

THE TRIPLE BOTTOM LINE FOR MICROFINANCE

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INTRODUCTION

The past decade, we have witnessed an unprecedented revolution in development cooperation: microfinance. Without exaggerating, it can be stated that microfinance has improved the lives of millions of people by fighting social exclusion and stimulating small enterprise development. Even better, investing in microfinance increasingly becomes commercially attractive. It seems that we are a witness of the long-awaited marriage between “doing well” and “doing good”.

The commercial success of microfinance calls for a fundamental question: *does microfinance actually lead to sustainable development?* So far, it is widely assumed that providing financial services to the unbanked generates positive development impacts. However, few microfinance institutions (MFIs) really measure and report the social and environmental impact of their microfinance activities, particularly the impacts that go beyond the direct household level.

In this article, we describe how MFIs can monitor and report the economic, social and environmental effects of their activities (triple bottom line). This article also illustrates how MFIs can support their clients in enhancing their social & environmental impact. We believe that these lessons can be useful for European MFIs that want to improve their triple bottom line performance.

1. WHAT DO WE MEAN BY TRIPLE BOTTOM LINE?

Organisations that focus on their single bottom line are exclusively concerned with their financial returns. Notwithstanding the importance of profits as a prerequisite for continuity of the business, organisations that want to contribute to *sustainable development* should take a more holistic approach to performance. Businesses that focus on their triple bottom line include economic, social and environmental effects that their activities generate.

We argue that for MFIs, the real development impact is realised at the level of their clients. MFIs that are concerned with their triple bottom line, focus on the economic, social and environmental impacts of their clients’ activities, financed by the microcredit. Whereas MFIs are generally well-informed on their economic impact, attention to social and environmental issues has been limited. Yet, an increasing number of MFIs measure their social performance, such as the % of women reached or clients’ improved income situation.

Just a few MFIs go beyond social performance measurement and also include their clients’ impact on the environment and their working conditions. See table 1 for examples of issues relevant to micro and small enterprises.

Table 1 Health, safety and environmental impact of MFI clients

	Potential issues at client level
Environmental impact	Disposing (chemical) waste in land or water (Over)use of pesticides, fertilisers Clearing forest for land cultivation, causing erosion and land degradation Depleting fish stocks due to unsustainable fishing methods
Health & safety impact	Using toxics without protection Unsafe, ill-maintained machines Unprotected electric wiring Waste is lying around Animals are kept near eating / sleeping Workers exposed to dust, noise, vibration, gas (in-house). Unhygienic practices (washing hands, clean tools, clean water, working with perishable ingredients)

We contend that MFIs interested in contributing to sustainable development, should take a triple bottom line approach.

2. WHY IS THE TRIPLE BOTTOM LINE RELEVANT FOR MFIS?

Firstly, despite the heterogeneous nature of the microfinance sector, practically all MFIs have a social mission. By providing financial services, MFIs want to contribute to sustainable development and improve people's lives¹. If MFIs take this mission seriously, they should ask themselves: "what contribution to sustainable development do we really make with our loans?"

An increasing number of MFIs are measuring their social impact. This includes identifying the target group ("do we really target the poor?") and measuring the effects on household level ("is income increased?, are more children attending school?, are housing conditions improved?").

However, MFIs that really want to contribute to sustainable development, should take another element into account, which goes beyond the social impact at household level. Their clients that use micro-credit to run a small business also generate positive and negative social and environmental impacts. Our experience shows that micro and small entrepreneurs working in agriculture and productive sectors potentially cause environmental damage or be exposed to hazardous working conditions. This can have consequences for MFIs' development impact. After all, MFIs providing loans to clients that overuse pesticides, clear-cut pristine forests or work in dangerous labour conditions may not be so sustainable after all, despite the income increase at household level.

Some MFIs are already integrating sustainability aspects in their operations, as shown by these quotes from Microfinance Institutions from Central America, Asia and Africa:

In its 2006 Annual Report, **Findesa** (Nicaragua) claims that '*... all our financial effort would not be important if we could not balance it with triple results adding social and environmental impact to our goals.*'

Acleda (Cambodia) claims in its 2007 Annual Report that '*Supporting the community is not just morally sound but good businesses.*'

Reliance's (The Gambia) leadership in its 2007 Annual Report '*... we recognize the importance of setting up the management and reporting system including sustainability issues now (...) in a way that is good for the community, the environment and for our business.*'

¹ At the same time, an MFI has to operate as a business, with financial goals and performance indicators.

Secondly, there is an increasing pressure on MFIs to be transparent on their impact and contribution to sustainable development. Donors, lenders and investors are increasingly interested in the quality of the MFIs' loan portfolio. Especially social investors pose more stringent criteria to MFIs, relating to the MFIs' social and environmental impact. MFIs that can report on their contribution to sustainable development are more likely to obtain access to funds with favourable terms.

Thirdly, Triodos Facet experienced that MFIs benefit from a client-base that generates positive economic, social and environmental impacts. From a risk management perspective, clients that are involved in hazardous operations may threaten the MFIs' reputation. Also, entrepreneurs working in unsafe working conditions are more likely to fall victim to work-related accidents and as a result be unable to repay their loan.

From the opportunity-side, clients that reduce waste could also decrease their operational costs and improve profit margins. Similarly, clients that reduce pesticide use, may be accessing new (organic certified) markets, with a higher profit margin. Finally, MFIs developing special products, aimed at investments in sustainable technology provide added value to their clients and may attract capital on favourable terms.

Thus, the Triodos Facet experience shows several reasons for MFIs to pay attention to its triple bottom line performance.

Put your mission into practice	NGO's and media will keep scrutinizing the microfinance sector for its sustainable performance. Transparent MFI's will be in a better position to show their sustainability performance.
Employee motivation	MFI employees will be motivated and loyal if they understand the social mission and see it in day-to-day operations.
Globalisation and competitive advantage	Organisations that focus on triple bottom line are regarded more interesting partners. In a global market, this helps to generate a competitive advantage.
Decreased credit risk	Improving environmental, health & safety impact at client level increases the quality of the MFIs loan portfolio and can decrease the credit risk.
Providing added value to clients	Developing lending products for sustainable investments (e.g. solar panels, organic agriculture, fishing nets with minimum mesh size) can provide added value to clients.
Regulatory developments	New international codes and conventions are being released on a regular basis, leading to more stringent rules and regulations on environmental, health and safety, labour, social issues
Expansion of Corporate Governance Codes	More stringent codes on corporate governance are expected, including the call for increased 'social responsible shareholdership'.

3. WHAT CAN MFIS DO TO IMPROVE THEIR TRIPLE BOTTOM LINE PERFORMANCE?

MFIs could start measuring their triple bottom line performance, and issue public reports on their policies, management and achievements. As part of their core business, MFIs can also work on improving their social performance results. We will use two recent Triodos Facet projects to illustrate this.

a) *Measure and Report Triple Bottom Line Performance*

In 2004, Triodos Bank and the Global Reporting Initiative (GRI)² initiated a project called "Transparency and Sustainability in Finance". The purpose of this project is to assist MFIs in Latin America, Africa and Asia with the implementation of GRI Guidelines. These guidelines help MFIs with reporting on the economic, social and environmental dimensions of their activities, products and services.

² The Global Reporting Initiative (GRI) is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines.

Triple bottom line reporting is much more than just an external communication tool. The sustainability report itself and its development process helps to:

- Improve the internal and external dialogue on the organisation's mission, goals and performance. In the process different parties are interviewed on their views regarding the organisation's goals and impact regarding key economic, social and environmental issues. The decision-makers within the MFIs are engaged through strategic meetings and provide final approval or the report. Finally, the MFI management presents the final report to employees and external stakeholders,

Stakeholder perspective

In Findesa's 2007 Annual Report is stated that *'the indicators selected and reported on show the influence of our stakeholder's vision.'* Findesa was a finalist in the 2008 GRI reader's choice award.

- Act as an early warning system. The expectations and needs of the external and internal stakeholders, such as investors, clients, NGOs, employees, management, etc. and analyzed to identify risks and highlight opportunities and possible new priorities for the organisation.
- Embed sustainability measures and objectives into the institutional management systems and creating sense of obligation to achieve targets.
- Advancement of organisation's overall management and governance.

Currently, the international social performance task force is finalising a list of social performance indicators that MFIs can use to report on their triple bottom line performance. These indicators include the "traditional" social indicators (such as "outreach to the poor") but also include social responsibility to clients.

CGAP Social Performance Taskforce indicators³

- Social Objectives about outreach (to poor, low income, SME, women)
- Social Objectives about observing change (in the lives of clients, in communities)
- Board, Management use of social performance information
- Staff incentives
- Training on Social Mission
- Entering client poverty level measurement systems
- Services geared toward women's empowerment and gender issues
- Client satisfaction Surveys
- Dropout rate reviews and exit surveys
- Social responsibility to clients
- Social responsibility to staff
- Social responsibility to community
- Social responsibility to the environment
- Outreach depth and width information
- Achievement of change (3-5 yr clients)

³ See www.microfinancegateway.org/

MFIs that wish to use these indicators in their triple bottom line reporting, should set their ambitions and actual performance (in terms of concrete measures as well as policies to achieve these) with respect to selected indicators. Reliance (an MFI from the Gambia) was the first MFI to include some of these indicators in its 2007 annual report, in addition to the general GRI indicators⁴.

Lesson 1: Reporting on triple bottom line is relevant for MFIs. The GRI guidelines can support MFIs with formulating their approach towards sustainability reporting. The CGAP social performance indicators can help MFIs to select the core indicators. However, depending on its mission and social context of its operations, MFIs select those indicators that are most relevant to them.

b) improve triple bottom line performance

Reporting is not an end in itself. The results on the selected TBL indicators help MFIs improve their triple bottom line performance. Our experience shows that MFIs are interested in helping their clients to improve the social and environmental impact of their business; especially when the benefits to the MFI (lower risk profile, added value to clients, etc.) are made clear.

Representatives of about 50 MFIs and MFI Funds followed regional seminars (including Ukraine, Armenia and Bosnia-Herzegovina) on improving social and environmental performance at client level. These seminars followed the traditional loan cycle and explained the relevance of social and environmental aspects in each stage⁵. Specifically, participants were trained to expand their horizons and to adopt a social & environmental perspective regarding their clients' business activities.

Regarding the appraisal phase and monitoring visits by loan officers, clear opportunities exist to raise awareness on social and environmental issues among the clients. Triodos Facet developed 24 "sector fact sheets" containing information on social, health and safety and environmental issues most commonly encountered in the particular sectors. These fact sheets help loan officers with identifying social and environmental risks at their client and discuss with the client some suggestions for improvement⁶. Although the entrepreneurs themselves are the final decision-makers, MFIs recognise that they can make their clients aware of potential social and environmental issues. Loan officers considered these fact sheets to be very relevant especially if the suggestions could help their clients to improve their economic performance too.






Lesson 2: MFIs that want to improve their triple bottom line performance, should focus on the economic, social and environmental aspects at client level. That is where the real impact is generated. In the interaction with its clients, MFIs can suggest (or in the worst case "require") their clients to enhance social, environmental, health and safety impacts.

⁴ Recent examples of triple bottom line performance reports and related background information can be found at: <http://tblmicrofinance.com/tblreports.aspx>

⁵ More information on this approach can be found at <http://www.fmo.nl/smartsite.dws?id=531>

⁶ The development of these sector fact sheets were part of an assignment for FMO (The Dutch development bank), to support MFIs with improving triple bottom line performance at client level

Figure 1. Example sector fact sheet

P5 Production – Painting and printing			
OBSERVE <i>The Client Is ...</i>	ANALYSE <i>There is a risk if ...</i>	DISCUSS <i>What is important ...</i>	SUGGEST <i>Suggest the client to ...</i>
<p>... using paint/solvents</p> 	<p>[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</p>	<ul style="list-style-type: none"> Applying/handling toxic substances with proper safeguards prevents illness Safe storage prevents from chemical reactions, explosions, fire, leakages and intoxication 	<ul style="list-style-type: none"> Do not over-use chemicals Provide and use safeguards when working with chemicals (mask, goggles, gloves, overall) A separate storage is created, locked away from children and living/eating rooms Establish contingency plans for accidents Have fire fighting equipment and first aid kit available
<p>... disposing of production/ chemical waste</p> 	<p>[E] [H&S] Waste is lying around and/or not properly disposed of</p>	<ul style="list-style-type: none"> Proper disposal of waste prevents attraction of pests, vermin, rodents or parasites and intoxication of soil and water 	<ul style="list-style-type: none"> Dispose via community service Have dustbins available; waste lying around attracts even more waste Separate (toxic) waste Sell waste/scrap to recycling companies
<p>... causing emissions to air</p> 	<p>[E] [H&S] Smoke / exhaust gas is being produced and emitted while no filters are being used</p>	<ul style="list-style-type: none"> Using filters and proper chimneys prevents nearby residents from contact with contaminated gases Reducing air emissions prevents global warming (CO2 emission) 	<ul style="list-style-type: none"> Reduce unnecessary burning Maintain burners and adjust them well Use clean fuel, Use filters, Use chimneys Use closed heating / burning systems Re-use heat (energy)
<p>... polluting water</p> 	<p>[E] [H&S] Waste water / liquids are being released / discharged to water (stream/pond/lake/open sewer)</p>	<ul style="list-style-type: none"> Contaminated drinking water can harm people who depend on it Contaminated water harms nature (fish, livestock and other animals) 	<ul style="list-style-type: none"> Prevent unnecessary water discharges Use filters Discharge wastewater in controlled sewersystem Discharge toxic waste via community service
<p>... working in bad conditions</p> 	<p>[H&S] Work takes place in unventilated space [H&S] Workers are exposed to dust, noise, vibration</p>	<ul style="list-style-type: none"> Clean air and clear sight working conditions prevent from chronic illness 	<ul style="list-style-type: none"> Make agreements with workers about acceptable working hours Ventilate Provide masks and ear plugs Make use of natural light (in other cases: arrange proper artificial/electric lighting) Establish contingency plans for accidents Have fire fighting equipment and first aid kit available
<p>Back to top</p> <p>Background, relevant legislation, minimal requirements</p> <ul style="list-style-type: none"> ILO Conventions 138 and 182 No waste(water)disposal without permit Don't install diesel generator sets without approval certificate Have MSDS available when working with chemicals 		<p>Solutions, tips, further information</p> <ul style="list-style-type: none"> 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 Painting and printing involve a number of toxic substances. The improper disposal of pigments, inks, paper waste, and solvents can contaminate soil and water with heavy metals. Exposure to pigments containing cadmium, cobalt, zinc, asbestos, toxic and flammable solvents, and possibly carcinogens can lead to skin irritation, intoxication, metal poisoning and chronic lung disease 	

4. RECOMMENDATIONS FOR EUROPEAN MFIS

Most of the examples that were used in this article are derived from our experiences with MFIs in other continents. The European setting is different, for example since the focus is more on 'entrepreneurs' than on 'poorest of the poor'. This makes the triple bottom line even more relevant for European MFIs, since their clients are more likely to be beyond the mere survival level. If African, Latin American, Asian MFIs are already starting to monitor, manage and report their triple bottom line performance, why should European MFI's stay behind? Some recommendations can be derived that seem relevant for MFIs in a European setting:

- MFIs that want to embark on a triple bottom line performance 'adventure' should perform a 'reality check'. This help to understand the real social and environmental risks and opportunities of their clients and helps MFIs to make a well-founded decision. This reality check involves looking critically to the:
 - a) Organisation's mission: is a social performance intervention at client level compatible with the mission?
 - b) Client portfolio: what social/health and safety/environmental issues are our clients confronted with?
 - c) Internal operations: do our processes already incorporate social performance aspects?
 - d) Stakeholders' expectations: what importance do our stakeholders (donors, investors, government, etc.) attach to social performance?
- MFIs are advised to start with a pilot project, focusing on the issues that a majority of the clients face. For example, if the client portfolio is predominantly agricultural, focus on sustainable agriculture.
- Use the GRI framework for triple bottom line performance reporting