



European Bank
for Reconstruction and Development

Environmental and social risk briefing note for bond investments

Environmental and social risk management
toolkit for financial intermediaries

June 2026

Introduction

The EBRD recognises the important role of international capital markets and makes strategic investments in several ways, including by participating in capital market transactions. This briefing note focuses on the EBRD's Environmental and Social Requirement 9 (ESR 9)¹ when investing in bonds issued by financial institutions (FIs), such as banks, and in bonds accessed indirectly through private debt funds.

Purpose of this note: this briefing note explains how ESR 9 applies when the EBRD invests in bonds issued by FIs, including general-purpose bonds, labelled bonds, bonds with Green Economy Transition (GET)-eligible sub-projects and indirect investments through private debt funds.

How to use this note: start with the "EBRD investments in bonds" section to identify the investment route. Then apply the requirements for all bonds issued by FIs, check any additional requirements for labelled bonds or GET-eligible sub-projects, and use the reporting and disclosure sections to confirm the information the EBRD will need.

Briefly	Main environmental and social focus
General-purpose bonds	Confirm that the issuing FI has an environmental and social management system (ESMS) proportionate to the expected E&S risk profile of the use of proceeds, and that proceeds are not allocated to excluded activities and not allocated to Category A activities where the issuing FI does not have an "advanced" ESMS as assessed by the EBRD. ²
Labelled bonds and bonds with GET-eligible sub-projects	Apply the core ESR 9 requirements, check additional eligibility exclusions, and confirm appropriate use-of-proceeds and impact reporting.
Private debt funds	Confirm that the fund's environmental and social (E&S) policies and procedures align with ESR 9 and are suitable for the underlying bond investment strategy.

EBRD investments in bonds

Key message: the applicable E&S approach depends on the bond type, the use of proceeds and the investment method.

The EBRD has four primary strategies by which it invests in bonds issued by FIs such as banks:

- 1) Direct investment in **general corporate purpose bonds** that are not labelled as green, social or sustainable under recognised frameworks such as the International Capital Market Association (ICMA) principles and where the FI's use of proceeds is unrestricted. In some cases, such bonds may be structured as sustainability-linked bonds under the relevant ICMA principles (the bond proceeds can be used for unrestricted purposes but the financial terms of the instrument change based on whether the issuer hits pre-defined environmental or social goal).
- 2) Direct investment in **general corporate purpose bonds** that are not labelled as green, social or sustainable but where the FI has agreed with the EBRD to allocate a defined sum to on-lending for activities eligible under the EBRD's Green Economy Transition (GET) framework
- 3) Direct investment in **labelled bonds** with highly targeted use of proceeds, such as green, social or sustainability bonds issued in accordance with the ICMA principles and/or similar frameworks such as the EU Green Bond Standard (EU GBS).
- 4) **Indirect investment** by participating in private debt funds whose investment strategies include some or all the bond types summarised above.

The scope and depth of E&S due diligence, mitigation and monitoring that is feasible and expected depends on a number of factors including the intended use of proceeds; the nature of the relationship with the issuer (for example, whether it is a new or existing client); the type of information that is available to bond investors; and the method of investment. The main investment methods typically consist of:

¹ See EBRD (2024a), pp. 95-98.

² See EBRD (2025), p. 32.

- private placements or club deals negotiated directly with the issuer and its advisers
- participation in the public issuance of new listed bonds on regulated markets (like an auction)
- purchasing existing bonds on the secondary market.³

While this briefing note focuses solely on bonds issued by financial institutions, it is worth noting that the EBRD (and the private debt funds in which it participates) may also invest in corporate bonds (bonds issued by real sector companies) and that similar principles apply in that asset class too.

Because of the wide range of circumstances that may apply, the EBRD will determine its precise requirements under ESR 9⁴ on a case-by-case basis. Some situations may require that the FI is able to demonstrate it has an advanced management system for E&S risk management (see the ESR 9 Guidance Note⁵).

The EBRD may also provide non-investment support to FIs in relation to labelled bonds, for example through technical cooperation (TC) funding to help engage consultants for preparatory work such as market assessments, portfolio and pipeline mapping, and labelled bond framework development. Such TA should take ESR 9 and this briefing note into account so that the eventual product offering is aligned with the EBRD's Environmental and Social Policy (ESP). Where the EBRD is involved in labelled bond development work through TA, explicit information barriers must be in place to ensure that material non-public information is appropriately compartmentalised and to prevent conflicts of interest or the dissemination of insider information.

E&S requirements for all types of bonds issued by FIs

The EBRD requires the issuing FI to have an ESMS commensurate with the E&S impacts and risks that may reasonably be expected from the bond's defined use of proceeds.

The scope of the ESMS must cover all lending products and activities that may be supported using proceeds, such as small and medium-sized enterprise lending, corporate lending or project finance.

Key message: for all FI bond investments, the EBRD needs sufficient comfort that the issuing FI's ESMS is proportionate to the E&S risks associated with the use of proceeds.

Relevant E&S risk management policies and procedures must include the following:

- Proceeds must be allocated only to projects that comply with national regulations and standards.
- Proceeds must not be allocated to projects listed on the EBRD's E&S exclusion list or to Category A projects where the FI issuing the bond does not have an advanced ESMS as assessed by the EBRD.
- Where the FI's E&S risk management policies and procedures do not explicitly include the full exclusion list, the EBRD will engage with the FI to confirm that excluded projects will not be allocated to the use of proceeds for labelled bonds or to the EBRD-financed share of general corporate purpose bonds.

Additional E&S requirements for labelled bonds and GET-eligible bonds

Key message: labelled bonds and the GET portion of bonds with GET-eligible sub-projects are subject to additional eligibility exclusions.

In addition to the requirements above, labelled bonds and the GET portion of bonds with GET-eligible sub-projects must not allocate proceeds to:

- activities listed on the GET exclusion list⁶
- Category A projects, unless prior approved by the EBRD.

3 A secondary market is where investors buy and sell bonds after they have already been issued. The money from these trades goes to the selling investor, not to the original issuer. Some bonds are traded on exchanges, but most are traded privately over the counter through broker-dealers.

4 See EBRD (2024a), pp. 95-98.

5 See EBRD (2025).

6 See EBRD (2024b), p. 17.

Additional guidance on labelled bonds

Reader note: the points in this section are good-practice expectations rather than standalone compliance requirements, unless they are reflected in the transaction documents or another binding agreement.

In addition to the minimum requirements summarised above, the EBRD encourages FIs to follow the following good-practice guidance on the E&S risk-management aspects of labelled bond issuance:

To the extent permissible by relevant securities regulations, issuers and their consultants or advisors are encouraged to engage with the EBRD as early as possible in the structuring process (ideally, before the framework is finalised) to ensure they have a good understanding of the EBRD's requirements in relation to ESR 9.

Issuers should regard the applicable ICMA principles and guidelines as a minimum requirement and aim to follow this voluntary and flexible guidance as fully as possible with the aim of being "best in class".

- The EBRD encourages issuers to also consider aligning their bonds' sustainability criteria and reporting with frameworks that complement the ICMA principles by providing additional levels of assurance and transparency, such as the EU GBS, the Climate Bonds Standard and/or sustainable finance taxonomies adopted by relevant markets.
- Similarly, issuing institutions should clearly indicate what E&S due diligence standards will apply to loans financed from the use of proceeds, with reference to recognised frameworks such as the EBRD's ESRs, International Finance Corporation Performance Standards and the Equator Principles, as well as the Green Loan Principles, Sustainability-Linked Loan Principles and/or Social Loan Principles adopted by the Loan Syndications and Trading Association (LSTA).
- Issuers should strive for best practice in their use of impact indicators for steering and reporting purposes, focusing on outcome-based key performance indicators (KPIs) rather than activity-

based KPIs, especially in the case of positive social impact indicators if the bond in question is intended to target such objectives. Any challenges to collecting suitable data should be set out by the issuer, along with any plans to try to improve the availability of this data, where appropriate.

- In the absence of clear regulatory or voluntary frameworks to benchmark the quality of second-party opinions (SPOs), issuers should consider ensuring that SPO providers continue to push forward the boundaries of best practice and compete on credibility. Examples of the best practices the EBRD looks for include evidence that the SPO provider has checked the issuer's tracking and monitoring systems and ensured that the issuer has robust E&S risk management policies and procedures in place.

Reporting

Annual environmental and social reporting (AESR)

Key message: reporting should enable the EBRD to monitor the issuing FI's ESMS and, where relevant, the allocation and impact of labelled or GET-eligible proceeds.

In all cases, the issuing FI must provide the EBRD with information on an annual basis on the FI's overall ESMS in compliance with ESR 9 (in addition to ESR 2 and ESR 4),⁷ including any changes or updates over the reporting period. In most cases, the issuing institution will be a client of the EBRD and such E&S reporting arrangements will already be in place at the institutional level. If the issuing financial institution is not already an EBRD client, so does not already provide an annual E&S report to the EBRD bilaterally, the EBRD will require a side letter agreeing to provide this report (if side letters are permissible). Alternatively, the EBRD must be satisfied that the relevant information is available in the FI's public disclosures, such as an annual sustainability report. See the *Reporting to the EBRD* briefing note in this series for more detail.⁸

In addition to the AESR, additional reporting is required for labelled bonds and bonds with GET-eligible sub-projects, as outlined in Table 1.

7 See EBRD (2024a), pp. 37-44 and pp. 51-59.

8 See EBRD (2026).

Table 1. Annual environmental and social reporting for GET-eligible bonds

Labelled bonds	Bonds with GET-eligible sub-projects
Uses-of-proceeds reporting The issuing FI will provide all investors with a clear description of all the project categories⁹ to which the labelled bond proceeds have been allocated and their expected impacts, at least once a year and as per ICMA and/or other internationally accepted guidance, starting 12 months after issuance until full allocation is achieved. The EBRD would encourage the issuing FI to provide ex-ante indicative allocation prior to issuance where feasible, noting the actual allocation could include new projects and could differ from the ex-ante indicative allocation. Where confidentiality agreements, competitive considerations, local regulatory environment or many underlying projects limit the amount of detail that can be made available, the information should be presented on an aggregated portfolio basis (for example, percentage allocated to certain project categories).	Uses-of-proceeds reporting The issuing FI will provide the EBRD with a clear description of all projects to which the green portion of the bond proceeds has been allocated and their expected impacts, at least once a year, until the allocation period defined in the policy statement is complete. The Bank would encourage the issuing FI to provide an ex-ante indicative allocation prior to issuance where feasible, noting the ex-post allocation could include new projects and could differ from the ex-ante indicative allocation. Where confidentiality agreements, competitive considerations, local regulatory environment or many underlying projects limit the amount of detail that can be made available, the information should be presented on an aggregated portfolio basis (for example, percentage allocated to certain project categories). Use-of-proceeds reporting should follow the reporting template provided to the issuing FI in the policy statement.
Impact reporting The issuing FI should provide the EBRD and other investors with an impact report on the mitigation, adaptation and environmental benefits of the green projects, with the underlying methodology used to estimate the impacts. Alternatively, it should provide sufficient information to estimate their relative positive environmental impact and absolute environmental impact. The impact report should be based on the <i>ICMA Handbook – Harmonized Framework for Impact Reporting</i>. It is typically not available ex-ante because final allocation would not be known by the issuer and is usually disclosed to investors 12 months after the time of issuance. Furthermore, clients should commit to providing sufficient information to estimate the positive environmental impact of the projects and promote a set of environmental KPIs. Clients will have to make the reports (both use-of-proceeds and impact reporting) publicly available to the extent that the local regulatory framework allows. The ex-post impact report should illustrate outcomes (for example, capacity, electricity generation, greenhouse gas (GHG) emission reductions, absolute GHG emissions and so on) achieved because of the green projects to which proceeds have been allocated.	Impact reporting The issuing FI should provide the EBRD with an impact report on the mitigation, adaptation and environmental benefits of the green projects, including the underlying methodology used to estimate the impacts. Alternatively, it should provide sufficient information for the EBRD to estimate their relative and absolute positive environmental impact. The impact report should follow the reporting template provided to the issuing FI in the policy statement. If an impact report is not available at the time of issuance, the EBRD will require a commitment from the client, via the policy statement, to provide this report. Furthermore, clients should commit to providing sufficient information to estimate the positive environmental impact of the projects and promote a set of environmental KPIs. The ex-post impact report should illustrate outcomes (for example, capacity, electricity generation, greenhouse gas (GHG) emission reductions, absolute GHG emissions and so on) achieved because of green projects to which proceeds have been allocated as per the reporting template provided to the issuing FI in the policy statement. Any divergences between ex-ante and ex-post assessments should be analysed in as much detail as possible.

Information disclosure to assist EBRD due diligence

Key message: the EBRD needs enough information to verify alignment with ESR 9, using public disclosures where possible and bilateral information where permitted.

Issuing FIs must provide the EBRD, and where relevant other investors, with sufficient information on their E&S

risk management system to enable the Bank to confirm alignment with ESR 9 and this briefing note. This may be achieved through publicly available information issued by the FI, such as annual reports or similar disclosures and issuance documentation, or, to the extent permissible under relevant securities regulations, through information shared bilaterally with the EBRD, for example in response to an E&S due diligence questionnaire. Where the EBRD identifies material gaps in the E&S risk management system, it

⁹ Noting that, for FI labelled-bond issuance, the market practice is to report on an aggregated portfolio basis, including, when possible, some case studies of certain projects as illustration.

will seek to engage with the FI on steps to address these, such as through a private placement where feasible, including agreement on a formal environmental and social action plan if appropriate.

Please refer to the ESR 9 Guidance note for further information on the EBRD's requirements for disclosure of information on Category A projects financed from the proceeds of green, social or sustainability bonds.

Indirect investment through private debt funds

Key message: where the EBRD invests indirectly through a private debt fund, the fund's own E&S procedures should support ESR 9-aligned management of the underlying bond investments.

As noted, the EBRD may also be an indirect investor in financial-sector bonds through participation in

specialist investment funds, especially private debt funds. Depending on their specific investment strategy and eligibility criteria, such funds may invest in some or all the bond types discussed in this briefing note, including labelled bonds, and by methods including private placements, initial bond offerings and secondary market transactions.

In all cases, the EBRD requires such funds to implement E&S policies and procedures that align with ESR 9 and are designed to ensure that the underlying investments made by the fund are managed in accordance with the same requirements the EBRD applies when investing in bonds directly. Additional or more detailed requirements will be determined by the EBRD on a fund-by-fund basis, depending on the specific circumstances.

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June 2026

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