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1. What's ESG

A set of environmental, social, and governance (ESG) factors considered by companies when managing their operations, and investors when making investments, in respect of the risks, impacts, and opportunities relating to but not limited to:

Environmental issues: potential or actual changes to the physical or natural environment (e.g., pollution, biodiversity impacts, carbon emissions, climate change, natural resource use);

Social issues: potential or actual changes on surrounding community and workers (e.g., health and safety, supply chain, diversity and inclusion); and

Governance: corporate governance structures and processes by which companies are directed and controlled (e.g., board structure and diversity, ethical conduct, risk management, disclosure and transparency), including the governance of key environmental and social policies and procedures.

Read more:

https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/environmental_social_and_governance.

2. ESG Disclosure

Disclosure and transparency have become increasingly relevant for IFC as the field of corporate governance has expanded from purely board-related matters to include engagement with various external stakeholders. Investors and other stakeholders want to understand the narrative behind a company's long-term value creation. This narrative must relate to the available financial and nonfinancial information (including environment, social, and governance factors). Companies are required to go beyond the balance sheet.

IFC's "Beyond the Balance Sheet" platform is designed to guide companies in preparing comprehensive and best-in-class disclosures that reflect today's investors' views of what drives corporate value. Based on a model annual report, this online tool provides progressive guidance on the disclosure of material information about a company's strategy, governance, and performance—including the impact of ESG factors and contribution to sustainable development.

IFC's "Beyond the Balance Sheet" platform aims to help regulators and companies be abreast of the new developments and enhance their knowledge of the forthcoming IFRS Sustainability Disclosure Standards and the EU Sustainability Reporting Standards to prepare the market.

Read more:

https://www.ifcbeyondthebalancesheet.org/

3. What's ESMS

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 environmental and social risks of its clients/investees.

A Environmental and Social Management System states a financial institution's commitment to environmental and social management, explains its procedures for identifying, assessing and managing environmental and social risk of financial transactions, defines the decision-making process, describes the roles, responsibilities and capacity needs of staff for doing so and states the documentation and recordkeeping requirements. It also provides guidance on how to screen transactions, categorize transactions based on their environmental and social risk, conduct environmental and social due diligence and monitor the client's/investee's environmental and social performance.

Read more:

https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_handbook_esms-general

Supplemental information:

- IFC ESMS 101 Presentation (PDF)
- ESMS Self-Assessment and Improvement Guide (PDF)
- ESMS Toolkit General (PDF)
- Environmental & Social Management (ESMS) System Diagnostic Tool for <u>Financial Institutions (FIs)</u>: Helps FIs, institutional investors and asset managers assess an ESMS against IFC's Performance Standard 1 and good market practices.

4. Financial Institutions: Resources, Solutions and Tools (FIRST)

FIRST is a one-stop shop for professionals working with financial institutions to get guidance and tools to understand and manage environmental and social (E&S) risks as well as explore E&S business opportunities. This includes guidance on how to implement an Environmental and Social Management System (ESMS), conduct environmental and social due diligence, creating a pipeline of new business and offerings tailored to the E&S needs of clients, and a wide variety of other topics.

Read more: https://firstforsustainability.org/

5. Sustainable Banking and Finance Network (SBFN)

- The Sustainable Banking and Finance Network (SBFN) across the financial sector.
- Increase capital flows to activities with positive environmental and social impacts, including climate change mitigation and adaptation.

SBFN Framework Library: a comprehensive and searchable collection of national sustainable finance framework documents introduced by members to date. It includes national roadmaps, policies, regulations, voluntary principles, guidelines, research, templates, taxonomies, and tools to guide and enable sustainable finance in emerging markets.

SBFN Global and Country Progress Reports – 2021 & 2022: SBFN's 3rd Global Progress Report — released on 29 October 2021 — captures the significant increase in collective efforts across 43 emerging markets, to develop national enabling frameworks for sustainable finance. It is the most comprehensive benchmarking of national sustainable finance initiatives globally and applies a robust measurement framework agreed on by all SBFN members.

Read more: https://www.sbfnetwork.org/

6. IFC E&S Performance Standards

IFC's <u>Environmental and Social Performance Standards</u> define IFC clients' responsibilities for managing their environmental and social risks.



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

Performance Standard 2: Labor and Working Conditions

Performance Standard 3: Resource Efficiency and Pollution Prevention

Performance Standard 4: Community Health, Safety, and Security

Performance Standard 5: Land Acquisition and Involuntary Resettlement

Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources

Performance Standard 7: Indigenous Peoples

Performance Standard 8: Cultural Heritage

Read more:

https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/performance-standards

7. IFC Corporate Governance Methodology

IFC's Corporate Governance Methodology is an approach to evaluate and improve the corporate governance of a company—including the governance attributes of key environmental and social policies and procedures—to identify, reduce, and manage risk. Its use can help a company confirm its commitment to demonstrate leadership and promote effective environmental, social, and corporate governance throughout the company.

The IFC CG Methodology includes the assessment of six key CG parameters:

- 1. Commitment to Environmental, Social, and Governance (Leadership and Culture): The company and its shareholders have demonstrated a commitment to implementing high-quality corporate governance, including the governance of key environmental and social policies and procedures.
- 2. Structure and Functioning of the Board of Directors: The board of directors is qualified and adequately structured to oversee the strategy, management, and performance of the company.
- 3. Control Environment: The company's internal control system, internal audit function, risk management system (including an environmental and social management system), and compliance function are sufficient to ensure sound stewardship of the company's assets, effectiveness of operations, accuracy in reporting, and compliance with policies, procedures, laws, and regulations.
- 4. Disclosure and Transparency: The company's financial and nonfinancial disclosures are a relevant, faithful, and timely representation of material events to shareholders and other stakeholders.
- 5. Treatment of Minority Shareholders: The company's minority shareholders' rights are adequate and not abused, and other stakeholders are treated equitably.
- 6. Governance of Stakeholder Engagement: The company's governance of stakeholder engagement is adequate, particularly oversight over stakeholder mapping, stakeholder engagement policy and grievance mechanisms.

Read more:

https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+cg/investment+services/corporate+governance+methodology