



EUROPEAN DIALOGUE

5th European Microfinance Award
Microfinance and the Environment

Prepared by Tanja Havemann and Fred Werneck,
Clarmondial GmbH



Number 7, March 2015
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EUROPEAN
MICROFINANCE
PLATFORM

NETWORKING WITH THE SOUTH

5th European Microfinance Award Microfinance and the Environment

European Dialogue Number 7, March 2015

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Clarmondial GmbH

With the support of



THE GOVERNMENT
OF THE GRAND DUCHY OF LUXEMBOURG
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FOREWORD

FOREWORD

The natural environment, even if sometimes it goes unperceived, sustains every human action. Clean air and water are fundamental for life, a mild climate and fertile soils are necessary for food and livelihoods, access to resources and energy are the building blocks for every economic activity.

However the present socio-economic development threatens the environment. Deforestation, pollution, biodiversity loss, and climate change are the consequences of unsustainable human activities and they undermine human livelihoods both at medium and long term. The poor living in developing countries are, and will be, the most affected, especially if they directly depend on agriculture. Biodiversity loss, deforestation and climate change reduce resources, expose subsistence agriculture and economic activities to higher risks, and increase price volatility for staple food and energy.

Poor households and microenterprises, even if not directly responsible for climate change, often contribute to local pollution, through inefficient processes, use of chemicals, local deforestation, with subsequent negative effects on health, education and income. There are many reasons: lack of financial capital, human capital and awareness are common barriers. Microenterprises and poor households in developing countries are hence both affected by and contribute to environmental degradation.

Microfinance directly or indirectly supports the activities and needs of millions of poor households and microenterprises worldwide, and it is therefore affected by environmental degradation through increase in portfolio risk, and it indirectly contributes to environmental degradation by funding microenterprises and other activities of poor households.

Microfinance institutions (MFIs) have in principle, multiple economic and social reasons to engage in environmental conservation: reduce the exposure of their portfolio to increasing risk, support more efficient, less expensive and more rewarding technologies

and practices for their clients, improve their institutional social responsibility, diversify their products in competitive markets, and access to new funds.

Environmental degradation is often related to important needs of MFIs' clients, such as access to energy or improvement of agricultural practices, and MFIs could be well situated to fulfil such needs and contribute to improving local environmental practices. Often using lanterns and clean cook-stoves is less polluting and cheaper than traditional lamps, but requires an upfront investment. However, the market need is large indeed: globally over 1.3 billion people are without access to electricity and 2.6 billion people are without clean cooking facilities. Similarly, adapted seeds, diversification strategies, agricultural microinsurance, etc. could be more rewarding and reduce long-run risk farming, but require costly changes upfront. Here too the need is large: 80% of the people suffering from hunger, i.e. 700 million people, are rural and many more are exposed to weather hazard and climate change.

An MFI can engage in environmental conservation along different axes that together form what is nowadays called "green microfinance": promote internal environmental policy, reduce its environmental footprint, mitigate the environmental risk of their clients' activities through environment credits risk assessment, or directly foster opportunities and needs through green credits and adapted non-financial green services, such as training or awareness raising.

Green microfinance is small, but it is growing rapidly. More and more MFIs, investors, donors, and networks get interested in and implement new and innovative initiatives.

However the implementation of green microfinance is often undermined by various factors, among which: lack of adapted funds for MFIs, adapted skills and knowledge for staff members, lack of environmental awareness, and the need to often engage in complex partnerships with other institutions such as energy companies or rural development agencies. Moreover environmental degradation is often a complex dynamic phenomenon supported by un-even socio-economic development and value chains, local habits, livelihood strategies, and local power relationships – challenges that cannot be easily addressed by MFIs.

The Candidates for the 5th European Microfinance Award, 2014 are a microcosm of what committed MFIs can do to foster environmental sustainability. Many, including two of the finalists – XacBank and ESAF – provide examples of how MFIs can enable poor families to benefit from clean energy and energy efficiency. Some, like the 2014 winner, Kompanion, exhibit how MFIs can foster sustainable land management. Others deal with climate change, environmental risk management or sanitation.

Though green microfinance is still arguably in its infancy, some of the candidates have shown impressive outreach: 24,000 clients for Kompanion, and over 70,000

clients for both ESAF and XacBank. Such numbers exemplify what committed MFIs can accomplish in a matter of a few years. Meanwhile, many of the candidates shared projects still in the pilot phase, providing only a few hundred green loans.

Indeed there is a common consensus in the field of green microfinance that scale and sustainable models are among the major issues to be addressed in the coming years. The diversity of MFIs, ranging from small NGOs to major financial actors dispersed over 19 countries, and the diversity of the green products they provide, suggests that green microfinance is indeed a growing trend. Moreover, various MFIs state that their main reason to engage in green microfinance was the fulfilment of clients' needs, a fact that supports the social aspect of environmental conservation.

Many challenges remain. Environmental degradation is usually a dynamic complex struggle induced or sustained by uneven socio-economic development and habits. Its outcomes, even if supported by regional and international factors, are at local level and customised solutions, socially embedded, and adapted to local and territorial dynamics are probably required. Careful impact studies embracing the socio-environmental complex relations are missing.

Nevertheless, this is an exciting future for green microfinance in terms of opportunities, innovations and development. Congratulations to all ten finalists, who represent the vanguard of this future. The day will come when MFIs around the world will look back to the candidates for the 2014 European Microfinance Award, and see the beginning of a new era in microfinance practice.

Davide Forcella (CERMi-ULB)

INTRODUCTION

The European Microfinance Award was launched in October 2005 by the Luxembourg Ministry of Foreign and European Affairs – Directorate for Development Cooperation and Humanitarian Affairs to support innovative thinking in the microfinance sector. Awarded for the first time in 2006, it is jointly organised by the Luxembourg Development Cooperation, the European Microfinance Platform (e-MFP) and the Inclusive Finance Network Luxembourg (InFiNe.lu) in cooperation with the European Investment Bank (EIB).

Microfinance and the Environment

In recognition of increasing international focus on the linkages between financial, social and environmental capital, “Microfinance and the Environment” was the selected topic for the 5th edition of the European Microfinance Award.

Solutions that can improve both environmental and socio-economic factors are particularly important in emerging economies, where many low-income communities are directly reliant on local environmental resources for their economic well-being, and are among the most vulnerable to the impacts of environmental degradation.

Microfinance provides a key channel to tackling environmental issues. Microfinance institutions (MFIs) around the world are already engaged with hundreds of millions of poor individuals, providing capital to fund their livelihoods and products to help manage their household finances. Leveraging that relationship, MFIs can help individuals and their communities increase their local resource use efficiency. For example, they can facilitate access to energy saving technologies that reduce local household fuel wood consumption, thereby reducing pressure on local forests and habitats, and increase opportunities for individuals to improve their economic well-being so that they become more resilient to environmental changes. Appropriately integrating environmental considerations into MFIs’ operating models can generate powerful benefits for both the institutions and their clients, by reducing environmental risks, and help MFIs and their customers achieve more sustainable revenues.

The microfinance industry is increasingly looking to more environmentally conscientious business models, both in the context of their own operations as well as client products. Some MFIs are not only tracking and minimizing their own environmental footprint, but also grading clients’ risk based on environmental indicators – and integrating this information into decision-making. Environmental issues are now also considered by most of the leading microfinance industry rating agencies.

Microfinance institutions are tackling environmental issues through specialized products to clients in a variety of ways, according to local needs. Products cover topics ranging from household energy to animal husbandry, for example, in:

- Energy: promoting the use of renewable and more efficient products through dedicated credit lines and awareness raising programs. Integrating subsidies and including voluntary carbon credits to increase local households' access to more efficient energy products.
- Biodiversity: developing specialized credit products that support local biodiversity, e.g. in farming and pastoral landscapes, and complementing this with training programs to help customers improve their profitability, including supporting increased access to certification schemes.
- Water: working with local manufacturers to design low-cost sanitation solutions, and developing specialized financing products that support uptake, thereby reducing localized water pollution and improving health.

Through the 5th European Microfinance Award, the European microfinance community sought to promote greater integration of environmental issues in MFIs, and raise awareness about successful programs, thereby inspiring further research, financing and implementation of similar concepts.

Selection Process

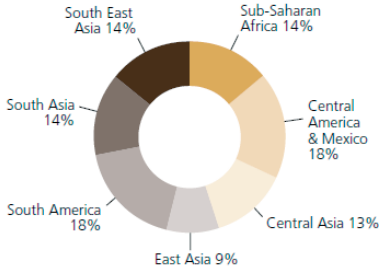
The aim of the 2014 Award on “Microfinance and the Environment” was to recognize sustainable MFIs, with a sound financial and social performance, that aspire to internalize environmental considerations in their business. These principles were reflected in the application form and evaluation matrix, which in addition to providing information on the specific environmental initiatives proposed for the Award, also assessed the MFI's environmental policies and their approach to integrating environmental risks.

In addition to evaluating the applicants' environmental performance and level of impact, this edition of the Award marked the first time an acceptable financial and social performance was a prerequisite for pre-selection. The application thus reinforced the idea that truly sustainable businesses must address the “triple bottom line” of economy, society and environment.

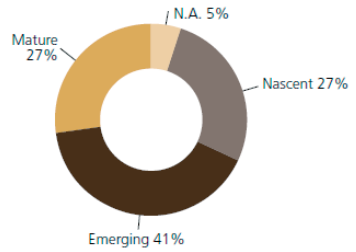
A total of 26 eligible applications from 19 countries were received and went through a rigorous evaluation procedure. A breakdown of the pre-selected applications by geographic region, initiative type, maturity, existence of environmental policy and applicant scale is given on page 9.

INTRODUCTION

Applicant region

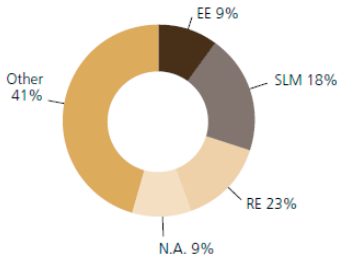


Initiative maturity



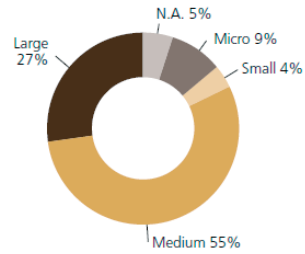
More than 3 years (Mature) Less than 1 year (Nascent)
 1-3 years (Emerging) N.A. (Not applicable)

Initiative type



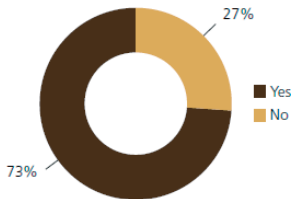
Renewable Energy (RE) Sustainable Land Management (SLM)
 Energy Efficiency (EE) Other (includes combinations)

Applicant scale



> 100k clients (Large) 10-1k clients (Small)
 100-10k clients (Medium) < 1k clients (Micro)

Environmental policy & risk assessments implemented over 1 year old



Applications that met the required criteria for financial and social performance proceeded to the three-stage selection process. Selection of the ten best candidates was made by a First Selection Committee of members of the European Microfinance Platform (e-MFP). These ten applications were then further evaluated by a Second Selection Committee from the Inclusive Finance Network Luxembourg (InFiNe.lu) who nominated the three finalists (in alphabetical order): ESAF Microfinance (India), Kompanion (Kyrgyzstan) and XacBank (Mongolia). The High Jury had the difficult task of selecting the winner from among these finalists.

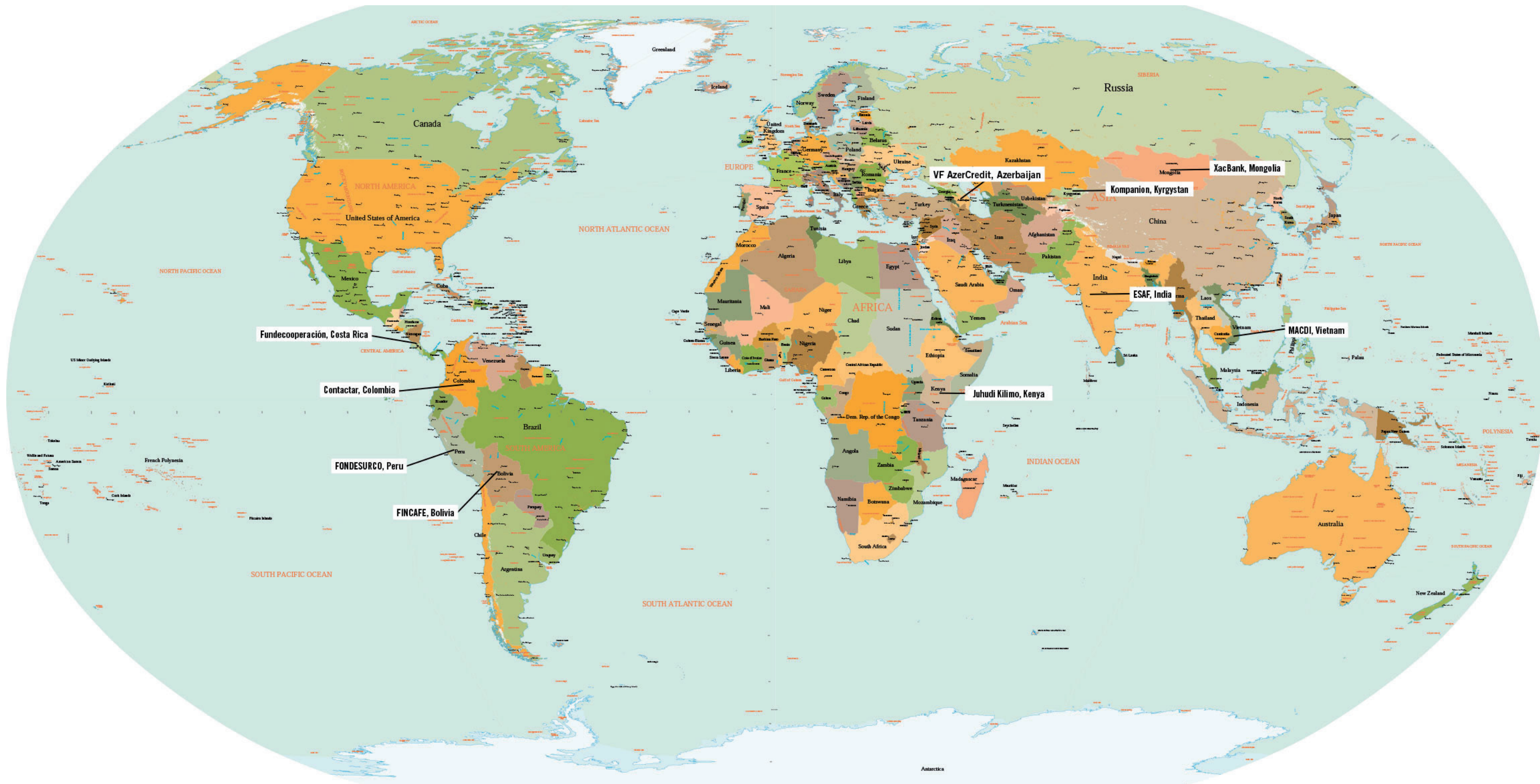
Kompanion Financial Group from Kyrgyzstan won the 5th European Microfinance Award and the €100,000 prize for its Pasture Land Management Training Initiative, which provides a specialized “Credit for Conservation” loan linked to a training program for livestock farmers that promotes sustainable land management practices and helps restore previously degraded lands.

The 5th European Microfinance Award was presented during a ceremony held on 13th November 2014 at the European Investment Bank in the middle of the e-MFP-hosted European Microfinance Week, with Her Royal Highness The Grand Duchess of Luxembourg presenting the Award, and presentations by Romain Schneider, the Luxembourg Minister for Development Cooperation and Humanitarian Affairs; Werner Hoyer, President of the European Investment Bank; Michel Maquil, Chairman of InFiNe.lu; and Moderator Bob Christen, President, Boulder Institute of Microfinance.

Microfinance and Environment Initiatives

This publication presents the ten initiatives shortlisted during the selection process for the Award:

| Winner | <i>Initiative name</i> |
|---|--|
| Kompanion Financial Group <i>Kyrgyzstan</i> | Pasture land management training initiative: an ethno-ecological approach to pasture land preservation |
| Finalists | |
| ESAF Microfinance and Investments Pvt Ltd - EMFIL <i>India</i> | Improving access to green products for the low income microfinance clients of ESAF |
| XacBank LLC <i>Mongolia</i> | Eco product program |
| Semifinalists | |
| Asociación de Servicios Financieros Cafetaleros - FINCAFE <i>Bolivia</i> | Finance for sustainable coffee practices |
| Corporación Nariño Empresa y Futuro - Contactar <i>Colombia</i> | Two initiatives: Sustainable clean production & Green products |
| Fondo de Desarrollo Regional - FONDESURCO <i>Peru</i> | Renewable energy products and financing for mitigation & adaptation |
| Fundación Fundecooperación para el Desarrollo Sostenible <i>Costa Rica</i> | Technical assistance and financing for sustainable agriculture practices |
| Juhudi Kilimo Company Ltd. <i>Kenya</i> | Juhudi labs clean energy program |
| Microfinance and Community Development Institute - MACDI <i>Vietnam</i> | Two initiatives: biogas loan & double vault latrines |
| VisionFund AzerCredit <i>Azerbaijan</i> | Management of indirect environmental impacts |



Fundecooperación, Costa Rica

Contactar, Colombia

FONDESURCO, Peru

FINCAFE, Bolivia

VF AzerCredit, Azerbaijan

Kompanion, Kyrgystan

XacBank, Mongolia

ESAF, India

Juhudi Kilimo, Kenya

MACDI, Vietnam



KOMPANION FINANCIAL GROUP, KYRGYZSTAN

Pasture Land Management Training Initiative: An Ethno-ecological Approach to Pasture Land Preservation in Kyrgyzstan

| | |
|---------------------------------|------------------------------------|
| Website: | www.kompanion.asia |
| Legal status: | MFI |
| Country: | Kyrgyzstan |
| Number of clients: | 108,596 (as of December 2013) |
| Date of establishment: | 2004 |
| Portfolio: | € 60,751,700 (as of December 2013) |
| Average loan size: | € 827 |
| e-MFP supporting member: | Oikocredit |

Snapshot

Kompanion provides a range of lending services throughout the country (with a focus on the rural areas) while also addressing pasture-land degradation and biodiversity loss in Kyrgyzstan.



Institutional Profile

Established in 2004 by the international NGO Mercy Corps, Kompanion Financial Group (Kompanion) serves 108,596 clients as of December 2013 and has 141 offices across all seven regions of Kyrgyzstan, employing 915 staff. It is the third largest microfinance institution in the country in terms of clients and loan portfolio. Kompanion provides microcredit together with technical assistance and advisory services to a client base largely comprised of smallholder farmers and livestock holders. Dedicated to promoting the principles of sustainable agriculture and natural resource management, Kompanion also maintains a staff of 32 agronomists and veterinarians to provide hands-on training and other community focused development services.

Financial and Social Performance

Operationally and financially self-sufficient, Kompanion's loan portfolio has grown steadily from EUR 28.9 mln in 2010, to EUR 60.75 mln in 2013. Kompanion has an institutional rating of A- from M-CRIL (April 2014).

Kompanion focuses on providing community development financial services to the rural poor. Over 97% of Kompanion's loans are group loans and over 80% of the client base is comprised of women, with over 80% of all clients living outside the main urban areas. Among the staff, 55.3% are female. Kompanion has a proprietary Impact Measurement System which tracks 33 development indicators that are integrated into performance measurement. The company also has dedicated and well-considered approaches to dealing with prevention of over-indebtedness, client complaints and developing new products and services. Given Kompanion's focus on the Client Protection Principles, it was one of the first MFIs in the country to receive Smart certification for client protection.

Environmental Governance

The organization has an environmental policy, which was adopted in 2011. Kompanion actively collects and, where appropriate, adopts scientific and cultural practices to help its clients. Ethno-ecological principles are embedded into curriculum materials, which are used by the organisation's agronomists and veterinarians, who provide training to clients. Kompanion is actively taking steps to address its internal environmental footprint (e.g. installing energy-efficient household stoves), but is only starting implementation of an internal environmental footprint tracking system.

In addition to supporting community development at the household level, Kompanion cooperates with a local foundation which helps to create and test new environmental technologies. This relationship has benefitted both the foundation by providing additional resources, and Kompanion by increasing its access to new products for clients.

In addition, Kompanion has an Environmental and Social Risk Assessment Policy, in place since June 2012, which requires loan officers to take environmental measures into consideration in their lending recommendations. This allows Kompanion to actively track client groups, categorising them by risk rating and providing them with additional training to adjust their business or agricultural practices prior to loan disbursement.

Brief Description of the Initiative

Kompanion's initiative "Pasture land management training initiative: an ethno-ecological approach to pasture land preservation" is a specialised loan package (Credits for Conservation) linked with a training program for livestock farmers. This training programme consists of a specially designed curriculum for borrowers, which educates livestock farmers on sustainable agricultural practices, i.e. grazing land management and preservation. The loan package was initially designed as a concessional "starter" loan offered to motivate rural livestock farmers to participate in the trainings and implement new land management techniques on their pasture land plots. It has since been scaled up to a wider customer base. The initiative helps increase awareness about borrowing opportunities, and helps the borrowers become more efficient in their resource use, and thereby better off, while preserving the local environment. It also meets a relevant, recognized local concern among the client base: livestock productivity and land degradation. The initiative was first conceived in 2011. Training materials were developed in the following year, when the first trainings also took place.

Analysis of the Initiative

Relevance of the Initiative to the Environment

Kompanion's initiative addresses the pressing issue of pastureland degradation in Kyrgyzstan. Pastures account for 85% of all agricultural land in Kyrgyzstan and are vitally important for the national economy. According to official statistics, poor land management practices have reduced yields by 14% over the past 70 years, severely degraded 25% of pasturelands and degraded vegetation in 58% of pasturelands. Most degradation occurs around villages. Through the Kompanion initiative, local land managers are taught how to sustainably optimise grazing land, tend their livestock and are made aware of their legal rights to help them protect their stake in the local environmental resources. The initiative specifically addresses land degradation and helps to conserve, and increase, local biodiversity.

Financial Sustainability

The initiative is entirely self-funded. Training sessions are free and provide opportunities for borrowers and potential borrowers to improve their income-generating capacity. There have been zero delinquencies on the 'Credit for Conservation' loans, while Kompanion's overall financial performance, including income from other activities, supports the added operating costs of the trainings, support staff and other project expenses. Kompanion recognizes the initiative as a valuable strategy to grow the business as it reduces cost of client acquisition, lowers exposure to borrower and collateral risk and reduces exposure to market and concentration risk.

Innovation, Scale-Up and Replication Potential

The initiative's innovation is in targeting issues overlooked by most rural MFIs, preventing and addressing land degradation and preserving biodiversity. By combining ethnic ecological knowledge and modern agricultural science, it further encourages adoption of sustainable land management practices.

Kompanion plans to scale-up the initiative within the next 2-3 years, especially given the effort and thoroughness that has gone into developing a scientifically credible curriculum, combining both local and international knowledge. The initiative is replicable, particularly in areas with similar environmental conditions (Mongolia, Inner China, Uzbekistan, Kazakhstan) and in areas where there are significant numbers of pastoralists facing pasture land degradation and desertification (e.g. the Sahel region in Africa, etc).

Kompanion recognised that there are scaling-up challenges; in particular including more remote villages. Kompanion plans to overcome these by inter alia, letting the agronomists and veterinarians working in the program sell services directly to villagers when they come for the training courses, and by exploring opportunities for giving lessons remotely (e.g. phone / internet).

Impact of the Initiative

Initiative Outreach: In 2014, 3,825 participants registered for initiative training courses and since 2011, over 24,000 individuals have participated in the training. In addition, Kompanion estimates that over 100,000 rural community members have been impacted by the initiative (e.g. through information sharing by community members).

Changes Observed: As a result of the program, pasture productivity (and overall incomes) among clients have reportedly increased and remained more stable. According to Kompanion's estimates, herders' incomes have increased ca. 30% and costs decreased by 15% as a result of the initiative.

Kompanion tracks a range of relevant, quantitative and qualitative impact metrics on the initiative, linked to social indicators, environmental attitudes and behaviour. These indicated, for example that the rate of overgrazing declined from 79.9% in 2013 to 75.4% in 2014. Use of harmful chemicals (fertilizers, pesticides, insecticides) marginally reduced and organic compost use increased from 15.5% in 2013 to 44.7% in 2014. Uptake of beneficial biological soil management techniques increased from 3.1% in 2013 to 8.5% in 2014. Hormone use in livestock breeding decreased from 12% in 2013 to 9% in 2014. These changes were tracked by Kompanion's Impact Measurement System.



ESAF MICROFINANCE AND INVESTMENTS LIMITED - EMFIL, INDIA

**Improving Access to Green Products for the Low Income Microfinance Clients of ESAF:
Clean Energy for the Poor**

| | |
|---------------------------------|---------------------------------|
| Website: | www.esafmicrofin.com |
| Legal status: | MFI |
| Country: | India |
| Number of clients: | 446,862 (as of March 2014) |
| Date of establishment: | 1992 |
| Portfolio: | € 73,614,100 (as of March 2014) |
| Average loan size: | € 169 |
| e-MFP supporting member: | Oikocredit |

Snapshot

ESAF sources and facilitates access to appropriate clean technologies in India.



Institutional Profile

ESAF started as a development organisation in 1992, focused initially on setting-up women's self-help groups. It has since become one of the fastest-growing MFIs in India. ESAF offers a range of products, including loans for income generating activities, water, sanitation, enterprise development, dairy, clean energy, etc. It has worked with a range of local and international institutions including local government agencies, the World Bank and International Labour Organisation (ILO), Micro Energy Corporation (MEC, USA), and Oikocredit.

Financial and Social Performance

The MFI has demonstrated its financial and social performance. ESAF has an institutional rating of mFR2 from CRISIL (March 2014), on an upward trend: from mFR4 in 2009, 2010, 2011 to mFR3 in 2012.

ESAF uses a social return on investment (SROI) process, which tracks clients' access to non-financial services. The specific social indicators that are tracked include: percentage of clients with a physical disability, women headed households, health insurance access, medical insurance access, clean energy product access, water & sanitation facilities and enterprise ownership.

Nearly all (99%) of ESAF's clients are female, and 85% of active clients are in rural areas. The MFI uses the Progress out of Poverty Index (PPI)¹ to track the poverty status of clients. Social Performance Management (SPM) training is conducted for staff and regional managers are required to report on social performance. Half-yearly client satisfaction surveys are done to ensure product quality and relevance. A staff grievance procedure is also in place. In addition to financial services, ESAF provides enterprise development support, along with education, health, and women's empowerment services. The majority of the staff (65%) is female. The staff turnover rate was 9.57% in the last year.

Environmental Governance

ESAF has an Environment policy and is at implementation stage. The MFI initiated its program "Clean Energy for the Poor" (CEP) in 2009 in recognition of some of the local environmental challenges. ESAF has considered some of the organizations' potential environmental footprint risks, and is working to tackle these.

In addition to the CEP initiative presented for the Award, the institution is developing a range of agricultural, biogas and composting projects in collaboration with the local Agricultural Technology Management Agency, and through their Agri-Intervention

1 An index developed by The Grameen Foundation, this is a poverty measurement tool for organizations and businesses with a mission to serve the poor. More information can be found at www.progressoutofpoverty.org.

and Mentoring (AIM) livelihood support program. ESAF also works on environmental projects with local government agencies (e.g. on a water project with the government of Kerala). The MFI has also distributed seeds and saplings to over 10,000 clients to provide them with new income generating opportunities, and promote household food security. Moreover, they organise lessons for local communities on environmental issues, such as climate change.

Brief Description of the Initiative

ESAF launched CEP to enable poor, rural communities to access beneficial technologies including solar solutions, energy efficient cook stoves, and water filters. These products help clients attain cost savings while conserving natural resources. For example, they help to reduce usage of kerosene, wood fuels, dung and charcoal by providing renewable, clean, energy alternatives.

A core team of ten staff supports the initiative, while 1,600 staff at the branch level are client facing. Products are screened for their relevance to local communities before accepting them into the portfolio of devices. ESAF works with a wide range of suppliers and partners who have gone through a careful selection process to ensure the appropriateness and quality of their products: more than six solar suppliers, a cook stove supplier, a water filter supplier, and a carbon credit aggregator and sales agent. ESAF also collaborates with a range of service providers who support CEP, including media partners for the development of promotional videos.

CEP was launched in October 2009, and a Memorandum of Understanding (MOU) signed with MEC in October 2011. In April 2012 a new business unit was created within ESAF to spearhead the initiative. In January 2013 a MOU was signed with the Climate Change Finance Innovation Facility, Frankfurt School of Finance & Management. In June 2012 ESAF launched the energy loan program in Kerala state, and was subsequently scaled up to five branches. In 2013 the initiative was scaled up to central India (three additional states) and in 2014 it was launched in two additional states. In June 2013 the initiative won an award from the India Development Marketplace – World Bank.

Analysis of the Initiative

Relevance of the Initiative to the Environment

This initiative is locally relevant: according to the Asian Development Bank (ADB), rural Indian household are energy poor and forced to rely on hazardous, expensive, and polluting sources of energy² for lighting, food preparation, sanitisation and to power

2 Asian Development Bank (2013), "Affordable pay-as-you-go solar power for India's energy-poor homes". Available from: <http://adb.org/sites/default/files/pub/2013/affordable-solar-power-india-energy-poor-homes.pdf>.

local economic activities. The initiative addresses pressing local environmental and economic issues such as energy security and health (i.e. access to clean water).

Financial Sustainability

The CEP is financially viable, as ESAF takes a profit margin on each technology sold through its distribution system of circa 10%. The CEP runs on ESAF's existing distribution system, and therefore results in little additional cost to the organisation. A contracted retail company manages supply and delivery to the customers. The program has shown good growth potential, with sales of 30,000 devices and EUR 471,000 in just 6 months.

Innovation, Scale-Up and Replication Potential

CEP is innovative in that it is owned and managed by the MFI (i.e. ESAF), who takes a proactive approach rather than letting the suppliers / manufacturers use ESAF's client base in return for commissions. ESAF designs specific loan packages around clean energy products, and screens the suppliers to ensure quality. ESAF intends to leverage returns from sales of voluntary carbon credits to cross subsidize and build infrastructure to support these projects.

The CEP is now being scaled up to six states, and ESAF is targeting to sell a total of over 10m products by 2020. CEP is replicable for other organizations with genuine interest in environmental objectives and goals. ESAF estimates that successful program design and implementation would take approx. five years, and encourages potential replicating organisations to take a long-term approach.

Impact of the Initiative

Initiative Outreach: To date (March 2014), around 70,000 clients have been reached, out of whom 68% live on below USD \$2 per day, and 90% live in rural areas. The program has had spill over effects in the community – ESAF estimates that over 100,000 additional people have benefited from the initiative.

Changes Observed: According to ESAF, more than 50% of clients report “feeling better” in terms of their health (the clients using cook stoves and water filters), around 25% report spending less on energy, around 40% say they have more time with their families and time to get involved in other income generating activities because they do not have to collect firewood. Clients also reported that children's reading habits have improved as a result of the solar lamps.



XACBANK LLC, MONGOLIA

Eco Product Program

| | |
|---------------------------------|---|
| Website: | www.xacbank.mn |
| Legal status: | MFI & commercial bank |
| Country: | Mongolia |
| Number of clients: | 620,568 individuals and 13,851 SMEs (as of December 2013) |
| Date of establishment: | 2001 |
| Portfolio: | € 472,000,000 (as of December 2013) |
| Average loan size: | € 3,297 |
| e-MFP supporting member: | The Netherlands Development Finance Company (FMO) |

Snapshot

An MFI/commercial bank tackling environmental and health issues by increasing access to efficient clean energy products in Mongolia's capital Ulaanbaatar.



Institutional Profile

XacBank has grown rapidly since its establishment in 2001, and is now the fourth largest bank in Mongolia. It is the only Mongolian bank with a dedicated Eco Banking department (established in 2009). In addition to serving over 600,000 clients in 2013, XacBank also had almost 14,000 commercial enterprises. It provides a range of financial services and loan products.

The Bank works with many partners, both local and international including IFC, EBRD, Vittana, Mercy Corps, Child & Youth Finance International, Oikocredit, FOM, Cyrano, responsAbility and others, to constantly assess opportunities and needs. XacBank also works with the Mongolian federal government (Ministry of Environment & Green Development) and the Ulaanbaatar Clean Air Program.

Financial and Social Performance

XacBank is financially sound and has shown significant growth over the past three years. The gross loan portfolio grew by 25%, public deposits grew by 21%, and the Bank's net profit grew by 26% between 2011 and 2013. XacBank has a diverse client portfolio, from major commercial borrowers to poor rural households. Of its retail clients, nearly a quarter are microloan borrowers, many of whom live in the 'ger' (traditional nomadic hut) districts surrounding Mongolia's urban centres. Residents of 'ger' districts often lack basic sanitation, clean water, plumbing and central heating.

In 2007, XacBank endorsed the UN Global Compact³ and became an adherent to the Global Reporting Initiative (GRI)⁴. In 2002, the Bank implemented a Social and Environmental Management System and in 2014 introduced ISO 14001 standards. XacBank has published its social and environmental policy, and has periodically undergone financial and social ratings between 2004 and 2010, and is currently being evaluated for 2014 by Planet Rating. XacBank has also used Planet Rating's GIRAFE methodology to ensure a sustainable growth strategy. A specific Sustainable Team within XacBank's compliance department ensures adherence to policies. In 2011, XacBank used the Progress out of Poverty Index (PPI) to track its impact, and results are integrated into the company's operations. Over 60% of XacBank's staff is female.

3 The UN Global Compact is a framework that is endorsed by chief executives, which commits businesses to align their operations and strategies with 10 universally accepted principles in the areas of human rights, labor, environment and anti-corruption. These can be found at www.unglobalcompact.org

4 The GRI is a leading organization that promotes sustainability reporting, it provides a suite of good practice reporting guidance for different sectors. More information can be found at www.globalreporting.org

Environmental Governance

XacBank has had an environmental and social policy since 2002, which includes the entire IFC exclusion list. A Social & Environmental Management System was implemented in 2008. Each loan requires a social and environmental assessment, and the institution maintains a sustainability compliance team within its credit risk department, whose duties include carrying out internal audits.

XacBank has an Eco Banking department, which acts as a consultant to local businesses seeking to improve their energy efficiency. In line with this, it also distributes and markets environmental products (e.g. the technologies described below) and provides complementary advisory services. This initiative helps to transfer support provided by international organisations such as the Global Climate Partnership Fund facility.

Brief Description of the Initiative

Xacbank's "Eco Product Program" focuses on distribution of energy efficient products to 'ger' district households in Ulaanbaatar. The initiative was conceived in 2008 and was initiated in 2010 by a facility from FMO and subsidized by the Millennium Challenge Account – Mongolia, Mongolia's Clean Air Fund and the World Bank. Products are distributed and subsidized through the sale of carbon offsets to the CDM and voluntary carbon markets and combined with microloans to make the product affordable to all clients.

Analysis of the Initiative

Relevance of the Initiative to the Environment

The "Eco Product Program" aims to improve the local environment by reducing air pollution. The World Health Organisation (WHO) has labelled Ulaanbaatar the second most polluted city in the world primarily due to particulate matter from inefficient stoves. Therefore, the program focuses on reducing urban coal consumption and greenhouse gas (carbon) and particulate matter emissions. Stoves are tested to ensure they meet the program's standards and that they can reduce coal use by approx. 50%.

Financial Sustainability

The "Eco Product Program" initiative is currently funded through concessional funding from XacBank's partners, which the organisation plans to replace through sale of carbon credits when the concessional funding is set to expire in 2015. The program is expected to break even in 2016, according to carbon sales contracts.

Innovation, Scale-Up and Replication Potential

The program's innovation lies in its use of microfinance and carbon revenue to extend access to clean energy technology to the poor. Through the initiative, XacBank has already reached approximately 80% of the families in Ulaanbaatar's 'ger' districts and expects to scale up to 90% penetration. Beyond that, XacBank expects to scale up to

Mongolia's other larger cities. XacBank states that the initiative is replicable in other locations, depending on institutional and partner commitment.

Impact of the Initiative

Initiative Outreach: More than 165,000 products have been distributed since the program's inception, and of these, 71,227 of the recipients were XacBank clients (11.5% of total clients).

Changes Observed: Each improved stove sold reduces greenhouse gas and particulate matter emissions and helps to reduce coal demand. This reduces smoke in the 'gers' and houses and reduces family heating costs (a family may spend as much as 45% of winter income on coal – the improved stoves use about half as much coal). The program has reduced an estimated 380,000 tons of carbon dioxide equivalent since its inception, with over 2 million tons of carbon estimated to be avoided by 2019 due to the program. Each stove in the program emits at least 75% less particulate matter. In addition, a related advisory program for the Bank's commercial clients has helped to reduce carbon emissions by about 180,000 tons.



ASOCIACIÓN DE SERVICIOS FINANCIEROS CAFETALEROS - FINCAFE, BOLIVIA

Holistic System for Ecological Production of Coffee

| | |
|---------------------------------|---------------------------------|
| Website: | www.fincafe-efc.org |
| Legal status: | NGO |
| Country: | Bolivia |
| Number of clients: | 285 (as of December 2013) |
| Date of establishment: | 2002 |
| Portfolio: | € 636,290 (as of December 2013) |
| Average loan size: | € 1,625 (for individual loans) |
| e-MFP supporting member: | SOS FAIM Belgium |

Snapshot

FINCAFE is an NGO collaborating with Bolivian coffee producers to link microfinance with the promotion of sustainable coffee production.



Institutional Profile

Established in 2002 by 26 coffee producing organizations, FINCAFE is the financial arm of FECAFEB – the Bolivian association of coffee exporters. The group started microfinance operations in 2007. FINCAFE currently covers 285 clients, of whom 270 are farmers (“crédito individual”) and 15 rural cooperatives (“crédito asociativo”). In 2015, the organization will become a Community Financial Institution regulated under the new Financial Services Act of Bolivia, in order to extend the coverage of their services and financial products to coffee producers.

FINCAFE has developed a financing technology aligned with the reality and situation of the coffee producers to support productive investment and working capital for coffee harvesting and export.

Financial and Social Performance

FINCAFE recently achieved financial sustainability, although profitability is still low. FINCAFE is reducing debt levels and increasing its own resources, however the portfolio has remained at approximately the same level since 2011. FINCAFE encourages the producer’s organizations that it deals with to report on a selection of ecological production and social metrics.

Environmental Governance

FINCAFE focuses on “green value chains”, in other words value chain financing with an ecological component.

Brief Description of the Initiative

The initiative, “Holistic System for the Ecological Production of Coffee”, was conceived in 2011 and it involves working with Bolivian coffee farmers to facilitate uptake of improved farming practices. FINCAFE works with the coffee producers’ association by providing information on sustainable practices to local coffee producers and providing credit to producers to help them implement improved practices. The coffee producers’ association supports its members to implement sustainable practices, including helping them achieve organic certification. Some 85% of the coffee producers involved with FINCAFE’s initiative have received organic certification.

Analysis of the Initiative

Relevance of the Initiative to the Environment

The initiative addresses a gap in financial services for coffee producers that enables sustainable increases in production yields and quality. Bolivia is South America's poorest country; about two-fifths of the population are engaged in agriculture and are being challenged by natural resource degradation (in particular soil degradation), lack of adequate technologies, and limited rural infrastructure. The Government and development partners are attempting to tackle rural poverty by promoting Bolivia as a producer of high-quality, specialty coffee.⁵ FINCAFE's initiative is therefore highly relevant to the country and the sector.

Financial Sustainability

The financial sustainability of the initiative is yet to be proven.

Innovation, Scale-Up and Replication Potential

Though growth of the initiative is possible, it is constrained by the size of the organization. Replication potential clearly exists, in particular among cooperatives dealing with similar commodities.

Impact of the Initiative

Initiative Outreach: To date six coffee cooperatives have participated in the initiative, reaching some 100 farming families.

Changes Observed: n/a.

5 See Bolivia country profile of the New Agriculturalist: <http://www.new-ag.info/en/country/profile.php?a=3155>



CORPORACIÓN NARIÑO EMPRESA Y FUTURO - CONTACTAR, COLOMBIA

Two initiatives: “Sustainable Clean Production” and “Green Products”

| | |
|---------------------------------|--------------------------------|
| Website: | www.contactar-pasto.org |
| Legal status: | Not for profit MFI |
| Country: | Colombia |
| Number of clients: | 70,504 (as of May 2014) |
| Date of establishment: | 1991 |
| Portfolio: | € 51,263,500 (as of May 2014) |
| Average loan size: | € 872 |
| e-MFP supporting member: | MicroEnergy International GmbH |

Snapshot

Contactar promotes sustainable agriculture practices in Colombia, through farmer training and improved access to green products.



Institutional Profile

Contactar was established in 1991 but started microfinance activities in 1995. As of May 2014, it had 70,504 active clients and had 35 offices in the Southwest of Colombia, with 520 employees. This is a medium-size MFI in Colombia in terms of clients and by portfolio size. Contactar provides various microloan products to groups and individuals, as well as insurance services.

Financial and Social Performance

The organization is nearing operational and financial self-sufficiency. Contactar's loan portfolio has grown steadily over the past 10 years, reaching EUR 51M in 2013. In July 2013, the rating agency MicroRate assigned a B+ grade to Contactar.

Contactar focuses on providing services to the rural poor. Some 83% of clients are rural and over 45% of clients are female. Over 50% of the MFI's staff is female. The MFI has a clear commitment to its double bottom line, with incentives linked to social objectives and a code of conduct and mechanisms in place to ensure a responsible treatment of clients. In May 2012 MicroRate issued a social performance rating report assigning 4 stars (out of 5) to Contactar, grading its social performance as "Excellent".

Environmental Governance

Contactar started implementing environmental practices in December 2013, combining it with its Human Resources (HR) and social activities. The organization has established relevant institutional structures to integrate environmental issues into its operations. Senior management and Contactar's Board of Directors are in the process of finalizing an environmental policy. Although various activities have already taken place internally and in relation to clients, there is as yet no formal policy in place.

Brief Description of the Initiative

Contactar proposed two initiatives for the Award. The first, "Sustainable Clean Production", uses a portion of retained earnings to promote sustainable agriculture practices; it was launched in February 2012. The second, "Green Products", uses microcredit to finance organic fertilizer, green houses, bio digesters, solar coffee driers, water filters, etc. It was launched in June 2012.

Analysis of the Initiative

Relevance of the Initiative to the Environment

The sustainable management of agricultural processes promotes the efficient use of farm resources, significantly reducing the use of inputs with high environmental risk while potentially increasing production yields. Typical activities include producing compost from manure and crop residues, water recovery, the use of greenhouses and

the recovery of native biodiversity. The primary beneficiaries of the initiative are rural households, microenterprises, local technology suppliers and distributors in Colombia. The initiatives are relevant to the local setting in that smaller-scale Colombian farmers both impact, and are impacted by, environmental changes including water stress, soil and local resource degradation, and pest and disease outbreaks. Contactar's initiatives provide relevant information to farmers and help facilitate access to products that can minimize economic and environmental impacts.

Financial Sustainability

The first initiative, "Sustainable Clean Production" is not yet financially sustainable. Contactar is still analyzing this initiative as a standalone business line. The second initiative, "Green Products" is based on micro loans and is likely to be financially sustainable, however information is still being gathered to prove the business case. Contactar views this second initiative as a natural part of its operations given the focus on rural clients. It is notable that Contactar is largely funding this initiative with its own resources.

Innovation, Scale-Up and Replication Potential

The proposed initiatives are innovative in Latin America, in their use of microcredit to support the purchase of green products, such as biodigesters, greenhouses and energy efficient solutions.

Both initiatives are fairly recent and to-date, cover a limited number of clients. Contactar plans to scale-up the initiative within the next five years, but has not yet released detailed plans on this next phase of its development.

Impact of the Initiative

Initiative Outreach: To date, the first initiative, "Sustainable Clean Production" has reached over 8,000 people, while the second initiative, "Green Products" has reached some 1,600 people in its first two years.

Changes Observed: Contactar refers to improvements in living standards and higher agricultural production. Contactar is in the process of developing and implementing robust impact monitoring tools.



FONDO DE DESARROLLO REGIONAL - FONDESURCO, PERU

Microloans for Environment Conservation Through Adaptation and Mitigation in Rural Areas in Southern Peru

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|---------------------------------|---------------------------------|
| Website: | www.fondesurco.org.pe |
| Legal status: | Not for profit MFI |
| Country: | Peru |
| Number of clients: | 10,649 (as of March 2014) |
| Date of establishment: | 1994 |
| Portfolio: | € 15,775,700 (as of March 2014) |
| Average loan size: | € 1,585 |
| e-MFP supporting member: | ADA |

Snapshot

An MFI working with rural communities in Peru to help improve livelihoods while addressing climate change mitigation and adaptation.



Institutional Profile

FONDESURCO was established in 1994 through the merger of two NGOs (DESCO and CEDER) specialized in technical assistance to agricultural producers. It currently provides services in 14 provinces of the areas of Arequipa, Moquegua and Ayacucho in southern Peru. The main activity of most of its 10,649 clients is agriculture and subsistence farming. Early 2015, Fondesurco has become a Savings and Credit Cooperative.

Financial and Social Performance

The MFI is operationally and financially self-sufficient. It is profitable and has been growing steadily (5% to 10% p.a.). Planet Rating awarded it a B+ rating in November 2013.

FONDESURCO focuses on low-income populations in rural areas. All loan applications are subject to the Progress out of Poverty Index (PPI) analysis. Decision making process is coherent with the mission, and senior management regularly reviews data on PPI, client satisfaction surveys, client mix, etc.

Environmental Governance

FONDESURCO adopted an environmental policy in April 2013. The MFI has incorporated environmental risk in its credit scoring: the credit committee is responsible for checking the application against an exclusion list, and the loan officers receive a financial incentive for placing green products based on the additional amount of work involved.

Brief Description of the Initiative

The initiative proposed by FONDESURCO is titled “Microloans for Environment Conservation Through Adaptation and Mitigation in Rural Areas in Southern Peru”.

FONDESURCO is effectively promoting the uptake of specific green products in rural areas in Peru, that enable uptake of renewable energy products, and other products linked to climate change mitigation and adaptation (rain harvesting, better seeds, organic fertilizer, etc.). The initiative broadly refers to various measures linked to the environment, FONDESURCO started to pilot this initiative in 2011, and implementation has been ongoing since 2012. FONDESURCO has established a number of partnerships to develop and implement the initiative, including with MicroEnergy International, ADA, EnDev/GIZ Peru and the Frankfurt School UNEP Collaborating Centre for Climate and Sustainable Energy Finance.

Analysis of the Initiative

Relevance of the Initiative to the Environment

Low-income smallholder farmers in Peru are very vulnerable to the effects of climate change. Extreme temperatures, floods and droughts are already impacting Peru's farmers and studies suggest that these are linked to changes in global weather patterns. Temperature increases have been linked to an increase in pest and disease outbreaks, and reduction in crop yields.⁶

FONDESURCO's initiative "Microloans for Environment Conservation Through Adaptation and Mitigation in Rural Areas in Southern Peru" works to both improve lending processes by integrating climate risk assessment processes, and simultaneously developing credit programs to encourage activities beneficial to customers and the environment such as use of improved seeds, water efficiency measures, organic fertilizers, solar water heaters, efficient use of firewood for cooking, renewable energies, genetic improvement of livestock, etc.

Financial Sustainability

FONDESURCO tracks the performance of the green loan portfolio, and this portfolio is reportedly out-performing the overall loan portfolio. Overall, FONDESURCO is a profitable and self-sufficient MFI, and the initiative is well integrated within the institution and also contributes to the MFI's commercial success.

Innovation, Scale-Up and Replication Potential

FONDESURCO has an interesting MFI-wide approach, and is serious about integrating environmental concerns as a growth strategy and a way to reduce cost of capital. The MFI's approach is a corporate strategy rather than an isolated initiative. The initiative could be scaled up given access to suitable products.

Impact of the Initiative

Initiative Outreach: Some USD 1.4m (24%) of credits disbursed in 1Q14 were "green", and the MFI attracted new funders to support the initiative. FONDESURCO also established partnerships to deliver non-financial services, but outreach remains below 10% of client base.

Changes Observed: For the time being, there is no data available. The MFI has only just started the program on climate risk and energy, and this is still in a pilot phase.

6 World Bank (2009), "Peru: Country note on climate change aspects in agriculture". Available from: <https://openknowledge.worldbank.org/bitstream/handle/10986/9481/537990BRI0Cim10Box345626B01PUBLIC1.pdf?sequence=1>



FUNDACIÓN FUNDECOOPERACIÓN PARA EL DESARROLLO SOSTENIBLE,
COSTA RICA

Promoting Sustainable Agriculture Through New Green Funding Opportunities and Know-how

| | |
|---------------------------------|-------------------------------|
| Website: | www.fundecooperacion.org |
| Legal status: | Foundation |
| Country: | Costa Rica |
| Number of clients: | 97 (as of June 2014) |
| Date of establishment: | 1994 |
| Portfolio: | € 3,158,780 (as of June 2014) |
| Average loan size: | € 25,142 (as of June 2014) |
| e-MFP supporting member: | Alterfin |

Snapshot

A Costa Rican NGO using an MFI structure and approach to promote productive micro, small and medium-sized businesses, whose activities contribute to sustainable development within any of the following areas: sustainable agriculture, tourism, gender equity, productive chains and clean technologies.



Institutional Profile

Fundecooperación is a Non-Governmental Organization (NGO) in Costa Rica focused exclusively on sustainable development. Fundecooperación's microfinance activities currently cover 97 active clients. The NGO was created in 1994 as part of the Bilateral Agreement for Sustainable Development (CBDS) signed between the Netherlands and Costa Rica, focusing on the promotion and management of sustainable projects. The microcredit program "Crédito a su Medida" ("Tailor-made Financing") started in 2006-07, as a spin-off of the CBDS.

Financial and Social Performance

Fundecooperación is not a typical microfinance operation. With the understanding that "success is having the financing fit the project's needs", the loans provided are customized to meet each activity characteristics. This includes the adjustment of guarantees, credit term, payment schedule, and technical assistance through capacity building. Therefore, the average loan term is six years and the average amount is well above the regional at EUR 25,142.

The organization was created to promote social, economic and environmental sustainable development. Fundecooperación monitors and reports impact indicators on all initiatives, and it integrates these impact indicators into application forms and daily operations.

Environmental Governance

Environmental issues are a key factor in the analysis of credit applications and are enshrined in Fundecooperación's "Credit Regulations". The following activities are eligible for credit under the organisations' regulations: agroforestry, alternative (renewable) energy, energy efficiency, cleaner technologies, sustainable productive chains, sustainable tourism, and climate change mitigation and adaptation activities. Also, there are financing options for projects which are transforming from traditional practices to sustainable ones.

Brief Description of the Initiative

Fundecooperación's initiative is titled "Promoting Sustainable Agriculture Through New Green Funding Opportunities and Know-how". The initiative works to promote and finance sustainable agricultural practices in Costa Rica, including training and financial assistance for improved technologies and implementation of on-farm agroforestry systems.

Analysis of the Initiative

Relevance of the Initiative to the Environment

Small-scale producers in Costa Rica are suffering from volatile prices, escalating input costs, extreme weather and pest and disease outbreaks, leading to many farmers abandoning agriculture. In a commercial context, Costa Rica's farmers also face new challenges: understanding and keeping abreast of good agricultural practices, uptake challenges linked to mandatory certifications, high quality standards, food safety, traceability and environmental perception of their produce among others. These developments require not only a change of mind-set by the producers, but also new technical alternatives and credit support to foster opportunities for innovative and environmentally friendly development. Fundecooperación's initiative, which seeks to promote sustainable and innovative agricultural practices, supports awareness creation and uptake of improved practices by local farmers and technicians.

Financial Sustainability

Sustainability of the initiative is inherently linked to the financial robustness of the NGO. The initiative was conceived in 2006 and implemented in 2007, but due to the high cost and long term of the improvements required in agriculture, only 65% of the loans have been recovered to date. Despite some delays, the NGO remains confident on the success of this young portfolio - mainly due to its real estate backing.

Innovation, Scale-Up and Replication Potential

Fundecooperación is planning to scale-up the initiative. In 2015: it is targeting an annual growth of 10% of the microfinance portfolio, the approval of at least 24 "proyectos modelo" (demonstration projects), greater female participation, and establishment of more technical assistance projects. Although successful in Costa Rica, this initiative may only be replicable in less risky markets, where credit bureaus and collateral registries are well developed, and in situations where concessional funding is available.

Impact of the Initiative

Initiative Outreach: To date, from an active portfolio of 97 microfinance clients, 60 clients are involved in this initiative.

Changes Observed: Fundecooperación highlights the following achievements resulting from the initiative, including: uptake of more than 22 new low-emission technologies by clients, reduction of 50-60% in production costs, establishment of 7 producer knowledge management centers, creation of over 30 "agents of change", and financing for development of more than 70 green products.



JUHUDI KILIMO COMPANY LTD., KENYA

Juhudi Labs Clean Energy Program

| | |
|---------------------------------|--|
| Website: | www.juhudikilimo.com |
| Legal status: | MFI |
| Country: | Kenya |
| Number of clients: | 17,056 clients with loans and 31,456 total clients including savers (as of May 2014) |
| Date of establishment: | 2009 |
| Portfolio: | € 5,617,079 (as of May 2014) |
| Average loan size: | € 418 |
| e-MFP supporting member: | Alterfin |

Snapshot

An MFI working to promote clean energy with rural smallholder farmers in Kenya.



Institutional Profile

Spun off in April 2009, Juhudi first established a five-year track record of success as an asset financing program within K-Rep Development Agency (KDA), a research and development microfinance Non-Governmental Organization (NGO). By 2009, Juhudi Kilimo had developed into an independent for-profit social enterprise with the mission of providing loans and training to rural smallholder farmers and agribusinesses. Juhudi Kilimo provides asset-backed loans and basic business and finance training to smallholder farmers and enterprises. Its products include asset finance, livestock insurance and credit life insurance. Juhudi Kilimo is the first certified B-Corp⁷ in Africa (i.e. it has been certified by the US non-profit B Lab to meet rigorous standards on social and environmental performance, accountability and transparency), the MFI participates in Global Impact Investing Rating System⁸ (GIIRS), and works closely with the Kenyan Ministry of Agriculture and other locally-based NGOs (e.g. Swiss Contact) to promote sustainable practices.

Financial and Social Performance

As of May 2014, Juhudi Kilimo had 17,056 active borrowers and a portfolio outstanding of EUR 5.6 million. Although the MFI has grown impressively since its start, growth in 2011 and 2013 was somewhat limited to a CAGR of 67% by poor capitalization as the company raised new equity and converted existing debt to equity.

Juhudi Kilimo uses the Progress out of Poverty Index (PPI) to track and report on social goals. Around 50% of its clients are female, and 100% are rural. Juhudi Kilimo conducts client trainings, which is mandatory for prospective borrowers. The organization conducts regular surveys with an SMS based platform to ensure suitability of products. The majority (57%) of staff is female, with a turnover rate of 8%.

Juhudi Kilimo provided a Moody's Social Performance Assessment from September 2013. The organization was given a rating "SP3", having received a score of 52% (the world mean is 62% and the African mean is 56%).

Environmental Governance

Juhudi Kilimo is in the process of strengthening its approach to the environment, and had implemented an environmental policy in 2013. This environmental policy incorporates local environmental law, and requires that environmental impacts of loans be assessed prior to disbursement. Juhudi Kilimo also subscribes to the IFC exclusion list. The MFI is also working to assess and mitigate its own internal footprint.

7 <http://www.bcorporation.net>

8 <http://b-analytics.net/giirs-ratings/>

Brief Description of the Initiative Presented for the Award

The initiative proposed by Juhudi Kilimo is entitled “Juhudi Labs Clean Energy Program”. This program emerged from a clean energy lending initiative that Juhudi Killimo started to develop in 2013 in collaboration with MicroEnergy Credits (MEC) and Kiva Microfunds. This program uses the voluntary carbon market “Gold Standard” to quantify and monetize carbon credits for sale on the voluntary markets. Carbon credit payments will be used to finance various renewable energy technologies such as solar home systems, efficient cook stoves, and domestic biogas plants. The program is in its infancy, as rollout began in March 2014.

Analysis of the Initiative

Relevance of the Initiative to the Environment

The initiative seeks to tackle pressing local environmental issues. Surveys suggest that 87% of rural households in Kenya rely on kerosene for lighting, and that the proportion of Kenya’s households that use biomass as an energy source is over 80%.⁹ The impact of this is both economic and environmental: it is relatively expensive to source (both in terms of time and money), and it drives deforestation and forest degradation.

Juhudi Kilimo’s initiative features three main product types (solar home systems, cook stoves and biogas) to address several local environmental issues. The solar products reduce kerosene use, resulting in both financial and greenhouse gas emissions savings. Efficient cook stoves address demand for wood fuel and charcoal, a major driver of deforestation and loss of natural habitat, including local biodiversity. Juhudi Kilimo’s loans for biogas systems help rural communities to capture methane, a potent greenhouse gas, and also to reduce demand for wood fuel and charcoal. Biogas systems also encourage farmers to use zero-grazing methods, which reduce pressure on the natural environment for grazing land, and decrease land degradation.

Financial Sustainability

The program is financed through the sale of carbon credits on the voluntary carbon markets. The program has already reached financial self-sufficiency.

Innovation, Scale-Up and Replication Potential

From the beginning, the initiative relied on partnerships. It was started by a Kiva loan, planned and developed with MEC, and executed and promoted by a locally based MFI.

The major barrier to scaling up is distribution, as many clients are in rural areas. This challenge requires the MFI to invest heavily in training new loan officers. The program

9 Refer to statistics on Energypedia: https://energypedia.info/wiki/Kenya_Energy_Situation#Energy_Situation

is currently in its pilot phase, and as it proceeds to full implementation, Juhudi Kilimo expects that by Year 2, 30,000 clients will benefit from the program, and that by Year 5, 60,000 clients will be reached. They believe that the program is replicable by any existing MFI with good clean energy product suppliers.

Impact of the Initiative

Initiative Outreach: The initiative started in early 2014 and by the end of March 2014 it involved 425 clients, 1.4% of the MFI's clients.

Changes Observed: Since the program start, 425 households (over 1,700 Kenyans) have reduced their biomass consumption by between 50-100% by investing in the program's clean technologies. Juhudi Kilimo has not yet completed an environmental impact of the initiative but estimates that if 10,000 cook stoves are distributed, this would reduce at least 45,000 tons of carbon dioxide emissions.



MICROFINANCE AND COMMUNITY DEVELOPMENT INSTITUTE - MACDI,
VIETNAM

Two initiatives: “Biogas Loan” and “Double-Vault Latrines” for low-income households

| | |
|---------------------------------|------------------------------------|
| Website: | www.macdi.org, www.mfcdi.vn |
| Legal status: | Not for profit MFI |
| Country: | Vietnam |
| Number of clients: | 6,398 (as of 31 December 2013) |
| Date of establishment: | 2007 |
| Portfolio: | € 389,333 (as of 31 December 2013) |
| Average loan size: | € 150 |
| e-MFP supporting member: | Care International UK |

Snapshot

A Government-supported MFI tackling energy and sanitation issues in rural Vietnam.



Institutional Profile

MACDI was established in 2007 to “help people transform their own lives through our microfinance services”. Specifically, MACDI has focused on fostering sustainable livelihoods for poor women and conserving ethnic people’s culture in Northern Vietnam, improving sanitation, conducting low carbon research and improving the legal framework for microfinance development in Vietnam. MACDI set up its own microfinance fund (MFCDI) in 2008 under MACDI. The fund is managed independently with the specific objective of providing microfinance services to the poor and low income people in Vietnam. MFCDI provides loans for setting up businesses, agricultural activities, biogas, home improvements, etc. It also provides compulsory savings facilities for clients who have taken loans. MFCDI is a small organization, with only 2 branches and 16 employees.

Financial and Social Performance

MFCDI has established a social management board to establish and monitor social outcomes. Indicators include environmental commitments of clients, access to biogas and sanitation products, client income growth, and reduced dependency on fuel wood. Social targets are communicated to staff. MFCDI states that it evaluates outcomes on an annual basis. The board has been trained on social performance, employees are also trained on this – and incentivized to use best practices through a series of internal policies. MFCDI conducts market research to assess client needs every two years. MFCDI provides a range of additional non-financial services such as enterprise development support, education on financial literacy, health issues, and female empowerment and marketing support. Of its active clients, 95% are female, and 100% are in rural areas. Meanwhile, 85% of total staff are women and staff turnover is 6%.

Environmental Governance

MFCDI has a policy to “reduce environmental pollution produced from farming activities, from daily activities of poor people in remote areas”, which was implemented in 2008. In terms of their environmental footprint, since 2007 MFCDI staff have received training on environmental issues such as paper use, rubbish separation and recycling. MFCDI assess environmental risks as part of their proposed initiatives; this assessment is carried out by a Department of Credit & Technology.

In addition to the two proposed initiatives presented for this Award, MFCDI conducts training for rural people, including on business start-up, farming skills, livestock management, marketing and sales of agricultural materials. They also provide specific training on biogas as part of the proposed initiative. MFCDI states that 100% of their clients use these non-financial services.

Brief Description of the Initiative

MFCDI presented two initiatives for the Award, one on biogas and the other on double-vault latrines. Both initiatives consider relevant rural environmental issues.

MFCDI conducted assessments to determine appropriate technologies, and chose biogas and latrines as appropriate technologies for local conditions. The biogas initiative directly reduces local pollution, reduces pressure on local resources and saves the owners time and money. Indirectly, the local environment is cleaner and more sanitary, and the local government benefits as it frees up revenues for them to invest in local communities. The biogas initiative was conceived in 2010, developed during 2011 and implemented in 2011. Half of MFCDI's employees are involved in the biogas initiative. MFCDI works with various partners on the biogas initiative, including French NGO Zebunet (who provide technical support), the agricultural company VSAPAT (equipment supplier) and the Institute of Energy Vietnam.

The second initiative, on latrines, was initiated to address the issue that many rural poor do not have access to proper sanitation facilities; this impacts disease prevalence and can reduce the ability of local communities to benefit from using their waste as organic fertilizer. The latrine project was implemented in partnership with the local government.

Analysis of the Initiative

Relevance of the Initiative to the Environment

MFCDI's biogas project tackles several pertinent rural problems in Vietnam, it helps to reduce rural pollution from livestock; it prevents greenhouse gas emissions, and helps to reduce demand for unsustainable cooking and energy materials (e.g. wood fuels, kerosene). The liquid and waste output from the biogas tanks can be used as an effective organic fertilizer.

The latrine project reduces pollution of water resources and helps to prevent infectious disease by creating a better environment. It also helps to generate organic fertilizer, which can improve land use efficiency and also limit the need for chemical fertilizers. This is locally relevant: estimates from 2010 suggest that only 18% of rural Vietnamese households, 12% of rural schools and 37% of commune health stations had a hygienic latrine that met Ministry of Health standards.¹⁰

¹⁰ Vietnam: Biogas digesters for Vietnamese. A multi-partner national biodigester program in Vietnam. Supported by KOICA, UNEP, CAPS. Summary available from: http://www.unep.org/ietc/Portals/136/Other%20documents/Other%20projects/Ecological%20sanitation%20-%20Philippines/Case%20studies%20from%20Vietnam/10%20VN_SNV_Biogas_Program_Project_Case_Study.pdf

Financial Sustainability

According to MFCDI, the operating self-sufficiency of the biogas initiative is 1.41, while the latrine project has a self-sufficiency of 1.05.

Innovation, Scale-Up and Replication Potential

The biogas initiative is first in Vietnam to provide microfinance loans to poor rural households to help them install this equipment. The latrine project combines microfinance with latrines and rural sanitation, which is quite unusual.

MFCDI would like to scale up the project so that biogas can be used to power agricultural equipment, and they plan to investigate the potential for using carbon credits to fund this. MFCDI targets 20,000 clients using biogas in the next five years, and plan to raise funds and borrow from local and international sources to achieve this. They believe this initiative could be replicated by other MFI's in Vietnam and elsewhere, provided good standards are used in biogas equipment design. MFCDI plans to roll out the latrine project to 10,000 households in the next five years by collaborating with local NGOs and government.

Impact of the Initiative

Initiative Outreach: The biogas initiative has been rolled out to 200 clients (this is 3.2% of their existing client base). Surrounding local communities have also benefited. The latrine project has reached 1,180 households and positively impacted approximately 6,000 other beneficiaries.

Changes Observed: MFCDI state that rural pollution has been reduced, that this has significantly reduced pressure on local resources and freed up communities' time.



VISIONFUND AZERCREDIT, AZERBAIJAN

Management of Indirect Environmental Impacts

| | |
|---------------------------------|---|
| Website: | www.AzerCredit.az |
| Legal status: | MFI |
| Country: | Azerbaijan |
| Number of clients: | 74,372 (as of December 2013) |
| Date of establishment: | 1996 |
| Portfolio: | € 53,710,200 (as of December 2013) |
| Average loan size: | € 1,115 |
| e-MFP supporting member: | Incofin Investment Management & Triple Jump |

Snapshot

An Azerbaijani MFI that is integrating environmental risks into its operational procedures to reduce client risk and promote the environment.



Institutional Profile

VisionFund AzerCredit (VF AzerCredit) was created in 1996 as a program of World Vision. In 2002 it was registered as a Limited Liability Company (LLC) and obtained a Central Bank license in 2003. The primary objective of the organization is to provide loans to those unable to access facilities through the conventional banking system. VF AzerCredit works both in rural and urban areas, providing loans to small and micro enterprises and entrepreneurs. The organization offers loans as well as life insurance products. In addition to their financial services, VF AzerCredit promotes environmental issues through ancillary non-financial services such as youth education on environmental issues, and partners with local NGOs on these topics. The MFI has also promoted the UNEP programs to mobilize awareness on environmental issues.

Financial and Social Performance

The company was awarded a rating of BBB+ by MicroFinanza Rating in February 2014, keeping the same rating as in March 2012. According to the rating, the institution has been operating with good financial profitability over the past 3 years.

A social rating was also conducted by MicroFinanza Rating in February 2014 and attained a rating of BB+ (Adequate social performance management and client protection system. Satisfactory alignment to the social mission.

Environmental Governance

VF AzerCredit established an environmental policy in 2011 to ensure the environmental soundness and sustainability of its operations, support the integration of environmental considerations into the decision-making process and promote responsible environmental attitudes both internally and externally to the organisation. The policy also comprises Green Office procedures and special training modules for staff. VF AzerCredit actively tracks quantifiable environmental metrics, e.g. spending on fuel. Loan officers are required to assess any potential borrower on the basis of their business activity's environmental impact (air pollution, waste, pollution of water or soil, deforestation, hazardous chemical use), and monitors clients' environmental impact over time. Any breaches must be immediately communicated. VF AzerCredit received STAR recognition from MixMarket in 2013, in recognition of their consideration and integration of environmental issues among others.

Brief Description of the Initiative

VF AzerCredit's initiative "Management of indirect environmental impacts" demonstrates how indirect environmental impacts can be internalized within the MFI's operations. The institution, acknowledging that the businesses it finances may have various impacts on the environment, has integrated environmental considerations into lending decision-making processes. This means that VF AzerCredit's Loan Officers

have to conduct environmental impact assessments at the client level, the results of which are integrated into the proposals to VF AzerCredit's credit committee. Clients' environmental performance is monitored over time. If any business owner is refused financing based on the environmental assessment, they are given a notice period in which to address this before being eligible for a loan from the MFI. The initiative was launched in 2012.

Analysis of the Initiative

Relevance of the Initiative to the Environment

The initiative creates awareness about environmental risks and incentivizes good practice through interaction with the loan officer. This promotes greater understanding of environmental risks among the local business community. The initiative provides a good example for other MFIs who are initiating integration of environmental assessments.

Financial Sustainability

The initiative does not take any direct additional financial resources, but staff time is spent on training, assessment, decision making etc. The initiative is financially viable as it enables the organization to better identify potentially irresponsible borrowers, e.g. borrowers who might be penalized by the government for pollution, and who might be affected as a result of the poor quality of their operating environment.

Innovation, Scale-Up and Replication Potential

The initiative stands out by integrating the environmental assessment framework into the MFI's primary business and has the potential to encourage clients towards better environmental behavior.

VF AzerCredit intends to scale up the initiative, now that they have assembled a complete training package based on international best practice and tailored to local needs. They would like to build on this in order to also provide positive recommendations to customers and local communities and to build a more robust monitoring system. The results of the internal audit of this process, due to take place in 2014, will reveal shortcomings and help the organization refine the process and materials further. It intends to implement a revised reporting system in 2015. More specific targets will be set for scaling this up by the year 2016. The approach and system is replicable for other MFIs, if the management and staff are committed.

The MFI is keen to "undertake to share its experiences and knowledge with customers, as appropriate, so that they may strengthen their own capacity to reduce environmental risk and ensure environmentally safe operation of their businesses." Furthermore they state that they would consider establishing a business consultancy unit to provide relevant advice to customers, including developing special brochures and videos for customers and the community.

Impact of the Initiative

Initiative Outreach: All clients have been involved.

Changes Observed: According to the MFI, the initiative is helping to mobilize local people's interest in environmental issues. VF AzerCredit is currently developing a system to track how many loans have been refused on the basis of environmental issues. The institution estimates that approximately 0.1% of clients have been rejected on environmental grounds.

CONCLUSIONS

The quality and quantity of applications received indicate that the microfinance industry is increasingly becoming focused on environmental issues. This includes integrating environmental sustainability into their operations, e.g. through environmental procedures and policies, as well as promoting initiatives aimed to address specific environmental needs relevant to the MFI's clients and the local community.

However, these remain early days: many of the candidates were in the first stages of their environmental policies or initiatives. The most mature initiatives were 5 to 7 years old. If the trend continues, we should see substantial evolution and rapid growth in this area over the next few years.

MFI's can view the environment as risks to be mitigated, or means to generate new opportunities – or both. Risk mitigation in terms of weeding out clients that might be affected negatively by enforcement of local legislation (VF Azercredit, Juhudi Kilimo), and positively by sourcing and creating credit programs linked to products that meet clients' needs while at the same time improving the environment (e.g. improved seeds – FINCAFE, Kompanion).

On the funding side, for some MFI's, the environment-related programs are a direct source of income (ESAF, Kompanion), while others rely heavily on external inputs, such as sales of voluntary carbon credits (XacBank, Juhudi Kilimo) or direct subsidies (MFCDI). Several of the selected MFI's see it as integral to their business (Kompanion, VF AzerCredit, ESAF) and self-fund the costs, expecting repayment to come through improved portfolio performance and long-term sustainability of client businesses.

Most of the MFI's submitted applications which targeted the rural economy, and as such these initiatives face an additional burden linked to economies of scale and the costs and challenges associated with last mile distribution. Many of the MFI's selected combined technical assistance and training with a physical product, however some initiatives focused only on training, or on the physical product (e.g. a stove / water filter). Several of the MFI's demonstrated that environmental initiatives can be commercially viable, if designed properly, and especially if they are relevant to local communities' needs and interests. Most of the MFI's targeted environmental issues linked to energy – it was rather more unusual to see initiatives linked to biodiversity and pollution (including sanitation).

| Initiative type | Applicant |
|--|--|
| Energy: generation and energy efficiency | Contactar, ESAF, FONDESURCO, Juhudi Kilimo, MACDI, XacBank |
| Sustainable land management (agriculture and forestry) | FINCAFE, Fundecooperación, FONDESURCO, Kompanion |
| Environmental risk management (screening) | VF Azercredit |
| Sanitation | MACDI |

The process of selecting and reviewing initiatives for this Award suggests the microfinance industry could support greater internalization of environmental issues through some of the following actions:

Proactively seeking ways to integrate environmental information to reduce downside risks. This might include exploring partnerships with environmental information providers (e.g. local credit bureaus or registries). For the industry, this might generate new commercial opportunities as well as be a way to reduce risk. This could for example, include integration of information on natural resource risk (soil fertility, erosion and landslide risk maps, climate change vulnerability indicators).

Pilot new environment-linked revenue streams, including with other private and public partners. For example, carbon credits, local Payments for Ecosystem Services (PES) schemes, green investment and credit incentives. This may also include developing new partnerships with technology providers and design academies (e.g. engineering schools and university labs) to work with MFIs and their clients to design and test (and then refine) products that are of relevance and interest to clients.

Explore and communicate the potential synergies between the microfinance industry and environmental groups to promote better integration. Government agencies and research institutions dealing with environmental issues might not clearly understand what information MFI's need in order to better incorporate environmental information into their operations. Additionally, there seems to be strong scepticism towards MFIs from some environmental NGOs, though collaboration is vital as many of these NGOs are also seeking to pilot and promote sustainable rural finance initiatives (e.g. in the context of community based conservation).

Promote industry collaboration, e.g. on collection of environmental information and decide on common policies (e.g. exclusion lists). This should also extend to similar collaboration between financiers and service providers to promote minimum thresholds and best practices related to microfinance and environment issues. There

is an emerging regulatory trend whereby financiers are increasingly liable for clients' environmental impacts (e.g. in the US), and it is not inconceivable that investors in MFIs may similarly be held to account.

In conclusion, the awareness of the environment as an important consideration by the microfinance industry seems to be growing. While there are many exciting initiatives to explore better integration of environmental initiatives, these are generally nascent, and there is no doubt that the coming years will see an increase in interest and innovation in the nexus between environment and microfinance.

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European Microfinance Award

To support innovative thinking in the microfinance sector, the European Microfinance Award was launched in October 2005 by the Luxembourg Ministry of Foreign and European Affairs – Directorate for Development Cooperation and Humanitarian Affairs. Awarded for the first time in 2006, it is jointly organised by the Luxembourg Development Cooperation, the European Microfinance Platform (e-MFP) and the Inclusive Finance Network Luxembourg (InFiNe.lu), in cooperation with the European Investment Bank (EIB).

European Microfinance Platform (e-MFP)

The European Microfinance Platform (e-MFP), founded in 2006, is a growing network of over 120 organisations and individuals active in the area of microfinance. As a multi-stakeholder organisation it represents the European microfinance community. e-MFP members include banks, financial institutions, government agencies, NGOs, consultancy firms, researchers and universities.

e-MFP's aim is to promote co-operation amongst European microfinance bodies working in developing countries. e-MFP facilitates high level discussion, communication and exchange of information. e-MFP's vision is to become the microfinance focal point in Europe linking with the south through its members.

Christoph Pausch, Executive Secretary
EUROPEAN MICROFINANCE PLATFORM
39 rue Glesener
L-1631 Luxembourg
contact@e-mfp.eu
www.e-mfp.eu

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