EaSI Technical Assistance

Green Inclusive Finance. What it is and why is it relevant

Green Microfinance Workshop Series

Davide Forcella (YAPU Solutions, CERMi, Head of GICSF-AG) 26 October, Online event
Natalia Realpe Carrillo (HEDERA, IASS Potsdam, Head of GICSF-AG)
Training Description

This training provides an introduction to the concept of green inclusive finance and its various dimensions:

- Green strategy
- Climate vulnerability
- Adverse environmental impact
- Green products and services

The training explores the relevance of green inclusive finance and opportunities to engage in this topic, providing practical examples on the trends in the sector.
Training Objectives

At the end of the training the participants will have first understanding of:

- The key concept of green inclusive finance
- Various possible axes to engage into green inclusive finance
- The relevance of green inclusive finance for their own activities
The Agenda

0. A Global & European Issue
1. The Microfinance Sector, what is the opportunity
2. Green inclusive finance: an introduction
3. Green inclusive finance: where do we stand in Europe
4. What next
0. A Global & European Issue
A Global Issue

- Climate change will have significant **negative effects on crop yields**, while food production is expected to increase by up to 70% by 2050 to meet growing global demand.
- **577 billion dollars worth of annual crops are threatened by the loss of pollinators**
- **100 to 300 million people are at increased risk** of floods and hurricanes
- **1 billion people live without electricity** (2017). Projected: about 700,000 people without electricity by 2030.
- **3 billion people use wood or other biomass** for cooking and heating (2017). Resulting in indoor and outdoor air pollution.
- Household air pollution has been linked to **more than 4 million premature deaths each year**.
The cost of climate change: the victims

>90% related to weather events

<table>
<thead>
<tr>
<th>Year</th>
<th>Reported disasters</th>
<th>Total deaths</th>
<th>Total affected</th>
<th>US$ Economic losses</th>
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<tbody>
<tr>
<td>1980-1999</td>
<td>4,212</td>
<td>1.19 million</td>
<td>3.25 billion</td>
<td>1.63 trillion</td>
</tr>
<tr>
<td>2000-2019</td>
<td>7,348</td>
<td>1.23 million</td>
<td>4.03 billion</td>
<td>2.97 trillion</td>
</tr>
</tbody>
</table>

Source: Human Cost of Disasters 2000-2019 | UNDRR
In Europe: Issues

- **Energy poverty**: over 34 million people in the European Union, 6.9% of the EU population cannot afford to heat their home sufficiently. 75% of EU buildings are deemed energy inefficient.

- **Cost of disasters**: EUR 446 billion and more than 115,000 death (1980 and 2019).

- **Victims of air pollution**: 400,000 premature deaths in the EU (2012).

- **Pollination**: flying insect populations had declined by over 75% in just 27 years.

Source: European Commission, EEA
In Europe: the response / opportunity

• **Paris Agreement objectives**: avoid dangerous climate change by limiting global warming to well below 2°C (hope 1.5°C). EU targets to reduce emissions by at least 55% by 2030 from 1990 levels

• **Green deal**: presents a set of transformative policies to be taken in the period present decade, including increasing the EU’s climate ambition for 2030 and 2050:
  - Clean, affordable and secure energy
  - Clean and circular economy,
  - Building and renovating in an energy and resource efficient,
  - Sustainable and smart mobility,
  - Farm to Fork” Strategy,
  - Protecting biodiversity,
  - Zero-pollution ambition for a toxic free environment.

Source: European Commission
In Europe: the response / opportunity

- **Green taxonomy**: regulation that establishes 6 environmental objectives on which an economic activity can have an impact:
  - Climate change mitigation
  - Climate change adaptation
  - The sustainable use and protection of water and marine resources,
  - The transition to a circular economy,
  - Pollution prevention and control,
  - Protection and restoration of biodiversity and ecosystems.

It defines what is and what is “green” and how EU market actors should report.

- **European Code of Good Conduct for Microcredit**: the new code of good conduct (2021) includes environmental performance and green products.

  “Clause 2.5: Microcredit providers will take practical steps to promote environmental sustainability”

Source: European Commission
1. The Microfinance Sector, what is the opportunity
Brainstorming

Are your clients **affected by:**

- High or rising cost of fuels/energy?
- Unreliable access to energy?
- Low / decreasing crop productivity?
- Climate hazards?
Brainstorming

Do your clients:

- Use polluting sources of energy?
- Dump waste/garbage into the environment or pollute waterways?
Brainstorming

*What is green inclusive finance?*
Brainstorming

How could green inclusive finance support your institution and your clients?
Transversal issues

Climate and environment are not only "green" criteria, they are **cross-cutting issues affecting the core elements of financial inclusion and social impacts**: 

- Socio-economic vulnerability
- Productivity and income
- Energy access and energy services
- Client Health
- Economic and social impacts
- Credit risk
- Customer protection
The MFIs issues and opportunities

The risks of clients or poor performance are **transferred to the MFIs**:

- Portfolio risk: weather, lower repayment, etc.
- Difficulty in reaching customers: in certain areas / target markets
- Image
- Social mission compromised

MFIs have the **opportunity to adapt** and:

- Innovate and diversify products offer
- Access to additional / cheaper funds
- Improve risk management
- Expand outreach and clients satisfaction
How "Green" can generate several benefits

Getting engaged in "Green" can generate several benefits

- Economic and financial inclusion
- Social mission
- Capacity generation

Green Products & services
Financial and non-financial

- Reducing client vulnerability and building resilience
- Reduce negative impacts on ecosystems
- Increase production, quality and revenue

Implementing the environmental strategy
2. Green inclusive finance: an introduction
3 key concepts for Green Inclusive Finance

Vulnerability

Adverse Impacts

Economic Opportunities
3 key concepts for Green Inclusive Finance

- How clients and institutions are affected by the environment
- How clients and institutions affect the environment
- How green can satisfy demand and increase revenues
Vulnerability & Adverse Environmental Impacts

Of the client & the institution
- Climate change
- Env degradation, biodiversity loss
- Energy poverty
- Lack of clean water

On the environment due to clients & institution
- Green house gas
- Air, water, soil pollution
- Deforestation & land degradation
- Storage and use of chemicals
Indirect & Direct

**Indirect**

*Activities of clients:*
their adverse env. impacts and vulnerability

**Direct**

*Institution and human resources:*
their adverse env. impacts and vulnerability
Vulnerability & Adverse Environmental Impacts

- Climate change
- Env degradation, biodiversity loss
- Energy poverty
- Lack of clean water

‘risks’

- Green house gas
- Air, water, soil pollution
- Deforestation & land degradation
- Storage and use of chemicals

Of the client & the institution

On the environment due to clients & institution
Vulnerability & Adverse Environmental Impacts

- Climate change
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- Green house gas
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‘needs’
Vulnerability & Adverse Environmental Impacts

- Climate change
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- Energy poverty
- Lack of clean water

opportunities!

- Green house gas
- Air, water, soil pollution
- Deforestation & land degradation
- Storage and use of chemicals

On the environment due to clients & institution

Vulnerability & Adverse Impacts

Of the client & the institution
Green Inclusive Finance

Vulnerability

Adverse Impacts

Green Inclusive Finance !

Economic Opportunities
Green Inclusive Finance

“Green Inclusive Finance consists in risks management processes, financial products, and non-financial services (as part of a financial offer), embedded into environmental strategy and monitoring systems, enabled by policies and regulation, that support economic opportunities and needs of households, micro, small and medium-size enterprises (partially) excluded by the standard banking sector, in a clean, resilient and sustainable manner”

(GICSF-AG, working definition)
Green + Inclusive + Finance ?

... How to?...
Green actions

Green inclusive finance translates vulnerability, adverse impacts, demand and needs into risks management, products and services offer, as part of an overall strategy.
Making Green Inclusive Finance Operational

A tool developed and implemented by the

Green Inclusive & Climate-Smart Finance Action Group (GICSF-AG) since 2014

It operationalizes the concepts and it translates them into actionable and material items that stakeholders of the inclusive finance sector can relate to and act upon.

It is now in its 3rd edition to be delivered in 2021: Green Index 3.0

In 2021, the new Universal Standard for Social Performance Management include the “Environmental” Dimension of USSEPM: joint work of GICSF-AG, SPTF and CERISE. It is aligned with the Green Index 3.0.
The Green Inclusive & Climate Smart Finance AG

The Green Inclusive and Climate Smart Finance Action Group (GICSF-AG) is a Unique multi-stakeholder think-tank for environmentally responsible inclusive finance, hosted by the European Microfinance Platform

OBJECTIVES

- Discuss current **challenges and strategies** in green inclusive finance
- **Improve knowledge and action** of inclusive finance actors in environmental issue
- **Enhance cooperation** among green inclusive finance actors
- **Increase international attention** for green inclusive finance
- **Develop dedicated tools**, recognized as “standard” by the inclusive finance sector, to support green inclusive finance
- Publicise and disseminate its findings
- Enhance the interest and concrete commitment of all actors (MFIs, investors, among others) in green inclusive finance
Members

Launched in Feb. 2013 in Berlin and hosted by the European Microfinance Platform (e-MFP) it has 135+ members with different level of engagement, affiliated to 75+ institutions and organized into activity sub-group, among which:


Coordinated by the GICSF-AG Heads:
- Natalia Realpe Carrillo, HEDERA & IASS Potsdam
- Davide Forcella, YAPU Solutions & CERMi
Strategy, actions and progresses

The strategy guides and monitor the overall implementation. The products and services support the reduction of identified risks and the fulfillment of the strategy.

GI.0 Environmental strategy definition and put in place

GI.1 Identification of Environmental risks and opportunities

GI.2 Management of Environmental risks and opportunities

GI.3 Products & Services
\[\text{Financial & non-financial}\]

- Reduce environmental impact
- Increase Resiliency
- Establish processes
- Provide solutions
- Contribute to adaptation
- Building Capacities -> Inclusion

Fulfill the strategy
standards, details

It is about how the environmental strategy is defined, and how it is put in place, including roles and responsibilities, alignment with local or international standards, and how the institution monitors and reports on the implementation of its environmental strategy.
It is about the institution's ability to identify the vulnerability of clients/portfolio and the institution itself, the negative environmental impacts generated on ecosystems by clients and the institution itself, and the clients' needs and demand for green practices and technologies.
It is about the processes and tools in place to analyse and respond to the vulnerability, negative environmental impacts, client demand and needs identified in GI.1. It is about how the institutions translates vulnerability, negative environmental impacts, demands & needs into actual risks and opportunities.
It is about the supply and delivery of "green" products and services to customers. Both financial or non-financial services are assessed. Financial products include "green" credits, but also as insurance, savings or money transfer. Non-financial services include awareness raising, training, technical assistance, partnerships.
Standards & Essential practices, Details

**GI.0 Environmental strategy**
- Definition and put in place

**GI.1 Identification of Environmental risks and opportunities**
- Identification of clients
  - Vulnerability
  - Negative Env impacts
  - Demand and needs

**GI.2 Management of Environmental risks and opportunities**
- Inclusion of vulnerability, negative env Impacts and demand/needs
  - (financial) risks management processes, tools indicators
  - Credit processes & product

**GI.3 Green products and services**
- Financial and non-financial

**GI.0.1 Definition of the Strategy**
- Detailed goals, mission, documented strategy.
- Compliance with applicable standards and regulation

**GI.1.1 Identification of Indirect risks & opportunities**
- Identification of clients

**GI.2.1 Management of Indirect risks & opportunities**
- Inclusion of vulnerability, negative env Impacts and demand/needs
  - (financial) risks management processes, tools indicators
  - Credit processes & product

**GI.1.2 Identification of Direct risks**
- Identification of building and staff
  - Vulnerability
  - Negative impacts Env.

**GI.2.2 Management of Direct risks**
- Actions and processes to reduce the institution vulnerability and negative env Impacts

**GI.3.1 Financial products & services**
- Green Loans
  - Clean energy / energy efficiency
  - Sustainable agriculture
  - Clean water - sanitation
  - Circular economy / others
- Savings, remittances, emergency loans
- Climate / production insurance

**GI.3.2 Non-financial products & services**
- Awareness raising
- Training
- Technical assistance
- Partnerships
Define and put in place an environmental strategy

- Detailed goals, mission, documented strategy.
- Compliance with applicable standards and regulation
- Responsibilities & processes
- Management & governance
- Monitoring
Climate vulnerability

How to translate vulnerability into risks management

**Identify** climate vulnerability client and portfolio

- identifies and categorizes clients and the portfolio based on their vulnerability
- Trains loan officers and staff
- Establish partnerships with technical or technological providers

**Analyze and respond to the risk** of climate vulnerability

- Include the vulnerability in (financial) risk management processes
- Use specific tools: indicators, scores, and guidelines into credit and risks processes
- Identify financial and non-financial products and services to reduce client and portfolio vulnerability and generate resiliency
Adverse environmental impact

How to translate adverse environmental impacts into risks management

**Identify** adverse environmental impacts of client and institution

- identifies and categorizes clients and the portfolio based on their adverse environmental impact
- Trains loan officers and staff
- Establish partnerships with technical or technological providers

**Analyze and respond to the risk** related to adverse environmental impacts

- Include the adverse environmental impacts in (financial) risk management processes
- Use specific tools: indicators, scores, and guidelines into credit and risks processes
- Identify financial and non-financial products and services to mitigate adverse environmental impacts and promote positive environmental impacts.
Green products & services

Define products and services offer, provide them to clients, monitor impacts and benefits, reports.

Financial products & services

- Green Loans
  - Clean energy / energy efficiency
  - Sustainable agriculture
  - Clean water - sanitation
  - Circular economy / others
- Savings, remittances, emergency loans
- Climate / production insurance

Non-financial products & services

- Awareness raising
- Training
- Technical assistance
- Partnerships
3. Green inclusive finance: where do we stand in Europe
Joining forces to foster knowledge and actions for green inclusive finance in Europe and Central Asia

• Coordination by Davide Forcella, Head of the GICSF-AG, CERMi, and Natalia Realpe, Head of the GICSF-AG

• The analysis and visualization of data done using the tools provided by Natalia Realpe, Head of the GICSF-AG

• GICSF-AG internship work of Mathieu François, GICSF-AG intern and EMP student.

• Data shared by the following parties:
   And all MFIs that kindly shared their data.

Until Oct 2021:
• Website review: 400+
• Surveys to MFIs: 4 surveys, 500+ respondents
• Case study/interview with MFIs
Disclosure of green practices

In 2021, we have analyzed the websites of 363 MFIs in Europe (180 East – 183 West):

• **41% has at least a green practice**
  (36% East – 46% West)

• **16,5% has one green credit product**
  (21% East - 12% West)

• The great majority of green loans are for **Renewable Energy or Energy Efficiency**

Source: GICSF-AG websites review European MFIs 2021
## Disclosure of green practices II

<table>
<thead>
<tr>
<th>Indicators</th>
<th>East</th>
<th>West</th>
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<tbody>
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<td>38</td>
<td>67</td>
</tr>
<tr>
<td>Manages strategy</td>
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<td>24</td>
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<td>EE &amp; RE loans</td>
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<tr>
<td>Sustainable agriculture loan</td>
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<td>Clean water loans</td>
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<td>3</td>
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<tr>
<td>Circular economy loan</td>
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<tr>
<td>Agriculture/climate microinsurance</td>
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<td>2</td>
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<td>Environmental training</td>
<td>16</td>
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Source: GICSF-AG websites review European MFIs 2021
## Disclosure of green practices II

### Indicators

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</table>

Source: GICSF-AG websites review European MFIs 2021

**Preliminary results**

- **Comments?**
- **Discoveries?**
- **Surprises?**
- **Reflections?**
Disclosure of green practices: Evolution

It is observed a positive evolution

<table>
<thead>
<tr>
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<th>% institution with at least 1 green indicator</th>
<th>% institution with at least 1 green indicator</th>
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<tbody>
<tr>
<td></td>
<td>2013</td>
<td>2021</td>
</tr>
<tr>
<td>East Europe</td>
<td>24%</td>
<td>36%</td>
</tr>
<tr>
<td>West Europe</td>
<td>31%</td>
<td>46%</td>
</tr>
<tr>
<td>Total Europe</td>
<td>28% (of 415 reviewed)</td>
<td>41% (of 363 reviewed)</td>
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<thead>
<tr>
<th></th>
<th>Environmental policy</th>
<th>Ecological footprint reduction</th>
<th>Environmental risk assessment</th>
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<tr>
<td><strong>2021</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>105</td>
<td>48</td>
<td>52</td>
<td>60</td>
<td>36</td>
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<tr>
<td></td>
<td><strong>29%</strong></td>
<td><strong>13%</strong></td>
<td><strong>14%</strong></td>
<td><strong>16,5%</strong></td>
<td><strong>10%</strong></td>
</tr>
<tr>
<td><strong>2013</strong></td>
<td>33</td>
<td>12</td>
<td>27</td>
<td>31</td>
<td>58</td>
</tr>
<tr>
<td></td>
<td><strong>8%</strong></td>
<td><strong>3%</strong></td>
<td><strong>6,5%</strong></td>
<td><strong>7,5%</strong></td>
<td><strong>14%</strong></td>
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</table>

Source: GICSF-AG websites review European MFIs 2021, Davide Forcella (EMN) website review European MFIs 2013
MFIs declarations

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Environmental Assessment</th>
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<tbody>
<tr>
<td>East Europe</td>
<td>289</td>
</tr>
<tr>
<td>West Europe</td>
<td>225</td>
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<tr>
<td>Central Asia</td>
<td>47</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>561</strong></td>
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</table>

MFIs declarations II

Audits per Year and Region

- Western Europe
- Eastern Europe
- Central Asia

MFIs declarations, env. performance

Preliminary results

MFIs declarations, Green products

MFIs declarations, Green products II

MFIs declarations, Green products III

Western Europe

- Renewable Energy & Energy Efficiency
- Sustainable Agriculture
- Other Green credits
- Climate/Agri Insurance
- Green non-financial services

Preliminary results

MFIs declarations, Green products IV

Eastern Europe

4. What’s next?
Next week, on November 2, we will have the second workshop:

“Assessing the Environmental Performance of Financial institution”

It will:

- Introduce the Green Index methodology and tool for MFIs’ environmental assessment and management
- Guide participants in standards, essential practices, and indicators, and support MFIs participating to the event to fill out the Green Index in an interactive session.

We look forward to meeting you, your partners and your colleagues in the next workshop!
Thanks a lot for your presence and attention!

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Davide Forcella: davide.forcella@yahoo.it

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*EU Programme for Employment and Social Innovation

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