

Environmental and Social Due Diligence Guidance Note for Banks

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1 Introduction

Environmental and social (E&S) risks and impacts exist in most business activities and whereas these risks and impacts are obvious in certain sectors or for large-scale activities, it is important that they are not overlooked for small-scale activities or in less risky sectors. Due to an increased awareness in society of the role the banking sector can play in influencing the businesses it finances, E&S risk management practices have expanded beyond large project-finance loans. International best practice now requires that banks consider E&S risks for all types of clients and transactions. In response to this trend, this document provides guidance to banks on how to assess the E&S risks associated corporate loans where the IFC Performance Standards may be applicable and for all other loans,¹ where the IFC Performance Standards need not be applied.

The IFC Performance Standards are applicable to project or long-term (over 36 months) corporate loans for a borrower to support a business activity that may include: (a) involuntary resettlement; (b) the risk of adverse impacts on Indigenous Peoples; (c) significant risks to or impacts on the environment, community health and safety, biodiversity, cultural heritage; or (d) significant occupational health and safety risks.² For non-corporate loans, IFC clients are required to apply national E&S laws and the IFC Exclusion List to borrowers.

This guidance note reflects IFC's requirements for its financial intermediary (FI) clients and was developed in consultation with the South African banking sector. The IFC would like to thank those who helped inform this guidance note.

2 Best Practice Approach for E&S Assessments

For corporate loans there is often uncertainty on how banks can effectively assess the E&S risks facing corporate clients and the effectiveness of their E&S management systems. The scale of the activities of some corporate clients and the limited leverage a bank has over them often make it difficult for banks to obtain sufficient information on E&S risks and impacts at the due diligence phase and to effectively monitor E&S performance after disbursement. Similarly, for non-corporate loans, given the large volume of these transactions and the small to medium size of clients, effectively assessing E&S risks and impacts can be difficult.

The below sections provide a detailed description of the best practice approach for assessing, mitigating and monitoring the E&S risks associated with corporate loans for which the Performance Standards may be applicable and all other loans, where the Performance Standards need not be applied.

Key considerations:

- The steps covered below, and associated appendices, are guidelines. It is up to each bank to interpret the guidelines and to decide if and how to incorporate them into its E&S risk management systems.
- Roles and responsibilities for each action outlined in the tables below have not been specified, as these will need to be set by the bank based on available resources and structures.

¹ For the purpose of this document, all other loans shall be considered business loan or small and medium enterprise loans. In the context of South Africa, IFC considers SME loans to be loans up to \$2million.

² This guidance note should be read in conjunction with the IFC's Interpretation Note on Financial Intermediaries:

<https://www.ifc.org/wps/wcm/connect/38d1a68049ddf966af3cbfda80c2ddf3/FI+Interpretation+Note+November+2018.pdf?MOD=AJPERES>

- Definitions for key terms can be found in Appendix 2.

2.1 E&S risk management considerations for each stage of the transaction cycle for corporate loans

The below table covers general long-term corporate loans to clients where the funds are not being used for a specific purpose. For such loans, the IFC Performance Standards are applicable if the borrower’s activity involves: (a) involuntary resettlement; (b) risks of adverse impacts on Indigenous Peoples; (c) significant risks to or impacts on the environment, community health and safety, biodiversity, cultural heritage; or (d) significant occupational health and safety risk. For these loans, in addition to the Performance Standards, IFC’s FI clients are required to apply national E&S laws and the IFC Exclusion List (see Appendix 1).

Phase	Description		
Screening & Categorization³	<ul style="list-style-type: none"> Assess the client against the bank’s exclusion list and restricted activities list. See Appendix 1 for the IFC Exclusion List. Conduct an internet search to assess historical E&S, legal and reputational risks associated with the client’s operations. Other tools that may be used are RepRisk and World Search. Categorize the client as high, medium or low risk based on the client’s activities covered by the transaction. See Appendix 3 for the IFC categorization guidelines. For client’s with multiple sites, identify a representative sample of sites to visit as part of the E&S due diligence (if a medium or high-risk client). The client’s strategy and business plan, as well as country-specific E&S issues can be used to determine the most relevant site(s) to visit. Appendix 4 provides an example screening tool to assess high level E&S risks for corporate loans. 		
E&S Due Diligence (See Appendices 5 & 6 for two examples of assessment questionnaires for corporate loans)	Low Risk No due further assessment required.	Medium Risk <ul style="list-style-type: none"> Conduct a review of the client’s E&S Policy and corporate E&S management system (ESMS) against the requirements of the IFC Performance Standards. The review can be performed on a desktop basis; site visits may not be required. The corporate ESMS refers to the system in place that covers the E&S risk management process for the client’s entire operations. The purpose 	High Risk <ul style="list-style-type: none"> In addition to reviewing the clients E&S Policy and ESMS, site visits to operations of clients in high-risk sectors should be conducted, if the structure and nature of the transaction allows. The site visits should be used to assess the level of implementation of the client’s E&S Policy and corporate ESMS across different sites.

³ Not all banks categorise transactions, however, it is an efficient way to ensure that a sufficient level of due diligence is conducted on the client’s activities

		<p>of reviewing the corporate ESMS is to ensure that the client has sufficient oversight of E&S performance across all locations.</p> <ul style="list-style-type: none"> Where gaps are identified, an E&S action plan (ESAP) should be developed. 	<ul style="list-style-type: none"> For loans that have been categorized as high risk, a bank may require the services of an external expert/consultant or use an in-house E&S specialist to conduct site visits. If site visits cannot be conducted, third-party reports on the E&S performance of sites such as environmental audits should be reviewed. If significant E&S risks and/or non-compliances are identified, an ESAP should be developed to manage the identified risk.
<p>Collateral: If property is to be taken as collateral, it is important for this to be assessed as part of the due diligence, particularly for risks associated with contaminated land. If the bank takes ownership of the property it may become liable for any clean-up costs. Contamination is also likely to reduce the value of the property.</p>			
<p>Legal compliance: All clients must confirm that their operations comply with applicable E&S legislation. For medium and high-risk loans, legal compliance should be assessed as part of the E&S due diligence. To assess a client's legal compliance the Libryo & IFC Compliance Tool can be used.</p>			
Legal Covenants	<p>Low Risk Use standard legal covenants which require the client to operate in accordance with national E&S laws and regulations.</p>	<p>Medium & High Risk</p> <ul style="list-style-type: none"> Use standard legal covenants which require the client to operate in accordance with national E&S laws and regulations. Where applicable, ESAPs and additional conditions (such as adhering to the requirements of the Performance Standards where applicable) should be included in legal covenants. 	
Credit Committee Review	<p>A summary of the findings from the E&S due diligence should be presented to the credit committee to aid the decision-making process. Based on the risk appetite of the bank, the transaction is approved or rejected by the credit risk committee. The credit risk committee may request further information on the E&S performance of the client before approving or rejecting the transaction.</p>		
Disbursement	<p>Ensure all E&S conditions the client is obligated to complete prior to disbursement have been completed</p>		
Monitoring and Reporting <i>All monitoring and reporting requirements for the client should be included in the investment agreement.</i>	<p>Low Risk</p> <ul style="list-style-type: none"> Reporting is typically not required. The client should notify the 	<p>Medium Risk</p> <ul style="list-style-type: none"> The bank should monitor the implementation of the ESAP where applicable. 	<p>High Risk</p> <ul style="list-style-type: none"> The bank should monitor the implementation of the ESAP where applicable.

<p><i>The monitoring process should also include a process for addressing non-compliances and escalating E&S concerns to senior management.</i></p>	<p>bank of material E&S incidents.</p>	<ul style="list-style-type: none"> • The client should notify the bank of material E&S incidents. The Client should submit an annual monitoring report on its overall E&S performance if deemed necessary by the bank.⁴ 	<ul style="list-style-type: none"> • Annual site visits should be considered. For clients with multiple sites, the site visits should focus on any sites that were not part of the E&S due diligence. The client should notify the bank of material E&S incidents. The client should submit an annual monitoring report on its overall E&S performance.⁴
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⁴ The template for the annual monitoring report should be agreed with the client prior to disbursement of the loan.

2.2 E&S risk management considerations for each stage of the transaction cycle for non-corporate loans

For all other loans, FI clients are required to apply the IFC Exclusion List and national E&S laws, with consideration for sector-specific E&S risks and impacts, where applicable.

Phase	Description		
Screening & Categorization ⁵	<ul style="list-style-type: none"> Assess the client against the bank’s exclusion list and conduct an internet search to assess historical E&S and reputational risks associated with the client. See Appendix 1 for the IFC Exclusion List. Categorize the transaction as high, medium or low risk based on the client’s business activities. <u>Clients should not be categorized based on the sector alone.</u> See Appendix 3 for the IFC categorization guidelines. If the transaction is identified as medium or high-risk the bank may also want to consider using other tools, such as RepRisk and World Search, to help refine the screening results. 		
E&S Due Diligence <i>(See Appendix 7 for an example E&S questionnaire for non-corporate loans)</i>	<table border="1"> <tr> <td> Low Risk No further assessment required. </td> <td> Medium & High-Risk Transactions <ul style="list-style-type: none"> E&S questionnaire should be to be completed. Where deemed necessary, a site visit may be conducted. The due diligence questionnaire and site visit can be conducted by a non-E&S specialist, such as a loan officer or equivalent, but it is recommended that corrective action items are reviewed by an E&S specialist. For gaps against applicable legislation, corrective actions should be developed and included in the ESAP.⁶ Addressing significant non-compliances can be included as a condition precedent for the transaction. </td> </tr> </table>	Low Risk No further assessment required.	Medium & High-Risk Transactions <ul style="list-style-type: none"> E&S questionnaire should be to be completed. Where deemed necessary, a site visit may be conducted. The due diligence questionnaire and site visit can be conducted by a non-E&S specialist, such as a loan officer or equivalent, but it is recommended that corrective action items are reviewed by an E&S specialist. For gaps against applicable legislation, corrective actions should be developed and included in the ESAP.⁶ Addressing significant non-compliances can be included as a condition precedent for the transaction.
	Low Risk No further assessment required.	Medium & High-Risk Transactions <ul style="list-style-type: none"> E&S questionnaire should be to be completed. Where deemed necessary, a site visit may be conducted. The due diligence questionnaire and site visit can be conducted by a non-E&S specialist, such as a loan officer or equivalent, but it is recommended that corrective action items are reviewed by an E&S specialist. For gaps against applicable legislation, corrective actions should be developed and included in the ESAP.⁶ Addressing significant non-compliances can be included as a condition precedent for the transaction. 	
	Collateral: If property is to be taken as collateral, it is important for this to be assessed as part of the due diligence, particularly for risks associated with contaminated land. If the bank takes ownership of the property it may become liable for any clean-up costs. Contamination is also likely to reduce the value of the property.		
Legal compliance: All clients must confirm that their operations comply with applicable E&S legislation. For medium and high-risk loans legal compliance should be assessed as part of the E&S due diligence. To assess a client’s legal compliance the Libryo & IFC Compliance Tool can be used.			
Legal Covenants	<ul style="list-style-type: none"> Use standard legal covenants which require the client to operate in accordance with national E&S laws and regulations. Where applicable, ESAPs and additional conditions should be included in legal covenants. 		

⁵ NB Not all banks categories transactions but it is an efficient way to ensure that a sufficient level of due diligence is conducted on the client’s activities.

⁶ Example ESAP item, “Within six months of loan disbursement, the client must provide documented evidence to the bank that all applicable environmental certificates and approvals are in place and have been renewed”.

Credit Committee Review	A summary of the findings from the E&S due diligence should be presented to the credit committee to aid the decision-making process. Based on the risk appetite of the bank, the transaction is approved or rejected by the credit risk committee. The credit risk committee may request further information on the E&S performance of the client before approving or rejecting the transaction.	
Disbursement	Ensure all E&S conditions the client is obligated to complete prior to disbursement have been.	
Monitoring and Reporting <i>The monitoring process should include a process for addressing non-compliances and escalating E&S concerns to senior management.</i>	Low Risk <ul style="list-style-type: none"> • Reporting is typically not required. The client should notify the bank of material E&S incidents. 	Medium & High Risk <ul style="list-style-type: none"> • The bank should monitor the implementation of the ESAP where applicable and general E&S performance. • The client should notify the bank of material E&S incidents.

Appendix 1: IFC's Client Exclusion List for FIs

The IFC Exclusion List defines the types of projects that IFC nor its clients finance.

IFC does not finance the following projects:

- 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, PCB's, wildlife or products regulated under CITES.
- Production or trade in weapons and munitions⁷
- Production or trade in alcoholic beverages (excluding beer and wine)^{7, 8}
- Production or trade in tobacco^{7, 8}
- Gambling, casinos and equivalent enterprises⁷
- 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 labor /harmful child labor.
- 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.

All financial intermediaries (FIs), except those engaged in activities specified below*, must apply the following exclusions, in addition to IFC's Exclusion List:

- Production or activities involving harmful or exploitative forms of forced labor⁹/harmful child labor.¹⁰
- 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.

* When investing in microfinance activities, FIs will apply the following items in addition to the IFC Exclusion List:

⁷ 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.

⁸ Portfolio limits can be agreed for activities related to tobacco and alcoholic beverages, on a client by client basis.

⁹ Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

¹⁰ 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.

- Production or activities involving harmful or exploitative forms of forced labor⁹ /harmful child labor¹⁰.
- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.

Appendix 2: Definitions

Term	Definitions
Action Plan	Mitigation measures and actions necessary for the client to comply with applicable laws and regulations and to meet the requirements of the Performance Standards. The Action Plan may range from a brief description of routine mitigation measures to a series of specific plans.
Affected Community	Local communities that are subject to risks or impacts from a client's activities.
Categorization	A system used to reflect the magnitude of the impacts understood as a result of the E&S risks associated with a client. Clients can be categorised as A (high risk), B (medium risk) and C (low risk).
Collective Bargaining	Discussions and negotiations between employers and representatives of workers' organisations for the purpose of determining working conditions and terms of employment by joint agreement. Collective bargaining also includes the implementation and administration of any agreements that may result from collective bargaining and the resolution of other issues that arise in the employment relationship with respect to workers represented by the workers' organisations.
Corrective Action	Measures to mitigate areas of concern to bring a client into compliance with E&S laws and regulations.
Effluent	Wastewater - treated or untreated - that flows out of a treatment plant, sewer, or industrial outfall; generally, refers to wastes discharged into surface waters.
Emergency Response Plans	Plan to address contingencies associated with process upset and accidental circumstances. They include clearly assigned responsibilities for the assessment of the degree of risk to life and property with procedures on whom to communicate different types of emergencies with and how.
Exclusion List	Types of activities that IFC does not finance.
Good International Industry Practice	The exercise of professional skill, diligence prudence and foresight that would reasonably be expected from a skilled and experienced professional engaged in the same type of undertaking under the same or similar circumstances globally.
Greenhouse Gases	The six greenhouse gases that form the Kyoto Protocol to the United Nations Framework Convention on Climate Change: Carbon Dioxide (CO ₂), Methane (CH ₄), Nitrous oxide (N ₂ O), Hydro fluorocarbons (HFCs), Perfluorocarbons (PFCs), Sulphur hexafluoride (SF ₆).
Hazardous Waste	Substances classified as hazardous wastes possess at least one of four characteristics ignitability, corrosivity, reactivity, or toxicity - or appear on special lists.
Human Resources Policy	Statement of the client's practices regarding management of its employees. The statement contains, at a minimum, information on the employees' rights under national labour and employment law.

Occupational Health and Safety	Refers to the range of endeavors aimed at protecting workers from injury or illness associated with exposure to hazards encountered in the workplace or while working.
Pollution	Refers to both hazardous and non-hazardous pollutants in the solid, liquid, or gaseous forms, and is intended to include other forms such as nuisance odors, noise, vibration, radiation, electromagnetic energy, and the creation of potential visual impacts including light.
Workers' Organisations	Any organisation of workers for the purpose of furthering and defending the interests of workers with regard to working conditions and terms of employment.
Working Conditions	Conditions in the workplace and treatment of workers. Conditions in the workplace include the physical environmental, health and safety precautions and access to sanitary facilities. Treatment of workers includes disciplinary practices, reasons and process for termination of workers and respect for the worker's personal dignity.

Appendix 3: Categorization Guidance

The below table can be used to help categorize client's activity at a screening stage.

NB Short term/ working capital loans should typically be categorized as Low Risk (Category C).

Category	Definitions	Examples
High Risk (Category A)	The client's activities are likely to have significant adverse impacts that are irreversible, sensitive, diverse or unprecedented.	<ul style="list-style-type: none"> • Mining (opencast and pit) • Oil and gas development, including pipeline construction • Forestry operations • Projects which pose serious occupational or health risks • Construction of dams and reservoirs • Pesticides and herbicides (production of commercial use) • Domestic or hazardous waste disposal operations • Hazardous chemicals (manufacture, storage or transportation) • Large infrastructure projects, including development of ports and harbors, airports, road, rail and mass transit systems
Medium Risk (Category B)	The client's activities may result in specific environmental impacts, but these impacts are site specific and few if any of them are irreversible. In most cases mitigation measures are pre-determined in the Performance Standards.	<ul style="list-style-type: none"> • Dairy operations • Textile plant • Manufacturing • Food processing • Modernisation of existing plants
Low Risk (Category C)	The client is likely to have minimal or no adverse environmental impacts	<ul style="list-style-type: none"> • Software development firms • Consulting firms

Appendix 4: Screening Tool for the Performance Standards for Corporate Loans

This tool is intended to be a high-level review and identification of key risks/impacts to communities and/or the environment from the borrower’s activities, which then need further review. If no risks/impacts are identified, then no further review is required. If potential risk or impact issues are identified, then additional assessment (see Appendix 5) should be conducted to understand if the borrower is minimizing and managing these risks/impacts to an acceptable level in line with IFC Performance Standards.

If the risk/impact situation does not exist because either: 1) the borrower’s business activity does not have the potential to cause the risk/impact (e.g. no potentially harmful activities take place), or 2) the setting of the activity does not contain the risk (e.g. there are no sensitive habitats near the activity), then document this and go to the next question.

High Level Identification of Risks/Impacts Which Need Further Review

Potential Risk/Impact	Decision Making Guidance	Notes on How Decision Was Made	Risk/Impact Exists (yes/no)
1. Is the borrower engaged in a business or activity that has the potential to cause harm to a neighboring community?	If the borrower’s activity uses harmful chemicals that could spill, could have a toxic air emission release, could explode or catch fire, is maintaining or will construct a dam, is employing security forces, is bringing in a large workforce from outside the community, etc. then this is possibly a risk/impact (go to Filter 2).		
2. Is the borrower engaged in a business or activity where workers on-site could potentially be seriously hurt or killed?	Examples of threats include working at heights, handling toxic chemicals, electrical shock, moving or lifting heavy loads, operating machinery, confined space entry, driving cars/trucks, etc.		
3. Is the borrower planning, or has conducted in last 3 years, any collective dismissals/retrenchment ?	Retrenchment means the elimination of a number of work positions or the dismissal or layoff of a number of workers by an employer, generally by reason of business or site closing or for cost savings. Retrenchment does not include isolated cases of termination of employment for cause or voluntary departure. Retrenchment is often a consequence of		

Potential Risk/Impact	Decision Making Guidance	Notes on How Decision Was Made	Risk/Impact Exists (yes/no)
	adverse economic circumstances or as a result of a reorganization or restructuring. If retrenchment is planned or has been conducted go to filter 2.		
<p>4. Has the borrower acquired land in the past 5 years or is the borrower planning to acquire land in the near future? If yes, did/does the borrower or a designated authority have the right to use lawful expropriation, even if a willing buyer-willing seller negotiation was/will be completed?</p>	<p>If the borrower has not or will not be acquiring land in the near future, then this is a low risk.</p> <p>If the borrower has acquired land or plans to in the near future and they have access to expropriation the risk needs to be evaluated (go to Filter 2).</p>		
<p>5. Will the borrower's activities potentially impact biodiversity and/or ecosystem services?</p>	<p>If the borrower will be clearing land for construction or is located in or near a Provincial or National Park, Protected Area or ecologically sensitive area (e.g. swamp, mangrove, coral reef, forest, etc.) then there is a possibility that there will be impacts upon biodiversity or ecosystem services (go to filter 2).</p> <p>If borrower activities will only take place within an existing facility or on land that has previously been cleared/converted, then the risk is low.</p>		
<p>6. Is the borrower's primary business activity in the primary production or purchase of living natural resources, including natural and plantation</p>	<p>If the borrower produces or purchases living commodities as part of its core business, then its' activities and/or supply chain has a risk of impacts to biodiversity (go to filter 2).</p>		

Potential Risk/Impact	Decision Making Guidance	Notes on How Decision Was Made	Risk/Impact Exists (yes/no)
forestry, agriculture, animal husbandry, aquaculture, or fisheries?			
7. Are there any Indigenous Peoples in the area of the borrower's activities?	<p>IPs are communities or groups of people practicing unique traditions, and that retain social, cultural, economic and political characteristics that are distinct from those of the dominant society in which they live.</p> <p>If there are IPs in proximity of the project go to filter 2.</p>		
8. Are the borrower's activities located in or near cultural heritage sites or will the borrower commercially use cultural heritage?	<p>Cultural heritage includes: (i) tangible forms such as archeological, historical, cultural, etc.; (ii) unique natural features or tangible objects that embody cultural values such as sacred groves, rocks, lakes, waterfalls, etc.; (iii) intangible forms such as knowledge, innovation or practices.</p> <p>If the borrower's activities are nearby cultural heritage or the borrower plans to commercially use cultural heritage go to filter 2.</p>		

Appendix 5: Assessment Questionnaire for the Performance Standards¹¹

If initial screening indicates that there is a potential risk/impact, then the below questions should be answered (Secondary Review of Risks/Impacts). The outcome of this review could be that the risk/impact is too high to invest or that the borrower is required to take additional mitigation and/or management steps to reduce the risk.

¹¹ See appendix 6 for a shorter E&S assessment questionnaire

Potential Risk/Impact	Decision Making Guidance	Notes on How Decision Was Made	Risk/Impact Potential Exists -2ndary Review Needed (yes/no)
Is the borrower engaged in a business or activity that has the potential to cause harm to a neighboring community?	If the borrower activity uses harmful chemicals that could spill, explode, or burn; could have a toxic air emission release; is maintaining or will construct a dam; could spread or exacerbate existing disease; is employing security forces; is bringing in a large workforce from outside the community, etc. then this is possibly a risk.		
<i>Disclosure and Stakeholder Engagement</i>	<p><u>Disclosure of information</u> should include access to relevant information on: (i) the purpose, nature and scale of the project; (ii) duration of activities; (iii) risks/impacts on community and mitigation; (iv) stakeholder engagement process; (v) grievance mechanism.</p> <p><u>Stakeholder engagement</u> is an ongoing process that may involve: stakeholder analysis and planning, disclosure and dissemination of information, consultation and participation, and ongoing reporting to Affected Communities.</p> <p><u>Community Grievance Mechanism</u> should include: (i) a written procedure of the borrower's process for receiving, addressing and recording/documenting complaints and comments from the affected communities in a systematic process. Evidence should be provided that the community understands how to file complaints/comments.</p>		
<i>Community Health and Safety</i>	Impacts to communities could include spread of diseases such as malaria, typhoid, cholera, schistosomiasis, dengue fever, HIV; road safety incidents; dust, noise, light; etc.		

<p>Does the borrower have procedures to address routine or on-going community, health and safety issues?</p>			
<p><i>Emergency Preparedness and Response</i> Does the borrower have a current emergency preparedness and response plan?</p>	<p><u>Emergency Response Plans</u> should be prepared in collaboration with Affected Communities, local government agencies and other relevant parties.</p> <p>Affected Communities should be informed of potential hazards and borrowers should disclose appropriate information on the emergency procedures in an understandable manner.</p>		
<p><i>Security Personnel</i> Does the borrower retain or contract security personnel to provide security services at their facilities consistent with principles of proportionality and good international practice?</p>	<ul style="list-style-type: none"> - Are security personnel given background checks prior to hiring and then monitored by the borrower? - Does the borrower provide training on the appropriate use of force and conduct towards workers and the nearby communities? - Have there been any allegations of unlawful and/or abusive acts by security personnel towards workers or nearby communities? - If the borrower's activities are using government security personnel, is the borrower able to ensure that there is appropriate conduct toward workers and Affected Communities? 		
<p><i>Employee and Contractor Conduct</i> If a large workforce of employees or contractors, from outside of the community, will be present during either construction or operation of the project, what measures are taken to ensure that this workforce has appropriate and respectful relationships with the community?</p>	<p>Borrower should inform workers/contractors of appropriate behavior toward community members through a written document (Code of Conduct or similar) and training.</p>		

<p>Is the borrower engaged in a business or activity where workers on-site could potentially be seriously hurt or killed?</p>	<p>Examples of threats include working at heights, handling toxic chemicals, electrical shock, moving or lifting heavy loads, operating machinery, confined space entry, driving cars/trucks, etc.</p>		
<p><i>Occupational Health and Safety</i> Has the borrower established and implemented occupational health and safety (OHS) procedures to prevent accidents, injury, and disease? Does the borrower have a fire, life and safety (LFS) plan?</p>	<p>An <u>OHS program</u> should include: tracking and reporting on rates of injury, occupational diseases, lost days, and absenteeism and number of work-related fatalities; worker training; designated responsible person for developing and implementing OHS program, etc.</p> <p>Is there any evidence that employees have suffered serious injuries and/or fatalities? (e.g. law suits, newspaper articles, data from borrower on fatalities and injuries, etc.)?</p> <p>The borrower should have a life and fire safety (L&FS) plan, appropriate equipment that is regularly maintained and employee training. If the borrower is planning to build a new building that will be accessible by the public (e.g. shopping mall, bank, airport, health or education facility, etc.), an independent L&FS expert should verify that the building will be designed, constructed, and operated in full compliance with local building codes, local fire department regulations, local legal/insurance requirements, and in accordance with an internationally accepted L&FS standard.</p>		
<p><i>Supply Chain</i> If the borrower is sourcing goods and/or materials as part of their primary supply chain from: a) a country where the risk of forced labor is known to be high in relation to the specific goods and/or materials, or b) an industry where the risk of child labor (e.g. agro-commodities, road</p>	<p>Evidence of risk reduction might include supply chain mapping and auditing, requirements that the goods are certified as free from forced and/or child labor by application of a credible standard, and/or making changes in suppliers.</p>		

<p>building materials, textiles, etc.) is known to be high</p> <p>has the borrower taken steps to minimize this risk?</p>			
<p>Is the borrower planning, or has conducted in the last 3 years, any collective dismissals/retrenchment?</p>	<p>Retrenchment means the elimination of a number of work positions or the dismissal or layoff of a number of workers by an employer, generally by reason of business or site closing or for cost savings. Retrenchment does not include isolated cases of termination of employment for cause or voluntary departure. Retrenchment is often a consequence of adverse economic circumstances or as a result of a reorganization or restructuring.</p>		
<p><i>Alternative analysis/retrenchment plan</i></p> <p>Has or did the borrower conducted an alternative analysis to retrenchment?</p> <p>Has or was a retrenchment plan developed?</p> <p>If a retrenchment was conducted, did employees received notice of dismissal and severance payments mandated by law and collective agreements in a timely manner as well as outstanding back pay and social security benefits and pension contributions and benefits?</p>	<p>Retrenchment plans should be: (i) based upon the principle of non-discrimination; (ii) reflect consultation with workers, their organizations, and where appropriate, the government; and (iii) comply with collective bargaining agreements, if they exist.</p>		
<p>Has the borrower acquired land in the past 5 years or is the borrower planning to acquire land in the near future? If yes, did/does the borrower or a designated authority have the right to use lawful expropriation, even if a willing buyer-willing seller negotiation was/will be completed?</p>	<p>If the possibility of expropriation exists, then PS5: Land Acquisition and Involuntary Resettlement applies.</p>		

<p><i>Compensation and Benefits for Land Acquisition and Resettlement in the Past 5 Years</i></p> <p>Did the borrower, or other third party responsible for resettlement, provide full replacement cost compensation to the property owner for the land and assets on the land (e.g. houses, crops, trees, etc.)?</p> <p>Did the borrower, or other third party responsible for the resettlement, provide full replacement cost compensation to non-land owners living upon the land for any improvements that they made upon the land or for economic losses associated with moving?</p> <p>Were forced evictions carried out as part of an expropriation process?</p>	<p>Past land acquisitions done poorly can lead to current or future risks, so it is important to understand how they were conducted to the extent possible.</p>		
<p><i>Land Acquisition and Resettlement Planning in the Near Future</i></p> <p>Has the borrower prepared a Resettlement Action Plan (RAP) or Resettlement Framework (RF) that mitigates the negative impacts of displacement, identifies development opportunities and establishes entitlement for all affected persons?</p> <p>Has the borrower prepared a Livelihood Restoration Plan (LRP) (if economic but not physical displacement is involved) or Livelihood Restoration Framework (LRF) to offer compensation or other</p>	<p>Has the borrower considered alternative designs to avoid or minimize economic and physical displacement?</p> <p>A RF or LRF are developed when details of future land acquisition are unknown in early stages of the project. They describe the process that will be used in the future RAP or LRP.</p> <p>The RAP and LRP should identify the persons to be displaced, who is eligible for compensation, a cut-off date for eligibility, a timeline of when resettlement will take place, a monitoring and evaluation plan, a stakeholder engagement plan, grievance mechanism, etc.</p>		

assistance that will establish entitlement for affected persons or communities?			
Will the borrower's activities potentially impact biodiversity and/or ecosystem services?	<p>If the borrower will be clearing land for construction or is located in or near a Provincial or National Park, Protected Area or ecologically sensitive area (e.g. swamp, mangrove, coral reef, forest, etc.) then there is a possibility that there will be impacts upon biodiversity or ecosystem services.</p> <p>If borrower activities will only take place within an existing facility or on land that has previously been cleared/converted, then the risk is low.</p>		
<p><i>Protection and Conservation of Biodiversity</i></p> <p>What is the sensitivity level (i.e. critical, natural or modified) of the habitat that will be or has been affected by borrower operations?</p> <p>Does or will the borrower conduct any operations in legally protected areas?</p>	<p>If borrower activities are in or near critical habitat, has the borrower demonstrated that no viable alternatives exist, that there will be no measurable adverse impact on species, habitat, and ecological processes, and that the mitigation strategy is designed to achieve net gains of the biodiversity values for which the critical habitat was designated?</p> <p>If borrower activities are in or near a legally protected area, have they demonstrated that the proposed operations will be or were permitted; that the actions will be or were enacted consistently with government recognized management plans; and has consulted protected area sponsors and managers, affected communities, Indigenous Peoples and other stakeholders (as applicable)?</p>		
Is the borrower's primary business activity in the primary production or purchase of living natural resources, including natural and plantation forestry, agriculture, animal husbandry, aquaculture, or fisheries?	If the borrower's primary business activity is producing primary production (crops, timber, animals, fisheries, etc.) or purchasing living natural resources (commodity trading of primary production, processing/milling, slaughter houses, meat processing, etc.) there is a risk that natural or critical habitat is continuously being converted and/or that activities are unsustainable.		

<p><i>Sustainable Management of Living Natural Resources</i></p> <p>Is the primary production, certified and independently verified by a credible international, regional, or nationally recognized standard?</p> <p>If the borrower is working in a country or with a commodity that does not yet have a credible standard, has the borrower committed to applying good international industry operating principles, management practices, and technologies?</p> <p><i>Agro-Commodity Supply Chain</i></p> <p>Is the borrower purchasing primary agro- commodity production from a geographic area which is in or near to natural and/or critical habitats (e.g. northern Brazil is high risk, but southern Brazil is low risk)</p>	<p>While agro-commodity certifications do not guarantee that activities are being conducted in a sustainable manner, they will help to minimize unsustainable practices which increase business risk. Independent verification of the certification should be recent.</p> <p>If the borrower is purchasing agro-commodities that may come from geographic areas in or near natural or/critical habitats, the borrower should have a system which verifies that the commodities are traceable and certified.</p>		
<p>Are there any Indigenous Peoples in the area of the borrower’s activities? If so, will the borrower’s activities potentially cause adverse impacts to Indigenous Peoples (IP’s)?</p>	<p>IPs are communities or groups of people practicing unique traditions, and that retain social, cultural, economic and political characteristics that are distinct from those of the dominant society in which they live.</p>		

<p><i>Adverse Impacts</i> If impacts to IPs cannot be avoided, has the borrower developed an Indigenous Peoples Plan (IPP) or a broader Community Development Plan that contains separate components for IPs?</p>	<p>The borrower must demonstrate that they tried to avoid impacts to IPs and that where not possible, they have minimized impacts. The IPP should contain opportunities for culturally appropriate and sustainable development benefits for IPs.</p>		
<p><i>Informed Consultation and Participation</i> Has the borrower conducted a process of Informed Consultation and Participation (ICP) with affected IP communities?</p>	<p>ICP process is an elevated form of stakeholder engagement which involves IP representative bodies and organizations, members of the Affected Communities of IPs, and provides sufficient time for IP decision-making. The ICP process should inform the development of the IPP.</p>		
<p><i>Free, Prior, Informed Consent</i> Has the borrower obtained the Free, Prior, and Informed Consent (FPIC) of IPs for operations that will: impact lands and natural resources subject to traditional ownership or under customary use of IPs, or lead to relocation of IPs from lands and natural resources subject to traditional ownership or under customary use, or impact critical cultural heritage of IPs, or use IP cultural heritage for commercial purposes</p>	<p>After conducting a robust ICP process, the borrower will document the (i) mutually accepted process between borrower and IPs, and (ii) evidence of agreement as an outcome of negotiations.</p>		
<p>Are the borrower's activities located in or near cultural heritage sites or will the borrower commercially use cultural heritage?</p>	<p>Cultural heritage includes: (i) tangible forms such as archeological, historical, cultural, etc.; (ii) unique natural features or tangible objects that embody cultural values such as sacred groves, rocks, lakes, waterfalls, etc.; (iii) intangible forms such as knowledge, innovation or practices.</p>		

<p><i>Protection of Cultural heritage in Project Design and Execution</i></p> <p>Will the borrower's activities impact cultural heritage?</p> <p>Do the borrower's activities interrupt access to previously accessible cultural heritage sites being used by, or that have been used by, Affected Communities?</p> <p>Will the project cause significant damage to critical cultural heritage?</p> <p>Is the project located in a legally protected area or a legally defined buffer zone?</p>	<p>The borrower should demonstrate that they cannot avoid impacts to cultural heritage and that only where necessary will it be disturbed or removed.</p> <p>Borrowers should allow access to cultural sites that remain on the project site and that have been accessed in the past by Affected Communities, subject to health, safety and security considerations.</p> <p>Critical cultural heritage is: (i) the internationally recognized heritage of communities who use, or have used within living memory the cultural heritage for long-standing cultural purposes; or (ii) legally protected cultural heritage areas. Borrowers should not remove, significantly alter, or damage critical cultural heritage.</p>		
<p><i>Project use of Cultural Heritage</i></p> <p>Will the borrower use cultural resources, knowledge, innovations, or practices of local communities embodying traditional lifestyles for commercial purposes?</p>	<p>If so, has the borrower informed these communities of:</p> <ul style="list-style-type: none"> ▪ their rights under national law? ▪ the scope and nature of the proposed commercial development? ▪ the potential consequences of such development? <p>If commercialization has proceeded, did the borrower:</p> <ul style="list-style-type: none"> ▪ entered into good faith negotiation with the affected community embodying traditional lifestyle? ▪ document their informed participation and successful outcome of the negotiation? ▪ provide fair and equitable sharing of benefits from commercialization? 		

Appendix 6: E&S Due Diligence Checklist for Corporate Loans¹²

This questionnaire is suitable for general corporate loans where the use of proceeds is unknown, and the client has been categorized as A or B (high or medium risk) at the screening stage. These clients should be assessed against the applicable national E&S laws, the IFC Performance Standards and the bank's exclusion list.

This checklist focuses on assessing a client's management system and operations against the IFC Performance Standards. Additional questions may need to be asked to assess a client's compliance with national E&S law. The checklist may need to be amended based on the scope of the E&S due diligence (i.e. whether only a visit to the client's head office is to be conducted or if a visit to the head office and operations is to be conducted).

Questions related to Performance Standards 1 to 4 are typically applicable to all types of general corporate loan transactions. Questions related to Performance Standards 5 to 8 will only be applicable to specific transactions depending on the nature of the operations and location. An E&S specialist may be required to assess risks associated with Performance Standards 5 to 8, as the issues covered by these Performance Standards can present significant risks to lenders.

Nature of client's business	
Name:	
Address:	
Industry sector:	
Brief client description:	
PS 1: Environmental and Social Assessment and Management System	
<i>Environmental and Social Assessment and Management Program</i>	
Describe the client's management system to identify the E&S impacts and risks of its operations? Provide details on how the client identifies mitigation and performance improvement measures that address the impacts and risks of its operations? (For example, Quality Assurance; Environmental, Health, Safety & Social aspects)	
How often does the client review and update its E&S management system?	

¹² N.B. This appendix provides an alternative E&S assessment questionnaire to the one included in appendix 5.

Explain what resources are earmarked to support the implementation of the system?
Detail any best practice certifications the client has (ISO etc)?
<i>Organisation</i>
What oversight do senior management representatives and/or board members have over the implementation of the management system?
<i>Training</i>
What training programs are in place for those responsible for E&S risk management?
<i>Community Engagement</i>
Describe the client's community engagement process?
If applicable, how does this process ensure free, prior and informed consultation of the affected community on client related activities?

Provide details of the client’s grievance mechanism for affected communities?
<i>Monitoring</i>
What procedures does the client have in place to monitor the effectiveness of the E&S risk management program?
<i>Reporting</i>
How is E&S performance information periodically reported to senior management, board members, investors and other relevant stakeholders?
Performance Standard 2: Labour and Working Conditions
<i>Human Resources Policy and Management</i>
Describe the client’s HR management system and the documents it consists of? Is it understandable and accessible to all employees? Does it provide information on rights under national labour and employment law?
Has the client documented and communicated working conditions and terms of employment to all workers directly contracted? Does this include guidelines on working hours, overtime procedures, wages paid, types of contracts, frequency of payments and sick and maternity leave?
Describe any collective bargaining agreements the client has in place? Are the terms and conditions of employment in accordance with any collective agreement with workers?

Describe the client's grievance mechanism to review and address employee complaints?
<i>Worker's Organisation</i>
Does the client comply with national law in allowing workers to form and join workers organisations and bargain collectively? Does it have a workers' organisation or trade union present at its operations? What percentage of the workforce are members? Are members entitled to special benefits?
<i>Non-Discrimination and Equal Opportunity</i>
Does the client have adequate documented transparent procedures with respect to discipline, performance and grievance procedures to ensure that employment decisions are not made based on personal characteristics unrelated to job requirements? Does the client have any preferential employment policies in place?
<i>Retrenchment</i>
Does the client anticipate retrenchment of a considerable number of employees during the term of the loan? If yes, is there a retrenchment procedure in place? Have workers been consulted appropriately?
<i>Protecting the Workforce</i>
Describe how the client ensures child or forced labour is not used directly, or through contractors or in the supply chain? Does the client check the ages of all employees? Does the client ensure that young workers (15-18 years) are not employed in dangerous work? Does the client commit contractors and suppliers to not use child or forced labour?

<i>Occupational Health and Safety</i>
How does the client ensure that it provides its workers with a safe and healthy work environment?
Describe how the client monitors worker safety? Does this include monitoring ambient and workplace exposure to noise, and workplace illumination, air quality and temperature as applicable?
Does the client track and report on rates of injury, occupational diseases, lost days, and absenteeism and number of work-related fatalities? Does the client track staff turnover? Are these in line with industry norms?
Describe occupational health and safety training programs for staff?
Performance Standard 3: Pollution Prevention and Abatement
<i>Pollution Prevention, Resource Conservation and Energy Efficiency</i>
How does the client monitor the air and water emissions of its operations? And describe the client's energy efficiency and water conservation measures?
<i>Waste Management</i>
Describe the client's procedures for storage, handling, and disposal of solid and liquid wastes? Does this include waste management techniques?

<i>Hazardous Materials</i>
Describe the client's procedures for storage, handling and disposal of hazardous materials?
<i>Emergency Preparedness and Response</i>
Describe the client's emergency preparedness and response plans for its operations?
<i>Greenhouse Gas Emissions</i>
How does the client quantify its GHG emissions (direct plus indirect from purchased electricity)?
If GHG emissions exceed 100,000 tons CO ₂ annually, does the client conduct annual monitoring, and have options for emissions reductions or offsets been considered by the client?
Performance Standard 4: Community Health, Safety and Security
<i>Community Health, Safety and Security</i>
Describe how the client takes community, health and safety considerations into account in the context of its operations?
Has the client designated contact persons within the organisation responsible for receiving and responding to questions, concerns or complaints raised by nearby communities or other stakeholders? If yes, are the contact details for these persons displayed prominently on the client facility signage?
<i>Emergency Preparedness and Response</i>

Does the client's emergency preparedness and response plan(s) consider risks and impacts from project activities to local communities? Does this include the requirement to inform affected communities of significant potential hazards in a culturally appropriate manner?
<i>Security Personnel Requirements</i>
Does the client engage security personnel to provide security services at its facilities? If yes, do the contract provisions include guidelines on how security personnel should interact with communities in close proximity to the facility?
Are security personnel armed? If yes, has the client provided training on the appropriate conduct towards workers and the nearby communities? Have there been any allegations of unlawful and/or abusive acts by security personnel towards workers or nearby communities? If yes, how were these dealt with by the client?
NB the following Performance Standards will only be applicable to specific companies. If they are applicable it might be necessary to engage an E&S specialist to conduct the due diligence.
Performance Standard 5: Land Acquisition and Involuntary Resettlement
Has the client resettled communities as part of its operations in the last three years or is it likely to do so during the term of the loan? If yes, answer the below questions for this section. If no, proceed to the next Performance Standard.
For any resettlement actions the client was involved in over the past three years, was a Resettlement Action Plan (RAP) or resettlement framework (if physical displacement was involved) that sought to mitigate the negative impacts of displacement developed?
Has the client developed procedures to offer compensation for affected persons or communities? Has this included providing replacement property, compensation, targeted assistance and/or transitional support in accordance with PS 5 requirements?

<p>Were any resettlements that the client was involved in managed by the government? If yes, has the client supplemented government actions and bridged the gaps (if applicable) between the government-assigned entitlements and procedures and the requirements of this PS?</p>
<p>Performance Standard 6: Biodiversity Conservation and Sustainable Natural Resource Management</p>
<p><i>Protection and Conservation of Biodiversity</i></p>
<p>How has the client identified and addressed the impacts on biodiversity as part of its operations?</p>
<p>Does the client conduct any operations in legally protected areas? If yes, has the client addressed the requirements for legally protected areas outlined in PS 6?</p>
<p>Has the client identified any alien species which may be intentionally or unintentionally introduced through its activities? If intentional introduction of alien species is planned, has this received appropriate government regulatory approval?</p>
<p><i>Management and Use of Renewable Natural Resources</i></p>
<p>Has the client identified renewable natural resources which it will use, and committed to managing them in a sustainable manner?</p>
<p>In the case of clients operating in natural and plantation forests, has the client obtained independent certification to ensure that these natural forests and plantations are being managed sustainably? If not, or pending then has a time-bound phased action plan been developed to achieve such certification?</p>

In the case of clients operating in freshwater and marine environments, has the client obtained independent certification for the sustainable management of these aquatic resources, or provided other independent studies to show that these resources are sustainably managed?
Performance Standard 7: Indigenous Peoples (IPs)
<i>Avoidance of Adverse Impacts</i>
Has the client impacted indigenous communities as part of its operations in the last three years or is it likely to do so during the term of the loan? If yes, please answer the below questions for this section. If no, proceed to the next Performance Standard.
<i>Consultation and Informed Participation</i>
Has the client established a process for Informed Participation through a Free Prior Informed Consent process centred on mitigation measures, sharing of developmental benefits and opportunities and implementation issues as outlined in PS 7?
<i>Impacts on Traditional or Customary Lands under Use</i>
Has the client informed IPs of their rights according to national laws including those recognising traditional/customary rights?
Has the client provided land-based compensation or compensation-in-kind in lieu of cash compensation where feasible?
Has the client entered into good faith negotiations with affected communities and documented their informed participation and the successful outcome?

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Performance Standard 8: Cultural Heritage

Has the client impacted cultural heritage sites as part of its operations in the last three years or is it likely to do so during the term of the loan?

If yes, please answer the below questions for this section. If not, the questionnaire is complete.

Protection of Cultural heritage in Project Design and Execution

Does the client have a Chance Find Procedure?

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Project use of Cultural Heritage

Has the client used cultural resources, knowledge, innovations, or practices of local communities embodying traditional lifestyles for commercial purposes? If yes has the client:

- Entered into good faith negotiations with the affected community embodying traditional lifestyles
- Documented their informed participation and successful outcome of the negotiation provided fair and equitable sharing of benefits from commercialisation

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Summary of E&S Issues (Please provide a summary addressing the management of the main E&S issues associated with the client's business)

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Action Plan

Issue Identified	Action Required	Completion Date

Appendix 7: E&S Due Diligence Checklist for Non-Corporate Loans

Nature of client's business	
Name:	
Address:	
Industry sector:	
Brief client description:	
Key indicators of issues ¹³	
Housekeeping in work areas	
Is there evidence of liquid and solid wastes in the workplace. If yes, please comment?	
Are high levels of noise (intermittent or continuous) experienced at the facilities? If yes, please comment?	
Are strong smells/irritants present? If yes, please comment?	
Please comment on the fire risks present at the operations and emergency response plans?	
Handling of Wastes	
Are wastes produced by the operations hazardous (check with client)? If yes, please comment on the nature of hazardous wastes produced?	
If applicable, what disposal mechanisms are in place for hazardous wastes?	

¹³ These aspects provide the credit officer with an indication of areas to follow up with client by asking questions and where required seeking evidence from clients.

Wastewater and effluents
How is wastewater and effluent managed at the facility?
Are hazardous materials present at the facilities (check with client)? If yes, please comment on the nature of these materials?
If applicable how are hazardous waste disposed of?
What types of greenhouse gas emissions are produced from stacks (chimneys) at the facility?
Social and Labour Issues
Please comment on the labour and working conditions at the company and the ability for employees to have representation from a union and enter into collective bargaining agreements.
Does the company have a Human Resources Policy in place? If yes, please comment on it?
Please comment on the company's relations with affected communities, as well as its community engagement processes.
Please comment on any records of problems, complaints and protests from affected communities?

Environmental Regulatory Compliance and Liability

Is the client in possession of all the required HSE permits and approvals? Please comment and attach copies.

Has the Company paid excess charges or fines/penalties for non-compliances with HSE regulations and standards in the last two years? Please comment and attach copies of the most recent inspection report?

Is the Company exposed to potentially significant HSE liabilities, such as those arising from land / groundwater contamination, related to the Company's past or ongoing operations? If yes, please comment and specify the magnitude?

Has the Company had any significant accidents or incidents in the last two years (e.g. pollution, fires) involving deaths or multiple serious injuries and/or significant environmental damage? If yes, please comment?

Conclusion

If the Company is not materially in compliance with HSE regulations and standards, or if there are potentially significant HSE liabilities, please describe corrective actions required by the authorities and/or planned by the client to address these issues satisfactorily, and to achieve regulatory compliance.

It may be advisable to consult an E&S specialist on developing formal corrective actions for inclusion into the loan agreement.