



**European Bank**  
for Reconstruction and Development

# Guidance note

## EBRD Performance Requirement 9:

## Financial intermediaries

March 2024

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# 1. Introduction and objectives

The European Bank for Reconstruction and Development (EBRD) is committed to promoting environmentally sound and sustainable development in the full range of its activities under the Agreement Establishing the Bank.<sup>1</sup> The Environmental and Social Policy (ESP) is one of the Bank's three good governance policies and a key document that guides this commitment in the full range of its investment and technical cooperation activities.<sup>2</sup> The EBRD's ESP:

- outlines how the EBRD will assess and monitor the environmental and social (E&S) risks of its projects
- sets minimum requirements for managing E&S impacts caused by EBRD-financed projects throughout their lifetime
- sets a strategic goal for financial intermediaries (FIs) to promote projects with enhanced E&S benefits
- defines the roles and responsibilities of both the EBRD and its FI network in designing, implementing and operating projects in accordance with the ESP.

Through bank loans, small and medium-sized enterprise (SME) lending programmes, equity investments, trade facilitation programmes and support for other financial services, the EBRD engages with a range of financial institutions to reinforce the financial sectors and foster entrepreneurship. These are known as **financial intermediaries (FIs)**. The EBRD adopted a specific Performance Requirement (PR9 on financial intermediaries) as part of its ESP for such operations, based on the principle that the EBRD delegates responsibility for E&S appraisal and monitoring of transactions (and integrating E&S risk management into overall portfolio management) to its FIs, subject to appropriate oversight by the Bank.

The EBRD's partnering FI network includes private equity funds, banks, leasing companies, insurance companies and stock exchanges engaged in a wide range of activities, such as microfinance, corporate lending, SME lending, factoring, insurance, trade finance, medium- to long-term corporate or project finance, and others. PR9 recognises that FIs are key to financial market sustainability and to funding the micro, small and medium sized enterprise (MSME) sector.<sup>3</sup> Managing E&S risks adequately protects FIs from legal, reputational and financial risks as much as it protects the EBRD, so should be fully embedded into their business operations and lending activities (sub-projects that include sub-investments in the case of equity financing).

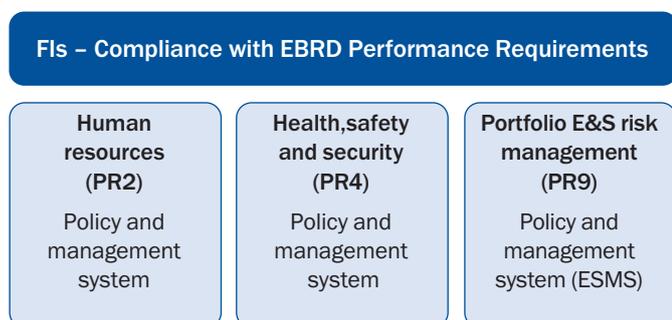
In addition to PR9, the Bank's FIs are also required to comply with two other EBRD PRs that deal with the FI's internal operations and workforce. These are PR2 (on labour and working conditions) and PR4 (on health, safety and security). The overall framework is shown in Figure 1.

1 See EBRD (1990).

2 See EBRD (2019).

3 See EBRD (2019), p. 44.

**Figure 1: Overview of the EBRD's E&S requirements for FIs**



### 1.1. Purpose of this guidance note

The aim of this guidance note is to provide FI clients and their advisers with clarity on the requirements and principles of PR9, including:

- selected key definitions and concepts of PR9 and how FIs should interpret and apply them (for example, depending on project risk level or stage of project and type of financing)
- a clear pathway on how an FI is expected to implement PR9 requirements
- key elements of a comprehensive environmental and social management system (ESMS), which constitutes a core component of PR9.

While this guidance note cross-references some documents, links and other resources, partner FIs should note that the guidance evolves over time and the E&S risk management approach is tailored to each individual project. The EBRD welcomes early engagement from existing and potential clients on topics such as project categorisation and the applicability of other PRs and is able to provide further guidance if needed.

While this guidance note focuses primarily on PR9 and its requirements for FI lending and investment operations, information on the additional (internally focused) requirements of PR2 and PR4 is also provided (see Chapter 4).

### 1.2. Underpinning principles of PR9

PR9 recognises that FIs will assume delegated responsibility for E&S risk management, commensurate with risk, also adopting the principles of accountability and continuous improvement, more specifically:

#### Delegated responsibility

According to PR9, FIs are responsible for E&S risk management, including assessment and monitoring, as well as overall portfolio management. The nature of this depends on the type of finance provided and other factors. The effectiveness of FI E&S risk management will be assessed by the EBRD throughout the loan/project lifecycle.

#### Commensurate with risk

The FI will put in place a clearly defined ESMS, including an environmental and social policy and E&S procedures commensurate with the nature of the FI, the level of E&S risk associated with its business activities, and the type of sub-projects financed.

#### Accountability

FIs are required to provide the EBRD with regular reports (usually annually) on their E&S management practices and results in relation to the portfolio financed with the EBRD's investment, and to notify the EBRD in the event of any material E&S incidents or accidents related to a sub-project. Additional accountability features of PR9 include its focus on grievance mechanisms for E&S-related complaints and remedy and its emphasis on public sustainability reporting by FIs.

#### Continuous improvement

E&S risk management by FIs requires a dynamic and evolving system that can adapt to lessons from experience, new requirements and conditions, new investment strategies and emerging risk factors. The effectiveness of the FI's E&S risk management will, therefore, be evaluated and monitored by both the FI and the EBRD on a continuous basis throughout the project lifecycle.

### 1.3. Objectives of PR9

The objectives of PR9 are to:

- set out how FIs will assess and manage environmental and social risks and impacts associated with the sub-projects they finance
- promote good environmental and social management practices in the sub-projects financed by FIs
- by cross-referencing PR2 and PR4, promote good environmental and sound human resources management within FIs.

A partner FI is expected to incorporate E&S management practices and:

- set up an appropriate internal corporate governance structure defining responsibilities for E&S issues and provide adequate resources for E&S risk management
- ensure that its sub-borrowers (or investee companies in the case of funds) comply with all applicable environmental, social, health and safety (ESHS) national laws and regulations
- finance sub-projects only when they are consistent with the EBRD's E&S requirements, mainly with regard to the organisational capacity within the FI, stakeholder engagement and reporting
- enhance the transparency of its activities
- build internal capacity to manage sustainability and the E&S-related agenda, risks, requirements and enquiries (often referred to as environmental, social and governance (ESG)), as well as promote E&S-linked investments or loans
- report to the EBRD on all uses of proceeds, in line with EBRD reporting requirements
- report externally in line with national reporting requirements and, in the absence of these, international best practice reporting frameworks.

## 2. Scope

### 2.1. Applicability

An FI is required to implement E&S requirements depending on various factors, including the nature of the FI and its business activities, its lending/investment portfolio, national laws and regulatory frameworks.

Partner FIs are required to apply PR9, as well as the E&S Exclusion and Referral Lists in the EBRD ESP, to the EBRD's use of proceeds in the case of lending or credit lines. Where general financing is provided to the FI, such as equity and other types of investment with no specific use of proceeds, the requirements of PR9 and the E&S Exclusion and Referral Lists apply to the FI's entire portfolio.

The FI is responsible for screening any potential investments accordingly, identifying E&S risks, implementing management measures, monitoring the sub-project(s) and reporting to the EBRD in line with the agreed reporting requirements and to the public in accordance with national reporting requirements or international best practice reporting frameworks. These requirements should be commensurate with a number of factors, such as:

- the type of finance provided
- the risk level of the investments/loans the FI is undertaking
- the materiality of E&S factors for the investments/loans.

### 2.2. Examples of E&S risks

E&S risks are the potential negative consequences for business, the environment and society of impacts on the natural environment, for example, air, water, soil, ecosystems or communities, such as employees, contracted workers, customers, local residents and others. Failure to effectively manage E&S risks in sub-projects could lead to financial, legal and reputational consequences for the FI. Indicative E&S issues that FIs should consider may include the following, though this list is not exhaustive.

Examples of environmental issues:	Examples of social issues:
<ul style="list-style-type: none"> <li>• Pollution (such as contamination of air, land or water)</li> <li>• Deforestation</li> <li>• Loss of biodiversity and natural habitat</li> <li>• Greenhouse gas emissions and climate change impacts</li> <li>• Depletion of natural resources</li> <li>• Energy use and conservation</li> <li>• Hazardous materials use</li> <li>• Contamination of land and groundwater</li> <li>• Waste management</li> <li>• Wastewater and water quality</li> <li>• Water use and conservation</li> </ul>	<ul style="list-style-type: none"> <li>• Occupational health and safety</li> <li>• Working conditions</li> <li>• Forced and compulsory labour</li> <li>• Child labour</li> <li>• Community health, safety and security</li> <li>• Cultural heritage</li> <li>• Indigenous peoples' rights</li> <li>• Land acquisition and resettlement</li> <li>• Meaningful stakeholder engagement</li> </ul>

# 3. Requirements

PR9 requires FIs to adopt and implement environmental and social due diligence and monitoring procedures commensurate with the level of environmental and social risk associated with its business activities and type of sub-projects. Such procedures should be embedded in an overall environmental and social management system (ESMS) that also includes an effective governance framework (including roles, responsibilities and resources, policies and procedures,), stakeholder engagement arrangements (including a grievance mechanism) and appropriate reporting and disclosure practices (including reporting to the EBRD and public reporting). The overall ESMS concept is illustrated in Figure 2.

Executed within the FI’s lending and investment process, E&S risk management sets out how the FI integrates E&S considerations into its operations, commensurate with the E&S risks undertaken and the materiality of E&S issues involved.

It integrates E&S risk management and mitigation into an FI’s credit/lending procedures or a private equity fund’s investment procedures and is most effective when integrated into existing risk management frameworks.

**Figure 2. Indicative structure of an ESMS**



In line with the FI’s business strategy, the ESMS should be integrated into the loan/investment appraisal process to assess the level, scale and impact of the E&S risk associated with a sub-project. It then serves to manage transaction-linked E&S risks and identify any potential E&S benefits involved.

A regular review of the performance of the FI’s ESMS should be undertaken, ideally every two years. In the first two years of operation, the review should be conducted annually until the system is stabilised. The review should be undertaken by a committee including the FI senior management member accountable for E&S risk, the risk committee, the E&S officer and other relevant staff. FIs need to review any issues or gaps encountered, overlooked or underevaluated. Such steps/issues may include:

- modification and/or enhancement needs in the E&S policy or other ESMS components
- recommended changes to local E&S regulations and requirements

- adjustments to adhere to international requirements
- newly emerged E&S-related topics and issues
- analysis of difficulties encountered during the operation of the ESMS
- issues with transaction screening, categorisation, assessment and mitigation processes
- E&S covenants
- E&S monitoring
- evaluation of all E&S experts involved
- need for additional external advisers
- need for E&S training for FI executives and staff
- other suggestions for improvement.

## 3.1. Governance

A partner FI is expected to designate a representative of the FI’s senior management as accountable for overseeing all ESMS procedures and processes. This executive has primary responsibility for ESMS development, adoption and enforcement within the FI. This responsibility is often held by the chief risk officer, head of the ESG department or another dedicated senior management executive in charge of allocating adequate resources, including financial, human and technological, for E&S risk management. The FI is also expected to notify the EBRD about any personnel changes, especially with regard to the FI senior management representative accountable for ESG, mainly through its annual reporting to the Bank.

Further members of staff should be made responsible for day-to-day E&S risk management, the implementation of the ESMS on sub-projects and liaison between the EBRD and the FI on PR9 compliance. These ESG staff members need to be technically qualified to perform E&S due diligence or review and comment on work carried out by independent consultants performing relevant assignments. They may also provide recommendations on amendments and improvements to the E&S policy and ESMS. The latter should be subject to senior management approval and communicated to the EBRD.

The responsibilities of the ESG officer include, but are not limited to:

- due diligence – evaluation of sub-project/sub-investment E&S compliance with PR9
- monitoring sub-borrowers in the credit or investment portfolio for ongoing compliance with PR9
- annual E&S reporting, including delivering the annual environmental and social report (AESR) to the EBRD, as well as appropriate public reporting, based on yearly performance data
- providing E&S performance data to senior management
- reviewing ESMS functioning on a regular basis and providing recommendations for improvement.

The ESG officer ensures that appropriate E&S procedures are implemented for the FI portfolio and that all lending and investment decisions are supported by appropriate due diligence documentation. The ESG officer is expected to work with management (and the senior management and/or the FI’s risk committee or other competent functions) to identify adequate resources for the implementation of the ESMS, including the E&S policy and procedures.

The ESG officer should also ensure that E&S training is regularly provided to relevant staff members within the FI, which may include the ESG team and credit/loan/investment officers, to enable FI staff involved in the due diligence or loan/investment approval process to identify, assess and manage E&S risks. All partner FIs can access free of charge the EBRD’s online e-learning training for FIs.

It is further recommended, where appropriate and where there is no internal E&S risk assessment capacity within the FI, that the ESG officer maintain a database of qualified external E&S consultants who can assist in conducting E&S reviews and E&S due diligence (ESDD) as needed, depending on the complexity and risk level of the sub-projects.

The legal department is accountable for guaranteeing the incorporation of E&S provisions, warranties and covenants into loan or investment agreements and advising whether a customer’s non-compliance with E&S clauses constitutes a breach of contract and/or would be considered an event of default or material reason for divestment under the terms of the legal agreement.

Furthermore, the FI is required to nominate a member of staff accountable for stakeholder engagement and the grievance mechanism. This can range from one staff member to a multi-member team, depending on the size and nature of the FI’s activities. This staff member or team will deal with external stakeholders’ public enquiries, grievances and concerns related to E&S matters.

### 3.2. Policy and procedures

Sound management of E&S risks is an integral part of a functional ESMS. The EBRD recognises that different partner FIs have risk management procedures that vary in their degree of detail depending on various factors, such as size, business activity, risk profile, organisational capacity, market trends, national laws and regulatory frameworks.

The risk management model outlined in Figure 3 includes the key steps that partner FIs are expected to include and implement in the risk management procedures for their lending and investment activities when using EBRD funds.

This risk management process is expected to be exercised by partner FIs for all investee companies or loans, regardless of the economy in which they are operating, risk categorisation, sector, investment/loan amount and tenor. However, the level of detail, scale and depth will be commensurate with the E&S risk and decided by the FI’s competent ESG staff members.

FIs are expected to have sufficient documentation and evidence of sound E&S risk assessment of all investments/loans to present to the EBRD and/or other lenders providing funding.

Detailed information and advice on each step is provided in the relevant guidance notes for FIs on the EBRD website. In addition, the EBRD provides specific guidance and resources on tailoring the E&S risk management framework to different instruments and products including SME lending, trade finance, bonds, funds and leasing.

**Figure 3. Stages of E&S risk management**



## Screening

The FI should undertake E&S screening at an early stage in the credit or investment cycle (and prior to signing term sheets or proceeding to due diligence) in order to check that the proposed sub-project meets the basic E&S eligibility criteria that have been agreed with the EBRD. The results should be recorded in the credit file or workflow system. In particular, screening must check the proposed subproject against:

- the EBRD's Exclusion List (see Appendix 1 of the EBRD's ESP)<sup>4</sup>
- the FI referral list (see Appendix A of PR9).<sup>5</sup>

In addition, screening should include preliminary checks to identify whether the project meets the EBRD's definition of a "Category A" project (see Appendix 2 of EBRD's ESP), acknowledging that final confirmation of Category A status may not be possible until additional information has been gathered during the risk assessment stage. Depending on the precise wording of the loan/investment agreement with the EBRD, a sub-project that is designated as Category A may require referral to the EBRD or, in some cases, may not be eligible under the permitted use of proceeds.

Detailed information and advice are provided in the *Screening* guidance note (see *Section 5: Supporting tools*).

## Risk categorisation

The FI should assign an E&S risk category to the proposed sub-project once screening has confirmed it meets the basic E&S eligibility filters agreed with the EBRD. Categorisation provides an indication of the likely time, resources and expertise required to conduct further E&S assessment of a potential transaction. Furthermore, it allows the FI to understand the E&S risk profile of its investment portfolio and to recognise where most attention and risk mitigation efforts are needed.

The EBRD recommends that FIs use a three-tier categorisation system such as the one below:

- **High risk:** A sub-project is categorised as high risk when associated with significant adverse E&S risks and impacts that are irreversible in nature and cannot be mitigated, or can be partially mitigated at significant cost. External technical expert assistance may be required to assist in the management of such high-risk sub-projects.
- **Medium risk:** A sub-project is categorised as medium risk when associated with potential environmental and social impacts that are typically site specific and/or readily identified and addressed through mitigation measures.
- **Low risk:** A sub-project is categorised as low risk when it is likely to have limited environmental and/or social impacts that can readily be identified and mitigated.

High-E&S-risk sub-projects that meet the criteria in the list of Category A projects included as Appendix 2 to the EBRD ESP should be classified as Category A (using the EBRD's definition).<sup>6</sup> In accordance with the EBRD's ESP and PR9, such Category A sub-projects will be required to meet EBRD PRs 1-8 and 10 and must be referred to the EBRD for its opinion prior to the FI's final credit/investment decision.

Detailed information and advice is provided in the *Categorisation* guidance note. SME lenders should also refer to the *SME Lending* guidance note for guidance specific to that asset class. Key tools provided to assist FIs with E&S categorisation include the EBRD's E&S risk categorisation list.

See *Section 5: Supporting tools* for information on each of these resources.

## Risk assessment

The risk assessment ensures that sub-projects are structured to mitigate adverse environmental and social impacts and risks, meet national regulatory requirements relating to environmental and social matters and require sub-borrowers, where necessary, to implement corrective action plans. The scope of the E&S risk assessment should be determined by the E&S risk categorisation that the FI assigned to the transaction. Typically, the higher the level of E&S risk associated with a transaction, the more comprehensive the E&S risk assessment should be. This is reflected in the level of depth and thoroughness of the E&S risk assessment, the approach and tools that the FI uses to assess E&S risks and the external expertise that the FI needs to engage.

The main stages in risk assessment typically involve a desk-based regulatory compliance check followed by E&S due diligence (ESDD). In more complex or higher E&S risk cases, ESDD may include engaging an external consultant to undertake a site visit to advise the FI before a final credit/investment decision is taken.

The *Assessment* guidance note (see *Section 5: Supporting tools*) provides detailed information and advice.

## Risk mitigation and control

A range of risk mitigation measures can be used by the FI when ESDD deems it appropriate to take additional steps to ensure compliance with national laws, applicable E&S standards and EBRD requirements, and to protect the FI from E&S-related reputational, credit or legal risks. In certain cases, it may be necessary to develop and agree an environmental and social action plan (ESAP) with the client/investee.

The *Mitigation* guidance note (see *Section 4: Supporting tools*) provides detailed information and advice.

<sup>4</sup> See EBRD (2019), p.10.

<sup>5</sup> See EBRD (2019), p.46.

<sup>6</sup> See EBRD (2019), p.11.

### Risk monitoring and review

E&S monitoring focuses on the sub-project's performance against national laws and regulatory requirements, applicable E&S standards and, if relevant, progress on implementing any corrective actions agreed and documented in an ESAP. It should also provide early warning of any change or deterioration in the sub-project's E&S risk profile (for example, in the event of project delays due to local community opposition). As such, E&S monitoring focuses on the adequacy of the E&S risk management measures the sub-project has in place and includes indicators that could reveal poor E&S performance, for example, the number and severity of external grievances, accidents, emissions data, labour unrest events and others. It should also include the identification of new E&S risks or changes in the severity of known E&S risks that may occur as a result of the sub-project's evolving operation.

The *Monitoring* guidance note (see *Section 5: Supporting tools*) provides detailed information and advice.

### 3.3. Stakeholder engagement and external grievance mechanism

FIs are required to comply with the stakeholder engagement and external grievance mechanism requirements set out in PR9. These requirements include developing and implementing an effective stakeholder engagement plan and grievance mechanism that provides all stakeholders with a transparent, accessible and responsive platform through which to voice their concerns, seek resolution to grievances and actively participate in decision-making processes that affect the FI's operations and policies.

Generally, the level, scale, detail and effort of stakeholder engagement needs to be commensurate with the E&S risk of the FI portfolio. This process should be managed as part of the FI's ESMS.

Detailed information and advice are available in the guidance note on *Stakeholder engagement and grievance mechanism for FIs* (see *Section 5: Supporting tools*).

### 3.4. Reporting

The FI is required to put in place a comprehensive system for effective communication with and reporting to internal and external stakeholder groups, including the EBRD. This includes maintaining internal and external channels of communication, data management and reporting systems and processes, as well as a functioning grievance mechanism. The objective is to have a two-way channel for informing and consulting with stakeholders and for soliciting feedback with a view to continuous improvement.

### Internal E&S performance data reporting

Partner FIs are required to maintain appropriate records of E&S information for each transaction, commensurate with the E&S risks pertinent to each client.

E&S records, documents and reports should be available for inspection by lenders, investors and other stakeholders with a legally vested interest (including the EBRD). Relevant findings and recommendations resulting from an FI's E&S review of a client should be documented in an ESDD report and archived together with evidence and supporting documentation.

Aggregate E&S performance data should be presented to senior management, the board and executive committee at regular intervals.

### E&S reporting to external stakeholders

Mandatory E&S-related disclosure and reporting by the FI may be required in certain jurisdictions, depending on the national regulatory context. In the absence of these, and to align with international best practice, FIs may voluntarily issue annual ESG and/or sustainability reports, based on internationally accepted reporting frameworks, such as the Corporate Sustainability Reporting Directive (CSRD), European Sustainability Reporting Standards or International Financial Reporting Standards S1 and S2.

Detailed information and advice are available in the *External Reporting* guidance note for FIs (see *Section 5: Supporting tools*).

### E&S reporting to the EBRD

FIs are required to report to the EBRD through an AESR, using a template provided by the EBRD. The report should address how they have implemented their ESMS to manage the risks in their portfolio, as well as how their portfolio holdings and clients have performed in terms of E&S indicators. The AESR should cover all transactions that have been financed by the EBRD. If the EBRD holds an equity stake in the FI, then the AESR should cover all transactions in the FI's portfolio.

The report should also provide assurances to the EBRD on how the FI has been complying with PR2 (on labour and working conditions) and PR4 (on health, safety and security).

Detailed information and advice are available in the *Reporting to the EBRD* guidance note for FIs (see *Section 5: Supporting tools*).

### Notifying the EBRD in the event of accidents and incidents

Partner FIs must set up systems, procedures and arrangements for recording and notifying the EBRD and national authorities of occupational accidents, serious occurrences and incidents, as well as their investigative and preventative measures. Other stakeholders to be notified include the competent authorities, other governmental or public entities, such as social security institutions, internal management, employees and workers.

The EBRD requires notification of material accidents and incidents related to the FI if they occur on any site used by the FI or if they are caused by any facilities, equipment or vehicles used by or related to the FI. An incident or accident is considered material if:

- it has a significant adverse effect on the environment, the public, or occupational health and safety of staff
- any applicable law requires notification of the incident or accident to a governmental authority
- the incident or accident involves a fatality (whether or not the person is employed by the FI)
- more than one person (whether or not those persons are employed by the FI) has received a serious injury requiring hospitalisation
- the incident involves violence and harassment, bullying, intimidation and/or exploitation, including any form of [gender-based violence and harassment \(GBVH\)](#)
- the incident involves forced and child labour relating to the FI's business and portfolio
- the incident or accident has become, or is likely to become, public knowledge, be it through media coverage or otherwise.

To satisfy the notification requirements, partner FIs may refer to the [International Labour Organization's \(ILO\) Code of Practice on Recording and Notification of Occupational Accidents and Diseases](#) and the relevant stipulations of the "furnishing of information" section of the loan/investment agreement with the EBRD.

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## 4. Compliance with PR2 and PR4

In addition to the requirement to apply PR9 to their investment and/or lending activities, FIs are also required to comply with PR2 (labour and working conditions) and PR4 (health, safety and security) as far as their own operations are concerned.

Compliance with PR2 revolves around developing and implementing an effective human resources (HR) management system that fosters sound employee relationships based on respect for workers' rights, in line with national standards, the fundamental conventions of the ILO and generally the best practices reflected in the EBRD's ESP and PRs.

Compliance with PR4 focuses on implementing preventative and protective measures to prevent injury and ill-health to employees and sub-contractors (and, in the case of banks, to members of the public who may be present on the bank's premises, including customers, contractors and others).

Financial institutions are expected to have well-developed management systems for the issues covered by PR2 and PR4. Nevertheless, labour relations problems and health and safety incidents can still carry significant E&S risks in the financial sector. Additional information and advice on the EBRD's requirements are therefore provided in the relevant guidance notes for FIs (see *Section 5: Supporting tools*).

## 5. Supporting tools

The EBRD provides a number of resources to help partner FIs implement PR2, PR4 and PR9. These can be accessed at in the ‘Sustainable finance section’ of [ebrd.com](https://www.ebrd.com) and are summarised below.

### 5.1. Additional guidance

In addition to this general guidance note on PR9, the EBRD also publishes a number of complementary resources and guidance notes. These resources are updated and added to on an ongoing basis. At the time of publication, they include:

- supplementary guidance notes on:
  - o each of the main steps in a typical FI E&S procedure:
    - screening
    - categorisation (in conjunction with E&S categorisation matrix<sup>7</sup>)
    - assessment
    - mitigation
    - monitoring
  - o E&S risk management in the context of specific types of FI and intermediated financing instruments, including:
    - bonds
    - SME lending
    - funds (including private equity, venture capital and private debt)
    - leasing
    - non-performing loan (NPL) vehicles
    - the EBRD’s Trade Facilitation Programme (TFP)
  - o emerging issues that FIs should be aware of (such as E&S risk management in sub-project supply chains)
- guidance notes for FIs on PR2 (on labour and working conditions) and PR4 (on health, safety and security).

### 5.2. Digital ESMS tool for FIs

The digital tool can be accessed free of charge by any EBRD partner FI and it provides a practical framework for a partner FI to screen ESG issues, produce ESDD reports and design the central components of ESAPs for sub-projects and sub-investments. Through the tool, partner FIs can screen, assess and monitor their loans and investments, access knowledge on best environmental and social risk management practices, and build internal capacity.

Please visit [www.ebrd.com](https://www.ebrd.com) to download the tool.

### 5.3. Online E&S risk management learning programme for FIs

The EBRD has developed an online training course for partner FIs as part of the Bank’s commitment to building capacity and providing the latest developments and best practices in sustainable finance. The course explains how the EBRD’s E&S risk management procedures can help FIs better manage the risks related to E&S issues in their business activities, lending and investment portfolios. The programme consists of 13 modules, case studies and a final assessment, and can be accessed free of charge by any EBRD partner FI.

<sup>7</sup> The EBRD’s E&S Risk Categorisation Matrix is a checklist designed to provide FI credit officers with a guide to the typical level of inherent E&S risk associated with particular business activities. The list is organised by NACE code (NACE Rev. 2) and provides “low”, “medium” and “high” E&S risk ratings by industry sector.

# Glossary

Category A (projects/loans)	A project is categorised “A” when it could result in potentially significant environmental and/or social impacts, including direct and cumulative E&S impacts that are new and additional and, at the time of categorisation, cannot readily be identified or assessed. Projects categorised as “A” require a formalised and participatory ESIA process.
EIA	Environmental impact assessment – a formalised assessment of environmental risks and impacts for a specific project or activity; may be regulated by national legislation. When the assessment also includes social risks, it is referred to as an environmental and social impact assessment (ESIA).
Environmental change	Environment change refers to any temporary or permanent changes to the landscape, atmosphere, soil, water, plants or animals caused by human activity.
Environmental and social action plan (ESAP)	A series of technically and financially feasible and cost-effective measures to achieve compliance of facilities or activities with E&S issues in a given timeframe. In the ESAP, parties agree the specific corrective and preventative actions and mitigation measures an entity will implement to counter E&S risks and impacts within a certain implementation timeframe, in accordance with predetermined E&S standards, such as the EBRD PRs. The ESAP may form part of a financing agreement and include, as necessary, an entity’s obligations to support ESAP implementation.
ESDD	Environmental and social due diligence – the process of examining and appraising the E&S risks.
Financial intermediary / Partner financial intermediary	An institution, such as a bank, private equity fund, insurance company or other financial services provider, that the EBRD engages with through bank loans, SME lending programmes, equity investments and support for other financial services (such as insurance and leasing), to develop the financial sector, capital markets and foster entrepreneurship.
Greenfield project	Greenfield project/investment means a project/investment that is started from scratch (for example, the creation of new industrial facility and infrastructure) and not constrained by prior work.
Good international practice	The exercise of professional skill, diligence, prudence and foresight that would reasonably be expected from skilled and experienced professionals engaged in the same type of undertaking under the same or similar circumstances globally or regionally. The outcome of such an exercise will be that the project employs the most appropriate techniques and standards in the project-specific circumstances.
NACE	The Nomenclature of Economic Activities is the European statistical classification of economic activities.
Project	The set of works, goods, services and/or business activities defined in the financing agreements and for which EBRD financing is sought by a client, and as approved by the Board of Directors or, if the Board of Directors has delegated the approval authority, by management.
Site visit	An operational site visit is defined as a visit to a site that is focused on examining the way in which a business stores, processes and disposes of raw materials and waste products to assess its potential environmental impact. It should also examine how the business manages and treats its employees to assess its management of social issues (for example, health and safety, human rights, engagement with local communities, and so on).
Social issues	Issues pertaining to project-affected people and their communities and workers and related to socioeconomic status, vulnerability, gender, gender identity, human rights, sexual orientation, cultural heritage, labour and working conditions, health and safety, and participation in decision-making.
Stakeholder(s)	A person, group or organisation that has a direct or indirect stake in a business or organisation because it can affect or be affected by the organisation’s actions, objectives, policies and procedures. Stakeholders may include investors, shareholders, customers, directors, employees, national or local government authorities, the academic community, non-governmental organisations, suppliers, unions, and the local community from which the business draws its resources.
Subproject	A project financed by an FI (sub-investment in case of equity financing).

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# Acronyms

AESR	annual environmental and social report
E&S	environmental and social
EBRD	European Bank for Reconstruction and Development
EIA	environmental impact assessment
ESAP	environmental and social action plan
ESDD	environmental and social due diligence
ESG	environmental, social and governance
ESIA	environmental and social impact assessment
ESHS	environmental, social, health and safety
ESMS	environmental and social management system
ESP	Environmental and Social Policy
EU	European Union
FI	financial intermediary
ILO	International Labour Organization
MSME	micro-, small and medium-sized enterprise
NACE	Nomenclature of Economic Activities
NGO	non-governmental organisation
OHS	occupational health and safety
PR	Performance Requirement
SME	small and medium-sized enterprise

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# References

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