

The role of microfinance in growing green economies

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The role of microfinance in financial inclusion cannot be ignored as it serves the needs of economically marginalized populations. In short, the purpose of microfinance is to uplift the livelihood of underserved populations by granting access to finance.

Sustainable Finance and Green Finance are no longer new topics in microfinance sector. Sustainable finance entails addressing environmental, social and governance (ESG) issues and using financial instruments to promote and support projects with sustainable economic impact. Achieving green economy in the region calls for collaboration of all players from different levels – investors, financial institutions, business owners (regardless of size) and the communities at large. As a result, the microfinance sector is actively involved in offering green solutions to its clients to contribute towards mitigation of the adverse effects of rapid climate change, depletion of natural resource, and environmental pollution resulting from irresponsible business practices and activities especially by micro entrepreneurs.

Microfinance institutions therefore remain key determinants of global capital flows towards achieving green economies at the grassroot levels. The sector has an obligation to leverage micro credit knowledge to provide low-income clients with products and services which not only make financial



A beneficiary of AKASUGA project initiative (left) showing a project officer the progress of his small farm which utilizes manures from the Akasuga ecological latrine.

sense, but also have a positive and lasting impact on their communities and environment hence sustainable development.

At the institutional level, microfinance institutions must take a lead role in adopting and incorporating environmental and social governance standards (ESG) in their business processes. To this end, Sparkassenstiftung für internationale Kooperation works with microfinance apex organizations to support microfinance institutions in Eastern Africa through various consultancy, training and mentorship activities to effectively adopt Green Finance. Specific emphasis is on:

- Growth of 'green portfolio' – Sparkassenstiftung supports microfinance institutions in designing appropriate green agriculture, green energy, water and sanitation and waste management solutions. For example, in Burundi, Sparkassenstiftung Eastern Africa collaborated with GIZ, and the Belgian Red Cross to implement the

AKASUGA project. The project's overall goal was to improve access to microcredit for savings groups to build AKASUGA latrines. The ecological toilets serve as a source for organic manure, which increases farm yield.

- Adoption of green business processes - Sparkassenstiftung has supported microfinance institutions in Rwanda, Uganda, Tanzania and Burundi to install solar systems, water harvesting systems and water saving taps to reduce carbon emission and water wastage as a mean of both cost and environmental management strategies. Other additional areas of consideration for institutions include going paperless, recycling of waste and water and adopting a sustainable transport matrix for employees among others.
- Capacity building for microentrepreneurs: In partnership with the microfinance apex organizations; Sparkassenstiftung offers capacity building trainings for micro entrepreneurs to sensitize

them on the impact of their business activities on the environment and the society, how this directly affects their profitability; their role in environmental conservation and available green solutions and their benefits thereof.

- Impact investing - To enhance the profit story of Green Finance, Sparkassenstiftung works with development finance institutions (DFIs) and impact investors to advance affordable funds to microfinance institutions through the apex organizations to boost their capital pool. This is mainly to ensure that institutions remain on track in financing green business solutions among low-income earners hence contributing towards a green economy at grassroot level.
- Formulation and adoption of appropriate policies: Sparkassenstiftung supports apex organizations to work closely with regulators in formulating policies and regulations that not only provide a good business environment but also demand for compliance with sustainable finance standards to ensure financial institutions have a collective and shared responsibility in growing a green economy. This ensures the momentum is sustained so that the promised green does not turn out as a faded blue or brown?

To achieve this, players in the market must define universally acceptable sector specific principles and standards that control their modus operandi to facilitate tracking of adoption of standards to sustain implementation of green practices. We cannot ignore the fact that it takes a collective approach to deliver collective results. For example, it is against this backdrop that the Kenya Bankers' Association (KBA), the banking sector-led initiative came together in 2013 to put together the Sustainable Finance Initiative (SFI) Principles: a Kenya-specific set of harmonized guidelines for sustainable development to be adopted across the industry in pursuit of meeting Vision 2030. Twelve of



An Akasuga ecological latrine system.



Urea fertilizer from an Akasuga ecological latrine.

Kenya's biggest banks were on the working group behind the principles.

With universal principles and standards; investors, institutions and end beneficiaries can monitor, measure and report on their activities based on set goals against specific results. For example, investors will issue funds to support clearly defined objectives, financial institutions will design appropriate products and services to support the investors' vision while end beneficiaries will receive funds to implement activities that translate the vision into a reality. This symbiotic association makes it very easy to identify sustainable clients and transactions in microfinance loan books, develop simple but detailed client assessments and an appropriate transaction scorecard to help the front office identify the deals that contribute to a sustainable economy.

Sparkassenstiftung Eastern Africa remains dedicated to assisting

microfinance institutions in actively contributing towards a green economy in the region. It is in this light that Sparkassenstiftung Kenya through the leadership of the Country Director – Tonny Otieno is working closely with our partner organizations to empower microfinance institutions Deposit-taking Microfinance (DTMs) institutions, Credit only and Microfinance Banks and SACCOs to continue embracing 'green microfinancing' for their clients and members. Sparkassenstiftung Kenya is particularly encouraging the government of Kenya and regulators to take a lead role in advocating for policies and regulations on green inclusive finance, players in microfinance and SACCO sectors to recognize the linkage between Kenya's environmental challenges and business opportunities in green financing, increase their tempo in sensitizing and financing their clients and members to adopt green farming, green water, green waste management and green energy solutions. Finally, players in non-financial services and media sectors to increase public awareness and ensure enhanced media reporting on matters of environmental, social and governance issues so that we all participate in contributing to a green economy in the country.

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