GREEN MICROFINANCE IN EUROPE, FIRST STEPS AND FORTHCOMING OPPORTUNITIES

EUROPEAN MICROFINANCE NETWORK

e-MFP Green Inclusive & Climate Smart Finance ACTION GROUP

With the support of

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EXECUTIVE SUMMARY

With the European Green Deal (2019), the European Commission sets a strategy to transform the European Union (EU) into a more *"sustainable, fair and prosperous"* society with zero net emissions of greenhouse gases by 2050. In 2021, the European Commission adopted its new strategy on climate change adaptation and established how the European Union can *"adapt to the unavoidable impacts of climate change and become climate resilient by 2050."*

In trying to achieve the objectives of the Paris Agreement adopted under the United Nations Framework Convention on Climate Change (i.e., keeping the global temperature increase below 2 degrees Celsius (°C)), the European Green Deal emphasizes the cost of non-action on climate and environmental policy on vulnerable groups in terms of living conditions and wellbeing. The Green Deal not only calls for a green transition, but also aims for a fair transition that is accessible and affordable for all.

The microfinance sector serves vulnerable groups that are among the most exposed to climate change, environmental degradation, and energy poverty. These populations have the lowest capacity to cope with forthcoming climatic and environmental challenges. In 2020, nearly 34 million citizens in the EU were unable to access essential energy services, and 8% of the population did not have the means to sufficiently heat their homes. The recent explosion of energy prices is expected to further worsen the situation of the most vulnerable populations, who have the least resources to invest into less polluting and more efficient technologies and practices.

To cope with the pressing need to accelerate the green transition, green finance developed as a way to increase capital flows (coming from the banking, insurance, and investment sectors) to sustainable development-focused priorities.

For European microfinance institutions (MFIs), which are in close contact with vulnerable groups and specialized in supporting them with financial and non-financial services, the integration of green practices and products into their business models is an opportunity to meet the needs of vulnerable populations by pursuing a triple bottom line (positive social & environmental impact and financial sustainability).

At the EU and global level, we are witnessing a growing societal and political interest in sustainability and climate change, which is expected to shape the microfinance sector's activities.

The EU has accelerated the pace of the green transition in recent years with several regulatory developments, such as the Action Plan on Sustainable Growth, EU taxonomy, and European Green Deal. Bringing green finance to the forefront will have concrete impacts and provide opportunities for the development of the sector. Other initiatives that will soon impact MFIs include the adoption of new green standards by

the inclusive finance sector (e.g., Green Index 3.0) or the introduction of an environmental clause in the European Code of Good Conduct for microcredit provision, which might have an effect on investor reporting requirements, as well as material opportunities available to MFIs.

The ongoing monitoring of the evolution of these initiatives, which are summarized in this report, is key to supporting the sector prepare for the future, drive innovation and exploit funding opportunities.

Moreover, it is essential to explore what MFIs in Europe are already implementing in terms of providing loans for green practices and technologies for clients, supporting clients in managing climate vulnerability and negative environmental impacts, and implementing environmental strategies to identify, manage, monitor, and report on environment risk and opportunities.

On the supply side, the data analysed in this paper confirms the growing interest in green practices. The analysis provides, for the first time, a comprehensive overview of the present status of green microfinance in Europe and its evolution in the last decade. We base our analysis on an extensive and unique database, compiling data from 453 MFIs in Europe[5] and 1,169 reports on these institutions' environmental activities (including declarations in surveys and disclosure on websites), collected between 2011 and 2021. The analysis of a decade of data on the environmental practices of MFIs in Europe reveals a few core features:

- → **The overall environmental performance of MFIs in Europe has increased:** a growing number of MFIs have engaged in developing or have developed green practices such as a green strategy, risk policy, or products.
- → **The provision of green microloans has increased,** particularly in Eastern Europe; the main products offered are loans for renewable energies and energy efficiency.
- → **The management and monitoring of the MFIs' ecological footprint** have become more common.
- → In contrast, **the provision of non-financial services,** such as client training on green practices, **appears to be less common today than it was 10 years ago.**

The data analysis is complemented by five cases that present concrete examples of how MFIs have developed their environmental strategies, implemented offers of green financial products & services, and managed their environmental risks & opportunities.

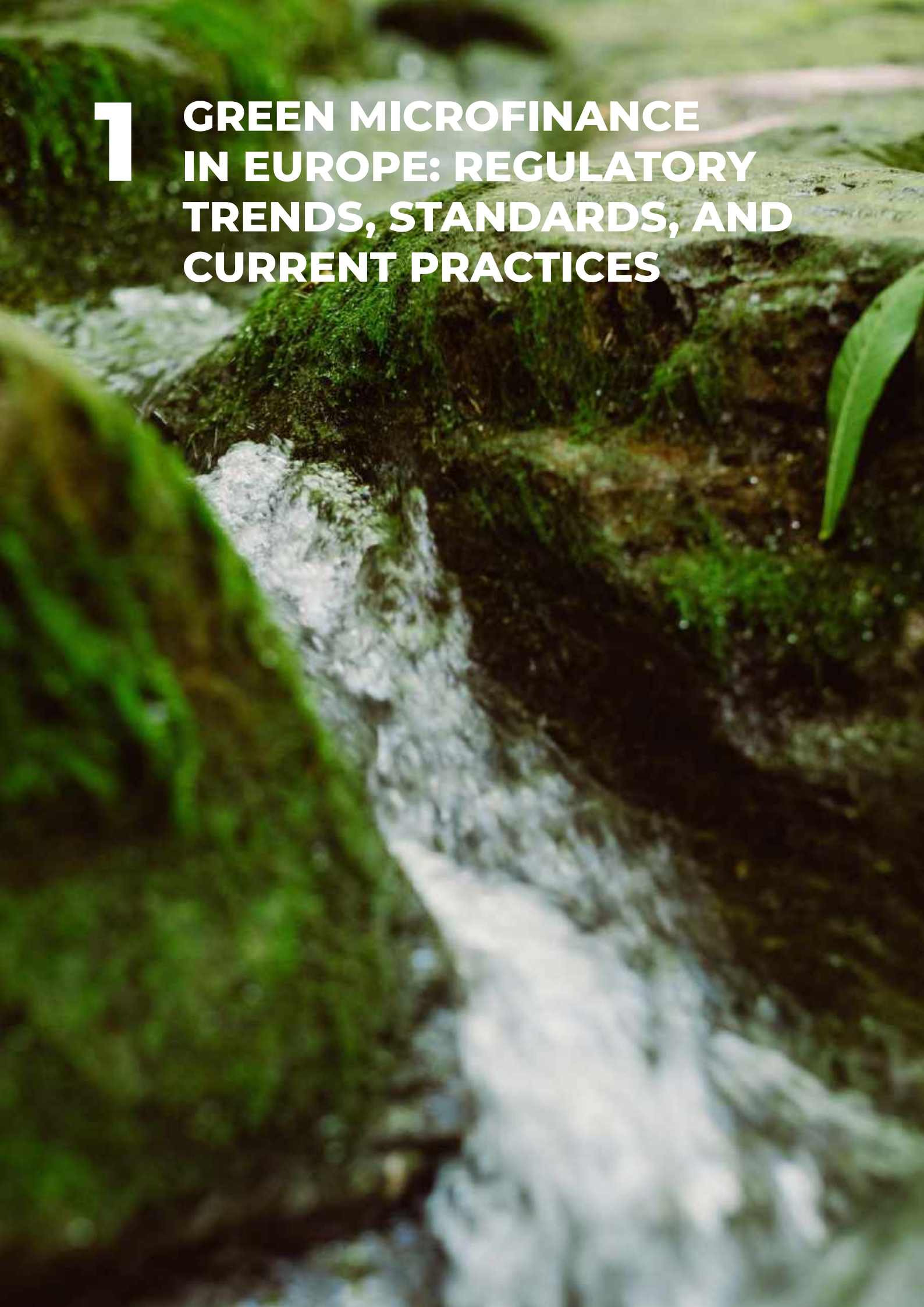
5. 37 European countries covered: 26 EU member states, 7 candidate/potential candidate countries, and 4 EFTA/other European countries.

INTRODUCTION

This report is divided into two main parts:

→ **Part 1** introduces microfinance in Europe from a regulatory perspective and provides an overview of the main European Union (EU) legislation that addresses environmental issues and might have an impact on the sector in the coming years. This first part continues by introducing the Green Index 3.0 (the main international standard to assess the environmental performance of MFIs, developed by the European Microfinance Platform (e-MFP) Green Inclusive and Climate Smart Finance Action Group (GICSF-AG)) and ends with some practical examples of green practices adopted by five European MFIs.

→ **Part 2** presents, for the first time, an overview of the current status of green microfinance in Europe and its evolution over the past decade. It compares European MFIs' developments on green practices against global benchmarks. The analysis is based on a unique dataset, structured along the framework provided by the Green Index, and is composed of the following items: a) answers provided by MFIs on their green practices collected in 8 annual surveys from 2011-2019; and, b) information on green practices implemented by MFIs, as disclosed on their websites and reviewed in 2013 and 2021. Green microfinance practices are assessed along dimensions of strategy, risk, and products & services. Although the main focus is on green products and services (due to data availability), an overview of other key activities, such as the establishment and management of an environmental strategy and development and implementation of environmental risk management systems, is provided.



1 GREEN MICROFINANCE IN EUROPE: REGULATORY TRENDS, STANDARDS, AND CURRENT PRACTICES

1.1 MICROFINANCE AND GREEN FINANCE

1.1.1. MICROFINANCE POLICY FRAMEWORK IN EUROPE

Microfinance has emerged at the European level as a crucial policy tool to fight against social and financial exclusion, promote self-employment, and support microenterprises. **The European Pillar of Social Rights,**[6] which establishes key principles and rights to support fair and functioning labour markets, declares that, *"Everyone has the right to access essential services including (...) financial services."*

The sector has been growing steadily over the past few decades thanks to European Union (EU) support, which dates back to the 1990's and became more widespread in the 2007-2013 programming period[7] (e.g., through JASMINE, the Progress Microfinance Facility, and the EU Programme for Employment and Social Innovation (EaSI)). In the last seven years, EU support was provided in the form of dedicated financial instruments & technical assistance (under EaSI) and grants (under the European Social Fund (ESF)). EU support to microfinance has been renewed for the coming years under the InvestEU and ESF+ programs.[8] Under the InvestEU programme regulation, microfinance *"includes guarantees, microcredit, equity and quasi-equity, coupled with accompanying business development services such as in the form of individual counselling, training and mentoring, extended to persons and microenterprises that experience difficulties accessing credit for the purpose of professional and/or revenue-generating activities."* [9]

According to the definition above, microcredit is intended to be a combination of credit and accompanying non-financial services that are provided to financially excluded individuals and enterprises.[10] The EU previously defined microcredit as loans up to EUR 25,000 granted to existing and potential microentrepreneurs at risk of social and financial exclusion.[11] However, in the guidelines of the EU programme that will support the sector in coming years (InvestEU), the microcredit threshold will be doubled to EUR 50,000.[12]

In Europe, there is no common legislative framework regulating the provision of microcredit, and regulatory frameworks vary greatly across the continent.[13] The highly fragmented regulatory environment for microcredit provision has resulted in a variety of microcredit lending practices that are guided by the non-binding European Code of Good Conduct, to which compliance is a condition to access the EaSI Technical Assistance and Financial Instruments. The European Code of Good Conduct was amended in 2021 to include a mandate for MFIs to take practical steps to promote environmental sustainability.

6. European Commission, The European Pillar of Social Rights in 20 principles
7. OECD and European Commission,The Missing Entrepreneurs 2021
8. European Microcredit Whitepaper
9. Article 2(1)(16)Regulation (EU) 2021/1057 of the European Parliament and of the Council of 24 June 2021 establishing the European Social Fund Plus (ESF+) and repealing Regulation (EU) No 1296/2013
10. Micro, small, and medium-sized enterprises and social economy actors
11. Commission Staff Working Paper "Microcredit for European small businesses," SEC (2004)1156; "Competitiveness and Innovation Framework Programme," 1639/2006/EC; Commission recommendation 2003/361/EC.
12. Commission Delegated Regulation (EU) 2021/1078 of 14 April 2021 supplementing Regulation (EU) 2021/523 of the European Parliament and of the Council by setting out the investment guidelines for the InvestEU Fund
13. Microcredit regulation in Europe: An overview (2021)

TABLE 1: EUROPEAN CODE OF GOOD CONDUCT CLAUSE ON ENVIRONMENTAL SUSTAINABILITY

Clause 2.5: Microcredit providers will take practical steps to promote environmental sustainability.
Providers should implement some practical actions to promote environmental sustainability.
There are two ways providers can promote environmental sustainability.

→ First, they can act to manage the internal ecological footprint of their organisations (i.e. specific mechanisms to reduce paper, water or energy consumption, reduce waste and carbon emissions).

→ Second, providers can promote environmentally friendly practices through offering green finance products or considering environmental risks in the loan approval process (i.e. not financing activities with high environmental risk). Providers can implement actions in one or both these areas.

1.1.2. KEY CHARACTERISTICS OF EUROPEAN MFIS

The microfinance sector in Europe is supporting a growing number of individuals and microenterprises through its provision of financial and non-financial services. The sector has been steadily growing in recent years, and in 2019, European MFIs reported a gross outstanding microloan portfolio of over EUR 3.7 billion and 1.2 million total active borrowers.

Microfinance providers in Europe vary widely in terms of scale, activities, and performance. The data presented in the latest edition of the EMN-MFC Survey Report[14] sheds light on some of the sector's common features:

The sector is primarily made up of non-bank MFIs: 90% of the MFIs operate under the legal status of non-governmental organisations (NGOs), non-bank financial institutions (NBFIs), credit unions, or financial cooperatives. A few banks are also active in the sector, where microcredit may be offered either as part of their corporate social responsibility (CSR) activities or as a type of specialised commercial activity.

Financial inclusion is the main goal: Despite the heterogeneity of business models, almost 60% of MFIs consider facilitating access to financial products and services as their primary purpose. Other goals include the stimulation of business growth (7%), job creation (7%), and support for rural development (6%).

European MFIs are mostly small-sized enterprises: Most MFIs have a small workforce. One-third of the institutions have fewer than 10 paid staff or volunteers, while another third have between 10-50 staff. Volunteers constitute 22% of total staff and are predominantly engaged in Western European countries.

Most MFIs offer a combination of financial and non-financial services: 63% of MFIs provide both types of services, while 37% exclusively provide financial services. Business loans for microenterprises (79% of MFIs) and personal loans[15] (64% of MFIs) are the two most popular financial products. Other common products include agriculture loans (46%), business loans to SMEs[16] (42%), and housing loans (26%).

Vulnerable clients and small businesses as main clientele: MFIs orient their services towards vulnerable groups, especially women and rural populations. One-third of MFIs also target migrants and refugees. Regardless of the size of the business loans (below or above EUR 25,000), enterprises with fewer than 10 employees are the main target group of MFIs.

14. Microfinance in Europe: Survey Report (2020 Edition): 143 MFIs from 29 European countries surveyed
15. Personal loans are disbursed to natural persons with the purpose of financing personal or family development, improving living conditions, income smoothing and other family needs
16. Business loans above EUR 25,000

1.1.3. THE EU GREEN FINANCE FRAMEWORK

The European Union is considered a global leader in green and sustainable finance. Under the Juncker Presidency[17] and following the Paris Agreement[18] in 2015, the European Commission (EC) and European Parliament highlighted the essential role of the financial sector in the green transition. Green financing is defined as the increase of financial flows (from banking, microcredit, insurance, and investment) from the public, private, and not-for-profit sectors to sustainable development priorities and is recognised as the supporting pillar for the green transition.[19]

Several initiatives related to financial services have been undertaken in recent years at the EU level to support environmental sustainability and the green transition.

In 2018, the **EC published its Action Plan on Financing Sustainable Growth,**[20] which establishes its strategy to link finance and sustainability. The Action Plan has three objectives: (1) reorient capital flows towards sustainable investment; (2) mainstream sustainability into risk management; and, (3) foster transparency and long-termism.

From this Action Plan, the **EU taxonomy regulation**[21] that was adopted in 2020 laid the foundation for the green taxonomy and established an EU-wide classification system on sustainable economic activities to guide investments towards more environmentally friendly activities. The taxonomy specifies that, to be defined as environmentally sustainable, an economic activity:

(1) must contribute substantially to at least one of the following six objectives [→] while not significantly harming any of the objectives listed above (do no significant harm principle – DNSHP)

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems.

After several debates, the delegated act listing the economic activities considered as "green" or "transitional" was adopted in December 2021.[22] However, on 1 January, 2022, the EC issued a complementary draft delegated act[23] including gas and nuclear activities. The delegated act was adopted in March 2022 and is currently under scrutiny.[24]

17. Jean-Claude Juncker was the President of the European Commission from 2014 to 2019.
18. The Paris Agreement or Paris Climate Agreement is an international treaty on climate change, adopted in December 2015. It is the first-ever universal, legally binding global agreement that covers climate change mitigation & adaptation and finance.
19. Definition from the UN Environment Program
20. European Commission, Communication Action Plan: Financing Sustainable Growth Brussels, 8.3.2018 COM(2018) 97 final
21. Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088
22. Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives.
23. European Commission, Press release, January 1st 2022
24. Commission Delegated Regulation(EU) .../... of 9.3.2022 amending Delegated Regulation (EU) 2021/2139 as regards economic activities in certain energy sectors and Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities. Brussels, 9.3.2022 C(2022) 631 final

From the Action Plan on Sustainable Growth, the Sustainable Finance Disclosure Regulation was adopted in November 2019 and lays down sustainability disclosure obligations for manufacturers of financial products and financial advisers to end-investors.

In December 2019, the European Commission published its **European Green Deal,**[25] detailing a comprehensive vision to make Europe the first climate-neutral continent by 2050. It also seeks to safeguard biodiversity, establish a circular economy, eliminate pollution, and ensure a fair transition for the regions and workers affected. These objectives have been translated into a legal framework under the European Climate Law adopted in June 2021. [26]

Based on the European Green Deal, the EC submitted two legislative proposals: (1) the **Corporate Sustainable Reporting Directive**[27] (CSDR), which will amend the Non-Financial Reporting Directive[28] (NFRD) to ensure that the investment community, consumers, and other stakeholders can evaluate the non-financial performance of large companies to develop a more responsible approach to business; and, (2) the **EU green bond standard legislative proposal.**[29]

With its "Fit for 55" package,[30] the EC has also set a binding target to achieve climate neutrality by 2050 and cut its greenhouse gas (GHG) emissions by at least 55% by 2030 (compared to 1990).

In February 2021, the European Commission adopted its new EU strategy on adaptation to climate change with the aim to "set out how the European Union can adapt to the unavoidable impacts of climate change and become climate resilient by 2050."[31] The strategy has the following objective: to make adaptation smarter, swifter, and more systemic as well as to step up international action on climate change adaptation.

More recently, the European Commission launched its Social Economy Action Plan,[32] which includes a series of *"Scenarios towards the co-creation of a transition pathway for a more resilient, sustainable and digital Proximity and Social Economy industrial ecosystem."* The objective behind this transition pathway is to accelerate the digital and green transition in the social economy industrial ecosystem.

Since 2018, the European Union has shown its leadership in green finance to reduce the consequences of human economic activities on the climate and the environment. Although the traditional financial sector has quickly developed financial products aligned with the EU objectives, the transition is starting more slowly in the microfinance sector since it has different target clients and more challenges to ensure that the green transition be also a social one.

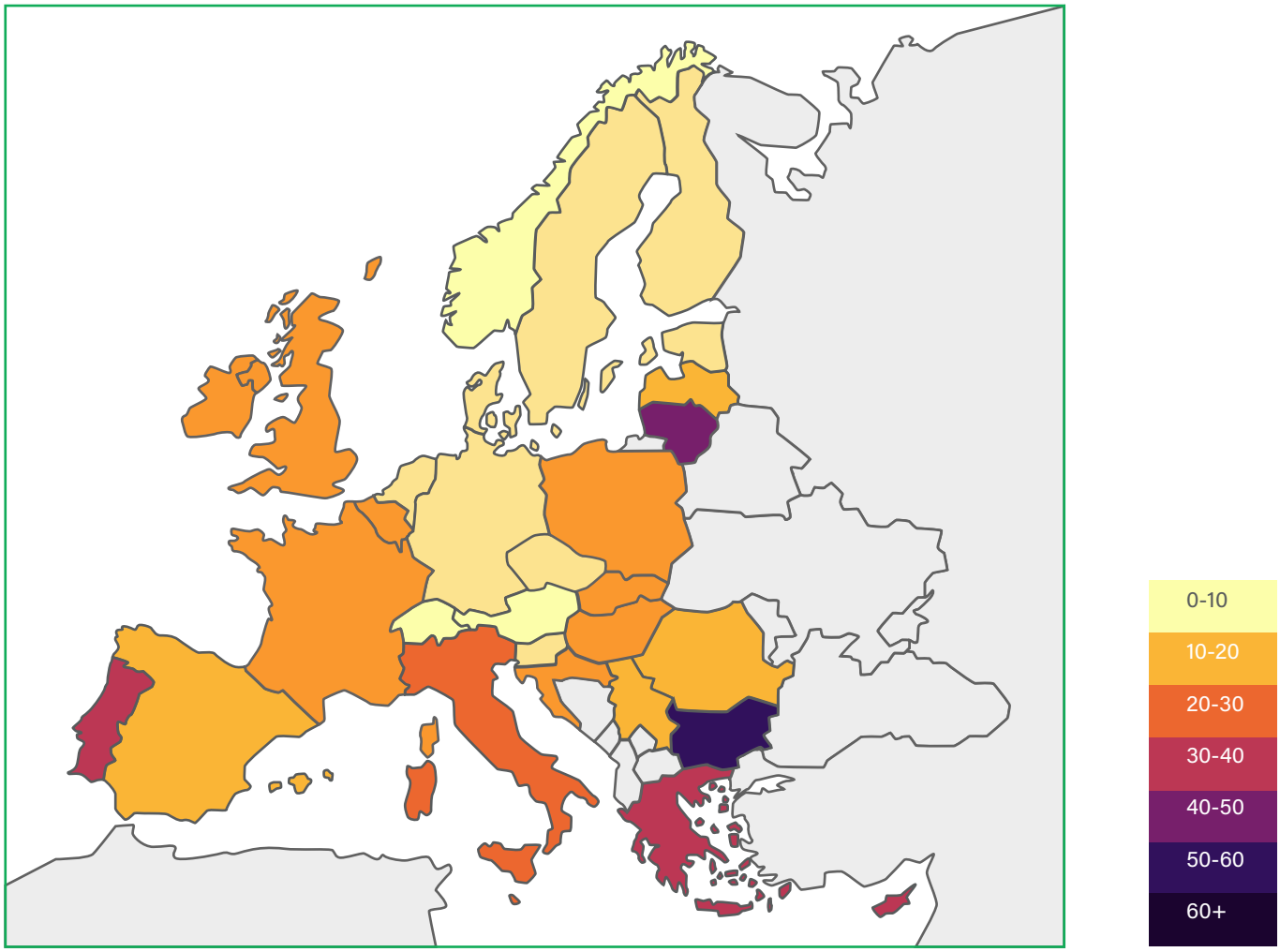
25. European Commission Brussels, Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the regions the European Green Deal 11.12.2019 COM(2019) 640 final
26. Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law')
27. European Commission, Proposal on corporate sustainability reporting 2021/0104 (COD) 21.4.2021
28. Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU regarding disclosure of non-financial and diversity information by certain large undertakings and groups
29. European Commission, Proposal for a Regulation of the European Parliament and the Council on European green bonds, currently under discussion at the European Parliament and Council of the EU.
30. European Commission Fit for 55% package
31. https://ec.europa.eu/clima/eu-action/adaptation-climate-change/eu-adaptation-strategy_es
32. European Commission, Social Economy Action Plan, December 2021

1.1.4. VULNERABLE POPULATIONS FACING ENERGY AND GREEN CHALLENGES

Aside from channelling private and public instruments towards green economic activities (green taxonomy), other important challenges in the green transition, specifically for consumers and vulnerable groups, include: (1) eliminating energy poverty; and, (2) ensuring these groups can contribute to and benefit from the green transition.

Energy poverty was defined in the European Commission Recommendation as a situation in which households are unable to access essential energy services, which concerns nearly 34 million citizens of the European Union as of 2020. [33, 34] There are three sources of energy poverty: low income, high energy prices, and low levels of residential energy efficiency. With the rise of energy prices, households and companies need solutions to face increasing costs. In 2020, an EU-wide survey concluded that 8% of the EU population did not have the means to keep their homes warm.

FIGURE 1: ENERGY POVERTY IN EUROPE
INABILITY TO KEEP HOME ADEQUATELY WARM, POPULATION (%), 2018



Source: European Commission, EU energy poverty indicator

33. European Commission, Council Recommendation 2020/1563 of 14 October 2020 on energy poverty
34. European Commission, Energy poverty Hub

Contributing to the green transition in their economic activity and daily life also represents a challenge, especially for vulnerable groups.

To ensure that small companies and/or vulnerable households are not excluded and are financially able to contribute to this green wave, it is important to align the transition with the social inclusion objectives being pursued by the EU and its Member States.

As part of its "2030 EU Climate Target Plan"[35] and "Fit for 55 package," the European Commission published its proposal for a Social Climate Fund in July 2021, currently under discussion in the European Parliament and the Council of the European Union.[36] From 2025 to 2032, the Social Climate Fund (EUR 72.2 billion) will provide funding to EU Member States to address the social impacts of the extension of the Emissions Trading Scheme to road transport and construction, which could have financial consequences on vulnerable households.[37] In October 2021, the European Commission adopted a Communication[38] on energy poverty that aims to guide Member States in helping small businesses and vulnerable populations cover increasing energy costs, along with the high costs associated with the transition to energy-efficient systems (e.g., domestic heating, electricity, etc.).

To ensure that no one is left behind, the EC recently launched a new initiative to facilitate a fair transition towards climate neutrality. Based on the European Green Deal and announced as part of its "Fit for 55" package, the EC published a Council recommendation[39] on addressing the social and labour aspects of the just transition towards climate neutrality. This Recommendation (which will not be legally binding) offers concrete guidance to Member States on how to implement the right policies and actions to make full use of the funding options available to achieve a fair and inclusive transition, possible support measures for the most affected households, people, and sectors, and the policies and investments needed to share the costs and benefits of the transition. The Council recommends, among other things, facilitating access to finance and markets for micro, small and medium-size enterprises (MSMEs) with a view to promoting competitiveness, innovation, and employment.

Although the direct impact of these initiatives on MFIs and their clients is not yet fully understood, all these initiatives represent an opportunity for the sector to keep a central role in supporting EU policies and ensure the social and financial inclusion of vulnerable groups in the framework of the green transition. MFIs have historically contributed to financial and social inclusion by offering their financial and non-financial services to vulnerable people and the smallest entrepreneurs.

35. European Commission Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the regions "Stepping up Europe's 2030 climate ambition", Investing in a climate-neutral future for the benefit of our people, 17.9.2020 COM(2020) 562 final
36. European Commission, Proposal for a Regulation of the European Parliament and of the Council establishing a Social Climate Fund, 14.7.2021 COM (2021) 568 final - 2021/0206(COD)
37. The Emissions Trading System (ETS) was introduced in 2005 to set a cap on the amount of certain greenhouse gases emitted each year by the companies covered by this scheme.
38 European Commission, Communication" Tackling rising energy prices: a toolbox for action and support COM(2021) 660 final
39. European Commission, Proposal for a COUNCIL RECOMMENDATION on ensuring a fair transition towards climate neutrality COM(2021) 801 final 2021/0421 (NLE)

Today, the microfinance sector is slowly developing an offer to support businesses and individuals who cannot access traditional banking services and who want/have to become more environmentally responsible. As demonstrated in this report, MFIs are developing green products and services. However, these offers remain limited due to several factors (e.g., lack of knowledge and interest from microfinance clients, lack of financial or tax incentives from Member States, etc.).

1.2 ASSESSING MFIS' GREEN PERFORMANCE: THE GREEN INDEX

It is important to introduce the Green Index since this framework has been used as a reference to gather and analyse data on green products and services in the European microfinance sector over the last decade.

The Green Index was first developed in 2014 and later updated by the e-MFP Green Inclusive and Climate Smart Finance Action Group (GICSF-AG: https://www.e-mfp.eu/gicsf-ag).[40] The Green Index is the main framework and tool to assess the performance of MFIs in inclusive green finance and define action plans to improve it.

The Green Index tool is meant for companies, financial institutions, and institutional investors rather than clients or retail investors.

Today, many different stakeholders have included the Green Index in their product lines and governance: investors (as part of their due diligence), microfinance networks (as part of their support to the sector), rating agencies (as part of social ratings), consultants and consulting companies (as part of their advisory services), and MFIs themselves (as part of their social and environmental performance management).

The tool is composed of a set of indicators. To assess their compliance with these indicators, a company must answer the questions included in the tool. The MFI can either perform a self-evaluation or receive support for an expert evaluation by an external auditor.

→ Awareness raising
→ Evaluation
→ Commitment
→ Planning
→ Prioritise
→ Monitoring progress

40. https://www.e-mfp.eu/resources/green-index-20-innovative-tool-assess-environmental-performance-microfinance-sector-brief

1.2.1 EVOLUTION OF THE GREEN INDEX SINCE 2014

The latest version of the Green Index (the Green Index 3.0)[41] was released in November 2021 and is the result of extensive experience and sectoral work. The GICSF-AG and its members have enhanced the tool for more than seven years through the following activities:

- → 1500+ environmental assessments of MFIs since 2011
- → 10+ years of green inclusive finance projects
- → Mapping of 70+ international initiatives and standards
- → Surveys and interviews with 250+ stakeholders
- → Two rounds of review involving 150+ participants

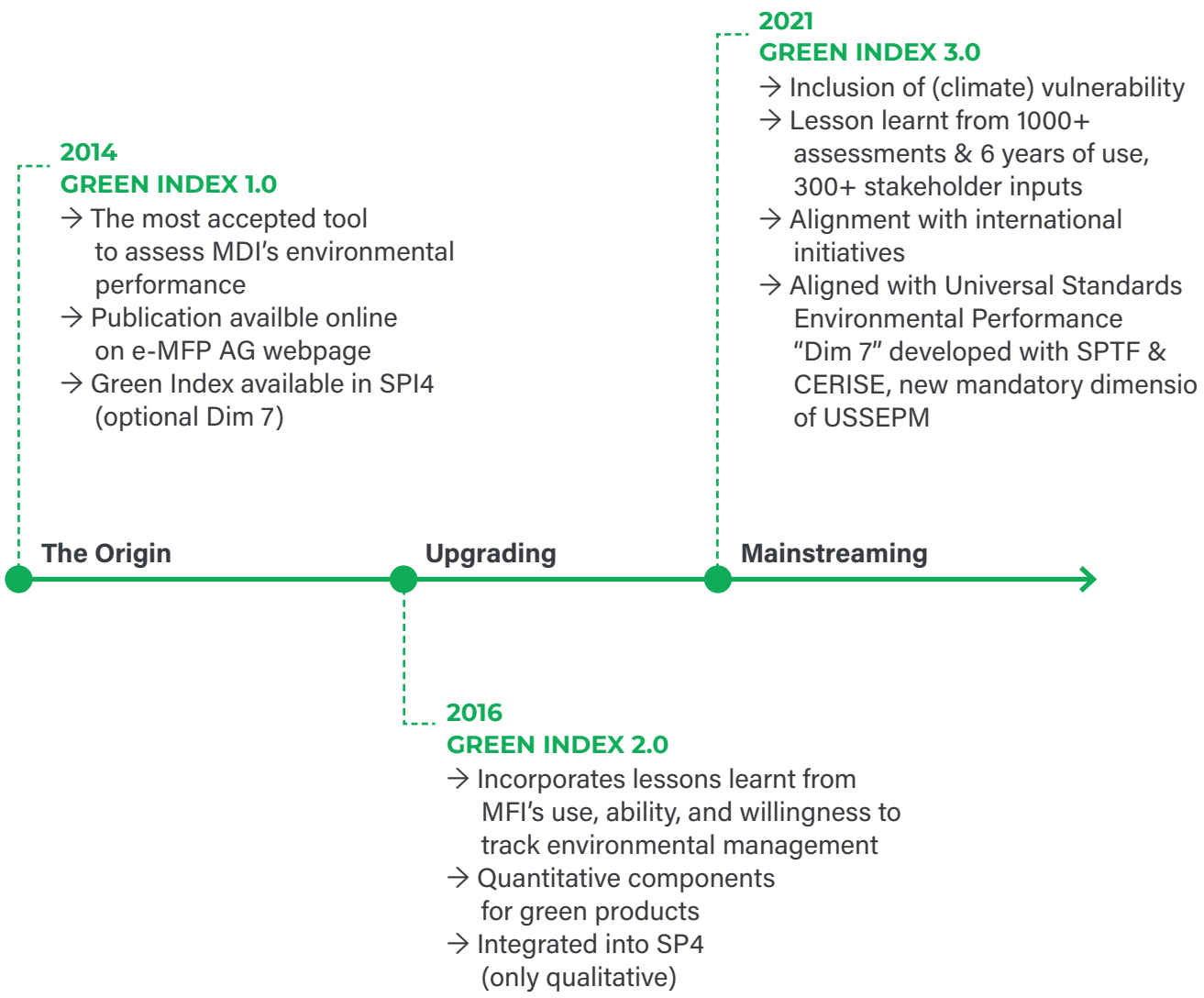
The contents of e-MFP GICSF-AG's Green Index 3.0 and Dimension 7 of the Cerise+SPTF's USSEPM[42] are fully aligned at the concept level of the standards and essential practices. The Green Index 3.0 provides an in-depth analysis and helps establish a detailed improvement action plan on green inclusive finance. Dimension 7, co-developed by Cerise+SPTF and the e-MFP GICSF-AG, helps establish a detailed improvement action plan in the framework of the Universal Standards. Consequently, as of 2022, environmental performance is considered an integral aspect of MFI performance, at the same level as its social performance.

The Green Index has evolved over the years to ensure its relevance and alignment with existing practices and experiences.

41. https://www.e-mfp.eu/sites/default/files/action-groups/Green_Index_3.0_conceptual_framework.pdf ; https://hedera.online/gicsf_ag_tools/green-index-digital.html
42. Universal Standards for Social and Environmental Performance Management (2022)

FIGURE 2: THE EVOLUTION OF THE GREEN INDEX

Source: GICSF-AG, https://www.e-mfp.eu/gicsf-ag



1.2.2 GREEN INDEX 3.0

The latest version, Green Index 3.0, is composed of four standards, each containing two essential practices, which are composed of a set of qualitative and quantitative indicators. [Figure 3 / Figure 4].

An MFI's green inclusive finance performance is assessed based on three key concepts:

→ **Vulnerability:** how clients and institutions are affected by the environment (including climate change, ecosystems degradation, energy poverty, etc.)
→ **Adverse environmental Impacts:** how clients and institutions affect the environment (including air, water, soil pollution, greenhouse gas emission, deforestation & land degradation, etc.)
→ **Green Economic Opportunities:** how green practices, products and services can satisfy demand and increase revenues for clients, or be an opportunity for the MFI.

The Green Index 3.0 indicators are both qualitative and quantitative. The qualitative indicators consist of multiple-choice questions where an MFI can report the actual details of their actions in green inclusive finance for each indicator. For example, if an MFI finances clean energy technologies, it can answer "yes" by reporting the technologies it actually finances among a possible set of technologies provided in the list, plus an open text field "other" where it can specify the technology. The quantitative indicators consist of free text fields where an MFI can specify the quantitative details of its actions, e.g., the volume of clean energy financed (in EUR) over the past year. According to its answers, an MFI receives a score from 1 to 100 for each standard, essential practice, and sub-dimension, which can be visualised as [Figure 5.1].

The Green Index 3.0 also provides additional visualisation of the MFI's green inclusive finance performance, e.g., along the dimensions of risk management or products and services (green opportunities)[Figure 5.2].

The objective is not to score 100% in all dimensions assessed, but rather to:

→ Understand the MFI's performance across the various dimensions
→ Compare the MFI's results against other peer MFIs' achievements and the MFI's own objectives
→ Define priorities and an action plan to improve the MFI's green inclusive finance performance

43. The data used in this paper, collected through the 8 surveys in 2011-2019, have been already all homogenized and structured by GICSF-AG along the Green Index 2.0 framework. The data collected from MFI websites in 2013 were based on a simpler framework that is nevertheless also aligned with the Green Index 2.0. The data collection from MFI websites in 2021 was done according to the framework provided by the Green Index 3.0.

In this publication, we analysed data from European MFIs since 2011, which therefore reflect the evolution of the Green Index.[43] A comparison of the key dimensions of the Green Index 2.0 and 3.0 is provided in Annex B. Both frameworks are used to present the key results of the data analysis. A short description of the Green Index 2.0 is provided below as reference for the reader.

FIGURE 3: GREEN INDEX 3.0 STANDARDS
Source: GICSF-AG, https://www.e-mfp.eu/gicsf-ag

GI.0 Environmental strategy Definition and implementation	→	It is about how the environmental strategy is defined and implemented, including roles and resposabilities, alignment with local and international standards, and how the institution monitors and reports on the implementation of its environmental strategy.
GI.1 Identification of environmental risks and opportunities	→	It is about how the institution's ability to identify the vulnerability of its clients/portfolio and the institution itself, the negative environmental impacts generated on ecosystems by clients' need and demand for green practices and technologies, as well as the opportunities for the institution itself.
GI.2 Management of environmental risks and opportunities	→	It is about how the processes and tools in pace to analyze and respond to the vulnerability, negative environmental impacts, and client demand and need identified in GI.1. It is about how the institution translates vulnerability, negative environmental impacts, demands and needs into actual risks and opportunities.
GI.3 Green products and services Financial and non-financial	→	It is about how the supply and delivery of "green" products and services to customers. Both financial and non-financial services are assessed. Financial products include "green" credits, but also insurance, savings, and money transfer. Non-financial services include awareness raising, training, technical assistance, & partnerships.

FIGURE 4: SUMMARY OF THE STANDARDS, ESSENTIAL PRACTICES, & CONTENT OF THE GREEN INDEX 3.0 INDICATORS

Source: GICSF-AG,https://www.e-mfp.eu/gicsf-ag

GI.0 Environmental strategy
Definition and implementation

- **GI.0.1 Definition on the strategy**
  - → Detailed goals, mission, documented strategy
  - → Compliance with applicable standards and regulations
- **GI.0.2 Put in place the Strategy**
  - → Responsabilities & processes
  - → Management & governance
  - → Monitoring:
    - → Economic impact
    - → Vulnerability
    - → Negative env. impacts

GI.1 Identification of environmental risks and opportunities

- **GI.1.1 Identification of indirect risks & opportunities**
  - → Identification of clients:
    - → Vulnerability
    - → Negative env impacts
    - → Demand and needs
- **GI.1.2 Identification of direct risks & opportunities**
  Identification of building and staff
    - → Vulnerability
    - → Negative env impacts

  Identification of green opportunities for the institution to engage in

GI.2 Management of environmental risks and opportunities

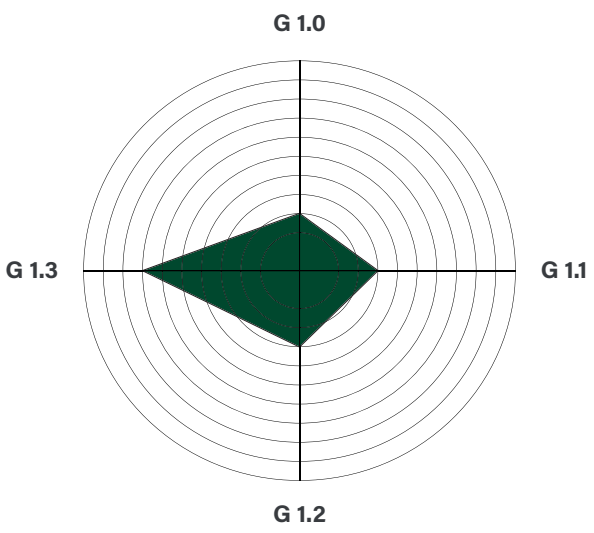
- **GI.2.1 Management of indirect risks & opportunities**
  Inclusion of vulnerability, negative env impacts, and demand/needs in:
  - → (Financial) risk management processes, tools, indicators
  - → Credit processes & products
- **GI.2.2 Management of direct risks & opportunities**
  Action and processes to reduce the institution's vulnerability and negative env impacts and exploit opportunities

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

- **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

FIGURE 5.1: SAMPLE GREEN INDEX 3.0 ASSESSMENT - SCORING PER STANDARD

Source: GICSF-AG,https://www.e-mfp.eu/gicsf-ag

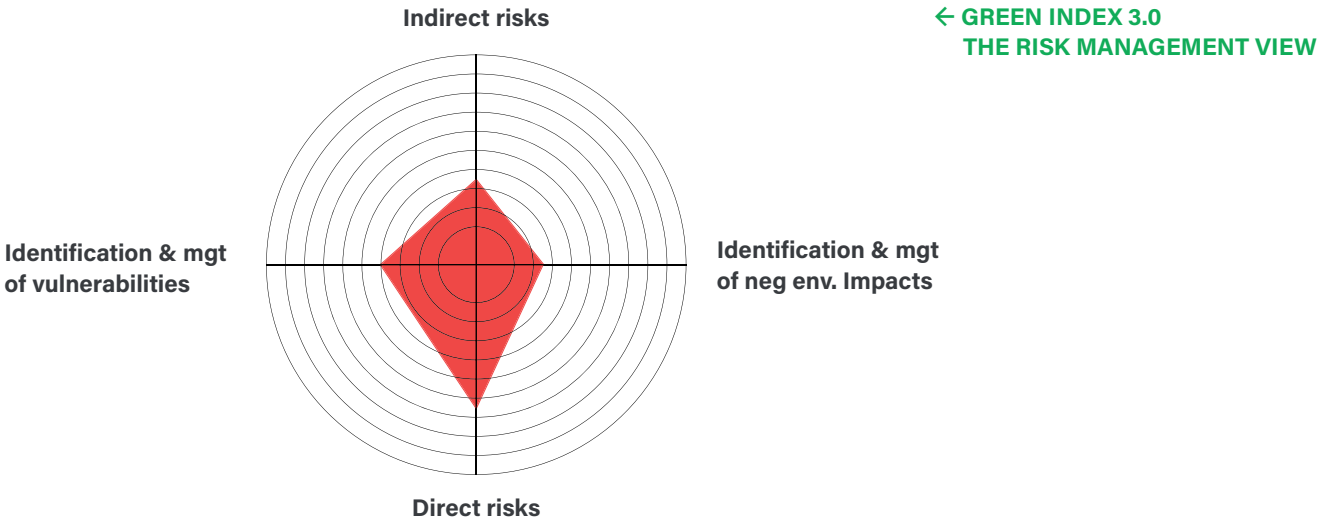


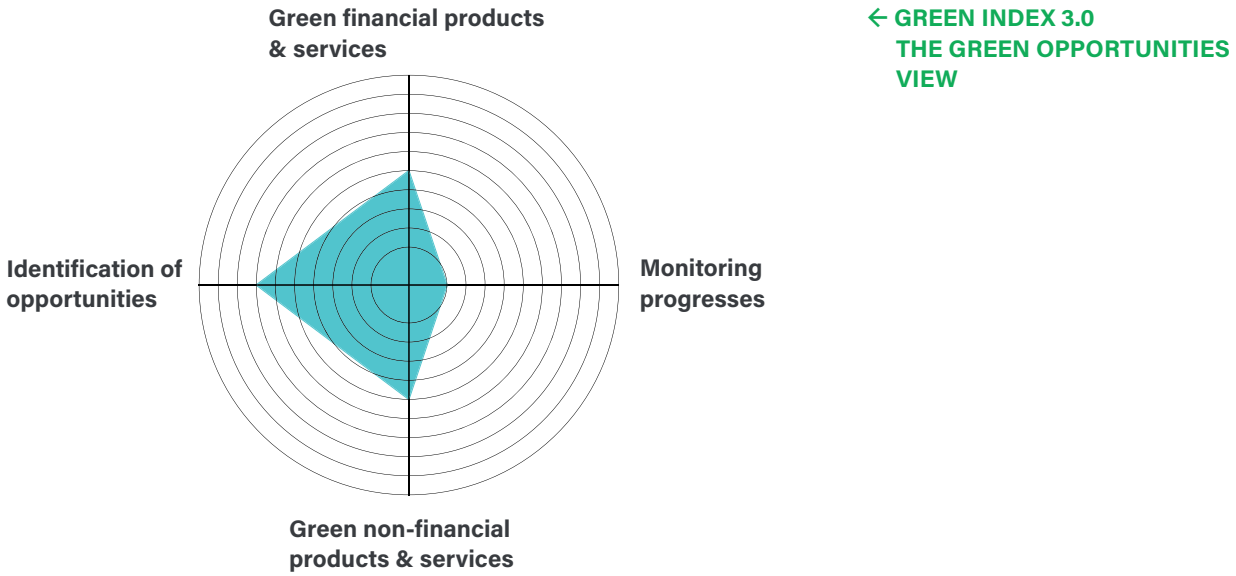
← GREEN INDEX 3.0

G 1.3 Green products and services
G 1.0 Environmental strategy
G 1.1 Identification of environmental risks and opportunities
G 1.2 Management of environmental risks and opportunities

FIGURE 5.2: SAMPLE GREEN INDEX 3.0 ASSESSMENT - SCORING BASED ON RISK MANAGEMENT AND OPPORTUNITIES

Source: GICSF-AG,https://www.e-mfp.eu/gicsf-ag





1.2.3 GREEN INDEX 2.0

The Green Index 2.0[44] was developed by the GICSF-AG in 2016 and used until 2021. The design of the tool was based on a market assessment of MFIs carried out jointly by e-MFP, GICSF-AG, and MIX Market.[45] The Green Index 2.0 is composed of the four standards presented in Table 2. The main differences between the Green Index 3.0 and 2.0 include the following: the Green Index 2.0 provides a shorter and lighter assessment, with the only possible answer options to qualitative indicator questions being "yes", "no", or "partially", rather than multiple choice; the Green Index 3.0 introduces the new dimension of "vulnerability," which was only partially present in the Green Index 2.0. The Green Index 3.0 also ensures alignment with international standards, regulations, and initiatives.

TABLE 2: GREEN INDEX 2.0 – SUMMARY OF STANDARDS

Green Index 2.0 standards (summary)	
Environmental strategy	The definition, management, and monitoring of an environmental strategy
Internal risk management	The management and monitoring of the MFI's ecological footprint (e.g., using renewable energy sources, recycling waste produced, and/or reducing energy usage, water usage, paper usage, fuel consumption, waste production, and/or GHG emissions at headquarters and branches)
External risk management	The assessment and management of clients' environmental risks (e.g., evaluating the environmental risks of clients' activities, categorising loan applications according to the level of environmental risk, and applying specific procedures according to each risk category)
Green opportunities	Green financial products (i.e., loans for renewable energy or energy efficiency, sustainable agriculture, or other green activities, or agriculture/climate insurance) and non-financial services such as client training on environmentally friendly practices or businesses
Each standard contains essential practices and indicators. For each indicator, an MFI can answer "yes", "partially", or "no" and it receives the respective score "100%", "50%", or "0%". This results in a score from 0% to 100% (max) for each of the 4 standards.	

44. The Green Index 2.0, An innovative tool to assess environmental performance in the microfinance sector (2016), GICSF-AG, Allet M., Dumitrescu R., Forcella D., Jan Schuite G. e - MFP Brief No. 6. https://www.e-mfp.eu/sites/default/files/resources/Green_Index_Nr_2_2016.pdf

45. Allet M. Forcella D. Huybrechs F., Moauro A., Pierantozzi A., Realpe Carrillo N., Jan Schuite G., Spaggiari L. (2015) "Assessing Green Microfinance, Qualitative and quantitative indicators for measuring environmental performance", MIX-e-MFP GICSF-AG publication.https://www.e-mfp.eu/sites/default/files/resources/2016/01/Assessing%20Green%20Microfinance%20-%20Qualitative%20and%20quantitative%20indicators%20for%20measuring%20environmental%20performance.pdf

1.3 GREEN PRACTICES: SOME EXAMPLES FROM THE FIELD

In this section, we present examples of green practices implemented or planned by five European MFIs. Green practices are presented following the Green Index 3.0 main standards. An example of an impact investment fund that supports the microfinance sector's green transition in Europe is also presented at the end of the section.

1.3.1 ENVIRONMENTAL STRATEGY

→ Adie

In 2022, Adie will adopt an environmental policy that provides the general strategy of the MFI:

- **Reduce its environmental impact internally:** this includes the measurement of its carbon print to identify priorities, reduction of energy consumption, inclusion of environmental criteria to select its providers, with the aim of giving priority to local providers, recycling furniture, computing material, and the creation of an internal environmental Steering Committee, among other items.
- **Sensitise staff on the environmental topic:** information, dissemination & promotion of environment friendly practices, staff training, inclusion of the environment protection among recruitment argument.
- **Adapt its service offer to customers:** identify customers who have positive impact on the environment protection notably through development of its Man agement Information System (MIS).
- **Sensitise clients with respect to their relationship with Adie:** mailing, factsheets, information during appraisal process, dissemination of portraits of virtuous clients as role models.
- **Propose specific green financial and non-financial offers** (inclusion of environmental protection in all of its business development services as a transversal axis, web conferences) to avoid having its clients be excluded from the ecological transition.
- **Onboard a new partnership** to increase Adie's means of action.

Adie has earmarked EUR 1M from its own resources to create a green fund. Adie expects the green fund have a leverage effect, which will allow the MFI to convince more private & public partners to join Adie and increase the funding amount. The objective of the fund is to offer non-bearing interest rate microcredits with a grace period (e.g., 12 months) in combination with classical microcredits, which can play the role of quasi-equity for Adie's borrowers, and facilitate/ease their investments to green their business (investment in solar panels, acquisition of electric transportation, change of suppliers) or to create/develop a business in the green economic sector.

Together with the Foundation Carrefour, Adie has also developed a specific approach for agricultural entrepreneurs who adopt organic and/or circular economy principles. Such customers are eligible for a grant as a complement to Adie's microcredit to facilitate/encourage their ecological commitment.

TABLE 3: MAIN CHARACTERISTICS OF MFIS PRESENTED

Institution name	Adie	Fondi Besa	Agro & Social Fund (ASF)	MCF MI-BOSPO	Partner
Website	https://www.adie.org	https://fondibesa.com	https://asf.al/en/	https://www.mi-bospo.org	https://www.partner.ba
Country	France	Albania	Albania	Bosnia and Herzegovina	Bosnia and Herzegovina
Year of creation	1989	1992	2001	1996	1997
Legal type	NGO (Association)	NBFI	NBFI	NGO (Foundation)	NGO (Foundation)
Microcredit Portfolio 2021 (EUR)	212 million	72 million	7.3 million	37.6 million	71.5 million
N. of active borrowers 2021 (EUR)	75,500	26,784	3,128	25,643 (*active clients)	39,399
Main financial products offered	▪Business loans ▪Personal loans, ▪Micro-insurance	▪Business loans ▪Personal loans	▪Agro Loan ▪Rural Inclusion Loan ▪Business Loan ▪Social Loan ▪Energy Efficiency Loan	Business loans	▪Business loans, ▪Energy Efficiency Loans ▪Loans for improving quality of life
Main partners in green inclusive projects	Sponsors as part of their CSR: ENI, Fondation Carrefour	IFC, EBRD	Albanian Development Guarantee Foundation	GGF, EFSE	KFW, GGF, EBRD, CEB, USAID

→ Partner

An external consultant (co-financed by EFSE) developed a strategic document that identifies the environmental and social risk of the MFI and its management system for Partner. Following these guidelines, in 2022, Partner will amend its internal policies and operating procedures to manage its environmental and social risk. Although the priority in the implementation of environmental and social risk management system is the credit process, at a later stage it will also affect the management of human resources, procurement policies,

organisational security and data protection. Information on the state of environmental and social risks will become an integral part of the reports to the management and the board of directors and dedicated training on this subject will be organised for loan officers in 2022.

→ MI-BOSPO

MI-BOSPO has a formal social and environmental policy that is supervised by board members. Every year, MI-BOSPO updates the social environment policy in its business plan that encompasses both internal activities and credit products.

1.3.2 IDENTIFICATION AND MANAGEMENT OF ENVIRONMENTAL RISKS AND OPPORTUNITIES

→ MI-BOSPO

MI-BOSPO's credit policy has an exclusion list that is aligned with the Bosnia and Herzegovina law to avoid financing activities that harm the environment.

Furthermore, MI-BOSPO classifies client activities based on their potential impact on the environment. For clients assigned to the most problematic category, MI-BOSPO does a thorough analysis in the field with its credit officers to assess the risk. In the most critical situations, MI-BOSPO communicates to its clients what is unacceptable in their activity in terms of environmental impact and what they must change to get the loan. During the repayment period, MI-BOSPO usually visits its customers several times to monitor, among other things, the environmental impact of the loan. In case the client's activity endangers the environment, MI-BOSPO can decide to interrupt the relationship with the client.

MI-BOSPO has set up an education platform for its staff to train them on how to reduce consumption within the MFI. Every day, employees log in to the system and receive a message related to responsible consumption (e.g., printing paper, saving energy with electronic devices, etc.).

→ ASF

In the ASF credit manual, there is a list of business types that are not financeable by ASF, among which are businesses whose products that harm the environment. Also, ASF increases awareness among loan officers to pay attention to the potential negative environmental impacts of clients during the loan verification process.

Moreover, ASF specifically monitors loans affected by floods. As natural disasters are not due to client behaviour, when loan arrears are due to environmental issues, ASF's policy is more flexible to loan restructuring and the provision of additional support for clients.

→ Partner

Partner uses software that calculates energy savings and reduc-

tion of CO2 emissions for energy efficiency loans. Based on the data collected, clients that received energy efficiency loans use less energy for heating (up to 30-35%), which often comes from fossil fuel.

1.3.3 GREEN FINANCIAL PRODUCTS AND SERVICES

→ ASF

ASF provides energy efficiency loans (up to EUR 8,000) for individual or business investments that meet the criteria of energy efficiency such as thermal insulation, roof insulation, plastering, windows, solar panels, and other alternative energy.

In 2021 ASF disbursed energy efficiency loans to 327 clients for a total amount of ALL 148 million (EUR 1.2 million).

→ MI-BOSPO

MI-BOSPO offers two main types of green loans: energy efficiency and renewable energies. A total of 1,050 loans for a total value of almost EUR 3 million were disbursed from 2016-2021.

Eco-housing loan: this product is intended to improve households' living conditions by supporting energy savings and consumption reductions (target of 20% savings). The purpose is to implement energy efficiency measures and renewable energy in residential buildings. Examples of energy efficiency measures include the replacement of lighting with more efficient bulbs (i.e., LED), insulation of buildings and the improvement of heating systems. For the renewable energy component this loan can finance the replacement of conventional heating systems with a heat pump and solar thermal systems for hot sanitary water. In 2021, MI-BOSPO disbursed a total of 122 eco-housing loans (up to EUR 5,000).

Business green microcredit: the purpose of the business microcredit is the implementation of energy efficiency measures and renewable energy in business facilities or the replacement of agricultural machinery for agricultural businesses. Examples of energy efficiency measures include the replacement of lighting with LEDs, insulation of buildings and improvement of the heating system. The replacement of the conventional heating system with a heat pump and solar thermal systems for hot sanitary water is also supported. In addition, for agriculture, these loans support the replacement of old tractors and agricultural tools. These loans can be used to finance measures that have an impact on the environment, such as energy savings and reduction of CO2 emissions (target of 20% savings). To receive financing, at least 75% of the amount of the approved loan must meet one of the measures described above.

→ Partner

Partner provides several loan products to support energy efficiency measures and renewable energy resources. Partner has disbursed approximately EUR 36 million in green loans since 2012, financing

nearly 13,000 projects. The MFI partnered with various international organisations such as EBRD, KfW, GGF, CEB, USAID to provide its energy efficiency loans.

With the support of USAID in 2011, Partner implemented an interesting project called "Solar energy as the future of sustainable development." The project aimed to finance domestic solar panels producers with a half grant-half loan scheme, but also created a market by providing solar panel buyers with a competitive interest rate of 3.99%. The project enabled 20 companies to acquire solar panels and 120 solar systems were installed. After completion of the project, Partner continued to finance energy efficiency and renewable energy projects from different funds. For 2022, its green loan disbursement plan is EUR 20 million.

→ Adie

To support urban microentrepreneurs who launch or develop a business based on soft-mobility (e.g., cargo bike) such as movers, plumbers, delivery or street-food, Adie developed a unique approach that combines: (1) training (choice of the material, adaptation of business model, security) through a partner NGO; and, (2) access to a combination of a microcredit and a grant. This solution allows entrepreneurs to adopt a cargo-bike as a means of transportation instead of a vehicle in their day-to-day operations (with a container to carry tools and other accessories). The benefit is the reduction of greenhouse gas emissions, quick transportation & reduction of traffic jams.

→ Fondi Besa

Fondi Besa has been engaged over the last 10 years on various energy efficiency projects and partnerships with partners like IFC and EBRD.

Their last partnership to finance green activities was with EBRD and involved the offer of energy efficiency loans that included a grant component. The partnership came ended in 2021.

Currently, Fondi Besa is looking for new partnerships with the hope of designing products that provide lower costs and more value to its clients while protecting the environment.

1.3.4 GREEN NON-FINANCIAL PRODUCTS AND SERVICES

→ Partner

Partner's loan officers are trained about energy efficiency trends and issues since they are expected to communicate with clients to raise their awareness on the subject. Partner also organises conferences/ seminars with stakeholders (e.g., creditors, local NGOs, government organisations and clients) and regularly attends fairs with vendors and suppliers of energy efficiency equipment, where visitors can come and see first-hand how solar panels function, for example.

→ ASF

In February 2022, ASF loan officers participated in a training on renewable energy and energy efficiency offered by the Albanian Development Guarantee Foundation, an ASF partner. The objective was to increase the capacity of loan officers to communicate the energy efficiency and renewable energy benefits to ASF clients and raise their awareness on the topic. The training focused on understanding the phenomenon of climate change and its impact on the environment and the Earth, explaining energy efficiency and its importance. ASF believes that loan officers can use this information in their everyday work with clients.

TABLE 4: EXAMPLE OF AN INVESTOR WITH A FOCUS ON GREEN FINANCE

An investor specialised in green finance

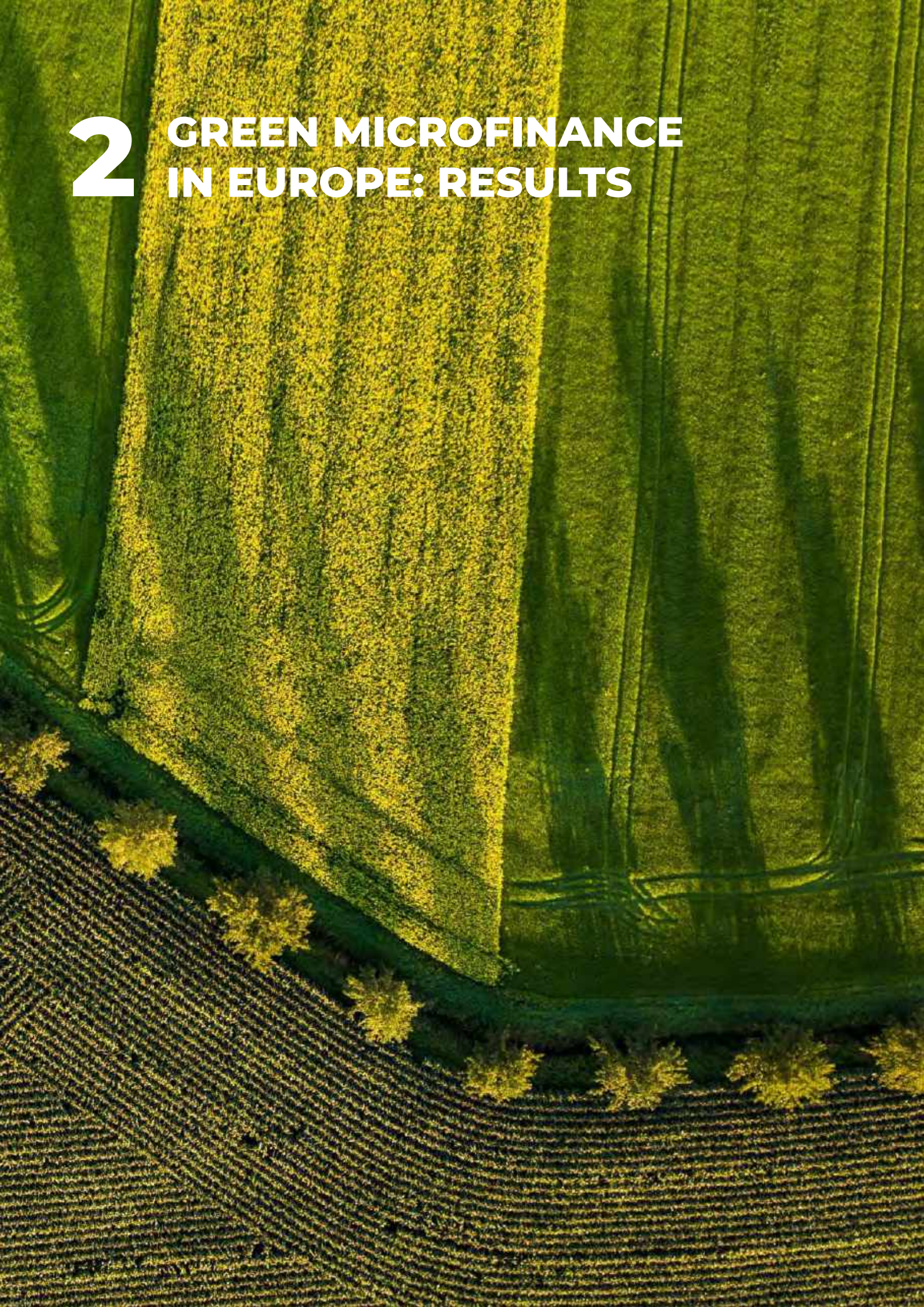
The Green for Growth Fund (GGF) (https://ggf.lu) is an impact investment fund that mitigates climate change and promotes sustainable economic growth, primarily by investing in measures that reduce energy consumption, resource use and CO2 emissions. The fund, initiated by EIB and KfW Development Bank, is a public-private partnership that leverages risk-capital provided by public/governmental institutions to attract additional private capital. Its goal is to substantially increase investment volumes into regions and sectors that are critical to addressing the climate crisis.

The GGF mobilises development finance for energy efficiency and renewable energy investments via local partner institutions operating in 19 markets across the Southeast Europe Region and Turkey, and in the European Neighbourhood East and South Regions.

The fund strives to meet these goals by ensuring that its investments achieve a minimum 20% reduction in energy consumption and/or in CO2 emissions. The fund predominantly channels dedicated financing through local financial intermediaries to businesses and households as well as through direct investments to renewable energy projects and green corporate investments. In support of the fund's strategic mission, a dedicated technical assistance facility (TAF), managed by Finance in Motion GmbH, supports the fund's partners to effectively deploy investments and achieve impact. The TAF plays an essential role in assisting partner institutions to effectively deploy green finance and achieve impact in support of the fund's goals. Namely, the TAF provides know-how and technical expertise to ensure that investments are successfully implemented and monitored to the highest local and international standards. More broadly, technical assistance seeks to increase awareness and uptake of knowledge and best practices around the fund's core mandates as well as sustainable finance in its target markets. This includes offering dedicated workshops to increase the awareness among GGF partner institutions from Bosnia and Herzegovina, Montenegro, North Macedonia and Kosovo on environmental and social risk management standards and international best practices as well as on digital solutions for green inclusive finance.

Since its establishment in 2009, the Fund has deployed EUR 1.3 billion in green finance to more than 45,000 clients for energy efficiency, resource efficiency and renewable energy. These investments have saved over 3,990 GWh of energy, preventing the emission of over 1,028 kilotonnes of CO2, and sustainably manage more than 542,000 tonnes of combined water, waste, and resources each year.

2 GREEN MICROFINANCE IN EUROPE: RESULTS



2.1 METHODOLOGY AND READER GUIDE

In this section, we present the current status of green microfinance practices in Europe and the recent progress of the field. Obtaining this information entailed analysing two unique databases on green microfinance in Europe that constitute, to our knowledge, the most extensive information on the topic for Europe.[46]

The first database consists of information collected from over 400 European MFI websites at two time intervals: 2013 and 2021. For data collected in 2021, the information is collected and structured along the framework and standards of the Green Index 3.0.[47] A mapping was developed to ensure comparability with the data collection in 2013. We refer to this information as *"Green Disclosure"* because it consists of information on the environmental strategy, practices, risk management, and green products publicly disclosed by MFIs on their websites.

The second database consists of information collected in eight annual surveys from 2011 to 2019. These surveys collected data on the environmental performance of MFIs in Europe, with a specific focus on the financial and non-financial green products developed and disbursed. The surveys also capture data on Green Index 2.0 standards, such as environmental strategy, management of the MFI's ecological footprint, and management of clients' environmental risks. In total, we collected 411 environmental assessments from 276 MFIs in Europe. We refer to this information as *"Green Declaration"* because it consists of the survey responses of MFIs regarding their environmental strategy, practices, risk management, and green products. Where possible, we compare the results with global benchmarks. The Green Declaration data presented in this report is part of a wider database that has data on the environmental performance of MFIs worldwide. The GICSF-AG has compiled this information through global environmental assessment surveys (covering Africa, Asia, and Latin America and the Caribbean, among other regions), thanks to its members and partner institutions. They have aligned the surveys with the Green Index 2.0 framework in a unique database of 1200+ environmental assessments of MFIs worldwide for the period 2011-2019.

Details on the content of the database are provided in Table 5 and Table 6. More detailed information on the database can be found in Section 2.3 (Analysis). In Annex D, we provide additional details by country.

It should be noted that the full dataset, including Green Disclosure and Green Declaration, is constituted by self-declared information of MFIs. Nevertheless, by comparing the results in "Green Disclosure" with the "Green Declaration", we can triangulate information and check for data consistency. The information that is consistent between the

46. To our knowledge the first studies on green microfinance in Europe are the report: Forcella, D., (2013). "European Green Microfinance: A first look", European Microfinance Network - European Commission, as well as the related academic paper "Forcella, D., & Hudon, M. (2014). "Green Microfinance in Europe". Journal of Business Ethics. 135, pages 445-459 (2016) doi: 10.1007/s10551-014-2452-9."
The databases used in these 2 studies and their analysis is included in the 2 databases used in the present publication.

47. https://www.e-mfp.eu/resources/green-index-20-innovative-tool-assess-environmental-performance-microfinance-sector-brief

two databases is defined as "strong evidence" while that which cannot be cross validated is defined as "weak evidence."

Table 7 defines several key concepts related to the results.

TABLE 5: DATABASE STATISTICS - NUMBER OF ENVIRONMENTAL ASSESSMENTS[48]

	Total	Green Disclosure (2013-2021)	Green Declaration (2011-2019)
# of environmental assessments in Europe	1169	758	411
# of environmental assessments in Eastern Europe	546	314	232
# of environmental assessments in Western Europe	623	444	179

TABLE 6: DATABASE STATISTICS- NUMBER OF MFIS ASSESSED

	Total	Green Disclosure (2013-2021)	Green Declaration (2011-2019)
# of institutions in Europe	453	453	276
# of institutions in Eastern Europe	202	202	148
# of institutions in Western Europe	251	251	128

TABLE 7: DEFINITIONS OF KEY CONCEPTS[49]

Key concepts needed to understand the findings

The results presented in the following section make use of several important concepts, including the following, which are defined in the Green Index 2.0:

→ **Environmental strategy:** the definition, management, and monitoring of an environmental strategy, including the definition of roles and policy, as well as monitoring and reporting

→ **Internal environmental risks:** the assessment and management of an MFI's ecological footprint (i.e., energy consumption from non-renewable sources, use of paper, fuel, and water, and GHG emissions, among others)

→ **External environmental risks:** the assessment and management of clients' risks/adverse environmental impacts (e.g., deforestation, air, water & soil pollution and GHG emissions, among others)

→ **Green opportunities:** green financial products (i.e., loans for renewable energy or energy efficiency, sustainable agriculture, clean water, the circular economy, or other green activities, or agriculture/climate insurance) and non-financial services such as training and technical assistance to clients on environmentally friendly practices or businesses.

48. Environmental assessment refers to the total number of observations done either through websites revision (green disclosure) or surveys filled by MFIs (green declaration) as from 2011 till 2021

49. When two concepts are presented, divided by a "/", these are the two names used for similar concepts in the Green Index 2.0 and Green Index 3.0, respectively.

2.2 KEY FINDINGS

Table 8 provides a summary of the main results:

TABLE 8: MAIN RESULTS

Main result	Green Disclosure (websites)	Green Declaration (Surveys)
Overall environmental performance of MFIs in Europe has improved over the last 10 years	% of MFIs in Europe that have at least one green practice: 2013: 28% of MFIs 2021: 41% of MFIs	The average Green Index 2.0 score increased from 26% in the period 2011-2013 to an average score of 29% in the period 2017-2019
Increase in the number of MFIs providing green credits in Europe	% of MFIs that provided green microcredits: 2013: 7.5% of MFIs 2021: 16% of MFIs	The average score for the green opportunity standard in the Green Index 2.0 increased from 17.8% in the period 2011-13 to an average score of 22.4% in the period 2017-19
The most frequent green products are loans for renewable energy (RE) or energy efficiency (EE)	14.6% of MFIs declared having a dedicated green loan for RE or EE in 2021	An average score of 40.5% for the indicator on RE and EE in the Green Index 2.0 in the period 2017-19; 14.5% of MFIs have a dedicated loan product for RE and EE; Almost half of MFIs declared financing RE or EE technologies and practices with their own non-dedicated standard loan products
A higher share of Eastern European MFIs have developed green products compared to Western European MFIs	Eastern Europe: 31 MFIs with RE or EE loans in 2021 (19.4% of Eastern European MFIs) Western Europe: 19 MFIs with RE or EE loans in 2021 (10.4% of Western European MFIs)	Average score for the green opportunity standard in the Green Index 2.0 for 2017-19: Eastern Europe: 24.4% Western Europe: 18% Average for the specific indicator for RE or EE loans for the period 2017-19: Eastern Europe: 42% Western Europe: 33%
The management of internal environmental risks became more common in the last 10 years	% of MFIs in Europe that manage their internal environmental risks: 2013: 3% of MFIs 2021: 13% of MFIs	The average score for the internal environmental risks standard in the Green Index 2.0 increased from 27% in the period 2011-2013 to 40% in 2017-2019
The provision of non-financial services, such as training to clients on green practices, became less common in the last 10 years	% of MFIs in Europe that provide client training on green practices: 2013: 14% of MFIs 2021: 10% of MFIs	The average score for the indicator on non-financial green services in the Green Index 2.0 decreased from 15.3% in the period 2011-2013 to 6.7% in 2017-2019
Development of environmental strategies improved in the last 10 years*	% of MFIs in Europe that have an environmental strategy: 2013: 8% of MFIs 2021: 29% of MFIs	The score for the environmental strategy standard in the Green Index 2.0 remained stable: 2011-2013: 25.5% 2017-2019: 24%
The management of external environmental risks became more common for a certain group of MFIs, while it decreased in importance for another sample of MFIs in the last 10 years*	% of MFIs in Europe that manage their external environmental risks: 2013: 6.5% of MFIs 2021: 14% of MFIs	The average score for the external environmental risks standard in the Green Index 2.0 decreased from 23% in 2011-2013 to 19% in 2017-2019

Strong evidence Weak evidence

* There is a much greater number of MFIs in Green Disclosure (with 343 websites reviewed in 2021 and 415 in 2013 including the assessment of MFIs' green strategies) than in Green Declaration (80 reports in the period 2011-2019 that contain information on MFIs' green strategies). The Green Disclosure results provided evidence for the conclusion on the environmental strategy and the conclusion that external environmental risk management improved.

2.3 THE ANALYSIS

In this section, we provide analysis to support the results presented in the previous section of the "Green Disclosure" and "Green Declaration" databases.

2.3.1. GREEN DISCLOSURE DATABASE: WEB RESEARCH RESULTS

	Total	2013	2021
# of websites assessed, Europe	453	415	343
# of websites assessed, Eastern Europe	202	166	160
# of websites assessed, Western Europe	251	249	183

The Green Disclosure database was developed based on data collected from the websites of all known MFIs in Europe in 2013 and 2021.

In 2013, the websites of 415 MFIs were reviewed, and information was collected on the following items: [50]

- → Existence of an environmental policy
- → Assessment and/or management of clients' environmental risks
- → Assessment and/or management of the institution's ecological footprint
- → Existence of green microloans
- → Existence of non-financial environmental services

This analysis was repeated in 2021 by the GICSF-AG on the websites of 343 European MFIs.[51] In this second phase, the analysis was structured along the standards, essential practices, and indicators of the Green Index 3.0. In particular, information on the following topics was collected:

- → GI.0.1 Existence of an environmental strategy
- → GI.0.2 Existence of processes and roles to manage the environmental strategy

50. Forcella, D., (2013). "European Green Microfinance: A first look", European Microfinance Network - European Commission.

51. We thank Mathieu François for his valuable work done for the GICSF-AG in reviewing the MFI websites and collecting information on their environmental activities.

→ GI.1.1 The identification of MFIs to environmental situations of their clients:
a. the vulnerability of clients to events related to climate change (as well as environmental degradation, energy poverty, and access to clean water and sanitation)
b. the adverse environmental impacts generated by clients (such as air, soil, & water pollution, use of chemicals, etc.)

→ GI.1.2 The identification of MFIs to their own environmental impact:
a. vulnerability (assets, building, staff) to climate change as well as environmental degradation, energy poverty, and access to clean water and sanitation
b. the ecological footprint of their properties and human resources

→ GI.2.1 The existence of processes and tools to manage:
a. client vulnerability
b. clients' adverse environmental impacts

→ GI.2.2 The existence of processes and tools to manage:
a. the vulnerability of the institution
b. the adverse environmental impacts generated by the institution

→ GI.3.1 The existence and disbursement of green loans for one of the following green practices and technologies:
a. energy efficiency (EE) or renewable energy (RE)
b. sustainable agriculture
c. clean water
d. circular economy
e) Provision of climate microinsurance to agricultural clients

→ GI.3.2 Provision of training to clients on how to implement green practices and technologies and manage climate or environmental risks.
a. energy efficiency (EE) or renewable energy (RE)
b. sustainable agriculture
c. clean water
d. circular economy
e. provision of climate microinsurance to agricultural clients

To enable comparison between the 2013 and 2021 datasets, we developed a mapping that facilitates the assessment of the evolution of European MFIs' environmental performance from 2013 to 2021 (refer to Annex C).

Among the 343 European MFI websites analysed (160 Eastern; 183 Western), we made the following key observations:

→ 41% of MFIs have at least one green practice, with a higher proportion of Western European MFIs with at least one green practice (46%) compared to Eastern Europe (36%)

→ 16% MFIs have at least one green credit product, with a higher proportion of Eastern European MFIs with at least one green credit

product (21%) compared to Western Europe (12%)

→ The vast majority of green loans disbursed by MFIs in Europe are for RE or EE

Table 9 presents an ordered ranking of the most common green practices observed for European MFIs in 2021.

The seven most common green practices observed are the same in Western and Eastern Europe. However, the provision of loans for RE or EE is much more prevalent in Eastern Europe (2nd most important practice) than in Western Europe (6th most important practice).

Table 10 provides details on the number of MFIs that disclose activities for each practice.

Comparing the results between 2013 and 2021, we observe a positive evolution in the green performance of the microfinance sector in Europe.[52] In particular, we see that the percentage of MFIs with at least one environmental practice has grown considerably, increasing from 28% in 2013 to 41% in 2021 (see Table 11). This progress is observed in both Western and Eastern Europe.

52. Forcella, D., (2013). "European Green Microfinance: A first look", European Microfinance Network - European Commission.

TABLE 9: MOST COMMON GREEN PRACTICES IN 2021 (ORDERED RANKING)

Western Europe	Eastern Europe
1. The definition of an environmental strategy	1. The definition of an environmental strategy
2. The management of an environmental strategy	2. Green loans for energy efficiency or renewable energies
3. Identification of clients' environmental impacts	3. The management of an environmental strategy & Environmental training for clients
4. Identification of MFI's environmental impacts	
5. The management of the MFI's environmental impacts	5. The management of the MFI's environmental impacts
6. Green loans for energy efficiency or renewable energy technologies	6. Identification of MFI's environmental impacts
7. Environmental training for clients	7. Identification of clients' environmental impacts

TABLE 11: PROGRESS IN THE IMPLEMENTATION OF GREEN PRACTICES FROM 2013 TO 2021

	% of institutions with at least 1 green indicator 2013	% of institutions with at least 1 green indicator 2021
Eastern Europe	24%	36%
Western Europe	31%	46%
Total Europe	28% (of 415 reviewed)	41% (of 343 reviewed)

TABLE 12: PROGRESS BY EACH GREEN PRACTICE PILLAR FROM 2013 TO 2021

	1) Environmental policy	2) Ecological footprint reduction	3) Environmental risk assessment	4) Green micrcredit	5) Environmental non-financial services
2021	100	46	49	55	35
	29%	13%	14%	16%	10%
2013	33	12	27	31	58
	8%	3%	6.5%	7.5%	14%

TABLE 10: NUMBER OF MFIS IMPLEMENTING EACH GREEN PRACTICE IN 2021

Indicators	Eastern Europe	Western Europe
GI.0.1) Defines strategy	33	67
GI.0.2) Manages strategy	15	41
GI.1.1 - a) Identifies client vulnerability	6	20
GI.1.1 - b) Identifies client adverse environmental impact	10	36
GI.1.2 - a) Identifies MFI vulnerability	4	8
GI.1.2- b) Identifies MFI adv. env. impact	13	31
GI.2.1- a) Manages client vulnerability	3	18
GI.2.1- b) Manages client impact	7	28
GI.2.2 - a) Manages MFI vulnerability	0	6
GI.2.2 - b) Manages MFI adverse environmental impact	14	24
GI.3.1 -a) EE & RE loans	31	19
GI.3.1 - b) Sustainable agriculture loans	4	7
GI.3.1 - c) Water, sanitation, & hygiene loans	1	3
GI.3.1 - d) Circular economy loans	7	7
GI.3.1 - e) Agriculture/climate microinsurance	0	2
GI.3.2 Environmental training	15	20

Most frequently implemented practices

Table 12 illustrates the increase in the number of MFIs that implement 4 of the 5 green practices assessed in 2013 in greater detail. The number of MFIs reporting the issuance of green loans almost doubled, the number reporting having an environmental policy more than tripled, the number aiming to reduce their ecological footprint more than quadrupled, and the number assessing clients' environmental risks more than doubled. The only exception is the number of MFIs that provide non-financial services to their clients on how to improve their environmental performance or implement green practices and technologies, which decreased by around 40% from 2013 to 2021.

2.3.2. GREEN DECLARATION: SURVEY RESULTS

In this section, we analyse the survey data from European MFIs submitted from 2011-2019. The data have been anonymised by EMN (2013), EMN-MFC (2013, 2015, 2019), e-MFP (2015), YAPU Solutions (2017), Foundation Grameen Credit Agricole (2018), and Marion Allet (2011). Only the answers from MFIs in Western and Eastern Europe have been retained for the analysis. The heads of the GICSF-AG have structured the data contained in the responses of these eight surveys along the standards, essential practices, and indicators of the Green Index 2.0. The four standards considered for the analysis include:

- A. Environmental strategy: including the definition, management, and monitoring of an environmental strategy
- B. Internal environmental risks: including the management and monitoring of the MFI's ecological footprint
- C. External environmental risks: including the assessment and management of the clients' environmental risks
- D. Green opportunities: including green financial products (i.e., loans for RE or EE, sustainable agriculture, or other green activities, or agriculture/climate insurance) and non-financial services such as client training on environmentally friendly practices or businesses.

The database has been cleaned, and various consistency checks have been performed. For MFIs that responded to more than one survey in the same year, the answers have been consolidated to obtain a unique, more reliable answer and avoid double counting. Only complete answers (i.e., either all four standards or standard D) have been kept.

2.3.2.1 THE DATABASE

The final result is a unique database of 411 environmental assessments by 276 European MFIs from 2011 to 2019. 60% of respondents are from Eastern Europe, and 40% of respondents are from Western Europe. Only 80 assessments report on the environmental performance of MFIs along all four standards of the Green Index 2.0, while 411 environmental assessments contain information on standard D "green opportunities."

Among the MFIs included in the Green Declaration database, 169 are non-bank financial institutions (NBFIs), 120 are NGOs, 57 are cooperatives or credit unions, 19 are banks, 10 are government/public bodies, 25 are MFIs that have another legal status, and 11 are MFIs that have not disclosed their legal status (i.e., their legal status is unknown).

The environmental assessments in the Green Declaration database are organised as follows: 119 contain information for the period 2017-19; 138 contain information for the period 2014-16; and 154 contain information for the period 2011-13.

TABLE 13: SUMMARY OF GREEN DECLARATION DATABASE

Region	Total assessments	Unique institutions	Share (%)	Reporting on all Green Index 2.0 standards	Reporting on Green Opportunities	Reports in 2019	Reports in 2017-19	Reports in 2014-16	Reports in 2011-13
Eastern Europe	232	148	60.0%	49	232	71	81	81	70
Western Europe	179	128	40.0%	31	179	38	38	57	84
Europe	411	276	100%	80	411	109	119	138	154

FIGURE 6: LEGAL STATUS OF MFIS IN GREEN DECLARATION DATABASE

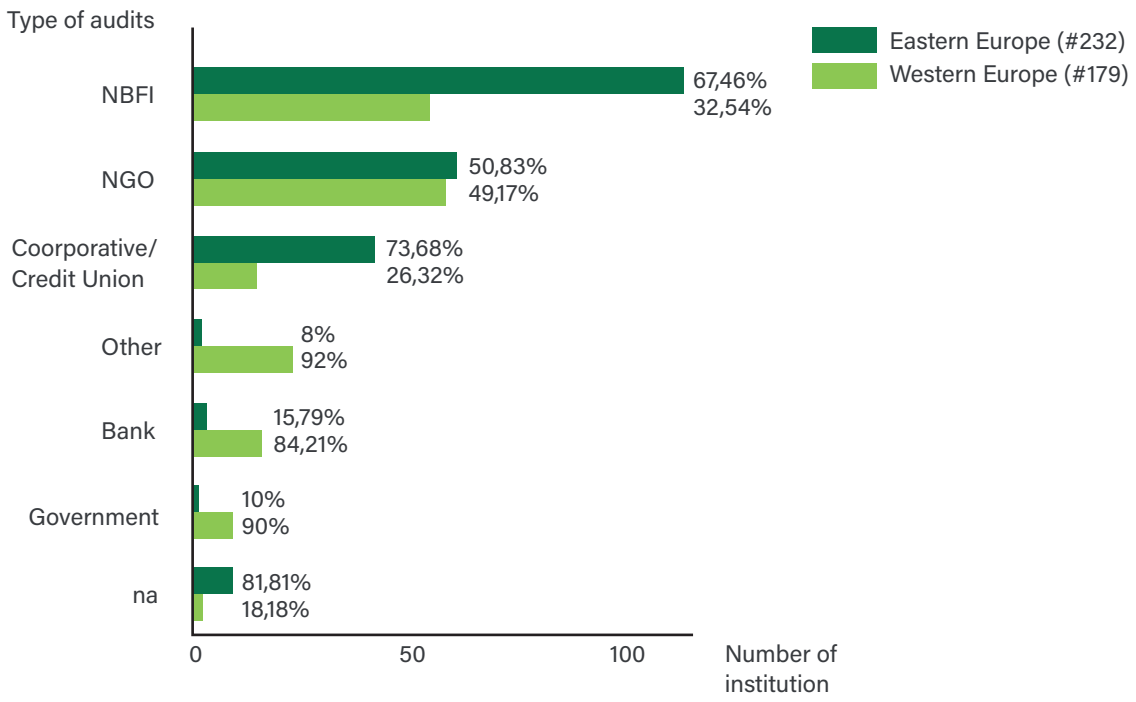
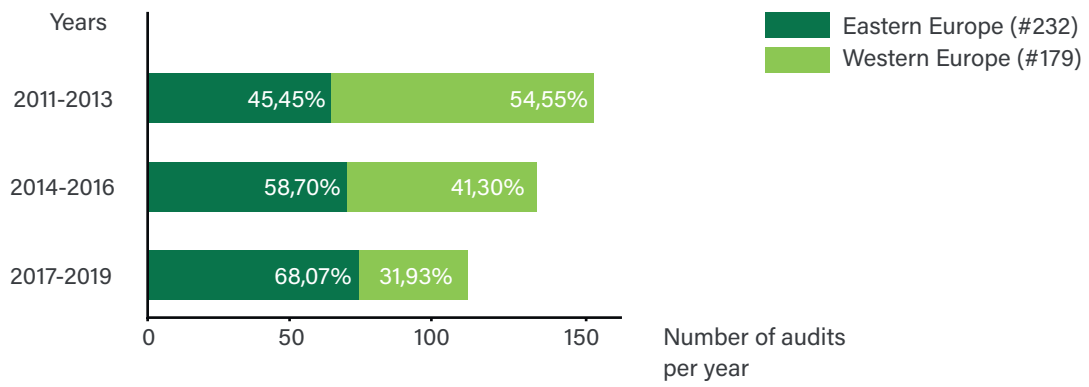


FIGURE 7: ENVIRONMENTAL ASSESSMENTS BY TIME PERIOD



2.3.2.2 GREEN PRODUCTS AND SERVICES (FINANCIAL AND NON-FINANCIAL)

The average score for the green opportunities standard was 19% for a European MFI during 2011-2019, compared to a world average of 25% (1,142 observations in the same period).[53] As a result, we conclude that MFIs in developing countries are, on average, more advanced in green products and services than European MFIs. This is confirmed for all types of green financial and non-financial services, with non-financial services accounting for almost half of the average score at the global level. European MFIs score similarly for green loans for RE or EE (although still lower than the global average).

The most common green product in Europe (according to the full 2011-2019 database) are green loans for RE and EE, confirming observations from the Green Disclosure database. The next most popular products are green loans for sustainable or climate smart agriculture and other green loans for sectors such as recycling, waste management, and clean water. Climate/agriculture insurance is not provided by any European MFIs.

For the period 2011-2019, Eastern European MFIs have better average scores in green opportunities than Western European MFIs. This holds for all green products and services (both financial and non-financial).

53. The GICSF-AG has compiled this information through global environmental assessment surveys (covering Africa, Asia, and Latin America and the Caribbean, among other regions), thanks to its members and partner institutions, aligning the surveys with the Green Index 2.0 framework in a unique database containing 1200+ environmental assessments of MFIs worldwide for the period 2011-2019, out of which 1142 has been retained for the data analysis after data cleaning.

FIGURE 8: AVERAGE GREEN INDEX 2.0 SCORES OF EUROPEAN MFIS FOR GREEN FINANCIAL AND NON-FINANCIAL PRODUCTS AND SERVICES VS. GLOBAL BENCHMARKS (2011-2019)

Europe average score for Green Opportunities (Total samples #411)

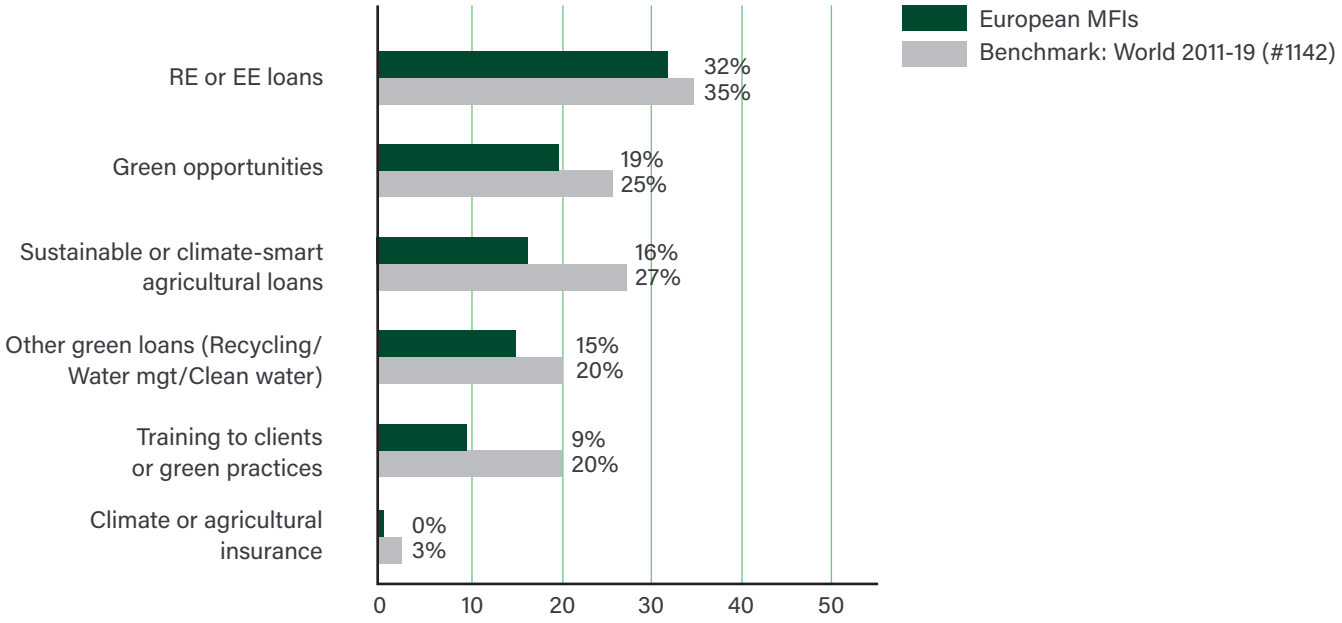
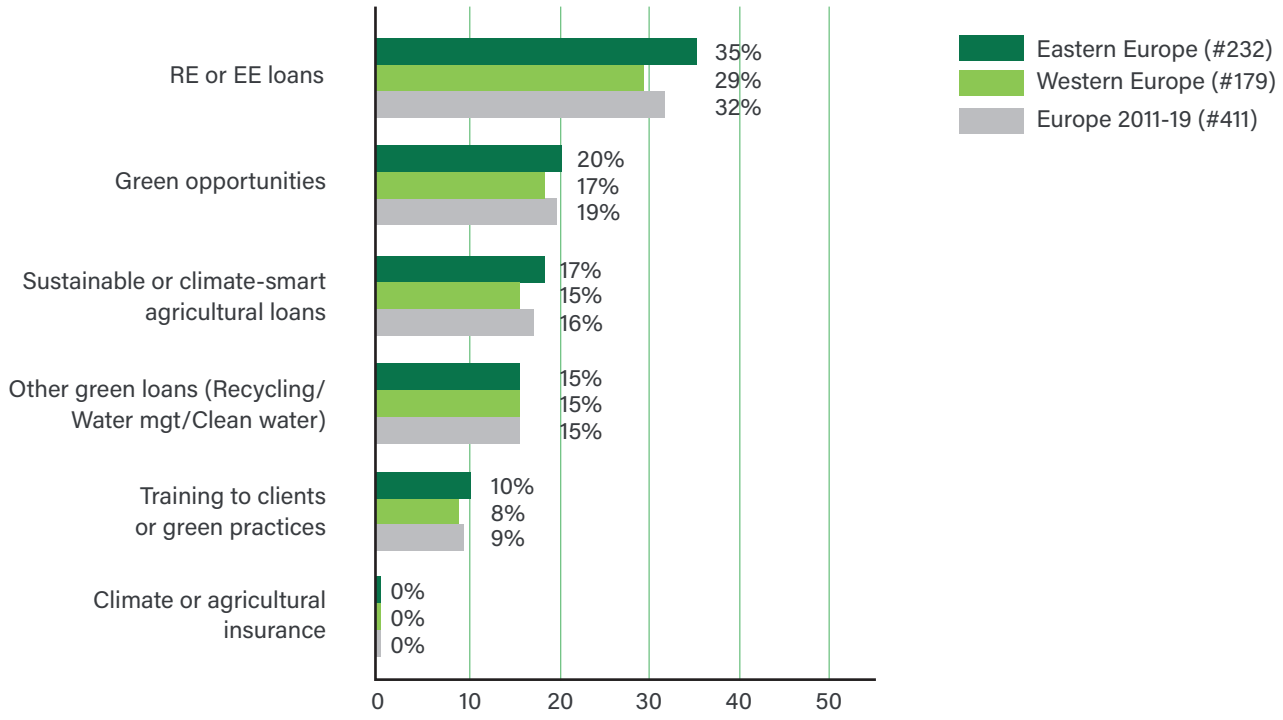


FIGURE 9: AVERAGE GREEN INDEX 2.0 SCORES OF WESTERN AND EASTERN EUROPEAN MFIS FOR GREEN FINANCIAL AND NON-FINANCIAL PRODUCTS AND SERVICES VS. EUROPEAN BENCHMARK (2011-2019)



Focusing on the most recent period of the Green Declaration database (2017-2019), we observe that MFIs in Europe have improved their performance in green opportunities, although the average score is below the world average. This is true for all green products and services except loans for RE and EE, which have scored a bit higher compared to the world average. Nevertheless, the growth rates of European MFIs have lagged behind the world average for green products for sustainable or climate smart agriculture; European MFIs come in at about half of the global average score.

By legal status, we observe that banks tend to have the highest scores in green products and services, especially for financing RE or EE technologies. Moreover, banks also perform better in terms of provision of client training on green practices. Cooperatives and credit unions have the highest scores for sustainable or climate smart agriculture. NGOs and government bodies are tied for second place in the disbursement of RE and EE loans, as well as client training on green practices.

In the period 2017-19, Eastern European MFIs have higher scores in green opportunities than Western European MFIs, mirroring the results for the full 2011-2019 period. This is consistent for all green products and services.

In 2017-19, all legal status categories of MFIs reported their highest scores for loans for RE or EE, with banks and NBFIs performing better than other legal types on average. NBFIs have the highest scores for loans for sustainable or climate smart agriculture, followed by banks, cooperatives/credit unions, and NGOs, which were all tied for second place. No MFI reported providing insurance. The provision of client training on green practices remains a rare service across all legal types.

FIGURE 10: AVERAGE GREEN INDEX 2.0 SCORES OF EUROPEAN MFIS FOR GREEN FINANCIAL AND NON-FINANCIAL PRODUCTS AND SERVICES VS. GLOBAL BENCHMARKS (2017-2019)

Europe average score for Green Opportunities 2017-2019 (Total samples #119)

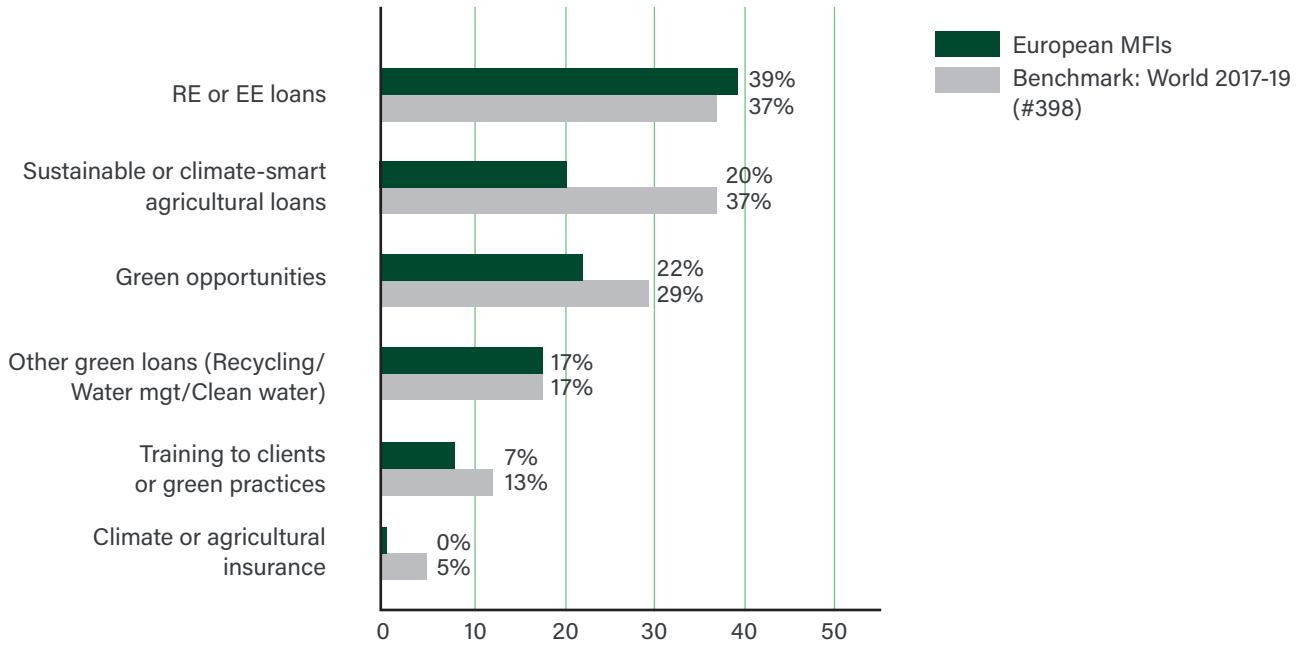


FIGURE 11: AVERAGE GREEN INDEX 2.0 SCORES OF EUROPEAN MFIS FOR GREEN FINANCIAL AND NON-FINANCIAL PRODUCTS AND SERVICES BY LEGAL STATUS (2011-2019)

Note: of the 411 MFIs that reported data, 11 did not provide their legal status.

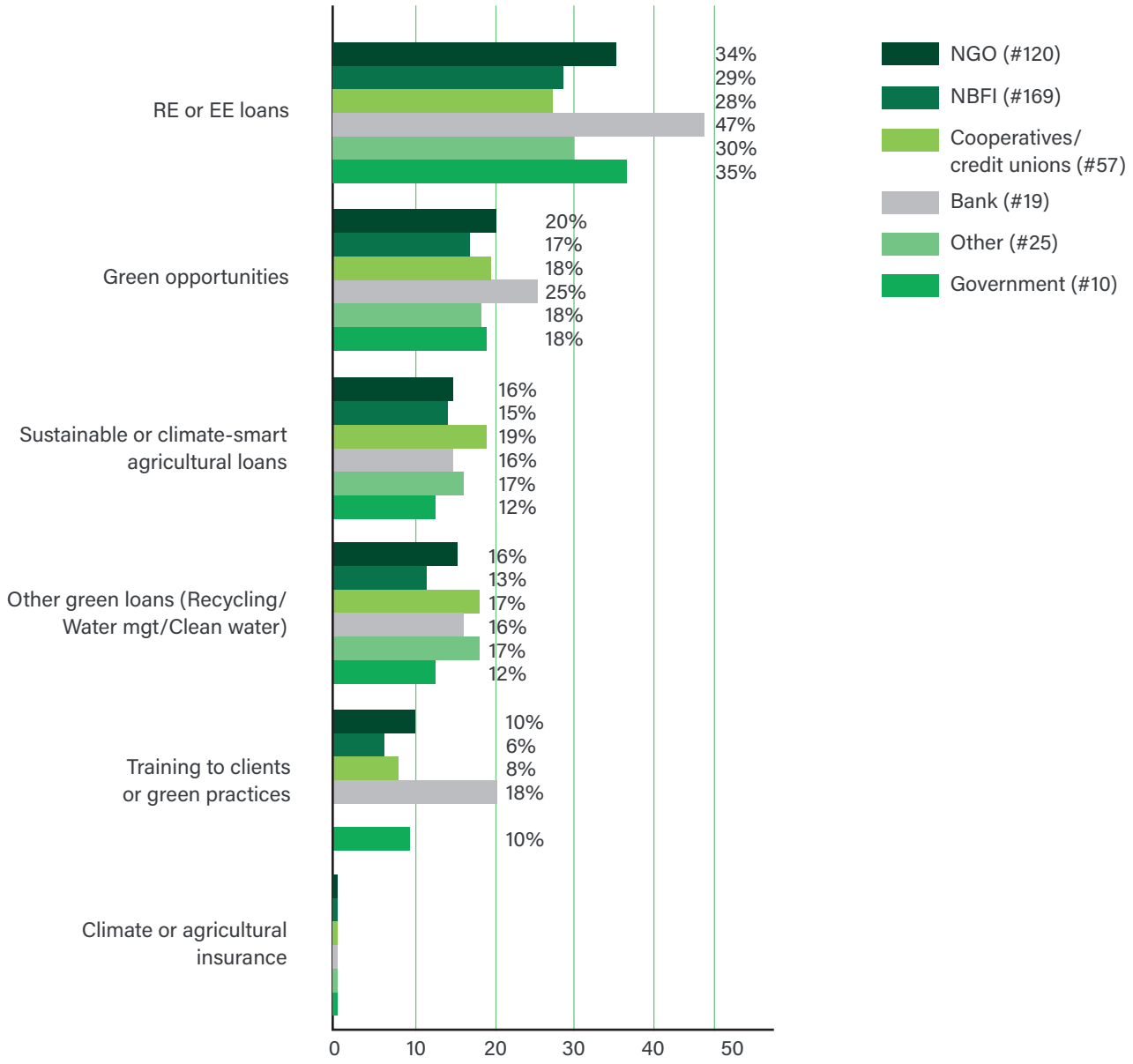


FIGURE 12: AVERAGE GREEN INDEX 2.0 SCORES FOR GREEN FINANCIAL AND NON-FINANCIAL PRODUCTS AND SERVICES – GLOBAL VS. EASTERN EUROPE VS. WESTERN EUROPE (2017-2019)

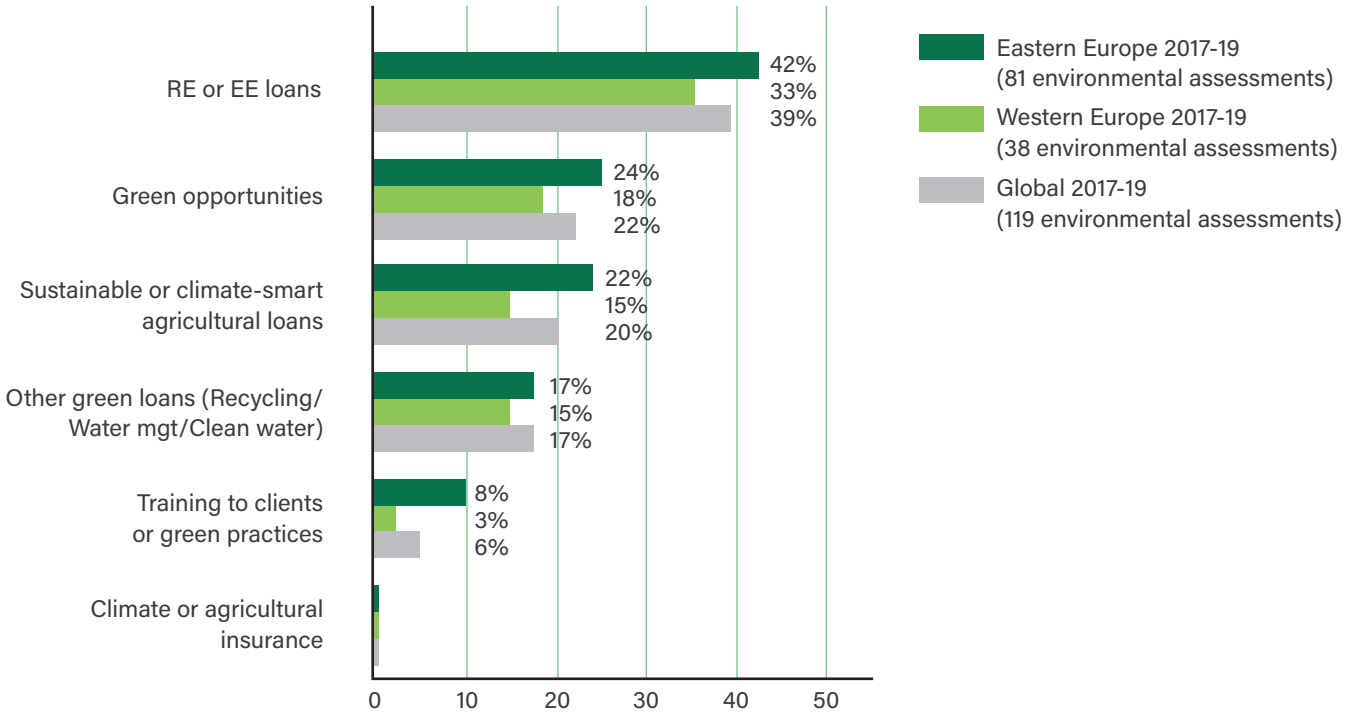
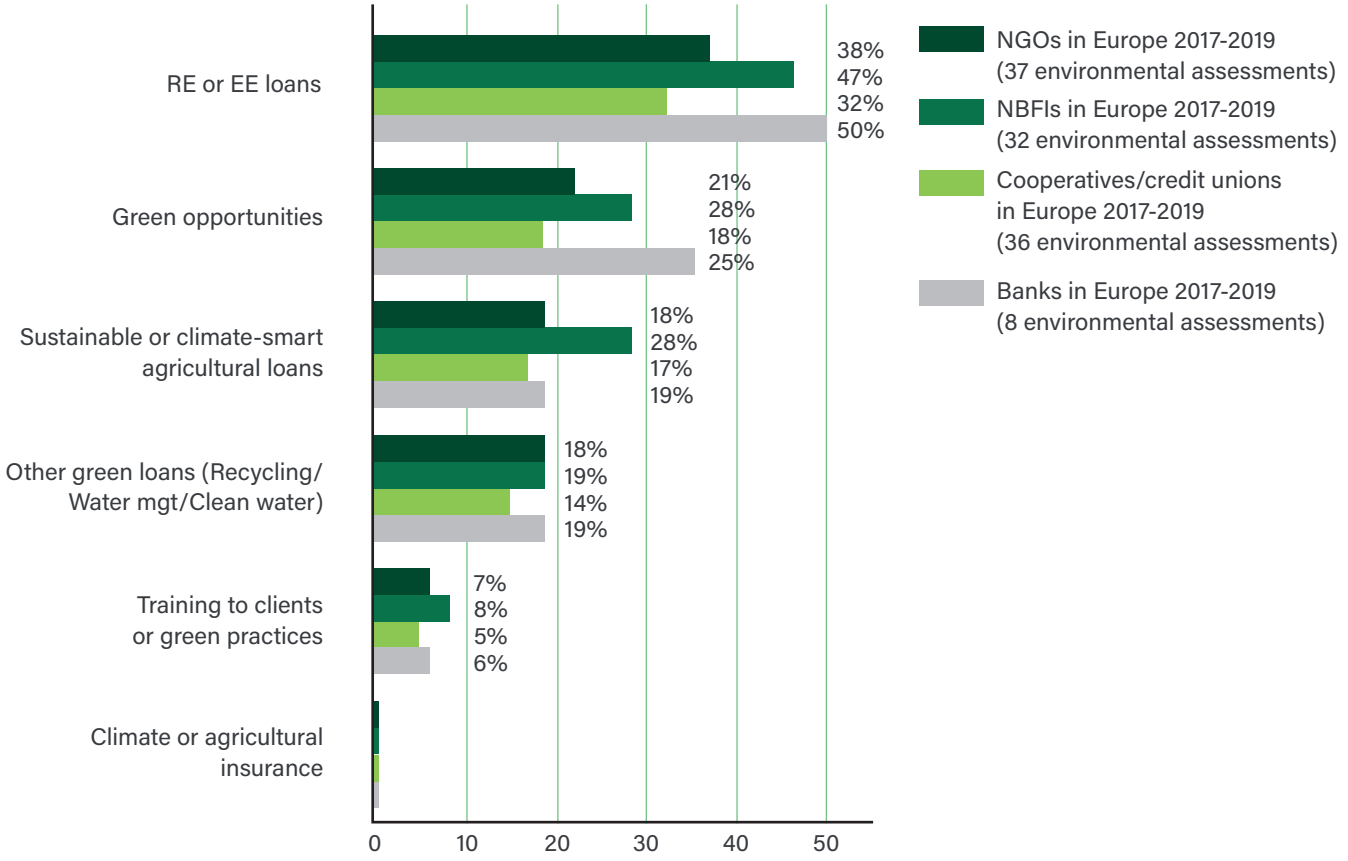


FIGURE 13: AVERAGE GREEN INDEX 2.0 SCORES OF EUROPEAN MFIS FOR GREEN FINANCIAL AND NON-FINANCIAL PRODUCTS AND SERVICES BY LEGAL STATUS (2017-2019)



2.3.2.3 ANALYSIS OF THE OTHER GREEN INDEX 2.0 STANDARDS

In this subsection, we extend the analysis to the full set of standards of green microfinance (aligned with the framework provided by the Green Index 2.0).

The Green Declaration database contains 80 environmental assessments with European MFIs that reported on all four dimensions of the Green Index 2.0 for the 2011-2019 period.

The standard with the highest scores is external environmental risks, whereas the standards with the lowest scores are environmental strategy and green opportunities. The average score of MFIs in Europe is lower than the global average, except for external environmental risks where European MFIs appear to have higher average scores than their peers in other regions.

Eastern European MFIs perform better than Western European MFIs in terms of internal environmental risks, external environmental risks, and green opportunities. Western European MFIs have similar performance in terms of environmental strategy, but they have significantly lower scores for external environmental risks.

Running a similar analysis for the most recent environmental assessments (2017-2019), only 10 MFIs reported on all standards. Figure 17 indicates that (out of this very limited sample), there has been a positive evolution concerning green financial and non-financial products and services and internal environmental risk management. At the same time, there has been no significant change in environmental strategy and apparently a regression in terms of external environmental risk management. Nevertheless, due to the very limited sample, such conclusions should be only taken as anecdotal.

In terms of legal status during the 2011-2019 period, NGOs and cooperatives have the highest overall environmental performance (i.e., "total" score of the Green Index), followed by banks. Banks perform better in terms of environmental strategy, external environmental risk management, and green products. Cooperatives/credit unions and NGOs have the best performance in internal environmental risk management. NGOs have the second-best score in environmental strategy while NBFIs have the second-best score in external environmental risk management.

FIGURE 14: AVERAGE GREEN INDEX 2.0 SCORE OF EUROPEAN MFIS BY STANDARD VS. GLOBAL BENCHMARKS (2011-2019)

Europe average score N: 80

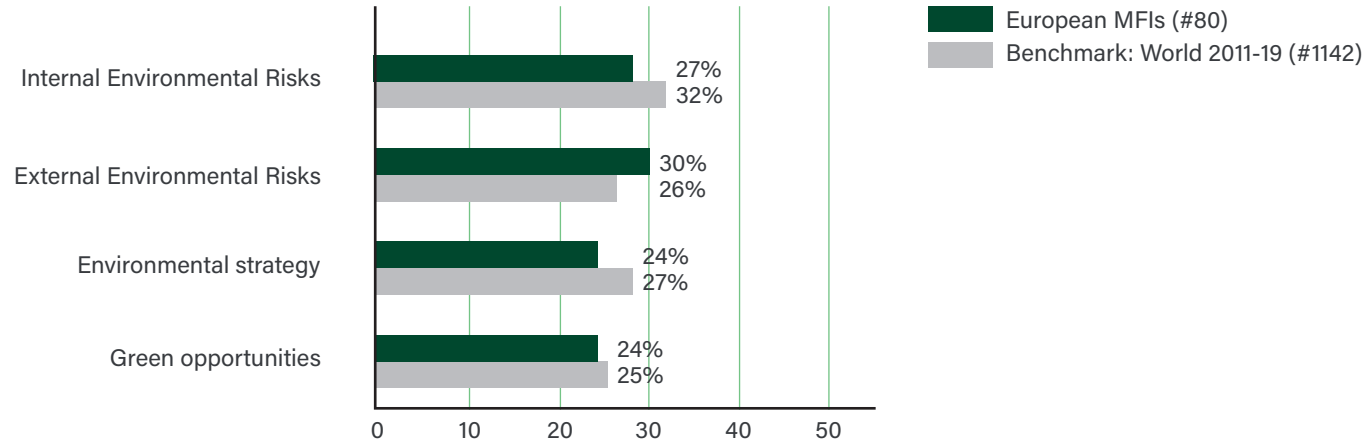


FIGURE 15: AVERAGE GREEN INDEX 2.0 SCORES FOR WESTERN AND EASTERN EUROPEAN MFIS IN BY STANDARD VS. EUROPEAN AVERAGES (2011-2019)

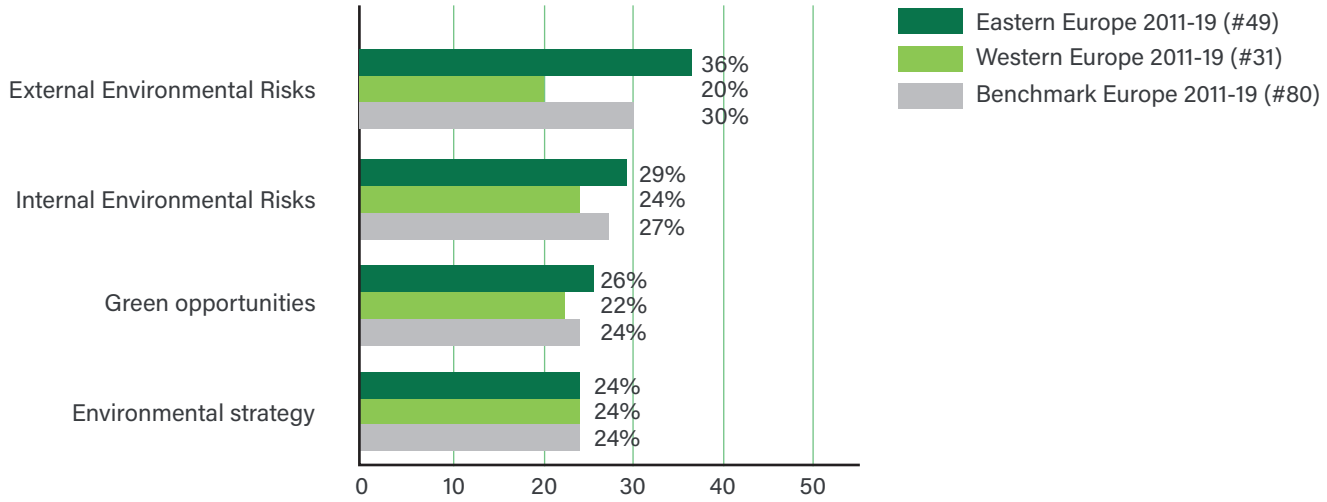


FIGURE 16: AVERAGE GREEN INDEX 2.0 SCORE OF EUROPEAN MFIS BY STANDARD VS. GLOBAL BENCHMARKS (2017-2019)

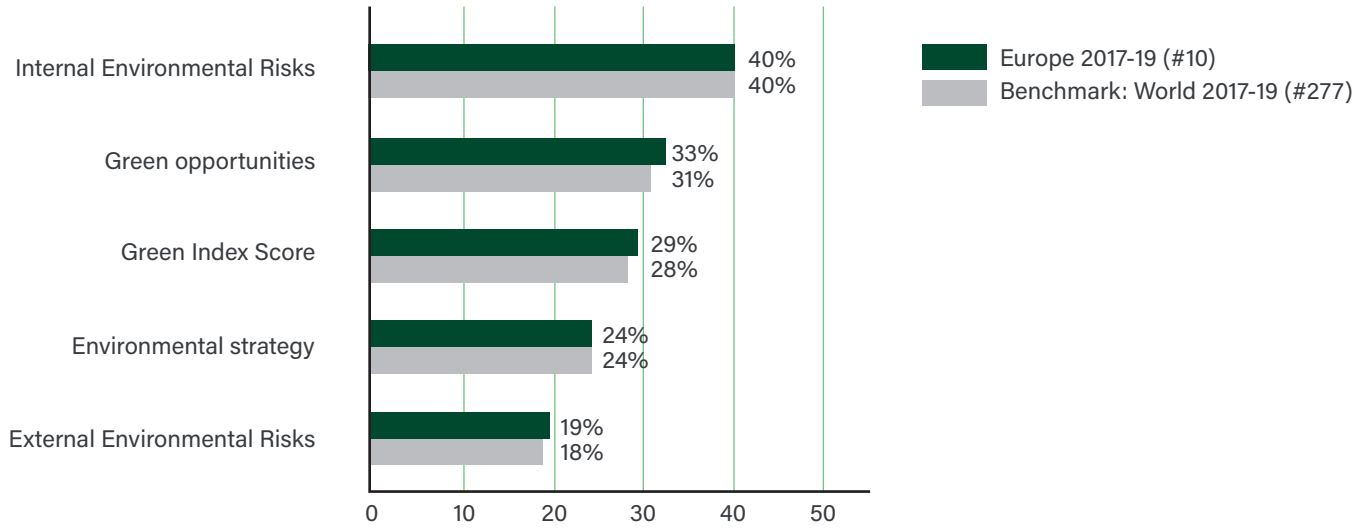
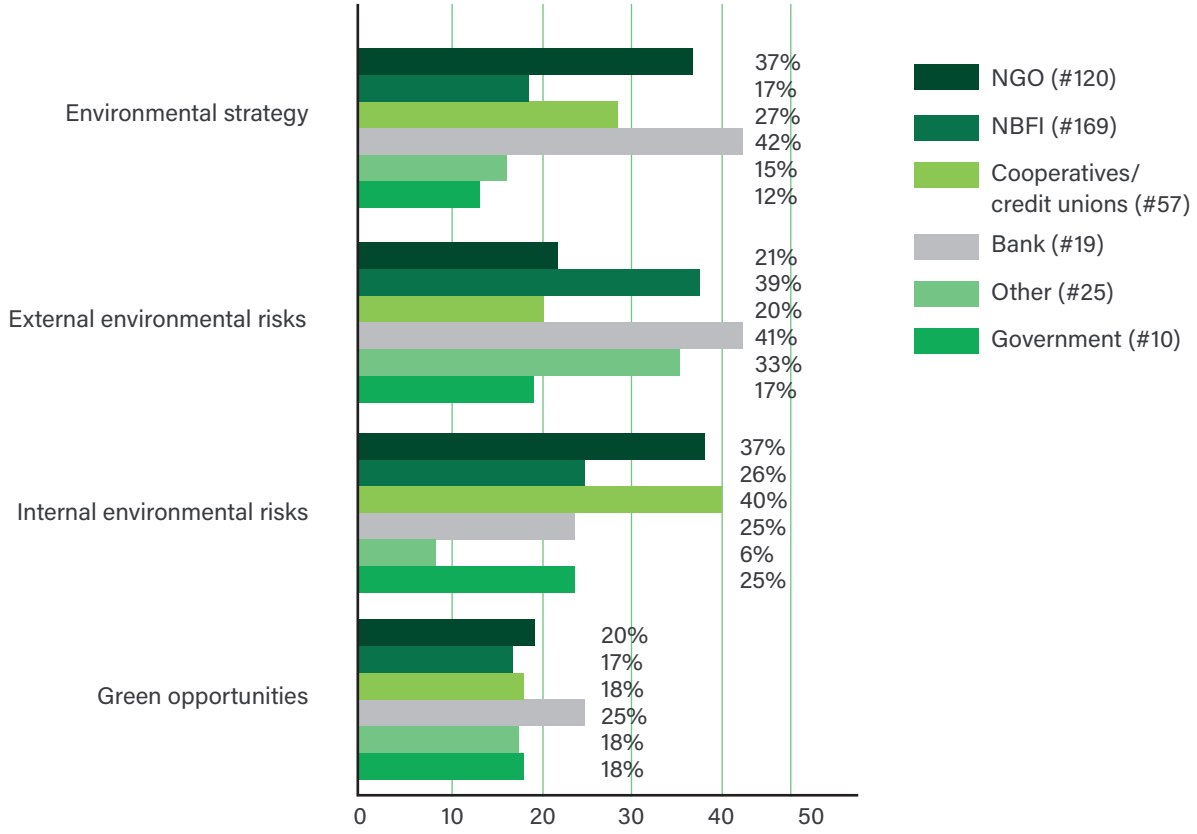


FIGURE 17: AVERAGE GREEN INDEX 2.0 SCORES OF EUROPEAN MFIS ACROSS THE FOUR STANDARDS BY LEGAL STATUS (2011-2019)

Note: of the 411 MFIs that reported data, 11 did not provide their legal status.



2.3.2.4 EVOLUTION OF GREEN PERFORMANCE

For a good sense of the sector's interest and engagement in green microfinance, it is essential to understand the evolution of green performance of European MFIs over time. The "Green Declaration" database makes it possible to do this analysis.

The average performance in green financial and non-financial products and services for the European microfinance sector has grown from 2011 to 2019, with particularly steady growth for RE and EE loans (see Figure 19).

The number of MFIs with loan products for sustainable and climate smart agriculture and other green activities such as recycling, waste management, and access to drinking water, sanitation, and hygiene (WASH) has also increased.

The number of institutions providing training to clients on green practices has unfortunately decreased, but growth is observed between the periods 2014-16 and 2017-2019.

The positive trend observed in the full sample of European MFIs is also observed for both Eastern European and Western European MFIs

(refer to Figures 20 and 21). However, growth has been more robust for Eastern European MFIs. In both regions, loan products for renewable and energy efficiency have consistently grown in importance. Nevertheless, in Western Europe, there has been a decline in the provision of client training on environmental practices.

With respect to legal status, all legal types have experienced growth in the provision of RE and EE loans from the 2011-2013 period to 2017-2019. In particular, cooperatives/credit unions have displayed steady growth throughout the sample period. NBFIs had significant overall growth in green loans comparing the 2011-2013 and 2017-2019 time periods, but their delivery of green products and services decreased for the 2014-2016 period. NGOs experienced steady growth but performed slightly worse in the most recent period of 2017-2019 compared to 2014-2016. Banks had growth in green financial products from 2011-2013 to 2014-16, but they experienced a negative trend for the most recent period of 2017-2019.

Regardless of the legal status, MFIs decreased their scores in client training on green practices from 2011-2013 to 2017-2019. However, NGOs and NBFIs show a positive trend in the last period, from 2014-2016 to 2017-2019.

FIGURE 18: EVOLUTION OF EUROPEAN MFI GREEN INDEX 2.0 FOR GREEN FINANCIAL AND NON-FINANCIAL PRODUCTS AND SERVICES (2011-2019)

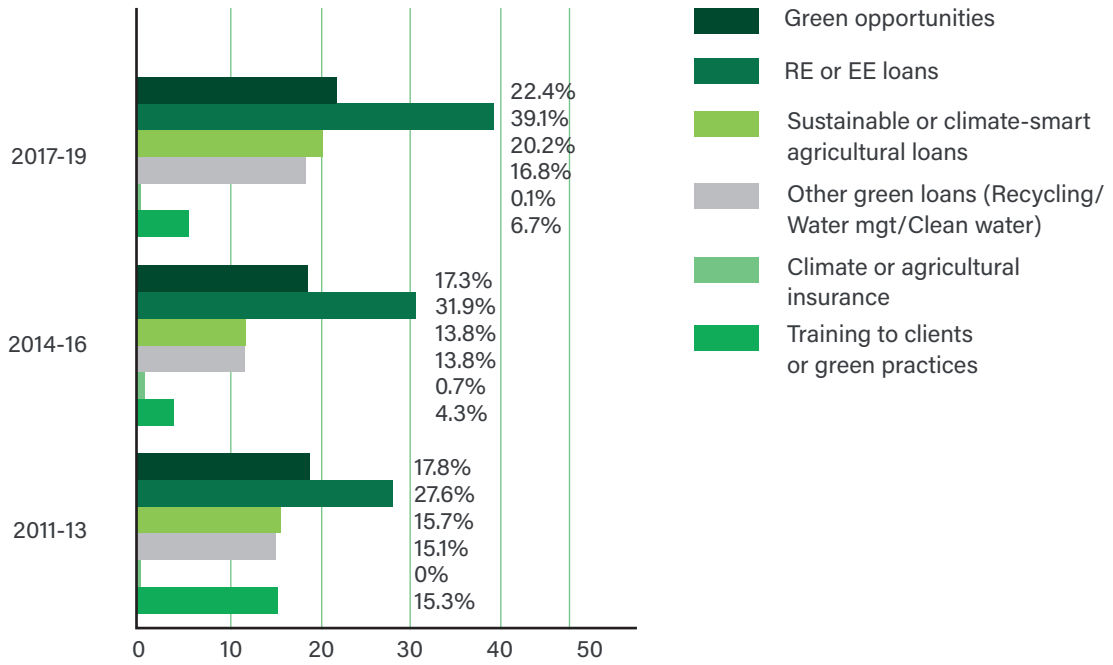


FIGURE 19: EVOLUTION OF WESTERN EUROPEAN MFI GREEN INDEX 2.0 FOR GREEN FINANCIAL AND NON-FINANCIAL PRODUCTS AND SERVICES (2011-2019)

Note: based on 179 environmental assessments

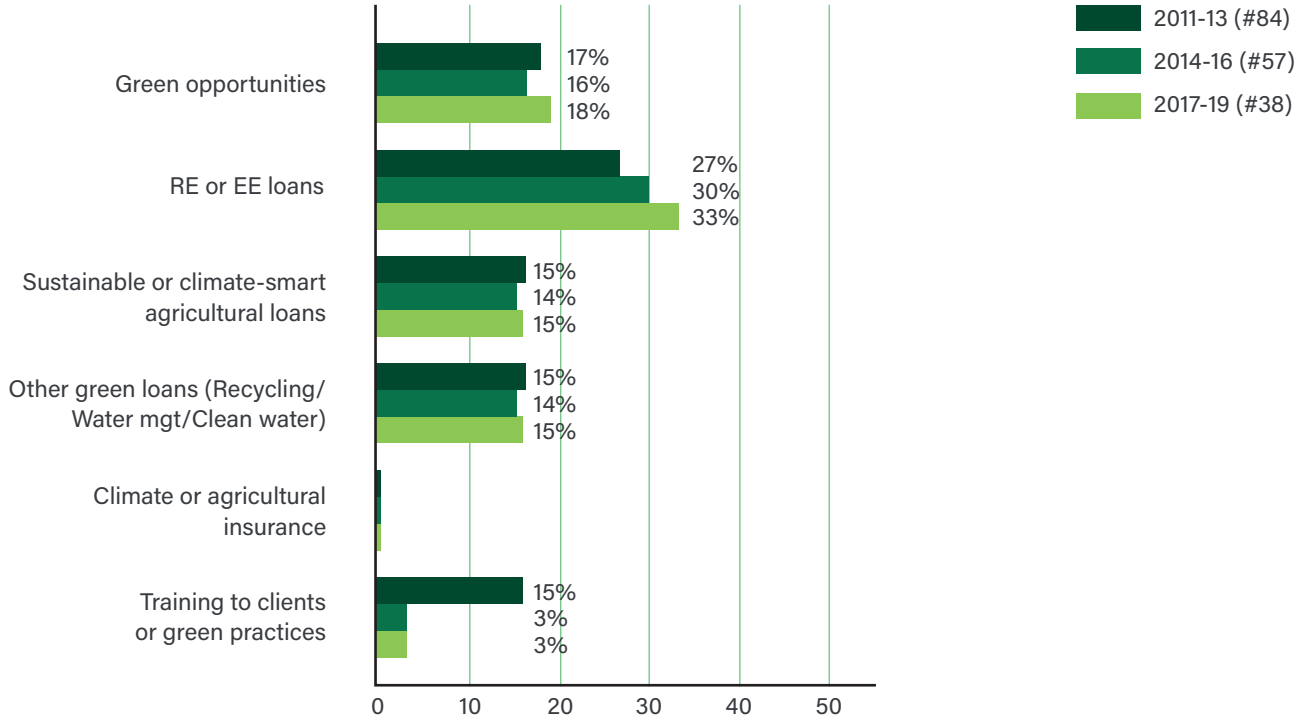


FIGURE 20: EVOLUTION OF EASTERN EUROPEAN MFI GREEN INDEX 2.0 FOR GREEN FINANCIAL AND NON-FINANCIAL PRODUCTS AND SERVICES (2011-2019)

Note: based on 232 environmental assessments

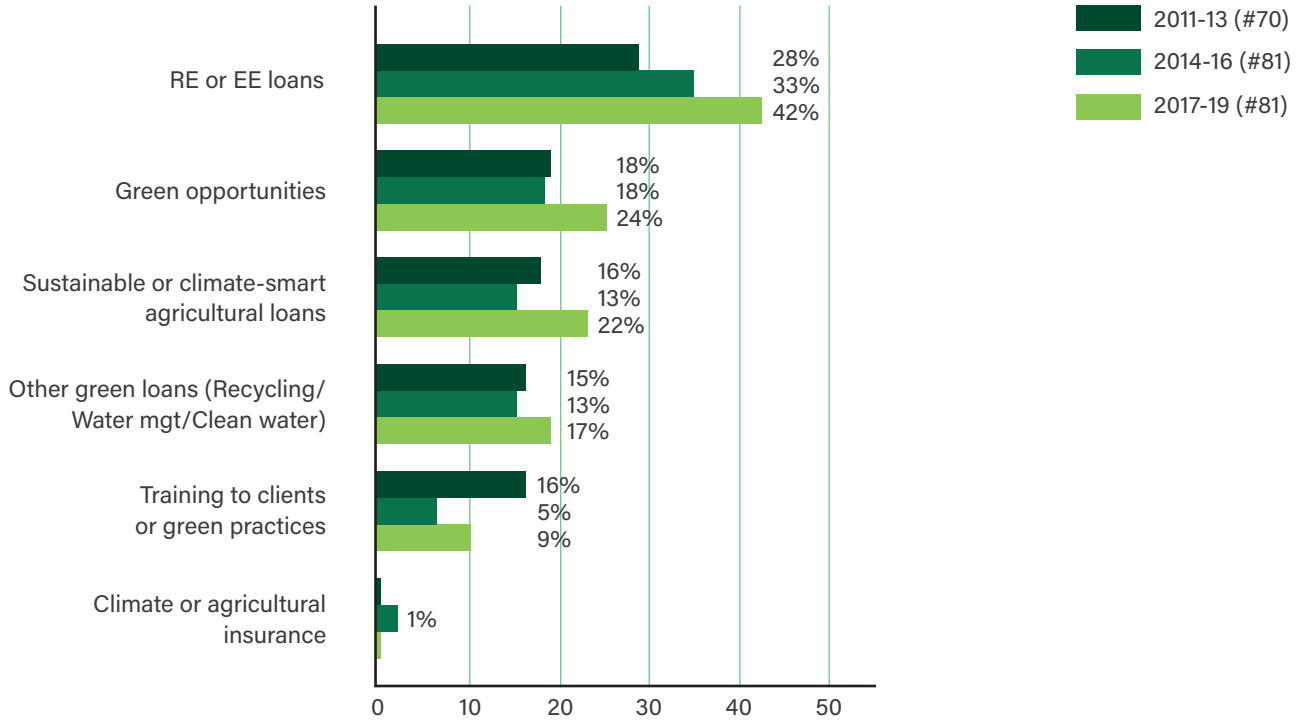


FIGURE 21: EVOLUTION OF GREEN INDEX 2.0 FOR GREEN FINANCIAL AND NON-FINANCIAL PRODUCTS AND SERVICES FOR NGOS (2011-2019)

Note: based on 120 environmental assessments

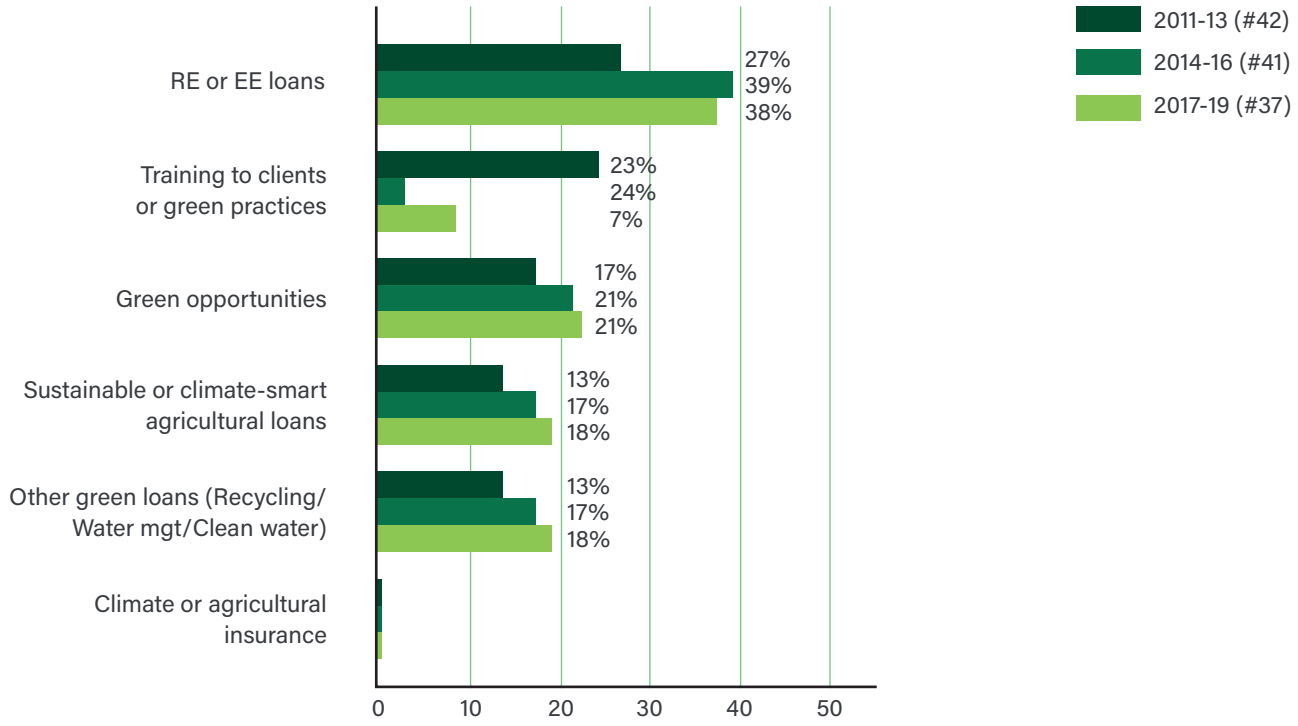


FIGURE 22: EVOLUTION OF GREEN INDEX 2.0 FOR GREEN FINANCIAL AND NON-FINANCIAL PRODUCTS AND SERVICES FOR NBFIS (2011-2019)

Note: based on 169 environmental assessments

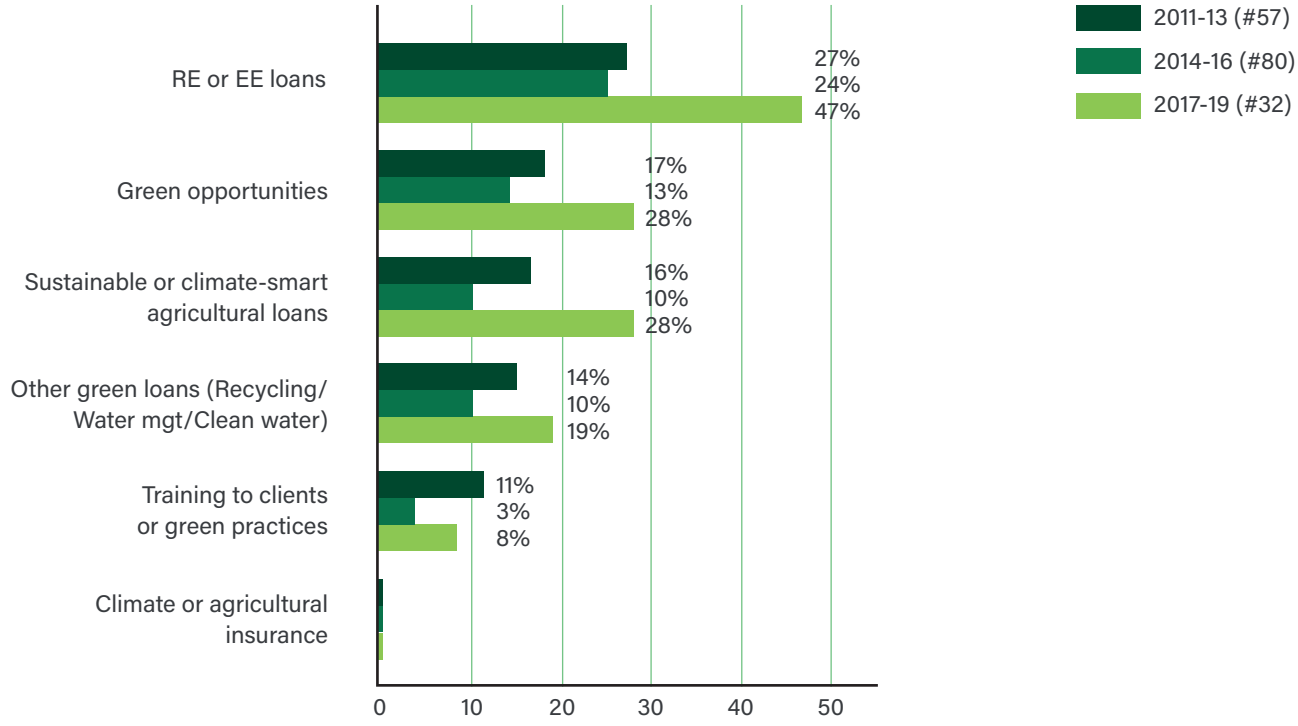


FIGURE 23: EVOLUTION OF GREEN INDEX 2.0 FOR GREEN FINANCIAL AND NON-FINANCIAL PRODUCTS AND SERVICES FOR COOPERATIVE/CREDIT UNIONS (2011-2019)

Note: based on 57 environmental assessments

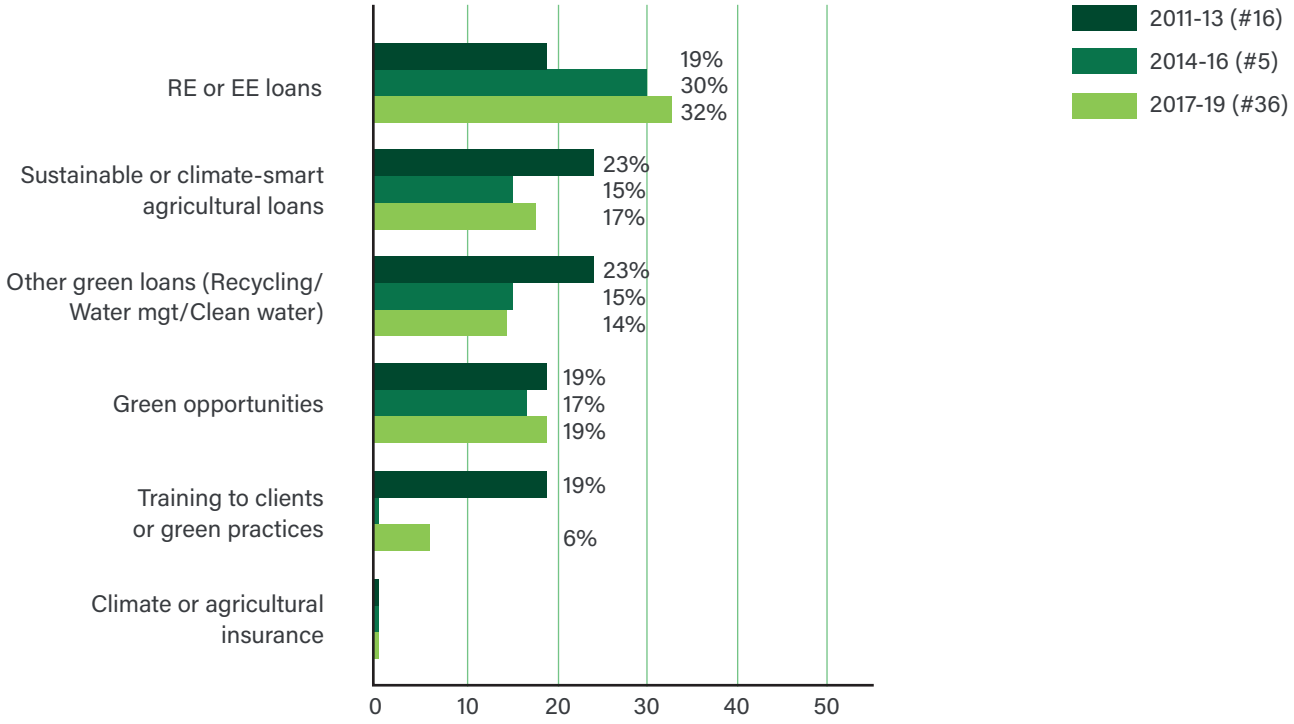
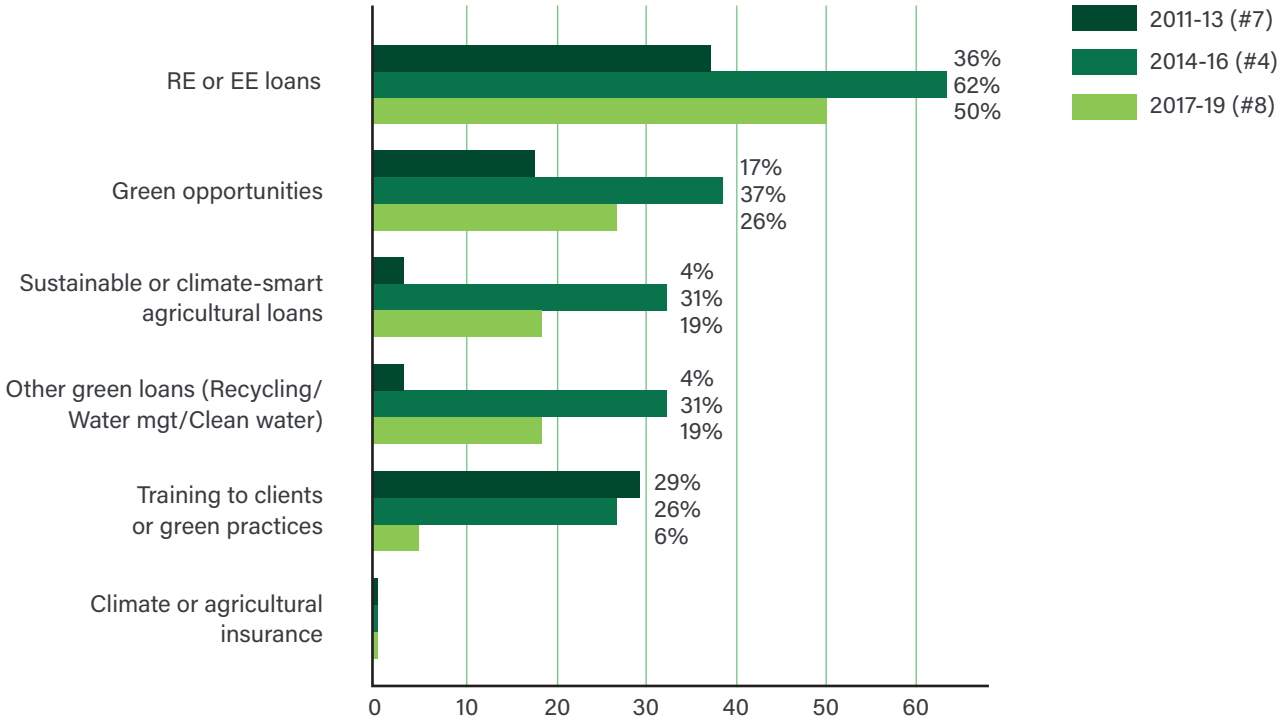


FIGURE 24: EVOLUTION OF GREEN INDEX 2.0 FOR GREEN FINANCIAL AND NON-FINANCIAL PRODUCTS AND SERVICES FOR BANKS (2011-2019)

Note: based on 19 environmental assessments



GLOSSARY

We acknowledge that for various of the term used in this paper, there is still not a universally accepted definition. Nevertheless, to support the reader of the report, we provide here below a short list of key terms used in the paper with their description.

For the reader that wants to go further and look at specific concepts for the green inclusive finance and green microfinance, we refer to the glossary from HEDERA developed to explain the concepts used on the Green Index 3.0: https://hedera.online/download/gi30-glossary.pdf

Please notice that this glossary is in constant evolution due to sector developments, and improvement of definitions and practices.

GREEN FINANCE

The financing of investments that provide environmental benefits in the broader context of environmentally sustainable development. These environmental benefits include for instance: reduction in air, water and land pollution, reductions in GHG emissions, improved energy efficiency while utilizing natural resources, as well as mitigation of and adaptation to climate change and their co-benefits.

Green finance also involves efforts to internalize environmental externalities and adjust risk perceptions in order to boost environmental friendly investments and reduce environmentally harmful ones.

With regards to the functioning of the financial markets, green finance also means an improved understanding and pricing of financial risks related to environmental factors.[54]

GREEN INCLUSIVE FINANCE

It 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), For the specific case of Green Microfinance, the definition of Green Inclusive Finance applies with the restriction to "poor households and micro enterprises".

GREEN LOAN

Any type of loan whose funds are committed exclusively to green projects addressing environmental concerns. The distribution of green loans is usually followed by a periodic reporting by the borrower to the lender of the use of the capital, based on qualitative and quantitative performance measures.[55]

GREEN TRANSITION

Defined as a way to achieve long-term sustainable economic development in human living conditions.

SUSTAINABLE FINANCE

Along the same lines as green finance, sustainable finance can be defined as an evolution of green finance with a wider scope (environmental, social and governance - ESG). The objective of sustainable finance is to increase long-term investments in sustainable economic activities and projects.[56]

ENERGY EFFICIENCY

Defined by the European Energy Efficiency Directive as the ratio of output of performance, service, goods or energy to input of energy.[57]

ENERGY POVERTY

The "inability to keep homes adequately warm". Energy poverty occurs when energy bills represent a high percentage of consumers' income, affecting their capacity to cover other expenses. It can also occur when consumers are forced to reduce their household energy consumption, and consequently, this affects their physical and mental health and well-being.[58]

54. European Commission, Defining "green" in the context of green finance, Final report, October 2017
55. EPRS, European Parliamentary Research Service, Briefing "Green and sustainable finance", February 2021
56. EPRS, European Parliamentary Research Service, Briefing "Green and sustainable finance" , February 2021
57. Directive 2012/27/EU of the European Parliament and of the Council on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC
58. European Commission

APPENDIX

A. COUNTRIES

This table indicates the EU Member State status of countries that were considered for the report as well as the distribution of countries between Eastern and Western Europe.

Eastern Europe
Western Europe

	EU Member state	Candidate/potential candidate countries	EFTA / other European countries
Albania		✓	
Austria	✓		
Belgium	✓		
Bosnia Herzegovina		✓	
Bulgaria	✓		
Croatia	✓		
Cyprus	✓		
Czech Republic	✓		
Denmark	✓		
Estonia	✓		
Finland	✓		
France	✓		
Germany	✓		
Greece	✓		
Hungary	✓		
Ireland	✓		
Italy	✓		
Kosovo		✓	
Latvia	✓		
Lithuania	✓		
Luxembourg	✓		
North Macedonia		✓	
Moldova			✓
Montenegro		✓	
The Netherlands	✓		
Norway			✓
Poland	✓		
Portugal	✓		
Romania	✓		
Serbia		✓	
Slovakia	✓		
Slovenia	✓		
Spain	✓		
Sweden	✓		
Switzerland			✓
Turkey		✓	
United Kingdom			✓
TOTAL	26	7	4

B. GREEN INDEX

This table summarises the mapping in terms of key dimensions. If an item is present in both the Green Index 3.0 and 2.0, it means that the concepts are present in both versions. Nevertheless, the actual content and depth across the two versions of the Green Index are different. We leave the reader to explore the detailed content (in terms of indicators and items assessed) of the two versions.

Green Index 3.0	Green Index 2.0
GI.0 Environmental Strategy	7A Environmental strategy
GI.0.1 Definition of strategy	7A.1 Defines strategy
GI.0.2 Put in place the Strategy	7A.2 Managing & monitoring of the strategy 7B.2 Monitoring of internal ecological footprint
GI.1 Identification of environmental risks and opportunities	7C External risks management
GI.1.1 Identification of Indirect risks & opportunities:	
→ Vulnerability	→ Not assessed
→ Negative environmental impacts	→ 7C 1 Evaluates of environmental risk of its clients
→ Demand and needs	→ Not assessed
GI.1.2 Identification of Direct risks & opportunities	
→ Vulnerability	→ Not assessed
→ Negative environmental impacts	→ Not assessed
→ MFI green opportunities	→ Not assessed
GI.2 Management of environmental risks and opportunities	7B Internal Risks management & 7C External Risks management
GI.2.1 Management of Indirect risks & opportunities	
→ Financial and ESG risks, due to clients vulnerability	→ Not assessed
→ Financial and ESG risks, due to clients adverse environmental impacts	→ 7C 2 inclusion of the level of environmental risk as a factor in the loan approval process
→ Credit processes & product, due to clients green demand and needs	→ Not assessed
GI.2.2 Management of Direct risks & opportunities	
→ Risks, due to MFI vulnerability	→ Not assessed
→ Risks, due to MFI adverse environmental impacts	→ 7B 1 Implementation of actions to reduce its internal ecological footprint.
→ Processes to grab MFI green opportunities	→ Not assessed

Green Index 3.0	Green Index 2.0
GI.3 Green Products & Services	7.D Green Opportunities
GI.3.1 Financial products & services → Green Loans: Clean energy /energy efficiency	→ 7D 1 Green loans for clean energy
→ Green Loans: Sustainable agriculture	→ 7D 2 Green loans for sustainable or climate-smart agriculture
→ Green Loans: Clean water - sanitation → Green Loans: Circular economy / others	→ 7D 3 1 Green loans for other environmentally-friendly practices and activities (e.g.: recycling, waste management, clean water, etc.)
→ Savings, remittances, emergency loans	→ Not assessed
→ Climate / production insurance	→ 7D 3 2 agricultural or climatic micro-insurance
GI.3.2 Non-financial products & services → Awareness raising	→ 7C 3 clients' awareness raising on environmental risks
→ Training	→ 7D 3 3 Trainings to its clients on environmentally-friendly practices or businesses
→ Technical assistance → Partnership	→ Not assessed → Not assessed

C. MAPPING BETWEEN 2013-2021 DATASETS (GREEN DISCLOSURE)

The following table maps the framework used to review the MFI websites in 2013 versus 2021.

Green Index 3.0 Indicators	Env. Indicators used in 2013
GI.0 Environmental Strategy	
GI.0.1 Defines strategy	1) Environmental policy
GI.0.2 Manages strategy	1) Environmental policy
GI.1 Identification of environmental risks and opportunities	
GI.1.1 - a) Identifies client vulnerability	
GI.1.1 - b) Identifies client adv. Env. impact	2) Env Risk Assessment/mgt clients
GI.1.2 - a) Identifies MFI vulnerability	
GI.1.2 - b) Identifies MFI adv. Env. impact	3) Env Risk Assessment/mgt MFI
GI.2 Management of environmental risks and opportunities	
GI.2.1 - a) Manages client vulnerability	
GI.2.1 - b) Manages client adverse environmental impact	2) Env Risk Assessment/mgt clients
GI.2.2 - a) Manages MFI vulnerability	
GI.2.2 - b) Manages MFI adverse environmental impacts	3) Env Risk Assessment/mgt MFI
GI.3 Green Products & Services	
GI.3.1 - a) EE & RE loans	4) Green Microcredits
GI.3.1 - b) Sustainable agriculture loan	4) Green Microcredits
GI.3.1 - c) Water, sanitation & hygiene loans	4) Green Microcredits
GI.3.1 - d) Circular economy loans	4) Green Microcredits
GI.3.1 - e) Agriculture/climate microinsurance	
GI.3.2 Non-financial: environmental trainings	5) Env nonfinancial services

D. DETAILS ON THE DATABASE USED (BY COUNTRY)

This table provides details on the green database used by country (both for Green Disclosure, as well as Green Declaration).

Countries	Number MFI Disclosure (2021)	Number MFI Disclosure (2013)	Number MFIs Green Declaration 8 survey (2011-19)
Albania	13	7	15
Austria	2	2	2
Belgium	10	8	12
Bosnia Herzegovina	17	18	28
Bulgaria	13	36	18
Croatia	2	2	3
Cyprus	0	1	0
Czech Republic	0	0	0
Denmark	2	0	0
Estonia	6	1	0
Finland	1	1	2
France	13	10	14
Germany	29	69	28
Greece	3	1	4
Hungary	24	31	32
Ireland	2	2	5
Italy	37	38	46
Kosovo	8	12	17
Latvia	2	2	0
Lithuania	1	3	0
Luxembourg	6	0	1
North Macedonia	4	4	7
Moldova	6	9	3
Montenegro	5	5	5
The Netherlands	2	7	3
Norway	1	1	0
Poland	14	6	22
Portugal	1	1	6
Romania	29	17	76
Serbia	4	5	4
Slovakia	3	3	1
Slovenia	2	1	1
Spain	38	63	22
Sweden	4	5	2
Switzerland	2	1	3
Turkey	2	2	0
United Kingdom	35	41	29
Total	343	415	411

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