GUIDE

Your lender asked for an ESMS: a plain guide for the company

If your bank or leasing company has a credit line from a development finance institution (DFI), it has probably sent you an environmental and social questionnaire, an exclusion list to confirm, and perhaps an action plan to sign. Together they are a request for an environmental and social management system...

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Guides. Omar Hamdy, on the lender's side, in Cairo. Written in a personal capacity.

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Your lender asked for an ESMS: a plain guide for the company

If your bank or leasing company has a credit line from a development finance institution (DFI), it has probably sent you an environmental and social questionnaire, an exclusion list to confirm, and perhaps an action plan to sign. Together they are a request for an environmental and social management system (ESMS): a routine way of finding and controlling the harm your business could do to workers, neighbours and the environment. For most small and medium companies the right system is short. This guide explains each document from your side of the table and how to answer it honestly.

AT A GLANCE

In one table: what you may be sent

DOCUMENT	WHAT IT IS	WHAT THE LENDER DOES WITH IT	YOUR PART
Exclusion list	Activities the lender's funder will not finance	Screens you out, or in, before anything else	Confirm in writing, and disclose any link to a listed activity
E&S questionnaire	Questions on permits, pollution, labour, safety and neighbours	Sets your risk category: low, medium or high	Answer from records, and say where records do not exist
Site visit or due diligence	A check by the lender or a consultant, for higher-risk cases	Confirms the answers and finds gaps	Show the site, the permits and the files
E&S action plan (ESAP)	Dated actions to close the gaps found	Writes it into the loan agreement	Agree dates you can meet, then report against them
Covenants and reports	Conditions in the loan agreement, and a yearly E&S report	Monitors you for the life of the loan	Keep the evidence and report on time

01

What an ESMS is, in plain words

An ESMS is how a company knows its environmental and social risks and keeps them under control, year after year, whoever is in the job. It is not a document you write once for the bank.

IFC Performance Standard 1 asks for an ESMS "appropriate to the nature and scale of the project" and lists seven elements. In plain words:

PS1 ELEMENT	WHAT IT MEANS FOR A COMPANY
Policy	A short statement, signed by the owner or board, of what the company commits to
Identification of risks and impacts	A list of what could go wrong at your sites: fire, chemicals, waste, injuries, noise, unfair treatment of workers
Management programmes	What you do about each risk, including the action plan
Organisational capacity and competency	A named person responsible, with the time and training to do it
Emergency preparedness and response	What happens in a fire, spill or serious accident, and who does what
Stakeholder engagement	How workers and neighbours can raise a concern, and how you answer
Monitoring and review	How you check it works, record incidents and update it each year

02

Why your lender is asking

The DFI behind the credit line requires the lender to run its own ESMS on every loan it makes from that money. Under EBRD's Environmental and Social Requirement 9, for example, a lender must screen every sub-project against the EBRD exclusion list, categorise its risk as low, medium or high, make sure it meets national environmental and social law, keep records, and monitor it. Higher-risk deals get more. Where a sub-project falls within the EBRD's list of Category A projects, it must meet EBRD requirements 1 to 8 and 10 and be referred to the EBRD. IFC sets similar expectations for the lenders it funds.

So the questionnaire is the lender doing its job, and its funder will check that it did. Your answers end up in a file that may be sampled by the DFI.

03

The IFC exclusion list

IFC does not finance the following, and lenders using IFC money apply the same list:

- Production or trade in any product or activity illegal under host country law or international conventions, or subject to international bans: for example certain pharmaceuticals, pesticides and herbicides, ozone depleting substances, PCBs, and wildlife or products regulated under CITES
- Production or trade in weapons and munitions
- Production or trade in alcoholic beverages, excluding beer and wine
- Production or trade in tobacco
- Gambling, casinos and equivalent enterprises
- Production or trade in unbonded asbestos fibres (bonded asbestos cement sheeting with under 20% asbestos is outside this item)

- Drift net fishing in the marine environment with nets over 2.5 km long

Financial intermediaries add, for their own lending:

- Production or activities involving harmful or exploitative forms of forced labour or harmful child labour
- Commercial logging in primary tropical moist forest
- Production or trade in wood or other forestry products other than from sustainably managed forests

Three details matter to a company:

- **"Not substantially involved".** The weapons, alcohol, tobacco and gambling items do not apply to a sponsor for whom the activity is ancillary to its main business. A supermarket that sells cigarettes is different from a cigarette distributor. If any of your revenue comes from a listed activity, state the share and let the lender judge.
- **The list changed.** On 8 December 2025 IFC removed "production or trade in radioactive materials" from the list, for transactions mandated after 31 December 2025. Your lender's list may still carry it.
- **Your lender's list may be longer.** EBRD has its own exclusion list, in Annex A of its 2024 Environmental and Social Policy, and many lenders add items of their own. Read the list you were sent, not this one.

04

The E&S questionnaire, part by part

Questionnaires differ between lenders, but most cover the same ground. Each part is checking one thing.

PART	WHAT IT IS CHECKING	HOW TO ANSWER HONESTLY
Company and activity	Whether you touch the exclusion list, and how risky your sector is	Describe what you actually do, site by site, with the revenue split. Mention side activities
Permits and legal compliance	Whether you hold the environmental and operating permits your activity needs under Egyptian law	List each permit with its number and expiry date. If one is expired or in process, say so and give the date you expect it
Pollution and resources	Air emissions, wastewater, solid and hazardous waste, chemicals, energy and water use	Give figures from bills and contractor receipts. "We do not measure this yet" is an honest answer; add when you will start
Labour and working conditions	Contracts, hours, wages, overtime, under-18 workers, contractors' staff, a way for workers to complain	Answer from HR records. Include agency and contractor workers on your site
Health and safety	Accidents, fatalities, fire safety, protective equipment, training	Give the incident numbers for the last three years, including the bad ones
Community	Neighbours, complaints, traffic, noise, security guards	Say who lives or works next to you and any complaint received
Land	How you obtained the land, and whether anyone was moved	State the title or lease. If people or businesses left the site for your project, say so

PART	WHAT IT IS CHECKING	HOW TO ANSWER HONESTLY
Nature and heritage	Whether the site is near a protected area or a heritage site	Check the location; say "not known" if you are unsure and ask
Management	Who is responsible, any policy, past fines, accidents or disputes	Name the person. Disclose past fines and how they were closed

Rules that save trouble later:

- **Do not tick "yes" to a policy you do not run.** A site visit finds it, and a false answer can become a breach of the representations in your loan agreement.
- **A "no" with a date is a good answer.** It becomes an action plan item. A hidden gap becomes a default.
- **Attach evidence** where you can: permits, the fire certificate, the waste contractor's licence, the incident log.
- **Keep a copy** of exactly what you sent. Next year's report will be read against it.

05

The E&S action plan (ESAP)

The action plan lists what you will fix, by when, and how the lender will know. Under EBRD's policy, an ESAP forms part of the financing agreement and may be updated over the life of the loan. IFC Performance Standard 1 describes action plans that set out desired outcomes and actions, with measurable elements such as performance indicators and targets.

A workable ESAP has six columns:

ACTION	STANDARD	EVIDENCE OF COMPLETION	DEADLINE	OWNER	STATUS
Example: renew the civil defence fire certificate	PS2 and PS4	Copy of the renewed certificate	Before first drawdown	Plant manager	Open
Example: set up a written grievance channel for workers	PS2	Procedure, posted notice, log of complaints	3 months after signing	HR manager	Open
Example: hand hazardous waste only to a licensed contractor	PS3	Contract and disposal receipts	6 months after signing	Operations	Open

The examples are illustrative. Before you sign:

- **Ask which items are conditions precedent** (needed before the money moves) and which are covenants (needed later). The difference decides your drawdown date.
- **Agree dates you can meet.** A missed ESAP date is a breach like any other.
- **Name an owner for each line**, inside the company.
- **Report progress before you are asked**, with the evidence attached.

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IFC Performance Standards 1 to 8, one line each

The standards came into force on 1 January 2012. A low-risk SME loan is usually checked against national law and the exclusion list, with the standards applied where the risk calls for them.

1. **PS1, Assessment and Management of Environmental and Social Risks and Impacts:** know your risks and run a system to manage them.
2. **PS2, Labor and Working Conditions:** fair contracts, wages and hours, no forced or child labour, a grievance channel, safe work.
3. **PS3, Resource Efficiency and Pollution Prevention:** use less energy, water and materials, and control emissions, effluent and waste.
4. **PS4, Community Health, Safety, and Security:** protect the people around your site, including from your security arrangements.
5. **PS5, Land Acquisition and Involuntary Resettlement:** avoid moving people, and compensate fairly when it cannot be avoided.
6. **PS6, Biodiversity Conservation and Sustainable Management of Living Natural Resources:** avoid harm to habitats, and source living resources sustainably.
7. **PS7, Indigenous Peoples:** respect the rights of Indigenous Peoples and seek their consent where the standard requires it.
8. **PS8, Cultural Heritage:** protect heritage sites and finds, and handle chance finds properly.

07

EBRD, briefly

If the money behind your loan comes from EBRD, the rules are its Environmental and Social Policy 2024, in force since 1 January 2025. What used to be called Performance Requirements are now ten Environmental and Social Requirements (ESRs). ESRs 1 to 8 cover broadly the same ground as IFC's eight standards. ESR 9 is addressed to your lender, not to you. ESR 10 covers stakeholder engagement: talking to the people your project affects and answering them.

08

What is proportionate for an SME

Performance Standard 1 asks for a system that fits the nature and scale of the business. For a workshop, a small factory or a service company, that usually means:

- [ ] One named person responsible, with an hour a week set aside
- [ ] A one-page policy signed by the owner

- [ ] A list of the permits and legal duties that apply to you, with expiry dates
- [ ] A one-page register of the main risks at each site
- [ ] Short written procedures for the risks that matter: chemicals, fire, waste, contractors on site
- [ ] A way for workers to raise a complaint, and a log of what happened next
- [ ] An incident log and a training log
- [ ] A folder, paper or shared drive, with the evidence behind every answer you gave the lender
- [ ] A review once a year, before the annual E&S report is due

What is not proportionate is a manual of eighty pages that nobody uses. Lenders and DFIs test what you do, not what you wrote. IFC's free ESMS Implementation Handbook (General), with its self-assessment and templates, is a good place to start.

When the risk is higher, so is the system: heavy industry, chemicals, large construction, land acquisition or a site next to a river or a village usually means a full assessment, specialist studies and more frequent reporting.

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How your lender's side works

I have written the lender's side separately: ESMS for non-bank lenders: five decisions a DFI tests. Reading it shows why each question is asked and what the lender has to prove to its funder.

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What to do this week

1. **Read the exclusion list you were sent** and write down any activity, however small, that comes close to it.
2. **Name one person** to own the questionnaire and the evidence.
3. **Gather the permits** and note every expiry date.
4. **Pull three years of incidents**, workforce numbers and contracts from HR.
5. **Answer the questionnaire from records**, marking each gap with a date to close it.
6. **Ask the lender** which gaps would be conditions precedent before you sign anything.

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Frequently asked questions

What is an ESMS?

An environmental and social management system: the policy, people, procedures and records a company uses to find and control the harm its business could do to workers, neighbours and the environment.

Why does my lender need an ESMS from me?

Because the DFI that funds the lender's credit line requires the lender to screen, categorise and monitor every loan it makes from that money. Your answers and your system are the evidence.

What is on the IFC exclusion list?

Illegal or internationally banned products and activities, weapons and munitions, alcoholic beverages other than beer and wine, tobacco, gambling, unbonded asbestos fibres and drift net fishing with nets over 2.5 km. Financial intermediaries add harmful forced or child labour, logging in primary tropical moist forest, and unsustainable wood products.

What is an E&S action plan?

A dated list of actions you agree to take to meet the lender's environmental and social requirements, with evidence and an owner for each. It is usually written into the loan agreement.

Does a small company need to meet all eight IFC Performance Standards?

Usually not in full. A low-risk SME loan is mostly checked against national law and the exclusion list, and the standards apply where the risk calls for them. The system must fit the nature and scale of the business.

What happens if I answer a question wrongly?

If it is found at the site visit, it becomes a gap to fix. If it is found after signing, it can be a breach of the representations in the loan agreement. Answer from records and disclose gaps.

Are EBRD's requirements different from IFC's?

They cover broadly the same ground. EBRD's 2024 policy, in force since 1 January 2025, has ten Environmental and Social Requirements; ESR 9 applies to lenders and ESR 10 to stakeholder engagement.

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Send me what you received

If your lender has sent you an E&S questionnaire, an exclusion list or an action plan, send it to me in five short lines: what you received, from whom, the deadline, your sector, and what you want to know. I'll reply by email. I can help you prepare the answers, the evidence and a system that fits your size; the lender makes its own decision.

Guides, checks, toolkit and newsletter are free. Advisory is paid work in a personal capacity: scope agreed in writing, fee quoted after a free first call.

I don't arrange finance, introduce lenders or work on files for my employer's credit decisions. Every enquiry gets a conflicts check before any work.

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Sources

IFC

1. IFC Exclusion List (2007), as amended 8 December 2025 (https://www.ifc.org/exclusionlist)
2. IFC Performance Standards on Environmental and Social Sustainability (2012), full text (https://www.ifc.org/content/dam/ifc/doc/mgrt/ps-english-2012-full-document.pdf)
3. IFC Performance Standards and Guidance Notes (https://www.ifc.org/PerformanceStandards)
4. IFC, Environmental and Social Management System Implementation Handbook: General (2015) (https://www.ifc.org/en/insights-reports/2015/publications-handbook-esms-general)
5. IFC, Interpretation Note on Financial Intermediaries (https://www.ifc.org/en/insights-reports/2012/publications-policy-interpretationnote-fi)

EBRD

6. EBRD Environmental and Social Policy 2024 (October 2024; in force 1 January 2025), including ESR 9 and the Exclusion List in Annex A (https://www.ebrd.com/content/dam/ebrd_dxp/assets/pdfs/environment---sustainability/environmental-and-social-policy-esp/esp-2024/EBRD-Environmental-and-Social-Policy-2024-high-res.pdf)

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- PCAF for non-bank lenders omarhamdy.com/guides/pcaf-for-nbfis/
- IFRS S1 and S2 readiness omarhamdy.com/guides/ifrs-s1-s2-readiness/
- FRA Decision 36 omarhamdy.com/guides/fra-decision-36-carbon-footprint/

Terms used in this document

EXCLUSION LIST	Activities a lender will not finance at all, such as weapons, tobacco or harmful child labour.
CREDIT LINE / FACILITY	An agreed amount a lender makes available to draw over time, such as a development bank's line to a local bank.
ESMS	The rules and routine an organisation uses to find and control harm to people and the environment. A lender runs one on every loan, and may ask its borrowers for one.
DFI	A development finance institution: a lender backed by governments, such as EBRD or IFC, that funds projects for their development impact as well as their returns.
E&S RISK	Environmental and social risk: the chance that a project harms people or nature, and the money that can be lost when it does.
E&S DUE DILIGENCE	The check of a client's or project's environmental and social risks before the lender says yes.
ESAP	A dated list of fixes a borrower agrees to make to meet the lender's environmental and social rules.
PERFORMANCE STANDARDS	IFC's eight rules for managing harm to workers, communities and nature in a project.
IFC	The International Finance Corporation: the World Bank Group's arm that lends to and invests in private companies in developing countries.
EBRD	The European Bank for Reconstruction and Development: a development bank owned by governments and EU institutions that lends in Egypt, often through local banks.
DRAWDOWN	Taking money out of an agreed credit line, usually in parts.
CONDITION PRECEDENT	Something you must deliver before the lender pays out, such as a permit, a study or a signed policy.
COVENANT	A promise in the loan agreement that you keep for as long as the loan runs, such as a reporting date or a financial ratio.