

**GUIDANCE  
NOTE FOR  
BORROWERS**

**Environmental &  
Social Framework  
for IPF Operations**

**ESS9:  
Financial  
Intermediaries**

*The Guidance Notes provide guidance for the Borrower on the application of the Environmental and Social Standards (ESSs), which form part of the World Bank's 2016 Environmental and Social Framework (ESF). The Guidance Notes help to explain the requirements of the ESSs; they are not Bank policy, nor are they mandatory. The Guidance Notes do not substitute for the need to exercise sound judgment in making project decisions. In case of any inconsistency or conflict between the Guidance Notes and the ESSs, the provisions of the ESSs prevail. Each paragraph of the Standard is highlighted in a box, followed by the corresponding guidance.*

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## Introduction

1. ESS9 recognizes that strong domestic capital and financial markets and access to finance are important for economic development, growth, and poverty reduction. The Bank is committed to supporting sustainable financial sector development and enhancing the role of domestic capital and financial markets.
2. Financial Intermediaries (FIs) are required to monitor and manage the environmental and social risks and impacts of their portfolio and FI subprojects, and monitor portfolio risk, as appropriate to the nature of intermediated financing. The way in which the FI will manage its portfolio will take various forms, depending on a number of considerations, including the capacity of the FI and the nature and scope of the funding to be provided by the FI.
3. FIs are required to develop and maintain, in the form of an Environmental and Social Management System (ESMS), effective environmental and social systems, procedures and capacity for assessing, managing, and monitoring risks and impacts of subprojects, as well as managing overall portfolio risks in a responsible manner.

## Objectives

- To set out how the FI will assess and manage environmental and social risks and impacts associated with the subprojects it finances.
- To promote good environmental and social management practices in the subprojects the FI finances.
- To promote good environmental and sound human resources management within the FI.

## Scope of Application

4. This ESS applies to FIs that receive financial support from the Bank. FIs include public and private financial services providers, including national and regional development banks which channel financial resources to a range of economic activities across industry sectors.<sup>1</sup> Financial intermediation also includes provisions of financing or guarantees by FIs to other FIs. For the purposes of this ESS, the term “FI subproject” refers to projects financed by FIs with support from the Bank.<sup>2</sup> Where the project involves on lending by the FI to another FI, the term “FI subproject” will include the subprojects of each subsequent FI.

Footnote 1. Such FIs use various financial products such as project finance, corporate finance, medium and small enterprise finance, microfinance, housing finance, leasing, and trade finance. This ESS covers all types of financing and financial products provided by FIs that are targeted to productive business activities.

Footnote 2. “FI subprojects” are defined as projects or activities financed by an FI. Where an FI provides financing, or guarantees to other FIs, “FI subprojects” are defined as projects or activities financed by the latter FI with support from the former FI.

**GN4.1.** World Bank Investment Project Financing support to FIs can take different forms, and may include:

- (a) Loans, credits, or grants to FIs to be used by them for loans or equity for specific subprojects, or channeled to other FIs to be used by them for loans or equity for specific subprojects; and
- (b) Guarantees to FIs to enable them to mobilize debt financing for loans, guarantees, or equity for specific subprojects.

The scope of application of ESS9 depends on the project activities or commitments covered by Bank investment project financing. Technical assistance may be provided to FIs through Investment Project Financing loans, credits, and grants.

**GN4.2.** Project structures supporting financial intermediation may include the following types of entities:

- (a) Ministries of Finance;
- (b) Central banks;

- (c) State financial institutions that may include a state agency, authority, or board not established under corporate law;
- (d) Independent financial institutions established under corporate law (including banks and financial companies, whether state or privately owned); or
- (e) Funds managed by a fund manager, which may include a formally established fund or funds in the form of a government bank account for a purpose defined by the project (without staff or operating resources). This category does not include funds that are not part of financial intermediation, for example, matching grant schemes.

**GN4.3.** FIs may provide a variety of financial products and services including credit products, which can be funded (loans) or unfunded (guarantees); other financial products such as dealing room products (for example, hedging, swaps) and investment banking products (for example, bond underwriting, arranging of equity issuances); equity investments; or fund management.

**GN4.4.** Projects may involve one or more FIs, and different terms may be used to describe the different entities involved in financial intermediation projects. For example, the World Bank may provide investment project financing to a ministry of finance (borrowing entity), which delegates the administration of a line of credit to an apex FI (wholesaling entity), which on lends to participating FIs (retail entities), which lend to small and medium enterprises for projects or activities (FI subprojects).

**GN4.5.** An “FI subproject” is the ultimate project or activity supported by the FI. As footnote 2 states, if an FI provides financial support to another FI (for example, through a loan or guarantee), the FI subproject is the project or activities supported by the participating FI. For example, where the FI provides a loan to a rural finance institution, which then lends (via a sub-loan) to a farmer (sub-borrower) who uses the loan to expand farming operations, the FI subproject is the expanded farming operation.

**GN4.6.** Where a World Bank-financed project includes technical assistance to an FI, the FI follows the requirements set out in ESS1 as relevant and appropriate to the nature and risks of the technical assistance.

5. The requirements of this ESS apply to all FIs that receive support from the Bank, either directly from the Bank or the Borrower, or through the Borrower or other FIs, as follows:

- (a) Where Bank support is provided to the FI to fund clearly defined FI subprojects, the requirements of this ESS will apply to each of the FI subprojects; and
- (b) Where Bank support is provided to the FI for a general purpose,<sup>3</sup> the requirements of this ESS will apply to the entire portfolio of the FI’s future subprojects from the date on which the legal agreement becomes effective.

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Footnote 3. Support for a ‘general purpose’ means that the support cannot be traced to a specific FI subproject or specific types of financing.

**GN5.1.** The scope and application of ESS9 is determined by the way in which the FI or FIs use the support provided by the World Bank. As indicated in paragraph 5, the World Bank support can be divided into two categories: (a) support that is identified for clearly defined subprojects; and (b) support that is for a general purpose:

- (a) **Support targeted to a specific end use of proceeds or clearly defined FI subprojects.** Where support provided by the World Bank is targeted to a specific, identifiable end use (for example, a credit line for specific business activities in a sector or funding for specific subprojects), the requirements of ESS9 apply:
  - i. To the specific part of the FI operations that generates and manages the specific end use or known subprojects. ESS9 does not apply to the other operations of the FI. The FI would be required to develop and implement an ESMS only for this part of its portfolio; and
  - ii. To FI subprojects financed or guaranteed directly by World Bank’s support. ESS9 does not apply retroactively to existing FI subprojects, but would apply to any refinancing of subprojects supported by the World Bank.
- (b) **General purpose financial support with no specified end use.** Where the World Bank support is not for a specific end use (for example, for general financial intermediation, recapitalization, or equity) the requirements of ESS9 apply:
  - i. Across the entire FI. This means that the FI would be required to develop and implement an ESMS that applies to all operations of the FI from the date of effectiveness of the legal agreement through which the World Bank financing is provided; and
  - ii. To the entire portfolio that the FI originates from the date when the corresponding legal agreement between the World Bank and the Borrower becomes effective. ESS9 does not apply retroactively to existing portfolio subprojects, but would apply to any refinancing supported by the World Bank.

6. Where an FI receiving support from the Bank provides financing or guarantees to other FIs, the FI will apply the requirements of this ESS and will cause each subsequent FI to apply the requirements of this ESS, as specified in paragraph 5 of this ESS.

**GN6.1.** The way in which each FI will apply the requirements of ESS9 will depend on the FI's relationship to the FI sub-projects. FIs should apply the requirements of ESS9 consistently across the subprojects to which ESS9 applies. Where funding is provided through a number of FIs, the requirements relating to ESS9 are incorporated into each of the contractual agreements between an FI and the subsequent FIs, to which loans, equity, financing, or guarantees are provided.

## Requirements

7. FIs will put in place and maintain an ESMS to identify, assess, manage, and monitor the environmental and social risks and impacts of FI subprojects on an ongoing basis. The ESMS will be commensurate with the nature and magnitude of environmental and social risks and impacts of FI subprojects, the types of financing, and the overall risk aggregated at the portfolio level.<sup>4</sup> Where the FI can demonstrate that it already has an ESMS in place, it will provide adequate documented evidence of such an ESMS, indicating which elements, if any, will be enhanced or modified to meet the requirements of this ESS.<sup>5</sup>

Footnote 4. For the purpose of assessing the adequacy of the ESMS, the FI portfolio means the portfolio of current and/or proposed subprojects to which this ESS applies, as described in paragraph 5.

Footnote 5. Where the Bank is providing support to a project involving FIs and other multilateral or bilateral funding agencies, including IFC and MIGA, it will or has already provided financing to the same FIs, the Bank may agree to rely on the requirements of such other agencies for the assessment and management of environmental and social risks and impacts of the project, including the institutional arrangements already established by the participating FIs, provided that such requirements will enable the project to achieve objectives materially consistent with this ESS and other ESSs, as applicable. Following review by the Bank, an FI may be required to enhance its ESMS as deemed necessary by the Bank.

**GN7.1.** Although FIs have their own direct environmental and social impacts (for example, energy use), their principal exposure to environmental and social risk arises indirectly through lending or investing—from their portfolio and end user's activities. The different types of environmental and social risks are set out in ESS1, and include impacts on the natural environment (for example, air, water, soil, biodiversity) or on people (for example, employees, end user, communities). The environmental and social risks associated with an FI's financial activities depend on factors such as the specific environmental and social circumstances associated with an FI end user's operations, the sector, and the geographic context. Failure to effectively manage environmental and social issues can lead to a range of financial, legal, and reputational consequences. For example, an end user may be unable to repay a loan due to environmental and social costs and liabilities, or the FI may face reputational damage through association with a client's environmental and social impacts.

**GN7.2.** The FI that is required to develop and maintain the ESMS is the FI that has direct responsibility for selecting and funding the FI subprojects (the Responsible FI). The Responsible FI develops and maintains the ESMS, so that the environmental and social risks and impacts of the FI subprojects financed or guaranteed by the Responsible FI can be identified, assessed, managed, monitored, and reported on appropriately. The environmental and social assessment process should support (a) making an informed decision on whether the risk associated with a portfolio and with financing or providing a guarantee to a project is acceptable to the FI; (b) minimizing environmental and social risks associated with a portfolio and the impacts of subprojects; and (c) realizing any potential environmental and social benefits associated with subprojects.

**GN7.3.** The ESMS includes processes for screening and categorizing proposed subprojects based on their potential environmental and social risks and impacts, conducting environmental and social assessments, and monitoring subproject environmental and social performance in line with this ESS and other ESSs and applicable national and/or international law, whichever is more stringent. An existing ESMS may need to be strengthened to meet the requirements of ESS9, in which case it is recommended that a time-bound action plan be developed by the FI for this purpose.

**GN7.4.** The ESMS should fit the needs of the FI and the type of loans or investments financed by the FI, and should be commensurate with the highest level of environmental and social risk that is anticipated in FI subprojects and/or portfolios. The ESMS is reviewed and enhanced by the Responsible FI as needed prior to supporting a new FI subproject with higher levels of environmental and social risks and impacts.

**GN7.5.** Where the Borrower on lends Bank funds, the contractual arrangements between on-lending parties include the requirements of ESS9, including establishment of the ESMS and the application of ESS2 to the Responsible FI.

8. The FI's ESMS will include the following elements: (i) environmental and social policy; (ii) clearly defined procedures for the identification, assessment and management of the environmental and social risks, and impacts of subprojects; (iii) organizational capacity and competency; (iv) monitoring and review of environmental and social risks of subprojects and the portfolio; and (v) external communications mechanism.

**GN8.1.** An ESMS should be commensurate with the environmental and social risk in the relevant FI portfolio and prospective business activities, be driven by an overall strategy and policy commitment, and have a clear governance framework. Further guidance on ESMSs is provided in paragraphs 14 to 25 below.

9. Where FI subprojects are likely to have minimal or no adverse environmental or social risks or impacts, the FI will apply national law.<sup>6</sup>

Footnote 6. This will rely on an assessment of the risks of the potential FI subprojects that the FI is proposing to finance, and the capacity of the FI. This may apply to certain retail financial products, such as consumer loans or credit cards.

**GN9.1.** See paragraph 17 of ESS9, which requires the FI to develop a risk categorization system for subprojects as part of the ESMS. As part of its environmental and social assessment process, an FI will review compliance of subprojects with applicable national laws.

10. The FI will review and adjust, in a manner acceptable to the Bank, its ESMS from time to time, including when the environmental and social risk profile of its portfolio changes significantly.

**GN10.1.** The ESMS should be updated or supplemented by the Responsible FI if the environmental and social risk profile of the FI's general purpose or subproject portfolio changes significantly. Changes to the ESMS may include updating procedures, conducting staff training on specific issues, or adding additional staff with relevant skills. Any significant changes proposed to the ESMS are agreed with the Bank prior to their adoption. A summary of changes to the ESMS can be included in the reports submitted to the Bank, in accordance with paragraph 23 of ESS9.

11. The FI will comply with any exclusions in the legal agreement and apply relevant national law for all FI subprojects. In addition, the FI will apply the relevant requirements of the ESSs to any FI subproject that involves resettlement (unless the risks or impacts of such resettlement are minor), adverse risks or impacts on Indigenous Peoples or significant risks or impacts on the environment, community health and safety, labor and working conditions, biodiversity or cultural heritage.

12. An FI may be required to adopt and implement additional or alternative environmental and social requirements, depending on the nature of the FI, its activities, the sector or countries of operation, and the environmental and social risks and impacts of the potential FI subprojects.<sup>7</sup>

Footnote 7. These will be incorporated into the ESMS, the environmental and social procedures, and/or set out in the legal agreement.

**GN11.1.** The Responsible FI incorporates the requirements of paragraph 11 into the ESMS, enabling it to require compliance with the relevant requirements of any of the ESSs. Examples of exclusions (that is, subprojects that may be selected as ineligible for FI finance) include the ineligibility of subprojects or general-purpose activities that are high risk or have significant adverse environmental or social impacts, or ineligibility of business activities that involve land expropriation, involuntary resettlement, or loss or damage to assets.

**GN11.2.** Where Bank support is provided for a general purpose, as set out in paragraph 5(b) of ESS9, the exclusions in the legal agreement apply to the entire portfolio of the FI. Where the World Bank support is for clearly defined subprojects, the exclusions apply only to those subprojects.

**GN11.3.** When the risks and impacts referred to in paragraph 11 are identified, the Responsible FI ensures that (a) the ESMS contains procedures to address such risks and impacts, and (b) the contractual arrangements between the Responsible FI and the FI subprojects provide for application of such procedures.

**GN11.4.** Significant environmental and social risk means (a) any significant social, labor, health and safety, security, or environmental incident, accident, or circumstance relating to the subproject, including, without limitations: explosions;

spills; any workplace accidents that result in death, serious, or multiple injury; material pollution; or any violent labor unrest or dispute between the FI, the FI subproject or security forces (assigned to protect the subproject), and local communities; or (b) any other event or circumstance having, or which could reasonably be expected to have, a material adverse effect on the implementation or operation of the subproject in accordance with the ESSs and the Environmental Health and Safety Guidelines (EHSGs).

13. The FI will provide a safe and healthy working environment. Accordingly, relevant aspects of ESS2 will apply to the FI itself. The FI will have in place and maintain appropriate labor management procedures, including procedures relating to working conditions and terms of employment, nondiscrimination and equal opportunity, grievance mechanisms, and occupational health and safety. The FI will provide adequate documented evidence of such procedures.

**GN13.1. Application of ESS2 to FIs.** ESS2 addresses labor and working conditions. Relevant ESS2 requirements should be applied to project workers, as defined in ESS2, of the FIs commensurate with the level of risk and should be consistent with requirements under national law.

**GN13.2.** Reflecting ESS2 requirements, the FI should put in place measures:

- (a) Adopting and implementing human resources policies and procedures;
- (b) Documenting and communicating to all employees their rights under national labor and employment laws, any applicable collective agreements, working conditions and terms and conditions of employment, and notifying them when any material changes occur;
- (c) Promoting fair treatment, nondiscrimination, and equal opportunity of all employees;
- (d) Establishing and managing a grievance process to learn about employees' concerns and suggestions; and
- (e) Providing a safe working environment through appropriate occupational health and safety programs and measures.

**GN13.3.** The human resources policies and procedures of the FI should be appropriate to the size of the FI operations and workforce and should be kept up to date. These policies and procedures should state the approach for managing employees and be consistent with the requirements of ESS2 and national law. The policies and procedures should be clearly communicated to all employees.

**GN13.4.** As defined in ESS2, working conditions refer to conditions in the workplace, organization of work and work activities, and health and safety and treatment of employees. Conditions in the workplace include the physical environment, health and safety precautions, and access to sanitary facilities.

**GN13.5.** The Borrower should ensure that the FI establishes grievance mechanisms, which are important tools for employees to promptly raise issues with employers, and for employers to understand employees' needs and to solve concerns. These concerns may relate to how employees have been treated or to actions that an employer is contemplating taking. Additional information on grievance mechanisms is provided in ESS2 and ESS10.

**GN13.6. Occupational Health and Safety (OHS).** OHS is concerned with protecting the health and safety of employees, and refers to the policies and systems in place to manage these issues in the workplace, such as risk assessments, training, provision of appropriate protection equipment, safe workplace practices, documentation, and emergency prevention and response procedures. Details on OHS are provided in ESS2, ESS4 and their respective Guidance Notes, and in the EHSGs referenced in the Reference section.

## **A. Environmental and Social Management System**

### ***Environmental and Social Policy***

14. The environmental and social policy of the FI will be endorsed by the FI's senior management and will include organizational commitments, objectives, and metrics with regard to the FI's environmental and social risk management. The policy will clearly state applicable requirements for FI subprojects, and will include the following:

- (a) All FI subprojects will be prepared and implemented in accordance with relevant environmental and social national and local laws and regulations;

- (b) All FI subprojects will be screened against exclusions in the legal agreement;<sup>8</sup>
- (c) All FI subprojects will be screened for environmental and social risks and impacts; and
- (d) All FI subprojects which involve resettlement (unless the risks or impacts of such resettlement are minor), adverse risks or impacts on Indigenous Peoples or significant risks or impacts on the environment, community health and safety, labor and working conditions, biodiversity or cultural heritage will apply relevant requirements of ESSs.<sup>9</sup>

Footnote 8. These will be set out in the legal agreement between the FI and the entity providing financing to the FI, and will reflect the exclusions in the legal agreement pursuant to which the Bank provides its support.

Footnote 9. The relevant requirements of the ESSs will be applied to such projects regardless of how such projects are categorized under the FI's own risk categorization system as referred to in paragraph 17.

**GN14.1.** As discussed in paragraphs 7 and 8 of this ESS, the FI will put in place and implement an ESMS. The ESMS contains the elements that allow the FI to manage the environmental and social risk of its operations and the subprojects it supports. These elements, described below, include:

- (a) Environmental and social policy;
- (b) Procedures for the assessment and monitoring of subprojects;
- (c) Organizational capacity and competency of the FI;
- (d) Stakeholder engagement; and
- (e) Monitoring and reporting.

**GN14.2.** An environmental and social policy is an overarching declaration of the objectives and principles that guide the FI to achieve sound environmental and social performance. An effective policy is one that is actively supported by senior management and communicated to all employees. The policy should set out the intentions of the FI with regard to the management of environmental and social risk, and include specific objectives that the FI has set with regard to its environmental and social performance. FI subprojects are prepared and implemented taking into account Good International Industry Practice (GIIP), in the first instance the EHSGs.

### **Environmental and Social Procedures**

15. The FI will put in place and maintain clearly defined environmental and social procedures which reflect and implement the FI's Environmental and Social Policy. The procedures will be proportionate to the nature of the FI and the level of potential environmental and social risks and impacts associated with the FI subprojects.<sup>10</sup>

Footnote 10. Where the FI already has appropriate environmental and social procedures in place, it will provide adequate documented evidence of such procedures to the Bank and, following review by the Bank, will enhance them as deemed necessary by the Bank.

**GN15.1.** The environmental and social procedures in the ESMS contain written instructions to FI management and staff on how to implement the FI's environmental and social policy and should include risk assessment and monitoring mechanisms. The procedures should be proportionate to the level of risk of the subprojects. Where the FI is only financing subprojects with minimal or no adverse risks or impacts, streamlined procedures in accordance with national law (see paragraph 9 of this ESS) will provide instructions on how subprojects will be screened for environmental and social risk and how the risk level of the subproject will be monitored. FIs that support higher risk subprojects (those with high or significant risk) will need to adopt more detailed procedures.

16. The FI's environmental and social procedures will include measures to:

- (a) Screen all FI subprojects against any exclusions in the legal agreement;
- (b) Screen, review, and categorize the FI subprojects according to their potential environmental and social risks and impacts;
- (c) Require that all FI subprojects are assessed, prepared, and implemented to meet national law and, in addition, where an FI subproject involves resettlement (unless the risks or impacts of such resettlement are minor), adverse risks or impacts on Indigenous Peoples or significant risks or impacts on the environment, community health and safety, labor and working conditions, biodiversity or cultural heritage, the relevant requirements of the ESSs are applied;<sup>11</sup>

- (d) Ensure that the measures needed to satisfy the requirements of (c) above are set out in the legal agreement between the FI and the sub-borrower;
- (e) Monitor, keep, and regularly update environmental and social information on FI subprojects;
- (f) If the risk profile of an FI subproject increases significantly, apply relevant requirements of the ESSs<sup>12</sup> and document these appropriately; and
- (g) Monitor the environmental and social risk of the FI portfolio.

Footnote 11. The environmental and social procedures will require such FI subprojects to conduct stakeholder engagement pursuant to ESS10 in a manner proportionate to the risks and impacts of the FI subprojects.

Footnote 12. The “relevant requirements of the ESSs” will relate to the reasons for which the risk profile of the FI subproject has increased.

**GN16.1.** The FI will screen all subprojects against any exclusions in the legal agreement and screen, review, and categorize the subprojects according to their potential environmental and social risks and impacts. If the risk profile of an FI subproject increases, for example, because unanticipated resettlement is identified or an emergency incident takes place, the increased risk should be promptly assessed and addressed in accordance with relevant aspects of the ESSs. If the FI’s existing environmental and social procedures are not adequate to address this increased risk, the Borrower should ensure that the FI modifies the procedures as necessary.

17. As part of the environmental and social procedures, the FI will develop and adopt a categorization system for subprojects with clearly defined risk categories.<sup>13</sup> The categorization system will take into account (i) the nature and magnitude of environmental and social risks and impacts of subprojects; (ii) sectoral and geographical context; and (iii) type of financing. The risk categorization will inform the scope and nature of the FI’s environmental and social due diligence and risk management of its subprojects. Such a categorization system will allow for a systematic aggregation and analysis of risk at the portfolio level.

Footnote 13. A typical categorization system used by FIs may consist of three or four risk categories, which correspond to high, substantial, moderate, or low risk. Good international practice in some instances suggests that four risk categories allow for more comprehensive assessment and management of environmental and social risk by FIs.

**GN17.1.** An environmental and social risk categorization system enables the FI to monitor and evaluate its exposure to environmental and social risk aggregated at the relevant portfolio level. In consultation with the World Bank, the FI can set internal threshold levels for its overall portfolio exposure as a function of environmental and social risk category or by exposure to industry sector or transaction type as a function of environmental and social risk category. This allows the FI to better manage and track changes in the risk profile of its portfolio and the associated environmental and social impacts of its subprojects. This information can also be used by the FI to report internally to senior management, externally to stakeholders, and to the World Bank on overall environmental and social risk.

18. As part of its environmental and social risk categorization system, the FIs will categorize any subproject which involves resettlement (unless the risks or impacts of such resettlement are minor), adverse risks or impacts on Indigenous Peoples or significant risks or impacts on the environment, community health and safety, labor and working conditions, biodiversity or cultural heritage, as high or substantial risk.

### **Organizational Capacity and Competency**

19. The FI will develop and maintain organizational capacity and competency for implementing the ESMS with clearly defined roles and responsibilities. The FI will designate a representative of the FI’s senior management to have overall accountability for environmental and social performance of the FI subprojects, including the implementation of this ESS and ESS2 and resources necessary to support such implementation. The representative will: (a) designate a staff member to be responsible for day-to-day implementation of the ESMS, including the environmental and social procedures; (b) ensure that adequate resources are available for management of and training in environmental and social issues; and (c) ensure that adequate technical expertise, either in-house or external expert support, is available to carry out due diligence and manage the environmental and social risks of the FI subprojects, including providing implementation support as required.

**GN19.1.** Organizational capacity and competency are key to implementing an effective risk management system. These will vary depending on the environmental and social risk profile of the FI subprojects and the relevant portfolio. The FI may use in-house staff with the appropriate qualifications or retain the services of external experts to establish the FI ESMS and to conduct the assessment of subprojects.

**GN19.2.** A representative of the FI senior management will have overall responsibility for environmental, health and safety, and social risk management, including the implementation of the ESMS. The representative of the FI senior management should (a) designate a qualified member of staff to be responsible for day-to-day implementation of the ESMS and provide implementation support; (b) identify environmental and social training needs; (c) ensure that sufficient resources and capacity to implement the ESMS are available; and (d) ensure that adequate technical expertise, either in-house or external, is available to carry out assessments for, and manage and monitor the FIs and subprojects with potentially significant adverse environmental or social impacts and issues.

20. The FI will ensure that the requirements of this ESS and ESS2 are clearly communicated to all relevant FI personnel,<sup>14</sup> and to ensure that relevant personnel have the necessary knowledge and capabilities<sup>15</sup> for managing environmental and social risks in accordance with the FI's ESMS.

Footnote 14. Such personnel may include investment, legal, and credit officers, security personnel, etc.

Footnote 15. Including by providing appropriate training.

**GN20.1.** Information should be transmitted in a timely manner and conveyed through the appropriate form. FIs should keep a record of past communications and periodically update the information transmitted to FI personnel.

### **Monitoring and Reporting**

21. The FI will monitor the environmental and social performance of the FI subprojects in a manner proportionate to the risks and impacts of the FI subprojects, and provide regular progress reports to the FI's senior management. This will include periodic review of the effectiveness of the FI's, ESMS.

**GN21.1.** As part of its ESMS, the Responsible FI develops a written procedure detailing how performance monitoring and reporting is conducted. Monitoring is proportionate to the environmental and social risks and impacts of the FI subprojects. Monitoring and reporting is conducted on a regular basis.

**GN21.2.** The frequency and method of monitoring and reporting of FI subprojects depends on the risk levels and performance of the FI subprojects. Monitoring outcomes and identified corrective actions should be documented. The Responsible FI works with the FI subproject to ensure corrective actions are implemented.

**GN21.3.** The ESMS is reviewed periodically by the Responsible FI to assess effectiveness, and determine whether changes are needed. The review of the ESMS is expected to evaluate the FI's implementation of its own environmental and social policy as referenced to in paragraph 14, and how environmental and social procedures have been implemented with respect to FI subprojects.

22. The FI will promptly notify the Bank of any significant accidents or incidents associated with FI subprojects. If the risk profile of an FI subproject increases significantly, the FI will notify the Bank and will apply relevant requirements of the ESSs in a manner agreed upon with the Bank, as set out in the ESMS. The FI will monitor the measures and actions agreed upon, and report to the Bank as appropriate.

**GN22.1.** The prompt notification of any significant accidents or incidents to the World Bank is required of all FIs. Such notification may be provided directly by the Responsible FI to the World Bank or through the Borrower. In particular, the FI should notify the Bank if adverse impacts could result in irremediable harm, such as exposure to hazardous chemicals or pollutants that could result in irreversible health conditions and/or significant environmental damage.

**GN22.2.** When changes occur that would cause the FI to reclassify the subproject to a higher risk and/or higher impact level, the Bank is promptly notified. The World Bank and the Responsible FI will agree upon which remedial measures should be implemented by the subproject.

23. The FI will submit to the Bank Annual Environmental and Social Reports on the implementation of its ESMS, including its environmental and social procedures, this ESS and ESS2, as well as the environmental and social performance of its portfolio of FI subprojects. The annual report will include details

of how the requirements of this ESS are being met, the nature of the FI subprojects financed through the project, and the overall portfolio risk, profiled by sector.

**GN23.1.** Depending on the level of risk of a subproject, reporting may be required more frequently than annually.

## B. Stakeholder Engagement

24. The FI will require the FI subproject to conduct stakeholder engagement in a manner proportionate to the risks and impacts of the FI subproject, and which reflects the type of FI subprojects it will finance. The relevant provisions of ESS10 will be included in the FI's environmental and social procedures. In certain circumstances, depending on the risks and impacts of the project and the type of FI subprojects it will finance, the Bank may require the FI to be engaged in stakeholder engagement.

**GN24.1.** ESS10 sets out requirements relating to stakeholder engagement, including disclosure of information to allow stakeholders to understand the potential risks and impacts of FI subprojects. This information is disclosed in the relevant local languages and in a manner that is accessible and culturally appropriate, as early as possible, and prior to approval of the FI subproject. For example, if the FI is financing a higher risk subproject, the Bank may require the FI to engage directly with the affected communities. Further information on stakeholder engagement is found in ESS10 and its accompanying Guidance Note.

25. The FI will put in place procedures for external communications on environmental and social matters proportionate to the risks and impacts of the FI subprojects, and the risk profile of the FI's portfolio. The FI will respond to public enquiries and concerns in a timely manner.

**GN25.1.** The Responsible FI ensures that external communications mechanisms are known and accessible to stakeholders. Procedures for external communications on environmental and social issues are designed to receive, respond to, and document requests for information or concerns to allow a timely response. This includes making contact information publicly available and easily accessible (for example, a phone number, website, e-mail address). If a concern is deemed not to be relevant, the Responsible FI records the reasons for this determination.

26. The FI will disclose through the FI's website, if a website exists, and permit, in writing, the Bank to disclose on the Bank's website, a summary of each of the elements of the FI's ESMS.

27. The FI will require its sub-borrowers to disclose, in relation to FI subprojects, any project-related documents<sup>16</sup> required (a) by the application of the ESSs; (b) for any FI subprojects categorized as high risk in accordance with the FI's own categorization system; and (c) any environmental and social monitoring reports relating to (a) or (b).

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Footnote 16. For example, environmental and social assessment reports, resettlement action plans, and Indigenous Peoples plans.

**GN27.1.** As part of the stakeholder engagement process, the Responsible FI, through the sub-borrower, provides stakeholders with access to the following project information:

- The purpose, nature, and scale of the project;
- The duration of the proposed project activities;
- Potential risks and impacts of the project on local communities, and proposals for mitigating these, highlighting potential risks and impacts that might disproportionately affect vulnerable and disadvantaged groups and describing the differentiated measures taken to avoid and minimize them;
- Environmental and social monitoring reports;
- The proposed stakeholder engagement process highlighting the ways in which stakeholders can participate;
- The time and venue of any proposed public consultation meetings, and the process by which meetings will be notified, summarized, and reported;
- The process and means by which grievances can be raised and will be addressed.

**GN27.2.** The information will be disclosed in the relevant local languages and in a manner that is accessible and culturally appropriate, and prior to approval of the FI subproject.

# References

There are many resources that may be useful to a Borrower in addressing the application of the ESF. Set out below are references that may assist the Borrower in implementing the requirements of the ESF. The resources listed here do not necessarily represent the views of the World Bank.

## *World Bank Group*

International Finance Corporation 2012. Interpretation Note on Financial Intermediaries. International Finance Corporation, Washington DC. <https://www.ifc.org/wps/wcm/connect/38d1a68049ddf966af3cbfda80c2ddf3/FI+Interpretation+Note+November+2018.pdf?MOD=AJPERES>

## *Additional References*

European Bank for Reconstruction and Development Environmental and Social Risk Management for Financial Intermediaries (E-Toolkit). <https://www.ebrd.com/who-we-are/our-values/environmental-emanual-toolkit.html>

———. Environmental and Social Risk Categorisation List. <https://www.ebrd.com/downloads/about/sustainability/ebrd-risk-english.pdf>

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———. Guidance for FIs on how to meet the requirements of PR2. <http://www.ebrd.com/downloads/about/sustainability/14-implement-pr2.pdf>

———. Guidance for FIs on how to meet the requirements of PR4. <https://www.ebrd.com/cs/Satellite?c=Content&cid=1395247846570&pagename=EBRD%2FContent%2FDownloadDocument>

———. Principles of Employee Grievance Mechanisms for FIs. <https://www.ebrd.com/cs/Satellite?c=Content&cid=1395247846649&pagename=EBRD%2FContent%2FDownloadDocument>

———. Guidance—Introduction to E&S Risks. <https://www.ebrd.com/cs/Satellite?c=Content&cid=1395249950977&pagename=EBRD%2FContent%2FDownloadDocument>

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———. Guidance--Site Visit and Checklist for FIs. <https://www.ebrd.com/cs/Satellite?c=Content&cid=1395247832925&pagename=EBRD%2FContent%2FDownloadDocument>

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———. Guidance—Regulatory Compliance Checking. <https://www.ebrd.com/cs/Satellite?c=Content&cid=1395247833249&pagename=EBRD%2FContent%2FDownloadDocument>

———. Guidance—Using Environmental or Social Experts. <https://www.ebrd.com/cs/Satellite?c=Content&cid=1395247833087&pagename=EBRD%2FContent%2FDownloadDocument>

———. Guidance—FI E&S Reporting to EBRD. <https://www.ebrd.com/cs/Satellite?c=Content&cid=1395247832978&pagename=EBRD%2FContent%2FDownloadDocument>