

ASSESSMENT OF THE SUSTAINABLE PERFORMANCE OF SME FINANCE INSTITUTIONS



Draft

September 2018

Social Performance Task Force (SPTF), European Microfinance Platform (e-MFP)

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"The bigger the enterprise, the more you need to understand the enterprise in addition to the entrepreneur." Matthew Gamser, CEO of the SME Finance forum

Acknowledgments

This study would not have been possible without the support of the European Microfinance Platform¹ (e-MFP), the CDC group² (CDC) and the Social Performance Task Force³ (SPTF). The author gratefully acknowledges the valuable contribution of the investors who shared their experience in SME financing: Belgian Investment Company for Developing countries (BIO), CDC, European Investment Bank (EIB), Développement International Desjardins (DID), Grassroots Capital Management, International Finance Corporation (IFC), International Labor Organization (ILO), Oikocredit, Proparco, ResponsAbility, Triple Jump.

¹ <http://www.e-mfp.eu/>

² <http://www.cdcgroup.com/>

³ <https://sptf.info/universal-standards-for-spm/universal-standards>

Acronyms

E&S	Environmental and Social
ESMS	Environmental and Social Management System
FSP	Financial Service Provider
MFI	Microfinance Institution
MSME	Micro, Small and Medium Enterprise
SME	Small and Medium Enterprise
SPTF	Social Performance Task Force

Executive summary

SMEs play a critical role in the development of emerging economies. Yet, the 2017 IFC MSME Finance Gap⁴ estimates a **\$5.2 trillion Micro and SME finance gap** in developing countries. Investors are increasing their direct and indirect **investment in SME finance**, including banks downscaling from corporate to SMEs and Microfinance Institutions (MFIs) upscaling from micro entrepreneurs to SMEs (see annex 1). As SME portfolios grow, investors increasingly recognize the cumulative risks and impacts of multiple small and medium enterprises on the environment and the communities. Common risks in SME finance may relate to waste and affluent management, toxic materials, occupational health and safety, labor conditions for SME employees and other environmental and social risks. This calls for a **simplified version of the Environmental and Social Management System (ESMS)** principles -well established in corporate and project finance- commensurate to the level of risks, impacts and opportunities faced by SME financial service providers (FSP).

The current practice of **Environmental and Social (E&S) risk management** in SME finance institutions is **incipient**. SMEs' E&S risks and opportunities may be still largely undermanaged because:

- Upscaling MFIs (mainly financing small enterprises) rarely have an ESMS in place, and local E&S regulation is often partially enforced;
- Downscaling banks (mainly financing medium enterprises) often have an ESMS in place, with varying degrees of effectiveness. However, SMEs are often automatically classified as low risk, requiring no further assessment.

Investors may balance their higher expectations E&S for SME finance compared to microfinance and the low reality of implementation by taking the assessment of the adequacy of ESMS in SME FSPs as an opportunity to raise the investee awareness and promote a gradual improvement over time.

Figure 1: Areas of assessment of the sustainable performance of SME Financial Service Providers



ESMS is a key part of an SME FSP sustainable performance, but it is not the only one. Client protection, fair treatment of the FSP employees, outcomes and other dimensions are also regarded as important areas by many responsible SME investors.

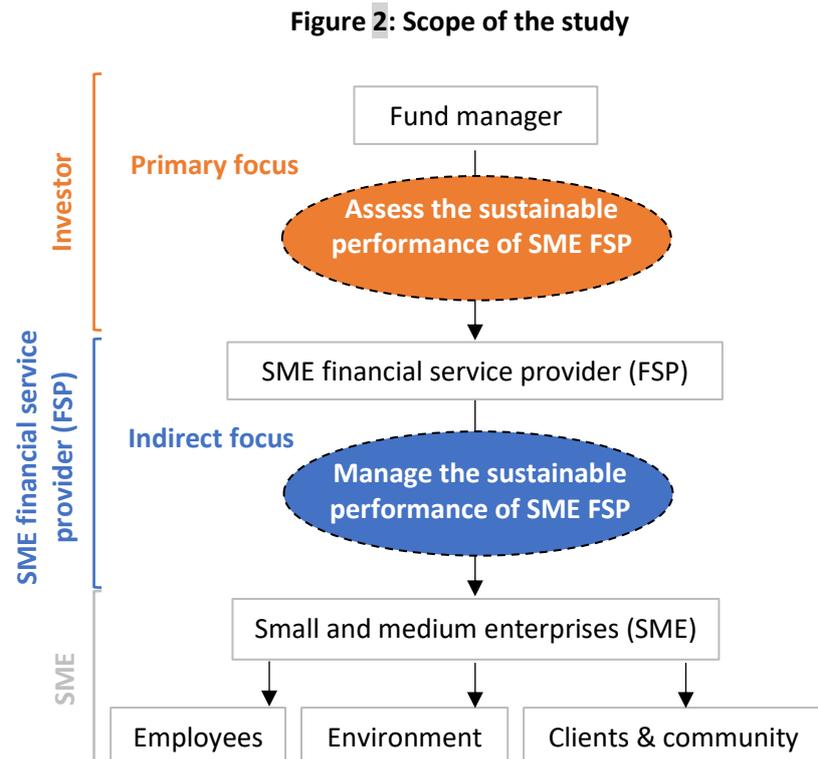
The study proposes a framework to assess the **sustainable performance of SME FSP** (figure 1) that applies an SME lens to the SPTF Universal Standards of Social Performance Management⁵ (**Universal Standards**) and includes the **ESMS** (embedded in dimensions 1 and 2) and other sustainability components.

⁴ <https://www.smefinanceforum.org/sites/default/files/Data%20Sites%20downloads/MSME%20Report.pdf>

⁵ <https://sptf.info/universal-standards-for-spm/universal-standards>

The primary goal of the study is to provide a **framework for investors to assess the sustainable performance of SME FSP** (figure 2). By doing so, the study also provides some, non-exhaustive, guidance to SME FSPs on good ESMS practices (indirect focus).

Section 1 proposes a framework and a step by step process for investors to assess and manage the sustainable performance of SME FSP. Section 2 details the suggested indicators to assess the sustainable performance of SME FSPs. The indicators suggested in section 2 are not meant to be prescriptive.



They provide suggestions that can be used in flexible ways by investors willing to upgrade their SME finance approach and due diligence. More details on the suggested indicators are included in the accompanying excel document *Sustainable performance assessment of SME*.

The **sources** of information used for the study are listed below:

- Interviews and review of due diligence tools used directly or indirectly by: Belgian Investment Company for Developing countries, CDC group, European Investment Bank, Développement International Desjardins, Grassroots Capital Management, International Labour Organization, Oikocredit, Proparco, ResponsAbility and Triple Jump;
- Review of frameworks: CDC Toolkit on ESG for Fund Managers (<https://toolkit.cdcgroup.com>), FMO MFI and SME sustainability guidance e-learning tool (<https://www.fmo.nl/estoolkit>), IFC performance standards on Environmental and social sustainability (<https://firstforsustainability.org/risk-management/implementing-ifc-environmental-and-social-requirements/establish-and-maintain-an-esms/ifc-environmental-and-social-performance-requirements/ifc-performance-standards/>), CERISE SPI4 (<http://www.cerise-spi4.org/>), CERISE Social Business Scorecard (SBS www.cerise-sb.org), AFI indicators (https://www.afi-global.org/sites/default/files/publications/afi_smefwg_wg_guideline_note_stg2.pdf), IRIS metrics (<https://iris.thegiin.org/metrics>), Equator Principles (<http://equator-principles.com/>), ILO Conventions (<http://www.ilo.org/global/standards/introduction-to-international-labour-standards/conventions-and-recommendations/lang--en/index.htm>), EDFI principles for responsible financing and guidelines for fund investments (<https://edfi.eu/>);
- Social ratings and Client Protection certifications of 28 SME finance institutions conducted by MicroFinanza Rating (MFR) in 20 countries, and knowledge sharing MFR regional managers;
- Survey of 4,710 end clients (113 SME and 4,601 non SME) from 27 financial institutions in 16 countries, conducted as part of MFR social ratings;
- Literature review including publications from the World Bank, IFC and SME Finance Forum, Center for Financial Inclusion (ACCION) and UN.

1. Framework to assess SME financial service providers

Figure 4 describes the main steps suggested for investors to **assess and manage the sustainable performance of SME financial Service Providers (SME FSPs)**, including the identification of SME and SME FSPs, the classification and assessment of the SME FSPs, and the promotion of improvements when possible, to be monitored over time.

The **guiding principles** of the assessment framework are:

- 1. Modular.** A modular solution is proposed to allow investors to integrate the SME sustainable performance indicators to their due diligence to the degree that they wish (none, full, partial integration). In addition, the tool needs to be versatile enough to be applicable to a variety of SME FSP (see annex 1). The proposed framework, logic and process are similar for different types of SME FSPs to allow investors to keep a portfolio approach. However, the expected degree of sophistication of the systems of the SME FSP (e.g., the ESMS) depends on the investor determination of the entity of E&S risks to which the FSP is exposed (see next principle). The SPTF Universal Standards, increasingly recognized as common language in the financial inclusion industry, are adapted under an SME lens, to be available as an optional module within the CERISE SPI4 tool⁶. Investors may use them as they deem appropriate (see section 2).
- 2. Commensurate.** Specifically regarding the ESMS component of the sustainable performance of SME FSPs (see box 1), it is important to set the expectations about the ESMS of the assessed SME FSP at a right level. An ESMS shall be commensurate to the E&S risks/impacts faced by the SME FSP, as determined by the borrowers' activities and regional/local contextual risks. The appropriate ESMS of a given SME FSPs should also take into consideration:
 - type of financing offered by the FSP;
 - FSP leverage in obtaining mitigation measures from its borrowers;
 - E&S opportunities available to borrowers.

Moreover, given the incipient ESMS of SME FSPs (see box 1), investors can adopt a pragmatic approach and take the due diligence as an opportunity to promote **incremental improvement** of the investees' E&S performance, focusing on the key issues.

E.g. an **E&S checklists** will always be integrated in loan appraisals of SME financial service providers. However, the high risks checklist of an FSP financing small enterprises will be very basic compared to the high risks checklist of an FSP financing medium enterprises.

Use the ESMS to turn gaps into opportunities and prioritize measures with a positive impact on E&S, business performance and business capacity to meet loan repayments.

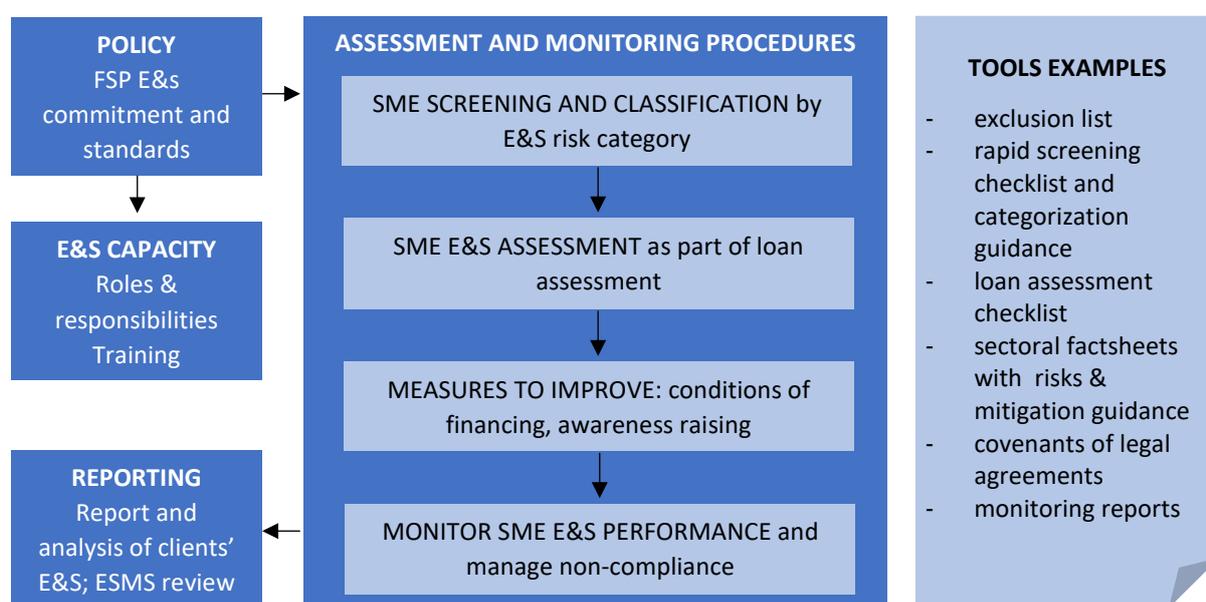
⁶ <http://www.cerise-spi4.org/>

Box 1: Environmental and Social Management System

Environmental and Social Management System (ESMS) definition: a set of policies, procedures, tools and internal capacity to identify and manage a financial institution's exposure to the environmental and social risks of its clients/investees (source: IFC⁷).

The **challenges** frequently faced by SME Financial Service Providers in implementing ESMSs⁸ include: unclear business case and lack of management buy-in, lack of understanding of how to set up an ESMS, inadequate incorporation of E&S assessment step into the loan review process (separate processes, lengthy questionnaires, long process), lack of capacity to undertake E&S assessment and knowledge on sector specific risks and mitigation, clients unwilling to acknowledge and address E&S issues.

Figure 3: Environmental and Social Management System (ESMS) components



Source: IFC⁹, simplified for SME finance.

SME finance institutions willing to **build or enhance their ESMS** (see figure 3) may need trainings and may refer to publicly available tools (e.g. sectoral matrix examples in annex 2), including:

1. FMO MFI and SME sustainability guidance e-learning tool (<https://www.fmo.nl/estoolkit>), especially useful for SME finance institutions financing small enterprises – often upgrading MFIs;
2. CDC Toolkit on ESG for Fund Managers (<http://toolkit.cdcgroup.com/>). The toolkit is addressed to fund managers investing in relatively large companies. However investors may find useful guidance– to be simplified to be appropriate to SME finance- in its ESG management section. SME finance institutions financing medium enterprises (often downscaling banks) may find useful – if simplified and adapted- the Sector profiles, E&S briefing notes and the ESMS section.
3. IFC promoted First for Sustainability (<https://firstforsustainability.org/>), especially useful for larger banks.

⁷ https://firstforsustainability.org/risk-management/managing-environmental-and-social-risk-2_2_2/managing-environmental-and-social-risk-2_2_2/what-is-an-esms/

⁸ Source: IFC <https://www.ifc.org/wps/wcm/connect/414d650047f453b1a666f7299ede9589/ESMS-FI-SME-Webinar+Final.pdf?MOD=AJPERES>

⁹ EDFs also require an external grievance mechanism, as per IFC performance standards.

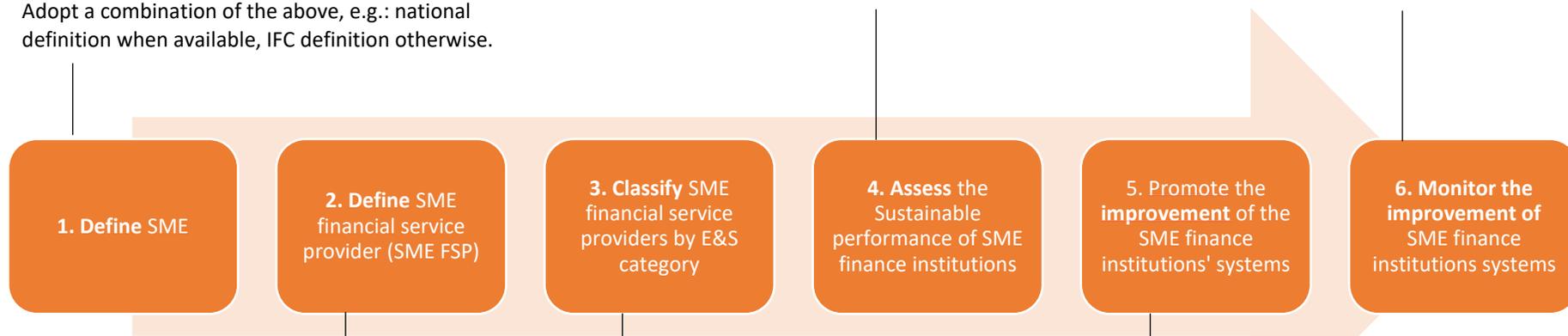
Figure 4: Investor process to assess and manage the sustainable performance of SME Financial Service Provider (FSP)

- a. Adopt a common definition of SMEs for all investments in all countries: either an international standard one (e.g. IFC, EU; please refer to box 2) or a internally developed one (e.g. standard one, adjusted for the Purchasing Power Parity);
- b. Adopt the national definition of SME in each country;
- c. Adopt the definition of SME used by each investee, which can be the national definition or a different one defined by the FSP
- d. Adopt a combination of the above, e.g.: national definition when available, IFC definition otherwise.

Assess the SPM FSP through the tool an investor already has in use or:

- a. The common sub-set of suggested indicators (see section X) agreed upon by a group of investors (SME ALINUS);
- b. An individual sub-set of suggested indicators selected by the investor based on its needs;
- c. A customized selection and an adaptation of the suggested indicators, as deemed necessary by the investor.

Monitor the improvement of SME finance institutions' systems during the course of the investment or at renewal.



- a. Adopt a common definition of SME FSP, e.g.: >50% outstanding portfolio in SMEs. In addition to SME FSP, some investors may identify an intermediate category, i.e. financial institutions with an SME component, e.g. >20% or >30% outstanding portfolio in SMEs.
- b. Adopt the way investees define themselves.

Optional - Classify SME FSPs by E&S risk. Define E&S risk categories according to the % of the investee portfolio exposed to low, medium or high E&S risks, defined for example based on inherent sector E&S risks and larger loan size. High risk sectors can be adopted from international sectoral matrix (e.g. FMO, annex 3) or adjusted based on the country. Define which E&S risk level will trigger an assessment of the ESMS of the SME FSP.

Optional - Promote the improvement of SME finance institutions ESMS (E&S Action Plan). The investor leverage to promote improvements may depend, among others, on the type of financing (debt / equity; short / long term) and availability of TA resources to support the ESMS development/upgrade.

2. Indicators of sustainable performance of SME FSP

The proposed dimensions to assess the sustainable performance of SME finance institutions (see figure 5) are adapted from the SPTF Universal Standards, originally defined for microfinance, to be suitable to SME finance goals, models and language. The components of the ESMS are embedded in dimensions 1 and 2, to promote the integration of environmental and social management into organisations goals, governance and day to day operations.

Figure 5: Dimensions of Sustainable Performance of SME financial service providers

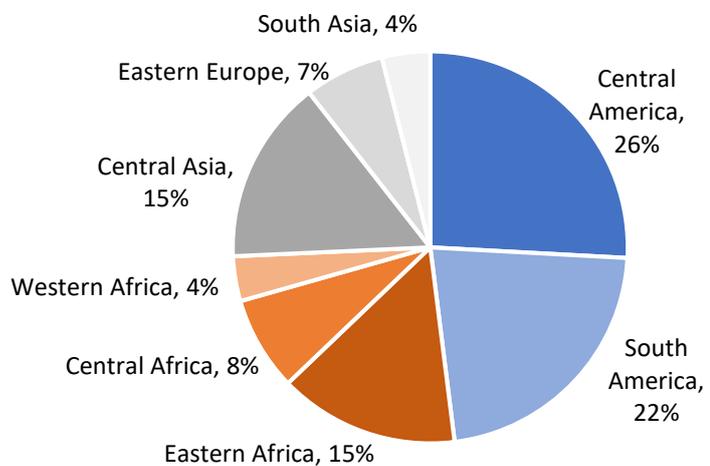


The Universal Standards developed for microfinance are still very relevant in many respects (e.g. client protection, responsible treatment of FSP employees). Their framework of defining goals, aligning systems and incentives, measuring performance and improving it remains largely applicable. However, the different target market of SME finance institutions (see box 2) calls for some adjustments. For instance, SME finance institutions are less driven by a social impact mission than microfinance institutions and define social impact differently (e.g. job creation and economic growth, rather than poverty alleviation or financial inclusion). SME finance institutions need to look at the treatment of the SME employees' and the environmental practices more closely than MFIs.

Box 2: SME versus Micro client profile

MicroFinanza Rating¹⁰ conducts surveys of clients as part of its Social Ratings as an add-on on demand to collect information on the client profile otherwise not available. While the surveys have not been conducted with a specific SME focus, they include SME clients besides micro clients. The method used to identify SME clients (proxy) is the following: borrowers with businesses of 5-250 employees and loan amount disbursed > 250% GNIPC. By applying this method, the sub-set of survey database relevant for the SME study is obtained: 4,710 clients (113 SME and 4601 non SME) from 27 FSPs with SME clients, in 16 countries, distributed as in figure 6.

Figure 6: client dataset by sub-region



The FSPs with SME clients in the dataset are mainly MFIs upscaling to serve SMEs in addition to their traditional micro entrepreneur segment; hence, the types of SMEs financed are most likely very small or small enterprises (as opposed to medium enterprises). To enable comparisons, the analysis focuses on the SME clients and the non-SME clients of the same FSPs. Please find below the key results in terms of SME client profile compared to non-SME clients.

SME client household.

Compared to micro entrepreneurs, SME owners present a slightly less vulnerable household profile, with a lower incidence of child labor and higher children schooling. While the gender outreach is lower in SME than in microfinance, the incidence of female borrowers without control over their loan is lower in SME than in microfinance.



¹⁰ www.microfinanzarating.com/

Poverty. Economic poverty, health and food insecurity exist but are significantly less prevalent among SME households than among micro households.

Asset ownership. The ownership of land, housing and livestock is higher for SME clients than for microfinance clients, reflecting the different earning and asset building capacity and resulting in different collateral availability.

Financial exclusion. While financial exclusion is also an issue in SMEs, the exclusion is less severe for SMEs than for micro borrowers. Higher financial needs and offer for SMEs justifies the higher incidence of multiple borrowing, while behaviors that signal potential over-indebtedness are present in SMEs too.

Loan use. SME borrowers seem to concentrate a larger proportion of the loan amount in the business compared to micro borrowers, with more complex consumption smoothing needs.

Job creation. The difference between micro and small enterprises size is reflected in the number of employees, particularly in non-household employees and seasonal workers. SME start-ups are financed even more marginally than micro start-ups.

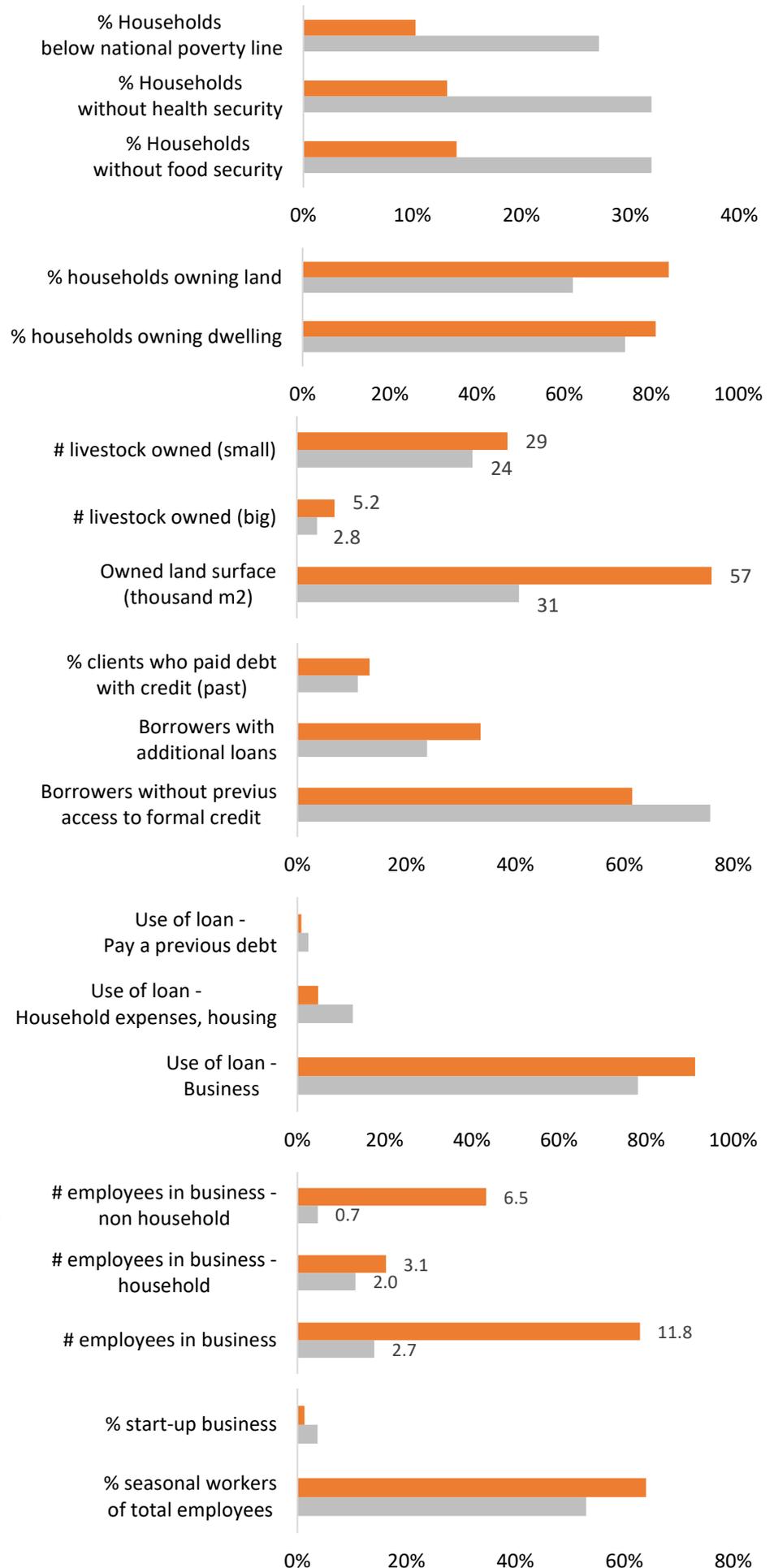


Table 1 summarizes some of the key differences between micro and SME finance, which require adaptations of the Universal Standards to be applicable to SME Financial Service Providers. The suggested indicators include changes in language (e.g. “sustainable” is more appropriate than “social” in SME finance), in the bar level in different areas (e.g. simple version of ESMS recommended for SME finance), and in the range stakeholders covered (broadened to SME employees and the environment).

Table 1: Triggers of adaptations of the Universal Standards to SME finance

	Microfinance Social performance	SME finance Sustainable performance
Development goal	E.g. poverty alleviation, financial inclusion	E.g. job creation, sustainable growth
Key reputational risk	Violate client protection, under-deliver on the social bottom line promise	Finance SMEs with negative impacts on the environment and their employees, unfair treatment of FSP employees
Stakeholder groups	Clients, FSP, FSP employees, investors	Clients, FSP, FSP employees, investors, SME employees, environment

Such adjustments make the Universal Standards modular and broadly applicable to both microfinance and SME finance: following a modular approach, the Universal standards may be available under different lenses and combinations that the investor can determine based on her needs. The common overarching principles allow maintaining portfolio comparability at the level of the Universal Standards dimension, and, in many cases, at the level of standards¹¹. The suggested list of indicators could be integrated in the CERISE SPI4 tool¹², reflecting the Universal Standards, to enable investors who already use the SPI4 ALINUS to continue using the same tool with a larger variety of investees.

The suggested indicators also include the essential components of an **Environmental and Social (E&S) management system**, simplified for SME risks (please refer to the accompanying excel document *Sustainable performance assessment of SME*, tab *SME FSP*, column *ESMS*) Recognizing the challenge of absorbing the ESMS cost with relatively small loan amounts and revenues, the suggested indicators for ESMS are proposed in **two options** -individual and cluster option, requiring a lower level of investment:

1. **E&S management at individual level**, with assessment and mitigation measures undertaken for each specific borrower. This approach is more accurate and advised for higher risks (e.g. medium enterprises, high risk sectors), but it involves a relatively higher investment;
2. **E&S management at cluster level**, with assessment and mitigation undertaken for clusters of borrowers that share common E&S risks and opportunities. This approach is less accurate but acceptable for lower risks, and it reduces the level of investment.

The suggested indicators are obviously not mandatory and investors satisfied with their approach will continue using their tools. Investors willing to use the suggested indicators to assess the sustainable performance of the SPM FSP in their portfolio have several alternatives. Each investor may make its own considerations of investee applicability, portfolio comparability, industry benchmark-ability and organizational feasibility, and chose to use:

¹¹ The Universal Standards are organized along 5 hierarchical levels (from top to bottom): dimension, standard, essential practice, indicator, compliance criterion.

¹² <http://www.cerise-spi4.org/>

- a. A common sub-set of suggested indicators agreed upon by a group of investors (SME ALINUS¹³). An initial suggestion of SME ALINUS selection is presented in the accompanying excel document *Sustainable performance assessment of SME* (tab *SME FSP*, column *SME ALINUS*); however, the SME ALINUS selection has to be determined by a the group of ALINUS investors;
- b. An individually chosen sub-set of indicators selected by each investor from the suggested list based on its needs;
- c. A customized selection and an adaptation of the suggested indicators, as deemed necessary by the investor.

In addition, investors have several applicability options, as described in table 2. The option of a hybrid selection of SME indicators and microfinance indicators to MFIs with an SME component (option A.3 in table 2) adds some nuance and it is proposed for those investors willing to recognize the continuum between MFIs, upscaling MFIs with an SME portfolio component¹⁴ and SME financial service providers. The hybrid selection of indicators for MFIs with an SME portfolio component is presented in the accompanying excel document *Sustainable performance assessment of SME*, tab *MFI with SME component*.

Table 2: Options of applicability of assessment modules to different types of investees

A. Applicability by category	B. Case by case applicability
Apply according to the FSP type: <ol style="list-style-type: none"> 1. a selection of SME indicators to <u>SME FSPs</u>; 2. a selection of microfinance indicators to <u>MFIs</u>; 3. <i>Optional</i>: a hybrid selection of SME indicators and microfinance indicators to <u>MFIs with an SME component</u>. 	Apply the full SME and Microfinance selections of indicators to all investees, leaving the applicability choice case by case to the investment officer.

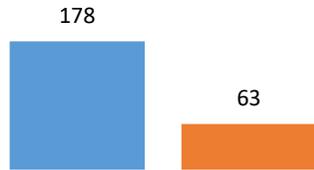
The three assessment framework options applicable to the three types of investees on the continuum (MFIs, MFIs with an SME component and SME FSP) are summarized and compared in figure 7: the MFIs module is the current version of Universal Standards of social performance management; the two modules for MFIs with an SME component and SME FSP are the ones suggested in this study.

¹³ Aligning Investors due diligence to the Universal Standards (ALINUS) is a subset of the Universal Standard for due diligence agreed upon by a group of responsible social investors. Similarly to the first ALINUS selection, investors can agree upon a common selection of indicators of the SME version of the Universal Standards.

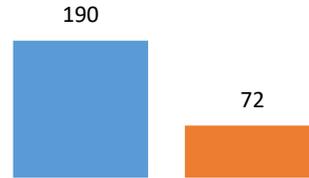
¹⁴ MFI with SME component can be defined for example as those with 20%-50% portfolio in SME, or with different criteria according to the investor preference – see step 2 of figure 5. Similarly, examples of criteria to identify MFIs and SME FSP may be <20% portfolio in SME and >50% portfolio in SME, respectively.

Figure 7: Assessment frameworks for MFIs, upscaling MFIs with an SME portfolio component and SME financial service providers

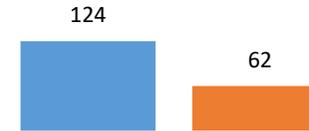
MFI social performance (Universal Standards – current version)



MFI with SME component (e.g. 20%-50% portfolio in SME) sustainable performance



SME financial service provider (e.g. >50% portfolio in SME) sustainable performance



■ # indicators Full ■ # indicators ALINUS



The indicators suggested to assess the sustainable performance of SME financial service providers are described in table 3. Please note that the indicator codes in this table are kept as in the current version of CERISE SPI4 tool¹⁵ for ease of comparison, and will need to be re-numbered when integrating the SME module in the SPI4 tool. The excel document *Sustainable performance assessment of SME FSP* provides additional details to table 3 on the suggested indicators:

- Tab *SME FSP* presents the indicators to assess the sustainable performance of SME financial service providers, comments on the changes made to the original microfinance indicators (column *Recommended adaptation*), the initial suggestion of SME ALINUS selection (column *SME ALINUS*) and the indication of the ESMS indicators (column *ESMS*);
- Tab *MFI with SME component* presents the optional hybrid selection of SME indicators and microfinance indicators for MFIs with an SME component.

Table 3: suggested indicators to assess the sustainable performance of SME FSP

1	DEFINE AND MONITOR SUSTAINABILITY GOALS
1 A	The provider has a strategy to achieve its sustainability goals.
1 A 1	The strategy includes environment, social or economic development (e.g. job creation, economic growth, access to health and education, environmental protection, etc) as the objectives of serving SMEs.
1 A 1 1	The provider's strategy specifies:
1 A 1 1 1	Target clients, which include SMEs
1 A 1 1 2	The expected social outcomes, including creating benefits for these clients, employment generation or economic growth
1 A 1 1 3	How the provider will meet the needs of the target clients through products, services, and other mechanisms
1 A 3	The provider's strategy defines sustainability indicators to measure progress.
1 A 3 3	The provider defines SME outreach and outcome indicators in line with its sustainability strategy.
New	The provider defines SME outreach indicators such as: number of SME reached, number of SMEs without previous formal loans, including the break down by gender, age group, rural/urban, region -lower and higher income-, sector, or other criteria relevant for the provider strategy.
New	The provider defines its environmental and social policy.
New	The provider has a formal Environmental and Social (E&S) policy, approved by the top management and integrated or referenced in the credit policy. The E&S policy includes at a minimum the objectives, the roles and responsibilities, and the key components of the E&S management system (ESMS): exclusion list, E&S risk categories, assessment checklists, guidance notes, types of actions to manage risks and monitoring. The E&S policy is reviewed at least every 3 years.
1 B	The provider collects and discloses accurate client data specific to its sustainability goals.
1 B 2	The provider monitors the financed SMEs profile and the SMEs job creation and economic growth.
1 B 2 1	The provider monitors the financed SMEs profile, such as: owner gender, owner age group (including youth), rural/urban, region, sector, or other relevant criteria, number of jobs maintained and created, quality of jobs, increase in SMEs total assets, sales, net income or equity, or other indicators of economic growth.
1 B 2 2	The provider monitors the outcomes in financed SMEs.

¹⁵ The new indicators are formulated in an extended manner to provide more guidance to the user. The guidance content of the indicators may be separated from the indicator and included in guidance material as part of the future adaptations of the SPI4 tool.

1 B 2 2 1 The provider monitors systematically or on a sample basis one or more of the following outcomes in financed SMEs: number of jobs maintained and created, increase in SMEs total assets, sales, net income or equity, or other indicators of environmental, social or economic development. When possible, outcome results are broken down by owner gender, owner age group, rural/urban, region, sector, or other relevant criteria.

7 C 1 The provider identifies the environmental and social (E&S) risks and opportunities in its portfolio.

New All loan applications are systematically screened against the exclusion list to avoid financing activities with a clear negative environmental or social impact.

New The provider defines E&S risk categories (e.g. low, medium, high) to classify the SME portfolio using rapid screening criteria (different than the E&S assessment, see next indicator) appropriate to the local context (e.g. loan amount, loan term, sector, region, etc). The risk categories can be based on international tools (e.g. FMO sustainability guidance e-learning tool, well suited to upscaling MFIs; CDC toolkit to categorize and manage E&S risk and opportunities, well suited to downscaling banks) and should be adapted in language and content to the local context. The risks should be relative to the portfolio of the provider and the categories should be defined in such a way that some portfolio share is classified under each category (having 100% portfolio in low risk category is not useful). The provider adopts one of the following approaches, or a combination:

New Individual level. The provider classifies each loan by low, medium or high E&S risk through a rapid screening of each loan as part of the initial loan assessment. The provider records the loan E&S risk category in the loan file.

New Cluster level. The provider defines portfolio clusters, classifies each cluster by E&S risk category through a rapid screening, and identifies priority clusters.
-Portfolio clusters are groups of loans likely to share common E&S issues and opportunities. Portfolio clusters are defined combining multiple factors, e.g. sector and loan size, or sector and region, or other criteria relevant in the context.
-Each portfolio cluster is classified to an E&S category (low, medium, high) based on a rapid screening of the E&S risks and opportunities information available from the credit department, national sources and international tools. Categorizing clusters by E&S risk can be done by the E&S manager, credit manager, risk manager or other experienced employee or consultant. The distribution of clusters by E&S risk category shall be reviewed at least every two years, or whenever new evidence about risks and opportunities arises.
-Each individual loan is classified in the E&S risk category of the cluster it belongs to. Record the loan E&S risk category in the loan file.
-The provider identifies the priority clusters as the ones concentrating the largest portfolio shares and the highest E&S risks and opportunities.

7 C 1 1 The provider carries out an assessment of E&S risks and opportunities proportionate to each risk category for the SME portfolio. The provider adopts one of the following approaches, or a combination:

New Individual level. The provider develop E&S checklists and integrates them in the loan appraisal to identify the key gaps and opportunities for improvement. The provider develops different E&S checklists with increasing depth of analysis (from basic to robust) proportionate to the low, medium and high E&S risk category. Sector-specific questions are identified within each checklist category (low, medium, high risk). Modular checklists can be implemented either through digital applications with dynamic questions that change in real time based on the information entered (e.g. loan size, sector) or through a set of different paper-based questions accompanied by applicability guidance. The questions to be included in the checklists can draw from international tools (e.g FMO and CDC sectoral guidance notes) and should be adapted to the local context. The E&S checklist is applied to each loan and results in an E&S risk and opportunity rating (A, B, C); the E&S rating is included in the loan assessment file for the credit committee review.

New Cluster level. For priority clusters, the provider identifies E&S key gaps and opportunities for improvement. For each priority cluster, the provider identifies the most frequent and relevant E&S risks and opportunities based on a detailed review of the provider experience, investigation of the local context (e.g. review of a sample of loans, research in partnership with other organizations), research available and international tools. Assessing the E&S risks of priority clusters can be done by the E&S manager, credit manager, risk manager or other experienced employee or consultant. The clusters' E&S key gaps and opportunities are reviewed at least every year, or whenever new evidence about material risks and opportunities arises.

7 C 2 The provider takes measures to address the E&S risks and opportunities and monitors the E&S performance

7 C 2 1 **The provider takes measures to address the E&S risks and opportunities in the SME portfolio. The measures are commensurate to: E&S risks, borrower capacity, and provider leverage on the borrower (type of financing). Measures with a positive impact on E&S, business performance and business capacity to meet loan repayments should be prioritized. Except for high risks, measures can be aimed at improving on some of the key gaps identified, if full compliance for all the gaps is not realistic in the short term (incremental approach). The E&S measures should be valued and proposed to the client as opportunities to reduce the business risks (operational, reputational, regulatory) and strengthen the business performance (e.g. cost savings from energy and resource use efficiency). The provider adopts one of the following approaches, or a combination:**

New Individual level. Based on the E&S assessment, identify and implement priority measures when necessary to reduce risks and build on opportunities. Develop guidance notes including useful measures that can be suggested to address the most frequent E&S risks and opportunities. The guidance notes can draw from international tools (e.g FMO and CDC) and should be adapted to the local context. Measures include at a minimum awareness raising, that can take the form of sensitization during the loan assessment with the help of guidance notes, or a separate activity. Additional measures can be: training, plan to implement one or more punctual actions, comprehensive action plans. The measures should be reflected in the loan agreement to enforce the borrower commitment.

New Cluster level. Based on the clusters' E&S assessment, the provider identifies and implements priority measures when necessary to reduce risks and build on opportunities at aggregate level. Measures can include: awareness raising (e.g. sensitization event on child labor impact for businesses in the textile value chain), training (e.g. group workshops to provide guidance on water efficiency in agri-business), or other activities (e.g. facilitate trips to a model farm). Awareness raising and training events should ideally be repeated over time for more effectiveness.

New	The provider conducts E&S progress monitoring activities for the high E&S risks in portfolio. The type and frequency of monitoring is commensurate to the specific risks and opportunities within the high category. The provider adopts one of the following approaches, or a combination:
New	Individual level. Depending on the measures taken, the provider monitors the high risk loans by reviewing the actions implemented by the borrower: during monitoring visits, through borrower's action plan progress reports (if any) or at loan renewal. The E&S monitoring should be integrated in the overall portfolio monitoring process.
New	Cluster level. For high risks, the provider follows-up as much as possible with the borrowers who benefited from E&S improvement activities to observe the progress made and identify the possible need to refresh E&S awareness and training contents.
1 B 4	The provider analyzes and reports sustainability data internally and externally.
1 B 4 1	The provider creates management reports that include sustainability data (SME outreach and outcomes, client protection, internal ecological footprint), at least once a year.
1 B 4 2	The provider discloses sustainability data, including its internal ecological footprint, through one or more of the following channels:
1 B 4 2 1	The MIX
1 B 4 2 2	Other channels such as:
1 B 4 2 3 i	National/regional network
1 B 4 2 4 i	Global network
1 B 4 2 5 i	Its annual report
1 B 4 2 6 i	The national regulator
1 B 4 2 7 i	Other
2	ENSURE BOARD, MANAGEMENT AND EMPLOYEE COMMITMENT TO SUSTAINABILITY
2 A	Members of the board of directors hold the provider accountable to its sustainability goals.
2 A 2	The board uses sustainability information to provide strategic direction, taking into account both financial and sustainability goals.
2 A 2 1	The board reviews each of these topics, at least annually, in order to determine whether the provider is meeting its sustainability goals:
2 A 2 1 3	Client protection practices
New	Summary information on the E&S risks and opportunities in the loan portfolio
2 A 2 1 8	Independent information on the above (e.g., from internal audit or independent external social assessments, such as audit/rating)
2 B	Senior management is committed to and oversees implementation of the provider's sustainability strategy.
2 B 1	Senior management demonstrates commitment to the sustainability strategy.
New	Top management demonstrates commitment to developing and maintaining an Environmental and Social Management System (ESMS) tailored to the portfolio risks and opportunities.
2 B 2	Senior management analyzes and addresses environmental and social risks.
2 B 2 1	Senior management assesses the following sustainability risks at least annually:
2 B 2 1 2	Incidents resulting in harm to clients
New	Environmental and Social risks and opportunities summary report, including the portfolio breakdown by E&S risk category and/or rating, and the list of high risk loans and E&S accidents.
2 B 2 2	Internal audit/supervisors review the implementation of the environmental and social management system as part of their regular activities, including the compliance to the exclusion list, the quality of the E&S assessment, and the mitigation measures taken. Environmental and social risks are included in the risk management policy and tools.

2 B 3	The roles and responsibilities for managing environmental and social risks are clearly assigned in the organization.
2 B 3 1	The roles and responsibilities for managing environmental and social (E&S) risks are specified as appropriate in the job descriptions of the E&S manager/coordinator, credit manager, risk manager, loan officers / relationship officers, and any other position involved in the environmental and social management system (ESMS).
New	An E&S manager/coordinator (full time or part time) with sufficient seniority is appointed to ensure the effective implementation of the E&S policy.
New	A pole of E&S expert loan officers, with deeper knowledge about the ESMS, can be identified (e.g. 1 per branch) and assigned the role of coaching colleagues in case of support needed to perform the E&S assessment and management operations.
2 C	Employee training and evaluation includes environmental and social criteria.
2 C 2	The provider trains and evaluates employees on both E&S and financial performance responsibilities related to their position.
2 C 2 1	The provider trains employees to ensure employee capacity to implement the ESMS. The ESMS training is part of the overall training plan. The ESMS training modules provided to the loan officers are tailored to the type of portfolio they manage and the E&S tools they need to use (e.g. basic versus advanced E&S checklist in case loan officers are specialized in portfolios requiring different approaches). Training is provided in all branches (e.g. by branch managers) and its frequency is sufficient to maintain capacity given the staff recruitment and rotation.
2 C 2 2	Employee performance appraisals include sustainability factors, such as:
2 C 2 2 1 i	Customer service
2 C 2 2 4 i	Quality of the environmental and social assessment in loan appraisal
2 C 4	The provider incentivizes staff to approve quality loans. (Client protection standard 2.5)
2 C 4 1	The provider has a policy and documented process in place to determine sales and caseload targets and monetary incentives for credit staff (if used), including flags for caseload levels that signal high risk.
2 C 4 2	The provider reviews incentive schemes at least annually to assess whether they are reasonable in comparison to industry benchmarks and market risks.
3	DESIGN PRODUCTS, SERVICES AND DELIVERY CHANNELS THAT MEET CLIENTS' NEEDS AND PREFERENCES
3 A	The provider understands the needs and preferences of different types of clients.
3 A 1	The provider seeks information on clients' needs, preferences, and experiences for product design and delivery.
3 A 1 1	The provider conducts market research before introducing or modifying products. The research covers the following:
3 A 1 1 1	The characteristics of target clients
3 A 1 1 2	Need/preferences for products
3 A 1 1 3	Need/preferences for delivery channels
3 A 1 1 4	Potential barriers to access products
3 A 1 2	The provider analyzes results of market research by client characteristics.
3 A 2	The provider monitors the suitability of products, services and delivery channels. (Client Protection standard 1.2)
3 A 2 1	The provider conducts satisfaction surveys or other systematic means of gathering feedback on client satisfaction with products, services and delivery channels, at least annually.
3 A 2 1 1 i	Surveys are done at least once a year
3 A 2 1 2 i	Surveys cover a representative sample of clients
3 A 2 2	The provider analyzes product usage by client characteristic.

3 A 2 3	The provider evaluates the clients' ability to interact effectively with the technologies it uses to provide services and information.
3 A 2 4	The provider analyzes data from insurance products to assess their value to clients and client satisfaction. Data should include: product uptake, claims ratio, claims rejection ratio, renewal rate, coverage ratio, demographics of those covered, complaints ratio, average time for claim's resolution, reasons for lapses in coverage and rejection of claims.
3 B	The provider's products, services and delivery channels are designed to benefit clients, in line with the provider's sustainability goals.
3 B 1	The provider offers products and services that are suited to clients' needs. (Client Protection standard 1.1)
3 B 1 2	Credit products are designed to require principal to be paid down regularly and or with flexible repayment schedules based on client cash flows.
3 B 1 3	A policy is in place to ensure fair collateral requirements that do not create severe hardship for clients.
3 B 1 3 1	The provider has a list of assets or goods that cannot be pledged as collateral. The list is based on local norms and includes items that would create severe hardship or total loss of income earning ability for the client.
3 B 1 3 2	Collateral valuation is determined based on a verifiable market price/resale value. The credit committee or second level approval verifies the collateral valuation.
3 B 1 4	The provider trains staff so that they fully understand how to determine whether products, services and channels are suitable for specific clients, and for lending staff, that collateral policies are understood.
3 B 1 5	The provider verifies that third parties (agent network managers, etc.) train their own representatives to determine whether products, services and channels are suitable for specific clients, and for lending staff, that collateral policies are understood.
3 B 1 6	The provider considers design and delivery suitability when products and services are designed or offered through a third-party provider.
3 B 1 7	When insurance is offered through third-party providers, the provider has a transparent process for selecting insurers which involves a competitive bidding and/or market study and a consideration of the value and appropriateness of the products and services offered.
3 B 1 8	The provider's contract with its insurer provides the provider with frequent opportunities to review and cancel, taking into consideration complaints by clients and responsible pricing and delivery.
3 B 2	The provider's products and services are designed to reduce barriers to financial inclusion for target clients.
3 B 2 1	Products, services and delivery channels are appropriate for the target population in terms of:
3 B 2 1 1	Size (e.g., small minimum loan and saving size)
3 B 2 1 2	Guarantee and/or guarantor requirements (e.g., soft or flexible physical collateral, financial books not necessary)
3 B 2 1 3	Loan repayment schedules, savings withdrawal conditions (e.g., compatible with the cash-flows of the target populations)
3 B 2 1 4	Loan/saving/insurance/payments/remittances product use (i.e., compatible with the target clients' activities)
3 B 2 1 5	Methodology and technology used for delivery
3 B 2 1 6	Other (please specify)
3 B 3	The provider's products and services are designed to reduce client risks.
3 B 3 1	The provider offers products and services that help reduce client vulnerability and cope with common emergencies, such as:
3 B 3 1 1	Emergency loans

3 B 3 1 2	Rescheduling or restructuring of loans when appropriate
3 B 3 1 3	Savings, including but not limited to products with an easy withdrawal process (e.g., easy withdrawal in case of emergency)
3 B 3 1 4	Voluntary insurance (see examples in Tip Box)
3 B 3 1 5	Payments/remittances services
3 B 3 1 6	Training services, including women's empowerment, business, health and other educational services
3 B 3 1 7	Funds or reserves earmarked in case of collective disaster
3 B 3 1 8	Other (please specify)
7 D 3 2	The provider offers, directly or via a third-party insurer, agricultural or climatic micro-insurance products that contribute to help clients become more resilient to environmental shocks or climate change.
3 B 3 2	The provider's lending policies state that the institution should lend in local currency to the extent possible, to protect clients from foreign exchange risk.
3 B 4	The provider creates benefits for clients by enabling them to invest in economic opportunities and address anticipated household needs.
3 B 4 1	The provider offers a diverse or flexible set of products/services which can be used by clients to invest in economic opportunities and address anticipated household needs at each life cycle stage, such as:
3 B 4 1 1	Business loans (start-up, working capital, investment)
New	The provider offers specific loan products or other financial products to finance renewable energy, energy efficiency technologies, sustainable or climate-smart agriculture, environmentally-friendly practices and activities (e.g: recycling, waste management, clean water, etc.).
3 B 5	A policy and documented process are in place to prevent aggressive sales techniques and forced signing of contracts. (Client Protection Standard 1.3)
3 B 5 1	The provider defines "aggressive sales" and levels that trigger additional monitoring.
3 B 5 2	The provider trains staff not to use aggressive sales techniques and to respect clients' right to refuse products.
3 B 5 3	The provider has a mechanism of rigorous and regular monitoring of front line staff and third-party sales techniques (e.g., agents, insurance companies or money transfer companies) to impede aggressive sales. When 'red flags' are raised, it triggers corrective measures.
3 B 5 4	The provider's incentive/ bonus structure does not promote aggressive sales.
3 B 5 5	The provider does not use deceptive marketing techniques.
3 B 6	The provider monitors the risks associated with agents and networks and addresses problems.
3 B 6 1	If the provider uses agents and/or digital channels, it monitors and takes action to manage the following risks:
3 B 6 1 1	Inability to transact due to network downtime and insufficient agent liquidity
3 B 6 1 2	Fraud
3 B 6 1 3	Poorly trained agents/ insufficient agent knowledge of the product
3 B 6 1 4	Loss of privacy or data security
3 B 6 1 5	Insufficient recourse mechanisms available at agents
3 B 6 2	If provider uses agents, it verifies that third parties (agent network managers, etc.) train their own representatives on the following topics:
3 B 6 2 1	Fair and responsible treatment of clients. The training is aligned with the provider's code of conduct and spells out unacceptable behavior.
3 B 6 2 2	The provider's debt collections practices and loan recovery procedures.
3 B 6 2 3	Not using aggressive sales techniques and to respect clients' right to refuse products.
3 B 6 2 4	Loan analysis and the credit approval process.

- 3 B 6 2 5 How the complaints mechanism works, the role of complaints staff, how to appropriately manage complaints until they are resolved, and how to refer them to the appropriate person for investigation and resolution.
- 3 B 6 2 6 Policies and processes related to privacy of client data.
- 3 B 6 3 **If the provider uses agents, documentation that lists all fees, terms, taxes and cancellation conditions is accessible for clients of any payment service provided at the provider's agent (such as: money transfers, bill payments, airtime top-up, and deposit withdrawal).**
- 3 B 6 4 **If a funds transfer or similar electronic transaction is made to the incorrect account, mechanisms are in place to correct the error by either the agent, branch or provider.**
- 3 B 6 5 **The provider verifies that fees charged by third-party providers or agents are fully disclosed to clients.**

4	TREAT CLIENTS RESPONSIBLY
4 A	Prevention of Over-indebtedness
4 A 1	The provider has a sound policy and well-documented process for loan approvals and makes decisions using appropriate information and criteria. (Client protection standard 2.1)
4 A 1 1	The provider defines the maximum percentage of a borrower's disposable income that can be applied to debt service, including debt from the provider and other lenders, and uses this amount in determining maximum loan amounts and terms.
4 A 1 2	The loan approval process evaluates repayment capacity through a cash flow analysis and review of client indebtedness. The analysis considers income, expenses and debt service related to business and family and any other sources, including informal sources.
4 A 1 3	The loan approval process involves at least one staff member other than the one directly involved in the client relationship (e.g., senior loan officer, branch manager, credit committee).
4 A 1 4	The provider has a policy that defines when clients are permitted to prepay loans. If prepayment is allowed, a cooling off period between two loans is required.
4 A 1 5	The provider has a rigorous internal control process to verify the uniform application of policies and procedures about client underwriting, and it can produce evidence of corrective measures taken in case of partial or incorrect implementation.
4 A 1 6	All new staff are trained on loan analysis, including SME specific methodology, and the credit approval process and all credit staff receive refresher trainings annually.
4 A 2	The provider uses credit reporting information, when feasible in the local context. (Client protection standard 2.2)
4 A 2 1	Policy and documented process requires:
4 A 2 1 1	[credit bureau] Timely reporting to credit bureaus and use of credit reports systematically in the approval process for all loans.
4 A 2 1 2	[no effective credit bureau] The provider shares data with competitors and uses data from competitors in loan approvals, as feasible in local context.
4 A 3	The provider's senior management and board monitor the market and respond to heightened over-indebtedness risk. (Client protection standard 2.3)
4 A 3 1	The provider's loan officers and branch managers monitor portfolio quality at least monthly to identify areas with high risks of over-indebtedness. Analysis is done by branches, products and client segments. SME portfolio quality review includes vintage analysis and concentration analysis.
4 A 3 2	The provider's senior management and the board of directors review results related to over-indebtedness in the market and the provider's portfolio quality at least quarterly. Measures to prevent over indebtedness are discussed, implemented, and monitored and records of these actions exist.
4 A 4	The provider maintains sound portfolio quality. (Client protection standard 2.4)
4 A 4 1	Total credit risk:

4 A 4 1 1 Has not averaged more than 10% during any quarter in the past 3 years, including the most recent quarter.

4 A 4 1 2 Has exceeded 10% at any point in the past 3 years or in the past quarter, and the provider demonstrates that corrective measures have been put in place.

4 B Transparency

4 B 1 Policy and documented process are in place to require transparency on product terms, conditions and pricing. (Client protection standard 3.1)

4 B 1 1 The provider gives clients with a Key Facts Document that contains the following information about their loans:- total loan amount- pricing, including all fees- total cost of credit (all principal, interest and fees) and APR/EIR- disbursement date and loan term- repayment schedule with principal and interest amounts, number, and due dates of all repayment installments;- and moratorium interest rates.

Loan contracts include all information included in the Key Facts Document, in addition to:

- grace period (if any)
- penalties for arrears or prepayment
- compulsory savings (if any)
- linked products (if any)
- member or guarantor obligations (if any)
- collateral (if any) collateral seizing procedures
- any restrictions on loan use
- cooling off periods
- cancellation rights
- consequences of late payment and default
- and whether terms and conditions can change over time.

Savings documentation includes:

- fees (including closure fees)
- interest rate and how amounts will be calculated
- minimum and maximum balances
- and whether deposits are governmentally insured.

Insured clients are provided the following information at the time of enrollment (orally and/or in writing):

- premium
- events covered
- individuals covered
- amount and term of coverage
- when and how to file a claim
- required documentation to prove damage
- any major exclusions
- terms related to cancelation and prepayment and
- cooling off periods, cancellation rights, and other relevant rights under policies.

Clients are informed about the importance of informing beneficiaries of their coverage under the client's insurance products.

4 B 2 The provider communicates with clients at an appropriate time and through appropriate channels. (Client protection standard 3.2)

4 B 2 1 A documented process is in place to communicate information related to the product or service (on product terms, conditions and pricing, including contracts) before the client signs or renews it.

4 B 2 1 1 The provider gives clients adequate time to review the terms and conditions of products, ask questions, and receive additional information prior to signing contracts. The client has an opportunity to decline the product (loan + insurance combination in the case of bundled products).

4 B 2 1 2 Upon signing, clients receive a signed copy of contract with no blank spaces. This applies to group products as well as individual. Digital services should be embedded into account opening documents for ease of client processing.

4 B 2 1 3 Clients receive a certificate of coverage that includes the most salient information, which in all cases includes:

- premium;
- events covered;
- individuals covered;
- amount and term of coverage;
- when and how to file a claim.

This certificate is delivered to clients promptly after enrollment (in the case of insurance enrollment at the time of the loan application, the certificate should be delivered at or before loan disbursement).

4 B 2 1 4 When initiating an insurance claim, clients are provided information on their prospective benefits.

4 B 2 2 A documented process is in place to provide clients with regular and on-demand information on account balances. Information is accurate and clear.

4 B 3 The provider takes adequate steps to ensure client understanding and support client decision making. (Client protection standard 3.3)

4 B 3 1 The provider's public information supports informed decision making by clients.

4 B 3 2 The provider participates in industry transparency initiatives, if available.

4 C Fair and Respectful Treatment of Clients

4 C 3 Loans are collected by staff and collection agents in an appropriate manner. (Client protection standard 5.3)

4 C 3 1 A policy is in force that clearly defines appropriate and inappropriate debt collection practices by staff and third parties.

4 C 3 2 The provider trains staff on the provider's debt collections practices and loan recovery procedures (including actions they are expected to take and those they are prohibited from taking in case of default).

4 C 3 3 The provider has a policy for rescheduling loans/ refinancing/writing off on an exceptional basis.

4 C 4 The provider has effective systems to prevent and detect fraud. (Client protection standard 5.4)

4 C 4 1 A documented process is in place to avoid fraud related to client savings, and is in line with international best practice.

4 C 4 2

4 C 5 The provider management and oversight support fair and respectful treatment of clients. (Client protection standard 5.6)

4 C 5 1 The provider has an internal control process to verify uniform application of policies and procedure related to fair and respectful treatment of clients. The provider can produce evidence/records of monitoring/reporting of corrective measures taken in case of partial or incorrect implementation of the policies and procedures to ensure an adequate compliance in the practice.

4 C 6 Insurance claims are processed in a fair and timely manner. (Client protection standard 5.5)

4 C 6 1 Almost all claims are settled within one month or such shorter period as may be required by local law (some exceptions may be permitted due to complexity).

4 C 6 2 Claimants are notified when claims are received and when they are settled.

4 C 6 3 When a claim is denied, claimants are provided notice, the reason for rejection, and a reasonable time period during which to correct any deficiency; in almost all cases, such notice is received within one month of the filing of the claim (some exceptions may be permitted due to complexity).

4 D	Privacy of Client Data
4 D 1	Client data is kept secure and confidential. (Client protection standard 6.1)
4 D 1 1	A policy and documented process are in place to maintain the confidentiality, security, and accuracy of clients' personal, transactional and financial information. They cover gathering, processing, use, distribution and storage of client information.
4 D 1 2	The provider's systems protect against theft or misuse of client data or identity; security breaches, and fraudulent access.
4 D 1 3	The provider's agreement with third-party providers that have access to client data specifies that these providers will maintain the security and confidentiality of client data. The provider monitors fulfillment of this agreement and takes action when problems are identified.
4 D 2	Clients are informed about data privacy and consent to the use of their data. (Client protection standard 6.2)
4 D 2 1	Starting at the time of the application, clients give their consent before the provider shares personal information with any external audience, including credit bureaus, family members, guarantors, insurance agents, collections companies, and marketing material or other public content. Staff is required to highlight the text of consent signed by a client.
4 D 2 2	Product contracts include a clear, concise explanation of how client data will be protected and how it may be used or shared and with whom, including sharing with a credit bureau.
4 D 2 3	The provider has an effective training program in place to ensure that staff understand and have the skills to implement the policies and processes related to privacy of client data.
4 D 2 4	Clients name beneficiaries for life insurance policies, and are reminded to notify those beneficiaries that they have been designated.
4 E	Mechanisms for Complaints Resolution
4 E 1	The provider has an effective system in place to receive and resolve client complaints. (Client protection standard 7.1)
4 E 1 1	Clients can submit complaints to the provider through someone other than their main point of contact for obtaining the product and that person's supervisor.
4 E 1 2	Mechanisms to submit complaints are adapted to clients' needs and preferences and easily accessible (toll free number, etc.). Suggestion boxes are not sufficient, and at least two channels are available.
4 E 1 3	Resolution of complaints is prioritized based on their severity, and almost all complaints are resolved within one month (some exceptions may be permitted due to complexity).
4 E 1 4	There is a clear and secure system in place so that complaints from branches and (if applicable) agents reach the provider's complaints handling staff and/or management.
4 E 1 5	Complaints about the provider's third-party providers can be submitted directly to the third-party providers or to the provider. If submitted to the provider's third-party provider, the provider needs to get reports of the complaints.
4 E 2	The provider informs clients about their right to complain and how to submit a complaint. (Client protection standard 7.2)
4 E 2 1	Front line staff and agents inform clients on how to submit a complaint during the product application process. This includes how to submit a complain to a mechanism other than the provider, if available (e.g., self-regulatory organization or public sector ombudsman).
4 E 2 2	Information on how to submit a complaint is displayed visibly in branch offices, at agents and/or included in product documentation.
4 E 2 3	Clients are notified when complaints are received and when they are resolved.

4 E 3	The provider uses information from complaints to manage operations and improve product and service quality. (Client protection standard 7.3)
4 E 3 1	Management regularly reviews KPIs (e.g., percent resolved, average time to resolve) and takes corrective action to resolve mis-handled cases and improve systematic shortcomings.
4 E 3 5	The provider's complaints handling training covers how the complaints mechanism works, the role of complaints staff, how to appropriately manage complaints until they are resolved, and how to refer them to the appropriate person for investigation and resolution.
5	TREAT EMPLOYEES RESPONSIBLY
5 A	The provider follows a written Human Resources policy that protects employees and creates a supportive working environment.
5 A 1	A written Human Resources policy compliant with national law is available to all employees and explains their rights.
5 A 1 1	The written HR policy is available to all employees and covers employees' rights related to the following:
5 A 1 1 1	Wages / salary scale
5 A 1 1 2	Benefits (i.e., social protection)
5 A 1 1 3	Working time and conditions, overtime pay or other compensation, rest periods and paid leave
5 A 1 1 4	Safety at work
5 A 1 1 5	Grievance resolution
5 A 1 1 6	Whistle blower policy
5 A 1 1 7	Anti-harassment safeguards
5 A 1 1 8	Disciplinary procedures and possible sanctions
5 A 1 1 9	Freedom of association and provision of any collective bargaining agreements
5 A 1 1 10	Conditions for dismissal and exit formalities
5 A 1 1 11	Non-discrimination
5 A 1 2	The following categories are covered by the financial provider's non-discrimination policy:
5 A 1 2 1	Sex
5 A 1 2 2	Race/ethnicity/national extraction/social origin
5 A 1 2 3	Religion
5 A 1 2 4	HIV status
5 A 1 2 5	Disability
5 A 1 2 6	Sexual orientation
5 A 1 2 7	Political affiliation/opinion
5 A 1 2 8	Participation in a trade union
5 A 2	Employee compensation levels reflect competitive market rates, or at least the national or local sector minimum wage.
5 A 2 1	The provider has a transparent salary scale and pays salaries based on market rates and the national or sectorial minimum wage.
5 A 3	The provider accepts and responds to employee grievances through a formal and confidential grievance system.
5 A 3 1	The provider has a formal grievance mechanism in place that allows employees to raise workplace concerns (e.g., sexual harassment) in a confidential manner.
5 A 3 2	The mechanism is actively used to collect and resolve employee grievances.
5 A 4	The provider assesses employees' health and safety risks and takes steps to mitigate them before they occur. The provider investigates, documents, and reports all occupational incidents (i.e., accidents, injuries, and diseases) that occur.
5 A 4 1	The provider assesses, at least annually, the health and safety risks that employees face on the job, and investigates, documents, and reports all occupational accidents, injuries or diseases. The results are disaggregated by gender.

5 A 4 2	Based on this assessment, the provider takes necessary measures to mitigate those risks and provides to all employees, free of charge, training, equipment, adjustments to working hours.
5 A 4 3	The provider compensates employees who miss work due to work-related injuries.
5 B	The provider communicates to all employees the terms of their employment and provides training for essential job functions.
5 B 1	Employees receive clear documentation related to their job responsibilities and performance evaluation.
5 B 1 1	Each employee has a written employment contract and receives clear documentation concerning:
5 B 1 1 1	Salary level
5 B 1 1 2	Benefits
5 B 1 1 3	Employment conditions
5 B 1 1 4	Job description / scope of work
5 B 1 1 5	Work rules and possible sanctions
5 B 1 1 6	Performance evaluation process
5 B 1 2	Each employee understands how his/her performance will be evaluated and rewarded by the provider.
5 B 2	Employees receive job-specific training and/or skill development.
5 B 2 1	All new employees receive an orientation and job-specific training.
5 B 2 2	The majority of employees receive ongoing skills training and/or skill development related to their essential job functions, at least annually.
5 B 2 3	The provider evaluates whether unjustified discrepancies exist between the opportunities for training and promotion for different categories of employees (e.g., male/female, management/employees, HQ/branches). And if unjustified discrepancies exist, action is taken to correct them.
5 C	The provider monitors employee satisfaction and turnover.
5 C 1	The provider analyzes employee satisfaction.
5 C 1 1	In the past 12 months, the provider has completed an analysis of employee satisfaction (including disaggregation of results by gender) and shared the results with the employees.
5 C 1 2	Formal satisfaction surveys ask employees to comment on topics such as:
5 C 1 2 1	Workload
5 C 1 2 2	Employee training
5 C 1 2 3	Communication, participation, and leadership from supervisors
5 C 1 2 4	Other relevant topics (see Tip Box for examples)
5 C 1 3	Employees are given the option to respond anonymously to satisfaction surveys.
5 C 2	The provider monitors the rate of employee turnover and understands the reasons for employee exit.
5 C 2 1	The provider gives all outgoing employees the opportunity for an exit interview or to complete an exit form.
5 C 2 2	The provider annually analyzes:
5 C 2 2 1	Rate of employee turnover
5 C 2 2 2	Reasons for employee exit
5 C 2 2 3	Turnover and exit data by employee segment (e.g., position, gender, branch)
6	BALANCE FINANCIAL AND SUSTAINABLE PERFORMANCE
6 A	The provider sets and monitors growth rates that promote both institutional sustainability and client sustainability
6 A 1	The provider has a policy on sustainable target growth rates that considers the provider's growth capacity, institutional sustainability, and client sustainability.
6 A 1 1	Target growth rates consider the following external factors:

- 6 A 1 1 1 Demand by client type based on market research, credit bureau information, network data or other sources
- 6 A 1 1 2 Penetration rate / market potential / saturation analysis
- 6 A 1 1 3 Market infrastructure (e.g., capacity of credit bureau)
- 6 A 1 2 Target growth rates consider the following internal factors:**
- 6 A 1 2 1 Internal control and internal audit capacity to manage risk
- 6 A 1 2 2 Human resource capability, including employee numbers, skills, training, turn-over, workload and productivity
- 6 A 1 2 3 Management information system quality and capacity
- 6 A 1 2 4 Service quality and client satisfaction with field officer's customer service—as evaluated by management, internal audit, and clients

6 A 2 The provider monitors growth and enhances internal capacity as needed.

6 A 2 3 The provider modifies internal capacity as needed.

6 B Equity investors, lenders, board and management are aligned on the provider's social goals and implement an appropriate financial structure in its mix of sources, terms, and desired returns.

6 B 3 The provider protects the liabilities it has to clients.

6 B 3 1 The risk policies protect the liabilities the provider has to its clients (e.g., savings, cash collateral, and insurance claims)

6 B 4 The provider has a transparent financial structure, as reflected in its annual audited financial statements.

6 B 4 1 In keeping with the International financial Reporting Standards (IFRS), the provider discloses in its financial statements the following information:

- 6 B 4 1 1 All risks related to assets or liabilities (foreign exchange risk, interest rate risk, maturity risk).
- 6 B 4 1 2 Contingent liability
- 6 B 4 1 3 Off-balance sheet sources of funding
- 6 B 4 1 4 All details of its shareholder structure and participations in other companies.

6 B 4 2 The provider's annual audited accounts are publicly available.

6 C The provider sets prices responsibly.

6 C 2 The provider's pricing policy is aligned with the interest of clients. (Client Protection standard 4.2)

6 C 2 2 The provider's pricing practices are responsible.

- 6 C 2 2 4 Pricing for insurance, including mandatory insurance fees, covers at least premiums passed to insurance companies and actual costs.
- 6 C 2 2 5 Insurance pricing is adjusted based on actual claims experience.
- 6 C 2 2 6 Claims ratios for life insurance are no less than 30%. If below 30%, raises a yellow flag and can be justified by the provider.

6 C 2 3 The interest rate is set to be affordable, taking into account the costs required to deliver credit (considering cost of funding, operations, loan losses and returns to capital).

6 C 2 3 1 Annual Percentage Rate (APR) for all of the provider's major products (> 20% portfolio) is within the accepted performance range. If it is outside the range, the provider can provide a valid justification.

6 C 2 3 2 Portfolio Yield is within the accepted performance range. If it is outside the range, the provider can provide a valid justification.

6 C 3 The provider's financial ratios do not signal pricing issues. (Client Protection standard 4.3)

6 C 3 1 Loan Loss Expense Ratio (LLER Ratio) is within the accepted performance range. If it is outside the range, the provider can provide a valid justification.

6 C 3 2 The provider is not transferring unnecessary costs to clients: Operating expense Ratio (OER Ratio) is within the accepted performance range. If outside of the range, the provider can provide a valid justification.

6 D	The provider compensates senior managers in a way that is appropriate to a provider with stated social goals.
6 D 2	Upon request, the provider transparently discloses compensation to regulators, auditors, raters, donors, lenders, and investors.
6 D 2 1	In keeping with the International Financial Reporting Standards (IFRS), the provider transparently discloses compensation to regulators, donors, raters, and investors, upon request.
New	The provider has a Know Your Customer and Counter Terrorism Financing system in place
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Annex 1: Definitions and segments

Several international, national and sectoral **definitions of SMEs** exist. Among the international ones, one of the most commonly used is the IFC definition below. This study is compatible with any choice made by investors regarding the adoption of SME definitions (see step 1 of figure 4).

SME				
	Employees	Turnover	Assets	Loan size
IFC (USD)	5-300	100k-15M	100k-15M	10k-1M
EU (€)	10-250	2M-50M	2M-43M	-

USD	Small enterprise				Medium enterprise			
	Employees	Turnover	Assets	Loan	Employees	Turnover	Assets	Loan
IFC (USD)	10-49	100k-3M	100k-3M	10k-100k	50-300	3-15M	3-15M	100k-1M
EU (€)	10-49	2M-10M	2M-10M	-	50-250	10-50M	10M-43M	-

In addition, the IFC defines Very small enterprises as those with 5 to 9 employees.

SME finance investments, SME finance institutions (FI) and SMEs can be **segmented** along different criteria, revealing a very **large range of needs and scenarios**.

SME finance investing					
Instrument	Debt	Equity	Guarantee		
Type	Direct	Indirect			
SME finance institution					
Type	Bank	Non bank FI	Leasing & factoring	Fintech	Supply chain
Model	Relationship (micro oriented)	Retail (small enterprise)	Corporate (medium enterprise)	Supply chain	
Country	Low income (inc.)	Upper-middle inc.	Lower-middle-inc.	Low income	
Origin	MFI upscaling	Bank downscaling	SME specialized		
% SME portfolio	Marginal	Medium	Large		
Underwriting	Cash flow, financial statements	Other credit scoring			
Ownership	Private	Public			
SME					
Industry*	Trade	Production	Service	Agriculture	Energy
Size	Very small	Small	Medium		
Stage	Start-up	Early stage	Established		
Origin	Micro graduating	Starting as SME			
Growth	On a growth path	Stable			
Formalization	Registered	Unregistered			
Gender	Women owned	Men owned			
Youth	Youth owned	Non-youth owned			
Aim	Social business	Business			

*Non exhaustive

Annex 2: Sectoral matrix examples

IFC E&S risks by sector (<https://firstforsustainability.org/risk-management/risk-by-industry-sector/>):

FIRST for Sustainability
Financial Institutions: Resources, Solutions and Tools

IFC International Finance Corporation
WORLD BANK GROUP

English

Search

E&S RISK MANAGEMENT | **SUSTAINABILITY IN ACTION** | **SUSTAINABLE BUSINESS OPPORTUNITIES** | **ABOUT** | **CONTACT** | **BROWSE BY...**

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Environmental and Social Risk by Industry Sector

Clients/investees operate in a variety of industry sectors with a range of environmental and social risks. A preliminary risk assessment can be conducted based on the sector of operation.

Industry-specific environmental and social guidelines have been developed to assist both clients/investees and financial institutions to better understand and manage environmental and social risks in their operations.

The IFC/World Bank Environmental, Health, and Safety Guidelines provide guidance to environmental and social management in a wide variety of industry sectors, including:

- Agribusiness/Food Production
- Chemicals
- Forestry
- General Manufacturing
- Infrastructure
- Mining
- Oil and Gas

Related Documents

- Factsheet Cement (PDF)
- Factsheet Chemicals (PDF)
- Factsheet Construction (PDF)
- Factsheet Crops (PDF)
- Factsheet Electronics (PDF)
- Factsheet Energy (PDF)
- Factsheet Fishing (PDF)
- Factsheet Food (PDF)
- Factsheet Forestry (PDF)
- Factsheet Garages (PDF)
- Factsheet Glass (PDF)
- Factsheet Health (PDF)
- Factsheet Iron (PDF)
- Factsheet Laundry (PDF)
- Factsheet Leather (PDF)

CDC sector profiles (<https://toolkit.cdcgroup.com/sector-profiles/>):

CDC

ESG TOOLKIT FOR FUND MANAGERS

ABOUT THIS TOOLKIT | ESG IN THE INVESTMENT CYCLE | ESG MANAGEMENT SYSTEMS | GOVERNANCE & BUSINESS INTEGRITY | **SECTOR PROFILES** | E&S BRIEFING NOTES | WORKING WITH

SECTOR PROFILES

These CDC Sector Profiles are designed to help fund managers quickly familiarise themselves with the most frequent and important environmental, social and governance (ESG) aspects of investments in a number of sectors. It aims to be a starting point for thinking about ESG risks and opportunities, and not a detailed technical guidance document.

- PROJECT DESIGN AND CONSTRUCTION
- AGRICULTURE AND AQUACULTURE
- EDUCATION
- FISHERIES
- HOSPITALITY
- HEALTHCARE
- INFRASTRUCTURE
- MANUFACTURING
- PHARMACEUTICALS
- POWER
- RETAIL
- TELECOMS

FMO E&S risk sectoral matrix (<https://www.fmo.nl/estoolkit>)

'X' Indicates when there is a significant risk '•' Indicates when there is a limited risk Indicative E&S category ■ Red: High ■ Blue: Medium ■ Yellow: Low		...air pollution	...deforestation	...fish depletion	...littering and pest occurrence	...soil depletion	...water pollution	...fire and explosion	...infection of HIV/AIDS	...intoxication	...occurrence of diseases	...occurrence of harmful bacteria and diseases	...personal injury	...bad working environment	...harmful child labour	...unfair labour conditions
		...the main risks are														
HR1	Agricultural crop production with use of chemical pesticides and fertilizers		X			•			X			X		•	•	
HR2	Charcoal making		X	X	•		•						X	•	•	
HR3	Chemical industries		X		X	X	•		X			•	X	•	•	
HR4	Forestry / wood production			X		X						X	•	•	•	
HR5	Laundry services / dry-cleaner					X			X				X	X	•	
HR6	Leather production/tanning		•		•	X			X	•		•	X	•	•	
HR7	Metal working /forging/electroplating		•		•	X	X		•			X	X	•	•	
HR8	Raw materials extraction (quarrying/mining)			•	•	X	X	•	•			X	X	•	•	
HR9	Textile production/dyeing		•		•	X	X		X			•	X	X	X	
MR1	Animal husbandry			X		•			X	X		•		X	•	
MR2	Brick-making / construction works		•	•		X	•	•	•	X		•	X	X	•	
MR3	Home improvement			•	X	•	•	•	•	X		X	X	•	•	
MR4	Car Repair, maintenance service		•		•	X	X		X			X			•	
MR5	Carpentry / woodworking / painting			•		•			X			X			•	
MR6	Ceramics / pottery glazing / enameling		•		•	•	X		•				X	X	•	
MR7	Film processing facilities / printing services		•		•	X	•		X			•	X		•	
MR8	Fishery				X	•							•	X	•	
MR9	Glass manufacturing/blowing		•			•	X		•			•	X	•	•	
MR10	Handicrafts				•				•			•	X	X		
MR11	Jewelry								X			X	X	•		
MR12	Pulp and paper products / print making		•	•	•	X	•		X			•	X	•	•	
MR13	Taxi services / freight services/ transportation		X		•			•	X			X	•	•	•	
MR14	Waste and water management		•		X	X			•			X	X	•	•	
LR1	Agricultural organic crop production			X		•	•					X		•	•	
LR2	Business services															
LR3	Café / restaurant				X						X		•	X	•	
LR4	Education / training															
LR5	Food processing				•	•			•		X	X	X	X	•	
LR6	Grain milling				•		X				•	X	X	•	•	
LR7	Hairdresser / cosmetic studio				•	•			X						•	
LR8	Health services				X			X	X						•	
LR9	Import/export wholesalers				•								•	•	•	
LR10	Market premises management				X	•									•	
LR11	Market stand				X		•		•		X			X	•	
LR12	Media / communication / design studio / advertising agency															
LR13	Photocopy shop				•				X				•	•	•	
LR14	Real estate			•		•		•								
LR15	Retail kiosk / shop / retail trade premises				X		•						•	•	•	
LR16	Sport and entertainment facilities / travel agency				•	•		•			X			•	•	
LR17	Supply of computer and office equipment															
LR18	Tourism							•			X		•	X	•	
LR19	Other services				X								•	•	•	
LR20	Other trade				•			•					•	•	•	