Transformations to Sustainability

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Green Microfinance: pitfalls, potential and pathways to transformation

Background

Microfinance is a tool for providing small-scale financial services to financially excluded people, primarily in the Global South.

Since its inception in the 1980s–90s global microfinance has grown into a substantial sector, with a credit portfolio of over $100 billion and more than 200 million clients; and with primary epicentres in South Asia and Latin America. Micro-financial services comprise mainly micro-credits but also savings, insurance and digital payment services. Initiatives to date have focused primarily on improving financial returns while aiming for socio-economic impacts (the 'double bottom line'), with financial performance measured as returns on assets and equity, and social performance measured in terms of the poverty levels of clients, especially of women. Non-financial services, such as technical assistance or financial education, are also sometimes offered.

Until recently the microfinance industry has left environmental considerations largely unaddressed. There is now a burgeoning effort to correct this, which has led to the development of Green Microfinance (GMF): microfinance that helps fulfil sustainability goals while maintaining positive financial and social performance.

This growing green emphasis in microfinance is evident in the proliferation of green working groups within multilateral microfinance networks and the growing number of microfinance initiatives that integrate environmental concerns in their strategies. Their underlying motivations and concerns often revolve around minimizing harm rather than promoting ecological well-being: for example, by limiting the negative environmental impacts of projects, or by reducing environmental (and therefore financial) risks from climate change impacts or natural disasters. They are also motivated by the potential of new financial opportunities such as green funds, climate funds and related market segments. In all cases, the interest in GMF is underpinned by an expected 'triple win', in which social and environmental problems are addressed while achieving positive financial returns.

Green Microfinance

This Knowledge Brief is based on a peer-reviewed article[1] that reviews recent literature on the impacts of microfinance, and particularly 'Green Microfinance' (GMF), on transformations to sustainability.

The aim of GMF – as with microfinance – is to help financially excluded people, primarily in the Global South, to manage and reduce the insecurity of their income, including by empowering them to set up profitable micro-enterprises.

GMF includes an additional focus, however: that of addressing environmental concerns while maintaining positive financial and social performance.

To achieve this, a 'third bottom line' is incorporated into the impact targets, achieved by integrating ecological or environmental goals into the strategic focus of supported initiatives.

Financing approaches and objectives vary, depending on the nature of the projects supported. A microfinance initiative could, for example, provide credit to support the adoption of agricultural practices that help with climate change adaptation or mitigation; or micro-insurance for climate-related risks.

The different aspects and outcomes of GMF have been integrated into an internationally accepted environmental performance indicator called the Green Index.[2] This provides a tool for assessing the environmental aims of a given microfinance institution and tracking its associated efforts. However, further work is needed to establish meaningful ways of evaluating and reporting on the resulting change, and to date the sustainability impacts of GMF initiatives have not been fully determined.

The potential and the pitfalls

As an emergent practice, GMF comes with high expectations and genuine opportunities, but there is as yet insufficient understanding of its potential contributions in light of the required fundamental transformation to a sustainable society.

Most studies to date of the impacts of GMF are largely descriptive. Assessments of its social-ecological outcomes, where they are made, are generally limited to the direct effects of specific financial products, their immediate beneficiaries and the particular technologies and innovations being supported.

Only a few studies reflect more profoundly on the varied and dynamic ways in which GMF initiatives interact with the local social-political and ecological contexts. These have revealed some unexpected, and not always desirable, effects, and highlight the need to engage more broadly and deeply with the complex ways in which access to GMF can affect social-ecological systems.

This conclusion is in line with findings of earlier enquiries into the effects of microfinance on the social bottom line. Despite a readiness at the time to attribute positive social impact to the widened access to financial services, a variety of studies failed to come up with decisive evidence. In fact, the only conclusion drawn to date is that the social impact of microfinance is still poorly understood, reflecting the complexity of its interactions with mediating contextual factors, and that the criteria for meaningful social impact are still contested.

Attempts to assess the impacts of GMF are mired in related, if not even trickier, contentions, including similar issues concerning the wide spectrum of definitions of sustainability.

Examples of the less desirable effects revealed by those above-mentioned deeper studies include a credit-related programme to promote access to water pumps in a drought-prone region of India unwittingly resulting in the over-exploitation of water resources by people who had gained access to improved pumps; and a GMF project for supporting biodiversity-friendly farming practices in Nicaragua disproportionately benefiting farmers of relatively larger farms and leaving their unsustainable land-use practices unchallenged.

Trying to establish clear, cause-and-effect relationships between microfinance or GMF and the intended effects is therefore challenging. This is confounded by the complex interactions between the interventions and their social-institutional-ecological contexts.

These interactions may be the primary determinants of the ultimate impact of a GMF intervention, yet they are often overlooked in traditional microfinance research and practice.


Photo: Milagros Romero

This tends to rely on individualistic economic models and assumptions, overlook politics, power-structures and institutional frameworks, and reduce the task of improving the lives of the poor to one of easing their financial constraints.

Moving beyond this framework to a 'relational' approach, which acknowledges those aspects, and which accounts for the way in which complex social and political interactions produce differentiated opportunities and limitations, may hold the key.

Avenues for transformation

To assess GMF's potential contribution to transformations to sustainability, a power-sensitive approach to analysis is required. This should consider possible pathways through the broader social-institutional-ecological setting, and acknowledge the emergent, non-linear, hard-to-predict nature of change within complex systems.

It should also recognize that microfinance should be viewed as just one component of a broader array of ideas, rules, actors and processes working together, which may themselves absorb and rework a microfinance intervention, potentially altering its intended effects.

The economic framework underpinning the microfinance approach, and its implicit influence, should also be further examined and understood. This framework can affect the way in which a sustainability challenge is framed, resulting in, for example, the (unwitting) accommodation of existing power structures, the exclusion or weakening of potential alternative approaches and/or the prioritization of the interests of more powerful groups.

TruePATH

The authors of the paper on which this knowledge brief is based are putting these suggestions into practice through the TruePATH project (Transforming Unsustainable Pathways in Agricultural Frontiers: Articulating Microfinance Plus with Local Institutional Change for Sustainability in Nicaragua). For more information see: www.uantwerpen.be/en/projects/truepath.

The tendency in GMF practice to conceive social-ecological problems as being of a primarily technical nature is one way in which such frames are reinforced and root causes overlooked, with the risk of perpetuating the status quo. Overcoming this requires an approach that goes beyond 'microfinance narcissism' – in other words, that moves on from seeing GMF as a stand-alone intervention, isolated from interactions with the social, political and institutional structures into which it is introduced – and that sees it as one of many tools aimed at configuring triple wins, assuring recognition, rights and justice within pathways of transformational change.

If the aim is to contribute to transformations to sustainability in a meaningful way, it is important to identify – and take a stance on – prevailing interests and ideas that might be obscuring or obstructing alternative pathways. The proponents and practitioners of GMF must open up to less visible, less articulated and less powerful views and actors, and must eschew the use of microfinance interventions as justifications for business as usual. Ideally, GMF should be one component within context-relevant, innovative social alliances. It is important in each case to ask questions such as: what are the opportunities for supporting alternative practices? How and by whom are they identified and contested? And how can supporting them contribute to broader transformational change?

In summary, GMF has the potential to support leverage points for meaningful change, both at the local and the broader scales, as long as a commitment to embracing a wider view of the social political landscape, and to addressing the aspirations of socially excluded groups, is honoured. By opening up thinking to these multiple levels, and being sensitive to existing power relations and economic differentials, it is possible to enable locally embedded initiatives – such as savings and credit cooperatives – to exert a wider influence, inspiring other initiatives elsewhere.

Further research is needed; in particular, case-study-based analyses of the ways in which microfinance plays out on the ground and contributes to local social-ecological change. Such studies should establish the detail of realized triple-bottom-line benefits, and should also link with debates elsewhere about relevant monitoring and evaluation methods.

At every stage, adopting a power-sensitive, systemic approach to transformative change analysis can help illuminate the way forward.

References

1. Huybrechs, F. et al. (2019). 'Exploring the potential contribution of green microfinance in transformations to sustainability.' *Current Opinion in Environmental Sustainability* 41: 85-92. doi: 10.1016/j.cosust.2019.11.001.
2. e-MFP Microfinance and Environment Action Group (2016). *The Green Index 2.0, An innovative tool to assess environmental performance in the microfinance sector*. Luxembourg, European Microfinance Platform. https://tinyurl.com/sx2oxxo (accessed 14 January 2020).

Key messages

- Green microfinance (GMF) describes efforts to ensure that small-scale financial interventions (microfinance) address environmental considerations while maintaining positive financial and social performance.
- It is difficult to ascertain whether GMF initiatives fulfil their sustainability goals, or what contribution they make to broader, progressive social-ecological change. Most studies of the impacts of GMF are limited to the direct effects of specific initiatives and their immediate beneficiaries.
- A few studies that reflected on how GMF initiatives interact with social-political and ecological contexts revealed unexpected and not always desirable impacts, highlighting the challenge of identifying causal relationships between microfinance and outcomes.
- To account for contextual relationships and impacts when assessing GMF's contribution to the transformation to sustainability, a power-sensitive approach to analysis should be adopted, which acknowledges the effects of inequalities and the emergent, non-linear nature of change within complex systems.
- Green microfinance has the potential to support leverage points for meaningful change, as long as a wider view of the social political landscape – and the aspirations of socially excluded groups – are embraced.

Written and designed by Green Ink (www.greenink.co.uk)

This Knowledge Brief is one of a series based on recent peer-reviewed research on social transformations to sustainability. For more information and citation details, the article on which it is based is available at doi.org/10.1016/j.cosust.2019.11.001. The Knowledge Brief has been prepared by the International Science Council (ISC) Transformations to Sustainability programme secretariat in collaboration with Frédéric Huybrechs, Johan Bastiaensen and Gert Van Hecken from the Institute of Development Policy, University of Antwerp. The views it expresses do not necessarily represent those of the International Science Council, nor of the programme's funders, the Swedish International Development Cooperation Agency (Sida), the Belmont Forum and NORFACE. For any questions regarding this document or the TruePATH project, please contact frederic.huybrechs@uantwerpen.be.

The T2S programme understands transformation as a profound and complex socio-ecological process with both short- and long-term implications for the sustainability of natural and social systems. Find the full series of knowledge briefs at: https://transformationstosustainability.org/document-type/briefs/.

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