

**ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT
OPERATIONS MANUAL (ESOM)
For Eligible Financial Intermediaries (EFI) in the DRC
Financial Infrastructure and Markets Project**

**CFEF
Ministry of Finance**

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ABBREVIATIONS AND ACRONYMS

BCC	Banque Centrale de Congo (Central Bank of DRC)
CFEF	Cellule de facilitation des états fragiles
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
GDP	Gross Domestic Product
GoDRC	Government of DRC
EFI	Eligible Financial Intermediary
IDA	International Development Association
IEE	Initial Environmental Examination
IFC	International Financial Corporations
ISDS	Integrated Safeguards Data Sheet
MENV	Ministry of Environment
MSMEs	Micro-, Small- and Medium Enterprises
NEMT	National Economic Management Team
PFI	Participating Financial Intermediary
PIU	Project Implementation Unit
SBP	Sustainable Banking Principles
WBG	World Bank Group

1.0 INTRODUCTION

The Project will assist in increasing the availability of term finance to Micro-, Small- and Medium Enterprises (MSMEs), by supporting the establishment of a new wholesale eligible financial intermediary (EFI) in DRC. The proposed World Bank financial intermediary loan in the total amount of US\$30 million to provide Tier 2 capital contribution to the EFI of (US\$15 million). In addition, the project will administrate technical assistance (TA) funding which will be used to increase the capacities of participating financial institution (PFIs) and MSMEs.

The EFI is anticipated to be an effective and efficient finance organization contributing to the development of the country. It will act as an intermediary between the long term funds available through the IDA grant and client base of the eligible PFIs.

The EFI will be the primary vehicle for disbursement of the resources that will be made available for its operations. The EFI will then extend the loans in US\$ denomination applying market terms and conditions to the PFIs to disburse as part of their operations. In this regard, it will provide wholesale term funding to eligible participating financial institutions (e.g. commercial banks and microfinance banks) for on-lending to MSMEs.

One of the prerequisites of the World Bank Group support for the EFI in DRC 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 DRC and the sustainability policies and frameworks of the participating World Bank Group entities. Accordingly, the World Bank Group and the Government of DRC (GoDRC) have collaborated in producing this manual for the Project Coordination Unit (Cellule de la facilité en faveur des états fragiles, or CFEF) housed at the Ministry of Finance, and the corresponding PFIs participating in this program. 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 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 World Bank team 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 associated with them. However, it is recognized that there may be some business activities in which the environmental and social risks and impacts are significant and require commensurate assessment and management, e.g., land acquisition, labor and working standards, inappropriate disposal of wastes, or unhealthy or hazardous working conditions. It should be noted that the project will not finance activities with major or irreversible environmental and social impacts.

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.

2.0 PROJECT IMPLEMENTATION ARRANGEMENTS

The day-to-day operations of the Project will be managed by CFEF, located within the Ministry of Finance. The CFEF is expected to include a Procurement Specialist, Finance and Administration Manager, M&E Specialist, and a Sustainability Specialist. The CFEF will be the main point of contact to the World Bank project team, and will develop a full operational plan before the project becomes effective that will encompass key ingredients of the ESOM.

The primary responsibilities of the CFEF are to:

- Provide overall project management;
- Begin to develop relations with the identified participating institutions and identify means to engage;
- Supervise activities of the EFI, which will in turn supervise those of the PFIs and procure consultants for market analysis studies, technical assistance for the PFIs, etc.;
- Draft policy and strategic planning documents for consideration by the EFIs board of directors;
- Consolidate reports to the World Bank, including quarterly financial reports and half yearly and annual implementation progress reports aligned to agreed project indicators and synchronized with half yearly World Bank review missions;
- Contracting and coordination of a consulting firm retained to conduct the annual technical audits.

The main implementation modalities, and the institutional arrangements to support those modalities, will be detailed in the Project Operations Manual (POM). In addition, the CFEF will coordinate with another executing agency (FPM ASBL) capacity building across the PFIs for enhancing the enabling environment and build market capacity for improved E&S performance of PFIs and their clients.

3.0 THE WORLD BANK PERFORMANCE STANDARDS

The World Bank Group has screened the proposed project components. As the project is providing support to the Government of the DRC (CFEF), the World Bank Operational Policies on environmental and social safeguards apply. However, in component 3 of the project, the CFEF is supporting the EFI, which will finance MSMEs. The EFI and MSMEs will follow the World Bank with regard to managing environmental and social risks. Performance Standards.. Each PFI, including the EFI 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 ; 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 project's on-lending to the PFIs will finance MSMEs that may engage in activities with environmental and social impacts. These activities are expected to be minimal to moderate (the equivalent of Category FI-3 or FI-2). The project will not finance on-lending for activities that have major and irreversible environmental and social impacts.

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 Private Sector Activity 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
- Performance Standard 8: Cultural Heritage.

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 PFI 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.

¹ Available at www.ifc.org/enviro

The PFIs will not support 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. Each PFI will assess E&S risks of transactions according to Performance Standards 1 through 8 (as seen in Annex 6) 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 that a proper ESMS is developed by using the checklist provided in Annex 4.

- 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. It should be noted that the project will support on-lending to MSMEs that undertake activities with low to medium environmental and social impacts only.

In agreeing to participate in the Project, each PFI accepts responsibility to the World Bank Group (through the project) 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 is ESOM clearance and annual review of the PIU 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 EFI 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

Each PFI will disclose through the PFI's website, if a website exists, or disclose in 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 EFI ESOM and PFI's ESMS:

- (a) the PFI's policy statement regarding 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 EFI and each PFI, the appraisal stage Integrated Safeguards Data Sheet (ISDS) of the project will be updated as and when necessary regarding environmental and social issues for the project and each proposed PFI entity activities.

Implementation Support

The project PIU will send to the World Bank 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 22. 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 3. 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 munitions².
- 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 the radioactive source is considered 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 labor³/harmful child labor⁴.
- Commercial logging operations for use in primary tropical moist forests.
- Production or trade in wood or other forestry products other than from sustainably managed forests.

² 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.

³ Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

⁴ 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 4. 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

Annex 5. ANNUAL PFI REPORT TO THE EFI AND WORLD BANK GROUP

Environmental & Social Performance Report

Please provide responses to the questions below. Please include additional sheets or attachments as required to provide details on questions that have been answered Yes.

Name of Organization			
Completed by (name):			
Position in organisation:		Date:	
Reporting period	From:		To:

PORTFOLIO INFORMATION

Report Covering Period:	
From:	To:

For the reporting period, please provide the following information about your portfolio **where applicable**:

FI Business Lines

Product line	Description	Total exposure outstanding for most recent FY year end (in US\$)	Average loan or transaction size (in US\$)
Long term:			
Transactions with tenor of up to TO BE DEFINED			
MSME/individual	Any lending, leasing or other financial assistance to any individual, with individual transactions less/more than US\$ TO BE DEFINED		

Project name	Type of loan (large corporate/ SME/trade finance)	Tenor of loan (months)	Value of exposure (US\$ mn)	Industry Sector ⁵	Any environmental and social risks and measures taken to mitigate the risks

⁵ Please use any standard classification or the sectors listed in the earlier table

ESOM DRC Eligible Financial Intermediary

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		Please describe and provide supporting documents and please provide information on the number of

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performance.		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	Yes/No	
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	Yes/No	
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	Yes/No	
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

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		any environmental and social issues considered.
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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 3. APPLYING THE WBG PERFORMANCE STANDARDS FOR THE PROJECT'S ON-LENDING ACTIVITIES TO PARTICIPATING FINANCIAL INTERMEDIARIES (PFIs)

The PFIs in the DRC Financial Infrastructure and Markets project will apply the Performance Standards to transactions involving specific project finance activities. The World Bank project and EFIEFI will initially assess E&S risks of transactions according to all 8 IFC Performance Standards and the WB's OP 4.03 and will require borrowers/investees to comply with these Performance Standards in their operations as relevant. 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.

Below is a brief overview of the 8 Performance Standards. The full text is available on the World Bank website for OP 4.03 Performance Standards for Private Sector Activities (please see Annex 1 References) and should be used to guide the application of the Performance Standards to transactions involving specific project finance activities.

Together, the eight Performance Standards establish standards that borrowers/investees are to meet throughout the life of an investment:

- 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

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

Performance Standard 1 underscores the importance of managing environmental and social performance throughout the life of a project. An effective Environmental and Social Management System (ESMS) is a dynamic and continuous process initiated and supported by management, and involves engagement between the client, its workers, local communities directly affected by the project (the Affected Communities) and, where appropriate, other stakeholders. Drawing on the elements of the established business management process of "plan, do, check, and act," the ESMS entails a methodological approach to managing environmental and social risks and impacts in a structured way on an ongoing basis. A good ESMS appropriate to the nature and scale of the project promotes sound and sustainable environmental and social performance, and can lead to improved financial, social, and environmental outcomes.

Objectives

- To identify and evaluate environmental and social risks and impacts of the project.
- To adopt a mitigation hierarchy to anticipate and avoid, or where avoidance is not possible, minimize, and, where residual impacts remain, compensate/offset for risks and impacts to workers, Affected Communities, and the environment.
- To identify and evaluate environmental and social risks and impacts of the project.

- To adopt a mitigation hierarchy to anticipate and avoid, or where avoidance is not possible, minimize, and, where residual impacts remain, compensate/offset for risks and impacts to workers, Affected Communities, and the environment.
- To promote improved environmental and social performance of clients through the effective use of management systems.
- To ensure that grievances from Affected Communities and external communications from other stakeholders are responded to and managed appropriately.
- To promote and provide means for adequate engagement with Affected Communities throughout the project cycle on issues that could potentially affect them and to ensure that relevant environmental and social information is disclosed and disseminated.

Performance Standard 2 Labor and Working Conditions

Performance Standard 2 recognizes that the pursuit of economic growth through employment creation and income generation should be accompanied by protection of the fundamental rights of workers. For any business, the workforce is a valuable asset, and a sound worker-management relationship is a key ingredient in the sustainability of a company. Failure to establish and foster a sound worker-management relationship can undermine worker commitment and retention, and can jeopardize a project. Conversely, through a constructive worker-management relationship, and by treating the workers fairly and providing them with safe and healthy working conditions, clients may create tangible benefits, such as enhancement of the efficiency and productivity of their operations.

Objectives

- To promote the fair treatment, non-discrimination, and equal opportunity of workers.
- To establish, maintain, and improve the worker-management relationship.
- To promote compliance with national employment and labor laws.
- To protect workers, including vulnerable categories of workers such as children, migrant workers, workers engaged by third parties, and workers in the client's supply chain.
- To promote safe and healthy working conditions, and the health of workers.
- To avoid the use of forced labor.

Performance Standard 3 Resource Efficiency and Pollution Prevention

Performance Standard 3 recognizes that increased economic activity and urbanization often generate increased levels of pollution to air, water, and land, and consume finite resources in a manner that may threaten people and the environment at the local, regional, and global levels. There is also a growing global consensus that the current and projected atmospheric concentration of greenhouse gases (GHG) threatens the public health and welfare of current and future generations. At the same time, more efficient and effective resource use and pollution prevention and GHG emission avoidance and mitigation technologies and practices have become more accessible and achievable in virtually all parts of the world. These are often implemented through continuous improvement methodologies similar to those used to enhance quality or productivity, which are generally well known to most industrial, agricultural, and service sector companies.

This Performance Standard outlines a project-level approach to resource efficiency and pollution prevention and control in line with internationally disseminated technologies and practices. In addition, this Performance Standard promotes the ability of private sector companies to adopt such technologies and practices as far as their use is feasible in the context of a project that relies on commercially available skills and resources.

Objectives

- To avoid or minimize adverse impacts on human health and the environment by avoiding or minimizing pollution from project activities.
- To promote more sustainable use of resources, including energy and water.
- To reduce project-related GHG emissions.

**Performance Standard 4
Community Health, Safety, and Security**

Performance Standard 4 recognizes that project activities, equipment, and infrastructure can increase community exposure to risks and impacts. In addition, communities that are already subjected to impacts from climate change may also experience an acceleration and/or intensification of impacts due to project activities. While acknowledging the public authorities' role in promoting the health, safety, and security of the public, this Performance Standard addresses the client's responsibility to avoid or minimize the risks and impacts to community health, safety, and security that may arise from project related-activities, with particular attention to vulnerable groups.

In conflict and post-conflict areas, the level of risks and impacts described in this Performance Standard may be greater. The risks that a project could exacerbate an already sensitive local situation and stress scarce local resources should not be overlooked as it may lead to further conflict.

Objectives

- To anticipate and avoid adverse impacts on the health and safety of the Affected Community during the project life from both routine and non-routine circumstances.
- To ensure that the safeguarding of personnel and property is carried out in accordance with relevant human rights principles and in a manner that avoids or minimizes risks to the Affected Communities.

**Performance Standard 5
Land Acquisition and Involuntary Resettlement**

Performance Standard 5 recognizes that project-related land acquisition and restrictions on land use can have adverse impacts on communities and persons that use this land. Involuntary resettlement refers both to physical displacement (relocation or loss of shelter) and to economic displacement (loss of assets or access to assets that leads to loss of income sources or other means of livelihood) as a result of project-related land acquisition and/or restrictions on land use. Resettlement is considered involuntary when affected persons or communities do not have the right to refuse land acquisition or restrictions on land use that result in physical or economic displacement. This occurs in cases of (i) lawful expropriation or temporary or permanent restrictions on land use and (ii) negotiated settlements in which the buyer can resort to expropriation or impose legal restrictions on land use if negotiations with the seller fail.

Unless properly managed, involuntary resettlement may result in long-term hardship and impoverishment for the Affected Communities and persons, as well as environmental damage and adverse socio-economic impacts in areas to which they have been displaced. For these reasons, involuntary resettlement should be avoided. However, where involuntary resettlement is unavoidable, it should be minimized and appropriate measures to mitigate adverse impacts on displaced persons and host communities should be carefully planned and implemented. The government often plays a central role in the land acquisition and resettlement process, including the determination of compensation, and is therefore an important third party in many situations. Experience demonstrates that the direct involvement of the client in resettlement activities can result in more

cost-effective, efficient, and timely implementation of those activities, as well as in the introduction of innovative approaches to improving the livelihoods of those affected by resettlement.

To help avoid expropriation and eliminate the need to use governmental authority to enforce relocation, clients are encouraged to use negotiated settlements meeting the requirements of this Performance Standard, even if they have the legal means to acquire land without the seller's consent.

Objectives

- To avoid, and when avoidance is not possible, minimize displacement by exploring alternative project designs.
- To avoid forced eviction.
- To anticipate and avoid, or where avoidance is not possible, minimize adverse social and economic impacts from land acquisition or restrictions on land use by (i) providing compensation for loss of assets at replacement cost and (ii) ensuring that resettlement activities are implemented with appropriate disclosure of information, consultation, and the informed participation of those affected.
- To improve, or restore, the livelihoods and standards of living of displaced persons.
- To improve living conditions among physically displaced persons through the provision of adequate housing with security of tenure⁵ at resettlement sites.

Performance Standard 6

Biodiversity Conservation and Sustainable Management of Living Natural Resources

Performance Standard 6 recognizes that protecting and conserving biodiversity, maintaining ecosystem services, and sustainably managing living natural resources are fundamental to sustainable development. The requirements set out in this Performance Standard have been guided by the Convention on Biological Diversity, which defines biodiversity as “the variability among living organisms from all sources including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are a part; this includes diversity within species, between species, and of ecosystems.”

Ecosystem services are the benefits that people, including businesses, derive from ecosystems. Ecosystem services are organized into four types: (i) provisioning services, which are the products people obtain from ecosystems; (ii) regulating services, which are the benefits people obtain from the regulation of ecosystem processes; (iii) cultural services, which are the nonmaterial benefits people obtain from ecosystems; and (iv) supporting services, which are the natural processes that maintain the other services.

Ecosystem services valued by humans are often underpinned by biodiversity. Impacts on biodiversity can therefore often adversely affect the delivery of ecosystem services. This Performance Standard addresses how clients can sustainably manage and mitigate impacts on biodiversity and ecosystem services throughout the project's lifecycle.

Objectives

- To protect and conserve biodiversity.
- To maintain the benefits from ecosystem services.
- To promote the sustainable management of living natural resources through the adoption of practices that integrate conservation needs and development priorities.

Performance Standard 7

Indigenous Peoples

Performance Standard 7 recognizes that Indigenous Peoples, as social groups with identities that are distinct from mainstream groups in national societies, are often among the most marginalized and vulnerable segments of the population. In many cases, their economic, social, and legal status limits their capacity to defend their rights to, and interests in, lands and natural and cultural resources, and may restrict their ability to participate in and benefit from development. Indigenous Peoples are particularly vulnerable if their lands and resources are transformed, encroached upon, or significantly degraded. Their languages, cultures, religions, spiritual beliefs, and institutions may also come under threat. As a consequence, Indigenous Peoples may be more vulnerable to the adverse impacts associated with project development than non-indigenous communities. This vulnerability may include loss of identity, culture, and natural resource-based livelihoods, as well as exposure to impoverishment and diseases.

Private sector projects can create opportunities for Indigenous Peoples to participate in, and benefit from project-related activities that may help them fulfill their aspiration for economic and social development. Furthermore, Indigenous Peoples may play a role in sustainable development by promoting and managing activities and enterprises as partners in development. Government often plays a central role in the management of Indigenous Peoples' issues, and clients should collaborate with the responsible authorities in managing the risks and impacts of their activities.

Objectives

- To ensure that the development process fosters full respect for the human rights, dignity, aspirations, culture, and natural resource-based livelihoods of Indigenous Peoples.
- To anticipate and avoid adverse impacts of projects on communities of Indigenous Peoples, or when avoidance is not possible, to minimize and/or compensate for such impacts.
- To promote sustainable development benefits and opportunities for Indigenous Peoples in a culturally appropriate manner.
- To establish and maintain an ongoing relationship based on Informed Consultation and Participation (ICP) with the Indigenous Peoples affected by a project throughout the project's life-cycle.
- To ensure the Free, Prior, and Informed Consent (FPIC) of the Affected Communities of Indigenous Peoples when the circumstances described in this Performance Standard are present.
- To respect and preserve the culture, knowledge, and practices of Indigenous Peoples.

Performance Standard 8 Cultural Heritage

Performance Standard 8 recognizes the importance of cultural heritage for current and future generations. Consistent with the Convention Concerning the Protection of the World Cultural and Natural Heritage, this Performance Standard aims to ensure that clients protect cultural heritage in the course of their project activities. In addition, the requirements of this Performance Standard on a project's use of cultural heritage are based in part on standards set by the Convention on Biological Diversity.

Objectives

- To protect cultural heritage from the adverse impacts of project activities and support its preservation.
- To promote the equitable sharing of benefits from the use of cultural heritage.

