

# EaSI Technical Assistance to the European Microcredit Sector

**European Commission**  
**DG Employment, Social Affairs and Inclusion**



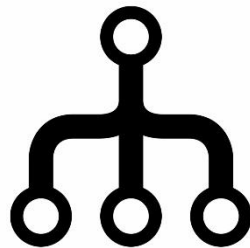
# Session Structure & House Rules

## This is the first from a series of EaSI Technical Assistance webinars on Green Finance at Microfinance Institutions

- Introductory session: Climate Change - Business Opportunity for MFIs, 26 Sep 2019
- Greening MFIs – A case study: 16 October 2019
- Green finance products - A case study: 14 November 2019
- ✓ **Environmental & social risk management - A case study: 4 December 2019**



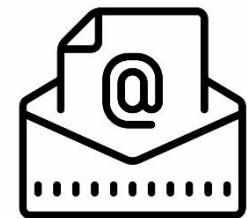
60 minutes



Webinar  
structure



Ask us  
questions



Slides will  
be shared  
via email

# Speaker Profiles



## Ms. Inken Paysen

is assigned as **Key Expert in the EaSI Technical Assistance programme** and is responsible for designing tailor-made technical assistance and trainings for the programmes' beneficiaries, the European microcredit providers. Inken is also a Senior Project Manager at Frankfurt School of Finance & Management

Contact via email: [i.paysen@fs.de](mailto:i.paysen@fs.de)

## Ms. Carola Menzel-Hausherr

is a **Climate and Sustainable Development Finance Expert** with a strong track-record in organizational development - adjusting organizational strategies, processes and products and building in-house capacities in order to adjust to market developments that require sustainable low carbon and climate resilient approaches. Carola is employed as a Senior Project Manager at Frankfurt School of Finance & Management.

Contact via email: [c.menzel@fs.de](mailto:c.menzel@fs.de)

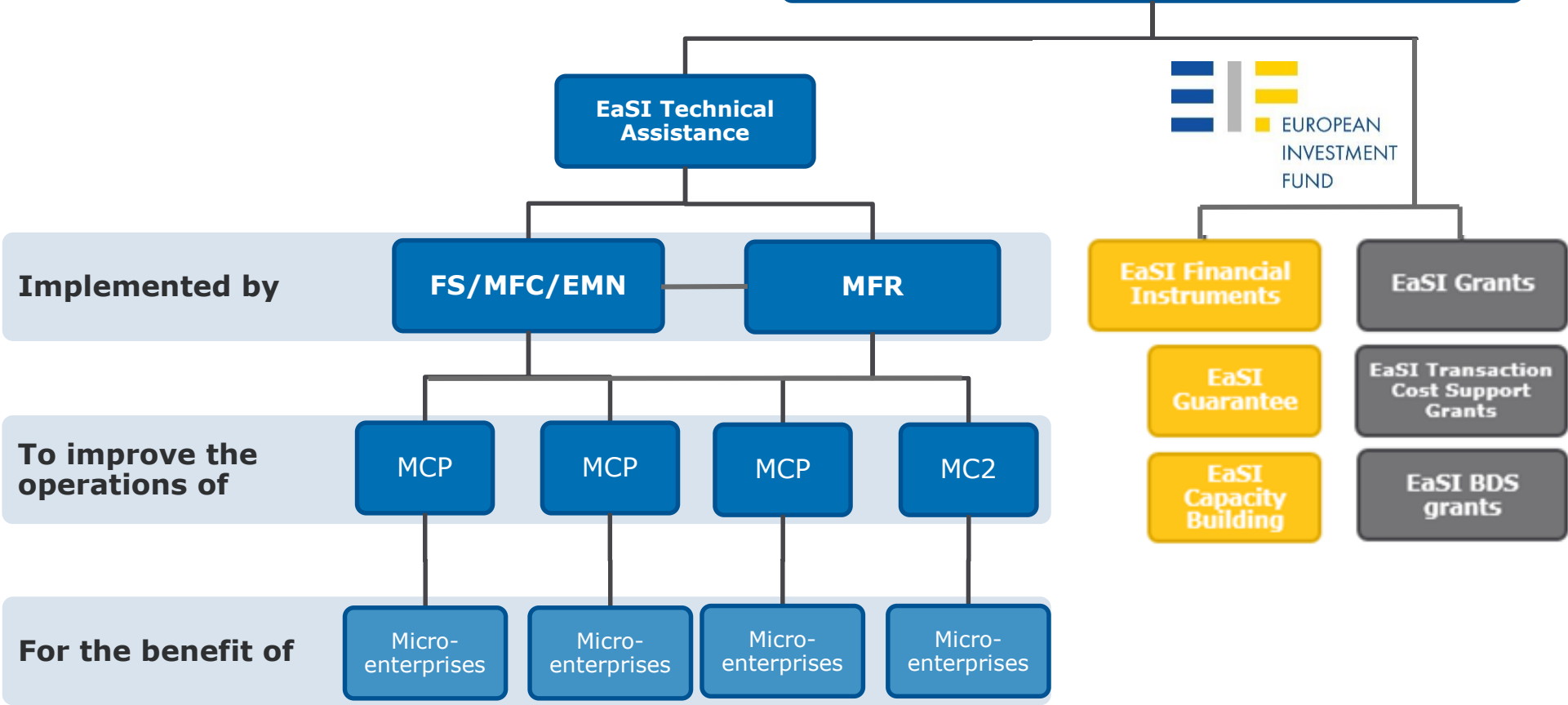


# EaSI Technical Assistance – Programme Snapshot

Funded and managed by the European Commission



## EaSI Funding Programme Microfinance and Social Entrepreneurship axis



# Service Providers



## Service Providers

### Technical Assistance:

- » Frankfurt School of Finance and Management gGmbH (FS) – Consortium Leader for the Technical Assistance Services
- » Microfinance Centre (MFC) – Consortium Partner
- » European Microfinance Network (EMN) – Consortium Partner

### Assessment, Evaluation and Ratings:

- » MF Rating – Provider of Institutional Assessments, Rating and Evaluations

## Project Beneficiaries and Geographic Coverage

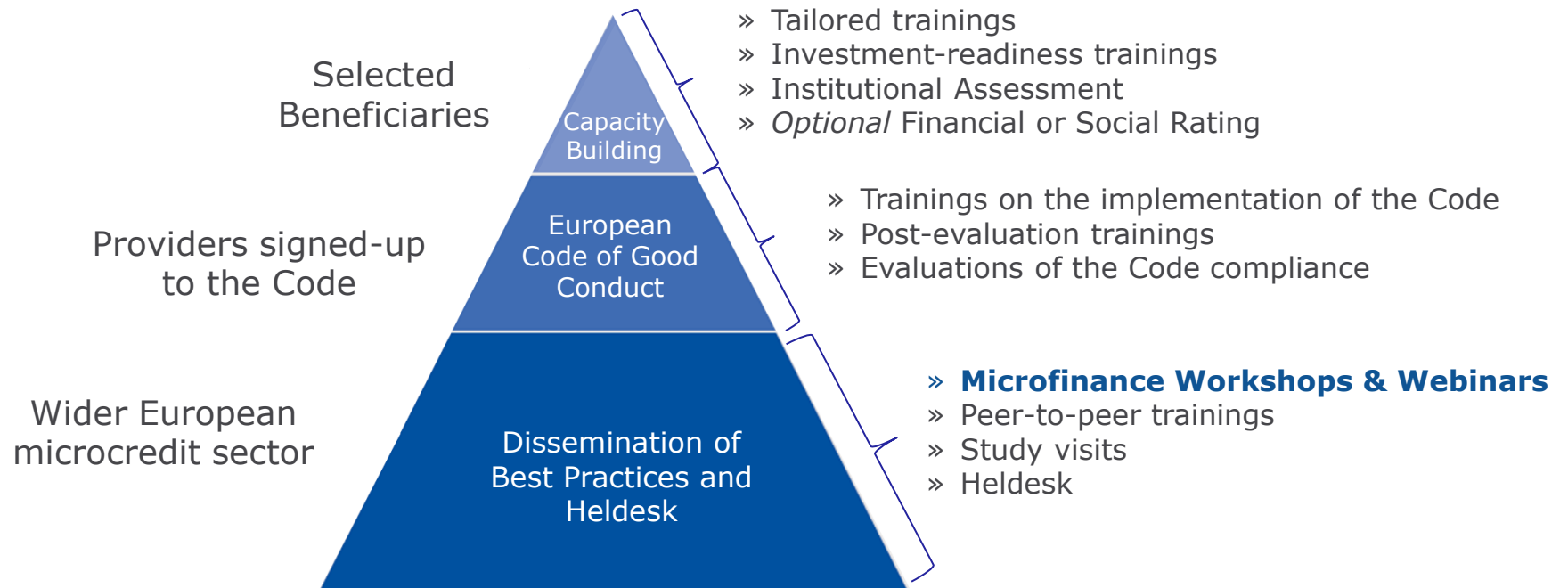
- » Public and private financial intermediaries (greenfield microfinance institutions, non-bank microcredit providers, licensed banks and guarantee granting entities) in **all Member States of the European Union**, as well as providers from **Albania, the Republic of North Macedonia, Iceland, Montenegro, Norway, Serbia and Turkey** may respond to dedicated Calls for Expression of interest to request EaSI Technical Assistance.

## How to Apply for Technical Assistance?

- » Before applying eligible microcredit providers must first sign-up to or endorse the European Code of Good Conduct for microcredit provision.
- » To apply respond to the open [Call for Expression of Interest](https://ec.europa.eu/social/easi) published on the [ec.europa.eu/social/easi](https://ec.europa.eu/social/easi) webpage.

# Services Overview

## What is offered to whom?



July 2018

July 2022

Project Duration – 4 years

# A Call for Expressions of Interest is now OPEN



The European Commission has opened a [new Call for Expression of Interest for EaSI Technical Assistance services](#) for microfinance with the goal of selecting microfinance institutions in need of technical assistance support and with a view to boost their institutional capacity in order to improve their operations

## WHO CAN APPLY?

Microcredit providers such as:

- » Greenfield microfinance institutions,
  - » Non-bank microfinance institutions,
  - » Licensed banks,
  - » Guarantee-granting entities,
  - » Fintechs providing microfinance,
- registered in and operating from the EU Member States, as well as: Albania, Iceland, the Republic of North Macedonia, Montenegro, Norway, Serbia and Turkey

## HOW TO APPLY & DEADLINE?

Please visit the European Commission's dedicated page at [ec.europa.eu/social/easi](https://ec.europa.eu/social/easi) to download:

- » [template for expression of interest](#)
- » [declaration on honour](#)

The Call is open-ended with no deadline for applications. The European Commission, however, reserves the right to close the Call at any time, with 2-weeks prior notice to its closure

**APPLY TODAY**

For any questions on the Call please contact [easi.ta@fs.de](mailto:easi.ta@fs.de)



## Climate Change – Business Opportunity for MFIs?

- Climate Change is a threat, the actions we need to take to stop it are not! They may present **opportunities and cost benefits**.
- Focus on **energy efficiency measures first**.

## Greening of Financial Institutions – A case study

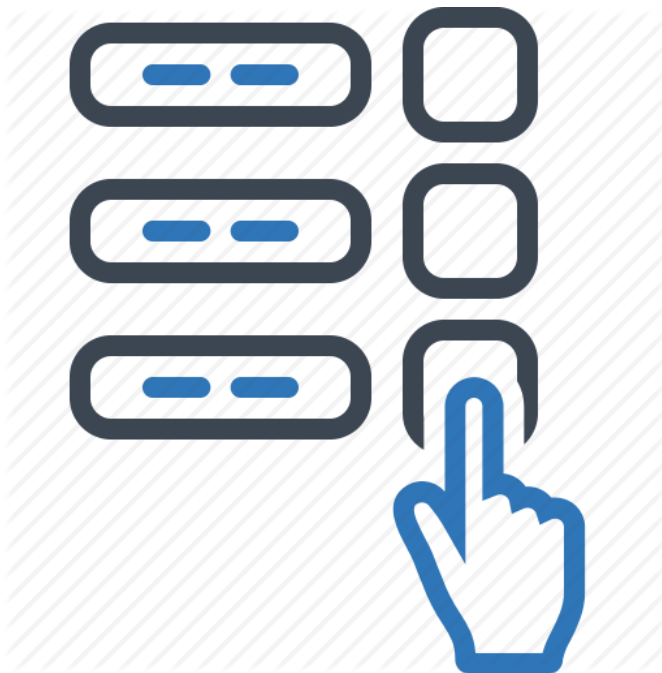
- Financial institutions like any other company generate a **carbon footprint** with their operation and activities
- Methods to **measure** your institutional Carbon Footprint
- Methods to **reduce and neutralize** your institutional Carbon Footprint
- **Internal environmental policy** is necessary for a **sustainable impact**

## Green Finance Products

- Green Finance Products must **i) tackle mitigation/adaptation**, **ii) must have a measurable** and **iii) verifiable** impact on the environment
- **5 Steps** of Green Product Development



## Audience poll



**Does your institution already have an environmental & social risk management system?**

- A. Yes, we do.
- B. No, we do not and are not planning to implement one anytime soon.
- C. Currently developing one.
- D. No, but considering.



## **EaSI Technical Assistance**

# **Environmental & Social Risk Management**

*Webinar 4 from the Green Finance at  
Microfinance Institutions series*

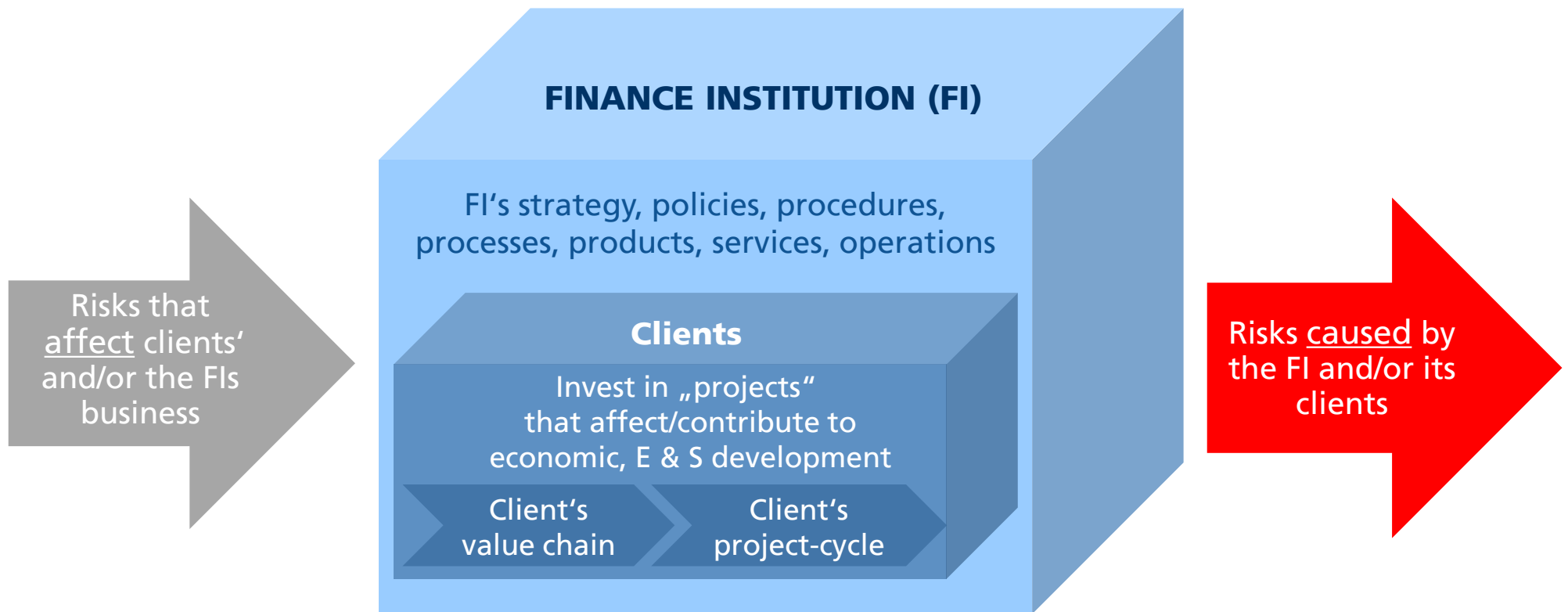
Carola Menzel,  
Climate and Sustainable Development Finance Expert  
c.menzel@fs.de

04 December 2019,  
Frankfurt am Main

## Session overview

- ✓ Environmental and social (E&S) risks
- ✓ Drivers for applying E&S safeguards
- ✓ Benefits of applying E&S safeguards
- ✓ Development and implementation of an environmental and social risk management system (ESMS)
- ✓ Opportunities & challenges related to ESMSs

## Environmental and social (E&S) risks



## General E&S risk typology

The extend of E&S impacts depends on the scale and complexity of the operation, as well as the sector and geographic context:

- ▲ **Environmental impact:** waste and affluent management
- ▲ **Hazards to human health:** noise levels, smells/irritants, fire risk, occupational health and safety
- ▲ **Social and labor issues impacting local communities:** labor conditions, relations with local communities, grievance mechanism
- ▲ **Regulatory compliance and liability:** liabilities due to water/land contamination, environmental inspections

Different stakeholders are affected and can react differently to the various E&S impacts

## E&S risks specific to financial institutions (FIs)

E&S risks present themselves to FIs and their clients as business risks:

- ▲ **Credit risks - rising default probability:** Client is not able to repay the loan on account of social and environmental issues
- ▲ **Liability risks:** FI faces legal consequences, fees, and/or fines due to E&S damage
- ▲ **Reputational risks:** Negative aspects of an investment harm the FI's image (e.g. public, business and financial community, own staff)

## Drivers for applying E&S safeguards

The transformation of our economy towards a **greener, more sustainable and climate resilient one**, and the associated **regulatory interventions**, can have a negative impact on existing business-as-usual assets / activities



Sample

Impact /  
action for FIs

	International drivers	EU-level drivers	National regulation	Other drivers
	<b>IFC Performance Standards</b>	<b>Action plan on sustainable finance 2018</b>	<b>Local ESIA framework</b>	<b>Own portfolio and operations</b>
	<ul style="list-style-type: none"> <li>Take into consideration in general:</li> <li>Comply to qualify for international funding / cooperation</li> </ul>	<ul style="list-style-type: none"> <li>Take into consideration in general: observe!</li> <li>May influence national regulation</li> </ul>	<ul style="list-style-type: none"> <li>Legally obliged to comply with existing country laws</li> </ul>	<ul style="list-style-type: none"> <li>Screen your existing portfolio, but also operations incl. (HR, procurement, complaint procedures, etc.)</li> </ul>

## International drivers: IFC Performance Standards

Are the main international **benchmark for E&S risk identification and management**, which have been adopted by most development banks and other investors:

- **PS1:** Implementation of an ESMS; incl. E&S engagement throughout the project cycle; i.e. E&S risk identification, evaluation, mitigation and monitoring
- **PS2:** Protection of the fundamental rights of workers
- **PS3:** Avoidance / minimization of air, water, land pollution & threats to finite resources
- **PS4:** Minimization of community exposure to risks & impacts (health, safety and security)
- **PS5:** Avoidance/ minimization of land acquisition, restrictions and involuntary resettlement
- **PS6:** Biodiversity Conservation & Sustainable natural resources management
- **PS7:** Avoidance/ minimization of impacts on communities considered as indigenous
- **PS8:** Protection of cultural heritage for current and future generations.



## International drivers: EU policy framework



The European Union is strongly supporting the transition to a **low-carbon, more resource-efficient and sustainable economy**

The European Commission adopted the **action plan on sustainable finance (03/2018)** and announced associated implementation measures, including:

- A proposal for a regulation on the establishment of a framework to facilitate sustainable investment;
- A proposal for a regulation on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU)2016/2341;
- A proposal for a regulation amending the benchmark regulation;

## National drivers: National E&S framework



- Environment and social protection framework legislation; e.g.:
  - **Agencies responsible for the implementation of ESIA**s (e.g. Regional Environmental Centre Albania – of the Ministry of Environment, Forests and Water Administration, the Ministry for Environment and Physical Planning in Macedonia)
  - **Environmental Laws** - providing for comprehensive ESIA legal requirements; commonly harmonizing with the European Union directives
- Waste management and effluent criteria
- Social Laws – Labor Act, Land Act
- Natural resource protection
- Biodiversity protection
- International treaties

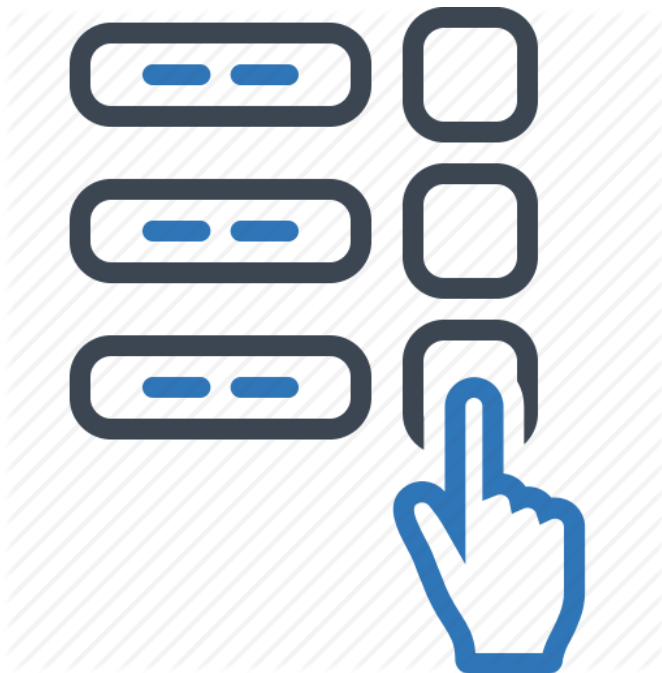


## Other (direct) drivers

Facilitate non-financial reporting /disclosure; i.e. evaluate and track the environmental and social performance of activities (incl. loan portfolios and own operation) and risks - through:

- **Active portfolio screening** on the basis of sector/products, supply chain stage, location, etc. – identifying low or high risk sectors and locations, etc.
- **FI-Screening** - assess the resource management and E&S impact and risks as an organization and operational impact and risks (taking into account buildings, transport solutions, etc.)

## Audience poll



**What do you think are consequences for FIs of not responding or adapting to E&S drivers?**

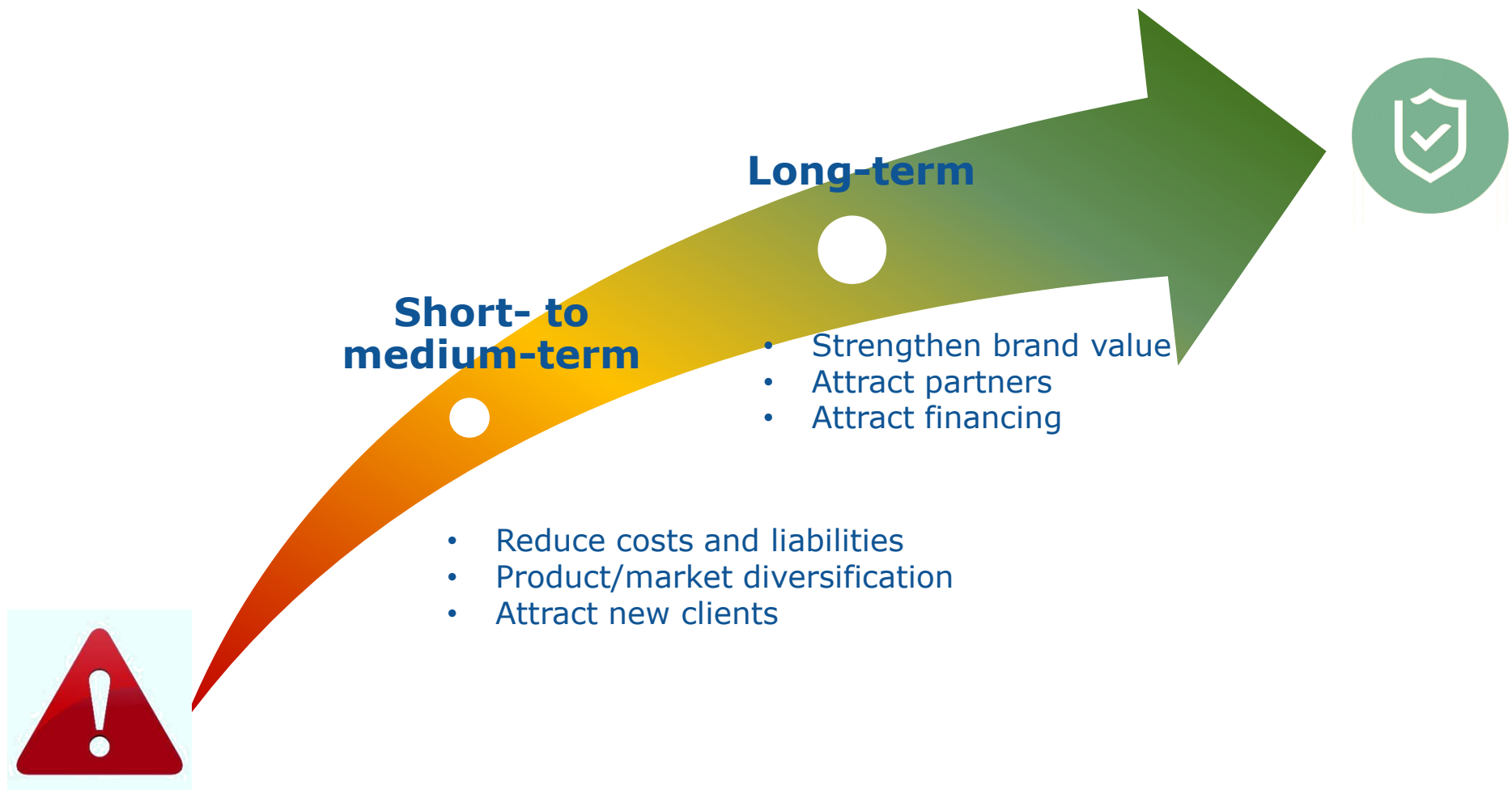
*Please provide your own answer*



Sources: N24, occupy

## **RISK OF STRANDED ASSETS!**

## Benefits of E&S risk mitigation



# A Business Case for ESMS

## Microfinance Bank in Kenya

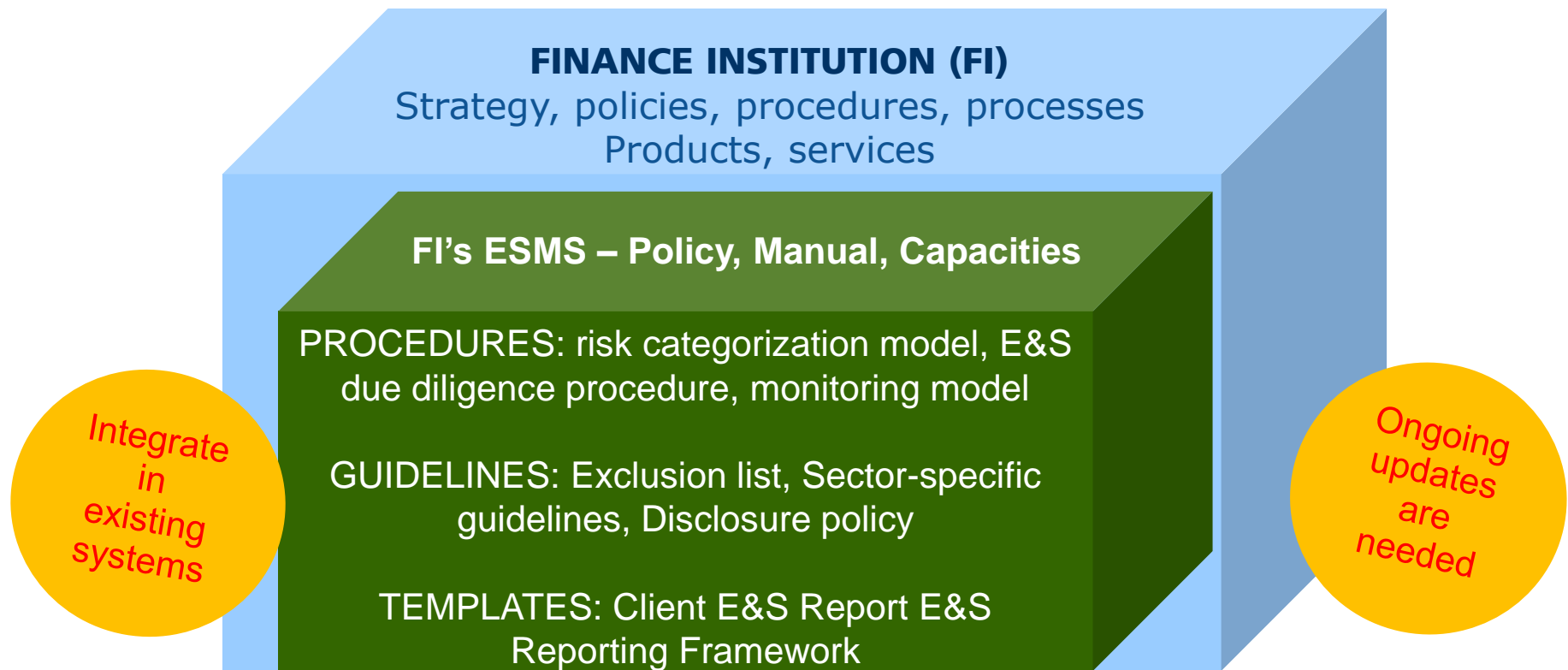
- A medium-sized FI with more than 1.800.000 clients and 92 branches
- Their target segment comprises agriculture
- Loan portfolio: about Euro 490 million
- The FI aimed to **access international refinance** sources tied with stringent E&S requirements

In 2015, the Kenyan banking industry adopted the **Sustainable Finance Initiative (SFI) Guiding Principles**

The MFI considered access to refinance via a international fund that applies **stringent E&S standards**

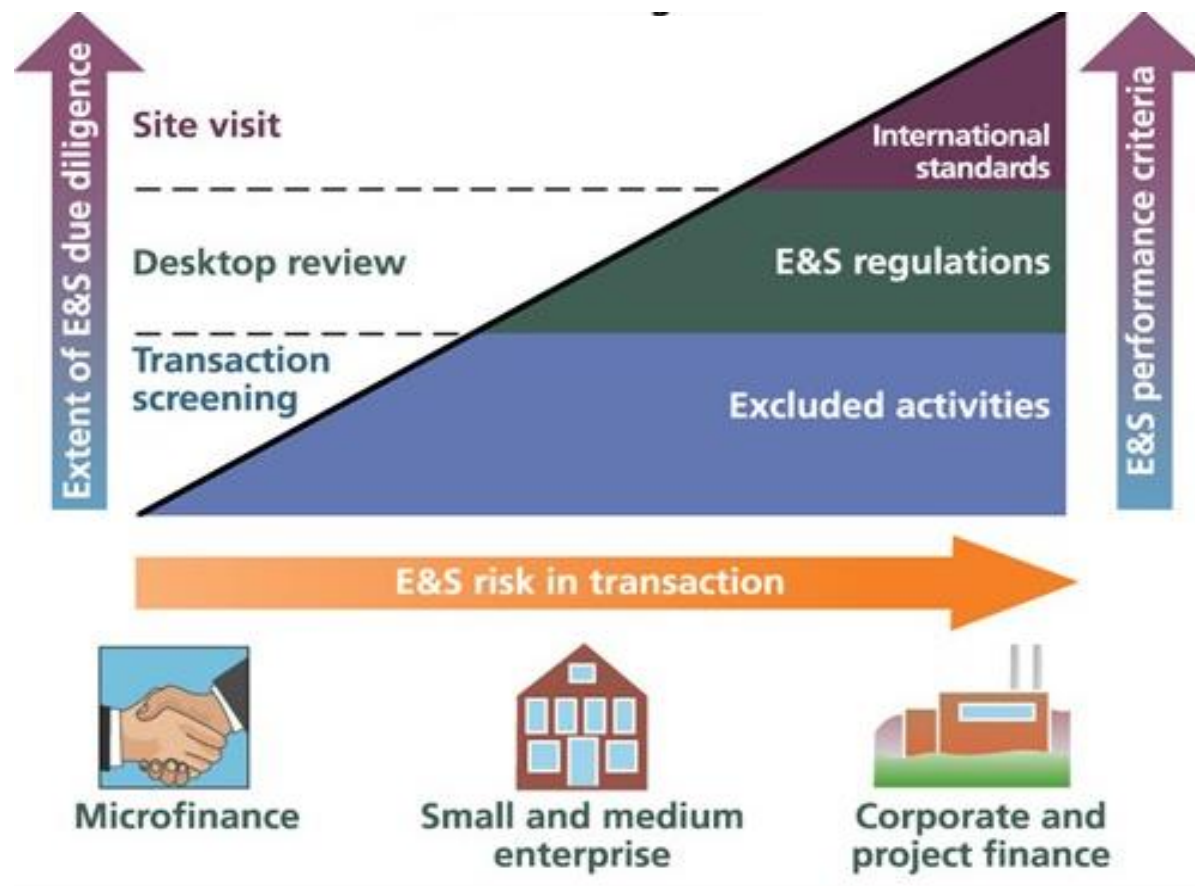


# How to develop and implement an ESMS



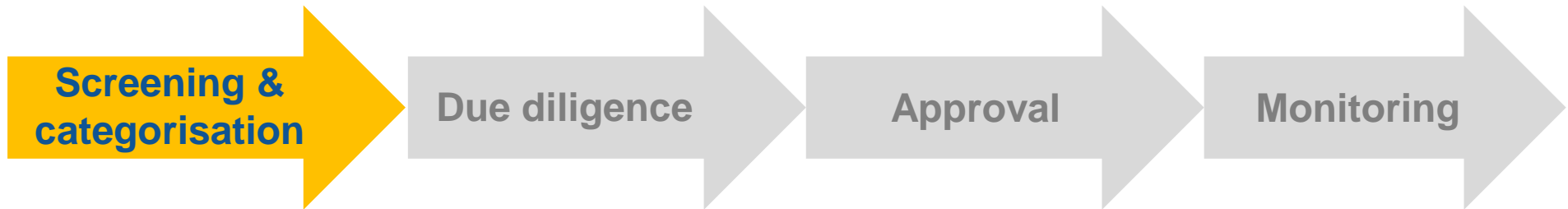


# Parameters Determining the Scope of ESMS



Source: IFC, 2019, FIRST for Sustainability

## How to Implement an ESMS



### Instruments

- Exclusion list
- Sample National Regulations
- E&S risk level analysis
- Sector Factsheets

### Output

- E&S risk level classification (A, B, C)
- Determination of DD level

### Instruments

- E&S checklist
- Sector guidelines

### Output

- E&S requirements
- Corresponding actions and steps
- Action plan

### Instruments

- Legal covenants
- Non-compliance reporting
- E&S Action Plan

### Outputs

- Legal agreement

### Instruments

- E&S action plan
- E&S risk report
- FI's total exposure

### Output

- E&S monitoring report

## Screening & Categorisation: IFC Exclusion List

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements;
- Production or trade in weapons and munitions;
- Production or trade in alcoholic beverages (excluding beer and wine);
- Production or trade in tobacco;
- Gambling, casinos and equivalent enterprises;
- Production or trade in radioactive materials;
- Production or trade in unbounded asbestos fibres;
- Drift net fishing in the marine environment using nets in excess of 2.5 km in length;
- Production or activities involving harmful or exploitative forms of forced labour / harmful child labour;
- Commercial logging operations for use in primary tropical moist forest;
- Production or trade in wood or other forestry products other than from sustainably managed forests.

## Screening & Categorisation: National Regulations

- Environment protection legislation
- Waste management and effluent criteria
- Social Laws – Labor Act, Land Act
- Natural resource protection
- Biodiversity protection
- International treaties



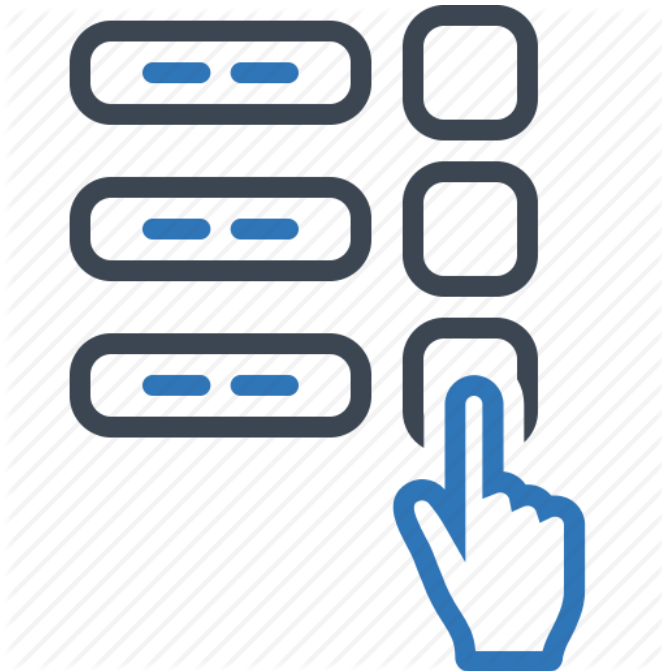
# Screening & Categorisation: E&S Risk Level Analysis

Category	Description	Examples	Actions for the FI
<b>A-High Risk</b>	The project is likely to have significant adverse environmental impacts that are sensitive, diverse or unprecedented	<ul style="list-style-type: none"> <li>• Forestry operations</li> <li>• Projects, which pose serious occupational or health risks</li> <li>• Domestic or hazardous waste disposal</li> <li>• Manufacture, storage or transportation of hazardous chemicals above a threshold volume</li> <li>• Large infrastructure projects</li> </ul>	<ul style="list-style-type: none"> <li>• Detailed risk assessment</li> <li>• Managing and monitoring of E&amp;S risks</li> </ul>
<b>B-Medium Risk</b>	The project can have specific environmental impacts, but site specific and few if any of them are irreversible	<ul style="list-style-type: none"> <li>• Dairy operations</li> <li>• Textile plants</li> <li>• Cement manufacture</li> <li>• Food processing</li> <li>• Modernization of existing plants</li> </ul>	<ul style="list-style-type: none"> <li>• Detailed risk assessment</li> <li>• Managing and monitoring of E&amp;S risks</li> </ul>
<b>C-Low Risk</b>	The project can have minimal or no adverse E&S impacts	<ul style="list-style-type: none"> <li>• Software development</li> <li>• Service industries</li> </ul>	<ul style="list-style-type: none"> <li>• No further assessment is required, but ongoing monitoring is recommended</li> </ul>

# Screening & Categorisation: Sample Sector Factsheet

Agricultural value chain	Examples of activities	Potential E&S risks
Preparation & infrastructure	Land preparation	<ul style="list-style-type: none"> <li>▪ Land grabbing / conflict</li> <li>▪ Involuntary physical and/or economic displacement</li> </ul>
Inputs	Inputs (vaccines, animal feed, embedded power equipment/ machinery, seeds, fertiliser*, crop protection, micronutrients, and related material)	<ul style="list-style-type: none"> <li>▪ Genetically modified seeds / crops</li> <li>▪ Pesticides / chemical pollution</li> </ul>
Planting, nurturing & harvesting	Livestock raising / husbandry lifecycle	<ul style="list-style-type: none"> <li>▪ Animal welfare</li> <li>▪ Disposal of animal waste</li> <li>▪ GHG emissions</li> </ul>
Storage & post-harvest handling	Transportation and logistics	<ul style="list-style-type: none"> <li>▪ Consultation with local communities regarding transport links (roads, etc.)</li> </ul>
Processing	Processing across all stages	<ul style="list-style-type: none"> <li>▪ Energy requirements for processing</li> <li>▪ Prevention and disposal of waste</li> <li>▪ Health and safety of labour</li> </ul>
Distribution	Wholesale downstream distributors (export and domestic)	<ul style="list-style-type: none"> <li>▪ Energy requirements for transportation</li> </ul>

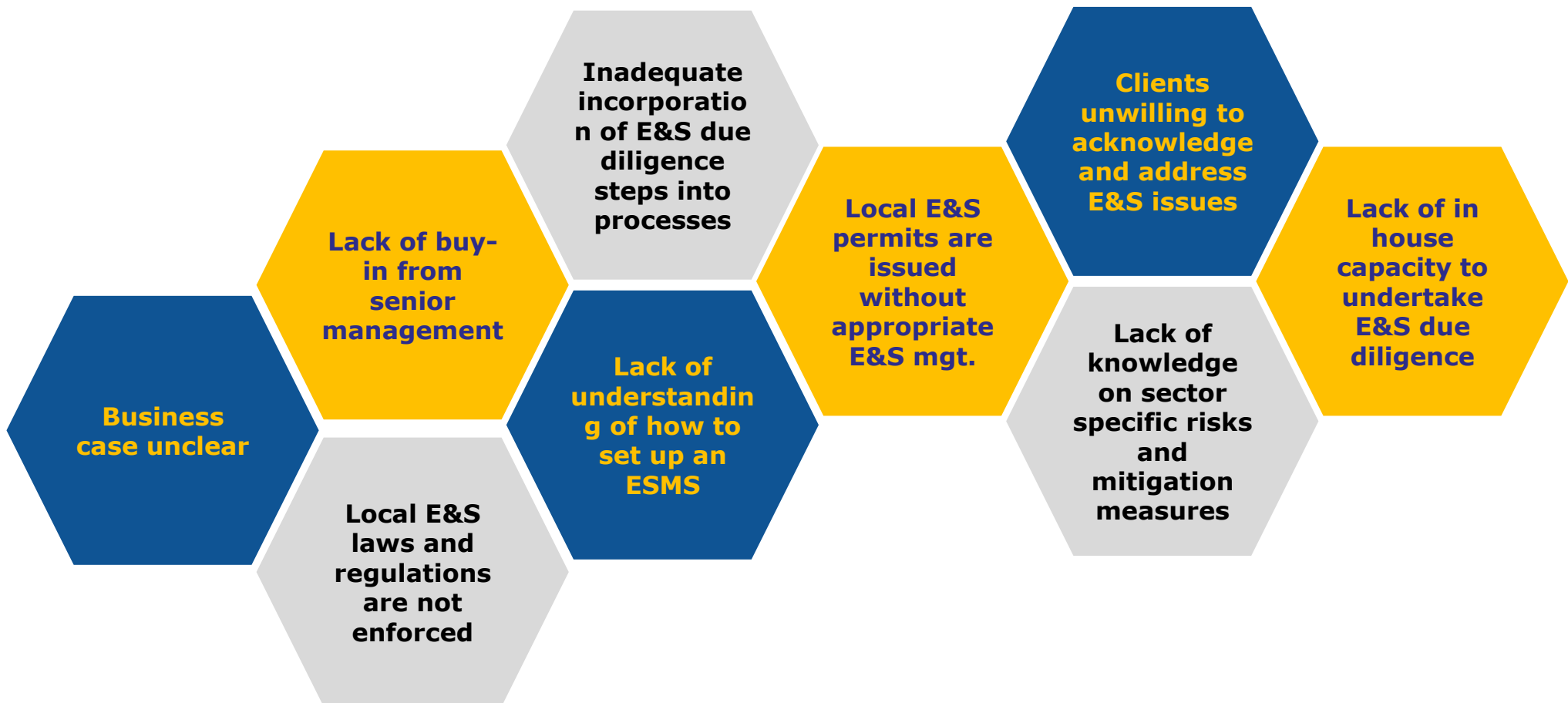
## Audience poll



**How do you see the implementation of an Environmental & Social Risk Management System?**

- A. As a burden.
- B. As an opportunity.
- C. Both.

## Implementing an ESMS: A burden or an opportunity?





# Implementing an ESMS = a Challenging Opportunity



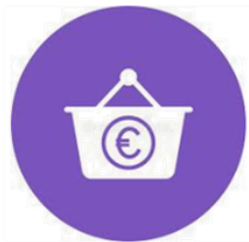
*(Better)* understand  
the E&S risks in your  
portfolio



Evaluate, mitigate and  
monitor these risks in  
a structured manner



Comply with national and  
international standards  
to avoid sanctions



Maximize the possibility to  
detect environmental and  
social opportunities (e.g. new  
financial products)



Achieve good reputation  
among clients, investors  
and other stakeholders

## Implementing an ESMS

### Further reading material and guidance

- Environmental, Social and Governance Toolkits via FMO – [link](#)
- FIRST for Sustainability via IFC – [link](#)
- IFC Sector Factsheets - [link](#)

# Q & A

**Please give us your feedback**

**Webinar Evaluation**

<https://www.surveymonkey.de/r/DSTQSSP>

# All Sessions from the Green Finance Series

- **Introductory session: Climate Change – Business Opportunity for MFIs: 26 Sep 2019** - [download presentation](#)
- **Greening MFIs – A case study: 16 October 2019** – [download presentation](#) and watch [webinar recording](#) here
- **Green finance products: 14 November 2019** – [download presentation](#) and watch [webinar recording](#) here
- **Environmental & social risk management: 4 December 2019** – [all materials will be emailed to you after the webinar](#)



European  
Commission

# EaSI Technical Assistance

**For more information, about:**

Technical Assistance, contact:  
**[easi.ta@fs.de](mailto:easi.ta@fs.de)**

Ratings and Evaluations, contact:  
**[easi.ta@mf-rating.com](mailto:easi.ta@mf-rating.com)**

The EaSI Programme, visit:  
**[ec.europa.eu/social/microfinance](https://ec.europa.eu/social/microfinance)**

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