

# FMO

*Finance for Development*



*welkom*



*welcome*

Nairobi  
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## *UNEP FI Task Force*

- 1. Credit risk and sustainable development*
- 2. Social and environmental field guidance for microfinance institutions – the FMO approach*

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# 1. Credit risk and sustainable development

Question:

Why is sustainability important for Financial Institutions?

# Environmental and social issues can impact the risk level of a Financial Institution

- *Credit Risk*
  - defaults
  - payment rescheduling
- *Systemic Risk*
  - sector-wide practices
  - market devaluation
- *Security Risk*
  - defunct / devalued collateral
- *Legal Risk*
  - potential transfer of liability from borrower to lender
- *Funding Risk*
  - access to capital (e.g. FMO)
  - cost of funds
- *Reputational Risk*
  - national
  - international

# What's in it for the Client?

- Benchmark with international standards
- Improved reputation for international markets
- Access to financial markets
- Improved (operational) management / increased productivity
- Reduced costs and risks
- Consumer trust and business opportunities

... and if it is good for the client it is good for an FI too!

# Sustainability-related opportunities exist for FIs:

- New products
- New business development

# The FMO approach

## Direct Investments in Companies / Projects

- Policy & Management System
- Capacity
- Compliance with international standards – IFC Performance Standards

- Financial Institution Clients
- Policies
- FI portfolio management
- Different approaches for FIs, Funds and MFIs
- Training + follow-up

## 2. Social and Environmental Guidance for Micro Finance Institutions – the FMO approach

Question:

How can we make the general FMO FI approach and guidance work in microfinance?



We are not talking this... but this...



Maybe not large impacts, but there are millions of micro-businesses: cumulative impacts

and not this ...



but this...



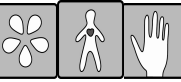
So our mission was:

Develop a PRACTICAL field guide on E&S Risk Management for MFI loan officers

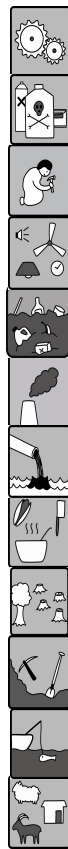
# Sector table with main risks per sector

'♦' indicates when a risk is possible, but not probable,  
 'X' indicates when in a sector there is a relevant risk possibility  
 ...

Environment  
 Health and Safety  
 Labour



.. when the Client is ... ↓



	Environment	Health and Safety	Labour	Crop growing	Animal husbandry	Fishery	Shop / Retail / Market S	Restaurant / Tea Stall	Tourism	Healthcare	Transportation	Wholesale Trade	Handicrafts	Leather tanning	Brick/tile manufacturing	Metalworking & Electro	Painting & Printing	Auto / Motor repair	Wood/metal Processing	Charcoal Production	Garments production	Textile dyeing	Ceramics, Pottery, Glaz	Glass Manufacturing	Mining	Forestry	Food Processing
				A1	A2	A3	S1	S2	S3	S4	S5	S6	P1	P2	P3	P4	P5	P6	P7	P8	P9	P10	P11	P12	P13	P14	P15
... using (a) machine(s)	[E]	[H&S]		X							X		♦	♦	♦	X	♦	X	X		X	♦	♦	♦	X	X	X
... using chemicals/paint/solvents/lubricants/pesticides/fertilizers		[H&S]		X		X	♦			X		♦	♦	X		X	X	X	X			X	♦	♦	♦		♦
... employing children			[L]	X	X	X	X	X	X	♦	♦	♦	X	♦	X	♦	♦	♦	♦	♦	X	♦	X	♦	♦	♦	X
... working in bad conditions		[H&S]	[L]	♦	♦	♦	♦	♦	X	♦	♦	X	X	X	X	X	X	♦	X	X	X	X	X	X	♦	♦	♦
... disposing of organic / production / chemical waste	[E]	[H&S]		♦	♦	♦	X	X	♦	X	♦	X	♦	X	♦	X	X	X	♦	♦	♦	♦	♦	X	♦	♦	
... causing emissions to air	[E]	[H&S]						♦						♦	X	X	X	♦	♦	X		♦	♦	X	♦		♦
... polluting water	[E]	[H&S]		♦	♦	♦		♦	♦	♦			♦	X	X	X	X	X	♦			X	X	♦	X		♦
... processing food		[H&S]					X	X	♦																		X
... clearing forest for land cultivation	[E]			X	X										♦					X						X	
... extracting clay or minerals	[E]												♦		X								X		X		
... catching fish	[E]					X																					
... keeping animals		[H&S]			X						♦		♦		♦										♦	♦	

# Fact sheets per sector

## A1 Agriculture – Crop Growing

### **OBSERVE**

The Client is ...

### **ANALYSE**

There is a risk if ...

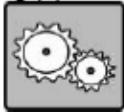
### **EXPLAIN**

What is important ...

### **ACT**

Suggest the client to ...

... using (a) machine(s)



[H&S] Machines look unsafe, ill maintained, have dangerous parts  
 [H&S] No safeguards are available and/or used when necessary  
 [E] Leakages, disposals, liquid waste or wastewater drains to stream/river/pond/soil

- Well maintained machines are safe, not dangerous and cheaper in use
- Operating a machine with proper safeguards prevents accidents
- Machines can leak oil/lubricants and that will spoil drinking water
- Malfunctioning Electricity is dangerous and create fallout

- ① Take up maintenance routine, follow strict maintenance and lubrication practices for the moving parts of equipment
- ① Keep machines in good shape and clean
- ① Experience operators only
- ① Provide and use safeguards (goggles, gloves, mask)
- ① Re-use scrap / disposals
- ① Stop leakages
- ① Stop draining liquid waste
- ① Establish contingency plans for accidents
- ① Have fire fighting equipment available
- ① Provide and use safeguards when working with chemicals (mask, goggles, gloves, overall)
- ① A separate storage is created, locked away from children and living/eating rooms
- ① Establish contingency plans for accidents
- ① Have fire fighting equipment available

... using chemicals/  
lubricants/pesticides/fertilizers



[H&S] No safeguards are used when necessary  
 [H&S] No relevant Material Safety Data Sheets (or other safety leaflet) are available  
 [H&S] Storage is unsafe, since unlocked, near sleeping/ eating

- Applying/handling toxic substances with proper safeguards prevents illness
- Safe storage prevents from chemical reactions, explosions, fire, leakages and intoxication

- ① Agree only on permitted and sustainable forms of use of pristine land

... clearing forest for land cultivation



[E] Forest is managed unsustainable (illegal and/or without reforestation plan)

- Deforestation, if not performed carefully and in a sustainable way causes land erosion and degradation, and eventually mud streams and water floods

... employing children



[L] Children are being employed

- Children should receive education, proper nutrition and health care. They should be protected from abuse and discrimination, able to play and enjoy their childhood

- ① Have no children working
- ① Have children help with light duties only
- ① Only outside school hours and pupils must have time and designated place to do homework
- ① Children do not operate hazardous machines

### Background, relevant legislation, minimal requirements

- Waste(water)disposal without permit (e.g. Prevention and Control of Pollution Act, 1974)
- Don't install diesel generator sets without approval certificate
- Have MSDS available when working with chemicals

### Solutions, tips, further information

- Farmers should use pesticides that are permitted.
- Farmers should consider to carry out integrated pest management (biological – physical – chemical)
- Fix leaks promptly Dripping joints can waste over 76 liters of water a day
- In case there is no waste disposal facility: Contact (alone or in collaboration with other entrepreneurs) local council and ask for improved public service

# Guidance to implement environmental and social risk management in the MFI loan cycle

