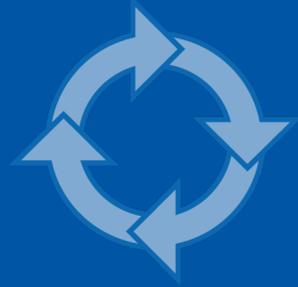


ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEMS (COMPANY-LEVEL)



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1. ABOUT THIS E&S BRIEFING NOTE

This E&S Briefing Note is designed to help fund managers quickly familiarise themselves with company-level environmental and social management systems (ESMS). It is not intended to be a detailed technical guidance document.

Formal specific technical guidance is provided at the end of this Briefing Note and in [Downloads & Reference Materials](#), including [International Finance Corporation \(IFC\) 2012 Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts](#). Fund managers should also refer to [CDC E&S Checklist](#) for guidance on how to assess the adequacy of a company's ESMS.

This E&S Briefing Note provides an overview and generic guidance. Fund managers should carefully consider each company based on its specific characteristics and circumstances including scale, location, technology, management capacity and commitment, and track record. Risks, impacts and opportunities relating to a particular company or sector can also change over time for a number of reasons (e.g. changes in the applicable laws and regulations or in the type of the company's activities or assets). Fund managers may need to engage external experts in some situations (see 'Advice for fund managers' section below).

2. INTRODUCTION

An ESMS is more than a set of documents. An effective ESMS is a dynamic and continuous process initiated and supported by management, and involves engagement between the company, its workers, local communities directly affected by the company's operations and, where appropriate, other stakeholders. Drawing on the elements of the established business management process of '[plan, do, check, and act](#)', the ESMS entails a structured approach to managing environmental and social matters on an ongoing basis. A good ESMS appropriate to the nature and scale of a company's E&S risks and impacts can lead to improved financial, social and environmental outcomes.

2.1 Component of a company-level ESMS

An ESMS should comprise the following elements (for further guidance refer to 'Advice for Fund Managers' below):

1. Policy.
2. A system to identify E&S risks and impacts.
3. Organisational capacity and competency.
4. Management programmes.
5. Emergency preparedness and response.
6. Stakeholder engagement.
7. Monitoring and review.

To the extent possible, companies should involve its workers, local communities directly affected by the project and, where appropriate, other stakeholders in developing and implementing the ESMS. Fund managers should assess whether the company's ESMS encompasses these seven key elements, and whether they are sufficiently robust to address the likely E&S risks and opportunities facing the business.

3. WHY COMPANIES AND FUND MANAGERS SHOULD ADDRESS THIS TOPIC

3.1 Risks for the business

Failure to implement a robust ESMS could lead to a numerous risks including:

- Fines and penalties.
- Loss of license to operate.
- Environmental liabilities.
- Excessive expenditure in managing E&S risks and impacts.
- Reduced production efficiency and product quality.
- Higher staff turnover.
- Reputational damage.
- Reduced access to markets, clients and investors.

3.2 Opportunities for the business

The benefits realised by adopting good ESMS include but are not limited to:

- Risk reduction and impact avoidance/mitigation, including avoiding costs associated with ESG incidents and potential remedial actions which they may require.
- Better operational efficiency.
- Greater employee retention and productivity.
- Improved external relations and public image.
- Increased access to markets and investors which demand robust E&S management.

4. ADVICE FOR FUND MANAGERS

All companies, regardless of sector, should put in place an environmental and social management system (ESMS), appropriate to the size and nature of the business. Through effective implementation of their ESMS, companies should be able to demonstrate at a minimum compliance with local laws and regulations. Additionally, fund managers should ensure that companies comply with the fund's and Limited Partner's (LP's) requirements which may go beyond achieving legal compliance.

Separately, fund managers and companies should assess whether there is a case for even going beyond the requirements mentioned above as this could have [benefits for the business](#).

In relatively rare circumstances, companies may have to address complex issues such as economic or physical displacement of communities and/or adverse and significant impacts on biodiversity, Indigenous Peoples and/or cultural heritage. These subjects frequently require particular attention and may require: (i) the company to engage external specialists for the development and implementation of management plans; and/or (ii) the fund manager engaging consultants to assist during due diligence (DD) and ownership and monitoring.

[CDC E&S Checklist](#) provides guidance on how to assess the adequacy of a company's ESMS and a matrix of typical environmental and social issues encountered in different [sectors](#).

4.1 GENERAL ADVICE

4.1.1 ESMS commensurate with level of the E&S risks and impacts

Fund managers should consider whether any ESMS is commensurate with the level of E&S risks and impacts associated with the company's activities, contractors and relevant supply chains. The best ESMS is not the most complex or comprehensive one in terms of documents and reports but the one which allows a company to efficiently and effectively identify and manage E&S risks and impacts and improve E&S performance over time.

Some companies (e.g. those with high E&S risks and impacts) may need to engage specialist consultants to design and assist with the implementation of an ESMS, or to assess the adequacy of an existing ESMS. Fund managers should encourage (or require) and assist a prospective portfolio company to do this if necessary.

The elements of an ESMS are covered below.

4.1.2 ESMS development vs. ESMS implementation

There is a significant difference between developing an ESMS (i.e. documenting the policy and management plans) and implementing the ESMS (i.e. following the documented policies, management plans and continuous identification of areas for improvement).

Fund managers should bear in mind that some companies may not have a fully documented ESG management system, but still manage their key ESG risks relatively effectively. In this case all that is required is to strengthen the management plans. By contrast, some companies may have very robust written ESG management system that has not been effectively implemented.

It also should be noted that an advanced ESMS may be fully integrated into business operations, rather than available as a documented system that can be provided for desk review during DD.

4.1.3 Continuous improvement

One of the key objectives of a management system is the continuous improvement of the company's E&S performance. Therefore, it is important for companies and investors to understand what the key E&S factors are and prioritise them when it comes to defining Key Performance Indicators (KPIs) and, more broadly, establish a company-level ESMS. An ESMS should not be seen as a 'tick-box' exercise as this will lead to a sub-optimal use of human and financial resources and may not improve the company's E&S performance overtime or may do it in an inefficient manner.

In order to achieve continuous improvement, an ESMS should always be able to evolve as the company and/or the circumstances change. See 'Monitoring and review' below.

4.1.4 Certified ESMS systems

Some companies may have independently certified management systems. Fund managers should not assume that a company with a certified management system will have a more robust management system than a company without certifications. While independent certification provide additional assurance and can contribute to improving the company's ESMS, experience shows that certification bodies use varying degrees of vigour when auditing management systems. Fund managers should consider reviewing independent audits/reports to assess their adequacy and check whether the conclusions/observations of such reports are consistent with observations during DD or ownership and monitoring stages.

Additionally, it should be noted that the scope of a certification system may be limited (e.g. may only cover environmental aspects or occupational health and safety issues), and other relevant aspects (e.g. labour conditions, biosecurity) may not be covered.

It should be noted that obtaining independent verification/certification can have significant cost and it is important to ensure that having a certified management system will add value to the company and investors (e.g. by reducing the company's E&S risks, helping to gain access to other markets/clients, attracting new investors or increasing the company's value at exit).

4.2 Elements of an ESMS

4.2.1 Policy

The policy should:

- Clearly articulate the E&S objectives and principles that guide the company to achieve sound E&S performance.
- Provide a framework for the E&S assessment and management process.
- Specify that the company will comply with the local and international applicable laws and regulations and, where appropriate, with international standards (e.g. IFC Performance Standards).

- Specify the individuals who will be accountable and responsible for the implementation of the policy.
- Be communicated to and available to all levels of the organisation.
- Approved by a representative of the senior management team and dated.

4.2.2 Identification of risks and impacts

Fund managers should ensure that companies have a practical process for identifying E&S risks and impacts. This process should not only consider E&S risks and impacts directly generated by their operations but also those from contractors and supply chains. This will typically lead to the identification of opportunities. The identification process should be commensurate with the level of E&S risks and impacts and consistent with Good International Industry Practice (GIIP).

4.2.3 Organisational capacity and competency

As set out above, an ESMS is more than a set of documents. A key component of any ESMS is organisational capacity and competency. Even the best-written policies, systems and procedures cannot be successfully implemented without the necessary human and financial resources. It should be noted that there is a clear difference between developing written policies and procedures and implementing them.

Therefore, fund managers should ensure companies establish, maintain and strengthen as necessary an organisational structure that defines roles, responsibilities and authority to implement the ESMS. Specific personnel with the necessary skills and expertise (including management representatives), clear lines of responsibility and authority should be designated. Additionally, sufficient management sponsorship and human and financial resources should be provided on an ongoing basis.

4.2.4 Management programmes

Fund managers should always ensure that companies have developed and implemented management programmes that describe the mitigation and performance improvement measures to address the identified E&S risks and impacts and, where applicable, capitalize on opportunities. Depending on the nature and scale of the E&S risks and impacts, the management programmes may consist of some documented combination of operational procedures, practices, management plans and Action Plans (e.g. waste management plans and resettlement action plans).

In relatively rare circumstances, companies may have to address complex issues such as economic or physical displacement of communities and/or adverse and significant impacts on biodiversity, Indigenous Peoples and/or cultural heritage. This needs particularly careful attention and requires the implementation of specific management plans.

4.2.6 Emergency preparedness and response

Companies should implement emergency preparedness and response systems so that the company, in collaboration with appropriate and relevant third parties, will be prepared to respond to accidents and emergency situations (e.g. fires, accidental oil spills) in a manner appropriate to prevent and mitigate any harm to people and/or the environment.

The emergency preparedness and response activities should be periodically reviewed and revised, as necessary, to reflect changing conditions.

Where applicable, the company should assist, inform and collaborate with potentially Affected Communities and local government agencies in their preparations to respond effectively to emergency situations, especially when their participation and collaboration are necessary to ensure effective response.

4.2.7 Stakeholder engagement

Companies need to identify key stakeholders (e.g. Affected Communities) at both the strategic business and operating (site) levels. They should inform and consult them about their key concerns, and develop plans to address them effectively. Strong, constructive, responsive and ongoing stakeholder relationships are usually essential for the successful management of businesses E&S risks and impacts. Inappropriate stakeholder engagement may lead to complicated situations (e.g. social disorder) which could be easily avoided through the implementation of a robust stakeholder engagement process.

Fund managers should assess whether a company appears to understand who its key stakeholders are, and how effective their management of those relationships is. Fund managers should bear in mind that the nature, frequency and level of effort of stakeholder engagement may vary considerably and should always be commensurate with the level of E&S risks and impacts.

Fund managers should assess whether the company can demonstrate that it addresses the needs and sensitivities of key stakeholders effectively. Special attentions should be paid to companies affecting Indigenous Peoples and/or other type of vulnerable communities or groups.

Informed consultation and participation (ICP): Companies that are likely to have significant adverse impacts on local communities should be able to demonstrate that they have followed an ICP process, which involves a more in-depth exchange of views and information than a standard consultation process, including an organised and iterative consultation that leads to the client incorporating the views of the Affected Communities into their decision-making process (on matters that affect them directly e.g. proposed mitigation measures and the sharing of development benefits and opportunities).

Fund managers should also determine whether the company has processes in place to communicate with key stakeholders on an ongoing basis, either formally or informally.

External communications: Fund managers should ensure that companies implement and maintain a procedure for external communications that includes methods to:

- Receive and register external communications from the public.
- Screen and assess the issues raised and determine how to address them
- Provide, track, and document responses, if any; and
- Adjust the management programme, as appropriate. In addition, clients are encouraged to make publicly available periodic reports on their environmental and social sustainability.

Grievance mechanism: Fund managers should bear in mind that, if the company's operations generate significant risks and/or adverse impacts on communities, Affected Communities may

raise grievances. In these cases the focus should be placed on how the company deals with these grievances, including those which may not be considered fair. Where the company's operations significantly affect communities and no grievances have been registered, fund managers should investigate whether this is due to an ineffective grievance mechanism or a consequence of good E&S performance.

Companies should also have a grievance mechanism to allow workers to raise any concerns. Fund managers should ensure that these grievances are properly registered and managed.

4.2.8 Monitoring and review

An ESMS should be designed to evolve. The company's E&S performance and the adequacy of the company's ESMS should always be monitored in order to identify areas for improvement and if necessary, implement corrective actions. Fund managers should ensure companies have implemented appropriate procedures to monitor compliance with any related legal and/or contractual obligations and regulatory requirements and, more broadly, measure the effectiveness of the ESMS. The level of monitoring should be commensurate with the E&S risks and impacts and with compliance requirements.

In order to achieve the above, companies would typically:

- Define Key Performance Indicators (KPIs).
- Record relevant information to track performance. It is important for companies to think carefully about which information should be collected in order to avoid collating irrelevant data.
- Establish practical and efficient operational controls.
- Conduct internal and/or commission external inspections and audits to assess progress against desired outcomes.

The company's monitoring programme should be overseen by the appropriate level in the organisation. Senior management in the client organisation will receive periodic performance reviews of the effectiveness of the ESMS.

5. FURTHER RESOURCES

5.1 Further information and guidance

- [International Finance Corporation \(IFC\) 2012 Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts.](#)
- [IFC 2012 Guidance Note 1: Assessment and Management of Environmental and Social Risks and Impacts.](#)
- [CDC E&S Briefing Notes.](#)
- [IFC/IBM's SME Toolkit Environmental and Social Management System: Self-Assessment and Improvement Guide.](#)

5.2 Certification standards

- [ISO 14001:2004 - Environmental Management System.](#)
- [BS OHSAS 18001 Occupational Health and Safety Management.](#)
- [SA 8000:2004 - Social management system.](#)