

This document should be read in conjunction with the proposed World Bank Policy to understand the proposed responsibilities of the World Bank (in the Policy) and the Borrowing Country (in the Standards).

## **SECOND DRAFT FOR CONSULTATION JULY 1 2015**

# **Environmental and Social Standard 9. Financial Intermediaries**

### **Introduction**

1. The Bank is committed to supporting sustainable financial sector development and enhancing the role of domestic capital and financial markets. The nature of intermediated financing means that FIs are required to manage the environmental and social risks and impacts of their portfolio and FI subprojects, and monitor portfolio risk, as appropriate. The way in which the FI will be required to manage its portfolio will take various forms, depending on a number of considerations, including the capacity of the FI and the nature and scope of the funding to be provided by the FI.

2. FIs are required to adopt and implement effective environmental and social procedures to ensure that they manage the environmental and social risks and impacts of the projects to which they lend in a responsible manner.

### **Objectives**

- To set out how the FIs will assess and manage environmental and social risks and impacts associated with project related investments or subprojects.
- To promote good environmental and social management practices in the subprojects the FIs finance.
- To promote good environmental and sound human resources management within the FIs.

### **Scope of Application**

3. For the purposes of this ESS, the term “FI subproject” refers to projects financed by FIs with support from the Bank. Where the project involves on-lending by the FI to another FI, the term “FI subproject” will include the subprojects of each subsequent FI.

4. Where Bank support will be provided to the FI to fund a clearly defined set of FI subprojects, the requirements of this ESS will be applicable to each of the identified FI subprojects.

5. Where Bank support will be provided to the FI for a general purpose, <sup>1</sup>the requirements of this ESS will apply to the entire portfolio of the FI’s future subprojects (including the FI subprojects) from the date on which the legal agreement becomes effective.

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<sup>1</sup> Support for a ‘general purpose’ means that the support is fungible, and cannot be traced to specific FI subprojects.

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### **Requirements**

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6. FIs will screen and categorize all FI subprojects<sup>2</sup> for environmental and social risks and impacts.
7. The FI will comply with any exclusions in the legal agreement and apply relevant national law for all FI subprojects. In addition, the FI will apply the relevant requirements of the ESSs to any FI subproject that involves resettlement (unless the risks or impacts of such resettlement are minor), adverse risks or impacts on Indigenous Peoples or significant risks or impacts on the environment, community health, biodiversity or cultural heritage.
8. An FI may be required to adopt and implement additional or alternative environmental and social requirements, depending on the environmental and social risk and impact of the potential FI subprojects and the sectors in which the FI is operating.
9. The FI will review and monitor the environmental and social performance of its portfolio of FI subprojects in a manner proportionate to the risks and impacts of the portfolio of subprojects.
10. The FI will provide a safe and healthy working environment. Accordingly, ESS2 will apply to the FI itself, and the FI will have in place and maintain appropriate labor management procedures, including those relating to terms of employment and occupational health and safety.

#### **A. FI Environmental and Social Procedures**

11. The FI will put in place and maintain clearly defined environmental and social procedures<sup>3</sup> proportionate to the nature of the FI and the level of potential environmental and social risks and impacts associated with the project and FI subprojects.<sup>4</sup>
12. The FI will designate a representative of the FI's senior management to have overall responsibility for environmental and social performance of the project and the FI subprojects, including the implementation of this ESS and ESS2. The representative will: (a) designate a staff member to be responsible for day-to-day implementation of the environmental and social requirements; (b) ensure that adequate resources are available for training in environmental and social issues, including management ; and (c) ensure that adequate technical expertise, either in-house or external expert support, is available to carry out assessments and manage the environmental and social risks of the FI subprojects, including providing implementation support as required.

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<sup>2</sup> Whether the FI subproject is clearly defined (as referred to in paragraph 4) or is part of the FI's portfolio of subprojects (as referred to in paragraph 5).

<sup>3</sup> The procedures may include or take the form of an environmental and social management system.

<sup>4</sup>Where the FI already has appropriate environmental and social procedures in place, it will provide adequate documented evidence of such procedures to the Bank and, following review by the Bank, will enhance them, as deemed necessary by the Bank.

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13. The FI will ensure that the requirements of this ESS and ESS2 are clearly communicated to all relevant personnel, and provide appropriate training to ensure that personnel have the necessary capabilities and support to implement them.

14. The FI's environmental and social procedures will include measures, as appropriate to the type of FI subprojects, to:

- (a) Screen all FI subprojects against any exclusions in the legal agreement;
- (b) Review and categorize the FI subprojects according to their potential environmental and social risks and impacts;
- (c) Require that all FI subprojects are subject to environmental and social assessment in accordance with national law and, in addition, where an FI subproject involves resettlement (unless the risks or impacts of such resettlement are minor), adverse risks or impacts on Indigenous Peoples or significant risks or impacts on the environment, community health, biodiversity or cultural heritage, the relevant requirements of the ESSs;
- (d) Require that all FI subprojects are prepared and implemented to meet national law and, in addition, where an FI subproject involves resettlement (unless the risks or impacts of such resettlement are minor), adverse risks or impacts on Indigenous Peoples or significant risks or impacts on the environment, community health, biodiversity or cultural heritage, the relevant requirements of the ESSs;
- (e) Ensure that the measures needed to satisfy the requirements of (c) and (d) above are set out in the legal agreement between the FI and the sub-borrower;
- (f) Monitor and keep and regularly update environmental and social information on FI subprojects; and
- (g) Monitor the environmental and social risk of the FI portfolio.

15. Where an FI project is likely to have minimal or no adverse environmental or social risks or impacts, the FI will not be required to adopt and implement environmental and social procedures beyond what is required under national law.<sup>5</sup>

16. The FI will monitor the environmental and social performance of the FI subprojects. If the risk profile of an FI subproject increases significantly, the FI will notify the Bank and will apply relevant requirements of the ESSs<sup>6</sup> in a manner agreed with the Bank. The measures and actions agreed will be included in the ESCP and the legal agreement between the FI and the sub-borrower, and monitored.

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<sup>5</sup> For example, in the provision of consumer loans. This will rely on an assessment of the capacity of the FI and the specific subprojects that the FI is proposing to finance.

<sup>6</sup> The 'relevant requirements of the ESSs' will relate to the reasons for which the risk profile of the FI subproject has increased.

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### **B. Stakeholder Engagement**

17. The FI will conduct stakeholder engagement in a manner proportionate to the risks and impacts of the project, and which reflects the nature of the FI and the type of FI subprojects it will finance. The relevant provisions of ESS10 will be included in the FI's environmental and social procedures.

18. The FI will put in place procedures for external communications on environmental and social matters proportionate to the risks and impacts of the FI subprojects, and the risk profile of the FI's portfolio. The FI will respond to public enquiries and concerns in a timely manner. The FI will list on its website the link to any environmental and social assessment reports for high risk FI subprojects which it finances.

### **C. Reporting to the Bank**

19. The FI will submit to the Bank annual Environmental and Social Reports on the implementation of its environmental and social procedures, this ESS and ESS2, as well as the environmental and social performance of its portfolio of FI subprojects. The annual report will include details of how the requirements of this ESS are being met, the nature of the FI subprojects financed through the project, and the overall portfolio risk, profiled by sector.