

Environment Rating

Some may argue that the environment is not relevant in microfinance. While there is little debate around the major role that the public institutions should play, in our opinion microfinance institutions should be:

- encouraged to avoid harming the environment;
- rewarded for positive commitment and actions;
- regarded as powerful channels for green projects.

Rationale

[MicroFinanza Rating](#) would like to share some experience in environmental rating, inspired by practices observed in the field while conducting social ratings of MFIs, aiming at **promoting best practices**.

Source of information

Source of this insight: analysis of the environmental responsibility of financial institutions from 140+ social rating in 42 countries conducted from 2006 to 2013.

The [social rating](#) methodology reviews the environmental policies and practices of a financial institution as part of the social responsibility area. MFIs undertaking social ratings receive an external recognition for their commitment towards the environment.

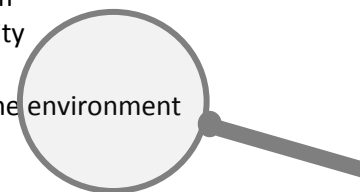


Social Rating areas of assessment

1. Social Performance Management system
2. Client Protection and Social Responsibility

2.3 Responsibility towards the environment

3. Outreach
4. Quality of the services



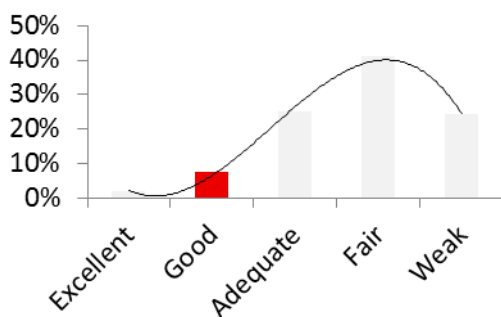
Environmental performance management

Typical findings

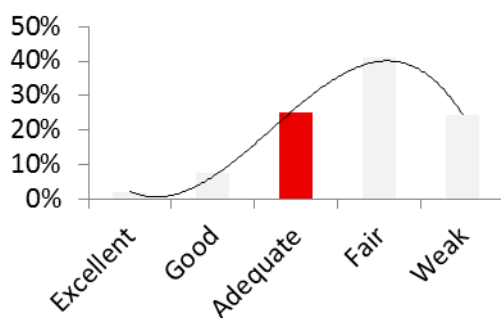
1. **Environmental policies** not formalized. List of prohibited activities reflecting the Country legal requirements and the agreements with international lenders. Weak **monitoring of the compliance** to the policies and enforcement.
2. No formalized and uniformly applied strategies or policies to **reduce the ecological foot print** of the institution; **punctual environmental initiatives** promoted from time to time.
3. Portfolio environmental risk not assessed through specific tools. **Field staff** in some cases **informally instructed** to sensitize borrowers about the environmental impact of particularly risky activities.

Environmental performance management

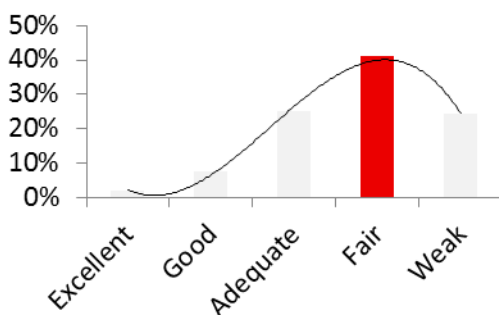
Source: score from Social Ratings



1. User-friendly environment policy developed, including an exclusion list and a list of business with potential environment hazard to be **specifically assessed for a risk classification**; ongoing environmental **training** for the staff;
2. Each client **signs social and environmental clause** and agrees to adopt mitigation measures;
3. Environmental friendly criteria included in the **procurement policy**.



1. **Environmental and Social risk management toolkit** recently launched;
2. **Environmental impact assessment and risk matrix** being integrated to the loan approval process;
3. **Internal audit** updating the client visit questionnaire to cover the new environmental policy.



1. **Complete environmental policy** to complement the exclusion not yet in place;
2. **Loan officers** based in HQ receive a **general orientation** on the environmental risks related to issues such as use of some chemicals and charcoal burning.
3. **Resource saving** (light, water, paper) is encouraged **in the branches**.

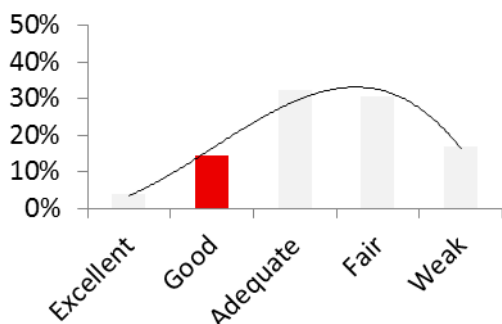
Environmental projects

Typical findings

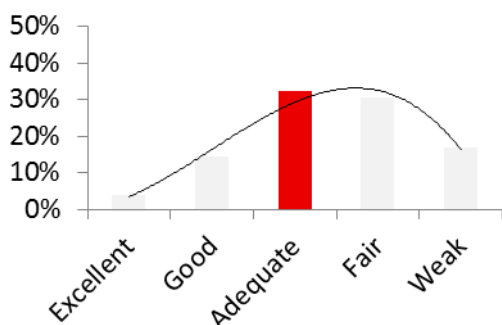
4. The MFI may not offer green services yet, but might be in the process of studying the feasibility of introducing and scaling-up loan **products for eco-housing, clean energy** (solar panels) and **water purification**.
5. Environmental awareness projects carried out with staff and clients, e.g.: training, clean up drives and tree planting. The projects are subject to **donor-funding opportunities** and may not be offered continuously.

Environmental projects

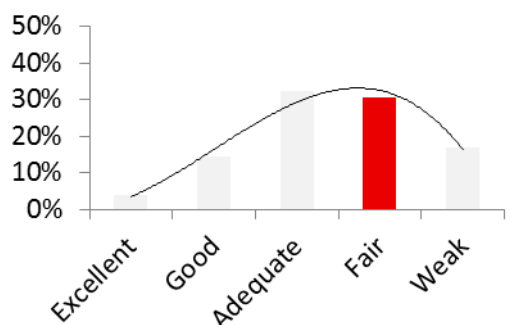
Source: score from Social Ratings



1. Institution selected to implement a **solar panel** project sponsored by a donor;
2. **Bio-digester loan** to clients in the villages which do not have access to electricity. The organization is currently at the conceptualization stage of **developing a Toilet Loan** especially for those families living alongside the riverbanks.



1. Agricultural activities in areas bordering the rainforest (1% of portfolio) are not financed due to the risk of **deforestation**;
2. **Green product** in pilot phase, designed to support the technological conversion from extensive to semi-intensive agriculture, associating credit to a training component.



1. **No specific** environmentally responsible **project** carried out so far; however, the management plans to engage in the discussion in the following business planning process;
2. Loan officers are encouraged to promote with the clients of a specific region the **environmental projects carried out by municipalities** this year.

Conclusion

A large potential for improvement is observed in the environmental performance policies, namely going from a minimum requirement approach to a proactive risk management system, combining clear rules and tools with ex-post verification and enforcement. Environmental projects may still be linked to specific donor funding opportunities, while longer term incentives could be identified by the industry to integrate the environment in the long term strategy of some microfinance institutions. The institution may not offer dedicated financial products aimed to positively impact the environment, but it may have the potential to do so thanks to the demand among its target population and the increasing technical providers in the country.