

**Microfinance
and the Environment:**

Setting the Research
and Policy Agenda

Philadelphia, PA May 5-6, 2006

PRESENTED BY THE WHARTON
ENVIRONMENTAL MANAGEMENT PROGRAM



IN PARTNERSHIP WITH



GREEN MICROFINANCE

**Summary
Microfinance and the Environment:
Setting the Research and Policy Agenda** © 2007 Green Microfinance, LLC

ROUNDTABLE

**May 5-6, 2006
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TABLE OF CONTENTS

- I. List of Participants
- II. Executive Summary
- III. Microenterprise and Environment Guiding Principles
- IV. Summary of Opening Keynote Address
- V. Case Study Summaries
 - a. Self-Employed Women’s Association Bank, India
 - b. Mennonite Economic Development Associates
 - c. FINDESA, Nicaragua
- VI. Summary of Roundtable One
 - a. Should Microenterprise be in the Business of Environmental Protection?
 - b. Incentives and the Research and Policy Agenda
 - c. How Might MFIs impact the environment?
- VII. Summary of Roundtable Two
 - a. How Can MFIs Promote Both Environmental Sustainability and Poverty Reduction?
 - b. Important Perspectives
- VIII. Summary of Roundtable Three
 - a. Do Donors and Investors in Microfinance have a Responsibility/ Role for Ensuring that their Support to Microfinance does no Harm to the Environment?
- IX. Summary of Synopsis of Next Steps
- X. Summary Remarks

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Executive Summary

At the 1997 Microcredit Summit, the involved institutions reported having 13.5 million clients. In 2004 it was 92 million. Looking at it from an individual institution perspective, Grameen Bank has grown from 42,000 clients to some 6 million. Amar Credit and Savings grew more than nine-fold, as did Crecer in Bolivia between 1997 and 2004. Zakora in Morocco grew more than 75-fold to more than 174,000 clients between 1997 and 2004.

This dramatic growth in microfinance can either be a growing problem, or a growing opportunity, for environmental change. Environmental depletion leads to reduced availability of resources and increased costs of inputs of resources, which in turn reduces their sustainability. Environmental education would help MFI leaders see that lending for environmentally friendly technologies would provide new markets for MFIs facing increased competition.

One of the goals of the Microcredit Summit Campaign is to reach by 2015 175 million of the world's poorest families with credit for self-employment and other financial and business services, which would affect 875 million family members. The Green Microfinance-Wharton Roundtable aimed to further explore the ways in which the microfinance industry can continue to grow as an agent for the end of poverty and a healed environment.

Microenterprise and Environment Guiding Principles

- Environment is a sacred trust: The earth and all its life are interconnected and sacred.
- Addressing the human spirit is essential:
 - Environment and human integrity are inextricably linked;
 - Improving inner human quality results in improving the environment.
- Protecting environment is an opportunity: Environment protection makes good economic sense.
- Creating financially cost-effective solutions is vital.
- Benefits and costs are both short and long term:
 - True costs include environmental costs;
 - Agencies should identify, account for and mitigate environmental costs;
 - Environmental benefits created should be recognized;
 - Costs of creating environmental benefits should not be borne solely by microfinance institutions (MFIs) or clients.
- Creating partnerships is crucial: Partnerships with stakeholders is a key to appropriate environmental protection in development.
- Participation is for everyone.
- Participation must be inclusive, equal and fair

Summary of Opening Keynote Address

Robert Christen, Director

Boulder Microfinance Training Program

In the early years of microfinance we just checked the box that we were not doing any harm to the environment. Today, we are much more sophisticated. We need to know what activities we should and should not be funding. Whether accepted by the masses or not, microfinance is affecting the issue of environment and degradation. There is a clear link between environment and microfinance. IFAD's portfolio has 70% of its projects operating in areas that are "sensitive." As we continue to focus on the poorest, we cannot escape the environmental angle. We must take a "do not harm" perspective.

The field of microfinance is now a part of a great many public works projects. In a recent survey of 280 environmental projects, it turns out that 90 have microfinance components.

We see six opportunities to fortify the link between microfinance and environment:

1. Enhanced Livelihoods (e.g. Conservation International) – This is about giving people enhanced livelihoods versus the unsustainable extraction of natural resources.
2. Technology adoption (e.g. SEWA's case study that shows a solar energy technology alternative to using damaging fuel sources.) Microcredit can provide an opportunity to purchase a new technology.
3. Improved ecological practice and natural resource area – How to manage watershed, forests where people are living, etc. Improved practices: developing a skill set/orientation that impacts less on the environment. (e.g. organic coffee, reforestation, etc.)
4. Environmentally Sensitive Business –Ecotourism businesses, biodiversity products, managing a resource sustainably, etc.
5. Mitigation – How to be more sensitive in micro lending, to make sure that loans are not doing harm, to see what clients are doing better.
6. Payments for services – There is not much work done yet. (e.g. Costa Rica, where farmers are paid to protect an area).

The key to success is the notion that microcredit is tied into a specific activity. Twenty years ago, microcredit was part of rural "integrated development programs" and failed. Since then, we have moved away because those elements did not work well. How do we avoid the mistakes of the past? We engage a cleaner, sharper eye to create services. The significant challenge will be to train people to recognize and calculate "value." Training is critical.

Other challenges include:

- Microcredit access to populations in remote areas. Typically, microfinance is concentrated primarily in heavily concentrated areas.
- Credit cannot be offered in perpetuity. Creditors must identify when the need is for microfinance, and when is it financial support of a different sort.
- Microfinance needs to become thoroughly commercial to reach out to those families that can use financial services. It needs to be tightly linked to bank.

SUMMARY of FIRST CASE STUDY

Sharmila Davra

Senior Officer

Energy Department

Self-Employed Women's Association Bank (SEWA), India

- SEWA was registered as a trade union in 1972
- More than 100 cooperatives
- Energy services loan section was started in late 2004 to efficiently meet the energy requirements of the clientele of SEWA Bank and other SEWA organizations.
- Accordingly entered into partnership with SELCO, as the technology providers.
- Technologies are there, but some parts of the country are not using it.
- We have to modify the technology as needed by the women.
- Financing lighting for home base worked, reliable and safe lightening for hawkers as well as other projects.
- Strength in 300,000 members.
- Need much technical expertise and SELCO is providing training for the staff.
- Needs of the women: financing terms as per earnings patterns, product value as per users need, affordable, quick technical service.
- SEWA and SLECO have done the following to date: exposure of women by letting them use the technology for 15 days, demonstrations to convince women to adopt new tools.

Case Study: Mrs. Amarben Parmar, SEWA Client

- Working as an assistant mason for many years, but the income was not enough for her. She was doing part time work sewing. She had no formal schooling.
- Attended 1 month training program for the smokeless stove, which was organized by SEWA and SELCO.
- Demonstrated the success of new stove. Now receiving \$2 per 3 hours.
- In the area where she lives, she found women preferred to have their cookstoves outside because of the size of the houses (versus where she was trained). She applied her skill and changed the design of the stove, which is now in high demand. She is working as a trainer, training other to build the stove.

SUMMARY of SECOND CASE STUDY

Julie Redfern

Director of Microfinance

Mennonite Economic Development Associates

- MEDA is a 52-year old NGO based in US and Canada.
- Involved in: microfinance, production marketing linkages, investment fund development, community economic development, member services.
- MEDA established a policy on the environment. Came out of the need for Canadian organizations to develop internal policies to comply with the Canadian Environmental Act.
- They trained staff in environmental impact assessments. Training provided for MFIs in Tanzania, Romania, Mozambique.
- Simplified decision scheme and the assessment tool. Streamlined into the loan application.
- Egypt Project: Examining workplace hazards for kids that are working in the businesses.
- Lessons learned: environmental screening increases cost, sometimes difficult to get staff buy-in, needed to reinforce training over time, credit type initiatives need to be driven by management, need additional tools for MFIs.

SUMMARY of THIRD CASE STUDY

Gabriel Solorzano¹

CEO

FINDESA

Nicaragua

- Jose Ramiro Suaz: traditional hammock-making family. Received financing and as a result they could make a more environmentally friendly product. Improved the quality of their dyes.
- Mirna Sandoval: started with ovens using diesel fuel, but it used too much smoke so they switched to butane. They are losing sales due to the loss of productivity with the butane stove. Their goal is to acquire an electric oven through a loan from Findesa.
- Juan Augustin: farmer. He agreed to reform the types of crops he was using. So he changed his production process and crops. Consequently he is able stay out all day and work under the shade of the trees compared to the few hours he could work on bare land. Through Findesa he acquired irrigation equipment and improved his far.

¹ Mr. Solorzano's presentation was accompanied by a DVD on case studies. The DVD can be obtained from FINDESA.

Summary of Roundtable 1:

The increasing availability of microfinance in developing countries where there are few environmental regulations and controls leads to the question: What are the impacts of microenterprise and microfinance on the natural environment? It is important to quantify impact (e.g., what is the real scope of negative impact that we feel microcredit can have on environment? How can we quantify the scope of these impacts?)

We need to recognize that the rural poor are victims as much as they are contributors to degradation. As we are offering assistance, it is important that we avoid stigmatizing target groups (by excluding them from the marketplace). MFIs also know that for the impoverished, the use of natural resources is a key activity for survival. As such, we need to create “win-win” situations by graduating the process used to consider microfinance and the environment so that it can have a positive impact.

On a global level, we exist across fragile ecosystems. As an industry, the capacity is limited for microcredit to “force” environmental protection. We need to be interested in conserving assets at both the micro and macro levels. Choices can and should be evaluated and impact can be made using market forces. Instead of making environmental stewardship a cost, make it a benefit (e.g., promote ecotourism by conserving environment). It is better if you can build this value component into the system though it is clearly more complicated. It is the difference between counting the trees and making sure that the trees are in the right place.

In urban centers, the environmental impacts of credit resources are not significant as a vast majority of borrowers are involved in commerce and services. In urban areas these entrepreneurs do not emit heavy pollution but rather litter, congestion, and noise. Fruit based drink, plastic and straw. Public infrastructure is needed for collecting trash in order to avoid burning (note: plastics that are burned throw toxic pollutants into the air). In more rural areas, the negative environmental impacts are much more pronounced. Negative impacts in rural areas occur primarily with regards to

- Agricultural chemicals which are not used properly;
- Mercury and cyanide in aquatic areas;
- Food processing industry creates waste water, unusable carcasses, and vegetable residue;
- Deforestation;
- Small scale mining; and
- Diversion of river channels.

Our research identifies 11 areas of concern:

- Leather tanneries (heavy metals);
- Brick making (air pollution);
- Chemical intensive agriculture and aquaculture;
- Metal working;
- Mining;
- Painting;
- Printing;
- Wood processing;
- Charcoal making (deforestation air pollution);
- Textile dyeing (water sources);
- Food processing (waste water.)

Should Microenterprise be in the Business of Environmental Protection?

The big issue here is the difference between “should” and “can”. Should MFIs do this? They shouldn’t, necessarily. But CAN microfinance as a tool be useful for environmental objectives? The overall effect on the environment may not result from a single enterprise, but it can occur from a collective impact. Each transaction may not amount to much, but when it is all added together many have a huge impact on the environment. This impact can have a much larger effect than just pollution and resources which is why it is so important. A totally new, but related, topic is occupational health and safety. In many respects the dirty industries are highly correlated to occupational problems.

So, yes, MFIs should be concerned about environment but they should not have a mandate. The approach should be to engage in environmental sustainability and due diligence from a perspective of their bottom line. If they lend to certain activities with a high degree of environmental risk, they will have loan defaults and reputational damage. So in that sense they should be concerned. To charge MFIs against poverty and to lend to clients whose businesses affect wastewater, makes an MFI actually part of the problem that it is trying to address. So to separate the environment from the economic focus of MF is not looking at whole picture

On the other hand, the industry is still not mature and very weak. The methodologies are not perfected. Operational sustainability and asset quality need work. Therefore, MFIs should not become substitutes for the EPA, this is not their job. It is important to remember that the tasking of the MFI with environmental protection is beyond their mission which is to promote economic survival. How can MFIs be expected to do this if no one is asking other institutions to do this? To assume environmental protection to be a top priority would be misguided and, especially in business, when the environment comes into conflict with profitability, the latter is often stressed first.

MFIs are an opportunity to promote environmental sustainability through an evolving market because they have a wealth of knowledge on the communities in which they are located. They have their finger on the pulse of every aspect of small business going on in their communities. MFIs should serve the role of facilitator because the MFIs which have a wealth of resources. Furthermore, MFIs have a personal responsibility because they have a good relationship with their clients.

Many people say that’s its not the business of microenterprise firms to do environmental protection. There are many other things to do, other issues. However, many would also accept that it is the business of everybody to do something about the environment, to improve the environment. To have microenterprise accept and invest into environmental protection is very important which is why it is absolutely essential to consider the scope and impact of MF on the environment. Are micro entrepreneurs contributing more to environmental degradation than big companies or multinationals?

There is absolutely a need for more research looking issue by issue, numbers, sector by sector, clear statistics because numbers will make it much easier to convince MFIs. Since specific issues may have different impact on the environment there will be two kinds of measures, e.g. negative (screening clients, changing credit policy, increasing interest rates for harming the environment), and positive examples (new activities, new technologies, MFIs’ raising awareness and training clients). Without research, many MFIs will have nothing to do with the environment and will not want to invest in it, but if there is clear data and information which makes it their responsibility as well as positive examples of how to have an impact MFIs will definitely take interest in such activity.

The question is to what extent and what does it mean? Everyone agrees that MFIs are not environmental police, in general. These are government responsibilities. MFIs are not natural environmental stewards, or inherently environmental stewards. It is way beyond the capacity of MF to understand the environmental impact and way beyond the ability of financial people to understand. The whole process needs to be simplified as much as possible. While it seems ideal that MFIs be involved in environmental sustainability, it must be kept simple, otherwise everybody gets frustrated.

Maybe the common ground lies in incentives. If so, what should the research and policy agenda look like?

It is not just the incentives - MFIs of next 5 -10 yrs will need more things to finance, not necessarily more financial products. As the consumer preferences in the emerging markets change, and people want more things, they're going to have to find ways to finance electricity, cleaner fuel, etc. Just because of the role that MFIs play in their communities, they're going to have to be up on these things and understand them.

Innovation will happen but it has to respond to a demand. It is important to frame it in their language and speak to them and to their incentives. Insofar as you look at the impact of environmentally friendly interventions on indicators of business health and growth, like employee retention, profitability, efficiency, and also at the MFI, framing the research and looking at perhaps eco-friendly techniques on their own portfolio quality and efficiency the project will be successful. It is important to speak with MFIs in their language with incentives in mind, and come up with actionable strategies that fit into their models. It is not easy to involve poor people, women, in energy because it involves reevaluating their priorities and value and it cannot affect their income.

MFIs should definitely not be burdened with proving that they are not doing detrimental impact beyond the very limited stuff that they can see, but the development of a number of tools that an MFI management might use to create this win-win situation would be beneficial to try to have ways to design better projects, to engage in a number of activities and processes which are going to foster win-win situations and also mitigate immediate risk.

Regarding the need for training by environmental organizations, who is doing it and how is it funded? Are there are greater transaction costs and expenses, if such training is done by environmental organizations, in partnerships, rather than by building those capacities into MFIs? From a more hidden transaction costs perspective, if the MFIs aren't doing it internally themselves, if they don't develop the capacity to address the environmental questions, will they develop the ability to become aware of the threats to their loan portfolios, if you're just leaving this to specialized partners? These are two things that suggest that the MFI should be doing it rather than leaving it to a specialized partner. On the other hand, the danger of bad information may outweigh the costs incurred by a partnership with an environmental organization.

What's useful about the partnership model, which may not be the most efficient from economist perspective, the usefulness of it is that it allows the separation of subsidy from sustainability, it allows MFIs to be profitable, sustainable, institutions from a financial perspective and it allows those who have a particular issue, whatever it is, and who have subsidies attached to dealing with that issue, from a society perspective, to make the kinds of partnerships to allow each to do it for that service on a

sustainable basis. To the extent that in rural or urban areas value can be provided that is clearly understood by MF clients, even around environment or any of the other topics, then it's a competitive advantage and able to be worked into the price, then it is a spectacular opportunity, but it is important to think rigorously about how that value is created for the client.

How might MFIs impact the environment?

Will there be an evolution in the environment as there has been in relation to social impact? The MF industry has moved from the concern of proving impact, which is impossible because of a lot of attribution issues, to improving practices and developing means to monitor whether an MFI has a means to pursue social objectives/mission. So there has been this shift from improving impact to improving social performance. And that has led to internalized number of tools for MFIs to be able to monitor whether they are achieving their social purpose. On the environmental side there may be the same shift.

Yes, MFIs have a role in managing environmental impact. The exact role is not defined yet, but it is definitely not the same as the governments. There were many suggestions; interestingly the majority were research rather than policy. There is a desperate need for more quantification, documentation, of experience of MFIs working in the buffer zones around protected areas, their lending practices, and again coming back to this word of "causality". If there are limited experiences of MFIs working in protected/buffer zones what are the barriers, constraints, why are they not extending coverage to these areas?

Some other research that would really speak to incentives is: case studies of 'environmental' MFIs that have developed eco-friendly products, more data on demand from customers, how it helped them differentiate themselves from rest of market.

Summary of Roundtable 2

How can MFIs promote both environmental sustainability and poverty reduction?

They must cover operating expenses and move toward financial sustainability, which means they must generate income to sustain the commercial cost of capital. This can be made possible through borrowing funds and raising funds through deposits.

But some questions need to be answered such as: who will pay for environmental sustainability and should that cost be shared? Right now the cost is passed on to the client who pays more for loans but should some of that cost be on the investors/government donors? If government donors and investors were willing to take some of the burden of the cost, it would have a more equitable solution, making MFIs more sustainable. There is a common belief that using non-polluting technologies may not be financially sustainable. What does the business model look like for reaching the poorest people, using environmentally friendly technologies, and not putting undue strain on MFIs?

Until recently most loans have been need-based, but that is changing now because there are so many grass-root level technologies, good technologies that the poor can adopt easily if they are made available in the market (currently they are not). This is a long-term process. Solar energy is a good investment for the poor. India has 12 hours of light, so solar energy is not expensive for the poor. But it is still important to keep in mind that these enterprises cannot play with the income of the poor.

MFIs can do better than they have been doing to create more environmentally sustainable investments. They cannot force people to accept the technology, but they can identify the need and the appropriate technology and match the need to the technology. Then they should let the people use the technology for a given period of time and let the people come back to provide input on why they do/do not want to use the technology.

The key issue when trying to provide financial services and technical assistance is location, which plays a major role especially in remote areas. There is a linkage between financing and promoting biodiversity conservation. The question is, what role can lending play? There are some practices that have worked, such as lending for development of raw enterprises around protected areas. MF is the largest funder of biodiversity. The project rationale is to preserve protected areas, reduce threats, and help develop alternative livelihoods through business planning and access to credit.

Important Perspectives

The family is a unit of enterprise in less developed countries and there are a lot of services going to women, to individuals but the family unit is the key entrepreneurial unit that makes this happen.

This is the only way I can feed my four kids, and there is nothing I can do about deforestation;

People are poorer now and a lot of us do not have choices;

I can only expect destruction for my family because I am perpetuating it with my own hands—I know I am destroying the land, but I have no choice.

Somebody needs to address these issues raised by the people in this difficult situation.

If we want to solve problems of poverty and help the environment, those ways have to have assignable value that people perceive and are willing to pay for. It is also important to show how environmental practices can create value for MFIs and increase profitability and customer satisfaction.

One thing to consider is that using environmentally-friendly technology can help to secure investment in case regulations are put in place later. We should look at how the innovative win-win situations can increase sources of revenue for MFIs – if you manage the internal structure, this new revenue can be tied to savings accounts or additional loans.

One struggle in this discussion is that (10 –15 years ago) MFIs and newly emerging NGOs that wanted to get into MF said “Don’t restrict your capital. We have many restricted funds that can only be used in a certain way.” So everyone worked really hard that once the loan was approved, to trust them with the loan and to use it the way they thought best. Now these organizations need to pass both the business test and the environmental test- so what needs to be done is create the incentive for self-regulation. That is how the best financial sustainability indicators came to be, it wasn’t necessarily from donors and investors.

Finally, it is important to accept that MFIs cannot do it all. There is a need to get the government involved in a policy role – they can facilitate environmentally-friendly activities that have a market value. MFIs cannot be expected to create something new; greener practices must fit into the existing infrastructure and the way in which MFIs already operate. MFIs cannot do it all. They cannot spend the majority of their time and budget looking for what is environmentally appropriate. They need to provide solutions that are consistent with local demand. They can then provide access to technologies that will be supported locally. MFIs can, however, help with sustainable development.

Children, ages 12 – 14, are some of the entrepreneurs in developing countries. To what extent have loans gotten to young people?

Child labor is just a fact of society and that means the important thing, and something that has a lot to do with the environment, is to mitigate workplace hazards. So what needs to be done is to provide loans for technology or other measures to reduce the hazards or in some way mitigate the dangers of the workplace, and primarily target those businesses that are employing youth. The same thing needs to be done where children are a big component of operations, so that youth have safer workplaces. Also, if

technology can increase efficiency in the business, it will create opportunities for less time at the job so that there are more educational opportunities.

Can environmental value be measured?

In other words, what is the benefit of not cutting down the trees? It makes sense to separate MF from specifically targeting environmental problems, which should involve the choices a government makes and regulatory initiatives.

Measures with supply-side emphasis have not worked. MFIs do not want the burdened of further measurement requirements, so any measurement tools/requirements have to make sense for them.

So the question is, is it worth it to invest in measuring? In answering this question it is important to remember that if some measurement is not built in, it is harder to know what has been achieved and if the end goal has been met. It is also important to state the end goal because without a clear goal, there can be no clear measurement.

What do MFIs need to make them believe they can engage in more environmentally sustainable practices?

Investing in sustainable practices reduces the risk for the portfolio. If it is possible to demonstrate a risk reduction, the benefits to MFIs are clear: they can access funds that are currently off limits to them. MFIs can get funding from SRI institutions if it is clear that the risks are reduced and the SRIs can meet their goals.

In the measurement issue, it is important to be clear about criteria expressed, is it possible to come up with a list of four green things that everybody should be doing today, a minimalist approach.

If you just take the market as it is, and the prices and the existing constraints, survival is key, these organization are in the market, a for profit competitor will kill them off if they don't play by the rules

One idea is very simple talking points that a loan officer can put in their pockets, five of them, color-coded, maybe one is on water, another on waste, enter into dialogue with the poor.

Summary of Roundtable #3

Do donors and investors in microfinance have a responsibility/role for ensuring that their support to microfinance does no harm to the environment? If so, how can this responsibility be implemented?

Policy must be formulated based on national rules and regulations and labor standards. We should start with an exclusion that lists financial institutions (not micro) and must find out where the risks exist. Clients must do the same and should be categorized. We must identify the main sectors that cause environmental degradation within a full portfolio and integrate those risks into a normal financial management system. Many of these financial institutions were capable of developing the system and reporting on an annual basis while others could not (and subsequently received assistance). This is our general approach. Yet MFIs that participated did not think it was for them; their cases were “different.”

The minimal threshold is that an MFI should not do harm in areas where it is clear there is a risk of doing damage. How can the focus be shifted towards doing more good (as opposed to not doing harm)? The complication is that most MFIs think they are doing good. Now we are saying “it is not good enough”. They’re increasing poor people’s incomes, assets, they’re mitigating their risks thru insurance, they’re bringing income flows that people have left developing countries, to immigrate to other countries, you know, those flows are coming back thru remittances, and are hopefully being tied into asset building products, so they’re already got this good thing that they’re doing. It is absolutely essential to create incentives that make these institutions feel like they’re part of the party as opposed to being scolded because they’re naughty people. It will be beneficial to create incentives that make the MFIs feel like part of the party, as opposed to making them feel bad.

Opportunities oriented around innovation seem to work. This is where we need some creative thinking and it may not be the role of the MFI to do this innovation, but to pick and choose from available options. For example, Nigeria has implemented a community reinvestment act. That might be something where advocacy within the country could help get more investments and work with environmentalist to get more investments. This could be a watershed moment in the history of donors in microfinance.

Maybe donors should be more focused on empowering clients. Put them in power to demand certain things. Do clients know what tools are available to them? It is likely that they do not. . There is an attitude in MFIs to feel they are the ones raising the income, but the people are doing it themselves. MFIs will become simply commercial entities in the future.

Environmental donors do have a role and her responsibility is to be sure there is new demand created by this. Donors could work at encouraging governments to provide social marketing campaigns to cause this change. For example, by creating billboards about solar energy, and other environmentally friendly opportunities governments can raise awareness. In many situations it is not that people don’t want to waste four less hours going to the forest, they didn’t even know there was an option.

Finally, we must not forget the social aspect of the environmental change we would like to bring to our countries. Social change must be addressed, for example, the (social/cultural) impact of changing from wood to another fuel. Why do MFIs have to do this and no on else? It is because they are natural innovators.

Summary of Synopsis of Next Steps

Many people remember trying to build legitimacy around the concept of financial sustainability back in the early 1980s. Back then everyone thought that this whole MF idea was interesting but amorphous and lacked substance, no one really knew how to talk about it, and this whole tack of understanding financial viability started as a necessary precondition to really go somewhere, to give it legitimacy. Ten years later people started getting serious about social impact, and how one might actually talk about that a bit more rigorously with a bit more discipline and get out of the fundraising mode into something that has a bit more “beef” to it.

Now MF is at the same sort of place with this discussion, where the most important next step is, and rather than a physical process, it’s a mental process, of getting rigorous about vocabulary, concepts, performance. No one expects a consensus, just for people to be rigorous in talking about it, thinking about it, making good programs, making sure it is done well, measuring it and professionalizing it. If you look at microfinance practice in the environmental community, there is a huge distance to go, to make it a reasonable, responsible, quality proposition, so getting rigor in is more of a mindset that a process, because until there are quality results, there isn’t much to talk about, except to speculate what if... And it has been done on the financial side, on social the social side, and now it needs to be done on the environmental side. It is as much a mind set as a process.

So, the fundamental question is, should MFIs be in the businesses of managing microfinance impact? Should MFIs put environmental protection in a business framework, and does it make sense?

So what are the next steps? Promoting opportunities for new products and growing businesses is an important pace to start. Both functions need to be carried forward in partnership: MFIs with core financing and technical experts with monitoring. Many complain that the transaction costs of microfinance are too high. Can MFIs remain financially viable with a green mandate? Financial sustainability is of primary concern. No MFI will do any good if it goes out of business. Environmental stewardship and poverty reduction have to be a mandates from within each individual MFI. Ultimately, these are management decisions that MFIs need to make for themselves and likely only if there are advantages in creating value for customers. This value creation should be the driving force.

Some issues to follow-up on are:

- Concrete case studies on environment and microfinance that can raise problem for reputation or risk of MFI
- Concrete examples of environmental friendly techniques and business enterprise for MFIs
- For people who are not so conscious of MF and the environment, would be to try to document and address the relative importance of microenterprise into environmentally related issues. Many people who are not familiar with microfinance and environment will tell us again, and we discussed this early, why is it so important? When so many multinationals are polluting etc. So it would be very important to document how/if they have a strong influence in the environment.
- How to bring in more mf institutions and expertise in our project design work: continuing network of everyone around the table would be useful.
- Quantify and access effectiveness of linkages between provision of financial services and environmental impact, and would like to get more involved and help assess the impact
- Flip side, not just bringing financial institutions into developing conservation strategies, but also the other way around, in trying to mainstream biodiversity into MFIs by way of training.

Another category is this issue of roles. There will be plenty of demand for MFIs to tackle environmental concerns. Historically and looking ahead, microfinance is supply driven and donor mandates come along with them. The industry is on a new trajectory. Given all the money in the world system and the increasing power of MFIs as well as the growing power of consumers it may be necessary to take new approaches. MFIs should not provide mandates, but rather they should provide leadership in what may be possible. They should look to client banks to develop business that they may not be able to do on their own.

One of the most important things to realize is what happens when you provide the loan or the financing. There needs to be careful studies and analysis before MFIs engage. When MFIs provide financing, they should bring in tools to make the borrower capable of dealing with environmental problems. There are some opportunities out there that the MFIs can work on, with or in conjunction with other agencies. It is difficult to ask a credit analyst who has to manage five hundred customers per person to analyze in depth environmental impact. It can take 2-5 hours to do an environmental impact analysis. It will be important to first develop good procedures or good practices on different types of industries that are typical to MF, for instance agriculture under 10 acres (vs.) over 10 acres. If someone works with commerce, they sell fruits in the market, what are the things they should be expected to do to reduce environmental impact?

Then work with the development agencies as well to work in the areas such as providing training, some booklets, some cartoons to hand out to these people, or a checklist, some 3X5 cards on general suggestions. The important thing to remember is that it must be kept simple, and adapted to each region. Then the MF industry can add fuel to the implementation and deployment of those new products. There are areas where the MFIs can go into so that there is buy in from the MFIs in the world.

Another step that needs to be made is to bring other folks together in other regions of the world. MF needs to get together with green tech providers, to bring these two sectors together. There is resistance to adding new things to the agenda, because the feeling in many donor institutions is that the development agenda is currently overloaded with too many fads, and so it is important to justify why this is important. There needs to be some sort of innovation fund, combination of financing with organizational capital to build partnerships. And that's very difficult because many of these types of activities are plagued by coordination failure, who takes the lead? A lot of applied research and technological research is needed, and a lot of academic research and data gathering is needed to make the case in journals and then to the policy arena to make a convincing argument as to how to make change. Tax credits, subsidies, rebates in interest rates, those types of arguments that would need to be backed up by data. Right now there is a tremendous dearth of data, of measurement indicators. There is a need to begin gathering data, analyze it and use it in advocacy.

Summary Remarks

First Roundtable:

Should MFIs be in the business of managing environmental impact? There is a very serious challenge to put this in language that an MFI would understand, meaning putting it into a business framework. Not that there is some kind of mandate, but that does this make sense from any kind of business point? There are two general categories that make some business sense:

First, there is the risk management function, particularly with regard to reputation, assets, and in regard to markets, it is very helpful to have the eleven (11) harmful industries already identified as a starting point. In order for that risk management function to be carried through, to be implementable, there need to be some very streamlined tools that make sense to the loan officers in the MFIs.

The second category is opportunities for new products, and growing the business. There is also a lot of discussion about new technologies, about how can to get banks/ MFIs interested in this and so on. There is a very important adjunct to that discussion and that was that both of these functions probably need to be carried forward in a partnership situation where the MFI provides its core expertise of financing, and relies on partners to provide tech advice, tech assistance, education, monitoring, whatever.

A few years ago there was an attitude that it is wrong to ask these institutions to incur the added costs of environmental consciousness. Now, hopefully, consciousness has shifted just a little bit.

Second Roundtable:

Can MFIs do environment and poverty reduction while remaining financially viable?

Twenty years ago MFIs were seen as having a mandate to do everything and as a result, many of them didn't, and they became financially nonviable. So financial sustainability seems to be a primary concern here, that is, no MFI is going to do any good if it goes out of business. So there has to be a way of putting the financial and the operational viability into everybody's consciousness, and that the rest, environment and poverty reduction and so on, has to be a strategic choice of each MFI based on its own capacity, its clients, and so on. No one is going to ask MFIs to engage in all kinds of environmental stuff, all kinds of HIV/AIDS stuff. To talk about microfinance, and the environment, is different from talking about MF "plus", MF and AIDS, MF and health.

These are management decisions that the MFI have to make, and make it in the context of their business plan. That is, if there are advantages in creating value for customers, by offering or encouraging them in certain kinds of behavior, this should be the driving force.

Third Roundtable:

Donor Obligations

Microfinance has a history of being supply-driven, and the donor mandates have come along with that. Given all the money in the world system and the increasing power of many MFIs and the growing power of consumers in many emerging markets, there may be a need to take new approaches. There still needs to be risk mitigation, but that the MFIs themselves are going to have to look for new opportunities. The role of the donors or the fenders is not to provide mandates but really to provide some kind of leadership in showing what can be possible, and in really offering new opportunities.