



Setting up an ESG due diligence process

Presentation for CCC – ESG and practical application in Cambodia

Date:

July 25th, 2024



PRESENTATION OUTLINE

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ABOUT SEVEA



About Sevea Consulting



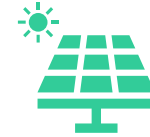
Sevea's ID card



Strategy and operations consulting for sustainable development in SEA

- ❖ Team of **40+ consultants**
- ❖ Based in **Phnom Penh**
- ❖ Established **2011**
- ❖ 110+ missions for **development partners, NGOs, ministries** and the **private sector**
- ❖ From **project design to implementation**

Our sectors of expertise



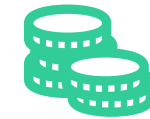
Clean Energy



Agriculture & Rural Development



WASH



Access to finance & SME acceleration



ESG and corporate sustainability



PROJECT OVERVIEW



Chamroeun's vision statement

“A leading Cambodian **social MFI** working to achieve **positive and lasting changes** in the livelihoods of economically active poor families in a **socially responsible manner.**”

➤ **Triple bottom line** at the heart of Chamroeun's identity

For loans of more than \$50k:



Assess the **ESG performance** of target companies and **identify red flags / improvement areas** before providing the loan



Design a **roadmap for improvement** for the target company and regularly monitor progress



Assess the **specific impacts of the loan** on People & Planet

Due diligence

Process of thoroughly **gathering information on an organization** before entering into an agreement with them, to **evaluate risks, benefits and potential liabilities** arising from the agreement.

ESG Due diligence: before investing, evaluating...

- **Environmental, social and governance risks** borne by the target company
 - **Positive and negative impacts** from the company's products & services
 - The **impact of the funding** (grant, loan, capital) itself on People & Planet
- Aims at deciding if the financial institution should invest or not.

Target companies



Agricultural Cooperatives



Agri-SMEs (processors, sellers)



Private piped water operators



Private electricity distributors

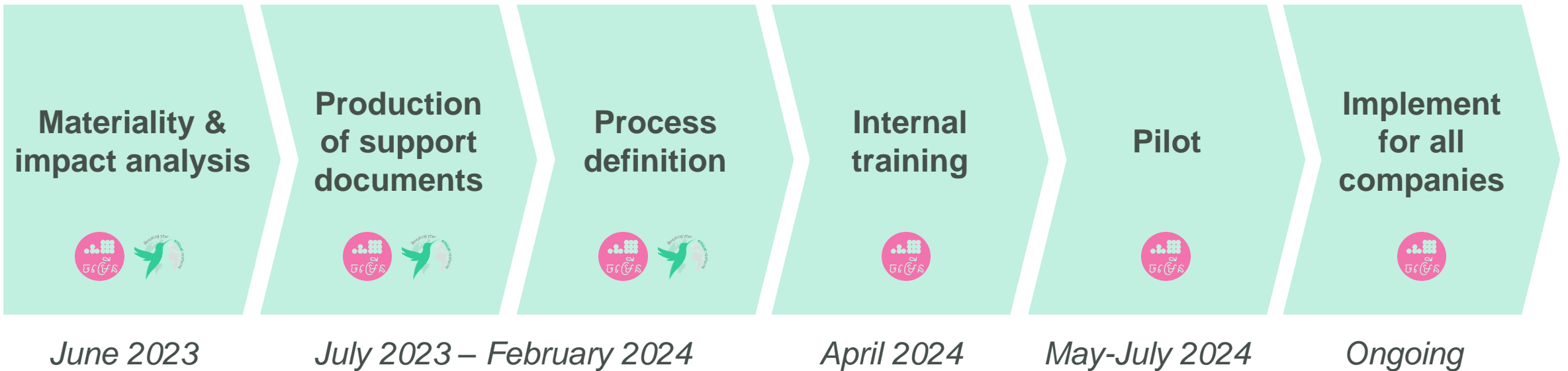
**4 types of
companies
targeted**

Project timeline



Design Phase

Implementation Phase





First MFI to set up an ESG due diligence process for SMEs in Cambodia *(to our knowledge)*



Well received by borrowers during the pilot

Will enable “**learning by doing**”



- Accumulating data and knowledge on ESG performance of target companies to build benchmark
- Can fine-tune the process later
- Building internal capacity with Chamroeun



Can **share experience** and **feedback** with the financial industry



Lessons learnt from the design phase



Materiality: what are we looking for?



“Simple” materiality

Material ESG topics refer to ESG factors on which the target organization has a **long-term, significant** impact



Double materiality

Simple materiality + **potential financial impacts of risks** for the target organization



EU CSRD

Examples

- **For a steel producer**, several material environmental topics: waste Mgmt, energy consumption and GHG emissions, water consumption, air pollution, hazardous material Mgmt...
- **For a bank**, only material topic: energy consumption and GHG emissions from buildings and data servers. Waste is NOT a material topic.

Materiality assessments – the SASB Materiality Finder



SASB Materiality Finder

The international standard for materiality assessment

For each of the 77 industries listed in the Standards:

- Material topics (list in next slide)
- Details on what to pay attention to for each topic deemed material

Limits of the SASB Materiality Mapping

- ❖ Lacks adaptation to local context (*ex: electricity private distributors in Cambodia*)
 - ❖ Does not take size into account
 - ❖ Sometimes difficult to link to a specific industry (*ex: agricultural cooperatives*)
- Sevea developed its **own value chain framework**

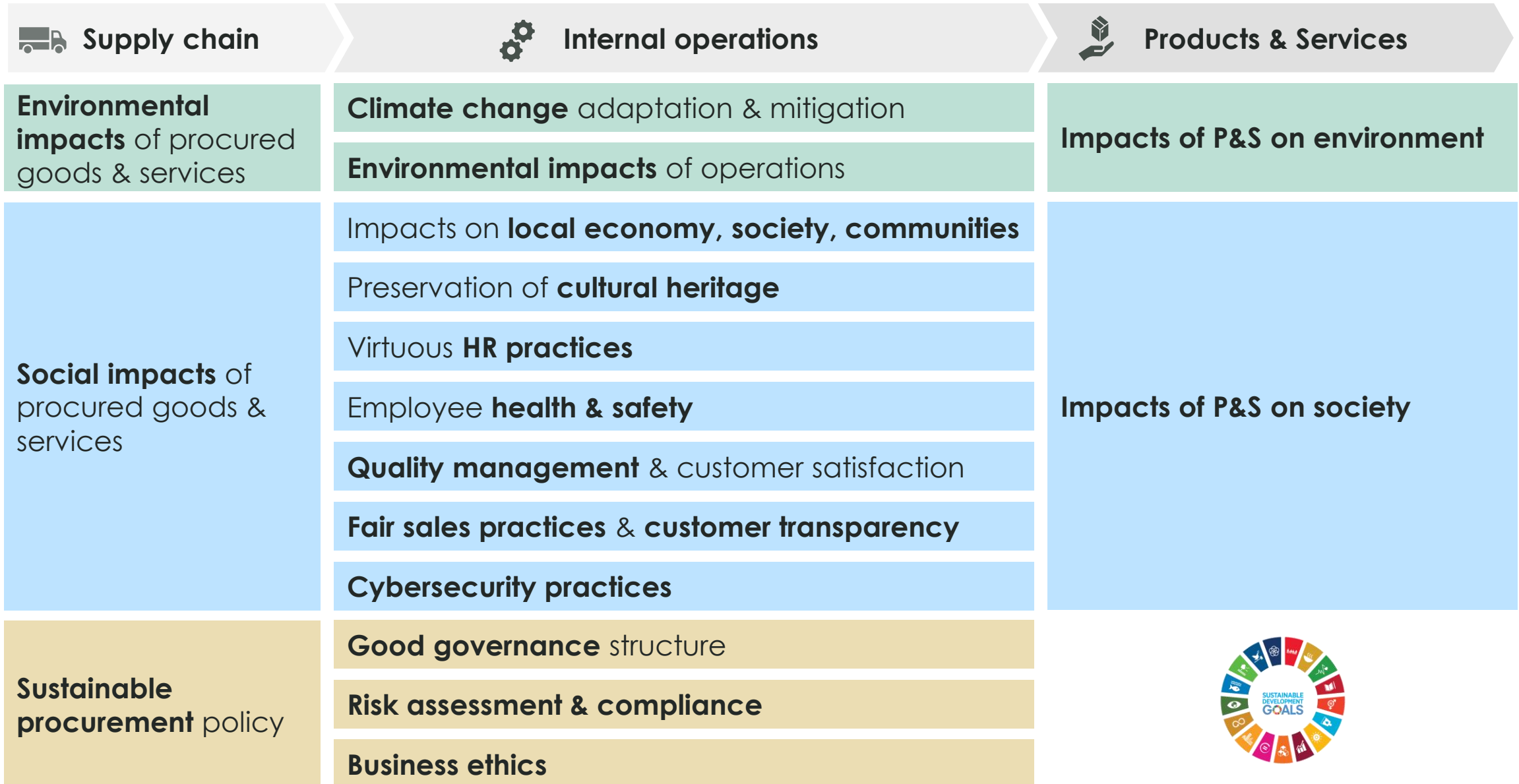
Example of SASB Materiality matrix for PWO



SASB Materiality Mapping for Water Providers

Environment	Social Capital	Human Capital	Business Model & Innovation	Leadership & Governance
GHG emissions	Human Rights & Community Relations	Labour Practices	Product Design & Lifecycle Mgmt	Business Ethics
Air Quality	Customer Privacy	Employee Health & Safety	Business Model Resilience	Competitive Behaviour
Energy Mgmt	Data Security	Employee Engagement, Diversity & Inclusion	Supply Chain Mgmt	Mgmt of Legal & Regulatory Environment
Water & Wastewater Mgmt	Access & Affordability		Materials Sourcing & Efficiency	Critical Incident Risk Mgmt
Waste & Hazardous Materials Mgmt	Product Quality & Safety		Physical Impacts of Climate Change	Systemic Risk Mgmt
Ecological Impacts	Customer Welfare			
	Selling Practices & Product Labeling			

The Value Chain Framework



Impact analysis: the SDG framework



- Based on **specific targets, not goals** to ensure “real” impacts are measured
- Both **positive and negative impacts** considered
- **Direct impacts** only, go beyond intuition
- **Very complete framework**, but lacks a few topics (ex: animal cruelty)

Expected challenges and mitigation (1/2)



Designing a process fit to levy expected obstacles

Expected challenges



- **Reluctance of management teams** to implement ESG measures
- For loans, **limited pressure possible after disbursement**



Lack of data:

- From SMEs
- At sector-level, to benchmark performance



Lack of capacity from SME management :

- Misconceptions about materiality
- Lack of understanding of value chain impacts, focus on positive P&S impacts
- Lack of experience on ESMS

Mitigation

- Awareness raising on business **impacts**
- **Start slow and simple**, take time to plan and implement “reasonable change”.
- Results-based **incentives and loan covenants**
- Integrate **data collection & definition of roles in action plans**
- Start with **simple indicators**, focused on process
- **Build benchmark** internally
- Take time to **raise awareness** and **help management teams upskill**
- **Focus on ESMS** at first

Expected challenges and mitigation (2/2)



Designing a process fit to levy expected obstacles

Expected challenges

Difficulty to measure and isolate impacts



- **Impacts of the loan** on E&S
- **Lack of data downstream** to measure impact on clients and communities
- Potential for **greenwashing**

Lack of internal capacity within the financial institution/ funder



Lack of reference framework from public institutions



Mitigation

- Focus on **direct impacts**, linked to **SDG targets and indicators**
- **Focus on outputs** at first, not outcomes or impacts (Theory of Change)
- **Integrate downstream data collection** in action plans

- Take time for **internal training and capacity building**
- **Detailed instructions** in support documents

- **Reference to more advanced frameworks** (EU) when relevant
- **Always better to start** even if the framework may change

Process overview



Data collection and performance monitoring through site visits:

- **1 before decision** by Investment Committee
- **Once every 2 years** for monitoring

Before and during site visit

1. Check **exclusion list**
2. **Analyst tailors support documents** to the interviewee
 - Excel database
 - Interview Questionnaire)
3. **Analyst fills questionnaire (printed)** including additional notes

After site visit

4. **Operators fill database**
5. Social Performance Management Department **conducts the analysis with the credit analyst and the target**
 - Red flags / improvement areas
 - Proposed roadmap with targets
6. **ESG Committee** (SPM + Board member) fine-tunes action plan, proposes potential covenants and incentives
7. **Investment Committee** validates covenants & incentives
8. Action plan and incentives / covenants **presented to SME**

Interview Guide – importance of user experience



4. Do you set long-term prices (ex: per harvest) for produce with your produce suppliers? If yes, how many of your produce suppliers (in %) benefit from fixed prices or are employed by the company?

yes no

The answer may be found in the documents provided by the Agri processor/buyer before the due diligence, in the business/activity plan or in any documents related to contract farming or supply.

*Excel indicator to fill after the interview is done: **SUSPROC-3***

Percentage of suppliers that benefit from these fixed prices:

We ask this question because we want to know (i) how many suppliers benefit from stable revenues and (ii) with how many suppliers is the price and volume secured. It is the case if suppliers have signed contracts that indicate fixed volumes or fixed prices, but also if the farmers are directly employed by the company.

Answer unit must be %.

..... %

*Excel indicator to fill after the interview is done: **SUSPROC-4***

Details/precisions (optional):

.....

.....

.....

Wording in Interview Guide corresponds to wording in Excel database

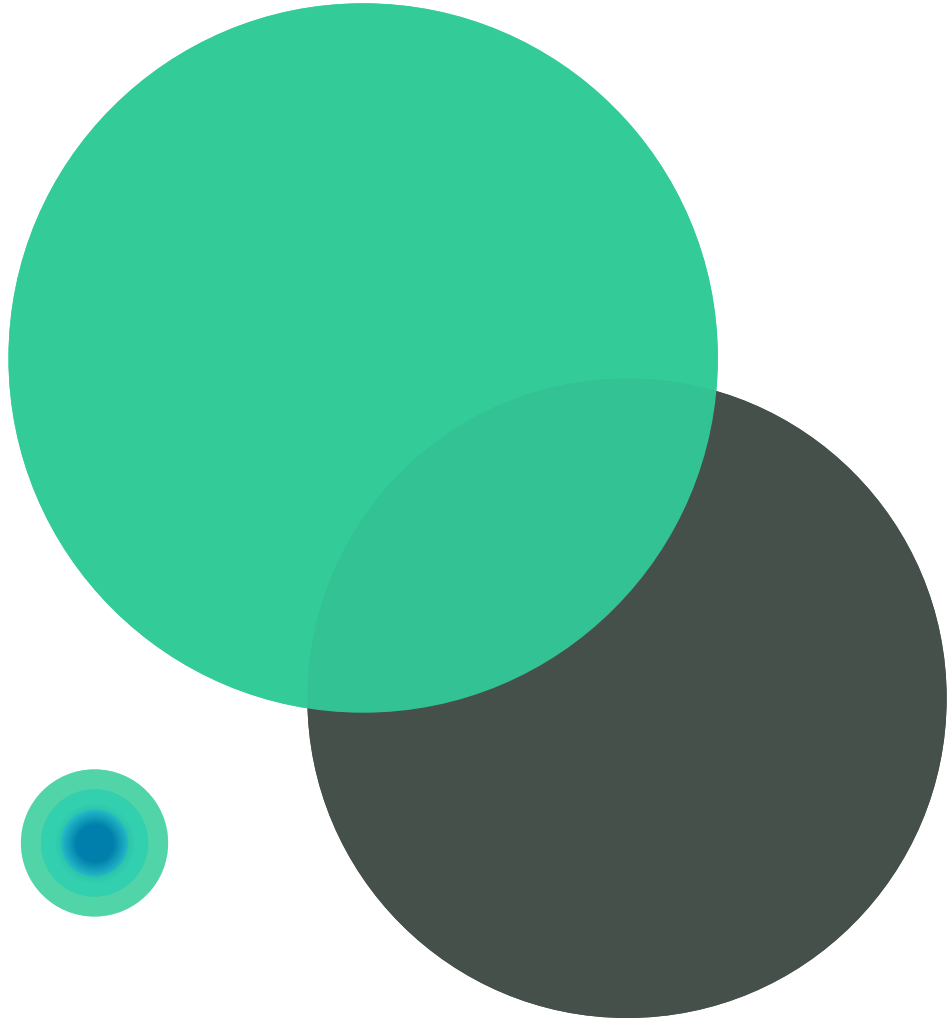
Clear choice of answer for Analyst

Reference to “standard” due diligence process to find info before ESG due diligence

Clear reference to indicator in Excel database

Providing context to explain importance, or “spirit” of the question

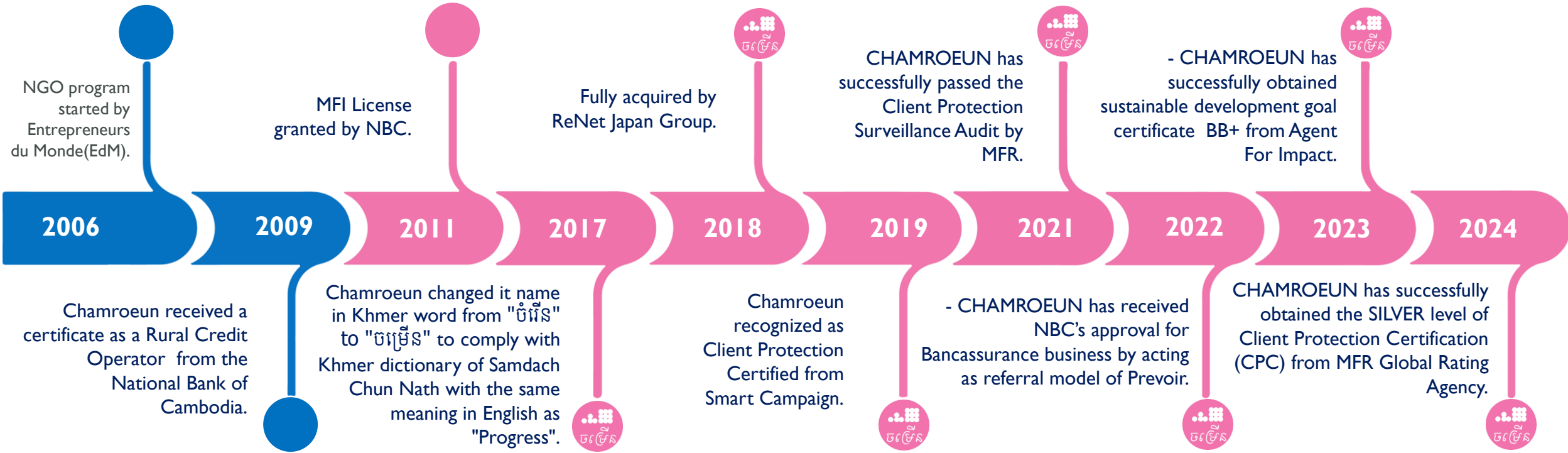
Space for additional comments



ABOUT CHAMROEUN MFI




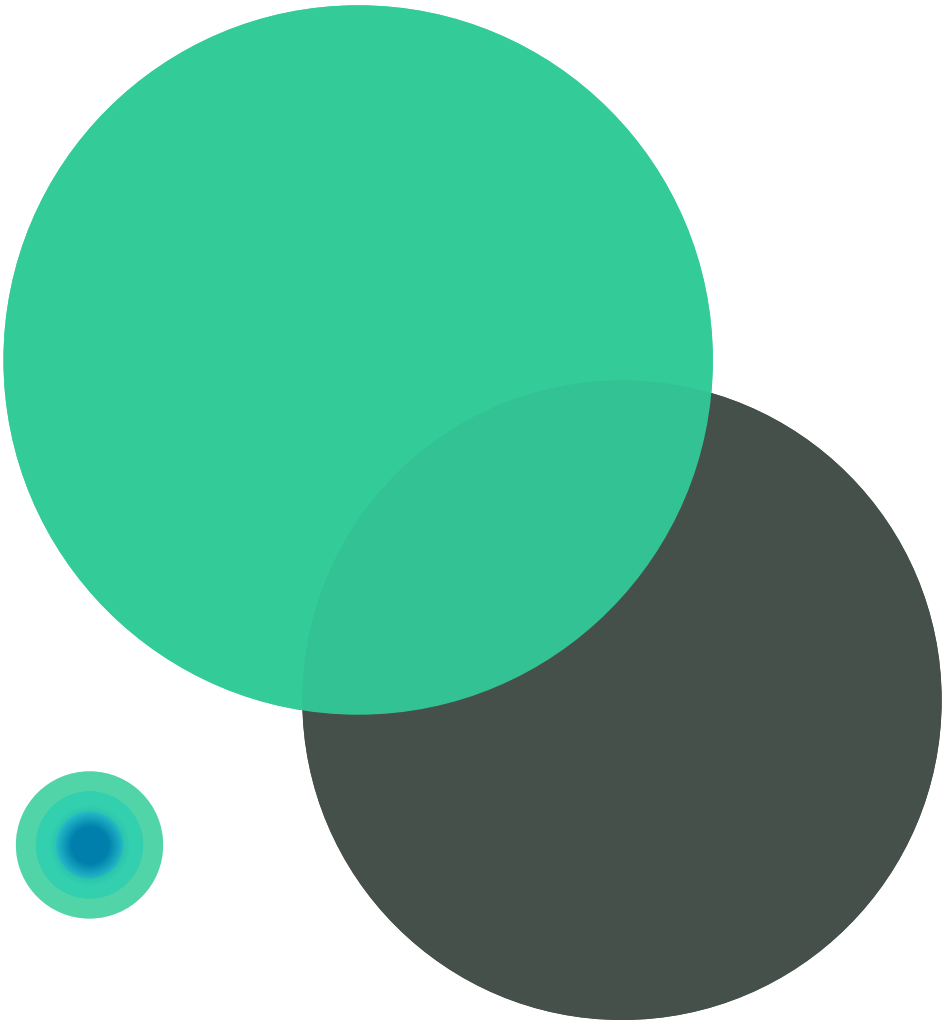
About Chamroeun MFI



About Chamroeun MFI



Operational Performance	2021	2022	2023	Q1 '24	Q2 '24
Number of Branches	21	21	21	21	21
Number of Staff	369	390	406	397	374
Number of LOs/SLOs/CPAs/SMEC	201	211	221	215	196
Number of Active Borrowers	46,665	45,140	41,212	39,160	35,798
Gross Loan Outstanding (USD 'Million)	34.81	39.64	44.42	41.42	35.65
Average Loan Portfolio Per Partner (USD)	746	878	1,078	1,027	971
Average 1st Loans Disbursed (USD)	1,170	1,262	1,691	1,499	1,545
% of Borrower in group lending	30.49%	25.37%	15.58%	14.46%	13.73%



Lessons learnt from Implementation



Details on implementation

Sample for the pilot test

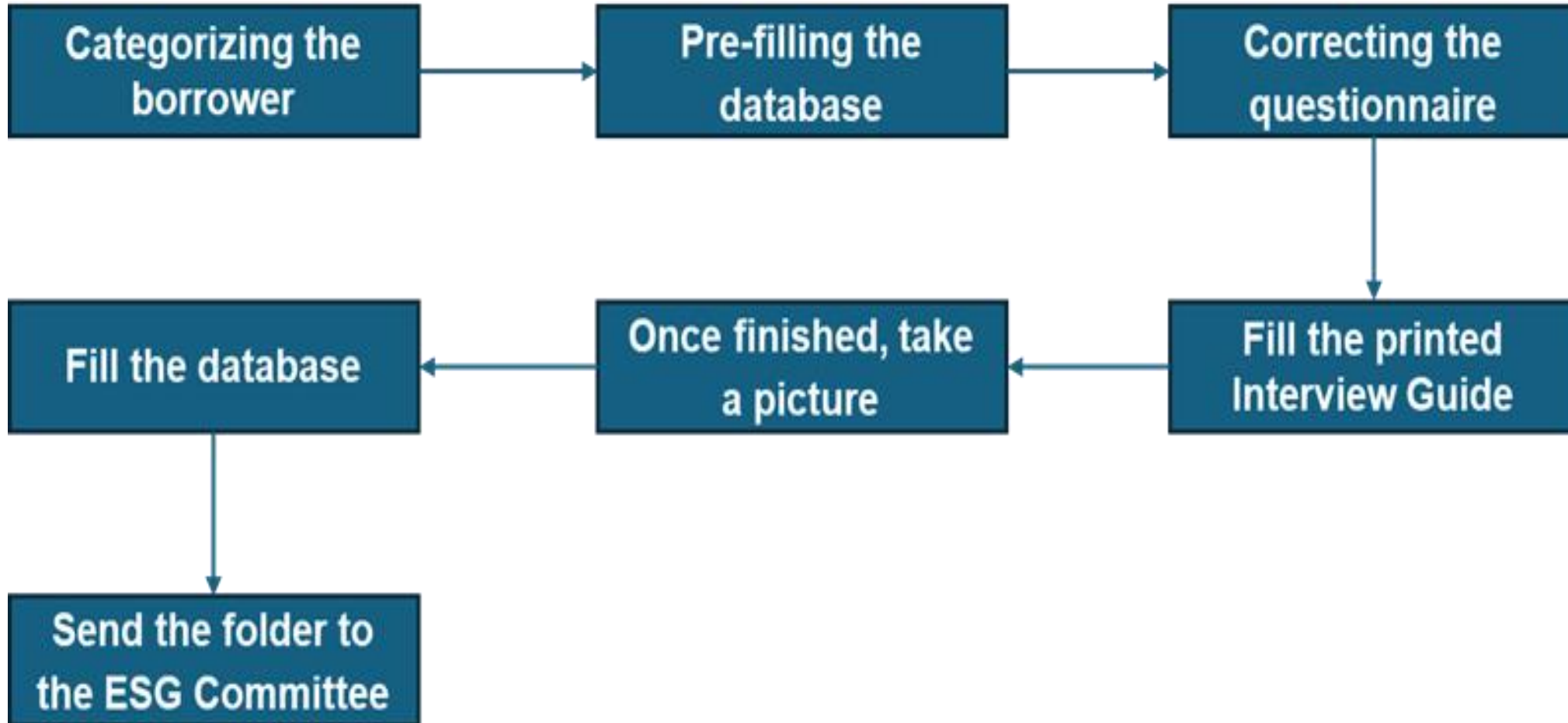
Product	Province	Name of client	>1 year /< 1 year	# of loans	Sample
ACL	Kampong Speu	APIWAT KHUM ROLANGCHUK	< 1 Year	14	2
	Prey Veng	BA PHNUM MEAN CHEY	> 1 Year		
CEL	Kandal	RAN SA RICE MIL	> 1 Year	6	2
	Phnom Penh	V I P AGRO TECH CO., LTD	< 1 Year		
CFI	No Pilot			5	0
	No Pilot				
CFL	No Pilot			3	0
	No Pilot				
PWL	Kampong Chhnang			2	2
	Takeo				
Total				30	6



Details on implementation



METHODOLOGY OF DATA COLLECTION PROCESS



METHODOLOGY OF DATA COLLECTION PROCESS



1) Categorizing the borrower

- Determine the correct category of the borrower:

- a. Agricultural Cooperative
- b. Agri-buyer¹
- c. Agri-processor¹
- d. Private Water Operator

- Determine the correct information:

- a. First assessment
- b. Monitoring assessment

- Choose the right Word and Excel templates and save them in a dedicated folder.

2) Pre-filling the database

- Open the Excel Database

- Pre-fill information in the “Basic Information” Worksheet

- Check all questions one by one.

- a. If you know the answer already (100% sure), fill in the answer box.
- b. If the question is unclear to you, ask the Social Performance Management department.

D. Interview Guide

1. Does the AC set fixed prices for produce with all or part of their members? If yes, what is the share of members (in %) that benefit from these fixed prices?

yes no

The answer may be found in the documents provided by the AC before the due diligence, in the business/activity plan or in any documents related to contract farming.

A “yes” would mean that the AC negotiated with part or all their members to pay them a fixed price per unit for their produce during a fixed period, for example a season, crop cycle, or year. This allows the cooperative to avoid sharp fluctuations and better manage their cash flow.

*Excel indicator to fill after the interview is done: **SUSPROC-1***

% of members that currently benefit or have benefited from these prices in the past year:

Ideally, we want to know the % of members that have benefited from such prices during the latest price negotiations. The timing of these negotiations may vary between one AC and the other, so the number of members that have benefited in the past year (whole year, for example 2023) is also a good indicator.

*Excel indicator to fill after the interview is done: **SUSPROC-2***

Details/precisions (optional):

.....
.....
.....

METHODOLOGY OF DATA COLLECTION PROCESS



3. Correcting the questionnaire

- Open the Interview Guide
 - Pre-fill information in the “Customer Information” Section
 - Check all questions.
- If you have pre-filled questions in the Excel database, delete the corresponding questions in the Interview Guide.
 - If a question is unclear to you, ask the SPM department.

Print the Guide for the visit.

4. Fill the printed Interview Guide

- Ask all the questions in the Interview Guide
- Make sure the interviewee understands each question very clearly.
 - Be careful that the answers are expressed in the right unit or it is easy for you to convert to the right unit after the site visit

Ex: if the total area cultivated is expressed in km² and not in hectares, you can easily convert. But if a quantity of energy is expressed in \$ instead of kWh, it is a problem.

Do not hesitate to note down interesting additional information provided by the interviewee.

ESG Interview guide

Agricultural cooperatives – first assessment

A. Basic information

Name of the agricultural cooperative:

↓ Location of the agricultural cooperative ↓

Province:

District:

Village:

ESG Interview guide

Agricultural cooperatives – monitoring

A. Basic information

Name of the agricultural cooperative:=.....

↓ Location of the agricultural cooperative ↓

Province:=.....

District:

Village:

METHODOLOGY OF DATA COLLECTION PROCESS



5. Once finished, take a picture

- Take a picture of each page of the completed questionnaire.
- Upload it to the folder for this borrower.

6. Fill the database

- Open the pre-filled Excel Database
- Examine pre-filled answers, and make sure that no answers should be changed based on answers from the interviewee
- Fill answers, and make sure units are correct

Do not hesitate to add comments:

a) Precisions on the scope of the answer

Ex: energy expenses only account for electricity, the company does not monitor oil consumption.

b) Additional relevant information

Ex: the company is considering switching to solar energy

- List all missing information, data that seems unbelievable, and mistakes. Once finished, call the borrower to ask it.

7. Send the folder to the ESG Committee

- Send the database and pictures of the completed questionnaire to the other members of the ESG committee for review.

Organize an ESG Committee meeting between 2 and 3 weeks after the site visit with the same members.

					Thresholds			
Group	Oriinal number	INDEX (Name)	Indicator	Acceptable	Great	Result	Value	
Governance	1	SUSPROC-1	Does the AC set fixed prices (ex: per cycle, per season, c	No	Yes	Great	1	
Governance	2	SUSPROC-2	Percentage of members that benefit from these fixed p	12%	0%	20%	Acceptable	
Governance	3	SUSPROC-3	Does the AC set fixed volumes (ex: per cycle, per season	No	Yes	Acceptable	0	
Governance	4	SUSPROC-4	Percentage of members that benefit from these fixed v	7%	0%	20%	Acceptable	
Governance	5	GOV-1	Number of members in the cooperative	78	/	/	0	
Social	6	GOV-2	Number of female members in the cooperative	32	15.6	31.2	Great	
Governance	7	GOV-3	Number of Board members	20	/	/	0	
Social	8	GOV-4	Number of female Board members	8	21%	31%	Great	
Governance	9	GOV-5	% of shares owned by the top 10 shareholders	20%			0	
Governance	10	GOV-6	% of shares owned by the Board of Directors	5%			0	
Governance	11	GOV-7	Are profit margins decided with all members (E.g. durin	Yes	No	Yes	Great	
Governance	13	ETHIC-2	Has the cooperative implemented training programs or	Yes	No	Yes	Great	
Governance	29	CLIMATE-3	Does the cooperative own and manage collective irrigati	Yes	No	Yes	Great	
Governance	30	CLIMATE-4	If yes to the previous question. Which collective irrigati	↓ Fill below ↓			0	
Governance	31		Water tank(s)	Yes	No	Yes	Great	

METHODOLOGY OF DATA COLLECTION PROCESS



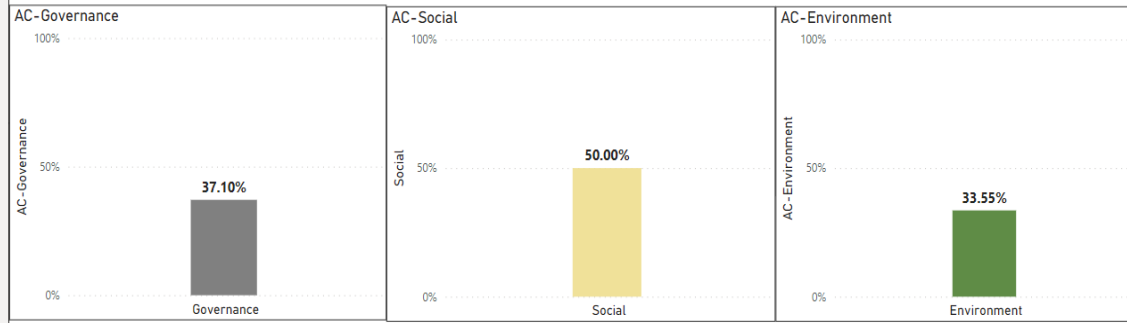
Evaluation of impact ESG on CreditPlus microfinance in CMP

Select your product:

→ AGRICULTURE COOPERATIVE

→ AGRI PROCESSOR & BUYER

→ PRIVATE WATER OPERATE



→ Assessment on level of province

→ Assessment on level of province

→ Assessment on level of province

→ Assessment on level of Survey

→ Assessment on level of Survey

→ Assessment on level of Survey

Notes:
Assessment on level of province. This is the result in the impact evaluation analysis that exists at the institutional and client level with provincial distribution.
Assessment on level of Survey. This is the result in the impact evaluation analysis that exists at the institutional and client level with distribution by questions asked in the assessment.

Control and monitoring percent of great Governance in CMP

← Home

<p>Q1. Does the AC set fix prices?</p> <p>Q1 ● Yes ● No</p>	<p>Q1. % of members that currently benefit from these prices</p> <p>28.38%</p>	<p>Q3. How many members were part of the cooperative as of the end of last year?</p> <p>842 Total number of members → 596 Total number of Female in members</p>	<p>Number of Clients</p> <p>8</p> <p>Average Governance</p> <p>37.10%</p>
<p>Q2. Does the AC set fixed volumes?</p> <p>Q2. ● Yes ● No</p>	<p>Q2. % of members that currently benefit from these volumes</p> <p>11.13%</p>	<p>Q4. How many boards members does the AC currently have ?</p> <p>88 Total number of boards → 35 Total number of Female in board</p>	<p>Q10. Number of employees does the cooperative expect to hire as a result of CMP</p> <p>118</p> <p>Province Todas</p>
<p>Q6. Are profit margins decided with all members?</p> <p>Q6 ● Yes ● No</p>	<p>Q7. Has cooperatives implement training program to identify corruption</p> <p>Q7 ● Yes ● No</p>	<p>Q12. Average how long does the cooperatives to pay its members</p> <p>29.63</p>	<p>District Todas</p> <p>Name of the AC: Todas</p>

Challenges During Implementation



Challenges met	How we responded
<p><u>Interview guide and questionnaire :</u></p> <ul style="list-style-type: none">• The questions do not come in chronological order of each dimension (Governance, Social and Environment);• Some of the questions are difficult to understand and it is not relevant.• Time constraint in responding to the questions.	<ul style="list-style-type: none">• Classify the questions in chronological order in 3 different group: Governance, Social, and Environment to do the assessment and analysis.• Add some questions to easily understand and skip the question if it is not relevant, so it could save time.
<p><u>Tool:</u></p> <ul style="list-style-type: none">• In terms of filling up the Tool, we have to work on different Excel files from time to time.• No databases to review all ESG impacts.	<ul style="list-style-type: none">• Excel tool was modified to implement 2 buttons (“ Save “ and “ Clear”” that would help gather all the information into a single database, rather than keeping it separate as planned and the other button will clean all the data to fill up the next assessment. This allowed us to generate a new impact assessment model.

Conclusion



Advice for funders to implement ESG in businesses



Start slow if needed, but start early



- The lack of data, legal reporting framework and capacity should not deter funders and social enterprises to start and learn by doing
- Start with setting up processes (data collection, roles & responsibilities)



Do not skip materiality assessment & focus on material topics

Do not neglect the time necessary to build capacity in your own organization



- Training to all staff embarked in the ESG assessment and improvement process
- Detailed instructions in support documents
- Focus on “user experience” while designing the process

Need to onboard and convince the SME management team:



- Link impacts to business objectives
- Co-build action plans with the SME
- Raise awareness on financial implications of ESG risks



Use reference frameworks for impacts to avoid greenwashing

Thank you for listening!
Any questions?

Feel free to contact us!



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