

# GREEN INCLUSIVE FINANCE

## Case Studies Series on Essential Practices

### Essential Practice No.5:

Manage client or portfolio-level environmental risks and opportunities



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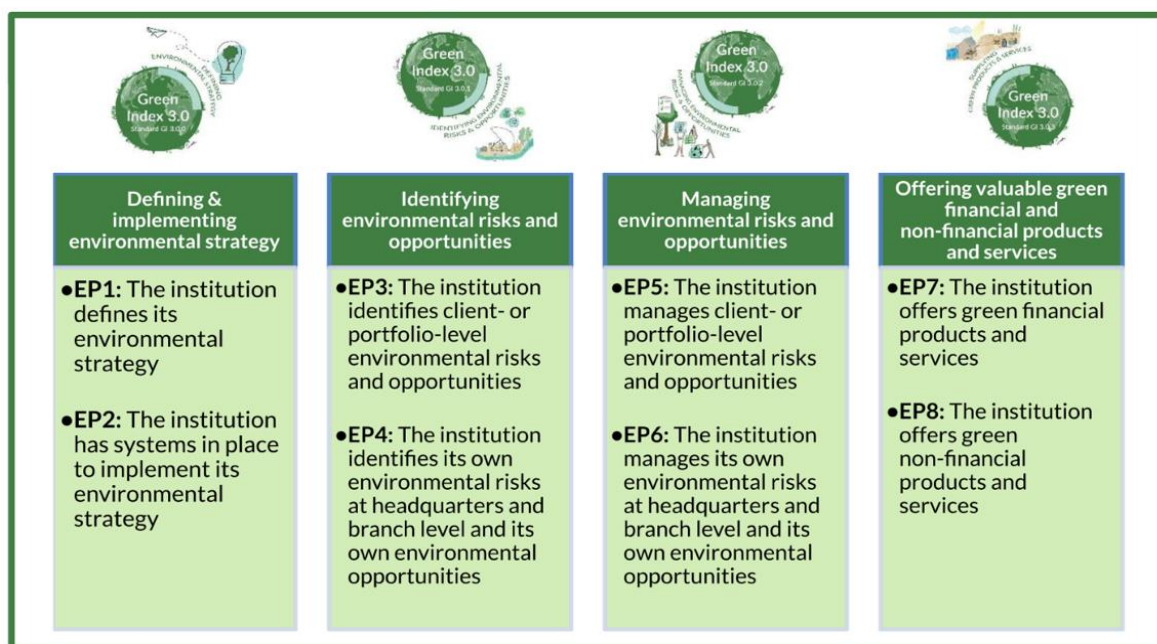
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## About the Green Essential Practices Case Studies Series

The “Green Essential Practices Case Studies Series” highlights the experience of Financial Service Providers (FSPs) with good practices in the 8 key areas identified in the Green Index 3.0.<sup>1</sup> The Case Studies under this series offer practical examples of how an FSP developed its practices to inspire and facilitate the journey of others.

The **8 Green Essential Practices (EPs)** provide a roadmap for FSPs to maximise their green impact:

- **EP1:** Define their environmental strategy
- **EP2:** Implement their environmental strategy
- **EP3:** Identify client or portfolio-level environmental risks and opportunities
- **EP4:** Identify institutional-level environmental risks and opportunities
- **EP5:** Manage client or portfolio-level environmental risks and opportunities
- **EP6:** Manage institutional-level environmental risks and opportunities
- **EP7:** Offer green financial products and services
- **EP8:** Offer green non-financial products and services



Each Case Study in the series follows the same structure:

1. **Background** of the FSP and the context in which it operates.
2. **Evidence** of how the FSP is demonstrating good performance in the Essential Practice that is being highlighted. This is the main section of the Case Study and offers – as relevant – a review of what has enabled the FSP to reach its results, and what these results are:
  - *Capacity:* how did the FSP acquire the capacity to implement the activities needed? (e.g., internal training, training through external partnerships, technical assistance, financial support, etc.)

<sup>1</sup> For more details about the Green Index 3.0, refer to these links: [https://www.efmf.eu/sites/default/files/resources/2022/11/Green%20Index%203.0\\_final.pdf](https://www.efmf.eu/sites/default/files/resources/2022/11/Green%20Index%203.0_final.pdf) and [https://hedera.online/gicsf\\_ag\\_tools/green-index-digital.html](https://hedera.online/gicsf_ag_tools/green-index-digital.html)

- *Tools*: which tools did the FSP use to implement the needed activities? (e.g., indicators, documents, materials, IT solutions, etc.)
  - *Outreach*: what were the FSPs' quantitative results? (e.g., outreach, implementation status, etc.)
3. The FSP's **journey** to implement the identified good practice, and lessons learned.
  4. The FSP's **next steps** – if any – to continue to improve in this area.

## Green Essential Practice No. 5: Manage environmental risks and opportunities at customer or portfolio level

In **Green Essential Practice No. 5 (EP5)**, the focus is on managing environmental risks and opportunities at the client or portfolio level:

- The FSP recognizes identified vulnerabilities of clients or portfolio to environmental risks as well as adverse environmental impacts of clients or portfolio as factors of risks to achieve its social mission or environmental objectives,
  - The FSP incorporates them into its financial risk management policies and processes using a variety of methods to assess vulnerability and adverse impacts, and
  - The FSP has processes in place to manage them.
- The FSP identifies green practices and technologies that create benefits for clients.
- The FSP ensures that the practices or technologies identified are recognized as "green" by an environmental taxonomy and/or comply with clear environmental criteria.
- The FSP recognizes the identified demand and need for green practices and technologies as economic opportunities, and it incorporates them into its credit processes and manuals and its client segmentation.
- The FSP has in place processes to select and propose specific financial or non-financial products and services aiming to address identified needs or demand of each client.

The FSPs highlighted in Case Studies on the **Green Essential Practice No. 5 (EP5)** demonstrate good practices in managing risks and opportunities at the client and portfolio level.

## EP5: Manage environmental risks and opportunities at the customer or portfolio level at CAURIE-MF

### A. Context

#### About CAURIE-MF

The Coopérative Autonome pour le Renforcement des Initiatives Économiques par la Microfinance, known as CAURIE-MF, has been operating in Senegal since 2005. CAURIE-MF has the status of a decentralized financial institution. By the end of 2022, the institution had 20 points of service and had achieved gross outstanding loans of USD 24.7 million and outstanding deposits of USD 11.5 million, serving nearly 142,000 customers. 95% of CAURIE-MF's customers are women, 57% of the portfolio is represented by customers located in rural areas and 25% of the portfolio is exposed to agriculture.

CAURIE-MF began its green activities in 2016 with credits for solar kits mainly for domestic and later for commercial use, with technical assistance from CIDR Pamiga.<sup>2</sup> Over EUR 150,000 have been disbursed via these products since 2016:

From 2019 to 2020, CAURIE-MF took part in the second phase of the MEbA (Microfinance Ecosystems based on Adaptation) project, promoted by the United Nations Environment Programme (UNEP), YAPU Solutions and Fundecooperacion.<sup>3</sup> As part of this process, CAURIE-MF has adapted its credit methodology and information management processes (digitization) by introducing climate and ecosystem risk assessment indicators to better manage and monitor their potential impact on the agricultural portfolio.

Another specific and complementary initiative aims to promote the production and marketing of organic fertilizers through the supply of biodigesters (323 customers - 830,000 euros in progress at the end of June 2023). In line with this proactive approach, CAURIE-MF has trained its staff in climate change issues and improved information on customers and their farms. As part of its strategy, the institution has drawn up a project for the inclusion and development of small producers in green value chains covering the period 2022 to 2025, with the support of the Huruma fund.<sup>4</sup>

All these projects have been implemented in collaboration through partnerships.

#### What is the context in which CAURIE-MF operates?

Senegal has a law containing an environmental code. Projects and programs financed by the Senegalese financial sector require a prior environmental analysis. In theory, this applies to most of the activities financed by CAURIE-MF, but the company is not generally concerned, as the projects it finances are small-scale and excluded from the scope of this law.

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<sup>2</sup> <https://cidrpamiga.org/>

<sup>3</sup> <https://unepmeba.org/>

<sup>4</sup> <https://fondohuruma.com/en/caurie/>

## B. Essential Practice N°5 (EP5) at CAURIE-MF

CAURIE-MF takes into account its customers' vulnerability to climate change and environmental risks in general, integrating them into its credit processes and its range of financial and non-financial services.

Indeed, since 2021, CAURIE-MF has progressively integrated the assessment of its customers' vulnerability to weather threats, climate change, environmental degradation, loss of biodiversity, and difficulties to access energy into its credit processes, particularly for those clients involved in agricultural activities.<sup>5</sup>

CAURIE-MF first updated its risk mapping by defining climate risks and their probability of occurrence, as well as the customer's degree of exposure, depending on the crop (sensitivity to temperature, rainfall and soil PH oscillations) and the variety grown, the location and the ecological conditions in which the crop is grown. The institution then defined tools for managing climate change and ecosystem risks: exposure limits by sector, loss provisions, adaptation of maturities according to the product cycle, and the introduction of loan products designed to support farmer's adaptation using nature-based solutions. These are based on the following four solutions:

- Drip irrigation
- Improved farming techniques (crop diversification and rotation) <sup>6</sup>
- Use of organic fertilizers (biodigesters)
- The use of solar equipment

These green practices are based on ecosystem-based solutions.<sup>7</sup> CAURIE-MF supports the implementation of these solutions for customers through both financial services (loans for the use of these technologies) and non-financial services (raising awareness of the use of these technologies). It is also an opportunity for CAURIE-MF to expand its portfolio of services. <sup>8</sup>

## C. CAURIE-MF's path with Essential Practice N°5 (EP5)

Within the MEbA project, CAURIE-MF has benefited from technical assistance from YAPU Solutions to take climate and ecosystem risks into account in the appraisal and analysis of loan applications since 2021, first for agricultural loans and individual credits, which make up more than 30% of its portfolio, then for all applications including group loans (in the process of being generalized).

This project involved accelerating the digitization of the loan granting process, in order to rapidly collect and process an additional volume of information, including customer geolocation, and assess vulnerability to climate-related and environmental risks.

Among the key success factors, it is worth mentioning the strong commitment of the directors and general management, strategic orientations and objectives clearly translated into a planning document (2020-2024), ownership of the project by the field staff, financing policies and procedures as well as an information and management system adapted to the needs, the interest of agricultural producers in ecosystem-based adaptation solutions, and the availability of ad hoc partnerships on these subjects.

The main constraints and challenges include difficulties in accessing up-to-date data on climate and the environment, the imperative need to train staff involved in analyzing credit files, as well as the costs associated with raising customer awareness, integrating climate and ecosystem risks into risk mapping in order to better manage impacts on the agricultural portfolio, and digitizing the credit process.

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<sup>5</sup> [Green Index 3.0](#): GI indicator 2.1.1.

<sup>6</sup> [Green Index 3.0](#): indicators GI 2.1.3 and GI 2.1.7.

<sup>7</sup> [Green Index 3.0](#): GI 2.1.8 indicator.

<sup>8</sup> [Green Index 3.0](#): GI 2.1.9 indicator.

## D. What's the next step?

While in the first stage (2021-2022), CAURIE-MF applied vulnerability analysis to environmental and climate risks only for customers involved in agricultural activities, the institution is now working to generalize this analysis to all its customers. It is also working to produce indicators of the negative environmental impact of its customers, notably in terms of air, soil and water pollution, loss of biodiversity, and waste production and management.<sup>9</sup>

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<sup>9</sup> [Green Index 3.0](#): GI indicators 2.1.5 and 2.1.6

## Acknowledgments

e-MFP and the Climate-Smart and Inclusive Green Finance Action Group (GICSF-AG) would like to thank CAURIE-MF, and in particular Mr. André Roland Youm, Director of Partnership, Research and Development in charge of Social Performance Management (GPS), for his availability and generosity in sharing his knowledge and the institution's experience of inclusive green finance with Ms. Caroline Brandt and the "Green Map" team. Many thanks also to the government of the Grand Duchy of Luxembourg for the financial support that made this work possible.

## Read more

For more information on CAURIE-MF's environmental approach, please consult the following resources:

- Link to the CAURIE-MF website
- [Contact: Mr André Roland Youm, Director of Partnership, Studies and Development, in charge of Social Performance Management \(GPS\): aryoum@caurie-mf.info](mailto:aryoum@caurie-mf.info)

For more information on essential practices, please consult [Green Index 3.0](#).

## Contribute

We encourage you to take an active part in enriching the resources available on good environmental practices.

If you would like to **contribute to the Green Essentials case study series or the Green Map**, please contact Joana Afonso at the European Microfinance Platform (e-MFP) at [jafonso@e-mfp.eu](mailto:jafonso@e-mfp.eu).

### **The e-MFP Green Inclusive and Climate Smart Finance Action Group (GICSF-AG)**

The e-MFP Green Inclusive and Climate Smart Finance Action Group (GICSF-AG) is a unique multi-stakeholder think tank that brings together inclusive finance practitioners and researchers to enhance cooperation, exchange experiences and find a common path to deal with environmental issues, improve knowledge and disseminate findings, seize green opportunities and co-create common standards for the inclusive finance sector and new practical tools to advance green inclusive and climate smart finance. Created in 2013, today it counts today more than 150 members affiliated to more than 75 institutions worldwide and represents the majority of sector stakeholders.

### **The European Microfinance Platform (e-MFP)**

The European Microfinance Platform (e-MFP) is the leading network of organisations and individuals active in the financial inclusion sector in developing countries. It numbers over 130 members from all geographic regions and specialisations of the microfinance community, including consultants & support service providers, investors, FSPs, multilateral & national development agencies, NGOs and researchers. Up to two billion people remain financially excluded. To address this, the Platform seeks to promote co-operation, dialogue and innovation among these diverse stakeholders working in developing countries. e-MFP fosters activities which increase global access to affordable, quality sustainable and inclusive financial services for the un(der)banked by driving knowledge-sharing, partnership development and innovation. The Platform achieves this through its numerous year-round expert Action Groups, the annual European Microfinance Week which attracts over 400 top stakeholders representing dozens of countries from the sector, the prestigious annual European Microfinance Award, and its many and regular publications.

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