



European Bank
for Reconstruction and Development

Environmental and social risk management briefing note – risk monitoring and review

Environmental and social risk management toolkit for financial intermediaries

June 2026

Introduction

The environmental and social (E&S) monitoring process forms part of the risk management component of the environmental and social management system (ESMS), as depicted in Figure 1.

Figure 1. Risk monitoring and review stage in sub-projects



This guidance note explains E&S monitoring requirements for sub-projects and provides recommendations for appropriately demonstrating compliance with Environmental and Social Requirement 9 (ESR 9)¹ of the EBRDs 2024 Environmental and Social Policy. It is to be used in conjunction with other supporting EBRD briefing notes designed to help financial intermediaries (FIs) manage specific E&S risks during the investment cycle. Financial intermediaries (FIs) should ensure that their E&S monitoring of sub-projects financed by the EBRD provides the information the FI will need to report to the EBRD (see ESR 9 guidance note² and the briefing note on reporting to the EBRD³). This E&S monitoring will normally rely at least in part on self-reporting by the sub-borrower, so also needs to be reflected in the loan agreement between the FI and the sub-borrower (see the Mitigation briefing note in this series: E&S clauses for use in loan agreements⁴).

At a glance: what the FI needs to do

- **Monitor every EBRD-supported sub-project** against applicable requirements and any agreed ESAP.
- **Apply a risk-based approach:** increase the frequency and depth of monitoring as E&S risk increases.
- **Record the evidence:** retain reports, review notes, conclusions, decisions and follow-up actions.
- **Act on material issues:** agree corrective action, use specialist support where needed and escalate persistent non-compliance.

- **Keep reporting needs in view:** collect the information required for reporting to the EBRD and other relevant stakeholders.

Monitoring of E&S risks

E&S monitoring focuses on the sub-project's performance against national laws and regulatory requirements, the applicable E&S standards and, if relevant, progress on implementing any corrective actions agreed and documented in an environmental and social action plan (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). Consequently, E&S monitoring focuses on the adequacy of the E&S risk management measures that the sub-project has in place and includes indicators that could reveal poor E&S performance. Examples include the number and severity of external grievances, accidents, increases in harmful emissions, labour unrest events and other issues. E&S monitoring should also include the identification of new E&S risks or changes in the severity of known E&S risks that may occur because of the sub-project's evolving operations.

What information should the FI collect?

To meet its reporting commitments to the EBRD, the FI should monitor each sub-project financed with EBRD support and collect, at a minimum:

1 See EBRD (2024), pp. 95-98.

2 See EBRD (2025).

3 See EBRD (2026a).

4 See EBRD (2026b).

- a review of the sub-project's E&S category, with any change and its justification recorded
- confirmation that the sub-project continues to comply with national E&S standards and the EBRD Exclusion List⁵ (for low- and medium-risk sub-projects, a representation from the sub-borrower will normally be sufficient)
- details of any material E&S issues associated with sub-borrowers during the reporting period, in particular:
 - accidents, litigation or complaints linked to E&S matters
 - incidents of non-compliance with applicable E&S standards, such as fines, penalties or excess fees
 - incidents of significant non-compliance with E&S covenants by sub-borrowers or conditions imposed by the FI via the loan agreement
- for high-risk or Category A sub-projects, and for sub-projects with an agreed ESAP, sufficiently detailed information to demonstrate satisfactory E&S performance
- other information or impact key performance indicators (KPIs) agreed between the EBRD and the FI under specific frameworks such as the Green Economy Financing Facility or Women in Business programme.

Which monitoring method should the FI use?

The FI should tailor the scope and frequency of monitoring to the investment's E&S risk: the higher the risk, the more frequent and comprehensive the monitoring. Depending on the risk, the FI may use one or more of the following methods:

Quick decision guide: indicative risk-based monitoring

Indicative approach — tailor it to the sub-project, applicable requirements and the financing agreement				
Risk level	Minimum approach	Frequency	Site visit/ specialist support	Evidence expected
Low	Confirmation; incident and public-source checks.	Annual, or as agreed.	Only if concerns arise.	Category, compliance, issues and actions.
Medium	Self-reporting, public-source check and follow-up.	Annual; more often if risk changes.	Consider where there is complexity, concerns or an ESAP.	Compliance, incidents, ESAP progress and actions.
High	Detailed reporting, follow-up and ESAP review.	Risk-based; more often than medium risk.	Site visit normally; specialist support as needed.	Performance, ESAP gaps and time-bound actions.
Category A	Monitoring against requirements and ESAP.	Case-specific; frequent enough for significant risk.	External specialist and site visits normally required.	Performance, ESAP, incidents, stakeholders and actions.

- **Self-reporting by the sub-borrower** (usually on an annual basis), in line with the requirements of the loan agreement. This may be relatively simple for low- and medium-risk sub-projects (for example, written affirmation that E&S compliance representations made by the sub-borrower at loan approval stage continue to be valid), but more granular templates should be used for higher-E&S-risk sub-projects, especially sub-projects with ESAPs and/or Category A.
- **Public source reviews** (such as Google searches), media monitoring or use of proprietary information services (such as WorldCheck and RepRisk) to identify any E&S-related controversies, incidents or other material information that may need to be followed up.
- **Online or telephone review meetings** to assess compliance and identify changes that could affect future E&S risk management, such as changes in budget, E&S capacity, operations, products or services.
- **Site visits and management interviews conducted by the FI:** For more complex medium-risk sub-projects, those that lean towards the high-risk category or have an ESAP that is relatively straightforward in scope, the

⁵ See EBRD (2024), pp.26-27.

FI may choose to conduct an E&S monitoring visit to the sub-project to verify compliance with applicable E&S standards and to identify potential new E&S risks or changes in severity of known E&S risks. The FI should have sufficient internal expertise to carry out an E&S monitoring site visit and, if not, needs to hire an external consultant. Similar to visits conducted during the E&S appraisal stage (such as for E&S due diligence), the visit can also help strengthen the relationship between the FI and the sub-borrower, for example, if the FI representatives share some good E&S practices with the sub-project.

- **Site visits and other E&S monitoring support conducted by external consultants** may be appropriate for sub-projects with more complex ESAPs and/or those that have been screened as high E&S risk, and will normally be a strict requirement for any Category A sub-projects.

What should the FI check during a site visit?

- A monitoring site visit by the FI, or by an E&S consultant on its behalf, should cover:
 - E&S risks that are relevant to the sector, in line with sector-specific briefing notes and those that were identified during the E&S risk assessment of the sub-project
 - the closure of gaps identified through the ESAP
 - any changes in the company or site that could result in new E&S risks or a change in severity of existing E&S risks
 - a review of grievance registers, incident registers or any fines or prosecutions to understand the root causes of issues
 - engagement with key stakeholders, as relevant, including employees, sub-contractors, nearby communities, regulatory agencies and so on to understand any underlying issues or concerns
 - a brief closing meeting with the sub-borrower to discuss good practices observed, outstanding gaps and agreed follow-up actions.

Figure 2 provides summary guidance on the combination of E&S monitoring methods recommended/expected by the EBRD.

Figure 2. Combination of E&S monitoring methods recommended/expected by the EBRD

Low risk	Medium risk	High risk
Frequency: Annual Audit team: Internal Approach: • E&S monitoring (for example, through E&S monitoring tool) • Annual E&S compliance (online) meeting with sub-project (optional)	Frequency: Annual or biannual for more complex medium risk transactions Audit team: Internal or external Approach: • E&S monitoring (for example, through E&S monitoring tool) • Periodic E&S compliance (online) meeting with sub-project • Monitoring site visit (optional)	Frequency: Annual, biannual or quarterly Audit team: External Approach: • E&S monitoring (for example, through E&S monitoring tool) • Periodic E&S compliance (online) meetings with sub-project • Monitoring site visit • Engaging external specialists for E&S compliance monitoring

What records should the FI retain?

In all cases, E&S monitoring (together with any supporting documents, such as reports and site visit notes, as well as the FI's conclusions and decisions on any required follow-up action) should be recorded systematically in the credit file and/or management information systems.

Practical monitoring checklist

- Review the sub-project's E&S category and record the reason for any change.
- Obtain confirmation of continued compliance with national E&S standards and the EBRD Exclusion List⁶.
- Check material incidents, accidents, grievances, complaints, litigation, fines and regulatory action.
- Review ESAP progress and evidence that agreed actions have been completed.
- Complete appropriate public-source screening and follow up material findings.
- Identify new risks, changes in known risks and any deterioration in performance.
- Agree follow-up actions, owners and deadlines with the sub-borrower.
- Record the review, evidence, conclusions and decisions in the credit file or management information system.
- Escalate and report material issues in line with internal procedures and applicable EBRD requirements.

What should the FI do when a material issue arises?

If an unplanned event occurs, circumstances change in a way that could affect the sub-borrower's ability or willingness to implement the ESAP or other legally binding corrective actions, or the sub-borrower fails to

manage material E&S risks effectively, the FI should consider the following proportionate actions:

- **Engage with the sub-borrower** to identify the root causes, agree measures to prevent recurrence and define a clear way forward. Where necessary, update the ESAP to include corrective actions.
- **Engage an external consultant** to undertake a root-cause analysis, assess the sub-borrower's capacity to resolve the issue and recommend mitigation measures. Add agreed measures to the updated ESAP.
- **Exercise contractual remedies** as a last resort where engagement has not restored consistent E&S compliance, in accordance with the investment documentation.

How should the FI monitor the portfolio?

FIs are encouraged to develop and implement a portfolio-level E&S monitoring tool that enables them to review and analyse key E&S information of sub-projects across their portfolios based on a central information repository. Portfolio-level E&S monitoring provides two important advantages:

- **Increased oversight of E&S risks** – portfolio-level E&S monitoring provides an overview of E&S compliance across the portfolio. This provides information on where in the portfolio the FI is exposed to E&S risk, trends across the portfolio, and where the FI should focus its monitoring and engagement efforts to enable the more efficient and effective management of those risks.
- **Basis for internal and external reporting** – FIs have internal (for example, to senior management) and external (for example, to lenders, investors and/or the broader public) E&S reporting obligations. A portfolio-level overview of E&S compliance provides a basis for meeting those reporting requirements efficiently and effectively.

6 See EBRD (2024), pp.26-27.

References

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