

# EBRD Performance Requirement 9

## Financial Intermediaries

### Introduction

1. This Performance Requirement (PR) recognises that Financial Intermediaries (FIs) are a key instrument for promoting sustainable financial markets and provide a vehicle to channel funding to the micro, small and medium-sized enterprise (SME) sector. Such FIs include a variety of financial service providers, including private equity funds, banks, leasing companies, insurance companies and pension funds. FIs are engaged in a wide range of activities, such as microfinance, SME lending, trade finance, large-scale infrastructure finance, medium to long-term corporate or project finance, and housing finance.
2. The nature of intermediated financing means that the FIs will assume delegated responsibility for environmental and social assessment, risk management and monitoring as well as overall portfolio management. The nature of delegation may take various forms depending on a number of factors, such as the type of finance provided. The effectiveness of the FIs' environmental and social risk management will be evaluated and monitored on a continuous basis throughout the project life cycle.

### Objectives

3. The objectives of this PR are to:
  - enable the FIs to manage environmental and social risks associated with their business activities and to promote good environmental and social business practices among their clients
  - establish a practical way in which the FIs can promote and achieve environmentally and socially sustainable business practices consistent with this PR through their investments, in line with good international practice in the commercial financial sector
  - promote good environmental and human resource management within the FIs.

### Scope of application

4. For the purposes of this PR, the word “project” refers to the set of defined business activities for which EBRD funding is sought, or where

financing has already been committed, the set of business activities defined in the financing agreements, and as approved by the EBRD Board of Directors, whereas “subproject” refers to the projects financed by the FIs.

5. Where the project involves a clearly defined set of business activities (for example, a credit line or other targeted finance facility), the specific requirements of this PR will be applicable to all subprojects.
6. Where the project involves general corporate finance, which cannot be traced to specific subproject financing, such as equity, mezzanine financing or subordinated debt, the requirements of this PR will apply to all of the FI future subprojects.
7. Where an FI project is likely to have minimal or no adverse environmental or social risks, such as providing consumer loans and cross-currency basis swaps, the FI will not need to apply any environmental and social risk management procedures.
8. An FI may be required to adopt and implement additional or alternative environmental and social requirements, depending on the nature of the FI and its business activities, portfolio and the country of operation.

### Organisational capacity within the FI

9. The FI will maintain human resources policies, management systems and practices in accordance with PR 2: Labour and Working Conditions and the relevant occupational health and safety requirements of PR 4: Health and Safety, and communicate these to its workers. The FI will provide its workers and contractors with a safe and healthy working environment.
10. The FI will designate a representative of the FI's senior management to have overall responsibility for environmental, health, safety and social matters, including the implementation of this PR, PR 2 and PR 4 (as referenced above). The responsible senior management representative will need to: (i) designate a member 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 subprojects with potentially significant adverse environmental or social impacts and issues.

## Requirements

11. The FI will put in place a clearly defined Environmental and Social Management System (ESMS), including an environmental and social policy and environmental and social procedures<sup>1</sup> commensurate with the nature of the FI, the level of environmental and social risks associated with its business activities, and the type of the project and subprojects.
12. Where the FI can demonstrate that it already has an ESMS in place, it will provide adequate documented evidence of such an ESMS.
13. The environmental and social procedures must include risk assessment and monitoring mechanisms, as appropriate, to:
  - screen all clients/subprojects against the FI Environmental and Social Exclusion List included as Appendix 1 in the ESP
  - categorise the environmental and social risk of proposed subprojects (low/medium/high) in accordance with the EBRD's Environmental and Social Risk Categorisation List for FIs
  - ensure, through its assessment, that subprojects are structured to meet national regulatory requirements relating to environmental and social matters, including, where necessary, requiring clients to implement corrective action plans
  - ensure that subprojects being financed meet the criteria in the indicative list of Category A projects included as Appendix 2 in the EBRD Environmental and Social Policy (ESP); such subprojects will be required to meet PRs 1 to 8 and 10
  - keep and regularly update environmental and social records on subprojects
  - monitor subprojects to ensure compliance with national laws on environment, health and safety and labour.

## Stakeholder engagement

14. The FI will put in place a system for dealing with external communication on environmental and social matters, for example, by establishing a point of contact for dealing with public enquiries, including concerns related to environmental and social matters. The FI will respond to such enquiries and concerns in a timely manner. The FIs are also encouraged to publish their corporate environmental and social policy or a summary of their ESMS on their web site, if available. Where possible, FIs will list on their web site the link to any Environmental and Social Impact Assessment (ESIA) reports for Category A subprojects which they finance.

## Reporting to the EBRD

15. The FI will submit to the EBRD annual environmental and social reports on the implementation of its ESMS, this PR, PR 2, the occupational health and safety requirements of PR 4, as well as the environmental and social performance of its portfolio of subprojects.

## Voluntary initiatives

16. FIs are encouraged to follow GIP in environmental and social management in their entire lending and investment operations, irrespective of whether these are part of the project. In particular, FIs are encouraged to:
  - roll out the application of ESMS and environmental and social risk management procedures to all their business activities, including those to which this PR does not apply
  - identify, where appropriate, opportunities for developing financial products with high environmental and/or social benefits (for example, finance for investments in energy efficiency, renewables or pro-biodiversity business, products targeting women entrepreneurs, access to credit for micro-entrepreneurs).FIs are also encouraged to consider joining appropriate existing international initiatives that promote best practices in the financial sector such as the Equator Principles, the UNEP Finance Initiative, and the Principles for Responsible Investment.

<sup>1</sup> To assist FIs with putting an ESMS and procedures into practice, the EBRD has developed an environmental and social risk management manual which includes guidance for various types of FIs and financial services. FIs that do not already have equivalent procedures in place are required to use relevant parts of the manual in respect of the relevant subprojects.

# EBRD Performance Requirement 10

## Information Disclosure and Stakeholder Engagement

### Introduction

1. This Performance Requirement (PR) recognises the importance of an open and transparent engagement between the client, its workers, local communities directly affected by the project and, where appropriate, other stakeholders as an essential element of good international practice (GIP) and corporate citizenship.<sup>1</sup> Such engagement is also a way of improving the environmental and social sustainability of projects. In particular, effective community engagement, appropriate to the nature and scale of the project, promotes sound and sustainable environmental and social performance, and can lead to improved financial, social and environmental outcomes, together with enhanced community benefits. Stakeholder engagement is central to building strong, constructive and responsive relationships which are essential for the successful management of a project's environmental and social impacts and issues. To be effective, stakeholder engagement should be initiated at an early stage of the project cycle.
2. This PR identifies GIP relating to ongoing stakeholder engagement as an ongoing process which involves: (i) public disclosure of appropriate information; (ii) meaningful consultation with stakeholders; and (iii) an effective procedure or mechanism by which people can make comments or raise grievances. The process of stakeholder engagement should begin at the earliest stage of project planning and continue throughout the life of the project. It is an integral part of the assessment, management and monitoring of environmental and social impacts and issues of the project. Therefore, this PR should be read in conjunction with PR 1, and with the requirements in PR 2 regarding engagement with workers. In the case of projects involving involuntary resettlement and/or economic

displacement, affecting Indigenous Peoples or having an adverse impact on cultural heritage, the client will also apply the special disclosure and consultation requirements as foreseen in PR 5, PR 7 and PR 8.

### Objectives

3. The objectives of this PR are to:
  - outline a systematic approach to stakeholder engagement that will help clients build and maintain a constructive relationship with their stakeholders, in particular the directly affected communities
  - promote improved environmental and social performance of clients through effective engagement with the project's stakeholders
  - promote and provide means for adequate engagement with affected communities throughout the project cycle on issues that could potentially affect them and to ensure that meaningful environmental and social information is disclosed to the project's stakeholders
  - ensure that grievances from affected communities and other stakeholders are responded to and managed appropriately.

### Scope of application<sup>2</sup>

4. This PR applies to all projects that are likely to have adverse environmental and social impacts and issues on the environment, workers or the local communities directly affected by the project. The clients are expected to identify and engage with stakeholders as an integral part of their overall environmental and social management system (ESMS), the project's environmental and social assessment process and the environmental and social management plan (ESMP) as outlined in PR 1.

### Requirements

5. Clients will conduct stakeholder engagement

<sup>1</sup> This Performance Requirement is guided by the spirit, principles and ultimate goals on public disclosure and stakeholder engagement comprised in the United Nations Economic Commission for Europe (UNECE) Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters.

<sup>2</sup> In addition, special provisions on emergency preparedness and response are covered in PR 4.