

CONDUCTING E&S DUE DILIGENCE ALIGNED WITH IFC PERFORMANCE STANDARDS

A FOCUS ON FINANCIAL INTERMEDIARIES



IFC

**International
Finance Corporation**

WORLD BANK GROUP

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COURSE OBJECTIVE

This course has been designed to provide guidance to E&S officers and relationship officers of financial intermediaries on the practical steps for conducting E&S due diligence against the IFC Performance Standards.

E&S RISK MANAGEMENT FOR FINANCIAL INTERMEDIARIES

E&S risk management for financial intermediaries is the incorporation of the E&S risks and impacts of clients' activities into the credit decision-making process

E&S risk management also covers the opportunities associated with sustainable finance – developing products and services that have positive impacts on the environment

Check out STEP, our self-paced eLearning designed for managers and staff of financial institutions available in English, French and Russian.

THE BUSINESS CASE FOR E&S RISK MANAGEMENT

Environmental and social risks present themselves to financial intermediaries as **business risks**. The main types of risks are:



Credit risk: A company is unable to repay a loan on account of social and environmental issues



Liability risk: Legal complications, fees, and/or fines for rectifying social and environmental damage



Reputational risk: Negative aspects of a project may harm a financial intermediary's reputation

THE PERFORMANCE STANDARDS

PERFORMANCE STANDARDS



THE PERFORMANCE STANDARDS - SUMMARY

- Avoid impacts where possible
- Aim for specific outcomes
- Broad scope of impact assessment and management
 - geographically, time horizon, third parties, cumulative impacts
- Proactive thinking around impacts and risks – particularly global challenges
 - Climate change, biodiversity, food security, water, human rights, poverty & social exclusion

To learn more about the basics of the Performance Standards, view our “PS101” webinar recording in [English](#) and [Spanish](#).

PS1: Assessment and Management of Environmental and Social Risks and Impacts



Objectives

- Identify project E&S risks and impacts
- Adopt mitigation hierarchy
 - Anticipate, avoid
 - Minimize
 - Compensate or offset
- Improve performance through an Environmental and Social Management System (ESMS)
- Engagement with Affected Communities, other stakeholders
 - Throughout project cycle
 - Includes communications, grievance mechanisms

PS3: Resource Efficiency and Pollution Prevention



Objectives

- Avoid, minimize, and reduce project-related pollution
- More sustainable use of resources, including energy and water
- Reduced project-related Greenhouse Gas (GHG) emissions

PS2: Labor and Working Conditions



Objectives

- Fair treatment, non-discrimination, equal opportunity
- Good worker – management relationship
- Comply with national employment and labor laws
- Protect workers, in particular vulnerable categories
- Promote safety and health
- Avoid use of forced labor or child labor

PS4: Community Health, Safety and Security



Objectives

- To anticipate and avoid adverse impacts on the health and safety of the affected community
- To safeguard personnel and property in accordance with relevant human rights principles

PS5: Land Acquisition and Involuntary Resettlement



Objectives

- Avoid, minimize adverse social and economic impacts from land acquisition or restrictions on land use
 - Avoid, minimize displacement
 - Alternative project designs
 - Avoid forced eviction
- Improve or restore livelihoods and standards of living
- Improve living conditions among displaced persons
 - Adequate housing
 - Security of tenure

PS 7: Indigenous Peoples



Objectives

- Ensure full respect for IPs
 - Human rights, dignity, aspirations
 - Livelihoods
 - Culture, knowledge, practices
- Avoid, minimize adverse impacts
- Sustainable and culturally appropriate development benefits and opportunities
- Free, Prior and Informed Consent (FPIC) in certain circumstances

PS6: Biodiversity Conservation and Sustainable Management of Living Natural Resources



Objectives

- Protection and conservation of biodiversity
- Maintenance of benefits from ecosystem services
- Promotion of sustainable management of living natural resources
 - Integration of conservation needs and development priorities

PS8: Cultural Heritage



Objectives

- Protection and preservation of cultural heritage
- Promotion of equitable sharing of cultural heritage benefits

BENEFITS OF THE PERFORMANCE STANDARDS

WHAT ARE THE BENEFITS OF THE PERFORMANCE STANDARDS

GUARD AGAINST UNFORESEEN RISKS AND IMPACTS

Implementing the Performance Standards helps companies identify and guard against interruptions in project execution, legal claims, brand protection, and accessing international markets.

IMPROVE FINANCIAL AND OPERATIONAL PERFORMANCE

IFC believes that meeting the Performance Standards helps clients improve their bottom line. Implementation of the Standards can help optimize the management of inputs such as water and energy, and minimize emissions, effluents, and waste, leading to a more efficient and cost-effective operation.

SOCIAL LICENSE TO OPERATE

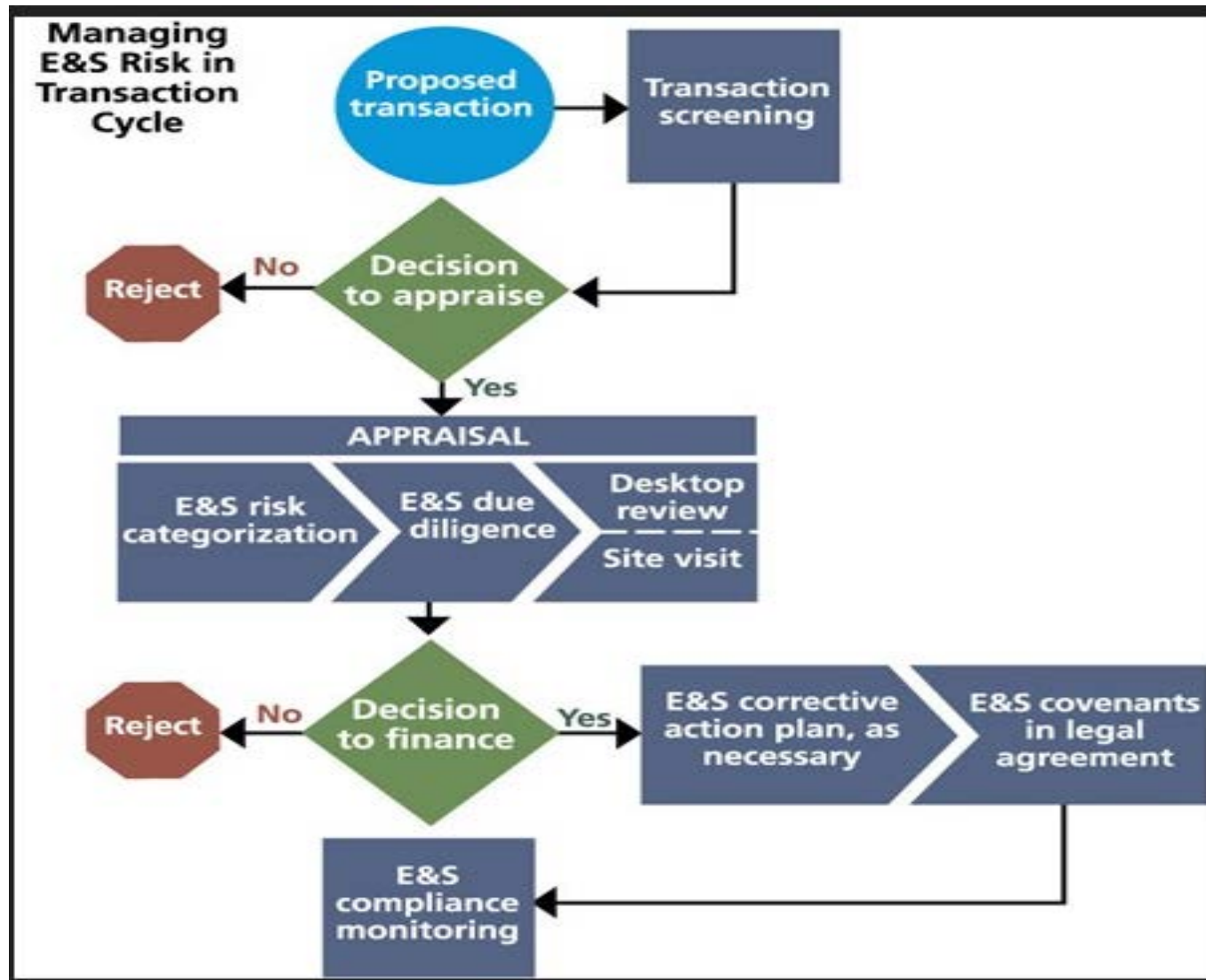
In addition, the Standards help clients find ways to maximize local development benefits and encourage the practice of good corporate citizenship. This often results in greater acceptance of the project by local communities and governments, allowing companies to acquire a social license to operate. Enhanced brand value and reputation may also be attractive to new investors or financiers.

GAIN AN INTERNATIONAL STAMP OF APPROVAL

The "Equator Principles," which have been adopted by more than 70 of the world's leading investment banks in developed and developing countries, are based on IFC's Performance Standards. These principles are estimated to cover nearly 90% of project financing in emerging markets.

Q&A

E&S RISK MANAGEMENT – GENERIC PROCESS FLOWCHART



E&S DUE DILIGENCE – WHAT AND WHEN

- Key Elements
 - Timing – early enough to influence the decision-making process
 - Roles and responsibilities – who does what
 - Project categorization – high, medium or low
 - Level of information required
 - What do you know about the client's business?
 - What is the nature of the transaction? High risk project?
 - Site visit vs desk review
 - Tools – questionnaires, checklists, report guidelines
 - Additional resources e.g. use of an external consultant for high risk or complicated projects
 - Key issues identified
 - Red flags
 - Corrective action plan
 - Documentation – keep all records including documents from clients

E&S DUE DILIGENCE – THE PERFORMANCE STANDARDS

- Key considerations
 - Apply PSs to project finance and corporate loans
 - Design a meaningful questionnaire on the key elements of the PSs
 - Review sector-specific E&S risks (refer to factsheets at www.firstforsustainability.com and EHS Guidelines at www.ifc.org/ehsguidelines)
 - PS1-PS4 would typically be applicable to a majority of projects
 - For PS5 and PS6 issues, consider specialist support (PS5 specialist can support PS7 and PS8)
 - Determine if a site visit is required
 - Key PS elements vs client's status = action item(?)
 - Document all findings
 - Provide a useful summary for the decision-makers

E&S DUE DILIGENCE – PREPARATION FOR SITE VISITS

- Determine the site(s) to be visited
- Request for preliminary information from the client e.g. ESIA, EMP, ESMS, completed E&S questionnaire; review all information provided before the site visit
- Review factsheets and sector guidelines
- Identify the key persons to meet
- Prepare an agenda (ensure adequate time is provided for the site tour and discussions with key persons)
- Review client's performance if there is an existing relationship
- Do a quick Google search for any E&S concerns associated with the client or project

E&S DUE DILIGENCE – THE PERFORMANCE STANDARDS

PS	Key Elements/Questions to Consider
PS1	<ul style="list-style-type: none"> Is there an E&S Policy/ESMS in place? Review it and discuss implementation; review ESIA, EHS Plan, EMP where applicable Who is in charge? Discuss training and reporting lines, KPIs Who are the key stakeholders and how are they engaged? How are grievances addressed? Review records where available Is there an Emergency Response Plan? Review it; look out for signage on site
PS2	<ul style="list-style-type: none"> Is there a comprehensive HR Manual? Review the policies related to salaries, benefits, leave, disciplinary action, grievance mechanism, non-discrimination Review information on employee contracts – permanent vs temporary Unions – yes/no; why? Strikes? Harmful child labor/forced labor? (sector-specific) Occupational health and safety – review procedures, training information, incident logs; look out for unsafe practices on site and safety signage
PS3	<ul style="list-style-type: none"> Types of wastes – options for recycling/disposal? Air emissions – what are major sources and the pollutants? Are pollutants monitored? Check local standards and IFC EHS Guidelines Hazardous materials – storage and handling; spill management plan Loss of containment bunds for diesel and chemical storage tanks
PS4	<ul style="list-style-type: none"> Safety – design of buildings and infrastructure; verify standards (local/international); life and fire safety standards; traffic management; transportation of hazardous materials Health – risk of diseases (from migrant workers; activities on the site) Security – screening and training of personnel; rules of engagement/MOU for state forces

E&S DUE DILIGENCE – THE PERFORMANCE STANDARDS

PS	Key Elements/Questions to Consider
PS5	<ul style="list-style-type: none"> • How was the land acquired? • Impacted persons - loss of physical property or loss of livelihood? Or access to resources? • Review resettlement and compensation process; check reported grievances • Review process for government-led resettlement • Engage a specialist
PS6	<ul style="list-style-type: none"> • Identification of impacts on biodiversity – habitats of high biodiversity value, legally protected areas, critical habitats, natural habitats etc. • Impacts on services provided by the ecosystem – resources, protection from natural disasters, natural cycles • For agriculture, forestry, fishery, aquaculture, animal husbandry – what sustainable practices are being employed? • Engage a specialist
PS7	<ul style="list-style-type: none"> • Are there IPs in the country? • Negative or positive impacts on IPs? If there are IPs within the project area, engage a specialist
PS8	<ul style="list-style-type: none"> • Impacts on designated heritage sites • Impacts on cultural aspects such as graves, shrines, places of worship, sacred features • Area of archeological importance? • Is there a chance-find procedure?

CASE STUDY – CONSTRUCTION AND REAL ESTATE PROJECT

ESAT Environmental and Social Assessment Tool

Sector Fact Sheet

Construction

Construction or demolition of infrastructure, buildings and other installations.

Related Sectors:

- Cement and Concrete
- Wood Products
- Recycling and Waste Treatment

Production Processes

The construction sector provides services such as the construction, refurbishment and maintenance of buildings and infrastructure such as roads. Demolition and wrecking of buildings and infrastructure is also supplied by this sector.

Operations involved in construction activities:

- The construction site has to be cleared and prepared by groundwork such as excavation and land filling, leveling and land drainage. In addition to this, drilling operations, tunneling and shaft sinking may be necessary.
- The building of foundations and the construction of the building itself is conducted, which involves constructions made of wood, concrete, steel, bricks, etc. as well as external facings and cladding.
- Finishings such as electrical installations, painting, joinery and others are completed.
- Finally, the construction site is reinstated and its surroundings restored. Construction companies often operate large machinery fleets and may own reserves of building land.

Risks & Opportunities

- **Construction sites are risky for workers where occupational health and safety** Construction entails significant risks to the health and safety of workers. Specific construction, demolition (especially of industrial buildings and of constructions of machinery. This requires special precautions and equipment.
- **Land contamination from previous industries is common in the construction** Building companies often possess various sites for future development. Those sites of industrial use. Liability for environmental damage and decontamination should be the developer. Site remediation may present major technical problems with significant contaminated or incorporate major natural features such as rivers.
- **Construction sites cause dust emissions and air pollution from the use of machinery** Construction machinery often causes disproportionately high air pollution owing to Furthermore, significant dust emissions during construction or demolition activities.



GENERAL EHS GUIDELINES

The General EHS Guidelines contain information on cross-cutting environmental, health, and safety issues potentially applicable to all industry sectors. This document should be used together with the relevant [Industry Sector Guideline\(s\)](#).

General EHS Guidelines (full document) [PDF]

[English](#) | [Français](#) | [Español](#) | [русский](#) | [简体中文](#) | [عربي](#)

The General EHS Guidelines contain the following information (links below in English only):

1. Environmental

- [1.1 Air Emissions and Ambient Air Quality](#)
- [1.2 Energy Conservation](#)
- [1.3 Wastewater and Ambient Water Quality](#)
- [1.4 Water Conservation](#)
- [1.5 Hazardous Materials Management](#)
- [1.6 Waste Management](#)
- [1.7 Noise](#)
- [1.8 Contaminated Land](#)

2. Occupational Health and Safety

- [2.1 General Facility Design and Operation](#)
- [2.2 Communication and Training](#)
- [2.3 Physical Hazards](#)
- [2.4 Chemical Hazards](#)
- [2.5 Biological Hazards](#)
- [2.6 Radiological Hazards](#)
- [2.7 Personal Protective Equipment \(PPE\)](#)
- [2.8 Special Hazard Environments](#)
- [2.9 Monitoring](#)

3. Community Health and Safety

- [3.1 Water Quality and Availability](#)
- [3.2 Structural Safety of Project Infrastructure](#)
- [3.3 Life and Fire Safety \(L&FS\)](#)
- [3.4 Traffic Safety](#)
- [3.5 Transport of Hazardous Materials](#)
- [3.6 Disease Prevention](#)
- [3.7 Emergency Preparedness and Response](#)

4. Construction and Decommissioning

- [4.1 Environment](#)
- [4.2 Occupational Health and Safety](#)
- [4.3 Community Health and Safety](#)

References and Additional Sources

E&S DUE DILIGENCE – CONSTRUCTION AND REAL ESTATE

- \$250m loan for the development of a large residential estate - 750 medium-income housing units; 350 luxury apartments; one sports complex and recreational park; two clinics; one shopping complex; one community hall
- Preliminary information
 - ESIA completed; permit granted
 - The project area extends to the border of the National Park
 - National government relocated 1280 residents, businesses and squatters from the project site; no documentation on the resettlement program available for review; protests reported
 - A threatened bat species and two vulnerable toad species were identified in the project area
 - The project borders an old grave yard of the nearby committee and also impacts on the access road to a sacred grove
 - The proposed location of the recreational park was identified as contaminated land
 - Draft Company E&S Management System provided
 - E&S questionnaire did not include information on waste management and community impacts

The preliminary information already provides clues to the applicable PSs; send your suggestions through the chat.

Would you consider a site visit?

E&S DUE DILIGENCE – CONSTRUCTION AND REAL ESTATE

SITE VISIT

- Safety induction conducted
- Incident logs and training register available
- No major issues identified from the documents



- EMP and EHS Plan available on site
- Permits and licenses for various activities available
- Grievances reported but not documented



- 40 permanent staff
- Company policies align with PS2
- Several contractors on site; no information on labor requirements
- Not all workers have PPE



- High volume of traffic
- Traffic management by individual contractors
- Two traffic accidents reported
- Inadequate waste management



E&S DUE DILIGENCE – CONSTRUCTION AND REAL ESTATE

PS	Key Findings	Examples of Recommended Action Items
PS1	<ul style="list-style-type: none"> ESIA completed; EMP and EHS Plan in place; all permits obtained ESMS is a draft document Grievances not documented 	<ul style="list-style-type: none"> Finalize ESMS in line with PS1 Develop a grievance mechanism; communicate process to communities
PS2	<ul style="list-style-type: none"> No labor standards for contractors Inadequate use of PPE 	<ul style="list-style-type: none"> Review labor standards of all contractors; develop standards Enforce PPE rules
PS3	<ul style="list-style-type: none"> Contaminated land Inadequate waste management 	<ul style="list-style-type: none"> Implement suitable remediation measures Develop a waste management plan
PS4	<ul style="list-style-type: none"> Inadequate traffic management 	<ul style="list-style-type: none"> Develop traffic management plan for entire site; cascade to all contractors
PS5	<ul style="list-style-type: none"> Government-led resettlement; no documentation available 	<ul style="list-style-type: none"> Engage a social specialist to review the process – survey of affected parties and assessment of compensation measures
PS6	<ul style="list-style-type: none"> Potential impacts on endangered and vulnerable species Impacts on national park 	<ul style="list-style-type: none"> Develop a biodiversity monitoring plan Engage a specialist
PS8	<ul style="list-style-type: none"> Access to graveyard and sacred grove 	<ul style="list-style-type: none"> Engage with community to agree on access rights or suitable alternatives (Link to PS5 process)

E&S DUE DILIGENCE – KEY TAKEAWAYS

- Identify the typical E&S issues based on the sector; align the issues to the relevant PSs
- Use sector factsheets and EHS Guidelines
- Review available project documents and completed questionnaires
- Conduct site visits where required
- Assess how the client is managing these issues and identify gaps; ask the right questions and document findings
- Develop an action plan to address the gaps (include timelines)
- Engage specialists and consultants as required

Q&A

RESOURCES

- Sustainability at IFC www.ifc.org/sustainability
- Performance Standards www.ifc.org/performancestandards
- EHS Guidelines www.ifc.org/ehsguidelines
- FIRST for Sustainability www.firstforsustainability.org
- FIRST for Sustainability Sector Factsheets
<https://firstforsustainability.org/risk-management/risk-by-industry-sector/>
- Interpretation Note for Financial Intermediaries
<http://www.ifc.org/wps/wcm/connect/38d1a68049ddf966af3cbfda80c2ddf3/IN+on+FI+Revised+April+11+2017.pdf?MOD=AJPERES>
- STEP, our [self-paced eLearning](#) designed for managers and staff of financial institutions

THANK YOU!

Evaluation link:

www.surveymonkey.com/r/FIDueDiligence-Evaluation