1. Overview

There is no 'best' or standard way to organise roles and responsibilities; every fund is different. The structure of the ESMS should be aligned to the fund's commitment and capacity to address E&S matters.

- Common elements of good practice are
  - Clearly assign and document accountability for oversight of the ESMS to one senior staff member, ideally an Investment Committee (IC) member.
  - Clearly assign and document responsibility for ensuring implementation of the ESMS to one person with sufficient knowledge, commitment and seniority to ensure its effective application. Cascade responsibilities through the fund team.
  - Establish day-to-day working practices to ensure the ESMS is implemented effectively.
  - Ensure sufficient resources and training are provided.
  - Put in place effective checks and balances to ensure adequate ESMS implementation and to avoid conflicts of interest.
  - Develop a robust training programme to ensure sufficient understanding of E&S matters.
  - Clearly assign and document to one person with sufficient knowledge, commitment and seniority to ensure its effective application, and cascade responsibilities through the fund team.

2. Guidance and advice

Fund managers are advised to develop a flow chart/table (see image below) and accompanying documentation to indicate how implementation of the ESMS aligns with the operational investment process (i.e. who is responsible for ensuring E&S matters are addressed at each stage of the investment cycle: identification, screening, due diligence, decision making and portfolio management). It can also indicate how E&S responsibilities have been assigned, and where specific expert E&S input (internal or external) is likely to be required.

Click to view diagram

- Accountability for the ESMS
  Ideally, accountability for the ESMS should reside with a senior executive of the fund (e.g. a Senior Partner or voting member of the IC). The role of the senior executive includes approving the policy, leading and ensuring its proper implementation, ensuring E&S matters are discussed at IC meetings and reporting to the Board and investors. When assigning this role, the fund structure, culture and processes, as well as the existing time commitments of the individual(s) should be taken into account in order to ensure that adequate time is devoted to driving the ESMS. These people should be knowledgeable about E&S matters and how to address them.

  A senior staff member (ideally an IC voting member) should also lead the evaluation of the adequacy of due diligence for each deal for the IC, in order to provide a 'check and balance' mechanism. This may be the same person who is accountable for the ESMS or another IC member.

  If it is not possible to allocate accountability to a senior IC member with E&S experience, the fund should try to identify a senior staff member who has a personal interest in E&S matters and find a way to provide that person with training or give this person access to independent advice.

- Responsibility for the ESMS
  To ensure effective implementation of ESMS, an E&S Officer(s) who has sufficient influence, capacity and commitment should be appointed. The E&S Officer is responsible for operationalising the ESMS (i.e. day-to-day implementation). This includes ensuring that the ESMS is applied consistently and effectively, undertaking reviews of the system and acting as the main contact point for companies, fund staff and LPs for E&S matters. The E&S Officer should also take responsibility (as relevant) for external and internal E&S communications.

  This person should have a reasonable understanding of E&S matters, but does not necessarily need to be an E&S specialist. In addition, the E&S Officer can have another role, provided that role does not conflict with the E&S responsibilities. The level of experience required and whether the role needs to be full time will depend upon the level of the E&S issues the fund is likely to encounter, the size and type of fund, and how responsibility for E&S implementation is allocated. Some fund managers employ an E&S specialist to cover several funds.

- Resources and training
  ESMS development and implementation will require resources (budget and staff) and thought should be given to who will manage these resources. It is also important to ensure that appropriate training is provided to the investment team and, where appropriate, the E&S Officer.

  It should be noted that, in some instances, particularly when the fund manager has limited E&S expertise or capacity and may be exposed to significant E&S risks and impacts, LPs may require capacity improvements such as targeted E&S training, recruitment of additional staff, or mentoring by external E&S experts.

- Day-to-day implementation of the ESMS
  Experience shows that funds that have most effectively implemented an ESMS have well-trained and fully-committed staff, who understand that consideration of E&S matters needs to be integrated into their investment activities and responsibilities, and whose objectives and remuneration covers E&S management.

  At a minimum, an E&S Officer should be tasked with management of the system (ideally this person should have some separation from the deal leader to ensure objective E&S assessment). In funds investing in medium-high/high risk sectors or activities, this E&S Officer will typically be a specialist.

  ESMS implementation will involve several teams. As a result, it is important that the E&S Officer coordinates collective efforts from the various teams. Investment Officers will typically have an important role in the implementation of the ESMS and, hence, should understand the business case for E&S management. Additionally, the E&S Officer will ideally have experience in successfully engaging with portfolio companies around E&S management. Where such E&S responsibilities are being introduced to investment staff, it is important to offer training, mentoring and/or other support.

  The fund manager should also consider whether its representatives on the Boards (or

Advisory Committees) of portfolio companies have sufficient understanding of and experience with E&S matters, to engage with company management on E&S performance. Where this is not the case, capacity building could be of value, or, in some cases, the fund should consider bringing in external expertise.

- Checks and balances
  As noted previously, it is important to put in place appropriate checks and balances to ensure that E&S matters are assessed properly throughout the investment cycle, in accordance with the fund's procedures. Depending on the fund's specific characteristics, fund managers may adopt different approaches taking into account the fund structure and size, the E&S risk profile, the investment strategy of the fund, LP expectations and requirements, and, the ambitions, requirements and objectives outlined in the fund's policy. A good principle to observe is that the E&S assessment presented to the IC and other relevant Committees is conducted, written and reviewed, by someone independent from the Investment Officer both prior to investment and during ownership.

  The IC typically provides an important 'check and balance' role. Having senior people on the IC with the knowledge and commitment to evaluate E&S matters ensures that E&S aspects are effectively considered in each investment.

  Fund managers should ensure that information on the E&S performance of portfolio companies is also subject to adequate checks and balances. Therefore, the IC (and/or other committees) should oversee E&S performance of portfolio companies during ownership. Fund managers should consider whether the IC and/other committees would benefit from E&S training.

- Training
  When designing and implementing training sessions and programmes, fund managers should:
  - Identify the specific requirement for training and who within the fund management requires training.
  - Define the content of the training.
  - Decide how the training will be delivered.

- Decide who will deliver the training.
- Establish a system to evaluate the effectiveness of the training programme.

Developing an appropriate training programme will significantly contribute to implementation of the ESMS. A training programme should not be a one-off event. Instead, it should include the sharing of experiences and lessons learnt, as well as more specialised training as the ESMS becomes better established.

Generally, all staff within the fund should participate in some level of capacity building to understand E&S dimensions and how they relate to investment, as well as on the actual functioning of the ESMS and the procedures involved. Professionals with direct company contact should be able to confidently and clearly articulate the fund's E&S requirements, as well as identify potential E&S risks and opportunities.

Running in-house training:

The advantage of in-house training is that the whole investment team can be brought together to discuss deals and lessons learned without confidentiality concerns. In-house training can be run either by experienced in-house ESG staff or commissioned through consultancies. Experience has shown that interactive training, including case studies and evaluation of real life deals is more successful than generic and/or academic training.

The design of the training program should take the fund's portfolio and strategy and deal team's time constraints, key concerns and needs into account. Some funds have found it useful to integrate E&S training into general fund training arrangements, particularly induction training, and to add E&S modules whenever other training is given. In addition, planning for regular refresher training, or at least discussion groups, assists in keeping the ESMS at the front of mind.

An effective training programme may not rely entirely on internal or external training sessions, but may also include some on-the-job training (e.g. shadowing a consultant to site visits). Since there may not be relevant training programmes available on all topics, this can be a good way to increase knowledge and awareness. Similarly, if some team members have more experience regarding E&S issues than others, setting up a peer-to-peer learning system should be encouraged.

Learning from experience:

In developing training programs and resources, it is important to take the context and experiences of the fund and its team into account. Engagement with all team members following a training exercise is necessary to assess the adequacy of the session. It can be interesting to follow up several months post-training session to see which elements of the training had the smallest or the greatest impact. It is also useful to keep an eye on what training for the private equity (PE) sector is generally available in the market and which ESG topics are currently trending.

Staying informed and keeping up to date:

Participating in regional PE networks or initiatives such as the East Africa Venture Capital Corporation (EAVCA), African Private Equity and Venture Capital Association (AVCA), Emerging Markets Private Equity Association (EMPEA) and PRI has the advantage of keeping professionals with E&S responsibilities up to date with regulatory developments, changes in approach to E&S management, key issues emerging and corresponding tools to manage these. It can be useful to not only focus on networks or bodies relevant to the private equity sector, but also to participate in initiatives in the sectors on which the fund focuses.

Capacity building initiatives/tools:

Several Development Finance Institutions (DFIs) and organisations offer ESG capacity building for PE. Examples include:

- **CDC:** Offers a variety of training initiatives (introductory workshops, specialist technical workshops and training on the use of this Toolkit), as well as more detailed and tailored ESG training responding to specific requests from fund managers. Contact esgtoolkit@cdcgroup.com for more information.
- **German Investment and Development Corporation (DEG):** Delivers capacity building through partnerships with regional consultancies that offer bespoke advisory programs and mentoring to funds, including those with no prior exposure to E&S issues. DEG also contributes to regional training and capacity building under initiatives such as the Sustainable Banking Principles in Nigeria and the Sustainability Finance Initiative of the Kenya Bankers Association. Contact regional DEG investment staff for further information.

- **International Finance Corporation (IFC):** Offers periodic regional training for the financial sector broadly, and sometimes for funds specifically. Contact regional offices for further information. IFC also has a simple online resource introducing the ESG business case and categorisation of deals.

- **FMO:** Delivers periodic regional workshops on ESG risk management to the financial sector and to private equity. Contact regional FMO officers for further information, and see FMO ESG tools. FMO also contributes to regional training and capacity building initiatives delivered through DFI partnerships in Africa and Asia and offers capacity building to first time fund managers through consultants under a co-funding model with the fund manager.

- **UN PRI:** Offers training to investment professionals globally through the PRI Academy. This course is designed to educate investment professionals about ESG issues and how they impact business and investment decision-making.

- **UNEP FI** (United Nations Environment Programme Finance Initiative): Offers online training on environmental and social risk assessment for the financial sector, as well as one-day, face-to-face introductory, sector-specific or advanced training sessions. The latter are often convened by national financial sector bodies such as banks or banking associations, but can also be delivered in house. Contact carolina.lopez@unep.org.

- **USSIF** (The Forum for Sustainable and Responsible Investment): Offers online and live courses on the fundamentals of sustainable and responsible investment to PE funds through its Centre for Sustainable Investment Education.

- **GIIN** (Global Impact Investing Network): Offers training in various aspects of impact investing, some of which are relevant to PE investors.