Green Microfinance in Latin America and Caribbean (LAC): translating successes abroad
Lessons from different projects
Luxembourg, 20.11.2015
Current climate finance cooperations

Areas of intervention and regions, among others:

- Microfinance for Ecosystem-based Adaptation (MEbA) in Colombia and Peru
- Climate finance solutions to improve sustainability of MFIs in Nepal and Ethiopia
- Finance of efficient irrigation solutions in Tajikistan

Different interventions, but similar objectives; e.g.:

- Assist mainly rural populations (i.e. depending on ecosystem and most vulnerable to climate change)
- Reduce risks and limit future loan losses of MFIs by stabilizing the repayment capacity of clients
- Explore opportunities of growth for MFIs
- Comprehensive approach (e.g. combine adaptation with clean energy solutions)
  → Improve sustainability of MFIs
The complexity of MEbA
(Microfinance for Ecosystem-based Adaptation (I/III))

SAMPLE: Crops and animals, and their sub-varieties, with differing climate sensitivities that define optimum management. (Sensitivity: example temperature and crop management**)

** - random example for illustration
The complexity of MEbA(II/III)
(Range of EbA-measures applied - besides clean energy solutions)

**Conceptual pillars**
Agroecology, Permaculture

**Agricultural support**
Organic fertilizers, vermicompost, soil conditioning, water reservoirs, drainage systems, contour trenches

**Ecological support**
Beekeeping, seed banks, sustainable forest management, soil restoration, fire prevention trenches, retention walls, filtering dams, infiltration pits, ecotourism, plant nurseries

**Better agricultural practices**
Organic agriculture, conservation agriculture, crop diversification, crop rotation, integrated nutrient management, integrated pest management

**Mixed systems**
Agrosilvopastoral, Silvopasotral, Agroforestry, Natural shade, windbreaks, family orchards

**Technological improvements**
Biodigesters, fog catchers, solar dehydrator, efficient woodstoves, solar hydroponics, greenhouses, aquaculture, drip irrigation

**Ancient practices**
Terraces, Waru Waru
The complexity of MEbA (III/III)

Engaging a team of experts (agronomist, economist, veterinarian, geographer, energy engineers) for:

- Identification of threats, impacts, effects on client and effect on portfolio and sub-portfolio
- Data Management

Development and introduction of instruments:

- Exposure limits (adapting processes)
- Climate-smart loan terms
- Adaptation and mitigation products
- Insurance products

Developing and introducing new procedures to support risk management (e.g. using a dedicated software for analysing climate risks)
Green microfinance and adaptation finance
Balancing benefits and new opportunities with new challenges

- Informed risk management
- Risk adjusted pricing
- Real-time performance monitoring
- Environmental risk management
- Non-financial services
- Ecosystem benefits
- Climate-smart lending
- Customer understanding & customer segmentation
- Efficiency through automation
- Automated but customized products
- Poverty reduction
- Capacity building
- Products for resilience
- Community building

- Economic incentives through resilience and adaptation projects
- Real-time due diligence
- Triple bottom-line bonds
- Risk transfer markets
Status quo of MFIs and Rural Banks

<table>
<thead>
<tr>
<th>Stages</th>
<th>Start Up</th>
<th>Initial Growth</th>
<th>Expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>Social mission, local roots, business plan, start operation</td>
<td>Gain market share, become sustainable, but focus on social mission</td>
<td>Growth strategy, conflict between social and financial sustainability</td>
</tr>
<tr>
<td>Governance</td>
<td>Informal, NGO</td>
<td>Found-led, non-regulated</td>
<td>Increasing pool of professional staff, transformation</td>
</tr>
<tr>
<td>Capital structure</td>
<td>Public sources, grants (financing constraints)</td>
<td>First (international) investor, but lack of diversification</td>
<td>Commercial refinance, deposit mobilisation</td>
</tr>
<tr>
<td>Risk mgt.</td>
<td>Lack of MIS, credit risk focused, no separate risk unit</td>
<td>Introduction to MIS &amp; risk management</td>
<td>Includes asset and liability management FX/liquidity</td>
</tr>
</tbody>
</table>

Status quo of MFIs and Rural Banks

- **Efficiency** maintains market share, **extend product base**
- **Professionally managed**
- **Capital markets, hedging**
- **Full market, credit and operational risk unit**
MANY THANKS !!!

For additional questions, please do not hesitate to ask

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