

GREEN INCLUSIVE FINANCE

Case Studies Series on Essential Practices

Essential Practice No.1:

Define your environmental strategy



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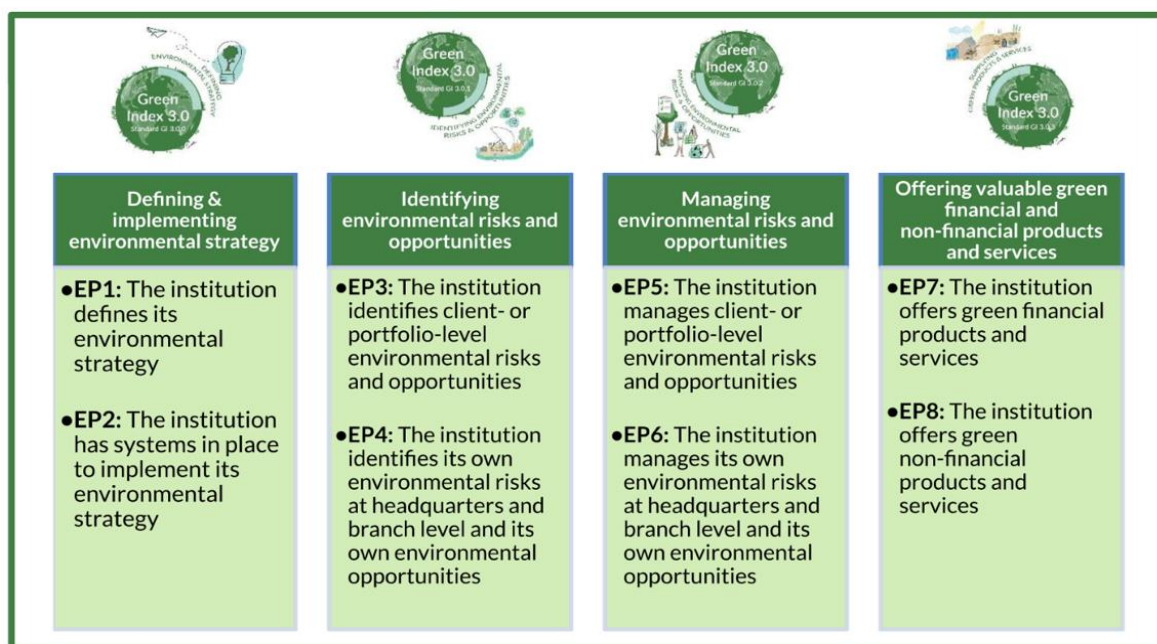
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About the Green Essential Practices Case Studies Series

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 3.0.¹ 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.)

¹ For more details about the Green Index 3.0, refer to these links: https://www.e-mfp.eu/sites/default/files/resources/2022/11/Green%20Index%203.0_final.pdf and 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. 1: Define your environmental strategy

In **Green Essential Practice No. 1 (EP1)**, the Financial Service Provider (FSP) focuses on defining its environmental strategy. EP1 focuses on having clear environmental goals, complying with standards and regulations, and having a comprehensive strategy that covers all the minimum key strategic components:

- *Environmental aspirations*
 - What are the FSP's **environmental goals**?
 - Who are the FSP's **target clients or sectors**?
 - Are the FSP's environmental aspirations well documented in a comprehensive strategy?
- *Standards and regulation*
 - What are applicable national or international environmental laws and regulations?
 - What are applicable national or international environmental taxonomies (i.e., EU taxonomy)?
 - What are **environment or climate frameworks** relevant to the FSP?
 - What is the FSP's compliance with all the above?
- *Environmental partners*
 - What are partnership guidelines (with suppliers, technical assistance providers, other local or international parties)
 - What types of green organizations will the **FSP partner** with?

The FSPs highlighted in Case Studies on the **Green Essential Practice No.1 (EP1)** demonstrate good practices in defining their environmental strategy and setting the stage for its successful implementation.

EP1: Defining an environmental strategy at Chamroeun

A. Background

About Chamroeun

In late 2005, GRET, a French NGO, signed an agreement with the Phnom Penh Municipality and with the Cambodian Ministry of Foreign Affairs to start up a social microfinance project named Chamroeun (meaning “progress” in English). Today, Chamroeun is a **leading Cambodian social microfinance institution** (MFI) with total assets a little over USD 50 million, a gross loan outstanding portfolio close to USD 45 million and over 45,000 active clients as of 2023.

Its mission is to “achieve positive and lasting changes in the livelihoods of economically active poor families in a socially responsible manner”, targeting low-income entrepreneurial individuals and families, located in urban, sub-urban, and rural areas of Cambodia.

Chamroeun formally committed to contributing to efforts towards ensuring stronger communities and a healthy environment, via its environmental policy issued in 2017. This policy is considered a first step towards a more comprehensive and integrated environmental strategy, which Chamroeun will continue to work towards, in alignment with its mission to support low-income families. In addition to this policy, a number of partnerships and projects have been launched in the green space, targeting the promotion of renewable energies, sustainable agricultural practices, reduced use of non-renewable materials, to name but a few.

What context does Chamroeun operate in?

Having a strong focus on low-income families in Cambodia, Chamroeun has directly experienced how environmental issues affect the lives of the borrowers it supports. With 60% of borrowers living in rural areas, there is a **high level of vulnerability linked to climate events**, which affects families relying in part, or fully, on agricultural production. However, these climate events affect families in both rural and urban areas in a multitude of ways, not limited to agricultural production.

For example, a flood may affect families’ capacity to access markets for various trading purposes or may reduce the number of customers who come to their shop. Cambodia is considered one of the most vulnerable countries to climate change due to the strong reliance on agriculture for the majority of the population, the Tonle Sap Lake ecosystem which includes a massive flood-plain, among other factors.

Based on these realities and challenges, it was important for Chamroeun to start developing a range of both internal- and external-risk facing measures, and to effectively roll these out required joining forces with other partners to provide the necessary expertise.

B. Essential Practice No.1 at Chamroeun

Chamroeun has a **documented strategy** that specifies its intention **to achieve two main environmental goals**:

- Foster the adoption of green practices and technologies to meet clients' demand for green practices among agricultural SMEs
- Offer renewable energy technologies.

Chamroeun developed its environmental policy in 2017, driven by the goal of increasing access to green finance for their clients. To support the achievement of its environmental strategy objectives, the MFI established numerous local partnerships with a range of organizations, such as:

- Technology providers - Agrosolar², and NRG Solar³
- A value chain management platform that aims to integrate all actors in the rice value chain - AgriBee⁴

To track the implementation of its environmental strategy, Chamroeun put in place a **specific budget and indicators in terms of water, energy, and paper consumption**, which are reviewed annually. These include quantifiable targets such as KWH of electricity used, Cubic Meters of water consumed, and toilet paper used by the staff at the Head Office.

Chamroeun sees the development of its green strategy as a dynamic and ongoing process. Of note, regular market research is done to help understand markets and develop adapted responses. Chamroeun has recently conducted research related to pipe water access. The analysis will be used to develop WASH financial products that respond to the needs of private piped-water service providers. This is a multistakeholder project which includes Aqua for All⁵, Oikocredit⁶ and ADA⁷.

The institution operates in accordance with non-mandatory environmental protection or climate vulnerability reduction initiatives such as the Dimension 7 of the [Universal Standards for Social and Environmental Performance Management \(USSEPM\)](#) or its version in [Alinus](#). Moreover, it uses international standards and regulations for disclosure and management of adverse environmental impacts, more precisely- the SDGs standards - Goal 6 “Clean Water and Sanitation” and Goal 11 “Sustainable Cities and Communities”. SPI4 reports are published on the website (latest one 2018 – with an SPI5 assessment being conducted in 2023) and Chamroeun has successfully completed the Client Protection Surveillance Audit by MFR (2021). The latest social rating done was in 2019 by M-CRIL, with a rating of B+. To address investor ESG and impact data requirements, other “green performance tools” are used, as designed by investors.

C. Chamroeun’s journey with Green Essential Practice No.1

As a microfinance institution committed to development outcomes, including environmental ones, there are many opportunities to shape the organization. Chamroeun aims, ultimately, to **have a comprehensive strategy** that addresses the various avenues by which, as a mission-driven financial service provider, it can help to address various environmental risks facing Cambodian families.

The broad categories Chamroeun considered accordingly are:

- **Internal organizational** considerations linked to:
 - Reducing the use of non-renewable resources
 - Transitioning to clean energies
- **External focus** – being an enabler of market systems development in support of green initiatives linked to:
 - Reducing barriers for end-users to access financing to transition to greener technologies, practices, etc.
 - Supporting companies and initiatives looking to promote greener technologies, practices, etc.

These initiatives need to be integrated into a framework which will help define targets and clear objectives, and then support monitoring and evaluation of the frameworks accordingly. The current environmental

² [Citicore Agro-Solar Projects | CPI \(citicorepower.com.ph\)](#)

³ [Solar Panel Installation Philippines | SolarNRG](#)

⁴ [AgriBee\(Cambodia\)Plc](#)

⁵ [Home - Aqua for All](#)

⁶ [Home - Oikocredit International](#)

⁷ [ADA - Appui au développement autonome \(ada-microfinance.org\)](#)

policy in Chamroeun has been achieving that effectively. There are now targets that are regularly tracked and reported against. The intention is for Chamroeun's environmental policy to address all of the points above. However, to date, Chamroeun's green initiatives are more of an aggregation of actions which contribute towards these larger objectives, without these being necessarily tracked and assessed. For example, Chamroeun has been financing agricultural cooperatives who produce net houses, or organic fertilizer. These actions fit the larger objective of supporting green initiatives, but Chamroeun does not yet have a clear picture of its total exposure on these activities, their effectiveness, etc. Getting to that point requires addressing the internal challenge of lack of resources, people, systems, etc. to develop, track, report, drive continuous adjustments on, etc.

It should be noted that the above intended policies and processes linked to Chamrouen's environment policy are focused on supporting active and positive change, i.e., how to 'do good'. In addition to doing good, it is also important to ensure that there are no negative consequences from good intentions and that we 'do no harm'. This should be the first step in the process towards any social or environmental strategy, and Chamroeun has defined a clear exclusion list linked to financing activities which may have negative environmental impacts.

Challenges

Several challenges linked to the implementation of the strategy emphasize the need to have a feedback loop between the strategy formulation and its implementation to ensure that the strategy is grounded in the specific circumstances of the institution, and reviewed as needed so that it can lead to implementation and results.

For example, if Chamroeun supports a small laundry service in a rural area to buy an additional washing machine, how is it to assess whether the detergents and other chemicals used are done so without negative impacts to the local water supply? Loan Officers cannot be equipped to assess this for all sectors and activities they provide loans for – it is too complex.

In agriculture, there is a similar issue. As an institution financing smallholder farmers, many of the loans provided are for agricultural inputs. These often include fertilizers and pesticides which may include chemicals harmful to the environment and to end-consumers. How can the institution ensure it supports the farmers' livelihoods effectively, in a way which is competitive and meets their needs, while at the same time not supporting industries and value chains which may harm the environment? And if so, how is the institution to assess where and what this harm may be? These are some of the operational, logistical, competition-driven, to name but a few, considerations, which need to be taken into consideration, always in balance, for an institution to move forward on green strategies.

Another challenge when aiming to 'do good', is related to how to find effective funding pipelines for financing such initiatives. The points under 'External Focus' above have strong interdependencies and require technical and field-level partner institutions to drive the actual market systems' development. For example, while Chamroeun is key to support farmers' transition to conservation agriculture practices, there are two key points on which Chamroeun can only have little impact:

- The first relates to making the required information and technologies available to farmers. Chamroeun can only do so much in educating the farmer on which new seeds to buy, how to farm these, which cover crops to use, what new machines to buy, etc.
- The second point links to markets; giving a loan for a farmer to transition to more sustainable practices (with the right partner on the ground to advise the farmer – as pointed out above) is within the capacity of Chamroeun, but how will the farmer be able to sell its products, preferable at a premium price (production costs will be higher, given the investments required, at least in the first instance; increase in yields compared to that investment cost are often not sufficient, at least in the first 2-3 years, usually; etc.)?

In order to overcome the challenges stated above, Chamroeun and other microfinance institutions should be integrated in the larger stakeholder environment pushing for these greener market systems, and this environment needs to enable a level of scale that would justify the strategic efforts. However, these two conditions, across a range of initiatives in the green space, are often not met; and if they are, they are often driven by subsidies and development programs which, even if they aim to, often do not truly respond to the requirements for developing an effective market system.

The challenges are many and, as a consequence, the investment required to effectively implement a green strategy is important. It requires people, time, and cannot be expected to immediately contribute to improving an institution's bottom line. Microfinance institutions should therefore put in some effort to determine their long-term strategy, clearly stating their intent to support green initiatives in the long run, but should aim to develop it gradually, breaking down the transition into bite-sized actions that are manageable and do not adversely and significantly impact business performance. As these initiatives develop, systems and controls need to be developed accordingly to ensure effective oversight.

D. What's next?

Chamroeun has taken the first steps towards building a comprehensive environmental strategy, i.e. tracking use of non-renewable resources, as well as setting out larger commitments. It now intends to move ahead with the next steps of the strategy. The most immediate of which includes creating a tracking system to determine (and thereafter translate into targets and monitoring systems) what Chamroeun is already doing in this space; and secondly, committing to spending the time (and potentially money) in detailing and refining the environmental strategy and the associated systems, people, etc., to meet the defined objectives.

Acknowledgments

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Learn more

For more information about Chamroeun's environmental journey, we invite you to check the following resources:

- Chamroeun's website: [Chamroeun Microfinance Plc](#)
- WASH Programme with A4A and Oikocredit: [Presentation at European Microfinance Week 2022](#)
- Contact information: Yannick Milev, CEO: email yannick@chamroeun.com

For more information about the Essential Practices, we invite you to check the [Green Index 3.0](#).

Contribute

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

If you are interested to **contribute to the Green Essential Practices Case Studies Series or the Green Map**, we invite you to contact Joana Afonso at European Microfinance Platform (e-MFP) at 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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