



Environmental and Social Requirement 9

Financial intermediaries



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Introduction

1. This Environmental and Social Requirement (ESR) recognises intermediated financing¹⁰⁶ channelled through a wide range of eligible financial intermediaries (FIs) as a key instrument for promoting sustainable development, sustainable financial markets and the transition to green, low-carbon economies. FIs include banks, collective investment vehicles, including funds, microfinance and non-bank financial institutions (NBFIs).¹⁰⁷
2. The nature of intermediated financing means that FIs will assume delegated responsibility for environmental and social risk management and monitoring, as well as overall portfolio management in relation to such risks. The EBRD will evaluate and monitor the effectiveness of the FI's environmental and social risk management periodically throughout the project lifecycle.

Objectives

3. The objectives of this ESR are to:
 - set out how FIs will assess, manage, monitor and report environmental and social risks and impacts associated with the sub-projects they finance
 - promote sustainable environmental and social management practices in on-lending, investment practices and the sub-projects financed by FIs
 - promote good environmental and sound human resources, gender equality and health, safety and security management within FIs.

Scope of application

4. For the purposes of this ESR, the term “sub-project” refers to investments or activities that may be eligible for financing by FIs using funds provided by the EBRD under an FI project. The term “sub-borrower” refers to the entity to which the funds are being channelled by an FI, which will include investee companies in the case of equity financing.
5. The requirements of this ESR will be applicable to all sub-projects and sub-borrowers that receive EBRD financing.
6. If the EBRD becomes a direct equity investor in an FI, the requirements of this ESR will apply to all future sub-projects of the FI from the time of the EBRD's investment.
7. The FI will apply risk management procedures commensurate with the environmental and social risks associated with the sub-projects.
8. The EBRD may require FIs to adopt and implement specific environmental and social requirements, depending on the nature of the FI, its business activities, and the level of environmental and social risks and impacts associated with its portfolio and sub-projects, including contextual risks and sector exposure, as applicable. Such requirements will be included in specific environmental and social guidance and procedures,¹⁰⁸ which will be agreed by the EBRD and the FI at the time of the EBRD's investment.

¹⁰⁶ Providing debt and equity financing to partner FIs that on-lend to sub-borrowers or invest in investee companies.

¹⁰⁷ NBFIs include companies providing services associated with microfinance, leasing, factoring, insurance, asset management and stock exchanges.

¹⁰⁸ These include guidance and procedures for specific sectors, asset classes or instruments fully or partially dedicated to promoting environmental and social sustainability objectives.

Requirements

Organisational capacity within the FI

9. The FI will maintain human resources (HR) policies, management systems and practices in accordance with ESR 2 on labour and working conditions and will comply with the relevant occupational health, safety and security requirements of ESR 4. These will be communicated and made available in writing to FI employees.
10. The FI will give one or more representatives of its senior management team overall responsibility for implementing this ESR, ESR 2 and ESR 4, requiring them to oversee environmental and social matters, as well as climate change mitigation and adaptation and gender equality. The responsible senior management representative(s) will need to (i) designate qualified and trained members of staff to be responsible for day-to-day implementation of the environmental and social requirements and provide implementation support; (ii) identify environmental and social training needs and required budget; and (iii) ensure that adequate technical expertise, either in house or external, is available to carry out assessments and manage sub-projects, especially those with potentially significant adverse environmental or social risks and impacts.
11. The FI will establish a clearly defined environmental and social management system (ESMS), including an environmental and social policy and environmental and social risk management procedures commensurate with its size and activities. The procedures will consider the level of environmental and social risk associated with sub-projects and investments, including size, type, socioeconomic context, location and sector sensitivity to such risks.
12. Where the FI can demonstrate that it already has an ESMS in place, it will provide adequate documented evidence of the ESMS and its use within the FI. Where necessary to establish or improve the ESMS, the FI will agree an action plan with the EBRD.
13. The ESMS will include risk management and monitoring mechanisms, as appropriate, to:
 - screen all sub-projects against the EBRD's Environmental and Social Exclusion List, included as Annex A to the Environmental and Social Policy
 - categorise the environmental and social risk of proposed sub-projects (low/medium/high, Category A) in accordance with the EBRD's environmental and social risk categorisation for FIs
 - ensure, through its risk assessment, that sub-projects mitigate adverse environmental and social impacts and risks, meet national regulatory requirements relating to environmental and social matters, including, where necessary, those related to public consultation and disclosure and also, where necessary, develop and implement corrective action plans with sub-borrowers
 - keep and regularly update environmental and social records and relevant disclosures on sub-projects, as required under paragraph 17 of this ESR
 - monitor sub-projects to ensure compliance with national laws on environment, climate, social, gender, health, safety and security.
14. Where an FI is financing sub-projects that meet the criteria in the list of Category A projects, included as Annex B to the EBRD Environmental and Social Policy, such sub-projects will be required to meet ESRs 1 to 8 and 10 and be referred to the EBRD. For sub-projects categorised as Category A, the requirements for an environmental and social impact assessment (ESIA) as per ESR1 apply, including if relevant an assessment of associated facilities, cumulative impacts, and alternatives.

Stakeholder engagement

15. The FI's ESMS will include a procedure for dealing with external communications on environmental and social matters, including a grievance mechanism. The FI will respond to such enquiries, concerns and grievances in a structured and timely manner.

Disclosure and reporting to the public

16. To enhance the transparency of non-financial sustainability-related information, FIs will meet national regulatory requirements for public disclosure and reporting and implement disclosure and reporting frameworks as appropriate. At a minimum, FIs are required to publicly disclose information on their corporate ESMS in accordance with paragraphs 11-14. FIs will list on their website the link to any publicly-available ESIA reports for Category A sub-projects that they finance.

Monitoring by the EBRD

17. The EBRD will monitor the environmental and social performance of FIs and their sub-projects financed by the Bank by undertaking site visits and/or through annual reporting mechanisms.

Reporting to the EBRD

18. The EBRD will require FIs to submit annual environmental and social reports on the implementation of ESR 2, ESR 4, as well as this ESR in a form acceptable to the Bank, including risk management procedures, sectoral exposure, and internal capacity and resources to manage the environmental and social risks and impacts of the portfolio of sub-projects financed by the EBRD.