ESG Readiness for
Financial Institutions

ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM (ESMS) FOR THE FINANCIAL SECTOR

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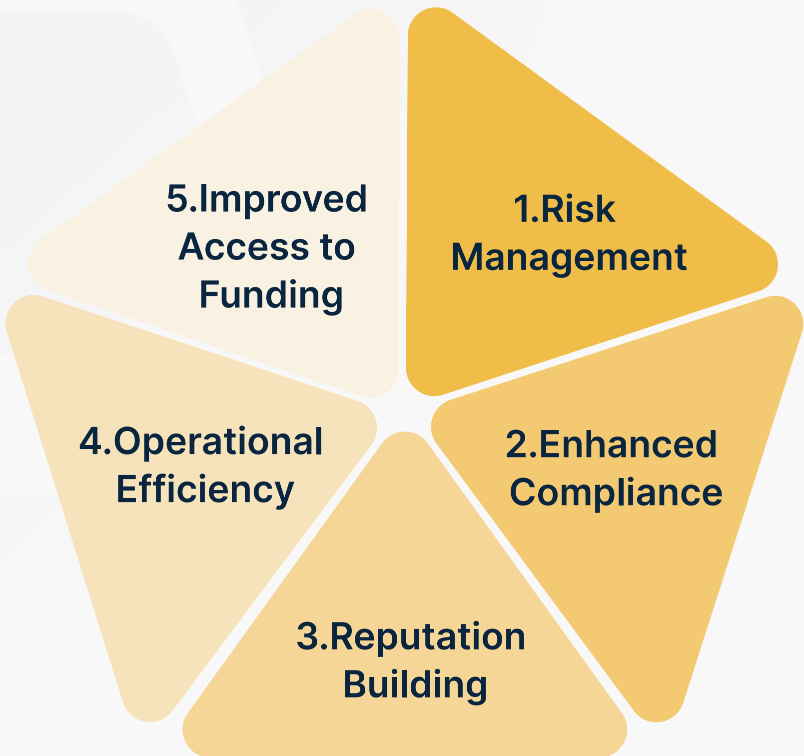
PART I

Overview

Environmental and Social Management System (ESMS)

ESMS is a structured set of processes designed to ensure your company's policies are consistently applied to achieve business objectives. It helps assess and control risks while driving continuous improvement through regular review and enhancement.
This approach ensures effective procedures are in place and followed, promoting long-term success.

Key benefits an ESMS can bring to your organization:



Phased Approach to ESMS Implementation for Financial Institutions

Phase 1	Phase 2	Phase 3
ESMS Readiness of the FI	E&S Policy Development	ESMS Implementation and Capacity Building

1

ESMS Assessment

The assessment evaluates the quality of an ESMS, comparing it to IFC's Performance Standard 1 and industry best practices. It examines nine key elements of an FI's ESMS, categorizing them based on their level of advancement (formative, emerging, developed, state of the art).

1 **E&S Risk Management Policy:** assessing policies for managing E&S risk.

2 **E&S Risk Management Due Diligence Process:** evaluating the procedures for E&S due diligence and integration into decision making.

3 **Quality of E&S Due Diligence:** assessing how comprehensively institutions address E&S risks, data is cross checked, and processes consistently applied.

4 **Structure and E&S Function:** assessing roles and responsibilities within the organization

5

Capacity & Training: assessing capacity, commitment and training.

6

Supervision Procedure and Portfolio Review: examining portfolio review, monitoring and internal feedback systems.

7

Control Environment: assessing reporting to the Board, Executive and Business lines, escalation mechanisms and audits.

8

E&S Indicators and Data: evaluating data collection and evaluation frameworks.

9

External Communications: assessing channels for communications from stakeholders, sustainability reporting and disclosure.

Note: *The process involves using a checklist, with each section containing its own set of specific questions. Based on the results obtained, the next steps might involve formulating an ESG action plan and establishing an ESMS policy, which should cover both direct and indirect approaches.*

PART II

2

Environmental and Social Management Policy Development

Policy development will cover three modules, allowing the bank to integrate both direct and indirect ESG factors into its decision-making processes. This approach will enhance how the bank addresses environmental, social, and governance issues and ensures that these considerations are reflected in its risk management policies. By doing so, the bank will be better equipped to manage ESG-related risks and opportunities, aligning its operations with sustainable practices and stakeholder expectations.

Module I: Internal environmental management system

- Internal environmental management relies on processes and procedures that enable banks to consistently minimize their environmental impact.
- Energy and resources efficiency, emissions, awareness and knowledge

1. In-house energy and resource efficiency measures (technical and behavioral)
2. Defining objectives to CO2 emissions deriving from the institution's own operations
3. Raising the level of environmental awareness and knowledge among staff
4. Communication measures to provide staff with relevant environmental information
5. Assessing the sustainability of a supplier's business practices (optional)

Module II: Management of environmental and social risk in lending

- Seeking to partner with businesses that don't harm the environment or put the health, safety, and well-being of their employees and local communities at risk.

- Screening against exclusion list, identifying environmental risk categorisation, conducting on-site environmental and social risk assessment.

1. The position of the bank and directions of its contribution to sustainable development (CBAR's Sustainable Finance Roadmap and International Practice)
2. Development of exclusion list
3. Development of classification of economic activities (NACE (same as TAX codes)
4. Predefine environmental risk categorization
5. Complying with local environmental standards and regulations (E&S Due diligence)
6. Predefined integration approach – threshold, procedure, responsibilities, data collection, reporting, monitoring, resources and capabilities, ownership, approval and enforcement, grievance mechanism
7. Predefined checklist for conducting on-site environmental and social risk assessment

Module III: Green finance (optional to include in the policy, however, could be included but developed after Module I and Module II)

- Banks can actively encourage green investments among their target clients and assist those looking to make their business processes more environmentally friendly.
- Green loans for investments in EE, RE, and other environmentally friendly and energy efficient businesses or households.

1. Designing and offering special (green or environmental) loans in EE , RE , and other environmentally friendly measures.

2. The design of these loans considers the circumstances of the local market (including CBAR's requirements), and the approval process considers the technical aspects supporting the investment.

3. Loans disbursed for this purpose will be classified as green loans in the bank's core system, allowing for the simple identification of these loans in the various systems used and, in the reports, generated.

Our Memberships

Below are our memberships, which enhance our capabilities and global reach

United Nations Global Compact

INOGEN ALLIANCE

GRI

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