CONDUCTING E&S DUE DILIGENCE ALIGNED WITH IFC PERFORMANCE STANDARDS
A FOCUS ON FINANCIAL INTERMEDIARIES
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 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.
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

1. Risk Management
2. Labor
3. Resource Efficiency
4. Community
5. Land Resettlement
6. Biodiversity
7. Indigenous People
8. Cultural Heritage
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

### 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

### 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

### 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

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

PS7: 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

PS8: Cultural Heritage

Objectives
- Protection and preservation of cultural heritage
- Promotion of equitable sharing of cultural heritage benefits
<table>
<thead>
<tr>
<th>WHAT ARE THE BENEFITS OF THE PERFORMANCE STANDARDS</th>
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<tbody>
<tr>
<td><strong>GUARD AGAINST UNFORESEEN RISKS AND IMPACTS</strong></td>
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<tr>
<td>Implementing the Performance Standards helps companies identify and guard against interruptions in project execution, legal claims, brand protection, and accessing international markets.</td>
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<tr>
<td><strong>IMPROVE FINANCIAL AND OPERATIONAL PERFORMANCE</strong></td>
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<tr>
<td>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.</td>
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<tr>
<td><strong>SOCIAL LICENSE TO OPERATE</strong></td>
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<td>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.</td>
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<td><strong>GAIN AN INTERNATIONAL STAMP OF APPROVAL</strong></td>
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<td>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.</td>
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Q&A
E&S RISK MANAGEMENT – GENERIC PROCESS FLOWCHART

Managing E&S Risk in Transaction Cycle

- Proposed transaction
  - Transaction screening

  - Reject
    - No
    - Decision to appraise
      - Yes
      - APPRAISAL
        - E&S risk categorization
        - E&S due diligence
        - Desktop review
        - Site visit

      - Reject
        - No
        - Decision to finance
          - Yes
          - E&S corrective action plan, as necessary
          - E&S covenants in legal agreement

        - E&S compliance monitoring
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
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<th>PS</th>
<th>Key Elements/Questions to Consider</th>
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| PS1 | • 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 | • Is there a comprehensive HR Manual? **Review the polices 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 | • 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 | • 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

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| PS5 | • 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 | • 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 | • Are there IPs in the country?  
     • **Negative** or **positive** impacts on IPs? If there are IPs within the project area, **engage a specialist** |
| PS8 | • 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**?
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]

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&F)
   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

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<tr>
<th>PS</th>
<th>Key Findings</th>
<th>Examples of Recommended Action Items</th>
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<tbody>
<tr>
<td>PS1</td>
<td>• ESIA completed; EMP and EHS Plan in place; all permits obtained</td>
<td>• Finalize ESMS in line with PS1&lt;br&gt;• Develop a grievance mechanism; communicate process to communities</td>
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<tr>
<td></td>
<td>• ESMS is a draft document</td>
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<td></td>
<td>• Grievances not documented</td>
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<td>PS2</td>
<td>• No labor standards for contractors&lt;br&gt;• Inadequate use of PPE</td>
<td>• Review labor standards of all contractors; develop standards&lt;br&gt;• Enforce PPE rules</td>
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<tr>
<td>PS3</td>
<td>• Contaminated land&lt;br&gt;• Inadequate waste management</td>
<td>• Implement suitable remediation measures&lt;br&gt;• Develop a waste management plan</td>
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<tr>
<td>PS4</td>
<td>• Inadequate traffic management</td>
<td>• Develop traffic management plan for entire site; cascade to all contractors</td>
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<tr>
<td>PS5</td>
<td>• Government-led resettlement; no documentation available</td>
<td>• Engage a social specialist to review the process – survey of affected parties and assessment of compensation measures</td>
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<tr>
<td>PS6</td>
<td>• Potential impacts on endangered and vulnerable species&lt;br&gt;• Impacts on national park</td>
<td>• Develop a biodiversity monitoring plan&lt;br&gt;• Engage a specialist</td>
</tr>
<tr>
<td>PS8</td>
<td>• Access to graveyard and sacred grove</td>
<td>• Engage with community to agree on access rights or suitable alternatives (Link to PS5 process)</td>
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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