

**ENVIRONMENTAL AND SOCIAL RISK
MANAGEMENT
OPERATIONS MANUAL (ESOM)
For the Nigerian Housing Finance Project**

Central Bank of Nigeria

September 10, 2013

TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS

Chapter One: INTRODUCTION

Chapter Two: PROJECT IMPLEMENTATION ARRANGEMENTS

Chapter Three: THE WORLD BANK PERFORMANCE STANDARDS

Chapter Four: THE ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM FOR THE PROJECT

Chapter Five: THE WORLD BANK GROUP ROLE IN REVIEW AND IMPLEMENTATION SUPPORT

Annex 1: References

Annex 2: Outline for the ESMS for Financial Intermediaries

Annex 3: WBG Exclusion List

Annex 4: ESMS Checklist

Annex 5: Annual PFI Report to the PAT and WBG

Annex 6: Applying the WBG Performance Standards for the Program

ABBREVIATIONS AND ACRONYMS

BOFIA	Banks and other Financial Institutions Act
CBN	Central Bank of Nigeria
E&S	Environmental and Social
EA	Environmental Assessment
EHSG	Environmental, Health and Safety Guidelines
EIA	Environmental Impact Assessment
ESOM	Environmental and Social Risk Management Operations Manual
ESMS	Environmental and Social Management System
FCT	Federal Capital Territory
FI	Financial Intermediary
FMBN	Federal Mortgage Bank of Nigeria
FMENV	Federal Ministry of Environment
GDP	Gross Domestic Product
GoN	Government of Nigeria
HMF	Housing Microfinance
IDA	International Development Association
IEE	Initial Environmental Examination
IFC	International Financial Corporations
ISDS	Integrated Safeguards Data Sheet
MENV	Ministry of Environment
NMRC	Nigeria Mortgage Refinance Company
NEMT	National Economic Management Team
NHF	National Housing Fund
PFI	Participating Financial Intermediary
PMB	Primary Mortgage Banks
PMI	Primary Mortgage Institutions
WBG	World Bank Group

1.0 INTRODUCTION

The Project will assist in the development of Nigeria's mortgage finance market through the provision of long term funds for the purpose of mortgage financing. The line of credit amounting to USD 300 million will be made available to the Central Bank of Nigeria for on-lending to specific entities including USD 10 million earmarked for Technical Assistance.

Nigeria Mortgage Refinance Company (NMRC) –establishment of a mortgage liquidity facility is the key component of the project. This entity will be established as a private sector institution with majority ownership coming from the financial institutions that will also be using it to refinance their loans. NMRC will act as a bridge between mortgage lenders and the capital markets. It will issue standard corporate bonds into the capital markets and using this funding make loans to mortgage lending institutions. These loans will be backed up by collateral in the form of an assignment of rights over part of the lenders mortgage portfolio. This protects NMRC's loans and minimizes the amount of credit risk it is taking which in turn helps in achieving lowest possible rate in raising its bond financing. A key distinction with this model compared to securitization is that the underlying loans offered as collateral stay on the balance sheet of the lender, and should they go into default need to be replaced by performing loans. So unlike Mortgage Backed Securities (MBS), this model does not taking direct credit risk on mortgage borrowers.

The NMRC is anticipated to be an effective way to attract long term pension and investor funding into housing. The liquidity facility will provide primary mortgage banks and commercial banks that have mostly short term deposits the ability to issue a longer term loan, even at indexed fix rate. It will act as an intermediary between the long term funds available in the capital markets and mortgage lending institutions. The funds for the NMRC Project credit line will be passed through the Federal Ministry of Finance (FMoF) to the Central Bank of Nigeria (CBN) on IDA terms and conditions. The CBN will then extend the loan in Naira denomination applying market terms and conditions to the NMRC to provide initial refinancing for the facility. This secondary market instrument will support mortgage providers. This is planned to be a joint IDA/IFC assistance following similar joint arrangements in a few other countries. This component is considered as low risk from E&S perspective.

Mortgage guarantee product - to further support reach of mortgages down the income distribution, USD 25 million equivalent will be used to develop a mortgage guarantee product to bear some of the credit risk for lower income lenders. The guarantee would provide credit default loss protection to mortgage lenders. It will be established in year 2 of the project and will be subject to detailed pricing and market analysis work. The project will fund the product development including testing and financial modeling and then launch a competitive process, among private or public owned non-bank financial institutions to implement the project. This component is considered as low-medium risk from E&S perspective. In order to define E&S risk additional details are needed.

Housing Microfinance - the Housing Microfinance component will support development and piloting of new and/or emerging formal HMF products and demonstrate a sustainable business case for this activity. The proposed activities under this component include: i) tailored TA to select MFBs to develop and/or improve emerging HMF products (to be funded from Component 3 of the project); ii) provision of risk capital to MFBs, in form of limited soft loans, to test the new HMF products; and iii) a line of credit to establish initial HMF portfolios This component is considered as medium risk from E&S perspective.

Technical Assistance and Capacity Building - will provide operational support to NMRC including assistance for bond issuance, mortgage lender training, mortgage consumer protections and financial literacy, housing market information, impact evaluation of mortgage market, etc.

One of the prerequisites of the World Bank Group support for this Housing Finance Project in Nigeria is that the Participating Financial Intermediaries (PFI) integrate into their lending operations the requirements of environmentally and socially sound and sustainable development as identified in laws and regulations of Nigeria and the sustainability policies and frameworks of the participating World Bank Group entities. Accordingly, the World Bank Group and the Government of Nigeria (GoN) have collaborated in producing this manual for the Project Administration Team (PAT) housed in the CBN 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 participating financial institution (PFI), also meets the requirement of the World Bank Group that a financial intermediary has established an appropriate Environmental and Social Management Framework. Participating financial institutions 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 such a Framework, the World Bank Group members reserve the right 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 develop 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.

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 an PFI provides project or long-term corporate finance, 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 an PFI's overall risk management efforts. This requires undertaking individual transaction screening and, where necessary, due diligence and monitoring, and overall E&S risk management in accordance with the resulting E&S risk profile of the portfolio. In parallel, the PFI needs to develop and maintain the requisite capacity for E&S risk management and allocate appropriate resources for this function.

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

On May 15, 2013, International Finance Corporation –IFC, signed an agreement with the Central Bank of Nigeria (CBN) to support the implementation of standards, policies, and guidelines for environmental and social

best practices in the Nigerian banking sector, with the aim of promoting sustainable and inclusive growth of the Nigerian economy. The participating FIs under this Nigeria Housing Finance project would also be mandated to incorporate the sustainable banking principles in their operations.

2.0 PROJECT IMPLEMENTATION ARRANGEMENTS

The day-to-day operations will be managed by a Project Administration Team (PAT) hosted in the CBN and funded by the CBN. The PAT will consist of a project director and a deputy director. Other members of the PAT will include a Procurement Specialist, Project Accountant, M&E Specialist, and a Sustainability Specialist. It will be supported on needs basis by a procurement specialist of CBN's procurement department and a financial management specialist of CBN's financial management unit. The PAT will be fully embedded in the CBN, therefore all work and procurement plans, contracts, reports etc. will be approved by the governance structure of the CBN. The PAT will be the main point of contact to the World Bank project team. The PAT will develop a full operational plan before the project becomes effective that will encompass key ingredients of the ESOM.

The primary responsibilities of the Project Administration Team are to:

- Provide overall project management of the project;
- Collect data together with OFISD and CBN's statistical department of NMRC's operations and assess their impact;
- Supervise compliance of the NMRC, the mortgage guarantee facility and the PFIs with the ESOM.
- Procure consultants for a market analysis, technical assistance for the MFBS, etc.;
- Draft policy and strategic planning documents for consideration by the Project Steering Committee;
- 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 PAT will coordinate capacity building across the PFIs for enhancing the enabling environment and build market capacity for improved E&S performance of PFIs and their clients. It is anticipated that this initiative will be part of the continued technical assistance activities underway by IFC.

3.0 THE WORLD BANK PERFORMANCE STANDARDS

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

The World Bank Group has screened the proposed project components and has determined that this project is categorized as a FI – Financial Intermediary. Each PFI, including NMRC 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 Bank supported Private Sector Activity is appropriate for managing those risks.

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

The Bank has conducted multiple discussions across stakeholders and concluded that the appropriate FI category is FI-2. This is based on the anticipated knowledge that the proposed portfolio is comprised of, or is expected to be comprised of, subprojects that have potential limited adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of subprojects with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented;

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

4.0 THE ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM FOR THE PROJECT

The PFIs are required to develop and operate their Environmental and Social Management System (ESMS) commensurate with the level of E&S risk in their portfolio and prospective business activities. The ESMS should incorporate relevant principles of Performance Standard 1 on Assessment and Management of Environmental and Social Risks and Impacts. The scope and complexity of the ESMS will depend on the E&S risk of the PFI's lending/investment activities. All PFIs must also manage the working conditions of their workforce in accordance with relevant aspects of Performance Standard 2 on Labor and Working Conditions which in the case of this financial sector relates to employment practices and conditions.

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

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

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

In agreeing to participate in the Project, each PFI accepts responsibility to the World Bank Group for mandatory screening, assessment, and management of the environmental and social risks and impacts of proposed transactions it takes under the project in a manner that is consistent with WBG Performance Standards as well as the financial institution's corporate practices and policies for Corporate Responsibility. In order to effectively adapt the principals of the ESOM as a 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 PAT reporting. The PAT 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 CBN and each PFI ESMS is appropriate to the risk profile of the PFI's portfolio, the Bank approves the ESOM and each ESMS in a written memorandum. The memorandum consists of:

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

Disclosure

For this Category FI-2 the WBG requires the CBN and each PFI to disclose through the PFI's website, if a website exists, 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 CBN ESOM and PFI's ESMS:

- (a) the PFI's policy statement which describes specific objectives, metrics, and aspirations that the PFI has set with regard to its environmental and social performance;
- (b) the PFI's procedures for screening and assessing risks and impacts of subprojects or individual transactions; and
- (c) after Bank review, the summary of the environmental assessment that is required for any subproject considered high risk in accordance with the ESMS.

In addition to disclosing specified information provided by CBN and each PFI, the concept stage and appraisal stage Integrated Safeguards Data Sheet (ISDSs) are prepared and disclosed by the Bank as the source of

summary information on the Bank's findings regarding environmental and social issues for the project and each proposed PFI entity activities.

Implementation Support

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

Annex 1 References

Interpretation Note on Financial Intermediaries, IFC 2012.

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

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

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

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

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

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

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

Annex 2. OUTLINE FOR ESMS FOR FINANCIAL INSTITUTIONS

ESMS Table of Contents

1	Background	
2	Environmental & Social Management System	
	2.1 Policy	14
	2.2 Applicable Requirements	
	2.3 Procedures	
	2.4 Organization and Responsibilities.....	
	2.5 Resources and Capabilities.....	
	2.6 Records to be Maintained.....	
3	Annexures	
	3.1 Exclusion List	
	3.2 WBG Performance Standards	
	3.3 Carrying out the Environmental & Social Due Diligence (ESDD).....	
	3.4 Suggested ESDD report outline	
	3.5 Format of Performance Reporting to IFC	
	3.6 Guidance on Categorization	

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 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) (Details in Annex)

2.3 Procedures

- 2.3.1 At an initial stage of inquiry, the Environmental 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 coordinator will indicate the Applicable Requirements for the project.
- 2.3.2 When the Environmental 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 Coordinator or other designated officer will undertake (or appoint a consultant to undertake) a 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 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 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 Coordinator (or other designated officer), who may follow up as required with further queries or site visits; and
 - b) The Environmental 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 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 Manager. 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 Coordinator is [FIRST AND LAST NAME].

2.4.3 The responsibilities of the Environmental 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 Coordinator will ensure that these procedures are implemented for each project, and that records of environmental reviews are maintained.

2.4.5 The Environmental 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 Manager or the current Environmental Coordinator leaves that position, and will provide the WBG the name of the new Environmental 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 Manager 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 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 Coordinator will maintain a file of qualified environmental consultants who can be called upon to assist in conducting environmental 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 E&S 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 munitions¹.
- Production or trade in alcoholic beverages (excluding beer and wine) ¹.
- Production or trade in tobacco¹.
- Gambling, casinos and equivalent enterprises¹.
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
- Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
- Drift net fishing in the marine environment using nets in excess of 2.5 km in length.
- Production or activities involving harmful or exploitative forms of forced labor²/harmful child labor³.
- 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.

¹ 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.

² Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

³ 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—check all that apply:
<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—check all that apply:
<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—check all that apply:
<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—check all that apply:
<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—check all that apply:
<input type="checkbox"/> Annual reporting on E&S performance to PAT/WB
ESMS roles and responsibilities—check all that apply:
<input type="checkbox"/> Designated ESMS Officer <input type="checkbox"/> Designated ESMS Environmental Coordinator(s) <input type="checkbox"/> Description of ESMS responsibilities of different roles
ESMS capacity and resources—check all that apply:
<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 PAT 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 greater than 36 months			
SME/individual	Any lending, leasing or other financial assistance to any individual, with individual transactions less than US\$ 5 million		
Project finance/Large Corporate finance	Any lending, leasing or other financial assistance to any corporate or legal entity other than an individual, with individual transactions larger than US\$ 5 million		
Trade finance			
Other			
Microfinance			
Other (if applicable)	Please describe		

ESOM Nigeria Housing Finance

Please give details of any material environmental and social issues associated with borrowers during the reporting period in particular.		
Capacity	Yes/No	
Please provide the name and contact information of the Environmental Officer or Coordinator who has the overall responsibility for the implementation of ESMS.		Please describe the training or learning activities the Environmental Officer or Coordinator attended during year.
Please provide current staffing of other core ESMS persons in the organization involved with ESMS implementation.		Please describe the training provided to the ESMS persons and other team members during year.
What was the budget allocated to the ESMS and its implementation during the year?		Please provide budget details including staff costs and training as well as any actual costs.
Monitoring	Yes/No	
Do you check for ongoing compliance of your projects with national regulation and any other requirements?		If yes, please describe the process including any environmental and social considerations if applicable.
Please describe how you monitor the client and project environmental and social performance.		Please describe and provide supporting documents and please provide information on the number of projects where a field visit was conducted by staff to review aspects including environmental and social issues.
Please provide details of any accidents/litigation/ complaints/regulatory notices and fines: <ul style="list-style-type: none"> - 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 any environmental and social issues considered.

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 6: APPLYING THE WBG PERFORMANCE STANDARDS FOR THE PROGRAM

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

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

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

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

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

PFI senior management should be informed regularly of the E&S risks at the portfolio level and of individual borrowers/investees, if necessary. This information gives the PFI a better understanding of its overall exposure to E&S risk, and allows the PFI to focus on transactions and borrowers/investees that may require additional resources to manage E&S impacts. PFIs should periodically review the implementation effectiveness of their ESMS, and adjust or update procedures, as needed, to enhance practices and efficiency, address potential changes in the E&S risk profile of their portfolio, and respond to changes in the E&S regulatory environment.

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

Where the WBG client's operations involve activities and facilities that are likely to generate impacts, Performance Standard 1 requires clients to establish and maintain an emergency preparedness and response system to respond to accidental and emergency situations. For a PFI client, this means ensuring that the

necessary emergency preparedness and response plans are in place within its premises to protect the health and safety of its employees as well as that of visitors. Effective emergency preparedness and response plans should identify responsibilities and procedures for communicating different types of emergencies (e.g., fire, earthquake or robbery) to the appropriate authorities and for safe evacuation. Plans should also include specific training and practice requirements (i.e., simulations and drills). Buildings that are owned or rented/leased by the PFI that are accessible to the public should be designed, constructed, and operated in full compliance with local building codes, local fire department regulations, local legal/insurance requirements, and in accordance with internationally accepted life and fire safety standards.

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

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

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

Human Resources Policies and Procedures

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

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

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

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

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

Working Conditions and Terms of Employment

Performance Standard 2 also requires WBG clients to provide reasonable working conditions for all employees. For PFIs, this means providing conditions and terms of employment that, at a minimum, comply with national

law and Performance Standard 2. In addition to salary, this should include a safe work environment free of discrimination or harassment; maximum working hours and payment for overtime work for applicable employees/job types; health insurance; pension; and leave time for holidays, illnesses/injuries, and maternity.

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

Employees' Organizations

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

Non-Discrimination and Equal Opportunity

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

Retrenchment

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

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

Grievance Mechanism for Employees

Performance Standard 2 requires WBG clients to provide a mechanism for employees to raise workplace concerns and provide feedback. This mechanism should be clearly communicated to employees and allow for anonymous complaints to be raised and addressed. For PFIs, this requires developing a process whereby employees can state their concerns directly to human resources or management, bypassing their immediate supervisors if needed, and ensuring that matters are brought to management's attention and addressed in a

timely manner. The mechanism should protect confidentiality and ensure that there is no retribution for filing grievances. The PFI should document all grievances and provide feedback to those who file complaints.

Workers Engaged by Third Parties

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

Applying Performance Standard 5 on Land Acquisition and Involuntary Resettlement

The Housing Program through the provisioning of its PFI lending portfolio will ensure that all applicable national and state laws and regulations pertaining to home ownership, occupancy and land tenure will be applied.

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

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

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

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

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

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

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