Second-Party Opinion
JSC MFO Crystal
Georgian Microfinance Organisation

Scope ESG Analysis has assessed the alignment of the Social Bond Framework (Framework) of JSC Microfinance Organization Crystal (Crystal) with the 2021 Social Bond Principles (SBP) of the International Capital Markets Association. Scope ESG's assessment reveals that Crystal's Framework is fully aligned with the SBP.

This second-party opinion is based on the four SBP components: use of proceeds, process for project evaluation and selection, management of proceeds and reporting. In addition, Scope ESG's methodology supplements the use of proceeds element with an impact of proceeds assessment and a review of impact risks. The Framework has received Scope's highest assessment of three green humans, which signals a transformative impact contribution.

Figure 1: Crystal's Social Framework Assessment

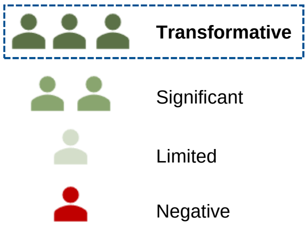

Figure 2: Alignment with United Nations Sustainable Development Goals

Framework assessment across Scope's criteria

Scope's criteria	Crystal Framework description	Scope ESG Assessment
Use of proceeds	• Access to essential services • Employment generation through SME finance and microfinance • Socioeconomic advancement and empowerment	ICMA-aligned
Process for project evaluation and selection	• Members of Crystal's business team will analyse the women owned MSMEs on environmental and social factors as well as revenue streams • Detailed exclusion criteria for loans	ICMA-aligned
Management of proceeds	• Proceeds documented and updated in a sub-account managed by Crystal and tracked using ALTA software	ICMA-aligned
Reporting	• Annual reporting of allocation of proceeds until full allocation • Impact metrics include reporting on number of WMSME borrowers, number of climate-related loans and borrowers in rural areas	ICMA-aligned
Overall sustainability strategy	• Crystal's sustainability strategy focuses on three pillars with quantitative targets for microfinance lending on People, Planet and Profit	Transformative
Impact assessment	• Crystal's projects support MSME financing to reduce Georgia's finance gap • Targeting women shall contribute to employment generation, gender equality and poverty reduction	Transformative
ESG Management risks	• Crystal has implemented an environmental and social management system to identify and mitigate risks	Transformative

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Methodology

We were commissioned by the issuer to provide a second-party opinion on its Framework. We based our opinion on:

- Crystal's internal documents
- Interviews with Crystal's relevant stakeholders
- Documents on external market/regulatory research
- Data from our internal database

The human score summarises our evaluation and verification of the social impact of Crystal's Framework. The described targets within each of the social project categories lead to individual human scores. In the case of multiple projects defined by an issuer, the aggregate of the scores yields the overall score of our second-party opinion report.

The overall Framework score is an average of the performance across all dimensions and ranges from non-alignment with the SBP (one red human) to complete alignment with the SBPs and transformative social contributions (three green humans). The assessed ambition level within the defined social project categories qualifies for the respective human scores.

Our minimum requirement for SBP alignment is that each social project category of the Framework has a positive social impact, as represented by at least one green human.

Scope ESG scoring	Description	Crystal's projects	Project criteria
Transformative	Transformative social contribution, full alignment with ICMA's SBP and exemplary project alignment with the industry's key impact objectives	Access to essential services	All projects (e.g. financial services) are directly tied to facilitating access for disadvantaged groups, including a definition of relevant target groups and reference to specific access conditions
		Employment generation through SME finance and microfinance	All projects target geographical and/or social environments with proven limited access to the labour market and detailed description of consumer protection measures to overborrowing/over-indebtedness
		Socioeconomic advancement and empowerment	Transformative socioeconomic impact by allocating entire proceeds to advance disadvantaged target groups. Projects are linked to a long-term oriented empowerment strategy
Significant	Significant social contribution, full alignment with ICMA's SBP, and project alignment to industry impact objectives in line with market practice	Access to essential services	Most of the projects are directly tied to facilitating access for disadvantaged groups, including a definition of relevant target groups and reference to specific access conditions
		Employment generation through SME finance and microfinance	Most of the projects target geographical and/or social environments with proven limited access to the labour market
		Socioeconomic advancement and empowerment	Significant socioeconomic impact by allocating entire proceeds to advance disadvantaged target groups
Limited	Alignment with ICMA's SBP but insufficient quantifiable impact metrics and limited alignment to industry impact objectives compared with market practice	Access to essential services	Most of the projects are directly tied to facilitating access for disadvantaged groups, including at least a qualitative definition of relevant target groups and reference to specific access conditions
		Employment generation through SME finance and microfinance	Most of the projects target geographical and/or social environments with expected limited access to the labour market
		Socioeconomic advancement and empowerment	Significant socioeconomic impact by allocating most of the proceeds to advance disadvantaged target groups
Negative	No significant or negative social impact; no or only partial alignment with ICMA's SBP and insufficient alignment to industry impact objectives	Access to essential services	A non-quantified or limited share of projects is directly tied to facilitating access for disadvantaged groups, insufficient definition of relevant target groups or reference to specific access conditions
		Employment generation through SME finance and microfinance	A non-quantified share of projects targets geographical and/or social environments with expected limited access to the labour market
		Socioeconomic advancement and empowerment	Limited socioeconomic impact due to insufficient allocation of proceeds to advance disadvantaged target groups

Introduction

Crystal's clients are low-income borrowers in rural areas of Georgia

Joint Stock Company Microfinance Organization Crystal (Crystal) is the largest and oldest microfinance institution (MFI) in Georgia, operating since 1997. It acts as a platform for economic development for micro and small entrepreneurs, as well as farmers, providing them with financial products and value-added services. The company offers a wide range of financial products such as credit, climate-related financing, leasing, money transfers, e-wallet, foreign exchange, and insurance. In addition, Crystal offers non-financial products, contributing to financial inclusion beyond access to credit.

Crystal manages a loan portfolio of GEL 388m, employing more than 1,000 people and serving more than 150,000 customers across 13 regions in Georgia through 50 physical branches and digital channels. The company's focus is on low-income borrowers with informal income located in rural areas of Georgia outside the capital Tbilisi. As of December 2021, 62% of Crystal's borrowers were women. Crystal's portfolio of clients operate and have income from different sectors and sources, specifically 29% in services, 26% in agriculture, 17% in small trade and production, 15% earn formal salaries and 10% send remittances.

Crystal's institutional shareholders are Incofin IM and Developing World Markets. The company also cooperates with up to 25 lenders (Microfinance Investment Vehicles (MIVs), International Financial Institutions (IFIs), Development Financial Institutions (DFIs) and Georgian commercial banks).

The company has three wholly owned subsidiaries: JSC Crystal Leasing, a provider of fixed-assets financing to MSMEs and farmers, LLC Crystal Consulting, in charge of delivering training, mentoring services and digital applications to high growth MSMEs, and LLC Akido, an online marketplace that covers online shopping, delivery service, dealership, and export of know-how in the field of financial technologies to foreign markets.

100% of proceeds from gender bond dedicated to WMSMEs

Crystal plans to issue a two-year GEL 25,000,000 gender bond in the Georgian Stock Exchange. The company will use 100% of the bond proceeds to finance loans to micro, small, and medium enterprises (MSMEs) applied by, disbursed to, and signed by a woman for a business which is the main source of repayment (WMSMEs). The look-back period is 12 months.

Crystal's overall sustainability strategy

Crystal's sustainability strategy is fully aligned with the purpose of the gender bond

Crystal's mission is to provide an economic development platform for farmers and micro and small entrepreneurs with the purpose of fighting poverty in Georgia by promoting entrepreneurship in a financially, socially, and environmentally sustainable approach. The company's focus is on traditionally underserved groups including women, youth and the rural population. Crystal's commitment to ending poverty and protecting the natural environment is integrated into their business model and corporate strategy through the pursuit of a triple bottom line (TBL): People, Planet, and Profit. This strategy is operationalised by five overarching strategic goals:

1. Growth: Extend financial inclusion services by effective customer acquisition, retention, and growth from current 100,000 active relationships to 220,000 by 2026.
2. Customer focus: Increase productivity of customers, primarily MSMEs, by acting as a platform for their development.
3. Special groups: Diversify and grow the revenue streams through innovative propositions tailored to the needs of women, youth, and other special groups.
4. Green: Become an environmentally sustainable company by increasing green portfolio to GEL 50m by 2026.

5. Stronger institution: Become a regional customer-centric, people-oriented, and data-driven financial inclusion organisation, through investment in people and systems.

Crystal uses external social ratings to ensure credibility and transparency of its operations

Crystal has adopted external principles and standards such as the UN Global Compact, UN Sustainable Development Goals, IFC Performance standards and the UK Corporate Governance Code. In addition, the company has signed the Smart Campaign Principles on Social Protection and is one of the first five Georgian signatories of the UN Women's Empowerment Principles (WEP). In this context, Crystal developed its Women's Empowerment Action Plan 2018-2019, and integrated it into HR-related policies to ensure gender equality including gender wage-gap analyses and implementing a sexual harassment reporting mechanism.

Crystal also uses a social rating to assure stakeholders of their social purpose-related business model. The company's A rating (2nd best on a six-letter scale) followed several upgrades since 2012 and reflects Crystal's well-formalised social strategy and annual approved social targets.

Crystal's sustainability strategy scores three green humans

Our assessment: Crystal's sustainability strategy has scored three green humans, reflecting the company's ambitious quantitative and qualitative social and environmental targets. The strategy further addresses a key impact responsibility for the financial industry in Georgia, namely eradicating poverty through access to finance. Scope's strong impact assessment for Crystal is also driven by the company's transparency in social impact reporting.

Issuance

Social Bond Principles: assessment of issuance

I. Use of proceeds

Social project category	Crystal's Framework	Human score
Access to essential services	Financing and/or refinancing of loans to WMSMEs to enhance social well-being	3 green humans
Employment generation through SME finance and microfinance	Financing and/or refinancing of loans to WMSMEs including climate-change loans to purchase small energy efficient and renewable energy equipment, as well as expanding business operations and improving capacity via acquiring fixed assets or investing in working capital.	3 green humans
Socioeconomic advancement and empowerment	Financing and/or refinancing WMSMEs, which are defined as Crystal's clients with loans applied by, disbursed to, and signed by a woman for a business which is the main source of repayment of the loan.	3 green humans

Crystal ties 100% of projects to Georgia's women with focus on rural regions and green projects

The access to essential services category scored three green humans because the projects in this category contribute to the industry's key impact objectives. Currently, 58.5% of Crystal's gross loan portfolio is allocated to rural areas, where people have limited access to essential services, especially banking financial services. Financial instruments with a social perspective play an important role in increasing household incomes across the region. Crystal's capacity to deliver its mission by enhancing financial inclusion, economic development, and social well-being is of high relevance for rural Georgia. By providing micro-credit exclusively to WMSMEs (average GEL 3,000), Crystal contributes to increase access to essential services such as health, education and vocational training, healthcare, financing, and financial services, and improve living conditions. In addition, the social programmes Crystal provides to support locals, especially in rural areas which account for 40% of Georgia's total population,[1] have an economic and social impact. The three initiatives: Yes Georgia, Buzz Georgia, and Crystal Consulting, contribute to enhance the access to education and vocational training, healthcare, and knowledge about financing products, as well as to improve business skills by providing community training and mentorship services to borrowers.

Crystal's activities are key to strengthening the Georgian labour market, characterised by high unemployment and unequal access to formal work

The employment generation category scores three green humans. The project of finance or refinance loans to WMSMEs have an economic and social impact given that the proceeds of the loans are used to expand business operations as well as to acquire fixed assets and/or invest in working capital, thus improving economic growth and job creation. Crystal's client profile consists of farmers, MSMEs and WMSMEs which play a key role in the Georgian economy but have slow growth given the lack of access to finance. Projects under the Framework shall further contribute to Crystal's green portfolio by focusing on climate-related loans for energy efficiency. The combination of social projects with environmental objectives fills an important financing gap since only 16% of global MFIs have dedicated-energy loan products. It is Scope's view that lending to support WMSMEs in a frontier market like Georgia is among the key impact responsibilities for the financial services industry. Also, the strong link between Crystal's social framework and general corporate strategy to reach an additional 100,000 borrowers by 2026 leads to the highest human score assessment of three humans.

Crystal's WMSME initiative ensures broad-based access to finance and focus on target group

The socioeconomic advancement and empowerment category also scores three green humans led by Crystal's intention to finance loans dedicated specifically to women- owned MSMEs. Crystal aims to fight poverty in Georgia by promoting entrepreneurship. Hence, the target population of the bond is selected to deliver social and economic objectives. Globally, 70% of WMSMEs have inadequate or no access to financial services and while women face many challenges to open and grow a business, access to finance is the second most-cited obstacle. This project aims for Crystal to finance approximately 8,333 loans (average loan size) to WMSMEs where business is the main source of repayment. We note that Crystal's loan access conditions do not exclude borrowings to women where the company is owned or controlled by males. At the same time, Scope recognises the need: i) to provide broad-based access to finance including women without owned business; and ii) to encourage female borrowers to take more responsibility in male-dominated business.

We note that the projects detailed in the Framework are completely aligned with Crystal's mission and business model ensuring credibility and appropriate choice of impact relevant indicators.

Crystal's Framework scores three green humans overall

Our assessment: Crystal's aggregate score of three green humans indicates full alignment with the selected sector criteria. The Framework's use of proceeds provision fully complies with the SBP. In addition, the projects are strongly aligned with Crystal's sustainability strategy and business model, which serves an important social purpose in our view.

II. Process for project evaluation and selection

Selection of projects focuses on WMSMEs and established credit loan processes

Selection of the projects will be guided by the eligibility criteria, focused on WMSMEs, complemented by different principles and practices.

The loan underwriting process is guided by an internal regulatory rule on credit activities which considers commercial, as well as environmental and social factors in the assessment. Crystal will review revenue streams and in case these are generated from commercial activities, on-site visits will be conducted. Additionally, Crystal will do an

[1] https://data.worldbank.org/indicator/SP.RUR.TOTL.ZS?locations=GE

environmental and social risk assessment and will use cash flow analysis to estimate the repayment capacity of the borrowers.

Given that the company finances projects aimed at economic development and/or improvement of living conditions, the following purposes are considered in Crystal's Framework:

- Working capital
- Fixed assets
- Real estate
- Improving living conditions
- Consumer purposes
- Refinancing
- Investments
- Other activities that are not against local law/regulations and Crystal's credit policies.

Crystal provides a list of excluded activities

Crystal has detailed the exclusion criteria for its eligible loans under the social bond proceeds. These are activities that would contradict alignment with the social and environmental goals of the company. Hence, the following sectors and activities are excluded from the bond proceeds:

- Forced or child labour
- Production or trade of illegal products under host country laws or international conventions, such as pharmaceuticals, pesticides and herbicides, ozone-depleting substances, hazardous chemicals, etc.
- Weapons
- Alcohol
- Tobacco
- Gambling
- Radioactive materials, including nuclear reactors and components
- Production or trade of unbonded asbestos fibres
- Logging operations and equipment for use in endangered forests
- Marine and coastal fishing practices at large scale

In addition, there are three types of securities applicable for loans: mortgage, pledge and guarantee. They shall be approved by the appropriate credit committee at one of the five committee levels, which varies according to the loan size. The first level is a credit officer with a GEL 3,000 limit and the fifth level is a loan size of GEL 100,000 limit.

Crystal's process for project evaluation and selection scores three green humans

Our assessment: Crystal's process for project evaluation is fully aligned with the SBP. In addition, this section has scored three green humans as Crystal has a precise project selection process and identifies material ESG objectives associated with the project. The company commits to monitor the borrowers in case of any controversy and to perform necessary adjustments throughout the life of the social bond.

III. Management of proceeds

Proceeds are managed by business team and ALTA software

Crystal follows a specific process to ensure the bond proceeds are being tracked and monitored. The detailed features of the target customers are shared with a dedicated person from the business team to monitor that eligibility criteria are observed. After the end of each reporting period, the responsible person will determine the relevance of each loan and client's characteristics under the social bond and each of them will be given an ID that will go into the ALTA software. The loan is then systematically monitored on a monthly and quarterly basis using this software.

Crystal will deploy all bond proceeds within 12 months and unallocated proceeds will be kept in a separate liquid bank account at local banks or at Crystal branches and will comply with the National Bank of Georgia's (NBG) liquidity ratio thresholds. No deposits on ESG criteria are being considered.

Crystal's management of proceeds scores three green humans

Our assessment: Crystal's management of proceeds fully complies with the SBP. In addition, the management of process category has scored three green humans as Crystal has a well-designed and transparent process to track investments and has a process in place for unallocated net proceeds or proceeds from sudden divestment.

IV. Reporting

Allocation and impact reports to be published annually to investors and partners

Crystal has committed to provide all bond investors an annual report within 12 months of the issuance until full allocation. These reports will include allocation and disbursement of proceeds. While the reports are currently not planned to be made public, Crystal is open to reporting key indicators to its bond investors, including the volume of loans outstanding, percentage of new vs refinanced loans, and sectoral allocation of proceeds, among others.

In accordance with the 2021 Harmonised Framework for Impact Reporting, Crystal has committed to annually report to partners and investors on selected impact indicators to demonstrate the social impacts of the projects to which the proceeds have been allocated.

Category	Impact indicators
Access to essential services	Number of WMSME borrowers
Employment generation through SME finance and microfinance	Number of WMSME borrowers of climate-related loans
Socioeconomic advancement and empowerment	Number of WMSME borrowers in rural areas

Crystal's reporting scores two green humans

Our assessment: The reporting process Crystal has proposed is fully aligned with ICMA's SBPs.

Our opinion

Alignment with SDGs

Crystal's Framework is tied to five relevant UN SDGs

The SDGs adopted by all UN member states in 2015 are a collection of 17 global targets comprising an agenda for achieving sustainable development by 2030. We deem the following SDGs to be relevant for Crystal:

1. No poverty: End poverty in all its forms everywhere

4. Quality education: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

5. Gender equality: Achieve gender equality and empower all women and girls

7. Affordable and clean energy: Ensure access to affordable, reliable, sustainable and modern energy for all

8. Decent work and economic growth: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Appendix II lists the relevant indicators for measuring Crystal's contribution to each SDG. The contribution to the SDGs can be quantified in post-issuance impact reporting.

Impact of proceeds

SMEs and microfinance in Georgia

Small and medium-sized enterprises play an important role in the development of the economy, contributing significantly to sustainable growth through their potential in employment generation and job creation. In 2017, 98.9% of enterprises in the European Union were small and 0.9% were medium, contributing to 57% of total value added and 67% of total employment[2]. Also, according to the Asian Development Bank (ADB), SMEs accounted for 96% of all Asian business, 62% of the national labour forces, and 42% of value added or GDP in ASM countries.[3] [4]

Georgia's SMEs account for 99.6% of all active enterprises

The Georgian economy also relies on small and medium-sized enterprises. In 2020, the number of SMEs in Georgia accounted for 99.6% of all active enterprises in the country (small enterprises account for 98.13% and medium for 1.47%). Additionally, SMEs were responsible for 59.3% of total private employment and contributed to 40.8% of total domestic turnover and 58.0% of output in the business sector.[5]

The National Statistics Office of Georgia defines the small, medium, and large enterprises according to number of employees and annual turnover. Table 1 shows the limits for each indicator where enterprises are classified accordingly:[6]

Table 1: Definition of MSMEs in Georgia

Enterprise category	Average annual turnover	Average annual number of employees
Micro enterprise[7]	<GEL 1m	<10
Small enterprise	<GEL 12m	<50
Medium enterprise	GEL 12m – 60m	51-249
Large enterprise	>GEL 60m	>250

Source: National Statistics Office of Georgia

SMEs as the backbone of Georgia's economy

The main sectors and contributors to Georgia's GDP in 2020 were manufacturing (23%), construction (20%) and trade (18%) where Georgian SMEs employed more than 60% of the people engaged in these sectors, with construction accounting for more than 70%.[8]

In 2020, the World Bank 'Doing Business' survey, which ranks economies from 1-190 on their ease of doing business through measuring several indicators, placed Georgia number seven globally with a score of 83.5, meaning that Georgia is 16 percentage points away from the best regulatory performance across all economies and across time.[9] In recent years, Georgia has improved the business environment for all enterprises, including SMEs. It has simplified administrative regulations, reduced the tax burden, and facilitated free trade. In addition, the country has implemented regulations and institutions that support

[2] https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20200514-1
[3] https://www.adb.org/sites/default/files/publication/474576/adbi-wp911.pdf
[4] These countries cover Central Asia, East Asia, South Asia, Southeast Asia, and the Pacific
[5] https://www.oecd-ilibrary.org/sites/00e218ce-en/index.html?itemId=/content/component/00e218ce-en#endnotea17z2
[6] ILO. (2021). *EESE Assessment of MSME trends and policies in Georgia.* Geneva: ILO.
[7] https://unece.org/sites/default/files/2021-03/Georgia_MSME_EE_RE_Report.pdf
[8] National Statistics Office of Georgia. (2021). *Business Sector in Georgia 2021.*
[9] https://archive.doingbusiness.org/en/data/exploreeconomies/georgia

lending and borrowing, and while these are aimed at improving access to credit, access to finance remains an important constraint, particularly for SMEs.[10]

Limited access to finance remains an important constraint for SMEs in the region

According to the ADB, limited access to bank credit is a main concern in the region which endangers economic growth and employment.[11] Literature shows a negative relationship between the firms reporting access to finance as a constraint and per capita income growth rates.[12] In Georgia, credit to SMEs grew 408% in 2020 from 2010 levels and total business loans grew by more than 299%. Georgian SMEs depend mainly on the banking sector for their financing needs, and though the non-financial options play a smaller role,[13] the 163% increase in the volume of loans issued by the microfinance organisations since 2017, means it is growing at a very fast pace.[14]

Microfinance organisations in Georgia growing at a very fast pace

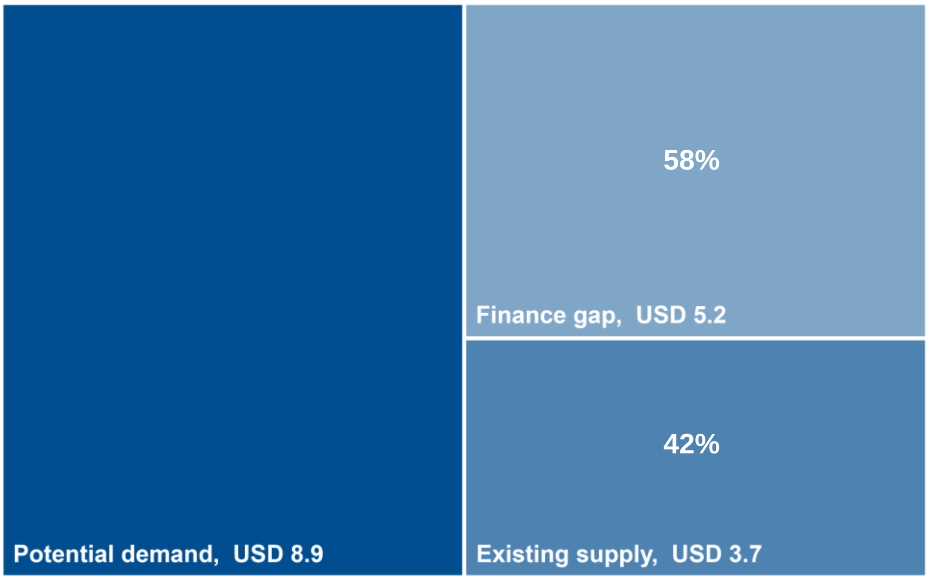
The structure of the financial sector in Georgia, as of 2019, is mainly represented by commercial banks with 95% of the total financial sector assets, while microfinance organisations account for 3% of the share. Loans to corporates account for around 61% of the banking sector credit portfolio of which 20% are loans to SMEs.[15] Additionally, the assets of the non-banking financial sector reached GEL 2bn, of which 70% were assets held by microfinance organisations[6] as they play a key role in rural areas and agriculture. In Georgia, 90% of the corporate microfinance loans are concentrated in four MFOs where Crystal is the leader in microfinance lending, accounting for 27.4% of the total MFO's loan portfolio.[6]

MSME's finance gap in developing countries of USD 5.2 trillion

Financial instruments for private sector banks as well as for non-bank providers targeting MSMEs are crucial due to the large finance gap. It is estimated that 131 million or 42% of formal MSMEs in developing countries have unmet financing needs and **figure 3** shows the finance gap of approximately USD 5.2 trillion.[16] This suggests that 58% of potential demand is unmet. In addition, the total volume of current MSMEs funding is disproportionately distributed as SMEs are attributed with 96% and only 4% goes to microenterprise finance.[17]

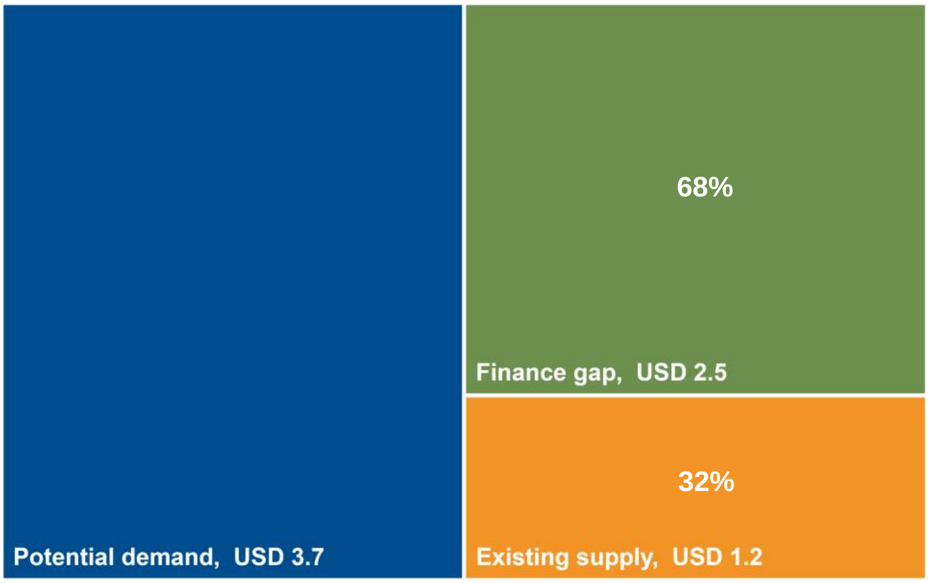
[10] https://www.oecd-ilibrary.org/sites/4a217b07-en/index.html?itemId=/content/component/4a217b07-en#tablegrp-d1e1420
[11] https://www.theasianbanker.com/updates-and-articles/bank-lending-to-small-businesses-in-asia-pacific-grew-154-in-2021
[12] International Monetary Fund. (2019). *Financial Inclusion of Small and Medium-Sized Enterprises in the Middle East and Central Asia.* Washington: IMF Library.
[13] https://www.oecd-ilibrary.org/sites/00e218ce-en/index.html?itemId=/content/component/00e218ce-en#section-d1e137688
[14] https://www.oecd-ilibrary.org/sites/00e218ce-en/index.html?itemId=/content/component/00e218ce-en#section-d1e139058
[15] https://www.bstdb.org/Overview%20of%20the%20fin_sector_GEORGIA.pdf
[16] https://www.smefinanceforum.org/data-sites/msme-finance-gap
[17] International Finance Corporation. (2017). *MSME Finance Gap.* Washington.

Figure 3: MSME finance gap in developing countries, USD trillions



Source: IFC, 2017

Figure 4: Georgia MSME finance gap, USD billions



Source: IFC, 2017

SME financing supports economic and employment growth in CCA economies

Crystal, as a leader in the microfinance industry in Georgia, contributes to the supply of financing for MSMEs and reduces the finance gap in the country. According to the IMF, closing the SME financial inclusion gap can support annual economic growth in Caucasus and Central Asian (CCA) countries[18] by up to 1% and support employment by potentially creating around 2.3 million jobs by 2025. Research suggests that a 1% rise in SME credit reduces unemployment by about 0.2% in CCA countries.[12]

In 2016, Georgia implemented the National SME Development Strategy 2016-2020 with the objective of increasing SME economic output by 10%, employment by 15% and

[18] CCA countries include Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan

productivity by 7%, compared to 2013 levels.[19] Crystal plans to continue supporting SME growth by increasing the number of MSMEs with access to finance and supporting the new upcoming and updated strategy 2021-2025. Moreover, Crystal is aligned with other initiatives such as the Enterprise Georgia goal of improving access to finance while improving private sector competitiveness and GITA (Georgia's Innovations and Technology Agency) which is the main driver of Georgia's innovation system that supports start-ups and SMEs offering co-financing schemes for innovative projects.[6]

Gender impact

Women are universally considered low-risk microfinance clients compared to men

In terms of social objectives, financial inclusion remains the main goal of European MFI operations, and women and the rural population are the two main target groups.[20] Multiple studies demonstrate that targeting women borrowers increases repayment rates of microfinance organisations. Women show usually superior credit risk than men. In addition, findings reveal that focusing on women borrowers is also associated with better MFI sustainability and profitability. As a result, female borrowers make up around 70% of all microfinance clients globally[21] and 60.1% of Crystal's customers.[22] As such, Crystal's strategy to focus on women contributes to both its social and economic objectives.

Women-owned business in developing countries represent 28% of MSMEs and account for 32% of the MSME finance gap of USD 1.7trn. In Georgia, women-owned enterprises are also a minority, where only 22% of Georgia's active enterprises have a female participation in ownership[23] and where they account for 40% of the MSME finance gap of USD 1bn.[15]

According to the World Economic Forum Gender Gap Report 2020, Georgia was ranked 74 out of 153 countries[24] (improved by 21 places since 2017). Women's participation in Georgia's labour force is significantly lower compared to men even though women represent 55% of the working-age population with higher education. Although women and men are engaged in Georgian entrepreneurship, women are more likely to own microenterprises than large businesses. However, research shows that women-led and owned business are more often excluded from venture capital and business opportunities compared to male-owned firms despite similar or better financial performance.[25]

Women face multiple barriers to financial market access

Commercial banks in Georgia often impose collateral requirements that can exceed 2.5-3 times the value of the loan, with strong preference for real estate.[6] Hence, owning land is crucial for financial access. Yet, one of the barriers that women face to access financial products is the low level of land and asset ownership where women own approximately 1/3 less hectares than men. This implies higher rates of poverty among women, less household expenses on education and health, and weaker women empowerment.[26] In addition, the wage gap remains high with average monthly salaries of women at approximately 67.6% of men's average monthly salary.[27]

Crystal's projects contribute to women's empowerment and increase repayment rates for microlenders

The social impact of Crystal is twofold: The company grants access to finance for women-owned business which contributes to employment generation, gender equality and reduction of poverty by targeting women. Second, Crystal's business model of providing consultancy and training services to WMSMEs raises management and business skills for borrowers and contributes to women empowerment. We also note that while Crystal asks

[19] http://www.economy.ge/uploads/files/2017/ek__politika/eng_sme_development_strategy.pdf
[20] https://mfc.org.pl/wp-content/uploads/2021/02/executive-sum_overview-survey-2020_en.pdf
[21] Zainuddin, M., & Yasin, I. M. (2020). Are Women Better Borrowers in Microfinance? A Global Analysis. *The Empirical Economics Letters*.
[22] https://ir.crystal.ge/wp-content/uploads/2022/07/Crystal_report_ENG_2022_BIG.pdf
[23] https://www.enterprisesurveys.org/content/dam/enterprisesurveys/documents/country/Georgia-2019.pdf
[24] https://www3.weforum.org/docs/WEF_GGGR_2020.pdf
[25] https://epfound.ge/static/file/202111193705-sme-gendered-assessment_eng.pdf
[26] https://www.geostat.ge/media/21027/EDGE-Report-ENG-Final.pdf
[27] National Statistics Office of Georgia. (2021). *Women and Men in Georgia.* Tbilisi.

for collateral when providing a loan, it provides additional options than real estate by adding a movable property or a physical person guarantee.

Crystal's proceeds to finance energy efficient and renewable energy equipment

Furthermore, one of the MFI trends in Europe is microfinance organisations engaged in green technologies, with 16% of MFIs having dedicated energy-efficiency loan products and other institutions planning to introduce such products in their portfolio. Crystal's proceeds will be used to finance loans to WMSMEs, including climate-change loans to purchase small energy efficient and renewable energy equipment. This strategy has supported Crystal's green financing initiative since 2017 and shall contribute to the company's goal of reaching a green portfolio of GEL 30m by 2025, compared to GEL 12m in 2021.

Crystal's impact of proceeds scores three green humans

Our assessment: We note that the projects are highly relevant to a social objective within the microfinance industry. The scope of the impact is significant and goes beyond market practices. Best practices are adopted by Crystal in executing this activity.

Risks

Dedicated risk-monitoring process

While Crystal's business model and bond proceeds will finance green projects and projects led by women, the microfinance industry entails environmental and social risks. Some of the most material risks are the type of projects that Crystal could fund from controversial industries. In addition, the funding nature of microfinance organisations could also impose liquidity risks.

However, Crystal is aware of these risks, and it has developed a risk management system, based on international standards, to identify and assess risks and threats in a timely manner. The company has also developed recommendations for risk management, monitoring, reporting and evaluation of risk process effectiveness. In addition, Crystal recently applied for a commercial banking license which could help in diversifying funding sources and providing better opportunities to deliver on its objectives.

We note that Crystal discloses associated risks related to the projects in the Framework and we recognise the company's transparency on environmental and social impacts of its business model. Crystal's Best Annual Report and Transparency Competition award by World Bank lends credibility to the company's reporting quality.

Crystal's ESG risks management scores three green humans

Our assessment: Crystal has a risk management strategy in place that addresses direct and indirect risks associated with every project category of this issuance. Crystal conducts a full risk assessment before engaging in a project and ensures that risks are minimised to the best of knowledge.

Associated project risks	Crystal's risk mitigation measures
Credit risk	The most frequent risk associated with MFIs is the risk to earnings or capital due to borrowers' late or non-payment of loan obligations. The inability to collect interest earnings or loss of principal resulting from loan defaults could impose a credit as well as liquidity risk.[28] In order to avoid over-indebtedness of its clients, every loan is processed using the credit regulatory rule of Crystal, assessing clients' creditworthiness. Crystal uses cash flow analysis to estimate the repayment capacity of its clients and does it repeatedly through each loan cycle. In addition, clients are checked in an online credit bureau to understand the level of borrowing and avoid financing a person with a poor credit history.
Borrowers' limited expertise on financial services	As the client profile of MFIs are the underemployed or low-income individuals, farmers, MSMEs or WMSMEs without access to financial services, they could lack the basic understanding of financial services which could pose a credit risk if they do not manage the proceeds correctly. Crystal runs multiple social programmes to support locals, especially in rural areas, to deliver knowledge for higher economic and social impact. The three key initiatives are Yes Georgia, Buzz Georgia and Crystal Consulting. With these initiatives, Crystal offers a package of free trainings online aimed at developing personal competencies,

[28] https://www.findevgateway.org/sites/default/files/publications/files/a_risk_management_framework_for_microfinance_institutions.pdf

	leadership, and entrepreneurial-financial skills. In addition, Crystal Consulting supports MSMEs entrepreneurs to achieve their short and long-term goals. This service offers consulting, mentoring, and coaching and is mainly to improve crisis management and adaptation to new circumstances as well as to identify existing business challenges.
Funding	Microfinance organisations in Georgia are prohibited from taking deposits from either individuals or legal entities,[29] therefore funding relies on shareholders, often using foreign currency from international sources, which exposes MFOs to exchange rate risks. This difference between foreign funding and local currency lending could increase MFO lending costs by 3% to 4% to exchange foreign currencies to GEL in commercial banks.[6] The NBG (with the support of the IMF) has considered allowing qualified MFOs to apply to be licensed as micro-banks, in which case they could also be deposit-taking entities. The reason is to reduce funding costs for micro-banks, promote more lending to MSMEs and improve the financial system.[6] Although the regulatory framework for MFIs limits its competitive capabilities, Crystal has received funding of over USD 50 million from international and local partners in 2021 (68% foreign partner and 32% from local banks) where 30% of these resources were used towards increasing the portfolio and the remaining to funding existing clients.[30] Crystal cooperates with international financial institutions such as the European Investment Bank, Incofin, DWM, FMO, Proparco, Finance in Motion (EFSE), BlueOrchard, Triodos, Symbiotics, responsAbility, Bank Im Bistum, TripleJump, and five large banks from the local partner's side. In addition, Crystal will be one of the first MFOs to apply for a micro-bank license and would most likely obtain a commercial banking license by mid of 2023. This would provide better opportunities to fulfil its mission, giving the ability to diversify funding sources and increase its basket of products such as current and savings accounts to grow within the small business segment.[30]
Environmental and social risks	The environmental and social risks associated with microfinance institutions are low due to the small size of the operations, but not inexistent. For instance, microfinance institutions can be involved in handling dangerous substances such as pesticides that can pose environmental risks and endanger health safety. If not managed appropriately, these could potentially be a risk of credit liability as individuals can be affected along with their ability to repay a loan. In addition, given the context of the development role MFIs play in the community, this could also lead to a reputational risk.[31] Crystal's ESG framework is aligned with the ADB Safeguards Policy Statement 2009 which consists of three operational policies on the environment, indigenous people, and involuntary resettlement.[32] In addition, Crystal's environmental and social management system (ESM) covers the screening and monitoring for all financed loans from the bond proceeds. Crystal also has in place an exclusion criteria list where investment activities using the proceeds will be prohibited, Crystal will do annual compliance monitoring and reporting to review that environmental and social safeguards requirements are being met, especially for climate-related loans. Additionally, Crystal follows NBG regulations related to ethical collection methods, so they are committed to fair treatment and care towards vulnerable customers.

[29] https://www.eib.org/attachments/efs/economic_report_neighbourhood_sme_financing_georgia_en.pdf
[30] Crystal Integrated Report 2021 https://ir.crystal.ge/wp-content/uploads/2022/07/Crystal_report_ENG_2022_BIG.pdf
[31] https://firstforsustainability.org/risk-management/understanding-environmental-and-social-risk/environmental-and-social-risk-for-financial-institutions/risk-in-microfinance/
[32] https://www.adb.org/sites/default/files/institutional-document/32056/safeguard-policy-statement-june2009.pdf

Appendix I: Documents provided by Crystal

Document category	Document description
Market research on sector/regional standards	Business sector in Georgia 2021 – National Statistics Office of Georgia
	Women and men in Georgia 2021 - National Statistics Office of Georgia
	Gendered Assessment of SME Development Strategy of Georgia 2016-2020 – Nordic Consulting Group
	Social-economic Development Strategy of Georgia – Government of Georgia
	Pilot Survey on Measuring Asset Ownership and Entrepreneurship from a Gender Perspective – GEOSTAT and Asian Development Bank
	Georgia Country Gender Assessment – Asian Development Bank
General information provided by Crystal	Crystal's Social Rating by MFR
	Crystal Integrated Report 2021
Social bond-specific documentation provided by Crystal	Green Bond Framework
	Information on use of proceeds

Appendix II: SDG alignment

SBP category	SDG alignment	Indicators to be evaluated
Access to essential services	 	• Number of WMSME borrowers accessing financial support and business development services • Number of WMSME borrowers in rural areas
Employment generation	  	• Number of WMSME borrowers of climate-related loans
Socioeconomic advancement and empowerment	  	• Number of WMSME borrowers • Number of WMSME borrowers in rural areas

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