European Bank
for Reconstruction and Development

Environmental and Social Requirement 9:
Financial intermediaries

Guidance note

November 2025

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Guidance note
Environmental and Social Requirement 9

1. Introduction and objectives

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1.1. Purpose of this guidance note

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 EBRD.[1] The Environmental and Social Policy[2] (ESP) is one of the EBRD's three good governance policies (along with the Access to Information Policy[3] and the Project Accountability Policy[4]) and a key document that guides the Bank's commitment to promoting "environmentally sound and sustainable development" in the full range of its investment and technical cooperation activities. The EBRD's Board of Directors approved the 2024 ESP and its 10 related Environmental and Social Requirements (ESRs) on 10 October 2024. The policy came into effect on 1 January 2025.

ESR 9 sets out the EBRD's requirements for its partner financial institutions (PFIs), including, but not limited to, banks, private equity and venture capital funds, private debt funds and non-bank financial institutions (NBFIs) such as leasing companies, microfinance institutions and insurers.[5] The primary objective of ESR 9 is to mitigate the risk that funding channelled through financial intermediaries (FIs) may cause or contribute to significant environmental and social (E&S) harm. The EBRD mitigates this risk by requiring its PFIs to incorporate E&S criteria and risk assessments into their credit and investment processes for the activities to be financed from the EBRD's investment. These requirements reflect best practices in international industry standards and align closely with the approaches of other leading development finance institutions (DFIs).

This guidance note provides the EBRD's PFIs and others with practical guidance on implementing the requirements of ESR 9 and expands on the key principles underpinning it.

1.2. Key objectives of ESR 9

The objectives of ESR 9 are to:

- Set out how FIs will assess, manage, monitor and report E&S risks and impacts associated with the subprojects they finance.
- Promote sustainable E&S management practices in on-lending, investment practices and subprojects financed by FIs.
- Promote good environmental practices and sound human resources, gender equality, and health, safety and security management within FIs.

1 See EBRD (1990).
2 See EBRD (2024a).
3 See EBRD (2024b).
4 See EBRD (2019).
5 See EBRD (2024a) pp. 95-98.

The requirements of ESR 9 apply to all subprojects and sub-borrowers financed by the EBRD. PFIs are responsible for managing and monitoring E&S risks, as well as for portfolio-level oversight of such risks. To do this, PFIs must have a clear environmental and social management system (ESMS), including an E&S policy and risk management procedures commensurate with their size and activities.

The EBRD reviews the effectiveness of a PFI's ESMS during due diligence and monitors it regularly throughout the project lifecycle.

1.3. Key changes since 2019

The updated version of ESR 9 took effect on 1 January 2025. It largely aligns with the 2019 version of Performance Requirement 9, but incorporates the following main changes:

- Performance Requirements are now called ESRs.
- The referral list has been removed.
- PFIs must disclose information about their ESMS and Category A subprojects (see ESR 9, paragraph 16, and Section 3.8 of this guidance note).
- The ESMS must include a procedure for dealing with external communications on E&S matters, including a grievance mechanism (see ESR 9, paragraph 15, and Section 3.4 of this guidance note).
- Subject to stringent preconditions, the EBRD may now invest in capital market instruments (such as green bonds) where the use of proceeds may include Category A subprojects (see ESP 2024, paragraph 7.14, and Section 5.5 of this guidance note).
- ESRs 1-8 and 10 have been updated.[6] As these changes affect Category A subprojects only, they are unlikely to impact most PFIs. For information on the main changes to ESRs 1-8 and 10, see the guidance notes for ESRs 1-8 and 10 on the EBRD website.[7]

1.4. Related requirements: E&S eligibility criteria for renewable energy subprojects

Where relevant, E&S eligibility criteria for subprojects are included in an annex to the financing agreement between the EBRD and the PFI (for example, as a policy statement). These criteria help PFIs comply with ESR 9 as well as with other EBRD policies and procedures, including the EBRD's Green Economy Transition (GET) approach.[8]

The criteria are intended to guide PFIs in assessing and managing risks when financing renewable energy sponsors and developers, before approval under the GET approach. Renewable energy subprojects are also reviewed by the EBRD's Environment and Sustainability Department to ensure they meet specific sectoral standards:

- E&S eligibility criteria for solar[9]

6 See EBRD (2024a).
7 See EBRD (n.d.).
8 See EBRD (2020).
9 See EBRD (2025a).

- E&S eligibility criteria for wind[10]
- E&S eligibility criteria for hydropower[11]
- E&S eligibility criteria for bioenergy[12]
- E&S eligibility criteria for geothermal.[13]

1.5. Related requirements: ESR 2 (labour and working conditions) and ESR 4 (health, safety and security)

In addition to ESR 9, PFIs must also comply with the EBRD's ESR 2 (labour and working conditions)[14] and ESR 4 (health, safety and security)[15] concerning their internal operations, premises and workforce. For more information, please refer to those ESRs and their corresponding guidance and briefing notes.[16]

1.6. Related requirements: Paris alignment

All new EBRD activities – including investment through PFIs – must be appraised and monitored to align with the mitigation and adaptation objectives of the Paris Agreement. PFIs should therefore familiarise themselves with the EBRD's Paris Agreement alignment methodology for intermediated financing – contained within the EBRD's *Methodology to determine the Paris Agreement alignment of EBRD investments*[17] – which establishes objectives and requirements that are additional to those set out in ESR 9. Further details are available on the EBRD's website.[18]

1.7. Additional resources

PFIs are required to comply with ESR 9, supported by this guidance note, as well as (where relevant) the E&S eligibility criteria for renewable subprojects and ESRs 2 and 4. To assist PFIs in meeting these requirements, the EBRD also provides complementary resources and publications. These include the briefing notes listed below, which are cross-referenced in this guidance note where appropriate. All briefing notes are advisory and contain examples, recommendations, suggestions and background information to support ESMS design and implementation. PFIs are expected to align with the briefing notes.

- E&S procedures:
  - Screening[19]
  - Categorisation[20]

10 See EBRD (2025b).
11 See EBRD (2025c).
12 See EBRD (2025d).
13 See EBRD (2025e).
14 See EBRD (2024a), pp. 37-44.
15 See EBRD (2024a), pp. 51-59.
16 See EBRD (n.d.a.).
17 See EBRD (2024c).
18 See EBRD (n.d.b.).
19 See EBRD (2024e).
20 See EBRD (2024f).

    - Risk assessment[21]
    - Risk mitigation and control[22]
    - Risk monitoring.[23]
- Stakeholder engagement and reporting:
    - Stakeholder engagement[24]
    - External reporting[25]
    - Reporting to the EBRD.[26]
- Financial instruments:
    - SME financing[27]
    - Leasing[28]
    - Non-performing loans[29]
    - Bonds investments[30]
    - Equity funds[31]
    - Trade facilitation.[32]
- Supply chain issues:
    - Supply chain management[33]
    - Solar supply chain[34]
    - Wind supply chain[35]
    - Battery supply chain[36]
    - Cocoa supply chain[37]
    - Cotton supply chain[38]

21 See EBRD (2024g).
22 See EBRD (2024h).
23 See EBRD (2024i).
24 See EBRD (n.d.c.).
25 See EBRD (2024j).
26 See EBRD (2024k).
27 See EBRD (2024l).
28 See EBRD (2024m).
29 See EBRD (2024n).
30 See EBRD (2024o).
31 See EBRD (2024p).
32 See EBRD (2024q).
33 See EBRD (n.d.d.).
34 See EBRD (2024r).
35 See EBRD (2024s).
36 See EBRD (2024t).
37 See EBRD (2024u).
38 See EBRD (2024v).

- Palm supply chain[39]
- Soy supply chain.[40]

There are also briefing notes specific to FIs covering ESR 2[41] and ESR 4.[42]

The EBRD also provides a free e-learning programme for PFIs on various aspects of E&S risk management.[43]

39 See EBRD (2024w).
40 See EBRD (2024x).
41 See EBRD (2024d).
42 See EBRD (n.d.e.).
43 See EBRD (n.d.f.).

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2. Scope of application

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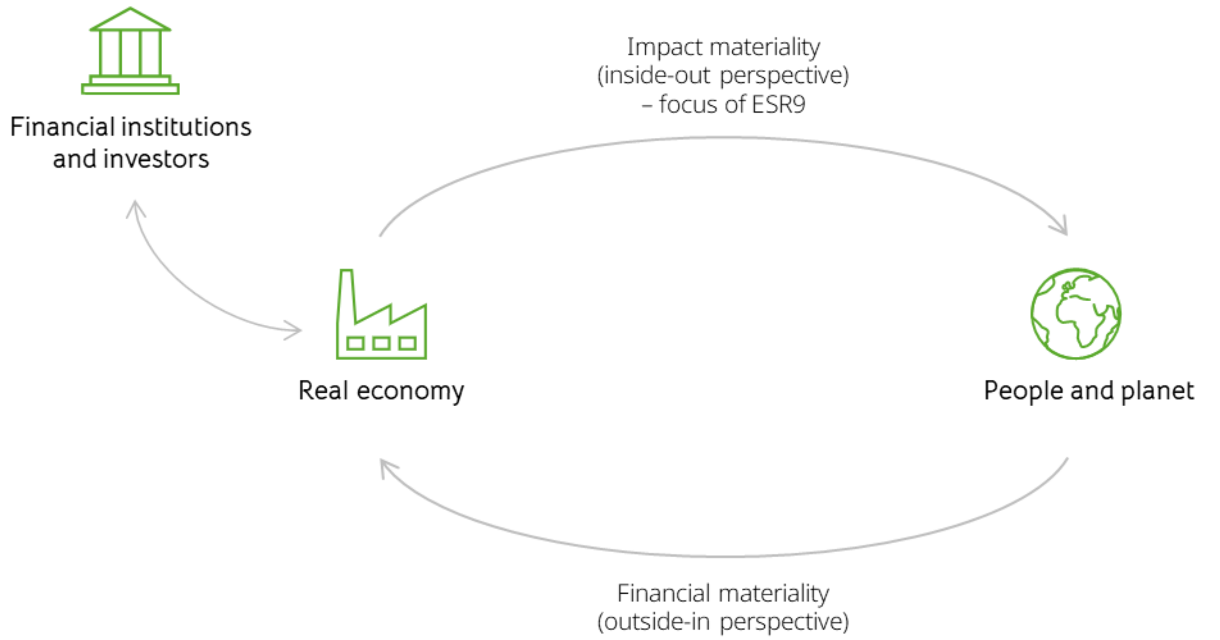
2.1. Definitions of E&S risk

In ESR 9 and this guidance note, the term "E&S risk" means the risk that subprojects financed by the PFI could cause or contribute to significant negative impacts on the environment or society – for example, impacts on local communities. This aligns with the "impact materiality" dimension (also called the "inside-out" perspective) of the "double materiality" concept used in frameworks such as the European Sustainability Reporting Standards (ESRSs) and the European Union's (EU) Corporate Sustainability Reporting Directive (EU) 2022/2464 (CSRD)[44] (see Figure 1).

Figure 1. E&S risk management in ESR 9 on considering "double materiality"



Significant adverse E&S risks and impacts on people and the environment arising from subprojects can result in delays and additional costs, creating negative business impacts for the sub-borrower. These impacts may in turn pose credit risks for the FI financing the subproject. This reflects the "financial materiality" dimension (or "outside-in" perspective) of the double materiality concept shown in Figure 1.

Complying with the good practices outlined in ESR 9 is consistent with the basic measures that PFIs should take to mitigate such financially material E&S-derived risks. However, more sophisticated approaches may be appropriate for many PFIs, especially in the banking sector, concerning climate-related risks and/or the integration of environmental, social and governance (ESG) factors into proprietary credit scoring tools.[45] These practices go beyond the scope of ESR 9's requirements. Such practices do not fall within the scope of ESR 9's objectives and requirements, but they may require consideration in the context of requirements

44 See EU (2022).
45 See European Banking Authority (2025).

arising from the EBRD's commitment to align with the Paris Agreement[46] (see Section 1.6 of this guidance note) and/or to comply with requirements and guidelines from bank supervisors and other regulators on climate-related financial disclosures.

2.2. FI products and services in the scope of ESR 9

PFIs offer many different products, services and investment strategies that the EBRD may support indirectly. The focus of ESR 9 is on activities that involve potentially significant E&S risks under the ESP 2024.

Which PFI activities fall under ESR 9 depends on the type of investment and the "use of proceeds" defined in the investment agreement. Table 1 lists the indicative types of FI activities that can be covered by ESR 9 as eligible subprojects.

Table 1. Key FI activities within the scope of ESR 9

Type of FI	Financial products in the scope of ESR 9, if financed from the EBRD's proceeds
Banks	Project finance and long-term (≥ 36 months) project-related corporate loans
	Long-term (≥ 36 months) corporate loans (non-project related)
	Small and medium-sized enterprise (SME)[47] and micro, small, and medium-sized enterprise (MSME) loans (other than working capital with tenor ≤ 12 months)
	Mezzanine finance
	Long-term (≥ 36 months) asset financing
	Trade finance products and services (such as letters of credit)
	Loans to microfinance institutions
Leasing companies	Soft asset finance leases
	Hard asset finance leases
	Hard asset operating leases
Microfinance institutions	Microloans to individual entrepreneurs/sole traders and microenterprises
	Agricultural microfinance
Private equity funds	Leveraged buyout
	Growth equity
	Venture capital
	Secondaries
	Fund of funds

46 See UNFCCC (2016).

47 In line with the European Commission's definition of SMEs, which is available at: https://single-market-economy.ec.europa.eu/smes/sme-fundamentals/sme-definition_en.

Type of FI	Financial products in the scope of ESR 9, if financed from the EBRD's proceeds
Private debt funds	Project finance and long-term (≥ 36 months) project-related corporate loans
	Long-term (≥ 36 months) corporate loans (non-project related)
	SME and MSME loans (other than working capital with tenor ≤ 12 months)
	Mezzanine finance
	Loans to microfinance institutions
	Loans to banks and other FI types
	Investment in debt capital market instruments (including green bonds) issued by corporates, financial institutions, sub-sovereigns and sovereigns
	Fund of funds

For the purposes of ESR 9, the following products and services are generally associated with negligible E&S risks and no specific measures need to be taken to comply with the EBRD's requirements:

- provision of bank accounts and payment services to private individuals or businesses
- consumer finance products (for example, overdrafts, credit cards, leases and hire purchase, unsecured loans) for private individuals
- currency exchange services
- residential mortgages and home improvement loans for private individuals
- life insurance and non-life insurance products for private individuals
- wealth management services for high-net-worth individuals or family offices/trusts
- interbank lending
- investment banking advisory services
- microfinance: micro-savings, micro-insurance, remittance services
- proceeds temporarily held in money market funds or other instruments for general liquidity and surplus cash management purposes.

If the EBRD's funds may be used to indirectly provide products and services not envisaged in this section of the guidance note, the EBRD will determine the appropriate application of ESR 9 on a case-by-case basis.

2.3. Operational scope

While the ESP applies to all EBRD-financed projects, the exact scope of the EBRD's requirements will be assessed during due diligence on a case-by-case basis to ensure they are appropriate to the nature and scale of the project and commensurate with the level of its E&S risks and impacts. The EBRD's due diligence assessment considers information on the subprojects expected to be associated with EBRD financing, the type of financial instrument used and the PFI's overall objectives in seeking EBRD funding.

When the EBRD's financing is contractually dedicated to specific, identifiable subprojects, the standards and requirements of ESR 9 apply to those projects. These situations typically include (but are not limited to):

- EBRD investment in PFIs through senior debt facilities ("credit lines") for on-lending to sub-borrowers (for example, bank loans to SMEs for green subprojects, microfinance loans to women-owned enterprises).

- EBRD investment in PFIs (typically banks) through subordinated debt (including Tier II capital loans, minimum requirement for own funds and eligible liabilities (MREL)-eligible loans and bail-in bonds) where the use of proceeds is clearly ring-fenced in the manner described above (subject to regulatory approval on a case-by-case basis).
- The provision of trade finance facilities by the EBRD to banks.
- Projects financed through our Risk Sharing Facility, where we work together with local partner banks, sharing the risk of financing local sub-borrowers.
- Investment by the EBRD in use-of-proceeds bonds (including green, social and sustainability bonds) issued by banks, either through private placements or initial bond offerings on primary capital markets.
- EBRD investment as a limited partner in private equity and venture capital funds.

Although ESR 9 is required only for projects financed by the EBRD, the EBRD encourages PFIs to apply the same E&S risk management policies and procedures across all their products, services and portfolios where E&S risks are relevant, no matter the source of funding.

If the EBRD's investment is not explicitly dedicated to specific subprojects and the funds can be used more flexibly, ESR 9 applies to all relevant parts of the institution and to the global portfolio that the PFI manages from the time of the EBRD's investment. Examples of such situations include (but are not limited to):

- EBRD investment in the stocks and shares of banks, leasing companies and microfinance institutions ("equity investment").
- EBRD investment in PFIs (typically banks) through subordinated debt (including Tier II capital loans, MREL-eligible loans and bail-in bonds) where the proceeds will be used solely for regulatory capital purposes and general financing needs. This typically occurs only in jurisdictions where the banking supervisory body does not permit regulatory capital loans to be targeted/ring-fenced.
- EBRD investment in general corporate purposes bonds (regular bonds) issued by banks.
- EBRD investment in non-use-of-proceeds thematic bonds issued by banks, such as sustainability-linked bonds.

Occasionally, the EBRD may invest in less typical types of financial institutions – for example, insurance companies, factoring companies, private debt funds, real estate investment trusts, asset managers in listed securities or special purpose vehicles set up to manage non-performing loans. It may also use less typical investment instruments, such as partial risk guarantees, structured finance or synthetic securitisations for credit protection.

In these cases, the EBRD will decide on a case-by-case basis how ESR 9 should apply, considering the core principles of ESP 2024 and ESR 9, precedents from similar situations if applicable and current good market practices in the relevant asset class.

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3. Requirements

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3.1. Overview

Figure 2 summarises the key requirements for FI projects as established by the ESP 2024 and ESR 9.

Figure 2. Key requirements for FI projects as established by the ESP 2024 and ESR 9

Management system	Subprojects	Reporting and disclosure
The PFI must have formal policies and procedures that integrate E&S risks into the end-to-end investment/credit cycle and relevant management information systems	Some activities are excluded from financing – the PFI must have effective negative screening procedures in place for this	The PFI must provide the EBRD with an annual E&S performance report that includes summary E&S information on the relevant portfolio and updates on any material changes to the PFI's ESMS
Roles and responsibilities with respect to E&S risk management must be clearly defined and include top-management oversight as well as adequate E&S expertise at operational level	All subprojects in the scope of ESR 9 must materially comply with national E&S standards – the PFI must have effective procedures in place to verify, record and monitor this	The PFI must notify the EBRD as soon as possible in the event of a major E&S incident or controversy
The PFI must have procedures for dealing with external communications on E&S matters, including a grievance mechanism	If a proposed subproject falls significantly below the required E&S standards, the PFI must not approve financing unless it is confident that the issues can be addressed effectively in an acceptable timescale through a formal environmental and social action plan (ESAP)	A summary description of the PFI's ESMS must be made available on the PFI's website
ESMS: Taken together, the essential elements constitute what ESR 9 refers to as an environmental and social management system (ESMS)		The PFI should undertake stakeholder engagement in an appropriate way and, if required by national authorities, publish periodic E&S/sustainability reports

Management system	Subprojects	Reporting and disclosure
Category A subprojects (if applicable):		
Category A subprojects are those that pose potentially significant adverse E&S risks and impacts, and therefore require enhanced E&S due diligence and monitoring by the PFI	**EBRD ESRs** Category A subprojects must meet the EBRD's Environmental and Social Requirements (ESRs) 1-8 and 10	Depending on the specifics of the relevant investment with the EBRD, the PFI may be required to: ● Ensure that ESIA reports have been publicly disclosed for at least 30 days prior to the PFI's investment decision ● After financial close, publish basic summary information on all Category A subprojects on the PFI's website
Where the use of proceeds may include subprojects that trigger the EBRD's definition of Category A, the PFI must have a mature and advanced ESMS tailored to this type of lending activity	**ESIA** The subproject developer will normally be required, among other things, to prepare and disclose an E&S impact assessment (ESIA) in accordance with ESR 1	
	In most cases, the PFI will be required to consult with the EBRD before making a final investment decision	

3.2. Management system

All PFIs must have and maintain an ESMS that fits their business activities and the risks of their subprojects. The ESMS should include policies, procedures and clearly defined roles and responsibilities for evaluating and monitoring subprojects. It should also ensure that the PFI has trained staff, sufficient resources, effective systems and at least one senior manager responsible for implementing ESR 9.

ESR 9 requires PFIs to carry out E&S due diligence and monitoring procedures commensurate with the level of E&S risk in their activities and subprojects. These procedures should be part of a broader ESMS that includes:

- governance, with clear roles, responsibilities, and resources
- stakeholder engagement, including a grievance mechanism
- reporting and disclosure practices, both to the EBRD and publicly.

Figure 3 illustrates the overall ESMS concept.

Figure 3. Indicative structure of an ESMS

The ESMS should align with the PFI's business strategy and be part of the loan or investment appraisal process. It should assess the level, scale and impact of a subproject's E&S risks, manage any transaction-related risks and identify potential E&S benefits.

The PFI should review its ESMS regularly, ideally every two years. In the first two years of operation, reviews should be annual until the system is stable. Reviews should be conducted by a committee that includes the senior manager responsible for E&S risk, the risk committee, the E&S officer and other relevant staff. The PFI should check for any issues or gaps that were overlooked, underestimated or not fully addressed. Examples 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 improvements.

3.3. Governance and resources

A PFI should appoint a qualified senior management representative/officer to oversee all ESMS procedures and processes. The senior management representative does not necessarily need to be an E&S expert. This executive is primarily responsible for developing, adopting and enforcing the ESMS within the PFI. This role is often held by the chief risk officer, head of the ESG department or another senior executive responsible for providing sufficient resources – financial, human and technological – for managing E&S risks.

The PFI should also inform the EBRD of any personnel changes – especially changes to the senior management representative accountable for ESG – typically through its annual reporting.

The PFI must also ensure appropriate governance and resources for compliance with ESRs 2 and 4 (see Section 1.5). In most cases, this will involve departments (such as human resources, facilities management or security) other than those dealing with matters pertaining to ESR 9.

In addition, staff members should be responsible for day-to-day E&S risk management, implementing the ESMS on subprojects and liaising between the EBRD and the PFI on ESR 9 compliance. These ESG staff must have the technical expertise to carry out E&S due diligence or review work done by independent consultants. They can also suggest updates and improvements to the E&S policy and ESMS, which should be approved by senior management and shared with the EBRD.

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

- Due diligence – evaluation of subproject/sub-investment E&S compliance with ESR 9.
- Monitoring sub-borrowers in the credit or investment portfolio for ongoing compliance with ESR 9.
- 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.
- Regularly reviewing ESMS functioning and providing recommendations for improvement.

The ESG officer ensures that E&S procedures are implemented for the FI portfolio and that appropriate due diligence documentation supports all lending and investment decisions. The ESG officer is expected to work with management (and senior management and/or the PFI's risk committee or other competent functions) to identify adequate resources for implementing 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 PFI, 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 PFIs can access the EBRD's online e-learning training free of charge.[48]

It is strongly recommended 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 as needed, depending on the complexity and risk level of the subprojects, as appropriate and where there is no internal E&S risk assessment capacity within the PFI.

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.

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

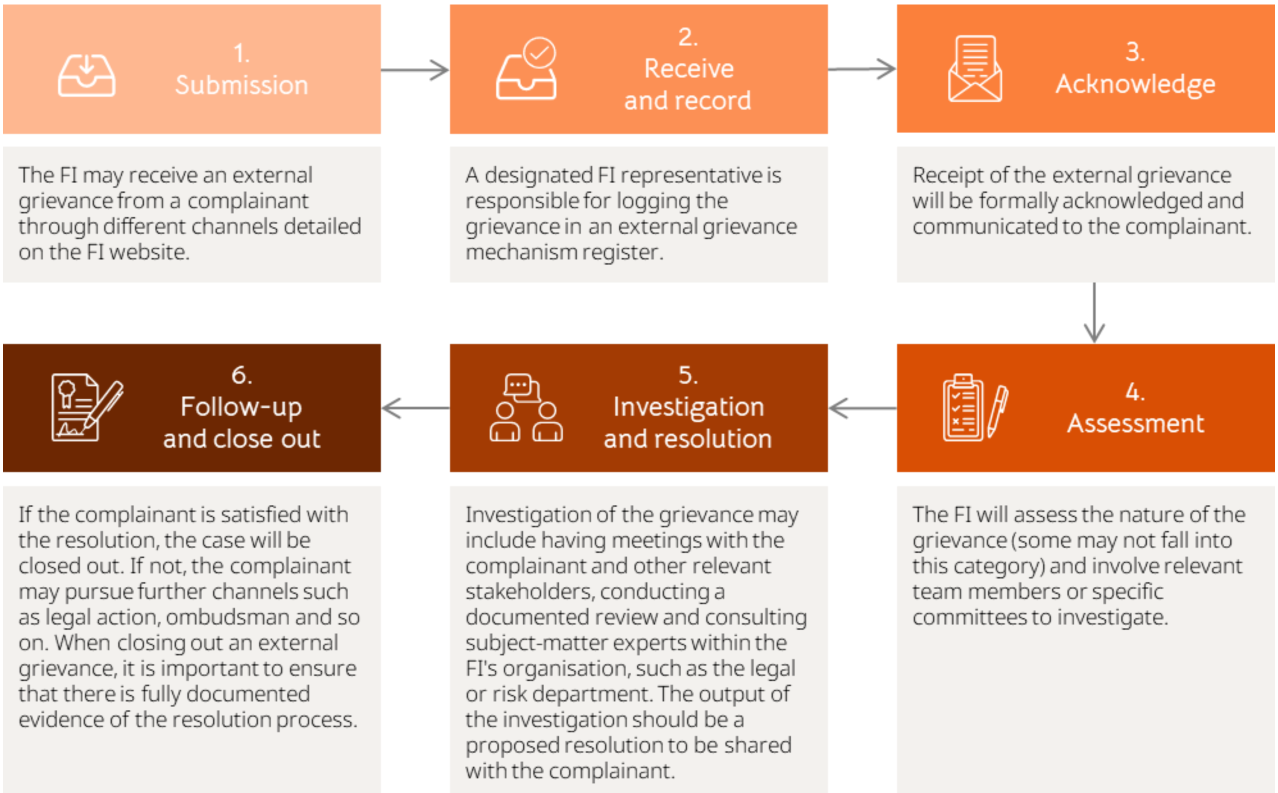
48 See EBRD (n.d.f.).

3.4. Stakeholder engagement and grievance mechanism

PFIs are required to comply with the stakeholder engagement and external grievance mechanism requirements set out in ESR 9. These requirements include developing and implementing an effective stakeholder engagement plan and grievance mechanism that provide all stakeholders with a transparent, accessible and responsive platform to voice their concerns, seek resolution to grievances and actively participate in decision-making processes that affect the PFI'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 PFI portfolio. This process should be documented and managed as part of the PFI's ESMS. See Figure 4 below for an indicative process flow.

Figure 4. FI external grievance mechanism – indicative example process flow



Detailed information and advice are provided in the EBRD briefing note on stakeholder engagement.[49]

3.5. Excluded activities

In all cases, PFIs must not use the EBRD's funds to finance activities listed in the EBRD's E&S Exclusion List, contained in Annex A of the ESP.[50]

For other reasons, and under the authority of other EBRD governance instruments, the EBRD also prohibits financing of the following:

- production and/or export of hard liquor

49 See EBRD (n.d.c.).
50 See EBRD (2024a), pp. 26-27.

- production and/or export of tobacco products
- arms or military equipment production
- casinos and other gambling facilities.

3.6. Subproject standards

All PFI subprojects must materially comply with the E&S standards and requirements that apply to them under national law. This may include (but is not necessarily limited to) regulations on:

- land use zonation and development consent (including any applicable regulations on environmental impact assessments or environmental and social impact assessments (ESIAs) and associated stakeholder consultation)
- prevention of child labour and forced labour
- protecting the rights of indigenous peoples
- protecting the rights of those subject to involuntary physical resettlement or involuntary economic displacement
- pollution prevention and control, including solid waste management, emissions to air and the treatment and disposal of liquid effluents
- protection and conservation of biodiversity and protected habitats
- protection and conservation of cultural heritage resources
- occupational health and safety
- industrial hazard and risk management
- consumer protection
- employment law
- mandatory insurance requirements that are material to E&S risks and remedies (for example, workers' compensation and third-party liability)
- laws relating to sexual exploitation, abuse and harassment (SEAH)
- water abstraction and irrigation rights
- energy efficiency
- corporate sustainability (supply chain) due diligence
- corporate sustainability reporting and disclosure.

In certain cases (particularly where the EBRD's financing is provided under its GET programme), the investment agreement with the EBRD may require that relevant subprojects comply with the applicable EBRD E&S eligibility criteria for renewable energy subprojects[51] (see also Section 1.4), and may further require prior review and approval by the EBRD, as indicated.

Subprojects that trigger the EBRD's definition of Category A must also meet the applicable ESRs. Further guidance is provided in Section 5.

51 See EBRD (n.d.g.).

If a proposed subproject has significant environmental or social risks or does not meet the required standards, the PFI must not approve the project unless it is confident that the issues can be effectively addressed through measures such as a contractually enforceable environmental and social action plan (ESAP). Guidance on ESAPs is provided in the EBRD briefing note on mitigation.[52]

3.7. Reporting to the EBRD

Periodic reporting

PFIs must submit an AESR to the EBRD in a form and substance satisfactory to the EBRD. The report should provide details on how the PFI has implemented its ESMS to manage the risks in its portfolio and how its portfolio holdings and clients have performed in terms of E&S indicators. The AESR should cover all transactions that the EBRD has financed. If the EBRD holds an equity stake in the PFI, the AESR should cover all transactions in the PFI's portfolio.

The report should also provide the EBRD with assurances on how the PFI has complied with ESR 2 (on labour and working conditions) and ESR 4 (on health, safety, and security).

Notifying the EBRD in the event of accidents and incidents

PFIs 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 that need to be notified include the competent authorities and 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 PFI if they occur on any site used by the PFI or if they are caused by any facilities, equipment or vehicles used by or related to the PFI. An incident or accident is considered material if, among other things:

- It has a significant adverse effect on the environment, the public or the 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 PFI employs the person).
- More than one person (whether or not the PFI employs those persons) has received a serious injury requiring hospitalisation.
- The incident involves violence and harassment, bullying, intimidation and/or exploitation, including any form of SEAH.
- The incident involves forced and child labour relating to the PFI's business and portfolio.
- The incident or accident has become or is likely to become public knowledge through media coverage or otherwise.

52 See EBRD (2024h).

3.8. Disclosure and E&S reporting to external stakeholders

ESMS disclosure

Each PFI should publish information about its ESMS on its website, as required by ESR 9, paragraph 16. The EBRD understands that some E&S policies and procedures may be confidential or too detailed to publish, for example, where they are part of standard operating procedures. In these cases, the PFI should provide a summary overview instead. The summary should clearly explain how the PFI identifies, assesses and manages E&S risks, while respecting confidentiality.

Category A subproject disclosure

Each PFI should publish at least basic information on its website about any Category A subprojects financed with EBRD funds, and ideally about all its investments. This requirement may not apply to many PFIs, but for those to whom it does apply, guidance is provided in Section 5.3.

E&S reporting to external stakeholders

Depending on the national regulatory context, mandatory E&S-related disclosure and reporting by the PFI may be required in certain jurisdictions. In the absence of these, and to align with good international practice, PFIs may voluntarily issue annual ESG and/or sustainability reports based on internationally accepted reporting frameworks, such as the EU CSRD, ESRSs or International Financial Reporting Standards (IFRS) S1[53] and S2.[54]

53 See IFRS (2023a).
54 See IFRS (2023b).

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4. Procedural guidance

4. Procedural guidance

4.1. Policy and procedures

Effective E&S risk management is an integral part of a functional ESMS. The EBRD recognises that different PFIs have risk management procedures that vary in detail depending on size, business activity, risk profile, organisational capacity, market trends, national laws and regulations.

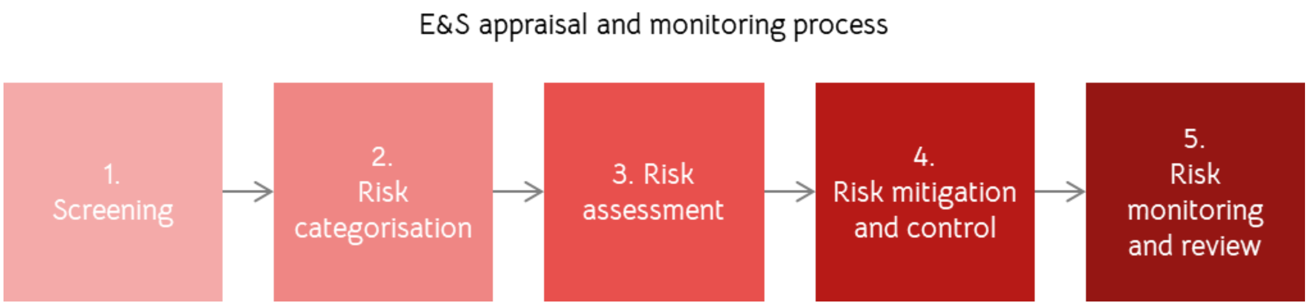
The risk management model outlined in Figure 4 includes the key steps that PFIs are expected to include and implement in the risk management procedures for their lending and investment activities when using EBRD funds.

This risk management process is expected to be exercised by PFIs 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.

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

Detailed guidance is provided in the applicable EBRD briefing notes.[55]

Figure 4. Key steps in E&S due diligence



4.2. Screening

The PFI should carry out E&S screening early in the credit or investment cycle – before signing term sheets or proceeding to due diligence – to check that the proposed subproject meets the essential E&S eligibility criteria agreed with the EBRD. The results should be recorded in the credit file or workflow system. Screening must check the proposed subproject against the EBRD's E&S Exclusion List, contained in Annex A of the ESP.[56]

55 See EBRD (n.d.g.).
56 See EBRD (2024a), pp. 26-27.

Screening should include preliminary checks to identify whether the project meets the EBRD's definition of a Category A project (see Section 5 of this guidance note). 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 subproject designated as Category A may require referral to the EBRD or, in some cases, may not be eligible under the permitted use of proceeds.

For further information, see the EBRD briefing note on screening.[57]

4.3. Risk categorisation

The PFI should assign an E&S risk category to the proposed subproject once screening has confirmed it meets the basic E&S eligibility filters agreed with the EBRD. Categorisation indicates the likely time, resources and expertise required to conduct further E&S assessment of a potential transaction. In addition, it allows the PFI 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, where the use of EBRD proceeds is directed towards SMEs, PFIs use a three-tier categorisation system such as the one below:

- Low risk: a subproject is categorised as low risk when it is likely to have limited environmental and/or social impacts that can readily be identified and mitigated.
- Medium risk: a subproject is considered medium risk when it has potential E&S impacts that are typically site-specific and/or readily identified and addressed through mitigation measures.
- High risk: a subproject is categorised as high risk when it is associated with significant adverse E&S risks and impacts that are irreversible and cannot be mitigated, or can be only partially mitigated at considerable cost. External technical expert assistance may be required to manage such high-risk subprojects.

Where the use of EBRD proceeds includes project finance, project-related corporate loans or private equity investment in sectors such as renewable energy, infrastructure or large-scale agriculture, the EBRD recommends that the PFI's E&S procedures for such activities follow the Category A, B and C definitions used by the EBRD and other DFIs and by voluntary industry frameworks such as the Equator Principles[58] (see also Section 8).

For further information, see the EBRD briefing note on categorisation[59] and the EBRD's Sectoral E&S Risk Categorisation tool.[60]

4.4. Risk assessment

The risk assessment ensures that subprojects are structured to mitigate adverse E&S impacts and risks, meet national regulatory requirements relating to E&S matters and require sub-borrowers, where necessary, to implement corrective action plans. The E&S risk categorisation should determine the scope of the E&S risk assessment that the PFI assigned to the transaction. Typically, the higher the E&S risk associated with a

57 See EBRD (2024e).
58 See Equator Principles (2020).
59 See EBRD (2024f).
60 See EBRD (n.d.h.).

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 the PFI uses to assess E&S risks and the external expertise the PFI needs to engage.

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

For further information, see the EBRD briefing note on risk assessment.[61]

4.5. Risk mitigation and control

The PFI can use a range of risk mitigation measures when E&S due diligence shows that extra steps are needed to comply with national laws, applicable E&S standards and the EBRD requirements, as well as to protect the PFI from E&S-related reputational, credit or legal risks. In some cases, it may be necessary to develop and agree on an ESAP with the client/investee.

For further information, see the EBRD briefing note on risk mitigation.[62]

4.6. Risk monitoring and review

E&S monitoring focuses on the subproject's performance against national laws and regulatory requirements, applicable E&S standards and, if relevant, progress on implementing any corrective actions agreed upon and documented in an ESAP. It should also provide early warning of any change or deterioration in the subproject'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 subproject 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 due to the subproject's evolving operation.

For further information, see the EBRD briefing note on risk monitoring.[63]

4.7. Record keeping

PFIs must 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 a PFI's E&S review of a client should be documented in an environmental and social due diligence (ESDD) report and archived with evidence and supporting documentation. The EBRD may sample and monitor such information regularly for its internal reporting.

61 See EBRD (2024g).
62 See EBRD (2024h).
63 See EBRD (2024i).

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

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5. Financing Category A subprojects

5. Financing Category A subprojects

5.1. Context

The majority of the EBRD's investment in PFIs focuses on support for MSMEs. Category A subprojects are uncommon in this asset class, and the PFI's loan agreement with the EBRD will normally specify that Category A subprojects are not eligible for support from the proceeds of the EBRD's investment.

In some cases, however, Category A subprojects may not be prohibited and may even be anticipated by design. Examples of situations where the EBRD may selectively permit Category A subproject financing can include the following:

- Equity investment in banks with significant corporate lending portfolios.
- Investment in infrastructure funds, private debt funds and similar vehicles whose investment strategies may include greenfield development financing in sectors such as renewable energy, transport or heavy industry.
- Investment in green bonds issued by banks where the use of proceeds may be targeted at similar activities.

5.2. Definition and implications

In accordance with the ESP, a project (or subproject, in the case of a PFI) is designated Category A when it could result in potentially significant E&S impacts – including direct and cumulative E&S impacts – that are new and additional and cannot be readily identified, assessed or mitigated. These projects require a formal and participatory ESIA process. ESP Annex B presents an indicative list of Category A projects.[64]

Category A subprojects are typically, although not always, large-scale greenfield developments – projects built on previously undeveloped land that has not been used for construction or urban development. These projects often involve more significant or complex E&S risks and impacts and therefore generally require a higher level of effort, including:

- A full ESIA in line with national regulatory requirements and international good practice.
- A greater need for technical E&S expertise (often from external consultants) to confirm the Category A designation, assess key risks and develop appropriate mitigation measures and management plans.
- Longer lead times before investment approval to enable such work and associated stakeholder consultation and disclosure.
- Close and regular post-investment monitoring and engagement (sometimes including continued use of external E&S consultants).

64 See EBRD (2024a), pp. 28-29.

Despite the extra complexity, Category A projects that are undertaken with appropriate care can have a significant development impact, benefits and a legitimate place in the portfolios of PFIs that are well equipped to provide this type of financing (see Section 5.4).

5.3. Requirements specific to Category A subprojects

In the relatively rare cases where the proceeds of EBRD financing may be used to support Category A subprojects, ESR 9, paragraph 14, requires the following:

- The requirements for an ESIA apply, in accordance with ESR 1.
- Such subprojects must meet the requirements of ESRs 1-8 and 10.
- Such subprojects must be referred to the EBRD.

In addition, ESR 9, paragraph 16, requires that PFIs must list on their website the link to any publicly available ESIA reports for Category A subprojects that they finance.[65]

The guidance below explains these requirements in more detail. The EBRD will generally not approve an investment in a PFI if its funds could be used for Category A subprojects, unless the PFI has a mature and advanced ESMS that meets the required standards. Section 5.4 offers more guidance on this.

Roles and responsibilities

The **sub-borrower/investee company** (as the project developer) is primarily responsible for meeting the ESRs. This includes commissioning the appropriate ESIA under ESR 1 and incorporating E&S mitigation measures and management plans into the project's design, construction, operation, maintenance and, if applicable, decommissioning.

The project developer is also responsible for engaging with stakeholders, disclosing relevant information throughout the project and maintaining a grievance mechanism for project-affected people to raise concerns or complaints.

The sub-borrower/investee must provide the PFI with E&S progress reports as agreed, including notification of any significant accidents, incidents or other adverse E&S events.

The **PFI** is responsible for ensuring the project developer meets its E&S obligations by:

- Applying clear E&S categorisation procedures to identify Category A subprojects.
- Conducting appropriate E&S due diligence before approving investments, including referring projects to the EBRD when required.
- Including suitable E&S terms and conditions in loan agreements, including disbursement conditions if needed.
- Carrying out or commissioning E&S monitoring, especially during construction and commissioning.

The PFI must also maintain its own grievance mechanism to give project-affected people a secondary way to raise concerns, particularly about the PFI's role.

65 This applies only to Category A subprojects financed from the proceeds of EBRD investments.

Where the loan agreement with the PFI stipulates that Category A subprojects must be referred to the EBRD before the PFI's investment approval, the EBRD is responsible for providing the PFI with a timely opinion on the E&S aspects of the proposed investment, including technical advice on any additional studies, mitigation measures or other actions that the PFI should consider. The EBRD is not responsible for conducting its own E&S due diligence on the subproject or authorising E&S clearance on the PFI's behalf.

E&S standards applicable to the subproject

The PFI must assess the subproject against ESRs 1-8 and 10 (using the services of an E&S consultant if appropriate) and use reasonable best efforts (including incorporating E&S terms and conditions in the loan agreement) to cause the sub-borrower/investee company to design, construct, operate and maintain the subproject in a way that is structurally compliant with the ESRs and national E&S regulations.

ESIA, stakeholder engagement and disclosure by the sub-borrower/investee company

Sub-borrowers/investee companies must carry out a formalised, participatory disclosure and consultation process that is built into each stage of the ESIA process, considering the stage of project development. This must commence with a scoping process with identified stakeholders at an early stage of the ESIA process to ensure the identification of key risks and impacts to be assessed as part of the ESIA.

To meet these requirements, the PFI should use best efforts to ensure that the sub-borrower/investee company makes an ESIA available for public inspection and feedback in a manner that is compliant with the relevant national requirements. The EBRD encourages PFIs to follow good practice by checking that the ESIA documentation is disclosed for at least 30 days before the PFI's investment decision.

Referral to the EBRD before the PFI's investment approval

The EBRD recommends that PFIs treat the referral requirement as an opportunity for consultation and knowledge exchange to guide the PFI's E&S due diligence process from an early stage, rather than as an administrative technicality at the end of the loan preparation process. PFIs are strongly encouraged to refer potential Category A subprojects to the EBRD as early as possible, ideally at least 90 days before the date of the PFI's final investment decision meeting.

The referral process includes sharing draft and final ESIA reports, consultation reports and similar documents with the EBRD for review and comment. Confidentiality requirements should therefore be discussed with the EBRD at the outset.

PFIs are discouraged from making last-minute referrals shortly before the investment decision meeting without prior notification or discussion. The EBRD typically requires at least 10 working days to consider such matters appropriately.

Responsibility within the EBRD for handling Category A subproject referrals rests with its Environment and Sustainability Department. Where the EBRD has a nominated representative on the board of directors of a PFI (or on governance structures such as limited partner advisory committees in the case of private equity funds), that person may be able to facilitate direct contact with the Environment and Sustainability Department but will not be able to provide the EBRD's formal opinion on the matter.

Subproject disclosures by the PFI

To fulfil the intent of ESR 9, paragraph 16, PFIs are encouraged to publish the following information on their websites within six months of the approval and signing of any new Category A subproject:

- the name and location of the subproject and its designation as Category A
- the month and year of signing
- a link to the publicly available ESIA report(s) disclosed by the sub-borrower/investee company.

5.4. 'Advanced' ESMS requirements

When deciding whether a PFI's ESMS is mature and robust enough for financing Category A subprojects, the EBRD will consider several indicative factors, including but not limited to:

Governance and resources:

- Board oversight: does the board of directors have defined responsibilities for setting and overseeing the PFI's E&S risk management policies (for example, evidence of a sub-committee with appropriate terms of reference)?
- Risk frameworks: are E&S risks, including climate and/or nature risks, incorporated into relevant risk appetite frameworks?
- Capacity in origination: is there sufficient E&S capacity within corporate lending/project finance origination teams (for example, evidence of training for investment officers and industry specialists)?
- In-house expertise: does the PFI have at least 2-3 staff members qualified to provide in-house E&S expertise and with the authority to pause or escalate projects due to E&S risks?
- Consulting support: does the PFI have proven access to quality consulting firms for E&S transaction support, including (as and where appropriate) undertaking ESIA gap analysis, reviewing and monitoring E&S management plans and/or acting as lenders' E&S advisers during construction and commissioning, and conducting site visits?

Policies, procedures and track record:

- Formal policies: does the PFI have well-established E&S risk management policies and procedures (including for the correct identification of Category A projects) and has it committed to apply the EBRD ESRs (or acceptable equivalents) to Category A subprojects?
- Track record: does the PFI have a proven record of successful Category A subprojects in relevant sectors (with legally binding ESAPs between the PFI and the project developer – inclusive of the main ESIA recommendations – and ESIAs developed to international standards and inclusive of appropriate meaningful stakeholder consultation and disclosure) where the PFI has been the sole lender or a key lender (preferably including examples from the EBRD or other international financial institution credit lines)?
- Grievance mechanism: does the PFI have a dedicated grievance mechanism (not just a general contact number/email) aligned with the good practice advice set out in the EBRD briefing note on stakeholder engagement?[66]

66 See EBRD (n.d.c.).

Transparency and accountability:

- Public disclosure: does the PFI publish on its website information about (or an adequate summary of) its E&S risk policies and procedures, and about its grievance mechanism?
- ESIA disclosure: how will the PFI use best efforts to cause developers of Category A subprojects to disclose the relevant ESIA information aligned with national requirements, and will this align with the EBRD's view on good practice (disclosure for at least 30 days before the PFI's investment decision).
- Annual reporting: does the PFI publish annual reports (for example, sustainability reports) that include updates on its E&S policies, grievance mechanisms and basic key performance indicators (for example, number of Category A projects approved, complaints received) and that are ideally subject to limited third-party assurance?
- Regulatory compliance: is there evidence of compliance with any applicable E&S risk management guidelines set by the relevant banking regulator?
- Is the PFI a signatory to the Equator Principles and does it comply with the Equator Principles' mandatory reporting requirements?[67] *Note: membership of the Equator Principles is not a prerequisite nor is it necessarily sufficient. An ESMS that is sufficiently well aligned with the Equator Principles may be satisfactory to the EBRD even if the PFI is not a formal member of the initiative.*

General:

- Complaint history: have all grievance mechanism complaints received in recent years (if any) been handled and resolved to the EBRD's satisfaction? For guidance on what this involves, please see the EBRD briefing note on stakeholder engagement.[68]
- OECD Guidelines: have any E&S-related complaints been lodged with National Contact Points for OECD Guidelines in recent years?
- Legal claims: are there any ongoing material E&S claims, lawsuits or actions against the PFI or have there been any final judgments against the PFI in recent years?
- Equator Principles status: has the PFI been delisted from the Equator Principles for reasons other than merger or acquisition?

5.5. Category A subprojects and green bonds

As noted in Section 1.3 of this guidance note, the EBRD's ESP now permits the Bank to invest in capital market instruments where the use of proceeds includes or may include Category A subprojects. In practical terms, this typically means investment by the EBRD in green, social, sustainability and sustainability-linked bonds – as defined by relevant market standards, including those published by the International Capital Markets Association (ICMA) – issued by financial institutions and corporates, either through private placements or through initial bond offerings on public markets.

Where the issuer is a financial institution, such investments must comply with ESR 9. The EBRD's investment in this asset class typically involves use-of-proceeds bonds issued by PFIs where Category A subprojects are explicitly excluded, and/or where the eligibility criteria are targeted at MSME subprojects that do not pose potential E&S risks and impacts with the scale or severity requiring Category A status. The EBRD now has the

67 See Equator Principles (2020).
68 See EBRD (n.d.c.).

flexibility to selectively consider investments in bond issuances where Category A subprojects may be possible or probable, subject to stringent E&S conditions.

The EBRD's due diligence process includes an assessment of whether Category A subprojects may be possible or probable, using information that includes (but is not necessarily limited to) the eligibility criteria set out in the issuer's sustainability framework, and information on the use of proceeds and any exclusions that is contained in the bond documentation and/or is made available by other means. If the bond documentation does not explicitly exclude Category A subprojects, since categorical guarantees one way or the other are rarely possible, the EBRD will adopt a non-prescriptive but evidence-based approach that permits/requires a degree of professional judgement when determining whether Category A subprojects are possible or probable. This will consider indicators such as a focus on SME lending (including caps on loan size), on mortgages in the case of covered bonds, or limited exposure to large-scale project finance. Where there is uncertainty due to information limitations, the precautionary principle is applied, assuming higher E&S risk. For projects where Category A subprojects are possible or probable, the EBRD evaluates: whether the PFI's ESMS is commensurate with this type of lending activity; the PFI's experience in managing similar high-risk projects; and the PFI's capacity to oversee future Category A subprojects effectively.

PFIs preparing to issue green bonds that they intend to be suitable for investment by the EBRD should therefore take account of the following guidance and consider how best to anticipate these requirements in their bond documentation (prospectus, sustainability framework and second party opinion) and other relevant information (for example, the PFI's E&S risk management policy) that can be made available for pre-investment due diligence:

- The EBRD will ideally require as much information as possible on the anticipated use of proceeds (including subproject pipeline, past green bond allocation reports) to determine whether Category A subprojects (including refinancing as well as new investments) are possible or probable.
- If Category A subprojects are possible or probable, the EBRD will expect to obtain a high degree of confidence that the PFI's ESMS is mature and advanced and that the PFI has a demonstrable track record of successfully onboarding and monitoring subprojects with similar E&S risk profiles (see Section 5.4 of this guidance note). If the PFI does not have prior experience with Category A subprojects, the EBRD will assess its capability to manage such projects in relevant sectors in the future.
- The EBRD will also need to establish before its investment decision that any Category A subprojects that will be allocated funding from the use of proceeds will be categorised correctly and meet (or will meet, in the case of future subprojects) ESRs 1-8 and 10, including the requirements for ESIA, stakeholder engagement and disclosure by the subproject developer. To the extent permitted by the ESP 2024, the EBRD will consider compliance with other internationally recognised E&S standards such as the International Finance Corporation's (IFC) Performance Standards[69] and the Equator Principles[70] (other acceptable alternatives may also be considered).
- The EBRD's pre-investment due diligence may also be aided significantly by a clear commitment from the PFI to provide relevant summary information on E&S risk management and the identity of Category A subprojects in the PFI's post-issuance allocation and impact reports. PFIs are encouraged to have particular regard to the annex on "Potential environmental and/or social risks associated with eligible project categories" in the June 2024 edition of ICMA's *Handbook: Harmonised Framework for Impact*

69 See IFC (2012).
70 See Equator Principles (2020).

Reporting.[71] In assessing the likely extent of the EBRD's post-investment access to the information needed for E&S monitoring purposes, the EBRD will also consider other available informational channels.

- The requirement to refer Category A subprojects to the EBRD does not apply when the EBRD invests in capital market instruments, provided that it has been notified before investment that Category A subprojects are possible or probable and that EBRD due diligence confirms the PFI can manage Category A subprojects.

The guidance in this section may be updated in due course to address issues relevant to the recently launched EU green bond standard.[72]

71 See ICMA (2024), p.77.

72 See European Commission (n.d.).

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6. Context-specific guidance

6. Context-specific guidance

6.1. Banks

Further guidance on applying ESR 9 and this guidance note to SME lending is provided in the relevant briefing notes, as indicated in Section 1.7.

Banks are also encouraged to refer to the relevant elements and resources of the Principles for Responsible Banking[73] and the Equator Principles[74] as additional good practice for their compliance with ESR 9.

Transactions with PFIs under the EBRD's Trade Facilitation Programme[75] must comply with the EBRD E&S Exclusion List.[76] For goods and services that are typically linked to higher E&S risks – including supply chain risks in sectors such as solar photovoltaic equipment, garments and apparel, and soft commodities such as palm oil and soy – additional due diligence checks may be required before EBRD approval. PFIs are expected to carry out their own E&S due diligence in addition to the EBRD's appraisal. Further guidance is provided in the EBRD's briefing note on trade facilitation.[77]

6.2. Microfinance institutions

Microfinance institutions may not need a complex and sophisticated ESMS. The core elements required by the EBRD are:

- Core lending procedures should include a step for screening the relevant sub-borrower/subproject against the EBRD E&S Exclusion List and to verify that any microenterprises that require an E&S-related operating or land use permit under national legislation have obtained such consents or are in the process of doing so.
- There should be at least one member of staff with the competence and authority to oversee the ESMS and deal with any questions or challenges that arise in its implementation.
- E&S-related reporting to the EBRD should follow the streamlined format provided by the EBRD.

Microfinance institutions are also expected to align their policies and practices with the Client Protection Principles[78] in line with international good practice, including (but not limited to) a satisfactory grievance procedure for customers.

73 See United Nations Environment Programme (n.d.).
74 See Equator Principles (2020).
75 See EBRD (n.d.i.).
76 See EBRD (2024a), pp. 26-27.
77 See EBRD (2024q).
78 See Cerise (n.d.).

6.3. Leasing companies

The key E&S risks and issues that leasing companies are expected to manage in accordance with ESR 9 relate to:

- the physical asset itself
- the E&S implications of the function for which that asset is employed
- the lessee's ability to use and maintain the asset safely and responsibly.

Detailed guidance specific to the leasing industry is provided in the EBRD briefing note on E&S risk management guidance for leasing companies.[79]

6.4. Funds

Collective investment vehicles such as private equity funds, venture capital funds, private debt funds and infrastructure funds may find that compliance with ESR 9 and this guidance note can be assisted by aligning their policies and practices with the Principles for Responsible Investment (PRI)[80] and/or other international good frameworks recommended in the relevant briefing note.[81]

Funds that finance PFIs are expected to adopt E&S policies and procedures that mirror the EBRD's own requirements as set out in ESR 9 and this guidance note.

Many of the funds in which the EBRD invests are regulated in the EU under the Alternative Investment Fund Managers Directive or the Directive on Undertakings for Collective Investment in Transferable Securities, so may be subject to ESG-related regulations under the EU's sustainable finance framework, including the EU Taxonomy, the EU Sustainable Finance Disclosure Regulation (SFDR) and the EU Corporate Sustainability Reporting Directive. The EBRD wishes to maximise the opportunities that SFDR and the EU Taxonomy present for efficient interoperability with the EBRD's own E&S requirements, particularly in relation to the equivalency of E&S-related reporting. Further guidance on this aspect is provided in the relevant briefing note.[82]

6.5. Cross-cutting issues

Sexual exploitation, abuse and harassment (SEAH)

All PFIs are expected to include SEAH risks in their E&S risk assessment and management of subprojects financed from the proceeds of EBRD investment. Further guidance on this topic is provided in the EBRD SEAH briefing note.[83]

E&S risks in subproject supply chains

All PFIs are expected to include supply chain E&S risks in their E&S risk assessment and their management of subprojects financed from the proceeds of EBRD investment. This is especially relevant to:

79 See EBRD (2024m).
80 See PRI Association (n.d.).
81 See EBRD (2024p).
82 Ibid.
83 See EBRD (2025f).

- commercial, industrial and utility-scale renewable energy projects (particularly wind and solar)
- energy storage systems
- corporate lending for the production or processing of or trade in soft commodities such as cocoa, cotton, palm oil and soy, which can involve excessive risks related to modern slavery and/or biodiversity destruction.

Further guidance is provided in the EBRD’s supply chain briefing notes for PFIs, listed in Section 1.7 of this guidance note.

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Annex

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Acronyms and abbreviations

AESR	annual environmental and social report
CSRD	Corporate Sustainability Reporting Directive
DFI	development finance institution
E&S	environmental and social
EBRD	European Bank for Reconstruction and Development
ESAP	environmental and social action plan
ESDD	environmental and social due diligence
ESG	environmental, social and governance
ESIA	environmental and social impact assessment
ESMS	environmental and social management system
ESP	Environmental and Social Policy
ESR	Environmental and Social Requirement
ESRSs	European Sustainability Reporting Standards
EU	European Union
FI	financial intermediary
GET	Green Economy Transition
ICMA	International Capital Markets Association
MREL	minimum requirement for own funds and eligible liabilities
MSME	micro, small and medium-sized enterprise
NBFI	non-bank financial institution
PFI	partner financial institutions
SEAH	sexual exploitation, abuse and harassment

Definitions

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 environmental and social impacts, which are new and additional and cannot readily be identified, assessed or mitigated. Projects categorised as A require a formalised and participatory ESIA process. An indicative list of Category A projects is presented in Annex B of the EBRD ESP.
EIA/ESIA	Environmental impact assessment − a formalised assessment of environmental risks and impacts for a specific project or activity; it may be regulated by national legislation. When the assessment also includes social risks it is called an environmental and social impact assessment (ESIA).
ESAP	Environmental and social action plan – a series of technically and financially feasible measures to achieve compliance of facilities or activities with E&S issues in a given timeframe. In the ESAP, parties agree on 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 following predetermined E&S standards, such as the EBRD ESRs.
ESDD	Environmental and social due diligence to examine and appraise E&S risks.
ESRs	Environmental and Social Requirements contained in the 2024 ESP. Partner financial institutions are required to comply with ESRs 2, 4 and 9. If investing in Category A projects, included as Annex B to the ESP, such subprojects will be required to meet ESRs 1-8 and 10 and be referred to the EBRD.
Financial intermediary/ partner financial intermediary	An institution such as a bank, private equity fund, insurance company or other financial services provider with which the EBRD engages through bank loans, SME lending programmes, equity investments and support for other financial services (such as insurance and leasing) to develop the financial sector and capital markets and foster entrepreneurship.
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 is that the project employs the most appropriate techniques and standards in the project-specific circumstances.
Greenfield project	A project or investment that is started from scratch (for example, the creation of a new industrial facility or infrastructure) and is not constrained by prior work.
Project	The set of works, goods, services and/or business activities and/or investment set out in a financing agreement and for which a PFI seeks the EBRD's financing, as approved by the Board of Directors or, if the Board of Directors has delegated the approval authority, by management.
Site visit	A visit to a project site to assess its potential environmental impact. It should also investigate how the business manages and interacts with its employees to determine its management of social issues (for example, health and safety, human rights, engagement with local communities). This can be at any stage in the project lifecycle.

Social issues	All matters that pertain to project stakeholders, including project-affected people and their communities and workers, including but not limited to social, economic, labour and cultural rights, labour and working conditions, public and occupational health and safety, access to land, resources and ecosystem services, Indigenous Peoples, cultural heritage, and participation in decision-making and cross-cutting issues related to gender, climate change and the discrimination, marginalisation or vulnerability that project stakeholders may experience.
Stakeholder(s)	A stakeholder is any person, group or organisation that has a direct or indirect interest in a business because they can affect, or be affected by, the organisation's actions, objectives, policies and procedures. Stakeholders can include investors, shareholders, customers, directors, employees, government authorities (local or national), the academic community, non-governmental organisations, suppliers, unions and the local community from which the business draws its resources.
Sub-borrower	Refers to the entity to which the funds are being channelled by a PFI, which will include investee companies in the case of equity financing.
Subproject	Refers to investments or activities that may be eligible for financing by PFIs using funds provided by the EBRD under an FI project.

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