



IMPACT REPORTING AND ADDING GREEN TO THE MICROFINANCE VALUE CHAIN

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Impact reporting and adding green to the microfinance value chain

In June 2020, Hanna Holmberg and Camilla Löwenhielm – both fund managers at SEB, one of the largest banks in Sweden – were just ending an intense discussion on the impact funds they were managing. The discussion had been spurred by the previous day’s video call with Dirk Dijkma and Daniel Schriber from the impact investment management firm Symbiotics, a long-time partner and supplier of SEB. Dirk and Daniel had proposed adding more green investments to the SEB impact funds, which were currently mostly focused on traditional microfinance. Specifically, the Symbiotics team had presented Hanna and Camilla with an opportunity to invest in a green bond issued by a bank in Sri Lanka: Pan Asia Banking Corporation (Pan Asia). SEB impact funds were already invested in this bank, funding microfinance offerings, but this bond would finance loans in green categories such as home solar systems, energy efficient household appliances and electric vehicles.

SEB had considered environmental criteria in their impact fund investments from the start.² To expand from mainly social categories to include green categories, however, would mean a shift in investment strategy, which would bring challenges as well as benefits. Adding green categories would give a new flavour to the funds that would meet institutional investors’ growing concerns over environmental issues, as they increasingly focused on the total impact of their investments. However, it would also mean Hanna and Camilla having to think about how these green investments would change the impact reporting of the fund. They understood that impact measurement and reporting in the environmental sphere were different to impact reporting in classic microfinance. Main concerns were defining the most important metrics for the proposed Use of Proceeds, and understanding the potential challenges when collecting and processing the data. These had long been notoriously challenging areas in the microfinance value chain.

Impact investing

Since the launch of the Principles of Responsible Investing (PRI) in 2006 there was growing interest in the global finance community in addressing sustainability – or environmental, social and governance

¹ The authors gratefully acknowledge the research assistance provided by Angelo Bello.

² The environmental policy of the investee had always been one of seven dimensions that the SEB fund assessed before investment.



(ESG) issues – in investment decisions. Motivations differed: Whereas some investors mainly wanted to minimize risk exposure to such factors, others were primarily using it as a way to have a positive environmental and/or social impact. This latter category of investors, commonly referred to as *impact investors*, were a diverse set of investors with a variety of return requirements. The majority were for-profit asset managers looking for risk-adjusted market-returns, while other organizations such as foundations and family-offices had more philanthropic motives. Regardless of return requirements, achieving impact was central to their investment strategies.

A key criterion for impact investors was the concept of *additionality*, meaning that the investment would fund an activity that had a positive impact that would not have taken place without this investment. For example, an impact investor would like to be sure that the carbon emissions reductions they were funding would not have happened without this investment. In the quest for additionality and impact, underserved markets in developing countries were natural areas for impact investors. There, most funded activities could be considered an improvement that would not have happened without the investment.

According to the most recent report by the Global Impact Investing Network (GIIN), private debt was the most common impact investing asset class in 2019, in terms of both size and number of investments, followed by publicly traded debt³ and private equity. Microfinance was the second most common sector allocation with 13% of total assets under management (see Appendix A).

Microfinance

Microfinance (sometimes referred to as financial inclusion) aimed to provide financial services to households and micro-enterprises traditionally excluded from commercial banking services.⁴ Typically, these were low-income, self-employed or informally employed individuals, with no formalized ownership titles to their assets and few formal identification papers. Microfinance was offered in the form of credit, savings, remittances, payment services, insurance and other basic financial products. The providers of microfinance services constituted a diverse group, from NGOs to non-bank financial institutions (NBFIs), cooperative banks and commercial banks. Those specializing in providing microfinance were labelled a microfinance institution (MFI).

Microfinance extended the reach of financial markets to where they would otherwise not go, by definition meeting the additionality criteria of impact investors. In 2019, the World Bank estimated that 1.7 billion adults still lacked access to formal financial institutions and the International Finance Corporation (IFC) estimated that 40% of formal Micro-, Small and Medium Enterprises (MSMEs) in developing economies had unmet financing needs. This translated to an annual financing gap of USD 5.2 trillion for micro enterprises and MSMEs in these markets.

Microfinance services were argued to contribute positively to sustainable development in many ways. Micro-loans enabled low- to middle-income beneficiaries to start or grow their businesses, and increased their capacity to absorb financial shocks, access goods of first necessity, accumulate assets and invest in human capital such as health and education. By generating employment and preventing

³ Debt securities traded on an exchange.

⁴ Micro-enterprises are defined as small businesses that employ up to five people. Small enterprises employ up to 50 people and medium-sized enterprises employ up to 250 people.



unemployment in socio-economic crises, micro-finance solutions improved the living conditions of the beneficiaries and their families.⁵

A costly and risky service

There were several reasons for the limited supply of financial services for low-income segments of the population, sometimes referred to as the Bottom of the Pyramid (BOP). The fixed costs of providing financial services – the costs that are independent of the amount of deposit or credit, or the number of clients served by an institution – made it harder to provide financial services to low-income segments of society. These customers typically made small/few transactions, which made each transaction costly and unprofitable for the financial institution. In addition, a dispersed population in a rural area increased the costs of providing financial services still further and decreased commercial viability outside urban areas.

Providing financial services to such customers could be risky. In addition to default losses, many customers operated in the informal sector and lacked the formal documentation required for financial transactions. Another significant barrier in this market was that lack of financial literacy which in many cases restricted the demand for financial services. All in all, the costs and risks of providing financial service to these underserved markets discouraged commercial banks, with high profitability demands, from servicing these markets. This had opened up opportunities for microfinance institutions.

The microfinance value chain

Non-bank financial institutions providing microfinance services were unable to fund their operations with deposits and were therefore dependent on other sources of funding. In the microfinance value chain impact investors invested in or lent money to the microfinance institutions that provided the micro-funding to the end-beneficiaries (see Appendix B). According to research, the industry exceeded USD 100 billion in 2019 and serviced over 200 million clients. While the industry had spread across all continents, it was predominantly active in the Global South, with epicentres in South Asia and Latin America.

The loan interest rate that an MFI offered end-beneficiaries was a function of various key factors. First, the MFI would need to cover its operational expenses incurred by providing the loans. Given that the methods of disbursing loans to micro-entrepreneurs could be labour-intensive, these could be quite substantial (about half of the portfolio yield, i.e., about half of the “average lending rates” to the end-beneficiaries). While carrying out credit assessments and handling payments, loan officers performed manual tasks and held face-to-face meetings, often in rural areas. Second, the MFI would need to cover its expenses linked to non-performing loans, raising interest rates to end-beneficiaries still further (about one-tenth of portfolio yield). Third, MFIs raised capital from domestic and international lenders/investors and paid commercial rates for borrowing. Given factors such as credit

⁵ Some studies pointed out the limited positive effects of microfinance services. For an overview, see for example “Microfinance costs, lending rates and profitability” in Caprio G (ed), *The Encyclopedia of Financial Globalization* (2012). Elsevier, Oxford, UK.



risk, currency risk and high inflation in these countries, the interest rates on their funding could be in double digits (which in turn is about one-third of the portfolio yield). Fourth, in order to be financially viable in the long run and to be able to attract investments, the MFI would need to generate a reasonable profit and return to its owners (about one-tenth of the portfolio yield). To cover these factors, interest rates to end-beneficiaries were high (25–30% on average) and a common critique of the micro-finance sector was that these rates could have a highly negative impact on the end-beneficiaries.

Impact reporting

In addition to a financial return, the impact investors funding MFIs were interested in the positive impact to which their investment contributed. Fund managers had to report back to their investors on the degree of impact the investment had generated. This was usually done in an annual impact report. Among the most commonly reported metrics were: the number of MSME loans granted, the number of beneficiaries reached in rural areas, the number of loans granted to women entrepreneurs (an especially underserved group), the number of loans in different industries, as well as the number of jobs created or supported in low-income areas, among disadvantaged groups and in other target populations.

A recent concern in the impact investment community had been to consider the possible negative effects of the investments on society, sometimes referred to as *principal adverse impacts* (PAI). This was partly spurred by the upcoming European Union (EU) Sustainable Finance Disclosure Regulation (SFDR), which would require financial market participants to disclose whether their funds considered negative impacts on the environment and society. For investors in the micro-finance sector, this had increased the importance of monitoring potential over-indebtedness among end-beneficiaries, as well as potential negative environmental effects, such as greenhouse gas emissions, from activities financed by micro-loans.

A parallel trend: green, social and sustainability bonds

A parallel trend in the sustainable finance sphere was the growing market for green, social and sustainability (GSS) bonds, sometimes referred to as sustainable bonds. Following the first issuances of green bonds in 2007, the market really took off with the launch of the Green Bonds Principles (GBP) in January 2014. These were administrated by the International Capital Market Association (ICMA). In mid-2020, the cumulative issuance of sustainable bonds was approaching the much-awaited milestone of USD 1 trillion, and the market was expected to grow still further (see Appendix C). Investor demand was high, and the funding needs generated by the ongoing Covid-19 pandemic meant that there was also an increasing supply of GSS bond, especially social bonds.

A sustainable bond was just like a normal bond, except that the issuer of the bond earmarked the proceeds to fund new or existing projects that promoted environmental initiatives (green bonds) or social initiatives (social bonds). Sustainability bonds was a label used for a bond that financed both social and environmental projects at the same time. The ICMA principles for green and social bonds were a voluntary set of principles that upheld the transparency and legitimacy of this market. The principles were structured around four pillars that provided some structure in terms of what issuers



needed to do with regard to: 1) Use of Proceeds, 2) Project Evaluation and Selection, 3) Management of Proceeds, 4) and Reporting. Issuers could choose to set up a Green Bond Framework built on the four pillars of the GBP, together with an external review of the framework. Several bonds could be issued under the same framework.

The pillar of reporting covered both recommendations on how the issuer should report on the allocation of proceeds, as well as the expected environmental and/or social impacts of the financed projects. To provide additional guidance to issuers, ICMA published the Harmonized Framework for Impact Reporting in 2019 (updated in April 2020).⁶

Reporting on a project's environmental impact was inherently difficult and methodologies were not standardized. One challenge was to establish a baseline that could provide a "before" measurement with which to compare the outcomes. For example, reporting on saved or avoided greenhouse gas emissions linked to the installation of solar panels would need to establish the level of such emissions if the panels had not been installed. Would this be the average emission for the local electricity grid, or the regional or national average?⁷ To increase comparability between different projects and bonds, the ICMA handbook recommended some core indicators for each category of Use of Proceeds and encouraged all issuers to be transparent about their calculation methodologies (for examples on Renewable Energy, Energy Efficiency, and Sustainable Water and Wastewater Management see Appendix D).

Financial institutions (mainly banks) were increasingly taking the opportunity to fund their balance sheets by issuing sustainable (mainly green) bonds. With high demand from investors, issuers were often able to obtain a lower interest rate – a so-called (and disputed) greenium – and longer maturities, while also broadening their funding base by reaching new types of investors. When banks issued, they would use the proceeds to fund green loans for their customers' green projects. Their reporting would thus be a compilation of their portfolio of green loans and their expected environmental impacts.

For smaller financial institutions in emerging markets, the barriers to issuing sustainable bonds were perceived as high. The in-house capacity to construct a green bond framework, set up a roadshow, and so on, was not always available and hiring external consultants was costly. The fixed costs of an issuance (estimated at approximately USD 50 000, but could vary a lot between issues) therefore prevented smaller institutions from accessing the sustainable bond market. Consequently, the issuance of sustainable bonds in emerging markets was significantly rarer than in developed markets (see Appendix E), even though the need for funding for green investments in these regions was irrefutable.

⁶ [Handbook-Harmonized-Framework-for-Impact-Reporting-WEB-100619.pdf \(icmagroup.org\)](#)

⁷ While many organizations had existing published methodologies for project GHG accounting, there were ongoing efforts to harmonize greenhouse gas accounting methodologies for relevant sectors among a broad group of international financial institutions.



Symbiotics: innovating and catalyzing the microfinance value chain

Symbiotics, a Swiss impact investment management firm, was determined to bridge the supply of and demand for sustainable bonds in emerging markets.⁸ It launched an investment platform where institutional investors could access investment opportunities linked to emerging market private debt. The initial focus had been on microfinance, but Symbiotics had recently expanded into other areas of private debt. In addition to having a positive social impact, it was able to offer its clients an opportunity to have a positive environmental impact in regions where environmental needs were great. Furthermore, as the living standards in these regions rose, it was expected that greenhouse gas emissions would rise substantially. A transformation to low-carbon societies in emerging markets was therefore very important.

Symbiotics saw an opportunity to fund this transition through sustainable bonds. The microfinance institutions were used to report on the social impact of their microfinance loans, and adding green categories to Use of Proceeds had huge potential. In a “step-by-step” approach, these institutions (mostly MFIs), which traditionally have had a low green exposure, were able to expand their loan portfolios and build internal capacity regarding environmental impact.

The team at Symbiotics realized that it would be too costly for the financial institutions to set up their own frameworks for issuing sustainable bonds, especially in relation to their rather small issuances (5-20 MUSD). Symbiotics instead took an innovative step and set up their own Sustainable Bond Framework for their investment platform.⁹ Essentially, this meant that the platform issued a bond that institutional investors could invest in (see Appendix F). The proceeds would be used to disburse a loan to the financial institution (for example an MFI).

As an intermediary in the value chain, Symbiotics would ensure that all the requirements under the Green and Social Bond Principles, as well as the Sustainability Bond Guidelines, were fulfilled by the issuing financial institution (see Appendix G). This was reflected in the loan documentation and the contract between Symbiotics and the financial institution, and in a second step affecting the loan documentation between the financial institution and the end-beneficiary. Symbiotics would assist the financial institutions with the determination of eligible green and social assets by going through their loan books, help to set up internal governance structures, support and supervise the correct Management of Proceeds, and importantly provide the annual reporting on both the allocation of proceeds and impact to the end-investors.

The set-up provided several benefits to the emerging market financial institutions. It allowed them to access this type of funding at a substantially lower cost compared to issuing themselves. Besides not having to set up their own framework, they also saved operating expenses on training and second party opinion. They also got access to Symbiotic’s experience in eligibility assessment to identify the most appropriate categories of loans to end-beneficiaries.

⁸ As of mid-2020, Symbiotics had, since its launch in 2005, structured and originated approximately 4000 deals for over 400 financial companies in emerging markets, with a total debt value of almost USD 6 billion (see [symbioticsgroup.com](https://www.symbioticsgroup.com))

⁹ The framework was issued via Symbiotic’s Luxembourg-incorporated securitization vehicle Micro, Small & Medium Enterprises Bonds S.A. (MSME S.A.). Green, Social and Sustainability bonds could be issued under the framework.



SEB: an early impact investor

SEB saw great market opportunity in sustainable investments overall, as client demand for such aspects was growing rapidly. Globally, sustainable investing assets under management increased with 34 percent 2016-2018, and its market share in Europe was 48.8 percent at the end of 2018.¹⁰ Net investment flows to sustainable investment funds reached \$159 billion in 2019 and were estimated to surpass \$300 billion in 2020.¹¹ Furthermore, policy measures and regulatory pressure were stimulating these developments. The 2018 launch of the EU Commission's "Action plan on financing sustainable growth" signalled a continued emphasis on connecting finance with sustainability.

SEB Investment Management was a pioneer among Swedish institutions when it launched its first microfinance fund in 2013, enabling their clients, such as large pension funds, to channel capital to low- and middle-income entrepreneurs in emerging markets. With ten microfinance funds (closed-end) since 2013, as well as a broader Impact Opportunity Fund, at a total value of just over SEK 9 billion, SEB was one of the larger microfinance investment managers in Europe in 2019.

The strategy of the microfinance funds was to capture the financial and social value creation of financial intermediaries active at the Base of the Pyramid in emerging markets. The investment universe comprised microfinance institutions such as microfinance banks, non-bank financial institutions (NBFIs), cooperatives and NGOs. In addition, the fund had a fairly unique and deliberate strategy of providing debt financing in local currencies (unhedged). It did this for two reasons. First, removing currency risk from the microfinance institutions, which had their loans in local currencies, was in line with acting as a responsible investor. (SEB handled the currency risk through its diversified portfolio.) Second, this type of strategy typically generated higher returns for investor portfolios over time.

Given the clear social focus of the funds, reporting was centred around traditional microfinance impact metrics.¹² The investor could thus learn about the characteristics of the end-beneficiaries, such as gender, location (urban or rural), sector and credit methodology (individual loans or group/village loans). The report usually also contained elements of the narratives of the end-beneficiaries in order to convey in some depth the impacts achieved (see Appendix H).

A green investment opportunity for SEB impact funds

Back in the SEB office in Stockholm, Hanna Holmberg and Camilla Löwenhielm were still discussing the proposal from Symbiotics. They had expressed to Symbiotics their willingness to encourage and finance the green loan portfolio of investees. At the video call meeting, Dirk Dijkma and Daniel Schriber had presented the idea of adding a green bond investment to the SEB impact funds. The issuer (through the Symbiotics platform) was the Pan Asia Banking Corporation (Pan Asia), a bank in

¹⁰ Source: Global Sustainable Investment Alliance (2019) *2018 Global Sustainable Investment Review*. Report.

¹¹ Source: UNCTAD (2021) *The rise of the sustainable fund market and its role in financing sustainable development*. Report.

¹² Despite this clear social focus, the funds also aimed to address global challenges such as climate mitigation.



Sri Lanka that focused on retail and MSME lending.¹³ Hanna and Camilla were familiar with the bank and had a positive experience of it from previous transactions where SEB funds had funded Pan Asia microfinance lending. The bank had a good coverage, with 85 local branches, and an ambition to reach parts of the economy where financial inclusion was currently limited (see Appendix I).

Dirk and Daniel had explained that Pan Asia was committed to expanding its green loan portfolio and were seeking funding from the Symbiotics platform. The Use of Proceeds would fund loans for home solar systems, energy efficient home appliances, drip irrigation projects (to reduce water usage in agriculture) and the leasing of hybrid or electric vehicles. The issue was at LKR 1 433 750 000 (approximately USD 7 750 000), with a maturity of 48 months and a coupon of 9.4% (equivalent to the bond's yield). The Symbiotics team had done a thorough desktop review of the bank and gave it an ESG rating of 3.5 out of 5.¹⁴

Camilla and Hanna were thinking about the investment opportunity that Symbiotics had presented them with and were considering three key questions:

- 1) From an impact perspective, what would be the main benefits and challenges of investing in the Pan Asia green bond?
- 2) If they did invest, what would need to be added to SEB's current impact reporting, in terms of perspectives and metrics?
- 3) What challenges might arise when collecting and processing impact data in the value chain?

¹³ According to the <https://www.worldbank.org/en/country/srilanka/overview - 1> World Bank, "Sri Lanka is a lower-middle-income country with a GDP per capita of USD 3,852 (2019) and a total population of 21.8 million. Following 30 years of civil war that ended in 2009, the economy grew at an average 5.3 percent during the period 2010–2019, reflecting a peace dividend and a determined policy thrust towards reconstruction and growth; although growth slowed down in the last few years". The microfinance sector in Sri Lanka was substantial in 2019 and represented a significant method of financial inclusion and empowerment for low-income and poor segments of society.

¹⁴ Symbiotics assessed all investees according to seven ESG-related dimensions. See Appendix J.

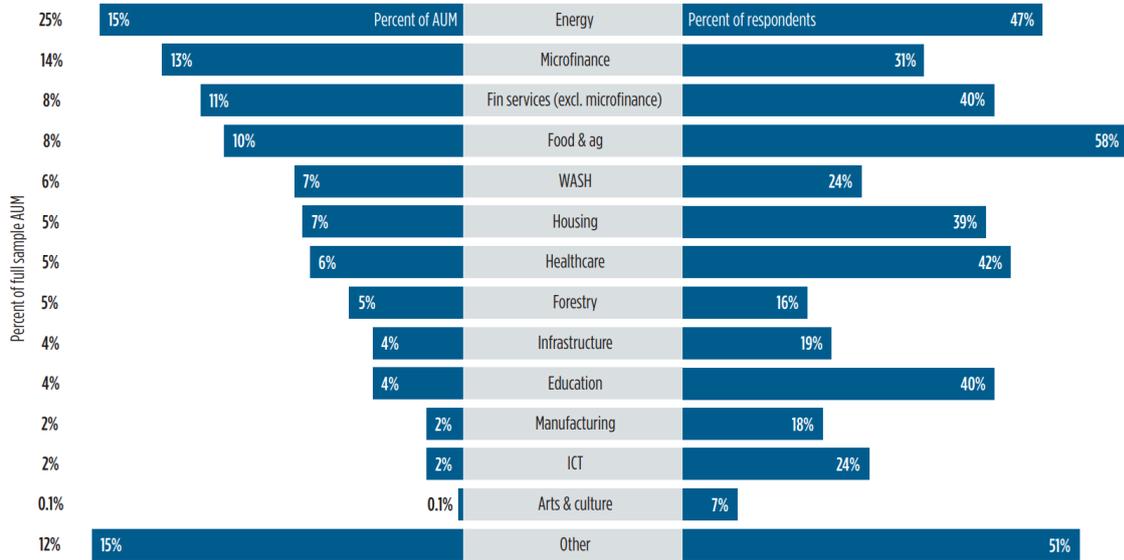


Appendix A. Impact investors' allocation to different sectors

Figure ii: Sector allocations by AUM and number of respondents

Left side—Percent of AUM, excluding three outliers: n = 259; AUM = USD 131 billion

Right side—Percent of respondents with any allocation to each sector: n = 266; respondents may allocate to multiple sectors

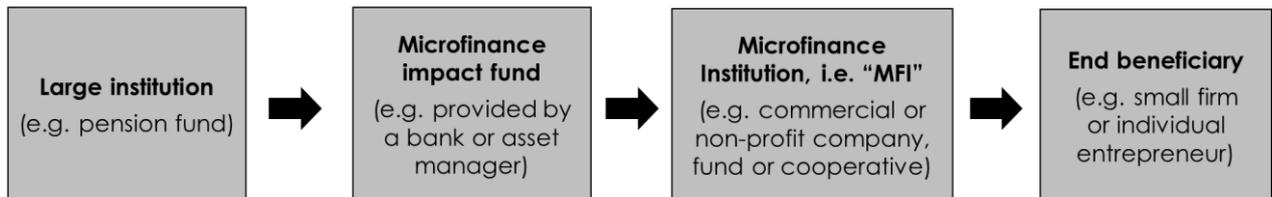


Note: 'Other' sectors include commercial real estate, the retail sector, community development, and multi-sector allocations. Besides outliers, AUM figures also exclude three respondents that declined to share AUM.

Source: GIIN

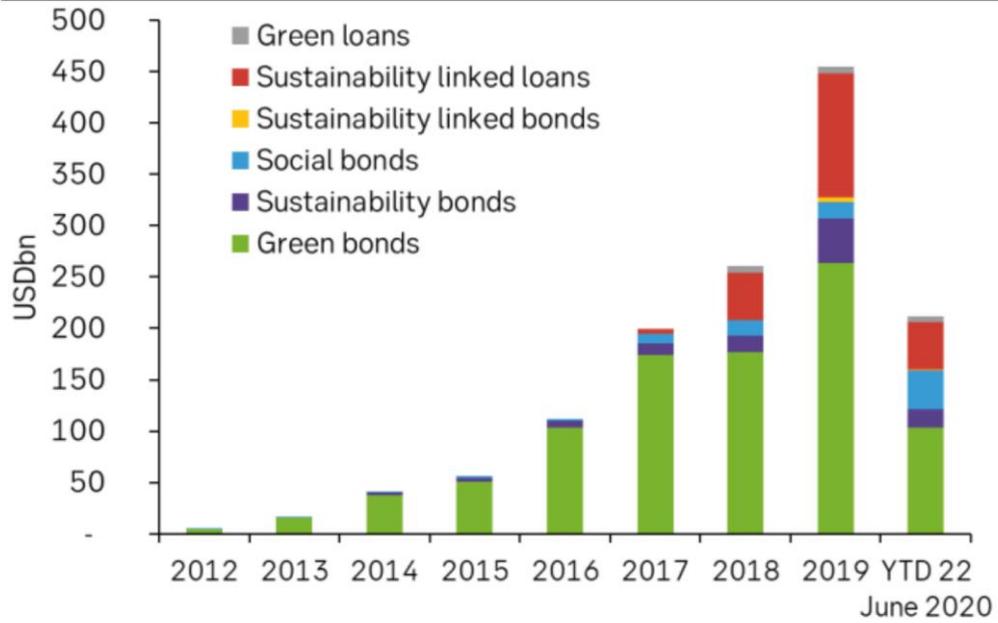
Appendix B: The microfinance value chain

AN EXAMPLE OF THE MICROFINANCE VALUE CHAIN



Appendix C: The sustainable bond market in June 2020

Figure 4: Development of sustainable finance market



Source: SEB analysis based on Bloomberg and SEB data, as of 30 June 2020



Appendix D: Impact reporting metrics from “Harmonized Framework for Impact Reporting”

Source: ICMA, April 2020

1. Renewable Energy

The following section suggests core indicators for renewable energy projects. However, there may be projects for which the proposed core indicators are either not applicable or the data is not available. In such cases, issuers are encouraged to use metrics appropriate for these projects. Users of the reports should recognize that while issuers will make efforts to improve the consistency and availability of reported metrics over time, projects with climate impacts can cover a wide diversity of sectors and sub-sectors making complete harmonization of reporting metrics challenging. All the same, the reports will provide a convenient summary of the projects and the scope of their impacts that are considered of particular interest to green bond investors.

Core Indicators

- #1) Annual GHG emissions reduced/avoided in tonnes of CO₂ equivalent /a
- #2) Annual renewable energy generation in MWh/GWh (electricity) and GJ/TJ (other energy)
- #3) Capacity of renewable energy plant(s) constructed or rehabilitated in MW

Other Indicators (Examples)

- Capacity of renewable energy plant(s) to be served by transmission systems (MW)
- Annual Absolute (gross) GHG emissions from the project in tonnes of CO₂ equivalent /a /b

2. Energy Efficiency

The following section suggests core indicators for energy efficiency projects. However, there may be projects for which the proposed core indicators are either not applicable or the data is not available. In such cases, issuers are encouraged to use metrics appropriate for these projects. Users of the reports should recognize that while issuers will make efforts to improve the consistency and availability of reported metrics over time, projects with climate impacts can cover a wide diversity of sectors and sub-sectors making complete harmonization of reporting metrics challenging. All the same, the reports will provide a convenient summary of the projects and the scope of their impacts that are considered of particular interest to green bond investors.

Core Indicators

- #1) Annual energy savings in MWh/GWh (electricity) and GJ/TJ (other energy savings) /a
- #2) Annual GHG emissions reduced/avoided in tonnes of CO₂ equivalent /b

Other Indicators (Examples)

- Number of people benefited
- Annual Absolute (gross) GHG emissions from the project in tonnes of CO₂ equivalent /b /c



3. Sustainable Water and Wastewater Management

Core Indicators

A. Sustainable Water Management - Water Use Sustainability and Efficiency Projects

#1) Annual water savings

Annual water savings for example from:

- *reduction in water losses in water transfer and/or distribution*
- *reduction in water consumption of economic activities (e.g. industrial processes, agricultural activities including irrigation, buildings, etc.)¹²*
- *water re-use and/or water use avoided by waterless solutions and equipment, (e.g. for sanitation, cooling systems for power plants, industrial processes, etc.)*

Indicators:

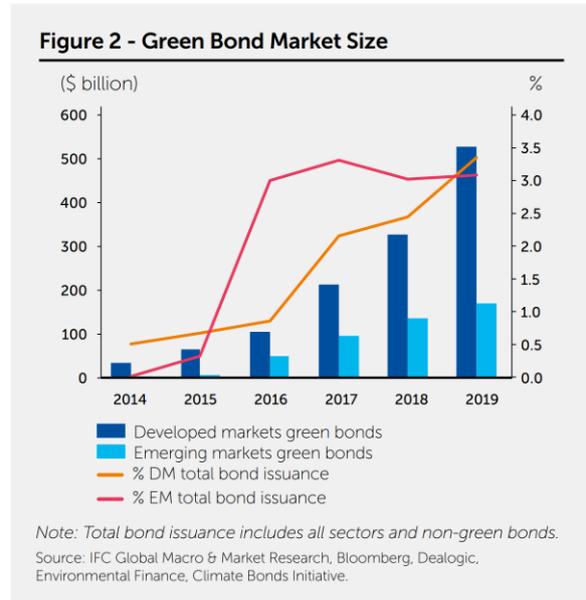
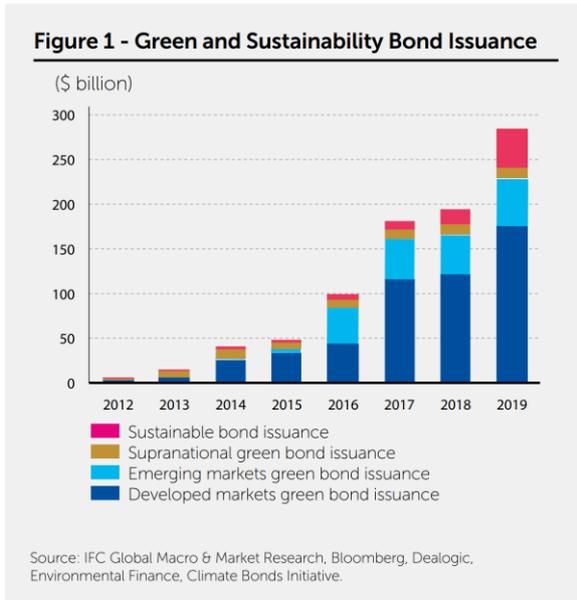
- Annual absolute (gross) water use before and after the project in m³/a, reduction in water use in %

Benchmarks:

- *Internationally recognised benchmark standards for water use efficiency (e.g. EU Directives and Best Available Techniques reference standards or industry/sector good/best practice standards)*
- *The Water Exploitation Index Plus (WEI+) or internationally recognised tools such as WRI's Aqeduct, and the WWF's Water Risk Filter*
- *The average monthly water consumption as a percentage of the sustainable basin water*

Appendix E: Green Bond issuance in developed and emerging markets

Source: Emerging Market Green Bonds Report 2019, IFC





Appendix F. Extract from Symbiotic’s Sustainable Bond Framework

2) THE FRAMEWORK

The Framework is aligned with the Principles and allows MSME to issue Sustainable Bonds and to transact in Sustainable Loans.

In all below cases where reference is made to the issuance of a bond in case of a Sustainable Bond, it also applies for the transaction in a Sustainable Loan.

For each bond which is issued under this Framework, MSME will designate such bond as either a Sustainability Bond, Social Bond or Green Bond (as applicable). The proceeds of a Green Bond are allocated to an underlying Green Loan, the proceeds of a Social Bond are allocated to an underlying Social Loan, and the proceeds of a Sustainability Bond are allocated to a Sustainability Loan. Further, the proceeds of Sustainability, Social or Green Bond may also be allocated to several underlying loans, as per the below table:

| Bond Type | Underlying loan type |
|---------------------|--|
| Green Bond | One Green Loan, or several Green Loans |
| Social Bond | One Social Loan, or several Social Loans |
| Sustainability Bond | One Sustainability Loan, or several Sustainability Loans, or a combination of Green Loans and Social Loans |

In a situation where the proceeds of a bond are allocated to several underlying loans, such a bond is further categories as a **‘Basket Bond’**. MSME will ensure that the relevant underlying loan(s) compl(y)ies with the criteria as laid out in this Framework by:

- 1) Applying a use of proceeds provision in respect of the underlying loan, as further laid out in section (a) below;
- 2) Requiring Symbiotics (in its capacity as origination agent of the relevant underlying loan) to apply its origination criteria and origination process for a Sustainable Bond (as applicable), as further laid out in section (b) below; and
- 3) Requiring Symbiotics (in its capacity as the monitoring agent of the underlying loan) to gather reporting indicators on a best effort basis as further laid out in annexes I and II.

Subject to compliance with the above, underlying loans can be granted to financial institutions, project finance structures or asset-backed financings, and can be in the form of term loans, revolving credit facilities, or other types of debt. Further, participations in loans with unilateral or multilateral development banks or reputable financial institutions whereby the underlying loan subject to the participation satisfies the above criteria is also permitted under this Framework.

Sustainable Bonds – structuring and reporting

Symbiotics will ensure that impact reporting is standardised

Standard impact reporting...

- On each Investee, Symbiotics prepares an **independent social and ESG rating report**, which is updated on an annual basis and available to the investor.
- For each Sustainable Bond, **impact reporting is in line with international standards** as required by the Green and Social Bond Principles and Sustainability Bond Guidelines.
- Impact reporting is made available to the investor by the Investee via MSME with Symbiotics as administrative agent.

... how we ensure compliance by the investee

The use of proceeds and impact reporting disclosure requirements are contractually defined in the Sustainable Loan documentation agreed between MSME and the Investee. This documentation includes:

- Strict covenant setting,
- Information undertakings, and connecting,
- Events of default

Transaction origination and structuring process explained



Appendix H. Example of impact reporting by SEB Impact Opportunity Fund, June 2019

Box 3.0: Client story: Ms. Janet Gonzabay - Banco Solidario

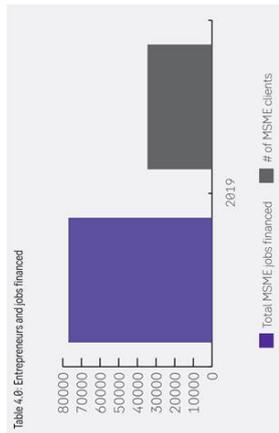
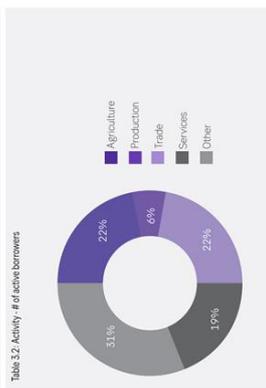
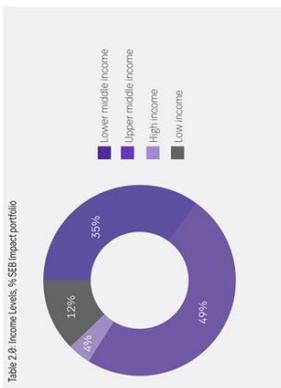
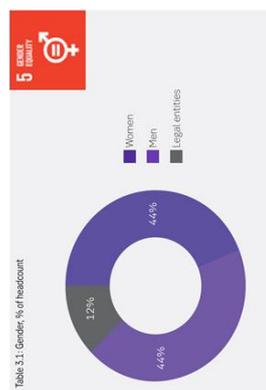
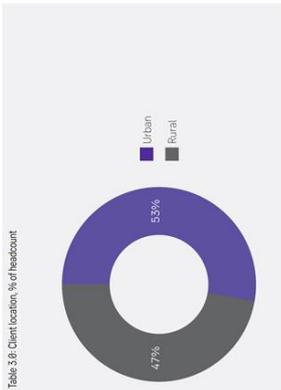
» Supporting Women Entrepreneurs Through Finance «

1 NO POVERTY
5 GENDER EQUALITY

Name: **Ms. Janet Gonzabay**
Country: **Ecuador**
Institution: **Banco Solidario**

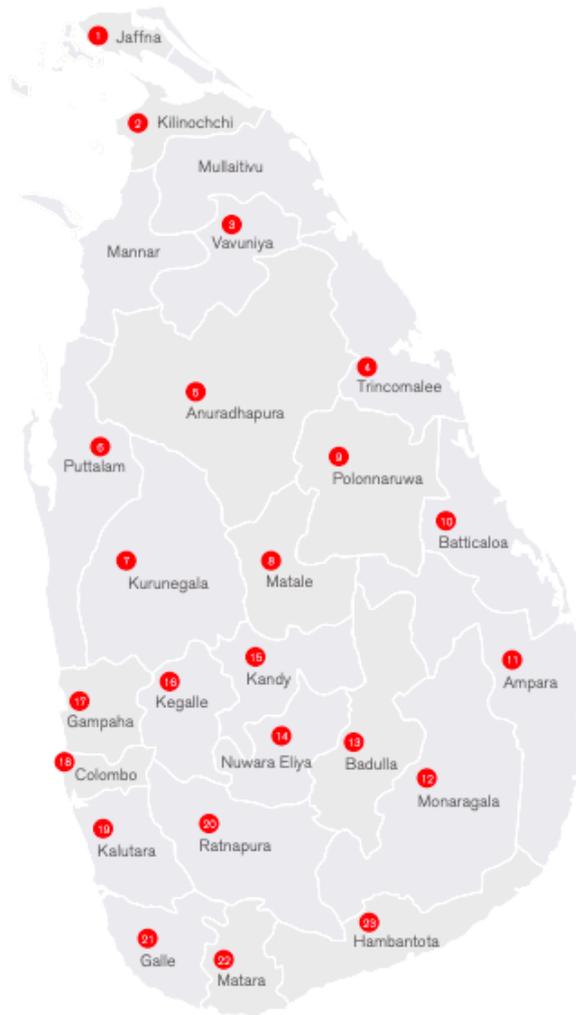
Ms. Janet Gonzabay is originally from Guayaquil, Ecuador and has always been dedicated to micro-entrepreneurial activities. Initially, she owned a mom-and-pop store, but during the 2015-2016 local crisis, sales declined and she decided to close it. Later, to capitalize on her husband's knowledge as a mason, she opened a hardware store. Her husband is in charge of advising the clients, while her son, Jordy, manages the inventory and her daughter, Janet, is in charge of sales.

Ms. Gonzabay met Banco Solidario more than 12 years ago, when executives from a branch in the south of the city visited her in her old business and she obtained a micro-loan (initial amount of USD 2,000) which she used to buy merchandise for the store. Currently, she has an 18-month loan of USD 6,000, which has financed inventory for her hardware store. Although the construction sector was stagnant a couple of years ago, Ms. Gonzabay finds that there is always demand for materials to make home improvements, especially during the rainy season. On average, the store has daily sales of around USD 150-200. Ms. Gonzabay and her family hope to expand their business and offer a wider variety of products. They are pleased that they have been able to generate an income that meets their needs, and allows them to save a small amount.



Appendix I. Pan Asia Bank Branch Network

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|----------------------------------|--|
| 1. JAFFNA DISTRICT | Chunnakam Jaffna Nelliady |
| 2. KILINOCHCHI DISTRICT | Kilinochchi |
| 3. VAVUNIYA DISTRICT | Vavuniya |
| 4. TRINCOMALEE DISTRICT | Trincomalee |
| 5. ANURADHAPURA DISTRICT | Anuradhapura Kekirawa |
| 6. PUTTALAM DISTRICT | Chilaw Dankotuwa Puttalam Wennappuwa |
| 7. KURUNEGALA DISTRICT | Kulyapitiya Kurunegala |
| 8. MATALE DISTRICT | Dambulla Galewela Matale |
| 9. POLONNARUWA DISTRICT | Kaduruwela |
| 10. BATTICALOA DISTRICT | Batticaloa Kattankudy |
| 11. AMPARA DISTRICT | Akkarajpattu Kalmunai |
| 12. MONARAGALA DISTRICT | Monaragala |
| 13. BADULLA DISTRICT | Badulla Bandarawela |
| 14. NUWARA ELIYA DISTRICT | Hatton |
| 15. KANDY DISTRICT | Gampola Kandy Kandy City Centre Katugastota Kundasale Peradeniya Pilimathalawa |



| | |
|--------------------------------|---|
| 16. KEGALLE DISTRICT | Kegalle Mawanella Warakapola |
| 17. GAMPAHA DISTRICT | Gampaha Ja-Ela Kadawatha Kiribathgoda Minuwangoda Negombo Wattala |
| 18. COLOMBO DISTRICT | Bambalapitiya Battaramulla Borella Colombo Gold Centre Dam Street Dehiwala Homagama Kaduweila Kalubowila Kirulapone Kollupitiya Kotahena Kottawa Maharagama Malabe Moratuwa Narahenpita Nawala Nugegoda Old Moor Street Panchikawatta Pettah Piliyandala Rajagiriya Ratmalana Thalawathugoda Wellawatte World Trade Centre |
| 19. KALUTARA DISTRICT | Horana Kalutara Panadura |
| 20. RATNAPURA DISTRICT | Balangoda Embilipitiya Ratnapura |
| 21. GALLE DISTRICT | Ambalangoda Galle Hikkaduwa |
| 22. MATARA DISTRICT | Akuressa Matara Weligama |
| 23. HAMBANTOTA DISTRICT | Ambalantota Tangalle |

Appendix J: Symbiotic’s ESG rating assessment

Symbiotic’s ESG rating assesses the likelihood of a financial institution to contribute positively to sustainable development and social impact. It has been applied systematically to all investment decisions since 2010. The rating is conducted during the due diligence process for a financial institution pre-investment, and on an annual basis afterwards. The rating methodology includes seven dimensions, consisting of 98 qualitative and quantitative indicators. All the indicators are compiled into a weighted aggregated score that grades the institutions from 0 stars (lowest) to 5 stars (highest). The seven dimensions of the rating are:

- 1. Social governance:** looking at the social orientation of shareholders as well as the financial institution’s stated and effective commitment to its social mission, its target market and development objectives/stakeholders’ needs.
- 2. Labour climate:** assessing policies regarding social responsibility to staff, looking at human resources policy, systems to monitor employee satisfaction and staff turnover rate, as a measure of staff satisfaction.
- 3. Financial inclusion:** measuring whether the financial institution has an efficient and proactive strategy and good results in terms of financial inclusion, as well as its ability to serve low-income and excluded clients, especially those located in areas where no other financial services are provided.
- 4. Client protection:** looking at whether clients are treated in a fair and transparent way and if the negative impacts that affect them (notably over-indebtedness) are avoided as much as possible. These indicators are linked to the Smart Campaign for Client Protection in Microfinance.
- 5. Product quality:** looking at a financial institution’s marketing strategy and activities, as well as the diversity and quality of its financial and non-financial products and services.
- 6. Community engagement:** assessing the steps that the financial institution takes in implementing policies and actions aimed at supporting community development at large, and the social impacts of such steps on the community.
- 7. Environmental policy:** whether the financial institution has any policies and initiatives in place to mitigate environmental impacts, not only of its internal activities but also, and above all, of its financed enterprises.