European Bank
for Reconstruction and Development

Environmental and social management system briefing note – categorisation

Environmental and social risk management toolkit for financial intermediaries

June 2026

Introduction

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

Figure 1. Risk categorisation stage of sub-projects



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

- **High risk:** a sub-project is categorised as high risk when it is associated with significant adverse E&S risks and impacts that may be irreversible in nature, difficult to mitigate or that can only be partially mitigated at significant cost. External technical expert assistance may be required to support the assessment and management of such high-risk sub-projects.
- **Medium risk:** a sub-project is categorised as medium risk when it is associated with potential adverse E&S risks and impacts that are typically site specific, readily identifiable and capable of being addressed through mitigation measures.
- **Low risk:** a sub-project is categorised as low risk when it is likely to have limited adverse environmental and/or social risks and impacts that can readily be identified and mitigated.

Note:

In addition to assigning a low-, medium- or high-risk category under its own E&S risk-management framework, the FI should determine whether a proposed sub-project meets the EBRD definition and criteria for a Category A project set out in Annex B to the EBRD Environmental and Social Policy (ESP).[1]

Sub-projects that meet the Category A definition and criteria are required to comply with Environmental and Social Requirements (ESRs) 1-8 and ESR 10 of the EBRD ESP and must be referred to the EBRD in accordance with ESR 9 before the FI takes its final credit or investment decision.[2]

Box 1: E&S risk category examples

High risk: sub-projects in sectors such as heavy manufacturing – including chemicals, power generation and transmission, large-scale agriculture and major infrastructure – are generally associated with high inherent E&S risks. Depending on the nature, scale and location of the sub-project, potential E&S risks and impacts may include:

- significant environmental emissions and pollution concerns, including greenhouse gas emissions and climate change considerations
- impacts on biodiversity and ecosystem services
- issues surrounding labour and working conditions
- occupational and community health and safety concerns
- potential for land acquisition and involuntary resettlement
- significant impacts on communities, cultural heritage or other sensitive receptors.

Medium risk: sub-projects in sectors such as manufacturing and smaller-scale infrastructure may

1 See EBRD (2024), pp. 28-29.

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

commonly be associated with medium inherent E&S risks. Examples may include:

- light industrial developments
- smaller-scale agricultural projects
- hospitals and medical facilities
- warehousing and logistics
- certain renewable energy projects
- tourism and hospitality.

The nature and significance of E&S risks and impacts associated with these activities may vary considerably depending on the scale, location, technology, operating practices and sensitivity of the surrounding environment and communities.

Low risk: sub-projects involving activities such as the following may commonly have low inherent E&S risks:

- software engineering
- information technology
- wholesale and retail trade
- office-based businesses.

Common inherent E&S risks and impacts are confined to office-based occupational health and safety (including emergency response), labour standards and human resources management, as well as energy efficiency considerations for office buildings.

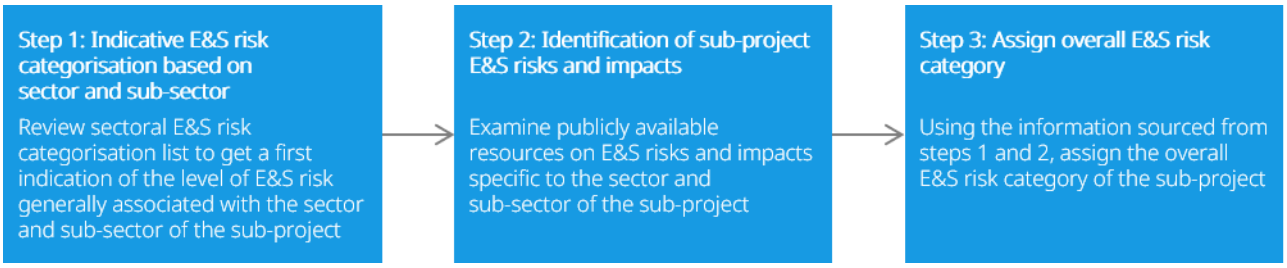
The allocation of one of these risk categories to a sub-project is based on two main criteria:

- an indicative E&S risk category based on the inherent E&S risks associated with the sector/ sub-sector
- E&S risks and impacts of the sub-project itself.

Procedural steps

The following steps should be applied when assigning an E&S risk category of high, medium or low to a sub-project (see Figure 2):

Figure 2: E&S risk categorisation process



Step 1: Assigning an indicative E&S risk category based on sector and sub-sector

The sectoral E&S risk categorisation list presents indicative E&S risk ratings associated with sectors (referred to as categories) and sub-sectors (referred to as sub-categories) using the European Union's (EU) Nomenclature of Economic Activities (NACE) codes as the sectoral classification system for economic activities. This list is designed to provide the typical level of inherent E&S risk associated with defined sectors and subsectors. For each sector, an indicative risk rating is provided for "environmental" and "social" criteria, with an "overall" E&S risk rating reflecting a balanced assessment of the combined E&S risk rating.

The sectoral environmental and social risk categorisation list also indicates activities that may be excluded from EBRD financing, based on the EBRD environmental and social exclusion list (see the 2024 ESP), activities that the EBRD does not finance, and specific exclusions or eligibility restrictions relevant to the EBRD Green Economy Transition approach.

For example, a sub-project involving the development of a wind farm in the renewables sector would be associated with a NACE reference code of F42.22 ("Construction of Utility Projects for Electricity and Telecommunications", which includes the development of wind farms) and assigned an indicative E&S risk ranking of "high". This indicative categorisation does not preclude the FI from investing in the sub-project. Rather, it indicates that the transaction may involve significant or complex E&S risks and impacts and will require a more detailed assessment proportionate to those risks.

The indicative sectoral rating is a starting point only and does not determine the final E&S risk category of the sub-project.

Step 2: Identification of sub-project E&S risks and impacts

Having assigned an indicative E&S risk category based on the inherent risk profile of the sector or sub-sector, the FI should assess the specific characteristics of the proposed sub-project and confirm or adjust the indicative category accordingly. Key factors to consider in this step include:

a. whether the sub-project involves greenfield development, expansion of an existing facility, rehabilitation or financing of an existing operation
b. the nature and scale of the proposed activities
c. the location and E&S sensitivity of the site and surrounding area, including proximity to residential areas, sensitive communities, areas of high biodiversity value or important cultural heritage
d. whether land acquisition, physical displacement or economic displacement may be required
e. whether there may be impacts on Indigenous Peoples
f. the nature and significance of labour, occupational health and safety, community health and safety, pollution, resource-use, biodiversity, cultural heritage, climate-related and other relevant E&S risks
g. the socioeconomic and contextual setting in which the sub-project will be implemented
h. the sub-borrower's management capacity, track record and resources for managing the identified E&S risks and impacts.

Where issues falling within ESRs 5, 6, 7 or 8 are identified, they should be assessed in terms of their nature, scale, sensitivity and significance, and these issues should be considered when determining the overall E&S risk category of the sub-project. Their applicability does not, by itself, determine that a sub-project is Category A.

The FI should separately assess whether the sub-project meets the EBRD definition and criteria for a Category A project set out in Annex B to the ESP. Where it does, the specific requirements applicable to Category A sub-projects under ESR 9 apply, including the requirement for an Environmental and Social Impact Assessment in accordance with ESR 1, compliance with ESRs 1-8 and ESR 10, and referral to the EBRD.

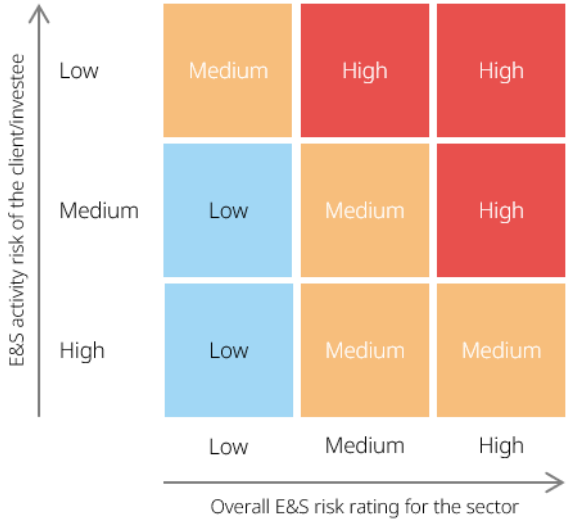
Step 3: Assign overall E&S risk category

Based on the outcome of steps 1 and 2, an overall E&S risk category can be assigned to the sub-project. It is important to note that at the start of the risk categorisation process, the specifics of a potential sub-project may still be unknown, so categorisation based on inherent sector/sub-sector E&S risks is used as an early indication of overall E&S risk (corresponding to steps 1 and 2 above).

In addition, the risk categorisation of a sub-project may change over time as more information about context, specific circumstances and the client's management capacity become available. The risk categorisation will also depend on the nature, size and tenor of the transaction, contextual risks, and financial and managerial capacity of the sub-borrower to effectively deal with E&S issues.

Risk categorisation should be reviewed where there is a material change in the sub-project, its context or available E&S information, including where the project moves into a different phase of development or operation. Any change in categorisation should be documented together with the supporting rationale.

Figure 3: Overall E&S risk category



Box 2: Using other E&S risk categorisation frameworks

FIs may use their own E&S risk categorisation frameworks or those of other international financial institutions, if they are aligned with that of the EBRD and demonstrate a clear and consistent methodology.

Reporting to the EBRD

FIs are expected to provide a final adjusted E&S risk category breakdown of their investment portfolio during the EBRD E&S due diligence process (for new transactions), as well as annually throughout the financing period as part of their annual environmental and social report (AESR).

Case study 1: E&S risk categorisation of a medium-risk transaction

A commercial bank is considering a loan to an ice-cream manufacturer and distributor.

The E&S officer assigned to this sub-project follows the EBRD E&S risk categorisation process, first referring to the EBRD environmental and social risk categorisation list and identifying the sector related to the manufacturing of food products and the "manufacture of ice cream" sub-category (NACE Reference Code: 10.52). The indicative E&S risk ranking is "medium".

The officer then conducts further research of publicly available sources of information, such as the British International Investment Food and Beverage Sector Profile[3] and the applicable World Bank Group Environmental, Health and Safety (EHS) Guidelines[4] (specifically, the World Bank Group EHS Guidelines on Food and Beverage Processing and Dairy Processing) to identify the potential sector-specific E&S risks associated with the manufacture of ice-cream products. According to this research, the potential E&S risks are associated with:

- labour and working conditions
- food safety linked to direct and indirect costs of quality failures, as well as the risks to community health and safety
- environmental risks associated with the production of ice cream including significant water consumption, wastewater generation and discharge, and waste management
- occupational health and safety risks associated with the manufacturing process, such as:
    - physical hazards, for example, manual handling, repetitive work, slips on wet or food-contaminated floors, falls from a height, workplace transport, injuries from sharp mixers or from processing and packaging machinery
    - worker occupational exposure to excessive noise levels in the workplace
    - biological hazards, such as the development of infections resulting from exposure to microorganisms present in dairy and other products involved in the processing process
    - chemical hazards, for example, chemicals used in cleaning/disinfection operations and cooling systems such as ammonia



    - exposure to heat, for example, exposure to steam or hot surfaces, and cold, such as working in refrigerated areas/rooms.

Based on this research, the combined inherent and potential E&S risks associated with this sector are such that the officer deems the initial indicative E&S risk category should remain a "medium".

Upon further assessment of the sub-project through a targeted environmental and social due diligence assessment, the following additional E&S risk information came to light:

- All facilities are in urban, light industrial zoned areas, so there are no impacts on biodiversity associated with the sub-project.
- The sub-project includes the construction of a new fit-for-purpose product storage and distribution centre within the existing facility perimeter. There are inherent E&S risks associated with construction activities, especially in relation to the use of contractors, but no involuntary resettlement.
- Road safety risks associated with the use of in-house and outsourced delivery vehicle fleets apply to both employed drivers and the broader community.

Upon careful reflection of both the inherent E&S sector risks and the additional assessment findings, the officer ultimately categorises the sub-project as a medium-risk project, as the potential for adverse E&S risks or impacts can be identified, are generally site specific, largely reversible and readily addressed through well-known technical and financial mitigation measures.

3 See British International Investment (n.d.).

4 See World Bank Group (2007).

References

British International Investment (n.d.), Sector profiles: Food and beverages, London. Available at: https://toolkit.bii.co.uk/sector-profiles/food-and-beverages.

EBRD (2024), Environmental and Social Policy, London. Available at: https://www.ebrd.com/news/publications/policies/environmental-and-social-policy-esp.html.

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