

SUSTAINABLE MSME FINANCE REFERENCE GUIDE



GB-TAP Green Bond Technical Assistance Program



IN PARTNERSHIP WITH



SUSTAINABLE MSME FINANCE REFERENCE GUIDE

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Assistance Program



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Acknowledgments

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Foreword





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Micro, small and medium enterprises (MSMEs) represent 90% of businesses worldwide. Not only are they important drivers of employment, technological change, and social mobility. They are also essential to the transition to a low-carbon, resilient and sustainable economy. Climate action by MSMEs is, however, constrained by knowledge, capacity and access to capital.

Scaling up capital to help transition this important sector will only happen if financial institutions (FIs) can effectively target, assess and implement sustainable finance to MSMEs. This is why IFC is excited to launch this **Sustainable MSME Finance Reference Guide**, a practical guide to help FIs in emerging markets deploy sustainable finance to MSMEs. The Guide offers a framework and supporting templates that FIs can adopt to address the varied context of MSMEs' financing needs.

The Sustainable MSME Finance Reference Guide leverages IFC's extensive experience supporting MSMEs, having grown its global MSME finance portfolio to over \$19 billion as of 2023. It also leverages IFC's **Green Bond Technical Assistance Program** (GB-TAP), which supports the mobilization of sustainable finance in emerging markets by providing technical assistance to FIs on green, social and sustainability bond issuances. Since 2018, GB-TAP has trained over 1,000 professionals from over 280 financial institutions across 70 countries and stimulated the issuance of over 80 green, social and sustainability bonds for a total value of US\$7 billion.

The Guide has been developed in partnership with the SME Finance Forum, established in 2012 by the G20 Global Partnership for Financial Inclusion, and was inspired by discussions held at the Forum's 2021 annual conference.

I hope you will find this Reference Guide a useful tool for addressing your climate ambitions while growing your portfolio of sustainable, high-quality MSME investments.

Introduction



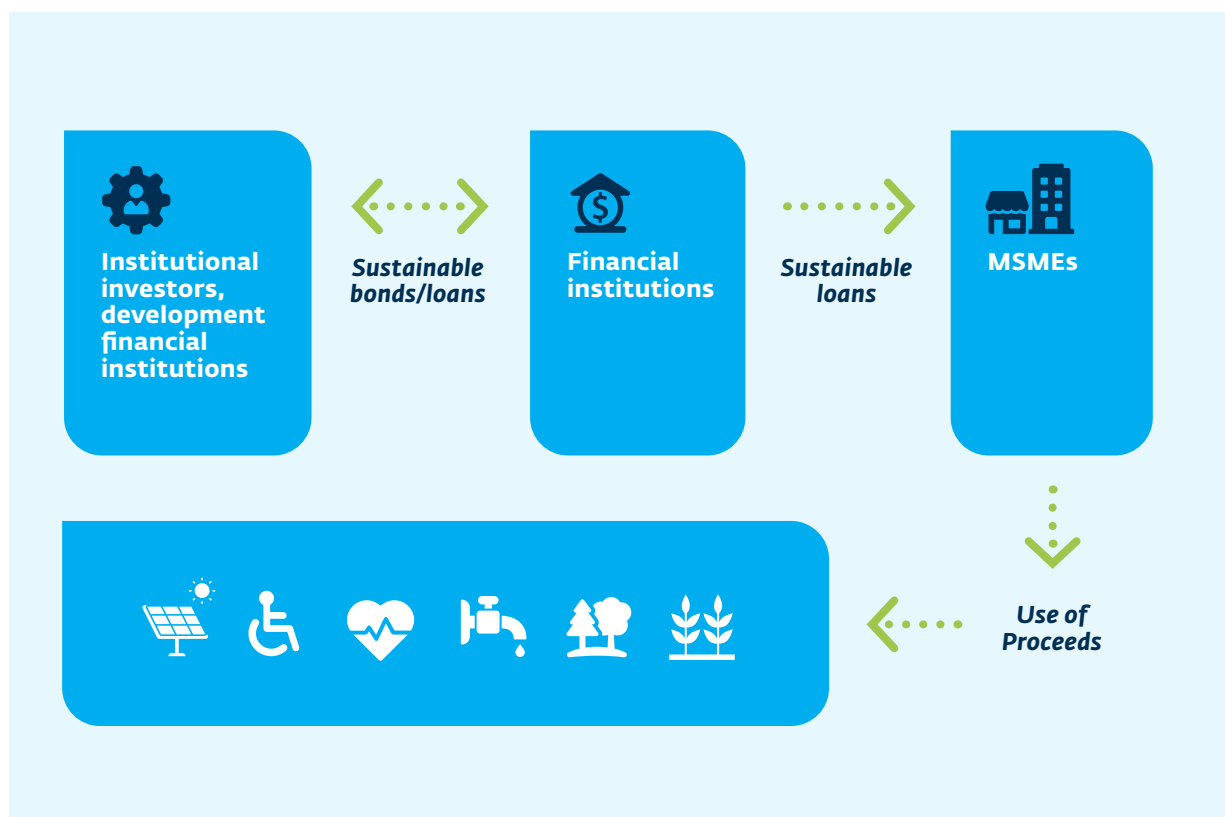
Employment through small business is essential to reduce poverty and spread prosperity. Micro, small and medium enterprises (MSMEs) contribute significantly to the gross domestic product (GDP), making up 90 percent of businesses and more than 50 percent of all employment¹. At the same time, they have a significant participation in total global greenhouse gas (GHG) emissions from the business sector². Therefore, global efforts to address climate change in an inclusive and fair way cannot ignore the participation of MSMEs in the transition to a more sustainable economy.

Despite their importance, MSMEs' access to finance in emerging markets remains severely constrained³, restricting not only their ability

to implement climate solutions but also their business growth and overall sustainability efforts.

Financial institutions (FIs) play an important role in bridging the MSME finance gap while enabling a green and just transition. Sustainable finance can be used to fill this gap while providing benefits to FIs themselves. There are a growing number of investors with sustainability mandates, such as institutional investors, development financial institutions, and impact funds, among others. By providing sustainable MSME finance with the exclusive purpose of financing eligible green and/or social projects, FIs may have access to alternative sources of funding, and expand and diversify its investor base (Figure 1).

Figure 1 **Example of capital flow for sustainable MSME finance**



¹ World Bank (2023).

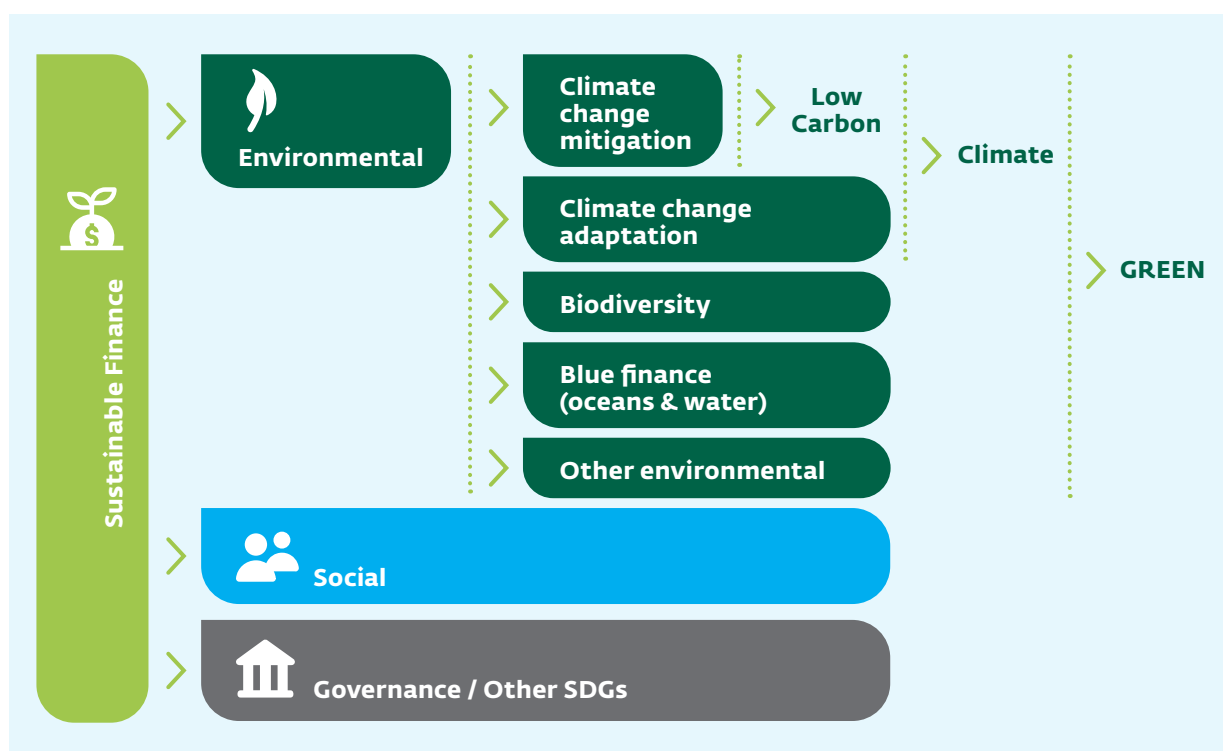
² According to the European Commission (2022), in the European Union MSMEs are responsible for 60 percent of all GHG emissions by enterprises.

³ International Finance Corporation (2017).

Sustainable finance is defined as finance that aims to contribute to substantial progress on environmental, social, or governance objectives (Figure 2). In general, it can be implemented by following two approaches:

- \$ **Follow the money.** This is structured in alignment with the Green Loan Principles (GLP), Green Bond Principles (GBP), Social Loan Principles (SLP), and Social Bond Principles (SBP)⁴, hereafter collectively called “the Principles” for the purposes of this Guide. Use of proceeds is restricted to activities and assets that are eligible in accordance with the Principles or based on a taxonomy.
- 🎯 **Follow the impact.** This is structured in alignment with the Sustainability-Linked Loan Principles or Sustainability-Linked Bond Principles. Use of proceeds is general purpose but there are financial implications (e.g., step up or down in pricing) if targets are achieved or missed.

Figure 2 **Disentangling sustainable finance**



This Guide uses the *follow the money* approach when referring to Sustainable finance for MSMEs. It encompasses finance with specific green and/or social use of proceeds (UoP) or ambitious environmental and/or social goals, and aligns with the core components of the Principles: use of proceeds, process for project

evaluation and selection, management of proceeds, and reporting. Sustainability-linked instruments with a *follow the impact* approach have a distinct structure and, therefore, are not included in this Guide (but will be considered for future development).

⁴ The [Green Loan Principles](#) and the [Social Loan Principles](#) are voluntary frameworks developed by the Loan Syndications and Trading Association (LSTA). The [Green Bond Principles](#) and the [Social Bond Principles](#) are voluntary frameworks developed by the International Capital Market Association (ICMA). All of them aim to promote the integrity and transparency of the green, social and sustainability loan and bond markets.

In line with general MSME financing needs, this Guide categorizes sustainable MSME finance by type: finance for capital expenditures (CapEx) and finance for operational expenditures (OpEx). Although MSMEs often need to finance OpEx, much sustainable finance guidance to date has focused on use of proceeds for CapEx needs.⁵ This has created a gap in understanding of how to leverage sustainable finance principles to provide more financing for sustainable MSME operational activities. This guide provides a practical approach to address this information gap. As noted, sustainable MSME finance for CapEx must align to an appropriate UoP, such as those outlined in Chapter III; sustainable MSME finance for OpEx should align to appropriate UoP if possible. If an appropriate UoP cannot be identified (for instance in the case of working capital loans or trade finance), the MSME in question should achieve appropriate green and/or social standards at the enterprise level, as assessed by an independent third party.

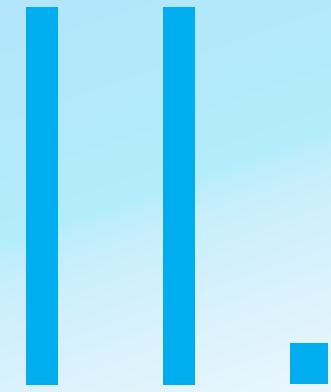
This Guide aims to set out a practical approach for financial institutions to translate sustainable finance principles into supporting sustainable MSME finance in emerging markets. It does this by developing a suitable UoP list for CapEx, select OpEx, and an approach for supporting MSME OpEx finance needs more broadly. It also outlines steps for project identification and evaluation, and provides resources for FIs' governance processes, as well as guidance on potential reporting metrics. The main audience for this guide is professionals from emerging market FIs seeking to address their climate objectives and grow their business by applying and expanding sustainable finance approaches to support MSMEs. Figure 3 maps the core elements of sustainable finance, some of the barriers to MSME sustainable finance, and the support provided in this Guide.

Figure 3 Sustainable MSME finance gaps and this Guide

	Use of proceeds	Process for project evaluation and selection	Management of proceeds	Reporting
Sustainable finance principles	<ul style="list-style-type: none"> Green projects or assets should provide clear environmental benefits Social projects or assets should aim to address a specific social issue and/or seek to achieve positive social outcomes 	<ul style="list-style-type: none"> Clear communication and identification of how projects or assets fit into eligible categories May be framed in terms of the overall objectives of the entity or organization that relates to environment and sustainability 	<ul style="list-style-type: none"> Proceeds should be tracked to maintain transparency and integrity of the financial product Borrowers are encouraged to set up internal governance processes to track sustainable finance 	<ul style="list-style-type: none"> Information on UoP should be kept up-to-date and renewed annually Qualitative and quantitative indicators should be utilized to track and communicate project impacts
MSME barriers	<ul style="list-style-type: none"> Often lack clarity and understanding regarding appropriate UoP for the financing of sustainable projects or assets Finance needs are often operational not capital 	<ul style="list-style-type: none"> Often insufficient data is gathered for sustainable project selection and evaluation 	<ul style="list-style-type: none"> Often insufficient governance processes/capacity to manage sustainable financing 	<ul style="list-style-type: none"> Often insufficient resources or data collection for adequate reporting
Guide support	<ul style="list-style-type: none"> Defines UoP for some sectors Is aligned with Green Bond and Green Loan Principles, as well as Social Bond and Social Loan Principles 	<ul style="list-style-type: none"> Outlines steps for sustainable MSME project selection and evaluation Distinguishes between operational and capital needs 	<ul style="list-style-type: none"> Provides guidance and resources on sustainable finance governance processes for MSME lenders 	<ul style="list-style-type: none"> Provides guidance on reporting processes, including reporting metrics that are suitable for MSME sustainable finance

This Guide will continue to evolve as the market develops and matures. Given the diversity of MSMEs and the evolving nature of sustainable finance, this Guide does not intend to offer a finite and comprehensive overview of activities and projects that could be financed under a sustainable label. Rather, it is intended to be a living document, which will be reviewed and updated periodically to accurately reflect developments in this financial space.

⁵ Examples of this include the [Green Loan Principles](#), [Green Bond Principles](#), [Social Loan Principles](#), and [Social Bond Principles](#), and country-specific guidelines such as China's Guidelines for Establishing the Green Financial System.

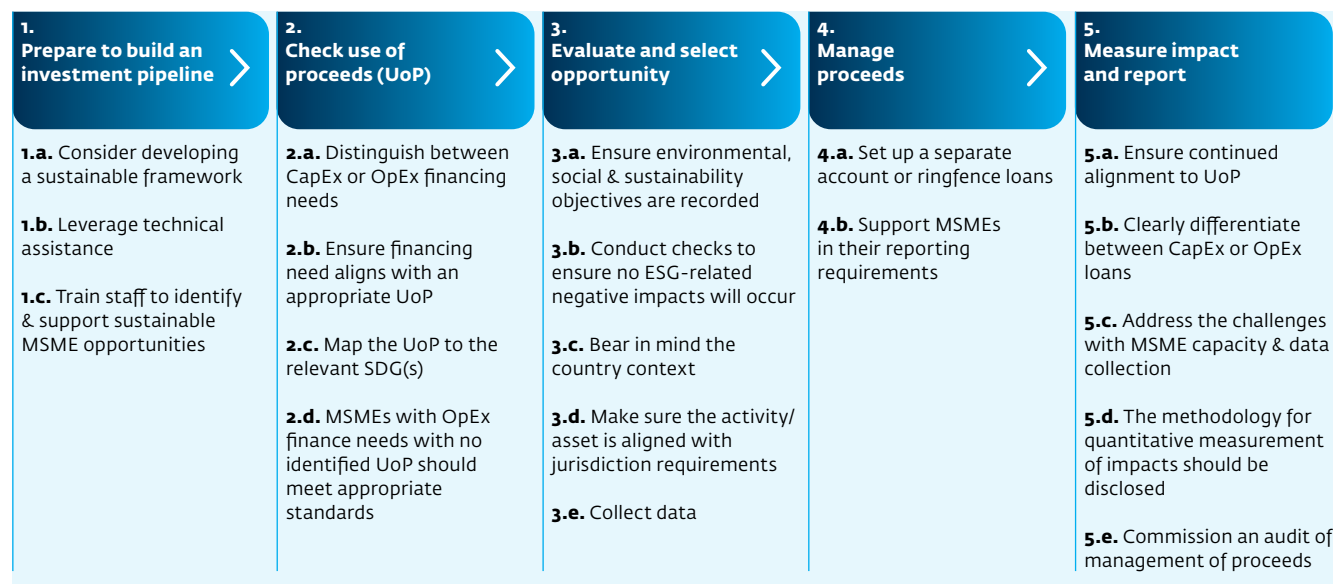


Implementing sustainable finance for MSMEs



This Chapter summarizes the approach for practitioners to operationalize sustainable MSME finance. Practitioners include professional from FIs, such as commercial banks, microfinance institutions, or other financial intermediaries. It is suggested that practitioners take the steps and sub-steps summarized in [Figure 4](#) and detailed in the following sections, to operationalize sustainable finance in the context of MSMEs.

Figure 4 **Steps to operationalize sustainable MSME finance**



Step 1. Prepare to build an investment pipeline

Building a pipeline of eligible opportunities will allow for scaling up sustainable MSME finance at the organization level. There are multiple approaches for developing a pipeline of investment-ready MSMEs that meets sustainable finance criteria. To be prepared for that, FIs might consider the following actions.




1.a. Consider developing a sustainable MSME finance framework at the organizational level. Well defined sustainable classifications and procedures can help lenders implement sustainable finance. Practitioners may consider developing their own sustainable loan framework at the organizational level. In such case, practitioners should commission a third-party review to ensure that the framework aligns with the Principles.



1.b. Leverage technical assistance and project structuring support to develop a pipeline or support the preparation of the sustainable framework. This may be provided in-house or by third parties (governments, non-governmental organizations, etc.). For instance, engagements with local government agencies, such as entities tasked with economic development or focused on working with the local MSME community. These agencies will have registries of MSMEs by sector and region and are often interested in working with practitioners to scale MSME finance initiatives. Other resources may be available via governments' in-country MSME-technical assistance programs offered by regional development banks, trade associations, and others. Global resources may include:

- 
Global SME Finance Facility: The Global SME Finance Facility is an IFC-based blended-finance partnership focused on helping to close the financing gap faced by SMEs in emerging markets.
- 
OECD Platform for Financing SMEs for Sustainability: The platform, hosted by the Organization for Economic Co-operation and Development (OECD), provides a forum to advance knowledge sharing, data and analytical work, and policy dialogue on sustainable finance for SMEs. It brings together public and private financial institutions, governments, fintech companies, regulators, and SME representatives.
- 
Compact with Africa – Green Business Fund: SME-focused trust fund hosted by the World Bank, it is a G20 initiative aimed at enabling African SMEs to attract climate/green finance to adopt/scale climate-smart practices and technologies across different sectors.

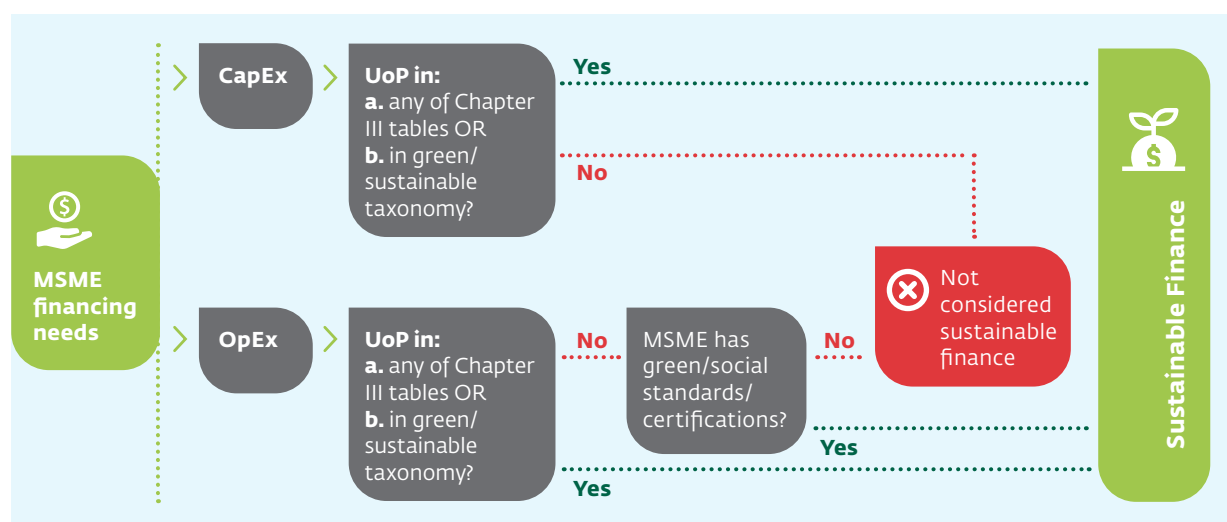
 **1.c. Train staff to identify and support sustainable MSME opportunities.** Make sure that staff understand the difference between regular and sustainable MSME finance, and sustainable MSME finance for OpEx and CapEx. Ensure staff are familiar and trained in the relevant UoP and country- or region-specific taxonomies. Training might be part of (or added to) existing processes to roll out sustainable MSME finance, or it might require new processes to support sustainable MSME finance.

Step 2. Check use of proceeds (UoP)

UoP identifies activities or assets that are classified as eligible green and/or social opportunities. In the context of sustainable finance, eligible UoP are those that provide environmental benefits and/or seek to achieve positive social outcomes, and can be assessed, measured, and quantified. To be considered sustainable finance, activities and assets may be classified only as green opportunities, only as social opportunities, or a combination of factors that make them a mix of green and social opportunities.

Figure 5 provides a visualization of the assessment to be undertaken to classify a certain use of proceeds by MSMEs as sustainable finance.

Figure 5 **Classification of use of proceeds**





2.a. Distinguish between CapEx and OpEx financing needs. Practitioners of MSME finance should make this distinction upfront; this determines if additional information is needed for the UoP check (for CapEx financing and some OpEx), or whether MSMEs need to meet additional requirements to ensure that proceeds are being used for a 'sustainably-aligned' activity (OpEx).



2.b. Ensure CapEx or OpEx related finance aligns with an appropriate UoP. Practitioners should ensure that the project/activity to be financed is positively verified against:

- i) an appropriate taxonomy, such as a national or regional green or sustainable investment taxonomy, AND/OR
- ii) against the UoP listed in Chapter III of this Guide, which contains a comprehensive, yet non-exhaustive, list of eligible green and/or social MSME UoP.

Appendix B contains a summary of relevant taxonomies, but practitioners should check equivalents that might apply to their corresponding jurisdiction.



2.c. Map the UoP to the relevant Sustainable Development Goals (SDGs). Doing this will ensure that the contribution to SDGs from the proposed UoP is clear.



2.d. Ensure MSMEs with OpEx-related finance needs and no identified UoP meet appropriate standards. OpEx loans, such as working capital loans or trade finance, may not have a specific UoP as set out in the taxonomies or in Chapter III. In such cases, for lending to be considered eligible sustainable lending, enterprises must meet appropriate third-party green and/or social standard(s) or achieve certification(s). This is a risk mitigation tool. While most MSMEs keep records, they are not necessarily standardized or high-quality, which increases borrower risk. To obtain certification, MSMEs must adopt rigorous standards and processes and tend to have higher-quality management systems, controls, and operational standards. Such certifications assess MSME environmental, social, and/or governance standards, hence providing assurance to lenders that the MSME meets the minimum green and/or social standards. The appropriate certification would depend on the sector and the MSME in question; various standards and certifications exist across sectors.






Practitioners of MSME finance should make sure that appropriate governance processes are being used or are in place to monitor compliance with relevant standards and/or certifications. Refer to Appendix A for a non-comprehensive list of certifications and standards; other regional, national, or local certifications and standards that are relevant to the jurisdiction can also be used by the practitioner. OpEx related to obtaining such certifications and standards can also be considered eligible sustainable lending.



If the MSME or MSME opportunity does not meet the green and/or social criteria as set out in 2.b. or 2.d. above, the lending cannot be classified as sustainable MSME finance.

Step 3. Evaluate and select opportunity

The MSME opportunity should be evaluated against appropriate environmental and social assessment processes. This would provide a secondary screen for opportunities that pass through the UoP stage.⁶


-  **3.a. Ensure that the opportunity's environmental, social, and sustainability objectives are clearly recorded.** To achieve this, practitioners may use existing processes or develop new ones. In either case, the process should clearly articulate how the opportunity fits within the eligible UoP categories and how it does not impede other environmental or social objectives.
-  **3.b. Conduct additional checks to ensure no additional ESG-related negative impacts will occur.** Lenders may look to the IFC Environmental and Social Performance Standards⁷ as they assist entities in identifying and evaluating environmental and social risks of activities. They also help to identify adequate mitigation options to reduce and avoid negative impacts to “works, affected communities, and the environment”.
-  **3.c. Bear in mind the country context.** Practitioners should consider the country context in which MSMEs operate, including the ESG status on the ground. This will help to account for the difference between adopted ESG processes and standards across markets.
-  **3.d. Make sure that the activity/asset is aligned with relevant requirements and regulations from the jurisdiction in which the MSME operates.** This step likely entails a desk review of regulations, laws, and codes that are relevant in the operating jurisdiction. Additionally, outreach to relevant stakeholders regarding potential jurisdictional requirements should be conducted where necessary and available. Lenders operating in the EU, or those who seek to issue green bonds or access green loans, may wish to align with the European Union (EU) Taxonomy for Sustainable Activities for the proposed use of proceeds, the Do No Significant Harm (DNSH) and Minimum Safeguards (also required by the EU Taxonomy).
-  **3.e. Collect data in a standardized, framework-compliant, and manageable way.** Lenders may use fintech solutions to help organize data collections. Such solutions can facilitate compliance with regulations that require banks to disclose information about the ESG performance and impacts of their portfolios. Many banks and financial institutions have found it difficult to comply with such regulations because of a lack of high-quality data.


Step 4. Manage proceeds

This stage demonstrates that funds are used for the eligible UoP agreed upon in the selection stage. It requires timely and transparent use of proceeds reporting.

⁶ World Economic Forum (2020).


⁷ IFC's Environmental and Social Performance Standards ensure that investments are well-assessed and managed. They also ensure that investments meet strict environmental and social standards ranging from the treatment of indigenous peoples to biodiversity conservation. They comprise eight performance standards: Risk Management, Labor, Resource Efficiency, Community, Land Resettlement, Biodiversity, Indigenous People, and Cultural Heritage.


 **4.a. Set up a separate account or ringfence loans.** To track proceeds, practitioners of sustainable MSME finance should set up a separate account in which sustainable MSME loans are deposited and debits to eligible beneficiaries are made. Alternatively, they may ring-fence a sub-account within an existing account. Practitioners should consider the former option, which provides more operational transparency.


 **4.b. Support MSMEs in their reporting requirements.** MSMEs may not be familiar with the required reporting and may face higher transaction costs. To help offset this, practitioners should devise reporting templates that can standardize this step for their clients and their own portfolio management teams, and to facilitate regular reporting cycles. Clients will still likely need high-touch guidance and potentially capacity building, at least in the early stages of the relationship, especially if sustainable projects experience delays.


Step 5. Measure impact and report


MSME sustainable finance opportunities should be measured and reported as widely as possible. This should be done even when data is sparse (where possible). Procedures for measuring and reporting will help to ensure transparency and confidence in individual MSME sustainable finance opportunities and at the portfolio level.

 **5.a. The impact measurement and reporting should ensure CapEx-related finance continues to align with an appropriate UoP.** Reporting requirements include keeping current information on UoP and renewing this annually. To measure impact, qualitative and quantitative performance measures should be gathered where permissible. Metrics may include: GHG emission reductions, renewable energy generated, energy savings, water savings, and jobs created. The last columns of the tables presented in Chapter III contain suggested metrics according to the UoP of the project/activity.

 **5.b. The impact measurement and reporting should clearly differentiate between CapEx or OpEx loans.** If a specific UoP is not identified (such as the case for some OpEx-needs), the enterprise must prove that it continues to meet third-party green and/or social standard(s) or maintains its relevant certification(s).

 **5.c. Practitioners and enterprises should address the well documented challenges with MSME capacity and data collection.** Fintech innovations for gathering, organizing, and communicating environmental and social data might facilitate measuring and reporting. Applicable projects should also be aligned with the ICMA Handbook – Harmonized Framework for Impact Reporting⁸ and the Harmonised Framework for Impact Reporting for Social Bonds.⁹

 **5.d. The methodology underlying any quantitative measurement of impact should be disclosed.** Practitioners and enterprises should consider the reporting templates in the ICMA Handbook – Harmonized Framework for Impact Reporting and the Harmonised Framework for Impact Reporting for Social Bonds.

 **5.e. Practitioners may commission an audit of its management of proceeds.** This is in line with all the Principles and would confirm that the proceeds have been allocated to appropriate sustainable investments or enterprises.

⁸ International Capital Market Association (2023b).

⁹ International Capital Market Association (2023c).



Eligible sustainable MSME Use of Proceeds



This Chapter presents tables with activities/projects by sector that can be considered as eligible sustainable UoP for MSME financing, illustrating Step 2 detailed in Chapter II. The tables also map activities/projects to environmental and/or social objectives of the Principles that they contribute to, as well as suggested metrics for impact reporting.

For purposes of this Guide, five major sectors are outlined: agribusiness, tourism, textiles, other manufacturing, and other services. 'Agribusiness' encompasses enterprises involved in agriculture, livestock, fishing, aquaculture, and forestry, as well as directly related input supply and processing businesses. 'Tourism' enterprises provide goods and/or services to people that visit places outside their usual environment for personal or professional purposes. 'Textile' enterprises are those involved in the

production, manufacturing, and distribution of textiles. 'Other manufacturing' comprises all other types of manufacturing enterprises not involved in agribusiness or textiles. 'Other services' comprise all other types of enterprises that provide services that do not fit into other sectors mentioned.

It is relevant to emphasize that the tables below are indicative and illustrate if an activity or project could contribute to the Principles' environmental and/or social objectives, which metrics could be used for impact reporting, and are provided as a reference. Specific activities will need to be considered individually based on their available information and context. In individual cases, an activity or project could contribute to additional environmental and/or social objectives in the Principles, as well as have different metrics that better describe its environmental and/or social impacts.



5
major
sectors



agribusiness sector



textile sector



tourism sector



other services



other manufacturing

Table 1



Sustainable UoP for MSMEs in the agribusiness sector (1/4)


 Projects / Activities	Contribution to environmental objective					Contribution to social objective						 Suggested reporting metrics
	 Mitigation	 Adaptation	 Natural resource conservation	 Biodiversity conservation	 Pollution prevention and control	 Affordable basic infrastructure	 Access to essential services	 Affordable housing	 Employment generation	 Food security and sustainable food systems	 Socioeconomic advancement and empowerment	
Aquaculture with a certification that confirms that the investment does not undermine the function and resilience of ecosystems, such as mangroves, salt marshes, seagrasses, and critical habitats												Certification document
Production or trade of agricultural products certified under Roundtable on Sustainable Biomaterials												Certification document
Production or trade of soy certified under Roundtable on Responsible Soy Association												Certification document
Production or trade of sugar certified under Bonsucro												Certification document
Production or trade of agricultural products certified under Fairtrade Small-Scale producer												Certification document
Production or trade of agricultural products certified under Rainforest Alliance												Certification document
Efficient cold chain with low Global Warming Potential (GWP) refrigerant (e.g. ammonia)												Avoided food losses based on annual capacity or use of equipment (ton/y)
Plant based biodegradable packaging												Avoided plastic packaging (ton/y)
Biomethane collection and use												Biomethane collected and used (ton/y or MMBTU/y)
Reduction by more than 20% in water consumption per ton of product over the life of the project												Annual water savings (m3/y and % of the total water consumption)

Table 1



Sustainable UoP for MSMEs in the agribusiness sector (2/4)
























 Projects / Activities	Contribution to environmental objective					Contribution to social objective						 Suggested reporting metrics
	 Mitigation	 Adaptation	 Natural resource conservation	 Biodiversity conservation	 Pollution prevention and control	 Affordable basic infrastructure	 Access to essential services	 Affordable housing	 Employment generation	 Food security and sustainable food systems	 Socioeconomic advancement and empowerment	
Renewable energy applications (solar, wind, sustainable biomass) in power generation, pumping, drying, heat and/or steam generation												Annual Renewable Energy Consumed or Generated (MWh/y); GHG emissions savings (tCO ₂ eq/y)
Production or trade of crops certified under Better Cotton Initiative, Cotton Made in Africa, Fairtrade Hired Labour, Friend of the Earth, or Global Gap												Certification document
Electric vehicles												Avoided fuel consumption (m ³ /y) or avoided GHG emissions (tCO ₂ eq/y)
Efficient irrigation – promote efficient water allocation, water recycling, sustainable reuse of graywater, rainwater harvesting, and utilization of native species that have low water consumption, conditional to avoid depletion of natural water resources												Annual water savings (m ³ /y and % of the total water consumption)
Climate adaptation and resilience measures that also conserve and/or restore ecosystems (for example, drought-resistant seeds, nutrient cycling, water storage, ecotone levees, floodplain restoration, water storage with watershed restoration or conservation – all projects that make agribusiness more resilient to threats like flooding and drought)												Increase in agricultural land using more drought resistant crops (hectares); Reduction in land-loss from inundation and/or coastal erosion (km ²)
Rehabilitation of degraded lands with native and/or naturalized species												Hectares rehabilitated (ha/y); Number of native or naturalized species

Table 1



Sustainable UoP for MSMEs in the agribusiness sector (3/4)


























 Projects / Activities	Contribution to environmental objective					Contribution to social objective						 Suggested reporting metrics
	 Mitigation	 Adaptation	 Natural resource conservation	 Biodiversity conservation	 Pollution prevention and control	 Affordable basic infrastructure	 Access to essential services	 Affordable housing	 Employment generation	 Food security and sustainable food systems	 Socioeconomic advancement and empowerment	
Reduction in synthetic fertilizer use by at least 20% over the life of the project to reduce downstream eutrophication, and to promote use of biofertilizer and other organic solutions (for example, composting)												Annual fertilizer savings (ton/y and % of the total fertilizer used)
Reduction in pesticide use by at least 20% over the life of the project and promotion of biosolutions												Annual pesticide reduced (ton/y and % of the total pesticide used)
Switching from monocropping to diversified cropping systems, including intercropping and use of cover crops to improve resilience and soil quality												Area covered by sustainable land and water resources management practices (ha and % of the total area)
Significant reduction of tillage or implementation of no-till practices												Hectares under no tillage (ha/y)
Cultivation of native or naturalized species that can more readily adapt to variations in production cycles, water quality/quantity, and temperatures												Area covered (acres); Number of native or naturalized species
Use of sustainable agricultural practices/varieties/technology and/or infrastructure that increases crop yields/quality on existing land without increasing the environmental footprint												Additional production (ton/y) without increasing GHG emissions
Adoption of practices and/or technologies for zero deforestation or other positive effects on biodiversity												Avoided deforestation (ha/y)

Table 1



Sustainable UoP for MSMEs in the agribusiness sector (4/4)

 Projects / Activities	Contribution to environmental objective					Contribution to social objective						 Suggested reporting metrics
	 Mitigation	 Adaptation	 Natural resource conservation	 Biodiversity conservation	 Pollution prevention and control	 Affordable basic infrastructure	 Access to essential services	 Affordable housing	 Employment generation	 Food security and sustainable food systems	 Socioeconomic advancement and empowerment	
Weather insurance for smallholder producers												Area covered (acres)
Expansion of agribusiness capacity with the generation of employment positions												Number of jobs created
Adoption or improvement of safety protocols												Number of employees reached
Creation or operation of compost systems that reduce food loss and waste												Avoided food losses based on annual capacity or use of equipment (ton/y)
Improvement of food storage, processing and/or transportation to reduce food loss and waste												Avoided food losses based on annual capacity or use of equipment (ton/y)
Initiatives to increase women participation in workforce												Number of women integrated into formal workforce
Woman-led entrepreneurship												Number of employees
Initiatives to improve gender parity in leadership positions												Share of women in leadership positions (% of total employees)
Initiatives to promote decent work conditions												Number of workers reached
Initiatives to obtain or maintain recognized business certification or standard on environmental and/or social aspects (see Table A.1. in Appendix A)												Certification document

Table 2



Sustainable UoP for MSMEs in the textile sector

































 Projects / Activities	Contribution to environmental objective					Contribution to social objective						 Suggested reporting metrics
	 Mitigation	 Adaptation	 Natural resource conservation	 Biodiversity conservation	 Pollution prevention and control	 Affordable basic infrastructure	 Access to essential services	 Affordable housing	 Employment generation	 Food security and sustainable food systems	 Socioeconomic advancement and empowerment	
Manufacture or trade of sustainable hemp, wool, organic cotton, soy silk, bamboo fabrics, jute, corn fiber												Units of production (e.g. ton/y)
Application of green enzymes along the stages of textile processing: desizing, scouring, bleaching, dyeing, finishing and composting												Avoided chemicals (ton/y per type of chemical)
Recirculation and water reduction in water consumption per unit of product (e.g. m3 of saved water per m2 of fabric) by more than 20% over the life of the project												Annual water savings (m3/y and % of total water consumed)
Expansion of business capacity with the generation of employment positions												Number of jobs created
Adoption or improvement of safety protocols												Number of employees reached
Improvement of accessibility to people with disabilities												Number of disabled people benefitted
Initiatives to increase women participation in workforce												Number of women integrated into formal workforce
Woman-led entrepreneurship												Number of employees
Initiatives to improve gender parity in leadership positions												Share of women in leadership positions (% of total employees)
Initiatives to promote decent work conditions												Number of workers reached
Initiatives to obtain or maintain recognized business certification or standard on environmental and/or social aspects (see Table A.1. in Appendix A)												Certification document

Table 3



Sustainable UoP for MSMEs in tourism sector (1/2)

 Projects / Activities	Contribution to environmental objective					Contribution to social objective						 Suggested reporting metrics	
	 Mitigation	 Adaptation	 Natural resource conservation	 Biodiversity conservation	 Pollution prevention and control	 Affordable basic infrastructure	 Access to essential services	 Affordable housing	 Employment generation	 Food security and sustainable food systems	 Socioeconomic advancement and empowerment		
Electric vehicles (bikes, boats, passenger vehicles)													Avoided fuel consumption (m ³ /y) or avoided GHG emissions (tCO ₂ e/y)
Sustainable or ecotourism ventures that meet established standards for best practices, conserve or restore habitats or avoid increasing encroachment on habitat, and work to reduce carbon emissions													Certification document
Tourism concessions and operations inside marine and terrestrial conservation areas that create opportunities or incentives for enhanced biodiversity protection or reduced biodiversity threat. These opportunities could be economic (for example, alternative livelihoods), social (for example, supporting changing norms or behaviors through education/best practice), or fiscal (for example, profit-sharing user fees with conservation areas). Tourism operations must meet recognized ecotourism standards													Standard used
Ecotourism ventures and operations outside conservation areas that are consistent with ecotourism principles. For example, these ventures could be located in buffer zones of protected areas, in critical habitats, or in other sensitive sites, or where there is strong community participation or ownership													Standard or certification used
Expansion of business capacity with the generation of employment positions													Number of jobs created

Table 3



Sustainable UoP for MSMEs in tourism sector (2/2)





















 Projects / Activities	Contribution to environmental objective					Contribution to social objective						 Suggested reporting metrics
	 Mitigation	 Adaptation	 Natural resource conservation	 Biodiversity conservation	 Pollution prevention and control	 Affordable basic infrastructure	 Access to essential services	 Affordable housing	 Employment generation	 Food security and sustainable food systems	 Socioeconomic advancement and empowerment	
Adoption or improvement of safety protocols												Number of employees reached
Improvement of accessibility to people with disabilities												Number of disabled people benefitted
Initiatives to increase women participation in workforce												Number of women integrated into formal workforce
Woman-led entrepreneurship												Number of employees
Initiatives to improve gender parity in leadership positions												Share of women in leadership positions (% of total employees)
Initiatives to promote decent work conditions												Number of workers reached
Initiatives to obtain or maintain recognized business certification or standard on environmental and/or social aspects (see Table A.1. in Appendix A)												Certification document

Table 4

Sustainable UoP for MSMEs in other services (1/3)
























 Projects / Activities	Contribution to environmental objective					Contribution to social objective						 Suggested reporting metrics
	 Mitigation	 Adaptation	 Natural resource conservation	 Biodiversity conservation	 Pollution prevention and control	 Affordable basic infrastructure	 Access to essential services	 Affordable housing	 Employment generation	 Food security and sustainable food systems	 Socioeconomic advancement and empowerment	
Electric vehicles (bikes, boats, passenger vehicles)												Avoided fuel consumption (m ³ /y); Avoided GHG emissions (tCO ₂ eq/y)
Renewable energy applications for power, heat, drying, etc												Annual renewable energy consumed (MWh/y); GHG emissions savings (tCO ₂ eq/y)
Provision of affordable sanitation facilities to underserved areas, including maintenance, emptying, transport, treatment, reuse or disposal												Number of facilities served; Number of people benefitted; Number of dwellings served
Provision and/or maintenance of the infrastructure related to clean drinking water, sewage, and/or sanitation systems in underserved areas												Number of people benefitted
Provision and/or maintenance of the infrastructure related to renewable energy generation, transmission, or distribution in underserved areas												Number of people benefitted
Construction or upgrade of healthcare facilities in underserved and low-income areas												Number of facilities built/ upgraded; Number of patients benefitted
Healthcare services focused on elderly people in underserved and low-income areas												Number of facilities built/ upgraded; Number of patients benefitted
Technological upgrade to provide telemedicine services in underserved areas												Number of patients benefitted

Table 4

Sustainable UoP for MSMEs in other services (2/3)
































 Projects / Activities	Contribution to environmental objective					Contribution to social objective						 Suggested reporting metrics
	 Mitigation	 Adaptation	 Natural resource conservation	 Biodiversity conservation	 Pollution prevention and control	 Affordable basic infrastructure	 Access to essential services	 Affordable housing	 Employment generation	 Food security and sustainable food systems	 Socioeconomic advancement and empowerment	
Construction or upgrade of daycare facilities												Number of facilities built/upgraded; Number of children benefitted
Technological upgrade to provide online learning education to undereducated segments of society												Number of students reached (breakdown by gender)
Skill development and/or vocational training to undereducated segments of society												Number of people trained (breakdown by gender)
Provision of heating, ventilation, and air conditioning (HVAC) systems to affordable housing units												Number of dwellings served; Number of people benefitted
Shared working space												Squared meters; Number of employees
Expansion of business capacity with the generation of employment positions												Number of jobs created
Adoption or improvement of safety protocols												Number of employees reached
Creation or operation of compost systems that reduce food loss and waste												Avoided food losses based on annual capacity or use of equipment (ton/y)
Improvement of food storage, processing and/or transportation to reduce food loss and waste												Avoided food losses based on annual capacity or use of equipment (ton/y)
Improvement of accessibility to people with disabilities												Number of disabled people benefitted

Table 4

Sustainable UoP for MSMEs in other services (3/3)





















 Projects / Activities	Contribution to environmental objective					Contribution to social objective						 Suggested reporting metrics
	 Mitigation	 Adaptation	 Natural resource conservation	 Biodiversity conservation	 Pollution prevention and control	 Affordable basic infrastructure	 Access to essential services	 Affordable housing	 Employment generation	 Food security and sustainable food systems	 Socioeconomic advancement and empowerment	
Initiatives to increase women participation in workforce												Number of women integrated into formal workforce
Woman-led entrepreneurship												Number of employees
Initiatives to improve gender parity in leadership positions												Share of women in leadership positions (% of total employees)
Initiatives to promote decent work conditions												Number of workers reached
Technological modernization to improve access to information and digital products/services in underserved areas												Number of facilities modernized; Number of benefitted households
Initiatives to obtain or maintain recognized business certification or standard on environmental and/or social aspects (see Table A.1. in Appendix A)												Certification document

Table 5



Sustainable UoP for other manufacturing MSMEs (1/3)



























 Projects / Activities	Contribution to environmental objective					Contribution to social objective						 Suggested reporting metrics
	 Mitigation	 Adaptation	 Natural resource conservation	 Biodiversity conservation	 Pollution prevention and control	 Affordable basic infrastructure	 Access to essential services	 Affordable housing	 Employment generation	 Food security and sustainable food systems	 Socioeconomic advancement and empowerment	
Variable speed drive efficient motor												Energy savings (MWh/y)
Waste-to-energy projects												Avoided fuel consumption (m ³ /y); Avoided GHG emissions (tCO ₂ eq/y)
Waste collection, recycling and management projects that recover or reuse materials and waste (only if net emission reductions can be demonstrated)												Amount of materials recycled (ton/y)
Energy efficiency improvement in lighting, appliances, and equipment, including energy-management systems												Energy savings (MWh/y); Avoided GHG emissions (tCO ₂ eq/y)
Substitution of existing heating or cooling systems for buildings by co-generation plants that generate electricity in addition to providing heating or cooling												Energy savings (MWh/y); Avoided GHG emissions (tCO ₂ eq/y)
Optimize the use of compressed air to address inefficiencies such as leaks in the distribution network and oversized air compressors												Energy savings (MWh/y); Avoided GHG emissions (tCO ₂ eq/y)
Treatment of wastewater, including wastewater collection networks												Avoided discharge of untreated water (m ³ /y); Wastewater collected or treated (m ³ /y)
Waste management projects that capture or combust methane emissions												Avoided GHG emissions (tCO ₂ eq/y)

Table 5



Sustainable UoP for other manufacturing MSMEs (2/3)














































 Projects / Activities	Contribution to environmental objective					Contribution to social objective						 Suggested reporting metrics
	 Mitigation	 Adaptation	 Natural resource conservation	 Biodiversity conservation	 Pollution prevention and control	 Affordable basic infrastructure	 Access to essential services	 Affordable housing	 Employment generation	 Food security and sustainable food systems	 Socioeconomic advancement and empowerment	
Charging stations and other infrastructure for electric vehicles, hydrogen or dedicated sustainable biofuel fueling												Number of charging, hydrogen or sustainable biofuel stations
Projects producing components, equipment or infrastructure dedicated to the renewable and energy efficiency sectors, or low-carbon technologies												Energy savings (MWh/y); Avoided GHG emissions (tCO ₂ eq/y)
Measures in existing supply chains dedicated to improvements in energy efficiency or resource efficiency upstream or downstream, leading to an overall reduction in GHG emissions												Avoided GHG emissions (tCO ₂ eq/y)
Equipment or appliances with an energy efficiency label and score A on a scale of A-F												Energy efficiency label
Expansion of business capacity with the generation of employment positions												Number of jobs created
Adoption or improvement of safety protocols												Number of employees reached
Creation or operation of compost systems that reduce food loss and waste												Avoided food losses based on annual capacity or use of equipment (ton/y)
Improvement of food storage, processing and/or transportation to reduce food loss and waste												Avoided food losses based on annual capacity or use of equipment (ton/y)

Table 5



Sustainable UoP for other manufacturing MSMEs (3/3)

 Projects / Activities	Contribution to environmental objective					Contribution to social objective					 Suggested reporting metrics	
	 Mitigation	 Adaptation	 Natural resource conservation	 Biodiversity conservation	 Pollution prevention and control	 Affordable basic infrastructure	 Access to essential services	 Affordable housing	 Employment generation	 Food security and sustainable food systems		 Socioeconomic advancement and empowerment
Improvement of accessibility to people with disabilities												Number of disabled people benefitted
Initiatives to increase women participation in workforce												Number of women integrated into formal workforce
Woman-led entrepreneurship												Number of employees
Initiatives to improve gender parity in leadership positions												Share of women in leadership positions (% of total employees)
Initiatives to promote decent work conditions												Number of workers reached
Initiatives to obtain or maintain recognized business certification or standard on environmental and/or social aspects (see Table A.1. in Appendix A)												Certification document

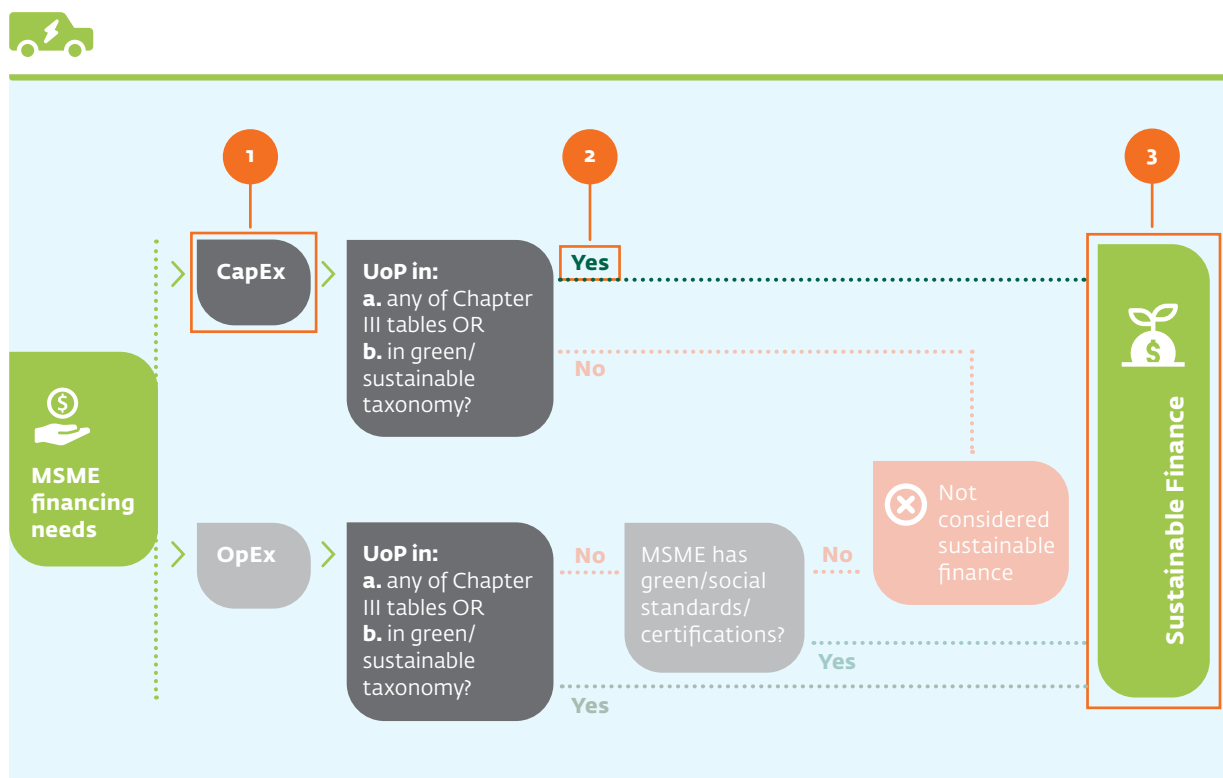
IV.

Practical examples

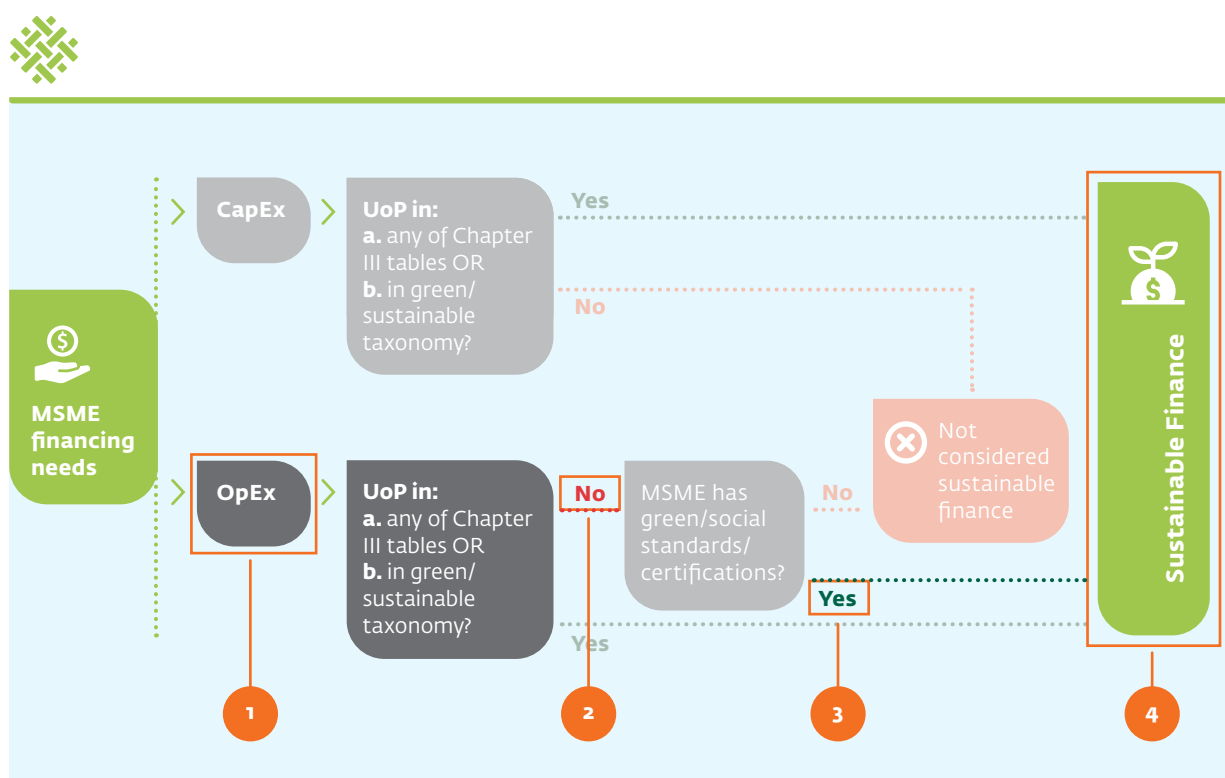


This Chapter presents examples on how practitioners can assess whether the MSME financing need can be considered sustainable or not. It materializes Step 2 presented in Chapter II for illustration purposes.

Example A *Agribusiness MSME needs capital to purchase electric vehicles*



- 1 The purchase of electric vehicles is a CapEx financing need.
- 2 The next step is to check whether this need is contained in the jurisdiction green or sustainable taxonomy and/or in the 'Agribusiness' table in Chapter III (Table 1). The purchase of electric vehicles is described in Table 1 of Chapter III as an eligible UoP.
- 3 As a result, the loan can be considered as sustainable MSME finance.













Example B Textile MSME requests working capital to deliver a large demand of an important client




- 1 The MSME might need the capital to purchase additional material or exceptionally hire additional workers to deliver the contract. In this case, the financing need is OpEx-related.
- 2 The next step is to check whether this need is included in the jurisdiction green or sustainable taxonomy and/or in the 'Textiles' table in Chapter III (Table 2). This OpEx is not explicit in Table 2 of Chapter III as an eligible UoP and might not be either in the relevant taxonomy.
- 3 The next step is to check whether the enterprise meet appropriate standards. Table A.1. in Appendix A can be consulted for this purpose, as well as the practitioner might be aware of other certification or standard that would be applicable for the requesting type of MSME.
- 4 If the MSME follows an applicable standard, the loan can be considered as sustainable MSME finance.






















Appendix A.













Sustainable certifications and standards

Table A.1. Sustainable Certifications and Standards

Certification	Summary	Sector
<p>Rainforest Alliance Certification</p> 	<p>Third party auditors certify products and ingredients at the farm-level against requirements in three pillars: social, environmental, and economic. Their pillar standards are shaped around forests, climate, human rights, and livelihoods. Non-agricultural products/services may use the 'frog seal' if they comply with partner sustainability standards (e.g. forestry - FSC, tourism - Sustainable Tourism Standard). Note: the UTZ certification, popular in Europe and strictly focused on tracing the entire producer-to-buyer chain, merged with RA in 2018. Both labels are still used.</p>	 <p>Agribusiness, Tourism</p>
<p>Union for Ethical Biotrade</p> 	<p>Evaluates product supply chains along social, environmental, and economic pillars to see whether they respect biodiversity and people. Standards were developed in tandem with UNCTAD's BioTrade Initiative and International Labour Organisation conventions.</p>	 <p>Agribusiness</p>
<p>Preferred by Nature Standard for Sustainable Tourism Standards</p> 	<p>Soon to be replaced by the Standard for Sustainable Travel Activities, the Tourism Standard is developed by the Global Sustainable Tourism Council and assesses organizations' performance according to business, sociocultural, and environmental practices that span management requirements, to respect for local cultures, and biodiversity and resource conservation.</p>	 <p>Tourism</p>
<p>Forest Stewardship Council Certification</p> 	<p>FSC evaluates companies and products for how well they manage forest use according to social, environmental, and economic standards. The certification is not only for large-scale forest operations but also small and community forests. They cover forest products other than just wood.</p>	 <p>Agribusiness</p>
<p>Friend of the Earth Sustainable Agriculture Certification</p> 	<p>Friend of the Earth vets companies for how their operations impact biodiversity, disturb soils, use energy, release emissions, and affect local communities.</p>	 <p>Agribusiness</p>
<p>Fairtrade Certification</p> 	<p>Third party auditors certify many businesses from small cooperatives to large companies on product supply chains. They focus on labor standards, community impacts, and sustainability. They also have textile standards.</p>	 <p>Agribusiness, Textiles</p>

Certification	Summary	Sector
<p>Roundtable on Sustainable Palm Oil Standards</p>  <p>Roundtable on Sustainable Palm Oil</p>	<p>Certifies palm oil supply chains as 'sustainable' from the plantation level. Their standards focus on ethical governance, sustainable livelihoods and poverty reduction, and ecosystem protection and conservation.</p>	 <p>Agribusiness</p>
<p>Bluesign</p> 	<p>Apparel and textile certifier focusing on reducing the use of chemicals. It also examines social, governance, and quality aspects of the textile supply chain as well. Field visits to offices and factories are required.</p>	 <p>Textiles</p>
<p>Textile Exchange Standards</p> 	<p>Textile Exchange offers various responsible textile standards that are often specific to the textile, e.g. responsible wool standard, organic content standard, responsible alpaca standard, responsible mohair standard, global recycled standard. The focus of their certification is on social and labor impacts; however they also have environmental, governance, and quality criteria.</p>	 <p>Textiles</p>
<p>Sustainably Grown</p>  <p>Setting the standard for sustainability</p>	<p>Common set of environmental, social, and economic requirements that agricultural and fiber/textile crops must meet. The bulk of the standards focus on environmental and social aspects. The organization focuses on aligning their certification scheme to the sustainability goals of large companies like Walmart, Unilever, ALDI, and Costco.</p>	 <p>Agribusiness, Textiles</p>
<p>Sustainable Rice Platform</p> 	<p>Mostly focused on South and Southeast Asia, SRP focuses on environmental and labor aspects of rice cultivation and production. Under the environmental umbrella, it focuses on water, biodiversity, forests, input, and waste.</p>	 <p>Agribusiness</p>
<p>Audobon Green Lodging Program</p> 	<p>Audobon International's verification of lodging facilities focused on water quality, water conservation, waste minimization, resource conservation, and energy efficiency.</p>	 <p>Tourism</p>
<p>GoodWeave International Generic Standard</p> 	<p>Standard that focuses on the textile supply chain, requiring transparency, unannounced inspections, and commitment to child welfare, workers' rights, and communities.</p>	 <p>Textiles</p>
<p>Green Seal Healthy Green Hotels</p> 	<p>Green Seal is mostly known for its certification of the environmental and human safety of cleaning products. However, it also provides certification of accommodations focused on water savings, carbon emissions, employee standards, and chemical use.</p>	 <p>Tourism</p>
<p>Global Organic Textile Standard</p> 	<p>Processing standard for textiles made from organic fibers. It focuses on high-level environmental criteria along the entire supply chain, with some social criteria. It focuses on organic fibres, ecological and social standards, all processing stages, and third-party certification.</p>	 <p>Textiles</p>
<p>ARSO Sustainable Cocoa</p> 	<p>Focused on Africa, this standard works on (1) Promoting, structuring, and supporting farmers/farmer organization efficiently; (2) Improving farmer's income and resilience of their livelihoods; (3) Addressing cocoa quality; (4) Addressing traceability from the farm to export; (5) Addressing worst forms of child labour; (6) Addressing deforestation and climate change.</p>	 <p>Agribusiness</p>
<p>Alliance for Water Stewardship Standard</p> 	<p>Focused on good water governance, sustainable water balance, good water quality, related water areas, and safe water, sanitation, and hygiene, the AWS standards use a catchment approach to understanding how products and services can affect communities. Applies broadly to many different products and services.</p>	 <p>Agribusiness, Textiles</p>

Certification	Summary	Sector
 	Verifies products and services by using a GHG lifecycle approach. The sum of greenhouse gas emissions can be offset by natural carbon sinks and/or carbon credits.	 Agribusiness, Textiles, Tourism, Other manufacturing
	Focused on communities, water use, and carbon emission, Bonsucro is the global platform and certifier for sustainable sugarcane. Many of the largest food companies like Mars, Pepsico, Unilever, Hershey, and General Mills are part of the platform.	 Agribusiness
	Certifies hotels, apartment hotels, hostels, holiday rentals, campsites, and rural accommodations with relevant sustainability criteria. These fall under three themes of Environment and Climate Change, Society and Culture and Governance and Economy. These are tied to SDGs. It offers two tiers: committed and certified (more stringent).	 Tourism
	Standard for sustainable cotton production, focused on crop protection, water, soil health, biodiversity, fiber quality, decent work, and management systems. Done at the farm level.	 Agriculture, Textiles
	Global network of companies and products that conserve threatened wildlife while contributing to rural communities' economic vitality. The label denotes verification based according to strict conservation standards, produced collaboratively with conservationists, artisans, producers, and harvesters.	 Agriculture, Textiles
	Developed by the Wildlife Friendly group and Wider Caribbean Sea Turtle Conservation Network, this standard focuses specifically on mitigating tourism-linked threats to sea turtle populations: fisheries impacts, direct take, coastal development, pollution and disease, and climate change.	 Tourism
	Developed for any projects, companies, or products with land use impacts, the standards are used to identify projects that simultaneously address climate change, support local communities and smallholders, and conserve biodiversity. They can vary substantially by sector or product type.	 Agriculture, Textiles, Tourism, Other manufacturing
	Focuses on ethical and labor-friendly certification of fruits, vegetables, and fibers. Their standards are split into social standards, food safety standards, pest management standards, processing and packing standards, and ethical charter - not all of which are applicable to all types of operations.	 Agriculture, Textiles
	Used across industries to certify products and materials that are safe, circular, and responsibly made. Five categories of sustainability performance are evaluated: material health, product circularity, social fairness, water and soil stewardship, and clean air and climate protection. The certification is awarded based upon four ascending levels of achievement according to the product performance.	 Agriculture, Textiles, Other manufacturing
	Global standards for diversity, equity, and inclusion. Two standards, EDGE (gender-binary) and EDGEplus (gender and intersectionality), offer a holistic framework in which organizations can measure where they stand in terms of gender and intersectional equity. Four pillars are assessed by a third-party certification body: representation, pay equity, effectiveness of policies and practices to ensure equitable career flows, and inclusiveness of the culture.	 Agribusiness, Textiles, Tourism, Other manufacturing, Other services

Certification	Summary	Sector
<p>UNDP Gender Equality Seal</p> 	<p>Developed by the United Nations Development Programme for the private sector, the tool helps companies to incorporate a gender perspective into its overall management system. Companies conduct a self-assessment, develop gender-sensitive capacities, adopt a gender equality policy, and execute an action plan to eliminate inequalities in the workplace. Upon third party verification, a bronze, silver, or gold seal certification recognizing gender equality is awarded by national governments and institutional partners.</p>	 <p>Agribusiness, Textiles, Tourism, Other manufacturing, Other services</p>
<p>Women's Empowerment Principles (WEPs)</p> 	<p>Founded by United Nations Women and United Nations Global Compact, they are a set of principles offering guidance to businesses on how to advance gender equality and women's empowerment in the workplace, marketplace, and community.</p>	 <p>Agribusiness, Textiles, Tourism, Other manufacturing, Other services</p>
<p>Accessibility Indicator System (AIS)</p> 	<p>Developed by ARS Foundation, it compiles a series of standards that assess the level of accessibility found in services, facilities, installations, and products. The certification evaluates usability, comfort and safety conditions and certify, on a five-star scale, the level of excellence in accessibility.</p>	 <p>Textiles, Tourism, Other manufacturing, Other services</p>
<p>Well Certification</p> 	<p>Building certification focused on people's health, safety, and well-being to optimize the human and social capital performance of businesses and maximize real state value.</p>	 <p>Agribusiness, Textiles, Tourism, Other manufacturing, Other services</p>
<p>EDGE Green Building</p> 	<p>EDGE (Excellence in Design for Greater Efficiencies) is composed of a green building standard and an international green building certification system. There are three choices for EDGE certification. Level 1, EDGE Certified, reflects 20% or more savings in energy, water, and embodied energy in materials. Level 2, EDGE Advanced, reflects EDGE Certified with 40% or more on-site energy savings. Level 3, Zero Carbon, reflects EDGE Advanced with 100% renewables on-site or off-site.</p>	 <p>Textiles, Other manufacturing, Other services</p>
<p>B Corp Certification</p> 	<p>Holistic approach that measures a company's entire social and environmental impact based on performance, accountability, and transparency standards.</p>	 <p>Agribusiness, Textiles, Tourism, Other manufacturing, Other services</p>

Appendix B.

Green

taxonomies

Table B.1. Summary of taxonomies

	EU	CBI	ASAP	QII	Joint MDB Methodology
Description	Classification system established to clarify and classify which activities and investments are environmentally sustainable	Identifies the assets, activities and projects needed to deliver a low carbon economy	A classification framework to qualify Adaptation SMEs based on types of technologies, products and services offered and determine the SME's contribution toward adaptation	A set of voluntary, non-binding principles that reflect a common direction and aspiration for quality infrastructure investment	Two distinct methodologies – with fundamentally different approaches – to track climate change adaptation finance and climate change mitigation finance
Official/Market Based	Official	Market Based	Market Based	Official	Official
Geographic Scope	European Union	Global	Global	Global	Global
Source institution	European Union ¹⁰	Climate Bonds Initiative	The Lightsmith Group, with support from the Global Environment Facility, Conservation International, and the Inter-American Development Bank	G20	African Development Bank, Asian Infrastructure Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank Group, Islamic Development Bank, World Bank Group

¹⁰ It has voluntary use as a guide for investments, aiming to direct capital to sustainable and environmentally beneficial ends and now a mandatory use for disclosure (EU's Non-Financial Reporting Directive (NFRD) and the Sustainable Finance Disclosure Regulation (SFDR)), although only for EU entities.

	EU	CBI	ASAP	QII	Joint MDB Methodology
Intended use case	Intended for use by large corporates, asset managers and other investors to assess and disclose the taxonomy alignment level	Largely designed to assess financial assets and products	Intended use by investors or funds that support SMEs focused on climate adaptation activities	Intended use by infrastructure planners and developers to maximize the positive impact (i.e., social, environmental, economic) of infrastructure investment	Intended for use by development finance institutions to create a common approach to tracking, and eventually, reporting climate finance
Object of assessment (i.e., activity, financial asset, project, etc.)	Activity	Financial Asset/ Project	Entity	Project	Financial Asset/ Project
Environmental objectives	(i) Climate change mitigation (ii) Climate change adaptation (iii) Sustainable use and protection of water and marine resources (iv) Transition to a circular economy (v) Pollution prevention and control (vi) Protection and restoration of biodiversity and ecosystems	(i) Climate change mitigation (ii) Climate change adaptation Other 'green' objectives are indirectly included in sectors such as "waste and pollution control" and "land use & marine resources"	(i) Climate change adaptation	(i) Sustainable development (ii) NDC alignment (iii) Environmental impact assessment (iv) Disaster resilience	(i) Climate change mitigation (ii) Climate change adaptation
Threshold requirements/ criteria	Alignment requires that activities: 1) Make a 'Substantial Contribution' to one of the six environmental objectives, in alignment with the Technical Screening Criteria; 2) Do No Significant Harm (DNSH) to the other five objectives; and 3) Meet minimum social safeguards Technical Screening criteria for Objectives 3-6 have yet to be established	Employs a "traffic light" system to determine eligibility 1) Green: Certain assets are automatically eligible 2) Orange: Some assets must meet certain additional screening criteria to be eligible 3) Red: Ineligible assets [Grey: no screening criteria have been determined/ developed for certain sectors and assets]	To meet the ASAP requirement, a SME must: 1) Meet the ASAP definition of an Adaptation SME; 2) Be screened in according to ASAP screening criteria; 3) Classify their adaptation solution; and 4) Measure their contribution toward climate adaptation	Encouraged as guidance rather than as a rating system; other organizations (OECD) have developed detailed handbooks/ tools to support implementation	For adaptation , three steps are applied: 1) Determining climate vulnerability context of the project; 2) Stating project intent to reduce climate vulnerability; and 3) Linking project activities to reduce climate vulnerability. For mitigation , the project must be classified as climate mitigation finance as according to a list of agreed upon activities

	EU	CBI	ASAP	QII	Joint MDB Methodology
Sectors	NACE codes used as a framework to capture all economic sectors. Financial products (e.g., projects, use of proceeds) are also covered. Technical Screening Criteria (TSC) developed for Energy Production and Generation, Forestry and Agriculture, Manufacturing, Water and Waste, ICT, Transportation, Storage and Construction and Real Estate	As defined by the taxonomy: Energy, transport, water, buildings, land use & marine resources, industry, waste and pollution control, and ICT sectors. No external sector/industry classification used	All as determined by NACE	Infrastructure	For adaptation : all related to development For mitigation : energy (renewable energy, lower-carbon and efficient energy generation, energy efficiency); agriculture, aquaculture, forestry and land-use; non-energy GHG reductions; water and wastewater; transport; low-carbon technologies; cross-cutting issues; miscellaneous
Explicit requirements beyond environmental (i.e., social, economic)¹¹	Yes, Minimum Social Safeguards (MSS) must be met for alignment ¹²	No	No	Yes, principles include sustainable growth and development, social, and governance considerations	No
Link to Source	EU Taxonomy	CBI Taxonomy	ASAP Solutions Taxonomy	QII Principles for Quality Infrastructure Investment	Joint Report on Multilateral Development Banks' Climate Finance

¹¹ Although activities that meet climate adaptation / mitigation objectives inherently deliver social and economic co-benefits, this row refers to whether the classification system itself specifically requires considering non-environmental standards or impacts.

¹² Both Minimum Social Safeguards and DNSH standards rely heavily on and reference EU law, but OECD Guidelines on Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights may also be used as a proxy.

Appendix C.

Glossary and acronym list

Selected definitions



Climate Change Adaptation: The process of adjustment to actual or expected climate and its effects. In human systems, adaptation seeks to moderate or avoid harm or exploit beneficial opportunities. In some natural systems, human intervention may facilitate adjustment to expected climate and its effects.



Climate Change Mitigation: A human intervention to reduce the sources or enhance the sinks of greenhouse gases (e.g., replacing fossil-based sources of energy with renewable resources or reducing population or agriculture-based deforestation pressure on forests).



Capital Expenditure (CapEx): Expenditure types that pertain to a capital investment, such as purchasing machinery, equipment, land, or buildings, mostly tangible assets or sometimes to acquire intangible assets. These are incurred irregularly, and depend on the asset lifespan, and / or investment needs of a business.



Micro, Small, and Medium Enterprises (MSMEs): every jurisdiction might have its own definition of what type of business classifies as a micro, small, or medium enterprise. For IFC, an enterprise qualifies as a micro, small or medium enterprise if it meets two out of three criteria of the IFC MSME Definition¹³ (employees, assets and sales):

Indicator	Employees	Total assets (USD)	Annual sales (USD)
Micro enterprise	< 10	< \$100,000	< \$100,000
Small enterprise	10-49	\$100,000 - < \$3 million	\$100,000 - < \$3 million
Medium enterprise	50-300	\$3 million - \$15 million	\$3 million - \$15 million



Operational Expenditure (OpEx): Expenditure types that pertain to business operations, such as overheads, wages, rent, and administration. These are incurred regularly, recurring expenses over the course of operating a business.

¹³ International Finance Corporation (2023).

Acronyms

CBI	Climate Bonds Initiative
CapEx	Capital Expenditure
ESG	Environmental, Social and Governance
EU	European Union
FI	Financial Institution
GBP	Green Bond Principles
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GJ	Gigajoule
GLP	Green Loan Principles
IFC	International Finance Corporation
kWh	Kilowatt-hour
MDB	Multilateral Development Banks
MSME	Micro, Small, and Medium Enterprise
MSS	Minimum Social Safeguards
OECD	Organization for Economic Co-operation and Development
OpEx	Operational Expenditure
QII	G20 Quality Infrastructure Investment
SBP	Social Bond Principles
SDG	Sustainable Development Goal
SLP	Social Loan Principles
SME	Small and Medium Enterprise
UoP	Use of Proceeds

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