



© Marion Allet

The Green Index, an innovative tool to assess the environmental performance of MFIs

Brief No. 5

Prepared by Marion Allet, Pamiga in collaboration with the
e-MFP Microfinance and Environment Action Group

October 2014

EUROPEAN MICROFINANCE PLATFORM (e-MFP)

e-MFP's aim is to promote co-operation amongst European microfinance bodies working in developing countries. e-MFP facilitates high level discussion, communication and exchange of information. e-MFP's vision is to become the microfinance focal point in Europe linking with the south through its members.

e-MFP, founded in 2006, is a growing network of over 120 organisations and individuals active in the area of microfinance. As a multi-stakeholder organisation it represents the European microfinance community. e-MFP members include banks, financial institutions, government agencies, NGOs, consultancy firms, researchers and universities.

e-MFP members believe that everyone should have access to financial services and that microfinance contributes significantly to this development.

European Microfinance Platform
39 rue Glesener
L-1631 Luxembourg
Tel. + 352 26 27 13 82
Email : contact@e-mfp.eu
Website : www.e-mfp.eu

ISBN 978-99959-885-1-7

WHY A GREEN INDEX?

The idea of the Green Index emerged from an observation: in the microfinance sector, there is still no clear understanding of what is meant by “environmental performance in microfinance” and no commonly accepted tool to assess the environmental performance of microfinance institutions (MFIs).

The e-MFP Microfinance and Environment Action Group therefore decided to develop a practical tool to assess the environmental performance of a microfinance institution.

The objectives of such a tool are:

- to foster reflection on environmental responsibility and the triple bottom line approach in microfinance;
- to promote the integration of green indicators in microfinance performance assessment tools (such as social performance management tools);
- to have a pedagogical approach by disclosing the main environmental strategies that can be adopted and implemented by an MFI.

FOR WHOM IS THE TOOL USEFUL?

- For microfinance institutions (board, managers, staff):
 - To assess their current environmental performance;
 - To compare their performance against their peers;
 - To identify environmental strategies of potential interest for them;
 - To track progress on environmental performance over time;
 - To communicate on their environmental performance.
- For investors and microfinance rating agencies:
 - To get an overview of the environmental performance of an MFI;
 - To have a common reporting tool available for all MFIs and thereby allow for benchmarking and progress tracking.
- For professional associations/networks of MFIs and technical assistance (TA) providers:
 - To identify gaps and develop adapted support services to improve the environmental performance of microfinance institutions;
 - To assess how their support services help improve MFIs’ environmental performance.

HOW WAS THE INDEX BUILT?

The Green Index results from a collaborative work between various organizations and individuals that participate in the e-MFP Microfinance and Environment Action Group.

The Action Group members started with compiling a list of environmental practices that can be implemented by MFIs, building on existing research work¹ and practitioners’ tools². Then, a short survey was conducted to identify the green microfinance practices that are considered as the most relevant to assess by microfinance practitioners. The survey was submitted to the members of the e-MFP Microfinance and Environment Action Group, to members of the SPTF Green Performance Working Group and to some selected “green microfinance” practitioners external to the two groups. A total of 36 answers were collected.

On the basis of the survey results, the Action Group provided recommendations on key indicators to assess the environmental performance of MFIs. In particular, group members worked closely with CERISE to develop a Green Index that is harmonized with the categorization already used in HIVOS Green Performance Agenda toolkit³ (internal risks, external risks, green opportunities) and that is in line with the mindset of the Universal Standards and SPI tool.

This allowed for including the Green Index into the new version of the Social Performance Indicators tool (SPI4), a worldwide known social performance audit tool developed by CERISE. Users of SPI4 now have the opportunity to fill in the Green Index as an optional assessment module (“GREEN dimension”).

1 Microfinance Environmental Performance Index – MEPI – by M. Allet, and its adaptation to the European context by D. Forcella

2 Green Performance Agenda (GPA) developed by Enclude/HIVOS, Green Strategy Consulting Tools by MicroEnergy International (MEI), indicators used by some investors or rating agencies, etc.

3 <https://hivos.org/news/green-agenda-microfinance>

THE GREEN INDEX

The Green Index aims to provide a full picture of the environmental engagement of an MFI, looking at a wide range of possible strategies. It has been built along 3 dimensions:

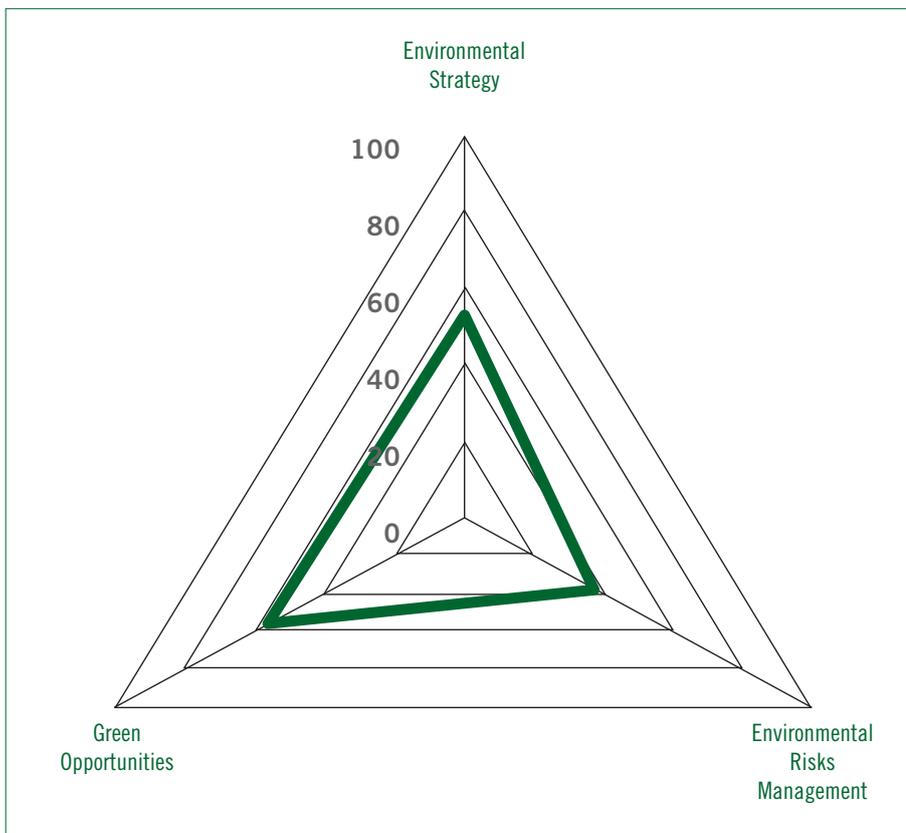
- The first dimension relates to the **formal environmental strategy** of the MFI, and includes indicators such as having a formal environmental policy, appointing a person to manage environmental issues or reporting on environmental performance.
- The second dimension is linked to **environmental risk management**. MFIs can look at their internal risks (internal ecological footprint), and for example define mechanisms to reduce paper, water and energy consumption at their office level. They can also look at their external risks (environmental risks of the activities that they finance), and decide to use an exclusion list, condition access to a subsequent loan to the reduction of environmental risks, or raise clients' awareness on mitigation solutions.
- The third dimension focuses on how MFIs can foster **green opportunities**, by offering specific financial or non-financial services to promote environmentally-friendly businesses (such as recycling activities), practices (like agro-forestry), or technologies (improved cook stoves or solar photovoltaic solutions).

The Green Index in detail:

Level	Num	Label	Answers
Standard	7a	The institution addresses environmental issues through a formalized strategy	
EP	7a1	The institution defines and implements its environmental strategy	
Indicator	7a11	The institution defines its environmental strategy	
Detail	7a111	Formalizes environmental protection in the official vision, mission or values	YES/NO
Detail	7a112	Has a formal environmental policy	YES/NO
Detail	7a113	Consults its stakeholders on environmental issues (clients, employees, investors, environmental organizations, etc.)	YES/NO
Indicator	7a12	The institution implements its environmental strategy	
Detail	7a121	Raises board members' awareness on environmental issues (regulation, risks and opportunities)	YES/NO
Detail	7a122	Has a person appointed to manage environmental issues	YES/NO
Detail	7a123	Sets quantitative objectives to manage environmental risks and/or foster green opportunities	YES/NO
Detail	7a124	Has an incentive system to encourage employees to take into account specific environmental objectives	YES/NO
Detail	7a125	Reports on the MFI's environmental practices (annual reports, reports to Board, investors, etc.)	YES/NO
Standard	7b	The institution manages its environmental risks	
EP	7b1	The institution manages its internal environmental risks	
Indicator	7b11	The institution implements actions to reduce its internal ecological footprint	
Detail	7b111	Conducts activities to raise employees' awareness of good practices in paper, water and energy consumption, waste management, etc.	YES/NO
Detail	7b112	Defines processes and/or implements mechanisms to reduce paper, water, and energy consumption, reduce/treat waste, and/or reduce carbon emissions	YES/NO

Indicator	7b12	The institution monitors its internal environmental risks	
Detail	7b121	Tracks the achievement of quantitative objectives set for paper, water, and energy consumption, waste management, and/or carbon emissions	YES/NO
EP	7b2	The institution manages its external environmental risks	
Indicator	7b21	The institution evaluates the level of environmental risk of its clients	
Detail	7b211	Trains loan officers on how to evaluate the environmental risks of their clients' activities	YES/NO
Detail	7b212	Uses specific tools to evaluate the environmental risks of clients' activities (categorizing clients per level of risk using sectorial factsheet, surveys, exclusion list, etc.)	YES/NO
Indicator	7b22	The institution includes the level of environmental risk as a factor in the loan approval process	
Detail	7b221	Refuses to finance environmentally-risky activities	YES/NO
Detail	7b222	Includes clauses in the contract requiring clients to improve environmental practices / mitigate environmental risks	YES/NO
Indicator	7b23	The institution monitors the external environmental risks	
Detail	7b231	Includes indicators into the MIS to track the environmental performance of clients	YES/NO
Detail	7b232	Limits the proportion of environmentally-risky activities in the global portfolio	YES/NO
Indicator	7b24	The institution raises clients' awareness on environmental risks	
Detail	7b241	Conducts activities such as training sessions and discussions / displays posters / distributes flyers on environmental impacts	YES/NO
Standard	7c	The institution fosters green opportunities	
EP	7c1	The institution provides green products and services to its clients	
Indicator	7c11	The institution provides specific green loan products:	
Detail	7c111	Specific loan products dedicated to renewable energy (e.g: solar panels, biogas digesters, etc.) and energy efficiency (e.g: insulations, improved cook stoves, etc.)	YES/NO
Detail	7c112	Specific loan products dedicated to promoting environmentally-friendly technologies and activities (e.g: organic farming, recycling, waste management, agroforestry or silvopasture, clean water, etc.)	YES/NO
Detail	7c113	Specific loan products dedicated to helping clients become more resilient to environmental shocks or climate change (e.g: loans for diversifications of productive activities, loans for adapted seeds, etc.)	YES/NO
Indicator	7c12	The institution provides other green financial products:	
Detail	7c121	Other financial products (e.g: savings, micro-insurance, etc.) dedicated to promoting environmentally-friendly technologies and activities (renewable energy, water and waste management, etc.) and/or helping clients become more resilient to environmental shocks or climate change	YES/NO
Indicator	7c13	The institution provides green non-financial services:	
Detail	7c131	Training on environmentally-friendly practices or businesses (can be done by the MFI itself or through partnering with environmental organizations)	YES/NO

Once all questions have been answered, the user can get a graphic representation of the results (see image below), which will help identify areas for improvements.



In line with the Social Performance Management approach, this first version of the Green Index is measuring processes and, as such, gives an overview of the means employed by the MFI to reach its environmental objectives. The tool should not be assimilated to impact measurement.

Furthermore, the tool is not meant to have any normative value. MFIs are not supposed to implement all the strategies listed in the index. Rather, each institution should prioritize its own objectives according to its context, target clients, vision/mission, and available human, financial, and technical resources. The Green Index should thus be used as a supporting tool to assess the present situation, set goals for improving environmental performance, and track progresses.

The Green Index should also be seen as a dynamic tool that is meant to be improved following feedback from users and to evolve with the microfinance industry.

FIRST TESTING AND REACTIONS

Testing is a crucial step to assess the relevance and clarity of such a tool.

In the framework of the beta-test of SPI4 tool (Feb-May 2014), 7 MFIs, who have tested the Green Index and provided feedback to CERISE, have expressed satisfaction with the tool, finding it “unique” and “attractive.” It is considered as bringing significant improvement over previous versions of SPI. Users have also appreciated the graphic representation of results, which helps identify areas for improvement. They qualified it as a “good learning tool.”

Experiences from other organizations have also shown that for a microfinance institution trying to assess its environmental performance, the tool helps to map and reflect on what has been done so far and what could be further done.

In the frame of the Green Performance Agenda programme implemented by Enclude/HIVOS in the first half of 2014, 21 MFIs from Eastern and Southern Africa have conducted a self-assessment of their environmental performance using the Green Performance Agenda. The experience showed that, just by browsing through the questions, MFIs become better aware of the environmental management strategies that they could implement.

“Before answering the questionnaire, I was confused with the term ‘green performance’. Now, I get it, I have a concrete understanding of what it is when we talk about green.” – General Manager of a microfinance institution

In the frame of a programme to map the state of green microfinance practices in Central America, ADA and REDCAMIF conducted in June 2014 a focus group with 12 MFIs, using a questionnaire that includes the Green Index, to assess the environmental performance of respondent MFIs. The approach proved efficient to help MFIs identify and communicate on what they are currently doing in terms of environmental management. The exercise also revealed that there is still a general lack of knowledge about existing tools for environmental protection and a lack of explicit and formalized codes of conducts for MFIs’ environmental-social-governance practices.

Additional tests will be made in the coming months by ADA⁴, MicroEnergy International⁵ (MEI), PAMIGA⁶, as well as through student internships and research field works in collaboration with University Meets Microfinance (UMM)⁷ and European Microfinance Programme (EMP)⁸. Separate publications will also be prepared by Enclude and ADA to share more detailed outcomes of their respective work in this area.

WORK IN PROGRESS...

The present version of the Green Index is still a first step in the collaborative development of a practical and accepted tool to assess the environmental performance of MFIs. Feedback from all microfinance stakeholders will be crucial to refine the tool and make it relevant and legitimate for the sector. This is why the Action Group invites all interested organizations and individuals to share their views on the Green Index, particularly on the following points:

- How useful is the tool for practitioners? How is it perceived? How could it be improved?
- Should there be several versions of the Green Index: a quick and simple version to be used more easily with a wide range of actors; and a more detailed and nuanced version for microfinance stakeholders who are interested in environmental management and wish to go deeper in the assessment and reflection?
- Answers are mostly binary (YES/NO) for the moment. Should the tool propose more nuanced answers to get a better understanding of the level of engagement of the MFI? For instance, if an MFI provides specific loan products, should its performance be assessed according to the percentage of the portfolio that this product represents? Or would it make the tool too complicated?
- Should the tool provide quantitative standards or benchmarks for some indicators (for instance: the proportion of green loans out of the total portfolio)? How could these benchmarks be defined? How could they adapt to the different contexts and profiles of MFIs?
- What can we learn from practical experiences and empirical research to also reflect on the actual outcomes of environmental performance instruments and policies?

4 <http://www.ada-microfinance.org/en>

5 <http://www.microenergy-international.com>

6 <http://www.pamiga.org>

7 <http://www.universitymeetsmicrofinance.eu>

8 <http://www.europeanmicrofinanceprogram.org>

WHERE TO FIND THE GREEN INDEX?

The Green Index can be found as an optional module (Green Module) in the SPI4 tool developed by CERISE. It can be downloaded online: <https://cerise-spi4.squarespace.com>. It is available in English, French, Spanish and Russian.

HOW TO CONTRIBUTE?

Are you interested in knowing more about the Index? Testing it? Sending us feedback and suggestions for improvement?

- ⇒ Please contact Marion Allet, PAMIGA (marion.allet@pamiga.org) or Marie-Anna Bénard, CERISE (ma.benard@cerise-microfinance.org)

Are you a student interested in participating in the testing of the tool on the field during an internship? ADA, MicroEnergy International, University Meets Microfinance, EMP/CERMi/IOB, and other members of the Action Group can offer some internship opportunities on the topic.

- ⇒ Please contact Gabriela Erice, European Microfinance Platform (gerice@e-mfp.eu)

Members of the Action Group involved in the development of the Green Index: Marion Allet (PAMIGA), Marie-Anna Bénard (CERISE), Davide Forcella (ULB-CERMi), Sebastian Groh (MEI), Frederic Huybrechs (UA-IOB), Geert Jan Schuite (ENCLUDE), Carla Palomares (ADA), Juana Ramirez (ADA), Hadley Taylor (MEI).



www.e-mfp.eu

With the support of



THE GOVERNMENT
OF THE GRAND DUCHY OF LUXEMBOURG
Ministry of Foreign and European Affairs

Directorate for Development Cooperation
and Humanitarian Affairs



THE GOVERNMENT
OF THE GRAND-DUCHY OF LUXEMBOUR
Ministry of Finance