e-MFP BRIEF SERIES

The Green Index 2.0,

An innovative tool to assess environmental performance in the microfinance sector

Brief No. 6

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EUROPEAN MICROFINANCE PLATFORM

NETWORKING WITH THE SOUTH

EUROPEAN MICROFINANCE PLATFORM (e-MFP)

The European Microfinance Platform (e-MFP) is the leading network of European organisations and individuals active in the microfinance/financial inclusion sector in developing countries. Now in its tenth year, it has grown to over 120 members from all geographic regions and specialisations of the European microfinance community, including consultants & support service providers, investors, multilateral & national development agencies, NGOs and researchers.

Up to two billion people remain financially excluded. To address this, the Platform seeks to promote co-operation, dialogue and innovation among these diverse stakeholders working in developing countries. e-MFP fosters activities which increase global access to affordable, quality sustainable and inclusive financial services for the un(der)banked by driving knowledge-sharing, partnership development and innovation.

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WHY A GREEN INDEX 2.0?

The idea of the Green Index 2.0 developed from an observation: in the microfinance sector, there is an emerging understanding of what is meant by "environmental performance in microfinance" – for example the 2.0 version of the Universal Standards for Social Performance Management (USSPM) that was published in August 2016 includes an Essential Practice focused on responsibility to the environment[1].

The European Microfinance (e-MFP) Microfinance and Environment Action Group developed in 2014 a practical tool to evaluate the environmental performance of a microfinance institution: The Green Index[2].

The objectives of this Green Index tool are:

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

In 2016 the Action Group defined its updated version: the Green Index 2.0, to keep track of the evolution of the sector and to include lessons learnt from two years of implementation of the Green Index within MFIs and projects.

FOR WHOM IS THE TOOL USEFUL?

The Green Index 2.0 aims to be a core tool to support environmental responsibility and environmental management within the microfinance and, more broadly, the inclusive finance sector, and in particular it should be useful:

- For MFIs, and other inclusive finance institutions (board, managers, staff):
  - To assess their current environmental performance,
  - To compare their performance against their peers,
  - To identify environmental strategies of potential interest for them,
  - To track progress on environmental performance over time,
  - To communicate on their environmental performance.
- For investors and microfinance rating agencies:
  - To get insights into the environmental performance of an MFI (or other inclusive finance institution),
  - To have a common reporting tool available for all MFIs and institutions it aims to invest in, thereby allow for benchmarking and progress tracking.
- For professional associations/networks of MFIs and Technical Assistance providers:
  - To identify gaps and develop adapted support services to improve the environmental performance of MFIs and other inclusive finance institutions,
  - To assess how their support services help improve MFIs' or other inclusive finance institutions' environmental performance.

HOW WAS THE INDEX BUILT?

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

A first version had been developed by Action Group members in 2014[3], building on existing research work[5] and practitioners' tools[5]. The Green Index was then included into the Social Performance Indicators tool (SPI4), a worldwide known social performance audit tool developed by CERISE, as an optional assessment module ("GREEN dimension"). Over the past two years, the tool could thus be tested by a variety of microfinance institutions and stakeholders.

1 Essential Practice 1 B 3 reads: "If the provider states responsibility to the environment as one of its social goals, it defines and implements an environmental strategy" – see http://sptf.info/images/USSPM-English-Manual-2016-v2.0_final.pdf

2 e-MFP Microfinance & Environment Action Group (2014) "The Green Index, an innovative tool to assess the environmental performance of MFIs", e-MFP Brief No.5

3 e-MFP Microfinance & Environment Action Group (2014) "The Green Index, an innovative tool to assess the environmental performance of MFIs", e-MFP Brief No.5

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

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

In late 2015, the Microfinance and Environment Action Group members identified a need to update the Green Index, based on feedback received from practitioners. In particular, it appeared necessary to: make the Green Index more balanced, clarify some of its indicators, and propose some quantitative indicators of environmental performance, while keeping the tool as synthetic and straightforward as possible.

A first brainstorming workshop was organized with Action Group members in November 2015. Members were asked to quickly identify which indicators should be kept, rephrased or removed from the Green Index, and to share the reasons for these changes. During this brainstorming, participants also had to share their views on more quantitative indicators that had been tested in a survey conducted with 87 MFIs by the MIX and the Action Group in 2015[6]. Then, a sub-group of around 12 members, all with some experience in "green microfinance", was consulted to help redefine the key standards and indicators of the Green Index. Some were rephrased to provide a better definition, or better alignment with IRIS[7] terminology. Group members also worked closely with CERISE to make sure that the updated Green Index would be in line with the mindset of the Universal Standards and SPI4.

THE GREEN INDEX 2.0

The Green Index 2.0 aims to provide a full picture of the environmental engagement of an MFI or other inclusive finance institutions, looking at a wide range of possible strategies. It is composed of two parts: a qualitative one looking for yes-no answers, aiming to assess and understand the global environmental performance; and a quantitative one, where instead detailed questions are asked on outreach, implementation, consumption, etc., aiming to support institutions that want to keep track of progress and define sector's benchmarks.

Currently only the qualitative part of the Green Index 2.0 is integrated into SPI4. Nevertheless both qualitative and quantitative components are essential parts of the Green Index 2.0 and we encourage the interested institutions to fill both, using the elements presented in the sections here below.

The improved version has been built along 4 standards[8]:

- The first standard relates to the environmental strategy of the MFI, and includes indicators such as having a formal environmental policy, appointing a person to manage environmental issues, or reporting on environmental performance.
- The second standard is linked to internal environmental risk management, and looks at the actions that MFIs undertake to reduce and monitor their internal ecological footprint, for example to reduce paper, water and energy usage at headquarters and branches level.
- The third standard is about external environmental risk management. MFIs can also evaluate the level of environmental risk of the activities that they finance, include this level of environmental risk as a factor in the loan approval process, or even decide to raise clients' awareness on mitigation solutions.
- The fourth standard focuses on how MFIs can foster green opportunities, by offering specific financial or non-financial services to promote clean energy, sustainable agriculture, or other environmentally-friendly practices or businesses, also aiming to improve client's and institution's resilience towards environmental degradation or climate change.

The Green Index in detail:

On the next page please find the Green Index as it is integrated in SPI4[9], where more details and tips developed by the Microfinance and Environment Action Group can be found with guidelines and explanations for specific Indicators. The additional quantitative indicators can be found in the overview below the Table.

6 The study in particular identified which quantitative environmental indicators are considered easy and useful to track (or not) by respondent MFIs. Please refer to the following publication for more details: MIX and the European Microfinance Platform (e-MFP) Microfinance & Environment Action Group (2015), *Assessing Green Microfinance: Qualitative and Quantitative Indicators for Measuring Environmental Performance*.

7 IRIS provides a catalogue of generally accepted performance metrics – see https://iris.thegiin.org/

8 Compared to three standards for the previous version: the standard "environmental risk reduction" has been divided into two standards: the internal and external risk, to satisfy the sector's demand, and to be in line with present sector's practices.

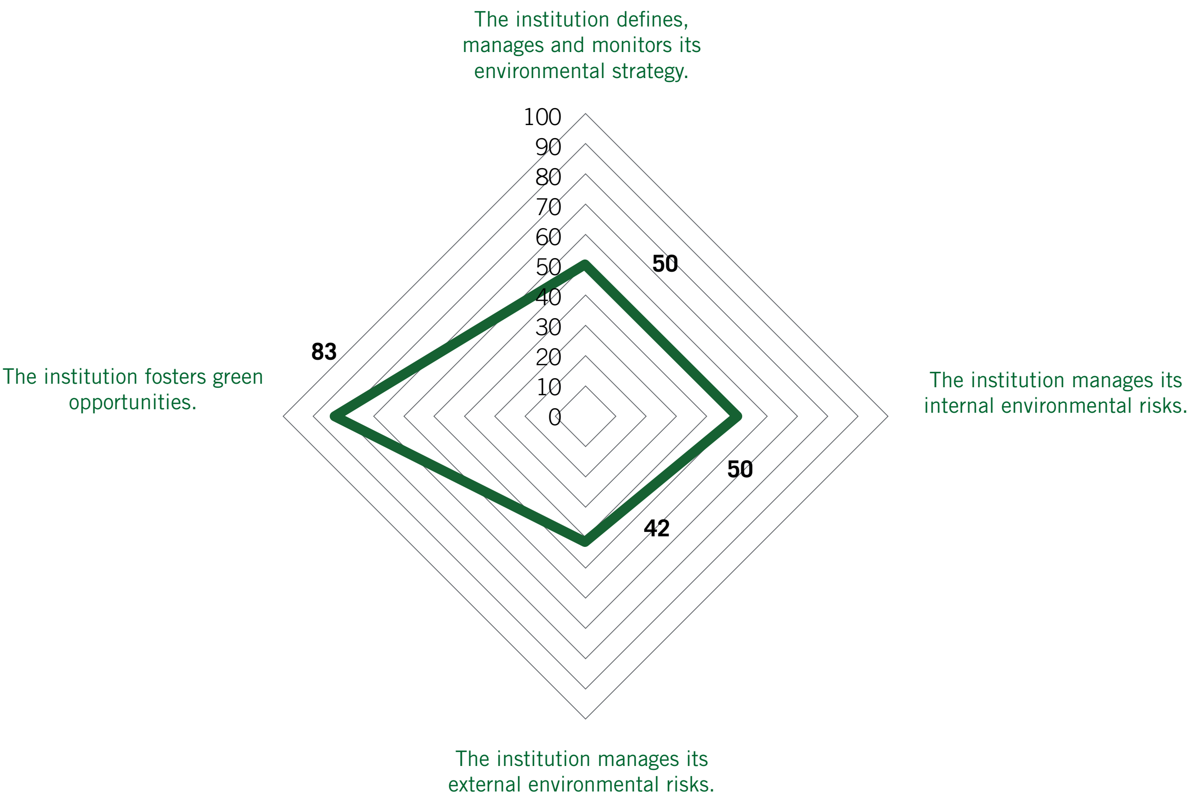
9 Instead of "The institution" in SPI4 the target organisation is referred to as "The provider".

Dimension	7	GREEN MICROFINANCE	Answer (YES/NO/ PARTIALLY)[10]
Standard	**7 A A**	**The institution defines, manages and monitors its environmental strategy.**	
Essential Practice	**7 A 1**	**The institution defines its environmental strategy.**	
Indicator	7 A 1 1	The institution formalizes environmental protection in the mission or values.	
Indicator	7 A 1 2	The institution has a formal environmental policy which specifies its environmental goals, targets, and indicators.	
Essential Practice	**7 A 2**	**The institution manages and monitors its environmental strategy.**	
Indicator	7 A 2 1	The institution has a person or a committee appointed to manage environmental issues.	
Indicator	7 A 2 2	The institution reports on its environmental performance and practices through:	
Detail	7 A 2 2 1	Internal reports (to the Board, to investors)	
Detail	7 A 2 2 2	Public reports (annual reports)	
Standard	**7 B**	**The institution manages its internal environmental risks.**	
Essential Practice	**7 B 1**	**The institution implements actions to reduce its internal ecological footprint.**	
Indicator	7 B 1 1	The institution implements two or more actions to use renewable energy sources, recycle waste produced, and/or reduce energy usage, water usage, paper usage, fuel consumption, waste production and/or greenhouse gas emissions at headquarters and branches.	
Essential Practice	**7 B 2**	**The institution monitors its internal ecological footprint.**	
Indicator	7 B 2 1	The institution tracks the achievement of two or more quantitative targets set for energy usage, water usage, paper usage, fuel consumption, waste production, and/or greenhouse gas emissions at headquarters and branches.	
Standard	**7 C**	**The institution manages its external environmental risks.**	
Essential Practice	**7 C 1**	**The institution evaluates the level of environmental risk of its clients.**	
Indicator	7 C 1 1	The institution uses specific tools to evaluate the environmental risks of clients' activities.	
Indicator	7 C 1 2	The institution trains loan officers on how to evaluate the environmental risks of its clients' activities.	
Essential Practice	**7 C 2**	**The institution includes the level of environmental risk as a factor in the loan approval process.**	
Indicator	7 C 2 1	The institution categorizes loan applications according to the level of environmental risk and applies specific procedures according to each risk category.	
Essential Practice	**7 C 3**	**The institution raises clients' awareness on environmental risks linked to clients' activities and possible mitigation strategies.**	
Indicator	7 C 3 1	The institution conducts activities to raise clients' awareness on environmental risks linked to clients' activities and on possible mitigation strategies.	

10 This is a standard choice inside SPI4. Where needed, guidance is provided in SPI4 to give an informed answer.

Standard	7 D	The institution fosters green opportunities.	
Essential Practice	**7 D 1**	**The institution offers specific financial products for clean energy.**	
Indicator	7 D 1 1	The institution offers specific loan products dedicated to renewable energy (RE) and/or energy efficiency (EE).	
Essential Practice	**7 D 2**	**The institution offers specific financial products for sustainable or climate-smart agriculture.**	
Indicator	7 D 2 1	The institution offers specific loan products or other financial products dedicated to promoting sustainable or climate-smart agriculture.	
Essential Practice	**7 D 3**	**The institution offers other green financial or non-financial products or services.**	
Indicator	7 D 3 1	The institution offers specific loan products dedicated to promoting other environmentally-friendly practices and activities (e.g.: recycling, waste management, clean water, etc.)	
Indicator	7 D 3 2	The institution provides, directly or via a third-party insurer, agricultural or climatic micro-insurance products that contribute to help clients become more resilient to environmental shocks or climate change.	
Indicator	7 D 3 3	The institution offers trainings to its clients, directly or in partnership with environmental organizations, on environmentally-friendly practices or businesses.	

Once all questions have been answered, the user can get a graphic representation of the results, which will help identify areas for improvements – see the example below[11].



11 In the Green Index 2.0 the graphic representation has a diamond shape compared to a triangle shape of the previous version of the Green Index, due to the four standards of the present version.

Here below we find the quantitative Indicators developed by the Microfinance and Environment Action Group, based on the outcomes of the MIX study (see footnote 6) - to be integrated in SPI4 in a later version:

7 B 2 1 A	- Amount of energy generated and consumed by the institution from renewable sources on a yearly basis (in KWh/FTE) - Electricity consumption at headquarters and branches on a yearly basis (in kWh/FTE) - Water consumption at headquarters and branches on a yearly basis (in m^3/FTE) - Paper consumption at headquarters and branches on a yearly basis (in kg/FTE) - Gasoline or diesel consumption at headquarters and branches on a yearly basis (in L/FTE) - CO2-equivalent emissions at headquarters and branches on a yearly basis (in tons/FTE)	- For each indicator, analysis should focus on the trend over time, from one year to another. - All indicators are put over FTE (full-time equivalent staff) in order to account for possible changes in the size of the structure. - Units are linked to quantities/volumes, and not money spent, because costs may vary due to subsidies, changes in tariffs, etc.
7 D 1 1 A	- Number of clean energy (total Renewable Energy and Energy Efficiency) loans disbursed over the fiscal year (12 months) - Volume of clean energy (total RE and EE) loans disbursed over the fiscal year (12 months)	For further analysis, it is possible to divide these indicators by the total number of loans disbursed or total volume of loans disbursed over the same period by the institution.
7 D 2 1 A	- Number of sustainable and climate smart agriculture loans disbursed over the fiscal year (12 months) - Volume of sustainable and climate smart agriculture loans disbursed over the fiscal year (12 months)	
7 D 3 1 A	- Number of other green loans disbursed over the fiscal year (12 months) - Volume of other green loans disbursed over the fiscal year (12 months)	
7 D 3 2 A	Number of borrowers with an active agricultural or climatic micro-insurance contract	

In line with the Social Performance Management approach, the Green Index 2.0 is measuring processes and, as such, gives an overview of the means employed by the MFI to reach its environmental objectives.

In this updated version, the quantitative indicators have been added for MFIs interested in tracking their environmental performance in a more "quantitative" way. These indicators have been included as optional suggestions, to be tailored according to the specific environmental strategy of the MFI. They do not enter in the scoring calculation within the SPI tool, when the Green Index is run in SPI4.

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

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

WHERE TO FIND THE GREEN INDEX?

The Green Index is a product of collaborative work within the Microfinance and Environment Action Group:

http://www.e-mfp.eu/actions-groups/microfinance-environment

It can moreover be found as a module (Dimension 7 – Green Microfinance) in the SPI4 tool developed by CERISE. As part of SPI4 it is identified when specific indicators are part of the ALINUS[11] set of metrics.

SPI4 can be downloaded online:

http://www.cerise-spi4.org

It is available in English, French, Spanish and Russian.

HOW TO CONTRIBUTE?

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

- Please contact Marion Allet, PAMIGA (marion.allet@pamiga.org), Jon Sallé, CERISE (j.salle@cerise-microfinance.org), Gabriela Erice, e-MFP (gerice@e-mfp.eu)

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12 A group of SPTF social investor members created the ALINUS Working Group (Aligning Investors Due Diligence with the Universal Standards) to achieve consensus on a common subset of SPI4 indicators that all member investors would use for social data collection and due diligence. This aligns their work with the Universal Standards and reduces the reporting burden on their FSP partners.

NOTES

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