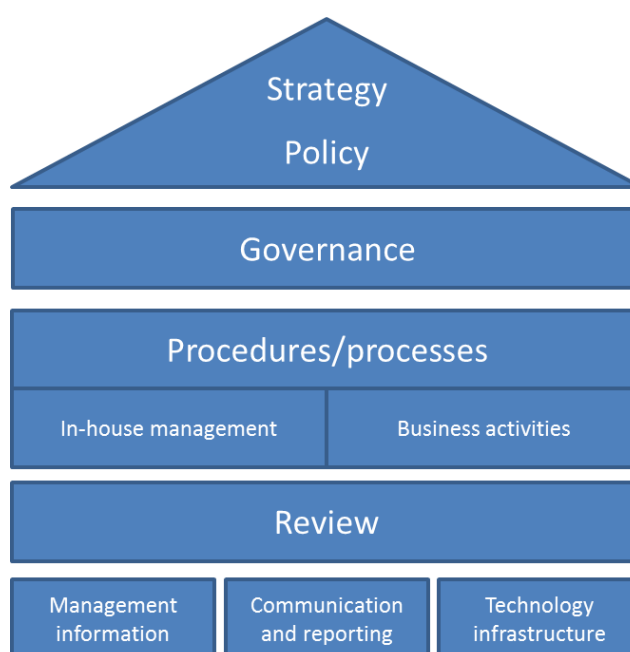


Environmental and Social Management at FIs

Under Performance Requirement 9, EBRD requires FIs to put in place an Environmental and Social Management System (ESMS) to manage the environmental and social (E&S) factors in their own operations and business activities. This section provides guidance for FIs on the key elements of an appropriate ESMS.

An effective ESMS at an FI will have the following elements:



I. **Strategy**

In order to be effective, an ESMS must be founded on an overarching strategy that outlines the FI's overall approach to sustainability in its business. FIs are encouraged to consider sustainability (or E&S elements) as a key component of their organisational business strategy. This ensures alignment with the commercial strategy and helps embed the ESMS in the organisational structure and culture. The strategy should be supported by clearly articulated strategic priorities, goals and milestones. Organisations that make sustainability a strategic business priority have identified commercial benefits such as improved ability to innovate.

II. **Policy**

FIs should develop and adopt a policy on E&S management that reflects the FI's commitment to managing these factors. The policy (or policies) should outline the FI's approach to E&S factors in its own operations as well as in its business activities. It should be communicated internally and it is considered good practice to publicly disclose the policy. The FI's strategy and policy determine the structure and sophistication of the ESMS.

III. **Governance**

Governance in this context refers to direction and oversight for management of E&S factors within the FI. FIs should implement key components of good governance practice, such as establishing a clear organisation structure and accountability, defining roles and responsibilities, setting organisation wide objectives and monitor progress, and ensuring adequate resource management.

- **Organisation structure and accountability** – embed the E&S management system within the FI’s organisational structure to ensure alignment between functions and business activities, and to provide for operational oversight. Also put in place clear accountability measures for both oversight and day-to-day management of E&S factors.
- **Define roles and responsibilities** - appoint a member(s) of senior management with overall responsibility for:
 - developing / implementing strategy;
 - overseeing policy implementation;
 - ensuring the organisation achieves its objectives;
 - implementing an environmental and social management system; and
 - reporting periodically on performance and driving performance improvement.

FIs should also have staff members responsible for day-to-day implementation of elements of the ESMS, such as E&S due diligence on transactions.

- **Organisation wide objectives and monitoring** - specify objectives to meet the defined strategy and policy around E&S management. Objectives should be relevant to the FI’s material E&S impacts, processes, activities, capacity and resources. FIs are encouraged to set key performance indicators (KPIs) to measure progress against goals and report results to inform senior management and stakeholders on the state of implementation.
- **Resource management** - ensure that adequate technical expertise is available (either in-house or externally sourced) for the implementation of the ESMS. For example, where the FI is involved in sectors with high E&S risks, ensure that there is capacity to evaluate these risks appropriately.

IV. **Procedures with environmental and social requirements**

In-house management

FIs are encouraged to work towards applying best practices in in-house environmental and human resource management.

- **Environmental management** - EBRD expects FIs to manage environmental impacts from their own operations. For FIs, this generally requires focusing on building management, energy management, resource efficiency, travel, waste reduction and recycling.¹
- **Human resource management** - EBRD expects all FIs to adopt and maintain good human resources management policies and practices that are appropriate to their business. EBRD’s requirements are outlined in PR 2 – Labour and working conditions and PR 4 – Health and safety. Please refer to the “Guidance for FIs on PR 2 and PR 4” section in the EBRD Environmental and Social Risk Management Manual for FIs (E-manual) for more information.²
- FI staff have an important role in implementing the ESMS. To support them, FIs should:
 - Build staff capacity to implement the ESMS – providing adequate training on E&S management will help staff understand their role in managing E&S issues in the workplace and in relation to the FI’s business activities (e.g. transaction due diligence). Relevant training and development should be available to all staff. Training needs and progress can be identified during the appraisal process.
 - Engage employees on E&S matters – engaging employees to obtain their support for E&S management and to drive implementation will be critical to the success of the FI’s ESMS.

¹ In comparison to some other industrial sectors such as oil and gas or mining, FIs have relatively lower environmental impacts from their own operations. Their greater environmental impact arises indirectly from their business activities (e.g. lending).

² This section outlines how FIs can manage common human resource issues such as non-discrimination and equal opportunity, redundancies and setting up a grievance mechanism.

- Link rewards to ESMS - consider ways to incentivise employees for ESMS implementation, e.g. link sustainability-related objectives into personal performance metrics and reward mechanisms.

Note that building staff capacity and employee engagement are also key elements of good human resource practices, and are beneficial beyond E&S management.

Business activities

FIs should adopt and implement systematic E&S risk management procedures for business activities, commensurate with the level of E&S risk associated with them. EBRD has provided FIs with E&S risk management procedures for the following financial products and services:

- Corporate lending
- SME lending
- Micro lending
- Insurance
- Trade finance
- Factoring
- Mortgage lending
- Leasing

These procedures are outlined in the Financial Products section of the Environmental and Social Risk Management Manual (E-manual).

- **Risk procedures** - The E&S risk management procedures support FIs to meet EBRD requirements to manage E&S risks in business activities. The procedures provide step-by-step guidance on E&S risk management with respect to each specific financial product or service. These steps are outlined here:
 - **Screen** the company on E&S risks and against any eligibility exclusion criteria;
 - **Assess** the company for E&S risks and how these are managed;
 - **Decide** whether to invest/lend and agree appropriate E&S risk control measures in financial documentation;
 - **Monitor** the company for material E&S risk management and any agreed E&S risk control measures throughout the transaction/investment period;
 - In preparation for **exiting an investment**, consider the company's E&S performance in exit strategy and provide disclosure to potential buyers.

These procedures should be integrated into the FI's existing transaction assessment processes.

- **Portfolio monitoring** - Beyond procedures for individual investments and lending activities, it is also important to review the whole portfolio for sector specific E&S risk concentrations and in order to identify non-compliance and aspects that could benefit from proactive management.
- **Innovation** - where appropriate, identify opportunities for developing financial products with high environmental and/or social benefits, for example investments in energy efficiency.

V. Review

FIs should regularly review the performance of the ESMS (e.g. on an annual basis). The review should, among other aspects, focus on:

- Performance against targets, monitored through KPIs;
- Gaps in implementation of the ESMS;
- Level of E&S risk exposure in direct operations and in business activities;
- Key actions to improve E&S performance in direct operations and in business activities.

VI. Management information (MI)

FIs should regularly review management information that summarises key data points on E&S performance, such as the KPIs defined to track progress against objectives. Tracking this

information will help FIs to evaluate their performance, analyse trends and identify risks in relation to E&S management.

VII. **Communication and reporting on environmental and social matters**

EBRD encourages its FIs to disclose information on E&S management to stakeholders. FIs should put in place a system for dealing with external communication on environmental and social matters, for example a point of contact for dealing with public enquiries and concerns. Different types of E&S information may need to be disclosed to different stakeholders.

- **Public reporting** - EBRD encourages its FIs to publicly disclose information on how the FIs address E&S issues in their operations and business activities. This may, for example, be in the form of a section in the Company's Annual Report, a dedicated sustainability report, website or other public document, summarising the Company's commitment to, and implementation of, their E&S procedures in lending and investment activities.
- **EBRD reporting** – as outlined in PR 9 , the FI is required to submit to EBRD periodic (typically annual) reports on the implementation of the procedures and the environmental and social performance of its investment/lending portfolio. Further guidance on reporting to EBRD is available in the Reporting section located in the E-manual.

FIs may also be required to report to other partners and investors, in line with their reporting requirements.

VIII. **Technology infrastructure**

Technology infrastructure, such as information systems to capture energy data or document E&S due diligence results, is important for implementing the ESMS and also for meeting stakeholder expectations for information. EBRD encourages FIs to identify and implement the most suitable technology for their needs. Sources of quantitative E&S data also exist on the web and sophisticated analytical tools are available.