International Finance Corporation
WORLD BANK GROUP

Guidance Note

on

Financial Intermediaries

September 29, 2023

Contents

Acronyms

E&S	Environmental and Social
ECM	External Communications Mechanism
EHS	Environmental, Health, and Safety
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESMS	Environmental and Social Management System
FI	Financial Intermediary
GN	Guidance Note
IFC	International Finance Corporation
IT	Information Technology
PS	Performance Standard
SII	Summary of Investment Information
SME	Small and Medium Enterprises
UN	United Nations
UNEP-FI	United Nations Environment Programme Finance Initiative
UN-PRI	United Nations Principles for Responsible Investment
WB	World Bank
WBG	World Bank Group

Introduction

1. This Guidance Note (GN) aims to explain in a practical way certain requirements related to Financial Intermediary (FI) clients and to provide guidance to FI clients and IFC staff in making IFC FI projects consistent with the Sustainability Policy and Performance Standards (PSs), where applicable. The GN should always be read in conjunction with the Sustainability Policy and the PSs; it does not establish any parts of the Sustainability Policy or the PSs or expand their requirements.[1]

2. IFC is committed to supporting sustainable capital markets and financial sector development. To deliver on this commitment in a manner consistent with its strategic focus on sustainable development, IFC adopted its Sustainability Framework, which includes a risk-based and outcome-focused approach to the assessment of environmental and social (E&S) risks and impacts associated with the portfolios of its FI[2] clients and the determination of associated E&S requirements for various asset classes[3] supported by IFC financing.

3. In cases where funds provided by IFC are targeted to a specified end use of proceeds (e.g., a credit line for a specific asset pool), the standards and requirements for E&S risk management cover only the sub-projects within the specified asset class(es) originated from the time of IFC's investment, and not the FI's activities outside of that asset class.[4] However, if the FI supports the same asset class as that supported by IFC proceeds from the FI's own account, the E&S risk management approach applies to all sub-projects withing the asset class as originated by the FI client from the time of IFC's investment. For example, if IFC provides a credit line for SMEs and the FI finances SMEs also outside this credit line, then the FI's entire SME operations originated after IFC's funding also apply the agreed E&S standards and requirements.[5] The FI may choose, in addition, to expand the application of its E&S risk management practices to manage E&S risks across its entire operations. IFC encourages this.

4. In cases where IFC's investment consists of equity or general-purpose financial support with no specified end use of proceeds, the approach to E&S risk management applies to the portfolio that the FI originates from the time IFC becomes a shareholder or lender. In the case of sub-debt (Tier II), to the extent IFC is permitted to prescribe the use of proceeds as per applicable national law and/or regulations, the E&S requirements apply to the entire asset class only as originated from the time of IFC's investment. Where applicable national law and/or regulations does not allow for specific end use of proceeds, IFC follows the same approach as in the case of

[1] IFC has prepared Guidance Notes that provide practical guidance on implementation of the requirements of IFC's 2012 Sustainability Policy and PSs. References to additional resources and guidance are provided as footnotes throughout this GN. Users of this GN should also refer to other reference, guidance, and good practice materials made available by IFC through its website and FI client support portal. This GN replaces in its entirety the Interpretation Note on FIs (last updated in November 2018). The title has been changed to align it with the current nomenclature of IFC knowledge documents. Although IFC and MIGA have similar approaches to E&S risk management for FI projects in their Sustainability Policies, this IN reflects IFC-specific information and modifications should be expected where appropriate for MIGA clients to reflect the MIGA business model.

[2] For the purpose of this Guidance Note, the term "financial intermediary," or FI, refers to a variety of financial institutions, such as universal banks, investment banks, private equity funds, venture capital funds, microfinance institutions, and leasing and insurance companies, among others.
[3] The asset class approach does not apply to structured finance products such as risk-sharing facilities, partial credit guarantees, or securitizations, nor to short-term trade finance products offered by IFC.
[4] An asset class is that class of financing or investment activities of the FI, including prospective business activities, relating to a specific line of business, sector, industry, practice, region, client, or another distinctive characteristic.
[5] For the avoidance of doubt, IFC E&S requirements do not apply to the existing FI portfolio.

equity or general-purpose lending, i.e., E&S risk management applies to the FI's entire portfolio originating from the date of IFC's investment.[6]

5. IFC evaluates E&S risks associated with existing activities of FI clients, as well as the FI clients' capacity and commitment to manage those risks. The result of this assessment helps IFC select FI clients in which to invest and determine the type(s) of financial products to offer.

6. IFC requires its FI clients to develop and operate Environmental and Social Management Systems (ESMSs) that are commensurate with the level of E&S risks in their portfolios[7] to be financed from IFC proceeds.[8] The ESMS incorporates relevant principles of PS1 on Assessment and Management of Environmental and Social Risks and Impacts. The development and operation of an adequate ESMS requires the FI to commit to developing and maintaining the requisite organizational capacity for E&S risk management and allocating appropriate human and financial resources for this function.

7. All FI clients (other than as specified in footnote 8) are required to apply the IFC Exclusion List.[9,10] As part of its E&S risk management efforts, IFC may also restrict the financing of other activities, which would be appropriately reflected in the legal documentation for the project.[11]

8. All FI clients are also required to review the operations of their borrowers/investees[12] where these operations present E&S risks, in accordance with the FI client's ESMS, and to monitor implementation of national E&S laws and regulations where applicable.

9. Under the Sustainability Policy, FIs with portfolios to be financed from IFC proceeds that present moderate to high environmental or social risks (i.e., Category FI-1 and Category FI-2) will require higher risk business activities (higher risk sub-projects) to apply the relevant requirements of the PSs. These higher risk business activities are referred to in this GN as "Higher Risk Transactions." Higher Risk Transactions[13] typically consist of transactions that involve the provision by FIs of equity, project finance, or long-term corporate finance (over 36 months) to a borrower/investee to support a business activity that may include: (i) involuntary resettlement

[6] The date of IFC investment is counted from the date of disbursement of funds.

[7] For the avoidance of doubt, IFC E&S requirements do not apply to the pre-existing FI portfolios.

[8] There are certain types of FI projects that are not associated with any E&S risks, such as those focused on retail financing, providing mortgages for individual clients, and student loans, and therefore are not required to develop an ESMS.

[9] The IFC Exclusion List (http://www.ifc.org/exclusionlist) defines the types of projects that IFC does not finance. The Exclusion List specified that certain exclusions—specifically, production or trade in weapons and munitions; production or trade in alcoholic beverages (excluding beer and wine); production or trade in tobacco; and gambling, casinos, and equivalent enterprises—do not apply if the project sponsors are not "substantially involved" in these activities. With respect to FIs, an FI client will generally be regarded as substantially involved if the FI client has a cumulative portfolio exposure above 5 percent to investees/borrowers that generates more than 20 percent of their respective revenues from an activity on the Exclusion List (an "Excluded Activity") (in the case of e-commerce platforms involving multiple sellers, the 20 percent revenue metric should be replaced with a metric that measures a gross merchandise value indicator reflecting the total value of goods sold). The indicative threshold of 5 percent aggregated exposure would not generally apply to private equity funds. The Exclusion List also refers to a "reasonableness test" that "will be applied when the activities of the project company would have a significant development impact, but circumstances of the country require adjustment to the Exclusion List." Any excluded activity in which an FI client is engaged, directly or indirectly, in an IFC investment, should be disclosed in the Board paper or report, together with a description of the rationale pursuant to which such investment/support was determined to be reasonable.

[10] There are certain types of FI projects, such as those noted in footnote 8 above that, because of their focus on individuals, will generally not be required to apply the Exclusion List.

[11] For example, in case of any FI transactions with defined use of proceeds, IFC will exclude coal-related sub-projects, including coal mining, coal transportation, or coal-fired power plants, as well as infrastructure services exclusively dedicated to support any of these activities. In case of projects involving collective investment vehicles such as private equity funds, coal-related investments may be either excluded up front, or, when this is not feasible, IFC will opt out from such investments. IFC also excludes trade finance for thermal coal.

[12] The terms "borrower" and "investee" refer to the FI's clients (sub-project level for IFC).

[13] Higher Risk Transactions are the sub-projects that, if financed directly by IFC, would be considered category A or B projects exposed to the E&S risks specified in paragraph 9.

(including physical and economic displacement); (ii) risk of adverse impacts on Indigenous People; (iii) significant risks to or impacts on the environment, community health and safety, biodiversity, or cultural heritage; (iv) risk of significant retrenchment; or (v) significant occupational health and safety risks to employees. In certain jurisdictions, Higher Risk Transactions typically also include activities that are known to be of significant risk because of systemic issues in that particular jurisdiction.[14]

10. If and where IFC does contemplate double intermediation, it generally limits the scope of eligible investments or on-lending, supported by the IFC proceeds, by IFC FI clients only to low and medium-low risk FIs (e.g., micro-credit, health insurance, SMEs, etc.) and does not support investments or on-lending by IFC FI clients in/to FIs exposed to Higher Risk Transactions. In a very limited number of cases where IFC determines that the IFC FI client has sufficient capacity to assess, manage, and monitor E&S risks associated with investments in/to on-lending to other FIs in line with IFC's applicable E&S requirements, including the PSs, IFC generally requires such FI clients to extend their E&S standards and requirements to their FI sub-clients and their sub-projects.

11. This GN includes four sections. Section I provides a brief overview of the E&S risks associated with the lending/investment[15] activities of FIs. Section II explains how IFC's Sustainability Framework[16] is applicable to FIs. Section III addresses the FI's role and responsibilities in managing the E&S risks associated with its lending/investment activities in accordance with PS1. Section IV outlines IFC's sub-project disclosure requirements.

I. E&S Risk in FI Lending/Investment Activities

12. Many FIs are exposed to some level of E&S risk through the activities of their borrowers/investees, which may pose a financial, legal, and/or reputational risk to the FIs. The E&S risks associated with the internal operations of an FI are typically limited to issues such as managing aspects related to labor and working conditions of employees, and the safety of employees and visitors within the FI's premises.

13. The E&S risks associated with an FI's lending/investment activities depend on factors such as the contextual risk[17] associated with the countries and regions where the FI operates, the specific E&S circumstances associated with the borrower's/investee's sector and operations, the borrower's/investee's track record, capacity, and commitment to address these risks, as well as the type of financing provided by the FI.[18] The FI's approach to addressing these risks will depend on the existing regulatory framework, the level of perceived risk, the type of financing undertaken, and the ability of the FI to require mitigation measures by its borrowers/investees.

[14] For the avoidance of doubt, Higher Risk Transactions will be considered to be restricted activities in cases of FI projects in which proceeds from IFC are used to support asset classes that are not subject to application of the PSs. These restrictions will apply only to the asset class(es) supported by IFC, not to the entire portfolio of the FI client.
[15] The terms "lending" (e.g., for banking institutions) and "investment" (e.g., for private equity funds) refer to the transactions between the FI and its clients (sub-project level for IFC).
[16] IFC's Sustainability Framework includes the Sustainability Policy, the PSs, and the Access to Information Policy.
[17] Contextual risks – from a private sector, E&S perspective – are defined as risks in the external environment (at a country, sector, or sub-national level) that the client does not control but which could negatively affect the ability of a project or private sector client to meet IFC's E&S requirements. Examples of contextual risks include, among others, land disputes as a result of internal displacement or conflict; systemic issues such as discrimination against minorities, lack of freedom of association, or widespread use of child labor; and historical government actions related to land contamination, forced evictions, or similar issues.
[18] The tenor of financing influences the leverage of an FI to apply E&S requirements (particularly within the loan term) but does not change the underlying E&S risk. In the case of short-term financing that is not intended to be renewed, such leverage can be limited.

14. Integrating E&S risk assessment/due diligence within the transaction review is considered as a good international industry practice and is required by IFC as part of an FI's overall risk management effort. This typically requires screening of each transaction financed from IFC proceeds with borrowers/investees for E&S risks and, where necessary, carrying out E&S due diligence (ESDD) and monitoring.

II. Application of IFC's Sustainability Framework to FIs

15. IFC's FI clients are engaged in a diverse range of financial activities including, but not limited to, corporate finance; project finance; operations in capital markets; lending to micro, small, and medium enterprises; trade finance; housing finance; consumer finance; providing structured finance products and investing in private equity, each with different E&S risk profiles and in which FI clients have different levels of leverage or influence. Consistent with the Sustainability Policy, IFC reviews the business activities of prospective FI clients to identify areas where the FI and IFC could be exposed to E&S risks. As part of its appraisal process, IFC also assesses FI clients' capacity and commitment to conduct ESDD, including the related costs and operational implications of implementing IFC's E&S requirements. The FI is required to undertake E&S risk identification, assessment, and management for its new lending/investment activities that are supported by IFC financing, commensurate with the level of E&S risk, access to information, tenor, context, and the FI's influence on borrower actions (i.e., the FI's leverage).

16. In accordance with the Sustainability Policy, IFC categorizes its investments involving FIs as "FI." This category is further divided into FI-1, FI- 2, and FI-3 to reflect the E&S risk profile of the existing and proposed portfolio of investments/activities associated with IFC's financing. IFC considers the type, size, and sector exposure of the FI's existing and proposed portfolio which will be financed by IFC's proceeds in determining the categorization. The three sub-categories are defined as follows:[19]

- **Category FI-1**: when an FI's existing or proposed portfolio includes or is expected to include substantial financial exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.

- **Category FI-2**: when an FI's existing or proposed portfolio is comprised of, or is expected to be comprised of, business activities that have potential limited adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; or include a very limited number of business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.

- **Category FI-3**: when an FI's existing or proposed portfolio includes financial exposure to business activities that predominantly have minimal or no adverse environmental or social impacts.

17. IFC requires its FI clients to develop and operate an ESMS in instances where the portfolios to be financed by IFC present E&S risks.[20] The scope and complexity of the ESMS is

[19] Sustainability Policy, paragraph 40.

[20] FI-3 clients will be required to implement a simple E&S screening procedure, as appropriate. Such screening is considered to constitute an ESMS that is commensurate with the minimal level of E&S risk in these transactions.

commensurate with the level of E&S risk associated with the asset class supported – see Table 1 below illustrating types of financial products offered by FI clients and assessment against the PSs. The level, scope, and mechanics of the application of the PSs at the sub-project level vary depending on the FIs' level of leverage and access to information.[21] Typically, the establishment of an ESMS is a condition of disbursement by IFC. Full implementation of the ESMS may take more time, however, depending on several factors, such as its complexity, the transactions it supports, integration into existing/developing client management systems, existing/developing FI E&S capacity, regulatory environment, and other factors. IFC agrees on the timeline for ESMS implementation with each FI client and reflects it in the Environmental and Social Action Plan (ESAP). Such timelines are typically also communicated in the paper prepared for IFC's Board of Directors.

Table 1. Types of financial products offered by FI Clients requiring assessment against the Performance Standards

Product Type Financed from IFC Proceeds	**E&S Assessment and Implementation by FI Client**	**E&S Assessment and Implementation by Borrower/Investee**
Project finance*	• FI is required to conduct E&S risk screening against key requirements of the PSs. If any sub-project constitutes a Higher Risk Transaction, the FI is required to manage such risks in accordance with the requirements of the PSs. • In cases where the FI has limited leverage (e.g., FI is unable to conduct its own ESDD at the project level, is unable to include specific E&S policy provisions in the legal agreement, etc.), such FI may make a determination on the likelihood that the sub-project can meet the PS requirements based on E&S information provided by the lead arranger. • If the likelihood of PS compliance is low due to, for example, lack of relevant contractual provisions, borrower's E&S track record, or country/sector context, the FI should not participate.	Borrower/investee involved in Higher Risk Transactions is expected to manage them in compliance with the requirements of the relevant PSs, through application of E&S management plans and any ESAP agreed with the FI.
Long-term (over 36 months) corporate debt (loans and bonds) to support development of new, pre-defined assets or existing assets	• FI is required to conduct E&S risk screening against the key requirements of the PSs. If any sub-project constitutes a Higher Risk Transaction, the FI is required to manage such risks in accordance with the requirements of the PSs. • In cases where the FI has limited leverage (e.g., FI invests in publicly placed bonds without possibility of addressing E&S issues outside bond circulars), such FI may make a determination regarding the likelihood that the sub-project can meet the PS requirements based on E&S information	Borrower/investee involved in Higher Risk Transactions is expected to manage them in compliance with the requirements of the relevant PSs, through application of E&S management plans and any ESAP agreed with the FI.

[21] An FI's leverage can be limited in, for example, syndicated loans or capital market transactions where there may be no bilateral relationship between the FI and the sub-project, e.g., secondary market transactions, distressed assets acquired through auctions, etc. In such cases the FI will not be able to require application of the PSs at the sub-project level. The E&S performance of the sub-project will be assessed against requirements of the PSs based on publicly available information and the FI will make a go or no-go decision based on that assessment.

Product Type Financed from IFC Proceeds	E&S Assessment and Implementation by FI Client	E&S Assessment and Implementation by Borrower/Investee
	provided by the lead arranger or issuer and other publicly available information, so long as such information is sufficient to enable the FI to assess the E&S risks of the transaction. • If the likelihood of PS compliance is low, the FI should not participate.	
Long-term (over 36 months) corporate debt (loans and bonds) for undefined assets	• FI is required to screen borrower's ESMS, including its record in implementing such ESMS; its labor and working conditions; and any reputational issues, against PS1 and PS2. An acceptable ESMS should support the borrower in applying the PSs to new assets once identified.	Borrower/investee involved in Higher Risk Transactions is expected to manage them in compliance with the requirements of the relevant PSs.
Long-term (over 36 months) project-related asset-based financing	• FI is required to screen E&S risks associated with the project in which particular assets to be financed will be used (e.g., turbines for hydropower dams) against the PSs.	Borrower/investee involved in Higher Risk Transactions is expected to manage them in compliance with the requirements of the relevant PSs, through application of E&S management plans and any ESAP agreed with the FI.
Non-life insurance	• Insurance/re-insurance company is required to screen E&S risks related to insuree against the key requirements of PSs if it provides project guarantees, performance bonds, surety bonds, or liability insurance for specific assets exposed to higher E&S risks. • In its decision, the insurance/re-insurance company is expected to determine the likelihood that the project developer will meet the PS requirements. If such likelihood is low, the FI should not provide coverage.	Insuree involved in Higher Risk Transactions is expected to manage them in compliance with the requirements of the relevant PSs.
Equity investments – private equity funds, Distressed Asset Recovery Program funds, single assets	• FI is required to conduct E&S risk screening of the investee against key requirements of the PSs.	Investee company is expected to manage E&S risks in compliance with the requirements of the relevant PSs, through E&S management plans, and any ESAP as agreed with the FI.
Equity investments – venture capital funds	• FI is required to screen E&S risks against key requirements of the PSs if the investee company is involved in non-IT-related activities (e.g., manufacturing, logistics, agriculture, etc.). • For IT-related activities, the assessment focuses on PS2 (labor and working conditions).	Investee company involved in non-IT-related activities is expected to manage E&S risks in compliance with the requirements of the relevant PSs, through E&S management plans, and any ESAP as agreed with the FI; for IT-related activities, investee companies are expected to apply PS2.
Other	For products not listed above, IFC will define appropriate E&S risk management requirements and determine applicability of the PSs on a case-by-case basis and will present its determination in project-specific papers when seeking the approval of IFC's Board of Directors for the proposed E&S risk management approach.	

* In the case of structured finance products the need for application of the PSs will depend on the type of assets covered by such products. If they include project finance or long-term corporate finance, then PS application will be required. However, in cases where the product is to cover risks associated with SMEs or trade finance, then application of the PSs will not be required.

18. All FI clients are required to apply relevant aspects of PS2 to their employees. In the case of FIs, these aspects typically relate to employment practices and working conditions. The requirements contained in paragraphs 7, 11, 12, 27, 28, and 29 of PS2 would be unlikely to apply to FIs; however, that should be confirmed by the FI's own assessment. To learn more about the requirements applicable to FIs, please refer to Guidance Note 2 on Labor and Working Conditions.[22] In addition, in cases where there is public access to the FIs' buildings, the FIs must agree to manage the life and fire safety risks in accordance with the World Bank Environmental, Health, and Safety (EHS) General Guidelines (Section 3.3).

19. IFC[23] implements an annual program of supervision of FI investments categorized as FI-1 and FI-2 at least at the FI client level and requires such FIs to provide performance reports, also annually. Typically, for FI-3 clients, IFC monitors only changes in the portfolio financed from IFC proceeds. In case of material changes in portfolios of equity/quasi-equity FI clients, including FI-3 clients, IFC assesses the portfolio E&S risks affected by the changes, as well as the client's capacity to manage E&S risks and, if needed, requires improved E&S risk management and enhanced reporting to IFC.

20. IFC will periodically review the process and the results of ESDD, and monitoring conducted by the FI for its lending/investments financed from IFC proceeds and will share with the FI client its feedback, including improvement needs (if required). IFC supervision may include visits to the FI and, where possible and relevant, to select sub-projects, to assess and support implementation of the FI's ESMS, particularly in the case of Higher Risk Transactions. The supervision of a sample of sub-projects should not be interpreted as IFC directly managing the E&S risk of these sub-projects.[24] Such visits are used solely for assessing the soundness of the FI's ESMS implementation. The frequency and focus of supervision visits are commensurate with the identified risks and the E&S performance of the FI.

III. Applying Performance Standard 1 on Assessment and Management of E&S Risks and Impacts to FI Lending/Investment Activities

21. As indicated in the previous section, for FIs, application of PS1[25] requires the development of an ESMS to identify and manage the E&S risks associated with the portfolio to be financed from IFC proceeds. The complexity of the ESMS will vary according to the risk exposure that the FI is expected to manage. These standards and requirements must apply to new financing by the FI and are not required to apply retroactively to assets in the portfolio prior to IFC's investment.

22. The ESMS should be tailored to fit the needs of the FI. Ideally it should be integrated into the FI's existing risk management systems and should contribute to decision making on investment selection and management.[26] Where the FI already has an ESMS it may need to be modified to meet the objectives of PS1, unless IFC determines that it already does so.

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[22] See www.ifc.org/ps2.
[23] Relevant E&S departments.
[24] In the case of private equity funds, IFC typically reviews ESDDs conducted for the first three projects and for all Higher Risk Transactions, prior to capital calls, to verify the soundness of the fund manager's ESMS. This practice is usually not implementable in the context of other FI clients, in particular universal banks. However, IFC requires all FIs to notify it of investments in Higher Risk Transactions.
[25] See paragraph 5 of PS1.
[26] Examples of existing E&S risk management practices are verification of valid E&S permits and authorizations in compliance with national E&S regulations.

23. An FI's ESMS should typically consist of the following elements, as set out in PS1: (i) an E&S policy; (ii) organizational capacity and competency; (iii) identification of E&S risks related to business activities of borrowers/investees and their potential impacts to the physical, natural or cultural environment and potential impact on surrounding community and workers resulting from the business activity to be supported (ESDD processes/procedures); (iv) management programs; (v) monitoring and review of portfolio; (vi) external communications mechanism; and (vii) emergency preparedness and response. Each ESMS element is discussed in more detail below.

E&S Policy[27]

24. PS1 requires IFC clients to establish and maintain an overarching policy, appropriate to the risk profile of its activities financed by IFC, defining the E&S objectives and principles to guide sound E&S performance. The E&S policy should state the E&S requirements and standards that apply to the FI's lending/investment activities and that should be used to manage the E&S risks associated with the FI's portfolio of borrowers/investees.

25. FIs categorized as FI-1 and the FI-2 clients that support Higher Risk Transactions should reference the PSs as part of their underlying E&S policies for addressing risks in Higher Risk Transactions as well as any other relevant standards or approaches, such as international protocols, industry-specific codes of practice, and other voluntary standards (e.g., Equator Principles, United Nations (UN) Global Compact, UNEP-FI, UN-PRI, etc.), where applicable. The policy should also specify the scope of application of E&S standards and requirements in general as well as those relevant for different business lines supported by IFC financing.

26. The E&S policy should be endorsed by the FI's senior management and board of directors or similar governing body (where such body exists) and include a commitment to develop (if needed) and maintain the necessary internal capacity and structure for its implementation. The policy should be actively communicated to employees at all levels and functions. Good practice also recommends external communication of the policy through public disclosure, inclusion in corporate statements and reports, and publication on the FI's website.

Internal Organizational Capacity and Competency[28]

27. PS1 outlines the need for IFC clients to establish and maintain an organizational structure that defines roles, responsibilities, and authority to implement the ESMS.

28. For FIs, this means designating qualified personnel with E&S responsibilities, ensuring that human and financial resources are available for the effective implementation of the ESMS across the organization, and properly incorporating E&S risks in decision-making.

29. An FI's organizational capacity needs will vary depending on the E&S risk profile of its portfolio. The FI may use qualified in-house staff and/or retain external experts to conduct the necessary ESDD for transactions (as described in paragraphs 32-46 below) with the intent of meeting all applicable requirements of national E&S laws and regulations and, where applicable, the PSs.

[27] See paragraph 6 of PS1.
[28] See paragraphs 17–19 of PS1.

30. While day-to-day operations of the ESMS can be outsourced to qualified third parties, the FI's senior management is ultimately responsible for appropriate E&S risk management and should allocate sufficient resources to implement the ESMS. This generally requires designating and communicating E&S responsibilities to relevant personnel to conduct the necessary ESDD, incorporating ESDD conclusions into the investment decision-making processes and monitoring at both the transaction and portfolio levels, and providing appropriate incentives for doing so. The board of directors or similar governing body is expected to play an oversight role in the monitoring of ESMS implementation, including reporting on E&S risk management.

31. The FI must confirm that responsible staff have sufficient knowledge to manage the E&S risks, as well as to implement and maintain the ESMS. Training programs are an important component supporting capacity of relevant personnel.

Identification and Assessment of E&S Risks of Borrowers'/Investees' Management Programs and ESAPs[29] (ESDD Process)

32. PS1 requires IFC clients to establish and maintain a process to identify and assess the E&S risks and impacts of their operations, as well as to develop ESAPs, where appropriate.[30]

33. For an FI, this requires identifying and assessing the E&S risks and impacts associated with its portfolio to be financed from IFC proceeds. This generally means conducting ESDD at the individual transaction level to identify and assess the E&S risks and impacts associated with the business operation being considered for financing. As an outcome of the ESDD process, the FI also identifies mitigation and/or corrective measures as necessary (as described in paragraphs 39-42 below) for borrower/investee operations.

34. FI-1, FI-2 and select FI-3[31] clients must review transactions proposed to be financed from IFC proceeds against the IFC Exclusion List, as well as national E&S laws and regulations, where they exist and are applicable,[32] requiring at a minimum that borrowers/investees meet applicable laws, permitting, and licensing requirements. FI clients that have been categorized as FI-1 and those FI-2 clients that support Higher Risk Transactions are required to assess E&S risks and impacts of Higher Risk Transactions they support against the relevant requirements of the PSs.

35. FI-1 and FI-2 clients that support Higher Risk Transactions and those FIs that are required to exclude financing of such transactions under the IFC project, but provide project and long-term corporate finance, should have a sound system for screening their project and long-term corporate finance against the PSs and identifying Higher Risk Transactions. Such a system may include filters and screening tools based on key E&S risks or categorization tools based on sector and sub-sector.

36. It is good practice for FIs applying the PSs to categorize individual transactions according to the level of the E&S risks and impacts in order to monitor overall portfolio E&S risk effectively.

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[29] See paragraphs 7–16 of PS1.
[30] While FIs more commonly use the term "corrective action plan," the term "action plan" is used in this GN for consistency with the language of PS1.
[31] These are FI-3 clients other than those supporting retail clients (student loans, mortgages for individuals, and the like). Those supporting retail clients will not be required to screen against the IFC Exclusion List.
[32] Typically, any specific E&S laws and regulations are not applicable to most activities financed by FI-3 clients.

37. For Higher Risk Transactions within the scope of category FI-1 and FI-2 projects, the ESDD process typically consists of: (i) reviewing all relevant documents and information provided by the borrower/investee, including information on E&S risks related to the particular industry[33] sector and technical aspects of the borrower's/investee's activities to be supported by the FI client; (ii) reviewing the use of proceeds against the IFC Exclusion List; (iii) reviewing risks and potential impacts of the activity to be supported against pre-determined criteria, such as national E&S laws and regulations and the relevant PSs; (iv) conducting site visits to facilities and meetings/interviews with relevant stakeholders, as appropriate; and (v) reviewing the borrower's/investee's track record on E&S issues in terms of potential non-compliance with national regulations or negative publicity. As part of an FI's ESMS, procedures for conducting the ESDD are integrated into various stages of the FI's lending/investment cycle.

38. Additional in-depth due diligence is required if the initial review process indicates the existence of E&S risks or potential impacts that need further analysis. For Higher Risk Transactions, the FI should engage external qualified expert(s) when it has no adequate in-house capacity to manage E&S risks and impacts associated with these transactions.

39. PS1 requires IFC clients to establish management programs that describe mitigation and performance improvement measures and actions that address the identified E&S risks and impacts associated with each business activity to be financed. Such mitigation and performance measures and corresponding actions should enable the borrower/investee to operate in line with applicable laws and regulations, and where the activity to be financed is considered as higher risk, to operate in compliance with the relevant PSs. The management programs establish ESAPs where needed as identified during the ESDD process.

40. The FI documents the findings of the ESDD in a report or internal records, including recommendations on whether to proceed with financing and any conditions of investment, such as ESAP items agreed with the borrower/investee to mitigate identified E&S risks and impacts within their operations. If the initial review concludes that a proposed lending/investment activity will have minimal or no potential E&S risks or adverse impacts, the FI documents this conclusion as part of its decision to proceed with the transaction.

41. If an ESAP is required, it should outline key E&S risks, impacts, and performance gaps in a borrower's/investee's operations identified during the ESDD or monitoring, as well as proposed mitigation measures and a timeline for compliance with applicable national E&S laws and regulations and the PSs (where required). ESAPs may range from basic mitigation measures to detailed management plans, with actions that can be measured quantitatively or qualitatively. The timeframe for implementing specific mitigation measures will vary according to the E&S risk and may range from being a condition of transaction approval to a condition of disbursement or post investment. The FI should discuss the ESAP as part of general E&S requirements with the borrower/investee and agree on its scope and timeframe for completion. The responsibility for implementation of the ESAP falls on the borrower/investee.

42. If at the time of the FI's transaction with a borrower/investee the physical assets to be developed, acquired, or financed have yet to be defined, the ESAP should require the borrower/investee to develop an E&S risk management process at the operations level that

[33] See WBG EHS Guidelines, www.ifc.org/ehsguidelines.

allows for E&S risks and impacts to be appropriately and adequately identified and avoided or mitigated as soon as the physical assets have been defined.

43. Standard E&S provisions typically include general E&S definitions, representations and warranties, disbursement conditions, and/or affirmative and negative covenants regarding compliance with standards[34] and requirements defined by the FI's E&S policy. ESAPs, as well as covenants regarding annual reporting on E&S performance, should also be included in the FI's legal agreement with the borrower/investee. In the event that the investment agreement does not reference such an ESAP, the FI should document the reason.[35]

44. The FI should require its borrowers/investees involved in Higher Risk Transactions to submit regular E&S performance reports describing progress made with respect to the ESAP (if there is one) and effectiveness of ESMS implementation based on portfolio reviews. The frequency of reporting will vary according to the E&S risk and potential impacts of each transaction. Reporting should be done at least annually.

45. The FI should require borrowers/investees to notify it about material changes in their operations that may result in changed E&S risks and impacts.

46. To support the ESDD process, the FI should develop the necessary supporting guidance documents and checklists for use by its staff. These should reflect E&S issues that will be reviewed, as well as other factors that will be considered to review compliance with the FI's E&S policy. A good starting point for generating such guidance documents and checklists is a review of the E&S issues associated with those industry sectors to which the FI is the most exposed in its portfolio (sectoral issues are widely covered in the WBG industry-specific EHS Guidelines). Also, the FI should appoint or hire personnel and/or contract qualified external experts to develop a comprehensive understanding of relevant national E&S laws and regulations of the countries in which it operates or provides financing. When an FI client is required to apply the relevant PSs to Higher Risk Transactions, the FI should compare the relevant PSs against applicable national E&S laws and regulations to identify potential gaps.

Monitoring and Review of Portfolio[36]

47. PS1 requires IFC clients to establish monitoring procedures to review progress with ESAPs and compliance of operations with any legal and/or contractual obligations and regulatory requirements.

48. For an FI, this typically includes monitoring each borrower's/investee's E&S performance against the FI's E&S policy, the ESDD findings, and E&S contractual obligations, including the ESAP (if required). The extent and frequency of monitoring should be commensurate with the E&S risk and potential impacts of the transaction as identified through the ESDD. Depending on

[34] If an FI client is required to apply the PSs, it is a good practice to reflect them in the relevant legal documents. However, IFC recognizes that this may be challenging to do in certain jurisdictions. In cases where inclusion of the PSs in legal documentation is not possible, at a minimum, an FI client is expected to reflect an ESAP developed based on ESDD conducted against the PSs. For the avoidance of doubt, IFC FI clients are expected to cascade E&S requirements to the level of the direct borrower or direct investee company unless the direct borrower or investee company is another FI (double intermediation). In such a case, the FI borrower/investee company should be required by the IFC FI client to also cascade relevant E&S requirements to the level of its direct borrower or investee company.
[35] These may include, for example: private equity funds taking a majority stake that guarantee managerial control over the investee; private equity funds' investments through auction processes; certain capital market transactions, etc.
[36] See paragraphs 22–24 of PS1.

the monitoring outcome, the mitigation measures in the ESAP may need to be supplemented by additional activities.[37]

49. The monitoring process is conducted as part of the FI's ESMS implementation, and typically involves the use of qualified internal resources to review E&S reports received from borrowers/investees, review relevant activities of respective national authorities such as factory inspections (where available), and conduct periodic site visits as appropriate. In the case of borrowers/investees involved in Higher Risk Transactions, support from external qualified experts is typically necessary unless the FI client has sufficient qualified and experienced in-house capacity to manage E&S risks and impacts associated with the activities financed. Monitoring of outcomes and the ESAP implementation process should be documented, and the FI should work with borrowers/investees to provide feedback on the implementation of agreed corrective actions.

50. FI senior management and, where relevant, its board of directors or similar governing body should be informed regularly of the E&S risks of individual borrowers/investees as well as aggregated E&S risks at the portfolio level. This information gives the FI a better understanding of its overall exposure to E&S risk and allows the FI to focus on transactions and borrowers/investees that may require additional resources to manage E&S impacts.

51. FIs should periodically review the effectiveness of their ESMS, and adjust or update procedures, as needed, to enhance practices and efficiency, address potential changes in the E&S risk profile of their portfolio, and respond to changes in the E&S regulatory environment.

52. FI clients, except those categorized as FI-3, are required to submit annual E&S performance reports to IFC. The scope of such reports varies, depending on the risk of the portfolio supported by IFC. For an FI, E&S performance reports to IFC should typically include:

- Portfolio breakdown by industry sectors and product lines, Higher Risk Transactions, and sample ESDD reports;
- Any cases of poor E&S performance related to a transaction;
- Any significant E&S accidents or incidents related to a transaction;
- Information on the implementation of any changes to the FI's ESMS; and
- Where relevant, the FI clients' exposures to high-risk activities (e.g., coal-related, palm oil, etc.).

An FI may have additional reporting requirements to additional stakeholders (internal and external) regarding E&S risks and impacts associated with its activities.

53. FI clients required to establish an ESMS[38] are also required to publicly disclose a summary of the ESMS. IFC provides a link to such disclosure in its project portal.

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[37] In the case of capital market transactions or investments in publicly listed FIs, IFC's monitoring of the FI's sub-projects will take into consideration any relevant limitations related to investments in publicly listed securities. IFC will specify such limitations in the papers prepared for approval of the project by IFC's Board of Directors.
[38] FI-3 clients are either not required to establish ESMS or only required to develop and implement a simple screening mechanism.

54. All FI-1 and FI-2 FIs are also required to promptly notify IFC of any social, labor, health and safety, security or environmental incident, accident, or circumstance with respect to any borrower/investee, specifying the nature of the incident, accident, or circumstance and the impact or effect arising or likely to arise therefrom, along with the measures being taken, or planned to be taken, to address them and prevent any future similar event.

External Communications Mechanism[39]

55. PS1 requires IFC clients to implement and maintain a procedure for external communications that includes methods to receive, register, screen, and assess, track, respond to, and act upon external inquiries and complaints from the public regarding their operations. In addition, where the project involves specifically identified physical elements—aspects and facilities that are likely to generate adverse E&S impacts on Affected Communities—a grievance mechanism is required. Unless an FI's own operations generate adverse E&S impacts on Affected Communities[40] or the environment (e.g., when an FI sponsors construction of its own new office building(s)), a grievance mechanism[41] is not required as an element of the FI's ESMS. However, the FI is expected to require a sub-project to establish and maintain a grievance mechanism if the sub-project in question is subject to application of the PSs.

56. Those FIs that are required to apply the PSs to their relevant financing and investment activities will, local regulations permitting, establish and maintain an External Communications Mechanism (ECM). An ECM involves implementing a process for receiving, analyzing, recording, and responding (if deemed necessary) to views, opinions, concerns (real or perceived), and requests for information from third parties (e.g., concerns related to the FI's investment activities and/or a borrower in its portfolio).[42] The complexity of such a process will vary and may be simple for some FIs (e.g., those with limited exposure to Higher Risk Transactions). The ECM should provide publicly available and easily accessible channels (e.g., phone number, website, e-mail address) to receive communications and requests from the public for information regarding E&S issues. It is recommended that such channels be devoted exclusively to receiving information on E&S issues, but general channels that also allow for E&S communication are acceptable as well. The FI assesses the relevance of the external communication received and determines the level of response required, if any.[43]

Emergency Preparedness and Response[44]

57. Where an IFC client's operations involve activities and facilities that are likely to generate impacts, PS1 requires clients to establish and maintain an emergency preparedness and response system to respond to accidental and emergency situations.

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[39] See paragraph 34 of PS1.
[40] See paragraph 1 of PS1.
[41] Clients of FIs (borrowers/investees) that are required to apply PSs should develop ECMs and grievance mechanisms commensurate with the level of E&S risks and impacts associated with their operations. For more information, see Guidance Note 1, paragraphs108–111: https://www.ifc.org/content/dam/ifc/doc/2010/2012-ifc-performance-standards-guidance-note-en.pdf
[42] Subject to provisions of a confidentiality agreement between an FI and its borrowers/investees.
[43] FIs required to apply PSs should verify if information about any sub-project financed was appropriately consulted upon with Affected Communities by the sub-project sponsor as required by PS1 paragraphs 29-31. In the case of capital market transactions such verification may not be possible. In such cases, the FI will be required to verify if there is publicly available information on any Affected Community's opposition to the project.
[44] See paragraph 20 of PS1.

58. For an FI client, this means ensuring that the necessary emergency preparedness and response plans are in place within its premises to protect the health and safety of its employees and visitors. Effective emergency preparedness and response plans should identify responsibilities and procedures for communicating different types of emergencies (e.g., fire, earthquake, or robbery) to the appropriate authorities and for safe evacuation. Plans should also include specific training and practice requirements (i.e., simulations and drills).

59. Buildings that are owned or rented/leased by the FI that are accessible to the public should be designed, constructed, and operated in compliance with local building codes, local fire department regulations, and local legal requirements. Construction of new buildings or major reconstruction of existing buildings accessible to the public by FI equity clients should be designed, constructed, and operated in compliance with applicable local requirements and in accordance with internationally accepted life and fire safety standards, as described in the WBG EHS General Guidelines (Section 3.3).

IV. Disclosure Requirements

60. The following disclosure requirements reflect requirements for private equity funds set forth in the 2012 Access to Information Policy, together with additional commitments made by IFC's Management to further improve the transparency of FI projects, which are not Board-approved policy.

61. The 2012 Access to Information Policy requires that, in the case of IFC investments in private equity funds, subject to regulatory constraints and market sensitivities, IFC disclose a listing of names, locations, and sectors of investee companies in which the private equity fund is invested. This information is disclosed on an annual basis on IFC's Project Information and Data Portal, within an existing project Summary of Investment Information (SII).

62. With respect to private equity funds to which IFC commits funds, from November 1, 2014, onward, such private equity funds are required to publicly disclose all sub-projects that have been supported with IFC funding, other than Category C sub-projects, subject to regulatory constraints and market sensitivities. IFC discloses such information in respect of any Category A sub-project and Category B sub-project on IFC's Project Information and Data Portal within an existing SII.[45] If possible, IFC negotiates similar disclosure requirements with other collective investment vehicles, including debt funds.

63. With respect to new equity investments in commercial banks, including with existing clients (excluding rights issues arising from existing equity commitments previously approved by IFC's Board of Directors) to which IFC commits funds from July 1, 2020, onward, such banks are required disclose annually the name, location by city, and sector for Category A sub-projects committed after IFC's investment. IFC also discloses such information in respect of any Category A sub-project on IFC's Project Information and Data Portal, within a revised existing SII.[46]

64. With respect to any new senior bonds issued by commercial banks, where IFC is the sole investor, and senior loans to commercial banks to which, in each case, IFC commits funds from July 1, 2020 onward, such banks will disclose annually the sub-project name, location by city, and sector for (i) Category A sub-projects, and (ii) Category B sub-projects consisting of a

[45] This commitment was not subject to Board approval.
[46] This commitment was not subject to Board approval.

corporate loan or a project finance loan of US$20 million equivalent or more that would be considered as financing “climate-related activities”[47] and is funded by the proceeds from IFC’s senior bond or senior loan. IFC discloses such information in respect of any Category A sub-project and relevant Category B sub-projects on IFC’s Project Information and Data Portal, within an existing SII.[48]

65. All the clients described in paragraphs 61-64 above will follow these disclosure requirements unless prohibited by domestic law, in which case IFC will require and disclose the client’s explanation for non-disclosure with the specific legal reference. If consent is required from any sub-client for the disclosure described in the preceding sentence, clients will seek to obtain such consent from such sub-client. If the client is not able to obtain such consent, the client will be required to adequately certify to IFC, and provide evidence of, the steps it took to attempt to obtain sub-client consent.

66. IFC discloses summaries of all its FI clients’ ESMSs in the SIIs. They include descriptions of policies to appropriately identify, categorize, assess, and address the E&S risks relevant to the activities the FIs are financing. In cases where an FI client does not have an ESMS or significant improvements to the existing ESMS are needed, the FI client is expected to publicly disclose a summary of its ESMS within the timeline agreed with IFC in the ESAP.

[47] See https://www.ifc.org/en/insights-reports/2017/ifc-climate-definition-metrics
[48] This commitment was not a subject to the Board approval.

Disclaimer: