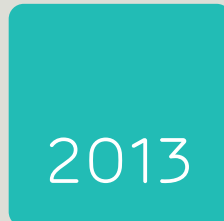
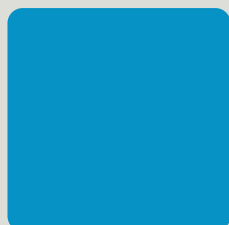


European Green Microfinance A first look

Author: Davide Forcella



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European Green Microfinance A first look

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2013

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Abstract

In this paper we provide the first study on the development and trends of green microfinance in Europe: member, candidate and potential candidate countries. The study contains, but it is not limited to, information about environmentally friendly initiatives developed by institutions that provide microfinance services in Europe and elaborates on their motivations, constraints and strategies. Their environmental engagement is analysed along five dimensions: environmental policy, ecological footprint reduction, environmental risk assessment, green microcredit provision and environmental, non-financial services. The results for European green microfinance are compared to green microfinance in developing countries when possible. The potential of European green microfinance is discussed and some possible policies to foster the development of this field are presented. Specific topics include: green jobs, microfinance and private-public partnerships.

The study is based on: extensive literature review, web-research, an online survey submitted to European institutions and one-to-one interviews.

The web-research shows that approximately one quarter of institutions providing microfinance services in Europe have an initiative associated with environmental protection. The on-line survey illustrates that the environmental performance of the respondent institutions depends on a few institutional characteristics and that, on average, European institutions are comparable with those operating in developing countries. Social responsibility, competitiveness, and legitimacy are the central motivations for institutions to go green. Lack of funding, inadequate human capital and low client interest are among the major constraints. Partnerships with specialized institutions and trainings for employees are the principal strategies stated to mitigate these challenges.

The results of the study suggest that European green microfinance is a young but promising sector. Some interesting initiatives have already been initiated. The sector holds particular promise if policies and incentives are carefully implemented and can be integrated in the European environmental strategies. The main policies advocated by European microfinance practitioners are: the creation of a discussion forum, sharing of examples and best practices, the provision of adequate funds and trainings, and the support of partnerships creation among different actors. However, the process could be quite lengthy and more studies and pilot programmes are needed to assess the feasibility, efficiency and outcomes of the European green microfinance sector.



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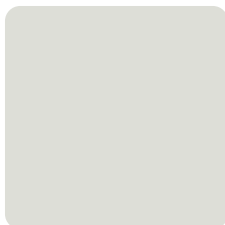
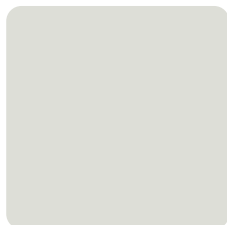
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Disclaimer

This study is meant to provide a first analysis of the development and trends of green microfinance initiatives in Europe: member, candidate and potential candidate countries. The study collects the MFIs' motivations, constraints, strategies and advice about green microfinance. However, the present study should not be understood as an assessment of the field, but as a first look to green microfinance in Europe. Moreover, the present study is not, in any sense, a report on the actual outcomes of these initiatives, the detailed level of engagement of the MFIs, or the actual implementation of the environmental strategies stated in the study. Indeed, the present paper is based on the analysis of environmental policies, processes and products of the MFIs and it does not analyse the outcomes and impacts of such initiatives. The data collection is done at the level of literature research, web-research, survey completed by MFIs, and one-to-one interviews. Field visits at MFIs' branches or clients' activities were not completed.

Moreover, the study does not pretend to provide precise policy recommendations or actions to implement, for which we believe that it is still too early and that more in depth research is needed and that a participatory discussion and reflection would be required, but instead to provide data, experiences, and advice as reported by practitioners working in European microfinance.

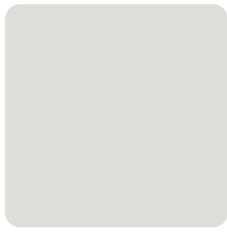
The data presented does not pretend to be statistically representative of the full European microfinance sector, for which a more in-depth analysis and extensive data collection would be required. One of the main challenges of the present study was the difficulty in accessing the data, in particular, data relating to environmental initiatives and some financial details.

Green microfinance is a very young field: terminology, definitions and indicators are at an early stage. Unfortunately, this implies a potentially high probability of misunderstanding. Consequently, we frame this study as an initial step that will need further research to better understand the results. Additionally, as the European microfinance is quite heterogeneous, a potential limitation, for both the web research and online survey, is the difficulty in assessing whether the reported environmental initiatives are specific to the microfinance operations of the institution, whether they are more broadly implemented within the institution or particular to other non-MF sectors when microfinance is not the main or only activity of the institution.

This investigation aims to collect as much information as possible about environmentally friendly initiatives. It is reasonable to believe that such an inclusive approach could induce some positive bias on the level of institutional environmental engagement.

In the report, we sometimes use the name MFI to mean an institution that provides microfinance services to its clients or beneficiaries, even if the main activity of the institution is not microfinance. We apologize for this inconvenience; however, this is to make the writing and reading easier.

In the paper we provide data and analysis to understand the development of green microfinance in Europe, its potential, and possible strategies to support the sector. However, it is not our intention to express an opinion about the need to develop green microfinance in Europe nor of its actual outcomes on clients or institutions.



Executive Summary

The aim of this study is to investigate the status of green microfinance in Europe: member countries, candidate countries and potential candidate countries. To the best of our knowledge this is the first study on the topic. The main objective is to gain a better understanding of the present development and trends of environmentally friendly microfinance initiatives in Europe. The environmental engagement of European microfinance initiatives is analysed along five main dimensions: environmental policy, ecological footprint reduction, environmental risk assessment, green microcredit provision, environmental non-financial services. The results obtained for the European green microfinance are compared to green microfinance initiatives in developing countries when this comparison is possible.

The study moreover investigates the difficulties and constraints that European microfinance institutions encounter while developing environmental initiatives, the strategies used to overcome these difficulties, or the additional support they would need to engage in environmental initiatives. Specific topics include: the relationship between microfinance and green jobs, private-public partnerships for the provision of green credits, etc.

The methodology used for data collection and analysis employs a mixed-method approach. The data presented in this study is collected according to four primary methods: literature analysis, web research of over 415 European institutions, online surveys submitted to 415 MFIs, with 59 respondents, used for statistical analysis, and seven extensive one-on-one interviews with practitioners of European microfinance. The data analysis is completed at the qualitative and semi-quantitative level. The interviews are reported as detailed examples of green microfinance experiences in Europe. The use of four different data methods and the combined use of qualitative and quantitative analysis is meant to provide a first, as broad as possible, assessment of green microfinance in Europe.

The web-research provides a broad picture of the field. Approximately 27,7% of institutions providing microfinance services in Europe have some initiatives associated to environmental protection. The implemented initiatives are quite broad and with different levels of engagement. Ecological footprint reduction seems to attract fewer institutions, while a substantial percentage of institutions seem to have some non-financial environmental services. Environmental policy, environmental risk assessment and green microcredits receive roughly the same level of attention. While some countries stand out as industry leaders, institutions implementing environmentally friendly initiatives are spread across a number of European countries. The legal status of institutions with environmental practices is quite heterogeneous. The institutions with environmental initiatives seem to be, on average, among more mature institutions.

The online survey provides a more detailed understanding. Almost half of the institutions in the sample have developed or are planning to develop some sort of environmental policy, and a quarter of the institutions have appointed someone to manage environmental issues. However, the majority of the institutions do not have a clear environmental mission and almost no institution has developed environmental incentives for their employees. The majority of the institutions declared that they have, or are planning to introduce, specific objectives to reduce the ecological footprint of the institution, however, few have quantified

objectives. A number of institutions have attempted to raise the environmental awareness of their employees. Almost no institution has conducted a carbon audit, and the presence of environmental indicators in the annual report is extremely rare. The majority of respondents are implementing, or are planning to implement, environmental exclusion lists. However, the efficiency of exclusion lists is not clear, and the subsequent procedures after evaluation are neither well defined nor too strict. Almost half of the institutions in the survey evaluate some aspects of the environmental risk of client activities during the credit approval process. However, the majority of the environmental evaluations are informal or utilized for certain loans. Only one quarter of the institutions train, or are planning to train, their loan officers to evaluate the environmental risk of clients. The introduction of environmental indicators into the MIS is an extremely rare practice. One third of the respondents disburse green microcredits, while another 10% declare that they are presently developing green credits. The type of green microcredit is quite diversified, but generally includes two products: credits for renewable energies or energy efficiency, and, to a less extent, credits for environmentally friendly activities such as recycling, waste management, organic farming and ecotourism. Some of these green microcredits seem to be oriented toward the support or development of environmentally friendly micro-enterprises. Around 40% of the respondents declare to provide, or are planning to provide, training or technical assistance for the development of environmentally friendly activities, thanks to the internal expertise of the MFI or to a partnership with a specialized institution. Environmental awareness campaigns have been implemented, or are planning to be implemented, by almost one third of the institutions. Yet, the use of an environmental chart to be signed by clients or the implementation of programmes promoting environmentally friendly micro-enterprises is a very rare practice.

In the sample analysed, the level of environmental engagement seems to depend on institutional characteristics. Institutions registered as banks and NBFIs seem to have, on average, a better environmental performance than other legal statuses. Institutions from Eastern Europe have, on average, a better environmental performance than institutions from Western Europe. On average, older institutions seem to perform better than younger institutions. Larger institutions, in terms of number of clients, seem to perform better, and institutions with a smaller average credit size seem to have better environmental performance. The interest of stakeholders (donors or investors) appears to have a positive influence on the environmental performance of the institution. In particular, the interest of investors seems to be the statistically significant variable in positively influencing the environmental performance of the institution. However, more investigation is required to understand how much of these results can be extended outside the sample analysed. The environmental performance of European microfinance institutions observed in the sample seems to be comparable, on average, with the global environmental performance of microfinance institutions operating in developing countries.

It appears that the major motivations for European MFIs to engage in environmentally friendly initiatives are, in order of importance: social responsibility, competitiveness (strategic and economic benefits), and legitimacy (stakeholder pressure). In European microfinance, the lack of funds, human capital and low client interest seem to be among the major constraints preventing the development of green MF initiatives. Partnerships with specialized institutions and trainings for employees appear to be the principal strategies adopted by European MFIs to overcome the previously stated constraints. Suggestions provided to European actors hoping to foster green initiatives are: the creation of a discussion forum; the sharing of examples, best practices and successful initiatives; provision of adequate funding and training; and, assistance to create partnerships among different actors.

The main conclusion is that green microfinance in Europe is a young, underdeveloped field, but a sector that holds potential. For example, many of the MFIs are looking to engage environmental initiatives; only 15% of the respondents in the survey do not have, or plan to develop, any environmentally friendly initiatives in one of the five environmental dimensions. Interesting examples of multi-stakeholders or multidimensional programmes and anecdotic evidence exist for social inclusion and green jobs support. Moreover, the environmental analysis provided should be contextualized by two main facts: environmental performance is not, and maybe should not be, the main objective of MF and European MF is, on average, a young and still underdeveloped sector. Considering these observations, it seems reasonable to conclude that European green microfinance is a sector that could be fostered once the right strategies in terms of funding, human capital and programmes are realized.



Introduction and goals of the paper

The European Union and its member states are committed to protecting the environment and to developing a sustainable, low-carbon economy. Renewable energies, energy efficiency and reduction in greenhouse gas emission are important objectives for Europe. At the same time, Europe promotes microcredit provision as an important strategy to support small, new businesses and to promote social inclusion.

Recently, practitioners and academics proposed the concept of green microfinance as a tool to foster and promote environmentally friendly practices at the micro level with the triple bottom-line objective: economic return, social impact and environmental protection. Interesting initiatives have been initiated and are being implemented in many developing countries.

The aim of this study is to investigate the status of European green microfinance.

To the best of our knowledge, this is the first study on the topic. For this reason, we decided to maintain a broad perspective and base the analysis on actual data while not relying too much on theoretical discussions, previous beliefs or strict definitions.

We do not pretend to be exhaustive or complete, but instead keep a pragmatic approach to report and analyse the actual data provided by actors within the European microfinance sector. Utilizing this perspective, the present study has been written and developed.

Definition used for green microfinance

A clear consensus among practitioners and academics on the definition of green microfinance does not yet exist, and in this study, we do not pretend to provide such a technical definition for the European microfinance sector. We will instead build on actual programs and previous studies, and use a pragmatic and practical approach: by green microfinance initiatives, we will mean any environmentally friendly initiatives implemented by an institution that provides microfinance services. For instance, initiatives could be: the establishment of an environmental policy; programmes to reduce energy consumption within

the institution; clients' environmental risk assessment; microcredits for environmentally friendly technologies, such as: renewable energy systems or interventions for the improvement in energy efficiency; microcredits for environmentally friendly activities, such as: organic productions, ecotourism, agroforestry, recycling; and, environmental awareness-raising actions or provision of trainings for environmental activities, etc.

A more concrete methodology to classify a bit more in detail such initiatives will be provided in the following sections.

Aims of the study

The main objective of this study is to gain a better understanding of:

- ➔ The present development and trends of environmentally friendly microfinance initiatives in Europe;
- ➔ The difficulties and constraints that European microfinance institutions encounter while developing environmental initiatives, and the strategies

employed to overcome these difficulties or identify additional support; and,

- ➔ The drivers and opportunities for the application of such initiatives.

Strategy and methodology used

To accomplish these goals, we structured the study by four main categories:

- ➔ Literature research on green microfinance, European microfinance and discussions with academics and practitioners involved in green microfinance;
- ➔ Web-research about green microfinance initiatives reported by European microfinance institutions on the MIX market or on their websites;

- ➔ Design of an online survey submitted to European microfinance institutions; and,

- ➔ One-on-one interviews with stakeholders in European microfinance institutions implementing environmentally friendly initiatives.

The methodology used to analyse the data collected is a mix of qualitative and semi-quantitative analysis.

About the definition used for European microfinance

To accomplish the goals of the study, we had to specify our sample of investigation. This choice implies a definition of microfinance, or more specifically of European microfinance. At the European level, microcredits are defined as loans less than 25.000 EUR for microenterprises employing less than 10 people, and for unemployed or inactive people who want to go into self employment but do not have access to traditional banking services (EC, 2003; EMN1web). In this study, we considered this definition as the baseline for investigation, but, as in the last EMN Overview of the European microcredit sector (Bendig et al., 2012), we keep a broader definition that also includes personal or consumption loans. This decision agrees with previous surveys' sample selections in Europe and also complies with the requirement of containing practitioners both inside and outside of Europe, while not restricting the definition of microcredit to micro-enterprises support or creation. The selection moreover attempts to account for the heterogeneity of European

institutions providing microfinance services. We hence used the pragmatic definition of a European microfinance institution as an institution that provides loans less than 25.000 EUR to persons who are excluded from the standard banking sector.

At the practical level, our sample is constructed using all institutions already collected in the last EMN Overview Survey (Bendig et al., 2012), plus the European institutions reporting on the MIX Market, institutions classified as microcredit providers by the MicroFinance Center (MFC), and institutions supported by the European Progress Microfinance Facility (EPMF).

By European microfinance institutions, we mean the institutions operating in countries that are part of the European Union, candidate countries or potential candidate countries. Thirty-six countries in total, as reported in Appendix B.

Standard banking sector and green MF

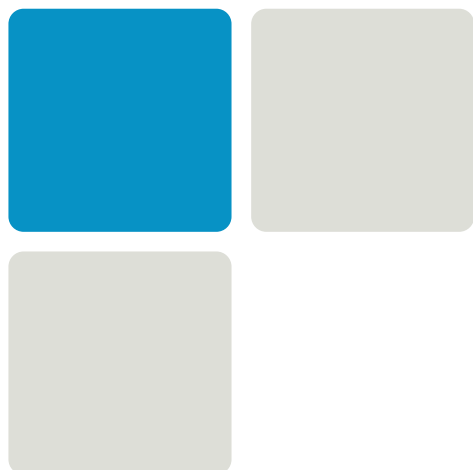
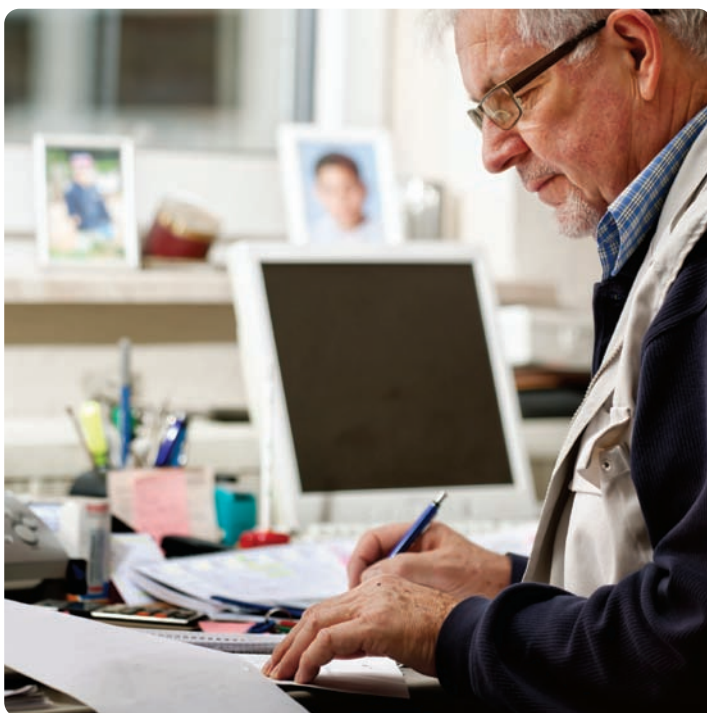
The standard banking sector also appears to play an important role in the provision of credits smaller than 25.000 EUR to promote green initiatives, such as the purchase of solar panels. However, in this study, we do not discuss this sector. Neither do we discuss the provision of such technologies by other actors. We only present some commentary about the relationship

between microfinance and the standard banking sector in the support of green micro-initiatives. We understand the limitations of making such a choice; however, this was done for practical reasons. A careful investigation of the topic is outside the objective of this paper.

Structure of the paper

The paper is organized into four main parts: the first two concern the development of green microfinance in Europe as it appears in the data collected through web-research and the online survey respectively; they provide a statistical analysis and comparison among different groups and samples. The third section is meant to discuss the opinions of the European microfinance practitioners about their motivations, strategies, constraints, projects, and their opinions on the potential for green microfinance and its relationship in the creation of green jobs. The fourth part contains the text on extensive interviews meant

to provide explicit examples of green microfinance practices and the section uses them to discuss specific topics such as green jobs and private-public partnership. This mixed methodology to analyse the green MF sector is meant to provide a broad picture of the field, with aggregate statistical analysis and qualitative case studies as complementary approaches meant to support each other and improve our understanding. Partial conclusions summarizing the findings are provided at the end of each section. A literature review, theoretical framework, and appendix is also provided.





Literature review

In this section, we would like to provide an overview of the European microfinance sector and trends regarding green microfinance throughout the world.

The European microfinance sector

Drawing from the last EMN Overview Survey (Bendig et al., 2012), the European microfinance sector is a young but evolving and consolidating sector. Twenty-one per cent of respondent institutions started lending activities after 2010, 65% after 2000, and only 5% started their lending operations before 1990. The average loan amount in 2011 was 5.130 EUR (8.042 EUR in Western Europe and 3.079 EUR in Eastern Europe), with an average loan portfolio of 9.694,440 EUR and an average loan volume of 1.890 per MFI responding to the survey. In 2011, 78% of the respondent institutions disbursed more than 20 loans, 69% disbursed more than 50 loans, and 54% disbursed more than 100 loans.

The survey underlined a wide institutional heterogeneity of microcredit providers, with NGOs/foundations and Non-Bank Financial Institutions (NBFI) each representing more than 20% share of the total respondent sample. The microloans are mainly provided for entrepreneurial purposes (100% of the institutions in the survey provide this loan type and 47% provides this product exclusively). Individual loans are the preferred microcredit methodology with a positive reply from 92% of respondents.

The average annual interest rate was 11% in 2011, with a floor of 4% (Austria, France and Italy) and a ceiling of 20% or higher for countries in the Balkans states (Albania - 18%, Bosnia-Herzegovina - 24%, Serbia - 35%). The average loan duration was between 14 and 60 months dependent on the

country. Other products provided include: personal microloans (34% of institutions), saving (17% of institutions) and microinsurance (9% of institutions). Fifty-two per cent of the institutions provide support for entrepreneurial activities such as training or business development services.

The 30-day portfolio at risk in 2011 was on average 12% and the write off ratio was 6% among the respondent institutions. Comparison with previous years suggests that the number and volume of loans increased while the average loan amount, portfolio at risk and write-off ratio decreased. However, we should be careful to interpret the comparison with previous EMN Overview Surveys because such comparisons use of different sample sets.

Previously, the microfinance sector attracted the political attention in Europe, as a potential tool to fight the present crisis and promote access to finance and job creation (Jung et al., 2009; Trust Law, 2011; Bendig et al., 2012; EC1web). The European Commission developed the Code of Good Conduct (EC, 2011) to promote best practices in the field of microcredit that was designed in the framework of JASMINE: a joint initiative of the European Commission, the European Investment Bank and the European Investment Fund to provide technical assistance to microfinance actors in Europe (JAM1web). Seventy-five per cent of the institutions in the survey claimed to know the Code of Good Conduct and 76% plan to implement engagement at some level.

Green Microfinance

Traditionally, microfinance aims to fulfil the double bottom line of financial return and positive social impact. Recently, various actors in the microfinance sector have underlined the interest to include the environment on top of these objectives (FMO, 2008; GreenMicrofinance, 2007; Hall et al., 2008; Munoz and Christen, 2004; Rippey, 2009; Schuite and Pater, 2008; Van Elteren, 2007) and consider microfinance with a triple bottom line: financial, social, and environmental. In this study we will pragmatically refer to the microfinance activities with this triple bottom line as Green MicroFinance (GMF).

GMF initiatives to date are mainly discussed in the context of developing countries and vary from "do not harm" to "positively impact the environment." GMF is a nascent and developing field that has recently attracted the attention of many stakeholders. Currently, GMF programmes include: environmental awareness activities for the MFIs' employees and clients; MF corporate social responsibility towards the environment; environmental risk-management; restrictions on the activities that can be financed with microcredits; specific credits for environmentally friendly activities such as organic farming, ecotourism, silvopasture, agroforestry, etc.; credit for renewable energies and energy efficiencies; and credit, savings and microinsurance to improve the resilience of clients towards environmental shocks or climate change.

A growing number of MFIs are implementing GMF activities (Allet, 2012; Allet, 2013). Social investors and microfinance investment vehicles (MIVs) are increasingly interested in evaluating the environmental performance of MFIs (De Bruyne, 2008; Symbiotics Research & Advisory, 2011). MF rating agencies have inserted environmental elements in their social ratings (MF Rating, 2013) and social audit tools contain environmental dimensions (SPI-CERISE). From a survey on 160 MFIs mainly in developing countries (Allet, 2012; Allet, 2013), 78% of MFIs believe they have a role to play in protecting the environment; 19% believe that environmental protection is a major objective, while 49% believe that it is an important objective. In a survey undertaken by the Social Performance Task Force (SPTF) with 45 social investors in 2007, 62% declared to be interested in the environmental performance of MFIs (De Bruyne, 2008). From a survey of 70 MIVs (Symbiotics Research & Advisory, 2011), 46% of respondents seek to assess MFIs' environmental risks and 45% seek to integrate environmental issues into their investment decisions. In a recent publication by Micro Finanza Rating (MFRating, 2013) reported some of the insights coming from an analysis of the environmental responsibility of more than 140 microfinance institutions in 42 countries from 2006 to 2013.

Moreover, a number of interesting initiatives are developing around the topic of green microfinance: the European MicroFinance Platform (e-MFP) is hosting an Action Group on Microfinance and Environment, and the Social Performance Task Force (SPTF) is in the process of starting a Working Group on GMF.

The motivations to introduce the environment among MF's bottom lines can be roughly summarized by three main observations:

1. The clients of MFIs, especially in rural areas, are among the most vulnerable to the consequences of environmental degradation;
2. The activities of MFIs' clients can seriously damage the local environment: old, polluting and non-efficient ways of production with potentially negative impacts on health and education; and,
3. MFIs are among the few existing channels that have the potential to directly influence the activities of micro entrepreneurs.

Further, the operations of MFIs: financing the poor informal sector (that is less restricted by national regulations and have few resources to access to new efficient and environmentally friendly technologies), could indirectly foster the environmental degradation (Hall, et al, 2008; Servet, 2011). Consequently, on ethical principles, MFIs should be concerned about the environmental impacts of their activities. Finally, the specific motivations for European green microfinance may be different and ought to be further investigated.

However, the ability of MFIs to introduce environmental aspects into their operations or to stimulate positive outcomes on the environment can be questioned from various viewpoints: mission drift for the MFI; trade-offs between poverty alleviation and environmental preservation; lack of financial and human capital of the MFIs; etc. The outcomes of various programmes under the umbrella of GMF will not be analysed in this paper; the examples are instead meant to provide a picture of the European GMF sector.

The European Union and its member states are committed to protecting the environment and to developing a sustainable, low-carbon economy with more "green" jobs (EC2web). It is natural to wonder what is, or could be, the role for European microfinance actors in the green economy. In this study, we would like to provide a first assessment of the environmental initiatives implemented by European microfinance institutions, the potential for green microfinance in Europe, the identified constraints and the strategies developed by microfinance actors.



Theoretical framework and methodology

I've used the framework established in (Allet, 2012) to analyse the environmental performance of European microfinance institutions. The analysis of the green microfinance sector in Europe is done using a broad perspective with the aim to avoid focusing on specific initiatives. The environmental initiatives of the European institutions providing microfinance services are implemented along the following five dimensions:

- ➔ **Environmental policy:** the existence of a written environmental policy or mission and of employees with environmental roles and responsibilities;
- ➔ **Ecological footprint reduction:** the existence of specific objectives to reduce the direct environmental impact of institutions (energy, water use, waste management, etc.), environmental reporting, environmental audits, and establishment of environmental training for the staff;
- ➔ **Environmental risk assessment:** existence of an exclusion list for environmentally dangerous activities, tools to evaluate and monitor the environmental risk of clients' activities, training for loan officers to learn to evaluate the environmental risk of clients' activities;
- ➔ **Green microcredits:** existence of specific microcredits to finance environmentally friendly initiatives such as: use of renewable energies, improvements in energy efficiency, waste management, recycling, agroforestry, organic production, ecotourism, etc.; and,
- ➔ **Environmental non-financial services:** existence of an environmental chart to be signed by clients that commit to apply environmentally friendly activities, technical assistance and training for clients that want to employ environmentally friendly practices, environmental awareness initiatives for clients and actions to promote environmentally friendly microenterprises.

The assessment of environmental practices and initiatives for the European microfinance sector is not done at the level of outcomes but at the level of operations and procedures established by the institutions to improve their environmental

performance and reach environmentally positive outcomes. However, the impacts of such procedures are not directly evaluated. The choice to focus on operations and not on outcomes is in agreement with the methodology used in social assessments done by microfinance rating agencies and social audits. This decision is also dictated by practical reasons: cost-effectiveness and data availability. At the theoretical level, this strategy is supported by reasoning that processes actually count to reach environmental outcomes, namely to reach an objective the microfinance institution should provide itself the means to reach these objectives (Lapenu et. al., 2009; Allet, 2012). However, we are conscious of the limitation of this choice and the present study does not pretend to evaluate the actual environmental outcomes of microfinance institutions, but instead measure their engagement, effort, motivations, constraints and strategies to reach environmental outcomes.

The strategy for data collection and analysis is based on a mixed-method approach. The data presented in this study is collected according to four methods: literature analysis, web research of 415 institutions in Europe, online surveys submitted to 415 MFIs, containing 59 respondents for which statistical analysis was possible, and seven extensive one-on-one interviews to practitioners of European microfinance.

The data analysis completed at the qualitative and semi-quantitative level. The data collected from the web research and survey are analysed at the aggregate statistical level and compared to data from global green microfinance or European microfinance samples when possible. In addition, some of the survey data are presented as qualitative discussion. The interviews are reported as detailed experiences in European green microfinance and are meant to explore some interesting topics in green microfinance.

The utilization of four types of data collection and the combined used of qualitative and quantitative analysis is meant to provide a first, very broad, assessment of green microfinance in Europe.

1

European Green MF web research



→ To obtain a first understanding of the development of green microfinance initiatives in Europe, we decided to first focus on what MFIs report about their environmental engagement. In this section we are going to present the results of a web research observing what MFIs report on their websites or on the MIX Market about their environmental initiatives (unfortunately, Western European MFIs still do not report data to the MIX Market and only a few Eastern Europe MFIs report).

The sample size contains 415 institutions known to provide microfinance services in European countries, European candidate and potential candidate countries, 36 countries in total (Appendix B). To the best of our knowledge, this is the most comprehensive list of MFIs in Europe and was obtained completing the list used by EMN for its last sectorial Overview

Survey (Bendig et al., 2012). We selected a subsample of 210 MFIs consisting of all the MFIs that report data to the MIX Market and/or answered to the survey in the last EMN Overview Survey. We refer to the subsample as Group A. It is reasonable to believe that the Group A consists of MFIs that report regularly and in more detail about their activities.

European microfinance institutions involved in green initiatives

The initial results of the European microfinance sector are presented in the table below, whereby green initiatives we mean any of the initiatives that fit in the five dimensions presented in the previous section.

Sample	Number institutions with green initiatives	Percentage
Total sample: 415 MFIs	115	27,7%
Group A (210 MFIs)	83	39,5%

Out of the full sample of 415 MFIs we found 115 MFIs reporting some environmental initiatives: translating to 27,7%. Henceforth, we refer to the 115 MFIs found to have some environmentally friendly initiatives as the Green Group. In Group A, among 210 MFIs, we found 83 MFIs reporting some environmental friendly initiatives implemented by the institution, corresponding to the 39,5% of the Group A sample. The difference could be related to involvement in environmental practices for Group A compared to the total sample or simply to the fact that group A more easily reports and communicates its data.

To better understand the MFIs' environmental initiatives, we have split the activities reported by the MFIs according to the five dimensions we have previously introduced: environmental policy, ecological footprint reduction, environmental risk assessment, green microcredits and environmental non-financial services.

In the table below we report the number and the percentage of the MFIs (among the Green Group) for which we have found information about their initiatives in one of the above stated five dimensions.

➔ Number and percentage of institutions of the Green Group with initiatives in one of the five dimensions

Environmental policy	Ecological footprint reduction	Environmental risk assessment	Green microcredits	Environmental non-financial services
33	12	27	31	58
28,7%	10,4%	23,5%	27,0%	50,4%

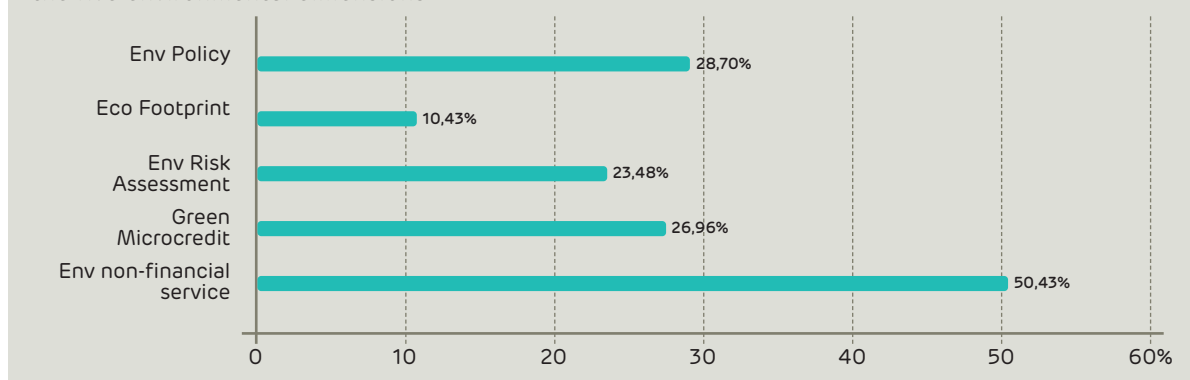
Number institutions: 115

The total number of MFIs sum to more than 115 and the total percentage to more than 100% because an MFI could have developed or reported initiatives

in more than one dimension. This information is conveyed in the graph below.

Figure 1

➔ Figure: percentage of the MFIs in the Green Group that report about their activities along one of the five environmental dimensions



Institutions in the Green Group are implementing different environmental initiatives belonging to one of the five environmental dimensions: the ecological footprint reduction is the dimension that attracts the fewest number of institutions while the dimension of

environmental non-financial services attracts the most actors. Environmental policy, environmental risk assessment and green microcredits interest a comparable number of institutions.

Geographical distribution

Another interesting aspect concerns the geographical distribution of MFIs. Among the 115 MFIs in the Green Group, 51 are located in the Eastern Europe, while 64 are located in Western Europe.

→ Number and percentage of institution in the Green Group per geographical region

Green Group	In Eastern Europe	In Western Europe
115	51	64
27,7% of the full sample	44,4% of the green group	55,6% of the green group
Number institutions: 415	Number institutions: 115	Number institutions: 115

The country distribution is presented in the two graphs below: the first shows the total number of MFIs inside the Green Group divided by country; the second graph shows the percentage of MFIs in the Green Group in every country over the total number of MFIs known to operate in the same country. The absolute number should give an idea of how the MFIs

with some environmental practices are distributed in Europe, while the relative percentage should give an idea of how green practices are spread among the MFIs operating in each country. The countries that do not appear in the graphs are the ones for which we didn't find any MFI implementing green initiatives.

Figure 2

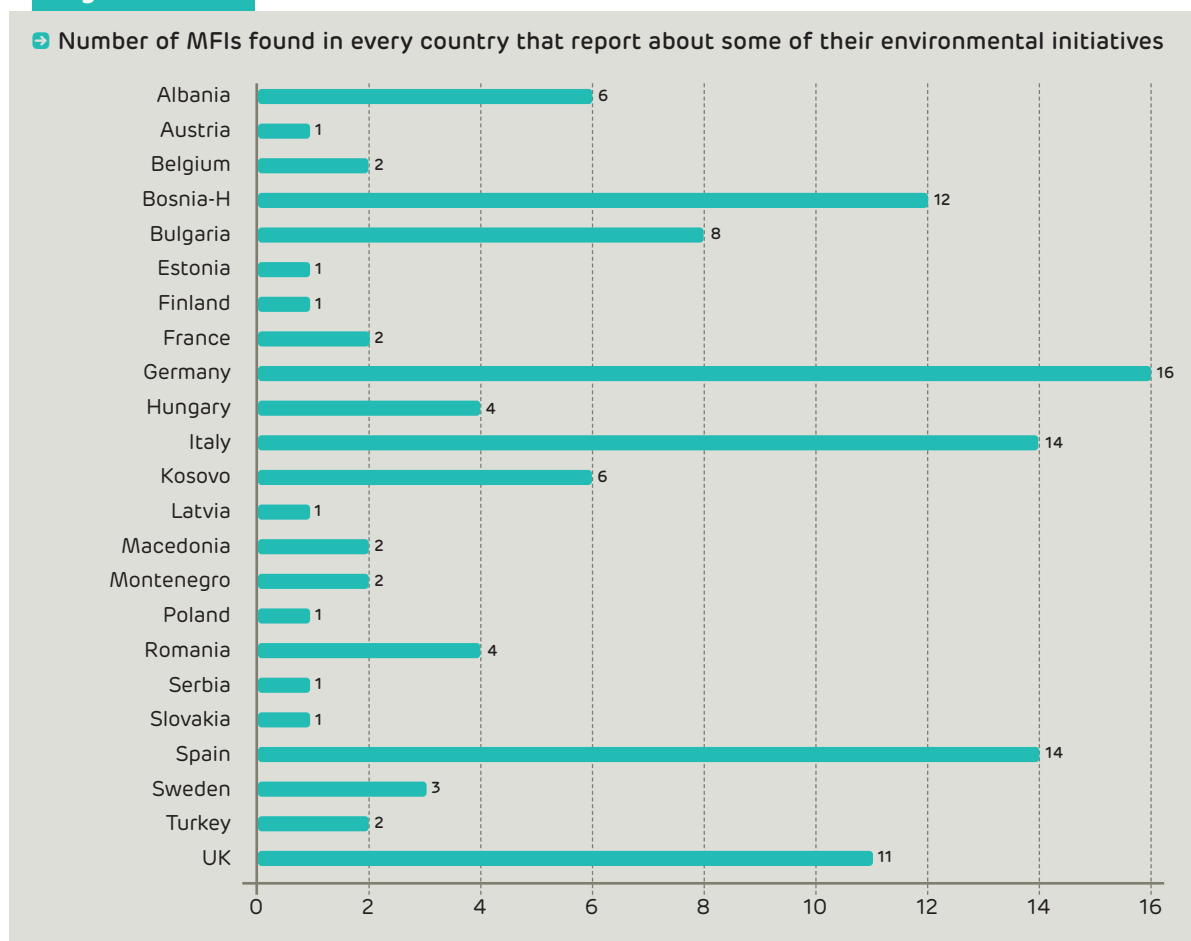
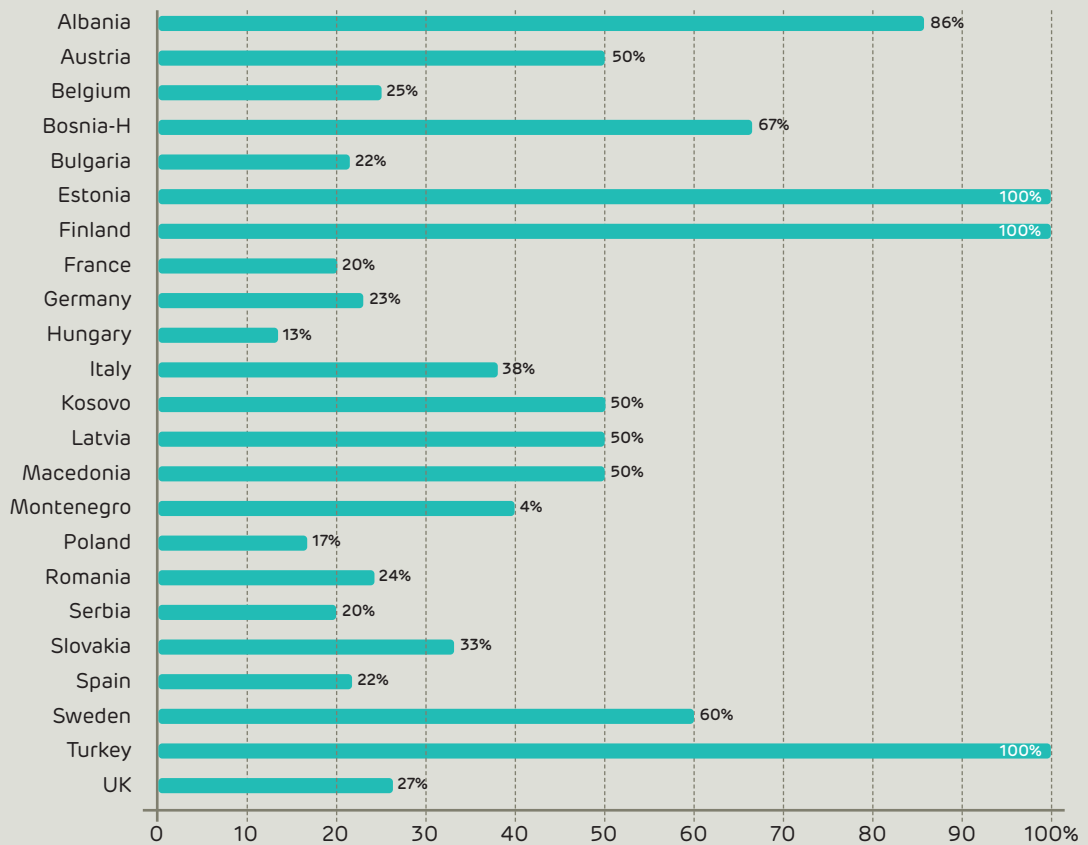


Figure 3

Percentage of MFIs in every country found to report about some of their environmental initiatives



The countries reporting the largest number of MFIs to implement some environmentally friendly initiative in any of the five dimension are, in absolute number: Germany (16), Italy (14), Spain (14), Bosnia-Herzegovina (12), UK (11), Bulgaria (8), Albania (6), Kosovo (6); while the percentage order with respect to the number of known MFIs operating in the country

is: Estonia (100%, one institution), Turkey (100%, two institutions), Finland (100%, one institution), Albania (85,7%), Bosnia-Herzegovina (66,7%), Sweden (60%), Austria (50%, one institution over two known), Kosovo (50%), Macedonia (50%), Latvia (50%, one institution over two known).

Legal status

The environmental engagement of an institution could be related to various legal statuses. For example, it could be reasonable to believe that more regulated institutions, such as banks, should satisfy more rigid environmental regulations. Conversely, more socially oriented institutions, such as NGOs or charitable organizations, are instead more sensitive to the

environment due to their social mission. Therefore, we classify the MFIs according to legal status in an attempt to provide a first understanding linking institutional status to environmental initiatives. The table below reports the legal status of the institutions in the Green Group, in absolute value and in percentage.

➔ Number and percentage of institution in the Green Group according to their legal status

Public organization	NGO	Charitable organization	Cooperative	NBFI
13	18	15	9	15
11,3%	15,7%	13,0%	7,8%	13,0%
Bank	Religious Institution	MFI specialized	Other	
24	1	3	17	
20,9%	0,9%	2,6%	14,8%	

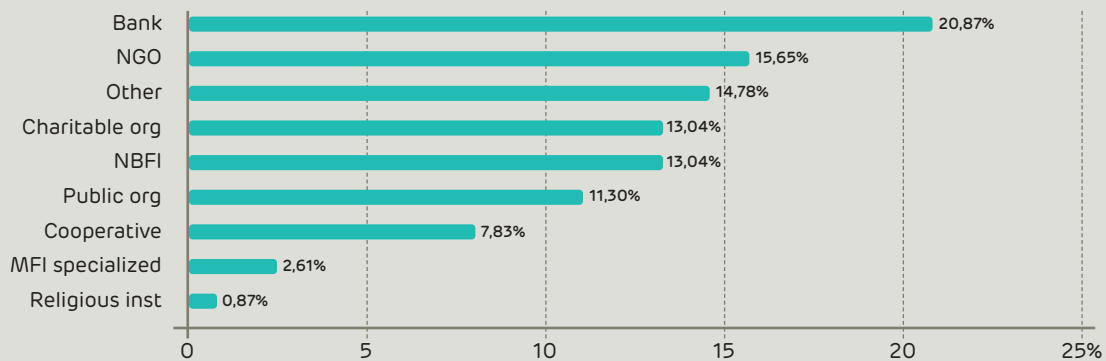
Number institutions: 115

The category "Other" contains networks of institutions, GmbH (in Germany), and some other institutions with more specific status. The legal status of the different organizations implementing environmentally friendly initiatives seems quite heterogeneous. Banks, NGOs, NBFIs, Charitable organizations and Public owned institutions together form 73,9% of the total sample.

It would be interesting to investigate the kind of activities implemented according to the legal status of the institution; however, we will not do it here due to uncertainty in the data collection (refer to the last subsection of this section), but we propose it for the survey analysis in the next section.

Figure 4

➔ Percentage of institution in Green Group according to their legal status



« All five environmental dimensions are represented in the sample, with ecological footprint reduction at the lowest level and non-financial environmental services at the highest level, while environmental policy, environmental risk assessment and green microcredits receive approximately the same level of attention. »

Age of the institutions

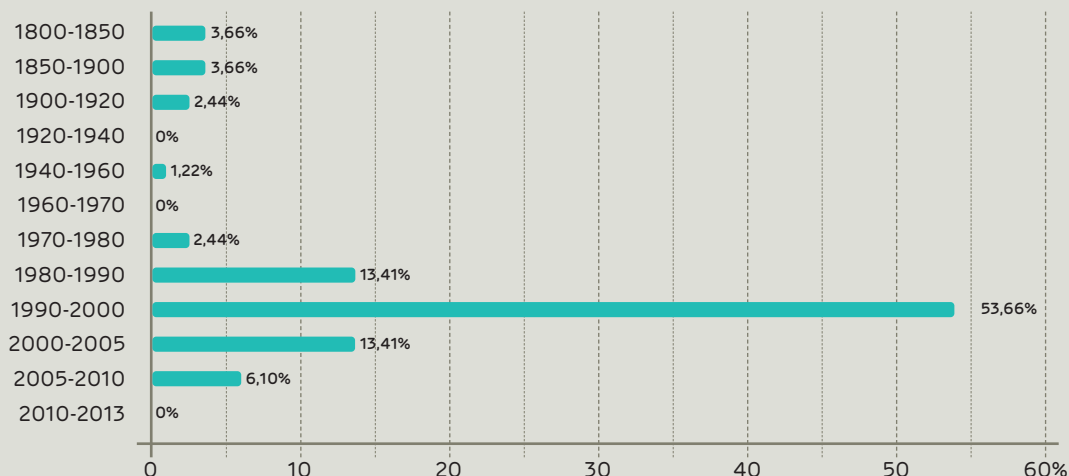
Another interesting subset of data that could help distinguish the various institutions implementing environmentally friendly initiatives is their date of establishment.

Indeed, it could be reasonable to believe that the environmental engagement of an institution could

vary according to the maturity of the institution itself. In a subsample of 82 MFIs in the Green Group for which we have data, we find that the average date of establishment is 1983 and that the foundation dates are distributed according to the graph below.

Figure 5

→ Distribution of institutions in the Green Group according to the date of establishment



The majority of MFIs with environmental initiatives inside the Green Group (53,66%) have been established between 1990 and 2000. Considering the data from the last EMN Overview Survey (Bendig et al., 2012), where it is reported that 65% of the respondent MFIs started their lending

activities after 2000, it could suggest that institutions in the Green Group are quite mature institutions. However, a comparison between the present sample and the respondent to the EMN Overview Survey is not fully justified due to the use of different sample sets.

Actual environmental initiatives implemented

After this general discussion, it seems natural to wonder about the actual environmentally friendly initiatives implemented by the institutions in the Green Group. This should provide a preliminary set of green initiatives implemented by European institutions providing MF services and their level of engagement.

Below, we report a list of environmentally friendly activities found to be implemented by institutions belonging to the Green Group, subdivided according to the previously stated five dimensions:

• Environmental policy

Examples of green initiatives found in the environmental policy dimension are: environment preservation stated in the mission statement, vision or value of the institution; the institution established a written environmental policy; a particularly interes-

ting initiative provides mainly regional and organic foods in institution's cafeteria; the institution established an internal environmental management system.

❖ Ecological footprint reduction

Examples of green initiatives found in the ecological footprint reduction dimension are: stated objectives to reduce the paper consumption of the institution; the decision to purchase paper products from sustainable forest management production; stated policy for reduction in number of travels and increase in the use of videoconference; change of

the vehicle fleet to "low-CO2-emission" vehicles; internal policy to buy only green electricity for the institutional needs with the aim to reduce its CO2 emissions; use of photovoltaic panels for the institutions' buildings as an example to the clients and beneficiaries; stated aim or achievement of carbon neutrality.

❖ Environmental risk assessment

Examples of green initiatives found in the environmental risk assessment dimension are: the institution identifies enterprises with environmental risk; the

institution includes specific clauses in its loan contracts to mitigate specific environmental risks.

❖ Green microcredits

Examples of green initiatives found in the green microcredit dimension are: provision of credits to improve the energy efficiency of the clients' habitat: apartment insulation, eco-buildings, sustainable building renovation; credits to promote the use of alternative energies: photovoltaic panels, solar collectors for heating, solar oven; credits for environmentally friendly investments or initiatives: organic productions, eco-tourism, waste management,

recycling activities, small wastewater treatment systems, rural sustainable development activities, low-impact forest and woodland management, reforestation activities; credits for electric vehicles: electric motorbikes and bicycles; loans with 0% interest rate for carbon footprint reduction activities, free advice and guidance; ecological savings accounts, in which part of the savings are invested in tree plantations under a WWF programme.

❖ Environmental non-financial services

Examples of green initiatives found in the environmental non-financial services dimension are: the institution raises client awareness about environmental impacts of their activities; the institution trains or educates clients in environmental management and promotes environmental values; organization or participation in events to promote environmentally friendly activities and micro-enterprises; assistance to access to the market, in particular, for the distribution and sale of the organic agricultural products of clients; organization of contest for environmentally friendly micro-enterprises and for the creation of environmentally friendly

projects; reward and publicity for environmentally and climate-friendly solutions in the areas of logistics and energy; forest cleaning; gardening services; services (knowledge transfer, etc.) for the conversion of "old jobs" to "greener jobs"; opportunities to achieve environmental certifications at less than 50% the standard certification cost; training in environmental activities to clients for the future insertion in the green job market; provision of a range of training courses and qualifications to help clients to gain new skills and tap into commercial opportunities in the low-carbon economy; organization of environmental events.



Limitations of the web research

The web research we have presented has the advantage to provide a first glimpse into environmental initiatives implemented by European microfinance institutions over a relatively large sample: 415 institutions: namely all the institutions we presently know. It also offers a first understanding of the characteristics and location of MFIs involved in green initiatives.

However, web research has some very important limitations, including: potential loss of information: the data are collected by what the institutions report on the web and hence they could be biased; it is reasonable to believe that some of the initiatives are not reported or that I was simply not able to find them; it is difficult to evaluate the degree of involvement of the institution: i.e. is the

stated green initiative really operative? How many people, funds, etc. are involved? There is a potentially high probability of misunderstanding; moreover it can be difficult to clearly understand if the reported initiatives are GMF initiatives or whether they are instead environmental initiatives outside the MF portfolio of the institution. Indeed, the legal status and internal structure of the European institutions with MF activities is highly heterogeneous, and, for institutions for which microfinance is not the only activity, it is sometimes difficult to understand if the environmental initiatives are specific to their microfinancial services or if they are more broadly implemented in the institution or whether they are applied to non-MF sectors of the institution.

Conclusions for the web-research

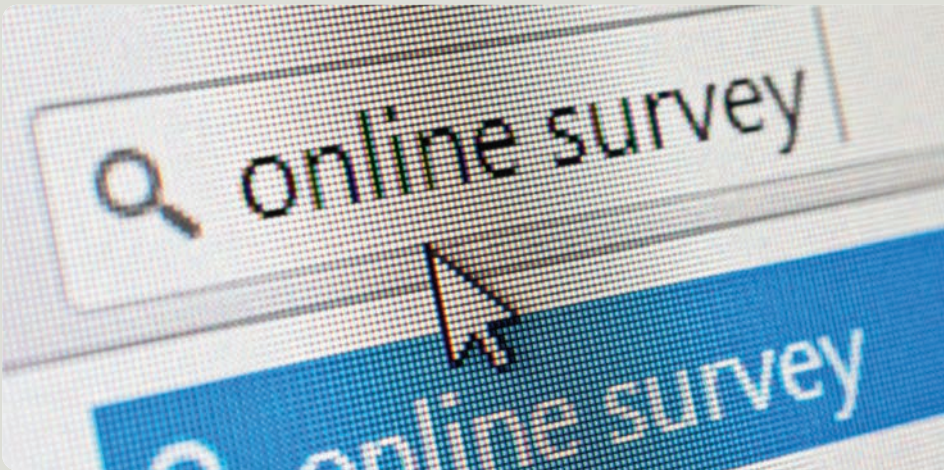
Taking into account the previously stated limitations, the conclusion of this web research is that institutions implementing MF initiatives in Europe seem to have some sensitivity towards the environment, or at least more institutions are environmentally concerned than what one would have expected before looking into the reported initiatives. 27,7% of the institutions providing microfinance services in Europe have some initiatives associated with environmental protection. The initiatives implemented are quite broad and with different levels of engagement. All five environmental dimensions are represented in the sample, with

ecological footprint reduction at the lowest level and non-financial environmental services at the highest level, while environmental policy, environmental risk assessment and green microcredits receive approximately the same level of attention. Institutions implementing environmentally friendly initiatives are widespread among the European countries, The legal status of such institutions is quite heterogeneous. The youngest institutions seem to lack environmental initiatives, while the mature institutions seem to have more initiatives on average.

« Institutions implementing MF initiatives in Europe seem to have some sensitivity towards the environment ... 27,7% of the institutions providing microfinance services in Europe have some initiatives associated with environmental protection. The initiatives implemented are quite broad and with different levels of engagement. »



European Green MF online survey



➔ To deepen our understanding of the status of green microfinance in Europe, we organized an online survey. The survey was structured to take an in-depth view on the issues raised by the web research and to look for actual activities the institutions are implementing, the degree of involvement of the institutions, their motivations, the observed constraints and the strategies developed to overcome them, and to collect suggestions for European stakeholders on how to foster or sustain the sector.

The survey is composed of three main parts: the first part concerns the environment for green MF: demand, interest by stakeholders, motivations, constraints, strategies, plans, perceived development and potential of the field; the second part concerns the actual environmentally friendly initiatives implemented by MFIs: development of initiatives according to the five environmental dimensions previously introduced, the details about environmental initiatives and a sub questionnaire meant to compute the MEPI (see Appendix A); the third part concerns the details of the MFIs: legal status, targets, financial data, etc.

The survey was submitted to 401 institutions among the 415 European institutions providing microfinance services analysed in the web research

for which we have a reliable e-mail address. The survey was written in English and was sent for the first time on June 23rd, 2013. We then sent four reminders: the first reminder after five weeks, the second one after another four weeks, the third one after another three weeks, and the last one after another two weeks. The survey was closed on September 27th, 2013. We received 75 responses. After a careful analysis of the responses, we were able to retain 59 questionnaires for the data analysis: that is the 14,2% of the full sample. The questionnaires we kept answer all questions regarding the main environmental indicators in all five dimensions which were completely answered and that also passed consistency checks among the various answers.

Limitations of the online survey

Potential limitations of the online survey should be considered.

It is reasonable to believe that the sample responding to the survey could be biased towards institutions with better environmental performance and reasonably more interested and motivated to respond to the questionnaire. However, 15% of the respondents did not report any environmentally friendly initiatives in any of the five dimensions and are not planning to implement any environmentally friendly initiative. Another potential bias of the survey is due to the self-reporting by the institutions; the institution could push the respondent to overestimate their environmental performance. Some examples of overestimation were indeed observed in the one-on-one interviews. However, this property was also observed in reverse: namely institutions that instead underestimated their environmental performance in the survey, mostly due to a more sectorial understanding of green microfinance, usually restricted to green microcredits. Attempting to overcome these limitations, we introduce various control questions for the main environmental indicators, and other additional questions in which we asked specific details about the environmental initiatives of the institution.

As in the case of the web research and the online survey, we should keep in mind that the European microfinance sector is highly heterogeneous, and for institutions in which microfinance is not the sole activity, it is sometimes difficult to understand whether the environmental initiatives reported are specific to their microfinancial sector, whether the initiatives are more broadly implemented in the institution or related to other, non-MF sectors of the institution. Various checks have been instituted to reduce the possibility of misunderstanding; however, this represents an important limitation.

Institutions operating in both European and developing countries could add another source of misunderstanding relating to where the green initiatives are actually implemented. However, this concern represents less than 7% of the institutions in our sample.

The dimension most effected by the limitations of the online survey concerns green microcredits, primarily for two reasons: an institution could state that it has specific green credits even if these credits are not distinguishable from its other credits or an institution could state that it has green credits even if these credits are not specific for the microfinance portfolio of the institution. We tried to minimize these possibilities, but these limitations still exist.

The problem of the sample representation for the full population of MFIs in Europe remains an important question that we are not going to explore in this paper. We will indeed interpret the results presented in this section as average values of the sample, useful to provide a first indication of European green microfinance, without pretending that the results presented can be extended to the full European microfinance sector.

The response rate to the questionnaire is quite weak. Various reasons could be presented for the weak response rate: the environmental topic is still low on the agenda of the MFIs, and it is certainly not the main issue for a European institution providing microfinance services. The fact that the survey was only in English could have prevented some institutions from answering. Further, in respect to various deadlines, we were forced to submit the questionnaire in a period that has overlap with summer holidays that could have reduced the response rate.

It could be interesting to compare the response rate for our survey with other two related surveys: a green microfinance survey in developing countries (Allet, 2012; Allet 2013; Allet and Hudon, 2013), and the another concerning the status of MF in Europe (Bendig et al., 2012).

The response rate for the survey in green microfinance in developing countries, (Allet, 2012; Allet 2013; Allet and Hudon, 2013), was 37,6% over 426 institutions, while in the last EMN Overview Survey on European microfinance (Bendig et al., 2012), the response rate was 40,4% over 376 institutions. The weaker response rate for the present survey was expected. Indeed, in (Allet, 2012; Allet 2013; Allet and Hudon, 2013), the total sample of 426 institutions is a subsample of microfinance institutions reporting to the MIX Market (more than 2.000 MFIs) that have the best transparency, frequency and accuracy in data reporting. Moreover, the sample of MFIs in the MIX Market is already under representative of the full MF sector. Instead, our survey sample of 415 MFIs in Europe is the set of all known MFIs in Europe (which could be estimated to be 500 to 700 MFIs excluding credit unions and commercial banks with loans below 25.000 EUR (Bendig et al., 2012)) and there were no prior sample selections toward institutions with better transparency or accuracy. For this reason, the response rate of 14,2% in the present survey should not be directly compared to the 37,6% in the green MF questionnaire in developing countries. Moreover, the questionnaire was translated in three languages. In addition, the sample of 376 institutions in (Bendig et al., 2012) is a subsample of the sample of 415 institutions used in the present study; however, as the topic of the survey was on general and common microfinance data and not on green microfinance, the institutions were stimulated many times to answer to the survey with telephone calls by local actors, and the questionnaire was translated in seven languages.

Yet, the answers provided by the 59 responding institutions have proven to be very valuable and have enabled a better understanding of the developments of green microfinance in Europe. In the rest of this section, we report the primary information contained in the responses to the survey.

In the analysis below, we report the number of institutions answering to the related question in the survey at the bottom of the table.

Main characteristics of the institutions answering to the survey

The characteristics of 59 institutions sample that answered the survey are reported in the tables below. We also report, for comparison, the information

about the MF sector in Europe, as found in the last EMN Overview Survey (Bendig et al., 2012) when a comparison is possible.

Geographical distribution

The sample has a distribution between Eastern and Western Europe comparable to the last EMN Overview Survey, with the majority of the respondents from the Western Europe.

	Eastern Europe	Western Europe
Present GMF survey	42,4%	57,6%
EMN Overview Survey 2012	36,4%	63,3%
Number of institutions: 59		

Legal status

The legal status of the respondents is distributed along the institutions as in the table below, with NBFi and NGO forming the majority of the respondents.

bank	NBFi	cooperative or credit union	NGO	charitable organization	government body	other
5,6%	35,2%	5,6%	27,8%	11,1%	5,6%	9,1%
Number of institutions: 54						

The majority of respondent institutions are regulated (i.e. subjected to the financial regulation or supervision in its own nation).

Regulated institutions	Non-regulated institutions
70,4%	29,6%
Number of institutions: 54	

The majority of the respondent institutions are non-profit institutions.

For-profit	Non-profit
40,7%	59,3%
Number of institutions: 54	

Unfortunately, the comparison with last EMN Overview Survey is not possible due to a different subdivision of status.

Financial data

The institutions responding to the present survey are, on average, larger than the ones responding to the last EMN Overview Survey: they have on average more clients, larger portfolios, and higher

average loan amounts. However, the comparison between the two surveys should be done carefully due to different years and different reporting samples.

	Average number of credits per MFI	Average volume of credit disbursed per MFI	Average credit amount
Present GMF survey	4.063 (in 2012)	35.169.235 EUR (in 2012)	11.516 EUR (in 2012)
Number institutions	39	38	38
EMN Overview 2012	1.890 (in 2011)	9.694.440 EUR (in 2011)	5.130 EUR (in 2011)
Number institutions	108	108	108

In the sample, 14 institutions reported to also disburse credits larger than 25,000 EUR. However, these institutions were already present among the respondents of the last EMN Overview Survey (Bendig et al., 2012). The existence of these types of institutions could be related to the complex institutional setup of some European MFIs, for which microfinance is not the only activity. Moreover, the percentage of institutions in the sample disbursing credits larger than 25.000 EUR is only the 26,9% of the sample and the number of

credits disbursed which are larger than 25,000 EUR is quite low: on average, 12% of the number of credits are larger than 25.000 EUR, corresponding to 216 credits per institution. Finally, the average amount of credits larger than 25.000 EUR was not too overwhelmingly large: 39.892 EUR. The average credit amount of the institutions in the sample, excluding those credits higher than 25.000 EUR, is quite low: 5.102 EUR in 2012, and comparable to the average credit amount of the institutions in the last EMN Overview.

Average amount of credit (excluding credits bigger than 25000 EUR)	% institutions disbursing also credits bigger than 25000 EUR	Average number of credit bigger than 25000 EUR per MFI	Average amount of credit bigger than 25000 EUR
5.102 EUR	26,9%	216	39.892 EUR
32 institutions	52 institutions	9 institutions	8 institutions

The demand

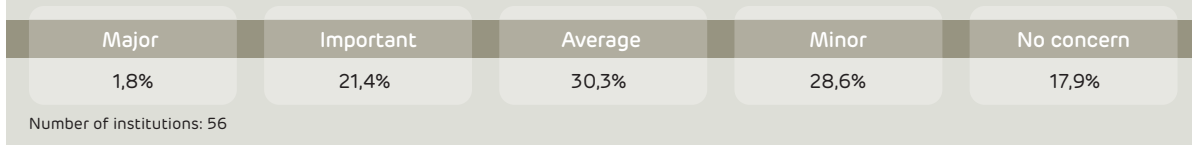
The survey analysis initially looks at the demand-side exploring the potential to develop environmentally friendly microfinance initiatives. In this section, we report answers in the survey along this dimension.

The institutions responding to the survey declared that the environment concerns are not, on average, important to their clients. However, they also judged that their clients could be potentially interested in developing environmentally friendly

activities once the right product is proposed. The majority of donors and investors did not express interest concerning the environmental performance of MFIs or of its clients.

The institutions in the survey declared that environmental degradation is seen as a concern or potential danger for clients or beneficiaries of the institutions at varying levels of importance as reported in the table below:

➔ Perceived level of danger of environmental degradation for clients or beneficiaries of the institutions (percentage of institutions)



The institutions believe their clients could possess a potential environmental interest. Indeed, 48 out of 57 institutions (84,2% of respondents) believe their clients would be interested in developing

environmentally friendly activities, while 9 of the 57 institutions (15,8% of respondents) believe that their clients would not be interested in developing such activities.

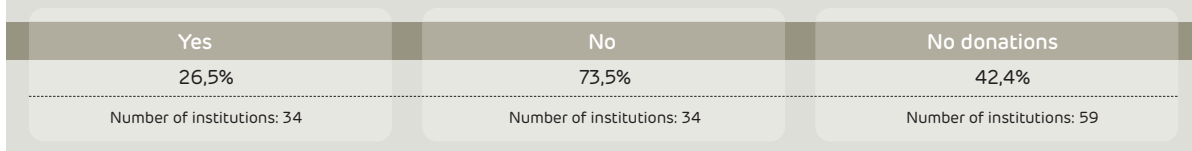
➔ Percentage of the institutions whose clients would be interested in developing environmentally friendly activities



In the survey sample, 25 institutions did not have donations, while the remaining 34 institutions receive some donations. Of the institutions with donations only 26,5% (9 institutions) state that their donors have already expressed interest in

knowing the environmental performance of the institution or of its clients or beneficiaries, while the remaining 73,5% (25 institutions) declared that their donors did not express this interest.

➔ Percentage of institutions whose donors have expressed their interest in environmental performance



On the other hand, 19 institutions (32,2% of the total) declared their investors have already expressed interest in knowing the environmental performance

of the institution or of their clients or beneficiaries, while 40 institutions (67,8% of the total) declared their investors didn't express interest.

➔ Percentage of the institutions whose investors have expressed their interest in environmental performance



The development and trends of the green MF in Europe

After this brief analysis of the demand side, we move to analyse, in quite some detail, the environmental performance of the institutions in the survey

according to the five dimensions of green micro-finance that we have previously defined.

Environmental policy

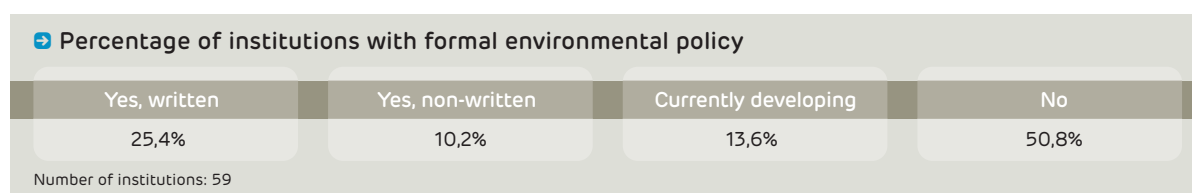
We start by analysing the environmental policies of the institutions in the survey. The majority of institutions do not have a clear environmental mission, and virtually no institution has developed environmental incentives for their employees. However, nearly half of the institutions have developed, or planning to develop, some sort of environmental policy, and one quarter of the institutions have appointed someone to manage environmental issues.

Eight institutions (13,6% of respondents) declared that environmental protection is mentioned in their official mission, vision or values, while 16 institutions (27,1% of respondents) are planning to introduce the environment into their mission during the upcoming year. The 35 remaining institutions (59,3%) do not report the environment in their official mission and do not have plans to do so in the future.



Fifteen institutions (25,4% of respondents) declare that they have a formal written internal policy for the environmental responsibility of the institution, 6 institutions (10,2% of respondents) declare that they have a non-written policy, and 8 institutions

(13,6% of respondents) are currently developing such an internal policy. The remaining 30 institutions (50,8%) do not have an environmental policy and do not have plans to introduce one in the short term.

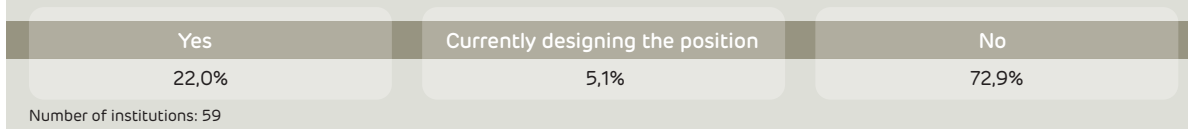


The environmental policy's year of introduction is, on average, 2009 (over 16 respondents). The oldest policy was instituted in 2002 and the most recent one in 2013; this seems to imply that environmental responsibility is recent trend in the sector.

Moreover, 13 institutions (22,0%) declared that they have appointed someone inside the institution to manage its environmental issues. The average number

of employees per institution appointed to this duty in 2012 is 3: on average, 2 persons per institution at the management level and 1 person per institution at the operational level. Among the remaining institutions, 3 (5,1% of respondents) declare that they are currently designing such a position, while 43 institutions (72,9%) don't have anyone in charge to manage environmental issues.

Percentage of the institutions that appointed employees to manage the environmental issues



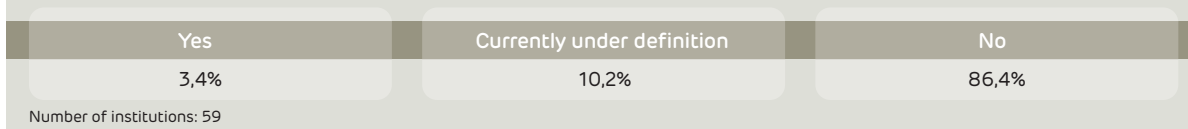
Average number of person per MFI appointed to this duty in 2012



Only 2 institutions (3,4% of respondents) provide incentives to their employees to take into account the achievement of specific environmental objectives (including both financial and/or non-financial incentives), while only 6 institutions (10,2% of

respondents) are currently defining an incentive system. The 51 remaining institutions (86,4% of respondents) do not have any system of environmental performance incentives and are not planning to introduce any in the near future.

Percentage of institutions with environmental incentives for its employees

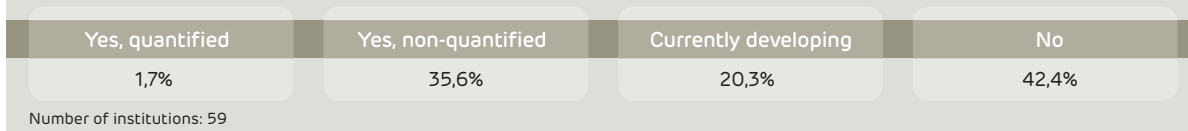


Ecological footprint reduction

We now take a look at the initiatives developed to reduce the ecological footprint of the institutions. The majority of the institutions declared that they have introduced or are planning to introduce specific objectives to reduce the ecological footprint of the institution; however, few of the institutions have quantified objectives. A number of institutions attempt to raise the environmental awareness of their employees. Almost no institution has conducted a carbon audit, and the presence of environmental indicators in the annual report are extremely rare.

Only one institution claims to have set up specific quantified environmental objectives to reduce its ecological footprint, while another 21 institutions (35,6% of respondents) have non-quantified objectives, and 12 institutions (20,3% of respondents) declare that they are currently developing such objectives. The remaining 25 institutions (42,4% of respondents) do not have any specific environmental objectives to reduce the ecological footprint of the institution and are not planning to develop any.

Percentage of institutions with specific environmental objectives to reduce their ecological footprint



The 22 institutions that have already established environmental objectives to reduce their ecological footprint plus 5 institutions, among the ones that declared that they are currently designing such objectives, provided a list of strategies that are elected to reduce their ecological footprint:

- reduction in paper consumption: 26 institutions, i.e. 96,3 % of respondents;

- reduction in water consumption: 9 institutions, i.e. 33,3%;
- reduction in energy consumption (electricity, gas, etc.): 21 institutions, i.e. 77,8%;
- reduction of CO2 emissions: 7 institutions, i.e. 25,9%;
- reduction of waste: 14 institutions, i.e. 51,8%;
- reduction in travel: 13 institutions, i.e. 48,5%;

It is interesting to notice that among the respondents, 3 institutions have already conducted a carbon audit (a formal evaluation of the carbon gas emission of the institution), while one is planning to do so in the coming year.

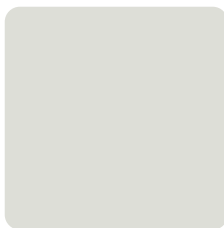
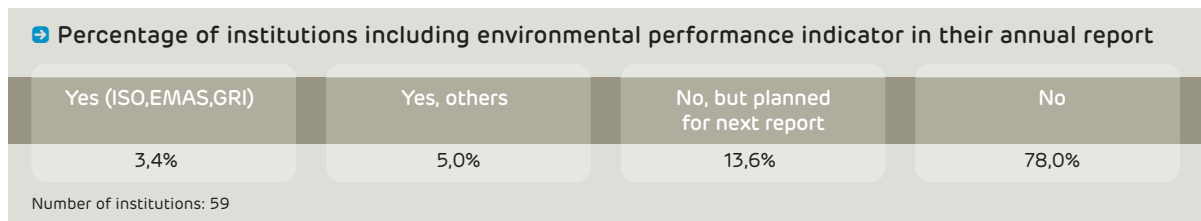
Fifteen institutions (25,4% of respondents) use toolkits (procedural manual, power point presentations, flyers, etc.) to raise employees' awareness of good practices on paper, water, energy consumption, transportation, waste management, etc., while 6

institutions (10,2% of respondents) are planning to introduce such toolkits in the coming year. In 2012, the institutions mainly distributed written documents, manuals, flyers, etc. or to a lesser extent, implemented lectures about environmental degradation and damages, waste production, energy efficiency, etc. However, the majority of respondents, 38 institutions (64,4%), do not use such toolkits and are not planning to do so in the next year.



The majority of the institutions (78,0%, i.e. 46 institutions) do not include environmental performance indicators in their annual reports, nor do they plan to do it in the filing period. Only 2 institutions among the respondents include ISO, EMAS, or GRI indicators in their annual report,

while 3 institutions use other environmental performance indicators. However, 8 institutions (13,6% of respondents) are planning to introduce environmental performance indicators in their next annual report.



« The majority of the institutions do not have a clear environmental mission, however nearly half of the institutions have developed, or are planning to develop, some sort of environmental policy. »

Environmental risk assessment

We would now like to discuss the initiatives implemented by the institutions responding to the survey in the dimension of environmental risk assessment. The majority of respondents are implementing or planning to implement environmental exclusion lists of varying kinds. However, the efficiency of exclusion lists is not clear and the subsequent procedures after evaluation are neither well defined nor strict. Almost half of the institutions in the survey evaluate some environmental risk of client activities during the credit approval process. However, the majority of environmental evaluations are informal or only implemented for some loan types. Only one quarter of the institutions train, or plan to train, their loan officers to evaluate the environmental risk of clients. The introduction of environmental indicators in the MIS remains an extremely rare practice.

The implementation of an exclusion list for environmentally dangerous activities (a list of activities that cannot be financed with loans provided by the institution because they are judged to be harmful to the environment) appears to be a

popular practice. Indeed, 40,7% of the respondents claim to use some kind of exclusion list: 5 institutions (8,5% of respondents) use the IFC (International Finance Corporation) exclusion list, 3 institutions (5,1% of respondents) use the IFC exclusion list with some adjustments, 7 institutions (11,9% of respondents) use an exclusion list to fulfil the national regulation requirement, and 9 institutions (15,3% of respondents) use an alternative exclusion list. Among the remaining institutions, 7 (11,9% of respondents) do not use an exclusion list but are planning to use one in the coming year. The remaining 47,5% of respondents (28 institutions) do not use an exclusion list and are not planning to implement one in the coming year. However, the actual number of loans refused appears to be quite low or is not available. The institutions claim low rejection levels because they do not even process the loan request for activities that could be dangerous to the environment according to the implemented exclusion list. Some institutions deem the activities of their clients automatically satisfy the exclusion list or that the procedure is not so strict.

Percentage of the institutions implementing exclusion lists

IFC list	IFC plus adjustments	National regulation	Another list	Plan for the next year	No exclusion list
8,5%	5,1%	11,9%	15,2%	11,9%	47,4%

Number of institutions: 59

40,7% of respondent institutions claim to assess the environmental risk of their clients' activities. Among them, 12 institutions (20,3% of respondents) use specific toolkits to evaluate the environmental risk of their clients' activities: 5 institutions (8,5% of respondents) assess the environmental risk for every loan, while 7 institutions (11,9% of respondents) declare that they assess the environmental risk only

for some categories of loans. 12 institutions (20,3% of respondents) conduct an informal environmental evaluation. Among the remaining institutions, 2 are currently developing such toolkits, while 33 institutions (55,9% of respondents) do not have specific environmental toolkits and do not plan to adopt them in the next year.

Percentage of the institutions using specific toolkits to evaluate the environmental risk of clients' activities

For every loan	Only for some loans	Informal evaluation	Currently developing	No environmental risk assessment
8,5%	11,9%	20,3%	3,4%	55,9%

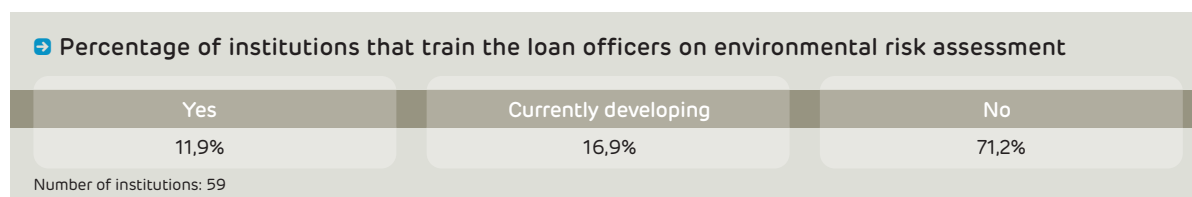
Number of institutions: 59

The respondent institutions state that the actions after the evaluation of the environmental risk are: nothing or refusal of the loan request for activities that are the most harmful to the environment; introduce contract clauses that require that the clients reduce ecological risks; raise client awareness;

provision of adapted financial products (such as credits for renewable energy, sustainable agriculture, etc.); reduce the interest rate for environmentally-friendly activities; stimulate the fulfilment of some environmental objectives; or reward environmentally friendly micro-enterprises.

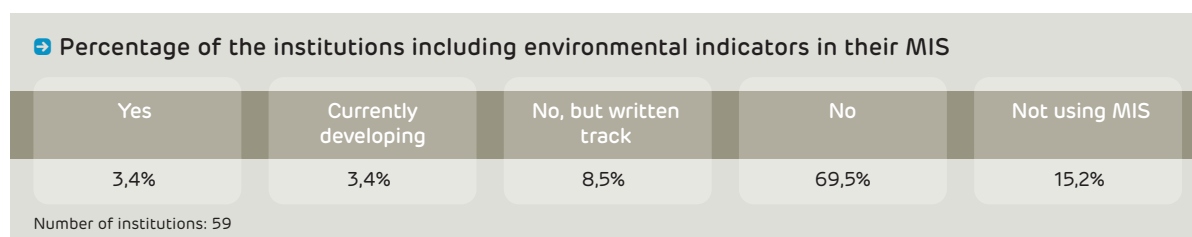
Institutions that train loan officers on how to evaluate the environmental risk of client activities and screen environmentally dangerous activities number only 7 (11,9% of respondents), while 10 institutions (16,9% of respondents) are currently developing such trainings.

However, the majority of respondents (71,2%, i.e. 42 institutions) declare no need to train loan officers on environmental risk assessment and they do not plan to do it in the near future.



The inclusion of indicators in the MIS (Management Information System), which can help track the environmental performance of clients, ranks very low on European MFIs' agendas. Indeed, 41 institutions (69,5% of respondents) do not track the environmental performance of their clients, and 9 institutions (15,3% of respondents) do not even use

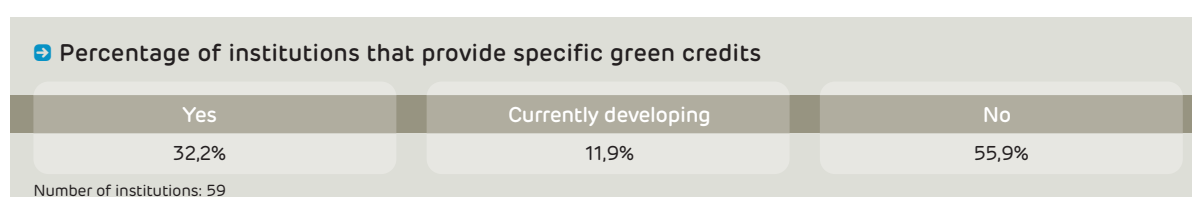
computerized MIS. Among the remaining institutions, 5 (8,5% of respondents) keep written records of their clients' environmental performance, 2 institutions are currently integrating environmental indicators in their MIS, while only 2 have implemented indicators into their MIS.



• Green microcredits

We now turn to discuss in some detail the development of green microcredit provision in Europe. One third of the respondents disburse green microcredits, while another 10% declare they are presently developing such credits. The type of green microcredit is quite diversified and includes two primary types of products: credits for renewable energies or energy efficiency, and to a lesser extent, credits for environmentally friendly activities such as recycling, waste management, organic farming and ecotourism. Some of these green microcredits are oriented toward the support or development of environmentally friendly micro-enterprises.

Nineteen institutions among the 59 respondents, i.e. the 32,2%, declared to be disbursing specific green credits to support investments or activities such as: renewable energies, energy efficiency, waste management, recycling, agroforestry, organic production, ecotourism, etc., while 7 institutions (11,9% of respondents) are currently developing green microcredit products. However, the majority (55,9% of respondents, i.e. 33 institutions) do not have green credits and are not planning to develop them in the near future.



On average, (among 11 of the institutions that provide green credits) the provision of green microcredits started in 2005.

A few institutions among the 19 that declared to have a specific green microcredits provided us with more

detailed information. On average, they provided 192,3 green credits per institution in 2012. The average volume of green loans per MFI was of 599.756 EUR in 2012, while the average green credit in 2012 was 6.821 EUR.

Average number of green credits per institution	Average amount in green credit per institution	Average amount per green loan
192,3	599.756 EUR	6.821 EUR
Number of institutions: 8	Number of institutions: 6	Number of institutions: 6

Some institutions declare not to separately track green credits, leading us to wonder if some of the credits declared to be green were specific to the environment or were instead part of credits with a broader objective.

Among the green credits reported, 26 were higher of 25.000 EUR; however, 22 of these credits were disbursed by a single institution.

The activities financed with green credits disbursed by MFIs in 2012 or that the MFIs are planning to finance with green credits are:

- ➔ photovoltaic solar panels for electricity production: 10 institutions;
- ➔ solar water-heaters: 11 institutions;
- ➔ biogas digesters: 3 institutions;
- ➔ electric vehicles (bicycles, motorbikes, etc.): 2 institutions;
- ➔ geothermal heating systems: 4 institutions;
- ➔ energy efficient technology (efficient oven, fridges, lamps, air conditioning/heating systems, etc.): 9 institutions;
- ➔ internal or external house thermal insulation, efficient windows, efficient doors, etc.: 12 institutions;
- ➔ switch from old, polluting equipment to new, energy efficient equipment: 7 institutions;
- ➔ recycling activities: 8 institutions;
- ➔ waste management: 6 institutions;
- ➔ silvopasture: 1 institution;
- ➔ biodiversity preservation: 2 institutions;
- ➔ organic farming: 7 institutions;
- ➔ ecotourism: 9 institutions;
- ➔ reforestation or forest management: 2 institutions.

The strategies respondent institutions declared to use, or are planning to use, in promotion of green credits are the following:

- ➔ reduced interest rate compared to "standard" credits: 7 institutions;
- ➔ reduced fees compared to "standard" credits: 1 institution;
- ➔ technical assistance: 7 institutions;
- ➔ assistance to access adequate technologies: 3 institutions;
- ➔ assistance to access to the market for environmentally friendly productions: 5 institutions;

However, 10 institutions declared that these green loans do not have unique characteristics compared to other "standard" loans.

Green credits could be designed to support consumption needs or the development of green jobs, for example, through the support of environmentally friendly micro-enterprises. In the survey, 17 institutions provided data related to the number of environmentally micro-enterprises supported by the activities of the MFI. The institutions declared that, in 2012, they supported a total 605 environmentally friendly micro-enterprises in various activities: organic productions, production of energy efficient devices or renewable energies devices, recycling, etc. Among these micro-enterprises, 331 were new, environmentally friendly micro-enterprises to whom the institutions provided start-up capital in 2012, while 274 were declared to be existing environmentally friendly micro-enterprises to whom the MFIs provided working capital in 2012. The average number of new, environmentally friendly institutions supported per MFI was 19,5 in 2012 while the average number of existing environmentally micro-enterprises supported per MFI was 18,2 in 2012. Other institutions claim to not separately keep track of environmentally friendly micro-enterprises supported from the total number of micro-enterprises supported by the MFI.

➔ Average number of environmentally friendly micro-enterprises supported in 2012 per MFI

New	Already existing
19,5	18,3
Number of institutions: 17	Number of institutions: 15

• Environmental non-financial services

MFIs can also support the implementation of environmentally friendly practices with the provision of non-financial services such as awareness campaigns, provision of trainings or technical assistance, etc. Around 40% of the respondents declare to provide, or plan to provide, training or technical assistance for the development of environmentally friendly activities thanks to internal expertise or in partnership with specialized institutions. Environmental awareness campaigns have been implemented, or plan to be implemented, by almost one third of the institutions. The use of environmental charters to be signed by clients or institutional actions that promote environmentally

friendly micro-enterprises are instead very rare practices.

The use of an environmental charter (document that commits a client to adopt environmentally friendly activities) to be signed by the clients is a seldom-adopted strategy by institutions with MF services in Europe responding to our survey. Indeed, 88,1% of respondents, i.e. 52 institutions do not have such a charter and are not planning to develop a charter in the near future, 8,5% of the sample (5 institutions) adopted this charter, and only another 2 institutions are currently developing such a charter.

➔ Percentage of institutions using an environmental chart

Yes	Currently developing	No
8,5%	3,4%	88,1%
Number of institutions: 59		

Eleven institutions (18,6% of respondents) have already implemented an environmental awareness programme for their clients or beneficiaries, while another 7 institutions (11,9% of respondents) are

currently developing such a programme. However, the majority of respondents (69,5%, i.e. 41 institutions) have never implemented a programme and are not planning to in the near future.

➔ Percentage of institutions with environmental awareness-raising programmes

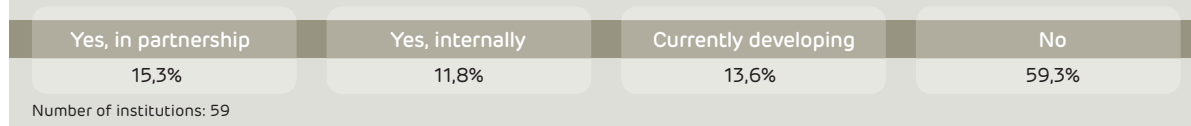
Yes	Currently developing	No
18,6%	11,9%	69,5%
Number of institutions: 59		

Some of the institutions implementing environmental awareness campaigns provided some more details about the actual activities:

- ➔ diffusion of environmental information through flyers, posters, stickers or media: 6 institutions;
- ➔ discussion during home or field visits: 5 institutions;
- ➔ discussion during group meetings: 1 institution; and,
- ➔ training modulus: 1 institution;

Sixteen institutions, i.e. 27,1% of respondents, provide non-financial support (training, technical assistance, etc.) to clients or beneficiaries that want to implement environmentally friendly activities: among these institutions, 9 provide support thanks to a partnership with other specialized organizations, while 7 provide these services thanks to the expertise of the institution's employees. Another 8 institutions, i.e. 13,6%, are currently developing such services. However, 59,3% of respondents, i.e. 35 institutions, do not provide any support for environmentally friendly activities and are not planning to develop such actions in the future.

Percentage of institutions with training or technical assistance for environmentally friendly activities



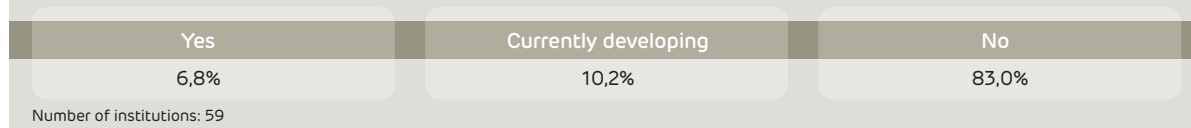
The non-financial support provided by institutions in the survey are mainly related to the following sectors:

- services for the installation or distribution of renewable energy and energy efficient equipment: 10 institutions;
- sustainable agriculture: 6 institutions;
- waste management: 4 institutions;
- ecotourism: 4 institutions;

- organic production: 4 institutions; and,
- recycling: 3 institutions

The organization of actions promoting environmentally friendly micro-enterprises, such as contests, fairs, etc., is a rare practice, with 83% of the respondents, i.e. 49 institutions, which have never organized such actions. Only 4 institutions, i.e. 6,8%, have implemented such activities, while another 6 institutions are currently developing such actions.

Percentage of institutions with actions promoting environmentally micro-enterprises



Some respondents provided more detailed information about their activities: publications regarding environmental topics, assistance for market access to clients that provide environmentally friendly products or

technologies; support or creation of links between providers of environmentally friendly technologies and products to the institutions' clients.



One third of the respondents disburse green microcredits, while another 10% declare they are presently developing such credits. Around 40% of the respondents declare to provide, or plan to provide, training or technical assistance for the development of environmentally friendly activities.



The MEPI for European MFIs

Till this point, we have provided a descriptive view of answers provided by the institutions responding to our online survey. We would now like to highlight a more quantitative understanding of the field, and ideally compare the results with other studies related to GMF. Fortunately, in (Allet, 2012), a new tool was developed to measure the environmental performance of microfinance institutions: namely the Microfinance Environmental Performance Index (MEPI), which was applied in a survey conducted with 160 MFIs in 2011 (Allet, 2012; Allet 2013; Allet and Hudon, 2013); the study focused on developing countries (only 18% of respondents were from Eastern Europe and Central Asia (EECA)).

It is reasonable to believe that summarizing the environmental performance of an institution with a single number, or a set of numbers, could be quite restrictive and a certain amount of randomness is introduced once we assign a score to environmental practices. However, in this section, we take advantage of the existence of such an index to obtain a synthetic understanding of the level of development of environmentally friendly MF activities in Europe, as presented in the previous sections, and compare the results with those found throughout the world. In this section, we compute the average MEPI for the 59 institutions responding to the survey and compare the results to those presented in (Allet, 2012; Allet and Hudon, 2013).

The MEPI evaluates the environmental performance of an MFI, not by looking directly at its environmental outcomes, but instead by assessing the actions and practices employed by the MFI to reach their environmental objectives. The assumption is that processes count to realize actual outcomes. The MEPI measures MFIs' environmental performance along the five dimensions we have previously presented: environmental policy, ecological footprint reduction, environmental risk assessment, green microcredit, environmental non-financial services. The MEPI assigns a numerical value to every one of these dimensions according to the table presented in Appendix A. Each dimension is given a numerical value between 0 and 4, and the global MEPI is computed summing up the score for each dimension. The global MEPI scale is from 0 to 20.

Part of the survey I've implemented was explicitly designed to evaluate the MEPI of the European institutions and therefore comparable to the analysis done in (Allet, 2012; Allet and Hudon, 2013). Institutions are not expected to maximize their MEPI along all dimensions; instead, the MEPI should be thought as a tool to understand the overall level of environmental engagement of an institution. The MEPI can then be used by the institution to prioritize strategies which improve its environmental performance across the five dimensions according to its legal status, mission, objectives, products, etc.

In this section we use the MEPI to provide a summary of the development of green MF in Europe along the environmental dimensions and use it to compare the level of development of green microfinance in Europe with the rest of the world. In particular, we compare the results to those reported in (Allet, 2012; Allet and Hudon, 2013) which is very useful in understanding the level of development of the field, as without any comparison, the evaluation would be quite arbitrary.

The average value of the global MEPI for the 59 European MFIs that responded to the survey is 4,14 out of 20, exactly the same value as the average global MEPI for the 160 MFIs in developing countries as reported in (Allet and Hudon, 2013). This is quite a surprising result and could suggest that on average the overall, environmental performance of European MFIs and MFIs in developing countries are quite similar. Of course, the political, social and economic situation in Europe compared to developing countries is very different; similarly, the level of development of MF in Europe and developing countries is also quite different, as are the environmental issues, possible strategies and response practices. Hence, a comparison of the two sectors should be done very carefully. However, the same score for the global MEPI do not allow us to conclude that the two sectors are performing differently at the environmental level, while instead, the results induce us to argue that the overall environmental engagement is quite similar.

• Green microfinance: Europe and developing countries, a comparison

Comparing the MEPI score for European MFIs and the scores computed for the rest of the world is important at least for two reasons: the comparison provides an idea about the level of development of green MF in Europe, that without a comparison sample would be quite difficult to assess; and, it allows some discussion of the difference between the two sectors.

To improve our understanding, we take a closer look at the values of the global MEPI for the various institutions and compare them to the results found in (Allet and Hudon, 2013). The average score for the global MEPI is 4,14 in the European MF sector with a standard error of 3,95 compared to an average of 4,14 and a standard error of 3,89 for the global MEPI in developing countries. The maximum

score of the MEPI in Europe is 15, compared to 18 in developing countries, while the minimum value is 0 for both regions. Only 14% of the respondents in the European sample have a total MEPI higher than 10, compared to 9% for the sample in developing countries. The percentage of the institutions that have a score of 0 is 15% both in Europe and in

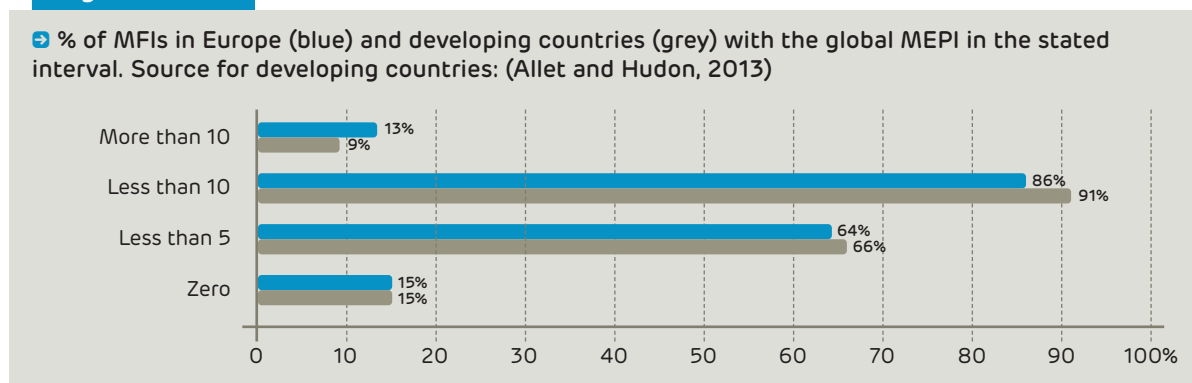
developing countries. The institutions scoring less than 10 and less than 5 are 86% and 64% respectively for the sample in Europe, while they are 91% and 66% in the sample for the developing countries. These data are summarized in the table and in the graphic below.

➔ Score for the global MEPI for European institutions and comparison with MFI in developing countries

	Average error	Standard	Max	Min	More than 10	Less than 10	Less than 5	Zero
Europe	4,14	3,95	15	0	13%	86%	64%	15%
Number institutions: 59								
Developing Countries	4,14	3,89	18	0	9%	91%	66%	15%
Number institutions: 160								
Source: (Allet and Hudon, 2013)								

The graphic reports the percentage of MFIs (European MFIs are in blue and developing countries are in grey) according to their score for the global MEPI.

Figure 6



This analysis confirms a comparable environmental performance for the two samples. To further improve our understanding of the development of the field it could be useful to evaluate the MEPI for every one of the five dimensions. The MEPI score has a maximum value of 4 in each dimension, and a minimum value of 0. In Europe, the MFIs on average scored: 0,73 in environmental policy compared to 1,02 in developing countries; 0,88 in ecological

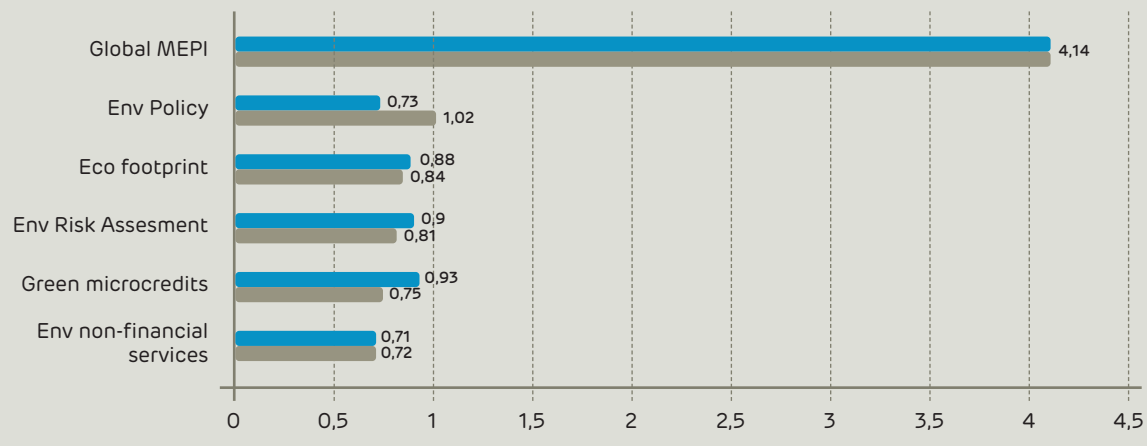
footprint reduction compared to 0,84 for developing countries; 0,9 in environmental risk assessment compared to 0,81 in developing countries; 0,93 in green microcredits compared to 0,75 of developing countries; and, 0,71 in environmental non-financial services compared to 0,72 in developing countries. These data are summarized in the table below (the sum of the MEPI per dimension is different than the global MEPI due to rounding).

	Global MEPI	Env policy	Eco footprint	Env risk	Green microcredits	Env Non-financial services
Europe	4,14	0,73	0,88	0,9	0,93	0,71
Number institutions: 59						
Developing countries	4,14	1,02	0,84	0,81	0,75	0,72
Number institutions: 160						
Source: (Allet and Hudon, 2013)						

In the graphic below we report the average value of the global MEPI and the MEPI for every one of the five environmental dimension previously defined, for MFIs operating in Europe (in blue) and we compare these scores with the ones of MFIs operating in developing countries (in grey).

Figure 7

➔ Average MEPI for the various environmental dimensions: blue for European MFIs, grey for MFIs in developing countries. Source for developing countries: (Allet and Hudon, 2013)



European and developing countries MFIs score quite similarly in the provision of environmental non-financial services, ecological footprint reduction, and environmental risk assessment. However, quite surprisingly, European MFIs score worse in environmental policy compared to MFIs in developing

countries, while they instead score higher in green microcredit provision. The average overall difference between the two regions is quite small. However, the comparison is done only at the level of average values and the statistical significance of these differences remains to be tested.

❖ Level of environmental performance and institutions' characteristics

In this section, we take a closer look at the average level of environmental performance according to various characteristics of European institutions. To this task, we computed the average score for the global MEPI for various groups of institutions responding to the survey, for example, according to their geographical location, their legal status, their dimension, etc. The tables do not pretend to be representative of the entire population of European MFIs, but provide a general idea of the average level of environmental performance for the different groups in the survey sample.

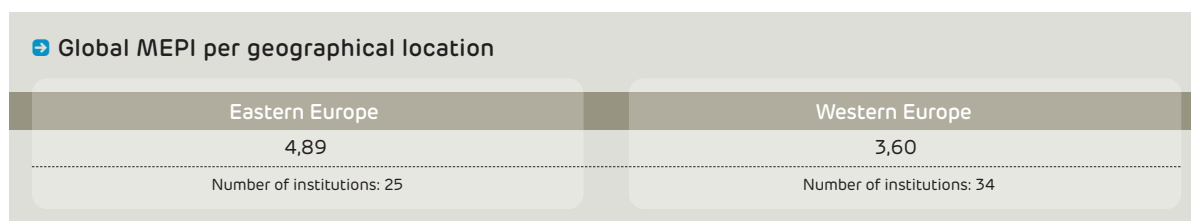
Moreover, the statistical significance for differences in the score of the global MEPI for the various groups should be tested. However, in this section we omit this analysis and satisfy ourselves with the comparison of the average values.

The tables report the average global MEPI and the number of institutions per category considered. When the total average score for the global MEPI does not sum to 4,14, this is because only a subsample of institutions in the survey provided the necessary information for the given category.

« The environmental performance of European microfinance institutions observed in the sample seems to be comparable, on average, with the global environmental performance of microfinance institutions operating in developing countries. »

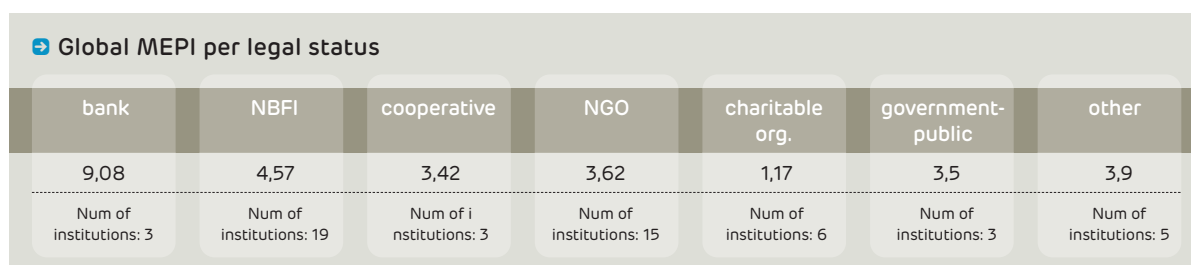
Geographical location

The institutions of Eastern Europe have higher scores as compared to Western Europe on average in our sample.

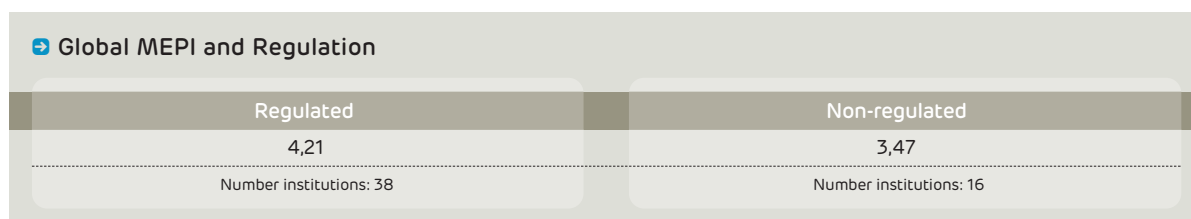


Legal status

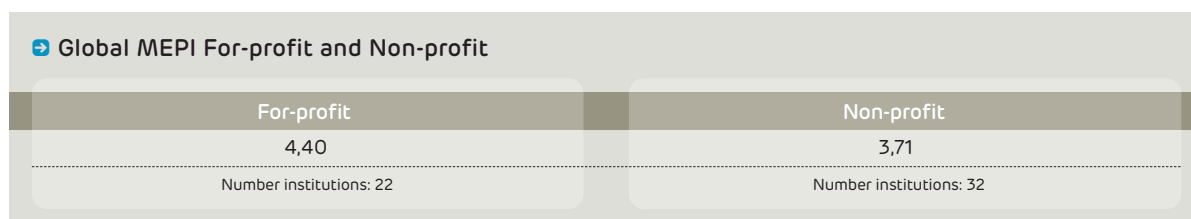
Legal status appears to affect performance: banks and NBFIs, on average, have a higher score compared to other categories, similar to the results of (Allet and Hudon, 2013) for MFIs operating in developing countries.



Regulated institutions (subject to the financial regulation or supervision in its own nation), on average, score better than non-regulated institutions.



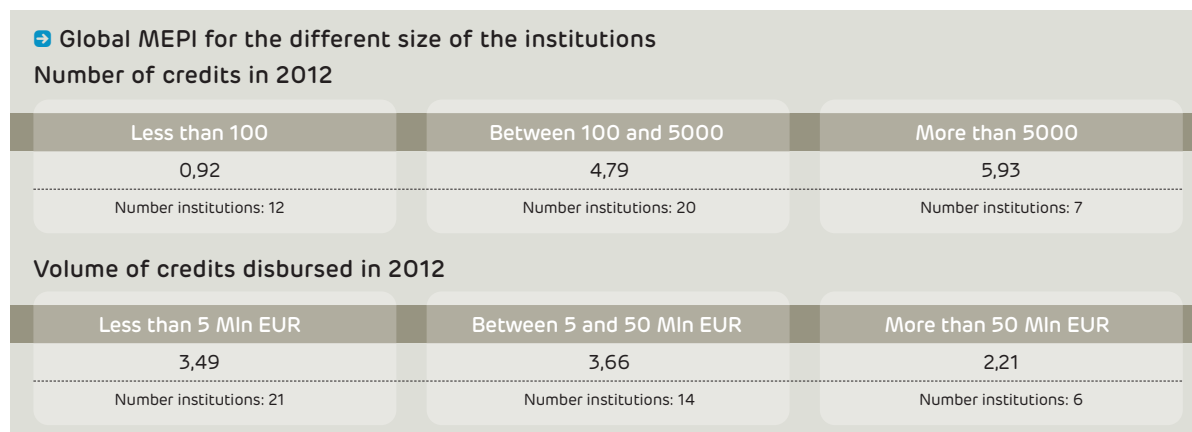
For-profit institutions, on average, score better than non-profit institutions.



« The institutions that seem to have a better environmental performance are on average: NBFIs and banks compared to other legal status, institutions from the Eastern Europe, older institutions, institutions with more clients, or institutions with smaller average credit size. »

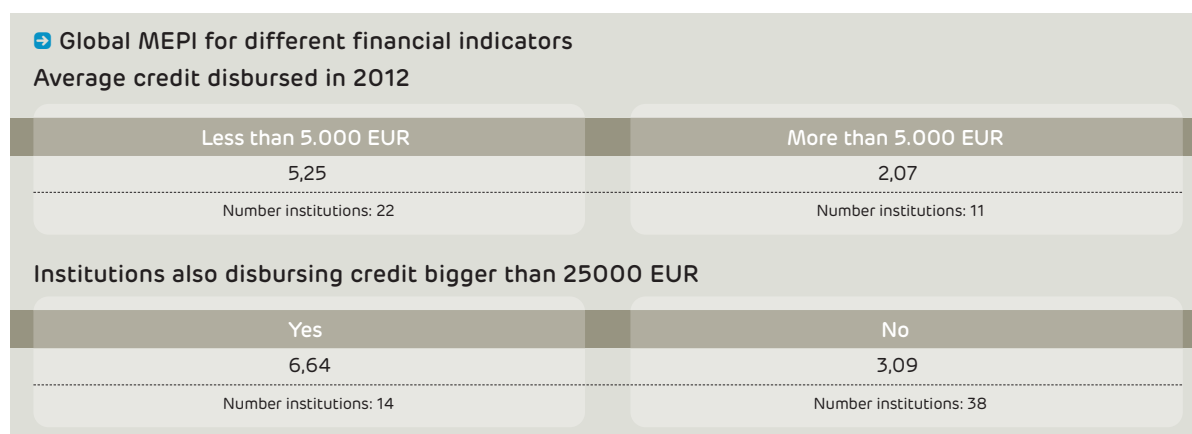
Size

Institutions with a higher number of credits in 2012 have, on average, better environmental performance compared to institutions with lower number of credits in the sample. The institutions that have a median volume of credits in 2012 seem to perform better than institutions with low or high volumes of credits, and institutions with low volumes of credits have better environmental performances, on average, compared to the institutions with large volumes of credits.



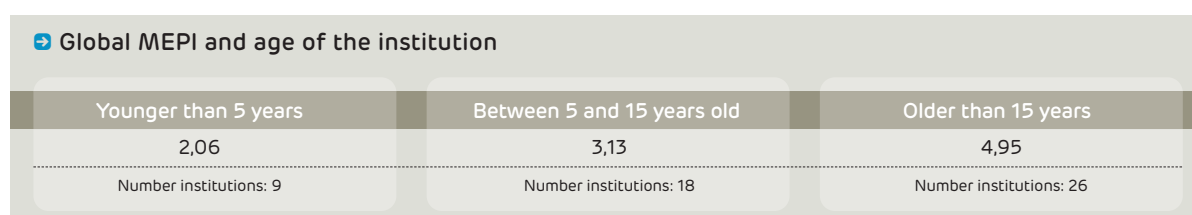
Financial structure

Institutions with average credit sizes lower than 5.000 EUR in 2012 seem to have a better environmental performance on average than institutions with an average credit larger than 5.000 EUR. Institutions that also disbursed credits larger than 25.000 EUR seem to have better environmental performances compared to institutions that instead disburse only credits smaller than 25.000 EUR.



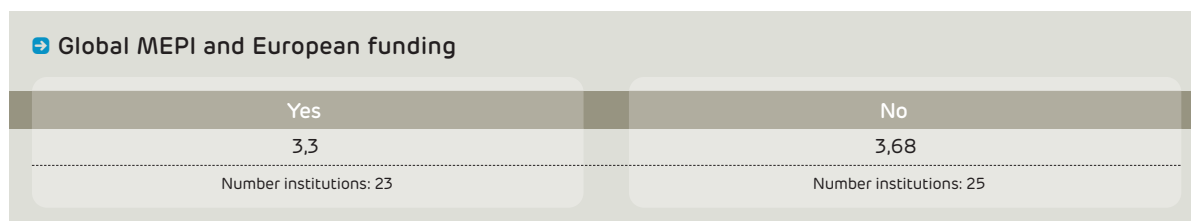
Age

Older institutions have, on average, a better environmental performance compared to younger institutions, similar to what is found in (Allet and Hudon, 2013) for MFIs operating in developing countries.

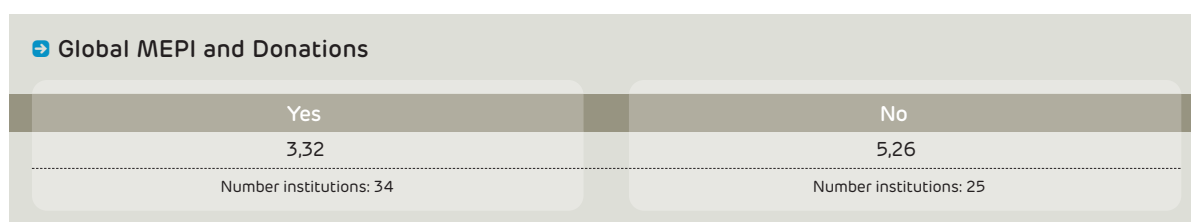


Funding

Institutions that receive funds from European Institutions such as loans, soft loans, grants or subsidies, guarantees, etc. have on average a lower environmental performance compared to institutions that instead do not receive any European funding.

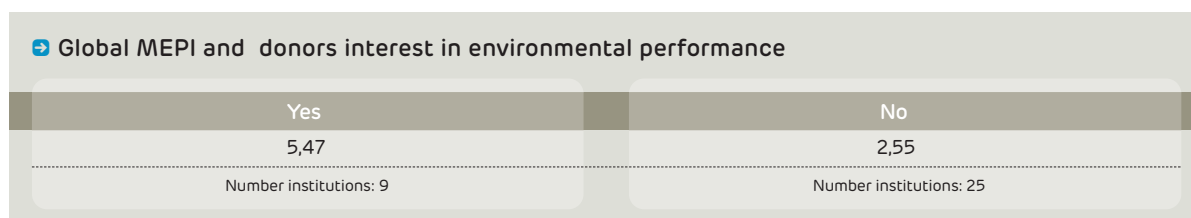


Institutions without donations on average seem to perform better than institutions with donations.

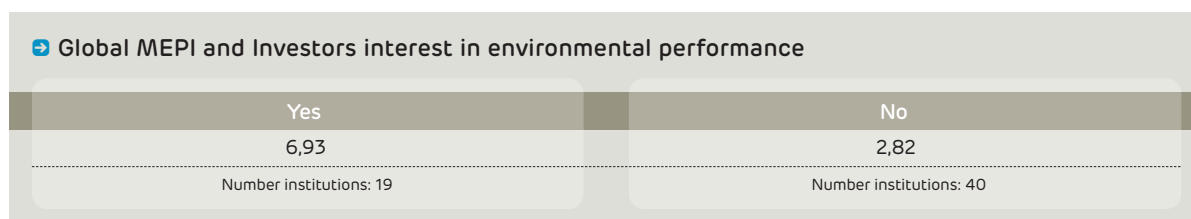


Stakeholders' environmental interest

Institutions with donations, whose donors (institutions or individuals that provide donations to the MFI) have already expressed their interest to know the environmental performance of the institution or of its clients on average score better than the institutions whose donors have not expressed interest in the environmental performance of the MFI.



Institutions whose investors (providing funding to MFIs through loans or equity) have indicated their interest in the environmental performance of the MFI or of its clients have a better environmental performance than institutions whose investors did not express this interest.



This section implies that the role of stakeholders is important to foster the overall environmental performance of MFIs. This result should be compared to what was found in (Allet, 2013), where stakeholders' pressure was not the main driver of ecological responsiveness in MF. However, to truly compare the two results, we should disaggregate our analysis into the five dimensions. We decided to omit the comparison here and instead leave it as a point for further study. However, in the following subsection, we will provide some additional brief reflections on this point.

❖ A quantitative look

It is natural to inquire about the characteristics of MFIs involved in environmental management in Europe and how various characteristics could influence the overall environmental performance of the institution. In the previous section, we have provided a preliminary answer to this question for institutions within the sample that responded to the survey by comparing the average global MEPI for different groups of institutions. In this section, we give a preliminary quantitative look to this issue: namely checking whether a particular characteristic we have seen for our sample could be representative for the full population of MFIs in Europe. With this objective, we have divided the sample answering to the survey into two groups: one group of 35 institutions (Group 1), for which we have quite detailed financial data, and a second group of 53 institutions (Group 2), for which we have less detailed financial data.

For Group 1 and Group 2, we have run a simple, multivariate ordinary least square regression with the score of the for the global MEPI as dependent variable and various other characteristics of the institutions as independent variables: date of foundation, location, regulations, profit or non-profit status, number of credits and volume of credits in 2012, disbursement of credits bigger than 25.000 EUR in 2012, European funding, presence of donations, donors' and investors' interest in environmental performance of the institutions, perception of environmental degradation as a risk for the clients' institution, legal status, financial performance (Return On Assets: ROA). Unfortunately, the number of respondents to the questionnaire and the overlap of respondents that provided enough information is not enough to perform a careful analysis; however, some preliminary conclusions could be obtained. We do not report the numerical results from the computation of the econometric regression here, but we broadly discuss the main findings. The rationale behind the choice of regressor variables was that the values of the previously stated characteristics could somehow influence the environmental performance of the institution, as, for example, argued in (Allet and Hudon, 2013). For example, larger and older institutions could have a

better environmental performance than younger and smaller institutions due to the resources and the time needed to set up environmental initiatives; the legal status of the institution could be related to the regulation constraints or the social mission with environmental performance consequences; and interest by donors and investors could foster the environmental initiatives of the institutions, etc.

We also decided to run a simple regression for Group 2, for which we do not have full data. Consequently, we did not introduce the financial data regarding the number of credits and the credit volume, ROA, or the data regarding the presence of European funding or the perceived environmental risk. The result of the regression shows that the only significant variable is the investor interest in the environmental performance of the institution or of its clients and beneficiaries. This result is quite interesting and supports the results found in the previous section: institutions that have investors interested in environmental performance score on average 6,93 on the global MEPI, while institutions that do not have investors interested in the environmental performance score only 2,82, with an average score of 4,14 for the global MEPI for the full sample of 59 institutions. The regression for the Group 2 shows that the coefficient for the investor interest is positive and equal to 3,6113 with a significance value of 0,3%. This seems to argue that, independent of the other institutional characteristics, investor interest enhances an institution's environmental performance. This could indicate potential strategies to foster the environmental performance of microfinance institutions in Europe. This result should be compared to what was found about legitimacy as a driver for environmentally friendly practices in (Allet, 2013) and what was found in (Allet and Hudon, 2013) about the main characteristics influencing the environmental performance of microfinance institutions in developing countries. However, a sound analysis would require more data that, unfortunately, we don't have at present. For this reason, this result should be considered only as very preliminary and a more detailed study is required.



Independent of the characteristics of the institutions, investors' interest in environmental issues seems to be the variable that fosters institutions to implement environmentally friendly initiatives.



A more complete regression within Group 1 provides some (weak) support to this conclusion. Unfortunately, not all the institutions in the Group 1 provided data on their ROA, however, according to (Allet and Hudon, 2013), financial performance does not seem to influence the environmental performance of the institutions and a regression on a subsample of the institutions in Group 1 shows that the ROA is not a significant variable. Hence, we ran a simple regression for Group 1 for all stated independent variables except ROA.

This regression shows that older institutions, institutions with a higher number of credits and smaller volume of credits, also disbursing credits bigger than 25.000 EUR, seem to have better environmental performance and are all significant at the 5% confidence level. However, their coefficients are very weak and consequently, hardly influence the overall score for the global MEPI, except for the variable concerning the provision of credits bigger than 25.000 EUR that was significant at 9% in the Group 2 regression. For this reason, we do not include the additional regressors of Group 1 in the regression of Group 2, but this should not introduce much bias.

The initial conclusion of this section supports some evidence that, independent of the other characteristics of the institutions, investor interest fosters institutions to implement environmentally friendly

initiatives. This result should be compared with what was obtained in (Allet and Hudon, 2013) concerning MFIs in developing countries. In that study, older MFIs and banks have a better global environmental performance. This result agrees with what is found for European MF at the qualitative level as presented in the previous section. However, the results do not find quantitative support in the present regression, probably due to the small sample size. In (Allet and Hudon, 2013), the results also show that other institutions' characteristics do not seem to have a significant influence on the global environmental performance of the MFI, while they could have some influence on a particular environmental dimension. However, investors' interest was not evaluated in (Allet and Hudon, 2013). In (Allet, 2013), the majority of the 160 MFIs in developing countries responding to the survey believe that developing green microfinance programmes is a response to stakeholders' expectations: in particular, 77% state that stakeholder pressure enables them to develop green initiatives. In (Allet, 2013), the results also underline that response to stakeholder pressure is not the main driving force for the environmental engagement of MFIs, and MFIs that engage in environmental management for this reason do so in a minimal way. In summary, further study is needed. It would be interesting to investigate in more details these issues in the European MF sector to understand the role of investors in the environmental engagement of European MFIs.

❖ Partial conclusion for the online survey and comparison with the web research

At this point, we make a brief summary of our understanding about the development of green MF in Europe from the survey analysis and contextualize it with the previous findings from the web research.

The online survey improves the understanding of the development of green MF in Europe. The main conclusion indicates that green microfinance in Europe is a young and underdeveloped field but with good potential. Indeed, even if many of the MFIs do not implement various environmental initiatives in the five dimensions, we find that only 15% of the respondents do not have any, or are not planning to develop any environmentally friendly initiatives in one of the five environmental dimensions. As the survey shows, interesting initiatives are already being implemented by European MFIs and a number of others are planning to be implemented in the near future. Moreover, the environmental analysis should be contextualized by two main facts: environmental performance is not, and probably should not be, the main objective of MF and European MF is a young and underdeveloped sector. Considering this observation, the fact that the environmental performance of European MFIs is comparable to institutions in developing countries is quite an interesting surprise.

Comparing the results of the survey with the findings from the web research of the previous section, we find the two analyses support each other at the global level. In particular, we see an overlap concerning the legal status and the average age of the institutions positively correlated with green microfinance. Conversely, we found that the level of institutional engagement in the five environmental dimensions to be different across the two analyses. In particular, the apparent importance of environmental non-financial services underlined in the web research does not seem to find confirmation in the survey analysis. The environmental policy dimension is lower in the survey compared to what one would have expected from the web research. Ecological footprint reduction seems to score better in the survey compared to what one would have expected from the web research. Green microcredits and the level for environmental risk assessment are roughly comparable across the two approaches.

However, we should be careful to compare the two analyses, because, even if they roughly share the same theoretical framework, they differ in methodology. Therefore, the results should not be directly compared but used to contextualize what found in both analyses.

3

Why and how European institutions decide to go green green jobs, potentialities and suggestions for stakeholders



➔ In this section, we address the motivations of why institutions with microfinance activities in Europe decide to develop environmentally friendly initiatives, and we identify the constraints these institutions face and the strategies to overcome such constraints. Moreover, we partially address the specific topic of green jobs and green microfinance, collect the opinions of European microfinance practitioners about the potential of the green microfinance sector and record their suggestions to European stakeholders to foster the field. This section is not meant to provide a theoretical discussion or a literature review, but is instead an outlet where practitioners of European microfinance can provide their opinions and share their experiences as reported in the online survey and one-on-one interviews. The presentation of this data is assessed at the qualitative level.

Motivations

The major drivers for European MFIs to engage in environmentally friendly initiatives are, in order of importance: social responsibility, competitiveness (strategic and economic benefits), and legitimacy (stakeholder pressure). Some respondents to the survey (26 institutions) provided the following reasons of the decision to implement environmentally friendly initiatives:

➔ concern about the negative effects of environmental degradation on clients wellbeing

and economic activities (health conditions at work or at home, damage of incoming generating activities of the clients, etc.): 20 institutions, i.e. 76,9% of respondents;

➔ concern about the pollution, waste, or environmental degradation produced by the clients' activities: 19 institutions, i.e. 73,1% of respondents;

➔ positive effects for the institution's public image: 8 institutions, i.e. 30,8% of respondents;

- ➔ attract funds or donations: 7 institutions, i.e. 26,9% of respondents;
- ➔ mission, vision or values: 6 institutions, i.e. 23,1% of respondents;
- ➔ diversification strategies (provide different products compared to other competing institutions) 6 institutions, i.e. 23,1% of respondents;
- ➔ requirement or incentive from investors: 5 institutions, i.e. 19,2% of respondents;
- ➔ donors interest in environmental issues: 3 institutions, i.e. 11,5% of respondents;
- ➔ requirement by local laws or regulations: 2 institutions, i.e. 7,7% of respondents.

The sum is higher than 100% as some institutions expressed more than one motivation.

The order of importance (social responsibility, competitiveness and legitimacy) to develop green initiatives agrees with (Allet, 2013) regarding the motivations of MFIs (in developing countries) to implement environmentally friendly initiatives. However, the importance of social responsibility could have been overestimated by the respondents could have been overstated.

In (Allet, 2013), the results are different to what is believed in manufacturing industry, where environmental engagement seems mainly driven by legitimacy and competitiveness. The main drivers for environmental engagement for the MF industry in developing countries seems to be, in order of importance: social responsibility, competitiveness, legitimation. In (Allet, 2013), the results show that MFIs mainly motivated by legitimation seem to adopt more superficial and defensive strategies, while MFIs mainly motivated by social responsibility seem to be more proactive and develop more sound and complex environmental initiatives. Our present study does not allow discussing such specificities for the European sector and further study will be needed. However, as briefly discussed in the previous section, the role of stakeholders, and in particular investors, seems to be important for the level of overall environmental engagement of the MFI. Namely, even if MFIs declare that their primary motivation to be social responsibility, in our sample, the results show that institutions responding to the environmental interest of investors seem to perform better than the others in term of overall environmental management.

Constraints

In European microfinance, the lack of funds, human capital and low interest by the clients appear to be the major constraints preventing the development of green MF initiatives. Some of the respondents to the survey (34 institutions) declared the major constraints the institutions encountered in developing environmentally friendly microfinance activities are:

- ➔ funding constraints (not enough financial resources to develop the required activities): 15 institutions, i.e. 44,1% of respondents;
- ➔ lack of human capital (loan officers or staff members of the institutions do not have the required expertise): 15 institutions, i.e. 44,1% of respondents;
- ➔ insufficient interest/low acceptance by clients: 11 institutions, i.e. 32,4% of respondents;
- ➔ lack of the required technology or operational capacity to support green initiatives: 8 institutions, i.e. 23,5% of respondents;

- ➔ size of the institution (too small): 6 institutions, i.e. 17,7% of respondents;
- ➔ environment is not the mission of the institution: 6 institutions, i.e. 17,7%;
- ➔ fear to undermine the institution' financial sustainability: 3 institutions, i.e. 8,8%
- ➔ fear to undermine the institution' social mission: 3 institutions, i.e. 8,8%
- ➔ the institution is believed to be too young: 1 institution;

The sum of all the percentage is not 100% because an institution could have expressed more than one constraint.

Strategies

Partnerships with specialized institutions and trainings for employees seem to be the major strategies adopted by European MFIs to overcome the previously stated constraints.

The main strategies implemented by MFIs to overcome the constraints they mentioned in the previous section are indeed declared to be (22 institutions):

- partnership with other specialized organizations: 11 institutions, i.e. 50% of the respondents;
- training about environmental management or technologies received by other specialized organizations: 10 institutions, i.e. 45,5% of the respondents;
- collection of new funds: 6 institutions, i.e. 27,3% of the respondents;

- implementation of specific programmes fostered by European institutions: 4 institutions, 18,2% of the respondents;

The sum is higher than 100% as some institutions expressed more than one constraint.

Outcomes, competitions and future plans

The respondents indicate that the green initiatives implemented bring some benefits to clients or to the MFI, and the respondents declare to be aware of other institutions implementing green MF initiatives in their region, to have institutionalized some of these initiatives, and to have some future plans regarding green MF.

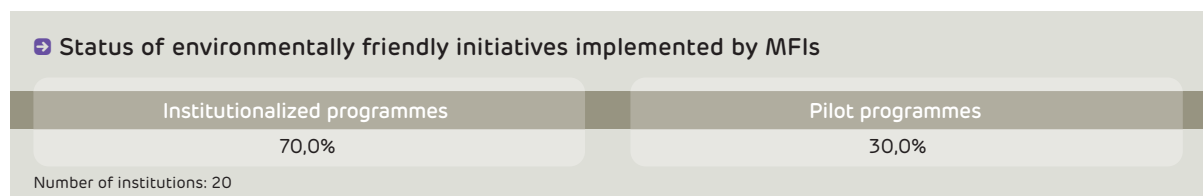
Among the institutions responding to the survey, 22 institutions declared that the environmentally friendly initiatives implemented brought some benefits to the institutions or to their clients, while 2 institutions declared that their environmental initiatives did not generate any positive outcomes to the institutions or to their clients.

It is then interesting to wonder about the perceived development of GMF and, in particular, institutions' awareness of GMF initiatives in their area of operation. Indeed, the implementation of environ-

mentally friendly initiatives could be influenced by the presence of organizations already acting in the GMF.

Of the respondent institutions, 31 institutions declared that they are aware of, on average, 1,6 other institutions, in their region of operation or in their countries, that provide microfinance services for environmentally friendly activities.

To understand the present development of GMF, we check whether the presently implemented environmentally friendly initiatives are pilot programmes or if they are instead permanent, institutionalized activities of the institutions. Quite surprisingly, 70% (14 institutions) of the 20 respondent institutions declared that the environmentally friendly initiatives implemented are part of the normal activities of the institution, while 30% (6 institutions) of the respondents declared that their environmentally friendly initiatives are instead pilot programmes.



These results are quite surprising as one would have instead expected to see that the majority of the initiatives are pilots and not institutionalized activities as the industry is still in its nascent stages. More research is needed to understand if this is an accurate picture of the field or perhaps due to the small sample in the survey.

In the survey, the respondent institutions (56 institutions in total) declared their future plans regarding microfinance environmentally friendly

initiatives for the next two years. 32 institutions (57,1% of respondents) do not have any particular plans regarding microfinance environmentally friendly activities. 16 institutions (28,6% of respondents) are planning to start new microfinance environmentally friendly activities, while 14 institutions (25,9% of respondents) plan to continue their microfinance environmentally friendly initiatives. The percentage does not sum to 100% as some institutions have more than one plan in place.



Potentialities for Green MF in Europe

In this section, we report the opinions of practitioners in European microfinance concerning the potential for the European green microfinance sector. The data in this section was collected during extensive one-on-one interviews. Details of the interviews are found below:

Isabelle Philippe, credit coordinator at Crédal in Belgium, believes, "GMF could have good potentialities in Europe and she proposes that the partnership between the private and public sector could be an interesting strategy to foster the field. Crédal developed this kind of partnership since 2008 and it judged it very effective, with low risk both for the public institutions and the private sector. Such partnership moreover could provide interesting leverage effects for the funds needed by the clients, as it happen in the Crédal's experience. The proposal would be to try to reproduce this partnership in other contexts and countries as a strategy to foster European green microfinance."

Sadina Bina, director at EKI, in Bosnia-Herzegovina, believes, "environmentally friendly initiatives add value to microfinance institutions. The Balkans countries are judged a good region to develop energy efficiency programmes and healthy food productions. In particular assistance to develop certification for organic production could be a strategy to foster eco-production: the local honey is for example judged of very high quality and could be a good product for certification. To develop such green practices consultancies and educations for clients and MFIs are needed."

Perrine Lantoine-Rejas, microfinance and corporate social responsibility project manager at the National Federation of the French Saving Banks (Fédération Nationale des Caisses d'Épargne – FNCE), reminds us, "the standard banking sector is the driving force for the green economy. However she also states that the microfinancial sector has a complementary role to play in the green economy, especially for small atypical projects or for a population that is considered more risky by the standard banking sector."

Milena Gojkovic, director at Micro Development, in Serbia, believes, "green microfinance in Serbia could have good potentialities to develop. She thinks that Serbia is a bit behind in this field compared to some neighborhood countries, but that the people are becoming more aware of the environment. However she believes that there would need exterior helps to build more environmental awareness and the right strategies to implement green microfinancial programmes. Energy efficiency and solar energy are judged important sector to explore for green microfinance. Small initiatives such as housing loans, house protection, improvement of the material used for house construction and insulation are suggested to be possible interesting strategies too."

Céline Bouton, microcredit adviser at microStart, in Belgium, underlines, "the importance to focus the reflection on the needs of the clients of MFIs. She underlined the existence of priorities issues between the access to credit and jobs to exit from poverty, and the development of environmentally friendly initiatives. She raised the interesting question: "do MFIs really have the public adapted for this kind of green initiatives?". She however believes that green microfinance could have good potentialities in Europe, in particular for a specific clients sector: such as street vendors, to whom the MFIs could finance the purchase of small environmentally friendly vehicles, such as bicycles or electric bicycles for example."

Selma Jahic, executive director for credit operations, and Adisa Dracic, head of development, planning and preparation of process, both at Partner MKF, in Bosnia-Herzegovina, reminds us, "the importance of the investors and donors support, and the necessity of specialized expertise to develop some specific green products. Subsidies are seen as a necessity to foster green microfinance. One of the main obstacles today in Bosnia-Herzegovina is stated to be the low demand by the clients. Strategies and programme should be thought to increase the interest of people on environmental preservation. Partner experience in green microfinance clearly shows that, once these strategies are correctly implemented, successful green microfinance initiatives could be established."

Pavel Velev, executive director at Ustoi JSC, in Bulgaria, highlights, "green activities are not very popular in East Europe. He states that there exist some ideas to enforce specific legislations to protect the environment and they are judged as positive strategies for local enterprises. He declared that the lack of institutional support could be an obstacle for the establishment of environmentally friendly practices in MFIs. He explained us the example of Ustoi JSC that wanted to collect paper for recycling, but specialized company do not collect used paper from them, because they use to look for bigger companies. Pavel Velev tells us that there is a lot of work to do to educate micro entrepreneurs to be more aware of their energy consumption, and stimulate them to save energy."

He indicates, "in Bulgaria the great majority of the green loans are provided by the banks: internal or external insulation, change of windows, solar batteries, etc., and they do it with subsidized interest rates. The suggestion to foster green microfinance in the area would be to subsidize the green product provided by MFIs. This strategy should increase the acceptance of the new products by the clients and moreover increase people awareness."

Links between Green MF and support or creation of Green Jobs in Europe

A greener economy contributes to the creation and support of green jobs, in a win-win strategy, and could tackle two present issues in the EU: environmental degradation and the high rate of unemployment. The potential of green jobs creation is well documented and discussed (ECORYS, 2012). In this section, we briefly explore the relationship between green microfinance and green jobs support and creation at the micro-enterprises level. This is a very preliminary discussion and more in-depth study is required.

In this preliminary discussion, we emphasize the opinions of the European microfinance practitioners over a theoretical discussion. Below, the ideas of practitioners in the European green microfinance sector are highlighted on the relationship between green jobs and green microfinance, obtained during extensive one-on-one interviews.

Isabelle Philippe, credit coordinator at Crédal, in Belgium, identifies some interesting sectors that could have good potential to foster the creation or support of green jobs, and be supported by micro-finance institutions' activities.

"Small local farmers working in organic agriculture or simply traditional local productions could be interesting sector to be supported by green micro-finance. Indeed it is believed that there exists an

important demand for organic and local productions and that working with cooperatives of organic producers could be an interesting strategy. MFIs in Europe could moreover cooperate in the creation of micro-enterprises in the sector of sustainable development thanks to awareness raising and training provision for clients willing to work in the sector of energy efficiency. The financing of electric bicycle, for certain categories of works, and the support of car sharing, are also seen as potential strategies for greening the local economy that could be supported by MFIs. The proposed strategies to support such programmes would be to provide guarantees to the green microfinancial sector and to provide subsidies to reduce the interest rate for environmentally friendly products. It is clearly stated that a present missing ingredient today is someone that cover the risk for such investments, more than the funding themselves. Public national or European authorities are suggested as actors that could provide guarantees for such kind of programmes. The example of Crédal shows that once a well-designed private-public partnership is settled, well performing green microfinance initiatives could then be established with moreover some important leverage effects on fulfilment of clients' needs. The experience of Crédal clearly shows that the actual risk for the public institution is very low. Isabelle Philippe believes that specific programmes with guarantees that cover the risk for micro green



« Some green micro-jobs that could be supported by MF are: small local farmers working in organic agriculture or healthy food production, craftsmen working in the renovation of energy systems or in insulation, jobs related to recycling or waste collection, micro-enterprises assembling renewable energy systems or providing services for improving the energy efficiency, etc.



jobs creations would have good potentialities for being successful.”

Sadina Bina, director at EKI, in Bosnia-Herzegovina, states, “in her area the honey, medical herbs or vegetables produced in an environmentally friendly way, have a huge potentiality for green jobs creation and they could be supported by local microfinance institutions. An important ingredient to foster such production could be to provide the assistance to obtain specific certifications for such ecological products. It would be very important to carefully design the product, that should incorporate loan and technical assistance, because both the missing of financial and human capitals are main obstacle for the development of such green micro jobs. Certification could be part of the microfinance green job package.”

Perrine Lantoin-Rejas, microfinance and corporate social responsibility project manager at FNCE, in France, believes, “there could be interesting possibilities for the microfinancial institution that would like to support some green jobs. However she underlines that the green jobs support or creation is more appropriate for small and medium enterprises than for micro-enterprises. Some micro green jobs that could be sustained by the microfinance institutions with carefully designed loans are: craftsmen working in the renovation of energy systems or in insulations, people working in the installation of energy efficiency products, jobs related to recycling for social excluded people, and craftsmen that produce with environmentally friendly methods”.

Milena Gojkovic, director at Micro Development, in Serbia, believes, “there could be important links between green jobs creations and microfinance. Energy efficient or renewable energy systems could be financed for small restaurant fostering in this way a more environmentally friendly production. Financing environmentally friendly practices for small farmers is a good strategy, and Serbia is judged as a good area for good food quality production.”

An interesting suggestion for the development of micro green jobs with a potentially important social impact, comes from “the observation that most of the Roma population in Serbia is involved in small businesses for waste collection. Roma people engage in such business to support the necessity of their families. MFIs could support such green micro-enterprises. Roma usually do not have vehicles for such job. MFIs could try to improve the efficiency of these waste collection jobs financing bicycles, electric vehicles, small three wheels motorbikes or small trucks, pressing materials, etc., supporting in this way both green jobs and social inclusion.”

Céline Bouton, microcredit adviser at microStart, in Belgium, “individuates in vendors a potential recipient for the support or creation of green micro jobs by microfinance institutions, in particular for the younger population. MFIs could support these kind of jobs financing bicycles, electric bicycles or other electric vehicles. However she also underlines that such jobs are a very small part of the actual credit demand in microStart.”

Selma Jahic, executive director for credit operations, and Adisa Dracic, head of development, planning and preparation of process, both at Partner MKF, in Bosnia-Herzegovina, sustains, “small farmers, micro-enterprises assembly renewable energy systems or providing services for improving the energy efficiency of the house, are green jobs that could be well supported by microfinance institutions. Partner has interesting experience in both activities.”

Pavel Velev, executive director at Ustoi JSC, in Bulgaria indicates, “it would be a good idea to link the microfinancial sector to the creation or support of green jobs. To reach this objective however he underlines that it is important to have people specialized in these activities and stimulate awareness raising campaign about the environmental impacts of the various activities for MFI's clients.”

Suggestions to European stakeholders to foster Green MF

After this quite lengthy analysis, we leave the floor to European MF practitioners to indicate possible strategies to foster the green microfinance sector in Europe.

Throughout the survey and one-on-one interviews respondents provided many interesting suggestions to various European stakeholders: European institutions,

European investors, European academics, the European Microfinance Network, etc. about possible strategies and/or actions to support the development of green microfinance in Europe. In this section, we simply report these opinions from the practitioners as an open discussion. Below are the suggestions provided by the respondents:

Sharing of experiences

The coordination of practices or events to share experiences, information, examples and opinions about green microfinance could be a valuable strategy:

- ➔ "put forward examples, best practices and successful initiatives";
- ➔ "organize workshops and seminars on GMF, and disseminate the potential benefits and cost for MFIs implementing GMF initiatives, potential challenges, and share information about existing adapted funding, training programmes and promotion initiatives";
- ➔ "provide ideas on how to develop environmentally friendly initiatives";
- ➔ "organize forums and round tables among the various actors to share experiences in GMF practices";
- ➔ "propose ideas about how to implement environmental policies within EMN members institutions";
- ➔ "European institutions should provide a framework to promote the exchange of experiences and good practices in green microfinance among the various MFIs: this strategy could provide ideas both for microfinance institutions already involved in environmental management and also to microfinance institutions that do not have such green initiatives yet";
- ➔ "introduce in the EMN annual conference a specific meeting among experts in GMF, institutions specialized in green technologies, MFIs, investors and clients to formulate together adapted environmentally friendly credits and products";

Coordination Support

Feedback related to the coordination support of European stakeholders to design appropriate policies, programmes, and strategies; and support the creation of the appropriate environment, namely the role of European stakeholders to act as facilitators are important policies to foster the green MF in Europe:

- ➔ "support environmental **awareness raising** campaigns for MFIs in general and more specifically develop the consciousness of clients, loan officers and managers of MFIs";
- ➔ "provide an **overview of initiatives** that can be easily implemented by any MFIs (small or big) and that could be a first step forward for any organization";
- ➔ "develop, design and share **tools** for environmental friendly activities that can be used by MFIs and their clients with the aim to integrate them with the standard financial evaluation, in the credit evaluation of MFIs";
- ➔ "organize specific audits that allow MFIs to have an idea about their level of environmental performance and **suggest practices** to further improve their environmental performance";
- ➔ "propose a **special environmental chart** to be signed by the MFIs";
- ➔ "promote policies and apply financial **incentives** to encourage the development of environmentally friendly activities in EU";
- ➔ "**promote the exchange** among the different partners: investors, providers of technologies, institutions specialized in environmental practices, academics etc.; to create the partnerships and help the development of environmentally friendly initiatives that should be designed and adapted to the different countries and regions"
- ➔ "develop a **strategy for GMF at long term** for MFIs, while not promoting too high expectations for the first phase, when adaptation and improvement will be required and while **fostering discussions** inside the MFIs to help defining the priorities. MFIs should go through an internal process to decide what are the environmentally friendly initiatives adapted to the capacities of the institutions and to their clients";

Funding

The provision of appropriate funding and guarantees also appears an important strategy:

- ➔ "provide funding and credit lines to support the environmentally friendly programmes of MFIs";
- ➔ "provide an overview of potential financing opportunities";
- ➔ "promote a specific guarantee fund to sustain green microfinance products and the risk for MFIs implementing GMF initiatives";
- ➔ "provide assistance to raise capital with reduced interest rate for environmentally friendly initiatives";

❖ Technical assistance

Provide appropriate technical assistance, trainings and awareness raisings are declared to be important strategies, as reported directly from practitioners:

- ❖ “provide support with environmental training and technical assistance for MFI's employees and specific funding for the institutions' GMF initiatives”;
- ❖ “provide assistance to raise capital with reduced interest rate for environmentally friendly initiatives”;
- ❖ “provide the funding necessary for the external technical assistance, needed to generate the required human capital for such initiatives”;

Summary of the section

In this section we explored the motivations, constraints, strategies, and plans of MFIs implementing green MF initiatives and we collected their opinions regarding the potential of the sector and the necessary actions to be implemented by European stakeholders to foster development.

Major drivers for European MFIs to engage in environmentally friendly initiatives are, in order of importance: social responsibility, competitiveness (strategic and economic benefits), and legitimization (stakeholder pressure). In the context of European microfinance, lack of funds, inadequate human capital and low interest by clients appear to be the major constraints preventing the development of green MF initiatives. Partnerships with specialized

institutions and trainings for employees seem to be the major strategies adopted by European MFIs to overcome the previously stated constraints. The MFIs declared that the environmental initiatives implemented generate benefits for clients and the institutions. Some institutions have plans to increase engagement in green MF. The respondents provided interesting suggestions and opinions about the potential of green MF in Europe and the possible role and strategies for microfinance to foster green jobs. Moreover, the respondents suggest that European stakeholders could foster the green MF sectors by: the promotion of experience sharing, logistical support, the provision of adequate funding and technical assistance.



The lack of funds, human capital and low client interest seem to be among the major constraints preventing the development of green MF initiatives. Partnerships with specialized institutions and trainings for employees appear to be the principal strategies... Suggestions to foster green initiatives are: the creation of a discussion forum; the sharing of examples, best practices and successful initiatives; provision of adequate funding and training; and assistance to create partnerships among different actors.



4

Interviews



→ In this section, we provide details on environmental initiatives implemented by selected institutions responding to the survey.

The objective of this section is not to provide a comprehensive list of environmental initiatives implemented by European institutions with microfinance programmes, but, rather to illustrate in more detail specific environmental initiatives implemented in Europe including: the aims, objectives achieved, strategies, constraints, etc. and the characteristics of some of the institutions implementing the initiatives. The section uses the experience of practitioners in European microfinance to discuss some specific aspects in green microfinance, such as: the relation between green jobs and microfinance, poor rural sector and green microfinance, public-private partnerships and green microfinance, relation between the standard banking sector and the MF sector in green microfinance, cost-reduction for MFIs and green microfinance initiatives, etc.

The institutions chosen are illustrative examples and we do endorse them to as representatives of specific topics or initiatives in green microfinance. Moreover, multiple institutions could provide examples for the same topic. The choice of topic and institution was done according to the data collected in the survey and interviews.

The data presented in this section was collected during extensive one-on-one interviews with practitioners working in the European microfinance sector. The content of the interview, as reported below, were validated and or corrected by the people interviewed. This data verification was completed for all interviews reported except the last one, which is instead a summary report from the workshop: "Green Microfinance, a European reality?" the 26th June 2013, during 2013 EMN Annual Conference in Stockholm.

INTERVIEW 1 Partner MKF

MF and green jobs: some examples

➔ Respondents:

Selma Jahic: executive director for credit operations
Adisa Dracic: head of development, planning and preparation of process

➔ Name of the Institution: Partner MKF

➔ Legal status: NGO, Microcredit Foundation

➔ Country of operation: Bosnia-Herzegovina

The creation or support of green jobs is an important strategy to reach a greener society and the 20-20-20 targets commitment of the European Union (EC2web). It has been heavily documented that a conversion toward a more environmentally friendly society has the potential to generate employment and strengthen competitiveness (ECORYS, 2012). It is natural to wonder about the potential of European MF to sustain or create green jobs. Partner provides an interesting example of how MF could foster the creation or support green jobs.

Partner is a non-profit NGO funded in 1997. It provides MF services and trainings in Bosnia-Herzegovina targeting rural populations and women. Unemployed and self-employed people are important targets of the institution. People under the national poverty line and micro enterprises are also among the targets of the institution.

Partner implements an important number of environmental initiatives:

- ➔ microcredits for solar energy: a project in collaboration with USAID, with the goal to provide credits and technical assistance to 20

micro enterprises that want to produce solar collectors, and 200 credits to clients that want to buy the solar collectors;

- ➔ credits for energy efficiency: replacement of old equipment, and improvement of house and roof insulations, heating systems, replacement of old windows. They provided 520 credits since July 2012, for an average amount of 1.145 EUR;
- ➔ loans for sustainable agricultural businesses: a project in collaboration with USAID to provide loans for environmentally friendly agricultural practices. They provided 500 loans since 2008, with an average loan amount of 1.400 EUR;
- ➔ activities to reduce the institutional ecological footprint: Partner has signed a contract for recycling paper in the head office, and they have installed energy efficiency bulbs in all branches. Partner also implemented some internal policies for reduction in water, paper, and energy consumption.

Two of the above activities highlight the possibility for MFIs to support or foster the creation of green jobs.

❖ Local market creation

The USAID Solar Energy Project is an example of local, green market creation by stimulating both supply and demand simultaneously thanks to a multidimensional programme.

The EU target to obtain 20% of its energy needs from renewable sources by 2020, stimulated Partner MKF to identify gaps in the local market for the fulfilment of this objective, which was individuated in the local use and production of solar energy. USAID Solar Energy Project, implemented by Partner MKF, aims to meet these European objectives by increasing the local production and the use of solar collectors and/or other alternative sources of energy, and raising awareness on the importance of the use of alternative energy sources.

The main idea was to stimulate the market for solar energy in Bosnia-Herzegovina.

The motivation to start such a project relates to the increasing of energy prices and the fact that 85% of Partner's portfolio is in rural areas where people use old, non-efficient heating systems. Moreover, solar collectors and solar panels are newer markets with fewer competitors. Partner, after a call for project, chose 20 micro-enterprises that could geographically cover all Bosnia-Herzegovina.

The manufacturers were selected on the context of good credit history and previous experience related to heating systems or whose activities could be quite easily adapted to the assembly of solar collectors. This was done to facilitate engagement in the new production, and the risk of this new business was minimized by the strategy to stimulate the switch in production for only a part of the business of the microenterprises.

Manufacturers involved in the project received a package including a loan, a grant (of the same size of the loan itself), technical assistance and business training. Technical assistance and business training were provided by specialized companies with topics including: production of solar collectors, business planning, accounting, financial education, marketing (market research and promotion), to enable manufacturers to start up the solar collectors production. The primary new technologies are solar collectors for water heating, but Partner MKF plans to expand the programme to electricity production with photovoltaic solar panels as well.

The manufacturers locally assemble the solar systems using materials coming from Germany and China.

In collaboration with USAID, Partner then stimulated the demand for solar collectors thanks to media, brochures and the activities of loan officers that propose and select clients for a specific low interest rate credit to buy solar energy technologies.

The programme is in the initial stages: the selection and training part for the 20 producers has been completed and 20 credits to the producers were disbursed. Partner MKF has now started to disburse the credits to buy the solar collectors.

As of mid-September, 2013 Partner MKF disbursed a total of 8 credits. The objective is to reach 200 credits.

The primary constraints faced were the lack of environmental awareness of the population in Bosnia-Herzegovina and the related time required to explain to clients the benefits of renewable energy technologies. Some constraints were overcome thanks to the partnerships with other organizations, awareness campaigns and the collection of external funds. The lack of institutional support is judged as an important obstacle. Moreover, the relative high cost of the solar collectors compared to the maximum credit amount Partner disburses is perceived as a potential obstacle for the clients that want to take on more than one investment.

Partner identifies the project as beneficial for the institution, mainly due to the possibility to differentiate its offer in a quite competitive market.

The programme is a pilot project to be completed in 2014, but Partner would like to learn from this experience and look for investors or donors to continue this type of product.

❖ Agricultural environmental friendly businesses

The loan programme for sustainable agriculture in collaboration with USAID is an interesting example of rural green jobs support combined with value chain improvement strategies.

The programme aims to provide loans for environmentally friendly agricultural businesses.

It began in 2008 and was phased out in the middle of September 2013. It was reviewed as a successful project by USAID.

Credits with below market interest rates for a maximum duration of 5 years are provided to rural producers working in agriculture. The credits are provided with the condition that the producers adhere to good agricultural practices, among which: elimination of pesticides stated in a provided list, they should use certified seeds that cannot be

genetically modified, respect to specific procedures for waste collection, etc.

Further, the project attempts to improve the position in the value chain of the agricultural producers. Indeed, Partner MKF facilitates the link between the processors of the fruits and the fruits producers, providing in this way a market for the clients financed and a supply for the factories that process the fruits that moreover supply the certified seeds to the producers. The final product is sold in Bosnia-Herzegovina or exported in Europe.

Partner MKF states that the implementation of the project did not create particular difficulties for the institution, because Partner MKF has experience with the rural area and is quite familiar with the agricultural businesses. Moreover, the importance of healthy fruits is understood throughout the region.

« Partner provides some examples of green jobs supported by MF: the creation of a local green market for renewable energies and rural green jobs combined with value chain improvement strategies. »



INTERVIEW 2 EKI

The poor rural sector and green microfinance

- ➔ **Respondent:** Sadina Bina, director
- ➔ **Name of the Institution:** Microcredit Foundation EKI
- ➔ **Legal status:** NGO
- ➔ **Country of operation:** Bosnia-Herzegovina

Microcredit Foundation EKI is an NGO founded in 1996 operating in Bosnia-Herzegovina. The major targets of the institution are rural populations (60-70% of its activities are in agriculture and 70% of their clients are in rural areas, while the remaining clients are in peri-urban areas), people under the national poverty line, unbankable people, unemployed and self-employed people. Women and ethnic minorities or immigrants are important targets of the institution, while micro-enterprises and in particular environmentally friendly micro-enterprises are among the targets of the institution.

EKI is implementing various environmentally friendly activities:

- ➔ A written policy for environmental responsibility, established with funds coming from IFC, and the operating director has been appointed at part-time level to undertake the environmental issues of the institution;
- ➔ Developed, with IFC, an exclusion list for environmentally dangerous activities, and an environmental check list that should be filled before loan disbursement. It started as a pilot programme and has now been institutionalized in EKI's operations;
- ➔ Trains loan officers to screen environmentally dangerous activities and evaluate the

environmental risk of clients' activities. The loan officers are educated to provide advice to the clients about the type of activities they implement and how these ones could influence the environment. This assistance is seen as an education strategy and there is no strict requirement on the kind of activities implemented;

- ➔ Offers energy efficiency loans since 2002, supporting people wanting to improve the energy efficiency of their house. The program started with IFC funds to support the credit for energy efficiency (the average credit is 3.000-4.500 EUR) and an IFC grant to develop the energy efficiency training. The positive impacts observed are: reduction of emissions and reduction in energy expenses for the families; and,
- ➔ Credits for ecotourism: a very new line of credits, with only a few credits disbursed to date, aiming to promote tourism in harmony with the nature. The program, sustains with credits, encourages households to engage and host tourists, propose activities in a preserved environment and provide them healthy food produced with traditional agricultural practices (without the use of pesticides).

❖ Green Microfinance: a possibility also for institutions targeting the poor rural sector?

EKI is focusing on ultra low income and rural populations with an average credit disbursed of around 1.500 EUR, usually with the aim to finance the purchase of one cow and a few chickens, and/or to sustain milk or egg production or vegetable growing. They are legally limited to a maximum loan of 5.000 EUR.

For this particular target population, EKI employs an interesting example discussing the potential trade offs between fighting poverty and preserving the environment. It is often argued that environmental preservation is not adapted for the poor population as they have more urgent needs. EKI explains the

difficulty to put mandatory constraints on the environmental impacts for the credits disbursed to very poor people and admits that they give priority to support the activities of the poor clients, rather than forcing them to switch to a less environmentally dangerous activity. However, EKI claims education is an important strategy to foster the implementation of good environmental practices for poor people. Indeed, EKI's strategy is to educate clients about more environmentally sustainable practices, utilizing the provision of training and advice given by the loan officers concerning practices to prevent environmental degradation. It admits that is a slow process, but however it states that is necessary to foster

environmental preservation values and initiatives among poor rural population.

Another strategy is to use cross-subsidisation between profitable, well-understood credits and less profitable or less understood credits, such as credits for environmental preservation.

EKI is an NGO but acts more as a for-profit institution by generating a surplus in terms of yearly profit. EKI's strategy is then to reinvest profits to subsidize environmentally friendly activities. This profit reinvestment is part of EKI's policy to give their gains back to the community. EKI typically provides their green credits at lower interest rates and with technical assistance.

An example of this procedure is implemented in the energy efficiency loans. These loans started as a pilot programme with a reduced interest rate meant to stimulate clients to choose the loan. The pilot lasted 1 year and was then inserted in the normal activities of the institution. The interest rate is kept lower than other standard credits (15% compared to 18-22%) and subsidized by retained earnings. Another incentive is the longer maturity (maximum 60 months, and around 32 months on average) compared to the other credits (22 months on average).

Also, the ecotourism credits are supported thanks to subsidy provided by the institution's retained earnings.

❖ The importance of a multi-dimensional approach to fill the missing capital of poor populations

EKI highlights the importance of a multidimensional approach to stimulate the establishment of environmentally friendly microfinance practices.

Indeed, EKI's programmes attempt to combine partnerships with specialized institutions for technical assistance, client awareness and staff trainings while focusing attention to engineer an overall well-designed loan. The energy efficiency loan is an example of this multidimensional approach. The training is provided in collaboration with an organization specialized in energy efficiency. Tools are developed to analyse the amount of energy saved by the clients. EKI declares that it is very important for the clients to know how much money they can save. The programme is supported by a publicity campaign: fliers, TV advertising etc. and the staff of EKI is trained to correctly understand the product.

The constraints facing EKI while developing its environmental initiatives were: educating staff, the

difficulties associated to the development of a new programme and designing a programme that could be attractive. The development of such a programme is judged to be expensive in terms of money and time. One of the biggest difficulties was changing people's behaviours.

Part of these challenges were overcome due to partnerships with the various actors (clients, MFI, training services, fund providers) and working in such a way that all the parties understand the mission and engage themselves to reach the agreed objectives.

EKI estimates that overall Green MF is an added value for MFIs. Moreover, EKI suggests that the Balkan countries would be quite wise to stimulate MF energy efficient programmes and healthy food production, in particular the certification of the products to foster the eco-production.

« There could exist some potential trade offs between fighting poverty and preserve the environment, a multidimensional approach is important to offset the missing human-financial-physical capitals of MFIs and their clients. EKI developed cross subsidization strategies to support its environmentally friendly activities. »

INTERVIEW 3 Crédal

Example of synergies between MFIs and public institutions to develop Green MF

- ➔ Respondent: Isabelle Philippe, credit coordinator
- ➔ Name of the Institution: Crédal
- ➔ Legal status: NBFi
- ➔ Country of operation: Belgium

The green microfinance initiatives of Crédal provide an interesting example of how partnerships between MFIs and public institutions can leverage effects on the development and support of environmentally friendly initiatives.

Crédal is a non-for profit Non Bank Financial Institution (NBFi) established in 1984 in the French-speaking part of Belgium. Since 1997, Crédal provides micro financial services and trainings targeting women, people under the national poverty line, unbankable and unemployed people. Achievement of a better quality of life (in the field of housing, mobility, equipment) by issuing personal microcredits to self-employed people and the development of micro enterprises thanks to professional microcredits are important targets of the institution.

Crédal developed the following environmentally friendly initiatives:

- ➔ Crédal developed a multidimensional (not only focused on the environment) product called: "Microcrédit Développement Durable" in which the clients' activities have to fulfil at once the economic (rentability), social (governance: respect of the various stakeholders, etc.) and

environmental (reduction of energy consumption, etc.) criteria, to access to the credit, in a spirit of "triple bottom line" microfinance. The incentives for this credit, compared to a normal professional credit, are: the amount (a maximum of 25.000 EUR, compared to the maximum of 15.000 EUR for the other professional microcredits) and longer grace period of 1 year (compared to the usual 3 months). Environmentally friendly activities sustained with this credit are small organic vegetable producers for example;

- ➔ Crédal developed, in collaboration with "la Région Bruxelles-Capitale", a specific line of credits for housing renovation and energy efficiency improvements. The programme tries to foster the improvement of walls and roofs insulation and the adoption of more efficient energy apparatus for people that do not have access to the normal banking sector;
- ➔ Crédal provides also environmentally friendly credits outside the domain of microfinance (80.000-100.000 EUR on average) to groups of people or social enterprises for the construction of small eolian systems for example.

❖ Public-private partnership to foster environmentally friendly practices

The environmentally friendly personal microcredit of Crédal is an interesting example of an MFI-public sector partnership that leverages effects for clients with potentially positive outcomes on the society and the environment.

La Région de Bruxelles-Capitale has an incentive scheme for people to improve the energy efficiency of their apartments. Criteria are quite strict and the incentive could vary according to the improvement established. The incentives reach a maximum of 20.000 EUR.

Crédal provides clients a credit at a 0% interest rate for a maximum amount of 20.000 EUR and a maximum

period of 7 years. Technical assistance for activities that would improve the insulation or the energy efficiency of the client's apartment and that correspond to the criteria established by la Région de Bruxelles-Capitale is provided. The Bruxelles region pays Crédal the interest, finances the assistance, and covers the portfolio's risk for these credits through guarantees on loan defaults. Crédal provides the funding (through its capital) to disburse the credits and brings its expertise in the field of microcredit.

Since 2008, Crédal disbursed a total amount of 468 credits, 114 in 2012 and 78 in the first six months of 2013. The average credit amount since 2008 is of 9.700 EUR, increasing to 12.000 EUR in 2012, with

an average duration of 62 months. Crédal provides clients the needed support to do all the, usually quite heavy, formalities required by the Bruxelles region to access the incentives.

The assistance provided by Crédal is considered to be very important because the technicalities to access the regional incentives are quite burdensome and can be an important obstacle for the population to which Crédal provides services. For example, a population for which French is not the mother tongue, or that are in difficult socio-economic conditions.

The partnership between Crédal and Bruxelles region seems to be quite effective and have a significant leverage effect. Thanks to the credit of Crédal and its technical assistance, clients can access the incentives provided by the public institutions. In this way the outcomes of the green microcredit is leveraged. The risks of the activity are covered by the Bruxelles region. However, the actual risk seems to be quite low with only one non-repaid credit since the beginning of the programme. Moreover, only the 2,5% of the credit demands were refused.

In this way the programme seems to be able to consolidate sources of financing from various actors: the clients, the MFI and the public institutions.

The main stated motivation for Crédal to start this activity is its social mission and its multidimensional approach: cultural, social and environmental; and the necessity for people to have a better apartment.

The main constraints faced by the programme were natural constraints stemming from a private-public partnership, i.e. the credit decision did not rest solely with the MFI. Many of the criteria are already decided and the process is quite long and laced with bureaucracy. However, the overall experience seems quite positive because the partnership brings important leverage effects multiplying the effect of the credit. The programme is believed to have positive outcomes for the client and society in general due to the building renovations.

Crédal believes that microfinance could have comparative advantages over banks to implement such programmes due to the assistance provided by Crédal for the excluded population in helping them obtain the regional incentives. Crédal believes that this public-private partnership is very effective and should be reproduced and adapted to other contexts and countries to foster green microfinance.



Partnership between MFIs and public institutions could have interesting leverage effects on the development and support of environmentally friendly initiatives.



INTERVIEW 4 FNCE

Habitat microcredits against fuel poverty: multi-stakeholder approach, complementary-competition for banks and MFIs in green MF, and the potential of personal green microcredit for job creation

- ➔ **Respondent:** Perrine Lantoine-Rejas, microfinance and corporate social responsibility project manager
- ➔ **Name of the Institution:** Fédération Nationale des Caisses d'Épargne (FNCE)
- ➔ **Legal status:** federation of 17 saving banks with specific MF programmes
- ➔ **Country of operation:** France

The housing microcredit against fuel poverty programme of FNCE is an interesting example of a multi-stakeholder energy efficiency programme and investigates the role (complementary or competition) of the standard banking sector compared to the microfinance sector in financing renewable and energy efficiency programmes. The programme also raises an interesting discussion about the role of personal or consumption green microcredits to foster job creation.

FNCE is a federation of 17 savings banks operating in France from 1818. It has a specific microfinance sector for both personal and business microcredits. Financially excluded people form the main target

of the microcredit programme, in particular if they are unbaked. People under the national poverty line, unemployed, people on Welfare, people without bad credit history, rural, women, immigrants, ethnic minorities, micro-enterprises (among which environmentally friendly micro-enterprises) are among its targets.

Some environmentally friendly activities are financed under the business microcredits, but they are not yet distinguished or tracked inside the microcredit portfolio.

However, FNCE has also a specific programme of microcredits for housing to combat fuel poverty.

❖ Housing microcredit against energy poverty

Fuel poverty is the situation of households that cannot warm their house at a reasonable cost. It is an expanding phenomenon due to the increase in energy prices and inequalities. National assessments estimate that 3,8 million households in France spend more than 10% of their income on fuel and 3,5 million claim to be suffering the cold in their apartments. The most affected population are living in social housings, people who used to be taken care of by social public programmes, or are among poor apartment owners, that are instead usually excluded from public energy efficiency programmes and are estimated to be around 300.000 households in France.

Since March 2012, Caisse d'Épargne Bretagne Pays de Loire, one of the saving banks of FNCE, started a local experiment related to housing microcredit to tackle fuel poverty and target this second excluded population, with the support of FNCE. The objective was to provide 200 credits at the beginning and replicate the experience in other regions if

successful. It is a multi-stakeholder programme that combines the expertise of various regional actors, public authorities, banks, private companies and, of course, clients. The savings bank provides a reduced interest rate credit for a maximum amount of 10.000 EUR (compared to the usual 5.000 EUR for other personal microcredits) and maximum duration of 72 months, to finance the increase in energy efficiency, thanks, for example, to housing insulation or the replacement of an old apparatus (for example heating systems) with new more efficient ones, etc. The aim is to reduce the energy bill and improve the health conditions for the household. The savings bank works in partnership with local organizations that direct the clients towards dedicated microloans officers. It then follow a careful analysis of the revenues and costs of the household, its social situation, an evaluation of the needed work to be done and the potential energy cost reduction of the investment. A specific agreement was negotiated between FNCE and public authorities that guarantees that the housing

microcredit is eligible for a public guarantee of 50% on the microcredit. The savings bank grants the credit. Local partners assist the clients to have access to public subsidies, carry out the energy efficiency diagnosis, and take care of the follow up. The microcredit is also thought to provide a leverage effect for the clients by helping access various public subsidies that covering up to 100% of the investment cost. Today, the average microcredit

is estimated to be around 5.000 EUR and estimated to generate a leverage effect of 16.000 EUR.

This example of personal green microcredit shows the importance to develop partnerships. The microcredit is seen as a fundamental tool allowing households to access institutional possibilities that improve their livelihoods and their local environmental impact.

❖ Green personal credits and job creation?

The savings bank's programme fosters reflection about the potential of personal green credits to support job creation. The targeted households could be divided into those that spend too much on energy bills and those who do not heat their house because it would be too expensive. Perrine Lantoin-Rejas explained that for the latter category, it is

reasonable to believe that poor household conditions are correlated with social exclusion, health problems, and desire to pursue a job. In this way, personal credits for energy efficiency and the associated improvement in housing conditions are seen as potential strategies to support jobs or create job opportunities for excluded populations.

❖ Bank and MF sector for green microfinance: competition or complementarity?

In Europe, the provision of credits for energy efficiency and for renewable energy systems, also with the use of public subsidies, for amounts lower than 25.000 EUR is reasonably provided by the private banking sector (even if we did not investigate in detail this topic, and unfortunately, we do not have clear data). This fact raises the issue of the potential comparative advantage in terms of cost and efficiency of the standard banking sector to provide such green credits compared to MFIs and the resulting potential competition of the standard banking sector and MF providers. Perrine Lantoin-Rejas clearly explained to us that even if bank could be more efficient in the provision of credits for small renewable energy apparatuses or small energy efficient household improvements to bankable people, the MF sector and operations are better

suited and effective to provide this kind of green credits to financially excluded people.

Even if the standard banking and MF sectors could provide similar green credits for energy efficiency or renewable energies, the targeted population, the social-environmental outcomes and the procedures and strategies are different. In particular, MF could provide environmentally friendly services to a population that the banking sector is not able to reach. We can then conclude that the standard banking sector and the MF sector should not enter in direct competition, but instead should have complementary roles in renewable energy and energy efficiency credits and provide services to different populations.

« The standard banking sector and the MF sector should have a complementary role in renewable energy and energy efficiency credits, providing services to different populations. »



INTERVIEW 5 Ustoi JSC

Cost reduction while simultaneously improving environmental performance

- ➔ Respondent: Pavel Velev, executive director
- ➔ Name of the Institution: Ustoi JSC
- ➔ Legal status: NBF
- ➔ Country of operation: Bulgaria

The implementation of green MF practices is often seen as an expensive activity that only institutions with a long experience and with substantial funds, technologies and human capital can afford. Conversely, it is often argued that environmental practices could be financially beneficial for the institution due to diversification strategies, access to new funds, reduction of costs, improvement in public image, etc. Ustoi JSC is an interesting example of how a MFI aiming to reduce its expenses initiates environmental friendly initiatives.

Ustoi JSC is a Non Bank Financial Institution (NBF), founded in 2005, providing training and financial services in Bulgaria. Its major targets are rural populations, women, people under the national poverty line, unbankable people, self-employed people and micro-enterprises. Ethnic minorities or immigrants are important targets of the institution, while environmentally friendly micro-enterprises and small enterprises are among the targets of the institution.

❖ Cost reduction and environmental performance

Due to its limited resources, Ustoi JSC started to look at cost reductions. With this aim, Ustoi started an internal policy with non-quantified objectives attempting to reduce various costs of the institution. The main objectives were reduction in paper, water and energy consumption, reduction of waste, and reduction of travels. It implemented some small initiatives as the policy to digitize the client application documents and eliminate printing after credit approval, exclusively using the electronic version of the documentation. In such a way, Ustoi reduced the paper flow and it increased efficiency. Moreover, Ustoi JSC developed an internal policy for energy reduction. It decided to introduce standard training provided by direct supervisors to new employees, and also trained people working in the company on some simple practices for the reduction of energy consumption such as: teaching staff to switch off computers when they leave the office, check that windows are closed during the winter, reduce the heat during the week ends and the holidays, etc.

The main constraint to make this policy effective was the lack of awareness of people about the impact of their actions. This constraint was overcome thanks to careful training.

Ustoi JSC estimated that the cost reduction policy was effective and that the employees are now more aware of energy consumption and paper use.

Ustoi JSC estimated that the implemented policy is working very well and led to a reduction in energy expenses.

Ustoi JSC does not believe it has a substantial environmental mission. The activities were aiming to reduce the internal cost and no environmental objective existed. For this reason, it remains an interesting example of an institution that indirectly entered into environment preservation and ecological footprint reduction.

The issue was reducing the high costs of the institution; the strategy was to reduce waste and increase efficiency; reduction in paper use and energy consumption were then selected as the primary objectives; training was provided to the employees to understand these issues and help implement the strategies for the reduction in paper use and energy consumption. The experience is judged as very positive because Ustoi JSC claims that it can observe a reduction in energy expenses. Indirectly, Ustoi achieved reductions in the institution ecological footprint and consequently, an improvement of the environmental impact of the institution.

The central message seems to be that a MFI can do simple steps to foster positive environmental outcomes, and that it can simultaneously improve its environmental impact and reduce its costs. Ustoi JSC provides an effective example of this win-win strategy is the energy efficiency.

SUMMARY REPORT Fondi Besa

From the workshop: "Green Microfinance, a European reality?" the 26th June 2013, during 2013 10th EMN Annual Conference in Stockholm.

➔ Intervention by Altin Muca

Altin Mucca, Prof. Ass., director of marketing, development & training at Fondi Besa, NBF in Albania, presented aspects of the green microfinance initiatives implemented by Fondi Besa, during the workshop: "Green Microfinance, a European reality?" held the 26th June 2013, during 2013 10th EMN Annual Conference, in Stockholm.

In this section, we report some topics discussed during his speech.

Fondi Besa decided to develop green credits to finance solar panels and energy efficient apparatus. Fondi Besa started this green product for various reasons: it is believed to be a new market, the local cost of energy is increasing over the last 10 years, increased competition among different actors involved in microfinance in Albania, could bring old clients back to Fondi Besa that graduated to banks, presence of donors for the new market of renewable energies, reduction of expenses for clients with better energy efficiency.

Fondi Besa's strategy was to develop the loans together with awareness campaigns and evaluation. For example, since 2010, Fondi Besa adopted software that computes and explains to the clients the advantages of green investments, and moreover, Fondi Besa trained their staff to use the software.

In three years of operations, Fondi Besa disbursed around 900 green loans and 450 in the last year. Fondi Besa operates mainly in urban and semi-urban areas, where all green loans were disbursed. As of this year, they started to disburse loans in the agricultural sector as well. Following this choice, Fondi Besa is thinking about providing green loans in the agricultural sector.

Fondi Besa underlines that its energy efficiency loans carry a lower interest rate than the other loans from the institution. One reason for this choice is because they are personal and not business loans, implying that they will generate less revenue for the borrowers. To further develop this line of green loans, Fondi Besa is looking for subsidies from investors.

Fondi Besa states there could be some competition with banks for the provision of such green loans, and Altin Mucca is aware of at least three banks in the region that provide energy loans.

The main challenges encountered by Fondi Besa were: the difficulty to change people's mentality: many people previously considered the energy cost for the household too high if compared to the overall expenses of the family, but now the increase in energy costs is raising awareness; and the lack of human capital: some basic knowledge in the energy sector is required for the loan officers.

Summary of the Interviews

In this section we conveyed a few important topics in green microfinance thanks to the direct experience of practitioners. We provided explicit examples of green microfinance initiatives, including the institutional motivations, constraints and strategies. We discussed the potential for green microfinance to support the creation of green jobs in renewable energies and in sustainable agricultural, the leverage effects of private-public partnerships

to provide credits for energy efficiency, identified multi-stakeholder approaches for green credits, the role of green microfinance for poor rural population, the relationship between the microfinance sector and the standard banking sector in the provision of green credits, and some offered some potential synergies between cost reduction and environmental improvement.

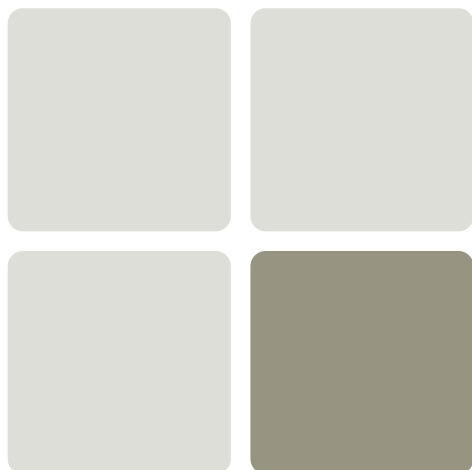


Conclusions

We provided a first picture of the green microfinance sector in Europe in this paper.

From the analysis of the data collected, we conclude that European green microfinance is nascent field, but one with interesting possibilities. Some institutions providing microfinance services in Europe have already developed environmental initiatives to reduce the environmental impact of the institution or of client activities, and other institutions are planning to take action. The environmental initiatives implemented depend on various characteristics of the institutions, and the overall environmental engagement of European institutions seems comparable to engagement in developing countries. However, important obstacles need to be overcome to foster development of the field. Event organization concerning green microfinance and the sharing of good practices and successful examples could be among the first steps. Institutional support, appropriate funding schemes and trainings are additional ingredients to foster the development of environmental practices.

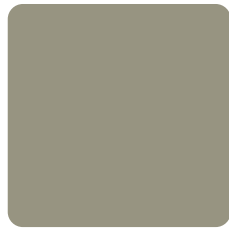
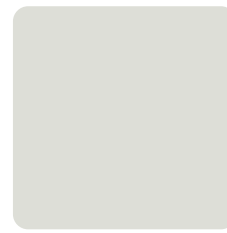
Further research is required to better understand the detailed level of environmental engagement from European microfinance institutions, to identify the driving forces and obstacles, and to formulate appropriate strategies and policy.



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Appendix

Appendix A

The Microfinance Environmental Performance Index (MEPI)

In the table below we would like to report the questions and the score assigned to their answers that we used in the survey to evaluate the MEPI of the institutions with MF services in Europe following the methodology developed in (Allet, 2012). The questions here below are only a small part of the full survey, that was designed and adapted to the European reality with the aim to obtain a more broad and detailed picture, as presented in the main text. The question below and the associated scores were explicitly reported from (Allet, 2012) to make the two evaluations comparable. Every question below has one or more associated control questions in the survey that we decided however to do not report here. The score assigned to every question is the same as in (Allet, 2012) to allow the comparison between the two studies. The idea behind such "neutral" scoring is to adapt the index to the diversity of the possible strategies a MFI could implement in order to improve its environmental performance, without however declaring one dimension or one strategy as more or less important than another one. Other scoring assignment is however possible (see for example (Allet and Hudon, 2013)), but it will not pursued in the present study.

➔ ENVIRONMENTAL POLICY

Is environmental protection mentioned in the official mission, vision or values of your institution?	1	Yes
	0	No
Does your institution have a formal internal policy for the environmental responsibility of the institution?	1	Yes, written policy
	0,25	Yes, non-written policy
	0,25	No, but we are currently developing one
	0	No
Has someone in your institution been appointed to manage environmental issues?	1	Yes
	0	No
Does your institution have incentives encouraging its employees to take into account the achievement of specific environmental objectives? (financial incentives, bonus, or other non-financial incentives)	1	Yes
	0,25	No, but we are currently defining such incentive system
	0	No

➔ ECOLOGICAL FOOTPRINT

Has your institution set up any specific environmental objectives to reduce its ecological footprint?	1	Yes, quantified objectives
	1	Yes, non-quantified objectives
	0,25	No, but we are currently defining such objectives
	0	No
Has your institution already conducted a carbon audit?	1	Yes
	0,25	No, but we are planning to do it in the coming year
	0	No
Does your institution use toolkits to raise employees' awareness of good practices on paper, water, and energy consumption, transportation, waste management, etc.?	1	Yes
	0,25	No, but we are planning to do it in the coming year
	0	No
Does your institution include environmental performance indicators in the results of its annual report (energy consumption, waste, water, papers, etc.)?	1	Yes (ISO, EMAS, GRI Environmental indicators)
	1	Yes, other indicators
	0,25	No, but we are planning to do it in the next report
	0	No

➔ ENVIRONMENTAL RISK MANAGEMENT

Does your institution use an exclusion list for environmentally dangerous activities? (exclusion list = a list of activities that cannot be financed with loans provided by your institution because they are harmful to the environment)	1	Yes, the IFC (International Finance Corporation) exclusion list
	1	Yes, the IFC exclusion list with some adjustments
	1	Yes, according to the national regulation requirement
	1	Yes, another list
	0,25	No, but we are planning to do it in the coming year
Does your institution use specific toolkits to evaluate the environmental risks of its clients' activities?	0	No
	1	Yes, the institution assesses the environmental risk for every loan
	1	Yes, the institution assesses the environmental risk for only some categories of loans
	0,25	No, but we conduct an informal evaluation
	0,25	No, but we are currently developing such toolkits
Does your institution train its loan officers on how to screen environmentally dangerous activities and evaluate the environmental risks of its clients' activities?	0	No
	0,25	No, but we are currently developing such trainings
	1	Yes
Does your institution include in the Monitoring and Information System (MIS) indicators that allow tracking of clients' environmental performance?	0	No
	0	No, but the institution keeps written track of the environmental performance of the clients
	0,25	No, but we are currently integrating such indicators
	1	Yes
	0	The institution does NOT use computerized MIS

➔ GREEN MICROCREDIT

Does your institution offer credits to promote access to renewable energy or energy efficient technologies? (e.g. photovoltaic systems, biogas digesters, etc.)

2	Yes
0,25	No, but we are currently developing such products
0	No

Does your institution offer credits with reduced interest rates to promote the development of environmentally-friendly activities?

2	Yes
0,25	No, but we are currently developing such products
0	No

➔ ENVIRONMENTAL, NON FINANCIAL SERVICES

Does your institution ask its clients to sign an environmental chart? (environmental chart = document that commits the client to adopt environmentally friendly activities)

1	Yes
0,25	No, but we are currently developing such chart
0	No

Has your institution already implemented programmes to raise environmental awareness among its clients/beneficiaries? (Flyers, group discussions, specific lectures about environmental preservation, organization of events to promote environmental awareness ...)

1	Yes
0,25	No, but we are currently developing such programmes
0	No

Does your institution provide support to clients that want to implement environmentally friendly activities? (training, technical assistance, etc.)

1	Yes, thanks to partnership with other specialized organizations
1	Yes, thanks to the expertise of some of the employees in the institution
0,25	No, but we are currently developing such service
0	No

Has your institution already organized actions to promote environmentally friendly micro-enterprises? (such as a contest for the most environmentally-friendly client, or organization of an environmentally friendly microenterprise fair, etc...)

1	Yes
0,25	No, but we are currently developing such actions
0	No

Appendix B

List of countries analysed in the study

In this appendix we report the list of countries analysed in the present study, in total 36 countries, among European Union member countries, candidate countries and potential candidate countries:

- ➔ Austria, Belgium, Bulgaria, Cyprus, Croatia, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom;
- ➔ Iceland, Montenegro, Republic of Macedonia, Serbia and Turkey;
- ➔ Albania, Bosnia and Herzegovina, Kosovo.

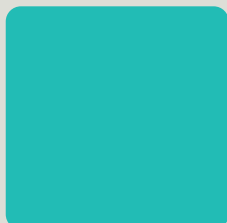
Appendix C

List of acronyms used in the paper

MF	microfinance
MFI	microfinance institution
GMF	green microfinance
MIV	microfinance investment vehicle
NBFI	non-bank financial institution
NGO	non-governmental organization
MEPI	Microfinance Environmental Performance Index
IFC	International Finance Corporation



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