GREEN INDEX 3.0

Conceptual framework

By the Heads of the Green Inclusive & Climate Smart Finance Action Group
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The GICSF Action Group

The Green Inclusive and Climate Smart Finance Action Group (GICSF-AG) is a unique multi-stakeholder think-tank for environmentally responsible inclusive finance

OBJECTIVES

• Discuss current challenges and strategies in green inclusive finance
• Improve knowledge and actions of inclusive finance actors on environmental issues
• Enhance cooperation among green inclusive finance actors
• Increase international attention to green inclusive finance
• Develop dedicated tools, recognized as “standard” by the inclusive finance sector, to support green inclusive finance
• Publicize and disseminate its findings
• Enhance the interest and concrete commitment of all actors (MFIs, investors...) in green inclusive finance
Members

Launched in February 2013 in Berlin and hosted by the European Microfinance Platform (e-MFP), the GICSF-AG has 135+ members with different level of engagement, affiliated with 75+ institutions, including:


Coordinated by the GICSF-AG Heads:

- Natalia Realpe Carrillo, HEDERA & IASS Potsdam
- Davide Forcella, YAPU Solutions & CERMi
Measure, plan, and improve

The Green Index is the main indicator for assessing an FSP's current performance in inclusive green finance and defining an action plan to improve it.
It was first developed and implemented by the GICSF-AG in 2014.

**GREEN INDEX**

A tool for evaluating the green inclusive finance performance of FSPs
(It is used with FSPs, not their clients)

- Awareness raising
- Evaluation
- Commitment
- Planning
- Prioritization
- Monitoring progress
2021 Environmental Dim. of Universal Standards
Development and implementation of the ‘green’ dimension of the USSEPM.
A joint project by GICSF-AG, SPTF, and CERISE

DIM 7 of USSEPM
COLLABORATION & STEERING COMMITTEE

The New USSEPM
Green inclusive finance: 3 key concepts

- Vulnerability
- Economic opportunities
- Adverse impacts
Green inclusive finance: 3 key concepts

- How clients and institutions are affected by the environment
- How clients and institutions affect the environment
- How green can satisfy demand and increase revenues
Vulnerability & adverse environmental impacts

Vulnerability and adverse environmental impacts are two key dimensions of green inclusive finance. The aim is to reduce them, generate resilience, and promote positive environmental impacts.

Vulnerability

- Climate change
- Env degradation & biodiversity loss
- Energy poverty
- Lack of clean water

Adverse impacts

- Greenhouse gas emissions
- Air, water, & soil pollution
- Deforestation & land degradation
- Chemical storage & use

Of the client & institution

On the environment due to clients & institution
Vulnerability & adverse environmental impacts II

Vulnerability and adverse environmental impacts translate into risks for the clients and institution. These could be financial (physical or transition), reputational, or environmental risks, among others.

- Climate change
- Env degradation & biodiversity loss
- Energy poverty
- Lack of clean water

- Greenhouse gas emissions
- Air, water, & soil pollution
- Deforestation & land degradation
- Chemical storage & use

Of the client & institution

On the environment due to clients & institution
Vulnerability & adverse environmental impacts III

Vulnerability and adverse environmental impacts are also related to institutions’ and clients’ demand to satisfy basic needs and increase revenues or production.

- Climate change
- Env degradation & biodiversity loss
- Energy poverty
- Lack of clean water

- Greenhouse gas emissions
- Air, water, & soil pollution
- Deforestation & land degradation
- Chemical storage & use

‘needs’
Vulnerability & adverse environmental impacts IV

Vulnerability and adverse environmental impacts present opportunities to innovate, increase outreach, and achieve the institution’s social mission, by developing new green products and attracting new stakeholders.

- Climate change
- Env degradation & biodiversity loss
- Energy poverty
- Lack of clean water

opportunities!

- Greenhouse gas emissions
- Air, water, & soil pollution
- Deforestation & land degradation
- Chemical storage & use

Of the client & institution

On the environment due to clients & institution
Green inclusive finance

Green inclusive finance sits at the intersection of resilience generation, ecosystem conservation, and generation of more and better resources for (partially) excluded populations and enterprises.
Benefits of green products & services

The development, disbursement, and institutionalization of green products & services enhance risk management for clients & institutions, client satisfaction, and the achievement of the environmental strategy.
Indirect vs. direct

Green inclusive finance applies both to clients and the institution itself (assets and staff). Vulnerability and adverse environmental impacts should be identified and managed at both levels.

- **Indirect**
  - **Client activities:**
    - their adverse env. impacts and vulnerability

- **Direct**
  - **Institution and human resources:**
    - their adverse env. impacts and vulnerability
1. GREEN INDEX
Green inclusive finance: definition

“Green inclusive finance consists of risk management processes, financial products, and non-financial services (as part of a financial offer), embedded into environmental strategy and monitoring systems, enabled by policies and regulation, that support economic opportunities and fulfillment of the needs of households and micro, small, and medium-sized enterprises (partially) excluded by the standard banking sector, in a clean, resilient, and sustainable manner.” (GICSF-AG, working definition)
Green + Inclusive + Finance?

... It needs to be more tangible...
Making green inclusive finance operational

The Green Index operationalizes green inclusive finance concepts, translating them into actionable and material items that stakeholders in the inclusive finance sector can relate to and act on.
The origins of the Green Index

Tool developed by the GICSF-AG in 2014

2014 GICSF-AG meeting… conceptualizing the Green Index
Green Index evolution

2014

Green Index 1.0
- The most accepted tool to assess MFIs’ environmental performance
- Publication available online on e-MFP AG webpage
- Green Index available in SPI4 (optional Dim 7)

2016

Green Index 2.0
- Incorporates lessons learnt from MFIs’ use, ability, and willingness to track environmental management
- Quantitative components for green products
- Integrated into SPI4 (only qualitative)

2021

Green Index 3.0
- Inclusion of (climate) vulnerability
- Lessons learnt from 1000+ assessments & 6 years of use, 300+ stakeholder inputs
- Alignment with international initiatives
- Aligned with Universal Standards Environmental Performance “Dim 7” developed with SPTF & CERISE, new mandatory dimension of USSEPM
Green Index 3.0

Based on extensive experience

- 6+ years of environmental assessments by the e-MFP GICSF-AG + SPI4 + AG partners, including: SIDI, Foundation Grameen Credit Agricole, CERISE, BNPP, HEDERA, YAPU Solutions, Enclude / Palladium, CERMi, MIX, ADA, MicroEnergy International, EMN, etc.

- 1000+ environmental assessments

- 2 “Green” e-MFP Microfinance Awards (Environment (2014) & Climate Change Adaptation (2019))

- Mapping and alignment with international initiatives
- In-depth interviews with MF stakeholders, including MFIs and investors
- Surveys with investors and MFIs
- Establishment of steering committee with STFP and CERISE and alignment with USSEPM
- Assessment of environmental performance needs with 250+ stakeholders
- Two rounds of reviews: 1st rev: 40+ reviewers, feedback from 300+ institutions; 2nd rev: 100+ participants

10+ years of green inclusive finance project implementation and key projects:

- EcoMicro (IDB since 2012, 30+ FSPs)
- MEbA (since 2012, 40+ FSPs)
- P CAMBio (2008-2013, 28 FSPs)
- GPA (HIVOS, 2005)
- C&ESG (IFAD, 2019)
- FMO e-tool (2009)
- MEPI (2012)
- Energy & MF – CleanStart
- Green Energy – ADA
- …
2. GREEN INDEX 3.0 Details
Green actions

Green inclusive finance translates vulnerability, adverse impacts, demand, and needs into risk management and products & services, as part of an overall strategy.
<table>
<thead>
<tr>
<th>GI.0</th>
<th>GI.1</th>
<th>GI.2</th>
<th>GI.3</th>
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<td>Environmental strategy</td>
<td>Identification of environmental risks and opportunities</td>
<td>Management of environmental risks and opportunities</td>
<td>Green products and services</td>
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</table>
It 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.
It is about the institution's ability to identify the vulnerability of its clients/portfolio and the institution itself, the negative environmental impacts generated on ecosystems by clients and the institution, and clients' need and demand for green practices and technologies, as well as the opportunities for the institution itself.
## Standards - details

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**GI.0 Environmental strategy**
- Definition and implementation

**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

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*It is about the processes and tools in place to analyze and respond to the vulnerability, negative environmental impacts, and client demand and needs identified in GI.1. It is about how the institution translates vulnerability, negative environmental impacts, demands, & needs into actual risks and opportunities.*
It is about the supply and delivery of "green" products and services to customers. Both financial and non-financial services are assessed. Financial products include "green" credits, but also insurance, savings, and money transfer. Non-financial services include awareness raising, training, technical assistance, & partnerships.
**Green Index 3.0**

**Standards & essential practices**

**GI.0** Environmental strategy
- **GI.0.1** Definition of the strategy

**GI.1** Identification of environmental risks and opportunities
- **GI.1.1** Identification of indirect risks & opportunities
- **GI.1.2** Identification of direct risks & opportunities

**GI.2** Management of environmental risks and opportunities
- **GI.2.1** Management of indirect risks & opportunities
- **GI.2.2** Management of direct risks & opportunities

**GI.3** Green products and services
- **GI.3.1** Financial products & services
- **GI.3.2** Non-financial products & services
**Standards & essential practices - details**

**Gl.0 Environmental strategy**
- Definition and implementation

- Detailed goals, mission, documented strategy
- Compliance with applicable standards and regulations

**Gl.1 Identification of environmental risks and opportunities**

- Identification of clients
  - Vulnerability
  - Negative env impacts
  - Demand and needs

**Gl.2 Management of environmental risks and opportunities**

- Inclusion of vulnerability, negative env impacts, and demand/needs in:
  - (Financial) risk management processes, tools, indicators
  - Credit processes & products

**Gl.3 Green products and services**
- Financial and non-financial

- Green loans
  - Clean energy / energy efficiency
  - Sustainable agriculture
  - Clean water / sanitation
  - Circular economy / others
- Savings, remittances, emergency loans
- Climate / production insurance

**Gl.0.1 Definition of the strategy**

**Gl.1.1 Identification of indirect risks & opportunities**

**Gl.2.1 Management of indirect risks & opportunities**

**Gl.1.2 Identification of direct risks & opportunities**

**Gl.2.2 Management of direct risks & opportunities**

**Gl.3.1 Financial products & services**

**Gl.3.2 Non-financial products & services**

- Awareness raising
- Training
- Technical assistance
- Partnerships

**Gl.1.1 Identification of indirect risks & opportunities**

- Identification of clients
  - Vulnerability
  - Negative env impacts
  - Demand and needs

**Gl.2.1 Management of indirect risks & opportunities**

**Gl.2.2 Management of direct risks & opportunities**

**Gl.3.1 Financial products & services**

**Gl.3.2 Non-financial products & services**

- Awareness raising
- Training
- Technical assistance
- Partnerships

**Gl.0.2 Implementation of the strategy**

- Responsibilities & processes
- Management & governance
- Monitoring:
  - Economic impact
  - Vulnerability
  - Negative env impacts

**Gl.1.2 Identification of direct risks & opportunities**

- Identification of building and staff
  - Vulnerability
  - Negative env impacts

- Identification of green opportunities for the institution to engage in

**Gl.2.1 Management of indirect risks & opportunities**

- Actions and processes to reduce the institution’s vulnerability and negative env impacts and exploit opportunities
Enablers and outreach

- **GI.0** Environmental strategy
  - Definition and implementation

- **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

**CAPACITY**

**TOOLS**

**OUTREACH** (via quantitative indicators)
**GREEN INDEX 3.0**

**Enablers and outreach - details**

- **GI.0** Environmental strategy
  - Definition and implementation

- **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

**CAPACITY:** Whether the institution has acquired capacity to implement the activities in each standard. This can be done internally through trainings for the institution’s staff or externally through partnerships.

**TOOLS:** Which tools the institution is using to implement the activities in each standard. These can include indicators, documents, materials, IT solutions, etc.

**OUTREACH:** Quantitative indicators are included in each standard to assess the actual outreach of each action, as well as check the implementation status and facilitate better monitoring of progress and plan implementation.

The institution’s capacity to execute actions in each standard, along with essential practices, is assessed, as well as the tools the institution is using in implementing its actions and the outreach of the implementation.
The Green Index 3.0 includes the model of improvement structure “PDCA”: plan-do-check-act. In this way, it supports the management and continuous improvement of processes and products.

1. PLAN
   a. Strategy identification

2. DO
   a. Management
   b. Products & services

3. CHECK
   a. Monitoring & reporting

4. ACT
   a. Internal processes & responsibilities
Visualising green inclusive finance performance I

The answers to the questions re: the qualitative indicators are multiple choice. Based on its answers, the institution receives a score from 1 to 100 for each standard and sub-dimension.

GI.0
Environmental strategy

GI.1
Identification of environmental risks and opportunities

GI.2
Management of environmental risks and opportunities

GI.3
Green products & services

GREEN INDEX 3.0
The Green Index 3.0 includes the best practices in risk management. This facilitates the integration of environmental risks into the institution’s financial and non-financial risk management.
Opportunity management

**GI.0**
Environmental strategy
Definition and implementation

**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

1. Identify the opportunity (Needs & demand)
2. Develop products & services
3. Provide products & services
4. Monitor (Outreach and client satisfaction)

The Green Index 3.0 includes the best practices on product and service development and implementation. This ensures the integration of environmental opportunity into the institution’s credit processes and financial and non-financial offerings and maximum impact and outreach.
Visualising green inclusive finance performance II

The Green Index 3.0 allows the institution to visualize its green inclusive finance performance along various dimensions, e.g. risk and opportunity management.

**The risk management view**
- Indirect risks
  - Identification & mgt. of vulnerabilities
  - Identification & mgt. of neg env. impacts
- Direct risks

**The green opportunities view**
- Green financial products & services
  - Monitoring progress
- Green non-financial products & services
  - Identification of opportunities

**Green Index 3.0**
**GREEN INDEX 3.0** Strategy, actions, and progress

The strategy guides the overall implementation. The products and services support the reduction of identified risks and fulfillment of the strategy.
**GREEN INDEX 3.0** Standards, initiatives, and regulations

The Green Index 3.0 is aligned with the primary existing standards, initiatives, and regulations, ensuring simpler reporting and compliance for stakeholders that use the Green Index 3.0.

Sample of initiatives, standards, and regulations among the 70+ reviewed
3. USSEPM Dim 7
Integration of environmental performance into USSEPM

As of 2021, “Green” is one of the 7 dimensions of the USSEPM and integrated into the SPI. The USSEPM Dimension 7 is a lighter version of the Green Index 3.0.
From USSPM... to USSEPM!

2012
v1 USSPM

2016
v2 USSPM
Green Index 2.0
Optional in SPI4

2022
v3 USSEPM
Integrated as D7
Green Index 3.0

2013 2014 2016 2020-21
Standards

DIM 7 of USSEPM

7A
Environmental strategy
Definition and implementation

7B
Identification & management of environmental risks and opportunities

7C
Green products and services
Financial and non-financial
Standards & essential practices

**7A**
Environmental strategy
Definition and implementation

- **7A.1** Definition of the strategy
- **7A.2** Data collection, analysis, and reporting
- **7A.3** Governance and management structure

**7B**
Identification & management of environmental risks and opportunities

- **7B.1** Direct risk identification & management
- **7B.2** Indirect risk identification & management
- **7B.3** Indirect opportunity identification

**7C**
Green products and services
Financial and non-financial

- **7C.1** Financial products & services
- **7C.2** Non-financial products & services
Visualizing environmental performance

The possible answers for the questions on environmental performance are Yes, No, and Partially. Based on the answers, the institution receives a score from 1 to 100 for each standard.
4. GREEN INDEX 3.0 & USSEPM Dim 7
Aligning standards and enhancing value

GICSF-AG, SPTF, and CERISE jointly developed the ‘green’ dimension of the USSEPM, in alignment with the Green Index 3.0. The two tools are aligned for the benefit of the sector.

The Green Index 3.0 provides a detailed view

USSEPM Dim 7 provides a global view along the same principles, but in a lighter version
The alignment of the Green Index 3.0 and USSEPM Dim 7 ensures benefits for the entire inclusive finance sector.

Both tools are aligned with Universal Standards for Social Performance Management. The Green Index 3.0 adds additional details for a more in-depth analysis.
GREEN INDEX 3.0  DIM 7 of USSEPM  Mapping - details

By completing the Green Index 3.0, an FSP can also report on USSEPM Dim 7. It can also get a much more in-depth view on its present status and opportunities to further develop a green agenda.
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