

IFC'S ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM (ESMS) DIAGNOSTIC TOOL FOR FINANCIAL INSTITUTIONS

MARCH 2022



Creating Markets, Creating Opportunities



ESMS Diagnostic Tool for Financial Institutions

An Environmental and Social Management System is a set of policies, procedures, tools, and internal capacity to identify and manage a Financial Institution's exposure to the E&S risks of its clients/investees.

- **Tool: Assess or self assess the quality of an FI ESMS**
- **Benchmark against IFC's Performance Standard 1, Corporate Governance methodology**
- **Target Users: FIs, Institutional Investors, Asset Managers**
- **Availability: Publicly available and free**

**IFC Performance Standard 1:
Assessment and Management of
Environmental and Social Risks and
Impacts**



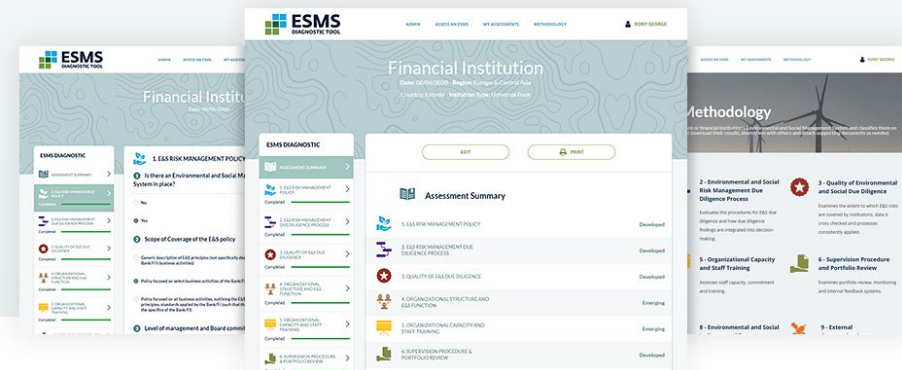
ASSESS AN ESMS MY ASSESSMENTS METHODOLOGY

UAT TEST USER

IFC's ESMS Diagnostic Tool

IFC's Environmental and Social Management System (ESMS) Diagnostic Tool for financial institutions (FIs) is designed to enable FIs, institutional investors, and asset managers to assess or self-assess the quality of an ESMS and benchmark it against IFC's Performance Standard 1 and good market practices.

Assess an ESMS



Methodology

ESMS
DIAGNOSTIC TOOL

ASSESS AN ESMS MY ASSESSMENTS METHODOLOGY UAT TEST USER

Methodology

The ESMS Diagnostic Tool assesses nine key elements of a financial institution's Environmental and Social Management System and classifies them on the basis of their level of advancement. Users can share their results with others and upload supporting documents as needed.

- 1 - Environmental and Social Risk Management Policy**
Considers the extent to which Environmental and Social (E&S) policies are in place and policy attributes.
- 2 - Environmental and Social Risk Management Due Diligence Process**
Evaluates the procedures for E&S due diligence and how due diligence findings are integrated into decision making.
- 3 - Quality of Environmental and Social Due Diligence**
Examines the extent to which E&S risks are covered by institutions, data is cross checked and processes consistently applied.
- 4 - Organizational Structure and Environmental and Social Function**
Looks at roles and responsibilities, the extent of management involvement and Board oversight.
- 5 - Organizational Capacity and Staff Training**
Assesses staff capacity, commitment and training.
- 6 - Supervision Procedure and Portfolio Review**
Examines portfolio review, monitoring and internal feedback systems.
- 7 - Control Environment**
Assesses reporting to the Board, Executive and business lines, escalation mechanisms and audits.
- 8 - Environmental and Social Indicators and Data**
Focuses on data collection and evaluation frameworks.
- 9 - External Communications**
Assesses channels to receive communications from stakeholders, sustainability reporting and disclosure.

9 ESMS Elements

- E&S risk management policy
- E&S risk management due diligence process
- Quality of E&S due diligence
- Organizational E&S structure and function
- Organizational E&S capacity
- Supervision and Portfolio Review
- Control Environment
- E&S Indicators and Data
- External Communications

Classifications and Guidance

- **Classifies ESMS Elements by 4 levels:**

- **Formative**
- **Emerging**
- **Developed**
- **State of the Art**

Detailed progression guide for each element

 1. ENVIRONMENT AND SOCIAL RISK MANAGEMENT POLICY	<table border="1"> <thead> <tr> <th data-bbox="580 468 1054 539">FORMATIVE LEVEL</th> <th data-bbox="1054 468 1526 539">EMERGING LEVEL</th> <th data-bbox="1526 468 1997 539">DEVELOPED LEVEL</th> <th data-bbox="1997 468 2481 539">STATE OF THE ART LEVEL</th> </tr> </thead> <tbody> <tr> <td data-bbox="580 539 1054 1011"> <p>No Environmental and Social Management System in place.</p> </td> <td data-bbox="1054 539 1526 1011"> <p>Environmental and Social Management system is in place. E&S policy provides a generic description of E&S principles (not specifically designed for the Bank/FI's business activities). It is developed by individual departments without approval from the Bank/FI's senior management and communicated to relevant units, indicating the management responsibility for its execution. The policy is not continuously reviewed and updated. E&S considerations are not integrated into strategic and operational objectives of the Bank/FI.</p> </td> <td data-bbox="1526 539 1997 1011"> <p>Environmental and Social Management system is in place focused on select business activities of the Bank/FI. The policy is developed with full support from the Bank/FI's senior management but with no Board involvement and communicated to relevant units, indicating the management responsibility for its execution. The policy is not continuously reviewed and updated. E&S considerations are integrated into the strategic and operational objectives of the Bank/FI and into the risk management framework.</p> </td> <td data-bbox="1997 539 2481 1011"> <p>Environmental and Social Management system is in place focused on all business activities of the Bank/FI. The policy is officially approved and signed by the Bank/FI's senior management and Board and communicated to relevant units, indicating the management responsibility for its execution. The policy is continuously reviewed and updated. E&S considerations are integrated into the strategic and operational objectives of the Bank/FI and into the risk management framework.</p> </td> </tr> </tbody> </table>	FORMATIVE LEVEL	EMERGING LEVEL	DEVELOPED LEVEL	STATE OF THE ART LEVEL	<p>No Environmental and Social Management System in place.</p>	<p>Environmental and Social Management system is in place. E&S policy provides a generic description of E&S principles (not specifically designed for the Bank/FI's business activities). It is developed by individual departments without approval from the Bank/FI's senior management and communicated to relevant units, indicating the management responsibility for its execution. The policy is not continuously reviewed and updated. E&S considerations are not integrated into strategic and operational objectives of the Bank/FI.</p>	<p>Environmental and Social Management system is in place focused on select business activities of the Bank/FI. The policy is developed with full support from the Bank/FI's senior management but with no Board involvement and communicated to relevant units, indicating the management responsibility for its execution. The policy is not continuously reviewed and updated. E&S considerations are integrated into the strategic and operational objectives of the Bank/FI and into the risk management framework.</p>	<p>Environmental and Social Management system is in place focused on all business activities of the Bank/FI. The policy is officially approved and signed by the Bank/FI's senior management and Board and communicated to relevant units, indicating the management responsibility for its execution. The policy is continuously reviewed and updated. E&S considerations are integrated into the strategic and operational objectives of the Bank/FI and into the risk management framework.</p>
FORMATIVE LEVEL	EMERGING LEVEL	DEVELOPED LEVEL	STATE OF THE ART LEVEL						
<p>No Environmental and Social Management System in place.</p>	<p>Environmental and Social Management system is in place. E&S policy provides a generic description of E&S principles (not specifically designed for the Bank/FI's business activities). It is developed by individual departments without approval from the Bank/FI's senior management and communicated to relevant units, indicating the management responsibility for its execution. The policy is not continuously reviewed and updated. E&S considerations are not integrated into strategic and operational objectives of the Bank/FI.</p>	<p>Environmental and Social Management system is in place focused on select business activities of the Bank/FI. The policy is developed with full support from the Bank/FI's senior management but with no Board involvement and communicated to relevant units, indicating the management responsibility for its execution. The policy is not continuously reviewed and updated. E&S considerations are integrated into the strategic and operational objectives of the Bank/FI and into the risk management framework.</p>	<p>Environmental and Social Management system is in place focused on all business activities of the Bank/FI. The policy is officially approved and signed by the Bank/FI's senior management and Board and communicated to relevant units, indicating the management responsibility for its execution. The policy is continuously reviewed and updated. E&S considerations are integrated into the strategic and operational objectives of the Bank/FI and into the risk management framework.</p>						
 2. ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT DUE DILIGENCE PROCESS	 3. QUALITY OF E&S DUE DILIGENCE								

Output and Functionality

- **User-friendly functionality: Save, print and make notes on your results**

The screenshot displays the 'ESMS DIAGNOSTIC' interface. On the left is a sidebar with a navigation menu. The main content area features 'EDIT' and 'PRINT' buttons at the top, followed by the 'Assessment Summary' title and a table of results.

Assessment Item	Completion Status	Result
1. E&S RISK MANAGEMENT POLICY	Completed	Emerging
2. E&S RISK MANAGEMENT DUE DILIGENCE PROCESS	Completed	Developed
3. QUALITY OF E&S DUE DILIGENCE	Completed	Emerging
4. ORGANIZATIONAL STRUCTURE AND E&S FUNCTION	Completed	Emerging
5. ORGANIZATIONAL CAPACITY AND STAFF TRAINING	Completed	Emerging