Reference Framework

Environment

IN PROGRAMS AT
DÉVELOPPEMENT INTERNATIONAL DESJARDINS
December 2016

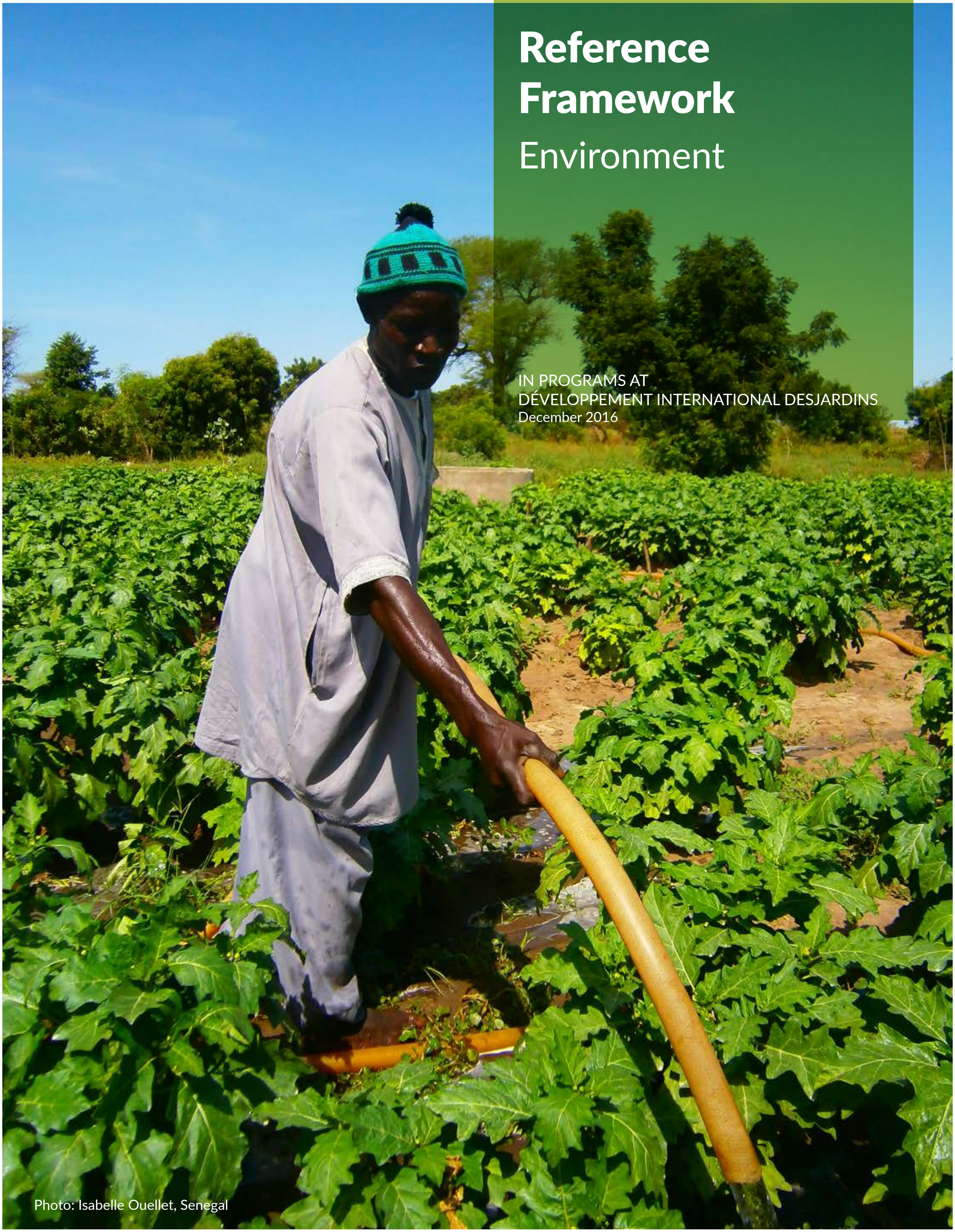

Photo: Isabelle Ouellet, Senegal

Desjardins
Développement international

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Introduction

Protection of the environment is essential for achieving sustainable development and maximizing human potential. Consequently, it is one of the fundamental values held by Développement international Desjardins (DID).

DID is cognizant of the fact that the disadvantaged are generally the first to suffer the consequences of environmental degradation and climate change. DID, acting as a change agent in collaboration with its partners, recognizes that it can make a contribution to encouraging better management of natural resources, the introduction of agricultural practices which better respect the environment and climate risk mitigation measures, to name a few.

In line with its mission, DID is actively committed to the Sustainable Development Goals (SDGs) established by the United Nations to eradicate poverty, protect our planet and guarantee prosperity for all, especially Climate Action, Goal 13, that is intended to take urgent measures to fight climate change and its effects.

DID subscribes to the notion of a triple bottom line which encourages financial institutions to improve their environmental performance to complement their financial and social goals.

On an institutional level, the DID reference framework for the environment is intended to:

- foster integrating environmental concerns into organizational operations, development policies, the management of decision-making procedures and mechanisms as well as into the management of programs and activities
- upgrade the skills of staff for integrating these concerns into project management procedures and mechanisms and into project activities and outcomes on an operational level, through training, and appropriate methodologies and tools
- supply partners with a reference tool for environmental protection to enable them to improve their practices on their own.

Photo: Paul Julien, Madagascar

SUSTAINABLE DEVELOPMENT GOALS

Photo: France Hamel, Vietnam

What risks are incurred by financial institutions that ignore environmental concerns ?

In addition to the clients and communities served by financial institutions, these institutions are themselves exposed to numerous environmental risks which also lead to social risks that must be properly managed. The following sections will therefore address social and environmental management. The risks listed below are some of those which will affect financial institutions that do not properly deal with environmental issues.

Credit risk
The financial position of clients may be negatively affected if their operations do not meet national norms and regulations or if they are detrimental to the environment. As a result, this situation could impact reimbursement of their loans to the institution.

Collateral risk
A decrease in the value of property pledged as collateral is possible if this asset does not comply with applicable environmental standards. The institution which takes possession may be held responsible for damage caused by pollution.

Reputation risk
The reputation of an institution that finances projects which do not meet acceptable environmental and social norms may be at risk.

Microfinance institutions may be further exposed to environmental and social (E&S) risks knowing that such risks are higher in developing countries. This situation can be explained by a less detailed regulatory system and limited understanding of the likelihood of these risks and their associated costs.

On the other hand, E&S risks are lower for microfinance institutions than for banks, since smaller microfinance loans linked to small-scale activities are likely to have less impact on the environment. Nevertheless, microfinance institutions must remain on their guard about environmental management because the overall E&S portfolio risk may be significant due to the large number of loans usually made by these institutions, even though the individual loan amounts are small.

Photo: France Hamel, Vietnam

Levers for intervention

Employing its ever-expanding series of toolkits, DID is able to intervene at various points of leverage to encourage protection of the environment. The section that follows describes the four levers used by DID to intervene and gives a few examples of the measures that may be introduced and adapted according to the context.

It is important to clarify that the degree of commitment to environmental concerns is a choice made by a microfinance institution in relation to its situation. This commitment to the environment must not compromise an institution's financial self-sufficiency.

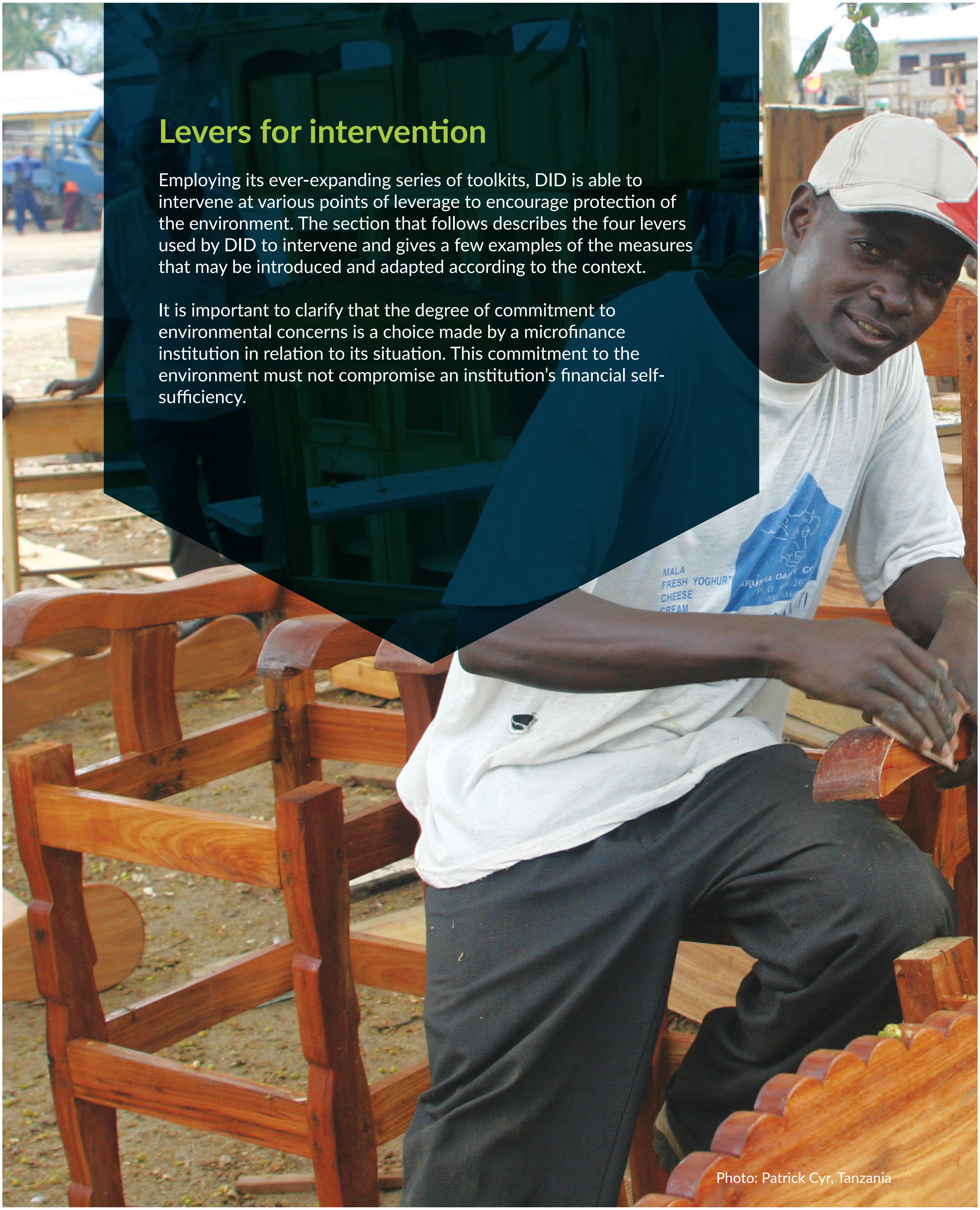

Photo: Patrick Cyr, Tanzania

1 Environmental and social risk management

• Heighten awareness among financial institutions regarding environmental issues related to their activities and those of their clients and the potential impact on the community

• Collect the information available from key intervenors, concerning laws on environmental management in the country for financial intermediation efforts.

• Catalogue national initiatives on environmental protection in the financial sector.

• Heighten awareness among managers regarding E&S risks and the legal obligations they face along with risk mitigation measures to comply with these obligations.

• Design and implement an environmental strategy

• Draw up policies, procedures and toolkits corresponding to the degree of engagement desired by the financial institution.

• Draw up an action plan to implement the strategy and develop the expertise needed.

• Identify the individual in charge of E&S risk management within the institution.

• Implement the strategy during a pilot project phase and make needed adjustments before roll-out to the entire institution.

• Heighten awareness among officers and staff to environmental risks and their institutional environmental strategy

• Provide officers and staff with information sessions on reducing their institutional ecological footprint and the E&S risks caused by the activities of their clients and the strategy adopted by the institution to address such risks.

• Provide staff with training regarding the environmental risks induced by their clients and measures to detect, assess and reduce such risks

• Assess environmental risks during loan approval procedures

The large majority of environmental risks related to a financial institution are the indirect impacts produced by the activities that are financed. Introducing an E&S risk management system into a microfinance institution's operational procedures and existing loan approval system is therefore essential to enable this institution to adequately manage its exposure to E&S risks and avoid harmful practices.

This system should incorporate the procedures, roles and responsibilities of all involved as well as directives for the institution to follow when assessing and managing the environmental risks associated with the loans granted.

• List the activities or sectors excluded due to E&S risks that are considered major.

• During the loan application process, identify and catalogue the E&S impacts of the project to be financed.

• Establish the E&S risk mitigation measures:

i. Heighten client awareness regarding the impact of E&S risks on their operations and the related proposed risk mitigation measures.

ii. Introduce an E&S risk monitoring record into client operations.

iii. Incorporate environmental compliance clauses into loan contracts.

• Factor in environmental indicators as part of the management information system (MIS)

• Identify existing E&S indicators in the financial sector and incorporate the most pertinent ones taking into account the institution's MIS operations.

• Conduct periodic monitoring of the chosen E&S indicators with the institution's decision-making bodies.

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Green microfinance products and services

• Assist financial institutions in adopting green microfinance products primarily to encourage acquisition of less damaging technologies by members or clients

In Paraguay, more than 30 percent of the clients of *Fundación Paraguaya*, a microfinance institution, still use charcoal for cooking and heating purposes.

This institution therefore solicited the expertise of Econoler, a Canadian energy efficiency firm, and DID to encourage Paraguayan households to switch from charcoal to cleaner energy sources.

Together, DID and Econoler collaborated with *Fundación Paraguaya* helping it

• improve its environmental performance by revising its policies,

• incorporate the management of risks associated with climate change into its loan portfolio, and

• develop green financial products to encourage adoption of energy efficient ovens.

This innovative initiative benefited from financial support from the Inter-American Development Bank (IDB) Multilateral Investment Fund (MIF) through the EcoMicro program.

• Encourage the financing of projects with a pro-environmental component

• Dedicate a percentage of the loan portfolio to pro-environmental projects.

• Provide positive financing terms and conditions to borrowers with projects incorporating a pro-environmental component.

• Impose a higher interest rate on borrowers whose projects have a negative effect on the environment and create a fund with the proceeds for environmentally positive compensatory actions (such as planting trees).

• Propose non-financial pro-environmental services

• Use effective communications to make borrowers aware of the products and services provided by the institution related to E&S management.

• Heighten awareness of borrowers to the environmental deficiencies in their projects and the action they can take to counteract environmental risks.

• Refer borrowers to specialized agencies for advice and strengthening of their skills in environmental and social management.

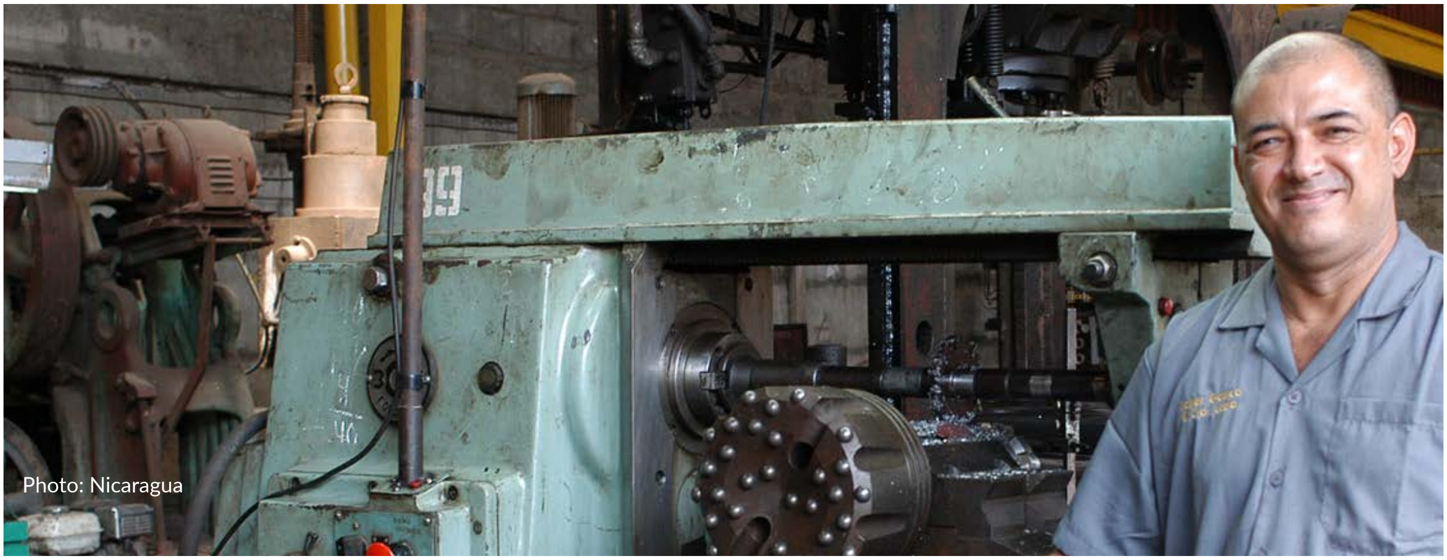

Photo: Nicaragua

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Internal ecological footprint reduction

Protecting the environment is a key dimension of social responsibility. In its capacity as a development actor, DID takes environmental concerns into account as part of its internal operations and encourages its partners to do the same by:

· identifying operational activities related to the environment that could be improved,

· designing and implementing strategies to reduce the ecological footprint of targeted operational activities, and

· establishing targets for improvement related to the environment and closely monitoring progress in reaching them.

As part of its internal management activities, DID has targeted the four following priorities:

Recycling and reducing waste materials

The DID head office has implemented the following measures:

• Recycling of paper, cardboard, glass, metal, plastic, compostable materials, batteries and cork

• Reducing paper use, especially through

 · replacing various print publications with electronic versions,

 · doubled-sided printing of documents,

 · addition of a sensitization message to employee emails, and

 · elimination of paper documents during training sessions.

Local procurement

Whenever possible, DID encourages the purchasing of local products, especially food products from suppliers within a one-kilometre radius.

Optimized travel

• DID has established measures to encourage telework that cuts down on employee commuting:

 · videoconference software

 · email software and web-based agendas

 · VPN technology that allows remote access for business solutions

• DID has acquired a videoconferencing system for holding meetings online thus reducing airline travel.

• DID encourages staff to use mass transit, ride-sharing and active transportation.

Energy efficiency

To reduce power consumption, especially computer-related electric power requirements, DID has taken the following measures:

• Introduction of cloud technologies which reduce the purchase and deployment of new server hardware.

• Introduction of server virtualization technologies which allow one hardware server to act as the equivalent of several hardware servers.

• Acquisition of new servers resulting in overall lower power usage.

4

Designing projects with an environmental purpose

Whether acting alone or with partners, DID works to define projects incorporating a positive impact on the environment, targeting, for example, the adoption of agricultural techniques that are more environmentally positive or financing soil retention planting efforts.

The Input Savings Plan improves management of crop protection inputs

In Mali, in cooperation with Kafo Jiginew, DID designed the Input Savings Plan to help small-scale farmers better manage their agricultural inputs.

This simple and user-friendly, community finance institution savings program makes use of an attractive partnership between the financial institutions and private supplies of agricultural inputs:

- Step 1 : Kafo Jiginew sells coupons to member farmers for purchasing inputs. The funds are capitalized in an account until delivery of the products.
- Step 2 : Farmers purchase the inputs they need from accredited suppliers. They use their coupon to make the purchase.
- Step 3 : Suppliers cash in the coupons at Kafo Jiginew.

The Input Savings Plan enables farmers to:

- purchase crop protection products with the funds they hold at the time,
- be certain of having quality inputs delivered in sufficient quantity when they are needed, and
- obtain technical advice from reliable suppliers and adopt products and practices that are more productive, secure and environmentally safe.

Photo: Isabelle Ouellet, Mali

Protecting the environment : advantageous from all points of view

While the introduction of the measures we have described may incur additional short-term costs for a microfinance institution, they will also deliver many benefits including:

- improved management of risk through better portfolio management
- better access to financing from funding sources that encourage environmental and social management
- realization of impacts on the environment by employees and by clients
- development of a more sustainable relationship with clients who will perceive the institution as a source of support and advice and not just as a lender
- promotion of an innovative institutional image with the target clientele, local community and government agencies.


Photo: Paul Julien, Madagascar

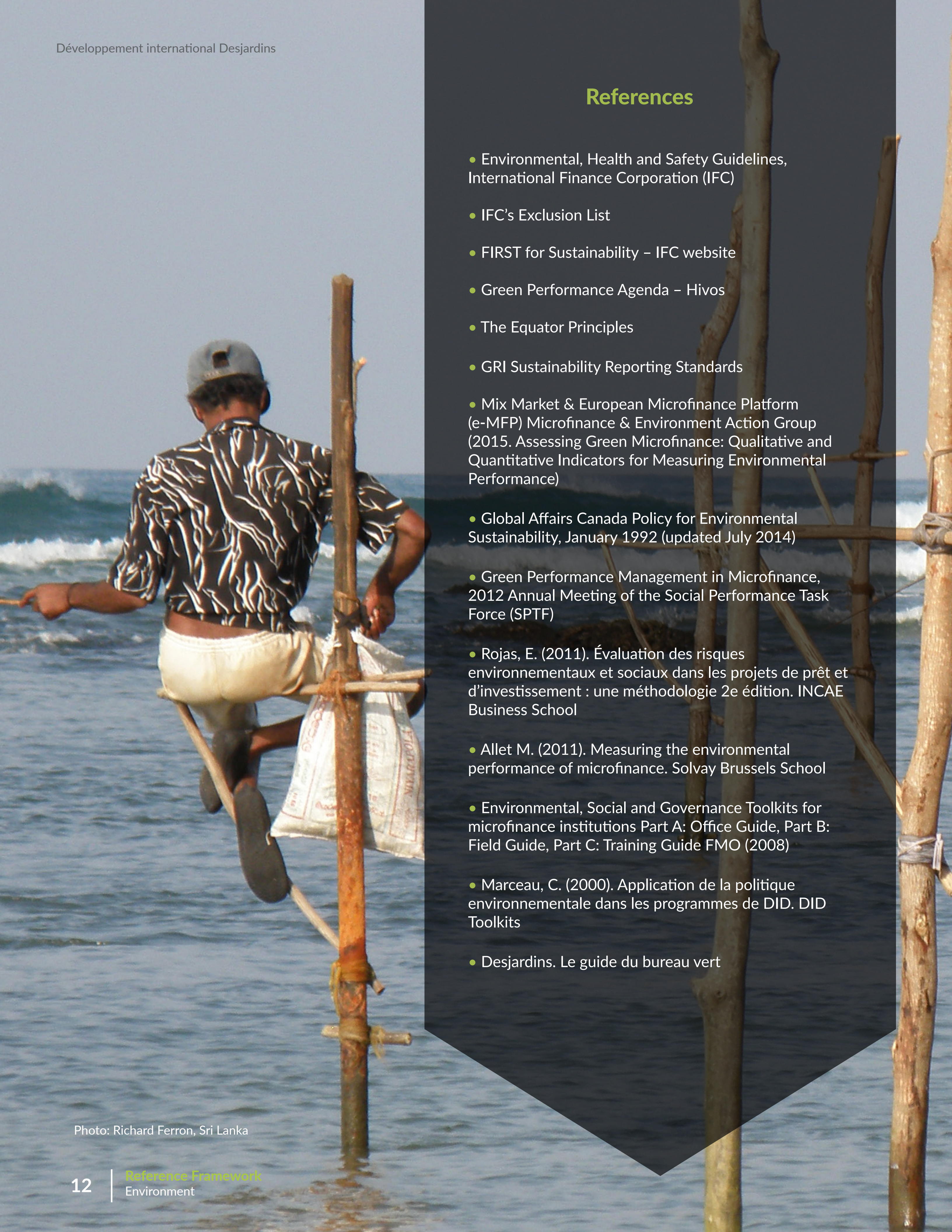

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Photo: Richard Ferron, Sri Lanka

Photo: Gerardo Almaguer, Colombia

Développement international Desjardins (DID) is a world leader in providing consulting and technical assistance services in the area of inclusive finance.

Our expertise is based on over one hundred years of experience acquired by the Desjardins Group, the leading cooperative financial group in Canada and the sixth largest in the world.

We take inspiration from best practices that have been tested in collaboration with our numerous partners for creating, expanding and strengthening financial institutions in developing and emerging countries.

Providing technical assistance, operating an institution or as an investor, DID is characterized by in-depth expertise in the following fields:

- Savings Mobilization
- Agricultural Finance
- Technolgical Solutions
- Training Services
- Supervision
- Financing Entrepreneurs
- Microinsurance
- Housing Financing
- Governance
- Investment

Firmly focused on the future, DID draws on its talented staff to expand access to financial services for populations in developing countries. Together we are building the future. That is our ultimate goal.

www.did.qc.ca/en

Desjardins
Développement international

Développement international Desjardins
59, avenue Bégin, Lévis (Québec) G6V 4C3

Phone **(418) 835-2400**
Fax (418) 833-0742

info@did.qc.ca