

Passerelles

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Bridging
academic
research with
field practice



**MICROFINANCE AND
CLIMATE CHANGE**



African Microfinance Week

Dakar, SENEGAL

29 June - 3 July 2015



The annual meeting
for microfinance
professionals in Africa

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THE GOVERNMENT
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Ministry of Foreign and European Affairs

Directorate for Development Cooperation
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Foreword

Setting the agenda for a new global partnership

Joaquim Monteiro*

2015 is one of those years during which, global high-level meetings seem to succeed each other at an incredible pace. This year marks wrap up of the landmark UN Millennium Development Goals, which world leaders agreed on 15 years ago. There has been significant progress in meeting the targets, however, a lot still lies ahead. In order to adopt the post-2015 development agenda, the UN plans a World Summit from 25 to 27 September in New York.

The summit will be preceded by the Third International Conference on Financing for Development, which will be held in Addis Ababa, Ethiopia from 13 to 16 July. The expected result of the conference is an intergovernmental, negotiated and agreed outcome, which should constitute an important contribution to and support the implementation of the post-2015 development agenda. In particular, the UN Secretary General, Ban Ki-Moon, has already estimated the channelling of both public and private sector cash flows into sustainable development initiatives as “crucial for securing an ambitious post-2015 agenda¹.”

Finally, at the global level, the 21st session of the Conference of the Parties (COP) to the UNFCCC² will take place in Paris in December. Much is awaited in terms of outcome from the COP21, in particular clear and ambitious goals to tackle climate change and thus guarantee a sustainable development for all.

At the European level, 2015 has been designated “European Year for Development”. For the first time ever, the EU’s external action and Europe’s role in the world will be under discussion.

Apart from global initiatives, sustainable development requires an action from all stakeholders. Thus, in this issue of “Passerelles”, we try to provide the reader with some insights on ongoing research and opportunities related to Green Microfinance and attempt to partially answer the question what role microfinance could play in tackling climate change?

Far from being exhaustive, “Passerelles” offers readers some selected perspectives on the topic and invite those interested in sharing their experiences and points of view to submit comments on ADA’s website.



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¹ <http://www.un.org/apps/news/story.asp?NewsID=50519#.VSfWWWJNZsZM>

² United Nations Framework Convention on Climate Change

Can microfinance make a significant contribution to sustainable development?

Sophie Wiesner*

Back in 1987, the World Commission for Environment and Development (better known as the Brundtland Commission) defined sustainable development as development that allows the present generation to meet its needs today without compromising the ability of future generations to meet their needs tomorrow¹.

This concept of sustainability gives priority to the needs of the poor and the vulnerable and highlights the limitations of natural resources in meeting these needs. It addresses not only economic and social, but also environmental aspects of development; and – in this sense – it connects the domain of development with the domains of microfinance and climate change.

From the early days, during which the focus of inclusive finance² was on microcredit and on the output or income of micro-enterprises, until today, where the provision of micro-savings, micro-insurance, and many other financial services centers around the opportunities and choices of low-income households, microfinance is considered as a potential tool to advance development.

In recent years, however, microfinance was also recognised as a tool to address climate change. The funders of microfinance attach increasing importance to the financial, social, and environmental performance of microfinance institutions (or to the triple bottom line of profits, people, and planet). The providers of microfinance are “going green” by financing renewable-energy and low-emission solutions, projects related to adaptive agriculture, or resource management at the community level; and local initiatives of microfinance are thereby inscribed in national, international, and global frameworks for development and climate change.

But, can microfinance really make a significant contribution to sustainable development as defined by the Brundtland Commission? The present issue of “Passerelles” tries to shed some light on this question and looks both at the opportunities and the challenges in this endeavour.

¹ Cf. WCED (1987), p.4. The report is available for download at: <http://www.un-documents.net/our-common-future.pdf>.

² We define inclusive finance as the range of financial products and services available to marginalised, low-income populations excluded from the conventional banking system. We use the terms “inclusive finance” and “microfinance” interchangeably.

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Climate change, development, and microfinance – 3 interlinked domains

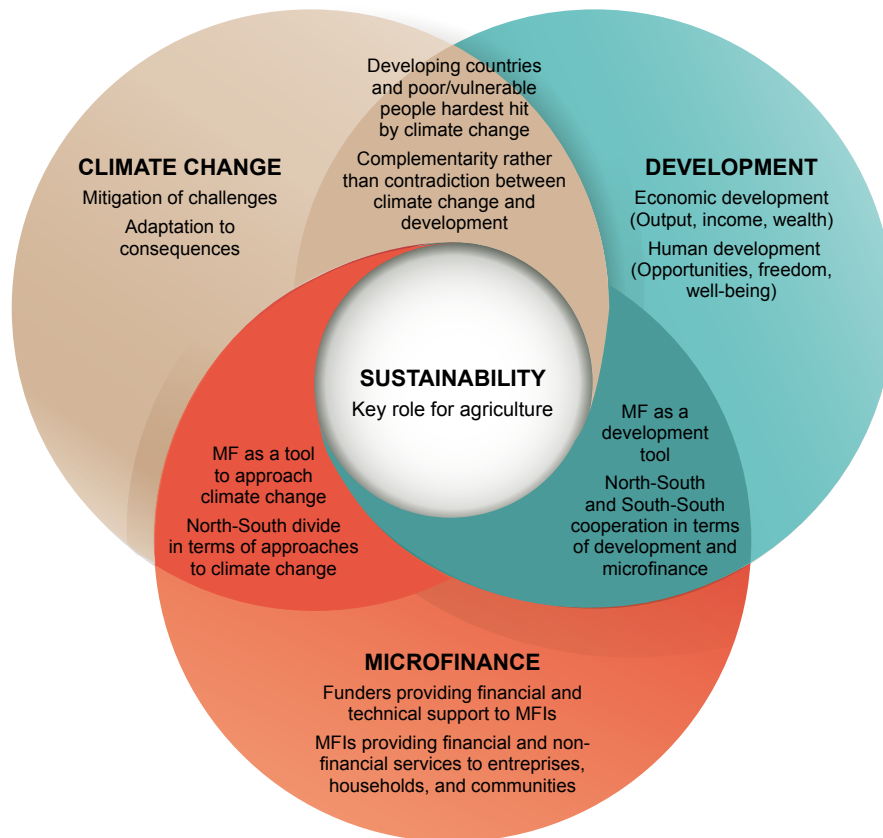


Figure 1: Climate change, development, and microfinance as interlinked domains (Sophie Wiesner)

Climate Change

First and foremost, it must be recognised that the dynamics of climate change, development, and microfinance are mutually reinforcing and interlinked through the macro-level, meso-level, and micro-level.

As already stated in the Stern Review in 2006 and as also confirmed by academic research in recent years, there is overwhelming evidence that climate change is man-made and that it does not only present serious global risks, but also asks for prompt global responses³.

The extensive emission of greenhouse gases⁴ leads to global warming, disappearing glaciers, and raising sea levels; it implies extreme weather events, floods and droughts, and also has effects on our ecosystems (including the fauna, the flora, and microorganisms). Besides problems concerning the environment as such, however, climate change leads to problems concerning economic ac-

tivities (especially with respect to agriculture) and human wellbeing (including nutrition and health) – with some of these consequences already being felt in parts of the world⁵.

Measures of **mitigation** try to reduce the risks of climate change by limiting the emissions of greenhouse gases in the short and medium term; while measures of **adaptation** try to reduce the impact of climate change by adjusting life to the changed conditions in the medium and long term.

Individual initiatives must thereby be brought together in one integrated approach, which must not only consist in the formulation of strategies and in the implementation of action plans, but must also comprise the respective funding from year to year and for the next decades. An implication of the public and the private sector (also on the basis of public-private partnerships), as well as of civil society is key, but reaching agreements and putting them in practice is not an easy task⁶.

Development

There is a clear North-South divide in terms of the approaches to climate change, which seriously slows down the process. While some developed countries (and especially some emerging economies) are already actively involved in climate action, some developing countries claim for a “right to pollute” in order to push industrialisation. But there is also a close North-South (and South-South) cooperation possibility in terms of development, which might accelerate the activities. Developing countries (and thus the poor and the vulnerable) are hardest hit by climate change, but developed countries’ historical experiences both in terms of industrialisation and in terms of climate action offer them inspiration and opportunities for leapfrogging.

Thereby, the goals in approaching economic development, human development, and climate change must not be conflicting, but can and should be complementary.

Economic development, defined as growth in output, income or wealth, is usually supposed to be possible only on the basis of an extensive use of energy and an exploitation of the environment, but in the medium and long term the industrial sector will no longer find the respective resources to grow and cannot be powered anymore, if we don’t take measures now⁷. The economic benefits of climate action outweigh by far its economic costs.

³ The Stern Review is accessible at http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/stern_review_report.cfm.

The latest report of the Intergovernmental Panel on Climate Change (please see IPCC (2015)) includes information on recent research on climate change and can be downloaded at <http://www.ipcc.ch>.

⁴ Greenhouse gases are all the gases that trap infrared radiation in the atmosphere, including carbon dioxide (CO₂) and methane. Cf. Rippey (2009).

⁵ Cf. Rippey (2009).

⁶ For examples of such initiatives and partnerships, please see UN Climate Change Conference (2014).

⁷ For indicators of economic development, please see <http://data.worldbank.org>.

Human development, in turn, defined in terms of increases in opportunities, choices and wellbeing cannot even be thought without climate action, as our quality of life (and the fulfillment of our most basic human needs, such as breathing clean air, drinking clean water, and finding food) crucially depends on the integrity of our ecosystems⁸.

Rural activities and agriculture are particularly relevant in this context, taking into account their effects on human well-being and their direct impact on natural resources. Moreover, agriculture is the most important form of economic activity in developing countries. It is a key channel through which the impact of climate change is transmitted, and it is in the focus of development, as well as of microfinance.

Microfinance

People in remote rural areas, active in agriculture, are exposed to high risks; and microfinance, (including savings, credit, insurance and other financial services) is an important tool for managing risks. But the respective communities in developing countries are also at the center of innovations in terms of climate action; and microfinance allows them to access and use new products for this purpose.

The offer of microfinance institutions includes working capital for micro-entrepreneurs, involved in the production, distribution, or maintenance of green products, small- or medium-sized loans to households for the acquisition of these products (although leasing gains in importance⁹), as well as teaching and training on new technologies. Providers thereby take advantage of their track-record in serving this market segment, of their linkages along the market chain, and also of their funds (specifically dedicated to “green” projects). Besides external actions, i.e. in terms of the offer of green products and services to clients, MFIs also undertake internal actions, i.e. in terms of their own emissions or resource management¹⁰.

Microfinance donors and investors, in turn, provide funding and technical assistance to microfinance institutions and promote the “green” performance of MFIs. They thereby contribute to the consolidation and credibility of the movement and also foster the competition in the sector with respect to climate action¹¹.

Content and structure

This first issue of “Passerelles” looks at microfinance and climate change from the perspective of practice and research, it analyses the opportunities and challenges for sustainable development at the macro-level, meso-level, and micro-level, and it presents the key actors, initiatives, and ideas.

A first article, written by Marc Bichler, Ambassador-at-Large for Climate Change at the Ministry of Foreign Affairs in Luxembourg, presents the political agenda with respect to sustainable development for 2015 and beyond. His article focuses on the funding needs for climate action, as well as on the methods to meet these needs. The past experience of microfinance in attracting funds, defining objectives, and proving results is taken into account, and the article also analyses the future potential of microfinance in terms of climate action.

A second article, jointly written by Marion Allet, Davide Forcella, and Juana Ramirez, experts in the domain of microfinance and climate change, analyses a sample of microfinance institutions with respect to their motivations for “going green”, their offer in terms of energy products and services, as well as their environmental governance and management. The article identifies key drivers, key players, and overall trends with respect to microfinance and climate change and specifically focuses on the Central American context.

The last part of the magazine, finally, is devoted to the experiences of two MFIs, FUNDECOOPERACIÓN from Central America/ Costa Rica and CARD from Southeast Asia/ The Philippines. Interviews provide information on the different country contexts and the situation of a small, specialised foundation, engaged in environmental activities and in microfinance, as well as a large, fully-fledged microfinance institution. There appear similar lessons learned with respect to microfinance and climate change, but a close collaboration between

But in fact, not only microfinance institutions, putting in place the governance and management for “going green”, or funders, making efforts in terms of their energy consumption and greenhouse gases, but also every one of us should start thinking anew and acting immediately.

research and practice is key in order to translate them into perspectives for the future, and thus to seize the opportunities and to master the challenges of sustainable development. The present issue of “Passerelles” tries to contribute to this collaboration and to the exchange between researchers and practitioners.

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Further links

- <http://data.worldbank.org>
<http://hdr.undp.org>

⁸ The definition of human development in terms of opportunities, choices, and freedom goes back to Sen (1999). For indicators of human development, please see <http://hdr.undp.org>.

⁹ For more information on micro-leasing, please see Deelen et al. (2003).

¹⁰ For more information, please see Allet (2012), SOS Faim (2014).

¹¹ Cf. Allet (2012).



Climate change and microfinance

An urgent need to be managed, an opportunity to be seized

Marc Bichler*



Tackling the effects of climate change is not only desirable but necessary, even essential. This warning is not new, just as the call for urgent action, which needs to be global and coordinated to be effective.

Naturally, an international reaction using mitigation or adaptation measures to counter the effects of climate change entails considerable costs. So, what sources of financing can cover these costs? Can lessons be learnt from innovative funding solutions introduced in the microfinance sector? Can approaches like those used in inclusive finance serve as a role model?

Since 1988, the Intergovernmental Panel on Climate Change (IPCC) has been studying different forms of climate change to better understand their causes, their consequences and the most effective ways of tackling them. In its fifth assessment report¹ whose different parts have been published separately between 2013 and 2014, scientific experts made an effort to reach out to political and economic decision-makers and present them with a summary report. The IPCC's message remains just as alarming: climate change is happening right in front of our eyes, it is largely due to human action and failure to react to it would be an irresponsible attitude towards future generations who may suffer from irreversible damage done to the environ-

ment. Today, the human origin of climate change is clear but, fortunately, it is not too late to do something about it.

A more recent idea which has been gaining ground is that combatting the effects of climate change effectively must not be solely expressed in terms of constraints and inconvenience. Apart from behavioural changes whereby a responsible attitude towards the environment should concern each person as well as local authorities too, concerted action to substantially reduce greenhouse gases is also likely to generate unexpected economic and investment opportunities. To stabilise equivalent CO₂ concentrations until 2100, the IPCC estimates that investment required to produce low-carbon energy and energy efficiencies in the transport, industry and property sectors could run into several hundred billion Euros per year until 2030. This is why experts conclude that potential synergies between the international financing of natural catastrophe risk management and adaptation actions are far from being fully exploited. It is highly likely that the same will apply to investment opportunities in activities to mitigate the effects of climate change that primarily target reductions in greenhouse gas emissions.

The need to act, given the scientific proof, would alone constitute reason enough to get a move on. Yet, perspectives for economic and financial opportunities arise which could constitute an intrinsic part of a proactive climate response and add another sizeable motivating factor to take action. In fact, responsibility towards future generations coupled with a "green growth" perspective can constitute a powerful driv-

¹ http://www.ipcc.ch/home_languages_main_french.shtml

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er to achieve the transition from a fossil energy-based way of life and production to one driven by renewable forms of energy. As so often, moving from theory to practice involves suitable and lasting funding, especially if, as with tackling climate change, commitment will need to be sustained over the long-term. In any case, the assumption combining climate action and economic opportunity is made to please a new type of financial investors who, lacking a more precise definition, are defined as investors who can live with less spectacular financial returns as long as they can demonstrate a positive environmental or social impact of their investments. It is interesting to note that since the 1990's, it is precisely this type of investors who has been increasingly interested in investing in microfinance.

So, could microfinance have a role to play in the context of tackling climate change? To answer this question, we must see what challenges lie before us (I), which players are involved (II) and what resources and instruments they will need to succeed in their task of maintaining global warming to below 2°C compared to pre-industrial levels (III). Based on this information, it will be possible to analyse if, and to what extent, microcredit, its transformation into microfinance and the path towards inclusive finance, holds useful lessons for funding climate action (IV).

The challenges

The fifth IPCC assessment report leaves little doubt on the scale posed by climate change-related challenges.

For the scientists, man's influence on the climate is clearly proven and recent man-made greenhouse gas emissions are the highest in history. Recent changes in the weather have already had widespread impacts both on human and natural systems.

Based on the analysis of available data, the IPCC predicts that more greenhouse gases will cause even greater global warming and lasting changes in all parts of the climate system. They will raise the probability of severe and irreversible impacts on people and their ecosystems, especially in terms of food security.

So, what can we do? The IPCC estimates that adapting to the effects of climate change and mitigating those, form two complementary strategies to reduce and manage climate change risks. Substantial reductions in emissions during future decades can still lessen climate risks in the 21st century and beyond. They can increase the probability of effective adaptation; reduce costs and challenges to mitigation in the long-term while contributing to robust climate pathways towards sustainable development.

How do we go about it? IPCC experts acknowledge that there are many options for adaptation and mitigation measures, but they emphasise the fact that one option taken on its own will never be enough. Effectively delivering a multitude of measures is done by policies and cooperation at all levels and can be even more effective through an integrated approach linking adaptation and mitigation to other societal goals. These include, for example, better governance, alternative ways of living, business and jobs with sustainable incomes, support for innovation and, of course, investment in healthy technology and infrastructure from an environmental standpoint.

It is therefore with a little more encouraging note that the IPCC experts are fostering political choices and adequate measures at international, regional, national and local levels. It is primarily policies promoting technological development, dissemination and knowledge transfer coupled with funding responses to climate change that can supplement and boost the efficiency of adaptation and mitigation policies. There are many opportunities to combine mitigation, adaptation and other societal goals through integrated responses. To achieve this, the right stakeholders must be aligned in robust and solid governance structures with significant capabilities and means, including financial resources.

Key players

Just like the complexity of climate change challenges impedes a single type of action or measure to tackle it, a raft of different players is needed to join the plan and combine their knowledge, expertise and various experiences to identify potentially effective measures, carefully formulate them and deliver them efficiently. In other words, seeking a positive effect, at the lowest cost and in the right place at the right time. A well-coordinated multi-stakeholder approach seems to be the most promising option.

Furthermore, it should not be forgotten that the aim is to provide adequate responses to a global phenomenon, hence the highly international nature of the undertaking. Indeed, the IPCC has identified international cooperation as being crucial for adaptation to, and effective mitigation of, the effects of climate change. The United Nations Framework Convention on Climate Change (UNFCCC)² is the main multilateral forum in which 195 Member States discuss climate change.

Formal Conferences of the Parties (COP) constitute key moments in the UNFCCC calendar. It is on these occasions, as in December 2014 in Lima³ (Peru), that political leaders from the participating national governments conduct talks and lead negotiations to define measures that can be taken to combat climate change. It is easy to imagine the complexity of discussions between partners with such widely different expectations such as, for example, a small developing Pacific island state threatened by rising sea-levels and a northern country with a strongly developed economy and sense of the environment. There are also emerging economies, like China, which are pulling hundreds of millions of people out of poverty through intensive industrialisation fuelled by fossil energy. The contrasts between the day-to-day realities experienced by citizens and political decision-makers and the expectations weighing on international negotiations on the subject (which everyone admits are urgent) are so stark that the slow progress achieved towards a significant agreement on setting targets for the period after 2020 should come as no surprise.

At the moment, all eyes are on preparatory work for the UNFCCC COP21⁴ which will be held in Paris in December 2015. This will define existing international rules on tackling climate change. Until then, intense, more or less formal, negotiations are being held multilaterally, bilaterally, and within regional groups such as the European Union, to maximise the chances of consensus and thereby ensure the conference's success. Certainly, the stakes are high, since it concerns the state in which we hand over the planet to future generations. The economic stakes are also high and some Heads of State rightly remind us that the

² http://unfccc.int/portals/francophone/essential_background/convention/items/3270.php

³ http://unfccc.int/meetings/lima_dec_2014/meeting/8141.php

⁴ <http://www.cop21.gouv.fr/fr>

economic survival, if not the physical survival, of people is under threat. To account for past behaviour and current abilities to support international efforts, the principle of common, but differentiated, responsibilities is applied in international negotiations. This principle acknowledges that developing countries have emitted relatively little greenhouse gases compared to industrialised countries over the last one hundred and fifty years, yet the former are now in danger of suffering the most from the effects of climate change. As a result, there is a heightened sense of responsibility on the part of industrialised countries which is not always graciously accepted. The level of national and regional ambitions that different States display over the coming months will say much about the COP21's chances of success in Paris.

That said, the only commitments made by governments, albeit significant, are not enough to align the large multi-stakeholder coalition required to address the complex challenge of climate change. Civil society which is organised and specialised in environmental and climate issues has been working tirelessly alongside the States for years now to raise public awareness to explain that aside from governmental responsibilities, personal commitment counts too. In this respect, the work of NGO's and associations is very important because only a good understanding of the issues and the remedies can lead to more responsible personal attitudes and subsequent changes in behaviour.

The private sector also has its place alongside States and civil society to help trigger and deliver the transition from fossil energy to renewables. As a matter of fact, the various players have very different incentives to act. Governments must be wary of the physical and food security of their people to make their economies work. Civil society often adopts a grass-roots approach and appeals to a sense of global citizenship from everyone while the private sector will move in the right direction when business people and investors recognise the economic and financial opportunities of energy transition and give themselves the necessary means to seize them. To be accepted at all levels, it is important that international climate action stems from, and takes into account, all these various forms of commitment while the issue of funding climate action is now at the centre of the debate.

The means and instruments to succeed

Before turning to methods and means of financing climate action, we need to have an idea of funding requirements. In the case of international climate action, funding requirements are to all intents and purposes, unlimited. This might, at first glance, appear to be an exaggeration but it is nothing other than a reflection of reality. In climatic terms, just like sustainable development, broadly speaking, this requires thinking in terms of processes and not in terms of successive steps with a final point of arrival. Financing requirements will not diminish with time but will more or less change based on realities and new developments. What on the surface might seem like a never-ending Sisyphean task is, in fact, a chance as what would this world be like if it suddenly reached the end of its development?

Funding requirements to meet the challenge of effectively tackling the effects of climate change are expressed in trillions of dollars and may be beyond all comprehension of even the most audacious. The IPCC anticipates additional funding requirements amounting to hundreds of billions from now until 2030 alone. In its report of 8 August 2014 to the UNO, the Intergovernmental Committee of Experts on Sustainable Development Financing⁵, estimates the order or magnitude of additional investment requirements for climate-compatible sustainable development scenarios to be several trillion dollars per year. At the World Economic Forum the figure of 6 trillion dollars per year was put forward to cover just the infrastructure investment needs for the next 16 years. UNFCCC Executive Secretary, Christiana Figueres, confirms these estimates and suggests that the international community must at least triple its funding efforts to have a chance of maintaining global warming below 2°C compared to pre-industrial levels.

Faced with these unimaginable sums, it is vital to remember that the cost of doing nothing would be even more than that of concerted international action. This of course applies to the poorest countries, but also industrialised countries too for which a delay in taking action to mitigate the effects of climate change would inevitably result in higher costs to make the transition to a low-carbon economy in the medium and long-term. It should also be remembered that the endeavour is global and must be designed for the long-term, i.e. for at least the next fifty years and probably beyond. The responsibility of several generations is

therefore in question. This is subsequently shared and differentiated both geographically between industrialised States and developing countries, but also over the ages. That said, an effort must probably be made to make another abstraction to tailor the ambition and efforts required into more bite-sized chunks. This is probably necessary if we want to examine the roles of the various traditional and non-traditional financial players in sustainable development and, in particular, the role that microfinance and inclusive finance could play faced with the challenge of financing climate action.

Fortunately, it is now obvious that the number of stakeholders likely to play a part in this plan is higher than ever and that old, and somewhat artificial differences between the comparative advantages of public and private sectors have blurred. In this regard, it should be welcomed that the United Nations, the OECD and the European Union have clearly acknowledged that identifying innovative sources for sustainable development and for financing climate action, in the private sector as well, is not just a necessity but also brings hope.

Extracts from the three key documents, the "The Future We Want" outcome document from the Rio+20 Summit of 11 September 2012, the European Commission's communication "*A Decent Life For All: From Vision to Collective Action*" of 2 July 2014 and the final report from the UN's Open Working Group (OWG) of the General Assembly dated 19 July 2014 state:

- We recognize the need for significant mobilization of resources from a variety of sources and effective use of financing, in order to promote sustainable development. ... [ad. Climate Change]: We recognize the importance of mobilizing funding from a variety of sources, public and private, bilateral and multilateral, including innovative sources of finance, to support nationally appropriate mitigation actions, adaptation measures, technology development and transfer and capacity building in developing countries. – Rio+20 The Future We Want (September 2012)
- Mobilising financial resources will also be pivotal. Given the challenges the world faces, full use needs to be made of all resources available (domestic and foreign, public and private). (...) As the discussion on financing a post-2015 framework evolves, there is a need for a comprehensive and integrated approach to financing poverty eradication and sustainable development. – Euro-

⁵ <https://sustainabledevelopment.un.org/index.php?menu=1558>

pean Commission Communication (July 2014)

- There is a need for significant mobilization of resources from a variety of sources and the effective use of financing, in order to promote sustainable development. – OWG Final Report (July 2014)

In his summary of discussions at the New York Climate Change Summit of 23 September 2014, Secretary-General of the United Nations, Ban Ki-moon emphasised the central role finance plays in international efforts to maintain global warming below 2°C. He stated, “Mobilizing sufficient public and private funds for low carbon, climate resilient growth is essential to keep within a less than 2 degree Celsius pathway.”

In its report of 8 August 2014, the UN’s Intergovernmental Committee of Experts on Sustainable Development Financing presented the following strategic analysis:

“Financial sources can be arranged into four categories: domestic public, domestic private, international public and international private sectors. The challenge for policymakers is to channel and incentivize more of these diverse and decentralized sources of financing into desired investments in sustainable development.”

For its part, the Commission echoed this view of things and makes a more specific reference to the contribution of the private sector in financing the fight against climate change and supporting sustainable development in addition to its own availability to take part in serious and concrete discussions to see that these investment opportunities become a reality. “The private sector is waiting for clear signals from the 2015 Agreement. We want to discuss with other parties how to make investments happen accordingly. The role of the private sector should be specifically recognized in the 2015 Agreement – but not as a substitute for public finance. Public finance should continue where it is needed, and as a catalyst for investments. Creating the right context for both public and private investments is key for delivering a transformation consistent with the 2°C goal.”

As such, signs of a better understanding of the inevitable necessities to organise effective financing for sustainable development and climate action are growing and the potential of determined use of new public/private partnerships is now well integrated in declarations of political intentions. It is also part of the future French presidency of the COP21 which highlights in its Climate aide-

mémoire, “Innovative financing with substantial leverage on private sector players will be essential. Private sector funding will be as important as public sector funding”. At an international symposium on climate and energy in Paris on 3 December 2014, President François Hollande, himself, pointed out that, “We have to finance the ‘post-carbon era’. We must undoubtedly come up with new resources and contributions to be invested in energy transition.”

Faced with these declarations of political intent, the Climate Policy Initiative’s study “Landscape For Climate Finance 2014”⁶, delivers at least two messages, one rather encouraging while the other is a stark reminder. Indeed, the study shows that over the last few years many stakeholders that might have an interest in financing climate action are already active in this area. These include governments, national and multilateral financial institutions, investment funds, large companies and even individuals. The amounts given or invested however leave a lot to be desired. Only 331 billion dollars (2013 figures) have found their way to activities combatting the effects of climate change. This is actually 28 billion less than in 2012 but this is a drop in the ocean of needs which runs into trillions. It is mainly the lack of effective interfaces between investors and investment projects which stems larger flows of finance. In this respect, it is worth remembering how microfinance institutions began to have access to capital markets in the 1990’s to obtain financing. The positives and negatives should probably be reviewed to see what lessons can be learned from this situation.

A role for microfinance in tackling climate change?

Inclusive finance and microfinance stakeholders ready to invest at their level in tackling climate change must not be unduly dissuaded by the enormous amounts of dollars and euros at stake.

Nevertheless, they need to be aware that debt instruments are already widely popular at a macro level among institutional investors whereas equity investments are still modest. However, the experience of the last two decades often shows that microfinance institutions in developing countries require two types of investment to work and grow.

In addition, between 2012 and 2013, the flow of funds from industrialised to developing countries to combat climate change dropped by eight billion dollars, to 34 billion. This is all the more regrettable given the 2013 UN report on the position of less-advanced countries. It identified, amongst other observations, the need for special financing schemes for small farmers as well as for small and medium enterprises (SME’s) which are potential customers for microfinance institutions.

This reality-check is appropriate as we must have an honest picture of the current situation. To a large extent, the terrain still needs to be cleared. This is literally the case with investment in reforestation projects to create new carbon sinks, but also successful pilot projects seeking a greater profile for larger investments. Also, methodologies to conclusively document the environmental impact of a given project are being fine-tuned to produce investment impact assessments for investors in addition to traditional financial reports. Work undertaken, for example, by *the Global Impact Investing Network (GIIN)*⁷ is moving precisely in this direction.

In these circumstances, the roles of small farmers and SME’s in tackling climate change and in adapting to its effects are probably still under-estimated. Indeed, the small agricultural producer who has the financial means to provide himself with seeds and inputs and be part of storage initiatives for harvested grain, manages better his risks and contributes to the food security of the population. That said, they are adapting, in a manner of speaking, to increasingly severe weather conditions resulting from climate change that regularly threaten the consistency of harvests in rainfall-dependent farming.

The SME sector is seeing a blossoming of innovative initiatives in renewable energy production. Using economically viable models, we are seeing more isolated local projects or even small-scale projects feeding large electricity networks using photovoltaics, wind energy, water power or geothermal energy. These are changing the daily lives of the poorest, especially in isolated regions which are not supplied by traditional providers.

⁶ <http://www.climatefinancelandscape.org/?gclid=COLR3NSZ68MCFQGe2wodpJEAgg>

⁷ <http://www.thegiin.org/cgi-bin/iowa/home/index.html>

The social impact of these kinds of projects in local communities is both instantaneous and obvious. Quality of life is better and there are improved conditions for work and study. There are fewer illnesses, particularly respiratory complaints due to the use of open fires for cooking and a drop in the number of burn injuries and fires. These projects also provide a reliable source of energy to recharge mobile telephones which are often the only link with the outside world.

The environmental impact lies primarily in reduced consumption of fossil-based energy such as diesel that powers outdated and thirsty electricity generators which are both expensive and polluting. The use of renewable energy also reduces the consumption of firewood for cooking, light and heat, thereby contributing to slowing down the clearance of rare forests in the Sahel region, for example.

Of course, access to renewable energy sources like, for example, acquiring a solar panel or a solar oven, costs money and the means of customers benefiting from these are limited. This is where microfinance institutions can provide their knowledge. Whether it be the use of microcredit instruments, micro-saving, micro-insurance or micro-leasing schemes, microfinance institutions are only too aware of the indispensable economic viability that must be at the basis of any microfinance activity. Their role in accompanying their customers who want to acquire a piece of equipment using renewable energy rather than consuming fossil fuels cannot be underestimated in terms of education and guidance.

Similarly, upstream of the economic chain, the expertise, experience of microfinance institutions and especially their customer knowledge is very precious when dealing with renewable energy producers or intermediary retailers selling this type of equipment. By opening up to these other players in the renewable energy production and consumption value chain, microfinance institutions are helping to create a favourable environment to expand renewable energy production and retail activities from the bottom up. They should be encouraged to

do more and to seek contact with the authorities regulating the energy market, just as microfinance stakeholders understood that despite the constraints that could be imposed on them; the central banks can be objective allies for inclusive finance. Indeed, prudential rules, supervision and legal certainty are powerful tools to create a climate of confidence which both the investor and client require.

Grass-roots action (which could be initiated by a microfinance institution) can be part of national and sectorial strategies and policies to generate unprecedented added-value. This can be done by determinedly building up a network of multiple stakeholders with widely varying expertise and traditions, all united by the same goal of establishing a system to supply sustainable energy. Again, though, there has to be a dash of realism and rigour. As efficient as the work of coordinated networks can be, the necessary time and effort required to set up and make them function must not be under-estimated. Small-scale organisations, such as microfinance institutions, are often very dynamic in achieving a return on their core business, but they do not have the time for this type of complicated and costly activities. Assistance from their external partners through bilateral and multilateral cooperation or from philanthropic partners, for example, can prove to be very valuable as a common bond between practitioners on the ground and politicians or regulators.

The need for useful interfaces is also felt between investors poised to embark on financing climatic actions and between project promoters and managers lacking the financial means to work, operate and expand. In this case, the history of microfinance can serve as a lesson. Firstly, there is no harm in recalling that the economic viability of the project is essential. At the end of the finance chain, any non-profit making investment must be ultimately result in a revenue-generating activity otherwise repaying the capital invested and, even more so, agreed interest payments, will be compromised. While microfinance investors often demand proof of social impact, each investment in a climate action requires specific documentation on its environmental impact. Here again, there is little point in hiding the truth that measuring and communicating these social and/or environmental impacts to demonstrate a double or even triple-bottom line for a given investment has a cost that must be built into the financial model or covered by another source of parallel funding.

If, hopefully in the near-future, larger numbers of investors opt for investments that appeal due to their reasonable financial return and, at the same time, by a social and/or environmental impact, this should of course be welcomed. But care should be taken to avoid, as with microfinance that these new financial flows do not become victims of their own success.

Objectively, there is a risk of excess liquidity when financial instruments are introduced. Various scenarios must be anticipated in which absorption capacity for climate action projects does not grow at the same pace as the flow of funds intended for them. The Green Climate Fund Managers⁸, for example, are well aware of this. This is a multilateral fund that should be capitalised to some 100 billion dollars by 2020. It was introduced by the United Nations to finance climate actions in developing countries. Consistent, sustained and suitable climate actions will be required. Identifying and formulating realistic and effective projects involving a maximum of future beneficiaries while respecting the strategic sectorial choices of the host countries in question seems to be the best approach. Through their commitment on the ground, microfinance leaders are well placed to give useful advice or even to take an active role in these new-generation partnerships in favour of effective climate action.

Conclusion

It is difficult, in 2015, to not position the discussion on the role of microfinance and inclusive finance for climate action in the context of international negotiations which must reach an agreement in December 2015 at the 21st Conference of the parties of the United Nations Framework Convention on Climate Change (UNFCCC). The aim of the conference is to define a new framework of international climate action for the post-Kyoto period⁹ and to enact the international commitments that the 195 State parties at the conference are taking to tackle climate change beyond 2020.

In this context, a special role falls to the Grand Duchy of Luxembourg which will assume the Presidency of the Council of the European Union from 1 July to 31 December 2015. As such, it will be responsible for coordinating the European position on climate change issues and to then defend it in international negotiations. Luxembourg has its own challenges in terms of reducing greenhouse gas emissions and energy efficiency. It could opt to assert one of its com-

⁸ <http://news.gcfund.org/>

⁹ Climate targets for the Kyoto Protocol were adopted in 1997 to be reached in two successive commitment periods (2008-2012 and 2013-2020).



parative advantages, particularly on the central issue of financing climate action. The proximity of sizeable potential partners like the European Investment Bank or the world's second biggest investment fund industry coupled with a longstanding commitment to honestly finance sustainable development and combat climate change may be advantageous in this context. Continued support from Luxembourg over the last two decades for the growth of microfinance and inclusive finance together with the experience gained from it could also be beneficial in this situation.

In conclusion then, we can acknowledge that the challenge of climate change is now globally recognised and that its inherent threats are better understood than ever. Also, the significant part that human activity plays in the origin of global warming,

especially through excessive greenhouse gas emissions, is no longer seriously contested. Consequently, measures to attain and mitigate the effects of climate change have been clearly identified and there is no longer any doubt that only a coordinated and integrated delivery of these measures will enable us to react effectively in our own interest and in that of the generations to come. Fortunately, even though it is already three minutes to midnight¹⁰, there is still time to act so long as it is done quickly and in a globally coordinated way.

The fight against adversity has been identified. Alliances between States, civil society and the private sector are seen as essential (even though they are not currently effective) and financing an arsenal of measures to take is at the centre of international debate. On this last point, a great deal could

be learnt from the history of microfinance, and especially the efforts which enabled microfinance institutions gain access to capital markets to forge new alliances in the form of public-private partnerships and to raise the necessary funding. As with microfinance, the economically viable nature of fundable projects is crucial, but in the context of tackling climate change, their environmental and social impact is just as important. In the spirit of inclusive finance and through alliances with renewable energy producers, public authorities and regulators, those involved in microfinance will swiftly identify opportunities to promote their know-how on the basis of robustly analysing their customers' needs and helping their sustainable development while contributing to tackling climate change.

¹⁰ According to the doomsday clock from the Bulletin of Atomic Scientists at the University of Chicago.

MFIs' environmental performance in Central America under a context of climate change

Davide Forcella, Juana Ramirez and Marion Allet*

This paper presents an interpretation of the role of MFIs in supporting environmental protection systems in a climate change context. It is focused on analysing microfinance environmental practices in the Central American and the Caribbean region. The paper makes a differentiation between assessment of environmental performance within MFIs and corporate governance policies towards environmental risks like climate change. The first approach will help us understand the environment friendly practices MFIs are implementing in Central America and which ones are performing better, while the second approach will provide insight on policy frameworks or corporate governance mechanisms influencing MFIs managers' decisions regarding environmental protection practices.

Climate change and environmental management issues have drawn increasing levels of attention in the past years, including in the microfinance sector. The topic has become more visible in conferences, practitioners' workshops, toolkits and publications. **The main question this paper addresses is if increasing attention on climate change and environmental degradation have resulted in improved environmental performance within MFIs.** In other words, how are MFIs adapting to climate change threats and are they contributing to mitigate global warming?

Climate change mitigation and adaptation strategies

"Responses to climate change fall into two broad categories: mitigation and adaptation. Mitigation focuses on reducing the severity of climate change by limiting greenhouse gas emissions. Adaptation focuses on taking measures that help people adjust to changed conditions. Many actions, like promoting clean energy products and agricultural innovation, support both mitiga-

tion and adaptation"¹. We will thus propose an analysis of the actions carried out by MFIs in our sample in terms of mitigation and adaptation to tackle climate change. In order to illustrate both approaches, the article focuses on the geographical area of Central America and the Caribbean and is structured in three distinct parts. The first focuses on identifying which MFIs are "going green", taking into account MFIs' answers to quantitative and qualitative questionnaires. The second part analyses if there has been an evolution in terms of practices and environmental performance in the selected geographic area taking into account results from data collected in 2011 and 2014. Finally, a third part takes into consideration identified trends (from the questionnaires) and links those to corporate governance mechanisms potentially influencing environmental performance.

Methodology

We draw our considerations building on information collected in 2014 through a questionnaire designed by ADA². The questionnaire aimed at establishing an inventory of environmental risk management practices and tools used by MFIs in the selected region. Divided in four sections, the questionnaire tried to assess MFIs' intentions, processes, products and environmental friendly practices and was shared with MFI members of REDCAMIF, the regional microfinance professional association from Central America and the Caribbean³. Hence, in order to collect quantitative and qualitative data, the questionnaire was shared with 133 MFIs⁴ and 25 qualitative semi-structured interviews were conducted with 25 MFI managers. The latter were organized with MFIs already implementing

¹ Rippey Paul, CGAP Focus Note, N°53, March 2009

² The questionnaire is available for consultation on www.ada-microfinance.org

³ REDCAMIF represents national microfinance associations from Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama and the Dominican Republic. More on REDCAMIF, please visit <http://redcamif.org/>

⁴ ADA's sample gathers responses from 53 MFIs where 45% are NGOs, 16% are NBFIs, 8% are Banks and 6% are Credit Unions or Cooperatives, 22% are networks or support organizations and will not be taken into consideration for our analysis.

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environmental practices and previously identified through the quantitative questionnaire.

Furthermore, the article also draws on analysing MFIs' scores according to the structure and methodology of the Green Index⁵, a tool designed to assess MFIs' environmental performance. The Green Index is built along 3 dimensions. The first one relates to the formal environmental strategy of the MFI and includes indicators such as having a formal environmental policy such as 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 to condition access to a subsequent loan or to raise clients' awareness on mitigation solutions. Finally, the third dimension focuses on how MFIs can foster green opportunities, by offering specific loans or trainings to promote environmentally-friendly businesses (such as recycling activities), practices (like agro-forestry), or technologies (solar panels, improved cook stoves).

A comparative analysis of MFIs' answers to both the Green Index and ADA's Questionnaire enabled us to first identify environmental performance trends, secondly to establish comparisons with other studies applying the Green Index in Europe and other developing countries, and thirdly to propose further insight regarding the political or economic environment that governs MFIs in Central America.

1. Environment and Microfinance: who is doing what?

The Microfinance industry is very heterogeneous. MFIs present a great variety of profiles, depending on their size, geographical position, mission statement and legal status which may also vary from country to country depending on regulation requirements⁶. Hence, we analysed how far this heterogeneity has an influence on an MFI's capacity to engage in environmental issues.

Taking this heterogeneity and previous studies⁷ into account, some hypothesis can be formulated:

- Larger MFIs are likely to have better environmental performance, due to access to resources (financial or human), economies of scale and exposure to public opinion.
- More profit oriented institutions may engage in green initiatives to differentiate themselves in a competitive market, providing new products and aiming to reach out to new clients.
- MFIs with a stronger social mission may instead engage in environmental causes as one of the dimensions of their social performance.
- MFIs' legal status may influence environmental performance, i.e., MFIs registered as banks may have a better environmental risk assessment strategy or environmental risk management because they are more under scrutiny of environmental regulations.
- NGOs with a clear social mission may have a better performance in non-financial environmental services because they are traditionally used to provide additional services along with the credit provided.
- Older MFIs may have better environmental performance due to the time and resources needed to formalize environmental procedures and implement environmental initiatives, unless an organization was born with an environmental mission (very rare in MF industry).
- The interest in environmental conservation of further stakeholders such as donors or investors may push MFIs to improve their environmental performance to meet their stakeholders' requirements and thus guarantee access to further or new funds.
- Better financial performance, the ability or possibility to cross-subsidize MF operations with resources coming from more profitable non-microfinance activities, or the access to donations may have positive effects on the environmental performance of the MFI because they may provide the additional funds necessary to develop new environmental products or procedures.
- The existence of a demand for environmentally friendly products, or related needs like the lack to energy access for clients may motivate MFIs to go green. Other characteristics, such as the geographical location, local culture, exposure to environmental degradation

may influence the environmental performance.

- The targeted population or activities, measured in terms of average loan size per client, could influence as well the environmental performance of the MFI. Institutions with a smaller average loan size may have lower environmental performance than the ones with larger loans due to the needed capital to invest in environmental initiatives or buy cleaner technologies.

We proceeded in verifying some of the hypothesis mentioned above in our sample of 53 MFIs in Central American or Caribbean⁸.

⁵ The Green Index is the result from collaborative work between various organizations and individuals participating in the Microfinance and Environment Action Group of the European Microfinance Platform (e-MFP). It has been included into the new version of the Social Performance Indicators tool (SPI4) developed by CERISE (reference tool for the Microfinance sector regarding standards for social performance), as an optional module on environmental performance, and is currently being tested.

⁶ MFIs have thus different ownership structures: they can be development-oriented NGOs, private sector owned institutions or cooperatives. They can be multinational commercial banks or state owned local banks as well as networks.

⁷ Allet, M., & Hudon, M. (2015). Green microfinance: Characteristics of microfinance institutions involved in environmental management. *Journal of Business Ethics*, 126(3), 395-414 and Allet, M. (2014). Why do microfinance institutions go green? *Journal of Business Ethics*, 122(3), 405-424.

Forcella, D., & Hudon, M. (2014). Green Microfinance in Europe. *Journal of Business Ethics*.

The hypothesis considered hereunder are a combination discussed in previous studies.

⁸ ADA's sample gathers responses from 53 MFIs where 45% are NGOs, 16% are NBFIs, 8% are Banks and 6% are Credit Unions or Cooperatives, 22% are networks or support organizations and will not be taken into consideration for our analysis. These MFIs operate in 8 countries: Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Peru (only 1 MFI). It is important to underline from the very beginning that our analysis aims to investigate facilitating or limiting factors for the environmental management of MFIs. However we do not aim, and we cannot at this stage, assess the causal link between a particular characteristic and its influence on the environmental performance of the MFI.

1.1 Methodology considerations and sample

In order to enable a comparative approach, the environmental performance of the Central American and Caribbean MFIs is assessed along the three main dimensions included in the Green Index already introduced above: environmental strategy, risk management, and green opportunities.

The risk management dimension can be further subdivided into internal and external risk management with the aim to perform a more careful analysis. We also introduce a total environmental performance index that is simply computed as the average of the previous four sub-indices and it should give a holistic vision regarding the environmental engagement of the MFI⁹.

To check some of the hypothesis provided we compared the scores of the MFIs in ADA's survey along with data for five characteristics¹⁰: geographical location (country), legal status, age of the institution, size of the institution (in terms of its number of active borrowers in 2013), and the targeted population (clients or activities, measured in terms of average active loan per person in 2013). Additional data was collected from the MIX Market (MIXM). Unfortunately only 42 institutions over the 53 MFIs taking part in ADA's survey report to the MIX Market and only 37 report all the data for the five characteristics stated above.

In order to analyze if and how the five characteristics influence the environmental performance of MFIs we proceeded in two steps.

First, we computed the average value of the environmental performance along the various dimensions and according to the characteristics of the MFIs (geographical location, legal status, age, size and the number of clients extracted from the Mix Market). Results enabled us to assess how environmental performance can be distinguished along different types of MFIs on the one hand, and analyse on the other, how MFI characteristics can explain trends in fostering or limiting the implementation and uptake of MFI environmental procedures and products within ADA's MFI's sample in Central America.

Secondly, we analysed if observed trends can become more general and explain environmental performance of other similar MFIs not included in ADA's sample but operating in the same region. Simple statistical tests¹¹ were conducted with this purpose. Therefore, if a trend observed for a particular MFI characteristic within ADA's sample can be extended to the full population of MFIs in the same area, we call such a result "significant" for all MFIs with the same characteristics. If this is not the case we call the observed trend "non-significant".

At the empirical level two previous studies have already analyzed the characteristics that foster or limit the engagement of MFIs in environmental issues respectively in a sample of 160 MFIs in 59 developing countries¹² with data collected in 2011¹³ and in a sample of 58 MFIs operating in 36 European countries¹⁴ with data collected in 2013¹⁵. (see Table 3).

⁹ Each of these four dimensions has a score that goes from a minimum of 0% to a maximum value of 100%. This structure is almost identical to the one introduced in the green index, with the only exception that in the green index external and internal risk management are grouped in one single risk management dimension and they have a weight of 0.5 in the total environmental index. The total environmental performance index score from 0% to 100%.

¹⁰ These characteristics have been selected according to two criteria: their relevance in influencing the environmental performance of MFIs, and due to data availability.

¹¹ We implemented a two side t-test on the scores of each of the five environmental indices for the five characteristics considered, without assuming equal variance of the two populations, and we supported it with the implementation of a non-parametric test: the Mann-Whitney-Wilcoxon (MWW) test, typically useful for small samples and non-approximately normally distributed samples. For the continuous variables we also performed some simple linear correlation analysis using the Pearson correlation, we supported this analysis with a non-parametric correlation analysis using the Spearman correlations, and we check if correlations are significant. Correlation value runs from a minimum of 0 to a maximum of 1. Some simple econometric regressions analysis has been performed too, but due to the small sample size they have been simply used to check the consistency of the results coming from mean-difference analysis.

¹² Afghanistan, Albania, Armenia, Azerbaijan, Bangladesh, Benin, Bolivia, Bosnia and Herzegovina, Brazil, Bulgaria, Burkina, Cambodia, Cameroun, Colombia, Congo, Costa Rica, Ecuador, Egypt, El Salvador, Ethiopia, Georgia, Ghana, Guatemala, Guinea, Honduras, India, Iraq, Jordan, Kazakhstan, Kenya, Kosovo, Kyrgyzstan, Lebanon, Madagascar, Mali, Mexico, Mongolia, Morocco, Nepal, Nigeria, Pakistan, Palestine, Paraguay, Peru, Philippines, RDC, Romania, Russia, Samoa, Senegal, Serbia, Sierra Leone, Sri Lanka, Tajikistan, Tanzania, Gambia, Togo, Uganda, Vietnam.

¹³ Allet, M., & Hudon, M. (2015). Green microfinance: Characteristics of microfinance institutions involved in environmental management. *Journal of Business Ethics*, 126(3), 395-414.

¹⁴ Austria, Belgium, Bulgaria, Cyprus, Croatia, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, the United Kingdom, Iceland, Montenegro, Republic of Macedonia, Serbia and Turkey, Albania, Bosnia and Herzegovina, Kosovo.

¹⁵ Forcella, D., & Hudon, M. (2014). Green Microfinance in Europe. *Journal of Business Ethics*. doi: 10.1007/s10551-014-2452-9.

Table 1: MFI characteristics in ADA's sample

	Number of observations	Min.	Max.	Mean
Year of foundation	42	1962	2004	1989
NBFI	40	0	1	22.5%
NGO	40	0	1	57.5%
Bank	40	0	1	10.0%
Credit U - Coop	40	0	1	7.5%
Number active borrowers (2013)	37	136	177,951	21,409
Average Loan (2013)	37	189	11,757	1799

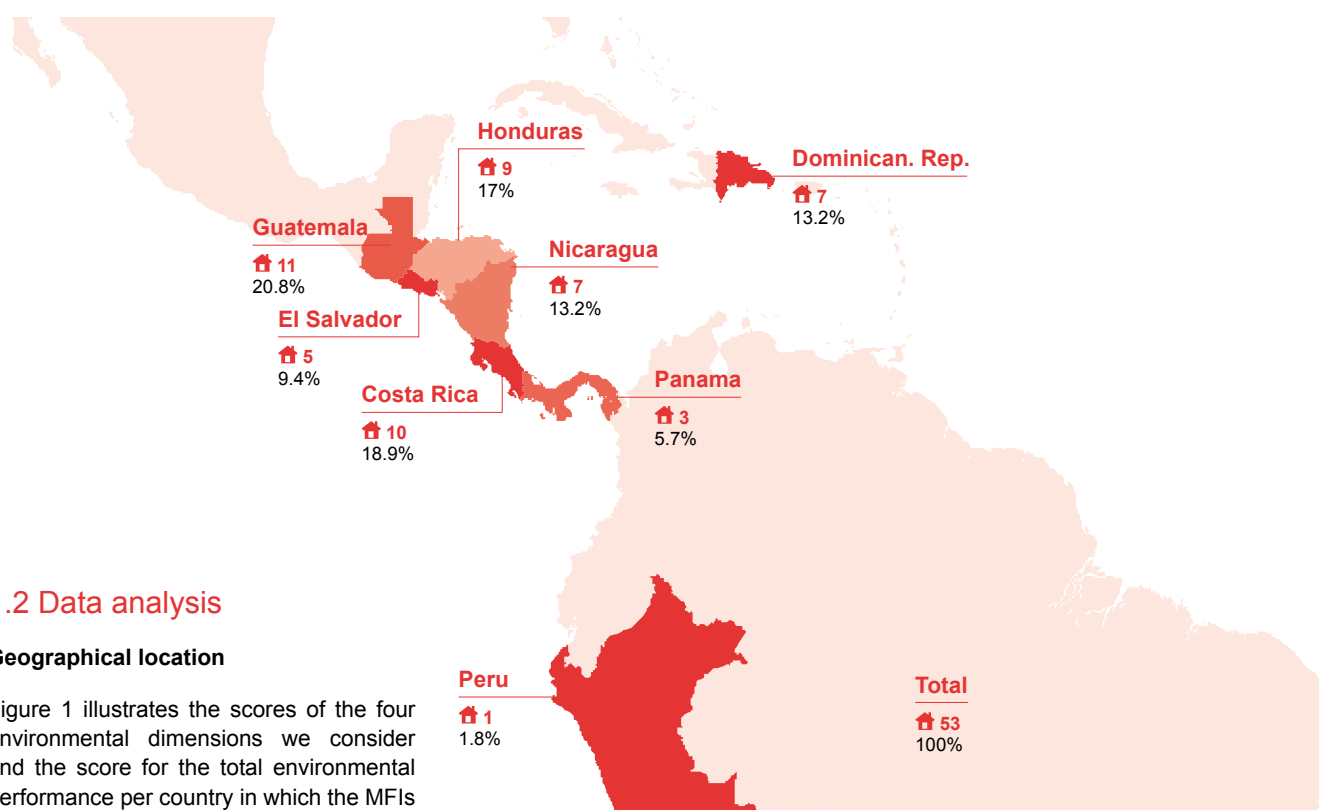
Table 2: Comparative analysis on environmental performance

	Number of observations	Mean	Latin American MFIs	MFIs in other Developing Countries	European MFIs
Total Environmental Performance	42	36.3%	25%	26%	28.3%
Environmental Strategy	49	29.6%	25%	26%	18.8%
Internal Environmental Risk	45	30.2%	42%	33%	34.1%
External Environmental Risk	47	45.7%	17%	23%	23.8%
Green Opportunities	49	39.3%	17%	22%	36.5%

Table 3: Comparison Table for MFIs’ characteristics that influence their environmental performance

	Study on Developing countries (Allet & Hudon 2015)	Study on European countries (Forcella & Hudon 2014)	Study on Central America-Caribbean (ADA sample 2014)
Size	Larger MFIs have better environmental performance	Larger MFIs have better environmental performance	Medium-small MFIs have worse environmental performance, medium-large MFIs have better environmental performance
Age	Older MFIs have better environmental performance	Older MFIs have better environmental performance	Middle age-young institutions have better environmental performance, the oldest institutions have worse environmental performance
Legal status	Banks have better environmental performance	for profit or not-for profit status does not influence environmental performance	Banks have better environmental performance
Geographical location	MFIs in Asia have better environmental performance among developing countries	MFIs in Eastern Europe having better environmental performance in the European industry	MFIs from Dominican Republic have better environmental performance

Figure 1: Number and percentage of MFIs in ADA’s sample according to their geographical location



1.2 Data analysis

Geographical location

Figure 1 illustrates the scores of the four environmental dimensions we consider and the score for the total environmental performance per country in which the MFIs operate.

There is a clear tendency for MFIs operating in the Dominican Republic to have better scores, while MFIs in Panama tend to score worse compared to other countries. However, MFIs in Costa Rica score better in green opportunities, while the best management of external environmental risk is performed by MFIs in Nicaragua.

The only statistically significant results are:

- **MFIs in Dominican Republic have better environmental strategy;**
- **MFIs in Panama score worse in overall total environmental performance, environmental strategy and internal environmental risk.**

The influence of the geographical location on the environmental performance of MFIs has been already observed in previous studies. In other developing countries, in particular MFIs in Asia have better environmental score probably due to mimetic trends influenced by leaders such as the Grameen Shakti¹⁶. In Europe, it has been observed¹⁷ that MFIs operating in Eastern European countries have better environmental performance. This fact is probably due to higher competition and fewer subsidies in Eastern Europe compared to Western Europe which implies that MFIs are pushed to diversify their products and consider more their public image.

¹⁶ Allet, M., & Hudon, M. (2015). Green microfinance: Characteristics of microfinance institutions involved in environmental management. *Journal of Business Ethics*, 126(3), 395-414

In the case of MFIs within ADA's sample, better environmental performance of MFIs in the Dominican Republic could be explained by high competition. Hence, MFIs can try to distinguish themselves from competitors by implementing environmental strategies. Another explanation for better environmental performance could be related to enforced and adapted regulation in the Dominican Republic.

Legal Status

Figure 3 reports scores for four environmental dimensions and scores for the total environmental performance according to the legal status of the MFIs.

It appears that those MFIs from the sample registered as banks tend to have better overall environmental performance and in particular for the dimension environmental strategy, and environmental internal and external risk management. NBFIs, Credit Unions or Cooperatives have better scores in green opportunities. However the only statistically significant result is:

- **MFIs registered as banks have better external environmental risk management compared to other legal status.**

This result concurs with findings from MFIs in other developing countries, where banks have a better environmental performance and score better in the environmental strategy and the environmental risk management dimensions¹⁷.

This result could be explained by the fact that MFIs registered as banks may be more under the scrutiny of environmental regulations and therefore more likely to set up processes to limit their exposure to environmental risks, such as adopting an exclusion list or screening loans along environmental criteria.

Age of the institutions

Figure 4 illustrates the scores of the four environmental dimensions we consider and the score for the total environmental performance according to the year of foundation of the MFIs in our sample.

Figure 2: Average scores per environmental dimension and per country

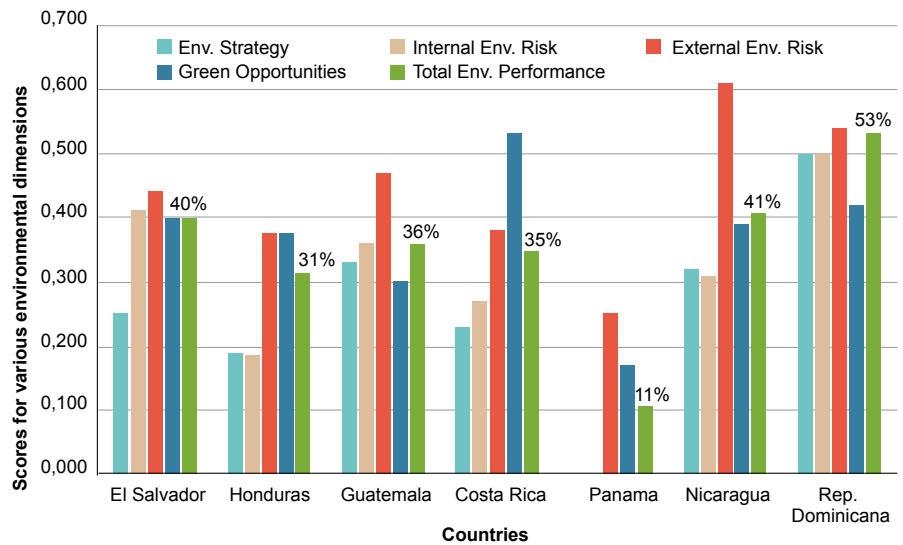


Figure 3: Average scores per environmental dimension and per legal status

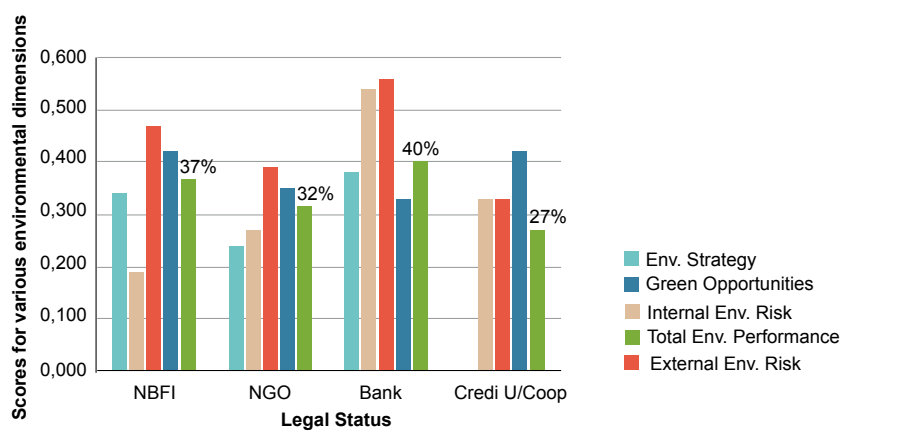
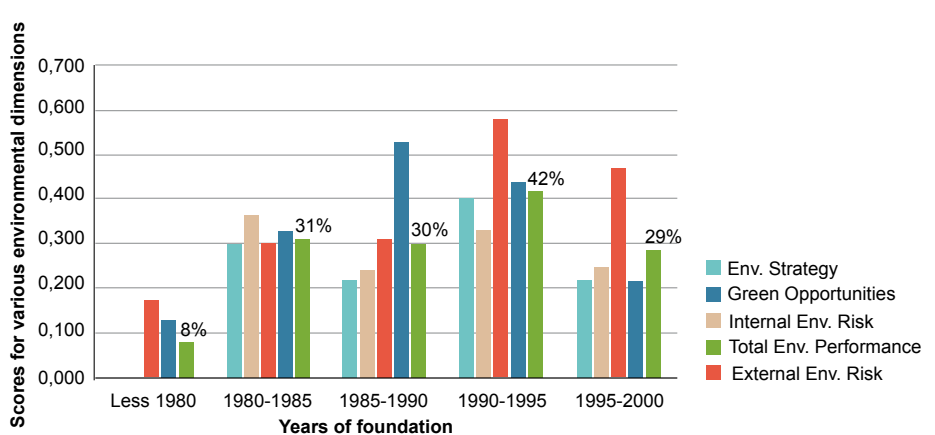


Figure 4: Average scores per environmental dimension and per year of foundation



¹⁷ Forcella, D., & Hudon, M. (2014). Green Microfinance in Europe. Journal of Business Ethics. doi: 10.1007/s10551-014-2452-9.

The age of foundation of the MFI does not seem to underline any clear trend towards a better performance for older or younger MFIs¹⁸. It appears that the influence of the age of the institution on its environmental performance seems to follow a nonlinear dependence with older institutions scoring worse, while institution with age of foundation between 1990 and 1995 have a better score. The statistically significant results are:

- MFIs with foundation date before 1980 have worse total environmental performance, internal environmental risk management and green opportunities;
- MFIs with foundation date between 1990 and 1995 have better total environmental performance and external risk management;
- MFIs with foundation year between 1995 and 2000 have worse green opportunities.

This result is different¹⁹ when compared to other developing countries²⁰ and in Europe²¹ where on average older institutions have better environmental performance. In Central America and the Caribbean a certain level of maturity seems to be required in order to engage in environmental performance, but not the same level of maturity of the sample of MFIs in Europe and other developing countries. Studies conducted for those samples argue that mature MFIs invest their cumulated resources, experience and understanding of clients in developing additional products and procedures. This is considered as an investment in environmental issues. However, for MFIs from Central America once the level of maturity gets higher, MFIs no longer invest in environmental products. A possible explanation for this result is that mature MFIs have more constraints to innovate because they already have achieved to build a well-defined business model, while younger MFIs are more inclined towards innovation because they need to differentiate and open themselves a way into the market. However, further analysis is required.

Size of the institutions

The size of the institutions, measured in terms of number of active clients, does not seem to underline a clear trend (Figure 5) towards a better performance for larger MFIs²². The dependency of the environmental performance on the size of the institution seems to follow a nonlinear pattern. Medium-small institutions have the worst overall environmental performance, medium-big in-

Figure 5: Average scores per environmental dimension and per number of active clients in 2013

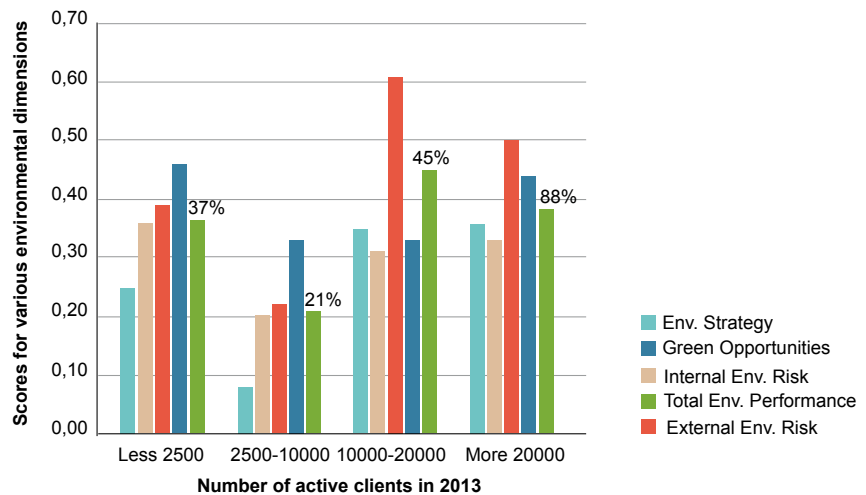
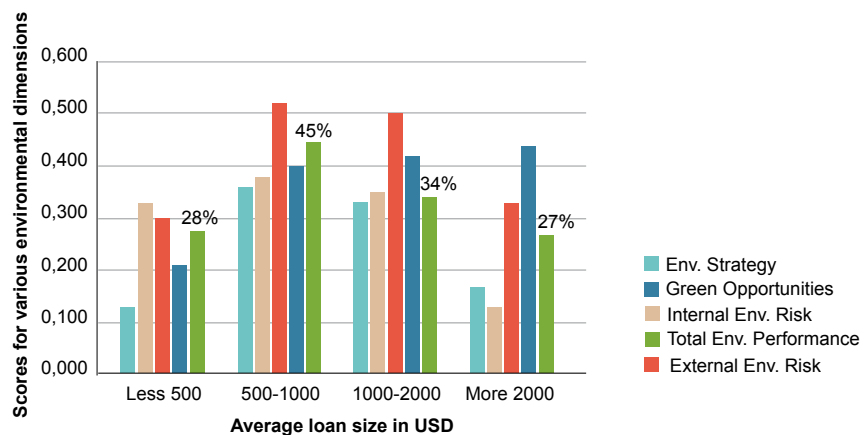


Figure 6: Average scores per environmental dimension and per average loan amount in 2013



stitutions score best in overall environmental performance. The statistically significant results are:

- MFIs that had between 2,500 and 10,000 clients have lower total environmental performance, environmental strategy and external environmental risk management;
- MFIs that had between 10,000 and 20,000 clients in 2013 have better external environmental risk management.

Results are different from other studies conducted in other developing countries and in Europe. Indeed, it has been concluded that larger MFIs have better environmental performance, particularly in regard to their environmental strategy and environmental external risk assessment.

¹⁸ Indeed Pearson and Spearman correlations are rather weak (between 0.2 and 0.3) and the only slightly significant correlation is for external environmental risk management.

¹⁹ While in Europe and in other developing countries there was a clearer linear trend for older institutions with better environmental performance, in ADA's sample the dependency is more nonlinear and of reversed U type.

²⁰ Allet, M., & Hudon, M. (2015). Green microfinance: Characteristics of microfinance institutions involved in environmental management. *Journal of Business Ethics*. 126(3), 395-414

²¹ Forcella, D., & Hudon, M. (2014). Green Microfinance in Europe. *Journal of Business Ethics*. doi: 10.1007/s10551-014-2452-9.

²² Indeed Pearson and Spearman correlations are rather weak (on average around 0.3 for the various environmental dimensions) and the significance of such correlations is rather small.

In Central America and the Caribbean it appears that such trend is confirmed by medium sized MFIs, while the largest MFIs do not perform better than the others, and the smallest MFIs seem to have an environmental performance comparable to MFIs with a medium size. These results could be explained by two factors: larger MFIs are more visible and have to take actions to respond to donors' and investors' expectations or regulations, in particular in terms of environmental risk management. Smaller MFIs are usually more embedded in the local communities and see more easily the environmental issues of the clients, such as environmental degradation and pollution, which are major threats in the region particularly concerning deforestation.

Target of the institutions

We conclude with a short analysis of the environmental performance of the institutions in function of the average loan amount per active credit in 2013 (Figure 6). The aim is to assess if the target clients or the average activities financed influence the MFIs environmental performance.

The average loan size of the MFIs does not seem to have a clear positive or negative influence on its environmental perfor-

mance²³. The relation between average loan size and environmental performance of the MFI seems to follow a nonlinear reverse U type trend. MFIs with average credits between 500 and 1000 USD have better total environmental performance, while MFIs with the biggest or smallest average loans score worse. This tendency seems to be reproduced in all other environmental dimensions with the exception of the green opportunities dimension that instead, seems to follow a more linear trend with MFIs with bigger average loans scoring better.

However the only slightly significant results are:

- **MFIs with average loans smaller than 500 USD have lower engagement in green opportunities;**
- **MFIs with average loan bigger than 2000 USD have lower internal environmental risk management.**

The apparent trend in our analysis could be interpreted as the result of two competing trends. Clients that ask for too small loans probably do not have resources, awareness or possibilities to engage in environmental dimensions, neither the MFIs have interest or ability to screen their activities or provide customized environmental products. On the other hand, MFIs providing bigger loans seem to prefer to focus on more profitable activities and do not consider adapted environmental performance as an added value because it implies upfront costs. An exception is the green opportunities dimension, where enough resources are needed and bigger loans could facilitate the provision of adapted green credits. The result of these two contrasting trends could explain why MFIs with middle-size average loans in Central America tend to have better environmental performance.

In other developing countries it was found that MFIs with bigger loans use to have better environmental risk management²⁴, probably due to the higher risk exposure. On the other hand, for the European region it was found that MFIs providing non-microfinance loans tend to have a better scoring, probably due to the possibility to use the resources coming from these bigger loans to cross subsidize innovative products more respectful of the environment²⁵. Or, it could also be explained due to their higher exposure to the public opinion and regulation that pushes these MFIs towards the adoption of better environmental management.

2. Evolution in environmental performance between 2011 and 2014 in Central America

Environment and climate change issues have been drawing increasing attention in the past years. Has the microfinance industry followed this trend? Have MFIs increasingly been involved in environmental management?

2.1 Methodology considerations

Data from 2011 has been extracted from Allet's database and displays average results for six MFIs from four Central American countries (Costa Rica, Guatemala, Honduras, and El Salvador)²⁶.

The database was constituted in March-April 2011 through a survey with MFIs in developing countries, with the specific objective to assess their environmental performance²⁷.

Within the database, 55 MFIs come from Latin America. More specifically, 6 MFIs come from four Central American countries (Costa Rica, Guatemala, Honduras, and El Salvador) which were then compared to data from ADA's dataset.

To have a common basis for comparison, we selected indicators from the Green Index present in both databases. In a further step, we decided to structure the indicators along the dimensions of the Green Index, which allowed us to identify a list of 12 indicators present in both databases (see Table 10 above). Scores from each database were then analyzed according to this list of comparable indicators.

2.2. Results from a comparison

The results presented in Table 4 reveal some interesting trends²⁸. First, a higher proportion of MFIs in Central America seem to define a formal environmental strategy in 2014 than in 2011. Indeed, for 2011 it was noted that most pioneer MFIs engaging in environmental management were first implementing very concrete actions, such as developing green loans or raising clients' awareness of environmental risks²⁹. These initiatives were very often independent and separate from their regular activities. Only a few institutions were defining their environmental strategy in a more formal and systematic way. In 2014, results reveal that Central American MFIs seem to give more attention to defining a formal strategy of

²³ Statistical correlations between the different environmental dimensions and the average loans are indeed weak and negative and none is significant.

²⁴ Allet, M., & Hudon, M. (2015). Green microfinance: Characteristics of microfinance institutions involved in environmental management. *Journal of Business Ethics*, 126(3), 395-414

²⁵ Forcella, D., & Hudon, M. (2014). Green Microfinance in Europe. *Journal of Business Ethics*. doi: 10.1007/s10551-014-2452-9

²⁶ Allet, M., & Hudon, M. (2015). Green microfinance: Characteristics of microfinance institutions involved in environmental management. *Journal of Business Ethics*, 126(3), 395-414

²⁷ It gathers data for a sample of 160 MFIs, from 59 countries. These 160 MFIs were proved to be representative of the microfinance sector in terms of regional location, legal status, size (number of borrowers), average age, average portfolio at risk, average financial performance, etc.

²⁸ These trends remain the same when we compare a broader (but more heterogeneous) sample of MFIs: the average scores of fifty-five MFIs from Latin America (11 countries) in 2011 (Allet's database) and the average scores of fifty-three MFIs from Central America and the Caribbean (8 countries) in 2014 (ADA's database)

²⁹ Allet, M. (2014). Why do microfinance institutions go green? *Journal of Business Ethics*, 122(3), 405-424

Table 4: Evolution of environmental performance between 2011 and 2014 in Central America

Green Index standards	Indicators	Central America scores (Allet, 2011) – 6 MFIs	Central America scores (ADA, 2014) – 36 MFIs
The institution addresses environmental issues through a formalized strategy		9%	23%
The institution defines and implements its environmental strategy		9%	23%
The institution defines its environmental strategy	Has a formal environmental policy		31%
	Defines its environmental strategy	0%	
The institution implements its environmental strategy	Has a person / dedicated staff appointed to manage environmental issues		15%
	Reports on the MFI's environmental practices	17%	
The institution manages its environmental risks		33%	33%
The institution manages its internal environmental risks		42%	27%
The institution implements actions to reduce its internal ecological footprint	Conducts activities to raise employees' awareness of good practices in paper, water and energy consumption, waste management, etc.	50%	17%
	Tracks the achievement of quantitative objectives set for paper, water, and energy consumption, waste management, and/or carbon emissions	33%	37%
The institution manages its external environmental risks		25%	38%
The institution evaluates the level of environmental risk of its clients	Uses specific tools to evaluate the environmental risks of clients' activities (sectorial factsheet, surveys, etc.)	33%	41%
The institution includes the level of environmental risk as a factor in the loan approval process	Refuses to finance environmentally-risky activities (use of an exclusion list)	17%	56%
The institution monitors the external environmental risks	Includes indicators into the MIS to track the environmental performance of clients	0%	9%
The institution raises clients' awareness on environmental risks	Conducts activities such as training sessions and discussions / displays posters / distributes flyers on environmental impacts	50%	46%
The institution fosters green opportunities		29%	40%
The institution provides green products and services to its clients		29%	40%
The institution provides specific green loan products:	Specific loan products dedicated to renewable energy and energy efficiency		55%
	Specific loan products dedicated to promoting environmentally-friendly activities (e.g: recycling, waste management, agroforestry, etc.)	25%	
The institution provides green non-financial services:	Training on environmentally-friendly practices or businesses	33%	25%

environmental management. Yet, the proportion of MFIs appointing dedicated staff to implement the environmental strategy or reporting on their environmental practices has remained the same, questioning the significance of the “formal environmental strategy” for the MFI.

The analysis also reveals that Central American MFIs have reduced efforts linked to managing their internal environmental risks between 2011 and 2014, while they seem to have increased their focus on managing external environmental risks. This shift in priorities could point to a better understanding of environmental challenges faced by microfinance clients and the impact they can represent for MFIs, as well as a greater maturity to implement more complex environmental management programmes. For a MFI willing to manage its environmental impact, looking at internal environmental risks is indeed an easier start: it can “just” raise staff's awareness and set up some internal procedures and

policies to reduce paper, water, or energy consumption internally, at the level of the head office and branches. It is a positive strategy to start introducing the environmental management topic within an institution. However, MFIs being service providers, their direct impact on the environment remains rather limited. Environmental risks are more significant when looking at the activities financed by the MFI. Managing these environmental risks is however more complex for an MFI, as it requires to develop skills in assessing the environmental risks of a variety of microenterprises and small businesses and in providing adapted answers to mitigate these risks.

In 2014, Central American MFIs seem to focus a bit more on evaluating clients' environmental risks, and less on sensitizing staff on the internal ecological footprint. This evolution could indicate that MFIs are starting to understand that their indirect environmental impact can be much more significant than their direct one. However,

looking closer at the scores, Central American MFIs do not seem more involved in raising clients' awareness than in 2011 (around half of them mention that they conduct awareness activities on environmental impacts). The most striking change is in the proportion of MFIs that have adopted an exclusion list, rising from 17% in 2011 to 56% in 2014. This change could reflect a greater awareness of the potential negative impact that MFIs can have through the activities that they finance or it may also result from the influence of investors or donors that may have put the adoption of an exclusion list as a requirement.

Finally, a higher proportion of Central American MFIs appears to be involved in fostering green opportunities in 2014. More particularly, the proportion has increased from 25% to 55% regarding the provision of “green” loans which are specific loan products dedicated to financing environmentally-friendly activities and clean energy technologies.

Overall, these trends may reveal that MFIs in the region are progressively starting to realize that environmental matters are no longer a side topic to be handled only as part of a limited corporate social responsibility (CSR) policy, but rather a core issue to be mainstreamed in their business and activities.

3. MFIs' awareness of environmental protection policies: a driver of good environmental performance and MFIs good governance?

Having the ability to define and implement strategically environmental goals for an organization supposes that governing bodies, management and staff are at some degree aware of environmental protection practices and techniques. Evidence gathered from 53 managers and directors of the MFIs participating in ADA's environmental survey in Central America reveal however that there is, in general, lack of awareness regarding environmental protection policies and tools. From the previous sub-section we concluded on the tendency of MFIs to pay more attention in defining their formal environmental strategy. Nonetheless, if a sign of evolution of environmental performance strategies, at the level of MFIs, is indeed an encouraging result, there seems to be a contradiction between this tendency and the fact that 89% of respondents to ADA's questionnaire were unaware of environmental protection policies and tools. How is it possible that MFIs are engaging more proactively into respectful environmental practices without knowing about environmental protection frameworks or without being technically equipped to implement such practices?

In order to address this question we will focus on better understanding MFIs intentions and corporate governance mechanisms with the purpose of understanding how MFI managers' are governed.

3.1. Definition of corporate governance mechanisms and methodology considerations

We propose to take as reference Gérard Chareaux's corporate governance framework to identify a set of corporate governance mechanisms or institutional patterns that could explain how MFIs' directors are reacting in response to environmental challenges in the region. The selection of practices provides insight on the way MFIs are managing environmental risks. A comparative analysis between Chareaux's corporate governance mechanisms and observed environmental practices should allow us to formulate hypothesis and recognize important institutional systems or *the rules of the game* for MFI managers in Central America. These rules or behaviours may shed some light on the MFI's intentions. We selected corporate governance mechanisms that could be illustrated with environmental strategies in the region. The comparison between corporate governance mechanisms and environmental risk management practices for MFIs in Central America is illustrated in table 5.

Chareaux's framework³⁰ suggests a classification of corporate governance mechanisms based on two criteria: the intentionality of the mechanisms and its specific and non-specific character. "Specific mechanisms" refer to those created for a "specific firm" (in our case an MFI), whereas "non-specific mechanisms" are created for a whole set of similar firms or a group of MFIs³¹.

As suggested by Labie and Mersland, the framework provides a set of factors that can help understand how corporate governance is structured in regard to an organization. "Intentional mechanisms" are originally designed to improve corporate governance. These are for example regulations, supervision methods, board of directors' configurations, as well as specific formal structures or organization charts. "Spontaneous mechanisms" are another set of "rules of the game within a society", and can be categorized for example as a business culture, a political market (non-specific mechanisms), a determinate corporate culture and informal relationships (specific to MFIs or MFIs networks). These "spontaneous mechanisms" are "humanly

devised constraints that shape human interactions"³². According to Chareaux's framework, these mechanisms have an indirect effect in governance. Too often underestimated, they could in fact play a significant role in shaping governance within organizations³³. An analysis of MFIs practices through the prism of these mechanisms can help as comprehend the environmental protection governance systems influencing decision making at the level of MFIs.

3.2. Corporate Governance intentional mechanisms

"The legal environment, regulation and supervision procedures" are norms or mechanisms guiding the intentions of institutions or individuals. They provide a framework for interaction and affect firms' strategies or managers' behaviours. Among those, the "board of directors" and its working methods represent a specific intentional corporate governance mechanism. We decided to focus on this feature, since respondents to the semi-structured questionnaire were exclusively executive directors. The role of the board seems fundamental to understand MFIs' intentions and strategies. Our hypothesis is that an analysis of the environmental performance information received by MFIs' boards should permit an appraisal of the decision makers' capacity to take informed decisions with regards to environmental issues. Concurrently, the "salary or bonuses mechanisms" was incorporated into the analysis in order to identify the existence of specific incentives for environmental performance as well as the policy to recruit dedicated staff for environmental performance undertakings. The rationale behind the selection of these mechanisms is that monetary or non-monetary incentives can provide straightforward information about MFIs directors' intentions and their willingness to pay for or reward environmental protection knowledge or expertise. Finally, a further governance mechanism such as "internal auditors", whose evidence supposes the MFI's willingness to be accountable regarding its environmental performance, can also indicate the existence of some degree of expertise, the will to develop it and the ability to apply environmental risk management tools.

³⁰ For Chareaux, the governance system represents a set of institutional mechanisms designating the rules of the game for managers. He defines governance as the set of organizational and institutional mechanisms – an institutional "matrix" – that define the powers and influence the managers' decisions, in other words, that "govern" their conduct and define their discretionary space.

³¹ Marc Labie and Roy Mersland, Corporate Governance Challenges in Microfinance, in the Handbook of Microfinance, World Scientific Publishing Co.Pte.Ltd 2011, p.291.

³² "Mechanisms" can also be understood as "institutions" which according to North, are the rules of the game in a society or more formally, the humanly devised constraints that shape human interactions...[and] define and limit the choice of individuals. North, 1990, p.3-4.

³³ Ibid

Comparative Table 5: Classification of Corporate Governance Mechanisms and Environmental Risk Management Practices for MFIs in Central America

Selection of Charreaux's corporate governance mechanisms		Institutional Practice Indicator - ADA Environmental Questionnaire 2014	
Specific Mechanisms for the firm - MFI		70%	149%
Intentional Mechanisms	Internal environmental risks management mechanism	43%	122%
Board of directors	The Board of Directors (BOD) are informed about the institution's environmental performances	47%	40%
	The institution defines its environmental strategy?	38%	
	The institution has the capacity to generate information about its green/environmental agenda	28%	
	The Board of Directors (BOD) require information on their green/environmental agenda	23%	
	The institution uses an exclusion list or any explicit policy to refuse to finance high-risk activities for the environment	65%	
Salary and bonus mechanism	The institution has dedicated staff working on the environmental field	17%	17%
Internal auditors	The institution monitors its internal environmental risks	40%	65%
	The institution implements actions to reduce its internal ecological footprint	89%	
Spontaneous Mechanisms	External environmental risk management mechanism	27%	27%
Corporate culture	The institution offers an annual environmental-award for the best «green» microenterprise	2%	27%
	The institution has partnership and collaboration with energy equipment suppliers or experts offering after sales assistance to clients	29%	
	The institution provides training and business coaching to clients that do not meet the MFI's environmental requirements	10%	
	The institution provides green non-financial services	35%	
	The institution uses maps to monitor agro climatic threats	16%	
	The institution uses specific criteria to assess the clients' environmental risks	53%	
	The institution evaluates the level of environmental risk of its clients	36%	
	The institution includes the level of environmental risk as a factor in the loan approval process	37%	
	The institution uses any other tool/practice to monitors the external environmental risks	12%	
	The institution is establishing partnerships and collaboration with universities or experts to enhance an environmental friendly-culture locally	37%	
Non-Specific Mechanism for a group of firms - A group of MFIs		40%	90%
Intentional Mechanisms	Internal environmental risk management mechanism	15%	15%
Legal environment (Regulation and supervision procedures)	The institution includes specific clauses on environmental issues in the staff contracts (e.g. recycling, assessment of CO2 emissions per staff member)	4%	15%
	The institution offers lower interest rates to clients investing in renewable energy or energy efficient equipment	26%	
Spontaneous Mechanisms	External environmental risk management mechanism	25%	75%
Informal (relationship) networks	The institution organizes peer to peer meetings to promote best environmental practice-sharing	29%	26%
	The institution organizes focus groups on new environmental-friendly technologies, products or practices	24%	
	The institution organizes environmental friendly communication campaigns	25%	
Political Market	Are you aware about the environment protection policy (Exclusion List) of the "International Finance Corporation" (IFC)	36%	21%
	Are you aware about the environment protection policy (Standards) of the "International Organization for Standardization" (ISO)	21%	
	Are you aware about the environment protection policy (Indicators) of the "Social Performances Indicators" (SPI4-SPTF)	24%	
	Are you aware about the environment protection policy (Indicators) of the «Green Performance Agenda" (GPA-Hivos/Enclude)	22%	
	Are you aware about any other environment protection policy	12%	
	Do you identify conflicts of interest between the practical challenges of promoting environmental protection and the human rights of your clients	13%	
Business Culture	The institution provides lending lines linked to renewable energies or energy efficient equipment (e.g. solar lanterns/solar -home systems/dryer/biogas digester, etc)	57%	27%
	The institution provides microinsurance schemes to increase clients' resiliency to climate change	10%	
	The institution provides saving programmes linked to the acquisition of environmental-friendly technologies	12%	
	The institution provides lending lines linked to environmental-friendly business (agroforestry, ecotourism, waste-management, recycling, compost, organic production, etc)	52%	
	The institution provides payments for environmental services (e.g. carbon fixation, water table maintenance service, etc)	6%	

3.3 Corporate Governance spontaneous mechanisms

A specific spontaneous mechanism, namely the “informal relationship or network governance” was chosen, due to the fact that surveyed MFIs are in their majority members of the professional microfinance association REDCAMIF³⁴ and that they all expressed an interest for improving their environmental performance. This common interest can translate into informal gatherings or networking events compelling MFIs to learn more about the role of microfinance and environmental protection examples, business opportunities in this field of work, and best practices inspiring them to enhance their indirect impact³⁵ as financial service providers.

Moreover, considering that governance can further be defined as “the system of managerial regulations”, it is relatively easy to assume that this system is highly dependent on cultural norms. Culture can be defined as the set of values and norms shared within a group of individuals. Whether written as a mission statement, spoken or merely understood, “corporate culture” describes and governs the ways a company’s owners and employees think, feel and act. It describes the ways in which conflicts are resolved and also expresses the interests of stakeholders like customers, suppliers, investors and creditors³⁶. Corporate culture is thus an important spontaneous mechanism that can help understand MFIs intentions and can provide information regarding the way environmental performance is implemented as well as the uptake of environmental practices within MFIs (process implementation). This article argues that culture has an impact on the strategic direction of business. It can influence management and all business functions, essentially because it encompasses social norms affecting interpersonal relationships within the business

environment. Accordingly, a “Business culture” can be defined as doing things in a way that is likely to succeed or in a way that is accepted among a group of firms within a market.

While the corporate culture mechanism was included into our analysis framework to help us understand how things are done within specific MFIs, and concretely, through the implementation of processes and tools; the business culture mechanism was selected to help us identify core practices or the core of the business for a group of MFIs, (business activities).

A further spontaneous mechanism such as a “policy market” – or a market created to directly inform policy decisions with its price³⁷ can be an explanation for an organization’s behaviour within a particular industry or market environment. MFIs can in fact create policies informing environmental management strategies affecting the price of the financial services offered. They can use different interest rates along a diversified portfolio of products. These types of policies depend highly on the behaviour of the market, but can also respond to country specific regulation initiatives or institutional portfolio management strategies looking to foster demand for a particular financial product or service. In the case of Central American MFIs, 26% of the MFIs declared offering lower interest rates to clients investing on energy efficient equipment. ADA’s survey results reveal also there is a clear focus on providing green loans as the core environmental activity of committed Central American MFIs. Yet, institutions are incorporating to a lesser extent the analysis of the level of environmental risks as a factor in their loan approval process – in fact 37% of MFIs declare doing it. This means that not all MFIs within the sample are evaluating the level of environmental risk of their clients or could mean that MFIs are just not evaluating risks at the same pace they are disbursing green loans. However, 36% of MFIs declare evaluating the level of risks of their clients while 57% of the institutions in the sample declare providing lending lines linked to renewable energies or energy efficient equipment. These disparity questions the adaptability of the green loan products provided as well as the ability or willingness of the MFIs to thoroughly assess risks and therefore appropriately respond to client needs.

3.4 MFIs’ intentions influenced by spontaneous corporate governance mechanisms

The results of a classification of corporate governance mechanisms and environmental risk management practices of MFIs in Central America suggest that environmental performance depends strongly on “intentional governance mechanisms”. Hence, MFIs’ intentions to go green could be explained by a decision taken by the board of directors, accompanied with the presence of internal auditors and employees informed about environmental issues or the adoption of the better known environmental practices. Concerning the latter, well-known practices are embedded in spontaneous mechanisms such as a “political market” and a “business culture”. Financial service providers are using climate change as the trigger to identify new business and impact investments prospects. These advantages, also called green opportunities for investment, are guiding financial service provider’s practices, and MFIs are not the exception. Specific environmental protection policies are arising within the sector, indicators, standards and tools are more frequently being promoted. The fourth version of the social performance indicators (the SPI4 tool) and its green index is one example, the International Finance Corporation (IFC) exclusion list or the International Organization for Standardization (ISO) standards 14001 are others. However, even if there is interest and clear intention from MFIs to improve and implement environmental protection practices there is often lack of capacity.

Despite the fact that some organizations declare having dedicated staff working on the environmental field (17% of the sample), there seems to be no specific incentive or bonus for these employees. This suggests there is no specific human resources policy rewarding local environmental know how or expertise among the MFIs surveyed. We cannot conclude MFIs have no intentions to go green because they do not have a specific human resources policy oriented to incentivize local environmental capability or expertise. However, we can argue that MFIs’ intentions are not necessarily the result of the institution’s internal policy systems or social norms. Corporate culture seems to be guided by external policies or knowledge systems not belonging to the MFIs. Adapted environmental policies, taking into account the local context and MFIs’ practices could be better enforced if intentional and related with bonuses, rewards or mentorship for staff with correspondent

³⁴ REDCAMIF is a professional microfinance association representing 7 national microfinance associations in the Central American Region. Further information on REDCAMIF, visit www.redcamif.org

³⁵ Impact as per MFI outreach: the activities they finance and the type of clients of enterprises reached

³⁶ Abdelmoula Inès Miladi, Governance for SMEs: Influence of leader on organizational culture, International Strategic Management Review Volume 2, Issue 1, June 2014, Pages 21–30

³⁷ Robin Hanson April 25, 1996 in <http://mason.gmu.edu/~rhanson/policymarkets.html>

ability or know how. The design of these policies requires awareness from governing bodies and capacity building of MFI decision makers. However, the capacity building requirements within the environmental protection field should not only be associated with identifying human resources with the potential to develop adapted environmental protection skills and know how within MFIs. They should also take into consideration the ability of decision makers to acknowledge the difference between the instruments and methods that are more suited or (e.g. risk management methods, agriculture financing or weather insurance) required for developing local expertise. An adapted capacity building process will also require ensuring the capacity to identify gaps, identify appropriate competencies and manage human resources that have developed an environmental protection expertise. Such a capacity building system will determine how MFI managers are governed.

3.5 Central American MFIs level of awareness regarding environmental protection policies

Access to informed policies and tools concerning environmental issues are still limited and not all financial service providers share the same level of awareness and understanding. Some of these policy instruments or public policies are still work in progress. Other existing tools are not necessarily adapted to the microfinance sector and its targeted clients. Adapted and informed policies are the result of putting together a combination of theoretical, technical and practical environmental protection management skills. This process takes time and the appropriate skills and resources are scarce or not always available. Taking into account results from ADA's survey, NGOs and banks appear to be more aware about appropriate practices and techniques to manage environmental performance. However, commercial banks rank first, with 1 surveyed institution out of 3 being aware about environment protection policies, against 4 out of 18 for the case of NGOs. It could also be presented as an indication of two different types of approaches to managing environmental risks.

An informed proactive approach is adopted by banks or financial institutions with the capacity to identify business opportunities within the scope of environmental protection initiatives (e.g. financing renewable



energies or related equipment). A reactive approach is more likely to be applied by actors who are less informed or aware regarding effective policies or tools, as means to adapt to climate change risks. Both approaches could be distinguished by the access to knowledge and appropriate information, allowing actors to make decisions and conceiving strategies. Proactivity to face the risks of climate change is more likely to occur when people and institutions have the financial means and resources to undertake actions and anticipate risks; on the contrary, a lack of capacity to anticipate and react to climate change threats can also be explained by a situation of vulnerability or lack of the sufficient means or capacity to adapt. Environmental management tools can help managers generate important information to be in capacity to govern their MFIs. International and national policy frameworks can also explain how MFI managers are governed or where to look up to for inspiration regarding best practices regarding environmental protection. The most influential discourse currently informing policy makers regarding environmental degradation is delivered by the Intergovernmental Panel on Climate Change (IPCC)³⁸.

Nonetheless, if the political market of environmental issues is governed by political and scientific responses to climate change facts, the business culture influencing environment friendly practices functions around a market for renewable energies. MFI managers need to strike a balance and take into account to what extent international policy frameworks or market regu-

lations in favour of a new renewable energy business culture are also in benefit of their client's needs, generally the poor and vulnerable. Otherwise, there is a risk that these spontaneous corporate governance mechanisms impose themselves and that intentional governance mechanisms coming from MFIs themselves are overlooked.

MFIs have a role to play in financing climate change adaptation strategies. Interesting innovative practices have been identified: 16% of MFIs use maps to monitor agro climatic threats and 10% provide training and business coaching to clients that do not meet the MFI's environmental requirements. In fact, MFIs in Central America seem to be learning by doing, implementing environmental protection

³⁸ The Intergovernmental Panel on Climate Change (IPCC) is the world body for assessing the science related to climate change. The IPCC was set up in 1988 by the World Meteorological Organization (WMO) and United Nations Environment Programme (UNEP), endorsed by the United Nations General Assembly, to provide policymakers with regular assessments of the scientific basis of climate change, its impacts and future risks, and options for adaptation and mitigation. The members of the IPCC, comprising the Panel, are its 195 member governments. They work by consensus to endorse the reports of the IPCC and set its procedures and budget in plenary meetings of the Panel. The word "Intergovernmental" in the organization's name reflects this. It is not a United Nations agency, but is sponsored by two UN organizations – WMO and UNEP.

policies and practices, and taking into account business opportunities available. There is however reason to believe there is still room for further adaptability, especially concerning methods and practices applied to their local contexts. Results from ADA's environmental questionnaire point out in this sense. Particularly as per the small percentage of MFIs declaring to use external environmental risks management tools (12%), but also because of the adoption of exclusion lists as a formal MFIs practice; 65% of institutions use an exclusion list or an explicit policy that refuses to finance high-risk activities for the environment.

4. Conclusion

Results from a comparative analysis from MFIs' performance in 2011 and 2014 show that Central American institutions are more focused on core financial activities related to the environment, such as the assessment of client's risks and the provision of financial products, instead of just focusing on awareness raising activities. These results show that MFIs in the region progressively give more importance to formalize their environmental strategy. Awareness of environmental protection policies at the MFIs governance level could however be enhanced and further promoted. MFIs in Costa Rica, Guatemala, El Salvador and Honduras are progressively starting to realize that environmental matters are no longer a side topic to be handled only as part of a limited corporate social responsibility policy, but rather as a critical aspect of their daily endeavours accompanied by potential new business opportunities.

Overall, Central American MFIs are not always adopting specific environmental practices or methods adapted to their local context. Nonetheless, more focus on evaluating the level of environmental risk of clients and using specific criteria as a factor in the loan approval process are indications of more acute environmental protection behaviour within sampled MFIs in comparison to previous studies.

MFIs in Central America are contributing to climate change mitigation strategies by providing loans fostering access to renewable energy equipment. They are adapting and establishing new partnerships and learning systems. The interest of some institutions in joining forces with universities, energy equipment suppliers, environmental experts and green non-financial service providers, can suggest the emergence of a proactive "corporate culture". However, local governance systems need to be reinforced, in particular in terms of the intentionality of decisions and awareness-raising in environmental issues. Adapted capacity building processes need to be put in place and the role of investors and donors will be determinant in this sense.

It will be important to further assess how MFIs are adapting practices in order to respond to local challenges. Particularly those related to agro climatic threats, affecting the most vulnerable populations. Assessing local governments positioning regarding climate change threats as well as private sector interests could better explain governance mechanisms driving MFIs environmental strategies. The adoption of foreign methodologies proposing solutions for climate change adaptation and mitigation can be useful and inspiring. Nonetheless, the risk of a top down approach mimicking solution from other contexts without considering country or culture specifics can jeopardize the discovery of demand driven solutions responding to vulnerable populations' needs. Investments supporting the development of local environmental ecosystems are required. An adaptive approach of microfinance methodologies integrating climate change challenges and risks need to take into account a *glocal*³⁹ approach. Investments in empowering local knowledge systems with the gear of technologies, human resources and research need to be part of an environmental conservation strategy at the national or the regional level. Concrete day to day experiences from people in developing countries can be source of adaptation and mitigation strategies for climate change.

An example of a strategy addressing a triple bottom line worth further exploring would be the financing of family farming⁴⁰ or small holder farmers through value chains. Product diversification is crucial within the financial sector. Crop and weather insurance, warehouse receipts or factoring are concrete examples.

Nonetheless, new governance systems enforcing new political markets and business cultures are also required. Vulnerable populations in Central America and all over the world need new governance systems moving forward human rights norms. Climate change threats put onward the need for reshaped social norms, allowing the development of today's populations without jeopardizing the future of tomorrow's generations. In this sense, pretty much is expected from the upcoming COP 21⁴¹ in Paris and a new international agreement on climate, hopefully applicable to all countries.

³⁹ Refers to a solution adapting a product or service specifically to the locality or culture in which it is sold.

⁴⁰ Family Farming was promoted per de United Nations during 2014 as a sustainable economic and environmental friendly solution fighting the fundamental causes of poverty, food insecurity and people's vulnerability to climate change

⁴¹ In 2015, France will be hosting and presiding the 21st Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21/CMP11), otherwise known as "Paris 2015" from November 30th to December 11th. COP21 will be a crucial conference, as it needs to achieve a new international agreement on the climate, applicable to all countries, with the aim of keeping global warming below 2°C. France will therefore be playing a leading international role to ensure points of view converge and to facilitate the search for consensus by the United Nations, as well as within the European Union, which has a major role in climate negotiations.

Two countries, two institutions and a common concern

When microfinance institutions decide to go green

Interviews prepared and conducted by Carla Palomares and Sophie Wiesner*

The experiences of CARD¹ in the Philippines and FUNDECOOPERACIÓN² in Costa Rica

Nearly everything differentiates Costa Rica, a country in the isthmus of Central America with 4 million inhabitants and with a young, rather restricted microfinance sector, from the Philippines, an archipelago in South-East Asia with more than 7000 islands, 97 million inhabitants, and one of the most favorable environments for financial inclusion in the world. Nonetheless, both countries are sensitive to climate change, as Costa Rica aims at being the first zero carbon country on the planet until 2021, and as the Philippines are already seriously affected by cyclones that have become increasingly common due to climate change.

Against this background, the representatives of two microfinance institutions in the two countries were interviewed for “Passerelles” and explained their positioning and their offer in the face of climate change and in favor of the environment: CARD in the Philippines and FUNDECOOPERACIÓN in Costa Rica.

CARD (the Center for Agriculture and Rural Development) started as a social foundation in 1986, providing training-focused community and livelihood assistance to landless coconut workers in the Philippines. The foundation developed into a microfinance institution, offering solidarity group lending according to a modified version of the Grameen method, and then transformed into a formal bank (with a license from the Bangko Sentral ng Pilipinas obtained in 1997), in order to tap the commercial loan market and to mobilize savings. Today, CARD consists of a number of mutually reinforcing institutions (MRI) that serve over 2.6 million clients and that – as part of their products and services offer – also provide green microfinance loans to micro-enterprises and to low-income households.

FUNDECOOPERACIÓN, in contrast, was founded in 1994, inspired by the Rio Summit in 1992³. From the start, the organisation was engaged in projects for economic and environmental sustainability, and only later, launched its microfinance or microcredit operations. In 2004, upon termination of its partnership with the Dutch Cooperation, the institution adopted a microfinance business model, starting its microcredit programme in 2006. Despite these important institutional changes, however, FUNDECOOPERACIÓN maintained its initial mission in supporting projects that are environmentally and economically viable. Until today FUNDECOOPERACIÓN has provided financial and technical support to more than 250 projects for farmers and small entrepreneurs in terms of sustainable development.

However, as different as the two microfinance institutions in the two different countries might be, they still have a common concern – climate change. Both institutions therefore have decided to go green, and there are some common lessons learned.

¹ Further information under <http://cardbankph.com/>

² Further information under <http://fundecooperacion.org/?lang=en>

³ United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro, June 3-14, 1992.

* Carla Palomares, Project Officer, Inclusive Financial Innovation, ADA
Sophie Wiesner, Project Officer R&D, ADA

An interview with CARD Philippines

The questions were answered by Mr. Julius Adrian R. Alip and by Mrs. Clarisse Dimaculangan*

What activities in terms of microfinance and climate change did you choose to undertake?

CARD offers a variety of green microfinance products and services to low-income households and to micro-entrepreneurs. The offer includes solar panels for household clients in rural areas with limited access to electricity, energy-efficient cook-stoves for household clients in rural areas and urban areas that previously used firewood for cooking, and biogas plants for enterprise clients (especially with farms of about 20 heads, engaged in pig raising activities).

« Biogas plants might, however, offer opportunities for small- and medium-enterprises, and CARD is currently investigating these opportunities »

Two further projects, called “green farms for mothers” and “bamboos for mothers”, specifically support the organic sugar production in the Philippines and projects of bamboo reforestation after typhoons. They primarily target women and communities, and both come as complete product and services packages, i.e. CARD offers its clients a micro-loan, but also provides tools/equipment and trainings for business development (incl. the materials for planting and processing organic sugar/ bamboo, such as bamboo seeds, milling facilities for sugar, cook-stoves for sugar, or linkages along the value chain of bamboo processing and marketing).

Besides this green offer to microfinance clients, CARD also provides an energy and/ or environment related offer to non-microfinance clients, including lease-to-own services for energy-efficient equipment such as inverter type/solar assisted air-conditions and grid tied solar panels. And last but not least, CARD implements environmental policies at the level of the institution, including, for example, a policy not to lend to enterprises that don't comply with the legal way of processing wood into charcoal. CARD does not explicitly measure the carbon emissions of the institution, but it integrates a unit (with 12 regular Project Officers in charge of promotions and awareness raising and 3 of them being certified PV installers) that accompany CARD's offer of green products and services and that also evaluate its impact on planet and people.

What were the main challenges and opportunities with respect to these activities?

The main challenge with respect to the solar panels project was related to after-sale services, but as the specialized unit at the institution integrates certified solar system installers, it was possible to train a number of local technicians in a certain radius of the served areas, so that defective or deficient solar panels are no longer a problem now.

CARD confronts challenges with respect to the take-up of the energy-efficient cook-stoves, as firewood (the main alternative used for cooking) is available for free in the Philippines, and as the purchasing costs of the energy-efficient cook-stove are about 20 times higher than those of the traditional non-energy-efficient one. Initially, CARD financed forward and backward linkages, i.e. it both supported enterprise clients producing the cook-stoves and also bought and resold the cook stoves among its household clients; today, however, CARD's activities are limited to providing loans to producers, while it is no longer engaged in buying and selling cook-stoves for end users, except those included in the package of the organic sugar production project (which are very much appreciated).

* Mr. Julius Adrian R. Alip, CARD Leasing and Finance Corporation, President/ Executive Committee Member of CARD MRI

Mrs. Clarisse Dimaculangan, CARD BDSFI Operations Director/ Member of the CARD MRI Management Committee

CARD's pilot project related to the establishment and maintenance of small biogas plants is challenging for micro-enterprises, as the technology is very expensive, and as there is a fix amortization schedule, while there are variable levels of stocked dung and thus variable levels of produced biogas at the farms. Biogas plants might, however, offer opportunities for small- and medium-enterprises, and CARD is currently investigating these opportunities.

The "farms of mothers" project is one of CARD's lighthouse projects. The production of organic sugar takes-off in the Philippines, and so there is a high demand for CARD's service package, including a loan, as well as tools and trainings for entrepreneurs. Similarly, CARD's "bamboos of mothers" project meets with a lot of success, and clients particularly appreciate the fact that the micro-loan is disbursed soon after a typhoon and comes together with business development tools and trainings. This helps the women not only to deal with the emergency in the short term, but also to start a sustainable entrepreneurial activity in the medium or long term. The organization of community-related activities is intensive for the institution both in terms of financial resources and in terms of human resources, but it pays-off in terms of project results. In the future, CARD is planning to further strengthen the linkages along the value chain, related to the organic sugar project and especially related to the bamboo project, providing financial and technical support also to the processors of bamboo (e.g. for bamboo sticks that are widely used in the Philippines).

***Why did you choose to undertake activities in favor of the environment?
And how did you go about undertaking these activities?***

CARD was encouraged by its technical and funding partners "to go green" (e.g. by the Asian Development Bank and initially by Shell with respect to the first solar panel project) and the projects are also carried out in close collaboration with these partners.

In the course of the last 4 years, CARD generated a total amount of 1.5 million USD, dedicated to green products and services.

A high degree of specialization (including the creation of the mentioned unit, accompanying the offer of green products and services) was necessary to reach scale, and thereby, the development of technical expertise, alongside financial competencies was a key component.

The offer of products and services related to climate change allows CARD to serve new market segments, and a further expansion is planned for the coming years, with the target being a total portfolio of at least 20% for CARD Leasing and Finance while a goal with respect to a "green loans portfolio specifically for Microfinance Institutions" will be integrated in the coming CARD MRI mid-year planning. In the short and medium term, however, CARD tries to consolidate the most successful projects and to reorient the less successful projects.

An amount of 250.000 USD of external funding was dedicated to capacity building and awareness raising in the last 4 years (both at the institutional level and at the market level), and as the consequences of climate change are already felt in the Philippines, the awareness is indeed increasing. There are also an increasing number of new initiatives underway both at the private and at the public level, including: 1. The Philippines government has a department dedicated to climate change, which actively supports projects in the domain of energy and environment, 2. A net metering scheme for grid tied solar products wherein excess power can be sold by a household to the grid is being pioneered by MERALCO a retail power distributor. CARD collaborates with the Environment and Climate Change Commission/Department for possible mutually beneficial initiatives.

So, according to CARD, the context for activities in terms of microfinance and climate change is favorable in the Philippines, but the implementation of projects for mitigation and adaptation is nonetheless a challenging task and may take a lot of time. One cannot simply go green, but offering green microfinance products and services and accompanying this offer by an appropriate development at the level of the microfinance institution is more like running a marathon with the state of mind that the finish line promises to be a worthy one.

An Interview with FUNDECOOPERACIÓN Costa Rica

The questions were answered by Ms. Marianella Feoli*

What activities in terms of microfinance and climate change did you choose to undertake?

FUNDECOOPERACIÓN had since its establishment the aim to support projects which entail a positive social and environmental impact.

In terms of products and services provided, we support projects financially (by providing credits). These credits can be used to finance activities in certain thematic areas: sustainable tourism and agriculture, environmental management and clean technologies, sustainable energy and energy efficiency, public or private business networks and climate change. Women empowerment is seen as a transversal axis in our work. The agricultural sector is of high importance and we support projects which promote development and generate changes in traditional production systems which entail less (negative) environmental impact. However, it is not the only economic sector supported. Within our portfolio of clients, some of them work in tourism, handcrafting, transformation of recycled materials, health products etc. Finally, we bring financial resources to activities focusing on mitigation of and/or adaptation of climate change.

Our financial products are tailor-made, which means in first place providing easier access to financing for those people who, for whatever reason, have little possibility of obtaining financial support within traditional financing systems. Some of our clients integrate the traditional financing system in a second step, once their business is implemented and sustainable.

The tailor-made financing program is addressed to productive small and medium-sized businesses, both, individuals or associations, devoted to sustainable, and mainly innovative, economic activities. Their activities should contribute to the quality of life, environmental protection, and gender equality. Financing schemes tailored to the client also translates into flexibility in the repayment schemes for instance. However, in order to be eligible, projects have to seek and prove that they are aiming a triple-bottom line approach.

Apart from the purely financial aspect, we believe that technical assistance to our clients is of utmost importance. People need to be sensitized to the topic of climate change and its consequences. They need to understand what consequences already exist due to climate change in order to better adapt to these challenges and above all they need to understand that a “greener” economy offers business opportunities. On the other hand, for us it is important to apprehend the reasons and effects of climate change in the contexts in which we operate. This helps us to better tailor our service offer.

What were the main challenges and opportunities with respect to these activities?

A particular challenge was during the transition period, after we took the decision to provide financial services. During this process of major institutional transformation, we had to undergo a corporate learning process. Moreover, promoting credits which strive to have a positive environmental impact turns out to be more complicated than offering traditional credits. It implies more time for awareness-raising for instance. Green technologies are often associated with higher costs structures, hence, the importance of sensitization activities. In this sense, we work in close connection with REDCOM¹, our national microfinance network, and also with its regional counterpart REDCAMIF². During the last REDCAMIF general meeting in 2014 we tried to highlight some of the green opportunities with a double aim: 1) share our knowledge with our peers and 2) make MFIs realize potential new opportunities. Some of them are very interested in the topic; others on the other hand are still reluctant to a triple bottom line approach.

¹ Red Costarricense de Organizaciones para la Microempresa

² Red Centroamericana y del Caribe de Microfinanzas

* Ms. Marianella Feoli, Executive Director of Fundecooperación

Why did you choose to undertake activities in favor of the environment?

And how did you go about undertaking these activities?

The foundation has set itself the goal of promoting sustainable development through the funding and support of a large number of MSMEs (Middle Sized and Micro Enterprises), both by developing their business plans and marketing their products at national and international level. Over the years the Foundation has invested approximately \$ 35 million in over 300 projects that promote sustainable development.

We have financed projects under the South-South programme³, which range from planting organic pineapples in the town of Acosta to increasing pineapple production near Cotonou in Benin, Western Africa; from planting edible mushrooms in the Cerro de la Muerte region, to improving the information system about biodiversity in Bhutan, Southern Himalayas, and knowing about the taxonomy of edible insects in Benin.

From the entire financing, about \$4 million has been allocated to our most recent program: "Tailor-made Financing" ("Crédito a su Medida"). Financing is customized to meet each project's needs. This includes the securities, terms, and repayments, which have been customized to meet the requirements of each project. We have understood that success is not in interest rates but in having the financing fit the project and not the reverse way. I believe that this is the difference between our credit program in comparison with the traditional programs offered by local and international financial institutions.

Since the beginning, we did not limit ourselves to providing financial services, but combined it from the outset with technical assistance during the implementation. Sometimes, we provide directly technical assistance; on other occasions we rely on our partner providers, in particular when it touches upon technical aspects of implementation.

Despite the fact of being a relatively small team, partnerships with institutions spread across the territory enable us to reach out to populations living in remote areas. In other words, we provide funds to partner institutions (second-tier banking), which in turn provide credits to final beneficiaries. Second-tier banking is addressed to organizations, financial entities, cooperatives, and associations whose goal is promoting production capacities – either from the associates and affiliates, or just from specific community groups. Partner institutions are the ones responsible for allocating the resources granted by FUNDECOOPERACIÓN and for ensuring that funding is properly used and collected.

FUNDECOOPERACION, as an institution tries to give the example. In that sense, we adapted our lighting system to a more efficient electrification, we installed a solar panel that operates a well pump within our premises, we encourage digitalisation of documents instead of printing, we try to combine several objectives when travelling and finally, we started a project on recycling activities embedded in our neighbourhood. FUNDECOOPERACIÓN firmly believes that the triple bottom line approach is the right one to pursue.

« The tailor-made financing program is addressed to productive small and medium-sized businesses, both, individuals or associations, devoted to sustainable, and mainly innovative, economic activities. »

³ South-South Cooperation is a strategic partnership for cooperation on sustainable development, with the intention to make this a replicable model. More information www.southsouthcooperation.net



www.ada-microfinance.org