Protecting The Environment: Green Microfinance Or Green Micro Finance Institutions?

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Abstract

This paper represents a critical review of several papers and books written on the subjects of microfinance, poverty and environmental protection. It aims at linking the different themes and also to offer specific suggestions on how microfinance can provide solutions which are beneficial to the environment. The paper also concentrates on the disparities between rich and poor and how they influence the implementation of environmentally damaging activities. These activities are in fact implemented with a clear damage to the poor, especially at local level, where the poor has difficulties to protect itself due to the differences in power between the rich and the poor. Particular attention is also dedicated to the issue of environmental sustainability vs. Microfinance Institutions' sustainability since the promotion of environmental activities implies costs to be born by Micro Finance Institutions. In fact, it must be highlighted that sustainability is a fundamental issue for MFis. The majority of MFIs normally struggle for their existence, since their objective is to work with poor and difficult clients and they mainly operate in very difficult business environments. The financial sustainability of MFIs is therefore a crucial prerequisite for the provision of financial services to the poor layers of the population. Additional costs concerning environmental protection can be born only if adequate financial support is provided by external donors.

Keywords: *green, microfinance, environment, sustainability, microfinance institutions, poverty.*

Introduction

Microfinance is defined as the practice of providing financial services to poor customers. The poor are therefore considered as the main target of microfinance activities, so that microfinance aims to help the subjects who are also very often damaged by the presence of environmentally costly activities. In fact, that's the introductory framework described by J. K. Boyce in his interesting paper "Inequality as a cause of environmental degradation". Boyce suggests that both winners and losers can be identified with regard to an activity which is environmentally degrading. Winners are those who implement the activity and gain a benefit from that, losers are those who suffer more from that. According to him, environmentally costly activities are mainly implemented due to the disparity of power between the rich and the poor[1].

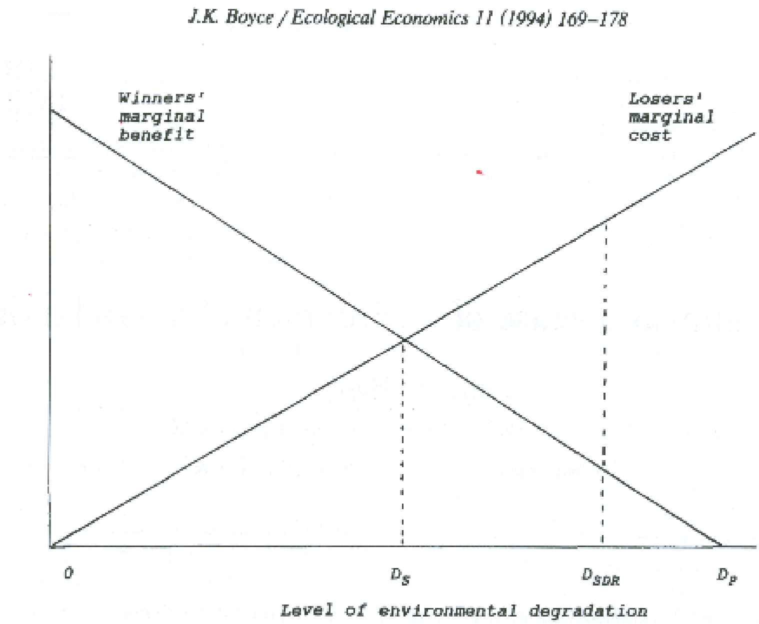
We are in particular discussing about activities which are implemented and have their negative effects mainly at local level, so that they represent a cost only for the poor. For example, we can think about the localization of an environmentally costly activity in the poor part of town. It's a typical situation that can be found in many developing countries as

[1]The disparity factor is what allows the rich to implement the activity despite the damage that it represents for the poor.

well as in developed ones. Let's make reference for example to the fact that a considerable percentage of the dangerous solid waste which can be found on the territory of Naples today is coming from enterprises located in the North of Italy.

Winners and losers are therefore clearly identified and belong to distinct groups. If an activity had instead a cost on the global environment rather than on the local environment, the situation would be obviously different. The rich in fact would bear part of the cost caused by the environmentally costly activity itself.

Boyce proposes an interesting graphic explanation, where costs and benefits of the environmentally costly activity are described as follows (Fig. 1).



In the framework of a cost-benefit analysis, the level of environmental degradation should be equal to Ds. Anyway, according to him, this optimal result is not normally reached because it depends on the power held by the winners in comparison to that held by the losers: if A and B are in the same room, A enjoys smoking cigars and B doesn't like to have the room filled with smoke, the numbers of cigars smoked will probably vary if A is the boss and B is an employee or if the reverse applies. It is therefore possible that the final level of the environmentally degrading activity is located in a point higher than Ds, such as Dsdr, given the not very equitable distribution of power which characterizes many societies.

On the other hand, it is clear that, if the lack of power, wealth and organization in specific groups of the society is a reason for the implementation of many environmentally costly activities, it is possible to envisage an opportunity for the practice of microfinance[2].

It is then necessary to analyze if microfinance can actually be considered an instrument to

[2]That's how microfinance can get a role which goes behind the provision of financial services to the poor.

create wealth, organizational skills and empowerment.

From a theoretical point of view, that seems to be the situation. For example, K.S.Murali identifies three factors through which microfinance can help the protection of the environment in his paper "Microfinance, social capital and natural resource management systems: conceptual issues and empirical evidence":

1. Microfinance, if successful, allows the poor to create capital and ownership. The consequent improvement of life standards can demand better environmental protection.
2. Microfinance is directed generally to women and has as indirect consequence to reduce fertility, therefore having a positive influence on the environment.
3. Microfinance is very often implemented through lending groups and that creates social capital. In other words, lending groups create management skills, organizational capacity, leadership and strategic planning abilities, which all can enhance the protection of the environment.

In my opinion, that represents a very carefully structured explanation[3].

Anyway, Murali's theoretical approach has to be tempered with the hard evidence concerning the microfinance practice, in particular concerning its actual use, its geographic and thematic distribution and its possible future expansion.

If we analyze the data concerning microfinance, we discover that microfinance is a relatively highly widespread phenomenon and it is growing particularly fast. But, on the other hand, it must also be highlighted that:

A. Microfinance is quite concentrated from a territorial point of view.
B. Microfinance is much differentiated in his various forms.
C. The future extension of microfinance will be, at least in the short-term, hindered by the recent financial crises.

All these three factors reduce the possibilities that, at least at present or in the short-term, microfinance can be a strong mechanism for the protection of natural resources. Besides that, it must be also analyzed if microfinance is actually able to reach his goals, and what is his real actual impact on the poor in terms of creation of wealth, empowerment and social capital. Secondly, it must be analyzed if costs for promoting environmental protection activities can be born by MFIs without representing a threaten to their own financial sustainability.

But let's concentrate more on the data analysis. As far as the number of clients is concerned, a census proposed by Christen, Rosenberg and Jayadeva in 2004 estimates the total number of clients of microfinance institutions to be 665 millions. That is a considerable amount and represents around one tenth of the world's population. Under this point of view, microfinance can have, through the mechanisms indicated before, a certain influence on the potential protection of environmental resources.

But taking a closer look the data and information available, we discover that microfinance is a highly concentrated phenomenon, at least from a geographical point of view[4].

That's a crucial factor for the issue of the preservation of environmental resources. Microfinance is in fact widespread basically only in the developing world. And, besides

[3]It must also be highlighted that the creation of wealth can also have a negative impact on the environment, since the rich tend to consume more and waste more.

[4]Microfinance is in fact highly present in Asia, but not very much on other continents.

that, it's mainly concentrated in Asia, so very few countries reach a remarkable penetration rate in Africa and Latin America. Of course, this concentration in specific parts of the globe represents a considerable hindrance for the preservation of the environment through the microfinance practice.

Secondly, microfinance is very composite from a thematic point of view, comprising a remarkable amount of different instruments. The provision of credit for production is only part of it, while other widespread practices include savings, insurance and remittances[5].

Thirdly, as for the future of microfinance and its possible extension to other parts of the world, it must be highlighted how, at least at present, the credit crunch and the likely future period of economic difficulties which will affect both developed and developing countries doesn't allow foreseeing a future high level of expansion of microfinance in new geographic or thematic areas.

But is there any other instrument, besides the increase of wealth, power and social capital mentioned before, which MFIs can more directly use in order to promote green activities and environmental natural protection? A very good and detailed description of the tools available is offered by Abhishek Lal in his paper "An overview of Microfinance and Environmental Management".

In the framework of his article, Abhishek Lal, one of the founders of Green Microfinance, a private enterprise located in Phoenixville, Pennsyilvania, which aims at including sustainable development in microfinance practices, describes seven specific techniques:

- Environmental Impact Assessment. It as an evaluation of the impact which a project will have on the environment. After the external environment is analyzed and future possible trends are identified, specific mitigation measures are determined and implemented. In our case, the project is specifically related to enterprise promotion.
- Loan Application Analysis. In the framework of the information raised for the eventual provision of the loan, specific questions concerning the impact of projected activities on the environment can be made to the client. It is an easy, but important way to collect information concerning the environmental impact of the future enterprises.
- Participatory Sub-sector Analysis. It is another way to survey the external environment, through a participatory approach. The aim is to identify environmentally damaging activities put forward by the future enterprises, in order to be able to address them.
- Training/Environmental awareness. Training and awareness programs can play an important role, since they can be easily offered together with the loan to potential and existing entrepreneurs. It might have a very high impact since entrepreneurs can then raise awareness in the community where they are working and living.
- Regulation. Regulation concerning the preservation of the external natural resources can be inserted in the conditions attached to the loan. The respect of the environment becomes part of the agreement concerning the loan issued by the MFIs.
- Incentives. Specific incentives, such as better interest rates or repayment schedule, can be offered by MFIs in order to adopt environmentally sound practices.
- Partnering/Building Networks. The creation of partnerships and networks, especially when done with environmental NGOs and government agencies, is another way to

[5] These other instruments are not particularly related, not even theoretically, with the preservation of natural environmental resources.

intervene in favor of the environment. It can be a way of raising information, implement environmentally sound activities, such as certification, use of renewable energy, environmentally friendly transportation.

The description of the techniques offered by Abhishek Lal is very useful since it is very practically-oriented and they can be actually used by MFIs to implement environmental protection measures. Nevertheless, Lal fails to mention one crucial issue: the seven techniques presented all represent operating costs for MFIs[6].

But perhaps precisely here arises an opportunity for environmentally conscious MFIs. Recently, environmental protection is in fact attracting a remarkable amount of funds from a considerable number of donors. In October 2008, the United Nations launched the idea of a "Global Green New Deal". Gordon Brown has recently suggested that the World Bank should become an Environmental Bank. Many other new environmental initiatives are starting to flourish around the world and, given the magnitude of climate change and other environmental problems, they are likely to last into the foreseeable future.

All these programs and funds represent possible new opportunities for MFIs interested in implementing natural resource protection activities. Seizing these opportunities can also offer the possibility for a virtuous circle, since they favor the protection of the environment and at the same time they can contribute to the financial sustainability of MFIs.

But if new funds and programs want to be accessed systematically by environmentally conscious MFIs, it would nevertheless be important for MFis not to act individually, but introduce themselves as a potential green network in front of existing donors. It would be therefore necessary for MFIs to design a careful and participatory strategy of intervention in the environmental sector and a new marketing approach to donors. A certain number of organizations and subjects working in environmental protection and potentially interested in a new marketing and operational approach should be already present, as a recent online conference sponsored by USAID on microfinance and environmental protection witnessed.

A last question should be addressed in the framework of this paper. If microfinance is to be provided by MFIs in order to promote natural preservation activities, which particular economic sector should be privileged? In order to try to reply to this final question, a general theoretic approach will be adopted. Lester Brown, in his book "Eco-Economy: Building an economy for the Earth", makes a very interesting distinction. In his description of a possible new eco-economy, he states that "building a new economy involves phasing out old industries, restructuring existing ones, and creating new ones"[7].

Phasing out old polluting enterprises, restructuring environmentally costly ones and creating new green enterprises might be a very good strategic approach. Nevertheless, it requires a considerable change in microfinance practices as well, since it implies to have a precise environmental protection strategy and the capacity to identify projects and enterprises which fits that strategy. It requires investing more, in activities which also imply costs, in strategic planning, in knowing the economic sectors, in not simply

[6]If these costs are not subsidized by donors, they can eventually negatively affect the existence and the sustainability of MFIs themselves.

[7]This is a very good dynamic scheme for microfinance in order to promote natural preservation activities.

expecting enterprise proposals but instead attacking the territory with a precise green objective.
Something which must be carefully pondered, but it's definitely worth considering, given the opportunities potentially involved.

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