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THE AGENCY OF THE REPUBLIC OF KAZAKHSTAN FOR REGULATION AND  
DEVELOPMENT OF FINANCIAL MARKET

# ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

GUIDELINES FOR BANKS AND OTHER FINANCIAL INSTITUTIONS

Almaty,  
2024

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## List of Abbreviations

CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CLL	Concurrent Legislative List
CO	Carbon monoxide
CO <sub>2</sub>	Carbon dioxide
E&S	Environmental and social
EIA	Environmental Impact Assessment
EMP	Environmental Management Plan
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESIA	Environmental and Social Impact Assessment
ESMS	Environmental and Social Management System
ESRM	Environment and Social Risk Management
FI	Financial Institute
GHGs	Greenhouse gases
IEE	Initial Environmental Examination
IFC	International Finance Corporation
NEQs	National Environmental Quality Standards
PS	Performance Standards
SFD	Sustainable Finance Department
SMEs	Small and medium enterprises
UNESCO	United Nations Educational, Scientific and Cultural Organization

## Definitions

**Compliance/E&S Compliance** – Adherence to the environmental and social legislation of the Republic of Kazakhstan, as well as alignment with international environmental and social standards.

**Financial Institution (FI)** – Second-tier banks and organizations involved in banking credit operations and microfinance activities (excluding pawnshops) based on licenses in accordance with the legislation of the Republic of Kazakhstan.

**Credit Approval Authority** – A committee, board, or other relevant body within a financial institution authorized to make decisions regarding the granting of credits.

**Environmental and Social Due Diligence (ESDD)** – An analysis of potential environmental and social risks associated with a potential client’s activities, conducted by a financial institution to ensure that the transaction does not present environmental and social risks that could result in potential liability or risk to the institution.

**Environmental and Social Standards (ESS)** – Recommendations on international best practices for financial and non-financial disclosure, including the Global Reporting Initiative (GRI)<sup>1</sup>, the Sustainability Accounting Standards Board (SASB)<sup>2</sup>, and the Carbon Disclosure Project (CDP)<sup>3</sup>. These standards also guide the identification and assessment of social and environmental risks and impacts associated with projects financed through credit instruments, investment, and project finance. Key frameworks include the Environmental and Social Framework (ESF)<sup>4</sup> of the World Bank Group, IFC Performance Standards<sup>5</sup>, The Equator Principles<sup>6</sup>, the United Nations Environment Programme Finance Initiative (UNEP-FI)<sup>7</sup>, the United Nations Principles for Responsible Investment (UN PRI)<sup>8</sup>, the Business and Advisory Committee to the OECD<sup>9</sup>, the Trade Union Advisory Committee to the OECD (TUAC)<sup>10</sup>, and the EBRD<sup>11</sup> standards.

**Environmental and Social Impact Assessment (ESIA)** – A tool used to identify, analyze, measure, and assess potential environmental, social, health, labor, and safety risks and negative impacts associated with projects proposed for financing.

**Exclusion list** - a list of activities that are not subject to financing by financial institutions.

**Environmental risks**<sup>12</sup> – risks that pose a threat of pollution or destruction of the natural environment—including land, water, air, and natural habitats of animals and

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<sup>1</sup> <https://www.globalreporting.org/>

<sup>2</sup> <https://sasb.ifrs.org/standards/>

<sup>3</sup> <https://www.cdp.net/en>

<sup>4</sup> <https://www.worldbank.org/en/projects-operations/environmental-and-social-framework>

<sup>5</sup> <https://www.ifc.org/en/insights-reports/2012/ifc-performance-standards>

<sup>6</sup> <https://equator-principles.com/about-the-equator-principles/>

<sup>7</sup> <https://www.unepfi.org/>

<sup>8</sup> <https://www.unpri.org/>

<sup>9</sup> <https://www.businessatoecd.org/>

<sup>10</sup> <https://www.oecd.org/trade/topics/export-credits/environmental-and-social-due-diligence/>

<sup>11</sup> <https://www.ebrd.com/who-we-are/our-values/environmental-and-social-policy/performance-requirements.html>

<sup>12</sup> For more information, <https://firstforsustainability.org/understanding-es-risks>

plants—due to accidental or deliberate actions. In the industrial landscape of Kazakhstan, characteristic environmental risks include air pollution, water scarcity, soil degradation, natural disasters, and inadequate waste management. In this context, the majority of emissions originate from the power sector, primarily from combustion byproducts, as well as from industrial production, mining, and transportation activities.

**Initial Environmental Examination (IEE)** – the process of assessing the state of the environment in the context of a particular project includes analyzing potential impacts, developing mitigation measures, formulating institutional requirements, and establishing an environmental monitoring system.

**Social risks**<sup>13</sup> – potential threats arising from interactions with the public, including clients, suppliers, stakeholders, and the general public. These risks can manifest in various negative consequences, such as reputational damage, client dissatisfaction, increased regulatory scrutiny, or failure to meet societal expectations and trends. Examples of social risks for financial institutions include issues related to ethical practices in the banking sector, social responsibility, diversity and inclusion, community investment, and the organization’s alignment with community values and expectations.

**Environmental and social impacts** - Any potential or actual changes that may affect (i) the physical, natural, or cultural environment, and (ii) the surrounding community and employees as a result of the company’s activities. This encompasses a wide range of impacts that may arise from the company’s business processes or operations, covering both environmental aspects and social interactions.

**Climate risks** refer to potential threats and negative consequences associated with climate change, which may result in financial losses or other adverse outcomes for organizations, society, and ecosystems. Depending on the source of the negative impact, climate risks are typically divided into two categories: physical risks and transition risks.

**Physical climate risks** refer to the impacts of climate change on the environment, economy, and society. These risks are categorized into acute and chronic. Acute risks involve extreme weather events that occur over short periods, such as hurricanes, floods, wildfires, and extreme temperatures. Chronic risks refer to long-term changes in climatic conditions that develop over extended periods and can significantly alter the environment and living conditions. Examples include mean sea level rise, gradual increases in average temperature, changes in precipitation patterns, and prolonged droughts.

**Transition climate risks** refer to potential threats arising from the shift to a low-carbon economy. These risks are linked to various actions, including government and regulatory measures aimed at mitigating climate change. Such actions may involve a transition to renewable energy, enhanced energy efficiency, regulation of greenhouse gas emissions, and other strategies to reduce carbon footprints. However, the transition itself may generate risks, such as economic losses in high-carbon industries, job

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<sup>13</sup> For more information, <https://firstforsustainability.org/understanding-es-risks>

displacement, social tensions, and even increased inequality.

**Environmental and Social Management System (ESMS)** is a framework comprising policies, procedures, tools, and internal resources aimed at identifying and managing the environmental and social risks associated with a financial institution's clients.

## 1. Introduction

These Methodological Guidelines on Environmental and Social Risk Management for Financial Institutions (hereinafter referred to as the Guidelines) have been developed by the Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market (ARDFM) to assist Kazakhstani financial Institutions (FIs) in understanding and effectively adopting best practices in environmental and social risk management. The Guidelines also provide appropriate methodological tools for the successful integration of an environmental and social risk management system into FIs' business processes.

The Guidelines provide recommendations for establishing and implementing an FI's Environmental and Social Risk Management (ESRM) system when undertaking various types of financing, including trade finance, microfinance, SME finance, corporate finance, and project finance.

In developing the Guidelines, international best practices for financial and non-financial disclosure were considered. These include standards set by the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and Carbon Disclosure Project (CDP). Additionally, the Guidelines incorporate requirements for identifying and assessing socio-environmental risks and impacts associated with projects financed through credit instruments, investment, and project finance. These requirements include the World Bank Group Environmental and Social Framework (WBG ESF), IFC Performance Standards, The Equator Principles, United Nations Environment Programme Finance Initiative (UNEP-FI), United Nations Principles for Responsible Investment (UN PRI), Business and Industry Advisory Committee to the OECD, Trade Union Advisory Committee to the OECD (TUAC), and the EBRD standards. The implementation of these standards covers key areas such as risk assessment, due diligence, mitigation measures, monitoring, reporting, and stakeholder engagement.

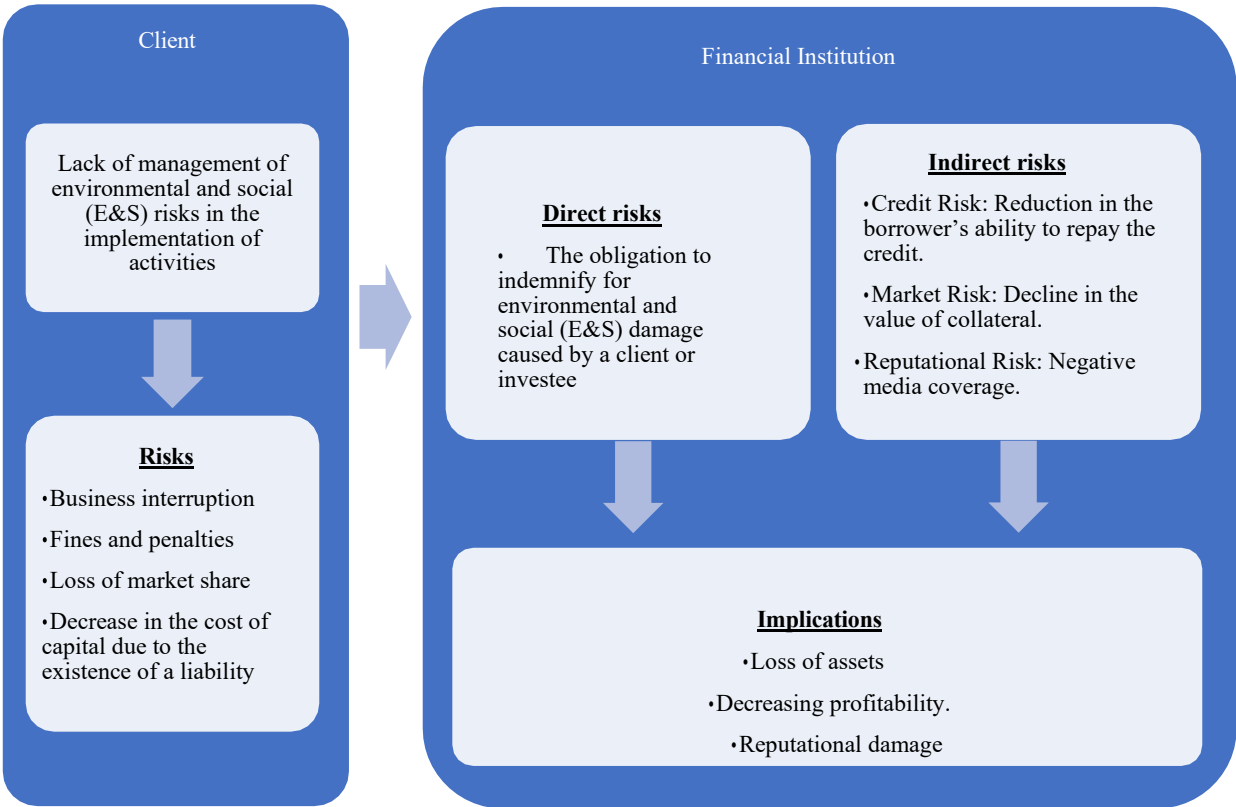
The implementation of environmental and social risk management practices is an iterative process, as approaches to assessing these risks are continuously evolving. ARDFM will collaborate with FIs to identify and promote best practices, implement modern environmental and social management practices, and collect the necessary data and analysis to better understand and respond to chronic environmental and social risks in the future.

The Guidelines are not a legal act and are recommended for implementation. Non-compliance with the provisions of the Guidelines does not result in liability for FIs on the part of the ARDFM.

2. Environmental and social risks in the activities of FIs

FIs' activities typically do not have direct and significant environmental and social impacts. However, the activities of their clients may pose such risks to the FI. By providing funding or other services, FIs can become associated with projects and operations that have environmental and social implications. Failure to manage these risks in a timely and appropriate manner could negatively affect the FI's reputation, operations, and financial performance.

Figure 1: E&S risks for FIs





The nature, scope, and severity of these risks depend on various factors, including geographical context, industry, and the types of financial transactions involved (e.g., corporate lending, housing, leasing, microfinance, project finance, trade finance, short-term finance, SME finance)<sup>14</sup>.

FIs' E&S risks include the following direct and indirect risks:

- **Legal Liability Risk:** When FIs acquire collateral assets, they are exposed to the risk of legal liability stemming from their clients' legal obligations. This risk includes fines, penalties, and third-party claims for damages resulting from clients' failure to adequately manage environmental and social risks during their operations, as well as the costs associated with remediation.

- **Financial risk:** FIs are exposed to financial risk arising from potential disruptions in clients' operations related to environmental and social issues. If these aspects are not adequately managed, it may impact clients' ability to meet their financial obligations to FIs and lead to a decrease in the value of the collateral they provide. Furthermore, inadequate management of these issues by clients can jeopardize their business operations and transactions that are supported by the FI's funding.

- **Reputational Risk:** FIs are exposed to reputational risk due to potential negative public perception resulting from clients' inadequate environmental and community safety practices. This could harm the FI's image within business and financial circles, as well as among employees and the general public.

- **Credit Risk:** FIs are exposed to credit risk when clients are unable to fulfill their obligations under a credit agreement due to environmental and social issues. For instance, if a client incurs increased capital or operating costs to comply with environmental and social standards or requirements, or if they lack necessary operating or emissions/discharge permits, which may lead to fines or penalties imposed by regulatory authorities, the risk of defaulting on financial obligations to FIs increases.

- **Market Risk:** FIs are exposed to market risk associated with a decline in collateral value due to environmental and social issues. For example, contamination of a production site could lead to a reduction in the value of the collateral.

FIs' environmental and social risks are primarily linked to their clients' activities but also depend on the nature of their own operations. These risks can be mitigated by ensuring that both FIs and their clients adhere to environmental and social regulations, as well as international standards in these areas.

Some environmental and social risks,<sup>15</sup> that may appear insignificant at the approval stage of a financial transaction can become significant during its execution, particularly due to heightened regulatory requirements or increased enforcement. In other cases, risks such as spills or explosions may seem unlikely, but if they occur, they can have severe environmental and social impacts.

To mitigate the environmental and social risks of their clients and investees, FIs are responsible for identifying, assessing, and monitoring these risks, and making

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<sup>14</sup> For more information on environmental and social risks in various banking products, please visit <https://firstforsustainability.org/understanding-es-risks>

<sup>15</sup> See. <https://firstforsustainability.org/understanding-es-risks#Introduction118>

appropriate decisions to ensure that the financial and operational sustainability of these entities is not compromised by negative environmental and social impacts. FIs should have a clear understanding of the potential environmental and social risks and impacts on a client's or investee's operations before entering into a transaction.

This requires identifying, assessing, and managing environmental and social risks before they become significant or lead to adverse outcomes. FIs can achieve this by developing and implementing an environmental and social management framework that enables them to systematically assess risks and opportunities arising from client and investee activities and effectively manage their exposure to these risks

### 3. Scope of the Guidelines

The Guidelines primarily focus on managing risks related to environmental, including climate, and social aspects of FIs' operations. They do not provide guidance on how FIs should pursue opportunities or organize their activities in areas such as green or climate finance, renewable energy finance, energy efficiency finance, environmental corporate social responsibility, or reducing their carbon footprint, although these aspects are integral to sustainable finance.

The Guidelines are applicable to the regulation and implementation of various types of financing, including trade finance, microfinance, SME finance, corporate finance, and project finance, offering a differentiated approach based on risk assessment. Consequently, the Guidelines are primarily directed at second-tier banks and organizations involved in microfinance activities. However, they may also be utilized by professional securities market participants and insurance (reinsurance) organizations, considering the specific nature of these FIs' activities. It is strongly recommended that all new project or corporate finance proposals submitted after the publication of the Guidelines undergo environmental and social due diligence. Additionally, FIs are expected to conduct an E&S assessment of their entire portfolio in accordance with approved internal documents on E&S management.

**Trade Finance:** Credits in this category are subject to an Exclusion List check. If a transaction falls under the Exclusion List, it is recommended to halt the transaction.

**Microfinance and SME Finance:** Credits in this category are screened against the Exclusion List and for compliance with national environmental and labor protection legislation.

**Corporate Finance:** For credits in this category, an E&S risk due diligence is conducted using the Exclusion List and the Environmental and Social Due Diligence (ESDD) tool (Annex 1). For large, long-term corporate finance credits<sup>16</sup>, it is recommended to apply international E&S standards such as those set by the World Bank (WB), International Finance Corporation (IFC), European Bank for Reconstruction and Development (EBRD), and Asian Development Bank (ADB).

**Project Finance:** The procedures and tools for assessing environmental and

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<sup>16</sup> Corporate credits with maturities over 36 months

social aspects in project finance should be detailed in the Environmental and Social Management Framework. These procedures typically include steps such as a desk review and site visit:

- **Verification of the Project's Compliance with the Exclusion List:** Ensure the project does not fall under any prohibited activities as defined by the FI's Exclusion List.
- **Sector Review:** Evaluate the economic sector of the project and identify typical environmental and social issues associated with it.
- **Compliance with National Regulations:** Verify the project's adherence to applicable national environmental and social regulations.
- **Track Record Analysis:** Review the project sponsors' history in terms of compliance with national regulations and their overall reputation.
- **International Standards Compliance:** Assess the project's alignment with international standards or best practices for environmental and social risk management.
- **Mitigation Measures Review:** Consider the proposed activities for mitigating potential environmental and social issues throughout all stages of the project life cycle.

All information obtained through the Environmental and Social Due Diligence (ESDD) process should be documented and considered during the project financing decision-making process. If issues requiring corrective actions are identified, these can be included as conditions in the credit agreement, with ongoing progress monitored to ensure resolution.

Client managers can utilize the ESDD tool, as well as the IFC Performance Standards Compliance Questionnaire and the Environmental and Social Impact Assessment (ESIA) reports provided by the FI's clients during project financing.

Some FIs may have their own technical or project teams to analyze projects. For high-risk projects, FIs may engage external experts to conduct additional environmental and social due diligence. Effective collaboration with these experts requires a clear understanding of the FI's environmental and social risk management requirements and a systematic analysis of the findings during the decision-making process.

Table 1: Scope by type of lending <sup>17</sup>

№	Type of financing	Exclusion List	Compliance with the laws of the Republic of Kazakhstan	Environmental and Social Due Diligence (ESDD) (ESDD)	ESIA, submitted by a third party
1	Trade finance and microfinance provided by microfinance organizations <sup>18</sup>  <b>(in amounts ranging from \$10,000 to \$100,000 or equivalent amount in tenge)</b>	✓			
2	Financing for small enterprises  <b>(in amounts ranging from \$100,000 to \$1,000,000 or equivalent amount in tenge)</b>	✓	✓		
3	Financing for medium enterprises  <b>(in amounts ranging from \$1,000,000 to \$2,000,000 or equivalent amount in tenge)</b>	✓	✓	✓	
4	Corporate financing  <b>(in amounts ranging from \$2,000,000 to \$5,000,000 or equivalent amount in tenge)</b>	✓	✓	✓	

<sup>17</sup> For more information, see <https://www.ifc.org/content/dam/ifc/doc/2023/202309-ifc-guidance-note-on-financial-intermediaries.pdf>

<sup>18</sup> For microcredits provided by credit partnerships, the type of assessment is determined based on the credit amount according to the following table

5	Project finance and long-term corporate financing (starting \$5,000,000 or the equivalent amount in tenge)	✓	✓	✓	✓
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#### 4. Compliance with national legislation and international standards

The ESDD for a particular transaction must comply with all requirements of national legislation governing the management of environmental and social aspects. This includes a thorough review of relevant permits, the existence of necessary licenses, and the monitoring of E&S parameters in accordance with national laws. All these elements should be considered prerequisites when assessing a credit application. A detailed list of applicable national legislation and international treaties to which the Republic of Kazakhstan is a signatory or party is provided in Annex 3.

If FI clients have management systems in place that comply with international standards, such as ISO 14001 for environmental management, OHSAS 18001 for occupational health and safety management, and SA 8000 for social accountability, the existence of these systems is regarded as adherence to international best practices. These standards impose stringent requirements for managing environmental and social aspects, highlighting the clients' commitment to international standards and their level of social responsibility.

Compliance with international Environmental and Social Standards (ESS) in project finance and long-term corporate finance is recognized as the application of best practices. This demonstrates that companies and projects are committed to high standards in managing the environmental and social aspects of their operations, which contributes to risk reduction and enhances business sustainability.

#### 5. Components of the Environmental and Social Management System (ESMS)

FIs should establish an Environmental and Social Management System (ESMS), which is based on policies, procedures, tools, and internal resources to ensure compliance with E&S risk management principles in the context of financial operations.

The following key components are identified as part of the ESMS:

- **Risk Management Principles:** The ESMS is grounded in the principles of E&S risk management, which encompass processes for identifying, assessing, and managing such risks.
- **Environmental and Social Management Policy:** Each FI's Environmental and Social Management Policy is a key component of the ESMS, outlining principles,

strategies, and practices to manage E&S issues. This includes defining values, developing sustainability strategies, integrating ESG criteria into funding decisions, ensuring transparency through reporting, and actively engaging FI staff with clearly defined competencies in E&S management.

- **Documentation and Recordkeeping Requirements:** The ESMS mandates specific documentation and recordkeeping requirements to ensure transparency and efficiency in managing E&S risks.

- **Decision-Making Procedures and Processes:** The ESMS requires a clear description and regulation of decision-making procedures and processes related to the identification and management of E&S risks.

- **Guidelines and Practices:** The ESMS includes guidelines for selecting and categorizing transactions based on their associated E&S risks and suggests ESDD and monitoring practices for the FI's client indicators.

- **Roles and Responsibilities of Bodies and Staff:** The ESMS defines the roles, responsibilities, and internal resources necessary for FIs' bodies and staff to successfully implement the ESMS.

The implementation of the ESMS involves a number of activities and processes aimed at:

- **Transaction Screening:** Each transaction should be assessed for environmental and social risks as part of the FI's overall risk management framework.

- **Categorization of Transactions Based on E&S Risks:** Transactions should be classified according to the level and nature of environmental and social risks, enabling more effective risk management. The depth of ESDD depends on the assigned category.

- **Conducting ESDD:** Analyze factors related to the environmental and social aspects of a transaction or client's activities to fully understand their impact on risk and compliance. FIs should formally document their environmental and social assessment as part of the record-keeping process to ensure transparency and accountability.

- **Decision-Making Based on Analysis:** Make decisions informed by the analysis, considering the identified environmental and social aspects.

- **Integration of E&S Requirements into Credit Contracts:** Incorporate environmental and social requirements and covenants, including corrective action plans, as mandatory conditions in credit contracts with FI clients.

- **Monitoring Client E&S Performance:** Continuously monitor and evaluate the client's environmental and social performance to identify and respond to changes in a timely manner.

- **Process Management in Case of Non-Compliance:** Develop and implement risk management measures if a client fails to comply with established environmental and social standards.

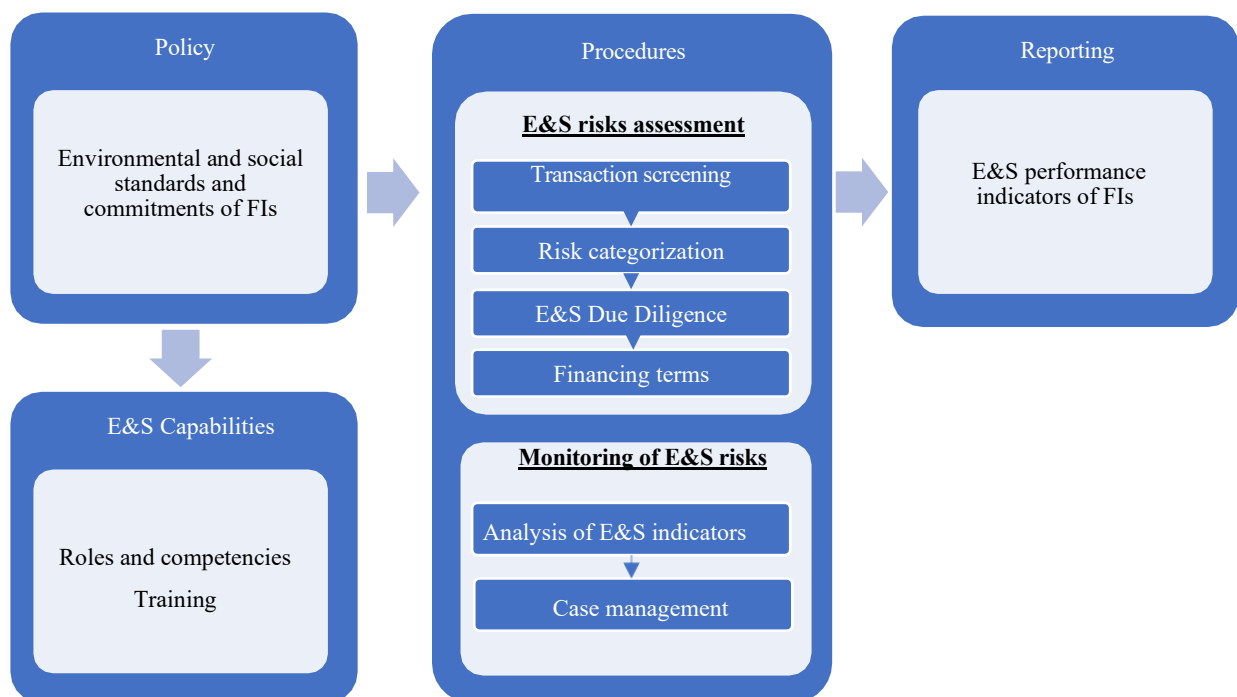
- **Resource Allocation for Internal Information Sharing and Staff Training:** Ensure necessary resources are allocated for effective internal

communication and training of staff.

- **Reporting on E&S Performance:** FIs should periodically report on their environmental and social performance to stakeholders, demonstrating their commitment to corporate best practices.

These procedures offer a systematic and effective approach to environmental and social risk management. The key elements of the ESMS are further detailed in the Guidelines, summarized in the relevant annexes, and all necessary templates for its development are provided through the appropriate references

Figure 2: ESMS Components



## The Environmental and Social Management Policy

The Environmental and Social Management Policy outlines the FI's vision and mission concerning the environment, society, and its contribution to sustainable development. This top-level internal document clearly defines the FI's principles and commitments to integrating environmental and social aspects into its business operations while contributing to sustainable development. The policy serves as the framework within which the objectives and procedures of the ESMS are established and approved.

The Environmental and Social Management Policy is approved by the FI's Board of Directors or an equivalent body, depending on the FI's legal structure. The policy may include the following statements and commitments:

- **Integrate Environmental and Social Risks:** Incorporate environmental and social risks into lending and investment activities, recognizing them as key risk factors that impact the FI's bottom line.
- **Strategic Integration:** Ensure that environmental and social risks are considered when developing, approving, and implementing the FI's strategy.
- **Sustainable Financing:** Refuse to finance clients whose activities do not align with the principles outlined in the FI's sustainability strategy.
- **Compliance with Standards:** Establish environmental and social requirements for clients in accordance with the legislation of the Republic of Kazakhstan and international standards.
- **Transparent Communication:** Develop a process for communicating environmental and social expectations across all levels of staff, clients, and other stakeholders to ensure transparency, understanding of ethical and sustainable practices, and to achieve common goals in improving environmental and social responsibility.
- **Portfolio Improvement:** Commit to enhancing the overall environmental and social performance of the portfolio through improved risk management.
- **Staff Development:** Commit to ongoing staff development, including training for environmental and social officers, managers, relationship managers, credit officers, and analysts, to effectively identify and manage environmental and social risks.

Environmental and social management policies do not have standardized content but should be tailored to the FI's specific objectives and reflect key environmental and social priorities and issues, as well as the standards to which



the FI's clients should adhere. An authorized person or unit within each FI may initiate the development of an Environmental and Social Management Policy by reviewing the FI's credit portfolio to identify the environmental and social risks associated with its financial activities.

## Competence of bodies and structural subdivisions

For the ESMS to function effectively, the roles and competencies of the FI's bodies and staff responsible for carrying out the necessary procedures and making decisions must be clearly defined. The following FI bodies, structural units, and staff (including similar positions, which may vary depending on the organizational structure) are responsible for implementing various aspects of the ESMS, as described below:

Table 2: Competence of the FI's bodies and structural subdivisions

Governing body:	Competence and responsibilities:
Board of Directors/Supervisory Board	<ul style="list-style-type: none"> <li>• <b>Approves the Sustainability Strategy:</b> The Board of Directors approves the FI's sustainability strategy, environmental and social policies, and the internal structure of the ESMS, including internal regulations, to ensure the effective fulfillment of roles and functions related to the ESMS.</li> <li>• <b>Organizational Structure Approval:</b> The Board approves the FI's organizational structure to establish and properly operate the ESMS, as well as allocate relevant duties and responsibilities.</li> <li>• <b>High-Risk Project Decisions:</b> The Board makes decisions on environmental and social issues related to important high-risk projects.</li> <li>• <b>Oversight of Implementation:</b> The Board oversees the overall implementation of approved strategies, environmental and social policies, and ensures that the FI's management complies with the ESMS requirements.</li> <li>• <b>Sustainability Strategy Review:</b> The Board regularly reviews sustainability issues at its level, defines the sustainability strategy, and provides guidance to the executive body on its implementation.</li> <li>• <b>Internal Audit Review:</b> The Board analyzes reports from the internal audit unit and verifies the effectiveness of the ESMS implementation, including reports on serious accidents/incidents/fatalities and significant complaints related to the FI's operations.</li> <li>• <b>Sustainability Reporting:</b> The Board organizes the</li> </ul>

## Executive Board

preparation process and approves the FI's sustainability reports and/or annual report, including sections on environmental and social responsibility and the operation of the ESRM, ensuring their publication.

- **Access for Sustainability Review:** The Board ensures that the authorized person or the head of the sustainable finance unit has access to the Board of Directors for periodic review of the sustainability report.
- **Risk Limit Setting:** The Board sets internal risk limits for industries/sectors most exposed to environmental threats and determines limits for various environmentally friendly projects/sectors.
- **Ensures Compliance:** Ensures that environmental and social (E&S) policies and operations align with the ESMS. Responsible for implementing all environmental and social risk management policies and procedures.
- **Monitors Compliance and Resolves Disputes:** Monitors compliance with E&S policies and addresses environmental and social risk disputes and disagreements.
- **Acts on Unresolved Issues:** Takes appropriate action if client disputes or non-compliance with transaction requirements cannot be resolved by the credit department or a similar entity, including pursuing legal action against the FI's client to minimize risks.
- **High-Risk Decision-Making:** Makes decisions on the acceptability of environmental and social risks in significant and high-risk projects before transactions proceed. Also, makes decisions to terminate high-risk transactions when necessary.
- **Reviews and Revises Strategies:** Reviews and revises strategies, environmental and social risk management systems, procedures, and reporting mechanisms before they are approved by the Board of Directors. This includes regularly updating and improving the E&S risk management system to reflect changes in legislation and standards.
- **Sets Standards for Recruitment and Training:** Establishes standards for systems and procedures related to the recruitment, training, and development of qualified environmental and social risk management professionals, ensuring that competent personnel are available to effectively respond to challenges and changes in the field.
- **Develops Data Collection Systems:** Develops systems for data collection and generates relevant statistics on E&S risk management to ensure transparency and

Designated person or sustainable finance unit

accountability to the competent authority and stakeholders regarding the FI's E&S risk management activities.

- **Oversees ESMS Implementation:** Oversees the implementation and enforcement of the ESRM within the FI's lending activities.
- **Coordinates Compliance:** Coordinates with the FI's other business units (including stand-alone units) to ensure compliance with the ESMS.
- **Drafts and Implements Policies:** Drafts internal regulations and coordinates the implementation of approved ESRM policies and procedures, including processes for assessing clients' environmental and social risks, classifying such risks for financial transactions, and defining roles and responsibilities of the FI's staff in accordance with the principles established in the ESMS.
- **Provides Portfolio Information:** Provides information to the Executive on the current status of the FI's portfolio in the area of ESMS and assists in decision-making when environmental and social responsibility issues, disagreements, or compliance violations arise.
- **Prepares Sustainability Reports:** Provides sustainability reports to the Executive and Board of Directors.
- **Monitors E&S Issues:** Monitors current environmental and social issues in the media and supports working groups in managing environmental and social risks in lending.
- **Supports Financial Transactions:** Provides support in evaluating and analyzing the technical aspects of projects financed through corporate bank lending or project finance.
- **Organizes Sustainability Training:** Organizes regular sustainability training for employees on environmental and social risks and regularly updates the content of all sustainability-related training sessions.
- **Identifies Environmental and Social Risks:** Identifies environmental and social risks in the FI's clients' operations by conducting interviews with clients and relevant officials, performing site visits, and collecting necessary documents, including copies of licenses and permits related to the proposed transaction.
- **Performs Transaction Screening:** Screens transactions and enters relevant information into the

Credit (lending) unit

ESMS to apply appropriate tools based on the type of transaction. Collects additional data after consulting with the client, responds to credit-related inquiries, and follows up with the FI client prior to credit disbursement.

#### Risk Management Unit

- **Drafts and Negotiates Action Plans:** Collaborates with the client to discuss and draft specific terms, conditions, or action plans for medium to high levels of E&S risks. Negotiates with the client to finalize action plans as needed.
- **Monitors Compliance Post-Disbursement:** Monitors the client's compliance with the terms, conditions, and obligations established at the time of credit disbursement. Depending on the level of risk, client managers may refer the transaction to direct management for further review.
- **Performs Comprehensive E&S Risk Controls:** Ensures that critical environmental and social issues are identified and managed in each transaction, taking necessary actions to address identified risks and verifying that appropriate documentation is in place to support the FI's clients.
- **Monitors ESDD Quality:** Oversees the quality of the Environmental and Social Due Diligence (ESDD) procedure to ensure thorough and accurate assessments.
- **Approves or Escalates Projects:** Approves medium or high-risk projects or refers them to the executive for a final decision.
- **Analyzes ESDD Results:** Reviews ESDD outcomes, including compliance checks and risk categorization, to ensure accurate risk assessments.
- **Verifies International Standards Compliance:** Confirms the applicability of international standards for large corporate credits or project financing.
- **Monitors Post-Disbursement Action Plans:** Works with relevant account managers to monitor the progress and implementation of clients' environmental and social action plans after the disbursement of funds.
- **Analyzes Legal Implications:** Evaluates potential legal implications related to environmental impacts, human rights violations, and other social issues that may arise from the FI's clients' activities.
- **Reviews Contracts and Agreements:** Ensures that

#### Legal Unit

contracts and agreements with clients include appropriate provisions for environmental and social risk management. This may involve clauses on compliance with environmental standards, social impact assessments, and dispute resolution mechanisms.

- **Represents the FI in Legal Disputes:** Acts on behalf of the FI in disputes or legal challenges related to environmental or social issues, managing their resolution through negotiation, mediation, or court proceedings as necessary.

## Transaction Screening

At the initial stage of the financial transaction assessment, the credit officer should screen the FI's potential client's activities against the FI's Exclusion List. If the client's activities fall within the FI's list of prohibited activities, the financial transaction is deemed ineligible for further review.

**Table 3: Recommended exclusion list**

№	Sector/Activities
1	<p>The manufacture or trade in any product or activity considered illegal under the laws of the Republic of Kazakhstan, international conventions and agreements, or subject to international prohibitions, such as pharmaceuticals, pesticides, herbicides, ozone-depleting substances, polychlorinated biphenyls, wildlife, or products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).</p> <p>United Nations List of Banned Chemicals and Products: <a href="http://www.un.org/esa/coordination/Consolidated.list-13FinalFinal.pdf">http://www.un.org/esa/coordination/Consolidated.list-13FinalFinal.pdf</a></p> <p>List of species protected by CITES: <a href="http://www.cites.org/eng/app/E-Apr27.pdf">http://www.cites.org/eng/app/E-Apr27.pdf</a></p>
2	Cross-border trade in waste that does not comply with the Basel Convention and its underlying regulations
3	Operations that affect United Nations Educational, Scientific and Cultural Organization (UNESCO) <b>World Heritage sites</b> .
4	<b>Illegal logging and timber harvesting, or conversion of land for use as cropland or pastureland; production or trade in timber or other forest products, except for those sourced from sustainable forestry practices.</b>

5	Production or activities involving harmful or forced forms of <b>labor</b> or <b>child labor</b> .
6	<ol style="list-style-type: none"> <li>1) Manufacture or trade in arms and military equipment.</li> <li>2) Manufacture of tobacco products without the appropriate permits and licenses required under the laws of the Republic of Kazakhstan.</li> <li>3) Production and distribution of racist and/or neo-Nazi media.</li> <li>4) Gambling, casinos, or similar enterprises without the appropriate permits and licenses required under the laws of the Republic of Kazakhstan.</li> <li>5) Pornography (goods or stores).</li> <li>6) Manufacture of alcoholic beverages without the appropriate permits and licenses required under the laws of the Republic of Kazakhstan.</li> </ol>
7	Production or activities that adversely affect land owned or judicially claimed by the local population without the full documented consent of the local population.
8	Manufacture or trade in unbound asbestos fibers; this restriction does not apply to the purchase and use of bound asbestos cement sheets with less than 20% asbestos content.
9	<p>Production or trade in radioactive materials without the appropriate permits and licenses required under the laws of the Republic of Kazakhstan.</p> <p><i>This restriction does not apply to the procurement of medical equipment, quality control (measurement) equipment, and any equipment in which the radioactive source is insignificant or adequately shielded.</i></p>
10	Trade in goods without the necessary export or import licenses or other evidence of transit authorization from the relevant countries of export, import, and, if applicable, transit, in the absence of the required permits and licenses under the laws of the Republic of Kazakhstan.
11	Exports of mercury and mercury compounds, as well as the manufacture, export, and import of a wide range of mercury-added products.
12	Production, trade, storage, or transportation of significant volumes of hazardous chemicals (such as gasoline, kerosene, and other petroleum products) or the commercial-scale use of hazardous chemicals without the appropriate permits and licenses required under the laws of the Republic of Kazakhstan.

*\* Additional exclusions are possible in accordance with the legislation of the Republic of Kazakhstan*

During the initial screening, the credit officer should consider the relevant regulatory legal acts of the Republic of Kazakhstan, as well as the sectoral categorization outlined in the FI's Environmental and Social Management Policy. This sectoral categorization is based on industrial pollution levels and aids in determining whether a transaction falls within a high-risk sector.

It is important to remember that while industry categorization provides

insight into industry risk, FIs should still conduct Environmental and Social Due Diligence (ESDD) to assess transaction-specific risks. This includes reviewing environmental and social responsibility plans (IEE/EIAs/ESIAs), as well as any relevant environmental action plans<sup>19</sup>, as applicable.

### Transaction categorization

The level of Environmental and Social (E&S) risk varies significantly across different types of financial transactions and industries, influenced by factors such as scale, location, and the potential magnitude of environmental and social impacts.

To help FIs determine the extent of comprehensive E&S risk assessment required for a particular transaction, FI staff should assign an E&S risk category to each transaction. This provides an initial assessment of the risk associated with the transaction. Along with the results of the environmental and social due diligence, this E&S risk category can be integrated into the overall risk assessment and factored into the decision-making process.

FIs should develop an E&S risk categorization system to systematically and consistently assign a risk category to each transaction. A typical system includes three E&S risk categories, labeled as high, medium, and low risk (or similar terms such as A, B, and C or 1, 2, and 3), representing different levels of risk:

- **High risk:** These transactions typically involve clients whose economic activities may have significant adverse environmental and social impacts. Impacts are considered significant if they may be irreversible (e.g., loss of essential habitat), affect vulnerable populations, result in involuntary resettlement, or impact important cultural heritage sites.
- **Moderate risk:** These transactions typically involve clients whose activities have limited environmental and social impacts. Such impacts are usually localized, reversible, and can be effectively managed through mitigation measures and adherence to international best practices.
- **Low risk:** Transactions at this risk level involve clients whose activities have minimal or no negative impact on the environment and society.

The E&S risk categorization system enables FIs to monitor and assess their exposure to E&S risks at the portfolio level. FIs can establish internal thresholds for their overall exposure based on the E&S risk category, industry, or transaction type. This approach allows FIs to more effectively manage and monitor changes in the overall risk profile of their portfolio and the associated environmental and

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<sup>19</sup> For more details - <https://adilet.zan.kz/rus/docs/V2100023674>

social impacts of their clients.

Such information can be utilized for internal reporting to the executive team and the Board of Directors, as well as for disclosure to stakeholders regarding the FI's overall environmental and social performance<sup>20</sup>.

### Conducting a comprehensive Environmental and Social Due Diligence (ESDD)

Conducting an Environmental and Social Due Diligence (ESDD) as part of a transaction is a critical step in a financial institution's (FI) environmental and social risk management process. The assessment results should inform decisions on whether to approve a credit or proceed with a transaction. The purpose of ESDD is to evaluate potential environmental and social risks related to the activities of the FI's prospective clients, thereby helping to prevent negative outcomes for the institution.

The purpose of conducting Environmental and Social Due Diligence (ESDD) is to achieve the following objectives:

- **Identify and assess potential environmental and social impacts and concerns** associated with the proposed project, considering both negative and positive impacts.
- **Conduct a gap analysis** to determine whether the project complies with national legal requirements.
- **Evaluate the FI client's willingness and ability** to manage identified impacts and implement necessary corrective actions.
- **Assess the quality and effectiveness** of the FI client's environmental and social management systems and practices, with a focus on minimizing negative impacts and developing corrective measures.
- **Develop an Environmental and Social Action Plan (ESAP)** to address identified gaps, setting specific targets for significant improvements.
- **Include appropriate definitions, covenants, and clauses** in credit documents, obligating the FI client to comply with all environmental and social requirements and to report on the ESAP's implementation.
- **Identify opportunities to enhance the project's environmental and social performance**, such as through cleaner production and energy efficiency measures.
- **Establish clear reporting requirements** to provide a transparent view

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<sup>20</sup> For more information - Environmental, Social and Corporate Governance (ESG) Disclosure Guidelines for Banks and Other Financial Institutions, approved by ARDFM Order No. 291 dated 28.04.2023  
<https://www.gov.kz/memleket/entities/ardfm/documents/details/479159?directionId=14993&lang=ru>.



of the FI client's sustainability performance and achievements.

Environmental and Social Due Diligence (ESDD) typically includes the following key components:

- **Review of Documentation:** Examination of all available information, records, and documentation, as well as verification of permits and licenses related to environmental and social risks and impacts from the FI client's operations.
- **Site Inspections and Stakeholder Engagement:** Conducting site inspections and interviews with the FI client's staff and other relevant stakeholders, as appropriate.
- **Performance Analysis:** Evaluating environmental and social performance against national legal requirements and international standards.
- **Identification of Data Gaps:** Identifying any gaps in data and implementing additional measures and actions beyond those already established by the FI client's risk management practices.

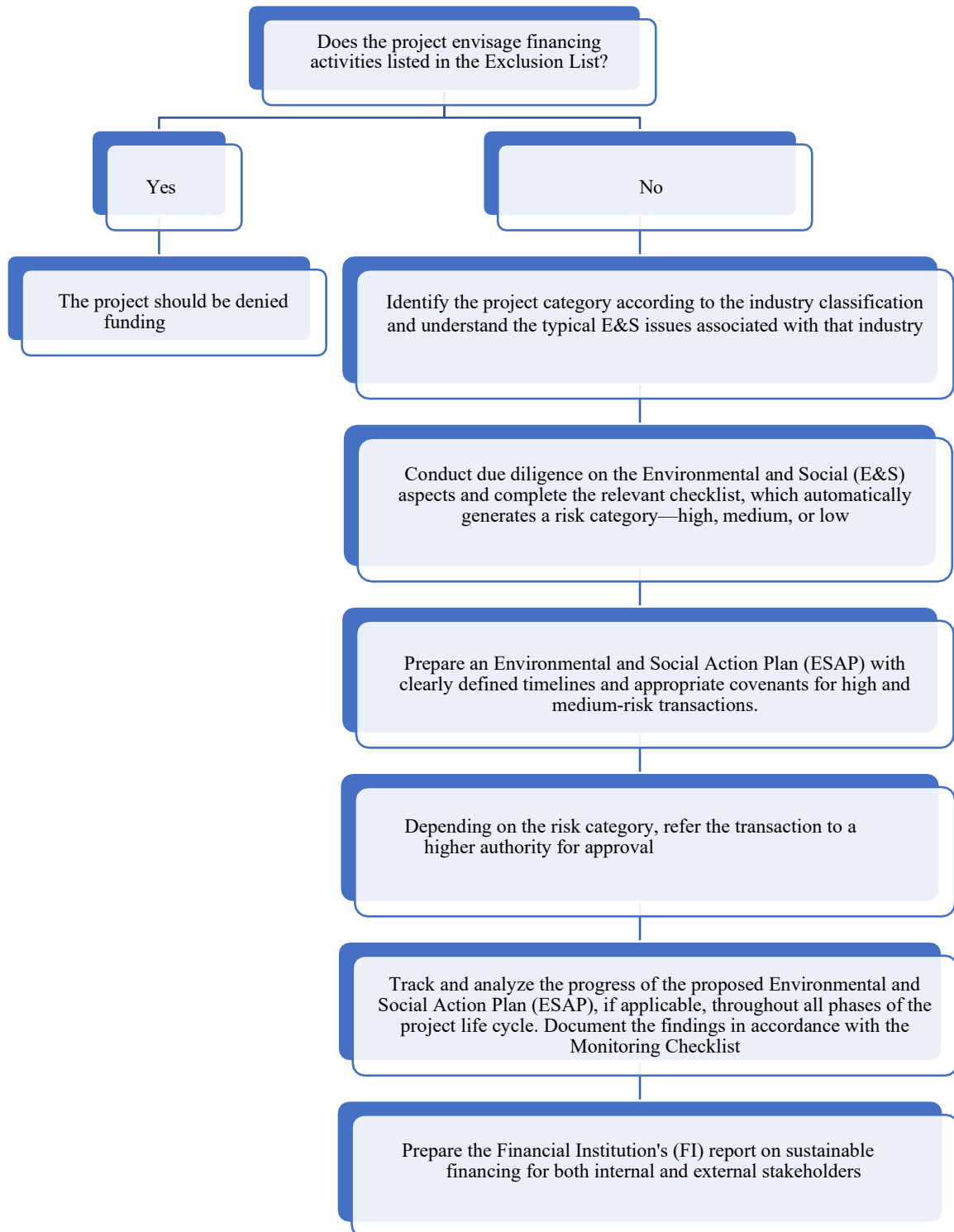
The Environmental and Social Due Diligence (ESDD) process involves identifying, analyzing, quantifying, and qualitatively assessing the risks associated with a project. This process can vary from a simple desk review to an on-site visit with technical experts for a more detailed analysis. The ESDD tool (Annex 1) provides guidance on gathering supporting evidence.

Financial Institutions (FIs) should document all ESDD findings to be considered in the decision-making process before proceeding with a transaction. For transactions categorized as high-risk project finance, FIs may engage an external expert or consultant to conduct the ESDD, in addition to an Environmental Impact Assessment (EIA) or Environmental and Social Impact Assessment (ESIA).

To ensure the effectiveness of the process, the FI must provide the external expert or consultant with clear information about the environmental and social requirements that the FI's clients must meet. Additionally, the FI needs to ensure that the results of the ESDD are thoroughly analyzed and integrated into the decision-making process. This approach helps ensure that all environmental and social risks, along with appropriate mitigation or compensation measures, are fully considered before entering into a credit contract.

The following are typical steps for conducting a comprehensive Environmental and Social (E&S) risk assessment:

Figure 3: Algorithm of actions in E&S risk assessment



## Decision-making process

All low-risk transactions may be approved by a credit officer. Medium- and high-risk transactions are referred to the Head of the Credit Unit for approval. Transactions with critically high risk may be escalated to the executive body or the Board of Directors/Supervisory Board for approval.

## Remedial action plan and covenants

For medium- to high-risk projects, it is critical to develop effective remedial action plans<sup>21</sup> and covenants<sup>22</sup>. These tools not only help identify risks but also propose specific mitigation measures

The remedial action plan includes:

- Risk identification: Conduct a detailed analysis of the risks associated with the project to identify vulnerabilities and potential problems.
- Identify risk mitigation measures: Develop specific actions and strategies to mitigate identified risks and minimize their negative impact.
- Establish implementation timelines: Set clear timelines for the implementation of activities to ensure a timely response to risks.
- Assign responsible individuals: Designate specific staff members responsible for implementing each step of the plan.

Covenants, on the other hand, are conditions or obligations included in a credit agreement that must be fulfilled by the parties involved. They may include:

- Financial covenants: Requirements related to financial sustainability, such as debt-to-equity ratios or profit and loss ratios.
- Environmental and social covenants: Obligations to comply with specific environmental and social standards during project implementation.
- Restrictions and caveats: Limitations on certain activities or transactions that may affect the risk or performance of the project.

The inclusion of an action plan and covenants in the credit agreement helps ensure effective control and risk management, thereby increasing stakeholder confidence in the successful implementation of the project.

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<sup>21</sup> <https://firstforsustainability.org/managing-environmental-and-social-risk#Corrective-Action-Plan1381>

<sup>22</sup> <https://firstforsustainability.org/managing-environmental-and-social-risk#ES-Covenants-in-Legal-Agreements1382>

## Monitoring

Monitoring the environmental and social aspects of a Financial Institution's (FI's) operations is crucial for assessing current and potential risks associated with their activities during a transaction. Once a transaction is approved, the FI must ensure that the client continues to comply with the environmental and social (E&S) requirements and covenants stipulated in the credit agreement.

E&S risks and compliance status may evolve after a transaction is approved due to various factors, such as stricter E&S legislation or changes in the client's operations that exacerbate existing risks or introduce new ones. Managing E&S risks at the transaction level is a key component of overall portfolio-level risk management.

An FI's environmental and social risk management framework should include a systematic monitoring process, such as regular E&S compliance checks and the implementation of corrective action plans to address any non-compliance. The frequency and scope of monitoring should be determined by the FI based on the complexity of the E&S issues related to the client's operations but should occur at least once a year.

The monitoring process involves analyzing periodic reports on E&S performance provided by the client to the FI, as well as conducting regular visits to the client's operations. Additionally, monitoring may be conducted during periodic credit renewals. Special attention is paid to:

- Evaluating the implementation of mitigation measures specified in the remedial action plan.
- Monitoring existing environmental and social (E&S) permits or licenses to ensure they remain valid and in compliance with legal requirements.
- Analyzing fines and penalties incurred for violations of E&S requirements over the past year to assess the client's compliance track record.
- Reviewing reports from regulatory agencies to confirm the client's adherence to E&S regulatory requirements.
- Tracking incidents related to E&S aspects, such as accidents or incidents at the client's facilities, to identify potential risks or areas for improvement.
- Monitoring media coverage to stay informed about any environmental and social issues related to the FI's client, which could impact the client's reputation or the transaction.

- Addressing stakeholder complaints regarding the FI client's operations, ensuring that concerns are properly investigated and resolved.

If E&S issues are identified, the client should be contacted to address them within a reasonable timeframe. Depending on the complexity of the issues, a new remedial action plan and periodic reports on the implementation of environmental and social measures may be required. The reporting frequency should be tailored to each transaction and may be based on the client's self-assessment or monitoring by independent third parties or regulators

### Contingency management

Managing contingencies in the project financing process is an integral part of FIs' operations, as contingencies may arise at various stages of the business process. These situations may include:

- Direct complaints about the financing of projects that potentially threaten the environmental or social environment.
- Negative media coverage and campaigns by non-governmental organizations regarding specific transactions supported by FIs.
- Serious incidents, including accidents with potentially fatal consequences.
- Worker unrest, riots, and street demonstrations.

Once such events become known, FIs should immediately gather factual information about the incident, conduct a site visit, and develop an action plan to minimize negative consequences and prevent similar situations in the future. It is essential that FIs inform their clients about the potential consequences of the event, including the possibility of reassessing the risk level.

To effectively manage sustainability risks, specific measures should be developed to address breaches of limits, thresholds, and non-compliance with relevant standards, laws, and regulations.

It is important to recognize that it is impossible to completely avoid violations or their consequences, as sustainability risks can arise at any stage of an FI's value chain. However, to minimize these risks, sustainability and social responsibility policies and procedures should be regularly monitored and updated.

When violations or similar events occur, FIs should respond promptly by

analyzing the causes and consequences, taking immediate corrective actions, and implementing measures to prevent recurrence. This may include adjusting investment strategies, reviewing credit disbursement procedures, and enhancing monitoring and auditing mechanisms.

FIs should cautiously apply deleveraging strategies when financing projects with high sustainability risks to avoid unintended consequences for borrowers and sectors, while ensuring the safety and soundness of the institution. A thorough risk analysis and assessment are crucial to minimizing potential negative impacts on all stakeholders.

## Stakeholder engagement

Financial institutions (FIs) must understand that their long-term success hinges on effective engagement with a diverse range of stakeholders. This includes employees, clients, regulators, local communities, NGOs, civil society organizations, contract workers, primary supply chain participants, neighboring projects, and society at large. Each of these groups plays a crucial role in fostering the sustainability and prosperity of the organization over the long term.

The nature, frequency, and scale of engagement may vary depending on the context and the risks associated with the organization's activities. However, it is crucial that boards and executive leadership actively engage with stakeholders, considering their priorities and interests, and transparently report on these activities.

For FIs to effectively engage with high-level stakeholders, they must ensure strong governance through the Board of Directors and develop appropriate policies and mechanisms. The policies and rules in place at the FI regarding stakeholder engagement include the implementation of all necessary measures and events aimed at: (i) Identifying and studying stakeholders; (ii) Disclosing information; (iii) Consulting with stakeholders; (iv) Negotiating and implementing partnerships with stakeholders within various company projects; (v) Creating and applying conflict resolution procedures; (vi) Involving stakeholders in monitoring the company's projects; (vii) Reporting to stakeholders; (viii) Involving stakeholders in corporate governance processes.

FIs are advised to establish and maintain an external communications procedure—a Grievance Redress Mechanism—that includes the following steps: (i) Receiving and registering public requests; (ii) Analyzing and assessing identified issues to determine possible solutions; (iii) Tracking and documenting measures taken in response to requests; (iv) Making necessary adjustments to management programs. This approach to external

communications aligns with the ISO 14000 standard, which underscores the importance of procedures for receiving, documenting, and responding to stakeholder information and requests. These procedures should be integrated into the FI's Environmental and Social Management System (ESMS). FIs should provide the public with open and accessible communication channels (e.g., telephone, website, email) for external communications and information requests related to their environmental and social activities

## Disclosure

The FI's environmental and social management system should include regular reports on the environmental and social aspects of transactions, as well as measures implemented to reduce overall vulnerability to these risks.

FI staff should collect and analyze the results of environmental and social monitoring conducted during client interactions to aggregate this data at the portfolio level. This approach will enable FIs to better assess the overall vulnerability of their portfolio to environmental and social risks.

E&S performance reports typically contain the following information:

- Portfolio breakdown by business lines, industry sectors, and environmental and social risk categories.
- Overall exposure to environmental and social risks and the effectiveness of mitigation measures.
- Information on high-risk transactions and the Environmental and Social Due Diligence (ESDD) process prior to transaction approval.
- Key environmental and social risks of individual transactions, including instances of non-compliance with requirements and covenants.
- Significant incidents and accidents related to transactions.
- Changes in the FI's environmental and social risk management system.

FIs may also establish requirements for internal and external reporting on environmental and social risks and impacts associated with their portfolios. To ensure the availability and quality of information on environmental, social responsibility, and governance (ESG) factors in the financial sector, the ARDFM has published the Guidelines for Disclosure of ESG Information for Banks and Other Financial Institutions<sup>23</sup>. This document, issued under Order

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<sup>23</sup> <https://www.gov.kz/memleket/entities/ardfm/documents/details/479159?directionId=14993&lang=ru>

No. 291 dated April 28, 2023, serves as a basis for preparing reliable, useful, and comparable information on environmental, social, and governance aspects.

### Training and capacity building

Training and capacity building are essential for the successful implementation of the Environmental and Social Management System (ESMS) in financial institutions. To achieve this, FIs must:

- Regularly assess the internal potential of employees and develop individual development plans to ensure the effective implementation of the Environmental and Social Management System (ESMS). Capacity building programs may include online courses and other training formats.
- Develop and implement training programs and guidelines for employees on engaging with clients regarding the impact of environmental and social factors on the long-term sustainability of businesses and the economy. This includes understanding the processes and requirements of environmental and social assessments, as well as implementing appropriate risk mitigation measures.
- Create effective platforms to ensure employees have prompt access to documents, procedures, guidelines, and information resources related to reducing environmental and social risks faced by the FI.
- Develop internal plans to inform clients and the public about environmental and social issues using various communication channels, including face-to-face meetings, exhibitions, advertisements in electronic and print media, and participation in seminars and conferences.

E&S risk management is not confined to those directly responsible for implementing the ESMS; all employees must understand their responsibilities and accountabilities in relation to this system, as it impacts various aspects of risk management, including credit, operational, market, and liquidity risks.

The leadership of the FI should regularly assess the compliance of operations and personnel with the organization's sustainability goals. This assessment can be facilitated by using key performance indicators (KPIs)



## Audit and compliance

The implementation of the Environmental and Social Management System (ESMS) should be integrated into the FI's internal control system, including compliance and regular internal controls as part of the annual work plan. The internal audit function should conduct independent reviews of the ESMS in line with the annual internal audit plan approved by the Board of Directors or Supervisory Board.

## 6. Recommendations for the implementation an ESMS

The Board's role in managing the FI's environmental and social (E&S) risks is crucial for ensuring the institution's sustainability and long-term development. To address this, the responsibilities of existing risk, audit, and other board committees can be expanded to include E&S risks in their agendas. Additionally, the establishment of dedicated committees for sustainability or E&S management should be considered.

The Board of Directors should evaluate both short-term and long-term E&S risks that could impact financial results. Given the dynamic nature of these risks and their long-term implications, it is important to define a timeframe that aligns with the business's nature and risk profile.

The role and responsibilities of the Board regarding E&S issues should be transparently communicated to stakeholders. This can be achieved through regular reporting at annual general meetings and in annual reports <sup>24</sup>.

The FI must identify the unit, officer, or employee responsible for managing E&S risks. This may involve creating a new unit or integrating these responsibilities into existing risk management functions. The E&S risk management framework should clearly define the duties and responsibilities of all FI personnel.

The unit responsible for environmental and social risk management within an FI typically reports directly to the executive body. Additionally, this unit may also have responsibilities to specialized bodies or board committees, ensuring that E&S risks are effectively integrated into the overall governance structure.

It is essential that the relevant unit and responsible staff members possess the necessary qualifications and experience, along with sufficient authority, to implement sustainable development principles and successfully manage the

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<sup>24</sup> For more information. "<https://www.ifcbeyondthebalancesheet.org/about-the-toolkit>"

ESMS. Adequate resources should be allocated to support staff in the development and implementation of the ESMS. Additionally, FIs should invest in staff training and development activities to enhance their knowledge and skills in E&S risk management.

## Risk appetite

Environmental and social risk appetite refers to the level of risk that an FI is willing to accept in its operations, considering environmental and social factors. To determine this level, it is necessary to align the scope and complexity of the FI's risk management framework with the level of risk associated with the FI's portfolio of operations.

The principles of sustainable finance and environmental and social risk management are governed by the principle of proportionality. This means that the FI's approach to developing and implementing an environmental and social risk management framework should be tailored to its size, operational complexity, and risk level. The framework should be designed to match the level of environmental and social risk the FI is prepared to accept in pursuit of its strategic objectives.

Determining risk appetite in this area involves analyzing both existing and potential risks and assessing the quality and effectiveness of the risk management system. This process enables the FI to establish environmental and social responsibility risk thresholds and limits, which are essential for informed decision-making and day-to-day operations.

## Assessing E&S risk exposure

Assessing an FI's exposure to environmental and social (E&S) risks is a critical challenge for ensuring its sustainability. This requires a well-defined governance process that evaluates E&S risks across various aspects of the business, including operations, products and services, transactions, activities, and the overall operating environment.

The E&S risk management system should not only focus on identifying potential risks but also on pinpointing sectors of the economy or specific activities that may have significant environmental and social impacts. This approach allows the FI to manage these risks more effectively and minimize negative impacts on the environment.

In line with their strategic objectives and risk appetite, FIs should conduct a comprehensive E&S risk assessment that covers all aspects of their operations.

This assessment should consider both internal factors, such as the operating environment, and external factors, including economic and social conditions. It should also include an analysis of economic sectors and activities that are particularly vulnerable to E&S risks. By conducting a preliminary assessment, FIs can identify potential vulnerabilities and develop robust risk management strategies to mitigate their impact on the environment and society at large.

Conducting a systematic assessment of the E&S risk exposure will enable an FI to make informed decisions and effectively manage its activities in alignment with the principles of sustainable development. It is recommended to conduct the assessment in the following areas:

1) The geographic location of the FI and its assets is a crucial factor in identifying environmental and related financial risks. By analyzing the climate and environmental risks specific to the regions where the FI operates, as well as the locations of its assets, the FI can better assess and manage physical risks.

For example, FIs located in regions prone to extreme weather events or natural disasters may face operational disruptions or suffer financial losses due to damage to physical structures. Additionally, assessing the geographic location of clients' businesses or sources of income can help identify potential increases in the likelihood of default or collateral impairment due to environmental hazards.

To effectively assess physical risks, FIs should seek access to up-to-date climate data and research. This information enables them to develop robust risk management strategies, plan for business continuity, and allocate resources efficiently.

2) Analyzing portfolios in the context of political and business environment changes is crucial for assessing the risks faced by financial institutions in transition. Political shifts, technological innovations, and market sentiment can significantly influence the quality and performance of investments.

For instance, changes in energy policy may compel financial institutions reliant on coal-based industries to revise their strategies and financial plans. By understanding the potential implications of these changes on asset portfolios, financial institutions can develop effective risk management strategies and adjust portfolio structures to address potential transitional climate risks.

## E&S risk assessment tools

To assess environmental and social (E&S) risks, financial institutions' Environmental and Social Management Systems (ESMSs) incorporate mechanisms to identify, measure, and monitor these risks throughout all stages of operations. These systems enable financial institutions to adapt their strategies and processes based on the level of environmental and social responsibility risk they encounter. Financial institutions (FIs) can employ the following tools to effectively assess and manage environmental and social (E&S) risks:

- **Analytical Tools and Modeling:** FIs can utilize analytical tools and models to evaluate the likelihood of various E&S risks and their potential impact on business operations. This may involve analyzing data related to climate conditions, social trends, and other relevant factors that influence E&S risks.
- **On-site Inspections and Dialogue with Borrowers:** FIs can deploy staff to borrower locations for inspections and direct dialogue. This approach provides a comprehensive understanding and assessment of the environmental and social aspects of borrowers' operations, ensuring compliance with sustainability standards.
- **Monitoring and Reporting Systems:** FIs should implement monitoring and reporting mechanisms to quickly respond to changes in the E&S risk landscape. These systems are crucial for taking timely steps to mitigate or manage emerging risks.
- **Updated Training and Professional Development Programs:** As the field of environmental and social risk management evolves rapidly, it is essential for FIs' staff and management to continuously update their knowledge and skills. Training and professional development programs should include modules focused on E&S risk management.
- **Integration of Tools into Existing Risk Management Systems:** FIs can integrate E&S risk management tools into their existing risk management frameworks to ensure a holistic approach to risk management. This integration can reduce costs and enhance the efficiency of risk management processes.

## Testing of the ESMS

To implement an Environmental and Social Management System (ESMS), a financial institution should develop a comprehensive plan that includes testing phases, specific timelines for each task, and the assignment of responsible personnel.

The implementation of the ESMS should be phased in gradually, beginning with pilot testing on a limited scale—such as within one branch or a specific sector of operations. This approach allows the institution to identify potential challenges and make necessary adjustments before the system is fully deployed.

It is crucial that the financial institution's Board of Directors and executive team are fully informed by the operational staff responsible for implementing the procedures. These staff members should report any challenges encountered during the processes of screening and categorizing transactions by environmental and social risk, conducting environmental and social due diligence, and monitoring client performance. Additional guidance may be required to clarify different aspects of the ESMS.

When properly designed and implemented, an ESMS will minimize the additional burden on staff and reduce transaction costs, particularly if environmental and social risk management procedures are integrated into the financial institution's existing risk management framework.

## Review and continuous improvement of the ESMS

The Environmental and Social Management System (ESMS) should be regularly updated to reflect changes in environmental and social legislation, as well as international practices that may impact the financial institution's (FI) clients.

During both the implementation and ongoing operation of the ESMS, periodic reviews are essential to ensure that procedures remain relevant to the environmental and social risks associated with the FI's portfolio. Regular reviews allow for the timely detection and identification of new and emerging risks during the environmental and social due diligence process.

Responsible staff should promptly identify and address any potential difficulties and opportunities for improvement to ensure the smooth implementation and effective operation of the ESMS.

Additionally, environmental and social risk management policies and procedures should be routinely updated to align with changes in legislation and international practices that influence the operations of the FI's clients. This ongoing adaptation is crucial for maintaining the effectiveness and relevance of the ESMS.

**List of Annexes:**

**Annex 1: Environmental & Social Due Diligence (ESDD)**

See Excel file-based E&S due diligence tool

## Annex 2: Escalation Matrix

Risk category	Proposal submission stage	Approval stage	Disbursement stage
Low risk	<ul style="list-style-type: none"> <li>The Environmental and Social Due Diligence (ESDD) Tool must be completed by the responsible account manager, approved by the credit officer, and reviewed in accordance with the standard credit process for both existing and new financial institution (FI) clients.</li> <li>If all of the answers are marked as "not applicable" (d), please provide the reasons for this determination.</li> </ul>		
Medium risk	<p>The Account Manager and Department Head must jointly approve proposals for new or existing FI clients:</p> <ul style="list-style-type: none"> <li>PROCEED with consideration of ESDD notwithstanding (b) verification, but with the necessary provision of adequate justification</li> </ul>	<p>Escalation process if the credit officer believes the transaction should be referred to higher management for review:</p> <ol style="list-style-type: none"> <li>The Credit Officer serves as the initial point of review.</li> <li>If the identified risks are not adequately addressed, the transaction must be escalated for further review by the Head of the Credit Department.</li> <li>The credit can only be approved once the issues have been resolved through these steps.</li> <li>In some cases, a time-bound risk mitigation action plan may be included as part of the conditions for credit approval.</li> </ol>	<p>If there are conditions that must be met as part of the approval, the Credit Department Office (or a similar department) will verify that these conditions have been fulfilled prior to disbursement.</p>
High risk	<p>The Account Manager and Department Head must jointly approve proposals for new or existing FI clients:</p>	<p>Escalation process:</p> <ol style="list-style-type: none"> <li>The Credit Officer is the first point of inspection.</li> <li>If the identified risks are not addressed, the transaction must be escalated for review by the Head of Credit and an authorized person or the</li> </ol>	<p>If there are conditions that must be met as part of the approval, the Credit Department Office (or a similar department) will verify</p>

	<ul style="list-style-type: none"> <li>• REJECT (with documented reasons); or</li> <li>• PROCEED with consideration of the ESDD despite verification (c), but with the necessary provision of adequate justification.</li> </ul>	<p>Head of Sustainable Finance.</p> <p>3. Certain high-risk critical projects should be referred to the Executive and Council for review, based on the recommendation of the Head of Credit.</p> <p>4. Credit can only be approved once the issues have been resolved through the steps outlined above.</p> <p>5. A time-bound risk mitigation action plan may be included as part of the conditions for credit approval.</p>	<p>that these conditions have been fulfilled prior to disbursement.</p>
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### Annex 3: List of legislative acts of the Republic of Kazakhstan and international treaties

#### **Laws and Codes of the Republic of Kazakhstan**

- Environmental Code of the Republic of Kazakhstan dated January 2, 2021 No. 400-VI.
- Water Code of the Republic of Kazakhstan dated July 9, 2003, No. 481.
- Land Code of the Republic of Kazakhstan dated June 20, 2003 No. 442.
- Forest Code of the Republic of Kazakhstan of July 8, 2003, No. 477.
- Law of the Republic of Kazakhstan of July 9, 2004, No. 593 “On Protection, Reproduction and Use of Wildlife”.
- Law of the Republic of Kazakhstan of May 30, 2005, No. 54 “On International Treaties of the Republic of Kazakhstan”.
- Law of the Republic of Kazakhstan dated July 7, 2006, No. 175 “On Specially Protected Natural Territories”.
- Code of the Republic of Kazakhstan of July 7, 2020, No. 360-IV “On the Health of the People and the Health Care System”.
- Law of the Republic of Kazakhstan dated July 16, 2001 No. 242 “On architectural, town planning and construction activities in the Republic of Kazakhstan”.
- Code of the Republic of Kazakhstan dated December 27, 2017, No. 125-VI “On Subsoil and Subsoil Use”.
- Law of the Republic of Kazakhstan dated November 2, 2015, No. 383-V of the Law of the Republic of Kazakhstan “On Public Councils”.
- Law of the Republic of Kazakhstan dated November 16, 2015, No. 401-V ZRC “On Access to Information”.
- Law of the Republic of Kazakhstan dated April 6, 2016 No. 480-V LRC “On Legal Acts”.

**List of international treaties/conventions in the field of environmental protection to which the Republic of Kazakhstan is a party**

<b>№</b>	<b>Name of the convention, treaty</b>	<b>Instrument of accession/ratification of the Republic of Kazakhstan</b>
1.	World meteorological organizations [Washington, October 11, 1947]	Decree of the Supreme Council of the Republic of Kazakhstan on accession dated December 18, 1992, No. 1791-XII
2.	Convention on biological diversity [Rio de Janeiro, 5 June 1992]	Decree of the Cabinet of Ministers, Republic of Kazakhstan on approval dated August 19, 1994, No. 918
3.	International Convention on civil responsibility for pollution damage oil [Brussels, 29 November 1969]	Decree of the Cabinet of Ministers of the Republic of Kazakhstan on approval dated May 4, 1994, No. 244
4.	Convention concerning the Protection of the World Cultural and Natural Heritage [Paris, November 16, 1972]	Law of the Republic of Kazakhstan dated December 21, 2011 № 514-IV “On ratification of the Convention for the Safeguarding of the Intangible Cultural Heritage”.
5.	International Convention for the Prevention of Pollution from Ships [London, November 2, 1973]	Decree of the Cabinet of Ministers of the Republic of Kazakhstan dated May 4, 1994 № 244 “On accession of the Republic of Kazakhstan to the International Conventions adopted under the auspices of the International Maritime Organization (IMO) and to the IMO Convention”.
6.	Convention on the Prohibition of Military or Any Other Hostile Use of Environmental Modification Techniques [Geneva, December 10, 1976]	Decree of the Supreme Council of the Republic of Kazakhstan of February 20, 1995 № 301-XIII “On accession on behalf of the Republic of Kazakhstan to the Convention on the Prohibition of Military or Any Other Hostile Use of Environmental Modification Techniques”.
7.	Energy Charter Treaty [Lisbon, December 17, 1994]	Decree of the President of the Republic of Kazakhstan dated October 18, 1995 No. 2537 “On Ratification of the Energy Charter Treaty and the Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects”.
8.	UN Framework Convention on Climate Change [Rio de Janeiro, June 11, 1992]	Decree of the President of the Republic of Kazakhstan dated May 4, 1995, No. 2260 “On ratification of the United Nations Framework Convention on Climate Change”.
9.	UN Convention to Combat Desertification [Paris, June 17, 1994]	Law of the Republic of Kazakhstan from June 7, 1997 № 149-1 “On ratification of the United Nations Convention to Combat Desertification”.

10.	<p>Montreal Protocol on Substances that Deplete the Ozone Layer [Montreal, September 16, 1987]</p> <p>Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer [London, June 27-29, 1990]</p> <p>Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer [Copenhagen, November 23-25, 1992]</p> <p>Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer [Montreal, September 15-17, 1997]</p>	<p>Law of the Republic of Kazakhstan of October 30, 1997, No. 176 “On Accession of the Republic of Kazakhstan to the Montreal Protocol on Substances that Deplete the Ozone Layer”.</p> <p>Law of the Republic of Kazakhstan of May 7, 2001, No. 191-II “On the accession of the Republic of Kazakhstan to the Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer”.</p> <p>Law of the Republic of Kazakhstan of April 6, 2011 № 426-IV “On ratification of the Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer, adopted in Copenhagen on November 23-25, 1992, and the Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer, adopted in Montreal on September 15-17, 1997”.</p>
11.	Vienna Convention for the Protection of the Ozone Layer [Vienna, March 22, 1985]	Law of the Republic of Kazakhstan dated October 30, 1997 No. 177-1 “On Accession of the Republic of Kazakhstan to the Vienna Convention for the Protection of the Ozone Layer”.
12.	Convention on International Trade in Endangered Species of Wild Fauna and Flora [Washington, D.C., March 3, 1973]	Law of the Republic of Kazakhstan of April 6, 1999, No. 372-1 “On Accession of the Republic of Kazakhstan to the Convention on International Trade in Endangered Species of Wild Fauna and Flora”.
13.	Convention on Environmental Impact Assessment in a Transboundary Context, Espoo [Finland, February 25, 1991]	Law of the Republic of Kazakhstan dated October 21, 2000 № 86-II “On Accession of the Republic of Kazakhstan to the Convention on Environmental Impact Assessment in a Transboundary Context”
14.	Convention on Long-range Transboundary Air Pollution. [Geneva, November 10, 1979]	Law of the Republic of Kazakhstan dated October 23, 2000 No. 89-II “On Accession of the Republic of Kazakhstan to the Convention on Long-Range Transboundary Air Pollution”
15.	Convention on the Transboundary Effects of Industrial Accidents [Helsinki, March 17, 1992]	Law of the Republic of Kazakhstan dated October 23, 2000 No. 91-II “On Accession of the Republic of Kazakhstan to the Convention on the Transboundary Effects of Industrial Accidents”
16.	On ratification of the Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters [Aarhus (Denmark), June 25, 1998]	Law of the Republic of Kazakhstan of October 23, 2000, No. 92-II “On Ratification of the Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters”

17.	Convention on the Protection and Use of Transboundary Watercourses and International Lakes [Helsinki, March 17, 1992]	Law of the Republic of Kazakhstan dated October 23, 2000 № 94-II “On accession of the Republic of Kazakhstan to the Convention on the Protection and Use of Transboundary Watercourses and International Lakes”.
18.	Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal [Basel, 20-22 March 1989]	Law of the Republic of Kazakhstan dated February 10, 2003 № 389-II “On Accession of the Republic of Kazakhstan to the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal”.
19.	Convention on Wetlands of International Importance especially as Waterfowl Habitat [as amended by the Paris Protocol of December 3, 1982 and amended in Reggina on May 28, 1987]	Law of the Republic of Kazakhstan dated December 13, 2005 № 94-III “On Accession of the Republic of Kazakhstan to the Convention on Wetlands of International Importance especially as Waterfowl Habitat (as amended by the Paris Protocol of December 3, 1982, and amended in the Regime on May 28, 1987)”.
20.	Framework Convention for the Protection of the Marine Environment of the Caspian Sea [Tehran, November 4, 2003]	Law of the Republic of Kazakhstan dated December 13, 2005 № 97-III “On ratification of the Framework Convention for the Protection of the Marine Environment of the Caspian Sea”.
21.	Stockholm Convention on Persistent Organic Pollutants [Stockholm, May 22, 2001]	Law of the Republic of Kazakhstan dated June 7, 2007 №259 “On ratification of the Stockholm Convention on Persistent Organic Pollutants”.
22.	Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade [Rotterdam, September 10, 1998]	Law of the Republic of Kazakhstan of March 20, 2007, No. 239 “On ratification of the Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade”.
23.	Convention on the Conservation of Migratory Species of Wild Animals [Bonn, June 23, 1979]	Law of the Republic of Kazakhstan of December 13, 2005, No. 96 “On Accession of the Republic of Kazakhstan to the Convention on the Conservation of Migratory Species of Wild Animals”.
24.	Cartagena Protocol on Biosafety to the Convention on Biological Diversity [Cartagena, May 15, 2000]	Law of the Republic of Kazakhstan dated June 17, 2008 № 43-IV “On ratification of the Cartagena Protocol on Biosafety to the Convention on Biological Diversity”.
25.	Kyoto Protocol to the United Nations Framework Convention on Climate Change [Kyoto, December 11, 1997]  Amendment to Annex B to the Kyoto Protocol to the United Nations Framework Convention on Climate Change	Law of the Republic of Kazakhstan of March 26, 2009, No. 144-IV “On ratification of the Kyoto Protocol to the United Nations Framework Convention on Climate Change”.  Decree of the President of the Republic of Kazakhstan of August 25, 2011, No. 145 “On the adoption of the Amendment to Annex B to the Kyoto Protocol to the United Nations Framework Convention on Climate Change”.

# Environmental and social due diligence - risk assessment tool (ESDD)

## User's Guide to Environmental and Social Due Diligence (ESDD)

<p>This Environmental and Social (E&amp;S) risk assessment tool comprises three tabs: (1) User Guide; (2) Generic Environmental and Social Due Diligence Checklist (ESDD); (3) Glossary of Terms.</p>
<p>The User Guide provides essential guidance to Risk Managers (RMs) on how to effectively utilize this automated risk assessment tool. The general checklist is structured into three categories: General; Environment, Health, and Safety; and Social. Based on the answers provided to these questions, the tool generates a quantitative risk rating. Each question is accompanied by specific instructions to help the RM accurately complete the checklist.</p> <p>Technical terms used within the checklist and instructions are italicized for ease of reference and are further defined and explained in the Glossary of Terms tab. For more comprehensive information on all types of environmental and social risks, RMs are advised to consult Annex F of the Environmental and Social Risk Management (ESRM) Implementation Guide.</p> <p>Additionally, RMs are encouraged to use the comments section of the checklist to provide relevant observations in line with the guidance notes and where appropriate.</p>
<p><b>Step 1: Exclusion List</b></p> <p>Refer to the Exclusion List in Annex A to identify activities and services that the Bank/Financial Institution (FI) will not finance. If your client's business is not on the exclusion list, proceed to complete either the generic ESDD checklist or the IFC PS checklist to verify eligibility for long-term corporate finance and project finance transactions.</p>
<p><b>Step 2 ESDD</b></p> <p>Please note that the Risk Manager (RM) must complete the Environmental and Social Due Diligence (ESDD) for transactions as defined in Section 2, "Applicability of the ESRM Guidelines." Responses should be selected from the drop-down list. Based on the responses provided, the tool will generate a risk rating (high, medium, or low) to determine the overall escalation category. For further guidance, refer to Appendix E for the Escalation Matrix.</p>
<p><b>Step 2 ESDD</b></p> <p>Select an answer for each question from the drop-down list. The ESDD Checklist will automatically generate an overall risk rating for the transaction based on your selections.</p>

### Interpretation of the response

- (a) usually means that all criteria have been met
- (b) will mean that the criteria are largely met, and further action is being taken for the remainder
- (c) will mean that some of the criteria have not been met and no specific action has been taken
- (d) would mean "not applicable"

# **Generic Environmental and Social Risk Assessment Checklist for Eligible SME and Corporate Finance Operations**

## **Basic data**

Date

Client Name /Account

Transaction ID

Location

Industry / Sector

Manufactured/sold product

Primary market

Account manager name

Business area (sub-sector)

Classification of industry environmental  
and social risks

Transaction type according to Table 1 of  
the Guidelines

**Please ensure that all responses are supported by relevant documents and references. If no documentary evidence is available, verbal confirmation should be obtained from the client, and the information should be recorded to the best of their knowledge.**

№	Question	Answer	Comments
<b>Overall risks</b>			
1.1	Are there any legal issues related to the client's environmental and safety activities?	<p>a) The client has all valid permits <b>and</b> has not faced any legal claims or serious environmental/social incidents in the last three years.</p> <p>b) The client does not have all valid permits but has taken steps to obtain them within the next six months <b>and/or</b> the client has encountered legal claims but has settled them or has definite plans to settle all of them.</p> <p>c) The client does not have all valid permits and has not taken steps to obtain them <b>and/or</b> the client is facing legal claims and has no definite plan to resolve them.</p> <p>d) Not Applicable</p>	<b>Option (a)</b>
1.2	Have the client's activities ever been influenced by local stakeholders, media campaigns, or non-governmental organizations (NGOs) regarding environmental and social issues?	<p>a) There is no evidence of stakeholder dissatisfaction, negative media coverage, or NGO protests.</p> <p>b) There is evidence of stakeholder dissatisfaction, negative media coverage, or NGO protests regarding a particular operation, and the client has taken adequate steps to address the issue.</p> <p>c) There is evidence of stakeholder dissatisfaction, negative media coverage, or NGO protests, and the client has not taken any steps to address the issue.</p> <p>d) Not Applicable</p>	<b>Option (a)</b>
1.3	Is the project site and/or its route likely to affect environmental sensitivity at the project site and/or within a 5 km radius around the	<p>a) No environmentally sensitive areas are observed.</p> <p>b) Environmentally sensitive areas are present, and the client has taken adequate measures to mitigate the impact of their activities in</p>	

	project site?	<p>accordance with regulations.</p> <p>c) Environmentally sensitive areas are observed, but mitigation measures are not in compliance with regulations, potentially leading to future legal challenges for the client.</p> <p>d) Not Applicable</p>	<b>Option (a)</b>
1.4	Does the client have a robust/adequate environmental and social management system (ESMS)?	<p>a) The client has a robust Environmental and Social Management System (ESMS) with sufficient resources, including personnel and budget, for implementation.</p> <p>b) The client does not yet have a robust ESMS, but some steps have been taken to establish one.</p> <p>c) The client does not have an ESMS, and there are no plans to implement one. Various special arrangements are in place to manage environmental and social issues.</p> <p>d) Not Applicable</p>	<b>Option (a)</b>
<b><i>Environmental health and safety risks</i></b>			
2.1	Is there evidence of air and noise pollution due to the client's business?	<p>a) There is no evidence of air or noise pollution, and all mitigation measures and monitoring systems are in place.</p> <p>b) There is evidence of air or noise emissions, and partial mitigation measures are in place. A monitoring system is in place, and the client is addressing or has a defined plan to address the remaining issues.</p> <p>c) Air or noise emissions data is available, but there are no mitigation measures or monitoring systems in place, and the client does not have a defined plan to address the problems.</p>	<b>Option (a)</b>



		d) Not Applicable	
2.2	Is there evidence of water contamination due to the client's business?	<p>a) There is no evidence of water pollution, and all mitigation measures and monitoring systems have been implemented.</p> <p>b) There is evidence of water pollution, and partial mitigation measures are in place. A monitoring system is in place, and the client is addressing or has a defined plan to address the remaining problems.</p> <p>c) There is water pollution data, but no mitigation measures or monitoring system are in place, and the client does not have a defined plan to address the problems.</p> <p>d) Not Applicable</p>	<b>Option (a)</b>
2.3	Is there evidence of land contamination and no <i>treatment mechanism</i> under project activities?	<p>a) There is no evidence of land contamination, or all mitigation measures and monitoring systems have been implemented.</p> <p>b) There is evidence of land contamination, and partial mitigation measures are in place. A monitoring system is in place, and the client is addressing or has a defined plan to address the remaining issues.</p> <p>c) There is land contamination data, but there is no mitigation or monitoring system in place, and the client has no defined plan to address the issues.</p> <p>d) Not Applicable</p>	<b>Option (a)</b>
2.4	Are there any risks and opportunities related to climate change (e.g., flood, drought, cyclone, <i>greenhouse gas emissions</i> ) associated with the	<p>a) The client has a robust disaster management plan to address climate risks, and they have procedures in place to measure, disclose, set targets, and reduce greenhouse gas emissions.</p> <p>b) The client has a disaster management plan, but it is not robust, and</p>	<b>Option (a)</b>

	client's activities?	<p>there is evidence that the client intends to measure, disclose, set targets, and reduce greenhouse gas emissions in the near future.</p> <p>c) There is no disaster management plan, and there is no defined plan to measure, disclose, set goals, and reduce greenhouse gas emissions in the future.</p> <p>d) Not Applicable</p>	
<b><i>Social risks</i></b>			
3.1	Is there any evidence of occupational health and safety (OHS) risks?	<p>a) The client has no occupational health and safety concerns, or any concerns have been adequately mitigated.</p> <p>b) The client has some health and safety concerns but has taken steps to address them.</p> <p>c) The client has health and safety concerns in their work and has no plans to address them.</p> <p>d) Not Applicable</p>	<b>Option (a)</b>
3.2	Working environment and labor conditions are poor and violate local rules/standards?	<p>a) There are adequate working conditions and labor practices, and there is no evidence of poor conditions or practices that could expose the client to lawsuits, labor unrest, negative media coverage, or activist protests.</p> <p>b) There is some evidence of poor working conditions, but there are no substantially abusive labor practices such as child or forced labor, and the client has a defined plan to improve conditions to prevent future legal issues, labor unrest, or negative media coverage or protests from activists.</p> <p>c) Working conditions are very poor and/or there are significantly abusive labor practices, such as child or forced labor, and the client</p>	<b>Option (a)</b>

		<p>does not address or have a defined plan to address these problems.</p> <p>d) Not Applicable</p>	
3.3	Does the project pose a threat to public health and safety?	<p>a) There is a robust community health and safety plan in place, developed in consultation with the community, and/or there is little evidence of issues that may cause nuisances, accidents, or injuries to the local community in the future.</p> <p>b) There is a community health and safety plan in place, but it is not robust or has been developed without community consultation, and/or there is some evidence of issues that may cause nuisances, accidents, or injuries to the local community, and the client intends to address these gaps.</p> <p>c) There is no community health and safety plan, and/or there is evidence of serious issues that could cause nuisances, accidents, or injuries to the community, and the client has no defined plan to address these gaps.</p> <p>d) Not Applicable</p>	<b>Option (a)</b>
3.4	Is there any evidence of public consultation with key stakeholders, including indigenous peoples?	<p>a) There is evidence that the client consults and engages with stakeholders, including local communities and indigenous peoples, on all relevant issues (such as rehabilitation, compensation, and their expectations, as appropriate).</p> <p>b) Stakeholder consultation is limited or inadequate.</p> <p>c) There is a lack of stakeholder consultation.</p> <p>d) Not Applicable</p>	<b>Option (c)</b>

#### Project risk rating

## Glossary of Terms

The following are definitions provided by the *International Labor Organization (ILO)* for some of the key employment terms used in this checklist:

### **Child Labor**

The Minimum Age Convention of 1973 sets the general minimum age for employment at 15 years (or 13 years for light work) and establishes the minimum age for hazardous work at 18 years (or 16 years under certain strict conditions). The Convention also allows for the possibility of initially setting the general minimum age at 14 years (or 12 years for light work) in countries where the economy and educational infrastructure are not sufficiently developed.

### **Forced Labor**

Forced labor is defined as “any work or service demanded from a person under the threat of a penalty, and for which that person has not offered their services voluntarily.”.

### **Minimum Wage**

The minimum wage is calculated based on work performed under normal conditions, with the fulfillment of the established monthly labor norms. According to Article 77 of the Labor Code of the Republic of Kazakhstan, normal working hours should not exceed 40 hours per week, and the minimum wage is set at 70,000 tenge per month.

### **Discrimination**

Discrimination may be defined as any distinction, exclusion, or preference made on the basis of race, color, sex, religion, political opinion, national origin, or social origin that has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation.

Some other terms are briefly defined below:

**Greenhouse gas**

According to the Intergovernmental Panel on Climate Change (IPCC), greenhouse gases (GHGs) are gaseous constituents of the atmosphere that absorb and emit radiation at specific wavelengths within the infrared spectrum. This process is the primary cause of the greenhouse effect. The six main greenhouse gases are carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride (SF<sub>6</sub>).

**CITES**

CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora) is an international agreement between governments aimed at ensuring that international trade in specimens of wild animals and plants does not threaten their survival.

**Unbound asbestos**

Unbound asbestos is a raw mineral used as a lining or insulation; in this form, it is friable and easily releases dust. "Friable" refers to any asbestos-containing material that can be easily crumbled or pulverized into powder by hand after drying.

**Grievance Redress Mechanism**

A grievance redress mechanism is a formal complaint process that can be utilized by individuals, workers, communities, and/or civil society organizations who are adversely affected by specific business activities and operations.

**ISO 14001**

The ISO 14001 Environmental Management System (EMS) standard is an internationally recognized framework for managing the immediate and long-term environmental impacts of an organization's products, services, and processes. It provides a systematic approach to improving environmental performance and ensuring compliance with environmental regulations.

**SA 8000**

SA8000 is a verifiable social certification standard for decent workplaces, encouraging organizations to develop, maintain, and implement socially acceptable practices in the workplace.

**OHSAS**

Occupational Health and Safety Assessment Series (OHSAS 18001) is an internationally applicable British Standard for Occupational Health and Safety Management Systems. It provides a framework for organizing and implementing proper and effective health and safety management practices in the workplace

**ILO**

The International Labor Organization (ILO) is the United Nations agency focused on labor issues, particularly international labor standards, social protection, and employment opportunities for all. The ILO sets labor standards, develops policies, and designs programs that promote decent work for all women and men.

**UNESCO World Heritage Site**

A World Heritage site is a location, such as a building, city, complex, desert, forest, island, lake, monument, or mountain, that is inscribed by the United Nations Educational, Scientific and Cultural Organization (UNESCO) as being of special cultural or physical significance.