

ESG IN THE INVESTMENT CYCLE: GUIDANCE



Site Visits

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CDC GUIDANCE: SITE VISITS

1. OVERVIEW

1.1 Why are site visits valuable?

Site visits can be valuable to:

- **Outline expectations:** Explain the fund manager's requirements and expectations relating to environmental and social (E&S) issues.
- **Understand actual risks/impacts:** Develop a first-hand understanding of a company's operations and performance. Deepen understanding about which E&S impacts and risks appear to be most significant and what the practical challenges associated with mitigation and/or remedial measures are.
- Assess the implementation of companies' environmental and social management system (ESMS): Test the implementation of the ESMS and how it is applied in practice.
- Assess the company's commitment, capacity and track record (CCTR).
- **Identify opportunities:** Look for opportunities to add value through better E&S management.
- **Strengthen/maintain a good relationship:** Establish or strengthen the relationship between fund manager and company (including with mid-level/operational staff) and to agree actions that meet the fund's expectations.

1.2 At which stage of the investment cycle should site visits be undertaken?

- **Screening:** Site visits may be undertaken at the screening stage if the fund managers would like to gain a better understanding of the E&S risks and impacts early in the process. However, site visits are more frequently performed during due diligence (DD) unless there are major questions/issues which need to be answered/clarified and require a site visit during the screening stage.
- **Due diligence:** During the DD phase site visits can be used to evaluate a company's compliance with applicable regulations and the fund's requirements, E&S performance and CCTR.
- **Ownership and monitoring:** During the ownership and monitoring phase, on a routine basis, site visits can assess a company's E&S performance and compliance with the E&S requirements included in the investment agreement (e.g. following up on an environmental and social Action Plan ESAP). Site visits may also be required to address more specific issues such as:
 - The response to an accident, incident or concerns raised by stakeholders.
 - When an acquisition or major development/extension to operations is being considered.
 - A substantial change in the management team
 - Where geographic or sector trends present potential new E&S concerns.

2. PREPARING FOR SITE VISITS

2.1 Who should perform site visits?

Who will carry out the site visits depends on the specific circumstances of each investment and the degree of specialism within the fund management team. The following should be considered when deciding who will perform the site visit:

- ***Inherent E&S risks associated with deal:*** The following approach should typically be taken:
 - Investment team: All investment staff.
 - E&S Officer: At least for transactions with ‘High’ and ‘Medium-high’ inherent risks .
 - Consultants: For ‘High’ and ‘Medium-high’ risk investments and whenever in-house capacity is lacking. There are significant benefits to the fund manager accompanying consultants in their site visits and company engagements.
- ***Stage of deal:*** Greater oversight is advisable during construction phase of a Project, during significant expansion of existing facilities, or during the early months of investment to help integrate the ESAP into company decision-making. If certain stages of an investment present more materials risks (e.g. construction stage of a large greenfield Project), fund managers should assess whether external experts and/or an E&S Officer should perform the site visits.

Even when external studies are commissioned during the DD phase, fund managers are strongly recommended to accompany consultants on site visits to capitalise on these relationship-building opportunities with management, to get first-hand insights and provide context when reviewing the findings of the external specialist.

2.2 Planning site visits. Which sites should be visited?

When planning site visits, the following should be considered:

- ***Range of operations:*** If it is not possible to visit all sites, then sites should be selected that represent the range of company operations, as well as visiting the head office to see how central management oversee the management of individual sites. E&S performance at remote sites may not be as strong as at more accessible sites, and it is advisable to visit these more distant sites to get a representative sample of company operations.
- ***Prioritise sites:*** Priority should be given to operations that pose the greatest E&S risks and impacts.
- ***Duration:*** Sufficient time should be spent at each site to gain an understanding of the E&S risks and impacts and the adequacy of the company’s ESMS and CCTR. More time should be allocated for investments presenting higher E&S risks.
- ***Repeat visits:*** Several visits may be necessary to some sites or facilities, particularly those where critical or urgent issues are identified.
- Review any ***publicly available information*** (refer to the Information Sources in [Screening and Categorisation](#) section). This might include:
 - Google typical examples of production lines of the type of facility that will be visited (if not visited before) in order to get an initial idea of process flow and the sector ‘jargon’.
 - Search YouTube for a short film on the above e.g. ‘typical process flow large-scale foam mattress manufacture’.

- Locate the site on Google Earth and observe neighbouring land-use, nearby water bodies, transport arteries and any other significant landmarks.
- Read the relevant [CDC Sector Profile](#).
- Review any portfolio level information including:
 - For similar companies in the portfolio, review previous E&S documentation, focusing on the fund's internal documentation e.g. E&S screening memorandum, DD report and particularly its ESAP.
 - Review reports generated by any previous site visits, or investment team interactions, and any follow up action recommended.
- **Propose an itinerary:** Identify pertinent information to be provided during the visit (e.g. printing out documents, maps or process flow diagrams, or checking availability of key staff).
- **Wear site-appropriate attire:** Flat walking shoes are recommended. Avoid wearing loose items of clothing such as ties or scarves.

Usually, the company should be notified in advance of the proposed site visit, its purpose and any recommended preparations. However, while prior notification is courteous it does allow for a rapid preparatory 'clean up' which means it will not necessarily provide a true representation of usual day-to-day operations.

3. CONDUCTING SITE VISITS

3.1 E&S aspects to be assessed/observed during a site visit

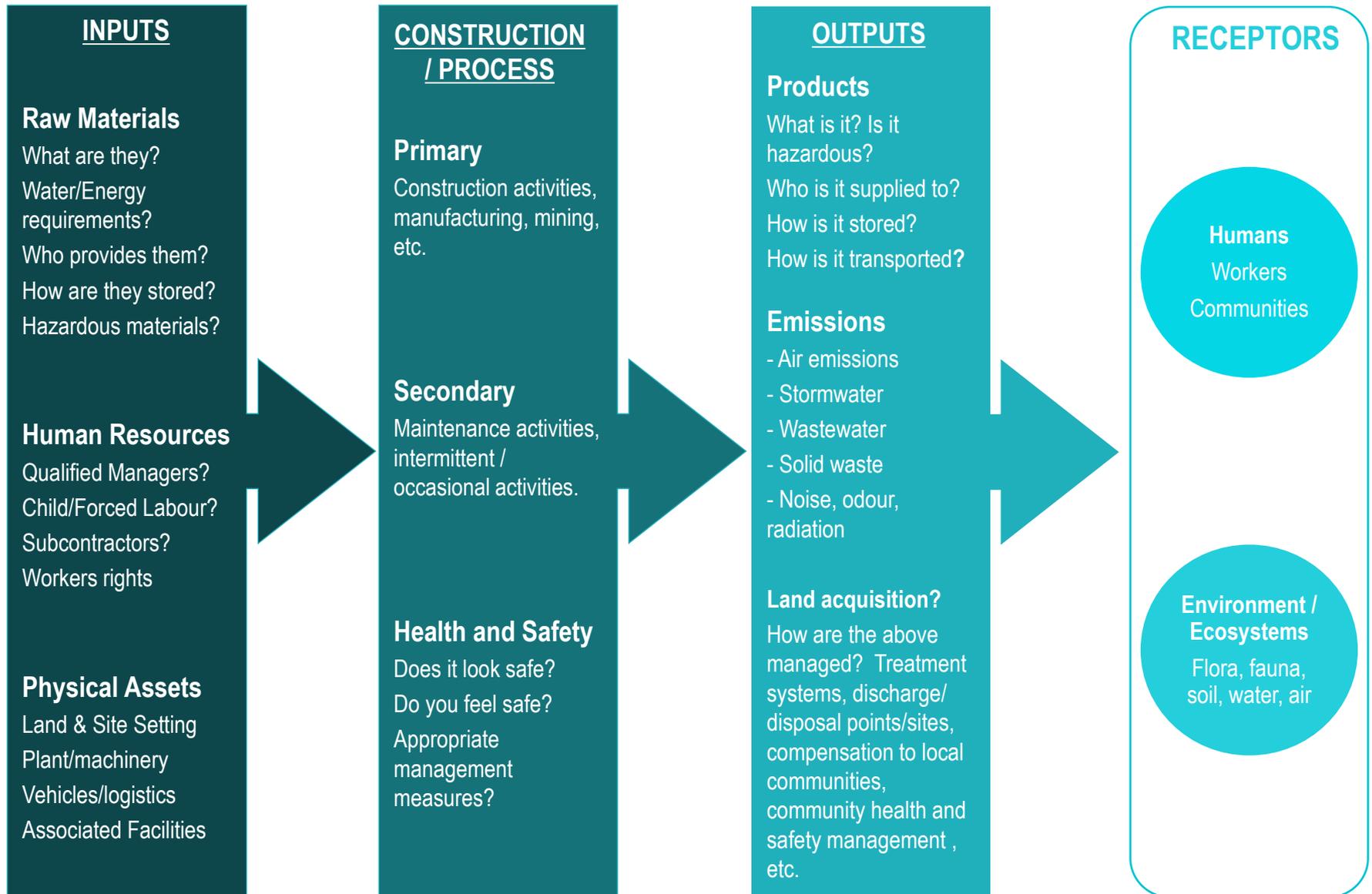
The following graphic outlines what fund managers should be aiming to understand or verify during site visits (i.e. inputs, process, outputs and potential receptors). The point is not to become overly concerned about the technical production process *per se* (e.g. how to mix paints in paint manufacturing facility) but instead to focus on inputs to that process such as raw materials/labour, how inputs are used on site and what outputs emerge from the system (e.g. product safety, emissions, pollution).

In addition, see the E&S Checklist that provides ideas of the questions to be asked during E&S DD and monitoring of investments.

While on site, check whether the operation is comfortable with photos being taken. These can be used to illustrate any gaps and help to track continuous improvement.

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PROCESS FLOW APPROACH



3.2 Who should be interviewed during the site visit?

Location	Who to interview/meet and why?
Head office	Chief Executive Officer/General Manager and/or representative of senior management to explore their awareness of E&S risks and opportunities and CCTR.
Operations:	<p>Consider which personnel are available, including:</p> <ul style="list-style-type: none"> • Operations Manager/Production Manager and Site Supervisors/Foremen: To understand and crosscheck how production works, where key processes and raw material use and waste generation could offer cost reduction, and to understand process improvement opportunities. <p>and those responsible for:</p> <ul style="list-style-type: none"> • Occupational health and safety (OHS): To determine their competence, record and how well any policies and systems are applied. • Environment: To determine their competence, record and how well any policies and systems are applied. Opportunities for improvements identified by the fund manager or the company and the company's willingness to make changes. • Human resources: To assess labour policies and how these are applied and how staff are protected, retained, incentivised and trained. • Contracted staff: If significant numbers of contracted employees are used, it is important to get their views on how E&S matters are managed and any concerns they have. • Stakeholders: Representatives of affected communities, key stakeholders, and local authorities. If time is short, a separate stakeholder meeting can be arranged to meet all key parties together.
Other sites (e.g. suppliers, JV operations, distribution, secondary processing, supplementary packaging, power supply).	As above, with a focus on specific E&S issues material to the operation of the primary business. Guidance and examples are provided in the applicable CDC Sector Profiles and World Bank Group EHS Guidelines .

3.3 Follow-up to site visits

After each site visit, it is advisable to:

- **Hold a close-out meeting with the company:** Discuss key issues identified, preliminary findings and likely corrective actions/modifications to any ESAP. Note that where the site visit has been carried out by an external consultant without a member of the fund's deal team, the deal team should talk through the proposed ESAP with management to make

sure they understand it and are committed to its implementation.

- **Write up the site visit:** The findings onsite and outcomes of interviews and discussions should form the core of the DD report, and also set the tone for ongoing engagement and relationship building with the company. Site visits during ownership are important to track performance and should be written up to allow easy comparison with previous or subsequent visits.

The findings of the site visit(s) should feed into a formal DD report (if carried out at that stage) and inform the Investment Committee papers, or form part of standard monitoring practices (if carried out during the ownership stage).