



# FINANCIAL INCLUSION AND CLIMATE CHANGE: LESSONS LEARNED AND OUTLOOK

*ADA's experience in promoting "green" uses and practices among its microfinance customers.*

## BACKGROUND



ADOPEM's Eco Vivienda loan in the Dominican Republic enabled this beneficiary to rebuild her house.

From a sustainable economic development perspective, adapting and seeking to mitigate climate change, pollution and waste production have become essential attributes. All regions of the world are affected by these issues. However, not all countries are equal when it comes to the challenges they represent. While the **least developed countries** emit fewer greenhouse gases, and are therefore less responsible for ongoing **climate change**, they are

often **the most vulnerable** to its consequences. These countries are both the most exposed to **extreme phenomena** and the least prepared to deal with them. Vulnerable people in these countries are thus the main victims of climate and environmental issues.

These people are also frequently excluded from traditional banking and financial systems. This has led to the development of **microfinance** in these regions, which aims to offer tailored financial services to help improve their living conditions. Historically, microfinance has therefore had both **economic and social goals**. By targeting those most vulnerable to climate change, microfinance institutions (MFIs) now need to integrate a **third environmental dimension** into their mission.

Since 2011, ADA has supported a number of its partner microfinance institutions in Latin America, Asia and Africa in developing financial services for environment- and climate-friendly uses and practices.

## DURATION OF TRIALS

2011 to present

## GEOGRAPHICAL AREAS

**Latin America:** Peru, Guatemala, El Salvador, Costa Rica, Honduras, Nicaragua, Dominican Republic, Panama

**Asia:** Philippines

**Africa:** Tunisia



## GLOBAL AND LOCAL CONTEXT

- The two main sources of greenhouse gas emissions are burning fossil fuels and agriculture and land use;
- 42% of the population in low-income countries do not have access to electricity;
- 68% of jobs in low-income countries are in the agricultural sector.




1 Source: <https://gain.nd.edu/our-work/country-index/matrix/>

2 World Bank, 2018

3 ILO, 2017

## OBJECTIVES

ADA's actions to develop these "green" financial services have so far focused on the following objectives:

-  - Enabling access to **renewable energies** or **energy-efficient equipment** for vulnerable people;
-  - Encouraging **environmentally responsible agricultural practices**, in particular those aimed at adapting to climate change;
-  - Promoting the development of **eco-responsible housing** with access to drinking water and sanitation.

## PROJECTS IMPLEMENTED

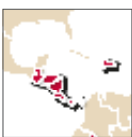


An MFI customer with her solar water heater in Peru.



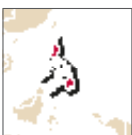
### Peru / 2011-2015

Development of financial products enabling access to energy in Peru, with two microfinance institutions (Caja Huancayo and Fondesurco).



### Central America / 2012 - present

Development of financial products and non-financial services enabling access to energy and encouraging environmentally responsible agricultural practices aimed at adapting to climate change, with 15 MFIs from the Regional Network of Microfinance Institutions in Central America (REDCAMIF).



### Philippines / 2013-2019

Development of financial products enabling access to energy with eight MFIs from the National Network of Microfinance Institutions in the Philippines (MCPI).



### Tunisia / 2019-present

Development of financial products enabling access to energy in the field of agricultural production in Tunisia, with one MFI (Enda Tamweel).



Low-consumption wood furnace sold by Caja Huancayo and Fondesurco (Peru).

## BUDGET

Over EUR 3 million

## MAIN DONORS

- Luxembourg Ministry of Foreign and European Affairs
- Luxembourg Ministry of the Environment, Climate and Sustainable Development
- Green for Growth Fund, represented by Finance in Motion

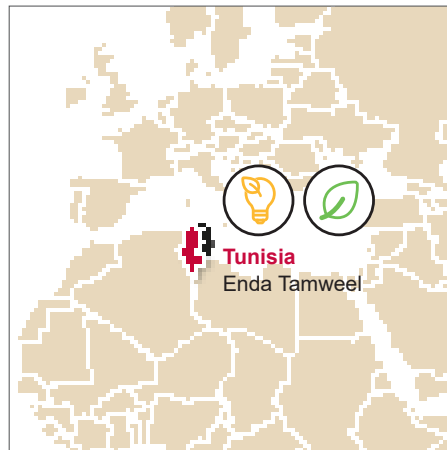
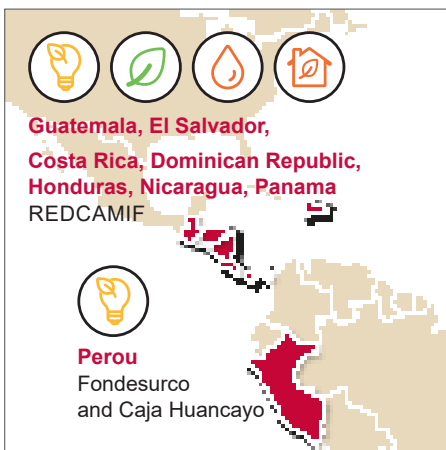
## EXPECTED CONTRIBUTION TO SDGS



## PROJECT CONTACTS

- **Carla Palomares**  
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## PILOT PROJECT RESULTS



Renewable energy/energy efficiency    Smart agricultural practices/tools addressing climate issues    Water and sanitation    Green housing

## ENERGY

- **17 MFIs** supported in 8 countries in the 3 regions. Financial services offered enabling access to renewable energies or energy-efficient equipment;
- **7,529 customers** enjoying access to these services and equipment, such as solar lamps, mini photovoltaic systems, solar water heaters, solar dryers, improved (more efficient) wood/stove ovens, solar water pumps.

## AGRICULTURE

- **8 MFIs** supported in 5 Central American countries and 1 MFI in Tunisia. Financial services offered for environmentally responsible agricultural practices;
- **2,544 customers** enjoying access to these services, supplemented mostly by non-financial technical support services for best practices.

## HOUSING, WATER AND SANITATION

- **4 MFIs** supported in 3 Central American countries. Financial services offered for eco-responsible home improvements and/or sanitation;
- **261 customers** enjoying access to these services.

## PILOT PROJECT IMPACTS

- Reduced energy expenditure;
- Improvements in quality of life, with light extending the time spent on economic activity, education and entertainment;
- Reduced health risks with people inhaling less carbon from kerosene lamps and fewer toxic particles from traditional wood stoves;
- Commercial diversification with a range of products and services on offer (equipment recharging, refrigerated products, hot water, etc.);
- Improvements to the community's living conditions via access to these new services.

- Improved water resource management;
- Improved soil treatment, better spatial distribution of crops, crop diversification, more suitable management of agrochemical products;
- Improved management of waste from agricultural production and livestock farming;
- Improved product quality via organic production practices and certification from international bodies;
- Improved long-term productivity and expected incomes.
- Reduced risk of crop loss due to weather events such as drought, floods, etc.

- Improved quality of life via the installation of toilets;
- Improved waste management and water treatment via the installation of septic tanks.



Beneficiary of a water purification credit granted by the MFI Pana-Pana in Nicaragua.



MFI customers with their solar dryer in Peru.



The solar coffee dryer allows coffee beans to be processed quickly and cheaply. The system reduces the environmental impact.

## LESSONS LEARNED AND RECOMMENDATIONS

These years of experimenting to develop “green microfinance” products have resulted in several lessons learned:

### ✓ Moving from ambition to action

A number of microfinance institutions are keen to help protect the environment and fight climate change. However, the challenge is to transform this ambition into a tangible service offer. So-called “green microfinance” encompasses a wide range of financial products aimed at a variety of productive activities or equipment purchases. MFIs who are alive to the issues do not always have the necessary tools to know where to begin. For these MFIs, the **service offer** needs to be defined precisely according to their features, and in particular the profile of their customers, their area of action, their prior experience, their **specific skills**, etc. For example, an MFI proficient in agricultural credit will find it easier to begin with credit to finance environment-friendly agricultural practices. An MFI operating in an area where there are reliable suppliers of clean technologies, meanwhile, will have a better chance of success with energy credits.

### ✓ Ensuring institutional commitment

Developing environment-friendly products and services requires a **certain level of institutional investment**. Green microfinance is therefore within the scope of MFIs that are fundamentally interested in tackling climate and environmental issues, and whose sole motivation is not to become more competitive through product diversification. Even if such diversification is a benefit, MFIs interested only in this aspect could be discouraged by the efforts required, especially in terms of knowledge of existing issues and solutions, across-the-board staff training and involvement, potential partnerships, etc. It is also essential that the MFI

has the **institutional capacity** to carry out these activities.

### ✓ Considering the situation on the ground and local development policies

The lack of electrification in some regions may suggest that **financial products** enabling **access to clean energy** will be more successful in rural areas not connected to national power grids. However, experience has shown that this is not necessarily the case. For example, the country’s electrification plans are a key initial consideration. If an MFI develops an energy credit in an area that will be electrified in one or two years, very few customers will be interested in the product. Likewise, equipment suppliers are not always prepared to deliver and install equipment and provide after-sales service in remote rural areas. Conversely, in an electrified area where network quality is low and where no improvement plan is scheduled, some people will potentially be interested in products running on renewable energies that will offset the poor quality of the network.

For “**green**” **agricultural credits**, consideration must be given to public funding or subsidy programmes encouraging farmers to take up good environmental practices, as the financial product developed by the MFI may not be competitive with this type of programme.

### ✓ Customer needs beyond environmental benefits

Preliminary market research is essential to identify customer needs and potential demand for the future product. This study must identify the type of technological product or productive activity to be financed, the **potential customers’ profiles**,

**the target areas**, and above all the capacity and **borrowing requirements** of these customers. These four elements are interdependent, but each require a specific focus. The difficulty for green micro-finance products lies in the likelihood that demand will be limited due to the target customers' lack of awareness and knowledge of environmental and climate issues. It is therefore essential that the technological product or productive activity to be financed offers **customers significant and rapid added value**, for example by meeting a basic need or reducing household expenditure when it comes to energy, or by increasing productivity or short-term income in the case of agriculture.

### ✓ Building partnerships with care

On the one hand, technological product suppliers must be mature, with sufficient inventory and production capacities, high-quality after-sales service, and a presence in the MFI's sector. On the other, the suppliers and the MFI must enjoy common goals or a shared vision. Suppliers should be prepared to serve vulnerable and remote populations while delegating the financing solution to the MFI. The partnership model between the MFI and the supplier must have a balanced distribution of roles and responsibilities. In particular, experience has shown that it is preferable for **promotions** to be carried out **jointly by the MFI and the supplier**, and **after-sales service by the supplier**, which must be named as the direct contact in the event of any problems. To be able to meet demand in terms of quality and quantity, it is preferable for the MFI to have contracts with **several suppliers**.

### ✓ Investing in product promotion

The promotional efforts required to disburse green microfinance credits are substantial. The most effective promotional channel is **peer exchange**, i.e. other customers benefiting from financial products that use the technology or apply the best practice in question. Staging **demonstrations** alongside **suppliers** is also desirable. Generally speaking, **diversifying the promotional methods** as far as possible will maximise the chances of a product's success.

### ✓ Investing in field staff

For **loan officers** to be competent and motivated to disburse green loans, they need to **understand** the subject, particularly the way this type of product benefits both customers and the environment. They must also be trained in the technical aspects relating to the product. Given the additional effort these products require, it is also preferable to integrate them into an **incentive scheme**. Finally, involving field staff in the definition of financial products will make use of their customer knowledge and further increase their motivation to offer the products.

### ✓ Customer education and training

Aside from promotional efforts directed at potential customers,



Capacity building of the Pana-Pana MFI sales team in Nicaragua.

**actual customers** of financial products must be **trained** either in the use of technological products, **by the supplier** if necessary, or in the implementation of **best practices** in the case of agricultural credits. In the latter case, if the MFI is not able to offer this service, a sustainable partnership model with one or more external organisations will be needed to provide this training. These can be local private or public actors.

### ✓ Ensuring the conditions for sustainability

To ensure the sustainability of the products and services offered, **all levels of the MFI** (Board of Directors, management, field staff) should be **involved** in the "green" product development project from the outset. Above all, this means their being educated about and trained in the topic at hand. However, pre-empting any possible staff turnover and the disappearance of knowledge and skills via a regular and recurring training programme, including written manuals that can be reused by new recruits, seems like a necessary measure. Finally, **giving an internal employee long-term responsibility** for coordinating development and centralising information for these specific products will also contribute to their sustainability.

## OUTLOOK

Buoyed by these various initial experiences, ADA is now working to structure and intensify its involvement with a view to providing a more holistic, consistent and relevant response to the climate issues faced by its target populations.

The suffering experienced by these people as a result of climate change is greater than the role they play in causing it. ADA is thus focused above all on promoting **adaptation measures**, taking into account the climate risks specific to its target countries and the priorities identified by local governments. In addition, where possible, ADA's actions are aimed at growing a sustainable development model by promoting measures or solutions that are low in greenhouse gas emissions.

Specifically, ADA's contribution to the fight against climate change focuses on three areas:



**Promoting renewable energies as well as energy efficient housing and equipment for productive and domestic uses.** ADA's efforts in this area aim to develop financing solutions to promote access to these energies and equipment, at different scales. This includes joining forces with mini-network installation projects whose operating model is based on community and/or productive usage. These financing solutions can be specifically for households, small business operators or other energy consumers, as well as for players involved in the value chains spanning production to maintenance, including distribution and marketing.



**Support for climate-smart agricultural practices** adopted by small producers that reconcile productivity, income, resilience and low greenhouse gas emissions. This is achieved by developing financial services specific to these practices with suitable financial intermediaries, along with technical support provided by specialist local players and market access solutions for producers.



**Support for the development of economic opportunities arising from sustainable forest management practices,** such as the production or exploitation of wood and non-wood products, agroforestry or ecotourism. While this is a relatively new area for ADA, it seems equally worthwhile for the organisation to invest in it. While land degradation and deforestation are a main source of greenhouse gas emissions, the adoption of sustainable forest management practices is a key source of economic opportunities for



*MFI customers that are members of the MCPI network in the Philippines with a solar lighting kit.*



*Training provided by ADOPEM (Dominican Republic) to the managers of branches marketing the Eco Vivienda product.*

local people. By mobilising its expertise in developing financial solutions in this area, ADA could give local people access to these economic opportunities while contributing to the fight against climate change. To invest in this new field, ADA will join forces with specialist technical partners. It will work with suitable financial intermediaries to develop financial solutions tailored to this type of activity.



Solar irrigation and pumping system for date palm growers in southern Tunisia.

## Supporting financial inclusion

ADA is a Luxembourg NGO that plays a leading international role in the inclusive finance sector. Since 1994, ADA has been working to develop financial inclusion services for those excluded from traditional banking systems. Our action aims to strengthen the autonomy and capacity of micro-finance institutions (MFIs), professional associations and networks. ADA also assists governments in supporting and structuring the inclusive finance sector at the regional and national levels.

**Vision:** Reducing poverty by providing responsible financial and technical solutions that are tailored to the needs of affected people, mainly micro- and small business operators.

**Mission:** ADA acts as a catalyst in the creation, identification, development and implementation of solutions enabling inclusive development.

[www.ada-microfinance.lu](http://www.ada-microfinance.lu)

## FUTURE CONTRIBUTION TO SUSTAINABLE DEVELOPMENT GOALS



No poverty



Hunger and food



Water and sanitation



Energy



Climate change



Forests, desertification and biodiversity