



Make the Difference
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Second Party Opinion on Green, Social and Sustainability Bond Framework

METHODOLOGY



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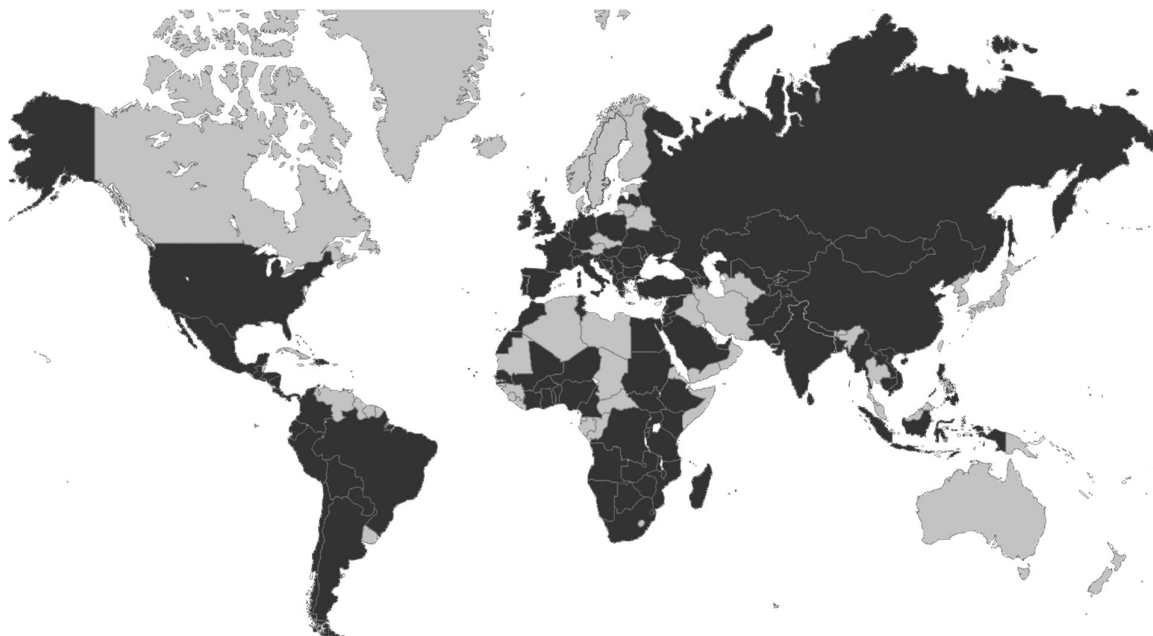
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i. MFR Company Profile

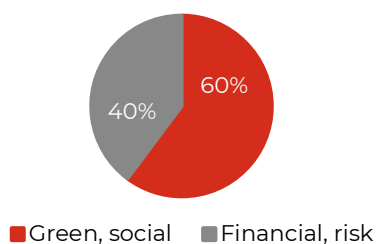
MicroFinanza Rating (MFR) is a global rating agency specialized in responsible inclusive finance and climate finance. Created in 2000 as a dedicated department of Microfinanza Srl, MFR was spun off as an independent Limited Liability Company in 2006.

Our mission is to provide the responsible inclusive finance industry with independent, high quality ratings and information services, aiming at enhancing transparency, facilitating investments and promoting best practices worldwide.

Headquartered in Italy, MFR operates through a **network of 5 regional offices** (Ecuador, Mexico, Kenya, Kyrgyz Republic and the Philippines) and 2 country offices (Bolivia and Peru) across 4 continents, with **global geographical coverage**. As of December 2021, MFR has conducted **2,800+ assignments** in 110+ countries worldwide.



Type of assignments



MFR key area of expertise is the assessment of financial institutions and companies working in **financial inclusion**, **clean energy** and other businesses inclusive of the bottom of the pyramid in emerging markets.

MFR offer includes both ratings and assessments focused on **Green** and **Social** criteria (60% of assessments and ratings since 2016), as well as Credit Ratings and Financial Due Diligence, ensuring ESG specialization in a context of broader understanding of risk and financial performance.

FR is registered with	As
ICMA	External reviewer for Green, Social, Sustainability Bonds
MFR is accredited by	To conduct
SPTF-Cérise	Client Protection Certification of Financial Institutions (FI)
European Commission	Code of Good Conduct Certifications of FIs
GOGLA	Consumer Protection Assessments of PAYGo companies
MFR is licensed by	To conduct
Ecuador central bank (SBS & SEPS)	Credit Rating of regulated FIs
Bolivia central bank (ASFI)	Credit Rating, Social Rating, Issue Rating of regulated FIs

ii. Experience with assessment of Social, Green and Sustainability investments

20 years plus experience with **Social** and **Green** assessments:

- Assessment of the **Green** and **Social performance** of **organizations** targeting **low-income customers** and Micro, Small and Medium Enterprises (**MSMEs**) in **emerging markets**, through 400+ [Social Ratings](#), conducted in 50+ countries. Social Ratings measure the capacity of an organization to achieve social and environmental goals and to manage associated risks. Social ratings cover the following areas, similarly to the Second Party Opinions (SPO) on Green, Social and Sustainability Bond Framework:
 - Review of the green and social objectives and intended benefits of the organization: clear identification of SMART targets, including type of target population when applicable, to guide the lending or sale activity according to the intended green and social goals (**Use of Proceeds**).
 - Adequacy of the criteria to ensure that the projects and products financed are in line with the intended green and social goals, meet green and social eligibility criteria (e.g. exclusion list), and rely on systems to manage green and social risks (**Project Selection and Evaluation**).
 - Adequacy of the system to report on the projects and products financed, population reached, and green and social objectives achieved (**Reporting**).
 - Governance and strategy alignment to the green and social objectives (**Issuer Sustainability Strategy**).
- Assessment of the quality of an organization **systems** to **minimize green** and **social risk** such as causing **harm to low-income clients** and causing **harm to the environment** through **e-waste**:
 - 130+ [Client Protection Certifications](#) of financial institutions
 - 71 [European Code of Good Conduct Evaluations](#) of financial institutions
 - 15 [GSMA Code of Conduct certifications](#) of Mobile Money Operators
 - 3 [Digital client protection assessments](#) of Fintech companies
 - 3 [GOGLA Consumer Protection third party assessments](#) of Off-grid Solar PAYGo companies.



- Assessment of the **social impact** results and the **change in end-clients' lives** as part of 10+ [Impact assessments](#) of financial institutions serving MSMEs in emerging markets.
- Development of Guidelines on [Outcomes Management](#) for Impact Investors (2016), in partnership with the European Microfinance Platform (e-MFP) and the Social Performance Task Force (SPTF).
- Development of Guidelines to Assess the [Environmental and social performance of SME finance institutions](#) for **Impact investors**.
- **Green finance** assignments with companies, investors and standard setters, including:
 - Development of a strategy to **grow the green portfolio** of a **financial institution** serving MSMEs in Ivory Coast (e.g. renewable energy, agriculture value chain, energy efficiency, waste management, recycling), supported by EDFI;
 - Fine-tuning of indicators and schemes to measure **Off-grid Solar PAYGo companies' portfolio quality** and **financial performance** ([PAYGo PERFORM KPIs](#)), as well as to provide [Consumer Protection third party assessments](#) (GOGLA Consumer Protection code), supported by IFC Lightning Global, CGAP and GOGLA.

- Development of **risk methodologies** for a **renewable energy fund** managed by [REEEP](#) targeting Off-grid Solar PAYGo companies, Min-grids and Productive Use technologies leveraging solar energy.
- Development of a **credit scoring model** for a fund managed by Cordaid targeting **SMEs** in Sub-Saharan Africa in green sectors such as **clean energy** and **climate smart agriculture**.
- Fine-tuning of the methodology to classify banks' portfolio according to Green, Social and Prosperity criteria as part of the [Global Alliance for Banking on Values](#) scorecard.
- Management of [ATLAS](#), a data platform centralizing green, social, governance and financial data of 3,000+ financial institutions serving MSMEs and renewable energy companies worldwide, for **benchmarking** purposes.
- Assessments and ratings of **funds**, investors and **holdings** working in financial inclusion and access to clean energy, including: FMO, Triple Jump, Promujer International, Microfinance Solidaire, Platcorp, SIMA, CoopMed, Zimbabwe Microfinance Fund.
- **Rating of Bonds** issued by financial institutions regulated by ASFI in Bolivia.

Partnerships established between MFR and private investors, DFIs and other stakeholders since 2000:

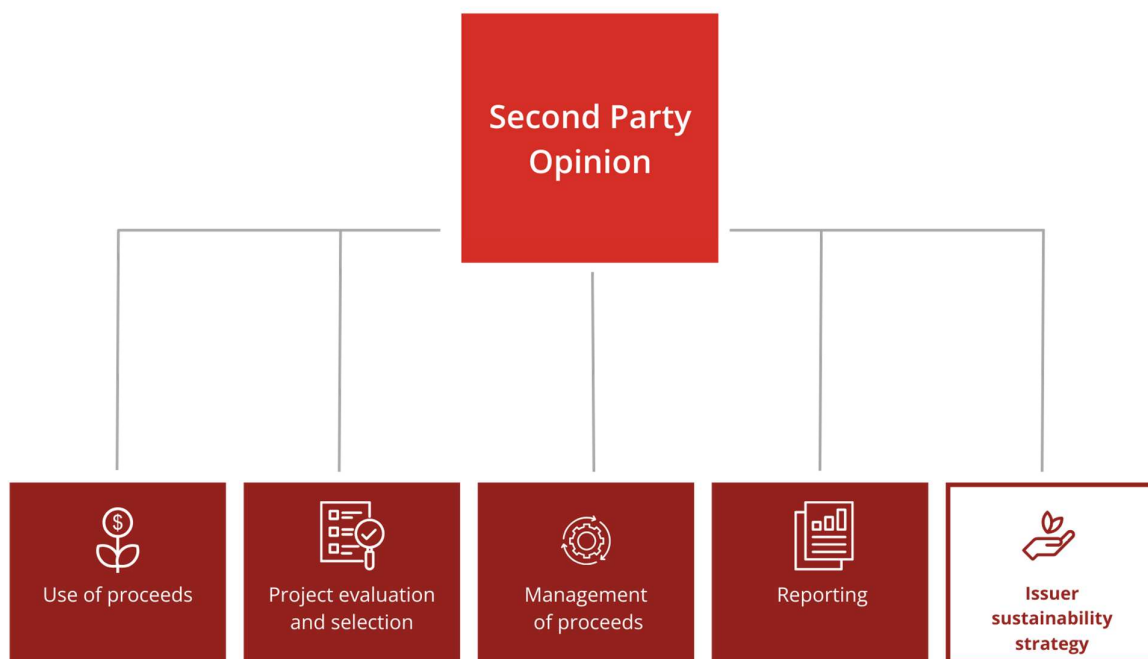


iii. Second Party Opinion

The Second Party Opinion provides an expert assessment of a Green, Social, or Sustainability Bond framework against the International Capital Market Association (ICMA) principles.

MFR, listed as **external reviewer** on [ICMA](#) website, provides SPOs in line with ICMA guidelines, including:

- ✓ Assessment of the alignment of the Bond Framework with the four core components of the **ICMA Principles** (see chart below).
- ✓ Assessment of the alignment of the **Issuer** overarching **Sustainability Strategy** with the Bond Framework and rationale for Bond issuance.
- ✓ Mapping of the Use of Proceeds categories with the **UN Sustainable Development Goals**.
- ✓ Assessment of the alignment of the Bond Framework with **ASEAN Standards**¹ (if applicable).
- ✓ Assessment of the alignment of the Bond Framework with the **EU Taxonomy**² (if applicable).



¹ [Asean Capital Markets Forum \(ACMF\) initiative](#) to promote standards for bonds issued in Asean countries.

² [European Union taxonomy](#) classification system of environmentally sustainable economic activities.

The SPO strengthens the **credibility** of the issuer and improves the **attractiveness** of the bond by **demonstrating alignment** with **ICMA principles to investors** and the market. Enhanced transparency facilitates the engagement of issuers with investors sharing common impact goals.

The SPO exercise provides ample space for interaction between the Issuer and MFR, including opportunities to share experience of international good practices and reflect on how they may be applied in the specific context of the Issuer. This offers the Issuer the option to use the **recommendations** to further strengthen the Bond Framework.

MFR SPO service is available to investors, mature financial institutions, banks, development finance institutions and companies willing to issue green, social or sustainability bonds.

The Second Party Opinion **report** provides:

- a concise opinion on the **overall alignment** of the Bond Framework to the ICMA principles,
- an in-depth assessment of the alignment of the Bond Framework to each one of the **four ICMA core components**, including strengths and opportunities for improvement:
 - i) Use of Proceeds;
 - ii) Project Evaluation and Selection;
 - iii) Management of Proceeds;
 - iv) Reporting

The **evidence** used to produce the Second Party Opinion includes the following:



- Secondary sources on the specific market and sectors' context.
- Bond Framework document and Issuer publicly available information.
- Internal documents, policies, systems, and tools of the Issuer, of the Issuer partner organizations, and of the underlying borrowers (if already identified).
- MFR quantitative and qualitative experience of similar Use of Proceeds.



- Issuer key staff, management and BoD.
- Partner organizations contracted by the Issuer for all, or some bond management functions (e.g. portfolio management company).
- Underlying borrower organizations if already identified and applicable.

The Final Second Party Opinion Report is issued by the **Second Party Opinion Committee**, composed of senior MFR members. The Second Party Opinion Committee is responsible the review and approval of the Second Party Opinion, ensuring independence and high quality of the assessment process and outcome.

vi. Process





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