



5th EUROPEAN MICROFINANCE AWARD

Microfinance and the Environment

EUROPEAN
MICROFINANCE
PLATFORM

NETWORKING WITH THE SOUTH





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MICROFINANCE AWARD**

Microfinance and the Environment

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European Microfinance Award background

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).

Previous editions were devoted to the following subjects:

2012, Microfinance for Food Security: won by ASKI (The Philippines), for its micro agriculture loans for smallholder farmers and agri-business and support to market linkages to private sector enterprises.

2010, Value Chain Finance: won by Harbu (Ethiopia), for an initiative financing a soybean value chain.

2008, Socially Responsible Microfinance: won by Buusaa Gonofaa (Ethiopia), for the development of its client assessment system.

2006, Innovation for Outreach: won by The Zakoura Foundation (Morocco), for its programme on rural tourism

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, 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.

The 5th European Microfinance Award seeks to promote greater integration of environmental issues in MFIs, and help raise awareness about successful programs and encourage further research, financing and implementation of similar concepts.



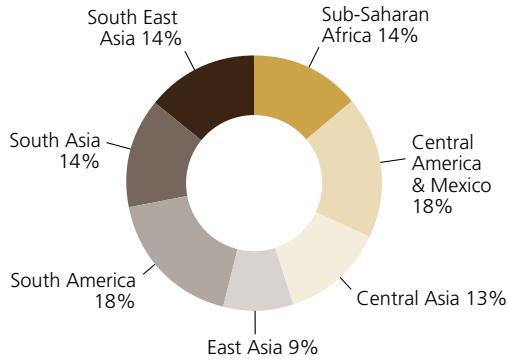
Selection process

The aim of the 2014 Award on “Microfinance and the Environment” is 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.

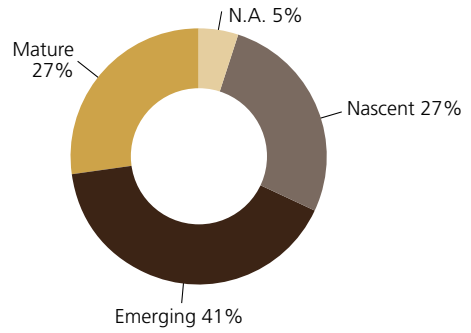
In addition to evaluating the applicants' environmental performance and level of impact, this edition of the Award marked the first time an acceptable financial and social performance was a prerequisite for pre-selection. The application thus reinforced the idea that truly sustainable businesses must 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 5.

Applicant region



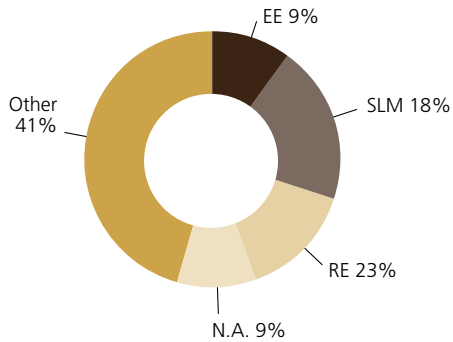
Initiative maturity



More than 3 years (Mature)
1-3 years (Emerging)

Less than 1 year (Nascent)
N.A. (Not applicable)

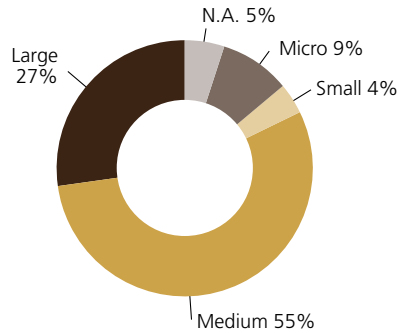
Initiative type



Renewable Energy (RE)
Energy Efficiency (EE)

Sustainable Land Management (SLM)
Other (includes combinations)

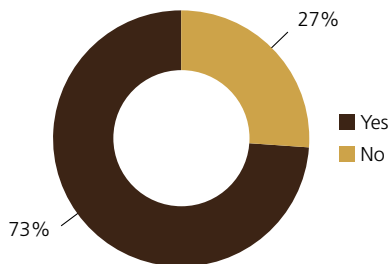
Applicant scale



> 100k clients (Large)
100-10k clients (Medium)

10-1k clients (Small)
< 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 10 best candidates was made by a First Selection Committee of members of the European Microfinance Platform (e-MFP). These 10 applications were then further evaluated by a Second Selection Committee from the Inclusive Finance Network Luxembourg (InFiNe.lu) who nominated the 3 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. With the country facing widespread pasture degradation due to decades of poor farming practices and land mismanagement, Kompanion’s initiative was selected for its innovative and sustainable ideas, and for best meeting the Award criterion of “integrating environmental governance into the DNA of [its] business and promoting initiative(s) that go above-and-beyond business as usual to incorporate environmental sustainability”.

The 5th European Microfinance Award was presented during a ceremony held on 13th November 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 EIB; Michel Maquil, Chairman of InFiNe.lu (created in March 2014 as a continuation of the former Luxembourg Microfinance Round Table); and Moderator Bob Christen, President, Boulder Institute of Microfinance.

The ceremony gathered together leading European investors, practitioners, raters, analysts and support providers. The Award has built a considerable industry reputation since the Luxembourg Ministry of Foreign and European Affairs launched it in 2005. The theme of “Microfinance and the Environment” was described by Bob Christen, who said in his introduction that environmental issues are gaining global relevance in microfinance, moving beyond the Hippocratic standard of Do No Harm to “a more positive affirmation of its role with financial services in creating a more sustainable planet”.

Environmental changes, as Minister Schneider said, “disproportionately affect the poorest people in developing countries, and the examples of this year’s finalists...demonstrate that financial inclusion and environmental sustainability can go hand-in-hand. I expect that their examples will promote greater focus on the environment across the sector” – add-

ing that next year marks the milestone of the UN’s Millennium Development Goals, to be replaced by the Sustainable Development Goals (SDGs).

The environmental principles within the SDGs are well exemplified within this year’s winner, Kompanion Financial Group. Olesya Paukova, Director of Development Services of Kompanion Financial Group, accepting the prize from Her Royal Highness The Grand Duchess of Luxembourg, said: “With the prize money we plan to develop a ‘mobile classroom’ to reach the herders in remote pasture lands and provide trainings in more villages across Kyrgyzstan. We will also develop video materials to be used in public schools in remote areas. These materials will connect students in those areas with our livestock management experts who will present the best pasture land management practices. This will increase our outreach even further.”

Her Royal Highness The Grand Duchess of Luxembourg also presented certificates to the two other finalists ESAF Microfinance and Investments, India and XacBank LLC, Mongolia who were greatly praised by the High Jury.



KOMPANION FINANCIAL GROUP, KYRGYZSTAN

Name of the initiative:

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

Snapshot

Kompanion presented for the 5th European Microfinance Award the Pasture Land Management Training Initiative which provides a specialized “Credit for Conservation” loan linked to a training program for livestock farmers on grazing land management and preservation. Under this program, Kompanion works to address widespread land degradation in the country, particularly adjoining rural villages. Since the launch of the program in 2011, more than 24,000 farmers have participated in the trainings, increasing their incomes by 30%.



Institutional profile

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

Established in 2004, Kompanion Financial Group serves 108,596 clients as of December 2013 and has 141 offices in all 7 regions of Kyrgyzstan, with 915 employees. This is the third largest financial institution in the country in terms of clients and the second largest by portfolio size. Kompanion provides micro-loans along with technical assistance for smallholder

farmers and livestock holders, to promote sustainable agriculture and natural resource management.

Financial and social performance

Kompanion’s loan portfolio has grown steadily over the past 4 years, from € 31m in 2010, to € 44.6m in 2011, € 41m in 2012 and € 60.8m in 2013.



Kompanion focuses on providing services to the rural poor, more than 80% of clients are rural and over 80% of clients are female. Kompanion also has an in-house Impact Measurement System (IMS), which tracks 33 development impact indicators that are integrated into management processes. Kompanion is the first MFI in the country to receive a SMART certification (2014) for client protection and has an institutional rating of “a-” from M-CRIL (April 2014).

Environmental governance

Kompanion 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 and has started to implement an internal footprint tracking system.

In addition to collaborations at the household and community level, the MFI cooperates with a local foundation, which helps to create and test new



environmental technologies. This relationship has benefitted both the foundation by providing it with additional resources and Kompanion by increasing its access to new products for clients.

Kompanion also has an environmental and social risk assessment policy which has been in place since June 2012 and requires loan officers to take environmental measures into consideration. The MFI actively tracks groups with high and medium risk ratings, and provides them with additional training to adjust their practices prior to loan disbursement.



Brief description of the initiative presented for the Award

Kompanion's initiative 'Pasture land management training initiative: an ethno-ecological approach to pasture land preservation' is a specialised loan product ('credit for conservation') that integrates technical assistance to livestock farmers on sustainable agricultural practices, i.e. grazing land management and preservation.

The loan package was initially designed as a more 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 borrowers become more efficient and thereby better off, while preserving the local natural resource base. It also meets relevant, recognized local concerns among the client base: livestock productivity and land degradation.

Relevance of the initiative to the environment

The 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 initiative, local land managers are taught how to sustainably optimise grazing land, how to tend to their livestock and their legal rights in order to help them protect their stake in these vital natural assets. The initiative specifically addresses land degradation and helps to conserve, and increase, local biodiversity.

Financial sustainability of the initiative

The initiative is self-funded. Trainings 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, and Kompanion's financial performance allows it to fund these without difficulty. Kompanion recognizes the initiative as a valuable growth strategy as it reduces cost of client acquisition and lowers exposure to borrower and collateral risk as well as to market and concentration risk.

Scale-up and replicating potential of the initiative

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 technical assistance 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. Morocco, Algeria, Western Sahara, Mali, etc.).

The group recognised that there are scaling-up challenges in particular linked to the distances (many participating villages are remote). They stated that they plan to overcome these by inter alia, letting the MFI's supporting agronomists and vets working in the program sell services directly to villagers when they come for the trainings and exploring opportunities for giving lessons through remote means e.g. phone / internet.



Innovation of the initiative

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.

Impact of the initiative

Initiative outreach

In 2014, 3,825 participants registered for the trainings and since 2011, 24,110 clients have participated in the trainings. In addition, Kompanion estimates that over 100,000 rural community members have been impacted by the initiative (e.g. through information sharing and word of mouth).

Changes observed

As a result of the program, pasture productivity (and overall incomes) among clients has reportedly increased and remained more stable. According to the MFI, local herders' incomes have increased almost

30% and costs decreased by almost 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 IMS.



ESAF MICROFINANCE AND INVESTMENTS LIMITED (EMFIL), INDIA

Name of the Initiative: Improving Access to Green Products for the Low Income Microfinance Clients of ESAF: Clean Energy for the Poor (CEP)

Snapshot

ESAF presented for the 5th European Microfinance Award the Clean Energy for the Poor initiative which provides rural clients with solar energy solutions, efficient cook stoves, and water filters.

To date, over 60,000 clean energy products have been funded through microcredit to clients most of whom live on less than \$2 a day. As a result, 25% of clients report spending less on energy, 50% report feeling healthier, and 40% spending less time collecting firewood, and thus more time for more productive activities. Clients also report better reading habits among children as a result of the solar lamps.



Institutional profile

| | |
|--------------------------------|---------------------------|
| Website | www.esafindia.org |
| Email | cmd@esafmicrofin.com |
| Legal status | MFI |
| Country | India |
| Number of clients | 446,862 |
| Year of establishment | 1992 |
| Portfolio | € 73,614,100 |
| Average loan size | € 169 |
| e-MFP supporting member | Oikocredit & Triodos Bank |

ESAF Microfinance started as a development organisation in 1992 and focussed 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 develop-

ment, dairy, clean energy, etc. It has worked with a range of partners including international institutions such as the World Bank and International Labour Organisation (ILO); international organisations such as Micro Energy Credits Corporation (MEC), Oikocredit, etc.; and local government agencies.



Financial and social performance

The MFI has demonstrated its financial and social performance. ESAF's most recent independent institutional rating was conducted by CRISIL in March 2014, where it was awarded the second highest possible score. 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. Half-yearly client satisfaction surveys are carried out to ensure that ESAF's products are relevant for its client base. In addition to financial services, ESAF also provides enterprise development support, education services (e.g. financial literacy), health services, and women's empowerment services (e.g. rights education). ESAF earned STAR (Socially Transparent and Responsible) MFI status from MixMarket in 2013.

Environmental governance

ESAF Microfinance is in the process of developing an environmental policy, which is undergoing review by management. ESAF 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 environmental footprint risks inherent in the CEP program, and is tackling these, e.g. through recycling services.

In addition to the CEP initiative presented for the Award, ESAF is developing a range of agricultural, biogas and composting projects in collaboration with the local Agricultural Technology Management Agency, and through their Agri-Intervention & Mentoring livelihood support program. Moreover, ESAF also organises information sessions to local communities on environmental issues, such as climate change.



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Brief description of the initiative presented for the Award

ESAF Microfinance 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 (through saving natural resources) and also have a positive environmental impact. For example, the solutions help to replace kerosene, wood fuels, dung and charcoal with clean alternatives. A core team of 10 staff supports the initiative, while 1,600 at the branch level are client facing. Products are screened for their relevance to local communities before accepting them into their portfolio of devices. ESAF works with a wide range of suppliers who have gone through a careful selection process to ensure the appropriateness and quality of their products: more than 6 solar suppliers, a cook stove supplier, a water filter supplier, MEC as a carbon credit aggregator and sales agent. They also collaborate with a range of service providers who support CEP, including media partners for the development of promotional videos.



The initiative was launched in October 2009, and a Memorandum of Understanding (MoU) was signed with MEC in October 2011. In April 2012 an independent energy division was created. In January 2013 a MOU was signed with the Climate Change Finance Innovation Facility of Frankfurt School of Finance & Management. In June 2012 the energy loan program was launched in Kerala state, and scaled up to 5 branches. In 2013 it was extended to 3 additional states in central India. In June 2013 the program won an award from the India Development Marketplace – World Bank. In 2014 CEP was launched in 2 more states.



Relevance of the initiative to the environment

The initiative addresses pressing local environmental and economic issues such as energy security, health (i.e. access to clean water). ESAF provides some local data to support the environmental initiative, e.g. on kerosene use.

Financial sustainability of the initiative

The CEP is financially viable, as ESAF takes a ~10% profit margin on each product sold. It runs on the MFI's existing distribution system, and therefore bears little additional cost to the organisation. A contracted retail company manages supply and delivery to the customers. The program has shown good growth potential, reaching 30,000 devices and € 471,000 in just 6 months.

Scale-up and replicating potential of the initiative

The CEP is now being implemented in 6 states. ESAF has clear targets for scale-up, and intends to sell a total of over 10m products by 2020. The MFI considers that CEP is replicable for other organizations if they have strong adherence to environmental objectives and goals and invest the resources in human resource management and grassroots mobilization. ESAF suggests that successful design and implementation takes ca. 5 years to achieve, and encourages potential replicating organisations to take a long-term approach.

Innovation of the initiative

The CEP is innovative in that ESAF owns the program, rather than just letting the suppliers / manufacturers use their client base on commissions. ESAF designs specific loan packages around these products, and screens the suppliers. ESAF intends to also leverage returns from sales of voluntary carbon credits to cross subsidize or build infrastructure to support these projects.

Impact of the initiative

Initiative outreach

To date, around 70,000 clients have been reached, out of whom 68% rely on below USD 2 per day and 90% are in rural areas. The program has had spill over effects in the community – ESAF estimates that over 100,000 additional people have benefitted.

Changes observed

According to ESAF, more than 50% of clients using cook stoves / water filters report 'feeling better' in terms of their health, around 25% report reduced electricity cost, around 40% say they have more time with their families and time to get involved in other income generating activities because they don't have to collect firewood. Clients also reported that children's reading habits have changed due to the solar lamps.



XACBANK LLC, MONGOLIA

Name of the initiative: Eco Product Program

Snapshot

XacBank LLC presented for the 5th European Microfinance Award the Eco Product Program, under which it has facilitated the purchase of over 150,000 energy efficient heating and insulation products to poor ger district households in Ulaanbaatar (gers are traditional nomadic yurts that are costly and highly polluting to heat with traditional coal stoves).

By providing microcredit to families who otherwise spend up to 45% of their income on heating during the winter months, XacBank has not only helped these families reduce their heating expenses, but also reduced carbon emissions by an estimated 380,000 tons and lowered particulate pollution by 90%.



Institutional profile

| | |
|--------------------------------|---|
| Website | www.xacbank.mn |
| Email | info@xacbank.mn |
| Legal status | MFI & commercial bank |
| Country | Mongolia |
| Number of clients | 620,568 |
| Year of establishment | 2001 |
| Portfolio | € 472,000,000 |
| Average loan size | € 3,297 |
| e-MFP supporting member | The Netherlands Development Finance Company (FMO) |

XacBank has grown rapidly since its establishment in 2001 and it 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 individual clients

in 2013, XacBank also served almost 14,000 commercial enterprises. It provides a range of financial services and loan products. Over 60% of its staff and 50% of management are female.



XacBank works with many partners, both local and international, including IFC, EBRD, FMO, Triodos, Vittana, Mercy Corps, Child & Youth Finance International, Oikocredit, Cyrano, responsAbility and others to constantly assess opportunities and needs. Some of these partnerships offer concessional financing for XacBank and its initiatives. XacBank also works with the 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% between 2011 and 2013, and public deposits by 21%. XacBank has a wide client portfolio, from major commercial borrowers to poor rural households. Of its retail clients, nearly a quarter of the borrowers are microloan borrowers,

many of whom live in the 'ger' (traditional nomadic hut) districts surrounding Mongolia's urban centres. Residents of these 'ger' districts often lack basic sanitation, clean water, plumbing and centralized heating.

In 2007, XacBank endorsed the UN Global Compact¹ and became an adherent to the Global Reporting Initiative (GRI)². In 2002 it implemented a Social & 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. They are planning to be socially rated again in 2014. XacBank has also used Planet Rating 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 Index³ to track its impact, and results are integrated into the company's operations.

¹ 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

² The GRI is a leading organization that promotes sustainability reporting, by providing a suite of good practice reporting guidance for different sectors. More information can be found at www.globalreporting.org

³ An index developed by The Grameen Foundation, which 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



Environmental governance

XacBank has had an environmental and social policy since 2002. A Social & Environmental Management System was implemented in 2008. Each loan requires a social & environmental assessment. XacBank maintains a sustainability compliance team within its integrated risk department, including carrying out internal audits.

XacBank maintains an Eco Banking department, which acts as a consultant to local businesses, e.g. to finance energy efficiency. In line with this, it also distributes and markets environmental products and provides complementary advisory services. This initiative helps to transfer support essentially provided by international organisations, e.g. the Global Climate Partnership Fund facility.

Brief description of the initiative presented for the Award

The Eco Product Program focuses on distribution of energy efficient products to 'ger' district households in Ulaanbaatar. It 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 sale of carbon offsets for the voluntary carbon markets, and this is combined with microloans in order to make the product affordable.



Relevance of the initiative to the environment

The initiative 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 due to particulate matter from inefficient stoves. The program helps to reduce urban coal consumption, greenhouse gas (carbon) emissions and particulate matter emissions. Stoves are tested to ensure they meet the program standard and that they can reduce coal use by ca. 50%.

The program has reduced an estimated 380,000 tons of carbon since its inception, with over 2 million tons of carbon estimated to be avoided by 2019. Each stove in the program produces at least 75% less particulate matter. In addition, a related advisory program for its commercial clients has helped to reduce carbon emissions by about 180,000 tons.



Financial sustainability of the initiative

Although the initiative presented for the Award is currently operating at a loss, XacBank expects to ensure financial sustainability through the sale of carbon credits on the voluntary carbon markets. The program is expected to break even in 2016, according to carbon sales contracts.

Scale-up and replicating potential of the initiative

Through the initiative, XacBank has already reached ca. 80% of the families in Ulaanbaatar's 'ger' districts. They expect to be able to scale up to 90% penetration. Beyond that, they expect to scale up to Mongolia's other larger cities. XacBank states that the initiative is replicable to other locations, depending on institutional and partner commitment.

Innovation of the initiative

The program is innovative in that it uses microfinance and carbon revenue to extend clean energy technology access to the poor.

Impact of the initiative

Initiative outreach

More than 150,000 products have been distributed since the program's inception. Of these, 71,227 of the recipients were XacBank clients (11.5% of total clients).

Changes observed

Each improved stove sold reduces carbon and particulate matter emissions, and helps reduce coal usage. 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).



European Microfinance Platform

The European Microfinance Platform's (e-MFP) 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.

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 values:

- e-MFP members believe that everyone should have access to financial services and that microfinance contributes significantly to this development.
- e-MFP enables synergies & knowledge sharing, fosters innovative action & research, and advocates sustainable and responsible microfinance in the South.

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

Directorate for Development Cooperation
and Humanitarian Affairs



InFiNe

*Inclusive Finance Network
Luxembourg*



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