

BEST PRACTICE IN MICROFINANCE

The future is green – Why and how MFIs should develop green finance products?

The European Union is committed to ensuring **sustainable development** in Europe through the [European Green Deal](#) and its ambitious goal of prioritising Europe's transition to a sustainable economy and climate-neutrality by 2050. The resilience and recovery package [Next Generation EU](#) targets sustainable investments while tackling the impacts of the COVID-19 outbreak. The [EU Taxonomy Regulation](#) promotes transparency and the labelling of sustainable investments and financial products.

The development of green finance products provides a window of opportunity for European microfinance institutions (MFIs) to support the evolving needs of their clients and Europe's transition to a sustainable economy. This requires strengthened knowledge and support for micro-enterprises and self-employed to implement sustainable ways of doing business.

Green finance products

Green finance products target investments and services that address climate change via:

- **Mitigation - reducing CO₂ emissions** (targeting e.g. energy efficiency, recycling, waste management, organic farming, eco-tourism) or generating energy from a renewable source (e.g. solar, biomass).
- **Adaptation** - offering **an adjustment** in a system in response to expected climate impacts (targeting e.g. irrigation systems, greenhouses, cultivation terraces).
- **Resource efficiency** - using the Earth's limited resources (e.g. water) in a sustainable manner while **minimising impacts on the environment**.

In addition, to become green, a financial product must have a **measurable impact** on the environment, which can be **verified post implementation**.

Examples of green finance products

- [Renewable energy loans](#) – for clean electricity systems used at home or by a small business
- [Energy efficiency loans](#) – for home insulation or energy-efficient technologies
- [Adaptation loans](#) – for addressing the climate change solutions (often required by farmers)
- [Green activity loans](#) – for financing productive activities that reduce CO₂ emissions

Steps to successfully develop and roll-out a green finance product

- **Step 1.** Ensure that the necessary technical knowledge on adaptation and mitigation technologies is integrated in your organisation and carefully analyse the supply and demand for green finance products. You can find an EaSI Technical Assistance webinar series on Green Finance with recordings [here](#).
- **Step 2.** Incorporate the new green finance product(s) within your portfolio and appoint a “green loan champion” from your staff who has solid understanding of green finance and can successfully manage the green portfolio.
- **Step 3.** Ensure that special environmental purpose and technical specifications of the green finance products are integrated into all marketing materials and communication directed towards prospective clients, third-party technology providers (to find suitable partners), and internally to guide your own staff.
- **Step 4.** Implement tracking and reporting into the regular operational activities of your microfinance institution.



Best practice example of implementation of green finance products

The Cooperative Bank of Karditsa's (Greece) loan strategy includes a green financial umbrella, which promotes a) renewable energy and energy efficiency, b) pollution prevention and control and c) sustainable use of natural resources and land.

- **Green Finance for Farmers:** With the support of the EaSI Guarantee for microfinance, the Bank issues loans to especially younger farmers who want to cultivate alternative bio-crops, such as berries, strawberries and blueberries, and to improve their agricultural infrastructure and water and waste management.
- **Residential Energy Savings Programme:** The Bank designed a programme to improve energy efficiency in the residential building sectors that belong to a low energy grade. Within three years, the Bank financed loans with EUR 2.5 million, assisting 310 households to optimise the bioclimatic design of their buildings by reducing energy losses.
- **Photovoltaic System and Net – Metering infrastructure:** The Bank started a scheme intended to financially support installation of a photovoltaic system on land or at business premises. In total, provision of 170 loans in the scope of the last 2 years led to a reduction of CO₂ emissions by 120.000 metric tons by the end of the first year.