

**ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT
OPERATIONS MANUAL (ESOM)
For the Nigerian Development Finance Institution (DFI)**

Federal Ministry of Finance

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ABBREVIATIONS AND ACRONYMS

BOFIA	Banks and other Financial Institutions Act
CBN	Central Bank of Nigeria
E&S	Environmental and Social
EA	Environmental Assessment
EHSG	Environmental, Health and Safety Guidelines
EIA	Environmental Impact Assessment
ESOM	Environmental and Social Risk Management Operations Manual
ESMS	Environmental and Social Management System
FCT	Federal Capital Territory
FI	Financial Intermediary
FMBN	Federal Mortgage Bank of Nigeria
FMENV	Federal Ministry of Environment
GDP	Gross Domestic Product
GoN	Government of Nigeria
DFI	Development Finance Institution
IDA	International Development Association
IEE	Initial Environmental Examination
IFC	International Financial Corporations
ISDS	Integrated Safeguards Data Sheet
MENV	Ministry of Environment
NEMT	National Economic Management Team
PFI	Participating Financial Intermediary
PIU	Project Implementation Unit
NSBP	Nigeria Sustainable Banking Principles
WBG	World Bank Group

1.0 INTRODUCTION

The Project will assist in increasing the availability and access to finance to Micro-, Small- and Medium Enterprises (MSMEs), including those operating in the agricultural sector, through eligible financial intermediaries, by supporting the establishment of a new wholesale Development Finance Institution (DFI) in Nigeria. The proposed World Bank financial intermediary loan in the total amount of US\$500 million to provide Tier 2 capital contribution to the DFI of (US\$485 million), establish a Credit Guarantee Facility (US\$40million) provide technical assistance to financial intermediaries/ participating financial institution (PFIs) and final borrowers/MSMEs (US\$12 million) and finance project implementation costs (US\$3 million).

The principal activities of the DFI will be to provide wholesale term funding in local currency and partial credit risk guarantees to eligible participating financial institutions (e.g. commercial banks, microfinance banks, leasing companies) for -lending to eligible sub-borrowers for eligible activities.

Sub-borrowers will be creditworthy private sector MSMEs and small corporates which meet the following criteria:

Enterprise Type	# Employees	Annual Turnover	Total Assets	Max. Loan Size
MSMEs	< 250	< N500mn/\$3.125 mn	< 500mn/\$3.125mn	< N80mn/\$500k
Small Corporates	< 500	<N2.4bn/\$15mn	<N2.4bn/\$15mn	< N3.2bn/\$2mn

Total amount of DFI support to small corporates will be limited to 10% of available credit line resources.

Eligible Sub-Loan Activities and Terms: Sub-loans will be extended to eligible MSMEs and small corporates (up to 10% of available DFI credit line resources for the latter) which will include both investment and working capital loans in the expected amount of up to US\$1 million equivalent for MSMEs and up to \$2million for small corporates. The sub-loan maturity is expected to be up to 10 years with a grace period of up to 18 months, specifically:

- a. **Investment Loans:** the maximum available sub-loan amount will be US\$500 thousand for MSMEs and US\$2 million for small corporates. Maximum maturity will be 10 years with grace period of up to 18 months.
- b. **Working Capital Loans:** the maximum available sub-loan amount will be US\$200 thousand for MSMEs and US\$800 thousand for small corporates. Maximum maturity will be 3 years with grace period of up to 6 months.

One of the prerequisites of the World Bank Group support for the DFI in Nigeria is that the PFIs integrate into their lending operations the requirements of environmentally and socially sound and sustainable development as identified in laws and regulations of Nigeria and the sustainability policies and frameworks in line with the World Bank Group standards. . Accordingly, this manual will serve as the guiding document ensuring that all project activities comply with the mandated environmental and social safeguard requirements. These measures will ensure that appropriate risk management measures have been identified for implementation by the loan applicant.

This manual, along with the Environmental and Social Management System (ESMS) that is established by each PFI, should meet the requirement of the World Bank Group that a financial intermediary has established an appropriate s ESMS. PFIs are required to establish or arrange for proper capacities to duly implement their ESMS in a manner consistent with the guidance provided in this manual. If a PFI does not have the capacity to implement the ESMS, the project would support the PFIs to develop an Action Plan that identifies all action necessary to meet the requirements set forth in this manual.

This Environmental and Social Risk Management Operations Manual (ESOM) overview also provides specific details on the contents and actions necessary for an acceptable ESMS that is required to be developed in order to meet lending requirements of the World Bank Group.

It is anticipated that the majority of transactions supported in this program will be in the services or investments that will have limited environmental or social risks. However, it is recognized that there may be some business activities in which the environmental and social risks and impacts may be more significant and require commensurate assessment and management, e.g., land acquisition, labor and working standards, inappropriate disposal of waste, or unhealthy or hazardous working conditions.

All PFIs are exposed to some level of Environmental and Social (E&S) risk through the activities of their borrowers/investees, which can represent a financial, legal, and/or reputational risk to the PFI. The E&S risks associated with the internal operations of an FI are typically limited to managing aspects related to labor and working conditions of employees, as well as ensuring the safety of employees and visitors within its premises. The E&S risk associated with an FI's lending/investment activities depends on factors such as the specific E&S circumstances associated with a borrower's/investee's operations, the sector, and the geographic context, among others.

A PFI needs to address these risks based on the level of perceived risk, the type of financing undertaken and the amount of leverage that the PFI has in obtaining mitigation measures from its borrowers/investees. When a PFI provides loans to final borrowers, it is more exposed to the underlying E&S risks of the borrowers'/investees' operations but also has the opportunity to manage these risks at the transaction level. Considering E&S risk in the transaction review and due diligence process contributes to PFI's overall risk management efforts. This requires undertaking individual transaction screening and, where necessary, due diligence and monitoring, and overall E&S risk management in accordance with the resulting E&S risk profile of the portfolio. In parallel, the PFI needs to develop and maintain the requisite capacity for E&S risk management and allocate appropriate resources for this function.

In July, 2012, the CBN approved the adoption of the Nigerian sustainable banking principles by banks (including Primary Mortgage and Microfinance banks), discount houses and development finance institutions in Nigeria. The Principles largely addresses all the issues as contained in this ESOM for all participating FIs in the DFI Project to be supported by the World Bank. A copy of the Nigerian Sustainable Banking Principles has been published at the CBN webpage.

On May 15, 2013, International Finance Corporation –IFC, signed an agreement with the Central Bank of Nigeria (CBN) to support the implementation of standards, policies, and guidelines for environmental and social best practices in the Nigerian banking sector, with the aim of promoting sustainable and inclusive growth of the Nigerian economy. The participating FIs under this Nigeria DFI project would also be mandated to incorporate the sustainable banking principles in their operations.

2.0 PROJECT IMPLEMENTATION ARRANGEMENTS

An existing project implementation unit (PIU) housed within the FMOF (responsible for the World Bank funded PPP project) will be assigned with responsibility for managing the administrative aspects of project implementation in line with World Bank requirements. The new project will therefore benefit from the expertise and capacity of the existing PIU. The responsibilities of the PIU will include management and administration, ensuring compliance with procurement, financial management, environmental and social risk management requirements, disbursement requests, as well as outreach and communication, reporting, monitoring and evaluation, and impact assessment. In addition, the PIU will be responsible for ensuring that all project requirements – such as those related to selection and monitoring of PFIs – are fully met. Throughout the duration of the project the PIU will be adequately staffed and funded.

The day-to-day wholesale operations and interaction with the PFIs will be managed by the new DFI, while the project implementation support will also be provided by the PIU.

The main implementation modalities, and the institutional arrangements to support those modalities, will be detailed in the Project Operations Manual (POM). In addition, the PIU will coordinate capacity building across the PFIs for enhancing the enabling environment and build market capacity for improved E&S performance of PFIs and their clients. It is anticipated that this initiative will be part of the continued technical assistance activities underway by IFC.

3.0 THE WORLD BANK PERFORMANCE STANDARDS

The eight IFC Performance Standards have been adopted by the Bank as the World Bank *Performance Standards for Projects Supported by the Private Sector* (“**WB Performance Standards**”) for application to Bank support for projects (or components thereof) that are designed, owned, constructed and/or operated by a Private Entity (as defined below), in lieu of the World Bank’s safeguard policies (“**WB Safeguard Policies**”) per the new Operational Policy 4.03.

The World Bank Group has screened the proposed project components and has determined that this project is categorized as a FI – Financial Intermediary. Each PFI, including the DFI will be required by the WBG to:

- (a) develop and operate an ESMS that is commensurate with the level of social and environmental risks in its portfolio, and prospective business activities;
- (b) apply relevant aspects of WB Performance Standard 2 to its employees (these are similar to Principles 3 and 4 of the NBSF); and
- (c) ensure that all subprojects supported by the Bank comply with applicable national and local laws and regulations.

In order to appropriately identify the environmental and social risks related to proposed business activities under the Bank-supported Private Sector Activity, the Bank reviews the existing portfolio and/or proposed business activities of the PFI to identify risks, and assesses whether the ESMS for the World Bank supported Private Sector Activity is appropriate for managing those risks.

The World Bank requires PFIs whose portfolio and/or proposed business activities present moderate to high social or environmental risks (i.e., Category FI-1 and some FI-2, as described below) to ensure that any such activities supported by the Bank are operated in a manner consistent with the WB Performance Standards.

The World Bank has conducted multiple discussions across stakeholders and concluded that the appropriate FI category is FI-2. This is based on the anticipated knowledge that the proposed portfolio is comprised of, or is expected to be comprised of, subprojects 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 includes a very limited number of subprojects with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented;

Consequently, the relevant WB Performance Standards to screen PFIs, in lieu of the WB Safeguard Policies. The program components will be subject to application of relevant national laws and regulations. In addition the Policy requires the Financial Intermediaries to develop an ESMS, acceptable to the World Bank, which the intermediary applies in identifying, assessing and managing environmental and social risks and impacts under its World Bank-supported portfolio of subprojects. The ESMS requirements for this FI-2 project will adhere to the practices established by the WBG.

The WB Performance Standards¹ consist of the following:

- 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

¹ Available at www.ifc.org/enviro

- Performance Standard 8: Cultural Heritage.

An assessment of the likely environmental and social risks of this project has concluded that Performance Standards 1, 2, and 5 will apply.

4.0 THE ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM FOR THE PROJECT

The PFIs are required to develop and operate their ESMS commensurate with the level of E&S risk in their portfolio and prospective business activities. The ESMS should incorporate relevant principles of Performance Standard 1 on Assessment and Management of Environmental and Social Risks and Impacts. The scope and complexity of the ESMS will depend on the E&S risk of the PFI's lending/investment activities. All PFIs must also manage the working conditions of their workforce in accordance with relevant aspects of Performance Standard 2 on Labor and Working Conditions relates to employment practices and conditions. Finally, all PFIs will incorporate the relevant principles of Performance Standard 5 which addresses physical and/or economic displacement resulting from land-related transactions.

The PFIs must avoid supporting activities on the WBG Exclusion List (see Annex 3) and must review the operations of borrowers/investees, where they present E&S risks, for compliance with national E&S laws and regulations where they exist and are applicable. While, Performance Standards 1, 2, and 5 are expected to be the only applicable standards for this project, each PFI will assess E&S risks of transactions according to Performance Standards 1 through 8 (as seen in Annex 8) and will require its borrowers/investees to comply with these Performance Standards in their operations.

The ESMS is a management system (both formal and informal) consisting of procedures, management commitment, delineation of roles and responsibilities and guidance that a bank/PE fund follows to review and manage the E&S issues and risks associated with its investments. Following is a brief description of the ESMS contents required by the PIU for the PFIs. Details are provided in Annexes 2 and 4. Each PFI can assure proper ESMS develop by using the checklist provided in Annex 3.

- I. E&S Policy:** A policy, serving as a brief declaration of an organization's commitment to sustainable development and management of E&S issues. This is often publicly disclosed but certainly always communicated internally.
- II. E&S Procedure:** The Procedure detailing how the organization addresses E&S and sustainability issues as part of its investment operations. Procedures are normally step by step instructions focusing on what needs to be done and by whom at various stages of the investment cycle (including supervision). Reference is often made to guidelines. A procedure may be stand-alone or constitute part of the Credit or other Operational procedures of the PFI. Procedures should be documented and communicated to ensure that all existing and new staff are aware of the process.
- III. E&S review guidelines:** These serve as guidance to responsible officers in the PFI on how to carry out the various steps outlined in the E&S Procedure. The guidelines can be simple for low risk installations and more sophisticated for high risk installations. These should help provide a guide on what to look for when conducting an E&S review and can include:
 - A checklist of documents (such as regulatory clearances) to be reviewed
 - Questions to ask the client during a site visit (where appropriate)
 - Aspects to look at during the site visit such as housekeeping, visible contamination etc.
- IV. Record keeping:** This is a vital aspect of an ESMS where the review and analysis conducted and the mitigation or corrective measures required as applicable as per the Procedure are recorded in the credit decision documents.
- V. Categorization:** To ensure that the extent of the review is commensurate with the nature of risk, categorization is a useful step in procedures where based on basic information about a project such as sector and scale, the level of E&S risk the project could pose is determined. This also enables the

PFI to determine the extent and sophistication of the E&S review. Examples of categorization are High, Medium, and Low risk.

In agreeing to participate in the Project, each PFI accepts responsibility to the World Bank Group for mandatory screening, assessment, and management of the environmental and social risks and impacts of proposed transactions it takes under the project in a manner that is consistent with WBG Performance Standards as well as the financial institution's corporate practices and policies for Corporate Responsibility. In order to effectively adapt the principals of the ESOM as guidance to staff for managing environmental and social risk, each financial institution will develop their internal ESMS.

5.0 THE WORLD BANK GROUP ROLE IN REVIEW AND IMPLEMENTATION SUPPORT

A number of activities shall be administered by the World Bank Group to ensure that the ESOM meets acceptable standards and requirements. This includes ESOM clearance and annual review of the PIU and DFI reporting. The PIU shall be responsible for submitting PFI ESMS performance reports to the WBG as indicated in Annexes.

Environmental and Social Requirements and Review

The WBG shall review the ESOM from the CBN's application and monitoring of the PFI's ESMS. In reviewing the adequacy of the ESOM and each PFI's ESMS, the WBG determines whether the PFI's ESMS is appropriate to the PFI's risk profile, by considering whether:

- (a) the policy statement incorporated in the ESMS describes specific objectives, metrics, and aspirations that the PFI has set with regard to its environmental and social performance, and is endorsed by the PFI's senior management;
- (b) organizational capacity, responsibilities, and accountability within the PFI organization are described;
- (c) procedures are in place for screening and assessing risks and impacts of subprojects or individual loan transactions; and
- (d) procedures are in place for monitoring environmental and social performance of the PFI's portfolio of subprojects and providing periodic progress reports to PFI senior management.

In addition, the Bank assesses systems or procedures for training and ensuring awareness of the PFI's investment, legal, and credit officers regarding the PFI's ESMS.

Upon determination that the ESOM from the DFI and each PFI ESMS is appropriate to the risk profile of the PFI's portfolio, the Bank approves the ESOM and each ESMS in a written memorandum. The memorandum consists of:

- (a) a brief summary of the findings regarding the risk profile of the PFI's portfolio;
- (b) a description of the ESMS and its appropriateness;
- (c) a brief summary of the PFI's capacity to implement the ESMS;
- (d) recommended specific requirements to be included in the legal agreements for the Private Sector Activity regarding the periodic reporting to the Bank by the PFI on the implementation of the ESMS; and
- (e) recommended language for the environmental and social impacts sections of the project documents.

Disclosure

For the Category FI-2 the WBG requires the DFI and each PFI to disclose through the PFI's website, if a website exists, disclose in the a national newspaper and to permit, in writing, the WBG to disclose at the Bank's InfoShop and local World Bank Public Information Center (PIC), the following elements of the DFI ESOM and PFI's ESMS:

- (a) the PFI's policy statement which describes specific objectives, metrics, and aspirations that the PFI has set with regard to its environmental and social performance;

- (b) the PFI's procedures for screening and assessing risks and impacts of subprojects or individual transactions; and
- (c) after Bank review, the summary of the environmental assessment that is required for any subproject considered high risk in accordance with the ESMS.

In addition to disclosing specified information provided by the DFI and each PFI, the concept stage and appraisal stage Integrated Safeguards Data Sheet (ISDSs) are prepared and disclosed by the Bank as the source of summary information on the Bank's findings regarding environmental and social issues for the project and each proposed PFI entity activities.

Implementation Support

The WBG requires the DFI and PIU to furnish to it, throughout implementation, an annual environmental and social performance report ("**ESPR**") that summarizes the status of implementation of the ESMS by each participating PFI (see annex 5). To determine the effectiveness of a PFI's ESMS, the Bank will periodically review the process and the results of the social and environmental due diligence conducted by the PIU for the PFI subprojects supported by the project. The WBG will also periodically review a sample of the PFI subprojects with significant environmental and social risks. WBG implementation support may include visits to the PIU and PFI, as well as to recipients of PFI loans/investments, particularly for high risk subprojects. The frequency and focus of supervision visits is commensurate with the identified risks.

Annex 1: REFERENCES

Interpretation Note on Financial Intermediaries, IFC 2012.

http://www1.ifc.org/wps/wcm/connect/38d1a68049ddf966af3cbfda80c2ddf3/InterpretationNote_FIs_2012.pdf?MOD=AJPERES

OP 4.03 Performance Standards for Private Sector Activities, World Bank, May 2013.

<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTPOLICIES/EXTOPMANUAL/0,,contentMDK:20064564~menuPK:64701637~pagePK:64709096~piPK:64709108~theSitePK:502184,00.html>

BP 4.03 Performance Standards for Private Sector Activities, World Bank, May 2013.

<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTPOLICIES/EXTOPMANUAL/0,,contentMDK:23408638~menuPK:4564187~pagePK:64709096~piPK:64709108~theSitePK:502184,00.html>

Additional guidance for FIs on managing E&S risk in transactions is available at **FIRST for Sustainability**.

http://firstforsustainability.org/risk-management/managing-environmental-and-social-risk-2_2.php

Annex 2: OVERVIEW OF NIGERIA SUSTAINABILITY BANKING PRINCIPLES

The World Bank's (WB) Performance Standards define the Private Entities' roles and responsibilities for managing the environmental and social risks and impacts of their projects. These standards parallel key aspects of the IFC's Environmental and Social (E&S) Review Procedures ("ESRPs").

In July 2012, the Central Bank of Nigeria (CBN) launched its sustainable banking principles. The Principles were developed in collaboration with the banking sector. The CBN wanted to signal its commitment to economic growth that is environmentally responsible and socially relevant. The CBN principles outline 9 focus areas that it would like the financial sector to focus on as it addresses E&S issues. There are also guidelines for sectors the CBN has selected as priority areas, namely oil and gas, agriculture and power.

Table 1 below provides a comparison of the principles to the WB performance standards. There are overlaps between some of the principles and the WB performance standards. Principles 1, 6 and 7 collectively address issues that relate to the management of E&S Risks and impacts, however breaking them down into segments.

Performance Standard 2 which addresses labor and working conditions is also comparable to the CBNs Principles 3 and 4 which address Human rights and Women Economic Empowerment respectively. Performance standards 4-8 appear not to have comparable equivalents, while CBNs Principles 5 Financial Inclusion, 8 Collaborative Partnerships and 9 Reporting also appear to stand on their own.

Table 1: Comparing WB Performance Standards Against CBN Sustainable Banking Principles

World Bank/IFC Performance Standards	CBN Sustainable Banking Principles
Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts	Principle 1: Our Business Activities Environmental and Social Risk Management Principle 6: E&S Governance Principle 7: Capacity Building
Performance Standard 2: Labour and Working Conditions	Principle 3: Human Rights Principle 4: Women's Economic Empowerment
Performance Standard 3: Resource Efficiency and Pollution Prevention	Principle 2: Our Business Operations Environmental and Social Footprint
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	
	Principle 5: Financial Inclusion
	Principle 8: Collaborative Partnerships
	Principle 9: Reporting

The principles have been taken on board by the IFC, evidenced by the references to Principles 2 and 8 during workshops held in Lagos between November 12-15, 2013 for local banks and E&S consultants. The IFC approach in its series of workshops has been to include the CBN principles in its training material to ensure that

it leverages the progress that it has made through its relations with its client banks. Where there are clear similarities between the performance standards and the CBN principles, IFC taking them on board fast tracks the process of implementation. Where the CBN principles do have a performance standards equivalent they are addressed separately adapting the reporting frameworks and approaches used for the other performance standards.

This approach provides an opportunity to support the CBN and the banking sector in the roll out and implementation of the principles. IFCs support also includes the participation of international consultants from markets where E&S practice is advanced helping to bring in international best practice to the process.

Experience with Implementation of Nigerian Sustainability Banking Principles

The Nigerian banking sector through its bankers committee has been a key driver of the implementation of the CBNs sustainability banking principles. Within the Bankers Committee there is an Economic Development and Sustainability Committee (EDSC) responsible for their efforts. This committee has sub committees for; Agriculture, Power, Oil and Gas (the focus sectors of the NSBP). There is also a Sustainability Working Group (SSWG) which meets periodically through weekly conference calls to update on progress on NSBP implementation. This chapter looks at the experience of individual banks met during a mission to Lagos between November 6-9, 2013 and their efforts in implementing E&S principles through either their own initiatives or through adapting of the NSBP to their approach. There are two parts to this section; a summary of the discussions with the banks and a review of the responses provided through questionnaires that were developed. The banks discussed with are GTbank, Access Bank, Diamond bank, FCMB, FBN and Ecobank.

Guarantee Trust Bank –The bank has an E&S Manager whose main responsibility is to manage the bank’s review of E&S issues in its projects. DFI participation includes EIB, DEG (in Ghana) and IFC. The Board has approved their E&S Sustainability Policy. There is appropriate attention to screening and classification that is tracked along the risk assessment and disbursement process. The bank has been conducting training and developing guidance.²

Access Bank –The bank has an E&S Manager whose responsibility is to manage the bank’s review of E&S issues in its projects. The Bank has received a lot of support including having its E&S officer go to FMO for training. Training is aligned and promoted by both IFC and FMO. The bank’s senior management has been sent for training on E&S management. The bank identifies E&S issues as part of its credit review process across its entire portfolio not just the IFC portion. The bank has a Sustainability Tool Kit which was approved by its Board and includes all components of the ESMS process plus other aspects including social reasonability. There is also a gender unit since 2008. The E&S Risk Management Policy was also approved by the Board in 2013. The bank has also been one of the pioneering members of the CBN SBP subcommittee and aligns their E&S practice with the CBNs sustainable banking principles making adjustments to accommodate new requirements. The CEO is a key champion not only in this bank, but for the entire Nigeria banking sector, as noted by his serving on the Global Fund for HIV Aids and Friends of the Global Fund.

Diamond Bank- The bank has an E&S Manager whose responsibility is to manage the bank’s review of E&S issues in its projects. The E&S Manager is very active in the industry effort to ensure wide application of the CBN sustainability banking principles, which largely includes E&S issues. These initiatives began in 2009, and by 2010 there was a corporate ESMS in place. Capacity building came from IFC and FMO. The IFC STEP course was used by all credit officers. Continued training and sustainability program development has been done by Thrixtle consultants and this is leading to a Sustainability Framework. Training included a 2-day

² <http://www.gtbank.com/corporate-citizenship> - GTBs Corporate Social Responsibility website

training course by FMO across all bank services, including Branch Managers, with a train the trainer program, and a roll out “road show” to the 4 Diamond regions.³

First City Monument Bank FCMB - The bank is a member of the founding group of the CBN Banking principles. There is an ESMS/Sustainability policy in place. The bank’s staff have had access to capacity building and training through FMO, EIB and PROPARCO. They have recently had their E&S officer leave and will be recruiting for a new person shortly. E&S training included the use of IFCs STEP for 850 staff as well as customized training for specific groups. There is a designated E&S template being refined, as well as an SME Information Statement to identify potential E&S risks. They have a customer who is building the first LEED office complex in Nigeria

First Bank (FBN) – The bank has access to DFI financing from EIB/IFC/DEG and PROPARCO. The bank has recently launched development of the Sustainability Strategy and Roadmap, and hired a lead specialist who works with 3 staff to develop the process and tools to implement the CBN SBP. The ESMS is being developed. The Risk Management approach has been addressing E&S issues, but will have a more formal process in the near future. The portfolio has a monthly Risk Report to the Board which will also include E&S issues.

Ecobank – The corporate sustainability policy and framework is lead from the corporate level, out of the regional corporate office for all 34 countries in Sub-Sahara Africa. The bank has a lead E & S officer. The Bank started building on the Equator Principles as well as the UN-FI Compact. There is now a Group E&S Policy and Framework, to which the Nigeria Ecobank adapted the CBNs SBP. The corporate process is to incorporate E&S into their business model, including when necessary E&S assessments and actions plans. This will include site visits from the 4 staff in the E&S group. Training has taken place across all Relationship Managers and Officers at the Corporate, local and SME levels including the fundamentals of screening and classification. There is an applicable checklist of risk events for specific sectors, such as agriculture.

Information based on the questionnaire – the questionnaire was derived from a combination of the IFCs criteria for performance standards and the CBNs SBP. The banks that provided responses to the questionnaires are Keystone Bank (whom the mission did not meet with), Diamond bank, Ecobank, First Bank of Nigeria, Access Bank, FCMB, and GTbank. This section will look at areas where the banks unanimously indicate there is no progress and exceptions where only one bank indicated it had begun the process.

There were a total of 47 questions requiring in most instances a Y or N response. In a few instances documents or figures were required to be provided. Out of the questions all banks indicated at Y to 6 of the questions, there were another 5 questions that all the banks answered N.

On the development of an E&S management system, all banks except **FBN** indicated that they had one in place.

On the question about the existence of exclusion rules, all banks indicated that they are in place and they apply to domestic and international operations.

On the application of E&S standards to third parties only **FCMB** indicated that it was doing this.

On the development and implementation of a human rights approach none of the banks indicated that they had one in place.

On the availability of E&S Performance linked incentives, only **FCMB** indicated that it had them in place.

³ <http://www.diamondbank.com/index.php/component/content/article/2-uncategorised/507-sustainability-overview-and-governance>

Various documents were presented to support some of the affirmative answers provided. The table below illustrates the documents and the institutions that provided them:

Table 2: Banks and Supporting Documents provided to Questionnaire Answers

	Bank	Documents Provided
1	Access Bank	2012 Sustainability Report; 2011 Project finance activities in line with Equator Principles
2	Diamond Bank	Environmental and Social Risk Management (ESRM) Framework
3	GTBank	Sustainability Policy
4	FCMB	Footprint policy; Sustainable banking policies; Abridged Sustainable Environmental Management System (SEMs)

Sector wide implementation of the sustainability banking principles is clearly still at an early stage. Banks that have made some progress are those with a long history of relationships with foreign financial institutions. Through the financial relationships with these institutions these banks have developed the internal systems and skills needed to manage and implement equivalents of the World Bank's performance standards. This puts them in a good position to apply the CBNs SBPs.

Nigeria Banking Sector and E&S Due Diligence Experience

IFC Exposure through Local Banks in the DFI Target Sector

IFCs loan portfolio in Nigeria to its participating banks is about US703.4m. About USD116.3m (23.6%) of that is in the target sectors of MSME and Agribusiness. These facilities are made available through its client banks.

Table 3: IFC Exposure to the DFI Sectors through Local Banks

Bank Name	Project ID	Amount USD 'M	Target Sector
Diamond Bank	25986	30.0	MSMEs
Ecobank	26872	25.0	MSMEs
FCMB	29384	50.0	MSME/Agribusiness
Access Bank	32192	11.3	MSME
Access Bank	32193	50.0	MSME
IFC Loans to DFI Target Sectors		166.3	
Percentage of IFC portfolio		23.6%	
Total IFC FI Exposure		703.4	

IFCs requirements from the client banks in the management of E&S issues are fairly standard. They tend to require the following:

- Development of an Environmental & Social Management System (ESMS) relevant to its business process prior to disbursement, that is satisfactory to IFC, and that ensures that all its investments are screened and processed to avoid supporting activities on the IFC exclusion list and that ensures that its corporate projects are in compliance with the applicable National Environmental and Social Laws and regulations.
- Demonstrate commitment and resources to implementing the ESMS, and take action to remedy any gaps in implementation on an on-going basis.
- Designate appropriate individuals who will have responsibility for implementation of the ESMS.

- Submission of a periodic report to IFC, per a format provided by IFC.

Local Bank Exposure and Experience in the DFI Sectors

Local bank asset growth has begun to pick up since the portfolio issues experienced as a result of the global financial crisis. However, growth in assets would be more relevant for the DFI if it had some exposure to the focus MSME sector (including agriculture). It might also be helpful if the institutions with exposure to those two sectors have relationships with IFC. This would mean that they have some experience in responding to IFC reporting requirements on E&S issues and as a result the systems and capacity would more likely be in place. Table 4 illustrates the totals assets for 15 local banks for 2011 and 2012.

Table 4: Nigeria Bank Total Assets for 2012 and 2011

Bank	Total Assets	
	2012	2011
	N'million	N'million
1 Access Bank PLC	1,515,750	945,967
2 Diamond Bank PLC	1,059,140	722,966
3 FBN Holdings PLC	3,186,130	2,463,540
4 First City Monument Bank PLC	890,314	593,273
5 Fidelity Bank PLC	914,361	739,508
6 Guaranty Trust Bank PLC	1,620,320	1,525,010
7 Skye Bank PLC	1,071,310	892,856
8 Stanbic IBTC Holdings PLC	676,819	542,272
9 Sterling Bank PLC	580,226	504,428
10 United Bank of Africa PLC	1,933,060	1,655,460
11 Union Bank PLC	886,468	843,763
12 Unity Bank PLC	395,720	373,859
13 Wema Bank Plc	245,705	222,239
14 EcoBank	1,325,000	1,085,000
15 Zenith Bank PLC	2,436,890	2,154,710
Total:	18,737,213	15,264,851

The next table illustrates the individual bank exposure to the project focus sector. The data provided in the tables were provided by officers of the banks who responded to the questionnaires. Other data was obtained from the annual reports of the banks listed. It would be helpful to look at size of exposure relative to total assets and relative to their peers. This could be a useful decision metric, particularly if the resources to be provided by the World Bank to the DFI represent a significant part of their operations in the two sectors.

Table 5: Local Bank Exposure to DFI Sectors for 2012

		SME	Agric
	Bank	N'million	N'million
1	*Access Bank PLC	30,752	10,965
2	*Diamond Bank PLC	26,860	11,005
3	FBN Holdings PLC	150,316	54,006
4	*First City Monument Bank PLC	54,617	13,655
5	Fidelity Bank PLC	32,680	13,050
6	*Guaranty Trust Bank PLC	16,020	3,175
7	Skye Bank PLC	89,858	5,002
8	Stanbic IBTC Holdings PLC		
9	Sterling Bank PLC	7,442	6,508
10	*United Bank of Africa PLC	55,662	44,718
11	Union Bank PLC		
12	Unity Bank PLC	66,351	25,031
13	Wema Bank Plc		
14	*Ecobank	28,983	41,464
15	Zenith Bank PLC		
	Total:	559,540	228,579
	Note:		
	*Banks in IFCs portfolio		

Table 4 above illustrates exposure to the target sectors by a number of banks. The tendency is for the banks to have more exposure to SMEs than agriculture except for Ecobank where the situation is reversed. The banks that are in IFC's portfolio, also maintain a healthy portfolio in the target sectors. Namely Access, Diamond, First City Monument Bank, Guaranty Trust Bank, UBA and Ecobank.

Through their relations with IFC, the banks apply E&S principles in the loan evaluation and supervision processes. Suggesting that they have enough experience in this to be able to handle requirements from the DFI.

Identification of Current Constraints in Rolling out the Sustainability Principles

As part of its support of the NBSP, the Bankers committee and a number of non-banking financial institutions endorsed the principles. Since then, the process of implementation has been a slow one. The CBN has a special adviser to the Governor with mandate to oversee its implementation. The banking committee has a number of sub committees with defined roles to play. Two of such committees are the EDSC and the SSWG which have been discussed in Chapter 2 of this report.

IFC has played a supportive role through its local implementation of the World Bank's performance standards and its relationship with some local banks. However, the process for implementation of the NSBP may need stronger central ownership.

There is limited appreciation of the benefits of implementing E&S principles within bank operations. IFC's training program has focused on building the capacity of participants to make the business case with management as a means to driving the process. So far they are seen as either a reporting requirement to CBN or a donor requirement. As a result, the latter is used to define banks that apply the principles as those with significant donor relationships and projects.

There also appear to be exclusion of certain banks based on their operating profile. The banking sector is categorized in tiers based on total assets. Tier 1, 2, and 3 are the main categories and banks in the first tier are seen as initiators of the process. The co-chairs of the NSSP implementation working group are Access and Diamond bank. This may not be far removed from the fact that these banks' leadership has significant relationships with donor agencies and as a result more inclined to implement the requirements of the principles.

Communication within the sector of the activities of the working group and invitations to meetings appear to be somewhat selective. One of the proposals is the need for a secretariat to drive the process. However, funding of the secretariat is an issue. IFC has so far limited its role to that of a catalyst with the objective of the sector and the CBN stepping in to keep the momentum going. IFC has also indicated that its ability to manage the process is limited by budget constraints. They may be in a position to warehouse the secretariat if the banks are in a position to collectively fund its operations and upkeep.

The CBN has taken a number of initiatives to implement various aspects of the principles. **Principles 1, 2, 6 & 7** are being implemented internally by the CBN to reduce its own carbon footprint. **Principle 5** is being pursued through a N220billion fund to improve financial inclusion. 60% of the fund is targeted at women owned or headed enterprises to address **Principle 4**. **Principle 3** is being implemented through the development of a human rights manual which has been agreed by CBN/Banks. The goal being that 20% of top management in banks and 30% of bank boards should be women within 3 years (cross cutting with Principle 4). **Principle 9** which has to do with reporting requirements is a work in progress. Reporting requirements are still in draft. When final and approved by CBN management they will be made available to the industry. **Principle 8** is being pursued through CBNs relationship with the IFC on capacity building for CBN staff and the larger industry on E&S issues.

On industry wide implementation, CBN initially played an active role, however the banks indicated that the CBN take a back seat and allow the Banks to drive the process. More recently the CBN is keen to step back in the leadership role, particularly as it is building its own internal process for implementing the principles. The CBN would like a situation where the process of implementation moves quickly and involves all stakeholders in the industry. A Special Adviser to the Governor on Sustainable Banking was appointed in January of 2013 with the primary mandate of driving implementation of the principles. The SA attends banker's committee meetings where updates are provided on the progress being made in implementation of the principles.

Recommendation - IFC continue to drive process in interim, banks to provide funding for central coordination, CBN to warehouse that role.

Opportunities for Capacity Building and Technical Assistance

IFC has led the process through its Environmental Performance and Market Development (EPMD) Program. Realizing the importance of building local capacity, IFC initiated a training program to include local consulting firms and the E&S teams within the banking sector. This program commenced in February of 2013. The IFC program focuses on two segments of the banking sector; the consulting community and the banking sector.

IFC sent our invitations to over 45 consulting firms. It received responses from 27 of them. The table below lists the firms that participated in the training session.

Table 6: List of consulting firms participating in IFC's EPMD

S/No	Name of Consulting Firm
1	UNIQUE VENTURE CAPITAL
2	CIBN
3	Financial Institutions Training Centre (FITC)
4	ENVIRONMENTAL ACCORD
5	THISTLE PRAXIS CONSULTING
6	ROSEBANK CONSULTING
7	JAVANE LIMITED
8	GOLDEN LEAP HSE CONSULT
9	ERML

Invitations were also sent to all the banks. 10 of them participated fully in the workshops. The table below illustrates the list of participating banks

Table 7: List of Banks that Participated in IFC's EPMD

S/No	Banks
1	ACCESS BANK
2	Zenith Bank
3	UBA GROUP
4	KEYSTONE BANK
5	FIDELITY BANK
6	DIAMOND BANK
7	FIRST CITY MONUMENT BANK
8	WEMA BANK
9	First Bank
10	Ecobank

The inclusion of consulting firms is designed to provide a pool of local expertise that will provide technical assistance to financial institutions. Although it is becoming clear that the big consulting firms; Accenture, PWC, Deloitte, Ernst and Young are beefing up their E&S operations to respond to local demand. Workshop participants indicate that their ability to draw from expertise globally could be a constraint on their ability to make inroads. The local firms also admit that pricing could be an advantage for them but referrals would be key to having local institutions engage them. The IFC session was also designed in such a way as to allow the various consulting companies present their expertise to participating banks.

The banks were invited to provide insights on the various skills that need to be captured in-house. There is particularly emphasis on the reporting requirements which are key to the NSBP. The EMPD did not expect to have the entire pool of staff within the bank that are responsible for E&S issues but to expose the needs to a high enough level that would motivate them to make the case to senior management. Capacity building goes beyond the IFC workshop and the staff of banks in the E&S units. It would also include staff within the credit function as they would need to develop the skills to ensure that the E&S procedures are applied in the appraisal of new projects.

Annex 3. OUTLINE FOR ESMS FOR FINANCIAL INSTITUTIONS

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Background

This Environmental & Social Management System (ESMS) details the policy, procedures and workflow that will be followed for investments made by _____ (“the Company”) under the management and administration of _____ (“the Environmental and Social Coordinator (or other designated officer”).

Environmental & Social Management System

2.1 Policy

The Company continually endeavors to ensure effective Environmental & Social management practices in all its activities, products and services with a special focus on the following:

- Ensuring that all activities undertaken by the Company are consistent with the Applicable Requirements outlined later in this document
- Ensuring that all projects are reviewed against the Applicable Requirements
- Financing projects only when they are expected to be designed, built operated and maintained in a manner consistent with the Applicable Requirements
- Making best efforts to ensure that all projects are operated in compliance with the Applicable requirements on an ongoing basis, during the currency of the Company’s financing
- Ensuring transparency in its activities
- Ensuring that the management and the shareholders of the client companies understand the policy commitments made by the Company in this area.

This Policy will be communicated to all staff and operational employees of the Company.

Signed

Effective Date

2.2 Applicable Requirements

The Company will ensure that all projects are reviewed and evaluated against the following Environmental & Social requirements

- The WBG Exclusion List for all projects
- The applicable national laws on environment, health, safety and social issues and any standards established therein
- The WBG Performance Standards (where appropriate)

2.3 Procedures

- 2.3.1 At an initial stage of inquiry, the Environmental and Social Coordinator (or other designated officer) will apply WBG's Exclusion List (see Appendix A) to the project. If the project involves an excluded activity, the prospective client will be so informed, and further consideration of financing for the project will be terminated. Otherwise, the Environmental and Social coordinator will indicate the Applicable Requirements for the project.
- 2.3.2 When the Environmental and Social Coordinator (or other designated officer) indicates that the project does not involve an excluded activity, the prospective client will be informed that the Company will undertake (if required) an Environmental & Social Due Diligence (ESDD) as part of the appraisal process.
- 2.3.3 The Environmental and Social Coordinator or other designated officer will undertake (or appoint a consultant to undertake) an ESDD as per the guideline in Annex 3.3. Depending on the complexity of the project, the ESDD can be a desk review, based on a credit officer's site visit or require a full scale review conducted by a technically qualified person or consultant.
- 2.3.4 The client company must be able to demonstrate compliance to the Applicable Requirements. Demonstration of compliance must be to the Environmental and Social Coordinator (or other designated officer)'s satisfaction, although the opinion of third parties such as regulatory agencies or the WBG can be sought. Where compliance cannot be demonstrated, a Corrective Action Plan must be agreed to in order for the investment to proceed. The plan must specify all of the necessary actions to bring a project into compliance. A target completion date for each specified action must also be agreed.
- 2.3.5 Prospective clients must provide all requested information and Environmental and Social Coordinator (or other designated officer) must have concluded that the Project is expected to meet the Applicable Requirements (with Corrective Action if required) prior to the Company's decision to make an investment.
- 2.3.6 Environmental and Social performance will be evaluated on an annual basis, including status of implementation of the Corrective Action. The benchmark for performance will be the ongoing compliance against the Applicable Requirements. Performance evaluation will be undertaken by:
- a) The Company's client companies, who will provide annual reports to the Environmental and Social Coordinator (or other designated officer), who may follow up as required with further queries or site visits; and
 - b) The Environmental and Social Coordinator (or other designated officer), who will provide Performance Reports as per Annex 3.5 to the Management and WBG, to be prepared on

the basis of the Client annual reports provided to the Environmental and Social Coordinator (or other designated officer) and the ESDD and supervision conducted.

2.3.7 All investment agreements will contain appropriate environmental representations, warranties, and covenants requiring that projects are in compliance in all material respects with host country environmental, health, safety and social requirements embodied by state general laws and implementing agencies and conducted in accordance with any Applicable Requirements.

2.4 **Organization and Responsibilities**

2.4.1 [FIRST AND LAST NAME] is the Environmental and Social Manager/Coordinator. The Environmental Manager will have oversight for environmental and social issues, will ensure resources are made available for environmental management, and will sign the Company's annual environmental performance report to IFC.

2.4.2 The Environmental and Social Manager/Coordinator is [FIRST AND LAST NAME].

2.4.3 The responsibilities of the Environmental and Social Manager/Coordinator include:

- During due diligence, the evaluation of environmental compliance of a target client company with Applicable Requirements;
- Supervising projects in the portfolio against on-going compliance with the Applicable Requirements.
- The preparation of an annual environmental performance report, based on the annual performance report prepared by the client companies.

2.4.4 The Environmental and Social Manager/Coordinator will ensure that these procedures are implemented for each project, and that records of environmental reviews are maintained.

2.4.5 The Environmental and Social Manager/Coordinator (or other designated officer) will ensure that all investment decisions are supported by appropriate due diligence documentation (including, but not limited to, an environmental section in each final Investment Memorandum). The Company will also ensure that the WBG is notified if and when the current Environmental and Social Manager or the current Environmental and Social Manager/Coordinator leaves that position, and will provide the WBG the name of the new Environmental and Social Manager or Coordinator.

2.4.6 Legal Counsel will ensure that appropriate environmental representations, warranties, and covenants are incorporated in each stock purchase agreement.

2.5 **Resources and Capabilities**

2.5.1 The Environmental and Social Manager/Coordinator will work with management to ensure that adequate Company resources have been committed to allow for the effective implementation of the environmental policy and procedures of the Company.

2.5.2 The Environmental and Social Manager/Coordinator (or other designated officer) will need to be technical qualified to be able to carry out the due diligence or review work carried out by a consultant.

- 2.5.3 The Environmental and Social Manager/Coordinator will maintain a file of qualified environmental and social risk consultants who can be called upon to assist in conducting environmental and social reviews.

2.6 Records to be Maintained

- 2.6.1 Environmental & Social Due diligence (ESDD)
This is the record of the Company's E&S review of a project at the time of considering of the project for investment and forms
- 2.6.2 Environmental & Social Supervision records for projects being supervised
- 2.6.3 Reports to be provided to Company management and to the WBG

Annex 4. WBG EXCLUSION LIST

All participating financial intermediaries (PFIs) must apply the following exclusions:

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCBs, wildlife or products regulated under CITES.
- Production or trade in weapons and munitions⁴.
- Production or trade in alcoholic beverages (excluding beer and wine) ¹.
- Production or trade in tobacco¹.
- Gambling, casinos and equivalent enterprises¹.
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
- Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
- Drift net fishing in the marine environment using nets in excess of 2.5 km in length.
- Production or activities involving harmful or exploitative forms of forced labor⁵/harmful child labor⁶.
- Commercial logging operations for use in primary tropical moist forest.
- Production or trade in wood or other forestry products other than from sustainably managed forests.

⁴ This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.

⁵ Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

⁶ Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

Annex 5. ESMS CHECKLIST

Environmental & Social Management System (ESMS) Checklist
Name of Financial Institution: _____ Name(s) of Senior Managers: _____ Approval date: _____
ESMS policy and management commitment—<i>check all that apply:</i>
<input type="checkbox"/> Policy with regard to Environmental and Social (E&S) risk management <input type="checkbox"/> ESMS policy approved by Board <input type="checkbox"/> ESMS specifies types of investments/loans and activities it applies to (e.g., entire portfolio/investment type)
ESMS process and procedures—<i>check all that apply:</i>
<input type="checkbox"/> Documented process to assess Environmental and Social impacts and risks of its projects <input type="checkbox"/> ESMS specifies applicable requirements (e.g., Exclusion List/national laws/WB Performance Standards) <input type="checkbox"/> E&S due diligence process integrated with risk assessment procedures <input type="checkbox"/> Project site visits conducted as part of risk assessment procedures <input type="checkbox"/> Review of borrower’s applicable environment, health and safety permits <input type="checkbox"/> Loan agreements contain covenants requiring ongoing compliance with applicable requirements (e.g., national laws)
E&S monitoring and record keeping—<i>check all that apply:</i>
<input type="checkbox"/> Process for monitoring ongoing compliance with applicable requirements <input type="checkbox"/> Borrowers required to report accidents/incidents within reasonable timeframe <input type="checkbox"/> Borrowers required to provide periodic reports pertaining to E&S performance of projects
ESMS internal feedback and continuous improvement—<i>check all that apply:</i>
<input type="checkbox"/> Process for periodically reporting Environmental and Social performance information internally to senior management <input type="checkbox"/> Continuous improvement process in place to revise and update ESMS (e.g., changes in national law/international best practices)
E&S external reporting—<i>check all that apply:</i>
<input type="checkbox"/> Annual reporting on E&S performance to PIU/WB
ESMS roles and responsibilities—<i>check all that apply:</i>
<input type="checkbox"/> Designated ESMS Officer <input type="checkbox"/> Designated ESMS Environmental and Social Coordinator(s) <input type="checkbox"/> Description of ESMS responsibilities of different roles
ESMS capacity and resources—<i>check all that apply:</i>
<input type="checkbox"/> Process for communicating ESMS policy and procedures across Financial Institution <input type="checkbox"/> ESMS includes tools (e.g., checklists/guidance notes) for its implementation <input type="checkbox"/> Budget allocated for ESMS training <input type="checkbox"/> Training plan for ESMS implementation

Environmental & Social Management System (ESMS) – First Report

Policies & Processes	Yes/No	
Has your organization developed and implemented an ESMS?		If yes, please attach a copy of the ESMS to this report.
If there is an ESMS already in place, have there been any updates to the ESMS or policy and procedures adopted by your organization during the reporting period?		If yes, please provide a copy of the updates including dates and reasons for the same.
Has senior management signed off on the updated policy/procedure?		If yes, please provide the date and internal communication indicating the same.
Please give details of any transactions rejected on environmental, health, safety or social grounds.		
Please state any difficulties and/or constraints related to the implementation of the environmental and social procedures.		
Please describe how you ensure that your clients and their projects are operated in compliance with the National laws and regulations.		
Please give details of any material environmental and social issues associated with borrowers during the reporting period in particular.		
Capacity	Yes/No	
Please provide the name and contact information of the Environmental Officer or Coordinator who has the overall responsibility for the implementation of ESMS.		Please describe the training or learning activities the Environmental Officer or Coordinator attended during year.
Please provide current staffing of other core ESMS persons in the organization involved with ESMS implementation.		Please describe the training provided to the ESMS persons and other team members during year.
What was the budget allocated to the ESMS and its implementation during the year?		Please provide budget details including staff costs and training as well as any actual costs.
Monitoring	Yes/No	
Do you check for ongoing compliance of your projects with national regulation and any other requirements?		If yes, please describe the process including any environmental and social considerations if applicable.
Please describe how you monitor the client and project environmental and social performance.		Please describe and provide supporting documents and please provide information on the number of projects where a field visit was conducted by staff to review aspects including environmental and social issues.

Please provide details of any accidents/litigation/ complaints/regulatory notices and fines: - Any incidents of non-compliance with the E&S Requirements - Covenants/ conditionalities imposed by the Bank as a result of any non-compliance		
Reporting	<i>Yes/No</i>	
Is there an internal process to report on environmental and social issues to Senior management?		If yes, please explain the process, reporting format and frequency and actions taken if any.
-		

Activities on IFC Exclusion List	
If any, please indicate the percentage of loans or investments out of your total outstanding exposure provided to clients who are substantially involved in WBG excluded activities.	_____%
If the percentage is not zero, please explain these exposures and any steps having been taken to reduce such exposure.	

Environmental & Social Management System (ESMS) – Consecutive Reports

Processes	<i>Yes/No</i>	
Have there been any updates to the ESMS or procedure?		If yes, please provide a copy of the updated procedure and reasons for the same.
Has Senior management signed off on the changes?		If yes, please provide a copy of the same.
Please provide details of the implementation budget and reasons for changes from the previous year if any.		
Were any transactions rejected on account of the IFC exclusion list?		If yes, please provide details.
Were there any difficulties and/or constraints related to the implementation of the environmental procedures?		If yes, please provide details.
Were there any material environmental and social issues associated with borrowers during the reporting period in particular?		If yes, please provide details.
Supervision and monitoring	<i>Yes/No</i>	
Do you supervise the performance of your projects?		If yes, please describe how you do this and the extent of coverage of your portfolio.
Do you conduct client site visits?		If yes, please describe the process including any environmental and social issues considered.

ESOM Nigeria Development Finance Institution

Sustainable finance	Yes/No	
Have you made any investments in projects that have environmental and social benefits such as investing in management systems, energy efficiency, renewable energy, cleaner production, pollution management, supply chain greening, corporate social responsibility, community development etc?		If yes, please provide details.

Annex 7. APPLYING THE WBG PERFORMANCE STANDARDS FOR THE PROJECT

This FI-2 Program is required to apply the Performance Standards to transactions involving specific project finance activities. The Development Finance Project will initially assess E&S risks of transactions according to Performance Standards 1, 2 and 5 and will require its borrowers/investees to comply with these Performance Standards and any others if deemed necessary in the future, in their operations. The WBG may require the application of the Performance Standards to other transactions in accordance with the E&S risk management requirements determined at the time of the E&S review process detailed throughout the ESOM discussions.

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

Application of Performance Standard 1 requires the development of an ESMS by each PFI to identify and manage the E&S risks associated with the PFI and their portfolio on an ongoing basis (see Annex 2 for specific details on the ESMS). The type, scale, and location of the project guide the scope and level of effort devoted to the risks and impacts identification process. The scope of application of the ESMS is in part determined by the use of funds from the WBG financing. In this case, the PFI's entire MSME operations should also apply the agreed E&S requirements. This is also noted to be considered international best practice for E&S risks today across many FIs.

The organizational structure that defines roles, responsibilities, and authority to implement the ESMS should be set out clearly. The ESMS should be tailored to fit the needs of the PFI and can be integrated into its existing risk management systems for credit, operational risk, finance, legal, compliance, or any other relevant system operating within the PFI, which may already consider some E&S risk. These processes should be used as a foundation on which to build the additional E&S risk management elements of the ESMS.

To ensure that borrowers/investees comply with the PFI's E&S policy, the PFI should incorporate E&S provisions and investment conditions into legal agreements. Standard E&S terms are typically represented as general E&S definitions, representations and warranties, disbursement conditions, and/or covenants regarding compliance with the requirements as defined by the PFI's E&S policy.

PFI senior management should be informed regularly of the E&S risks at the portfolio level and of individual borrowers/investees, if necessary. This information gives the PFI a better understanding of its overall exposure to E&S risk, and allows the PFI to focus on transactions and borrowers/investees that may require additional resources to manage E&S impacts. PFIs should periodically review the implementation 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.

Performance Standard 1 also requires WBG clients to implement and maintain a procedure for external communications, consultations, disclosure, and a grievance mechanism to receive external complaints from the public regarding any aspects of operations. For the PFI, this requires implementing a process for receiving and responding to concerns from third parties—for example, concerns related to the PFI's investment activities and/or a borrower/investee in its portfolio. The process should provide publicly available and easily accessible channels (e.g., phone number, website, e-mail address, etc.) to receive communications and requests from the public for information regarding E&S issues. The PFI will assess the relevance of the external communication received and determine the level of response required, if any

Where the WBG client's operations involve activities and facilities that are likely to generate impacts, Performance Standard 1 requires clients to establish and maintain an emergency preparedness and response system to respond to accidental and emergency situations. For a PFI 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 as well as that of 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). Buildings that are owned or rented/leased by the PFI that are accessible to the public should be designed, constructed, and operated in full compliance with local building codes, local fire department regulations, local legal/insurance requirements, and in accordance with internationally accepted life and fire safety standards.

Applying Performance Standard 2 on Labor and Working Conditions to the PFI's Workforce

Performance Standard 2 requires WBG clients to commit to the fair treatment, non-discrimination and equal opportunity of employees, to maintain or improve employee-management relationships, and to promote compliance with national employment and labor laws. Performance Standard 2 also requires WBG clients to extend the same rights to certain third-party (contracted) employees.

For PFIs, this means (i) maintaining good working conditions and employee relationships through the adoption and implementation of clear and transparent human resources policies and procedures; (ii) reasonable conditions of employment (including non-discrimination); (iii) allowing freedom of association among employees; (iv) managing a grievance process to learn about employees' concerns and suggestions; and (v) in cases when collective dismissal of employees is unavoidable, having a fair retrenchment plan.

Human Resources Policies and Procedures

Performance Standard 2 requires WBG clients to adopt and implement human resources policies and procedures appropriate to the size of their operations and workforce. These policies and procedures should state the approach for managing employees and be consistent with the requirements of Performance Standard 2 and national law. For the PFI, this means documenting human resources policies and procedures and clearly communicating such policies and procedures to all employees. The scope and complexity of the human resources policies and procedures should be tailored to the size and nature of the PFI's workforce. The PFI should communicate employment terms to employees upon and throughout the duration of employment.

All employees should have a contract or letter of employment outlining the working relationship with the PFI, stating the employment conditions and referring to the PFI's applicable policies, procedures, and labor regulations. Employees should also have access to their employment records in accordance with national law.

A PFI will not employ children in any manner that is economically exploitative, or is likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical, mental, spiritual, moral, or social development. Where Nigerian laws have provisions for the employment of minors, the PFI will follow those laws. PFIs will identify employees under the age of 18 and undertake an appropriate risk assessment and regular monitoring of health, working conditions, and hours of work.

A PFI will not employ forced labor, which consists of any work or service not voluntarily performed that is exacted from an individual under threat of force or penalty.

A PFI should not tolerate any kind of harassment of its employees, including sexual harassment or mistreatment within the workplace. The PFI's human resources policy and procedures should outline the necessary measures for preventing this type of behavior and provide a mechanism for reporting and addressing inappropriate behavior.

Working Conditions and Terms of Employment

Performance Standard 2 also requires WBG clients to provide reasonable working conditions for all employees. For PFIs, this means providing conditions and terms of employment that, at a minimum, comply with national law and Performance Standard 2. In addition to salary, this should include a safe work environment free of

discrimination or harassment; maximum working hours and payment for overtime work for applicable employees/job types; health insurance; pension; and leave time for holidays, illnesses/injuries, and maternity.

Where collective bargaining agreements are in place, the PFI should verify that these meet the requirements of national law and Performance Standard 2, and provide conditions and terms of employment in line with these agreements. Where some employees are covered by collective bargaining agreements and others are not, the terms and conditions of employment as well as benefits of all employees in similar positions should be substantially equivalent. When the PFI provides fee-based services (e.g., training) to employees, these services should be provided in a non-discriminatory manner and should comply with national and international standards for quality, security, safety, and professional competency. Employee participation should not be mandatory and service fees should be at the market rate, transparent, and fair.

Employees' Organizations

This Performance Standard requires WBG clients to recognize the rights of their employees to form and join employees' organizations where permitted by law. These organizations should be freely chosen by employees and should not be under the direct influence or control of the employer or the government.

Non-Discrimination and Equal Opportunity

Additional requirements ask WBG clients not to make employment decisions on the basis of personal characteristics unrelated to job requirements. In certain situations, protection or assistance designed to increase employment of underrepresented groups in the workforce or in particular occupations are acceptable under Performance Standard 2. Such affirmative actions are not deemed to constitute discrimination and may be used where permitted by law. For the PFI, this requires applying the principles of equal opportunity and non-discrimination by basing all employment decisions (such as recruitment, hiring, working conditions, and terms of employment) on the ability of a person to perform their job duties.

Retrenchment

Performance Standard 2 also states that in the absence of alternatives to eliminating a significant number of work positions at one time, WBG clients are required to develop and implement retrenchment plans to reduce the adverse impacts on affected employees. For the PFI, this requires developing a retrenchment plan that includes an analysis of potential alternatives (options considered, number of positions saved, and a cost analysis). This process should (i) include consultations with employees to consider their concerns and ideas on adopting other measures (such as collective reductions in hours and salary) to avoid or minimize layoffs; (ii) communicate criteria for selection (which should be objective, fair, and transparent, and not based on personal characteristics unrelated to job requirements); and (iii) present compensation payments. The PFI should also establish a grievance mechanism to address potential claims that the retrenchment plan was not followed appropriately.

In cases where retrenchment cannot be avoided, the PFI should pay any outstanding back pay and benefits, as well as severance payments mandated by national law and/or collective agreements. If the PFI is required to make payments for the employees' benefit to specific third-party institutions such as pension funds or health funds, it should provide evidence of such payments to employees. Where payments can be made either to third-party institutions or as a direct cash payment to employees, the PFI should defer to the employee's preference.

Grievance Mechanism for Employees

Performance Standard 2 requires WBG clients to provide a mechanism for employees to raise workplace concerns and provide feedback. This mechanism should be clearly communicated to employees and allow for anonymous complaints to be raised and addressed. For PFIs, this requires developing a process whereby employees can state their concerns directly to human resources or management, bypassing their immediate supervisors if needed, and ensuring that matters are brought to management's attention and addressed in a timely manner. The mechanism should protect confidentiality and ensure that there is no retribution for filing grievances. The PFI should document all grievances and provide feedback to those who file complaints.

Workers Engaged by Third Parties

Performance Standard 2 also applies to contracted workers and requires WBG clients to take reasonable efforts to ensure that third parties that hire these workers are reputable and legitimate enterprises and have appropriate labor practices. For the PFI, this requires contractors hired for core functions to have the same rights and benefits as regular employees. For non-core functions, the PFI should establish policies and procedures for selecting and managing third-party employers to ensure that their labor practices are consistent with the requirements of Performance Standard 2.

Applying Performance Standard 5 on Land Acquisition and Involuntary Resettlement

The project will ensure that all applicable national and state laws and regulations pertaining to home ownership, occupancy and land tenure will be applied.

This Performance Standard applies to physical and/or economic displacement resulting from the following types of land-related transactions:

- Land rights or land use rights acquired through expropriation or other compulsory procedures in accordance with the legal system of the host country;
- Land rights or land use rights acquired through negotiated settlements with property owners or those with legal rights to the land if failure to reach settlement would have resulted in expropriation or other compulsory procedures;
- Project situations where involuntary restrictions on land use and access to natural resources cause a community or groups within a community to lose access to resource usage where they have traditional or recognizable usage rights;
- Certain project situations requiring evictions of people occupying land without formal, traditional, or recognizable usage rights; or
- Restriction on access to land or use of other resources including communal property and natural resources such as marine and aquatic resources, timber and non-timber forest products, freshwater, medicinal plants, hunting and gathering grounds and grazing and cropping areas.

The Performance Standard does not apply to resettlement resulting from voluntary land transactions (i.e. market transactions in which the seller is not obliged to sell and the buyer cannot resort to expropriation or other compulsory procedures sanctioned by the national or local legal system if negotiations fail). It also does not apply to impacts on livelihoods where the project is not changing the land use of the affected groups or communities.

Overall, each PFI ESMS process – discussed in Chapter 4 – ensures the loan application will contain questions regarding conditions related to home ownership, occupancy and land tenure as follows:

• Will the subproject require the acquisition of land?
• What is the status of the land holding (customary, lease, etc.)?
• Is there evidence of land tenure status (affidavit, other documentation)?
• Are there outstanding land disputes?
• What is the plot currently being used for being used for? (E.g. agriculture, gardening, etc.)

Where the subproject has required the acquisition of land, the PFI needs to assess community engagement, establishment of a grievance mechanism, information on project-affected people (i.e. census, socio-economic baseline), and compensation, including eligible land and assets, and livelihood restoration.

If the loan application and screening process identifies any shortcomings or issues of concern, the PFI will determine if these shortcomings or issues can be rectified in a reasonable time and manner. If it is determined these conditions cannot be resolved, the loan will not be processed.