

Environmental and social risk management – people



European Bank
for Reconstruction and Development

Introduction

Financial intermediaries (FIs) are required to comply with the labour and working conditions requirements set out in Performance Requirement 2 (PR2) of the European Bank for Reconstruction and Development's (EBRD) [Environmental and Social Policy](#).¹ These include developing and implementing an effective human resources (HR) management system that fosters sound employee relationships based on respect for workers' rights.

This guidance note explains PR2 policy requirements as they apply to FIs and provides practical examples of how FIs can demonstrate compliance.

This guidance material is to be used in conjunction with the range of EBRD guidance notes designed to help FIs manage specific labour issues. This note refers to those documents as necessary throughout.

Human resources policies

HR policies describe how an organisation manages its employees. They are the set of formal rules and guidelines that an organisation should put in place to hire, train, assess, lay off, and reward or discipline members of their workforce and ensure the protection of personnel data. Robust HR policies and management systems also provide an enabling framework for achieving and demonstrating compliance with PR2 requirements.

Because of the particular importance of human capital resources to the commercial success of financial institutions, the financial sector is typically among the most developed in terms of HR management. Nevertheless, many finance institutions still identify HR management as one of the most pressing challenges facing their business. Reducing staff turnover, developing workforce skills, and recruiting and retaining talent are typically key concerns – and concrete business imperatives – for FIs, be they large or small.

HR policies should: i) be appropriate and commensurate with the FI's size and workforce; ii) provide clear, comprehensible and accessible documentation to all employees; iii) be applied as fairly and transparently as possible; and iv) give adequate consideration to workers' rights to privacy and data protection. The development of such policies needs to be underpinned by adequate HR organisational capacity (HR department, payroll system and so on).

There is no one-size-fits-all approach to devising HR policies. What works for one financial institution may not necessarily work for another. FIs should adopt HR policies

that are appropriate to the scale and form of their respective organisations and the legislative context and business environment in which they operate.

A key consideration is size of the operation. FIs with a large workforce will typically require a more sophisticated approach, supported by a dedicated HR department. However, even smaller FIs need some formal procedures to guide recruitment and workforce management processes when it comes to employment contracts, performance appraisals and grievance procedures, all of which provide employees with a clear performance framework.

Another consideration is corporate structure. For example, FIs with a wide network of branches often face challenges in delivering consistent HR processes and outcomes across multiple worksites. Common practice is to retain the overall responsibility for HR at head office, but it is essential that supervisors at branch level have the necessary skills to implement HR systems effectively.

For detailed information on how to implement appropriate HR policies, please see the [EBRD PR2 guidance note on human resource policies and employee documentation](#).²

Wages, benefits and conditions of work

Compensation packages are a central factor in rewarding, motivating and retaining good staff. Developing the right compensation package is especially important for FIs, where the workforce is often highly skilled and the costs of new recruitment are high. Setting the right pay structure is also important for the bottom line, as direct staffing costs typically account for a significant proportion of FIs' operating costs.

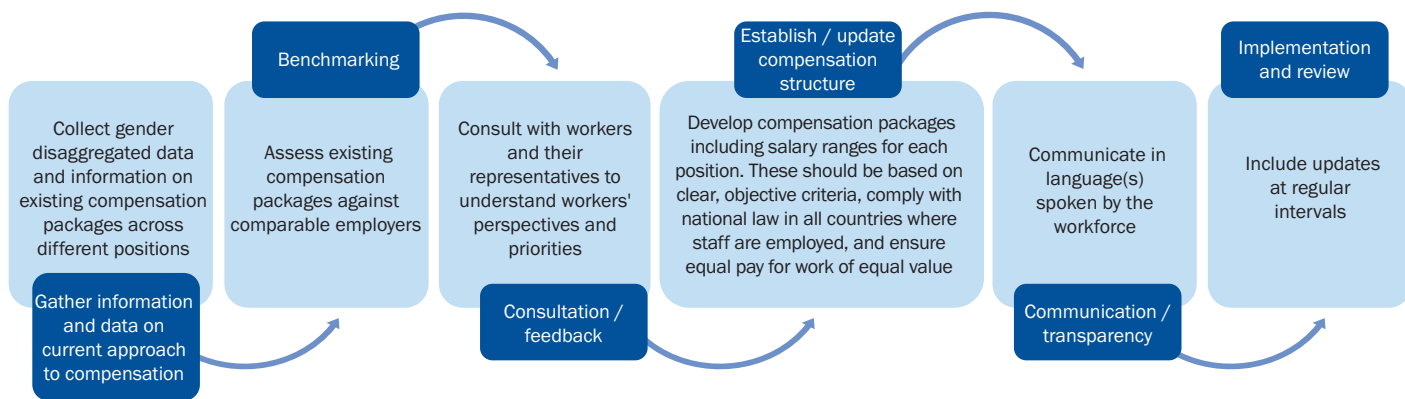
To comply with PR2, compensation packages as a whole should meet statutory (and, where applicable, collectively agreed) requirements and should be at least comparable with industry norms in the market where the FI operates. It is good practice to consider compensation packages in terms of all of the financial and non-financial benefits employees can receive, including base pay, bonuses, retirement or health benefits, subsidised meals, working hours and leave, flexible working and training opportunities.

Setting the right level and composition of compensation is worthwhile both in terms of ensuring employee satisfaction and motivation (leading to higher rates of staff retention and productivity) and of aligning HR budget and policy and the company's commercial objectives. Figure 1 provides guidance on the development and implementation of a fair compensation structure.

1 See EBRD (2019).

2 See EBRD (2023a).

Figure 1. Setting the right level and composition of compensation



The [EBRD PR2 guidance note on wages and working hours](#) provides detailed recommendations on the development of standard working terms and conditions for employment that FIs should adopt.³

Non-discrimination and equal opportunities

All employment relationships must be based on the principle of non-discrimination and equal opportunity. This applies to all aspects of the employment relationship, including recruitment and hiring, job assignment, compensation, working conditions and terms of employment. Discrimination is not always easy to detect and does not have to be intentional. Practices that appear neutral but result in the unequal treatment of people with certain characteristics are termed “indirect discrimination”.

To comply with PR2, FIs should develop policies to promote non-discrimination and equal opportunity in the workplace. Clear procedures should be put in place to ensure that decisions on hiring, working conditions, pay, benefits, training, promotion, termination and redundancy are based exclusively on the individual’s professional qualifications and merit. Gender equality and diversity are particularly important in financial services, both in terms of strategy and workforce decision-making (see Figure 2).

To promote equal opportunity and non-discrimination, many banks and financial institutions have introduced specific programmes and procedures to support their wider equality policies. For detailed information on how to implement the principle of non-discrimination and equal opportunity in your organisation, please see the [EBRD PR2 guidance note on non-discrimination and equal opportunity](#).⁴

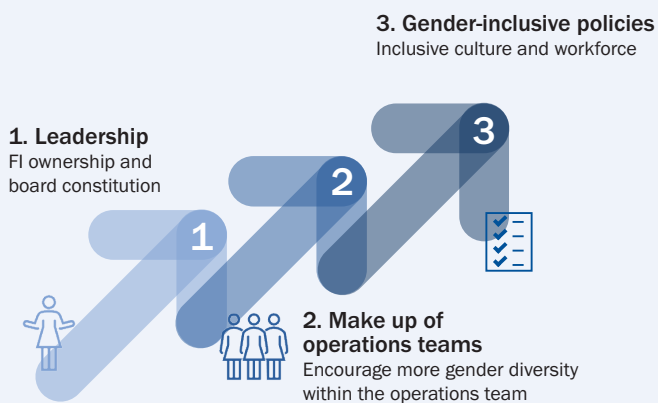
Workers’ organisations

Fostering open and productive relationships with workers’ representatives brings numerous business benefits for FIs. These include helping to identify and deal with employee concerns at an early stage to avoid escalation of disputes, gathering new ideas for improving service delivery, and creating a stronger sense of value and satisfaction among employees.

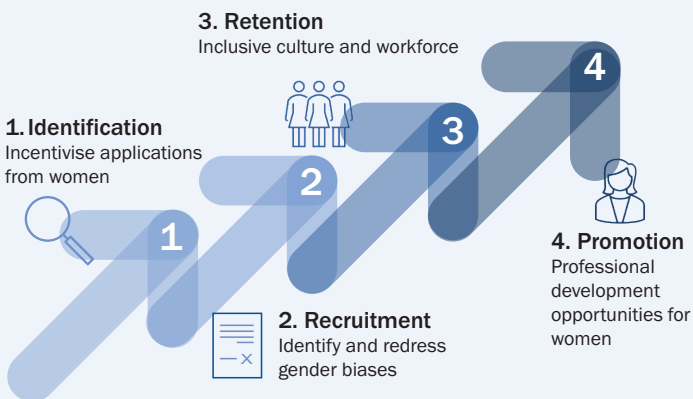
In a number of economies where the EBRD operates, employers will have specific legal obligations to inform and consult with workers’ organisations, either in general or in relation to specific issues such as retrenchment, change of ownership or working time. National law might also specify some form of collective consultation or decision-making mechanism and contain specific requirements on its structure and functionality. In all cases, FIs should follow the requirements of national law.

Figure 2.

Steps to a gender-inclusive strategy



Steps to a gender-inclusive workforce



3 See EBRD (2023b).

4 See EBRD (2023c).

Where there are no specific requirements in national law, there are a various mechanisms that FIs, as employers, can use to engage with employees. If there is a recognised trade union, opening and maintaining formal channels of consultation and engagement should be the starting point. Finance-sector unions can negotiate with employers on vital issues such as pay, working time, leave, and health and safety. However, they also provide professional advice and support on issues facing individual members, ensuring that each union member is treated fairly in the workplace. In the absence of trade unions and, in particular, in jurisdictions where union activity is restricted, alternatives such as consultative committees or employee committees may be the most effective means of engaging with employees to address issues relating to their working conditions and terms of employment. Any non-union alternative mechanisms should not be used to exclude or replace the presence of lawful trade unions in the workplace.

PR2 aims to ensure that employees' freedom of association is not restricted or limited. This means that employees should be free to join or form organisations of their choosing, that these organisations should not be controlled by the employer or the government, and that employees should not be penalised or retaliated against for their decision to join a trade union or participate in lawful activities.

For more information on this topic, please see the [EBRD PR2 guidance note on labour and working conditions](#).⁵

Gender-based violence and harassment

FIs are required to adopt specific measures to prevent and address gender-based violence and harassment (GBVH) in the workplace. This should include policies and codes of conduct on GBVH that are clearly communicated to workers, as well as adequate training for managers and supervisors on how to apply the policies fairly and effectively. FIs should also ensure that worker grievance mechanisms (see below) are able to receive, record, investigate and manage incidents of GBVH in a safe and confidential manner.

For more information on how to embed appropriate policies and procedures, please see the joint EBRD, CDC and International Financial Corporation (IFC) publication: [Addressing Gender-Based Violence and Harassment: Emerging Good Practice for the Private Sector](#).

Grievance mechanism

PR2 requires that all workers engaged through EBRD-financed projects have access to a grievance mechanism, even if they are not directly employed by an EBRD client. In the case of FIs, this means that grievance mechanisms should be accessible to all direct employees of the FI, as well as any other workers engaged through third parties to perform work on the FI's

behalf (such as back-office support agencies, call-centre workers and other sub-contracted service providers) or to perform work on the FI's premises (such as workers engaged through labour agencies, cleaners or security contractors). In the case of such contracted workers, PR2 requires the FI to take steps to ensure that grievance mechanisms are provided by the contractors to their workers and, where such mechanisms are inadequate or do not exist, to ensure that contracted workers can raise grievances directly with the FI.

The grievance mechanism should set out a clear process and timeline for resolving grievances. This process can include several components (the suitability of which will depend, in part, on the nature of the grievance), including informal resolution of simple complaints through line managers, formal recording of grievances, investigations of the grievance, grievance hearings, a clear response to the grievance, and mechanisms to appeal the decision. There should be more than one channel for lodging grievances, in case an employee does not feel comfortable approaching a given individual (for example, because they are the alleged harasser or have links to that person), and there should always be an option to submit complaints anonymously. There should also be adequate safeguards in place to protect employees who file a grievance, including strict prohibitions against any form of retaliation and rigorous confidentiality and anonymity protections.

[The EBRD PR2 guidance note on employee grievance mechanisms](#)⁷ provides detailed information aimed at assisting FIs in understanding and implementing the Bank's grievance mechanism requirements, where a grievance is defined as a problem or an issue that any employee might experience over the course of their employment.⁸

Collective dismissals

Whenever an FI client expects collective dismissals, it is important that the process be carried out in accordance with the EBRD's requirements and in line with national law. There is also a clear business rationale for a well-designed collective dismissals process: it can help maintain staff morale and productivity, prevent legal and reputational risks, avoid the spread of misinformation, and maintain efficiency through clear skills planning that safeguards core workforce skills to support business continuity and growth.

PR2 sets out clear expectations of what constitutes an adequate process for collective dismissals to ensure that commercial aims are achieved while minimising the adverse impact on employees. As a starting point, FIs must carry out an analysis of alternatives and, if this fails to identify any viable alternatives, a collective dismissal plan should be developed and implemented to reduce potentially adverse impacts on employees.

5 See EBRD (2023d).

6 See CDC, EBRD and IFC (2020).

7 See EBRD (2023d).

8 See EBRD (2023e).

Case study 1: Collective dismissals

Background

XYZ Bank is a prominent financial institution that has been operating for several decades. Over the years, the bank has faced various challenges due to changes in the industry, technological advancements and shifts in customer preference. As a result, the bank has seen a decline in profitability and a rise in operating costs.

Issue

To address the financial difficulties and adapt to changing market dynamics, XYZ Bank's management decided to undertake a comprehensive restructuring plan. This plan included a workforce reduction through collective dismissals as a means of cutting costs, streamlining operations and remaining competitive in the market.

Approach to collective dismissals

- 1. Assessment and planning:** XYZ Bank's management conducted a thorough assessment of the bank's financial situation, market challenges and the need for restructuring.
- 2. Early consultation:** XYZ Bank consulted with worker representatives from the very beginning of the process. This helped to identify some cost-saving and reorganisation measures – including a hiring freeze and transferring employees between departments – which helped to reduce the number of workers being dismissed.
- 3. Development of the collective dismissal plan:** In consultation with worker representatives, XYZ Bank developed a clear and comprehensive collective dismissal plan. This document set out the bank's approach and was regularly updated to record actions taken.
- 4. Selection criteria:** The bank used objective and fair selection criteria for determining which employees would be affected by the dismissals. These criteria considered factors such as job performance, skills, experience and knowledge. In order to support the implementation, the bank ensured



that all decisions were based on the outcomes of a formal performance management system, rather than subjective assessments.

- 5. Active support measures:** In addition to severance payments, XYZ Bank offered active support measures to departing workers, including job placement assistance, resume-building workshops and interview coaching.
- 6. Compliance with labour laws:** To ensure compliance, the bank engaged an independent legal advisor to advise on key aspects of national labour law and regulations, including notice periods, termination payments, and reporting and consultation requirements.

Outcomes and impact

Collective dismissals in a financial institution are complex and sensitive processes that require careful planning, open communication and adherence to labour laws. By involving all relevant stakeholders and providing support to the affected employees, XYZ Bank managed to navigate the challenges successfully and secure its position in the competitive financial market.

The [EBRD PR2 guidance note on collective dismissal](#) provides more detailed insight into good practices that FIs should consider prior to implementing any collective dismissal process.⁹

⁹ See EBRD (2023f).

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