



## ENVIRONMENTAL AND SOCIAL ASSESSMENTS



# » WHAT INVESTORS WANT

A Simple Guide for Project Sponsors, Advisors, Contractors and Consultants  
with Perspectives from International Investors' Environmental and Social Experts

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*A Torquoise Sustainability Initiative*

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*Investors primarily want to reduce unmanageable risks, preserve their capital and add much-needed value to companies, communities and the environment.*

## About the **What Investors Want Series**

**T**he What Investors Want Series provides advice, experiences, perspectives and simple illustrated explanations of key environmental and social (E&S) issues to project sponsors, developers, consultants and advisers. Series' content has been consolidated from the contributions of E&S experts, who are/have been practitioners in international project or development finance.

What Investors Want is not intended to replace useful E&S risk management best practice and guidance documents available to project stakeholders. Links to a number of these documents/sources are listed on the back page of this Series title.

# Why are Environmental and Social Assessments so important to Investors?



## NO LONGER BUSINESS AS USUAL

“Effective project preparation requires all assessments (financial, economic, technical, legal institutional, E&S) to be carried out in parallel, with the different assessment processes informing each other.”

## UNDERSTANDING THE RISKS

“Investors conduct due diligence to identify and mitigate legal, credit, technical, economic and E&S risks. Assessment reports provide vital information needed for E&S due diligence – helping investors understand the material risks a project can create for the environment, as well as people, communities and cultures.”

## TIME IS MONEY

“Thorough and well-conducted E&S assessments can save investors significant amounts of time and money, by establishing project feasibility (from an E&S perspective), properly analyzing alternatives, identifying E&S gaps/issues, recommending practicable management measures and generally increasing investors’ knowledge of key project aspects.”

## ASSESSMENT IS RELEVANT AND INTEGRAL

“Conducting proactive and well-scoped E&S assessments is absolutely integral to the success of project or company operations. Investors want to be certain that project sponsors have gone through a comprehensive assessment process, which helps them properly understand the E&S issues and risks they will have to manage”.

## AN ISSUE OF REPUTATION

“Investors are concerned with the possible reputational issues arising from E&S risks associated with developing a project. They seek to ensure that, by investing in projects, they are also operating within principles which actualise their organization's purpose of achieving positive development impact.”

*“ Understanding the full environmental and social interactions, implications and costs of any project has become an absolute necessity for investors. ”*

# What are the Key Considerations for Environmental and Social Assessments?

## CATEGORIZATION

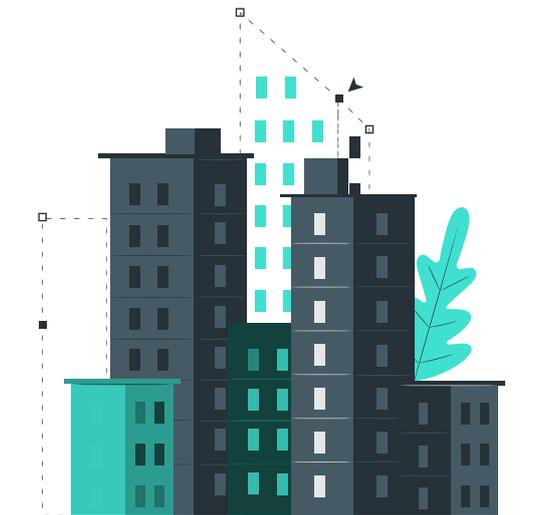
“Allocating E&S categories is an important starting point, which guides the determination of E&S assessments to be undertaken for any project or operation. E&S categorization is based on potential E&S risks associated with particular project activities and is typically driven by country legislation. Investors will expect their proposed E&S categories to be more stringent or equal to country-allocated E&S categories.”

## CLEAR PROJECT DESCRIPTION

“Simply describing the physical components of a project is insufficient for proper E&S assessment. In the assessment process, project descriptions should include all factors, elements and interfaces needed for a project to function. This typically includes but is not limited to; institutional arrangements, roles of key third parties, construction methods and timelines, operation modes and maintenance schedules.”

## COMPREHENSIVENESS

“E&S assessments should be comprehensive, while taking into account the nature and scale of a project’s impact on the environment and society. A full E&S assessment process should cover a wide range of potential E&S issues often not addressed through national Environmental Impact Assessment (EIA) processes: issues relating to labour and working conditions, workers/public health and safety, land use, tenure and acquisition, biodiversity conservation, human rights, gender-based violence, minority tribes, vulnerable persons, cultural heritage and climate change.”



### A GOOD LOOK AT ALTERNATIVES

“An analysis of alternatives during E&S Assessment is not a mere tick box exercise, but is of paramount importance. Well-structured analyses of alternatives, which follows a best practice mitigation hierarchy approach (Avoid, Minimize, Reduce, Offset/Compensate) are fundamental in helping to avoid unmanageable E&S risks and impacts.”



### ALL-INCLUSIVENESS

“An E&S assessment process should be inclusive and not exclude (easily omitted) E&S issues and risks – such as security, human rights, cultural heritage and gender.”



### ENGAGEMENT

“E&S assessment processes should be completely interactive and involve rigorous and appropriate engagement with all stakeholders potentially affected by a project. It is essential that stakeholders understand how the project will affect their livelihoods and environment and that they are given ample opportunities for involvement and feedback.”

### MUST BE SYSTEMATIC

“E&S assessments are a systematic way to identify all the E&S aspects, issues, risks and mitigants relating to a project. The key word is 'systematic' – assessments must follow a methodical, well-thought out approach to identifying risks.”



## NOT JUST NATIONAL, BUT INTERNATIONAL

“It is essential for project sponsors to understand the difference between the full E&S assessment requested by investors and the regulatory EIA legally required for project planning/permitting purposes. Whereas the focus of the latter is on compliance with environmental protection laws, the full E&S assessment process is not merely a different form of EIA or permitting process, but is a comprehensive review of all E&S risks that could materialize in the context of a project.”

## PRACTICAL IMPLEMENTATION

“All mitigation and management measures recommended during an assessment process will eventually need to be implemented by project sponsors: meaning that these measures need to be pragmatic, practicable and, if possible, affordable to carry out. Investors will usually set up their own monitoring and reporting feedback mechanisms, to check project sponsors' post-assessment implementation, as well as institutional arrangements projects have put in place to ensure proper E&S performance.”



## MITIGATION AND MANAGEMENT PLANNING

“If an E&S assessment reveals that a project may have negative impacts, investors expect to work with project sponsors to identify ways to minimise, eliminate or substitute impacts through mitigation measures. E&S impacts will require that a management plan be developed to address direct and indirect issues and risks along a project cycle – right from the feasibility studies phase to construction, operation and decommissioning.”

## MUST MEET INVESTOR REQUIREMENTS

“Investors need to ensure that E&S assessments meets their requirements. They will typically ask for an initial analysis between the E&S assessment and national, as well as E&S best practice standards.”

## So, What Should You Do?

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When conducting E&S assessments, project sponsors and companies seeking financing from international, public or private lenders/investors and multilateral or development finance institutions should carefully follow advice in available guidance documents and consider key issues mentioned in **What Investors Want - Environmental and Social Assessments**.

# Glossary

Project sponsors and developers can become inundated with the many terms and phrases used in environmental and social risk management. Below is a glossary of basic terms relating to environmental and social assessments.

**Environmental and Social Due Diligence:**

A process carried out by a financial institution, to review the environmental and social risks of potential clients, borrowers or investee companies, with the objective of properly understanding the profile of environmental and social issues and risks which could potentially pose liabilities to the financial institution.

**Environmental Aspect:**

Any element of a project or organization's activities (whether directly or indirectly controlled) which could interact with the environment.

**Environmental and Social Impact Assessment:**

A process that involves a multidisciplinary approach to predicting, describing and assessing the environmental and social issues and risks relating to a project, with the aim of identifying alternatives, while defining the mitigation actions needed to manage risks if the project is progressed.

**Social Aspect:**

Elements relating to how humans live and interact with the environment and the commonalities in society e.g. beliefs, language, dress, habits, norms e.t.c.

**Environmental/Social Risk:**

The likelihood (and magnitude) of negative environmental or social impacts as a result of a project's activities.

**Environmental/Social Impact:**

The effects, whether positive or negative, that a project's activities have on the environment or on social aspects.

**Environmental Permit:**

A permit, licence or approval required for a project under national or international environmental law.

**Environmental and Social Compliance:**

The conformity of an investment with the requirements set by its investors' environmental and social policies.

**Social Licence:**

The intangible approval for a project to operate, from its stakeholders, including employees and host/surrounding communities.

# Contributors

## Series Developer

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*The Environmental and Social Experts perspectives and opinions in this document are expressed wholly in the professional capacity/experience of each expert and are not intended to represent the position of their respective organizations.*

## OTHER TITLES >>>

- What Investors Want – Environmental and Social Management Systems
- What Investors Want – Workforces & Working Arrangements



# Useful Guidance on Environmental and Social Assessments

**[www.ifc.org](http://www.ifc.org)** – Contains:

World Bank Group Environmental, Health, and Safety Guidelines, which are technical reference documents with general and industry-specific examples of Good International Industry Practice.

Environmental and Social Performance Standards, which define IFC (International Finance Corporation) clients' responsibilities for managing environmental and social risks.

Environmental and Social Review Procedures Manual which describes how IFC conducts environmental and social due diligence for business activities involving direct investments, investments through financial intermediaries and advisory projects .

**[www.esgafrika.com](http://www.esgafrika.com)** – Contains a useful compendium of ESG resource materials

**CDC Guidance Material** – [www.cdcgroup.com](http://www.cdcgroup.com)

ESG Toolkit for Fund Managers: Practical guidance for responsible investors in emerging markets.