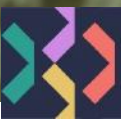




**A Market Systems Approach to
Empowering the Microfinance
Industry in Environmental
Resilience and Sustainable Finance**

EPM Case Study



In 2012, the Social Performance Task Force (SPTF) developed the Universal Standards for Social Performance Management (USSPM) with six dimensions; each dimension comprised of performance standards, essential practices, and indicators. In 2022, it expanded into the Universal Standards for Social and Environmental Performance Management (USSEPM) with the integration of the Environmental Performance Management (EPM) as a 7th Dimension. With the addition of this Dimension, financial service providers (FSPs) are able to pursue a triple bottom line of financial, social, and environmental performance.

Driving uptake of EPM via a market systems approach

A market systems approach (MSA) identifies constraints in financial services caused by market inefficiencies and seeks sustainable solutions by encouraging key actors to address missing or weak functions. Since these inefficiencies often extend beyond financial service providers and clients to include regulators, investors, mobile infrastructure, and support organizations, MSA broadens the financial inclusion ecosystem by attributing both challenges and solutions to relevant stakeholders. It aims to create systemic changes that drive specific outcomes, such as the adoption of EMP Standards, by improving interactions between consumers and financial service providers. In the following sections, this note presents the role of the different stakeholders in this project and also driving the uptake of EPM standards

EPM, includes three standards, eight essential practices, and 25 indicators, is a guide for FSPs to assess where they stand in terms of environmental protection and identify how they could improve environmental practices and outcomes. Moreover, it acts as a guide to define and implement a green action plan aligned with social performance strategy.

Partnership with Cerise+SPTF

The Microfinance Council of the Philippines, Inc. (MCPI), a national network of microfinance institutions, is a member of SPTF and has contributed to the USSEPM development phase. MCPI is committed to promoting the adoption of USSEPM among its FSP members.

In partnership with Cerise+SPTF, MCPI piloted the new environmental performance indicators from the recently updated SPI5 tool. The project aimed to engage FSPs in the Philippines in EPM through three components—awareness session, environmental performance assessment, and action planning.

The project was launched via Cerise+SPTF capacity building of assessors and trainers in the Philippines. To raise awareness on EPM among FSPs, an EPM Introductory Training was conducted in 2024 with 46 participants from 19 FSPs and 1 cooperative network. Seven FSPs, namely Ahon sa Hirap, Inc., Kasagana-ka Credit and Savings Cooperative (K-Coop), CreditAccess Philippines Financing Company Inc. (OnePuhunan), Simbag Microfinance, ECLOF Philippines, Rangtay sa Pagrang-ay Microfinance, Inc. and St. Elizabeth Community Development Program, Inc., underwent the EPM

assessment. The assessments were carried out by two SEPM-accredited assessors, supported by MCPI staff as co-assessors. Following the completion of the EPM assessments of the seven FSPs, MCPI assisted them in crafting their EPM action plan through developing an impact-effort matrix and prioritizing key actions.



Figure 1. MCPI's EPM Introductory Training.



In addition, MCPI organized an online learning exchange workshop on EPM. Through this workshop, MFIs learned from the experiences shared by selected MFIs in implementing EPM, identified challenges and gaps in developing and implementing environmental strategies, and provided recommendations on how MCPI and other key stakeholders can provide support in integrating environment and sustainability aspects in MFI practices.



Figure 2. Online Learning Exchange Workshop on EPM.

FSPs driving sustainability and environmental resilience through microfinance

Reaching the underserved and poor communities, micro-small businesses, and low-income individuals provides a unique advantage for FSPs to create positive environmental impacts. By adopting sustainable practices through EPM, FSPs can better manage environmental risks and develop products and services that help build resilience both at the institution and client level.

FSPs can support clients to adopt sustainable practices by offering specialized products designed to provide environmental solutions tailored to their clients' needs—such as promoting use of renewable energy and energy-efficient products, supporting green agricultural practices, and providing affordable clean water and sanitation facilities, among others. By assessing the clients' environmental risks and impacts, the information can be used in decision-making processes to offer necessary products/solutions.



Figure 3. In 2023, K-Coop launched the Growing Resilience, Energy Efficiency, and Environmental Sustainability (GREENs) Project for the members' energy efficient appliance and green home design. needs.

Awareness raising programs on environmental issues and risks, and good practices are also essential for clients to understand the importance of environmental sustainability and their part in achieving it. In order for clients to build resilience to environmental risks and mitigate their impacts, clients need the assistance of FSPs in promoting eco-friendly business models. In addition, FSPs can assist clients in monitoring and reporting their environmental performance. This could entail monitoring business processes, waste reduction, energy use, or sustainable procurement.

Another way to encourage clients to take part towards sustainability is to provide incentives for adopting environmental practices in their business, such as discounted interest rates, additional financing options, or increased loan proceeds. Integrating sustainability in lending practices can help FSPs build a resilient business model to protect both the institution and its clients. As a result, portfolio at-risk decreases and the FSP's financial sustainability improves.



MCPI's advocacy and forging of partnership for sustainable finance and inclusive growth

Given the global focus on environmental sustainability and climate change adaptation and mitigation, the microfinance industry has a vital role in integrating EPM to align with sustainable finance practices. MCPI, leading the Philippine microfinance industry, ensures that FSPs not only support financial inclusion but also contribute to sustainable development and climate resilience.

Although FSPs have the potential to significantly contribute to sustainable development, many of them still lack knowledge about sustainable finance and EPM. As one of MCPI's program pillars, continuous capacity building activities – training programs, learning sessions, and workshops – can be facilitated to equip FSPs with the knowledge and tools necessary to integrate EPM into their operations and strategies, helping their clients understand the benefits of sustainable practices. Organizing peer-to-peer learning among FSPs is also valuable for sharing experiences, best practices, and lessons learned, which can be adopted by those new to EPM.



Figure 4. MCPI's Core Program Pillars.

Through partnerships with organizations and funders that promote green finance, MCPI encourages its member FSPs to integrate an environmental lens into their operations, while ensuring financial stability. In addition to its collaboration with Cerise+SPTF, MCPI has fostered partnerships with organizations such as ADA of Luxembourg and the United Nations Environment Programme for green inclusive finance, Hybrid Social Solutions, Inc. in advocating solar energy solutions for household and enterprise use, and Water.org for clean water and sanitation, among others. MCPI will continue to create opportunities for its member FSPs to advance sustainable finance through more partnerships and linkages

MCPI's close relationships with key regulators, developed through its advocacy efforts to shape policies supporting the success of microfinance institutions, offer a solid foundation to advocate for environmental performance management. MCPI's long-standing partnership with the Bangko Sentral ng Pilipinas (BSP) in promoting financial inclusion provides a strategic opportunity for MCPI to champion sustainable business practices. MCPI has consistently supported the Microfinance NGO Regulatory Council (MNRC) of the Securities and Exchange Commission (SEC) in ensuring compliance with standards on governance, financial management, and social performance for microfinance NGOs.

With strong leadership and a commitment to triple bottom-line, MCPI can position the industry as a key player in addressing the environmental challenges that threaten both the economy and the well-being of the marginalized communities. The partnership with Cerise+SPTF enabled MCPI to create a baseline on EPM practices from the seven FSPs that underwent the assessment and will serve as an example for other FSPs to pursue their own EPM initiatives.

Beyond microfinance and financial services, MCPI can leverage its partnerships to engage government agencies—such as the Department of Environment and Natural Resources and the Climate Change

Commission—by showcasing how financial service providers (FSPs) are integrating environmental performance into their operations. Simultaneously, the microfinance sector can align its existing environmental initiatives with the government's *National Adaptation Plan (NAP) 2023–2050*, which outlines national priorities for enhancing adaptive capacity and resilience across communities, ecosystems, and the economy. This alignment is especially crucial for microfinance clients, who are among the most vulnerable to natural disasters and climate change. Within this national framework, FSPs can design or refine their environmental strategies to support the country's broader adaptation goals.

Regulators paving the path to sustainable finance

About BSP and SEC-MNRC

In the Philippines, BSP is responsible for supervising and regulating bank and non-bank financial institutions performing quasi-banking functions, while the SEC Microfinance NGO Regulatory Council (MNRC) accredits microfinance NGOs.

Regulators play a crucial role in shaping the environment and ensuring that FSPs adopt responsible and sustainable practices in their operations. Supportive policies and regulatory frameworks are vital for the successful integration of EPM in the microfinance industry.

Aligned with the country's climate agenda, the **BSP crafted its Sustainability Agenda** to promote a climate-resilient monetary and financial system facilitating inclusive adaptation and just transition. Its approach focuses on **three strategic themes**: to manage climate risks to price and financial stability, mobilize green finance, and implement sustainability in its own operations. BSP seeks to ensure that financial institutions manage environmental risks to foster resilience.

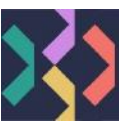
To support this, BSP has introduced several tools and regulations:

- **Governance and risk frameworks** that integrate sustainability in managing risks and opportunities.
- **Disclosures** to improve transparency and market confidence.
- **Scenario analysis and stress testing** to assess climate-related vulnerabilities.
- **Taxonomy** to support business and investment decisions on sustainability alignment

To promote green finance across the financial sector, BSP envisions cooperation among industry players, the government, and the entire development community. This collaboration aims to address data gaps for improved climate risk management, advocate for market and policy reforms to support viable green projects, facilitate capacity-building on sustainable finance, explore the development of industry or market utilities for cost-efficiency, and develop standards and guidelines for financing climate resilience.

In the coming years, the BSP will also issue or enhance regulations covering the conduct of climate risk stress testing by banks; amendments to disclosure requirements; enhancements of prudential reports for data collection and surveillance analysis; incentivized lending on financing of green or sustainable projects or activities; and development of sustainable finance taxonomy.

While the SEC has gradually enforced sustainability reporting for publicly listed companies in the Philippines and will develop digital solutions to collect and process sustainability reports, **the MNRC accredits microfinance NGOs based on governance standards, financial performance, and social performance**. With an increasing emphasis on non-financial and sustainability reporting, **MNRC Memorandum Circular No. 2 Series of 2021 (*Guidelines for the Accreditation of Microfinance NGOs for the Period 2022 to 2025*)** outlines the plan to incorporate additional key indicators under its governance standards. These indicators will focus on development of clear and targeted policies for managing economic, environmental, social and governance (EESG) issues of microfinance NGOs' operations, which will be required for future compliance. In this context, Dimension 7 (EPM) of the SPI5 tool, already piloted by a number of microfinance NGOs, can serve as a valuable tool and baseline for assisting SEC-MNRC in formulating EESG policies.



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