

# 5<sup>th</sup> European Microfinance Award, 2014

## Microfinance and the Environment

### Explanatory note

The objective of the 5<sup>th</sup> European Microfinance Award “Microfinance and Environment” is to highlight opportunities for microfinance to improve environmental issues in the South and encourage the industry to find innovative solutions for global environmental concerns.

The prize of €100.000 will be awarded on 13<sup>th</sup> November 2014 during the European Microfinance Week.

### Award Sponsorship:



THE GOVERNMENT  
OF THE GRAND DUCHY OF LUXEMBOURG  
*Ministry of Foreign and European Affairs*

Directorate for Development Cooperation  
and Humanitarian Affairs

## European Microfinance Award

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 Luxembourg Ministry of Finance, the European Microfinance Platform (e-MFP) and the Inclusive Finance Network Luxembourg in cooperation with the European Investment Bank (EIB).

Previous editions were devoted to the following subjects:

### **2006, Innovation for Outreach**

Microfinance breakthrough initiatives deepening or broadening rural outreach

Winner: The Zakoura Foundation (Morocco), for its programme on rural tourism

### **2008, Socially Responsible Microfinance**

Microfinance innovative initiatives to promote social performance

Winner: Buusaa Gonofaa (Ethiopia), for the development of its client assessment system

### **2010, Value Chain Finance**

Outstanding microfinance initiatives in productive value chain schemes

Winner: Harbu (Ethiopia), for an initiative financing a soybean value chain

### **2012, Microfinance for Food Security**

Microfinance initiatives contributing to improve food production and distribution conditions in developing countries

Winner: ASKI (The Philippines), for its micro agriculture loans for smallholder farmers and agri-business and support to market linkages to private sector enterprises

## 5<sup>th</sup> European Microfinance Award

### Microfinance and the Environment

Natural resources, which include air, water, soil, flora and fauna, are essential for human survival. However, this natural resource base on which we depend is becoming increasingly strained as a result of unsustainable use, pollution and mismanagement. The consequence of this is that we are rapidly reaching, and in some cases exceeding, our planet's environmental boundaries<sup>1</sup>. Unsustainable management of local environmental systems can also have serious repercussions elsewhere. In recognition of the importance of these environmental assets, there is a growing body of research on, and examples of, successful interventions. Broadly speaking these efforts have focused on the acquisition, use, disposal and regeneration of these resources:

1. 'Acquisition' addresses how natural resources are obtained, including sustainable use of non-replenishable resources, non-invasive methods for using these resources, and using more environmentally sustainable alternatives when possible.
2. 'Use' addresses how natural resources are used. This considers issues such as improved efficiency of natural resource use and better consideration of the value of environmental resources (i.e. internalisation of environmental externalities).
3. 'Disposal' addresses concerns surrounding waste, including the recycling or up cycling of used products as well as the safe disposal of products that cannot be reused.
4. 'Regeneration' addresses how the environment regenerates itself following human activities and includes issues such as reforestation, or restoration of degraded soils.

Businesses and other organisations can have significant impact on the environment as a result of their reliance on these natural resources through their day-to-day operations. There is mounting pressure on business to improve corporate governance, including with respect to environmental issues. Awareness of the environment as a business risk and opportunity is also growing amongst

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<sup>1</sup> For more information on Planetary Boundaries, please refer to the Stockholm Resilience Centre: <http://www.stockholmresilience.org/21/research/research-programmes/planetary-boundaries.html>

microfinance institutions, which are increasingly being called on to improve their environmental governance practices.<sup>2</sup>

Many low-income communities rely on natural resources, and environmental changes have been shown to disproportionately affect the poorest people in developing countries. By supporting environmentally sustainable interventions for people who depend on vital natural resources, microfinance institutions can improve the livelihoods of their clients, help build more resilient communities, and contribute to a more sustainable environment.<sup>3</sup>

Environmental concerns are sometimes considered through a 'source' and 'sink' lens, whereby source refers to the removal of resources from a system and sink refers to the return of resources into an ecological system.<sup>4</sup> Microfinance can support the environment on the source side through the provision of tools and services to improve the acquisition and use of natural resources. Examples of this can include the use of renewable energy or improved rainwater storage systems. On the sink side, microfinance can support the environment through the provision of tools and services to improve the disposal and regeneration of natural resources. Examples of this can include improved waste disposal systems. Tackling environmental challenges can be complex, as there are many different underlying factors that must be dealt with. Microfinance institutions cannot address all of these challenges, however, they can play a central role in tackling some of the issues, both through their own environmental governance structures as well as through targeted initiatives.

### **The Award**

The objective of the 5<sup>th</sup> European Microfinance Award is to highlight opportunities for microfinance to improve environmental issues and encourage the industry to find innovative solutions for global environmental concerns. The prize of €100.000 will be awarded to an institution based in the South (see eligibility criteria below), active in the financial services sector and judged to be tackling significant environmental challenges.

The Award focuses on issues that have both local and global benefits, and solutions that help catalyse development within planetary boundaries. In particular, emphasis will be placed on initiatives that improve the acquisition, use, disposal and regeneration of vital natural resources including air, water, vegetation, biodiversity, and soil amongst others.

The Award is aimed at institutions that are integrating environmental governance into the DNA of their business, e.g. by screening for environment-related risks or ensuring compliance with best practice, and that are promoting initiative(s) that go above-and-beyond business as usual to incorporate environmental sustainability issues. Particular emphasis will be placed on ensuring that the initiative(s) meets the needs of clients, and that it is promoted in a socially and financially sustainable manner.

### **Examples of Microfinance Practices for the Environment**

There are a number of different areas where microfinance institutions could play a role in improving the environment within which they operate. These can include the improvement of energy, water, land and biodiversity and ecosystem services: many different action areas can be identified for each of these issues. A number of examples of good governance and also of possible initiatives are provided in the table below.

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<sup>2</sup> See for example "The Missing Bottom Line: Microfinance and the Environment" by Joan C. Hall, L. Collins, E. Israel, and M. Wenner or "Why do microfinance institutions go green?" by M. Allet.

<sup>3</sup> See for example "Influence of Environmental and Governance Factors on Sustainability of Microfinance Institutions in Ghana" by F. Aveh, R. Krah, and P. Dadzie.

<sup>4</sup> See "The Concept of Environmental Sustainability" by R. Goodland.

| Area                      | Example issue                              | Example action  |
|---------------------------|--|---|
| Environmental governance  | Screening environmental risk               | <ul style="list-style-type: none"> <li>Client environmental governance evaluated and tracked by investment committee</li> <li>Environmental manager may abort transactions on the basis of documented environmental risks</li> </ul>  |
|                           | Capacity building for environmental issues | <ul style="list-style-type: none"> <li>Employees are trained on environmental issues such as efficient use of land and water as part of on-going employee trainings</li> <li>Clients are invited to participate in workshops to develop improved environmental governance within their operations</li> </ul>                |
|                           | Environmental footprint                    | <ul style="list-style-type: none"> <li>Environmental footprint is calculated in cooperation with partner institution, results are documented and shared with relevant partners</li> <li>Clear targets are set for achieving reduced environmental footprint</li> </ul>  |
| Environmental initiatives | Efficient resource use                     | <ul style="list-style-type: none"> <li>Loans are given to customers seeking to develop improved insulation for buildings, this improved insulation reduces air pollution and greenhouse gas emissions</li> <li>Clients are encouraged to use drip irrigation kits, which efficiently use limited water resources</li> </ul> |
|                           | Alternative resources                      | <ul style="list-style-type: none"> <li>Clients have improved access to solar energy for cooking and lighting</li> <li>Switching costs for industrial inputs with improved environmental performance are covered through product range</li> </ul>  |
|                           | Protection of resources                    | <ul style="list-style-type: none"> <li>Promotion of agroforestry which protects local habitats, watersheds and soils</li> <li>Microfinance institution covers certification costs for improved agriculture, these practices promote the protection of soils</li> </ul>  |
|                           | Low environmental impact                   | <ul style="list-style-type: none"> <li>Sea cucumber farming places a low impact on marine ecosystems and protects biodiversity hotspots</li> </ul>  |

### Eligibility

Eligible institutions have to be active in the financial services sector. Various types of financial institutions are eligible including MFIs, Cooperatives, MFI Networks, Investments Funds, Commercial Banks, Development Banks, Leasing Firms, Insurance Companies, etc.

Eligible institutions have to be based in a Least Developed Country, Low Income Country, Lower Middle Income Country or an Upper Middle Income Country as defined by the Development Assistance Committee (DAC) for ODA Recipients. A list of Eligible countries of ODA Recipients as defined by the DAC can be found at: <http://www.oecd.org/development/stats/49483614.pdf>

An e-MFP member must provide written support for the application, e.g. by providing a short message or a letter addressed to the e-MFP Secretariat. If the applicant is not supported by an existing e-MFP member, they can contact the e-MFP to be connected with a potential supporter. A list of e-MFP members can also be found at: [www.e-mfp.eu](http://www.e-mfp.eu)

Joint initiatives from a financial service provider in a developing country and a European partner are encouraged in order to strengthen the links between Europe and the South. However, the Award money would be given to the partner based in the developing country.

### Selection process

| When                                | What  | Responsible             |
|-------------------------------------|---|-------------------------|
| 15 <sup>th</sup> June 2014, 5pm CET | Deadline for applications                     | Applicants              |
| First half July 2014                | Selection of 10 best applications             | Pre-selection committee |
| End September 2014                  | Selection of a short list of 3 finalists      | Selection committee     |
| 13th November 2014<br>(during EMW)  | Selection of winner and granting of the Award | High Jury               |

The judges' decision is final and not subject to appeal. Neither the judges nor the Organisers will enter into any correspondence relating to the decision.

The Organisers regret that information relating to the on-going evaluation of applications will not be released before the winner is announced on the 13th November 2014. The three finalists will be contacted before this date.

Application forms are available in three languages: English, French, and Spanish. Application forms will be distributed exclusively through e-MFP member organisations and through the e-MFP website, [www.e-mfp.eu](http://www.e-mfp.eu).

Please send your application, together with the e-MFP member support letter or message, by e-mail to [contact@e-mfp.eu](mailto:contact@e-mfp.eu).

The information provided by the applicants will be verified as follows:

- For all applicants: completed application form
- For the ten pre-selected applicants: interviews if additional information is needed.
- For the three finalists: interviews with the referees. The three finalists will be invited by the Luxembourg MAE (Directorate for Development Cooperation) to attend the Award ceremony, which will take place during the European Microfinance Week (EMW), 12th to 14th November 2014. The three finalists agree to ensure the presence of a representative from Senior Management from their organisation at the Award ceremony on 13th November 2014.

### General Assessment Grid

In order to be considered for the award, applicants must demonstrate sufficient financial and social performance (component 1). Those that meet the criteria will be evaluated on the basis of their environmental performance, including environmental governance and impact of specific environmental initiatives (component 2). An overview of the indicative weightings for each of the components is included below. However, decisions will be based on a holistic review of each application.

**Component 1: qualification for the Award and institutional background information**

| Item                   | Value | Example performance metrics  | Relevant questions |
|------------------------|-------|--|--------------------|
| Institutional overview | 20%   | Recognized legal form, clear mission and vision statements, strong working history | 1A                 |
| Financial performance  | 40%   | Reasonable indicators, in line with expected figures for this type of institution  | 1B                 |
| Social performance     | 40%   | Reasonable indicators, in line with expected figures for this type of institution  | 1C                 |

**Component 2: analysis of environmental performance**

| Item                            | Value | Example performance metrics  | Relevant questions |
|---------------------------------|-------|--|--------------------|
| Environmental governance        | 35%   | Existence & adoption of environmental policies<br>Integration of environmental risks in portfolios & investment decisions<br>Awareness of & adherence to environmental rules & regulations   | 2A                 |
| Environmental initiative impact | 45%   | Current & historical primary environmental impact (local & global)<br>Scale & replication potential<br>Innovation (originality)<br>Secondary environmental impacts (e.g. classified by impacts on land, water, energy or ecosystems & biodiversity)<br>Sustainability of intervention (does the initiative deliver a long-term solution and is the activity sustainable) | 2B                 |
| Quality of proposal             | 20%   | Transparency<br>Clarity<br>Completeness<br>Synthesis   | All sections       |

**Award benefits**

The successful recipient of the Award will receive:

- €100.000 (one hundred thousand Euro)
- An Award Certificate  
Promotion of their organisation and initiative by e-MFP (on [www.e-mfp.eu](http://www.e-mfp.eu) and in e-MFP publications)

The two other finalists will receive:

- A Certificate of Achievement
- Promotion of their organisation and proposed initiative in e-MFP publications

All eligible applicants will receive a letter of participation from e-MFP.

Information from the applications of the ten short-listed organisations will be used to compile an e-MFP publication on “Microfinance and the Environment” and participating organisations will be asked for their consent to include non-confidential information in this publication.