



## Catalyst Awards 2017 Toolkit

### OVERVIEW

During the launch of the Kenya Bankers Association's Sustainable Finance Catalyst Awards in 2016, KBA successfully feted financial institutions that practice catalytic finance which has a direct impact on the society, environment and Kenya's economy. This year, KBA is set to honour institutions and highlight their gains in promoting and implementing Sustainable Finance within the financial industry.

To enable institutions to have a seamless experience before submitting their entries, KBA has developed the Catalyst Awards 2017 Toolkit that articulates clearly the award categories; 2016 sentiments gathered from last year's Judging panel; case studies of 2016 winners; and a general checklist that details the requirements needed for participating in this year's Catalyst Awards.

### AWARD CATEGORIES AND CHECK LIST

The Catalyst Awards 2017 will feature three categories. Out of the three, two of the categories have sub-themes. Financial Institutions may submit their entries in multiple categories.

#### Rules

1. Members of the Kenya Bankers Association (KBA) are eligible to submit entries for the Catalyst Award. Non-KBA banks, mobile network operators offering financial services or financial institutions, including development finance institutions, micro finance banks, pension funds, insurance companies and government agencies, may submit an entry.

**For Category 1:** the nominated initiative must have been undertaken or implemented between January 2012 and February 2017. Programs that are ongoing must be at sufficiently advanced stages.

**For Category 2:** Client Case Study – Commercial; and Client Case Study – Retail, the nominated initiative must have been undertaken or implemented between January 2012 and February 2017. Programs that are ongoing must be at sufficiently advanced stages.

**For Category 2:** Bank Case Study – Bank Operations (Green Branch / Green Headquarters), the initiative must have been undertaken between January 2012 and February 2017.

Programs that are ongoing must be at sufficiently advanced stages.

2. All applicants are expected to submit new initiatives. Whatever was submitted last year, should not be re-submitted this year. It will be barred by the judging panel.

## CATEGORY 1 A: BEST PRACTICE IN SUSTAINABLE FINANCE

(ENTRY SHOULD BE AT LEAST 3,500 WORDS)

### About the Category

This award category is founded on KBA's Sustainable Finance Guiding Principles. Financial institutions are required to demonstrate how they balance their quest for financial returns with the diverse priorities within the economic, social and environmental context.

### Who Can Enter

Any financial institution that can clearly demonstrate how they have created long-term value for its sector, firm, client, economy and society at large.

### Checklist & Indicators

- **Economic Criteria:** Highlight how your institution has stimulated real economic growth in a measurable manner by quantifying the number of jobs created, indicating Gross Domestic Product (GDP) impact, convey clearly how your firm has contributed to the growth of a business as a result of your financing activities and clearly indicate how your firm has supported minority groups, for instance - People Living with Disabilities (PLWD), women and youths.
- **Technological Criteria:** Explain in great detail how your firm has leveraged on new technology to innovate and enhance service delivery and in so doing, created new markets and even went as far as tapping into marginalized market segments that have economic potential. Participants should show how they have used digital platforms or channels to serve clients. They should also illustrate how they have developed products that leverages on technology and upgraded their IT systems to ensure efficiency.
- **Partnership Criteria:** Demonstrate how your firm has partnered with development finance institutions with the objective of achieving the Sustainable Development Goals. Also, showcase your firm's green finance activities or how your firm has in the past extended special credit lines that significantly contribute towards sustainable economic development. Lastly, capture clearly trainings offered by your firm to build capacity in the area of Sustainability and Sustainable Finance.
- **Risk Management Criteria:** Explain how your firm has gone beyond the traditional credit risk assessment processes by undertaking comprehensive risk management through measuring economic, social and environmental risks. Indicate clearly how your firm has policies in place that incorporate economic, social & environmental risks. Clearly articulate how your firm uses Environmental & Social Management Systems (ESMS) or Frameworks and how the board of directors' role oversee your firm's sustainability strategy.
- **Resource Management Criteria:** Show how your firm has put in place policies that seek to eliminate waste and how it has enhanced efficiency. Highlight clearly the board of directors' role in entrenching Sustainability Bank training programs to enhance efficiency.

- Governance Criteria: Clearly articulate how your firm has enhanced their business practice, leadership and governance through management and board oversight. Indicate how your firm has in place board policies and committees' terms of reference, governance practices tied to standards such as code of corporate governance or codes of ethics. Highlight how you issue integrated and sustainability reports.

## CATEGORY 1 B: SUSTAINABILITY THROUGH POLICY AND GOVERNANCE

(ENTRY MUST BE 3,500 WORDS)

### About the Category

This award category seeks to recognize firms that have introduced policies, procedures and governance requirements that enable the institution to operate sustainably.

### Who Can Enter

Any financial institution that can clearly demonstrate how they have enabled a responsible corporate culture/behaviour and how they have established policies that reinforce ethical practices and conduct.

### Checklist and Indicators

- Policy Criteria: Participants are required to highlight how their firm's policies have incorporated best practice in environmental and social risk management. Firms should also indicate clearly how they have in place policies and procedures that enable the institution to mitigate both financial and non-financial risks. Also show how the firm has clearly defined internal functional roles with assigned responsibility for environmental risks. Lastly, firms should highlight how they have established Environmental and Social Management Systems (ESMS) framework or policy and that they have in place exclusion lists, which may include reference to the IFC Performance Standards.
- Governance Criteria: Participants should demonstrate how they have disclosed institutional values, sustainability priority areas, as well as industry standards on Sustainable Finance, to internal and external stakeholders as a way of ensuring accountability within the institution. Firms should also show how they are reporting on the institution's contribution to sustainable economic development. In addition, they should show how their organisation's vision, mission and objectives incorporate sustainability themes and employee knowledge and understanding of the firm's vision. Moreover, firms should show how their board planning processes work which may include long-term strategy with reference to the economic, social and environmental dimensions of organisational sustainability. Articulate clearly the Board Committee oversight of the firm's implementation of their sustainability strategy, including the areas of innovation and inclusive growth. Lastly, explain clearly how your firm discloses its Sustainability Statement, or policies; it may include reference to the Code of Corporate Governance, Codes of Ethics and/or KBA Sustainable Finance Principles in bank policies, and publication of Sustainability Reports.

## CATEGORY 2 A: CLIENT CASE STUDY – MSME

(ENTRY SHOULD BE AT LEAST 1,500 WORDS)

### About the award

Firms will be recognized based on how they have created value through financing Micro, Small and Medium Enterprises.

### Who Can Enter

A bank or a financial service provider that finances MSMEs.

### Checklist and Indicators

- Situational analysis/background: Clearly demonstrate how the case ties into the Sustainable Finance agenda (creating value for the firm, society and environment).
- Financial and economic opportunity: Give an overview of how the applicant (firm) has created value by supporting the customer to grow financially (increased income, assets, receivables) and in economic terms (employment creation, productive capacity, reaching new markets, and so forth). Highlight several value creation areas, including efficiencies gained (e.g. cost saving, energy efficiency, productivity, waste management); Financial performance/returns; new products developed and other innovations; partnerships with other Financial Institutions.
- Financial and non-financial risk: The indicator for this is identification of risks that are both financial and non-financial. Firms should showcase that they have in place global best practice in place in Sustainable Finance.
- Lessons learnt: Show your firm's understanding of the priority areas for sustainable growth (i.e. economic, social, environmental value creation). Reflect on the opportunities and limitations of the firm, areas to improve and increase impact.

## CATEGORY 2 B: CASE STUDY – FINANCING COMMERCIAL CLIENTS (ENTRY SHOULD BE AT LEAST 1,500 words)

### About the Category

This award category seeks to recognize how a firm has created long-term value through financing a commercial or business operation, projects or investments.

### Who Can Enter

Firms that can extend finance to commercial clients whose turnover is above Kshs. 250 Million annually.

### Checklist and Indicators

- Situational analysis/background: Articulate succinctly how the case study relates to the Sustainable Finance Agenda.
- Financial and economic opportunity: Critically assess and detail clearly how your firm's financing of commercial or business clients has created value to enable them to grow financially in assets or receivables. Also highlight how your firm's financing has enabled your commercial client to create employment (economic opportunity); has enabled efficiency in terms of productivity, waste management and reaching new markets; improved financial performance or returns for the firms with detailing the new products developed and other innovations. Lastly, show how your firm has partnered with other financial institutions.

- Financial and non-financial risk: Show how your firm has identified both financial and non-financial risk. Vividly detail how you have in place global best practice in Sustainable Finance.
- Lessons learnt: Show your firm's understanding of the priority areas for sustainable growth particularly in economic, social, environmental value creation. Reflect and highlight on the current opportunities and limitations of your firm, with clear indication of areas to improve and increase impact.

## CATEGORY 2 C: BANK CASE STUDY – BANK OPERATIONS

(ENTRY SHOULD BE AT LEAST 1,500)

### About the Category

This Category seeks to recognize firms that have demonstrated sustainability in the area of optimal management of financial resources and natural capital. Some examples include going paperless, having energy efficient and green premises.

### Who Can Enter

Any institution that has adopted sustainability practices in optimal management of financial resources and natural capital.

### Checklist and Indicators

- Situational analysis/background: Clearly demonstrate how the case ties into sustainable finance agenda particularly in resource consumption, waste management, air emission, supply chain management (procurement policies, suppliers environmental and social impact) and other aspects that showcase financial and natural capital management.
- Financial and economic opportunity: Give an overview of how your firm has established a management system for energy. Highlight how your firm has carried out energy audits (percentage of annual energy cost) that shows financial and economic gains through cost saving.
- Financial and non-financial risk: The indicator for this is identification of risks that are both financial and non-financial. Firms should showcase that they have in place global best in Sustainable Finance. In addition, show how your firm's green premises have prevented environmental degradation and any possible negative impact of the society.
- Lessons learnt: Show how your firm understands the optimal management of resources and natural capital.

## CASE STUDY OF WINNERS AND WHY THE WON

### KCB: Winner of Category 1: Overall Best Practice in Sustainable Finance

KCB submitted both qualitative and quantitative data that captured their gains in implementing KBA's Sustainable Finance Principles. In addition, in KCB's submission a clear explanation of how they balance their quest for financial returns with the diverse priorities within the economic, social and environmental context was well articulated. Integration of Sustainable Finance across their business with their board overseeing the implementation was also well highlighted.

Their submission featured these specific examples:

### **Economic Growth Stimulation:**

Through KCB's foundation, a program dubbed "The Mifugo ni Mali Program" was set-up to address the issue of financial inclusion. The project targets farmers in arid and semi-arid counties in Kenya and tackles issues of productivity and nutrition. Through the program, farmers are able to access financial services such as loans. As a result of the program and through the partnership with AgriPro Focus, Kenya Livestock Producers Association, Kenya Livestock Marketing Council and the Eastern Africa Farmers, KCB held the first extensive Livestock expo that brought together various stakeholders together in November 2016. During the expo, Kshs. 250 Million was transacted. This example as highlighted in KCB's submission, clearly demonstrated that through the expo, there was stimulation of economic growth.

Similarly, through KCB's foundation, the 2Jiqiri Program was launched. Since its roll-out in 2015, two thousand students underwent skills training in various crafts. 70% of the artisans will be absorbed into the Jua Kali industry.

### **Leveraging on New Technology:**

KCB was able to demonstrate in a measurable manner that it had introduced innovative products and services such as KCB Bankika, KCB Mobi Bank, Agency Banking and KCB M-pesa with the objective of tapping into various overlooked or unreached market segments. Through the innovation, service delivery improvement and efficiency were clearly highlighted. Moreover, the bank was able to highlight its progress in reaching the unbanked through its partnership with Safaricom. Over 6 million people had registered on the KCB M-pesa platform that has led to loans close to Kshs. 10 Billion being disbursed.

### **Partnership:**

In KCB's submission, tangible examples of partnership were showcased. The Bank indicated that it had partnered with United States Agency for International Development (USAID) to provide health financing across the country.

### **Risk Management:**

In its submission, KCB detailed how it manages social and environmental risk through its Social Environmental Management System (SEMS). The SEMS framework is an independent tool that aids KCB to avoid and manage loans with potential social and environmental risk.

KCB's comprehensive risk management goes beyond the traditional credit risk processes. They have adopted sustainability reporting with view of promoting and implementing sustainable business practices.

### **Resource Management:**

The bank indicated in its submission, that it has a Green Agenda initiative that strives to proactively manage carbon, greenhouse emissions, waste arising from energy consumption and misuse through the adoption of equipment and technology with environmental benefits.

### **Governance:**

Through the submission, it was highlighted that the KCB group board has dedicated KCB's resources to implement programs in line with learnings derived from the sustainability implementation. The board actively reviews, oversees and approves sustainability strategies. Lastly,

they also ensure resources are available for the successful implementation of sustainability initiatives.

### **Co-op Bank: Winner of Category 2 - Client Case Study/Financing Micro, small & Medium Sized Companies**

Co-op Bank was able to highlight how its financing activities, particularly through an example based on a local manufacturing company, has created value for the client while contributing to real and tangible economic development. Co-op Bank indicated the percentage of total loan portfolio allocated to the company and its impact on its growth.

This was featured as detailed below.

#### **Situational Analysis:**

A local company that specializes in manufacturing and supply of steel, nickel and chrome plated products was financed by Co-op bank when it was a one-man business in 2003. As a result of the financing, the business was able to expand and employ 27 employees.

#### **Financial and Economic Opportunity:**

Due to Co-op Bank's financing and the employment of skilled and experienced workers; the company has been able to grow its balance sheet from Kshs. 300,000 to over Kshs. 100 Million in six years. The steel industry contributes to Kenya's economy through taxation. Lastly, the growth of this company has consequently led to the improvement of socio-economic welfare of many Kenyans who depend on this company directly or indirectly.

#### **Financial and Non-Financial Risk:**

Co-op bank was able to facilitate several staff trainings for the manufacturing and steel company to ensure the company was able to avert any financial or non-financial risks.

#### **Performance and Value Creation:**

As a result of Co-op bank's financing, the company has been able to improve and upgrade its production system with advanced machinery which has led to the firm having an increased production capacity, being cost effective in its operation, and made it easier to plan production because of having reliable equipment. Further to this, they have increased their client base because of the aforementioned technologically advanced machinery.

In addition, the business is able to take up bigger contracts from multinational companies' due to performance of their machinery.

Advanced local and international training and seminars to their staff through technology and knowledge transfer. This is a value addition to the economy's human resource.

#### **Lessons Learnt:**

Co-op Bank noted that a clear understanding of the customer's journey and their strategic objectives by their financial institution is critical in supporting the customers growth. A need for ensuring the client has a laid down strategic plan that are well communicated to all stakeholders was seen to enable the business to achieve its goals and objectives.

## **KWFT: Emerged 2<sup>nd</sup> Place in Category 2: Client Case Study/Financing Micro, Small & Medium Sized Companies**

KWFT showcased a business owner. Through its financing, the micro business was able to grow and create value not just in terms of its financial returns but through contributing to Kenya's economic growth.

### **Situational Analysis:**

With a strong resolve to support the government's quest to safeguard Kenya's food security, KWFT financed an entrepreneur based in Eldoret town who was looking to diversify and tap into agri-business. The entrepreneur, who owns a salon cum boutique, was able to secure financing to purchase 10 cows. To date, as a result of her equity, breeding and KWFT's financing, she now owns 25 cows. Further to this, in order to spread the risk, the entrepreneur has been able to diversify further into crop farming.

### **Financial and Economic Opportunity:**

The entrepreneur currently fetches Kshs. 3 million annually from crop farming. KWFT has financed the green house that the entrepreneur uses.

### **Financial and Non-Financial Risk:**

The Micro finance institution was able to identify several financial and non-financial risks. One such risk as highlighted is the unfavourable weather condition that may affect the crops and the livestock of the entrepreneur. They also clearly articulated the risk of default and unprofitable agricultural ventures.

### **Lessons Learnt:**

The bank highlighted that there is need for insurance products in agribusinesses. KWFT also articulated clearly that there is a need to understand the needs of agribusinesses and recognized that agri-business is profitable and marketable despite various risks.

## **JUDGES' FEEDBACK**

- **Sustainability is a Strategic Issue:** Overall, the firms that performed best in the Catalyst Awards 2016 had demonstrated how they had embraced sustainability as a crosscutting strategic agenda.
- **Quantitative Verses Qualitative Submissions:** Entries were mostly qualitative as opposed to quantitative data. Overall there was limited demonstration of economic value creation and resource and risk management. Judges were keen to see in the submissions the percentage of total loans disbursed to top sectors based on Economic Survey (Agriculture & Agribusiness, Manufacturing, Transport, Real Estate & Construction, Education, Tourism); Unfortunately, this was not adequately capture in most of the entries.
- **Tier 1 Banks were more Comprehensive:** It was noted that there was a knowledge and practice gap for most of the entries and presumably within the sector with Tier 1 institutions having the highest quality of entries.
- **Pay Attention to Award Category and Indicators:** There was a general view that several applicants did not submit good quality entries. In some instances, an entry was submitted



under a category which was not suitable. Some entries also focused solely on the customer, without demonstrating how the financier intervened and created value for the client.

## SUMMARY OF JUDGES REPORT

Fourteen institutions submitted entries to the Awards program. Several firms entered under multiple categories.

Considering the vision of the Award is to promote sustainable practices across all financial service sector participants, the Judges accepted non-bank entries from institutions operating in the financial services and mobile banking space.

The maximum points each entry could receive was based on the two categories. The Category 1-Best Practice in Sustainable Finance Award had the highest points based on the crosscutting nature of the Award as detailed in the table below are award categories and total points attained.

	Maximum Points
• Best Practice in Sustainable Finance (Tier 1, Tier 2, Tier 3)	2,800
• Sustainability Through Policy & Governance	1,400
• Client Case Study - Commercial	1,400
• Client Case Study - Financing Micro, Small, Medium Enterprises	1,400
• Bank Case Study - Bank Operations & Policy	1,400

### Judges

The Panel constituted of six judges. They were drawn from various intuitions. Due to their extensive experience and knowledge pool in the area of Sustainable Finance they were selected.

Below are the 2016 judges:

- Dr. Martin Oduor-Otieno, Partner – Deloitte
- Geoffrey Odundo, CEO – Nairobi Securities Exchange
- Jeff Murage, Consultant, Kenya Association of Manufactures / Sunref
- Dr. Jane Nyakang'o, CEO – Kenya Cleaner Production Center
- Mumo Kivuitu, Consultant, Environmental Advisory
- Dr. Peter Muriu, University of Nairobi School of Economics

### Scoring

The Applicants were guided on the assessment criteria in the Catalyst Awards 2016 Booklet. Therefore, judging was based on whether or not the entry covered the indicators.

0 = indicators are not demonstrated

1 = poor demonstration of the indicators

2 = fair

3 = good

4 = excellent demonstration of the indicators

### **Tied Entries & Tie Breakers**

In the event of a tie, the KBA Secretariat would seek the following quantitative & qualitative measures from the tied applicants.

#### **Quantitative measures (10 points each category)**

- Tax revenue; weighted to size of bank/capital base
- Percentage of total loans to top sectors based on Economic Survey (Agriculture & Agribusiness, Manufacturing, Transport, Real Estate & Construction, Education, Tourism)
- Percentage of total loan portfolio to informal economy - Micro, Small Enterprises
- Client Growth - statistics on revenue; sales; job creation

#### **Qualitative measures (10 points each category)**

- Incorporation of the Sustainable Finance Guiding Principles into the Firm's policies
- Bank policies adopted at the management and board level
- Processes established to enable and promote the development of innovative products and services that target segments with economic potential
- Publication of Integrated or Sustainability Reports

### **Applicants & Tiers**

Last year's entries were categorized under three Tiers that were based on the balance sheet of the pool of entries as detailed below:

#### **Tier 1**

1. Equity Bank
2. Barclays
3. Co-Op Bank
4. KCB
5. Safaricom
6. SCB

#### **Tier 2**

1. Commercial Bank of Africa
2. Diamond Trust Bank
3. NIC Bank
4. National Bank of Kenya
5. Prime Bank

#### **Tier 3**

1. Faulu Microfinance Bank
2. Rafiki Microfinance Bank

### 3. KWFT Microfinance Bank

#### Award Based on Tiers

##### 1. Best Practice in Sustainable Finance

#### Conclusion

This is Toolkit complements the Catalyst Awards brochure. Through it, you are able to have a better understanding of the expected output. Should you need any clarification email us through [sfi@kba.co.ke](mailto:sfi@kba.co.ke).