FINAL RECOMMENDATIONS FOR THE AFRICAP ENVIRONMENTAL AND SOCIAL REPORTING SYSTEM

microREPORT #126

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EXECUTIVE SUMMARY

This report presents the AfriCap Social Performance Consultant's recommendations for the AfriCap Environmental and Social Reporting System. The recommendations are based on a process of stakeholder engagement consisting of surveys and a series of discussions with AfriCap staff, AfriCap stakeholders, CEOs of AfriCap investee MFIs, and the AfriCap Strategic Management Consultant.

The proposed ESRS incorporates provisions of the AfriCap Shareholder Agreement related to the Environmental and Social Support System (ESSS), Environmental and Social Management System (ESMS), and the Microfinance Institution Environmental and Social Charter (MIESC), including a prohibited activities list and 14 business and social requirements to which investee MFIs are expected to adhere. These are all described in the report.

The Consultant's recommendations are as follows.

1. Accept for further consideration and possible eventual adoption the 22 environmental and social indicators shown in Table ES1.

Table ES1. Recommended Environmental and Social Performance Indicators

Indicator
Describe social responsibility issues covered in the company's human resources policies
Staff turnover
Employee satisfaction
Percentage of portfolio in prohibited industries
Percentage of portfolio that has been analyzed in terms of environmental and social risk
Percentage of portfolio with: (1) Environmental and social risk and (2) No environmental and social risk
Average hours of training per year per employee category
Report on the number of non-compliance incidents with any law or regulatory code of conduct
Percentage of employees trained in organization's anti-corruption policies and procedures
Client retention
Annual percentage interest rate
Percent female clients
Percent rural clients
Financial services provided
Average loan size / Gross National Income per capita
Average size of new loans / Gross National Income per capita
Average savings size / Gross National Income per capita
Economic value added
Operations identified as having significant risk for incidents of forced or compulsory labor, and measures taken to contribute to the elimination of forced or compulsory labor.
Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor
Describe social elements of the CSR policy, including corporate definition of CSR
Describe institutional mission, vision, values, and how the organization achieves them
Describe governance structures and checks and balances to ensure the quality of governance

2. The 22 recommended indicators cover all 12 of the 14 relevant business and social requirements in the MIESC. Two of the 14 indicators are not considered to be relevant for reporting purposes.

3. Place priority on the indicators that are recommended by the Social Performance Task Force for submission to and reporting by The MIX Market.

4. Where they are available, adopt indicator and corresponding definitions taken from the Global Reporting Initiative. Due to the extensive process of stakeholder dialogue used to develop the GRI indicators, and the large number of financial institutions adopting the GRI, GRI indicators enjoy greater credibility than alternative indicators.

5. If AfriCap considers the recommended indicators excessive, consider first dropping one or more of the several indicators measuring business and social requirement 7, "Promote the use of quantified targets for occupational health and safety, environment, and social issues and continuous improvement in relation to the business," so as to ensure that the final indicator list adequately covers the remaining business and social requirements.

6. Adopt a 'Report or Explain' approach for reporting purposes. In this approach, investee MFIs need only report on those indicators relevant to its situation and for which they possess the requisite capacity to collect and report. For those indicators that investee MFIs choose not to report, they should provide a brief explanation why.

7. Implement the Environmental and Social Reporting System gradually in line with investee MFIs' capacity to collect and report the relevant indicators. Toward this end (and consistent with the terms of the ESSS and ESMS), AfriCap and its stakeholders should commit resources sufficient to provide the requisite technical assistance/capacity development to the investee MFIs.

8. Environmental and social performance should be reported annually at the end of each fiscal year. The reporting system should include two tracks. On one track, investee MFIs should report their selected environmental and social performance indicators to AfriCap for aggregation, summary, and reporting to stakeholders in a manner similar to their financial performance indicators. On the other track, investee MFIs should produce yearly Sustainability Reports either as stand-alone reports or integrated into their Annual Report. The latter method is preferred where investee MFIs produce Annual Reports. AfriCap and its stakeholders should commit resources to develop the investee MFIs' capacity to produce Sustainability Reports.

9. Use periodic social ratings to provide an independent, external validation of the social accounts (information on environmental and social performance) created and reported by investee MFIs. A social rating every few years for each investee MFI should be sufficient for this purpose.

10. Allocate funds and contract with edge Growth Solutions to incorporate environmental and social performance issues into its Strategic Value Management Framework.

FINAL RECOMMENDATIONS FOR THE AFRICAP ENVIRONMENTAL AND SOCIAL REPORTING SYSTEM

1. INTRODUCTION

This report presents the final consultant recommendations for the AfriCap Environmental and Social Reporting System. The recommendations are the result of an approximately year-long process that included the following highlights:

1. The AfriCap Environmental and Social Performance Consultant (hereafter referred to as 'Consultant') met with AfriCap staff member Kiendel Burritt in Nairobi, Kenya in June 2007. During this meeting, the two reviewed several environmental and social reporting frameworks from which they selected 48 indicators for further consideration by AfriCap stakeholders.

2. The Consultant developed and sent a survey to nine AfriCap stakeholder organizations asking them to rate the 48 indicators on a 5-point scale. Six stakeholders responded to the survey (see Table 1). Based on the survey responses, the Consultant recommended 20 indicators for possible inclusion in the AfriCap Environ-

mental and Social Reporting System (ESRS, see Table 2). The survey results and Consultant recommendations were summarized in a report submitted to AfriCap in November 2007 entitled "Results and Recommendations from The AfriCap Social Performance Stakeholder Survey."

Table 1. Persons Responding to the Stakeholder Survey

Name	Organization
Xavier Lecacheur	DFID
Jasper Snoek	Doen Foundation
Frank Streppel	Triodos
Jeffrey Spector	Gates Foundation
Ajay Narayanan	IFC
Rekha Reddy	ACCION International

Table 2. Initial Indicators Recommended for the AfriCap Environmental and Social Reporting System

No.	Indicator
1	Number of borrowers or loans outstanding
2	Number of voluntary savers or savings accounts
3	Number of clients with financial services
4	Average loan size / GNI
5	Average size of new loans / GNI
6	Average savings size / GNI
7	Percent rural clients
8	Percent female clients
9	Report on provision of tailored and innovative products and services applying special ethical/sustainability criteria. Report on total amount and percentage of total lending.
10	Which financial services provided (check off list of financial services)
11	Describe the target market and measures taken to identify and reach target market.
12	Client retention
13	Annual percentage interest rate (including all commissions and fees)
14	Profit margin
15	Describe governance structures and checks and balances to ensure the quality of governance.
16	Describe stakeholder dialogue and involvement procedures.
17	Describe strategic planning of core business process and how it aligns with core value drivers.
18	Describe institutional mission, vision, values, and how the organization achieves them.
19	Value added' expresses the economic value created by a company's activities.
20	Composition of governance bodies and breakdown of employees per category according to gender, age, group, minority group membership, and other indicators of diversity.

3. In April 2008 the Consultant travelled to AfriCap headquarters and carried out a series of meetings with AfriCap staff and the AfriCap Strategic Management Consultant (hereafter referred to as 'SM Consultant'). During these meetings, the Consultant:

    a. presented and received feedback on the proposed list of ESRS indicators,
    b. learned of provisions in the AfriCap Shareholder Agreement directing AfriCap to develop and adopt and Environmental and Social Support System (ESSS) and an Environmental and Social Management System (ESMS);

c. learned of provisions in the AfriCap Shareholder Agreement requiring investee MFIs to adhere to the Microfinance Institution Environmental and Social Charter (MIESC);
d. reviewed the AfriCap Strategic Value Management Framework (SVMF) with AfriCap staff and the SM Consultant who developed it; and
e. reviewed the AfriCap reporting system so as to determine its capacity for integrating reporting on social and environmental performance.

The results of the meetings at AfriCap headquarters were summarized in a report submitted by the Consultant to AfriCap in May 2008 entitled "Report by the AfriCap Social Performance Consultant Following Meetings at AfriCap Offices during April 22-24 with Recommendations."

4. Following from the meetings at AfriCap headquarters, the Consultant and AfriCap agreed on the necessity of (a) integrating the ESSS, ESMS, and MIESC into the AfriCap Environmental and Social Reporting System and (b) soliciting additional feedback from the CEOs of AfriCap investee MFIs. Consequently, in May 2008 the Consultant developed and disseminated a survey to investee CEOs asking them to rate 50 indicators on a 5-point scale. The 50 indicators included the 20 indicators identified by the six AfriCap stakeholders in the original stakeholder survey plus an additional 27 indicators drawn from a variety of sources.

5. Based on responses from seven CEOs, the Consultant developed a list of 20 indicators recommended for further consideration by AfriCap stakeholders, which he presented to AfriCap investee CEOs and staff at the CEO meeting during June 2008.

6. After receiving a response from an eighth CEO, the Consultant revised his recommendations increasing the number of recommended indicators to 22. The Consultant's revised recommendations are presented in this report.

This report has two objectives. The first objective is to bring the reader up-to-date on the status of the AfriCap Environmental and Social Reporting System. Toward this end, the report reviews much of the information presented in the Consultant report submitted in May 2008 (cited above). This review is found in Sections 2, 4, and 5. The second objective is to present the Consultant's final recommendations for the AfriCap Environmental and Social Performance Reporting System along with supporting explanations. This is found in Section 3. Section 6 summarizes the Consultant's recommendations found in this report.

2. PROVISIONS IN THE AFRICAP SHAREHOLDER AGREEMENT RELEVANT TO THE ESRS

Following from the language in the Shareholder's Agreement, AfriCap has proposed two policies to measure and manage the environmental and social performance of investee MFI's and their clients: the Environmental and Social Support System (ESSS) and the Environmental and Social Management System (ESMS). AfriCap will then require each investee MFI to sign a Microfinance Institution Environmental and Social Charter, which includes a pledge to implement an ESMS system within 120 days of signing an investment agreement, and in which the MFI pledges to operate its business consistent with 14 business and social requirements.

To manage the ESSS and ESMS, AfriCap will appoint an Environmental and Social Manager. His or her duties will be to monitor compliance with the ESSS and ESMS and other conditions of the Shareholder Agreement, conduct audits of portfolio MFIs for ESMS compliance, advise AfriCap and liaise with external entities on matters related to the ESMS, and report annually to shareholders on the environmental and social performance of portfolio MFIs.

2.1. Environmental and Social Support System

The ESSS is AfriCap's system for addressing environmental, health, safety, and social issues within portfolio MFIs and their clients. Under the terms of the policy, AfriCap investment officers will (1) conduct an assessment of the environmental, health, safety, and social performance of MFIs as part of the due diligence process using an Assessment Guide to be provided by FMO Finance for Development;[1] and (2) agree on actions with potential MFIs to improve their environmental and social policy in line with the requirements of AfriCap's policy. When undertaking an investment in an MFI, AfriCap will, through its ESSS:

- Include a Prohibited Activities list in the investment agreement with the MFI and inform the MFI on issues related to environmental and social management and the development of the ESMS and ensure that all investments are screened and processed to avoid supporting prohibited activities.

- Act as an advocate to MFIs on issues of environmental and social management and support them in getting access to existing tools provided by FMO and others.

2.2. Environmental and Social Management System

The ESMS is AfriCap's system for improving the environmental and social performance of the final borrower. In particular, the ESMS seeks to enable client MFIs to meet following objectives through the loan management process.

1. Assess the environmental, social, labor, occupational health and safety risks associated with activities of final borrower.

2. Advise the final borrower on improvements as applicable and/or agreeing on an Environmental and Social Action plan if applicable.

3. Monitor final borrowers with respect to environmental and social requirements.

When undertaking an investment in a MFI, AfriCap will, through the ESMS:

1. Include the Prohibited Activities list in the investment agreement with the MFIs and inform the MFIs on the issues related to the ESMS and ensure that all their investments are screened and processed to avoid supporting activities on the Prohibited Activities list.

2. Act as an advocate to the MFIs on the issue of ESMS and support them in getting access to capacity development and existing support tools, including the following FMO tools: activity assessment tool, environmental & social evaluation guidelines, Fact Sheets, and E-learning/website. (See Annex 1 for more information on the FMO Environmental and Social Risk Audit and the support tools offered by FMO.)

2.3. Microfinance Institution Environmental and Social Charter

As part of the MIESC, AfriCap investee MFIs must pledge to adhere to 14 business and social requirements falling under one of three general categories. The full list of 14 business and social requirements is found in Annex 2.

[1] FMO is an entrepreneurial development bank in the Netherlands and shareholder of AfriCap.

1. Provide a safe, healthy, collaborative, equitable, and non-discriminatory work environment for all employees, while ensuring employees access to basic services outside the workplace wherever possible.

2. Uphold high standards of business integrity and honesty and operate in accordance with all laws, regulations, and international best practices in all areas of operations.

3. Take account of and manage the impact of business operations on the local community and environment.

The MIESC will also include Prohibited Activities list and a commitment from AfriCap to facilitate access to materials and training necessary for implementation of the system. An exclusion list is a list of business activities that create adverse environmental impacts to which the MFIs are prohibited from lending. A proposed exclusion list for AfriCap investee MFIs is shown in Annex 3.

Finally, AfriCap will require as part of MIESC that portfolio MFIs conduct an annual Environmental and Social Assessment with assistance by AfriCap. The assessment report will include following: (1) executive summary, (2) company description, (3) regulatory setting, (4) audit procedures, (5) areas of concern, (6) mitigation, (7) cost implications, and (8) annexes.

3. PROPOSED ENVIRONMENTAL AND SOCIAL PERFORMANCE INDICATORS

3.1. CEO Survey

Prior to the June 2008 AfriCap CEO meeting, the Consultant developed and disseminated a survey to investee CEOs asking them to rate each of 50 indicators according to a 5-point scale ranging from 'very poor' (1) to 'very good' (5). Annex 4 presents a copy of the CEO survey.

The indicators included in the CEO survey were drawn from the following sources:

1. The 20 indicators selected from the original stakeholder survey.

2. The Microfinance Information Exchange (The MIX), which publishes information several financial and institutional performance indicators covering more than 1,000 MFIs.

3. The Global Reporting Initiative (GRI). The GRI is the most widely used framework for environmental and social performance in the world. GRI indicators included in the survey fall into one of three categories.

    a. Core Indicators: Core indicators are intended for all firms adopting the GRI.
    b. Additional Indicators: Additional indicators are also intended for all firms adopting the GRI, but they are considered of less general importance than core indicators.
    c. Financial Sector Supplement: Financial institutions have created 'Financial Sector Supplement' that identifies GRI indicators relevant to the financial sector.

2. The USAID social performance initiative. USAID contracted with Chemonics International and Woller & Associates to develop a set of indicators and tools to assess the social performance of microfinance institutions.

3. FMO documents on environmental and social management and reporting.

The 50 indicators included in the CEO survey were intended to be a reasonably comprehensive list of indicators relevant to the microfinance sector and covering the requirements of the AfriCap Shareholder Agreement and the 14 business and social requirements included in the MIESC. In reviewing this list of indicators, it is important to keep in mind the following considerations.

- The indicators cover 12 of the 14 business and social requirements specified in the MIESC. In some cases, one indicator measures one requirement. In other cases, a single indicator measures two or more requirements. Requirement #10, "Properly records, reports and reviews financial and tax information relating to its business," is not covered by the 50 indicators but is assumed to be dealt with in the financial audit. Nor are there indicators among the 50 covering requirement #12, "Reviews this policy periodically to ensure its ongoing suitability and effectiveness." It is assumed that the environmental and social policy will be reviewed periodically as part of the ESSS and ESMS.

- Where possible, indicators are selected from the GRI. GRI indicators offer important advantages over other indicators.

    - They are highly credible in that they have been thoroughly vetted through an extensive process of stakeholder engagement.
    - The GRI provides specific instructions on how to define and measure each indicator. This removes difficulties related to definition and measurement.
    - They are used by other mainstream financial institutions and thus enjoy a relatively high degree of familiarity and acceptance.

- The list of 50 indicators includes a number of indicators originally considered but rejected by stakeholders in the original stakeholder survey. They were offered once more for consideration because they appeared relevant in light of the need to accommodate the expanded environmental and social reporting framework specified in the Shareholder Agreement.

- There is no requirement that AfriCap adopt all or any particular set of indicators. It can choose to report only those indicators that satisfy certain selection criteria, such as practicality, usefulness, relevance, and so forth. Nor is it necessarily required to select indicators that cover each of the 14 business and social requirements in the MIESC. These decisions are left up to AfriCap and its stakeholders. The purpose for presenting the list at this stage is to permit stakeholders to assess its options and make an informed choice.

3.2. Results of CEO Survey

Eight CEOs responded to the survey representing the following AfriCap investee MFIs, as see in Table 3.

Table 3. CEOs Responding to the CEO Survey

Organization
Women's World Banking Ghana
Socremo
Wizzit
Tujijonge Tanzania
Finsalone
Kingdom Botswana
Susu Nigeria
ABM Madagascar

Scores given by survey respondents to each of the 50 indicators ranged from a high of 4.9 to a low of 2.0. The average score was 3.4. Annex 5 lists each of the 50 indicators and the scores awarded by survey respondents.

3.3. Recommendations

On the basis of these results, and using the four criteria listed in Table 4, the Consultant recommends 22 indicators for further consideration. These, along with proposed definitions, are presented in Table 5.

Table 4. Criteria Used to Select Recommended Environmental and Social Performance Indicators

Criteria
A minimum average rating of 3.
The final list of indicators must cover each of 12 relevant Business and Social Requirements included in the MIESC.
Indicators should be unique environmental and social performance indicators and not financial indicators acting as proxies for environmental or social performance that are commonly reported as part of an MFI's financial or institutional performance.
Current 'best practice' in environmental and social performance measurement.

Table 5. Indicators Recommended for Inclusion in the AfriCap Environmental and Social Reporting System

Indicator		
Describe social responsibility issues covered in the company's human resources policies.(1)	1,3,4,9c,13,14	Policy elements may be contained in various internal documents. A company may publish its policies or - if too long - describe their contents. Policies may include: equal opportunity/anti-discrimination, including equal pay for equal work; anti-harassment policy; freedom of association (including unions); training and people development; part-time employment-job sharing; layoff policy (including out-placement support); anonymous feedback facility; health & safety, in particular on stress and ergonomics.
Staff turnover(1) (4)	1,3,4,7	Percentage of staff having left the MFI in a given year as measured by: [staff having left] / [staff at end of previous year] * 100). Does not include pension leaves and deaths. The company should comment how staff is counted (e.g., full time equivalents). The company may wish to report turnover per region or business sector. Major structural changes such as mergers, acquisitions, layoffs and disinvestments should be commented on.
Employee satisfaction(1) (4)	1,3,4,7,9c,13,14	Report on employee satisfaction, based on survey results, covering: job security; remuneration & benefit; work/life-balance (including work pressure and stress); training & development; internal communication culture; company's social performance towards society.
Percentage of portfolio in prohibited industries	2,5,7	The percentage of the total loan portfolio in industries identified in the Exclusion List.
Percentage of portfolio that has been analyzed in terms of environmental and social risk	2,5,7	Percentage of the total enterprise loan portfolio that has been analyzed in terms of environmental and social risk.
Percentage of portfolio with: (1) Environmental and social risk and (2) No environmental and social risk	2,5,7	Percentage of the total enterprise loan portfolio that has been determined after analysis to be (1) subject to environmental and social risk and (2) not subject to environmental and social risk.
Average hours of training per year per employee category.(1) (4)	3,7	Identify the total number of employees in each employment category across the organization's operations at the end of the reporting year (e.g., senior management, middle management, professional, technical, administrative, production, maintenance, etc.). The MFI should define employment categories based on its human resources system. Identify total hours de-

		voted to training personnel within each employee category. Report the average number of hours of training per year per employee by employee category using the following formula: Total hours per employee category / Total employees per employee. Does not include on-site coaching by supervisors, but includes: • Paid educational leave provided by the reporting organization for its employees; • Training or education pursued externally and paid for in whole or in part by the reporting organization; and • Training on specific topics such as health and safety.
Report on the number of non-compliance incidents with any law or regulatory code of conduct.(1)	6,8,13	To be counted (e.g., referrals to ombudsman, reports to an advertising standards authority) where the complaint was upheld and/or resulted in court action. Comments may include corrective action taken. Note: the specific legal context in the country of operation will have a significant impact on the implications of quantitative data generated through this indicator. Note: the specific legal context in the country of operation will have a significant impact on the implications of quantitative data generated through this indicator.
Percentage of employees trained in organization's anti-corruption policies and procedures.(1)	6,11	Identify the total number of employees, distinguishing between management and non-management employees. Report separately the percentage of total number of management and non-management employees who have received anti-corruption training during the reporting period.
Client retention(4)	7	Calculated using the following formula: 1-(Dropout Rate) Where: Dropout Rate = $(AC_{beg} + NC - AC_{end} - LWO) / AC_{beg}$ AC_{beg} = Active clients at beginning of period AC_{end} = Active clients at end of period NC = New clients LWO = Loan write-offs
Annual percentage interest rate(4)	7	The average cost of loans (expressed as a yearly rate and including the interest rate, points, broker fees, and certain other credit charges that the borrower is required to pay) minus the annual inflation rate as measured by the Consumer Price Index. Alternative (and simpler) definition is the real yield on the gross loan portfolio, defined at The MIX Market as: Yield on Gross Portfolio (real) = (Adjusted Yield on Gross Portfolio (nominal) - Inflation Rate)/(1 + Inflation Rate) Where: Adjusted Yield on Gross Portfolio (nominal) = Adjusted Financial Revenue from Loan Portfolio/Adjusted Average Gross Loan Portfolio
Percent female clients(4)	7	The percentage of total borrowers who are female.
Percent rural clients(4)	7	The percentage of total borrowers who live in rural areas using the country-specific definition of 'rural.' The indicator should provide the definition for 'rural' used to construct the indicator and a justification for this definition.
Financial services provided(4)	7	Lists the 'distinct' financial services provided and the number of clients with each distinct financial service. To be a distinct financial service, the MFI must track it separately in its MIS.

Average loan size / Gross National Income per capita	7	Average size of all enterprise loans divided by the country's gross national income per capita.
Average size of new loans / Gross National Income per capita	7	Average size of all existing initial enterprise loans divided by the country's gross national income per capita.
Average savings size / Gross National Income per capita	7	Average size of all savings accounts/deposits divided by the country's gross national income per capita.
Economic value added	7	Value added' expresses the economic value created by a company's activities. It consists of gross salaries (including social security payments, etc.), taxes, depreciation and gross profits. It reflects the company's contribution to GNP. Report as total and split to stakeholders. A template to calculate Economic Value Added can be found at www.spifinance.com.
Operations identified as having significant risk for incidents of forced or compulsory labor, and measures taken to contribute to the elimination of forced or compulsory labor. (1) (2)	9a	Identify operations considered to have significant risk for incidents of forced or compulsory labor. The process of identification should reflect the organization's approach to risk assessment on this issue and can draw from recognized international data sources such as ILO reports. Report operations considered to have significant risk for incidents of compulsory labor either in terms of: (1) type of operations (e.g. manufacturing plant) and (2) countries or geographical areas with operations considered at risk. Report on any measures taken by the organization in the reporting period intended to contribute to the elimination of forced or compulsory labor. See the ILO Tripartite Declaration and OECD Guidelines for further guidance.
Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.(1) (3)	9b	Identify operations considered to have significant risk for incidents of: Child labor; and/or Young workers exposed to hazardous work. The process of identification should reflect the organization's approach to risk assessment on this issue and can draw from recognized international data sources such as ILO reports. Report operations considered to have significant risk for incidents of child labor either in terms of: Type of operations (e.g., manufacturing plant); or Countries or geographical areas with operations considered at risk. Report on any measures taken by the organization in the reporting period intended to contribute to the elimination of child labor. See the ILO Tripartite Declaration and OECD Guidelines for further guidance.
Describe social elements of the CSR policy, including corporate definition of CSR.(1)	Various	Description may consist of one or more documents, including CSR policies for separate business sectors (e.g., human resources, suppliers, lending policy, investment policy, etc.). The company should reference voluntary codes of conduct it has signed. The company may make reference to external standards, e.g. ILO conventions. Companies may consider not explicitly referring to each of these conventions if they are obvious in a given cultural and legal context
Describe institutional mission, vision, values, and how the organization achieves them.(4)	NA	Narrative description of the MFI's mission statement (if relevant), vision statement (if relevant), and values statement (if relevant). Provides not only formal mission/vision/values statement but also describes what they mean in practical terms

		and the MFI's strategy for achieving them.
Describe governance structures and checks and balances to ensure the quality of governance.(4)	NA	Narrative description of the MFI's governance structures and the checks and balances with the structures to ensure the quality of organizational governance.

(1)Indicator definition is taken directly from the GRI.
(2)Forced or Compulsory Labor: All work and service which is exacted from any person under the menace of any penalty and for which the said person has not offered her/himself voluntarily (ILO Convention 29, Forced Labour Convention, 1930. The most extreme examples are slave labor, prison labor, and bonded labor, but debts can also be used as a means of maintaining workers in a state of forced labor. Withholding identity papers, requiring compulsory deposits, or compelling workers, under threat of firing, to work extra hours to which they have not previously agreed, are all examples of forced labor.
(3)Child: This term applies to all persons under the age of (1)5 years or under the age of completion of compulsory schooling (whichever is higher), except in certain countries where economies and educational facilities are insufficiently developed and a minimum age of 14 years might apply. These countries of exception are specified by the ILO in response to special application by the country concerned and consultation with representative organizations of employers and workers.
Young Worker: A person who is above the applicable minimum working age and younger than 18 years of age.
(4)Indicators included among draft social performance indicators proposed by the Social Performance Task Force.

Table 6 shows the coverage of the 12 relevant business and social requirements in the MIESC by the 22 proposed indicators. As seen in this table, the 22 proposed indicators cover each of the 12 business and social requirements. Requirement 7 has by far the greatest coverage, thus if AfriCap is looking to reduce the number of indicators in the ESRS, a good place to start would be the indicators addressing Requirement 7, and particularly indicators addressing Requirement 7 alone.

Table 6. Coverage of Business and Social Requirements by the 22 Proposed Environmental and Social Indicators

Requirement	# Indicators
1	3
2	3
3	4
4	3
5	3
6	2
7	15
8	1
9a	1
9b	1
9c	2
10	NA
11	1
12	NA
13	3
14	2

3.4. Recommendations and the Relevance of the Social Performance Task Force

Several of the 22 indicators listed in Table 5 are among the draft set of 'common' environmental and social performance indicators recommended by the 'Social Performance Task Force.' Created in March 2005, the Social Performance Task Force is an informal group of over 100 MFIs, donors, investors, foundations, and other microfinance stakeholders that is working on clearly defining environmental and social performance, addressing questions about measuring and managing environmental and social performance, and developing environmental and social reporting standards. Once the Task Force finalizes its set of environmental and social indicators, MFIs will be encouraged to report the indicators to The MIX Market, which will report the indicators on its website and in the MicroBanking Bulletin, much like it currently does for financial performance indicators.

The final set of Task Force indicators has the potential to establish an early standard for environmental and social performance reporting. Indicators measuring mission and social goals, organizational governance, staff training, staff satisfaction, client retention, range of services, cost of services, gender outreach, geographical (rural) outreach, and poverty outreach are almost certain to be included among the Task Force's final set of indicators. Indicators measuring environmental performance and other dimensions of 'corporate social responsibility' are also likely to be included among the final set of Task Force indicators, although the Task Force is much less further along in defining these indicators. Given the potential for the Task Force to establish broader industry environmental and reporting standards, it makes sense at this point to align the AfriCap ESRS to the work of the Task Force, to the extent possible.

3.5. Reporting Guidelines and Recommendations

It is important to reiterate that the 22 indicators in Table 5 are *recommended* for adoption by AfriCap. Of course, AfriCap and its stakeholders will be responsible for determining the final list of indicators. In considering which indicators to adopt, AfriCap and its stakeholders are encouraged to consider carefully the justification for each indicator found in the CEO survey. They should also take into account the following considerations.

1. There is no requirement that all investee MFIs report all indicators. The GRI, for example, uses a 'Report or Explain' approach in which organizations choose which indicators to report from a longer list of indicators. For those indicators it chooses not to report, it provides a brief explanation why. This approach has the advantage of allowing individual organizations to adapt the GRI to its particular circumstances. It is recommended that AfriCap adopt a Report or Explain approach for its ESRS.

2. The Stakeholder Agreement pledges technical assistance /capacity development for investee MFIs to help them comply with the ESSS, ESMS, and MIESC. This can potentially come from a variety of sources, including the AfriCap Social Performance Manager, the FMO, other shareholders, edge Growth Solutions, and other service providers.

3. The ESRS will be phased in gradually over time consistent with the investee MFIs' capacity to generate and report the selected environmental and social indicators. They will be able to report some indicators immediately; others they will be able to report over time, depending on their situation and the technical assistance/capacity development that they receive.

Investee MFIs currently submit performance data quarterly to AfriCap in either Excel or PDF format. On receiving the data, AfriCap enters it into an excel file, from which it produces graphs and charts and performs other basic analysis. It then converts the relevant information, graphs, charts, etc. into a PDF file, which it posts on the AfriCap intranet. AfriCap has a platform on its intranet website where investee MFIs could post their quarterly performance data, but this function is not currently being used.

The existing data reporting system is adequate to accommodate the additional information requirements of environmental and social performance reporting. It will be necessary, however, to establish standard templates for reporting the social and environmental performance information to AfriCap and for posting the information on the AfriCap intranet.

Environmental and social indicators need not be reported every quarter, however. Yearly environmental and social reporting is the standard in the private sector, and this should be sufficient for AfriCap investees as well. The standard reporting format for environmental and social performance is the Sustainability Report, which uses narrative descriptions along with quantitative data where appropriate (e.g., tables, charts, graphs) to report on environmental and social performance.

Some organizations produce stand-alone Sustainability Reports, but the most common practice is to integrate the Sustainability Report into the firm's Annual Report to shareholders. In this case, information on environmental social performance is reported in a separate, dedicated section, in different places in the report where deemed appropriate, or using a combination of the two approaches. The Sustainability Report of Westpac Banking Corporation is good examples of stand-alone Sustainability Report (www.corporateregister.com/a10723/Westpac06-sus-az.pdf). The Annual Reports of microfinance institutions FINDESA in Nicaragua (www.corporateregister.com/a10723/findesa06-sus-nic.pdf) and Banco Solidario in Ecuador (www.corporateregister.com/a10723/bc05-ann-ecu.pdf) are examples of Sustainability Reports integrated into the Annual Report.[2]

Taking the above into account, the Consultant recommends a two-track reporting system. On one track, investee MFIs report on social performance once a year at fiscal year-end to AfriCap. This information is aggregated and reported much like the financial performance data.

On the other track, investee MFIs produce a year-end Sustainability Report, either as a stand-alone report for investee MFIs who do not otherwise produce annual shareholder reports, or integrated into the annual Shareholder Report.

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[2] For a register of organizations creating Sustainability Reports based on the GRI framework, go to http://www.corporateregister.com/gri/?com=15493-1420413733-b.

The Sustainability Report can be simple, or it can be more detailed, depending on the investee MFIs' capacity and resources. As part of the technical assistance/capacity development provided under the ESSS and ESMS, AfriCap should work with investee MFIs to develop their capacity to produce sustainability reports.

It is worthwhile re-emphasizing that the Sustainability Report is the norm for social reporting at financial institutions outside the microfinance sector. If AfriCap intends to move forward and formalize its environmental social performance reporting system, it is well advised to adopt the social reporting practices used by mainstream financial institutions.

4. QUALITY ASSURANCE AND THE SOCIAL RATING

4.1. The Need for Quality Assurance of Self-Reported Environmental and Social Performance Data

The credibility of the AfriCap Environmental and Social Reporting System will depend on, among other things, the validity of the self-reported environmental and social performance indicators. Ensuring the validity of self-reported data is a common problem in any performance reporting system. Data problems stem from a number of sources, including data collection errors, misunderstandings regarding key definitions and measurements, inadequate internal data collection capacity, or intentional misrepresentation of actual performance. It is important, therefore, for AfriCap to develop a system for assuring the validity of the environmental and social indicators reported by its investee MFIs.

4.2. The Social Rating as a Method of Quality Assurance and Its Other Functions

One option for providing such assurance is the *social rating*. The social rating is an external and independent assessment of an MFI's environmental and social performance performed by one of the four specialized microfinance rating agencies.[3] The social rating has three objectives.

1. Provide assurance as the validity of the MFI's self-reported social accounts (information on social performance analogous to financial accounts).

2. Evaluate how effectively the MFI has translating its social mission (vision, objectives, etc.) into practice in line with general social goals.

3. Identify areas for improvement and capacity building.

With regards to the first objective, conducting periodic (e.g., every few years) social ratings of AfriCap investee MFIs should be sufficient to create credible external validation of the investee's self-reported social performance information.

With regards to the second objectives, the social rating does not attempt to measure the actual social impact of the MFI. While achievement of social impact is the ultimate goal of social performance, proving that an MFI has caused a certain social outcome is a complex econometric exercise not possible within the context of the social rating, which was designed to be both quick and low cost. Instead, the social rating analyzes the steps towards achieving social impact: the processes undertaken by an MFI towards achieving its desired goals, and the results to the extent of analyzing outreach and quality of services provided. It is important to note that the social rating does not judge the worthiness of an MFI's social mission, but seeks to convey how effectively the MFI has translated that mission into practice in line with general social goals.

[3] Each of the four specialized microfinance rating agencies—MicroRate, Planet Rating, MicroFinanza, and M-Cril—has developed and is currently marketing a social rating.

The social rating ideally complements a financial rating. Both ratings involve detailed discussions with MFI management and staff and a review and analysis of social accounts created by the MFI. The final rating report presents the rating agency's findings related to the dimensions of social performance assessed and its analysis of the MFI's social accounts. Based on the findings of the social rating, the rating agency then assigns the MFI overall rating score that reflects its informed opinion about the MFI's social risk and/or social performance.

To provide an example of a social rating and demonstrate its potential usefulness, the Consultant collaborated with Planet Rating to carry out a social rating of investee MFI Socremo in Mozambique. The social rating was funded by USAID and carried out in conjunction with a financial rating of Socremo during April 2008. A copy of the Socremo social rating report is provided as an companion document to this report.

The reader will note that the Socremo social rating does not address at length the assurance function discussed above. This is due to the limited number of social accounts currently being produced by Socremo. As the number and type of social accounts produced by investee MFIs increase over time in line with their capacity to collect and report them, the assurance function of the social rating will take on a correspondingly important role.

4.3. Concerns and Responses Regarding the Social Rating

During the April meetings with the Consultant and AfriCap staff, some staff members voiced skepticism about the usefulness of the social rating, expressing a preference for some kind of monetized estimate of overall social impact. While the desire for this type of information is understandable, the likelihood is extremely low that AfriCap investee MFIs would be able to produce this kind of information at a reasonable cost and on a sustainable basis. In fact, the design of the social rating explicitly recognizes the infeasibility of collecting and analyzing client-level data on a sustainable basis across large numbers of MFIs. It is too costly and too technically demanding for the vast majority of MFIs.

It is imperative, moreover, that the social rating be commercially viable (profitable) for the social rating agencies. Burdening the social rating with the type of field research necessary to produce monetized estimates of impact would increase the cost of the social rating well beyond the point of commercial viability. Few MFIs, investors, or donors would be willing to pay such a high price for the social rating. It is no coincidence that none of the four rating agencies have designed a product that attempts to produce monetized information on actual environmental and social performance.

5. STRATEGIC VALUE MANAGEMENT FRAMEWORK

AfriCap has hired a consultant from edge Growth Solutions to develop a Strategic Value Management Framework (SVMF) for AfriCap investee MFIs. The purpose of the SVMF is to develop the internal capacity of investee MFIs to undertake strategic planning and decision-making with the end objective of making strategic planning fundamental to how investees MFIs operate.

AfriCap asked the Consultant to advise it on integrating the environmental and social reporting system into the SVMF. During the April meetings at AfriCap HQ, the Consultant met with the SM consultant to review the SVMF and discuss ways to integrate the environmental and social reporting system into it. The two consultants agreed that environmental and social performance is an important dimension of overall organizational performance that can be integrated into the SVMF without too much difficultly, although at some cost to AfriCap.

At the request of the Consultant, the SM consultant submitted a draft proposal to integrate social and environmental performance into the SVMF. The (slightly edited) draft proposal is found in Annex 6 of this report.

To integrate environmental and social performance into the SVMF, the following needs to take place:

1. Allocate funding to undertake the revision to the SVMF.

2. Develop a Scope of Work for the strategic management consultant with a clear set of objectives and deliverables and a budget.

3. Solicit a formal proposal from edge Growth Solutions to revise the SVMF in line with the Scope of Work.

With regard to funding revisions to the SVMF, there are three options:

Option 1: The AfriCap TSF (Technical Support Facility) Fund
Option 2: AfriCap's operational budget
Option 3: Donor funding

6. SUMMARY

This report presents the AfriCap Social Performance Consultant's recommendations for the AfriCap Environmental and Social Reporting System. The recommendations are based on a process of stakeholder engagement consisting of surveys and a series of discussions with AfriCap staff, AfriCap stakeholders, CEOs of AfriCap investee MFIs, and the AfriCap Strategic Management Consultant.

The proposed ESRS incorporates provisions of the AfriCap Shareholder Agreement related to the Environmental and Social Support System (ESSS), Environmental and Social Management System (ESMS), and the Microfinance Institution Environmental and Social Charter (MIESC), including a prohibited activities list and 14 business and social requirements to which investee MFIs are expected to adhere. There are all described in the report.

The Consultant's recommendations are as follows.

1. Accept for further consideration and possible eventual adoption the 22 environmental and social indicators shown in Table 8.

Table 8. Recommended Environmental and Social Performance Indicators

Indicator
Describe social responsibility issues covered in the company's human resources policies
Staff turnover
Employee satisfaction
Percentage of portfolio in prohibited industries
Percentage of portfolio that has been analyzed in terms of environmental and social risk
Percentage of portfolio with: (1) Environmental and social risk and (2) No environmental and social risk
Average hours of training per year per employee category
Report on the number of non-compliance incidents with any law or regulatory code of conduct
Percentage of employees trained in organization's anti-corruption policies and procedures
Client retention
Annual percentage interest rate
Percent female clients
Percent rural clients
Financial services provided
Average loan size / Gross National Income per capita
Average size of new loans / Gross National Income per capita
Average savings size / Gross National Income per capita
Economic value added
Operations identified as having significant risk for incidents of forced or compulsory labor, and measures taken to contribute to the elimination of forced or compulsory labor.

Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor
Describe social elements of the CSR policy, including corporate definition of CSR
Describe institutional mission, vision, values, and how the organization achieves them
Describe governance structures and checks and balances to ensure the quality of governance

2. The 22 recommended indicators cover all 12 of the 14 relevant business and social requirements in the MIESC. Two of the 14 indictors are not considered to be relevant for reporting purposes.

3. Place priority on the indicators that are recommended by the Social Performance Task Force for submission to and reporting by The MIX Market.

4. Where they are available, adopt indicator and corresponding definitions taken from the Global Reporting Initiative. Due to the extensive process of stakeholder dialogue used to develop the GRI indicators, and the large number of financial institutions adopting the GRI, GRI indicators enjoy greater credibility than alternative indicators.

5. If AfriCap considers the recommended indicators excessive, consider first dropping one or more of the several indicators measuring business and social requirement 7, "Promote the use of quantified targets for occupational health and safety, environment, and social issues and continuous improvement in relation to the business," so as to ensure that the final indicator list adequately covers the remaining business and social requirements.

6. Adopt a 'Report of Explain' approach for reporting purposes. In this approach, investee MFIs need only report on those indicators relevant to its situation and for which they possess the requisite capacity to collect and report. For those indicators investee MFIs choose not to report, they should provide a brief explanation why.

7. Implement that Environmental and Social Reporting System gradually in line with investee MFIs' capacity to collect and report the relevant indicators. Toward this end (and consistent with the terms of the ESSS and ESMS), AfriCap and its stakeholders should commit resources sufficient to provide the requisite technical assistance/capacity development to the investee MFIs.

8. Environmental and social performance should be reported annually at the end of each fiscal year. The reporting system should include two tracks. On one track, investee MFIs should report their selected environmental and social performance indicators to AfriCap for aggregation, summary, and reporting to stakeholders in a manner similar to their financial performance indicators. On the other track, investee MFIs should produce yearly Sustainability Reports either as stand-alone reports or integrated into their Annual Report. The latter method is preferred where investee MFIs produce Annual Reports. AfriCap and its stakeholders should commit resources to develop the investee MFIs' capacity to produce Sustainability Reports.

9. Use period social ratings to provide an independent, external validation of the social accounts (information on environmental and social performance) created and reported by investee MFIs. A social rating every few years for year investee MFI should be sufficient for this purpose.

10. Allocate funds and contract with edge Growth Solutions to incorporate environmental and social performance issues into its Strategic Value Management Framework

ANNEX 1
FMO ENVIRONMENTAL AND SOCIAL RISK AUDIT

FMO Finance for Development is a Dutch Development Finance Company that has developed a tool to help MFIs minimize the negative environmental and social impacts of the microenterprises they support. The Environmental and Social Risk Audit (ESRA) combines positive and negative approaches to promote greater environmental consciousness among MFI staff and clients and to bring clients' business practices in line with sound environmental practices. The ESRA includes support tools, a course, and internet support to help MFIs build an environmental and social (E&S) risk management system.

Support tools offered by FMO include the following.

1. Exclusion list (see below)
2. Activity assessment tool. This is a matrix summarizing the key environmental a social risks for each of the various sectors in which MFIs work.
3. Environmental and social evaluation guidelines. Provides guidance on how environmental and social evaluation and follow-up processes can be put in place in alignment with the MFIs' regular credit evaluation, approval and monitoring and reporting processes. Covers topics such as:
   - Exclusion considerations
   - Environmental and social themes
   - Minimum standards
   - How to recognize and identify enterprises that fall below minimum standards
   - Possible prevention and mitigation measures and best practices.
   - Insight into the benefits to microfinance clients of improvement in environmental and social matters
2. Practical training courses to MFIs to help them in setting up management information and reporting systems.
3. E-learning/website.

A premise underlying the ESRA is that social and environmental factors must be included with other (traditional) factors in making loan decisions. The ESRA breaks the lending process into four phases—application, appraisal, contracting and disbursement, and reporting—and integrates environmental and social risk assessment into each phase.

Loan Application

The "exclusion list" is the main instrument of the ESRA during the loan application phase. The exclusion list is a list of sectors and activities, which, in the opinion of FMO, should under no circumstances be financed. It includes:

- Activities regulated or prohibited under international agreements and by national laws
- Activities that may give rise to significant environmental or social problems or that may lead to significant adverse public reaction
- Activities prohibited under the MFI's contractual agreement with FMO

MFIs financed by FMO are legally obliged to include all the sectors and activities of the FMO exclusion list, which include:

1. Production or activities involving forced labor or child labor.
2. Production of or trade in any product or activity deemed illegal under host country legislation or regulations or international conventions and agreements.
3. Production of or trade in weapons and munitions.

4. Trade in wildlife or wildlife products regulated under CITES.
5. Production or use of or trade in hazardous materials such as radioactive materials, unbounded asbestos fibers, products containing PCBs6 and chemicals subject to international phase-outs or bans.
6. Commercial logging operations or the purchase of logging equipment for use in any primary forest or forest areas with a high biodiversity value or any other activity that leads to substantial clear cutting of such forests.
7. Production of or trade in pharmaceuticals subject to international phase-outs or bans.
8. Production of or trade in pesticides/herbicides subject to international phase-outs or bans.
9. Production of or trade in ozone depleting substances subject to international phase-out.
10. Drift net fishing in the marine environment using nets in excess of 2.5 km in length.

Loan Appraisal

In the loan appraisal phase, the MFI decides whether to make the loan. In reaching this decision, the MFI will consider environmental and social factors in addition to traditional loan criteria. Environmental and social factors include information, or projections, about the occurrences of environmental / health and safety / labor risks or defaults.

The source for information on environmental and social factors is the activity assessment tool and the sector fact-sheet. The former is a matrix summarizing the key environmental and social risks for the various sectors in which MFIs work, including agriculture, trade, services, and manufacturing The latter is lists observed clients behaviors, analyzes whether they pose a risk, discusses the relevance of the behavior, and offers suggestions to the client about possible mitigation strategies.

There are three possible outcomes of social and environmental appraisal:

1. Raise awareness of client about social and environmental impacts
2. Train/educate the client regarding social and environmental improvements
3. Included specific clauses in the loan contract to mitigate specific social and environmental risks

Which of the three outcomes occurs depends on the social and environmental risk and size of the loan, among other factors.

Loan Contracting

The MFI builds into the loan contract a set of standard mitigation actions to which the borrower must commit as a condition for receiving the loan. The language is as follows:

“I, . . . , undertake to carry out my business in a way that avoids, reduces, and compensates for damage to nature, public services, or the well-being of the individuals who work with me and who live in the vicinity, by continuing with or taking the following actions:”

- Operate and maintain machines and equipment professional and with proper (safety)measures
- Don’t employ children
- Use (toxic) chemicals with proper safeguards and store them properly
- Comply with accepted standards and regulations regarding land cultivation
- Reduce the amount of waste by improving the process or recycling
- Prevent land erosion or degradation

- Take precautions in waste disposal, not dump liquid or solid waste in public places
- Avoid, reduce, control processes that pollute the air
- Take steps to protect my own health and that of my employee, clients, or neighbors
- Comply with municipal regulations on environmental protection, health and safety, hygiene, labor
- Comply with government regulations

"I have been informed that entity granting me the loan may take a visit to evaluate my activities from the environmental, health and safety, and labor standpoints and that I may only obtain a new loan if, in addition to complying with the financial conditions, I also comply with my environmental, health and safety, and/or labor commitments."

In addition to the standard contractual language, the MFI may also specify specific loan clauses aimed at mitigating risks specific for that loan. In most cases, these can be simple adaptations of the standard clauses.

Reporting

Once a lending decision has been made, the next step is to integrate the information into the MFI's management information system (MIS). Information entered into the MIS includes:

- Whether an environmental and social appraisal has been performed
- What the most important environmental and social aspects of a client or a loan are
- What clauses have been added to the contract
- Whether a client has made the necessary improvements

Once this information has been logged into the MIS, the MFI can utilize it in a number of ways:

- monitor progress and compliance with loan clients' contractual obligations,
- assess status and progress for future loan appraisals with the same client,
- generate cross loan-book overviews about the nature and magnitude of the environmental and social risks, and
- reporting to investors and donors about environmental impacts.

For MFIs adopting the ESRA, FMO will produce a specific set of monitoring indicators based on the experiences of MFIs using the tool.

More information on the FMO ESRA and supporting tools can be found at www.fmo.nl/en/publications/environmental_social_risk_management_tools_MFI.php

ANNEX 2
14 BUSINESS AND SOCIAL REQUIREMENTS IN THE AFRICAP MIESC

1. Provide safe and healthy working conditions for its employees and contractors.
2. Encourage the efficient use of natural resources and promotes the protection of the environment.
3. Treat all employees fairly in terms of recruitment, progression, remuneration and conditions of work, irrespective of gender, race, color, language, disability, political opinion, age, religion or national /social origin.
4. Allow consultative work-place structures and associations which provide employees with an opportunity to freely present their views individually and/or collectively to management in accordance with the principles of core ILO conventions.
5. Take account of the impact of its operations on the local community and seeks to ensure that potentially harmful occupational health and safety, environmental and social effects are properly assessed, addressed, and monitored.
6. Uphold high standards of business integrity and honesty, and operates in accordance with local laws and international good practice (including those intended to fight extortion, bribery and financial crime).
7. Promote the use of quantified targets for occupational health and safety, environment, and social issues and continuous improvement in relation to the business.
8. Designs and operates its business according to the host country's laws and regulations.
9. Adopt the following minimum standards in accordance with internationally accepted good practice:
    a. Not to use forced labor of any kind;
    b. Not to employ children under 15; and
    c. To provide wages that meet or exceed industry or legal national minima and are sufficient to meet basic needs.
10. Properly record, report, and review financial and tax information relating to its business.
11. Ensure that no payment of value is made or received (in the form of compensation, gift, contribution or otherwise) in the course of business in order to improperly induce preferential treatment for the company, its officers, shareholders or employees or any members of its group of companies.
12. Review this policy periodically to ensure its ongoing suitability and effectiveness; and that for Portfolio Companies including industrial operations.
13. Comply with local regulations on occupational health and safety as an absolute minimum. Where there is no local legal framework regarding occupational health and safety the Portfolio Company will take account of the recommendation of the following two IFC documents as amended or supplemented from time to time: IFC's Environmental Health and Safety Guidelines and Relevant IFC Environmental and Social Performance Standards.
14. Ensure that employees have access to the basic services of drinking water, health care and education wherever possible and where no other facilities are available adequate housing.

ANNEX 3
PROPOSED AFRICAP EXCLUSION LIST

1. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements
2. Production or trade in weapons and ammunition
3. Production or trade in alcoholic beverages (excluding beer and wine)
4. Production or trade in tobacco
5. Gambling casinos and equivalent enterprises
6. Trade in wildlife or wildlife products regulated under CITES
7. Production or trade in radioactive materials
8. Production or trade in or use of unbounded asbestos fibers
9. Purchase of logging equipment for use in primary tropical forest
10. Production or trade in pharmaceuticals subject to international phase out or bans
11. Production or trade in pesticides/herbicides subject to international phase or bans
12. Drift net fishing in marine environment using nets in excess of 2.5 km in length
13. Production or activities involving harmful or exploitative forms of forced labor or harmful child labor
14. Commercial logging operations for use in primary tropical moist forest
15. Production or trade in ozone depleting substances subject to international phase out
16. Production or trade in wood or other forestry products from unmanaged forests
17. Production, trade, storage, or transport of significant volumes of hazardous chemicals or commercial scale usage of hazardous chemicals
18. Production or activities that impinge on the lands owned, or claimed under adjudication, by indigenous peoples without full documented consent of such peoples.

ANNEX 4
AFRICAP CEO SURVEY

Feedback Requested on Proposed Indicators for AfriCap Environmental and Social Performance Reporting System

Below you will find a list of 50 indicators proposed for the AfriCap environmental and social performance reporting system. We are asking for your feedback on these indicators. The objective of this survey is to narrow the list of social performance indicators down to a manageable number that will be reported by AfriCap investee MFIs on a yearly basis.

Please rate each indicator using the following 5-point scale:

1=Very poor
2=Poor
3=Indifferent
4=Good
5=Very good

In assigning your rating, please consider the following five criteria:

1. Relevance: Does the indicator have a reasonably clear theoretical or other link to social performance?
2. Feasibility: Is the indicator feasible—in terms of cost, methodology, and resource requirements—to report?
3. Objectivity: Can the indicator be independently verified by 3rd parties?
4. Credibility: Does the indicator adequately measure or proxy a dimension of environmental and social performance?
5. Usefulness: Are stakeholders likely to find the indicator useful?

If you have questions, clarifying comments, or general observations related to your rating score, please type these in the "Comments" column.

Please fill in the columns on your computer and send your completed survey to me via email as an attachment. My email address is gary@wollerassociate.com. We would like to have the results of the survey in time for the AfriCap CEOs meeting on June 4-6 in Johannesburg. Please, therefore, make all effort to complete the survey and return it to me before that time.

You have been provided with a background document that provides contextual information for this survey and the AfriCap environmental and social management and reporting system. I strongly encourage you to read this document before answering the survey. It should take you no more than 10 minutes to read. In answering the survey, please also keep in mind the following.

- This list of indicators is derived from four sources.

    1. The Microfinance Information Exchange (The MIX, www.mixmarket.org), which publishes information on several financial and institutional performance indicators covering more than 1,000 MFIs.

    2. The Global Reporting Initiative (GRI, www.globalreporting.org). The GRI is the most prominent framework for social performance reporting in the private sector. GRI indicators fall broadly into one of three categories: GRI-Core, GRI-Additional, and GRI-Financial Sector Supplement.
        a. Core indicators are intended for all firms adopting the GRI.
        b. Additional indicators are also intended for all firms, but they are considered of less general importance than core indicators.

c. As for the Financial Sector Supplement indicators, the GRI has created several "sector supplements" that identify indicators relevant to specific sectors, including the financial services sector. The indicators falling under this category were taken from the Financial Services Sector Supplement.

(A quick reference sheet for the GRI can be found at: http://www.globalreporting.org/NR/rdonlyres/DDB9A2EA-7715-4E1A-9047-FD2FA8032762/0/G3_QuickReferenceSheet.pdf)

3. The USAID social indicators project. USAID contracted with Chemonics International and Woller & Associates to develop a set of indicators and tools to assess the social performance of microfinance institutions.

4. FMO documents on environmental and social management and reporting (www.fmo.nl/en/publications/environmental_social_risk_management_tools_MFI.php).

- Indicators 1-20 comprise the original list of indicators selected by a group of AfriCap stakeholders through a similar survey and stakeholder engagement process. (This is described in the Background Document.) Indicators 21-49 are new and have been added to accommodate the provisions related to environmental and social management and reporting in the AfriCap Shareholder Agreement.

- The indicators cover 12 of the 14 business and social requirements specified in the Shareholder Agreement and Microfinance Institution Environmental and Social Charter that are considered relevant issues to be covered in an environmental and social reporting system. The fourth column in the survey table indicates which of the business and social requirements the indicator measures, either directly or indirectly. (Please see the Background Document for an explanation and for the corresponding list of business and social requirements.)

- Where possible, indicators 21-49 are selected from the GRI. The GRI indicators offer a few important advantages over other indicators.

1. They are highly credible in that they have been thoroughly vetted through an extensive process of stakeholder engagement.
2. The GRI provides specific instructions on how to define and measure each indicator. This removes difficulties related to definition and measurement that are common in this type of process.
3. They are used by other mainstream financial institutions and thus enjoy a relatively high degree of familiarity and acceptance.

If you have questions, please do not hesitate to email me or call me at (801) 864-0687.

Kind regards,

Gary Woller

AfriCap Social Performance Consultant

No	Indicator	Source	Business and Social Requirement	Justification	Rating Score	Comments
1	Number of borrowers or loans outstanding.	The MIX	7	The larger the number of borrowers, the greater the social impact, all else equal.		
2	Number of voluntary savers or voluntary savings accounts.	The MIX	7	The larger the number of savers, the greater the social impact, all else equal.		
3	Number of clients with financial services.	USAID	7	The larger the number of persons with diverse financial services, the greater the social impact, all else equal.		
4	Average loan size / Gross National Income per capita	The MIX	7	Loan size is roughly correlated with poverty status (e.g., poorer people tend to take out smaller loans and vice versa). Most commonly used indicator of the depth of loan outreach.		
5	Average size of new loans / Gross National Income per capita	USAID	7	Borrowers are expected to take out larger loans over time commensurate with business growth and expanded opportunities. Initial loan size, therefore, provides additional information about depth of outreach at the time of program entry.		
6	Average savings size / Gross National Income per capita	USAID	7	Savings size (size of deposit account) is roughly correlated with poverty status (e.g., poorer people tend to make smaller deposits and vice versa). Similar to in purpose to average loan size but intended to measure the depth of savings outreach.		
7	Percent rural clients	USAID	7	Poverty tends to be concentrated in rural areas. Additionally, outreach to rural areas is much smaller than outreach to urban areas. High outreach to rural areas indicates that the MFI is extending outreach to some of the most difficult to reach, and poorest, people.		
8	Percent female clients.	The MIX	7	Poverty tends to be found disproportionately among women. Outreach to females borrowers is also a common objective of donors and social investors.		

9	Report on provision of tailored and innovative products and services applying special ethical/sustainability criteria, including provision of finance to deprived communities and applied interest rate (in relation to base rate). Report on total amount and percentage of total lending.	GRI-Financial Sector Supplement	NA	Allows MFI to describe in narrative format what measures it is taking to extend outreach to deprived communities/marginal or disadvantaged groups through the design of tailored products for their particular circumstances and needs.		
10	Which financial services provided (check off list of financial services)	USAID	NA	Indicates the extent to which the MFI is serving the diverse financial needs of its target clients. The greater the diversity of needs met, the greater the social impact, all else equal.		
11	Describe the target market and measures taken to identify and reach target market.	USAID	NA	Social impact on the target market will be greater to the extent the MFI takes effective measures to identify and reach it.		
12	Client retention	USAID	7	Satisfied clients who derive net value from the consumption of financial services are more likely to remain clients and vice versa, all else equal. The greater the net value derived, the greater the social impact.		
13	Annual percentage interest rate (including all commissions and fees)	USAID	7	Net value derived from consumption of financial services takes into account both benefits and costs of consumption. The lower the costs of consumption, the greater the net benefits, all else equal. Also an indicator of the relative extent to which the MFI is earning profits by extracting the economic surplus from borrowers.		
14	Profit margin	The MIX	7	Profitability is an indicator of institutional sustainability. The longer an MFI operates, the greater its social impact, all else equal.		

15	Describe governance structures and checks and balances to ensure the quality of governance.	USAID	NA	Good governance is critical to ensure that the MFI and MFI management remain committed and on track to fulfill the MFI's social mission. It is also important to ensure that the MFI fulfills its role as good corporate citizen.		
16	Describe stakeholder dialogue and involvement procedures.	GRI-Financial Sector Supplement	5	Stakeholder dialogue is at the core of corporate social responsibility. MFIs interact with, and have an impact on, diverse stakeholder groups. Social responsibility largely has to do with how organizations manage these relationships and the associated duties, responsibilities, etc. The company should identify its major stakeholders, including staff, clients, owners / shareholders, suppliers, and affected individuals / communities. With staff, describe active consultation and representation in decision making. Socially oriented awards received by the company may be mentioned.		
17	Describe strategic planning of core business process and how it aligns with core value drivers.	USAID	NA	MFIs have a social mission and corresponding set of core values. Social mission fulfillment depends critically on whether and how the MFI integrates its social mission and core values into organizational planning and operations.		
18	Describe institutional mission, vision, values, and how the organization achieves them.	USAID	NA	Fulfillment of organizational missions, vision, and values presumes a strategy and corresponding set of policies and internal processes to achieve them.		
19	Economic value added	GRI-Financial Sector Supplement	7	Value added' expresses the economic value created by a company's activities. It consists of gross salaries (including social security payments, etc.), taxes, depreciation and gross profits. It reflects the company's contribution to GNP. Report as total and split to stakeholders. A template to calculate Economic Value Added can be found at		

				www.spifinance.com.		
20	Composition of governance bodies and breakdown of employees per category according to gender, age, group, minority group membership, and other indicators of diversity.	GRI-Core	3	This Indicator provides a quantitative measure of diversity within an organization and can be used in conjunction with sectoral or regional benchmarks. The level of diversity within an organization provides insights into the human capital of the organization. Comparisons between broad workforce diversity and management team diversity also offer information on equal opportunity. Detailed information on the composition of the workforce can also help in assessing which issues may be of particular relevance to certain segments of the workforce.		
21	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	GRI-Core	2, 5	This Indicator provides information on the significant direct and indirect impacts of the reporting organization on biodiversity in protected areas and areas of high biodiversity value outside protected areas. It also provides the background for understanding (and developing) an organizational strategy to mitigate these impacts. By asking for structured, qualitative information, the Indicator enables comparison across organizations and over time of the relative size, scale, and nature of impacts.		
22	Strategies, current actions, and future plans for managing impacts on biodiversity.	GRI-Additional	2, 5	Performance against biodiversity policies, objectives, and commitments depends on having structured programs in place for managing impacts. The presence and structure of programs is particularly important when national regulations do not provide clear reference points for an organization planning its biodiversity management. This Indicator enables both internal and external stakeholders to analyze how well the reporting organization's strategies, current actions, and future plans		

				address potential impacts on biodiversity. The quality of the organization's approach to managing impacts on biodiversity (as identified in EN11 and EN12) will affect its exposure to risks such as reputational damage, fines, or rejection of planning or operating permissions. Actions to protect or restore habitats and species are of particular relevance.		
23	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	GRI-Core	2, 5	For some sectors, the impacts of products and services during their use phase (e.g., water consumption of a washing machine) and at the end of their useful life can be equal to or greater in significance than the production phase. The significance of such impacts is determined by both customer behavior and general product/service design. Organizations are expected to take more proactive approaches to assessing and improving the environmental impacts of their products and services. This measure assesses the actions the reporting organization has taken to reduce the negative environmental impacts and enhance the positive impacts of its product and service design and delivery. Design for environment can help identify new business opportunities, differentiate products and services, and stimulate innovation in technology. Integrating environmental considerations into product and service design can also decrease the risk of incompatibility with future environmental legislation, as well as enhance reputation.		
24	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.	GRI-Core	6, 7, 8	The level of non-compliance within the organization helps indicate the ability of management to ensure that operations conform to certain performance parameters. From an economic perspective, ensuring compliance helps to reduce financial risks that occur either directly		

				through fines or indirectly through impacts on reputation. In some circumstances, non-compliance can lead to clean-up obligations or other costly environmental liabilities. The strength of the organization's compliance record can also affect its ability to expand operations or gain permits.		
25	Total environmental protection expenditures and investments by type.	GRI-Additional	2, 5, 7	Measuring environmental mitigation and protection expenditures allows organizations to assess the efficiency of their environmental initiatives. It also provides valuable input for internal cost-benefit analyses. Data on environmental performance measured against environ-mental mitigation and protection expenditures offers insights into how effectively the organization uses resources to improve performance. When tracked and analyzed in a comprehensive fashion over time, this expenditures data allows the reporting organization to judge the value of complex organizational or technological investments for improving environmental performance. It is possible to establish a full environmental management accounting system within an organization that tracks multiple categories of information. This Indicator focuses on waste disposal, emissions treatment, remediation costs, as well as prevention and environmental management costs.		
26	Percentage of portfolio that has been analyzed in terms of environmental and social risk	FMO	2, 5, 7	Identifies whether and to what extent the MFI is conducting environmental and social risk analysis. Environmental and social risks not threaten the quality and livability of local communities in which MFIs operate. The cost of environmental degradation also tends to fall disproportionately on the poor. Environmental and social risk also threatens the sustainability of economic activity		

				and the reputation and performance of the MFI itself.		
27	Percentage of portfolio with: • Environmental and social risk • No environmental and social risk	FMO	2, 5, 7	Not only identifies whether and to what extent the MFI is conducting environmental and social risk analysis but goes further to identify the extent to which the MFI is exposed to environmental and social risk.		
28	Percentage of portfolio in prohibited industries	FMO	2, 5, 7	Measures whether and extent to which the MFI is adhering to the industry exclusion list agreed to with investors.		
29	Whether MFI has financed businesses that have environmental and social benefits, such as investing in energy efficiency, renewable energy, cleaner production, pollution management, supply chain greening, community development, etc	FMO	2, 5	Identifies whether and to what extent the MFI is investing in businesses that have a positive impact on the environment. MFIs may take a number of actions either to mitigate the environmental impact of its lending operations or to foster improvements in the environment. Lending to environmentally friendly businesses is one important way it can do the latter.		
30	Staff Turnover: Percentage of staff having left the company in a given year ([staff having left] / [staff at end of previous year] * 100). Not to be included are pension leaves and deaths.	GRI-Financial Sector Supplement	1, 3, 4, 7	A high turnover rate can indicate levels of uncertainty and dissatisfaction among employees, or may signal a fundamental change in the structure of the organization's core operations. An uneven pattern of turnover by age or gender can indicate incompatibility or potential inequity in the workplace. Turnover results in changes to the human and intellectual capital of the organization and can impact productivity. Turnover has direct cost implications either in terms of reduced payroll or greater expenses for recruitment of workers.		
31	Report on employee satisfaction, based on survey results, covering: job security; re-	GRI-Financial Sector Supplement	1, 3, 4, 7, 9c, 13, 14	A broad indicator that allows the MFI to report on diverse dimensions of workplace health and safety, work conditions, employee-management rela-		

	muneration & benefit; work/life-balance (including work pressure and stress); training & development; internal communication culture; company's social performance towards society.			tions, governance, human resource development, etc. in a single narrative indicator.		
32	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	GRI-Additional	3	Data reported under this Indicator provides a measure of the organization's investment in human resources and the minimum benefits it offers its full time employees. The quality of benefits for full-time staff is a key factor in retaining employees. The Indicator also offers an indication of the relative investment in different parts of the workforce.		
33	Describe social responsibility issues covered in the company's human resources policies. Policies may include: equal opportunity/anti-discrimination, including equal pay for equal work; anti-harassment policy; freedom of association (including unions); training and people development; part-time employment-job sharing; layoff policy (including out-placement support); anonymous feedback facility; health & safety, in particular on stress and ergonomics	GRI-Financial Services Supplement	1, 3, 4, 9c, 13, 14	A comprehensive indicator that allows the MFI to report on multiple dimensions of internal CSR policy with a single narrative indicator		

34	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements	GRI-Core	4	This Indicator provides insight into an organization's practice of ensuring timely discussion of significant operational changes, and engaging with its employees and their representatives to negotiate and implement these changes (which may have positive or negative implications for workers). Timely and effective consultation with workers and other relevant parties, where practicable (such as with governmental authorities), helps to minimize any adverse impacts from operating changes on workers and related communities. Minimum notice period(s) are an Indicator of an organization's ability to maintain employee satisfaction and motivation while implementing significant changes to operations. This Indicator also allows an assessment of an organization's consultation practices in relation to expectations expressed in relevant international norms. Consultative practices that result in good industrial relations can help provide positive working environments, reduce turnover, and minimize operational disruptions.		
35	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	GRI-Additional	1, 7, 13, 14	A health and safety committee with joint representation can facilitate a positive health and safety culture. The use of committees is one way to involve workers in driving the improvement of occupational health and safety in the workplace. This Indicator provides one measure of the extent to which the workforce is actively involved in health and safety.		
36	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region	GRI-Core	1, 7	Health and safety performance is a key measure of an organization's duty of care. Low injury and absentee rates are generally linked to positive trends in staff morale and productivity. This Indicator will show whether health and safety management practices are result-		

				ing in fewer occupational health and safety incidents.		
37	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	GRI-Core	1, 14	As part of a preventative strategy for managing the health and safety of its workforce, this Indicator is relevant for any organization. It also has specific relevance for organizations working in countries with a high risk or incidence of communicable diseases, and those in professions that have a high incidence of specific diseases. The Indicator helps demonstrate the extent to which such issues have been addressed in organizational programs and the degree to which best practices are applied. Preventing serious diseases contributes to the health, satisfaction, and stability of the workforce, and helps maintain the organization's social license to operate in a community or region.		
38	Average hours of training per year per employee category.	GRI-Core	3, 7	Maintaining and improving human capital, particularly through training that expands the knowledge base of employees, is a key element in organizational development. This Indicator provides insight into the scale of the organization's investment in this area and the degree to which the investment is made across the entire employee base. Access to training opportunities can also support progress in other areas of social performance, such as ensuring equal opportunity in the workplace. It also contributes to motivating improvement at the personal and organizational level.		
39	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	GRI-Additional	3	Programs for skills management allow organizations to plan skills acquisitions that will equip employees to meet strategic targets in a changing work environment. A more skilled and aware workforce enhances the organization's human capital and contributes to employee satisfaction, which correlates		

				strongly with improved performance. For those facing retirement, confidence and quality of work relations is improved by the knowledge that they will be supported in their transition from work to retirement. The goal of lifelong learning is to promote the development of knowledge and competencies that will enable each citizen to adapt to a rapidly-changing labor market and to participate actively in all spheres of economic life.		
40	Ratio of basic salary of men to women by employee category.	GRI-Core	3, 7	Many countries have introduced legislation to enforce the principle of equal pay for work of equal value. This issue is supported by ILO Convention 100 on 'Equal Remuneration for Men and Women Workers for Work of Equal Value'. Equality of remuneration is a factor in retaining qualified candidates in the workforce. Where imbalances exist, an organization runs a risk to its reputation and legal challenges on the basis of discrimination.		
	Total number of incidents of discrimination and actions taken.	GRI-Core	3, 7, 8	Human rights extend beyond the rights of employees in the workplace. Anti-discrimination policy is a key requirement of international conventions and social legislation and guidelines. The issue of discrimination is also addressed by ILO Core Conventions 100 & 111. An effective monitoring system is necessary to ensure compliance throughout the reporting organization's operations. Stakeholders will seek assurance that such policies and monitoring are effective.		
41	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk,	GRI-Core	4	Inherent in the right to freedom of association and collective bargaining is the protection of the right of workers (and employers) to organize collectively in organizations of their own choice. The Right to Freedom of Association is a		

	and actions taken to support these rights.			fundamental provision of the UN Universal Declaration of Human Rights and is defined by ILO Core Conventions 87 & 98. This Indicator aims to reveal actions that the reporting organization has taken to evaluate whether opportunities exist for workers to exercise their rights to freedom of association and collective bargaining. It also aims to reveal actions that have been taken to support these rights across the organization's range of operations. This Indicator does not require the reporting organization to express a specific opinion on the quality of national legal systems.		
42	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	GRI-Core	9b	The abolition of child labor is a key principle and objective of major human rights declarations and legislation, and is subject to ILO Conventions 138 and 182. The presence and effective implementation of policies on child labor are a basic expectation of socially responsible conduct.		
43	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures taken to contribute to the elimination of forced or compulsory labor.	GRI-Core	9a	Not to be subjected to forced or compulsory labor is considered a fundamental human right and is a provision of the UN Universal Declaration of Human Rights and subject to ILO Core Conventions 29 & 105. This type of labor can exist in a variety of forms and the data provided will indicate the reporting organization's challenges in contributing to the abolition of forced and compulsory labor.		
44	Percentage and total number of business units analyzed for risks related to corruption.	GRI-Core	6, 11	Efforts to manage reputational risks arising from corrupt practices by employees or business partners require a system that has supporting procedures in place. This measure identifies two specific actions for ensuring the effective deployment of the reporting organ-		

				ization's policies and procedures by its own employees and its intermediaries or business partners. Risk analysis is an important and necessary management approach that helps to assess the potential for incidents of corruption within the organization.		
45	Percentage of employees trained in organization's anti-corruption policies and procedures.	GRI-Core	6, 11	Efforts to manage reputational risks arising from corrupt practices by employees or business partners require a system that has supporting procedures in place. Training is an important element of such a system as it builds internal awareness and capacity necessary to prevent incidents of corruption. This measure reveals the proportion of the organization's employees that can reasonably be assumed to be aware of the anti-corruption issues.		
46	Actions taken in response to incidents of corruption.	GRI-Core	6, 11	Corruption can be a significant risk to an organization's reputation and business. It is broadly linked to contributing to poverty in transition economies, damage to the environment, abuse of human rights, abuse of democracy, misallocation of investments, and undermining the rule of law. Organizations are increasingly expected by the marketplace, international norms, and stakeholders to demonstrate their adherence to integrity, governance, and good business practices. This Indicator demonstrates specific actions taken to limit exposure to sources of corruption and reduce the risk of new instances of corruption. For stakeholders, there is an interest in both the occurrence of incidents, but also how the organization chooses to respond.		
47	Describe procedures for handling issues sensitive to stakeholders and respon-	GRI-Financial Sector Supplement	6, 7	Sensitive issues which are specific to a business area should be covered in the respective policy indicator(s). Issues that are not business area specific		

	siveness.			may currently include bribery and corruption, contributions to political parties and related organizations, Anti-Money Laundering (AML) or the identification of terrorist money. The company may add quantitative data to demonstrate how such issues are managed. Examples may be the amount of training on the implementation of AML procedures. This indicator may also cover newly arisen issues which are not yet covered in policies.		
48	Report on the number of non-compliance incidents with any law or regulatory code of conduct. Note: the specific legal context in the country of operation will have a significant impact on the implications of quantitative data generated through this indicator.	GRI-Financial Sector Supplement	6, 8, 13	An indicator of good corporate citizenship is extent to which the MFI complies with all laws and regulations to which it is subject.		
49	Describe social elements of the CSR policy, including corporate definition of CSR. It may consist of one or more documents, including CSR policies for separate business sectors (e.g., human resources, suppliers, lending policy, investment policy, etc.). The company should reference voluntary	GRI-Financial Sector Supplement	Various requirements of the Shareholder Agreement. Allows MFI to describe its CSR policy in a way that references multiple requirements of the Shareholder Agreement.	CSR Policy is an expression of an organization's core social values. It may consist of one or more documents, including CSR policies for separate business sectors (e.g., human resources, suppliers, lending policy, investment policy, etc.). The company should reference voluntary codes of conduct it has signed. The company may make reference to external standards, e.g. ILO conventions. Companies may consider not explicitly referring to each of these conventions if they are obvious in a given cultural and legal context.		

	codes of conduct it has signed. The company may make reference to external standards, e.g. ILO conventions. Companies may consider not explicitly referring to each of these conventions if they are obvious in a given cultural and legal context					

ANNEX 5

AVERAGE SCORE FOR THE 50 INDICATORS INCLUDED IN THE AFRICAP CEO SURVEY

Indicator	Average Rating Score
Client retention	4.9
Annual percentage interest rate	4.6
Number of borrowers or loans outstanding	4.5
Percent female clients	4.5
Profit margin	4.5
Number of voluntary savers or voluntary savings accounts	4.4
Describe governance structures and checks and balances to ensure the quality of governance	4.4
Percentage of portfolio in prohibited industries	4.3
Staff turnover	4.3
Financial services provided	4.0
Which financial services provided	4.0
Describe institutional mission, vision, values, and how the organization achieves them	4.0
Describe social responsibility issues covered in the company's human resources policies	4.0
Average hours of training per year per employee category.	4.0
Average loan size / Gross National Income per capita	3.9
Describe the target market and measures taken to identify and reach target market	3.9
Actions taken in response to incidents of corruption.	3.9
Report on employee satisfaction	3.8
Average savings size / Gross National Income per capita	3.5
Describe strategic planning of core business process and how it aligns with core value drivers	3.5
Whether MFI has financed businesses that have environmental and social benefits	3.5
Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	3.5
Percentage of employees trained in organization's anti-corruption policies and procedures	3.5
Average size of new loans / Gross National Income per capita	3.4
Describe stakeholder dialogue and involvement procedures	3.4
Percentage of portfolio with: (1) Environmental and social risk; (2) No environmental and social risk	3.4
Describe social elements of the CSR policy, including corporate definition of CSR	3.4
Percent rural clients	3.3
Economic value added	3.3
Percentage of portfolio that has been analyzed in terms of environmental and social risk	3.3
Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	3.1
Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	3.1
Describe procedures for handling issues sensitive to stakeholders and responsiveness.	3.1
Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region	3.0
Percentage and total number of business units analyzed for risks related to corruption	3.0
Report on the number of non-compliance incidents with any law or regulatory code of	3.0

conduct	
Composition of governance bodies and breakdown of employees per category according to indicators of diversity	3.0
Operations identified as having significant risk for incidents of forced or compulsory labor, and measures taken to contribute to the elimination of forced or compulsory labor	3.0
Minimum notice period(s) regarding significant operational changes	2.9
Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	2.9
Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	2.7
Report on provision of tailored and innovative products and services applying special ethical/sustainability criteria	2.6
Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	2.6
Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	2.6
Total number of incidents of discrimination and actions taken	2.6
Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	2.5
Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	2.3
Ratio of basic salary of men to women by employee category	2.1
Strategies, current actions, and future plans for managing impacts on biodiversity	2.1
Total environmental protection expenditures and investments by type	2.0

ANNEX 6

DRAFT PROPOSAL TO INTEGRATE ENVIRONMENTAL AND SOCIAL PERFORMANCE INTO THE STRATEGIC VALUE MANAGEMENT FRAMEWORK

The core of the process [adopted by edge Growth Solutions] is identifying and providing the support required to address constraints to explosive, profitable growth (where profitable implies growing value for all stakeholders, including shareholders and customers).

Essentially, the model helps management teams do two things:

1) Plan for explosive growth: Understand constraints to achieving explosive growth - in terms of a competitive value proposition, capacity to deliver and scale up (finance, people, tools, systems, facilities, etc), and the capabilities required to achieve the aforesaid (methodologies, technologies, skills, management processes, culture, etc) - and develop an *EDGE game plan* – an Explosive, Dynamic Growth & Employment game plan – which prioritizes the most crucial activities required to unlock explosive growth and create jobs.

2) Deliver explosive growth: Generate explosive growth by acquiring additional resources where appropriate, and focusing limited and precious resources (people, finance, skills, etc) on driving the really *key* activities required to unlock growth, and dynamically manage an aggressive business growth agenda with sophisticated growth management tools.

AfriCap has applied the *edge Growth Accelerator* to four AfriCap portfolio MFIs. The impact has been sufficiently positive that AfriCap plans to roll out the *edge Growth Accelerator* as their key framework for supporting AfriCap MFI's in achieving accelerated, sustainable, socially beneficial growth.

To date, the social objectives of the MFI's have not been an active focus of the *edge Growth Accelerator*. The Accelerator focuses on generating positive social outcomes through helping businesses become sustainable, meet customer needs in a far more targeted and cost-effective manner, and grow their outreach. The assumption underlying this approach to social impact has been that the microfinance business model delivers social benefit if the business is efficiently and effectively run; therefore growing the business will grow the social benefit to the communities served by the MFI's. This assumption was justified by the fact that AfriCap's strategy is to invest in MFI's with socially beneficial business models.

eGS understands AfriCap's desire to be more aggressive about targeting, managing and delivering greater social benefit, and it is willing to modify its Growth Accelerator framework to help management teams plan for, manage and deliver on social goals as a core part of their business activities (rather than tack on peripheral social reporting).

The objective of incorporating Social Indicators is to ensure sustainable and growing social impact, and to do so by enabling AfriCap's investee MFIs to be *inspired, intentional, aggressive, and accountable* about social impact. eGS will do this by incorporating social objectives into management training, planning processes, management processes, and measurement processes.

The business incubation process is about the hearts of people – and the management team in particular. At the outset of the business incubation process, therefore, the first thing eGS does is inspire the management team to focus on the right things: activities required to generate growth. This process ordinarily inspires the management team to drive change and growth.

Step 1 in facilitating greater social outcomes from the Growth Accelerator process will be to build in to the upfront inspiration and education processes some materials that inspire the management team to proactively target and drive greater social impact. These materials will highlight the need for society and business to contribute to poverty alleviation, and will highlight the purpose and benefits to socially responsible business models.

After generating inspiration, the business incubation process begins with intent – planning outcomes and the game-plan to achieve those outcomes. We currently help the management team to develop a powerful *EDGE game plan*, which focuses the management team on understanding customer needs clearly, planning to efficiently and cost effectively meet those needs in the right customer segments – market segments where the client can sustainably deliver superior value to customers – and then focusing on the most aggressive possible growth path (i.e. the most efficient deployment of human and financial capital to generate valuable growth).

Step 2 in facilitating greater social outcomes from the *edge Growth Accelerator* process will be to integrate social goals and objectives into the planning process. The core tool will be an adapted Balanced Score Card, which will incorporate into the standard Norton and Kaplan Balanced Scorecard a fifth dimension for social objectives.

After developing the *EDGE game plan*, eGS helps the management team focus its limited and precious resources intensely and passionately on doing the things that really matter to achieve explosive growth. eGS provides tools to help the management see where and when they are off-track, and rapidly respond to get back on track or change course. It provides customized technology platforms required for monitoring and reporting on progress against timelines, budgets, and outcomes, as well as performance manage teams and individuals to keep their focus on the "things that really matter".

Step 3 in facilitating greater social outcomes from the *edge Growth Accelerator* process will be to integrate social goals and objectives into the management process – including designing performance management systems with embedded social goals. Again, the core tool will be an adapted Balanced Score Card, which will incorporate into the standard Norton and Kaplan Balanced Scorecard a fifth dimension for social objectives.

eGS is about to embark on the process of designing a technology-based, web-enabled management, measurement and evaluation system which will provide a platform to measure the monitor and report on results at both the strategic and operational level. At the strategic level, the reporting will be against the Balanced Scorecard (with embedded social impact indicators). At an operational level, the reporting will be on the project and human performance dimensions. At the project level, the reporting will incorporate progress against the *EDGE game plan*, including timelines, budgets, and outcomes. On the human performance level, eGS enables performance management of individuals and teams against clear performance objectives aligned to the *EDGE game plan*.

Step 4 in facilitating greater social outcomes from the *edge Growth Accelerator* process will be to integrate social goals and objectives into the measurement process – including tacking performance of the business and individuals against targets as established in the performance management system and balances scorecard. The core tool will again be the adapted Balanced Score Card, (including a fifth dimension for social objectives), but eGS will in addition make possible measurement of more operational social outcomes.

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