



ProCredit
H O L D I N G



RESPONSIBLE BANKING IN PRACTICE

Impact Report 2021

ABOUT THIS REPORT

Our Impact Report 2021 discloses our approach to sustainability and our philosophy on the issues that matter the most to our stakeholders. In three chapters structured around the material topics identified through our sustainability, materiality and impact assessment, this report informs on non-financial performance progress and initiatives.

The Impact Report 2021 is part of a set of three documents that jointly comprise our Impact Report Package 2021 and complement our Annual Report. Please also refer to the following documents for a comprehensive insight into our sustainability approach.

Impact Report Appendix 2021

- Sustainability goals, achievements, materiality, management approach
- Principle of Responsible Banking (PRB) self-assessment report
- Partnership for Carbon Accounting Financials (PCAF)
- Contribution to the SDGs
- GRI content index

Impact Report Datasheet 2021

The three documents are closely interrelated and cover the period from 1 January to 31 December 2021.

The Impact Report Package has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option and complies with regulatory requirements and obligations such as the European NFRD, and with signatory frameworks: Sustainability Development Goals, the UN Global Compact, the UN Environment Programme Finance Initiative – Principles for Responsible Banking, and the Partnership for Carbon Accounting Financials.

Our full reporting suite, including Annual Reports and the full Impact Report Package, can be found at: <https://www.procredit-holding.com/downloads>

Note on photos: All photos were taken in accordance with the COVID-19 regulations of the respective countries, as effective at the time the photo was taken.



From Top:
Annual Report,
Impact Report,
Impact Report Appendix,
Impact Report Datasheet



This icon will point you to further information and data that support the statements provided in our Impact Report 2021.

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Impact Report Appendix 2021

This separate document provides more information about the data and our approach regarding SDGs and our targets.

- Sustainability goals and achievements
- Materiality and impact reporting
 - Reporting approach
 - Stakeholder engagement and materiality analysis
- Overview of our material topics, related impacts and boundaries
- Our material topics - management approach and overview
- SDGs, material topics and targets
- International principles, standards and memberships
- UNEP FI Portfolio Impact Analysis
- Accounting of the GHG emissions linked to our loan portfolio
- UNEP FI Principles for Responsible Banking (PRB) - Self-assessment reporting
- Analysis of the portfolio in terms of E&S risk
- GRI Content index 2020

[>> link to appendix](#)

2021 FACTS AND FIGURES

Key group figures 2021

Statement of financial position

	Dec 2021
Total assets (EUR m)	8,216
Customer loan portfolio (EUR m, gross)	5,924
of which loans to businesses	92 %
of which green loan portfolio	19 %
Number of business clients	62,296
Share of defaulted loans	2.3 %
Customer deposits (EUR m)	5,542

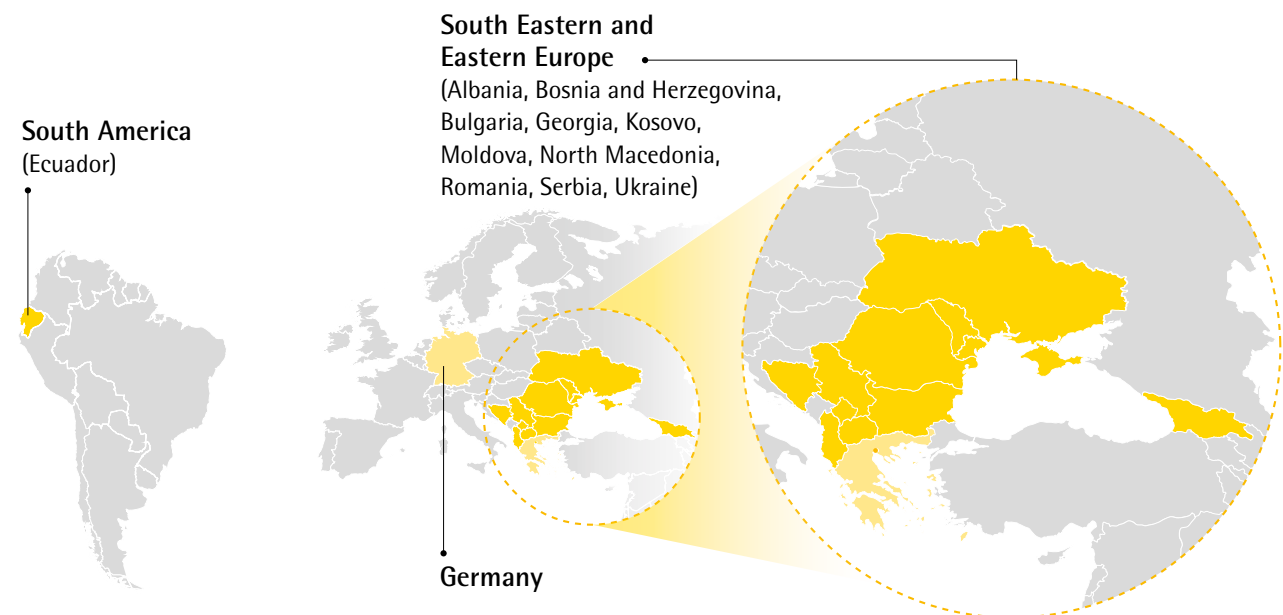
Key performance indicators

Change in customer loan portfolio	12.8 %
Return on equity	9.7 %
Cost income ratio	64.2 %
CET 1 ratio	14.1 %
Profit of the period (EUR m)	79,6

Our mission

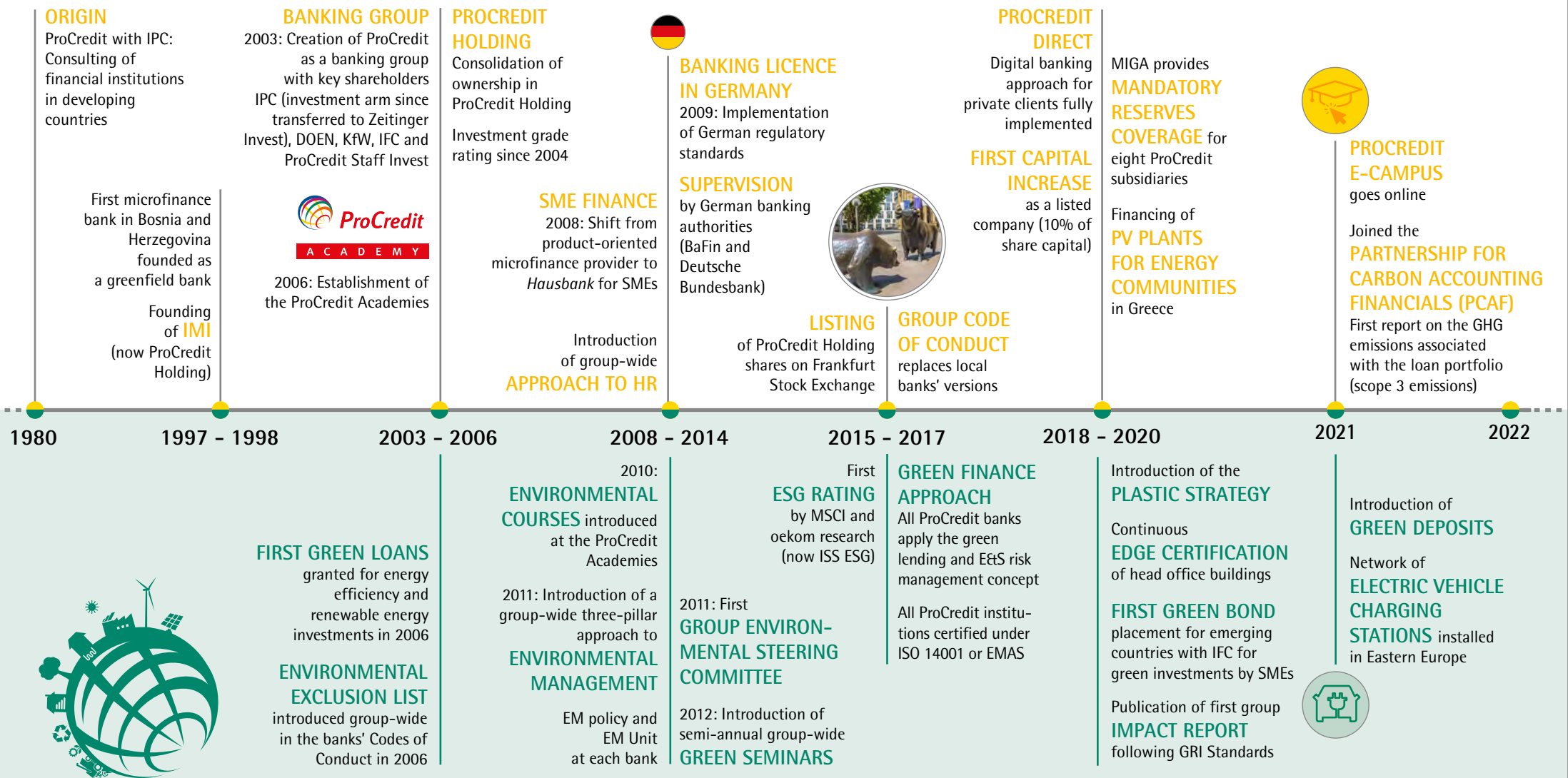
Be the leading
"Hausbank" for SMEs
 in our markets of operation
 – with a sustainable approach

Our countries of operation



KEY HISTORIC MILESTONES

In contrast to many other banks that simply add a new business department, hire a sustainability consultant and purchase the best available technology, at ProCredit the process of institutionalising green finance has been a gradual one spanning most of our existence.



2021 SUSTAINABILITY HIGHLIGHTS AND DEVELOPMENTS

Our achievements relative to our mid-term goals for end-2023



CARBON NEUTRALITY

Between 2018 and 2021, we reduced the group's own CO₂ emissions by 56%.



20% GREEN LOANS

This year, the group's green loan portfolio represents 19% of the total loan portfolio.



STAFF AWARENESS AND COMPETENCE

Between 2018 and 2021, an average of 132.5 hours were devoted to environmental and social training per employee.

Our main ESG initiatives

Green transportation



installation of public electric chargers in all our countries of operation

Sustainable supply chain
update of our group guidelines to screen our suppliers

Green buildings

continue to promote and improve efficiency in buildings, including EDGE certification

COVID-19 vaccination campaign

supporting employee health and safety

E-mobility

increasing the share of e-cars in our car fleet and promoting e-mobility among our clients

UNEP FI PRB

first report on loan portfolio impact analysis and self-assessment report

In-office and work from home arrangements

in response to our employees' and customers' needs

Avoiding single-use plastics

update of our plastic strategy, promoting sustainability in our supply chain

Regular update of our exclusion list
ongoing integration of E&S risk evaluation in all lending operations

Partnership for Carbon Accounting Financials (PCAF)

first report on GHG emissions associated with loan portfolio

Response to COVID-19

individualised risk assessment to support SME clients during the pandemic

Academy e-campus implementation
strengthening our training capacities through an e-learning platform

Sustainable agriculture
strengthening capacity building on innovative practices and technologies

For more information, see [Impact Report Appendix 2021](#), Sustainability goals and achievements, pages 2ff.

LETTER FROM THE MANAGEMENT BOARD

We are reporting today on the second year marked by the COVID-19 pandemic, and we can look back with a certain amount of satisfaction at the results we achieved throughout this difficult period. Strong results were also achieved in 2021, which confirms our position as the bank of choice for leading and innovative SMEs in South Eastern and Eastern Europe. We posted a return on equity of 9.7%, which, despite the ongoing pandemic, is on the level of our mid-term target of approx. 10%. Our positive impact can be seen in all key indicators, such as high quality combined with strong growth in the loan portfolio – particularly in the green loan portfolio. At the same time, in keeping with our principle of always putting values first in our operations, we tightened our Exclusion List and ESG client selection criteria, as we describe in detail elsewhere in this Impact Report.

However, we are publishing this report in the shadow of the Russian military invasion of Ukraine and the tragic humanitarian situation for the Ukrainian population that has followed. The impact and uncertainties of this deplorable situation risk obscuring all of the group's positive developments in 2021 and throughout the COVID-19 pandemic. Although only our operations in Ukraine are likely to be strongly impacted by the war, it is a deeply disturbing development which naturally mutes the pronounced positive tone that this report on the 2021 financial

year and the group outlook for FY 2022 would otherwise have taken. The seeming ease with which our Ukrainian colleagues are maintaining regular banking operations under the most challenging circumstances imaginable is testament to their courage and resolve and a tremendous source of inspiration to us all. Their calmness in these times of turmoil is an important contribution to the Ukrainian state and the Ukrainian people, who now more than ever rely on a steadfast banking sector.

During this pandemic, while many other lenders pulled the plug on their clients' projects or even on their short-term liquidity support, particularly in the first few months of the crisis in 2020, we continued providing financing to SMEs, thus increasing our market share. Our momentum continued in 2021, and a brief look at the results underlines our achievements: after growth of 9.5% in our outstanding customer portfolio in 2020, our loan book grew by an additional 12.8% (or EUR 670m) in 2021, while our customer deposits grew by 13.1% (or EUR 643m). Furthermore, we saw a marked increase in the level of payments and transactions, which bounced back from the lows observed in the spring of 2020 to exceed pre-pandemic levels, giving us hope that our clients are now at the front end of the economic recovery we are seeing across the region.

Particularly worth mentioning is the increasing contribution of digital payments to our transaction mix, with growth of 30% for non-cash payments in 2021 compared to the previous year (and 27% for e-commerce transactions) and a 34% increase on the 2019 figures (29% for e-commerce transactions). This illustrates how our position as a direct bank has been reinforced by the pandemic, which has undoubtedly accelerated digital adoption. Furthermore, all ProCredit banks in South Eastern Europe, Eastern Europe and South America made a positive contribution to our financial and business results in 2021, ensuring that the growth well diversified across the group, both in terms of lending and in deposit-taking. On the development of customer funds, an additional positive note is the increasing participation of private individuals in the overall results. Private individuals' deposits grew by EUR 216m, thus accounting for 34% of the overall increase in customer funds.

Business growth continued to be accompanied by a prudent approach to credit risk, as our low and stable share of defaulted loans (at 2.3% at year-end) testifies. Our clients proved to be resilient in the face of the disruptions brought about by the pandemic, and our business model, with its emphasis on establishing a strong and long-term partnership with our customers, proved instrumental in allowing us

and our clients to solve problems together swiftly and effectively. This reinforces our conviction that banking is less about numbers and algorithms and more about establishing trust and effective communication with customers, especially during crises.

A consequence of our prudent credit risk approach was the low expenses for loss allowances in 2021. At 12 bp, the cost of risk is once again well below that of banking sectors in both Western and Eastern Europe. This, in turn, helped the group to achieve a better-than-expected profit for the year, which at EUR 79.6m is almost double that of 2020, and the best performance ever recorded by the group. Even more encouraging, our improved bottom line was less the product of a lower cost of risk and more the consequence of the continued improvement in our underlying structural profitability, as indicated by the further decrease of our cost-income ratio to 64.2% (down from the 68.0% recorded at the end of 2020). Our operating income improved considerably, driven by the strong business growth and supported by a stable net interest margin, while our cost base increased only moderately. As we further increase our business moving forward, we will not need to increase our physical infrastructure, thus achieving further economies of scale. Finally, in 2021 we paid out a combined dividend of 53 cents per share, making good on our promise to investors to share in our success by paying out one-third of our annual profit. Despite this pay-out, we finished

the year with a common Equity Tier 1 capital ratio of 14.1%, an increase of 80bp compared to the end of the previous year.

These achievements confirm, in our view, that we are on the right path to further strengthen our position as a leading bank for businesses in South Eastern and Eastern Europe and to deliver attractive financial returns for our shareholders. However, these numbers would not be very meaningful for us if not accompanied by a clear desire to put impact at the centre of our responsible banking approach. Our green loan portfolio once again grew faster than the overall loan portfolio, bringing the participation of green loans to 19.0% of total customer loans (or EUR 1.1bn), the highest share among our competitors in our markets of operation, and underlining our desire to be a protagonist in the energy transformation. Translated into environmental impact, our green loan portfolio reduces the quantity of greenhouse gases emitted into the atmosphere by 324.5 kilotons of GHG equivalent, similar to taking 70,572 passenger vehicles off the road for a year. A combination in the increase in energy prices, the need for countries to meet their reduction targets and an increased awareness by civil societies of the threats created by global warming and pollution, make us confident that our green portfolio will continue to drive our growth in the years to come. The energy transformation is finally taking shape, and ProCredit will make its contribution.

While we are generating new business thanks to green lending, we believe that it is important to look at the topic of sustainability holistically. Being a responsible bank requires an effort beyond simply promoting renewables, as the topic encompasses many other important areas, such as, the protection of biodiversity, or fostering best practices along the supply chain. Just as we stopped financing producers of single use plastic in 2020 in order to fight pollution and environmental degradation, in 2021 we mapped all the locations for the business activities of our customers against the list of protected areas in our countries of operation and introduced strict exclusion criteria to ensure that our clients' activities do not negatively impact these natural sanctuaries.

On the topic of sustainable suppliers, we have decided to stop financing PV projects which make use of solar panels produced in China's Xinjiang region. Evidence is mounting of the widespread breach of the Uighur minority's most basic human rights being perpetrated by the Chinese Communist Party, which has imprisoned an estimated two million people in labour camps as it seeks to purify the country of any ideology other than its own. Despite the statements coming from Beijing claiming that these camps are used only for the re-education of potential terrorists and extremists, we are not fooled. In Europe, when we see a concentration camp, we recognise it. We now

advise our clients accordingly that we only finance PV panels that are sourced from outside this region. This may mean slower growth in the short term, but genuinely sustainable growth in the long term. We continue to see strong potential for financing energy efficiency and renewable energy investments as well as small-scale renewable energy project finance, an area in which we have developed unique expertise. We expect that our green loan portfolio will continue to grow ahead of our SME portfolio.

In the midst of the terrible situation unfolding in Eastern Europe, we are working tirelessly, together with our international financial institution partners, to secure the best possible outcome for the staff and clients of ProCredit Bank Ukraine and the ProCredit group as whole. Nevertheless, in the context of stress testing, it is important to note that even if our bank in Ukraine would fail in these dark days, the group capital position and financial outlook of the group would not be threatened. In these terms it is important also to look beyond Ukraine, at our strong institutions in our other countries of operation and their central importance in contributing to sustainable economic development as the world looks to geopolitical stability across Europe.

In concrete terms, it is difficult at this stage to assess realistically what the financial impact of the war in Ukraine will be on group results in 2022. However,

in the medium term, we see continued strong profitable growth opportunities in all markets other than Ukraine for working with our carefully selected SME clients and in expanding our green loan portfolio. We view the group's development in the current context positively and confirm that the group's medium-term targets can also be met in a scenario without any contribution from ProCredit Bank Ukraine.

A fundamental strength of the group is undoubtedly its staff and the way in which they embody the group's dual ambitions of financial success and responsible banking. The ProCredit Academies have been central in reinforcing this attitude throughout the group. The enthusiasm that our staff have for their job and for the training opportunities we offer is impressive. We would like to thank all ProCredit employees and all management teams for their ongoing commitment. We are pleased to welcome Hubert Spechtenhauser to the Management Board of ProCredit General Partner, and appreciate the additional skills and perspectives he brings. We are also pleased to welcome Rainer Ottenstein to his new role as Chairperson of the Supervisory Board, building on the key part he has played in accompanying the development of the group over the years. We would like to pay tribute and express immeasurable thanks, personally and on behalf of all staff and management teams, to Dr Claus-Peter

Zeitinger for his extraordinary vision and the tireless efforts he has devoted to the ProCredit group since its inception.


For us the way ahead is clear, and it is reinforced by the tragedy of the war in Ukraine. Impact is not a side topic or an afterthought: ProCredit's history and origins are deeply rooted in development finance and our commitment to look beyond economic success is embedded in our DNA. We are proud of our history as a business bank for SMEs, fostering economic development and progress in emerging markets. We are always mindful of the balance between humans and nature, respectful of local cultures and traditions, but also sure that certain values are universal: freedom and respect for human dignity above all. We believe that economic success and sustainability are not mutually exclusive, and we are determined to prove it. Our strong results in 2021 are another step in the right direction. We are convinced that following our principles of responsible banking is the best way to ensure continued success for all our stakeholders



Dr. Gian Marco Felice



Sandrine Massiani



Dr. Gabriel Schor



Hubert Spechtenhauser



OUR SOCIALLY RESPONSIBLE APPROACH

Responsible banking at ProCredit means that we take full responsibility for assessing the environmental and social impact of our own activities and those of our clients.



Linking ethics to development

- Manufacturing and agriculture account for 44% of our business loan portfolio
- Human rights: exclusion of PV panels potentially linked to forced labour
- Social responsibility: no support for investments in cryptocurrencies



Measuring sustainability

- Climate change commitment: disclosure of GHG emissions linked to our loan portfolio (PCAF)
- Sustainable finance: strengthening our assessment and aligning it with the EU Taxonomy



Prudent credit risk is key for impact

- Stable and strong loan portfolio quality, even at the peak of the pandemic
- Share of defaulted loans only 2.3% as of end-2021
- ESG assessment as part of all credit-related decisions

RESPONSIBLE BANKING: RECONCILING PROFIT WITH VALUES

by Gian Marco Felice & Martin Godemann

Something remarkable seems to have occurred in the last two years: the world is finally waking up to the dangers posed to our planet by climate change. Perhaps the pandemic has laid bare how interconnected global societies are, or science-deniers finally gave up when confronted with overwhelming evidence, or the Friday for Future movement woke the consciousness of a generation. But whatever the reasons, concrete actions towards mitigating climate change are finally being taken by governments, companies and people, albeit late and possibly not on a scale adequate enough to stop average temperatures from rising above 1.5 degrees from pre-industrial levels. It is true that there is still a lot of “blah blah blah”, but, at least in our view, we are starting to face up to the daunting task of seriously fighting environmental degradation and social injustice.

Now that we are finally moving in the right direction, although still not at the right speed, it is also increasingly clear that the road ahead is not so straightforward and it will require making choices. We already illustrated this in our last Impact Report: how, for instance, protecting consumers or the environment often means forgoing profit and business opportunities, as when refusing to promote subprime lending or finance producers of single-use

plastic products, or when we abstain from financing projects in protected areas. The same is true when we refuse to do business with companies which obviously engage in tax evasion practices, such as incorporating all or part of their activities in off-shore jurisdictions, a legal practice unfortunately in vogue in many countries in Eastern Europe.

How to go about promoting sustainable banking practices and how to transform the often diverging goals into concrete actions becomes controversial already when considering the role played by public institutions in promoting and supporting a greener agenda. Should central banks, for instance, use monetary policies or supervision requirements to nudge banks in the right direction? Unsurprisingly, for now, regulators are taking the risk view when looking at climate change, but we believe that imposing strict risk management requirements on banks to mitigate climate-related uncertainties, even though it is welcome as it raises awareness, in fact misses the point. Claims that global warming poses a material risk to global financial stability are overdone, in our view. Sure, there will be plenty of stranded assets which will depreciate faster and some clients will be physically affected by less predictable weather (which will in turn create credit risk), but



from here to say that the stability of the financial system is under threat would be counterproductive and alarmist. Perhaps the case could be made for more positive measures in support of green lending, such as targeted capital relief measures. After all, as our own data shows, our green loan portfolio has a better performance than the overall portfolio (see figure Loan portfolio quality development, > page 29), although the cause is not yet clear. We like to believe that entrepreneurs who think proactively about



their wider impact, and do not take only a narrow view on profit, tend to be, all things being equal, better owners and managers and thus better drivers of long-term performance. But more research will be needed as well as more data in order to properly sort out cause and effect (see also *Measuring Sustainability*, > pages 19ff.).

For sure, a more proactive role can and must be played by international financial institutions (IFIs).
How the



energy transformation will play out is still unclear, but one thing is certain: whatever we do, it will require a lot of capital as well as incentives for clients to internalise external (environmental) costs, and the respective investments will not be without risks. Highly efficient instruments are, for instance, well-designed guarantee programmes. The guarantee programme InnovFin by the European Investment Fund (EIF) has enabled ProCredit, as the single largest partner for the EIF in the SEE/EE region, to grant more than EUR 1.5bn in capital to innovative SMEs. A stunning 40% of these loans were green loans. This highlights the close link between innovation and "green" and confirms our conviction that a successful green strategy has to be based on innovation.

Finally, governments will need to create a simple and transparent regulatory environment which allows entrepreneurs to focus on producing energy, not navigating complex bureaucracies. We saw this first-hand during the time-consuming and labour-intensive project of building our own 3 MW photovoltaic plant in Kosovo as we strive to achieve our carbon neutrality goal. Particularly effective would be to move beyond feed-in tariffs and to instead organise open and competitive auctions, which, by setting the price for the most competitive projects, would decrease a big source of uncertainty (and hence risk) for businesses and banks while creating a market-driven approach. But most important of all, governments must be

willing to do something they have been afraid of in the past, as it would make them unpopular: they need to stop subsidising fossil fuels and instead put a price on carbon. This is not an easy decision, given the social dimension of energy prices, and for sure a compensating mechanism needs to accompany it. However, such a step is, in our view, central to the problem and essential if we want to unleash all the positive market forces and channel capital to green investments. The European Union is, in this respect, the best example of how a carbon trading scheme can create a mechanism which eventually puts a market price on externalities. We would encourage all other countries to join this scheme or follow the example and create their own (although a single deep and liquid market would be preferable to many small ones). Last but not least, we need to create a common language to talk about sustainability if we don't want to be lost in translation, and governments can also play a key role here. Thus, we welcome the European Union's effort to create a common green taxonomy and we will work towards aligning our existing methodology, which we have been using for several years, to it in the future.

Creating a sustainable approach to finance continuously poses a challenge for us at ProCredit. We always pride ourselves on being a responsible bank, but what it means to be responsible is much less straightforward to define than it appears to be. The

more we face up to the concrete actions to be taken to resolve specific problems, the more we see the conflict and tension between different priorities and possible courses of action.

The topic of sustainability goes far beyond the fight against GHG emissions, as it encompasses areas such as social justice, the protection of biodiversity, food security and much more. The road to follow is often unclear and it presents moral dilemmas. Conflicts do exist between different competing priorities and a solution cannot be framed simply as right or wrong. Trying our best to be a responsible bank, we realise that sustainability is a multi-dimensional problem which goes way beyond the topic of green lending.

Take, for instance, plastic production. Plastic is an incredible material, cheap and durable, but its extensive use has created the negative side effect of polluting both land and water. This is unsustainable, unless we want to create irreversible damage to entire ecosystems and, in so doing, degrade our quality of life. Something must be done, but abolishing the use of plastic altogether is unthinkable and unworkable. Plastic also has many benefits, as it allows us to create products we need and enjoy in our daily life. There is, for instance, the use of plastic in medical applications, as we can observe nowadays while unpacking a mask or unboxing an antigen test to protect us against COVID-19. In the meantime, though,

something must be done to create the right incentives to move society towards more sustainable alternatives. At ProCredit we decided to stop financing producers of single-use plastic, while incentivising our clients to invest in waste management and in the circular economy, by recycling existing products, as highlighted in last year's Impact Report. Often we are confronted with clients or observers who point out that it is wrong to starve off capital industries in emerging economies, even if they are polluting, as priority must be given to social and economic development, of the kind previously enjoyed by now developed countries. To a certain degree this argument has merit, but it is good to remember that it is often the people living in less developed areas who suffer most from plastic-related pollution, as anyone who has visited one of our countries of operation can testify. It is therefore no longer possible to close our eyes and wish the problem away, even if this means parting ways with in many respects otherwise good clients.

This past year we also faced another hard choice, which indicates once more how it is often necessary to balance various existing priorities in creating a fairer and more sustainable social economic paradigm. The issue is related to the production of PV panels by companies engaged in the use of forced labour in the region of Xinjiang in China (see Forced labour in global photovoltaic supply chains, > [pages](#)

[15f.](#)). On the one hand, we have an urgent need to decrease the amount of greenhouse gases emitted into the atmosphere, as they are the main driver of global warming, with all its related negative side effects, ranging from the emergence of extreme weather events to the desertification of vast regions, particularly in poor or developing countries, leading, among other things, to acute food shortages. The solution is clear: we must burn less fossil fuels, such as carbon, and promote new sources of renewable energies, such as solar and wind. The former, in particular, holds much promise as a proven technology which is now at last commercially attractive and scalable. We see huge opportunities to continue to provide capital and know-how to small and mid-sized RE projects in the future, giving our contribution to an accelerating energy transition. At the same time, we must face an inconvenient truth: the low production cost for PV panels from several leading manufacturers in China, among which the world leader is JinkoSolar, has been achieved also thanks to the use of forced labour in the region of Xinjiang, in Northeast China, by the Han majority over the Muslim Uyghur minority. The numbers are staggering. To give a sense of the scale of the problem, we need to look no further than the installed capacity financed by ProCredit in our countries of operation which use panels coming from the six companies now included in our Exclusion List: a stunning 67%. That is, two thirds of the existing solar capacity financed by our group to this day is provided

by companies directly or indirectly involved in the exploitation of forced labour in China. As the evidence mounted in 2021 that millions of individuals are forced into what is de facto a form of modern slavery, we realised that the simple objective of accelerating to the greatest extent possible the construction of new solar power plants conflicted with our desire not to contribute in any way to the exploitation of an entire people to the benefit of the commercial and ideological interests of the Chinese Communist Party. So we decided to act, banning the financing of new photovoltaic projects using panels from these companies, after giving our customers a few months to adjust their plans and shift suppliers. Some of them did, some of them didn't, driven more by economic considerations than by their conscience, and so we lost business opportunities and the chance to reduce emissions, but we strengthened our conviction that a trade-off between the environment and basic human rights is morally untenable.

A further example illustrating the complexity of being a socially responsible institution is related to the issue of staff vaccination in our group. Many companies (and governments) are in the grip of difficult discussions and decisions on how best to incentivise people to get vaccinated. It was clear to us from the very beginning that on this topic our core principles are at stake and with our staff the message had to be clear: either you get vaccinated,

or this is grounds for us to part ways. As long as it is not mandated by law, it is legitimate for someone to choose not to get vaccinated, but then, please, not as part of our community. In fact, to us the topic of vaccination illustrates how principle- or value-driven decisions affect our institution at all levels. If someone decides not to get vaccinated, he or she breaks two of the fundamental values we all subscribe to when choosing to work for ProCredit. First, we think rationally and we believe in science. One can say whatever one wishes about vaccines, but one thing is indisputable: they work. That does not mean that they work perfectly or that they will guarantee protection against all possible future mutations of the virus, but the overwhelming scientific evidence shows that vaccines save lives. It has been a triumph of science and technology that humanity was able to develop effective protection against a novel pandemic virus in a matter of months, as opposed to years, and to roll it out to a vast number of people. If someone wants to indulge themselves in conspiracy theories on social media, fine with us, but somewhere else, not here, not as part of our community. Second, vaccination is not only about protecting the individual: it is mostly about protecting society. Thus, this issue touches on the very heart one of our core values: social responsibility comes before individual freedom. Often the discussion is framed around the concept of individual choice and freedom. But vaccines work because they create



herd immunity and thus reduce the risk of hospitalisation, leaving our health care systems free to support those unlucky enough to face severe symptoms, which include the most vulnerable members of our societies. Thus, vaccination is about our responsibility towards everyone else, with our personal choices affecting others. For this reason, we decided to be very strict on this point: if you want to be part of our community, then you share its rights and responsibilities; consequently, we all must make an effort to give our contribution, or we decide to stand alone and defend our own selfish interests. The choice for us is clear, and that is the reason why 100% of our staff is either vaccinated, recovered in the last six months or has a clear medical exception, also in stark comparison with the vaccination rates of many Eastern European countries.

One of the often voiced criticisms against companies focused on sustainability is that they should leave the uneven ground of moral dilemmas to ethical philosophers or at best to politicians, and they should focus on doing only one thing: making money. But economic success at the expense of people's rights and of the environment leads, in fact, to a system failure. In our effort to chart a sustainable path forward we are continuously confronted with imperfect answers to complex problems, but with a sense that progress can be achieved if we keep our moral compass right in front of us. This process is at times frustrating and success is measured in small steps made over several years, not quick wins and announcements made on quarterly analyst calls. The never-ending process of questioning everything we do and the willingness to make hard choices to improve the impact our operations have on everything and everyone around us is central to our desire to be a responsible actor, as is our determination to ensure that our profit is not earned at the cost of our values.



For more information, see:

> Impact Report Appendix 2021

- Management approach and overview. Economic development (page 9)
- Sustainability goals and achievements (pages 2ff.)

> Impact Report Datasheet 2021

- Sustainable lending
- Employees

Exclusion list (> Code of Conduct, page 34)



FORCED LABOUR IN GLOBAL PHOTOVOLTAIC SUPPLY CHAINS

by Sebastian Fischer

Photovoltaic industry

In a historic period of urbanisation and industrialisation, greenhouse gas emissions have skyrocketed. Increasing electricity demand and the phasing out of fossil fuels demonstrate the importance of scaling up renewable energy capacities with solar photovoltaic (PV) as a core technology.

Owing to increased demand as well as optimised efficiency and manufacturing processes, the average cost of crystalline silicon PV modules sold in Europe decreased by 93% from 2010 to 2020. These price trends and various programmes accelerated growth, leading to a new annual record of additional PV systems with 160 GW of installed capacity in 2021 alone.^{1,2}

The rapid growth of the PV industry has changed the market. One example is the production of polysilicon, a primary material required to produce the majority of solar modules. Until 2005, seven companies headquartered in the U.S., Germany and Japan satisfied the global polysilicon demand. Now, nearly half of all modules (45%) are produced in the Xinjiang region of China. According to a ranking of current market shares, seven of the top ten PV manufacturers are headquartered in China.

Forced labour allegations

In recent years, Xinjiang has become notorious for human rights violations planned by the Chinese government against several minorities.

¹ IEA (2021): <https://www.iea.org/reports/renewables-2021/renewable-electricity>

² IRENA (2021): <https://www.irena.org/publications/2021/Jun/Renewable-Power-Costs-in-2020>

Many independent and credible institutions, such as the Fair Labor Association³, the Australian Strategic Policy Institute (ASPI)⁴, Amnesty International⁵, and Sheffield Hallam University⁶, have conducted investigations confirming allegations that the violations are indeed systematic and target minorities in the region.

As part of “labour transfer” programmes, cheap labour is provided to participating companies. Under abusive conditions, political indoctrination and restriction of movement, around 20% of the indigenous Uyghur and Kazakh population in the region has been forced into labour, according to the Sheffield Hallam report.

In late 2020, solar associations called on their members to ensure a supply chain free of forced labour practices⁷, and the first international financial institutions began excluding manufacturers from financing.

³ Fair labor association (2020): <https://www.fairlabor.org/blog/entry/fla-statement-sourcing-china>

⁴ ASPI (2020) <https://www.aspi.org.au/report/uyghurs-sale>

⁵ Amnesty International (2021) <https://www.amnesty.de/allgemein/pressemitteilung/china-xinjiang-muslimische-minderheiten-inhaftierung-folter>

⁶ Sheffield Hallam University (2021) <https://www.shu.ac.uk/helena-kennedy-centre-international-justice/research-and-projects/all-projects/in-broad-daylight>

⁷ SEIA (2020) <https://www.seia.org/news/solar-industry-call-action-forced-labor-has-no-place-solar-supply-chain>

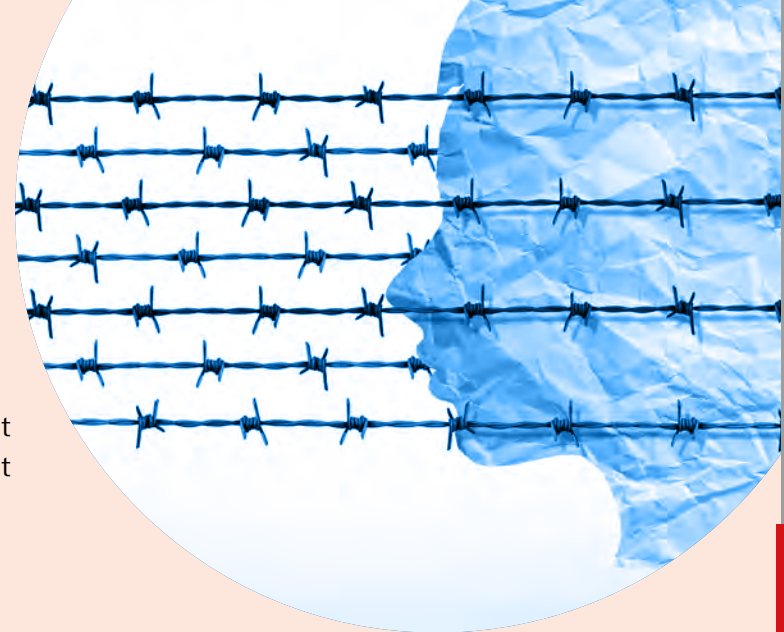
According to representatives of the Chinese government and affected PV manufacturers, these programmes are voluntary. However, this position can be strongly doubted and is untenable without unrestricted access for international independent auditors.

Our response at ProCredit

As an impact banking group dedicated to financing the energy transition in our countries of operation, we have financed and managed countless photovoltaic projects and have thus been able to establish a reliable network of partners.

The ProCredit group takes the recent allegations and evidence very seriously. The situation was actively discussed with local partners, such as PV suppliers or engineering procurement and construction companies (EPC) as well as IFIs on an international level, and the magnitude of this matter soon became apparent.

In the energy transition, PV plays a central role and ProCredit actively supports this development. However, market players have enabled this development through their infrastructure. The share of accused manufacturers is significant. This makes changing direction at a time when we should be accelerating both ponderous and difficult.



However, we must ask ourselves what values we want to represent, and if the right goal is sought on the wrong path, then we must change this path.

ProCredit has therefore decided to exclude manufacturers with potential links to forced labour practices from financing until the allegations have been cleared beyond a doubt. This will result in reduced business opportunities and potentially slow growth, but only in this manner can we enable socially fair growth, which we at ProCredit understand as responsible banking (see also Responsible Banking: Reconciling profit with values, > pages 10ff.).

The market has begun to react and in close communication with our partners, economically viable and technically equivalent alternatives have been identified. The energy transition through PV remains a focus of the ProCredit group – but not at the expense of humane labour conditions.

CRYPTOCURRENCIES AND RESPONSIBLE BANKING

by Gian Marco Felice



The expression “responsible banking” is recurrent, but it means different things to different people. For ProCredit it means fundamentally the following: when we decide to sell a product or a service to a client, we measure the impact this has on the bank and on the client (and on the environment) and ask ourselves if this impact is positive or negative. If it is positive for both, we do it, if not, we don’t.

The first part of the statement is rather obvious, and standard operating procedure for a bank; when we offer a product to a client, we want to generate enough income to achieve our desired financial performance: in other words, we want to make money. This has a positive impact on the bank. The second one is a bit less obvious, in my opinion. What does it mean to assess the impact our product will have on the client? If customers freely decide to buy our products or use our services, then they must see a benefit from it, and they must, likewise, be willing to bear the associated cost. As long as one is within the boundaries of the law, that is where most commercial banks would stop. But at ProCredit we do ask questions on the broader impact our products will have on our client, and we do take a position on whether we believe this is “good” or “bad”. Ultimately, to decide if something is “good” or “bad”, one needs to make a value judgment. In last year’s Impact Report “Why responsible banking matters to us” we use the example of promoting sub-

prime loans or stock options to illustrate our position: yes, we do have a moral compass when we decide in which direction to go, and we do reserve the right to have an Exclusion List which reflects our values. In fact, our Exclusion List is an integral part of our Code of Conduct. You can then judge us by it and decide if you want to bank (or invest) with us or not.

So, for instance, according to our Exclusion List, we decide not to finance the fossil fuel extraction industry or producers of single-use plastic, because we think this is harmful both to the environment and ultimately to our clients, and thus we take the position that we should not partake in these activities, even indirectly. The same goes for gambling: we specifically exclude it from financing (and any other business relationship, for that matter). This is not to say that we believe that gambling is illegitimate or illegal: in fact, gambling is one of the fastest-growing industries in SEE/EE. We simply think that the topic needs to be approached with a lot of care and responsibility, since we believe that, on balance, this activity often does more harm to people than not. By doing so, we make a judgement, we take a position, and, let me add, we lose some business. One might ask: “But who are you to judge what is right or wrong for a client? Just do your business, stay within the law and maximise the profit for your shareholders.” Well, we, and most of our shareholders, would tend to disagree with that. Re-

sponsible banking means taking a position on ethical issues, being transparent about the reasons, and acting immediate (and, more often than not, foregoing some profit along the way).

So, we come to all things crypto. First of all, a couple of disclaimers: the technology underpinning cryptocurrencies, particularly the blockchain, does have interesting applications, now and probably even more in the future. Moreover, we should distinguish between cryptocurrencies and digital fiat money (which lately has come to be termed “Central Bank Digital Money”). They are two very different things, and in this article, I will stick to the first. That said, the basic tenet of our argument is that, in fact, buying cryptocurrencies is very risky, more akin to gambling than to investment. For this reason, we neither advise our clients to do it nor facilitate it.

Cryptocurrencies, whatever their name suggests, are not currencies. They fail on all three tests which define what a currency is: they are not a unit of measure (when is the last time you thought about buying anything in terms of how many bitcoins it is worth, also given that you would have to hold in your head very small fractions?), they are not a means of exchange (unless you live in El Salvador, and even there, not really) and they are not a store of value. This last one is perhaps the more critical point for us: cryptocurrencies are at best a speculative asset class

(and at worst, a Ponzi scheme), but an extremely volatile one, and thus very risky. In finance, one rule generally holds: the higher the volatility, the higher the risk, and thus, the higher the profit (or loss) on a specific investment. It is usually professional investors with a higher degree of knowledge and sophistication (and capital to spare) who bet on very volatile markets. Or punters (that the two are, often enough, one and the same person requires a separate discussion). Ordinary people should be advised against putting their savings in such risky assets and banks should be responsible enough to see that.

Instead, our sense is that the opposite is happening. In a still very illiquid and immature market (not least from a regulatory point of view), the first financial products, including derivatives, are being engineered around cryptocurrencies. Perhaps we are getting a bit ahead of ourselves.

Most retail investors who have invested in crypto assets have done so because they see a rare chance of making a quick buck on something they see generating a lot of buzz and huge, unbelievable returns, particularly in the last 12 months. Fair enough, and good luck to them, but we think that a responsible bank should not add to this frenzy, but rather try to talk some sense into the clients and point to the potential risks of something that, out of a surge in collective belief, grows by 500% per year. If something

is too good to be true, perhaps it is because it is false.

One last word: cryptocurrencies have a very negative environmental footprint. This is because they use computing-intensive algorithms to mine the coins and because these coins tend to be mined in the most polluting (i.e. poor) countries. One more reason to advise our clients to do something more sensible with their money and invest it where both the financial as well as the environmental impact is positive.



For more information, see:

- > [Impact Report Appendix 2021](#)
- Management approach and overview. Corporate governance (pages 10ff.)
- Exclusion list (> [Code of Conduct](#), page 34)

MEASURING SUSTAINABILITY: CARBON ACCOUNTING AND THE EU TAXONOMY

by Gian Marco Felice

Measuring sustainability is central to the effort of understanding and improving the impact our financial activities have on people and on the environment, and thus it is central to our effort to be a responsible bank. Quantification allows us to better assess our performance, to define our objectives and to evaluate our progress. Even more important, it allows us to communicate within our institutions and to the outside world in a credible and transparent way, thus creating trust. For these reasons, last year we decided to join the Partnership for Carbon Accounting Financials (PCAF), a standard to measure and disclose the carbon footprint generated as the result of our lending activities. And it is because of these reasons that we welcome the European Union initiative to create a green taxonomy, as a useful step in the direction of creating a common language in which to share and communicate our progress.

The task of measuring and quantifying impact in a reliable way is very complex, particularly in the social sphere. There are objective challenges, both of a technical as well as of a principle nature, in trying to categorise and quantify the progress made in areas which are often qualitative in nature. How to measure, for instance, social progress or fairness? Assessing the environmental and social impact requires the desire for

accuracy to be weighed against the cost of collecting and analysing a large amount of data and the uncertainty of having to work with assumptions.

But try we must. We face a once in a generation (possibly two generations) challenge of overhauling a way of life, a way of producing energy and a way of consuming resources. This can only be achieved if our methodology is evidence-based. In this spirit, we decided to subscribe to the PCAF, with the objective to quantify and report the GHG emissions generated by our lending activities. We have already been measuring and disclosing the reduction in emissions due to our green lending activities for years. So, for instance, as of the end of 2021, our green loan portfolio accounted for 19%, or EUR 1.2 billion, of our total loan book and it is mainly composed of energy efficiency loans, renewable energy projects and other green measures, such as waste management and recycling activities. Thanks to our green lending, we avoided emissions equivalent to 324.5 kilotons of CO₂ last year, roughly the same as taking 70,572 passenger vehicles of the road for a year⁸. Proud as we are of these results, we are very much aware that every euro of capital we provide to one of our SME clients to increase output necessarily has a negative impact on the environment. The same euro also has, it must be said, a positive impact on society, by increasing wealth and employment, but at a cost to nature and

⁸ <https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator>



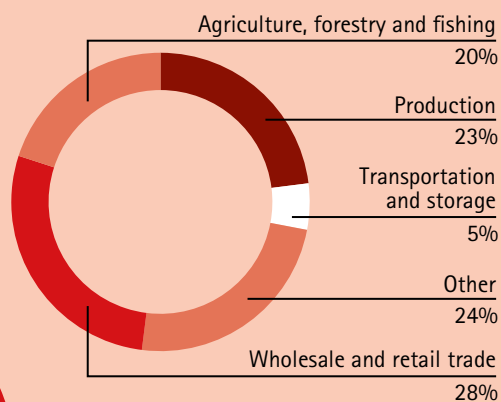
its limited resources, a cost we want to measure and then, with time, decrease.

The exercise of measuring the GHG emissions of our overall lending activities is far from being straightforward. It does require a significant amount of data collection and analysis. When we finance a green project, we assess and collect all the information related to it as part of our project evaluation, and thus we are in a position to assess the impact this project has on the environment because we have the underlying information. The same is not true for standard loans (the so-called "brown" portfolio). To illustrate this, imagine we issue a short-term working capital loan to a textile producer in order to import more fabrics and increase production. What is the impact, in terms of additional GHG emitted, that this loan generates? According to the PCAF methodology, there are various degrees of precision that one can aim at in trying to answer this question, depending on the data available. For instance, if the client in our example has an internal methodology to account for their own emissions, then we can simply use this information to calculate how much the extension of the economic activity generated by our capital would impact the environment. Unfortunately, most small and medium-sized enterprises do not have an internal environmental management system, and thus, for the time being, we need to rely on sector analysis and our financial knowledge of the client in order to estimate the carbon footprint of

our loan. This is how we estimated that the emissions generated by our lending activities at the end of 2021 were 644 kilotonnes of GHG.

Although the method is not very accurate yet, we believe that starting the process of disclosure based on a transparent set of accounting principles does add value, even if (perhaps even more) the results will be, at first glance, rather shocking. Even before we subscribed to the PCAF and we set about calculating the emissions associated with our lending activities, we knew that the results would not be flattering, at least compared with some other banks

Business loan portfolio by sector



Reference year: 2021

active in Western Europe, basically for two reasons: first, we lend to enterprises which have a relatively high carbon footprint (such as manufacturing and agriculture, see graphic below) and second, we do this in countries with a dirty energy mix, such as Kosovo, where 96% of the energy produced comes from burning lignite (see Sustainability Context, >pages 22f.). That did not stop us from disclosing this information transparently. It is clear that financing manufacturing in poor countries has a high environmental impact. Still, the world needs to produce stuff and poorer countries need industries to create jobs and opportunities. The same is true, for instance, in agriculture. We need food, but producing food has a big impact on soil, water, biodiversity and much more. Measuring the adverse impact agriculture has on the environment allows us to engage with our clients and to discuss ways to improve the situation.

Ultimately we believe that the choice is not between food security or clean water, comfort or dirty air: we can achieve sustainable growth, where the environment and people's dignity are respected, while generating prosperity. The false choice between growth and the environment carries the same fundamental fallacy as if to say that cheap and affordable goods can only be produced if we underpay labour to keep costs down. So, for instance, agribusinesses which make extensive use of monocultures and deploy vast

amounts of fertiliser and pesticide, over the long run, depress their potential yield. Changing farming methods to more sustainable ones, such as using mini-till technology to preserve soil, drip irrigation to preserve water or field rotation to preserve biodiversity, not only prevents the degradation of natural resources, but can even increase yields in the medium term. What needs to be done is to change the methods of production, and to do so two ingredients are needed: knowledge and capital. Yet, changing habits is difficult and it requires us to understand first that what we are doing is not sustainable, hence the need to measure our impact so as to create awareness and motivation for change. We believe that once knowledge exists, capital follows. The growth of our green loan portfolio is a testimony to this.

But as much as we pride ourselves on our green investments, measuring impact along product lines is not enough. This is the next challenge, that is, understanding the environmental and social performance at the client level, not only at the product level. This is what the EU Taxonomy aims to do, and this is also what ProCredit has been doing for years. We assess each client individually and we score them according to their social performance as well as their environmental one, using what the new EU Taxonomy calls "technical screen criteria", that is, a set of performance indicators against which the client is benchmarked.

When a bank analyses a client to assess if it is credit-worthy, the main question being asked is whether the client has the financial strength to repay the loan. In green lending, the bank goes one step further and asks if the loan granted has a positive E&S impact. But this is where most banks would stop. We instead decided to go further: we always assess the business's overall social and environmental performance by collecting information on its operations on the ground in the same way as we collect information on its financials, and we do this for every client (see *Why credit risk is key for impact*, > [pages 24ff.](#)). We might then reject a client's request for services based on the resulting E&S assessment, even if the company is creditworthy. In reality, most of the time, we seek to engage with a company and over time improve its E&S performance by setting objectives and formalising them in covenants, which we then monitor.

We use our own set of criteria to categorise a client's E&S performance, and we will monitor very closely how the EU Taxonomy develops its own criteria in the years to come with the objective to align them with our own. The EU Taxonomy is far from perfect, as the strong emotions it stirs among experts testify. Still, we feel it is our duty to put our own reservations aside and to do our part in promoting it, with the hope that it will do to sustainability what the International Financial and Reporting Standards (IFRS) did to the disclosure of financial statements, that is, create transparency and accountability.



For more information, see:

> [Impact Report Appendix 2021](#)

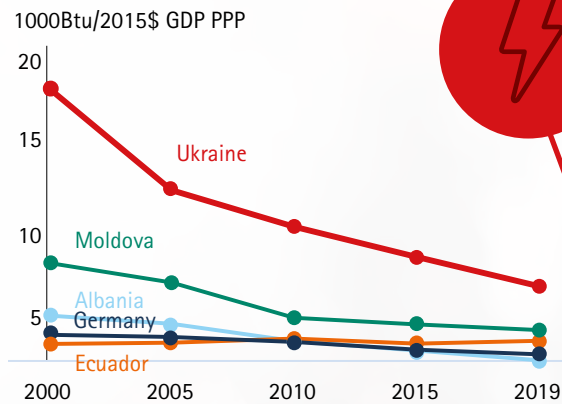
- Accounting of the GHG emissions linked to our loan portfolio (pages 35ff.)
- Management approach and overview. Sustainable finance (page 17)

> [Impact Report Datasheet 2021](#)

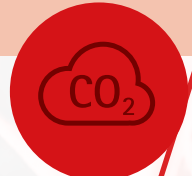
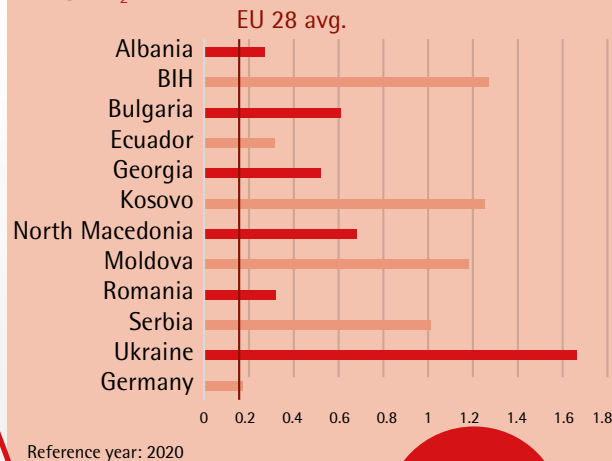
- Sustainable lending

Our approach to green finance (> [pages 33ff.](#))

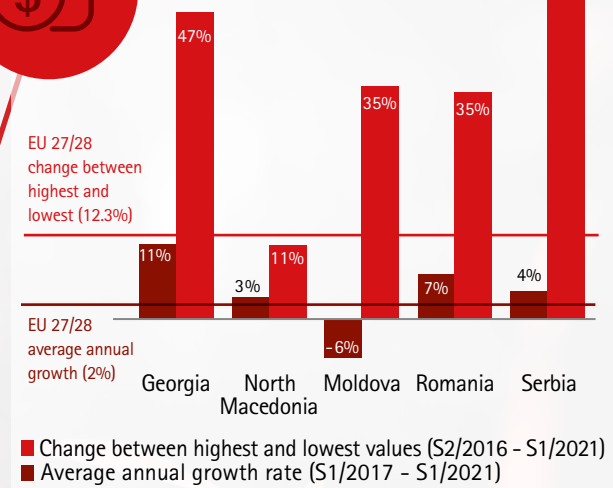
Energy intensity (Energy consumption per GDP in 1000 Btu/2015\$ GDP PPP)



CO₂ emissions per unit of GDP (kg CO₂/2015 USD)

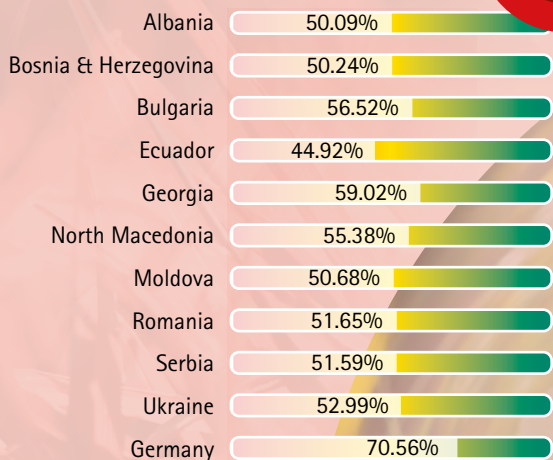


Changes in electricity prices for non-household consumers



Note: Latest values as of mid-2021, hence not including major increases in electricity prices in the second half of 2021. Datasource provides biannual data: "S" stands for semester. Reference period: 2016-2021

Climate vulnerability vs. adaptation readiness, 0-100



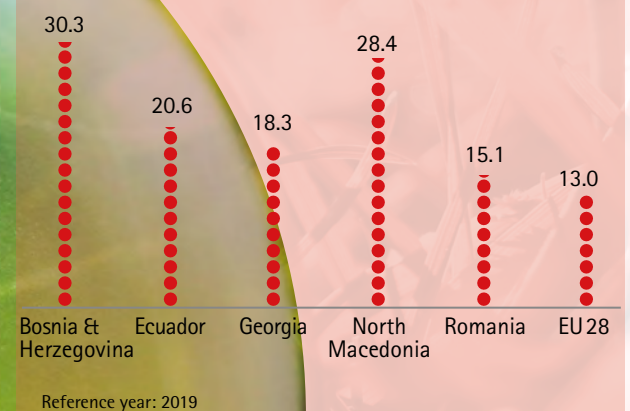
Note: The ND-GAIN Country Index summarises a country's vulnerability to climate change and other global challenges in combination with its readiness to improve resilience. Reference year: 2019



SUSTAINABILITY CONTEXT

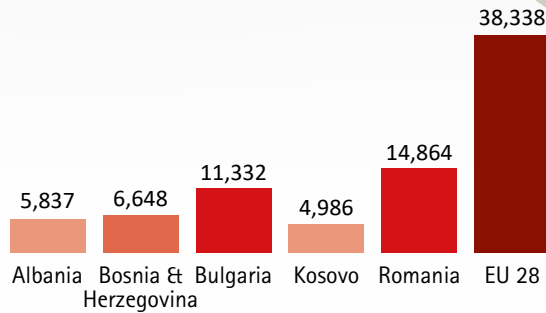


Air pollution (modelled annual mean PM2.5 concentrations in µg/m³)



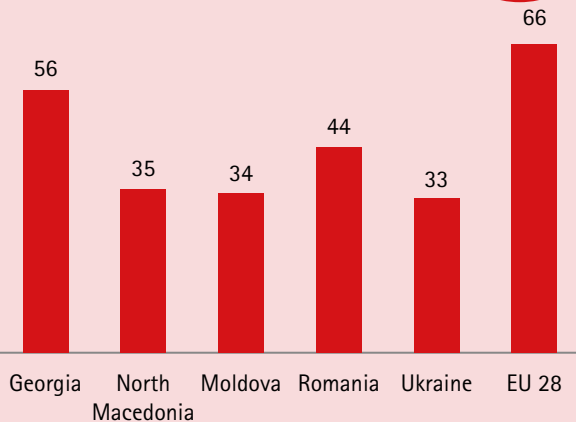


GDP per capita, current prices
(U.S. dollars per capita)



Reference year: 2021

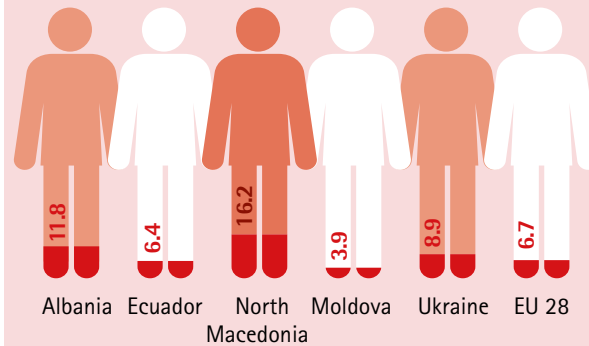
**Transparency International
Corruption Perceptions Index**
(0= highly corrupt, 100= very clean)



Reference year: 2020



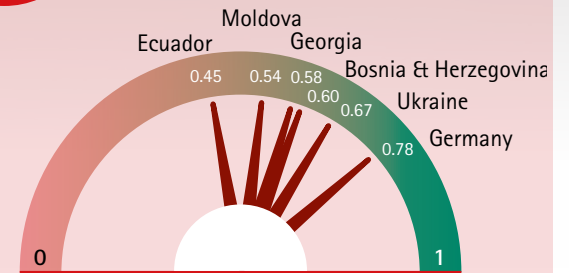
Unemployment rate
(% of total labour force)
(modelled ILO estimates)



Reference year: 2021



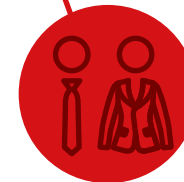
**Equal treatment and
absence of discrimination**



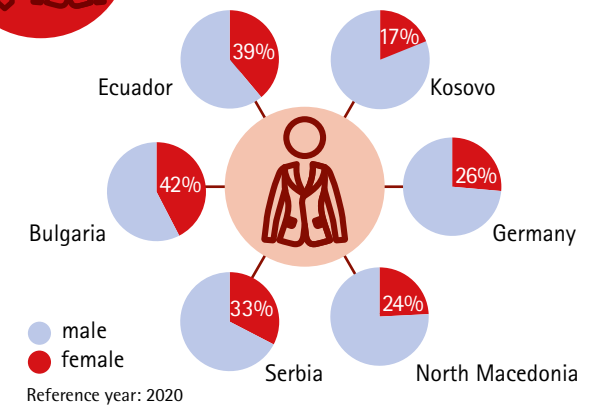
Unequal treatment/
discrimination

Equal treatment/
absence of discrimination

Note: The responses are captured in terms of likelihood meter.
Reference year: 2020



**Proportion of women in senior and
middle management positions (%)**



Reference year: 2020

In the infographic, we show data for selected countries of operation to provide an overview and illustrate the situation. All data sources and reference dates can be found in [> Impact Report Datasheet 2021, Sustainability Context.](#)

WHY CREDIT RISK IS KEY FOR IMPACT

by Sandrine Massiani

Credit risk normally takes up the lion's share of the annual reports of a banking group, and rightly so, as it is often the main potential risk. It is very often described through endless lists of financial ratios, detailed cash flow projections and related assumptions, lengthy descriptions of risk management frameworks and technical standards, complex modelling of risk quantification and IFRS9 loan loss provisions. Generally speaking, it is barely mentioned in external ESG rating reports. So, how then has our credit risk approach found its way into the Impact Report? Well, our prudent credit risk approach is (and has always been) an integral part of our responsible approach to banking with our clients.

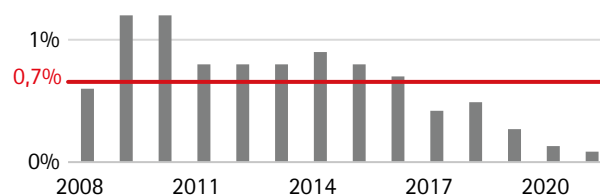
This is our responsibility as a bank: to be prudent when deciding to allocate funds to companies and capital. Our strict organisational set-up is based on the strict lending and monitoring requirements defined by the European and German regulatory authorities, which we apply group-wide, as well as on years of experience with SME lending in our countries of operation. Even more important, our uncompromising attitude to risk is reflected in the fact that each member of staff involved in the acquisition, analysis, or monitoring of a client feels individually this strong sense of responsibility. Each of our staff strives to contribute to taking the right decision, and defining the most appropriate financing structure.

And this is not only in the bank's interests but also (and foremost) for the borrower itself. This is the key difference between being profit-driven and impact-driven, between a short-term view and a long-term perspective. Even in our competitive markets (not to say aggressive when it comes to acquiring business clients), we never go the easy way to simply please our clients and/or cash in on rapid growth. This also

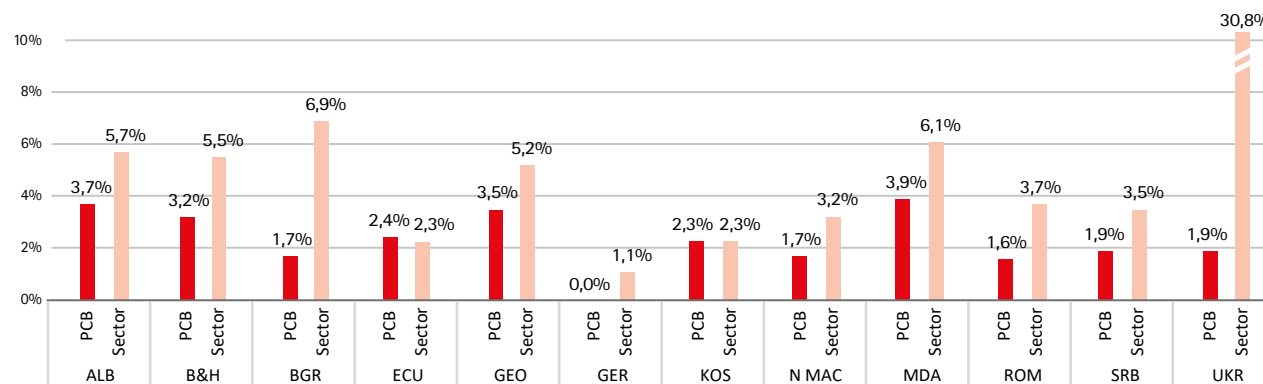
means that we might have to say no to new and sometimes to existing clients, for example when they strive to undertake highly risky investments in new business areas with little equity.

Strong loan portfolio quality does not only have a structural impact on our financial sustainability as a group, but is also paramount in making sure that we as a bank have a sustainable impact in the economies we are working in. Good credit risk management is central to us, as it is directly related to our impact as a bank: it enables entrepreneurs to sustain their operations and create jobs through wise and well-structured investments. Good credit risk management reduces the risk of SMEs to be overindebted and fail. It also, when approached properly, enhances the formalisation and the transparency of SMEs.

Average net write-offs of ProCredit banks



Defaulted loan portfolio of ProCredit banks in comparison to local banking sector



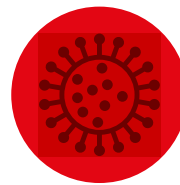
Reference year: 2021

Source: Data for different countries may be subject to different defaulted loan portfolio definitions. Within each country these definitions are generally consistent, allowing the comparison between the ProCredit banks and their respective local banking sector.

Good credit risk management also means accompanying SMEs in good AND bad times, and therefore reinforces their resilience throughout economic cycles. Last but not least, good credit risk management takes into account the environmental, social and governance performance of the borrowers and thereby can significantly influence the ESG profile of the SME sector. As an impact-driven bank, we are committed to engage in assessing and improving the sustainability of our clients.

Credit risk management also illustrates well the challenges of being (truly) an impact bank and the benefits of engaging frontally with the complexity of capturing the full reality of a business client. The responsibility for granting or declining a credit facility to a client cannot be outsourced to specific departments or teams, nor delegated to scoring systems or algorithms, whatever degree of sophistication they might have. Each business is the individual story of an entrepreneur with a vision and a history, with strengths and weaknesses, with a track record and potential for development that only attentive, experienced and dedicated staff can fully capture. There is indeed no such thing as a standard SME. That is why our approach to credit risk is based on a complete and individualised assessment of our clients, without any exception. We basically apply to all our SME clients, from the smallest to the largest, a holistic approach that is normally applied only

large corporate clients and which stands in contrast to the standardised and automated one-size-fits-all approach that fintechs are currently trying to apply to this vital segment of our economies.



What have we learned from the pandemic period?

The period of the COVID-19 pandemic has been a full-scale test for banks to re-assess their own responsibilities and ways of dealing with clients ... and with underlying uncertainties. Almost two years after the outbreak of the pandemic, when we reflect back on this unprecedented crisis, the facts speak for themselves. The quality of our loan portfolio has remained stable and strong even during the peak of the pandemic, reflecting both the quality of our business clients and the constant and close relationship we have built with them over the years. These recent results further confirm the decades-long history of successful credit risk management, in which ProCredit banks have systematically outperformed their local banking sectors in terms of non-performing loans.

These results did not come without efforts and work, though. They come firstly from an ongoing strict selection of clients, even at the price of losing (apparently) attractive business opportunities that

other banks are very happy to grasp. For example, this entailed refusing to provide banking services to clients that do not comply with our collateral requirements, strict E&S standards or AML standards. They also derive from tireless efforts by our staff to build a long-term and full banking relationship with clients, by serving them in all aspects of banking, be it financing, savings, payments and transactions. Offering mere banking products is easy. Providing a well-rounded and tailored banking solution for specific individual situations is much more demanding, but also much more rewarding. This is what we strive to do every day and with all our clients: to serve them fully and be their partner.

Being the *Hausbank* of our clients allows us to know them very well, find the best possible financing solution for them and identify the potential risks and issues before they materialise (for the benefit of both the clients and us). This has been particularly important in COVID-19 times. At the start of the pandemic, other banks were reluctant to take credit decisions and even stopped, at least temporarily, their financing activities. In contrast, we were able to contact all our clients at the very onset of the crisis thanks to our close relationship with them and the manageable size of each business client adviser's portfolio of clients (on average, 50 loan clients per BCA). Our teams were able to quickly follow up on each client and define the best solution for

them, be it a moratorium, close monitoring, additional short-term financing, use of a specific guarantee scheme or, if appropriate, timely restructuring. When the majority of governments in our countries of operation quickly allowed, and even imposed, moratoria for business and private clients, we took a rather strict approach of shorter moratoria compared to more flexible and longer local practices. It could be implemented group-wide thanks to the huge engagement of our teams on the ground who invested time and energy to transparently explain to our clients, one by one, the costs and risks of suspending their repayment schedule longer than would be really appropriate. As a result, and also because of the resources, resilience and agility of our clients during crises, the share of the loan portfolio under moratoria had already declined significantly by September 2020 and was below 2% at the end of 2020. Moratoria were therefore no longer a topic for us in 2021. Already at the end of the first quarter of 2021, the underperforming loan portfolio, after having reached its maximum at 4.5% in December 2020, started to shrink continuously. By the end of 2021, it had improved to 4.1%. This improvement of the underperforming loan portfolio, typically driven by lower restructuring activities in 2021, is the direct and clear consequence of the proactive identification of potential risks and timely restructuring measures taken, together with the affected clients, in 2020. Here again, there was no complacency in

assessing the most appropriate solution for the clients, even though it might have been tempting to apply a "wait-and-see" strategy based on the widely practised more flexible conditions (longer moratoria or/and local guarantee schemes).

The results in 2021 speak for themselves: the share of defaulted loans has remained stable and low throughout the year, reaching 2.3% at year-end. The loan portfolio under moratoria was below 0.1% at year-end and the restructured loan portfolio reached 3.4%. In 2021, we restructured 0.4% of the loan portfolio compared to 1.5% in 2020 (the year of the peak of the COVID-19 effect). Beyond these good quantitative results at the loan portfolio level, and even more importantly for our impact approach, the confidence and satisfaction of our clients were clearly illustrated by the rising number of recommendations our clients provided to their own business partners to work with ProCredit. This is undoubtedly the best proof of a convincing and prudent way of banking with SMEs.

Clearly, these difficult times have strengthened our conviction that our prudent and transparent approach to credit risk is the right one and is also valued by our good clients. As a responsible bank, we remain fully committed to stay focused on the further repercussions of the crisis, be they health-related, political or economic, but we remain convinced of

the quality of our clients, of their sustainability and long-term vision.

Our holistic approach to credit risk

Our approach to credit risk relies on a fully individualised and in-depth assessment of our clients. This is much more than a number-crunching exercise. This is an "all-inclusive" exercise whereby we look at all aspects that make what a client is, has been and can be. To reach a full understanding of a client means going beyond ratios and numbers by questioning them, understanding their limitations, and connecting all the dots of situations which invariably combine unique features that cannot be fully standardised as they reflect the unique history of each client.

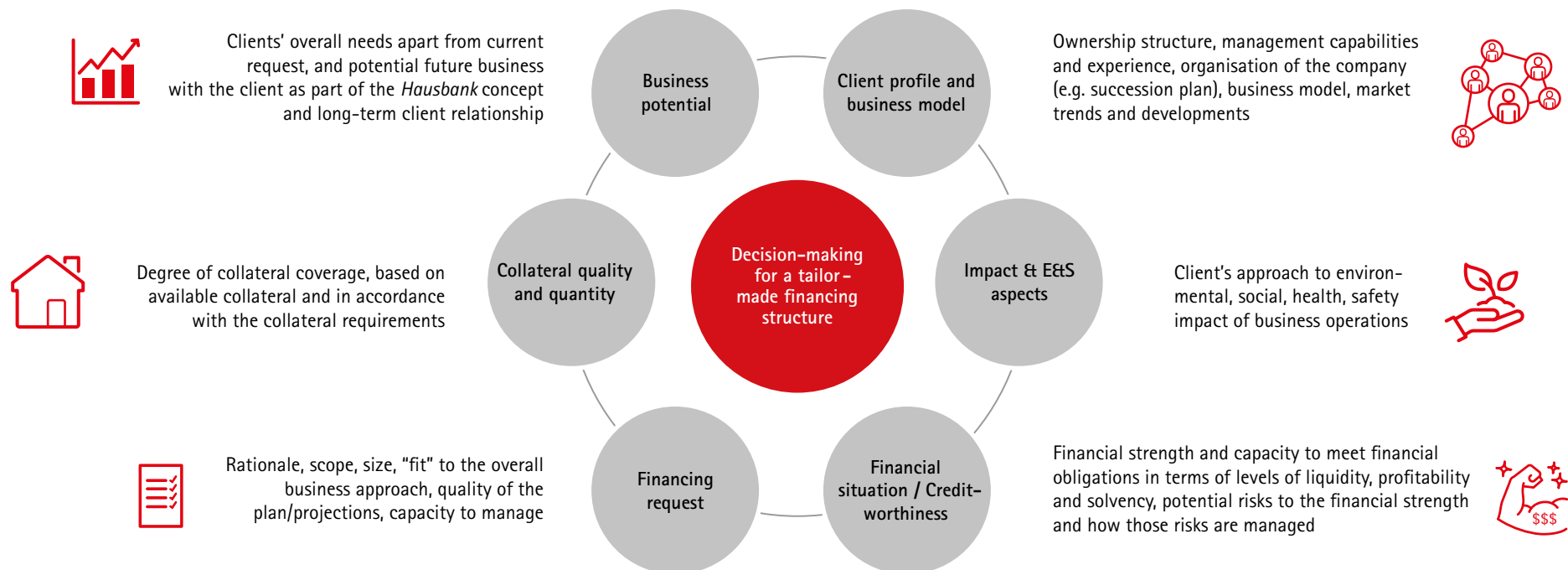
First, there are sectors which we simply do not want to support. We exclude any relationship with clients engaged in economic activities that are incompatible with our ethical values, such as – obviously – manufacturing or trading in weapons, narcotics, gambling, but also underground mining, cryptocurrency-related services, surrogacy services and the like, even if those activities are legal (in some countries). In line with our long-standing environmental conviction, we have for many years also excluded any financing of the extraction of fossil fuels. In 2021, we have gone a step further in adding to our Exclusion

List activities related to hunting and trade in wildlife or wildlife products and the production of all single-use plastic (inspired by, but going much further than the EU regulations). Because we do not want to contribute to the further destruction of nature and its biodiversity, our Exclusion List also covers projects or business activities that are located within or adjacent to protected areas classified under IUCN categories I-IV. In addition, we thoroughly assess any

risks and potential impacts of a client's business or project if it is located within other types of sensitive areas such as Natura 2000, Ramsar or Emerald Sites, and UNESCO Natural World Heritage Sites. Whenever a client's activity poses significant risks to such a sensitive area or clearly interferes with its purpose of protection, we either try to convince the client to improve their environmental practices accordingly or we decide not to finance that client.

Second, we go far beyond the mere (but still necessary) exclusion of activities or sectors and assess for all potential clients whether we can establish a long-term, open, respectful and professional relationship. This is the *conditio sine qua non* of being able, over time, to understand and find the right solution both for the client and us as a banking group. This upfront long-term and demanding perspective can be especially tough to defend in markets where competition is very often led by short-term (not to say todayist)

Our 360-degree approach to client and exposure assessment



objectives. Against this strong headwind, we take time and energy to assess our clients; their reputation, their openness and their reliability in conducting their business but also in establishing a new professional relationship with us. Questionable reputation, weak experience, political exposure, shady ownership structure, untransparent communication – these are reasons enough not to engage with them in the first place. A lack of willingness to share information, manipulative communication and lack of respect are also strong reasons not to engage. Also, even though it is often very tempting (and profitable) to work with large businesses that are well-known and visible, we would rather say no if we feel we cannot grasp the entire business complexity and/or cannot be a relevant financing partner among a myriad of different stakeholders. This might cost us business volume, market share, and of course profitability, but is paramount to staying on top of what we do.

Third, once we are engaged as our clients' banking partner, we put every effort into understanding them fully. We simply look at and analyse ALL aspects of a business client and maintain this 360-degree integrated view of the client's situation over time. A very concrete example of our approach is the list of topics that are systematically covered during the credit committees for each of our clients, be they small or one of our Top-30 exposures.

Our credit risk teams engage in understanding, inside out, the client's business model, its organisational structure, its ownership structure, the composition and experience of its management team, its market positioning, its vision for the future and its values, as well as its awareness of its own impact on social and environmental issues. And this is true not only for our larger clients (which are not corporate clients) but simply for all of our SME business clients. If these aspects do not look strong enough, they cannot be compensated for solely by strong financials, strong debt repayment capacity or strong collateral. In other words, steady financials and proven debt repayment capacity are necessary conditions, but they are not sufficient. From experience, past financial performance is not enough to predict future performance. The future depends even more on the quality of the management and the sustainability of the business model.

Only when we have a full view on the client's situation can we turn to the financing request and design the best financing structure. In each credit committee, the level of co-operation is assessed in the context of the *Hausbank* strategy. This, in a nutshell, is why we refer to our approach to clients as "service-based", as opposed to the "product-based" approach of competitor banks that focus on "selling products" to any client willing to buy them.

ESG assessment is part of all credit-related decisions

Our approach to ESG criteria is both simple and demanding: we assess all our clients against ESG aspects, without any exception. We do not build our green strategy on a couple of carefully selected exemplary environmentally friendly clients or investments but rather engage with our entire client base. We strongly believe that, in addition to facilitating investments into renewable energy projects or green investments, we can have a significant impact when accompanying all our clients toward more sustainable production processes. This aspect is particularly important to us since we are financing SMEs especially in the manufacturing and agriculture sector, which by default pose a medium-to-high environmental risk as their operations are resource-, energy- and land-intensive. Engaging with them means having a potentially (very) high impact. Given the diverse level of awareness towards ESG criteria in our countries of operation, even among our clients, this is a broad, complex and laborious task. But it is also the only way to reach sustainability.

ESG assessment is an integral part of the customer relationship and decision-making process. Based on their business activity, each of our clients is assigned to a low, medium or high environmental risk category (typically depending on the sector they are in).

The activity type defines the scope of our mandatory Environmental and Social Impact Assessment Form (ESAF). Each client is assessed against regulations and best practices regarding environmental protection, health and safety, and overall working conditions. High-risk clients are analysed by specially trained Environmental Risk Officers (EROs). For loan amounts above a certain threshold, those clients are visited. Depending on the risk category and size of the exposure, external experts are mandated to carry out more comprehensive assessments. This

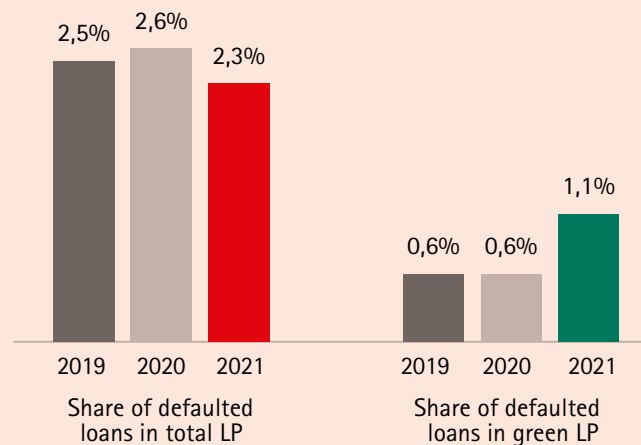
is necessary for us to access the appropriate level of expertise and depth in more complex cases. This is also how we as a banking group keep abreast of the constantly evolving regulations, technologies, and organisations. The results of those assessments and related risks are an integral part of the credit risk résumé. We systematically address those issues with our clients and, in case of unsustainable or informal practices, integrate specific measures, targets, conditions or covenants into the loan contracts. Why should we bother at all, as long as the capacity to repay is given? Well, strong financial indicators cannot compensate for a deliberately weak environmental and social approach. We want our clients to be standard-setters in their countries of operation and are committed to accompanying them on this (sometimes long) journey. This is also ultimately our responsibility towards our clients.

see that the green loan portfolio structurally outperforms the non-green loan portfolio in terms of quality. This illustrates well the successful combination of the elements we have described above: engaged and conscious clients, investments in lower risk and sustainable activities, stronger internal focus and expertise, and the possibility to fully activate the *Hausbank* concept through intense discussions.

But we do not shy away from taking tough decisions, i.e. from saying no to an otherwise strong client if we see that ESG aspects are not taken seriously enough (even if it costs us growth, market share and ultimately profit). In some cases, saying no makes clients think, rethink and ultimately change their processes. Even if it is only partial and gradual, this too is impact.

Assessing the environmental and social impact of our clients' operations is not done by a single specialised team but is part of every staff member's job description. All our business client advisers and credit risk analysts are trained to assess the impact of our lending operations on the environment, society, health and safety. That said (and let's not forget the huge training investments involved), this is only the beginning of the story. Similarly to discussions on ethics, there is rarely a clear right or wrong answer.

Loan portfolio quality development



We see very often that, after the first scepticism and/or lack of awareness, discussions on ESG issues with clients bring us even closer to understanding each other and, even more important, understanding that we are working together towards the same goal. As a matter of fact, as a very concrete consequence, we

One needs to learn, critically assess different perspectives and options, and ultimately decide. This requires a lot of energy, a strong discussion culture and a clear vision. It ultimately ensures consistency and brings everyone under the same values and objectives. This is also how to ensure that our actions have a long-lasting, broad and deep impact.

This is what we experienced when implementing our plastic strategy, which we defined three years ago. Even though only a small part of our loan portfolio is related to plastic production, we have decided – given the highly detrimental impact of plastic production on environment and health – to face and deal with the issue. Some of the questions we faced were: is there good or bad plastic? Which share of the production output should plastic be to consider it relevant for the decision-making process? Which percentage of recycled plastic would make the production process acceptable? Are there ways to produce plastic differently and are these technologies available/realistic for our clients? Which time horizon is acceptable for improving the production processes? Beyond production, should we also restrict trade in plastics? And much more...

We do not shy away from the complexity of what makes an activity or a project sustainable. One of our next areas of focus will be agriculture, which illustrates perfectly the complexity of being truly impact-driven. Agriculture is at the crossroads of (1) ensuring food security in a growing world population expected to increase by two billion by 2050), (2) already suffering from climate risk (such as droughts, floods, crop diseases and animal viruses) and (3) contributing significantly to CO₂ emissions (agriculture and land use representing a quarter of the total CO₂ emissions). Given the sizeable share of our loan portfolio in agriculture (but not only for this reason), we have decided to engage in the topic and deliberately dive into the different approaches and technologies related to soil health and fertility, irrigation, pest management, livestock farming and

waste management. This means building knowledge and expertise, analysing our portfolio, approaching one by one our clients and agreeing on concrete steps towards more sustainable approaches, monitoring the impact and accompanying further steps. This will take time and energy, but we have the capacity and determination to do it.



For more information, see:

> [Impact Report Appendix 2021](#)

- Management approach and overview. Prudent credit risk management (pages 18f.)

> [Impact Report Datasheet 2021](#)

- Sustainable lending
- Customers
- Prudent risk

Exclusion list (> [Code of Conduct](#), page 34)

THE PROCREDIT PLASTIC STRATEGY – A CONTINUOUS IMPROVEMENT OF E&S APPROACH

by Bruno Quichimbo

When discussing the development of our Plastic Strategy, it is important to highlight its origins and understand the issues we have faced over the last two years. In 2020, as a response to growing environmental and public health concerns, we implemented a strategy for lending to plastic producers. We were immediately confronted with the COVID-19 pandemic, which drove the use of plastics to new highs. The impacts of these changes are still evident, as delivery services have become commonplace worldwide, thus increasing the consumption of single-use

packaging. For the financial sector, the pandemic, in addition to increasing the workload for bankers to overwhelming levels, forced companies to reshuffle priorities and resulted in environmental topics being swept under the rug.

In 2021, we took an additional step towards protecting the environment and added the production of single-use plastic items to our Exclusion List. By doing so, we limited the financial support provided to companies involved in this type of production.

However, this step forced us to make difficult decisions, which included devising an exit strategy for some of our clients who had been with ProCredit since their inception, but whose business models were highly dependent on plastic that quickly ends up in landfills or even worse, in the rivers or oceans.

Our Plastic Strategy as well as the outcomes and lessons learned in this process are illustrated in the table below:

	Plastic product categorisation	Respective lending strategy	Outcomes in 2021	Lessons learned
Blacklist	Plastics, mostly single-use, banned in the EU as of 3 July 2021 (EU Directive 2019/904)	No financing of these producers without a business plan to phase out the blacklisted product within a short period	Financing agreements of six clients were terminated; an exit strategy was defined	We need to be more categorical to tackle plastic pollution; single-use plastic production added to Exclusion List
Greylist	All other single-use items that highly impact the environment if not disposed of properly, i.e. packaging, bottles, foils, microplastic	Limited financing to new clients; existing clients required to follow and improve sustainable practices, i.e. substituting single-use plastic with biodegradable products, collecting products after use, etc.	50 clients in this category; most committed to including sustainability criteria in plastic production with close monitoring from our side	We do not compromise our lending standards in order to push portfolio growth; we have stopped targeting these clients
Whitelist	Plastic products with a long lifetime for which no alternatives exist or alternatives have a higher environmental impact	Our banks will continue to finance these clients, but will discuss options available for sustainable plastic production and provide support in any sustainability efforts taken	19 clients in this category; Plastic Strategy has been communicated to them	Plastic substitutes for these items can have a higher environmental impact; thus, plastic items from the whitelist are still eligible for financing

Scampa, producer of sustainable plastic bags,
ProCredit Bank Kosovo



We are aware that plastic pollution is not a major topic in the financial sector; however, our values and corporate DNA drive us to do responsible business rather than simply strive for acknowledgement by marketing or rating agencies. Indeed, we claim to be a frontrunner when it comes to taking responsibility for plastic production through the implementation of E&S responsible lending practices, which sets us apart from other financial institutions. The lack of attention to this issue on the part of financial institutions was confirmed in a study conducted by the collective Portfolio Earth in its Bankrolling Plastics report⁹ (2021), which documented that none of the largest providers of financing for plastics addressed the topic between January 2015 and September 2019.

But what has the ProCredit Plastic Strategy changed in the two years since its launch? This can be assessed from three viewpoints. First, the implementation of the strategy forced us to take difficult but necessary decisions to stop providing financing to clients that would otherwise perform well with regard to E&S management, but whose business models included the use and/or production of unsustainable plastic items. In our markets of operation, the competition does not become involved or is not interested in managing the plastic footprint of its clients – we, on the other hand, believe it is part of our responsibility. Second, we established processes, which entailed

⁹ https://portfolio.earth/wp-content/uploads/2021/03/Portfolio-Earth_Bankrolling-Plastics.pdf

setting criteria, having discussions with clients, defining loan covenants, and performing monitoring activities, among others. No other financial institution is concerned about these issues or has similar processes in place. However, without these additional steps, it would all simply be greenwashing. And third, our staff is now fully committed and capable of applying and communicating the Plastic Strategy to our existing and potential clients. Reaching this point required countless resources, training, discussions, debates, and awareness-raising about the extended responsibility of lending.

The constructive nature of the long-term business relationships we have established with our clients have enabled us to talk openly with those who were or are still engaged in any type of plastic production and transparently communicate our strategy to them. Because plastic is everywhere, imposing any restrictions on the sector would have a significant impact on the portfolio of any bank. The positive side of being at the forefront of responsible lending is that most of our clients have adapted their processes to be in line with our sustainable criteria for plastic production in order to continue working with us. These alignments and client commitments are reflected in loan covenants that we closely monitor. The most common covenants are related to the upgrade and/or improvement of production practices, such as using more post-consumer recycled material or

extending the environmental responsibility of companies to the collection of plastic items at the end of their use. By implementing these measures with our clients and suppliers, we promote ambitious re-use and recycling schemes, a circular economy, the creation of new business opportunities and new sources of employment, in addition to incentivising societies to properly handle plastic waste with less ending up at dump sites.

Last but not least, plastic pollution is a global issue. Having in mind our methodology and the countries in which the ProCredit group operates, we are aligned to support a solution with a global perspective. We implemented our strategy both in EU and non-EU countries (Eastern Europe and South America), despite the fact that environmental regulation is not sufficiently supported by most authorities in non-EU countries, thus resulting in larger technological challenges and gaps. This is why we as a banking group strive to improve the environmental practices of our clients and in this manner, improve the quality of life in the countries in which we not only do business, but also see as our home.



OUR COMMITMENT TO THE ENVIRONMENT

We strive to continuously reduce the impact of our activities to minimise our environmental footprint. In our daily business, we are committed to providing guidance and support to our clients in the transition to becoming more sustainable.



Climate change is our priority

Accounting for GHG emissions linked to our loan portfolio (PCAF)

Strengthening our climate risk assessment by following TCFD recommendations

Developing a group-wide network of 207 EV charging stations



Green loan portfolio development in 2021

Around EUR 1.1bn or 19% of our total loan portfolio

Green LP growth of 14.5%

EUR 1.8 bn green loans disbursed to SMEs in the last decade



Financing the local energy transition

Project finance makes up around 90% of our RE portfolio

Rooftop PV installations with 62MW total capacity financed

Green deposit products enable our clients to support green finance

ENVIRONMENTAL MANAGEMENT

by Krassimira Peicheva & Rhona Geiger



We continuously analyse and monitor the impacts resulting from our activities to minimise our environmental footprint.

We have always placed environmental and climate risk mitigation at the centre of our business model. As early as 2011, the ProCredit group established a comprehensive three-pillar Environmental Management System (EMS) which aims to minimise our ecological footprint. The EMS addresses both our internal environmental impact (pillar 1) and our external impact via assessing the environmental and social risks of all business activities that we finance (pillar 2) and promoting and incentivising green investments and deposits from our clients (pillar 3) as shown in the graphic on the right. Since then, we have developed policies, guidelines, and standards to measure, assess and improve our sustainability indicators and thus to ensure that we achieve the highest possible level of performance. Our EMS has been certified under international best practice standards since 2016 – EMAS for the ProCredit entities located in Germany and ISO 14001 for all ProCredit institutions outside Germany.

In recent years, regulator institutions and the general public have become more interested in this topic, and now expect companies to manage and disclose their

Environmental management in the ProCredit Group

Internal environmental management

Our internal processes and procedures are designed to systematically reduce our direct environmental footprint. Greening the banks' infrastructure and communicating about environmental issues raises awareness in our institutions and leads to improved resource consumption.



Managing the environmental and social risk in lending

We aim to work with businesses whose activities do not harm the environment or endanger the health, safety and well-being of their staff or neighbours. By applying a prudent credit risk approach, we minimise possible negative impacts of our lending operations on the environment.



Green lending

We promote green investments and savings in our countries of operation. We support clients who want to improve their business processes in an environmentally sound manner by investing in energy efficiency, renewable energies or environmental protection.



Environmental, Social and Governance (ESG) indicators. The aim is to ensure that financial decision-making takes non-financial indicators into consideration,

and more specifically to promote sustainable practices aligned with the UN Sustainable Development Goals and the Paris Agreement. These principles have

been engrained in our values since quite some time and we have developed our approach over the years. This also came at a certain cost since we forwent the low-hanging fruit of short-term business opportunities, choosing instead the more difficult route of undertaking longer, in-depth analyses to satisfy and fulfil our social and environmental standards. Hence, we in the ProCredit group welcome these global policy and regulatory initiatives and are aligning our established policies, guidelines and standards with them, knowing that transparency and standardisation are key elements in the battle to avoid "greenwashing", but at the same time refusing to compromise on our own principles if they go beyond those initiatives. We are signatories to relevant United Nations initiatives such as the Principle of Responsible Banking (PRB) and the Global Compact, and we follow the Global Reporting Initiative (GRI). These commitments give us the opportunity to be transparent in our ESG disclosures in a standardised manner, to further improve our performance, and also to identify the challenges and limitations that are intrinsic to our mission and countries of operation.

We believe that our mission to promote sustainable development in our countries of operation is best served by financing the SME segment, especially in the manufacturing and agricultural sectors. By focusing on these businesses, we make a relevant positive impact in these countries, covering high priority needs, such as health and sanitation, food and

employment. This is confirmed by the results of our impact analysis, conducted with UNEP-FI analysis tool. However, we are aware that these sectors pose a medium-to-high environmental risk, as their operations are resource-, energy- and land-intensive. Therefore, we invest a lot of our time and resources to minimise the potential negative impact by upholding high ESG requirements, performing very exhaustive environmental and social risk assessments and deliberately promoting green finance to clients with medium-to-high environmental risks. For essential industries such as agricultural production and for the majority of the manufacturing sector in our countries of operation, the inherent conflict between economic growth and environmental impact is an inconvenient truth that cannot and should not be avoided. Hence, instead of avoiding ESG risks by refusing to finance SMEs in those sectors, we confront the identified environmental and social risks of our SMEs head-on, even if this necessitates rolling up our sleeves and engaging with the complexity involved.

In this section we describe our internal environmental management and how the green finance operations are playing a pioneering role in the sustainable development of the countries where we are present. In the Sustainable Finance section we describe how we are addressing and mitigating the environmental and social risks associated with our lending operations.

Our priority: climate change

At ProCredit we are acutely aware of the potential environmental impact that our operations and services can lead to. We are equally aware of the challenge that we are facing as a society in light of climate change, and the urgency to decarbonise our activities and make them more resilient to environmental hazards. We know the important role that banks can play in either mitigating these hazards or exacerbating them by prioritising short-term profit over long-term impact.

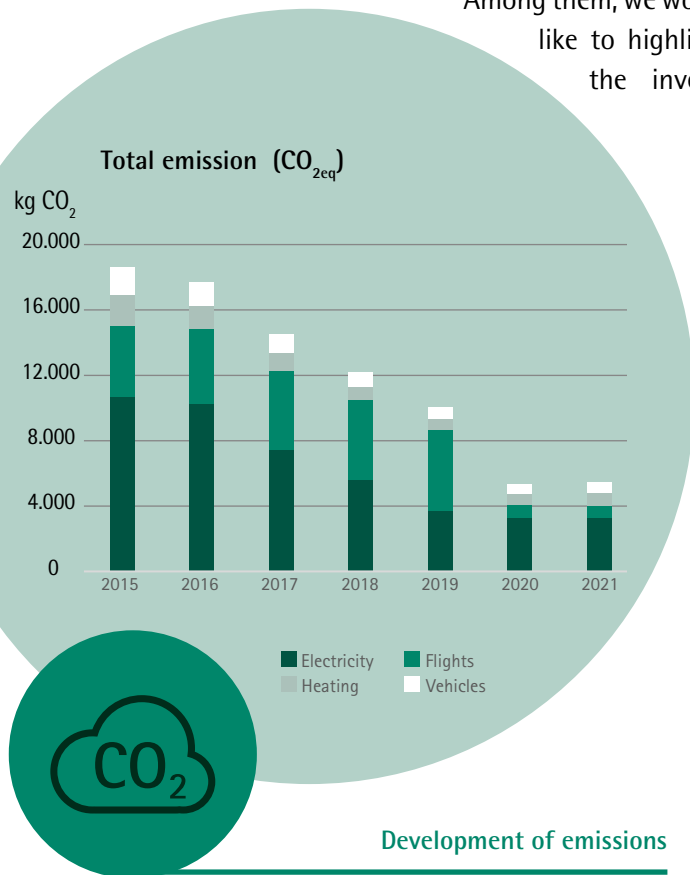
For that reason, it has been a priority for us to invest time and resources to align all our operations with the Paris Agreement on the 1.5°C pathway. In 2018, we established the ambitious target



ProCredit
e-charging station

of Carbon Neutrality by 2023 (scope 1 and 2)¹⁰ from our own operations). Our progress towards it is reflected in the graphic on the right, which shows the results of different internal initiatives to reduce our CO₂ emissions, summarised in the graph below.

Among them, we would like to highlight the invest-



Development of emissions

¹⁰ Scope 1: direct emissions from operations; scope 2: indirect emissions from purchased or acquired energy; scope 3: other indirect emissions in the value chain.

ment in our own 3MWp PV park in Kosovo (ProEnergy) to offset our own emissions.

Going a step forward, we committed to measuring and disclosing the carbon emission of our loan portfolio (scope 3)¹ through the Partnership for Carbon Accounting Financials (PCAF) standard. The first results are summarised in the section: Accounting of the GHG emissions linked to our loan portfolio. This forms the basis for another important commitment: to set our next targets, including the reduction of our loan portfolio emissions, in line with the latest climate science requirements to meet Paris Agreement goals.


Furthermore, in order to minimise our climate risks, we decided to align our operations with the recommendations of the Task Force on Climate-related Financial Disclosures. This includes two main projects: one on physical risk, to strengthen our analysis at client and portfolio level using a geographic information system. The other project focuses on transition risk, to execute a stress and scenario analysis to define sector activities that need to be prioritised on the decarbonisation pathway and identify new business opportunities to guide and support our clients in this transition. Adding to the effort of reducing our emissions and minimising our risk, we aim to grow our green portfolio to 20% of the total portfolio by 2023, thus promoting mitigation methods and solutions to our clients.

Environmental Performance

Measures to reduce energy consumption and emissions


Green buildings certification 
4 own buildings with certification (EDGE)


Finance our own PV park 
in Kosovo (ProEnergy) to compensate our emission

59% of car fleet consist of **electric cars** 



27% reduction of our **flights**

207 e-chargers 
freely available for the public

Electric power and heating 
from RE utility supplier. 9 locations with own PV installation.

Environmental Performance

Other environmental achievements



Own PV systems produced **387** MWh in 2021 (increase of 17%)



We collected **31.6** tonnes of paper waste. 100% was recycled



The group only uses recycled or certified paper. Printing paper per employee was reduced by **60%**



We collected **13.9** tonnes of e-waste. 100% was recycled



40% of our suppliers are sustainable suppliers

Climate change matters, but so do other environmental indicators

Reducing our CO₂ emissions is our priority, but it is not our only goal in terms of our environmental impact and risk management. Through our internal environmental management tool (iEMS) we monitor other internal environmental indicators, such as resource consumption and waste production. The graphic on the left, shows our progress on these indicators, and provides examples of internal initiatives that have been particularly successful in reducing our resource consumption and waste.

Other innovative initiatives also need to be highlighted. For example, our plastic strategy aims to achieve direct and indirect reduction in plastic production and usage in our own and our clients' operations, and to avoid single-use plastic in general. Also, our Sustainable Suppliers Guideline helps us to move a step forward in screening and improving the sustainability of our supply chain. As an innovation to promote the use of electric cars in our countries of operation, we have also developed our own regional network of E-chargers, freely available to the public (see more on [> pages 38f.](#)). In another important step to strengthen the technical criteria that underpin our E&S risk assessment and our green lending and align them with EU regulations, ProCredit has taken the decision to align our oper-

ations with the EU Taxonomy, regardless of the fact that we operate mostly in non-EU countries and mainly focus on SME.

It is important to mention that, in addition to the direct positive impact that these measures have on the environment, we also aim to have a demonstration and promotion effect: We show our clients and the communities in which we are based that significant improvements in environmental performance are possible and economically viable, and invite them to follow our example (see Our approach to green finance, [> page 40f.](#)).



For more information, see:

Impact Report Appendix 2021

- UNEP-FI Portfolio Impact Analysis (pages 32ff.)
- Sustainability goals and achievements (pages 2ff.)
- Accounting of the GHG emissions linked to our loan portfolio (pages 35ff.)

> Impact Report Datasheet 2021

- Environmental performance indicators
- Supply chain

Group Environmental Management Policy

PROCREDIT REGIONAL NETWORK OF ELECTRIC VEHICLE CHARGING STATIONS: ENHANCING OUR COMMITMENT TO E-MOBILITY

by Xuan Vu



E-charging station in front of a ProCredit branch, ProCredit Bank Kosovo

As a socially and environmentally responsible group, ProCredit has encouraged the transition to cleaner energy consumption in its countries of operation since its early years. This has meant making investments in our own RE/EE infrastructure as well as supporting the green investments of clients, including actively promoting and incentivising e-mobility.

In line with these efforts, one of our group's main sustainability goals is to achieve carbon neutrality.

A step towards reducing our CO₂ footprint is the ongoing transformation of our vehicle fleet to electric. In some of our countries of operation, ProCredit was among the first to buy and use electric vehicles (EVs). We have gradually increased our prioritisation of e-mobility and by 2021 we had reached a share

of approximately two-thirds of our entire fleet (307 vehicles: 103 are fully electric, 38 hybrid plug-ins and 81 hybrids). We will continue to favour EVs in the future as well.

Apart from investing in our own e-vehicles, the ProCredit group is dedicated to raising awareness of e-mobility and actively incentivising the use of EVs in our countries of operation. For this reason, our banks also offer special loans to obtain EVs and have established cooperation agreements with car dealers to jointly facilitate the purchase of EVs as opposed to gasoline- or diesel-powered vehicles.

Of course, there must be infrastructure in place in order for electric vehicles to become more common.

The existing infrastructure in the countries where we operate is either completely lacking or insufficient for broad usage of EVs. Against this background, the banks in the group decided to establish a dense network of charging stations for e-cars in all of the South Eastern and Eastern European countries where we operate. At the beginning of 2022, 207 stations were already available to everyone in those countries free of charge. By the end of the year, the network will include more than 320 stations. A specially developed marketing campaign, "No more excuses", is being used to raise awareness about the advantages of using e-vehicles and the available incentives.

Furthermore, ProCredit strives to source electricity for its e-chargers from renewable energy sources



Billboard advertising our charging station network in Bulgaria, ProCredit Bank Bulgaria

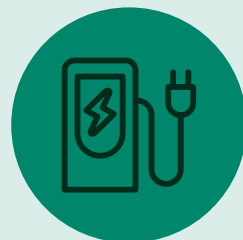
Snapshot of our e-charger network

wherever possible. Many of the charging stations at ProCredit locations are powered by solar energy from our own PV systems.

Our charging station app

In order to facilitate the use of our charging station network, we also launched the ProCredit Charging Station app, which was developed by Quipu, the group's IT company. Among the many benefits of this app, there is a map featuring the locations of the charging stations, technical data on each station and driving directions. The app is available from Google Play (Android) and the Apple App Store (iOS).

Through the development of this network, we have been able to showcase both technological innovations and ProCredit's endeavours to reduce its own CO₂ footprint – while sharing these benefits with the public. The creation of an EV charging infrastructure represents another milestone for how the group contributes to energy transition and a more sustainable future.



E-charging station,
ProCredit Bank Kosovo



OUR APPROACH TO GREEN FINANCE

by Patrick Zeitingner & Marcel Zeitingner

Green Finance is en vogue. Almost every major financial institution has proclaimed some ambitious targets in the areas of green finance and ESG standards.

Mainstream banks, such as one large German bank trending the hashtag #PositivelImpact, or other global universal banks proudly announcing their newly adopted Paris-aligned financing commitment, are not shy in publicising via all marketing

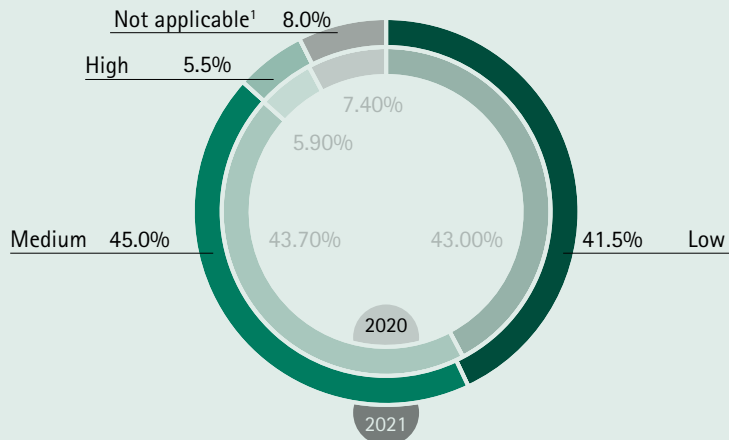
channels their efforts to finance positive environmental and social impact. But what does it mean to be a committed sustainability-oriented institution instead of paying lip service, and what are the costs associated with it? This section aims to define our green finance profile, contrasting it against the often superficial and de-contextualised Anglo-Saxon interpretation of the term. In short, we believe that our environmental impact needs to be assessed within the context of development banking in transition economies. For us, green finance does not mean maximising the number of green products or achieving CO₂-neutrality by buying offset certificates, but rather by a thorough and holistic institutionalisation of the topic. Green finance at ProCredit means considering the environmental and social (E&S) impact of every single aspect of our operations, and sensitising, politicising and motivating our own staff. It means not shying away from the complexity of the matter, even and especially when it conflicts with some of our other goals: driving economic development, growing our loan portfolio and generating financial returns for our shareholders. We believe that only by being a showcase example of a business that operates ethically and sustainably within the respective national context can we convincingly persuade our clients to follow us in reflecting upon the impact of their operations. Only by leading the way in our respec-



tive markets and by constantly educating ourselves can we be the advisers our clients need on their way to a sustainable future.

Our plastic strategy outlined in the previous section is just one illustration of how we manage the E&S impact of our lending activities. When banks write about green finance, they typically reduce the topic to use-of-proceeds financing and refinancing products in the form of green loans and green bonds. They would not connect the E&S impact of lending and their internal environmental management performance with the provision of green financial products. This compartmentalisation is convenient as it creates space for inconsistency and does not close the door to those areas that are incompatible with the goals of green finance but generate relevant profit. We believe that a bank can only credibly sell green products and issue green bonds after considering the impact of all lending operations and taking an honest look at its own ecological footprint and drawing the necessary consequences. Our E&S approach to lending is outlined in our publicly available document "Managing our environmental and social risk of lending".

Outstanding loan portfolio by environmental risk category



Reference year: 2021

¹ Loans to private clients

Developing our unique SME green lending approach

Contrary to many other banks, who simply add a new business department, hire a sustainability consultant and purchase the best available technology, institutionalising green finance within ProCredit was not done overnight. Instead, it has been an evolution that has been going on for most of our existence.

We issued our first green loans in 2006 within an EBRD-sponsored energy efficiency programme followed by similar KfW-sponsored programmes. Due to continued demand after their expiration, we decided to continue the offer of energy efficiency loans and began to develop our own green lending methodology. It allows us to determine the eligibility of green investments and to calculate their impact. Developing our own approach was necessary as there was no industry standard for green lending that we could have adopted. Consequently, our methodology is still being revised and enlarged on a regular basis. The EU Taxonomy can be considered as one major policy project to develop such an industry standard and define what can be considered "green". While we welcome that political and regulatory action is now being taken and that the taxonomy needs to be followed by most market participants, the recent developments have led to

a certain sobering. Declaring nuclear energy and gas as "green" is certainly hypocrisy and unmasks the influence of vested interests and of individual nation states' interests, which stand in contrast to the need to become truly sustainable in the near future. Hence, we will certainly align with the taxonomy in due time but we believe that there is still a need for our own approach to green lending.

Our green lending approach is embedded within our wider green finance institutional framework, which has been developed together with the consulting company IPC in which ProCredit has its origin. Apart from definitions of what qualifies as "green", the framework also includes a green governance structure, which consists of an environmental department in each of our banks and our holding company that reports directly to management. The environmental departments are responsible for implementing and continuously developing the group's environmental management system (EMS) and approach as well as supporting business and credit risk departments with respect to the environmental and social impact of lending and green lending. This support entails regular training measures for all staff members on green finance topics. In addition, each of our institutions has an Environmental Committee, chaired by a management board member, which meets every quarter and oversees the development of the EMS and implementation of the green strategy.

Green lending at ProCredit is separated into three distinct categories:

- Energy efficiency (EE) investments that reduce energy usage at least by 20%
- Renewable energy (RE) investments into distributed or utility-scale RE generation systems
- Other environmentally friendly investments (GR) such as waste management or organic agriculture



For more information, see:

> [Impact Report Appendix 2021](#)

- Management approach and overview. Sustainable finance (page 17)
- Sustainability goals and achievements (pages 2ff.)

> [Impact Report Datasheet 2021](#)

- Sustainable lending

[Group Environmental Management Policy](#)

[Managing the Environmental and Social Risk of Lending](#)

CASE STUDIES



Other environmentally friendly investments (GR) **Bioconversión** Guayaquil, Ecuador

Producer of high-protein feed flour

Bioconversión produces high-protein flour made from the larvae of the black soldier fly (BSF) for the animal feed industry. This innovative company incubates BSF eggs and raises larvae using organic waste composed of banana and passion fruit peels as well as leftover bran collected from beer production facilities. Bioconversión upcycles more than 3,000 tons of organic waste per year and produces flour that replaces imported soybean products, thus establishing a new business model for a circular economy in Ecuador. ProCredit has financed the organic waste silos and the machines used to process the larvae into flour. This equipment has enabled Bioconversión to achieve a total production capacity of 84 tonnes of locally produced, sustainable and resources-efficient protein per month.

Energy efficiency (EE)

Bulgarian OrganiRose Plovdiv, Bulgaria

Cultivator of organic roses

Bulgarian OrganiRose has been cultivating 100% organic roses for the production of rose oil and rose water since 2014. The roses and other products are certified organic by CERES according to EU organic certification regulation. The finished products are exported to the Asian market, mainly to China. The new investment financed by ProCredit has enabled the client to modernise its essential distillery through the installation of more energy-efficient and water-saving equipment.



Renewable energy (RE)

Kujtim Gjevori BI (SCAMPA) Drenas, Kosovo

Producer of sustainable plastic bags

SCAMPA produces high-quality plastic bags for its clients using up to 90% recycled granulate, in line with EU directives. The bags are certified as home compostable by TÜV Austria and will increase the company's total sales by 30%. In 2019 and 2021, ProCredit financed investments in recycling machinery and two PV plants with a total installed capacity of 203.37 kW, capable of generating 214,399 kWh electricity per year. These investments provide the client with clean energy and reduce CO₂ emissions by 201.30 tonnes annually.



FOCUS: TAILORED PROJECT FINANCE FOR THE LOCAL ENERGY TRANSITION

There is no doubt that renewable energy is the future. The question is not whether it will become the main source of energy generation but rather whether it will do so fast enough to prevent the worst consequences of climate change. Luckily, the falling costs of generation technologies coupled with enabling regulation in many parts of the world have spurred investments in this segment in the last decade. On the other hand, the showcase highlighting PV production in China (see *Forced labour in global photovoltaic supply chains*, ≥ [pages 15f.](#)) shows that this development also came at a certain cost – which we are no longer willing to bear and support. Unfortunately, most of our countries of operation have not yet embarked fully steam on the journey to modern renewables (wind, solar and some biogas) but are still mostly relying on traditional technologies such as coal power and hydro-power. In many of these markets, there is a lack of enabling regulation and insufficient investment in the grid to support an energy transition.

On top of these institutional, policy-related and regulatory barriers to investment, the local banking sectors lack experience in financing renewable energy (RE) projects. RE project finance requires specialised knowledge in the areas of technical and legal assessment as well as in financial modelling and credit risk assessment. Small local banks typi-

cally lack the internal capacities to assess such projects and, as a consequence, typically only offer to finance RE projects as part of their SME or corporate finance business line. This means that they do not rely on the project's predicted future cash flows but rather on historical analysis of the related existing businesses. International banking groups, on the other hand, have typically centralised their project finance teams in their parent company and follow an international project finance approach based on a thorough assessment including external studies and, in many cases, export credit agency (ECA) insurance cover. Both approaches have their deficiencies. While the local banks will provide rapid financing without many questions asked, they are unable to predict and verify the long-term cash flows of the projects, and consequently provide poorly structured investment loans with maturities that are too short. As this kind of financing depends on the related businesses' cash flows, it also restricts its further leverage and growth opportunities.

International project finance is well equipped to predict long-term cash flows and to provide adequately structured long-term debt. However, the downside of this approach is that high transaction costs are incurred in the assessment phase. On the one side, expensive external studies and large volumes of internal resources are required; and on the other side, the assessment processes can take years, especially when

there is distrust in the local offtake scheme and ECA cover is required. In addition, there typically are high requirements with regard to the eligibility of investors and significant equity requirements. As a consequence, only a very small number of local investors will have access to international project financing, making this form of finance mostly available to international investors and large-scale projects.

The consequence of this situation is a lack of bankable projects and insufficient availability of capital to the local economy to finance the energy transition. The clients of local banks will only invest in RE projects if the expected returns exceed the returns of alternative investments in their existing business, while specialised investors with access to international project finance typically come from developed countries with the goal of benefiting from the high local feed-in tariffs and extracting the dividends to their home country. This situation in combination with an unpredictable and externally-driven regulatory regime has caused boom and bust cycles of RE investments, visible in Romania, Bulgaria and Ukraine. High feed-in tariffs attract local and international investments but fail to establish a local specialised industry. Once the attractive tariffs are gone, capital soon goes elsewhere.

In contrast, ProCredit aims to foster local and sustainable development, so our approach to RE pro-

ject finance is different. As in our SME finance, we do not mind spending more resources than others on the assessment of our clients, which is a cost we incur that pays off in the long term. We have found a way to efficiently provide finance to small-scale projects based on their projected cash flows. While the risks in some markets do not allow for non-recourse lending (additional SME guarantees or collateral can be required), we are still basing every project finance decision on the cash flows of the project itself and provide long-term financing (up to 18 years). Although many of our RE project finance clients also have an SME that is banking with us, this is not a requirement to receive financing. We have developed a credit technology that still makes use of the key assessment aspects of international project finance while being efficient regarding the transaction costs and processing time. By streamlining our processes, we have moved from processing times in our more experienced banks (loan application to disbursement) of 8-9 months in the beginning to only around 3-4 months on average in more recent projects. We have both developed internal capacities and engaged in strategic partnerships with local experts.

This conception of RE project finance goes in line with our philosophy on green SME finance: what matters is not only the volume but also the number of projects we finance. Project finance makes up around 90% of our RE portfolio and has a significant impact on the locally-driven energy transition while providing our clients with a secure source of income. In the case of biogas plants, it even helps to close the cycles of material flows apart from generating energy. The other 10% of our RE portfolio mostly comprises small-scale rooftop photovoltaic installations for our SME clients. Here too we believe that each additional rooftop PV system that we finance is helping to convince at least one more family or one more company of the benefits of the energy transition. In 2021 alone, we more than doubled the number of rooftop PV disbursements and increased the installed capacity to 62MW. These PV installations are another essential step on our journey towards sustainable development. In general, there is significant untapped potential for renewable energy generation in our markets. By building up capacities and institutionalising our RE project finance approach, we aim to become the financing partner for the drivers of the local energy transition in Ecuador, South Eastern and Eastern Europe.



CASE STUDIES



Biogas production using agricultural waste

Voulgaridis family Xanthi, Greece

The Voulgaridis family has been breeding livestock in the Xanthi region of Greece since 1990. The main business activities, which are carried out on three family-owned farms, focus on dairy cows and male cattle for fattening. The farms rely on cultivating their own 122 hectares of land: they grow corn, alfalfa, barley and vetch, using the harvest exclusively to feed their 1,400 animals. The farms produce approximately 20,000 litres of milk per day, which is sold to one of the main milk processing companies in Greece and the Balkans (Olympos). After investing in upgrades for the farms, including a PV rooftop installation for self-consumption, the family decided to make another

sustainable green investment, this time related to waste management.

ProCredit Bank Bulgaria supported the client in the construction of a biogas plant with 500 kW of installed capacity. It is situated next to the client's largest farm, so that animal waste can be piped directly to the biodigester for the production of electricity and heat. In addition to selling the electricity generated in the plant, the client also produces, as a by-product, bio fertilisers for use in their farming activities. With this investment, annual waste utilisation is 30,000 tonnes and more than 2,000 tonnes of CO₂ emissions are avoided.

Grid-connected PV plants for self-consumption

Tri Star Kropivnitsky, Ukraine

Tri Star Ltd. was founded as a family business 30 years ago in Kropivnitsky (Ukraine) and was initially active in the wholesale trading of foods made by various local producers. Today, Tri Star is a modern enterprise and a leading Ukrainian manufacturer of oriental sweets such as halva, kozinaki, dragées and brittle.

The company uses traditional recipes and all-natural ingredients, some of which are provided by its own agricultural enterprises. Furthermore, the products have no additives or preservatives.

Tri Star is well-known for its high food safety standards and the quality of its products, not only in Ukraine, but in more than 45 countries worldwide that import the company's goods.

ProCredit Bank Ukraine supported the client's investments in two projects for grid-connected PV stations with a total installed capacity of 12.3 MWp. These investments have resulted in annual CO₂ savings of 6,300 tonnes. Moreover, with the support of ProCredit, the client has recently invested in a rooftop PV power plant for self-consumption. The total installed capacity of 395 kWp covers a significant share of the power required by the company that would otherwise be sourced from the grid.



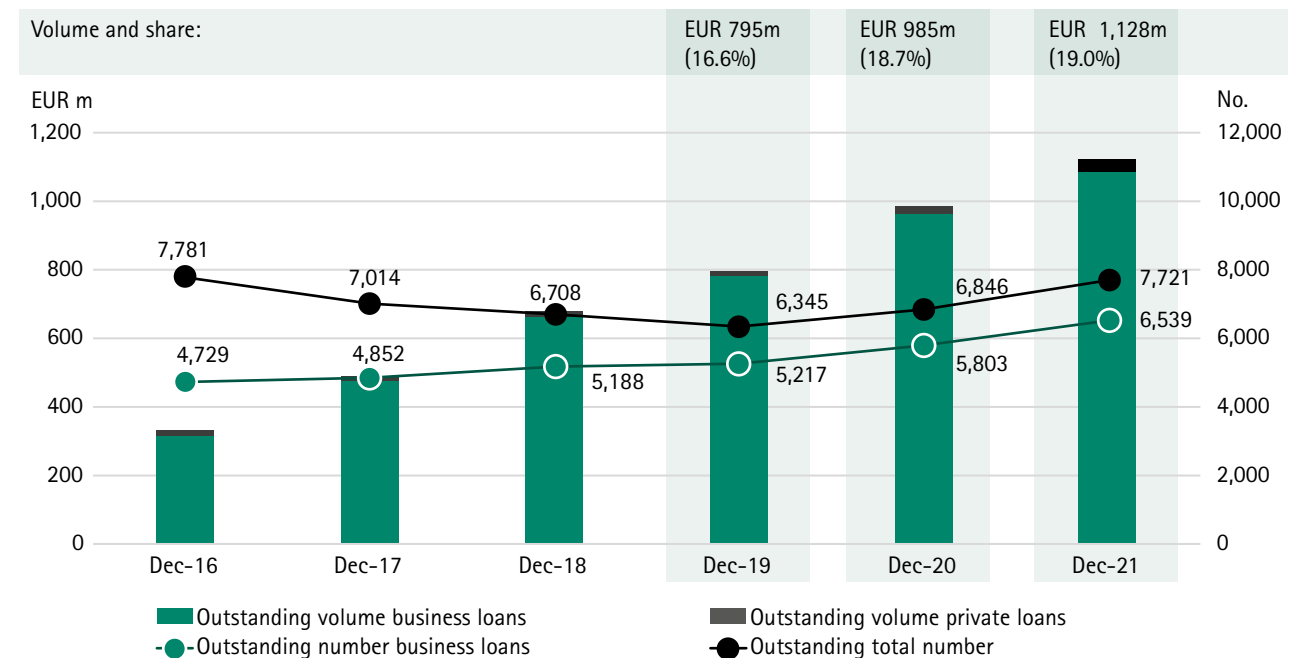
Our green lending approach has been continuously re-defined based on our experiences over the years and currently reflects our best practice based on 15 years of experience in green SME lending in our countries of operation. Over the last decade, the current ProCredit institutions (excluding discontinued operations) have disbursed green loans to SMEs totalling EUR 1.8bn, and as of the end of 2021, the outstanding green loans made up close to EUR 1bn or 18.7% of our total loan portfolio.

With close to 20% of our portfolio allocated to green investments, ProCredit is clearly performing well in international comparison. However, what is unique about this portfolio is not its share relative to the total but instead the segment to which it is disbursed. Many banks have set themselves targets in terms of volumes of green loans to be disbursed within a certain time period; however, these targets are typically achieved by financing large-scale green projects (real estate, energy, infrastructure) and not by lending to SMEs. In contrast, more than 80% of our green portfolio is allocated to SMEs, ranging from electric vehicles to new and highly efficient machines to EDGE-certified buildings. The remainder consists of renewable energy project finance.

When speaking about the impact of green lending, typically the discussion is reduced to volumes. While we agree that there is a need for large volumes to finance the transition to a more sustainable economy, we believe that our impact, specifically due to our focus on green SME lending, stems largely from the number of loans disbursed. Rather than continuing business as usual while using singular and large green loans as a marketing tool, the current ProCredit banks have, in the last decade

alone, disbursed around 14,000 green loans to SMEs with an average size of around EUR 130,000. The long history and significant scale of our green lending operations is unique in our markets and we believe that the data we have accumulated over the years will provide valuable insights that could help to unlock the potential for small-scale green finance not only in our countries of operation but also in other developing and emerging markets.

Green LP development





Head Office of Banco ProCredit,
Quito, Ecuador

GREEN DEPOSITS

by Katharina Zdraljevic & Kameliya Mineva

Some people think of a bank as a storage facility, where customers deposit their money and the bank keeps it safe for them. This misconception leaves out the fact that banks invest their customers' money, often without providing transparent information about how their funds are used, let alone allowing them to decide which activities they want to finance. In the ProCredit group, besides supporting SMEs and incentivising green investments as our main strategy, we value transparency as one of the core pillars of our institution and communicate all our operations openly to all stakeholders. Our new ProGreen account, which was launched during 2021 in Ecuador and Bulgaria, stresses this even more and offers our clients the opportunity to finance exclusively the green part of our loan portfolio. By doing so, we are once again pioneers in the markets where we operate and are raising awareness about green investments and the impact of the projects we finance.

The ProGreen account guarantees our clients that their money is invested in businesses with high environmental and social standards and exclusively in their environmentally friendly or renewable energy projects. This allows clients to decide autonomously how they want their savings to be used, and thereby



Early in the pandemic, we started our first discussions regarding ProGreen, as we recognised the increased interest in environmental topics being shown by our private clients. On the other side, the banking sectors in the countries where we operate did not offer any environmental financial services. We therefore set up a diverse working group involving colleagues from different ProCredit banks, countries and areas of expertise. Their task was to design a service to fit all our markets, while keeping the essence of our sustainability strategy and institutional core values. The result was ProGreen.

become empowered financial market participants. ProGreen account holders receive quarterly updates providing all relevant information regarding our green loan portfolio, green investments and other environmental news, enabling them to monitor how their funds have been used.

In order to be consistent with our environmental objectives and overall retail strategy, our ProGreen account is a 100% digital account. The account opening and all of its functions are carried out entirely online, with zero use of paper and reduced CO₂ emissions, as it is not necessary for the client to travel to the bank.

Finally, our ProGreen clients receive our sustainable debit card, made from polylactic acid (PLA), which is produced from corn. The card can be used for 4 years, and biodegrades in 6 months after its disposal under controlled conditions. The card itself is an “environmentally friendly investment”, as it is a green substitute for regular plastic cards that remain in the environment for up to 400 years. Our cards are packed in recycled paper, paired with seeds from local plants and delivered by sustainable delivery vehicles, whenever this option is available.

Why does this new green account mean so much to us? Environmental consciousness and the overall idea of sustainability is becoming more important every day. Nearly 20% of our total portfolio is green, and while other banks place green loans using funds made available by international financial institutions, our approach is intrinsic and consistent. This is why ProGreen is an important step: Through this account, we offer our clients the possibility to be part of our expanding green, sustainable community, where they can align the use of their savings with their personal values. Sustainability is inherent to ProCredit and we aim to attract like-minded people to form a long-term partnership that helps to preserve the environment and improves the social aspects of the countries where we operate. ProGreen makes direct impact-investing easily accessible and affordable to all customers who want to save and contribute to a growing green economy.

Benefits of a ProGreen account



ProGreen

Grupo Entregas, card delivery service using eco-friendly vehicles to deliver our corn-based cards, Banco ProCredit, Ecuador





OUR PEOPLE

We continuously invest in our staff by providing them with a wide range of training opportunities. At ProCredit, investing in education is a fundamental value.



Investing in people

- 425,010 hours of training provided to staff
- Establishment of an internal e-learning campus
- Investing in education – Denis Diderot School in Bulgaria



Open, respectful, and stimulating working environment

- 100% vaccination rate in the group
- Annual training on social and ethical issues for all staff
- Half-yearly seminars on environmental topics for selected units



Solid and transparent recruitment process

- Onboarding Programme: a unique start to a career with ProCredit
- ProCredit Staff Invest (PCSI) – our ESOP
- No salary difference between women and men in comparable positions
- 51% of our middle management are women

OUR PEOPLE

Our approach to staff development has been built over the years by working closely and on-goingly with our staff and is rooted in deep and immutable principles of reason, respect, responsibility and solidarity. These experiences and principles translate into a straightforward though unique approach to staff recruitment and development that is difficult to replicate. The key elements of this approach are:



- Focus on individuals rather than categories, personalities rather than sets of skills, teams rather than positions, and diversity rather than profiles
- A fair and decent remuneration system that focuses on fixed salaries and a long-term perspective
- An intense and ongoing investment in training and development to bring knowledge and expertise but also to foster agility, creativity towards a shared vision
- A strict set of self-imposed ethical values based on democracy, reason and respect
- A constant emphasis on sharing information, exchanging experiences, challenging practices and thinking outside of the box together
- A rational and humanistic way of dealing with staff issues

Today, based on these principles, we are proud to have professional and dedicated teams in all our institutions. We are proud of having established with them a common vision based on strong ethical values, a clear business approach and, on top, the desire to always question both our own practices and the perceived market "best practices".

The two years of pandemic have had a strong impact on everyone: institutions, companies, communities, individuals, alike. The engagement and quality of our staff has played a key role in ensuring continuous service to our clients and the steady development of the group during this period. We have seen very blatantly during this period the strength of our staff, and the importance of knowing each other very well and doing things together.

Remote working and online onboarding of newcomers in our group has also shown the limits of an online way of dealing with each other. But even during these busy – and sometimes stressful – times, our teams have never stopped reflecting on how we were working together, what we could do differently as well as what we could do more. For example, the first painful experience of switching to an online way of teaching was seen by Rolf Kreitel, manager of our ProCredit Academy, as a huge opportunity to supplement our unique training approach at the Academy by adding an online campus with a broad and high quality curriculum for all our staff. A second example of this capacity to develop a dream, a vision and to implement it, is described by Petar Slavov, Chairperson of our ProCredit Bank Bulgaria. This project goes way beyond what is normally expected from "bankers". This is the story of the setting up of the Denis Diderot School by the team of ProCredit Bank Bulgaria.

ETHICAL VALUES AND WORKING ENVIRONMENT

by Sandrine Massiani



We expect a lot from each of our colleagues and offer an open, respectful and stimulating working environment in return.

Our institutions are small. Our banks have between 100 and 400 staff, which is significantly lower than our competitors in our countries of operation. This allows us to create a working environment which does not primarily rely on monetary compensation. We know our staff very well. Our middle managers have on average less than 10 colleagues working with them. We have the luxury of being able to easily reach all our staff and engage in dialogue with them in routine tasks or more structural and forward-looking issues.

Our flat hierarchy and simple structures allow for direct co-operation and interaction between our specialists, middle managers and senior managers, every day. In our institutions, there is no such thing as a C-suite with heavy doors and muffled sounds. Most of our managers and key staff have graduated from our Academy programme in the Odenwald, Germany, and therefore speak, literally and figuratively, the same language. This is a great opportunity for each of our colleagues, be they at the beginning of their career or after years of ProCredit experience, to learn from each other and continue to develop further.

Being small and having a flat hierarchy also means that nobody can hide behind the intricacies of a complex organisation. We work hard and everybody is exposed and expected to contribute. Taking more responsibilities on one's shoulders can be challenging and at times even painful. But this is also rewarding when difficulties are shared and values are respected. Having a common vision, a set of shared values, an open way to work and communicate, this is what we stand for.

This values-based approach and sense of solidarity has been there for decades and is further consolidated every day through work, dialogue and training. Being impact-driven, all our colleagues are committed to taking care of our Res Publica (grounded on the principles of freedom and reason) and to the Common Good, especially for the generations to come. This is easily said and written in an annual impact report but, as a matter of fact, it requires constant focus and effort to include everyone and follow together our ethical compass. All of us are ready to invest time and energy to achieve together with our teams and clients a positive impact. This also means that we do not want to have to deal with lone wolves who have their own personal agenda and personal interests.

We pride ourselves on having developed such an approach, thanks to the tireless involvement of our managers and colleagues.

How our shared values cemented our common approach to working under the Covid-19 pandemic.

We extensively address ethical issues with all our staff. This goes, of course, for our Code of Conduct, which should not only be read and signed but actively understood by all our staff. That is why every year, annual sessions are planned to address and discuss the key elements of our ethical compass. Each year, the approach to those sessions takes a different angle. Last year, for example, we discussed the topics of freedom of expression and education based on the speech given by Emmanuel Macron at the Sorbonne after the assassination of the French teacher, Samuel Paty. This year, provoked by the fate of the Uighur minority in China and the issue of forced labour, we are planning to address the issue of responsibility and freedom of choice when, for example, choosing a supplier in lengthy and complex supply chains, or a simple T-shirt in one of the low-price fashionable branded shops in fancy shopping malls.

In these almost two years of unprecedented health crisis worldwide, it is obvious that the virus has provoked all sorts of behaviours and raised deep ethical questions in our societies. Reflecting today upon how we at ProCredit reacted to those questions illustrates the relevance of our values as well as their solidity. At the outbreak of the COVID-19 pandemic in March 2020, all of the ProCredit institutions responded ex-

tremely quickly, setting up dedicated COVID-19 task forces, organising work-from-home for all staff and reorganising the work processes so that employees and clients could continue to co-operate efficiently without taking any risk. This was facilitated by the secure IT infrastructure and processes that were already in place, but also, and more importantly, by the high sense of engagement and solidarity among our staff, who made sure to fully serve our clients and support each other under these new (and at times heavy and stressful) circumstances. The fact that we are small, relying on teamwork rather than "siloes" units, knowing each other very well through frequent and intense dialogue, meant that we had the necessary "social capital" to effectively work under externally imposed brand new circumstances. This would not have worked without a high sense of responsibility to categorically assign the highest priority to the safety of our teams and of our staff, while continuing to actively and optimally serve our clients during these difficult times.

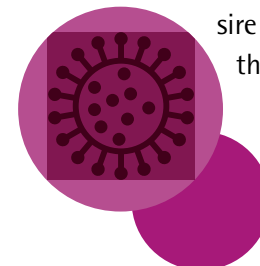
This very same sense of responsibility also explains why all our staff are fully vaccinated. We are particularly proud of them for enabling us to make this statement today. Beyond taking all measures to protect themselves, our staff consciously and categorically chose to protect others and play their role in fighting as much as possible the spread of the virus in their own environment. As an institution, we

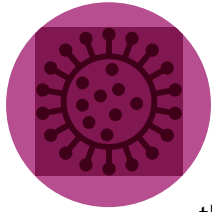
communicated our expectations already in summer 2021 within the group. The management teams and many involved colleagues then facilitated as much as possible access to scientific medical information through documentation and/or meetings with experienced doctors and scientists for all staff who needed clarifications to answer their concerns or fill gaps in their information. Our management and HR teams also either directly organised, or ensured easy access to, vaccination for colleagues and in some cases for their family as well. The very vast majority of our staff embraced the approach quickly and fully. Still, several rounds of discussions have sometimes been needed to align everyone under the same banner of health protection and safety for all. In the very few cases where the view of our colleagues deviated too much from rational and well-founded arguments, we had to mutually take note and act upon those irreconcilable views on core values. In local contexts where scientific evidence was regularly challenged by some parts of the population invoking unfounded arguments and/or questionable beliefs in obscure conspiracy narratives, our clear approach provoked at times attacks via social media, sometimes against some of our banks, at other times even against some of our staff. Though unpleasant, those cowardly attacks simply bounced off a shield made of two iron-strong materials: rationality and a sense of responsibility. As a matter of fact, in the countries where we operate, the vaccination rate of

the population is ranging between 25% and 80% whereas it has reached 100% in our institutions. At a time when scientific evidence and hard statistical facts are too often challenged publicly and in a cowardly manner on social media by people who claim to know better, we are proud to see that our staff and our teams massively rallied around reason and responsibility. Actively engaging in this battle is also part of our impact as a responsible banking group

How our way of working together is impacted by almost two years of pandemic

After more than a year working at times remotely and always under strict distance and precautionary measures, with international travel, group meetings and courses in our Academy in Fürth suspended, the vaccination rollout finally allowed us, from summer 2021, to modestly resume trips, meetings and workshops while at all times and in all places keeping all necessary precautionary measures. There is a strong desire among our teams to come back together, to the office, to the Academy, to visit each other and our clients without restrictions. This desire is still being put to the test by the successive variant waves, to which we respond without any compromise, following the





categorical imperative of maintaining the safety of our staff and clients through remote working, staff rotation and social distance.

Once the health and operational risks related to the pandemic are behind us, the question of the new model of working will be even more structural than it is now. Indeed, even if the debate on work organisation and the future of office work is largely present, it is for now still largely clogged by the pandemic. Within the group, the structural question of work organisation has been discussed, with, on the one hand, the strong desire to go back to normal interactions at the office, while obviously making the most of technological communication tools to reduce the CO₂ emissions caused by flights. In some of our markets, this shared desire to go back to "normal" (or "almost normal") sometimes deviates from the mainstream expectations regarding remote working or a different "work-life" balance.

We do hear and feel this trend. We sometimes experience in our recruitment process different expectations from candidates. We remain, however, prudent in engaging in it significantly, simply because we feel it does not fully match our way of working together. As soon as the pandemic allows for it, we have planned to give some flexibility to our staff while keeping a strong orientation towards working and

meeting at the office. This translates into the possibility to work from home for the equivalent of one day per week. We want to give this option to all staff independently of their position, seniority or function. Post-pandemic, this step will probably be assessed by some as too modest (even though it represents 20% of the effective working time!), reflecting a lack of flexibility and a low importance given to the expected work-life balance. We see it very differently.

We simply want to be there together for our clients. We also know that being small and values-driven ultimately obliges us to be constantly finding appropriate and agile solutions in a quickly changing environment. The sense of commitment and solidarity within the group is rooted in being together, discussing, reflecting and spending time together.

Integrating new colleagues is not only asking them to fulfil a given job description but also to participate in wider projects and contribute in many aspects to the common good. This is also to give them the opportunity to learn by being part of a team, by seeing and interacting with experienced colleagues, as well as listening to and exchanging with colleagues outside of meetings. This cannot be achieved by staying home and staring at a screen, wondering who to call. We hope that for potential candidates, being impact- and values-driven is still more relevant than how many days can be worked from home.

We believe that the majority of the working time should be spent with the teams, the colleagues, the clients. Unlike other employers, we are not using the work-from-home criteria to attract candidates or to reduce our operational costs, but simply to add flexibility. The one-day-per-week spent working from home will allow those who want to make use of it more flexibility in the organisation of their tasks, professionally and privately, enabling them to reduce the time spent travelling while keeping the sense of co-operation and togetherness that makes us who we are.



For more information, see:

- > [Impact Report Appendix 2021](#)
 - Management approach and overview. Ethical values and working environment (page 20)
- > [Impact Report Datasheet 2021](#)
 - Employees
- > [Our Responsibility – Our Code of Conduct](#)
- > [Corporate governance](#)
- > [Impact Report 2020](#)
 - A secure working environment despite COVID-19 (page 56)

FAIR RECRUITER AND EMPLOYER

by Sandrine Massiani

More than 10 years ago we put in place a group-wide approach to recruitment. This approach is based on years of experience in our countries of operation as well as strict self-imposed principles that leave no room for privileges, shortcuts, favouritism or discrimination.

First, we designed a standard recruitment process in several steps that all candidates need to go through. In addition to individual interviews and mathematics and logic tests, applicants also take part in group discussions. This process is demanding, but it is transparent and the same for all, whatever their experience, seniority or the position they apply for. There is no space for shortcuts based on connections. The key principle is meritocracy and is based on the candidate's attitude and qualifications only. These principles are appreciated even by those who do not make it.

Second, in addition to our experienced HR teams, many of our key staff and managers are involved in this process. All the involved colleagues share their assessment of the candidates and need to come to a common decision based on articulated arguments. It goes without saying that recruitment is too important to be outsourced to a specialised agency which by default cannot share the same values and objectives.

Third, we invest time in the recruitment process because choosing the right colleague and team

member is one of the most important decisions we can take. We do not shy away from hiring young graduates, including those with little or no professional experience, and are even proud of integrating them into the labour market. As a matter of fact, 29% of our staff started their professional engagement within the ProCredit group. We also hire from a wide variety of educational backgrounds, including scientific and humanities subjects. We are convinced that this organic diversity of profiles and experiences results in a constructive, open-minded and innovative pool of approaches to solve issues and serve our clients in the best way.

We hire people not skills

Our main focus when recruiting is not to fill a specific position but to find the "fit" with our way of working together and sharing a common sense of purpose.

We project ourselves in the long term, not in the next 3-5 years, but, like in a marriage, in a whole (professional) life ahead of us, a life during which we know we will engage in different projects and tasks, changing positions, working with different teams, at different levels of responsibility. Therefore the set of skills available at the time of recruitment is not really

helpful, or at least not for long, if the intrinsic qualities and motivation of the candidate do not match our strategic vision and way of working together. Also, we commit as an institution to bring the necessary knowledge and skills (and more!) to all newcomers – the only *conditio sine qua non* is a strong desire and capacity to learn and develop through curiosity and critical thinking.





To do that, beyond checking the ability to think logically, we make sure that throughout the recruitment process we have enough occasions to explain who we are and to look at the candidates' attitude, willingness and capacity to engage in dialogue, their readiness to question, learn, challenge as well as their ethics and understanding of democracy.

A unique start into ProCredit

Our demanding recruitment steps culminate in participation in our Onboarding Programme. This six-month integration programme, which has existed for many years, is a unique opportunity for people who already have work experience and especially for those who have recently graduated from university. It is delivered in English and covers all aspects of our approach to banking as a development-oriented commercial banking group, as well as the social and environmental aspects which form part of our responsible attitude. It is organised as a combination of different modules, delivered either in our training centre in Serbia and or in each employing bank. This process is a unique opportunity for new staff to be exposed to the identity of the group and to its staff, to understand its vision and mission and experience the banking approach of ProCredit banks on the ground.

The ProCredit Onboarding Programme is not conducted in conventional classroom style, where the lecturer talks and the students take notes. Instead,

the majority of the modules entail working in teams, giving presentations and participating in discussions. The aim is to challenge participants to expose themselves, work in teams, take responsibility and develop critical thinking. Teachers are exclusively senior experts and managers of the ProCredit group.

During the pandemic, the Onboarding Programme was quickly moved online and we have been able to continuously enrol our new colleagues without any delays. Throughout the past two years, we were determined to continue our recruitment efforts, because ProCredit's demand for staff was there and because we know from experience that a good recruitment process is ongoing (as opposed to a stop-and-go or on-demand process). As a matter of fact, we have been able to hire and onboard at the group level even more new colleagues during that period than ever before. The mere fact of being able to be present on job portals and recruit without interruption during the pandemic has also demonstrated the solidity and consistency of the group, both externally and internally. This excellent achievement would not have been possible without the engagement of all colleagues involved in the selection steps and the Onboarding Programme.

In this transition to online training, we have faced challenges, but also learned a lot from them. It is obvious that during online courses, teachers cannot observe and thus assess the behaviour of the participants as effectively as when a group of participants spend weeks together hosted in a dedicated training centre, in classes and outside of the classrooms. It is also more

difficult for participants to get to know each other and to assess the atmosphere and the way we tick through a screen. Nonetheless, thanks to the constant sharing of experiences and reflections of the colleagues involved in recruitment, specific attention has been given to those issues and the lessons learned are being carried over to compensate for these shortcomings.

agement boards: their remuneration does not include any contractually agreed variable components.

Instead, we rely on fair and decent salary levels reflecting the quality of our staff, and on clear job descriptions and regular feedback from managers to guide the performance of our staff. We believe much more in open communication, shared values and a shared sense of purpose as the basis for a long-term relationship with our colleagues. In cases of outstanding contributions or commitment to a specific project, our staff can receive one-time premiums. In that case employees typically invest in shares of the company through ProCredit Staff Invest (PCSI) – our employee stock ownership plan (ESOP).

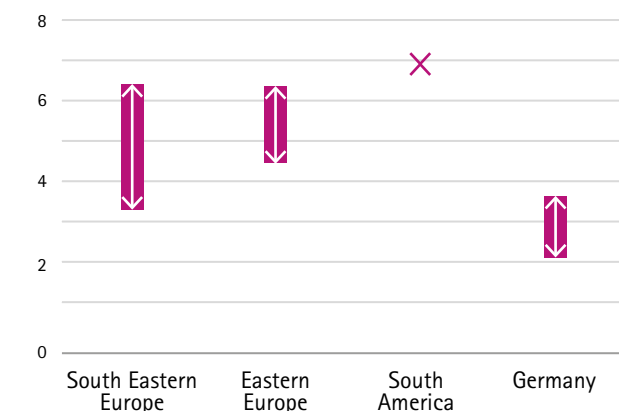
ProCredit Staff Invest (PCSI) – our ESOP

ProCredit Staff Invest was set up 20 years ago as an investment vehicle to enable staff members to acquire shares in ProCredit Holding. The long-term commitment of our managers and key staff is reflected today in their participation in PCSI, which holds approximately 2.99% of the group's capital. PCSI is one of the five core shareholders of ProCredit Holding as it holds a stake in ProCredit General Partner, which is responsible for the management of ProCredit Holding and oversees the management and performance of the group. It also entitles staff members to a role in strategic decision-making through their representative's membership of the ProCredit Holding Supervisory Board. PCSI invests its entire capital in shares of PCH and has no other business purposes.

A unique approach to remuneration

As a fair employer, we place great value on a transparent salary structure with fixed salaries. For years, we have consciously refrained from the practice of giving short-term, performance-related bonuses as a supposed means of incentivising our staff. We believe that this type of incentive can hinder the ability of our staff to provide responsible advice to our clients. We believe that the prospect of a bonus based on quantitative targets creates a false incentive to "sell products" or make decisions that might boost short-term profit at the expense of a sustainable way of banking. Bonuses might even harm relationships among colleagues, as suddenly team members become competitors. We think that the binary function represented by monetary incentives (a bonus provokes a type of action or behaviour) does not represent the way we envisage respectful working relationships with colleagues. The same approach is applied to the management of ProCredit Holding and to the banks' man-

Range of annual compensation ratios per region in 2020



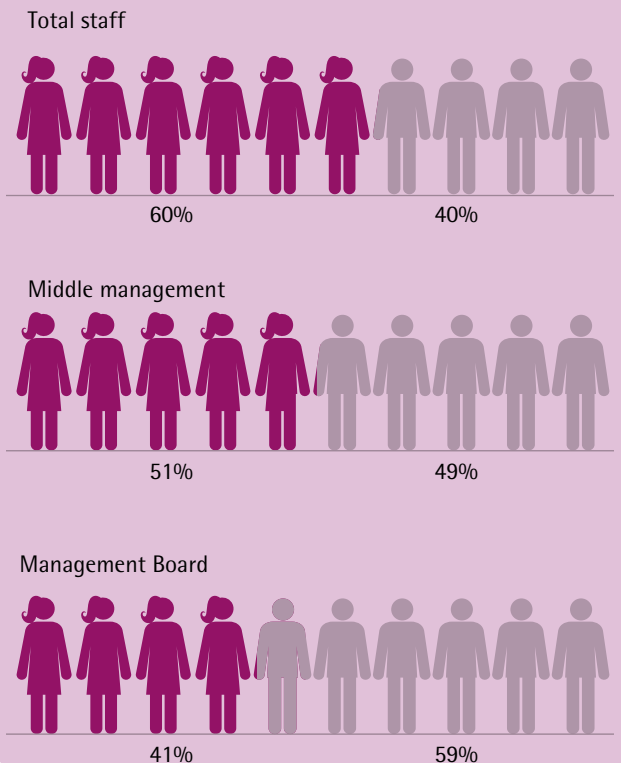
Reference year: 2020

We also make a point of keeping a decent proportion between the salaries of our senior managers and the salaries of our employees. This is in stark contrast to the widespread over-inflated pay for CEOs and the like in the financial sector (and beyond). In no ProCredit institution does the average pay of the senior managers (including management board members) exceed the average pay of the other staff by a factor higher than 6.93. Our focus on fairness in salary structure is also reflected in the low ratio of the highest salary level (including management board members) compared to the median salary across our institutions, which ranges from 3.4 to a maximum of 6.9.

Gender diversity: an illustration of a fair employer

We do not need to define any target in terms of gender diversity: gender balance at every level of the ProCredit group has long been a matter of fact. One that results simply from the specific development and promotion decisions regarding individual colleagues (as opposed to categories of colleagues). And one that we welcome and profit from. Gender balance is not just an end in itself, but is a reflection of a deeply responsible approach to banking and to staff development more widely.

- Of our total ProCredit group staff, 60% are women and 40% are men
- Our 12 banks are run by 32 management board members, of whom 13 (41%) are women.
- At the middle management level in our banks, which includes branch managers and heads of departments, 51% are women.
- In key business and risk functions, such as business client advisers and credit risk analysts, women make up 60% and 50% of the teams, respectively.
- Of the 136 people that have graduated from the ProCredit Management Academy (in the last five years), 46% are women and 54% men.
- The seniority within the institution is exactly identical for men and women and lies at 12.5 years, reflecting absolute equality of professional development for all.
- There is no salary difference between men and women in comparable positions in our group.
- Average training hours per employee: 121 for women and 136 for men.



For more information, see:

> [Impact Report Appendix 2021](#)

- Management approach and overview. Fair recruiter and employer (page 21)

> [Impact Report Datasheet 2021](#)

- Employees

STAFF DEVELOPMENT

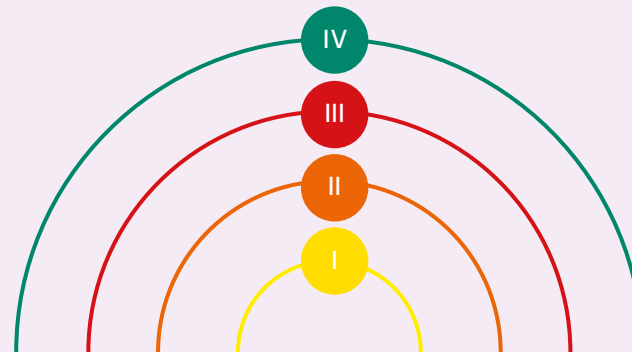


The lessons learned from the pandemic, during which the premises of the Academy were closed and the Academy curricula had to be converted to online courses, have resulted in an exciting project to enlarge the training offer of the group through a high quality and unique ProCredit e-learning campus, as presented by Rolf Kreitel in this section (see [How digital education impacts our Academy campus](#), > page 60ff.).



Teaching at the ProCredit Academy, Fürth, Germany

Levels of training at ProCredit



Level IV ProCredit Management Academy

Three-year course at ProCredit Academy, preparing selected staff for greater leadership responsibility.

Level III ProCredit Banker Academy

One-year course at ProCredit Academy combining humanities and banking topics. Serves to identify staff with strong management potential.

Level II Specialist courses & workshops

In-depth training in the technical skills needed for specific positions, plus regional and group-level seminars. Regular courses in spoken and written English, the group's working language.

Level I ProCredit Onboarding Programme

6-month integration programme covering all aspects of our development-oriented banking approach, including social and environmental aspects. Mix of classroom and on-the-job training.

We believe in people and invest a lot in them. Like Denis Diderot, philosopher and political thinker of the Enlightenment, we are committed to a humanistic and unprejudiced view of the world and believe in freedom and reason through education. We are extremely proud to present the Denis Diderot School, which opened its doors in 2021 to young children from Bulgaria, and encourage you to read

the story of the school presented by Petar Slavov in this section (see [Denis Diderot School](#), > page 65ff.).

When it comes to training, we do not concentrate on the happy few but have developed a comprehensive training continuum for all our staff, from the Onboarding Programme to the ProCredit Management Academy.

Our commitment to staff development

In the last 10 years,
new colleagues
have been
onboarded
through our
6-month programme.



Today they represent **30%** of all staff.

All our employees have at least
a **B1 level of English**
after years of investment
in English courses delivered
by our teams of teachers.



15% of our banks' total staff
have graduated from
or are currently
participating in the



Management Academy or
the Banker Academy.

In 2021,
425,010 h of training
were provided to ProCredit
Bank colleagues,
which represents
on average 16 days of training
per employee in a year.



This level is similar to 2019,
prior to COVID-19 restrictions.

130 colleagues
participated in



English courses
provided by the Academy
teachers in 2021

In 2021, 
ProCredit staff received
13,563 hours of training
on the Code of Conduct.

 Training costs amounted to
EUR 6.4m in 2021,
without taking into account
the time spent by our own managers
and key staff in training.



For more information, see:

[Impact Report Appendix 2021](#)

- Management approach and overview. Fair recruiter and employer (page 21)
- Sustainability goals and achievements (pages 2ff.)

[Impact Report Datasheet 2021](#)

- Employees

[ProCredit Academy](#)

[ProCredit Onboarding Programme](#)



HOW DIGITAL EDUCATION IMPACTS OUR ACADEMY CAMPUS

by Rolf Kreitel

Aims of ProCredit's educational agenda

The Academy was founded and developed over the last 16 years with the clear mission to build a highly integrated group of managers by bringing them together at regular intervals to attend training programmes lasting three to four years, sharing the experience both intellectually and socially. Training and education thus happen not only in classrooms or in moderated situations but also as part of the ensuing social dynamics in these learning groups. The experience consists of various social and intellectual challenges like integrating into a new group of equals, finding and changing your role and position, receiving and giving feedback both verbally and non-verbally through body language. The effects are even more profound when considering the international and multicultural character of all those groups. 20 individual students coming from 10 different countries need to approach each other with attention and respect to form a healthy social environment capable of producing excellent

common results. All ethical and social principles of ProCredit's culture are learned and practised here in a microcosm. Managers who went through this programme not only know each other but identify themselves as members of a core group of "citizens" feeling responsible for reproducing and sustaining our distinct culture. Resentment based on prejudice and former ignorance is replaced by mutual trust. Solidarity and friendship take place where unhealthy competition would otherwise be dominant. Confidence nourished by the experience of being part of a strongly integrated group confers identity and individual satisfaction. This is our way to build a corporate culture and community.

The classroom-based education focuses on the individual intellectual development without ignoring the importance of social learning. The requirement to work in teams and the challenging task to constantly adjust the balance between co-operative and competitive behaviours is reflected in and instilled by our methodological toolkit. Just to express one of our guiding principles: already our deep aversion to authoritarianism and coercion requires a democratically inspired methodology, always emphasising or

seeking dialogue and discussion in a realm of equality between students and teachers, inviting students to participate in a qualitatively significant way at various points during the courses.

The selection of topics covered during the programme is unique and reflects coherently both our business model and our ethical convictions. We are educating and developing our students not merely as managers or specialists but as citizens and responsible moral agents as well. We are children of the European Enlightenment and thus understand progress as a process of individual emancipation.



The idea to cover a broad range of topics in a curriculum which combines business and management skills with subjects of the humanities is surely unique for a financial institution. But I ask myself, why is it so unusual? After all, the benefits are obvious: anthropology, history, economics or philosophy offer a road to understanding our world. They inspire thoughts and curiosity and offer plenty of learning opportunities. A claim for responsible banking needs to be sustained by the ability of our managers to understand both individual and collective human behaviour. This understanding forms the basis for their ability to integrate individuals into teams or entire institutions, to critically assess the exposure to social and environmental risks, and to take responsible decisions in line with our shared ProCredit values. Already the question of what responsibility means is a philosophical and ultimately political one which needs to be discussed and applied in daily life. Reflecting on it with the help of important philosophers like Kant or Rawls, discovering it as part of a historical analysis of ancient civilisations, experiencing the devastating effects of a perverted definition of responsibility when visiting a German Concentration Camp – these are lessons which every serious management education should offer.

What such a programme achieves in terms of development of the students' personalities is visible in the results it has produced: apart from knowledge

and broadened horizons, participants acquire a distinctively modest attitude concerning the notion of truth. Being confronted with the complexity of human culture and civilisations, their institutions and ideas, the students realise that such claims are seldom scientific but rather that they often follow authoritarian patterns of manipulation and indoctrination. The sceptical-critical mindset we seek to instil in our participants leads to cautious and reflected explanations, always keeping in mind individual biases and the general human condition of subjectivity. At the same time, preliminary conclusions work as inspiration and motivation for further learning and research even after the end of the programme. Unusual topics and perspectives challenge people to think outside their boxes and, over time, confer confidence to those who dare to think.

All of this is embedded into a campus we have built and continuously developed during the last 16 years. We not only enjoy modern seminar rooms, study areas, social spaces and a beautiful swimming pool, but also live the proclaimed responsibility for our social and ecological environments, both locally and globally. In response to the closure of public swimming pools due to spending cuts in many municipality budgets, rendering schools unable to offer swimming classes, we make our pool available to

eight schools in our neighbourhood. In order to become sustainable in the consumption of energy, we have not only covered all available roof spaces with PV panels but also capture solar energy on the suitable facades.



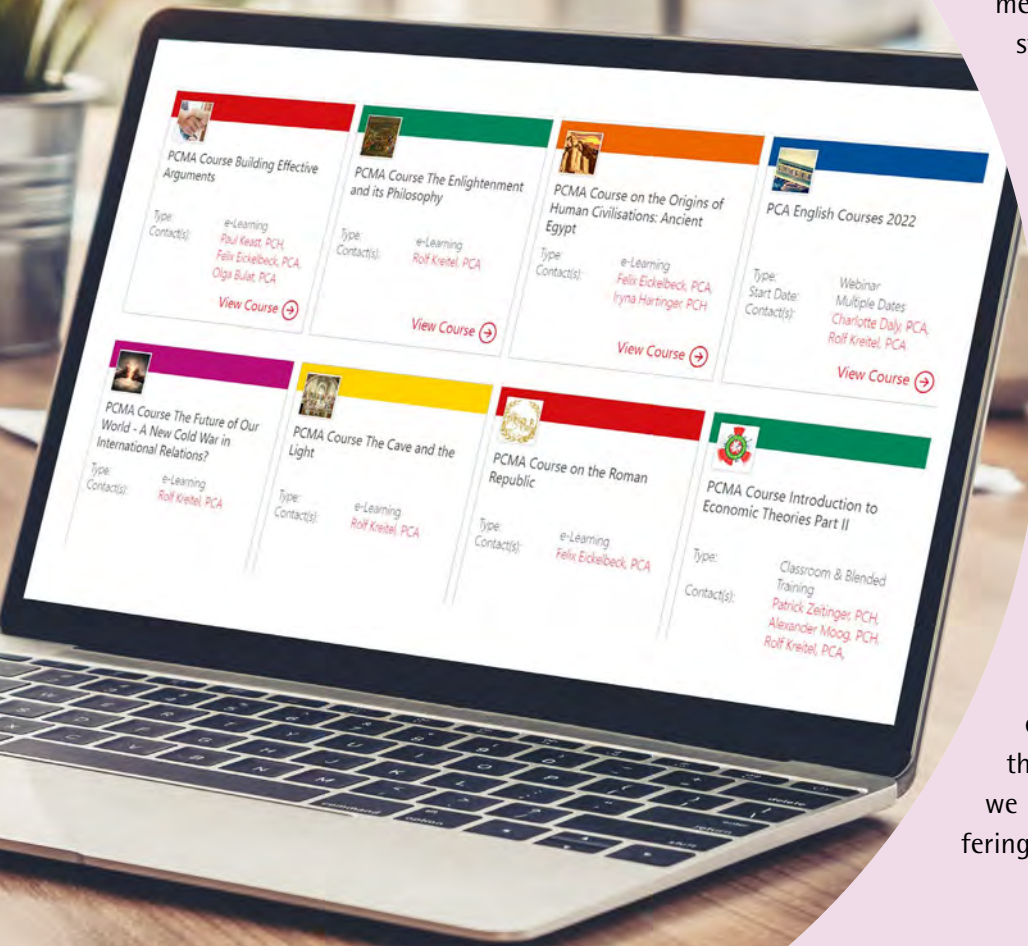


How to translate these aims and means into the online world?

After the suspension of all Academy training programmes in March 2020 due to the COVID-19 pandemic and the enforced lockdown of our campus in Fürth, the adaptation process in the Academy and in training departments across the ProCredit group started immediately. What was used before rather passively as a storage area for course materials now became the centrepiece of our deliberations about the possibility of continuing the trainings online: a digital learning platform linking interactive webinars with the distribution of knowledge in specially designed e-learning modules. The pandemic did not leave any space for alternative choices except the suspension of all programmes for another year during 2021. Since students and candidates were eagerly awaiting the relaunch of the programmes, we committed ourselves to start offering online courses in Academy sub-

jects and English language skills on a regular basis for more than 300 participants in January 2021. A pragmatic decision underlined by our remaining scepticism because – considering our interactive approach to training – the challenges posed by online courses appeared insuperable. How could we bridge the apparent social distance imposed by screens and headsets? How could we still facilitate intensive and valuable interactions in classes, keeping participants interested and motivated? And how could we manage the time difference of up to 9 hours between our banks on different continents? This process challenged us in the same way we usually challenge our students. Now the teachers needed to act.

Already the process of working out digital solutions for our courses was an important step for learning more about ideas and expectations related to training by bringing a wide array of actors from different ProCredit institutions and fields of expertise together. Despite the COVID-imposed social isolation, this working process established a permanent dialogue across institutions and hierarchical levels, producing a common understanding and effective co-operation. Academy teachers conferred with risk managers or environmental officers about training concepts and tools for designing digital or online courses. The only time I had experienced such a creative atmosphere was when we started the Academy in 2006, constantly discovering new topics and



teaching styles. We all left our routines and conventional principles behind and focused on exploring the uncharted territories.

Eventually during 2021, thanks to the outstanding commitment and creativity of all teachers and managers involved, we were able to reorganise all courses of our Banker Academy and Management Academy programmes. When the campus in Germany tentatively reopened in August 2021, Academy and English courses were held partly face-to-face, partly online and partly in a hybrid mode with some participants joining a classroom-based course online.

What are the lessons learned?

After one year of exploring, testing and experimenting with new formats and models of training we can draw some conclusions concerning the future combination of the real and digital worlds in our approach to education and training.

Especially in our Academy programmes, the classroom experience and the aspect of social learning is a cornerstone of our educational efforts. It cannot be simulated online! We have had to acknowledge this fact despite our creativity and enthusiasm to design interactive and stimulating content. Online meetings cannot replace real social interaction ei-

ther between teachers and students or among the students themselves. If we would do everything online in the future, we would lose essential parts of our impact.

On the other hand, the COVID-19-related lockdown has brutally shown the necessity of being able to adapt flexibly to quickly changing external circumstances. Taking into account the international character of the ProCredit group, our training concept rests to a large degree on the possibility of freedom of movement and travel. The pandemic might have been a generational event of global proportion, but we need to concede that the next global crisis is in the making and that we are being forced to leave our comfort zone. Global climate change will produce complex and drastic consequences which will affect us all. Retaining the opportunity to at least limit its effects, emissions of greenhouse gases need to be reduced, which also includes the transportation sector. Travelling, especially by air, is a luxury we should and will enjoy more carefully in the future. The use of digital channels of training in combination with direct experience on our campus can contribute to a reduction of mileage, at least for those courses that, in our view, can be meaningfully organised online.

We are in the midst of this evolutionary process guided by the need and desire to preserve our valuable campus as the melting pot of present and future generations of managers. Doing it right could mean combining the best parts of both worlds, using our growing experience to understand what types of trainings, which topics and methods work well online. The positive experience with English language trainings online for example, reinforced by measurable good results and the feedback from participants, encourages us to seek a new balance between face-to-face and online training. Here the more individual focus on participants and the absence of (possibly intimidating) social exposure to a learning group can even help participants make their first steps towards mastering the English language.

By using a digital learning platform which presents content like books, podcasts and courses in an inviting and attractive way, accessible for all ProCredit employees, we can broaden and deepen participation in education beyond the well-established Banker and Management Academy curricula which will continue to take place for selected participants in our beautiful Academy in the Odenwald. Especially e-learning as a mode of individual self-learning, supported by interactive and multimedia elements, offers participants the freedom to create their own development agenda either by joining designated online trainings or by becoming inspired and motivated to apply for

the Academy programmes. In combination with organised course sessions online which provide space for questions and discussions, we can offer training that is complete and effective, even according to our own high standards and expectations. Nonetheless, employees would share the responsibility for constant learning and personal development with their respective managers and HR departments.

Inspired by these new possibilities to link up with all individual ProCredit employees, we plan to develop a number of new courses and trainings which are explicitly meant for the purpose of complementing and enriching the existing course catalogues and programmes. After having focused our resources on the systematic rebuilding of Academy courses in 2021, we want to invest more energy into building up the course catalogue in 2022 and beyond. For example, we plan to develop courses on out-of-the-ordinary subjects, like the analysis of contemporary political populism or explaining the psychological and economic logic behind conspiracy narratives, which should and will be available to all interested employees.

The introduction and use of a digital learning platform has led to more communication and co-operation especially between the Academy, the training departments and the specialist teams at both ProCredit Holding and the banks. It will become a platform for exchanging best ideas, concepts and even complete courses, making easy adaptation and fast implementation in different ProCredit institutions possible. It is also evolving as a place of mutual support and valuable feedback, with trainers joining classes delivered by colleagues, and this will lead to an increase in the overall quality of trainings in ProCredit. Therefore, it is legitimate to expect the Academy, with its virtual campus, to become the future hub for training concepts, contents and courses of and for the ProCredit group. It is a complementary digital role for the one the Academy campus has played and will continue to play in the real world.

Lecture at the ProCredit Academy, Fürth, Germany



DENIS DIDEROT SCHOOL

by Petar Slavov

Education means responsibility toward the young generation, toward the country and toward human beings, as it brings a long-standing positive impact for all. This impact can multiply in different dimensions, such as improved well-being, innovations, environmental protection, economic prosperity or culture. Education means focusing on a better future for the entire society.

This is why the ProCredit group strongly supports the initiative undertaken by ProCredit Bank Bulgaria in 2021 in opening the Denis Diderot School. Its establishment comes as a result of the commitment of the Bulgarian bank's staff to make a positive difference to society by addressing one of the key drawbacks of the country – the archaic educational system.

The challenges of Bulgarian education

We believe that quality education is one of the main prerequisites for the development of any society. Its insufficient level means a poorly educated and uncompetitive workforce, a low level of innovation and in the long run low perspectives for economic growth and respect for the overall environment. The

quality of education is an issue in most of the countries where the ProCredit group operates, and we have encountered this problem in our recruitment process in the banks. It is also one of the key challenges for Bulgaria, as recognised by the European Commission in its annual Education and Training Monitor report¹¹.

School education in Bulgaria lags far behind the other EU countries in terms of quality. Assessed through the academic results of the students, its level is closer to the underdeveloped world. The education system consists predominately of state-run schools with an archaic teaching approach, plus a few profit-driven private schools.

The state schools are oriented towards providing theoretical knowledge and lack any practical skills training. The curriculum has not been modernised for decades – it covers numerous sciences, but does not support the development of social and soft skills. The teaching approach is very different from modern perceptions of education – it still puts focus on memorising the lessons, doing extensive homework and learning for grades and exams. There is little opportunity for the students to cultivate creativity, critical thinking and problem-solving, which are prerequisites for them to be competitive on the labour market. In addition,

¹¹ Education and Training Monitor 2020, Bulgaria section: <https://op.europa.eu/webpub/eac/education-and-training-monitor-2020/countries/bulgaria.html>



Denis Diderot School,
Bankya, Bulgaria



the teaching staff lacks innovative trainings and the freedom to try new educational methods. There is an observable ageing trend among teachers, while young professionals are deterred by the intensive work and comparatively low remuneration. No investments are made in the state school infrastructure – the students learn in the same conditions and with the same out-dated materials as their parents.

The weaknesses of the state schools and the dissatisfaction of the parents opened a niche for the establishment of private schools. In recent years their number has grown substantially, however not the quality of education. Many of these schools are business projects driven by profitability, rather than a desire to modernise the education system. The schools often preselect children and push them to achieve high academic results in order to receive the top scores in national evaluation exams. This in turn leads to more enrolled students and generates greater profit. The premises of the private schools are modern, but often not designed for the needs of the children. Usually teachers come from state schools without being provided additional training. There are a few innovative initiatives among the private schools, but the majority are a paid luxurious version of the state-run institutions.

Social inequality is also a challenge for the Bulgarian education system¹². Family background and origin

¹² Institute for Research in Education, Bulgaria: <http://ire-bg.org>

play an important role in the formation of students' knowledge and skills. It is observed that children from minorities, with low-educated parents and scarce access to books, the internet and good schools, achieve the lowest academic results. In contrast, students from highly-educated and supportive families report academic achievements among the best in the world. There are state schools where kids from the minorities are deliberately concentrated thus lacking any possibility for social and later economic integration.

The weaknesses of the education system convinced us that establishing a school, driven by our values and educational approach, is a meaningful initiative that will make a positive difference for Bulgarian society.

Why the school fits the concept of the ProCredit group

In all of our countries of operation, we aim to contribute to long-term sustainable economic development, rather than maximising our financial results within a couple of years. By setting long horizons for our goals, we are convinced that their impact is more meaningful for the communities. The school's

establishment is also a long-term initiative, despite not being related to financial services. The concept of the school incorporates the key aspects of our understanding of social responsibility – to provide input to sustainability, to give a positive push to society and culture and to care about the environment. Hence, the school fits naturally into our portfolio of activities.





By engaging in this educational project, we are not led by commercial incentives. We do not perceive it as a business opportunity and do not expect a high return on the investment. By establishing the school we are setting an example of a comprehensive educational approach, as we believe that we have the expertise for it.

The initiative for the establishment of Denis Diderot School originated from the employees of ProCredit Bank Bulgaria. It was not brought to them from any external party or as an order from a superior. It came naturally, showing again that all these values we are speaking about are also lived in our daily professional and social life.

All the way from initial idea to implementation, it was done by colleagues from the bank who did not spare their energy and time, alongside their inescapable professional duties, to bring this project to life. All the shareholders gave their moral support and secured all the necessary funds to build the infrastructure and educational facilities.

The ProCredit group has long experience in human development, since education plays a vital role in our business model. We consider that the continuous professional and personal growth of the employees is a crucial factor for the sustainability of our financial institutions. Our staff training starts with a six-month

onboarding programme, goes through specialist and English trainings and leads on to the ProCredit Academies. The time dedicated to training, and the expertise we have gained in human development, make us confident that we have developed a progressive teaching approach that assures long-lasting results. It is based on the active participation of individuals via projects and discussions, by which they are challenged to think critically, be creative and take decisions. Therefore, we believe that the school, which reflects our educational experience and values, will contribute to the transformation of the Bulgarian educational system.

The construction and operation of Denis Diderot School were supported and guided by the same people, highly committed to transmitting the ProCredit values and approach. There is also ongoing communication between the staff of the bank and the school, which allows the teachers to observe the personal example of the bank employees for their responsibility and dedication to the school project. The engagement starts on the highest bank level, since the Management of ProCredit Bank Bulgaria also serves as Management of the school.

It is important to highlight that for us, the employees of ProCredit Bank Bulgaria, the Denis Diderot School is neither a business project nor a financial initiative, nor was it created for economic or commercial reasons.

Denis Diderot School is a direct result of the work and efforts of a huge team of like-minded people. Of people who share the same ideology and value system. People who are convinced that education is our tool to fight poverty, misery, economic ruin and economic decline, social degradation and decadence.

And even more important, people convinced that education is the way to fight ethnic, class or religious discrimination and chauvinism, political corruption and dictatorial regimes, especially in their modernised populist versions.

It is about a team, firmly believing that the path to peace, democracy, freedom and pluralism goes through education. For this team, this is more important than just doing business for financial or professional satisfaction. Such results you can achieve only if you engage yourself.

The identity of Denis Diderot School

Our vision for a school is a modern concept, close to nature, driven by the belief that children are born with an innate desire to explore the world around them. Our learning model focuses on the individuality of each child and the overall development of their personality, guided and supported by mentor teachers. This concept is new for the education

system in Bulgaria, but it is close to the approach we follow in the ProCredit Academies.

In order to achieve our vision, we built a school whose mission is to provide a diverse and creative atmosphere in which the students enrich themselves with new knowledge and skills, discover and develop their interests and talents, and grow up as capable and socially responsible individuals.

All activities at Denis Diderot School are guided by the humanistic principles of integrity, respect, care, collaboration and responsibility. The school community follows these principles in its daily routine – they are integrated into all academic themes, presented through stories, sports and games and through the personal examples of the teachers, and understood through discussions.

The name of the school speaks by itself of our approach toward education – we have named it after the prominent philosopher and enlightener of the 18th century, Denis Diderot. His works and ideas were highly progressive for his time, as he proclaimed equal access to knowledge for ordinary people, freedom of thought and social responsibility. These principles are very close to our understanding of learning, since we strongly believe that science and knowledge go together with the development of personality and social commitment.

Diderot is known to the general public primarily for the creation of the Encyclopaedia, a collection of human knowledge which inspired a revolution in human thinking. This provocative philosopher and great thinker was one of the multitude of ingenious minds of the Enlightenment who laid the foundations for modern, Western European education systems. By establishing the basic principles of secular education, they showed us the essence of teaching, which is not about simple mechanical memorisation and reproduction of events, facts and dates, but about interdisciplinary approaches, in-depth analysis and the search for the origins of all things. Education is about the search for causal links to the origin and existence of certain social laws, of economic formations. It is about the unravelling of contradictions and evolution, in the development of civil societies and social relations.

Location and infrastructure

Denis Diderot School is located at the foot of a mountain, in the town of Bankya, known for its healing mineral waters and fresh air, and it is only twenty kilometres from the centre of Bulgaria's capital city Sofia. The location in natural surroundings corresponds to the concept of being close to nature, where students can spend time learning outdoors and exploring their environment.

The grounds of Denis Diderot cover an area of 6,000 m². The school encompasses three buildings with well-equipped classrooms for natural and social sciences, music rooms, two libraries and halls for dancing and for arts. Two gyms and two swimming pools have been constructed for indoor sports activities, while for outdoor activities there are two playing fields and a running track. The school has its own kitchen to prepare healthy food. The facilities can nicely accommodate around 300 students at ages 6 – 18 years for a full day's teaching programme. The infrastructure has been designed with the vision of fully responding to the needs of the students and facilitating the learning process.

Our teaching approach

We believe in a concept of education built on the principles of modern, humanistic, Western European education systems, with their roots deep in the wisdom of the philosophers of Antiquity; systems which have passed through the freedom of human thought before and during the Renaissance, through the inspiration and depth of human knowledge over the years of the Enlightenment, and which continued in the development and flourishing of the sciences in the 18th and 19th centuries. This kind of education is exactly the missing link that will finally make Bulgaria part of the great European family, part of a united Europe.



The approach we apply at Denis Diderot School does not follow a single educational method; rather, it reflects a modern understanding of the learning process. It focuses on individual support for each child and applies a theme-based inductive learning concept, where teachers act as mentors. The environment is part of the learning process and evaluation is done in the form of feedback, rather than grades. We believe in the holistic approach that knowledge and skills should be developed together with personality and the emotional intelligence of children.

We are committed to assuring the academic and personal progress of all students. This is achieved by taking an individual approach toward the children in accordance with their abilities and individuality. Their talents, interests and learning capacity are taken into consideration when assigning tasks. Thus, depending on their individual way of learning and perception, children in the same class perform tasks with different levels of difficulty. The teacher supports each student until they master the assignment and are given a more complex task. The development of students is fostered through constant monitoring, timely feedback and support from the teachers. To facilitate this individual approach, the

learning process is organised in small classes of up to 15 students, who are supervised simultaneously by two teachers. This method means higher personnel expenses, but unlike the other private schools in Bulgaria, which aim at maximising profit, we aim at optimising the value added through the education process.

Teachers respect each student's personality and do not make comparisons between them. They treat students equally and do not demonstrate any favouritism; they tolerate diversity in terms of social status, ethnicity, gender or talents, thus integrating the fundamental principle of dignity into the educational process. By being provided with a respectful atmosphere, the students feel safe to make mistakes when studying, as a result of which they learn to make decisions and take responsibility for their actions.

We perceive education as a long-term commitment to forming knowledgeable and well-balanced individuals and do not measure their current achievements by grades, which instead of motivating students might have a harmful effect. The progress of children is monitored relative to their individual development, and they and their parents receive constant feedback, which focuses on stimulating the students' academic growth.



The learning process at Denis Diderot School is designed in a similar way to our approach in the ProCredit Academies, which has proved successful in developing rational and open-minded professionals. The education is achieved by applying inductive teaching methods whereby students are not simply given ready-made answers, but find them on their own through individual and group research assignments. They observe, explore and make assumptions and conduct analyses, coming to conclusions that are summarised by the teacher. The inductive method assures long-lasting knowledge and skills, which are comprehensive and well understood and can be applied in practice again. Besides knowledge, the students develop abilities to be creative, to think critically and globally and to self-assess their achievements.

At Denis Diderot School the role of the teacher differs significantly from conventional schools in Bulgaria. They act as mentors, who inspire new knowledge, skills and learning attitudes. Denis Diderot teachers organise the activities through which students inductively find answers, and help to summarise the outcomes. They are expected to provide support and use teaching methods tailored to the individuality of each child. Meeting these high expectations toward the teachers proved to be the key challenge during the first school year. Although teachers were recruited who share the values of ProCredit and have

the proper attitude and potential for the position, the teaching method differs totally from their past professional experience in Bulgarian schools, where only theoretical knowledge is taught. With the constant guidance and example from ProCredit Bank's staff, the Denis Diderot teachers are gradually improving their skills to fit the educational process.

Teaching takes place not only in the classrooms and laboratories, but in all the school's facilities, including the playing fields and the schoolyard. The two libraries are used as a space for studying and literature lessons. A school amphitheatre is available for events. The learning process also integrates visits to art galleries, museums, farms and other places that provide practical experience.

Denis Diderot School's approach differs from the conventional learning process in many other ways, as well. The information is organised thematically in monthly topics and weekly subtopics, which incorporate all the sciences. This set-up allows the students to fully explore the topic from all possible aspects and receive a comprehensive and interlinked knowledge of the world. The daily programme is structured in four blocks of different classes, and provides time for in-depth understanding of the topics. English is integrated into the overall learning process and is studied in a natural way. Last but not the least, we have included in the timetable a class that is very unusual for the first grades

of the Bulgarian educational system – Philosophy for Children. Along with knowledge and skills, its aim is to develop the personality of the students – to be tolerant, to defend their positions with arguments, to think and work in a community, to be open-minded.

Despite being a private school, Denis Diderot is engaged in socially important projects that are not related to financial gains. We believe that children from minorities and those with special educational needs should also benefit from our teaching approach and should have access to high-quality education in order to achieve their full potential. In the first year of its establishment, the school has already integrated six students from the Roma minority and one student with special educational needs.

Environmental responsibility

A vital part of our concept for the school is a responsible attitude toward the environment. Denis Diderot School has set environmental protection as a priority and many of its architectural, landscaping and functional solutions, as well as the learning process, are subordinated to this goal.

The school is fully compliant with the latest energy efficiency standards. Its premises are designed

in a natural architectural style using wood, stone and glass. An ozonation system reduces the level of carbon emissions. About 40% of the electricity consumption is supplied by a rooftop photovoltaic system, while solar panels provide hot water. The irrigation system uses collected rainwater and groundwater during the dry months. The ventilation of the facade, together with the thermal insulation ensure that a comfortable indoor temperature is maintained year-round. The buildings are equipped with energy-efficient elevators, consuming up to 40% less energy, while the rooms are fitted with durable wooden flooring, and furniture is made from recycled wood. All electronic solutions are controlled by an intelligent building management system, which assures optimisation of electricity production and consumption. These energy efficiency improvements underscore the long-term commitment of the school toward environmental protection.

The vision of Denis Diderot School for sustainable environmental impact was publicly acknowledged by being awarded first prize for 2021 in the national "Building of the Year" competition in the category "Social infrastructure and special purpose buildings – educational and cultural buildings". The award is recognition of the responsibility shown by its investor, ProCredit Bank Bulgaria, in striving to implement solutions that assure minimisation of the school's ecological footprint in a country where environmental issues are still neglected.

Denis Diderot School integrates care for the environment not only in its premises, but also in its everyday activities and in the process of education. Topics related to the local environment and ecology are a key part of the programme, as they aim to provide comprehensive knowledge about nature and the human actions that might harm or protect it. Beside the theoretical concepts, we believe that acting as a role model by our deeds toward nature and by encouraging the students to contribute to these efforts will raise environmentally conscientious people. During the construction process not a single tree was destroyed – all were moved and planted elsewhere in the schoolyard. The school has set up environmentally friendly practices, including plastic avoidance and waste separation. Thereby, it sets an example and raises students' awareness of ecological issues. The children themselves actively participate in initiatives related to sustainable community development and nature conservation. This is the way they learn that being socially responsible is not only a modern concept, but a way of thinking and living.

What makes the difference?

Our main incentive in opening Denis Diderot School is to establish a comprehensive education model, uncommon for conventional schools in Bulgaria. The holistic approach we follow assures the balanced development of academic knowledge, contemporary skills and mature personalities. It shapes conscientious and socially responsible adults, who will be able and willing to contribute to the sustainable development of their country. Moreover, we address the key social problem of unequal access to quality education by integrating children from minorities and with special educational needs. Our engagement in education is not a temporary initiative, typically announced in the impact reports of most financial institutions; it is a long-term commitment with a long-lasting impact on society.



KEY MATERIAL TOPICS

The following table provides a simple overview of the sections of our Impact Report 2021 where we address our identified material topics. Additionally, the Impact Report Appendix 2021 provides detailed information on our management approach to each topic as well as the GRI content index and more in-depth insights into our contributions to the Sustainable Development Goals.

Area	Material topic	Definition	SDG	Further details
OUR SOCIALLY RESPONSIBLE APPROACH	Economic development	Contributing to the economic development of the developing and transition countries in which we operate by providing responsible financial services to SMEs.	  	> pages 17f. > Impact Report Appendix 2021, page 9
	Corporate governance	Guaranteeing accountability, fairness and transparency in relationships with stakeholders as well as enforcing measures to prevent corruption, bribery and money laundering.		> Impact Report Appendix 2021, pages 10ff.
	Reliable partnerships and transparent services	Promoting long-term partnerships with our clients; promoting efficient, transparent and easily understandable account services, including proper data protection.		> pages 17f. > Impact Report Appendix 2021, pages 15f.
	Technology and innovation	Promoting transparency as well as the elimination of fraud, bribery, dependence, and informality through innovative banking solutions.		> Impact Report Appendix 2021, page 14
	Prudent credit risk management	Minimising potentially negative environmental and social impacts.		> pages 19ff. > pages 24ff. > Impact Report Appendix 2021, pages 18f.
OUR COMMITMENT TO THE ENVIRONMENT	Internal environmental management	Minimising our own carbon footprint and resource consumption.	   	> pages 34ff. > Impact Report Appendix 2021, page 13
	Sustainable finance	Encouraging the widespread adoption of responsible financial practices that are economically, socially, and environmentally inclusive and sound; financing sustainable business solutions and renewable energy/energy efficiency projects that contribute to climate change mitigation.	    	> pages 10ff. > pages 40f. > Impact Report Appendix 2021, page 17
OUR PEOPLE	Ethical values and working environment	Promoting gender diversity, a flat hierarchy and open communication.	 	> pages 10ff. > pages 51ff. > Impact Report Appendix 2021, page 20
	Fair recruiter and employer	Ensuring a transparent selection process with fair internal promotion and remuneration to attract and retain the right employees.	 	> pages 54ff. > Impact Report Appendix 2021, page 21
	Staff development	Developing staff capacity through comprehensive knowledge and skills training, regular performance reviews and clear career options.	 	> pages 58f. > Impact Report Appendix 2021, page 22

LIST OF ABBREVIATIONS

AG	Aktiengesellschaft (public limited company)	GR	Other environmentally friendly investments	PCB	ProCredit Bank
AML	Anti-money laundering	GRI	Global Reporting Initiative	PCH	ProCredit Holding
B&H	Bosnia and Herzegovina	HR	Human Resources	PCSI	ProCredit Staff Invest
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority)	IEA	International Energy Agency	PM	Particulate matter (particle pollution)
BCA	Business Client Adviser	iEMS	internal Environmental Management System	PM2.5	Fine particulate matter
bp	Basis points	IFC	International Finance Corporation	PPP	Purchasing power parity
BSF	Black soldier fly	IFIs	International financial institutions	PV	Photovoltaic
Btu	British thermal units	IFRS9	International Financial Reporting Standard 9	RE	Renewable energy
CEO	Chief Executive Officer	ILO	International Labour Organization	SEE	South Eastern Europe
CERES	Certification of Environmental Standards GmbH	IMI	Internationale Micro Investitionen AG	SME	Small and medium-sized enterprise
DNA	Deoxyribonucleic acid (core values)	IPC	Internationale Projekt Consult GmbH	TCFD	Taskforce on Climate-related Financial Disclosures
DOEN	DOEN Foundation (from Dutch doen = to do)	ISO	International Organization for Standardization	TÜV	Technischer Überwachungsverein (Technical Control Board / Association for Technical Inspection)
E&S	Environmental and social	ISS	Institutional Shareholder Services Inc.	UNEP-FI	United Nations Environment Programme - Finance Initiative
EBRD	European Bank for Reconstruction and Development	IUCN	International Union for Conservation of Nature	USD	United States dollar
ECA	Export credit agency	KfW	Kreditanstalt für Wiederaufbau		
EDGE	Excellence in Design for Greater Efficiencies	KGaA	Kommanditgesellschaft auf Aktien (partnership limited by shares)		
EE	Energy efficiency	kW	Kilowatt		
EIF	European Investment Fund	kWh	Kilowatt hour		
EM	Environmental Management	kWp	Kilowatt-peak		
EMS	Environmental Management System	LP	Loan portfolio		
EPC	Engineering procurement and construction (companies)	µg	Microgram		
ERO	Environmental Risk Officer	MIGA	Multilateral Investment Guarantee Agency		
ESG	Environmental, social and governance	MSCI	Morgan Stanley Capital International		
ESOP	Employee Stock Ownership Plan	MW	Megawatt		
EVs	Electric vehicles	MWh	Megawatt hour		
GDP	Gross domestic product	N MAC	North Macedonia		
GEM	Group Environmental Management	ND-GAIN	Notre Dame Global Adaptation Initiative		
GHG	Greenhouse gases	PCAF	Partnership for Carbon Accounting Financials		

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