

ESG management systems (ESMS) are now well established as good practice in the private equity industry.

Furthermore, the development, implementation and maintenance of an ESMS has become a prerequisite for receiving funding from Development Finance Institutions (DFIs) and an increasing number of other investors.

A well designed and properly implemented ESMS should add value to the fund and its stakeholders by:

- Ensuring that ESG factors are part of the decision making and investment monitoring processes throughout the investment cycle.
- Providing a framework to manage ESG risks at both the fund and portfolio company level.
- Creating a framework to identify and realise value creation opportunities in portfolio companies, and integrate these into plans for organisational and operational business support.
- Providing clarity for all stakeholders on the ESG standards and sustainable business performance that the fund intends its portfolio companies to meet.

Offering a framework to engage with key external stakeholders (e.g. Limited Partners) on ESG matters.

Helping the fund to capture the financial value of ESG factors, record the lessons of its team's experience and demonstrate this ESG track record to new investors or new portfolio companies.

Management systems need to at least cover environmental and social (E&S), corporate governance and business integrity factors. It is up to each fund to decide whether and how to integrate these systems. Most will find it convenient to have two related, but separate, sets of management system: (i) an environmental and social management system (ESMS); and (ii) a governance and business integrity management system (BIMS).



Management systems

The two systems will intersect at different stages of the investment cycle, and information collected and managed by both sets of procedures will complement and support one another, guiding how the fund conducts its business.