

Training on

GREEN INCLUSIVE FINANCE

Module 2: Green Strategy



Prepared by

the Heads of the e-MFP Green Inclusive and Climate Smart Finance Action Group

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Object

The training modules on green inclusive finance are aimed at interested stakeholders as an introduction to the topic.

Intellectual Property

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How this document should be cited

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EUROPEAN
MICROFINANCE
PLATFORM
NETWORKING WITH THE SOUTH



e-MFP
Green Inclusive &
Climate Smart Finance
ACTION GROUP

2. Green Strategy

1. Green Inclusive Finance

2. Green Strategy

**3. Assessment & Management of
Vulnerabilities**

**4. Assessment & Management of Negative
Environmental Impacts**

**5. Green Financial and Non-Financial
Products and Services**

6. Green Inclusive Finance and Gender

7. Green Inclusive Finance and Digitization

What does it mean to have a green strategy?

What do you think of when you hear that term?

Environmental Strategy

GI.0 Environmental strategy

Definition and
implementation

This standard is about how the environmental strategy is defined and implemented, including roles and responsibilities, alignment with local and international standards, and how the institution monitors and reports on the implementation of its environmental strategy.

GI.1
Identification of
Environmental risks
and opportunities

GI.2
Management of
Environmental risks
and opportunities

GI.3
Green products and
services
Financial and non-financial

Inclusive Green Finance Strategy

Financial services with a triple bottom line approach:
Economic - Social - Environment

Environmental strategy refers to the way in which environmental management is integrated into the institution's overall strategy.

Definition of Green Strategy I

The institution's environmental engagements can be formalized in:

- its vision
- its mission
- its values

The explicit mention of the environment allows the institution to keep it as a focus and include it as one of the institution's priorities

Definition of Green Strategy II

It is important for an institution to have a written documented environmental strategy. The strategy should clearly specify the intention of the institution to achieve specific environmental goals, such as:

Reduce:

- clients' or portfolio's vulnerability to climate change or environmental degradation
- clients' or portfolio's adverse impacts on the environment, such as greenhouse gas emissions or air, water, or soil pollution
- institution's own adverse impacts on the environment, such as energy consumption, waste produced, and water, paper, and fuel consumption.

Promote

- resilience to climate change
- positive environmental impacts

Foster the adoption of green practices and technologies

Meet clients' demands and needs for green practices and technologies

Definition of Green Strategy III

Relevant elements to include in the environmental strategy :

- quantifiable targets adopted (annually reviewed)
- indicators and KPIs
- processes to achieve the goals
- monitoring and reporting
- processes to include lessons learnt
- responsibilities
- partnership guidelines (with suppliers, technical assistance providers, & other local or international parties)
- local context factors to be taken into account
- portfolio and disbursement projections
- definitions
- target clients or sectors
- environmental/climate risks

Define the Green Policy and Environmental Strategy

Environmental policy:

Commitment of an institution to consider any environmental problems in its activities and include the environment and climate vulnerability in its activities, choices, or strategies, with the aim of reducing its environmental impact, generating climate resilience, and promoting more environmentally friendly practices or products.

Alignment with Standards, Regulations, & Initiatives

It is important that an institution operates in accordance with at least some of the following:

- applicable laws and regulations on environmental protection or climate vulnerability reduction
- non-mandatory industry initiatives
- international standards and regulations for disclosure and management of adverse environmental impacts
- international standards for disclosure and management of climate or environmental-related sustainability risk
- taxonomy for green practices or technologies

This enables better definition of targets, processes, monitoring, and reporting and alignment with internal or external requirements (existing or forthcoming) and best practices

Examples of Standards, Initiatives, and Regulations

Non-exhaustive list of initiatives, standards, & regulations

**IMPACT
MANAGEMENT
PROJECT**



TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

T N F D Taskforce on Nature-related Financial Disclosures



B Impact Assessment™

Sustainability | Policies & Standards | ESG Guidelines
Environmental, Health, and Safety Guidelines

Green Climate Fund



afi INCLUSIVE GREEN FINANCE: FROM CONCEPT TO PRACTICE

PRI Principles for Responsible Investment

IRIS+ System | Standards
IRIS+ is the generally accepted system for measuring, managing, and optimizing impact.

FIRST for Sustainability Financial Institutions: Resources, Solutions and Tools

Assessment of the Sustainable Performance of SME Finance Service Providers



OECD BETTER POLICIES FOR BETTER LIVES

MEBA microfinance for ecosystem-based adaptation

EU SFDR regulation

GREEN INDEX 3.0

Use of a Green Taxonomy

In particular, the use of a green taxonomy, or an internal definition of green practices and technologies, is relevant to define what the institution considers *green* and avoid green washing.

Various countries are developing their own taxonomies.

A reference is the EU Taxonomy, based on which each institution can define its own taxonomy.



Risk Disclosure

The disclosure of risks, whether financial risks, such as physical or transition risks, or adverse environmental impacts, i.e. ESG risks, is of key importance for each institution to:

- understand its own risks and the risk of its clients
- take action to manage and mitigate its risks
- report to investors, internally, and to the government re: existing and forthcoming regulations

Relevant examples are:

EU SFDR regulation



Partnerships and Budget

The achievement of the objectives described in the environmental strategy can be facilitated by the establishment of sound partnerships, e.g. with:

- National programs
- Community-based / civil society organizations
- Research centers
- Technology or technical assistance providers
- International agencies
- Investors
- Public stakeholders (e.g. Ministry of Environment, Ministry of Finance, etc.)

To ensure that the institution has the needed resources for implementing its environmental strategy, it should allocate an annual budget for the achievement of its environment strategy.

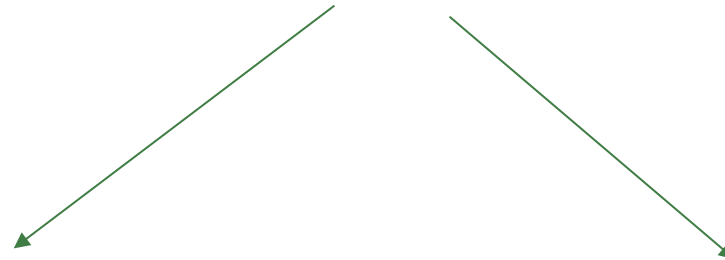
Leadership and “Green” Responsibility

Leadership behavior is a human factor that can bring a group together and motivate it towards given goals or discourage its success.

Driven by the motivation to protect the environment and reduce the vulnerability of customers, leaders can guide organizations and groups to engage in and promote an agenda of change

Institutions can carry out activities through their business models that preserve what is sustainable for the planet and support customer adaptation.

How to Develop a Green Agenda for an MFI I



TOP-DOWN methodology

Leadership and empowerment:
Proposed directive agenda with
actions and advice across the
organization

BOTTOM-UP methodology

Identification of needs, actions,
and opportunities to get the
organization to commit to
preserving the environment

How to Develop a Green Agenda for an MFI II

Evaluate motivation:

- Risk diversification
- Competitive advantage
- Market opportunities
- Upscale
- Social responsibility

MFIs that have implemented green microfinance products / procedures see green as:

- Opportunity for innovation
- Differentiation strategy from competitors
- Expansion strategy into new markets
- Product diversification strategy
- Improving the quality of the portfolio
- Meeting customer demand
- Realization of the social mission
- Improving the institution's image
- Providing access to cheaper funds

Roles and Responsibilities

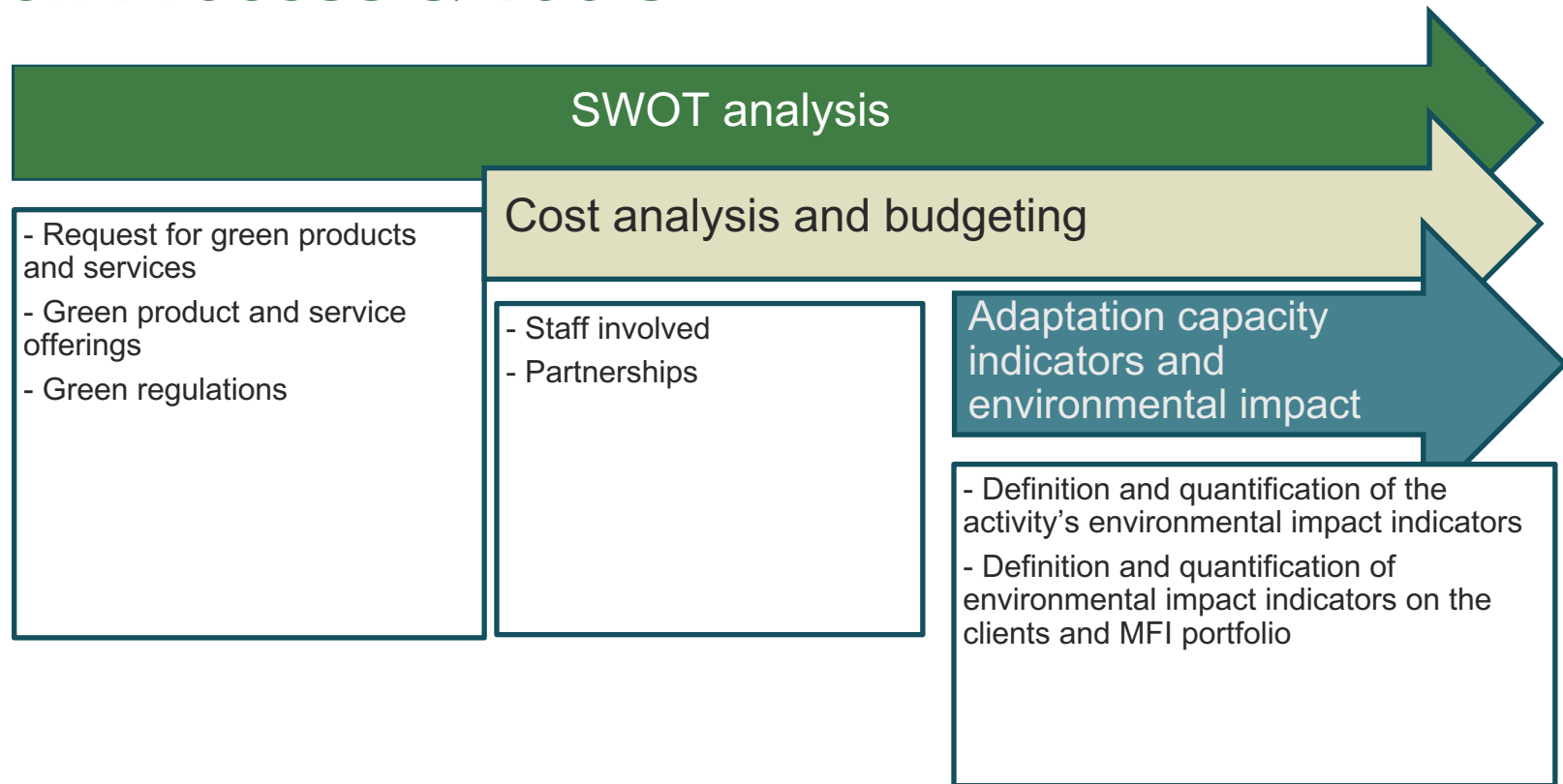
To implement a sound environmental strategy, roles and responsibilities should be clearly defined within the institution.

A governance and management structure should be in place to ensure the implementation and monitoring of the environmental strategy

The institution could choose between:

- A **dedicated** team or senior management person responsible for the execution of the environmental strategy
- The **integration** of the environmental strategy into job descriptions in all relevant roles, from the management team to the loan officers and back-office staff

Manage the Environmental Strategy: Green Process & Tools



Monitor the Green Strategy and Progress

Implementation of a periodic monitoring method in relation to the results produced by the green strategy

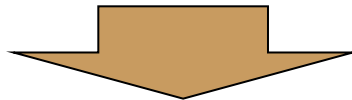
What to track?

Disbursement of green products and services and their results

The evolution of the vulnerability of its clients and portfolio to climate change

The evolution of the unfavorable environmental impacts of its customers and the portfolio

Its own environmental impact



How to report?

- **Internal reporting** (board, investors, managers)
- **External reporting** (public donors, auditors, external stakeholders)

Monitor Implementation Progress of the Green Strategy

Monitoring of the objectives established during the implementation of the strategy



Ad-hoc meeting on the objectives achieved and challenges



Monitoring of quantitative indicators adopted

% KPIs obtained! Market conquered!



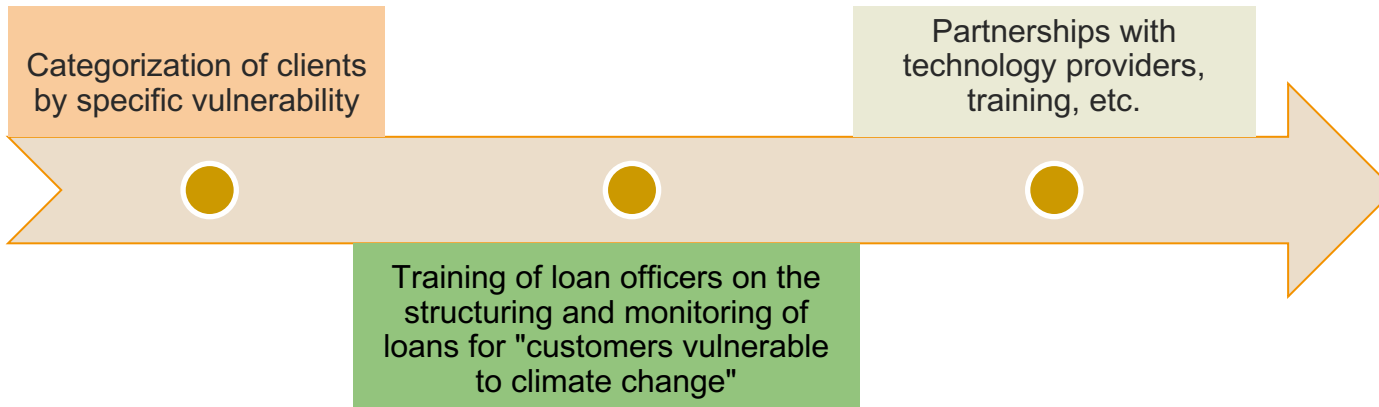
Followed by the adopted process



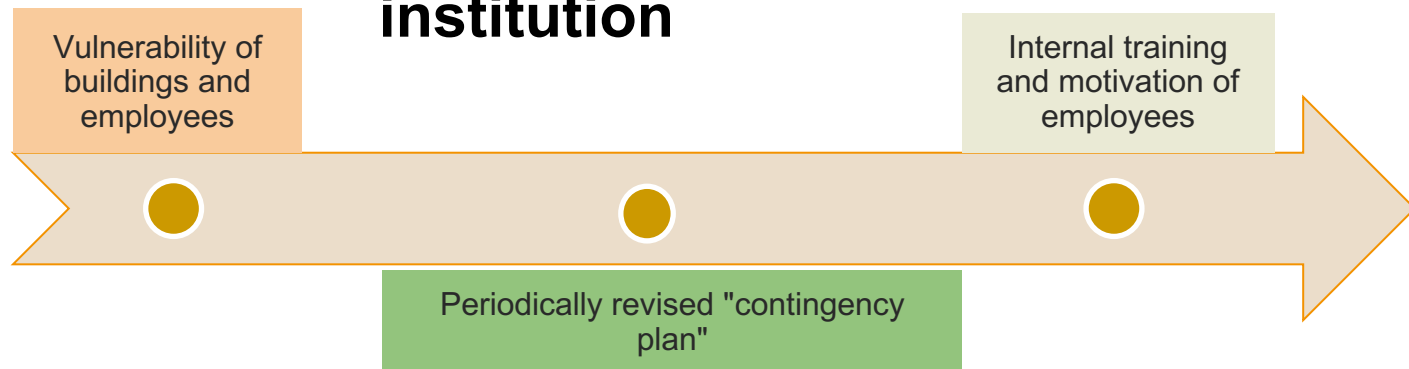
Updated from procedures

Vulnerability Reduction Monitoring

client



institution



Monitor Reduction of Negative Environmental Impacts

Of the client

- greenhouse gas emissions
- air, water, and soil pollution
- deforestation, land degradation
- adverse effects of improper storage, handling, or use of hazardous chemicals, including pesticides & fertilizers
- impacts on biodiversity

Of the institution

- increase in the use of renewable energies
- increased recycling of waste
- decrease in energy consumption
- decrease water, paper, plastic, cardboard, & fuel consumption
- decrease in waste production

Reporting, Key Indicators, & Communication

Impact of the activity on the environment

- reduction of greenhouse gas emissions
- reduction of air, water, & soil pollution
- increased funding and use of clean energy
- increase in funded sustainable agricultural practices

Impact of the environment on clients and the portfolio

- Reducing the vulnerability of its clients to climate change
- Reducing energy poverty among customers
- Increased funding for practices and technologies for climate change adaptation

Internal & external reporting

Internal and External Marketing and Communication Strategy

EXAMPLE



Citi Foundation



Green strategy implementation

- Environmental policy
- Non-financial services
- Environmental risk management
- Ecological footprint
- Green credits



Thank you so much !

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