Sustainability at the Crossroads of Finance, Social Responsibility and the Environment: A Primer on Microfinance for Conservation Practitioners and Green Investors

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ABSTRACT

Anything “sustainable”—be it a bank, a community, or an ecosystem in nature—is defined by the fact that it is, effectively, a whole system unto itself, one which does not ultimately rely on external inputs—of financial, human, or natural capital—to survive if left independent from the rest of the world. This Master’s Project explores the nuanced meanings of sustainability in the context of businesses and organizations which focus on financial self-reliance, microfinance institutions and development organizations devoted to a social mission of poverty alleviation beyond basic fiscal responsibility, and environmental NGOs and green businesses who seek to achieve “environmental sustainability.” I provide a primer on microfinance for conservation organizations and individuals interested in investing in “Green” microfinance and social entrepreneurship, using principles established by leaders in the field of triple bottom line (TBL) business strategy and sustainable development.

Introduction

With rising concern worldwide over the impacts of human-induced climate change and environmental degradation, nonprofit organizations, corporations and individuals alike are increasingly being forced to consider the impacts of their activities on the local and global environment.¹ Those who will be most affected by the potential impacts of global climate change—like rising sea levels and desertification—are the extreme poor.² As noted in the Johannesburg Declaration, “the adverse effects of

¹ UN Millennium Campaign, 2007: http://endpoverty2015.org/
² “Poverty and Climate Change: Reducing the Vulnerability of the Poor through
climate change are already evident, natural disasters are more frequent and more
devastating and developing countries more vulnerable.”

Experts believe that the world’s poor will suffer the most drastic impacts from
climate change because of both their greater dependence on natural resources in their immediate surroundings as well as their “limited capacity to cope with climate variability and extremes.” Developing strategies and tools that can help to reduce the vulnerability of the poor while also protecting critical natural resources represents an urgent need for the global community. Microfinance represents one tool that has been proven effective at poverty alleviation, by empowering the poor through small business loans, group participatory lending structures, and safe institutions for saving money. Consequently, microfinance may serve as an integral component of climate change adaptation strategies geared at reducing the vulnerability of the poor to the impacts of climate change.

The international development community is just beginning to explore the evolution of thinking around the issue of environmental sustainability at the crossroads of microfinance, social enterprise development, and poverty alleviation. Achieving fiscal, social and environmental sustainability (the triple bottom line) represents exciting new territory for corporations and NGOs in the developed world—where tremendous profits can be made by providing products that are both good for people and the environment. However, meeting these three bottom lines represents a much more urgent challenge for


3 Ibid.
4 Ibid
poor communities at the bottom of the development pyramid—where the poor themselves are likely to be more vulnerable to any environmental costs associated with business or other economic development.

Objective

This Master’s Project will explore the nuanced meanings of sustainability in the context of businesses and organizations which focus on financial self-reliance, microfinance institutions and development organizations devoted to a social mission of poverty alleviation beyond basic fiscal responsibility, and environmental NGOs and green businesses who seek to achieve “environmental sustainability” on top of the other two bottom lines. In particular, I explore the evolution of the concept of the Triple Bottom Line (TBL) of fiscal, social and environmental sustainability and how the TBL might be applied at the level of grassroots development—specifically to non-governmental organizations (NGOs) and microfinance institutions focusing on poverty alleviation. For leaders in the environmental conservation community, this document will serve as a primer on some of the current challenges facing the microfinance industry and how microfinance might be integrated into overall strategies for promoting environmental sustainability among the vulnerable poor, especially in the context of climate change adaptation. For prospective donors/investors and leaders in the microfinance sector, this document will offer some insight into the potential environmental challenges associated with microfinance as well as the landscape of opportunities cropping up at the intersection of microfinance and the environment.
The Meaning of Sustainability, Depending on Context

The term “sustainable,” used in the banking or microfinance worlds, traditionally refers to the capacity of institutions to become financially self-sustaining. The core process of banking institutions to charge interest for loans of capital dispersed to clients enables these institutions, if effective at receiving repayments of these loans, to eventually cease to depend on exogenous capital (from donors or investors) to continue to run their operations and provide services to clients.⁵

However, in the worlds of environmental conservation and sustainable development, “sustainable” may have slightly different connotations. Anything “sustainable”—be it a bank, a community, or an ecosystem in nature—is defined by the fact that it is, effectively, a whole system unto itself, one which does not ultimately rely on external inputs—of financial, human, or natural capital—to survive if left independent from the rest of the world. To achieve “environmental sustainability,” in particular, one must be meeting the needs of the future without compromising the ability of future generations to meet their needs.⁶ Ensuring environmental sustainability ranks number seven among the UN’s Millennium Development Goals (MDGs).

The Bottom Line: Financial Sustainability

Business Success and the Importance of Fiscal Responsibility

To any business, financial sustainability is essential to success as a company. In the initial phases of any start-up, clearly some input of external resources will be

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necessary to establish the organization, to cover the fixed costs of production necessary for producing whatever the firm will produce, and to cover any other variable costs. If more revenue eventually is not coming in to cover both the overhead costs of the company, the fixed costs of production, and the variable costs associated with the business and eventually contribute to some profit at the margins, the firm will not survive in a competitive economy.

The Success of Microfinance Geared Toward the Bottom Line

Much of the achievement of one sector of organizations focused on alleviating poverty—microfinance institutions (MFIs)—has resulted from a strong focus on the core business principle of maintaining financial sustainability from the beginning. In part because of its great success at meeting the fiscal bottom line, microfinance has been heralded as the panacea for ending poverty world-wide—all the more so since Muhammad Yunus and the Grameen Bank were awarded the Nobel Peace Prize for 2006. Recently named by *Business Week* as one of the greatest entrepreneurs of all time, Mohammad Yunus has been credited as the first person to initiate a banking system that offered small loans to poor people.\(^7\) Yunus’s microfinance idea was predicated on the notion that poor people, despite having neither money nor collateral, do have the capacity to pay back loans if given access to capital.

A Non-Profit Sector with No Bottom Line

In contrast to these grassroots poverty focused microfinance institutions and development organizations that gravitated immediately to the business model of financial

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sustainability, the non-profit world currently proliferating in the United States has thrived in a philanthropic culture where constant inputs of external capital have been the essential foundations underpinning their survival. Established with donor dependency at their roots, many organizations have flourished in the non-profit and NGO market far longer than they might remain if they were forced to generate their own sources of revenue or shift the set of donors upon which they were focused.8

Along with donor dependency, implicitly comes the powerful influence of the donors on the overall mission of an organization, with project-funding often serving as a guiding force determining which agendas and activities will ultimately be pursued and for how long.9 Though the news continues to highlight the positives of “venture capital” in financing many start-ups, including many NGOs and organizations involved with microfinance and social enterprise development, Paul Hawken’s critique of the term as “vulture capital” speaks to the potential for such positive resource investments to sour the mission and actions of otherwise good initiatives and organizations.10

In an increasingly competitive non-profit sector—in which the ultimate supply of donor funds is limited while the number of organizations in demand seems to be growing exponentially—many non-profits and NGOs today are awakening to the challenges of achieving their missions while being dependent on donor capital. The solution to the

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8 This trend also rings true for many third-party government contractors, whose survival often rests on their ability to win contracts from government and non-government agencies like USAID and the World Bank to finance their operations.
9 There are many relevant examples here, including the influence of U.S. funding on HIV/AIDS mitigation efforts in Africa. Critics of the President’s Emergency Plan for Aids Relief (PEPFAR) program, have focused on congressional restrictions on this funding, limiting its use to abstinence education (7% of the funding) and provision of anti retroviral treatments (ART) but precluding the purchase and distribution of condoms or educating about condom use as an effective preventative measure. See Fletcher, Michael A. "Bush to Seek Extension of AIDS Effort President to Ask for $30 Billion to Double U.S. Contribution." Washington Post, May 30, 2007.
self-sustaining challenge for many appears to be in the same business model for income generation that has proven successful in the microfinance and development sector for decades.\textsuperscript{11}

Consequently, an increasing number of those NGOs hanging in annual financial limbo are venturing into creating their own micro-credit programs, participating as vendors of fair trade handicrafts and similar products, or attempting to create their own small to medium enterprises (SMEs) to generate revenue.\textsuperscript{12} In essence, these organizations are seeking to place a financial bottom line beneath their social missions, effectively striving to meet the “double bottom line.”\textsuperscript{13}

The Double Bottom Line: Social Sustainability

An articulated focus of social mission driven organizations, the “double bottom line” implies a level of institutional accounting that integrates both the fiscal and social performance of the organization. Most microfinance institutions and NGOs providing microfinance services—like BRAC, the Grameen Bank, and FINCA International—began with the goal of a double bottom line—placing the mission of poverty alleviation, for example, as a second rung to the traditional bottom line of fiscal sustainability.

\textsuperscript{11} Lohr, Steve. “A Capitalist Jolt for Charity.” \textit{New York Times} February 24, 2008. Referencing the success of Yunus’s microfinance model at the Grameen Bank, Lohr articulates that “Philanthropies are discovering that for-profit status and financing can be a useful tool.”

\textsuperscript{12} Organizations like American Jewish World Service (AJWS) that raise money to donate to other small NGOs in the developing world also appear to be experimenting with the sale of fair trade products to add to their revenue streams. In the last year, many organizations like Project Good, World of Goods, etc have appeared on the market, imitating the vision of the Mennonite Fair Trade Pioneers with their Ten Thousand Villages stores. See http://www.ajws.org/, http://www.worldofgood.org/, http://www.tenthousandvillages.com/.

\textsuperscript{13} Surowiecki, James. “What Microloans Miss.” \textit{The New Yorker} March 17, 2008. In the case of small-medium enterprises (SMEs) versus microfinance, there exists a disparity within the development world as to how microfinance and SMEs are viewed in terms of their contribution to long-term economic development. Surowiecki’s piece in the New Yorker suggested that while microfinance may help individuals, it does not serve as a foundation for economic growth to the same extent as SMEs, since the majority of people in a developed economy work for others and are not independent entrepreneurs.
Microfinance and a Social Mission

Beyond providing poor people for the first time with access to the basic financial services that citizens of developed countries have long been accustomed to, microfinance and its expansion worldwide has manifested in a new infrastructure upon which to build future economic development.\(^\text{14}\) Often reaching deeper into poor societies than the tangible country infrastructure (roads, highways, power lines) microfinance networks have managed to turn a profit in remote areas where economic development had previously seemed impossible. As a source of infrastructure and information, microfinance offers a platform upon which not only financial products can be provided, but potentially other valuable products and services needed by poor clients—education, health insurance, skills training etc.\(^\text{15}\)

Social Enterprise Development and Social Entrepreneurship

Consistent with this trend toward the double bottom line, the NGO sector in the United States and more globally has been experiencing a shift toward investment in social-entrepreneurship, including the nurturing of the next generation of institutions which will fuel both their missions and their programs through core income generating activities. In the United States, Goodwill Industries represents one such enterprise, based with a social mission at its core alongside a sound model of fiscal sustainability.

\(^{14}\) Ibid.
\(^{15}\) This assumes that microfinance institutions want to find themselves offering services beyond microfinance—that they want to use this “platform” and infrastructure that has been fostered by the growth of the industry to further the social mission of microfinance. With profitability and financial sustainability a priority of most microfinance institutions today, and a connected desire to “scale-up” microfinance, many microfinance institutions have experienced a “mission-drift”—focusing more on competing within the growing microfinance market and remaining profitable rather than on the original mission of alleviating poverty.
Collecting donations of used clothing, furniture and other household items, Goodwill Industries resells these items at a low cost, in many cases to poor customers, and invests the profits from these sales into programs focused on capacity building and training for the poor, under-employed, and unemployed.\textsuperscript{16}

Internationally, the Acumen Fund and Agora represent two leading funds that help to identify, invest and build capacity for social ventures in the developing world.\textsuperscript{17} Ashoka Innovators for the Public has similarly focused on financing social ventures, though its model focuses on identifying and funding the individual social entrepreneurs themselves responsible for creating innovative, scalable solutions to address a societal need.\textsuperscript{18} With myriad organizations cropping up—from sites like Kiva.org and MicroPlace that facilitate online donations and investments in microfinance to carbon-off set social enterprises like TerraPass—it remains to be seen which organizations will be left standing in this competitive social market and which will eventually have to leave.\textsuperscript{19}

\textbf{Challenges Back to the Bottom Line}

Commercialization of microfinance by international banks has posed a serious challenge to the burgeoning microfinance industry. At tension is the fear among many

\textsuperscript{16} http://www.goodwill.org/page/guest/about
\textsuperscript{17} See http://www.agorapartnerships.org/about, http://www.acumenfund.org. There is a current trend toward social investing and the creation of even more investment funds focused on socially responsible investing (SRIs). Examples include Grey Matters Capital, Grey Ghost, and Unitus. There are strong market forces pushing toward the success of institutions who can serve their clients best, with the projections that there will be an evolution of the sector as a result of these forces into the future.
\textsuperscript{19} These specific online institutions represent the models in the field for the intersection of individual investors or donors in cyberspace uniting with causes like poverty alleviation and environmental protection through carbon offsets. A recent conference held in March at the New America Foundation similarly addressed this “Kiva” trend asking the question of whether online donations can end poverty.
microfinance institutions of what will happen when the not so “micro” players begin entering the microfinance markets. Still debated amongst leaders in the sector is who will be left behind as a result of commercialization? Will the overall impacts result in improved provision of basic financial services to the poor or will the poor, themselves, be left behind in the race for to maximize profits in these emerging markets.⁴⁰

There are big market forces in play that will force either the commercialized path or the path to becoming professional in the banking sector. On the one hand, international banks are in the process of discovering that microfinance can actually represent big business in terms of percent profits for their money invested. These banks enter into financial markets already organized by the microfinance institutions and effectively cherry-pick from the top the best clients of the MFIs—those who have demonstrated through repeated borrowing over repeated loan cycles that they are low risks for defaulting on their loans. The bigger banks can woo away these great clients by offering more professional and efficient services than, perhaps, the MFI could provide. The more formal banking sector also tends to deal with individual loans of larger amounts than a typical MFI might handle; in some cases, a client of an MFI might be capable of obtaining a larger, individual loan, but cannot receive such a loan from the current menu of service providers.

On the other hand, once small microfinance institutions and larger microfinance networks, which led the financial sectors when the market was empty and there was no competition, are now readily finding themselves in a new playing field. With market forces increasingly pressing down on MFIs and NGOs, these organizations are being

forced to ask themselves the key question: do we remain focused on our social mission of serving the very poor or do we decide to try to move up the ladder, to work with the “less” poor who similarly have no access to financial services but who represent a safer and easier investment? If they do not move up-market and transition from their NGO status to becoming recognized banks, they might be pushed completely out of the market. However, if they turn away from serving the poorest clients, then what purpose, exactly, does the social mission driven MFI have in the market that is distinct from that of any other profit-seeking bank?

At first glance, it seems unfair to those NGOs and MFIs which invested a tremendous amount of resources—time, money, energy etc—in recruiting new clients and cultivating their financial literacy skills, among other things. In contrast to the top clients the big banks might cherry pick from an MFI’s client portfolio, the pool of borrowers that NGOs and MFIs focused on the poor and ultrapoor encounter typically represent much higher risks for potential to default on their loans—with no credit history, no collateral, maybe even no business to begin with. Cultivating these clients into responsible borrowers and possibly one-day “top clients,” requires substantial investments of time, education, organizing and empowerment, which MFIs utilizing solidarity-lending or village banking models rely on. With tremendous amounts of time devoted to motivating and organizing groups within these models and providing such “nonfinancial” services to clients, microfinance institutions providing services to the very

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21 Krishna, Anirudh, Norman Uphoff, Milton J. Esman. *Reasons for hope: instructive experiences in rural development*. West Hartford, Conn: Kumarian Press, 1997. According to F.H. Abed, founder of BRAC, while small is beautiful, big is necessary. Even BRAC has had to pursue “big” for the sake of economies of scale to replicate effective models and to improve services for their clients.
poor inevitably succumb to many levels of inefficiency, which can potentially slow the lending process and reduce the quality of services offered to clients.\textsuperscript{22}

The pressure of commercialization from international banks in many regards, forces potentially inefficient NGOs and MFIs to really get organized and determine whether or not they can compete. In the ideal scenario, increased competition overall in the market—as might result from a level of commercialization—should result in an improvement of services to consumers and falling interest rates. On the flip side, some believe the presence of big banks and their single-minded profit seeking interests could actually result in higher fees, once many of the smaller MFIs clear out of the market.

Even John Hatch –founder of FINCA International and a microfinance pioneer—believes that commercialization will be a good thing. It will force those who are not efficiently providing services to their clients to either leave the market or to dig deeper down the rungs of the poverty ladder and return to the social mission—serving clients in need of not only small loans but also some of the starter, non-financial services which MFIs clearly provide, like community organizing, women’s empowerment, and access to other basic services.\textsuperscript{23}

Here there remains a conflict within the industry about where exactly the divide exists between the first, fiscal bottom line and the second, social bottom line. Many industry leaders believe that building inclusive financial systems and providing access to

\textsuperscript{22} Examples include: lack of technology; use of paper to ensure redundancy in documentation; huge workloads for individual credit officers. Great inefficiencies often result from the need to send papers to central offices for approval and processing, as occurs commonly in organizations like FINCA where rural credit offices are often at a great distance from regional hubs.

\textsuperscript{23} Reflected in the fact that now, in 2008, many socially mission driven NGOs who give loans, like the MFIs of the FINCA network, are seeking to change their charters as organizations to become banks, so they can mobilize savings. Even conservation organizations today/ organizations with missions beyond microfinance are interested in providing loans and other business services because they need sources of revenue to support their various programs and mission-oriented endeavors. Maybe some will never become financially sustainable, because they are providing essential services to the poorest of the poor.
those who previously lacked access to basic financial services represents the achievement of one core social mission of microfinance. In the conflict over Congressional allocations of U.S. foreign aid money to microfinance, Elizabeth Littlefield, Head of the Consultative Group to Assist the Poor (CGAP) at the World Bank, points out that we cannot forget that there is a huge segment of society that still needs basic access, who are poor but who may not be “poorest of the poor.” In our effort to also provide for the poorest, we should not neglect to serve the poor (who society is still not serving).²⁴

However, there are, indeed, social missions beyond that which microfinance has the capacity to achieve and which should also be measured, beyond simply the percentage repayment rates so often quoted in newspaper articles heralding microfinance’s great success. Unlike accounting for cash flows in a standard accounting frameworks, accounting for “social impact” poses a greater challenge to institutions seeking to demonstrate performance at the double bottom line.

For many years, the microfinance industry has claimed high social performance based on these client repayment rates, suggesting that a poor client’s loan repayments

²⁴ In late April and early May of 2004, the publication of a front page article in the New York Times regarding proposed new rules in Congress for microfinance stimulated a flurry of editorial and letters exchanges among both average citizens and high profile leaders in the field. The proposed new rules would require that that half of American Aid to microfinance go to the “very poor,” defined as those living on less than $1 per day. Congress had up to that point, since 1998, appropriated $2 billion to microfinance programs—one Congressional action receiving strong non-partisan support from Republicans and Democrats alike. In addition to an editorial from the New York Times itself, arguing that microfinance might not be the best solution for the poorest of the poor, subsequent letters to the editor included responses from leaders in the field like Elizabeth Littlefield, chief executive of the Consultative Group to Assist the Poor (CGAP) and a director of the World Bank, and Nancy Barry, President of Women’s World Banking. In her letter on May 2, Barry articulated that microfinance needs to remain a core strategy to addressing poverty among the global poor. Littlefield clarified that microfinance is not the most appropriate strategy among the destitute, who are in need of “food, shelter and livelihood development” before obtaining loans. See Dugger, Celia W. “Debate Stirs Over Tiny Loans for World’s Poorest” New York Times April 29, 2004. Barry, Nancy. Letter. New York Times May 2, 2004. “Microcredit’s Limits.” Editorial. New York Times May 5, 2004. Littlefield, Elizabeth. Letter. New York Times May 9, 2004
indicate a corresponding improvement in livelihood. If this is all the information that we have, how can investors, donors and the institutions themselves know that microfinance is really improving peoples’ lives or that people are not going into worse debt as a result? Today, however, many institutions are deepening their understanding of social performance and creating “social metrics” to measure alongside client loan portfolios to determine how loans are impacting the overall well being and livelihood of microfinance clients.

This demand for improved metrics to measure both fiscal and social performance is also proving to be another outside force influencing MFIs to become better organized and more efficient as service providers. Additional pressure comes also from the presence of social venture capital to the mix of big investors exploring the investment potential of microfinance. Many of those with social venture capital are selectively investing in MFIs who are effective at measuring their social impacts and double bottom line in addition to their traditional financial accounting.

**Mission Drift**

At best, the social mission driven MFI is financially sustainable—at times possibly netting no profit but effectively self sustaining and covering the cost of its business. In many cases, however, there may actually be a net loss, especially when these MFIs are servicing the rural and extreme poor, for which the transaction costs of providing access to these financial services are much higher. Among the high transaction costs of servicing the rural and extreme poor include: basic physical access/ costs of transportation over unpaved roads to identify and work with remote clients; the
opportunity cost of time for program or credit officers working in remote areas; ensuring frequent communication and visits to guarantee loans are repaid by clients during the loan cycle.\footnote{One example from my experience at FINCA Nicaragua is particularly salient. A borrower located approximately 20 hours by boat or 16 hours by horse to the nearest FINCA office visited our remote office in El Rama to inquire about a loan. It would be cost-prohibitive for FINCA credit officers to journey that distance to attempt to facilitate the organization of a village bank in the region. The credit officer would first have to travel there for promotion, then return to follow-up once the group had been formed, collect information, submit it to FINCA’s central offices and establish a formal account, follow up on items to be used as loan guarantees, and then finally disperse the loans. In the same amount of time, that same credit officer could organize five to ten other banks in regions closer to the main credit office, for clientele similarly in need of FINCA’s financial services but much easier to access and manage given the structure of FINCA’s village banking programs.}

To service such clients—which arguably have some of the greatest need—additional capital is required to subsidize the additional transaction costs, above and beyond what is needed by the already costly service of organizing group microlending programs.\footnote{In 1989, 29% of the Grameen Bank’s overall costs of administration and personnel was allocated to the nonfinancial training costs associated with administering their programs. Yaron, Jacob, “What Makes Rural Finance Institutions Successful?” The World Bank Research Observer 9:1 (January 1994), p. 63, as cited in McKernan, Signe-Mary. "The impact of microcredit programs on self-employment profits: do noncredit program aspects matter? The Review of Economics and Statistics, February 2002, p. 93.} Those NGOs that work with this segment of the population—the poorest of the poor—may in fact always be dependent on a flow of donor capital to ensure that they can continue to provide essential services in regions where no profit can conceivably be made but the ultimate need is great.

Given the myriad challenges of servicing the poorest of the poor, many organizations that started operating with a dedicated focus on a social mission of poverty alleviation have experienced “mission drift,” being forced to move away from their social priorities up-market to ensure financial sustainability. John Hatch—who founded the successful microfinance network, FINCA, in 1984—now expresses that even his own network has had to move somewhat away from its social mission to become successful and financially sustainable. In many of its global branches, FINCA has chosen to
transition from being a non-profit foundation to becoming a bank, enabling FINCA
branches to now mobilize borrower savings and strengthen its banking roots to compete
in an increasingly commercialized environment.

More recently, this prompted John Hatch to leave retirement to form a new
organization focused on eradicating extreme poverty by 2025 (consistent with the
Millennium Development Goal of ending poverty). This organization—Alliance of
Students Against Poverty (ASAP)—prioritizes student initiative fundraising to increase
the pool of donor capital allocated to helping those small but not financially sustainable
MFIs reaching the extreme poor.

The formation of ASAP and the development of new strategies beyond traditional
microfinance for targeting the extreme poor—like the Bangladesh Rural Advancement
Committee’s (BRAC) Ultra-poor program—speaks to real challenges, financially and
otherwise, of helping the poorest of the poor reach the bottom rungs of the development
ladder. While lacking the same financial sustainability as compared to BRAC’s other
economic development programs, BRAC’s Ultra-poor program acknowledges the reality
that microfinance may not be the best solution for bringing those living in abject poverty
with no access to basic services up the development ladder. The debt from such loans
that borrowers are inevitably unable to repay may make them worse off than where they
started.

Similarly, in the United States, the Shore Bank established its operations in the
poorest, red-line neighborhoods in Chicago where other banks had left. Shore Bank
provides a service to the poor that they could no longer access, but also has been able to

28 See [www.brac.net](http://www.brac.net/) for more information about BRAC’s ultrapoor and other microfinance programs.
become financially sustainable because borrowers put their money back into the bank, enabling them to build equity.

The Triple Bottom Line: Incorporating Environmental Sustainability

*Defining the Triple Bottom Line*

Varying opinions in the literature suggest a disagreement over who was the true originator of the term “Triple Bottom Line.” One recent publication geared toward industry leaders and CEOs, *The Triple Bottom Line*[^29], acknowledges John Elkington[^30], as the originator of the concept, while a publication geared more towards greening the economy from the grassroots, *Building the Green Economy*[^31], points to Paul Hawken for pioneering the idea in his 1994 visionary work, *Ecology of Commerce*.[^32]

The Triple Bottom Line in the Context of “Sustainable Banking”

*The Greening of Microfinance*

With shifting international and national priorities connected to climate change mitigation and adaptation, researchers and practitioners have been showing greater interest in opportunities connecting microfinance and the environment.[^33] The challenge is that the leaders in the field of microfinance still sees things like the "Triple Bottom

Line" (TBL) as merely ideas talked about at academic conferences and not ideas which can readily be implemented in the field. According to some sources, it takes an average of about seven to eight years to simply achieve a double bottom line of both fiscal and social performance. No one really knows yet how long it might take for an MFI to achieve a triple bottom line and whether achieving the TBL would require a trade-off of either the first two bottom lines or if somehow environmental sustainability could merely become a third rung added on to the other two.

From the perspective of an individual or organization interested in environmental sustainability, microfinance seems wrought with potential environmental problems. A classic example might be the microfinance institution financing a small entrepreneur who currently makes her living selling coal that she has made from fallen trees on her property or possibly even from the nearby community forest. Or loggers who would like a micro-loan to invest in purchasing a chain saw so they can cut trees faster and more efficiently. Or a small fisherman who would like a better net to use for fishing from off the coast of his village. No doubt, we can imagine the negative externalities the public might experiences as a result of the micro-economic decisions of millions of small entrepreneurs all across the developing world, including: deforestation of private and public lands, accelerated top-soil loss and soil run-off into rivers and streams, increased erosion of stream beds, biodiversity loss, reduced fisheries stocks and bycatch.

However, from the perspective of the microfinance institution lending to individuals—particularly those with the social mission of poverty alleviation (double bottom line)—these same examples (all be it extreme cases) represent individuals who are finding ways to improve their own livelihoods through means available to them and
seeking to pull themselves out of poverty.\textsuperscript{34} Inserting a triple bottom line and potentially
preventing the individual with a good business plan from receiving a loan on
environmental grounds, therefore, could result in inadvertently preventing people from
meeting their own needs to survive and provide for their own families. The set of
solutions that will effectively make microfinance environmentally sustainable will need
to ensure that it does not undermine either the social or fiscal bottom line which have
been essential to microfinance's long term efficacy as a sustainable tool for poverty
alleviation.

Moreover, while environmentalists might be quick to jump on MFIs for their
potential lack of consciousness over sustainability, MFIs see themselves like many
traditional banking institutions do in relation to their clients. Like traditional banks
serving clients ranging from individuals to multinational corporations, most MFIs see
themselves as providers of financial services and related products, and not like
institutions with a goal of interfering in the decisions of individuals or businesses. As we
have seen most recently from international campaigns targeting banks like Citigroup and
Bank of America for their role in financing large scale projects with impacts to the
environment and people in developing countries, the extent to which a financial
institution can be held accountable for the actions of its clients is still open to debate. At
least in the case of Citigroup and Bank of America, the banks agreed to draft
environmental policies to guide their lending principles such that potential environmental
impacts would be considered when determining the banks role as financier.

\textsuperscript{34} Spokeswoman for Kiva, Fiona Ramsey, expressed in the Fall of 2007 that “[Microfinance] recipients
‘already know how to fish, they just need a loan so they can buy a net.’” Gryta, Thomas. “Help
In the case of microfinance institutions, while they might in principle say that they do not interfere in the business activities of their clients, in practice, MFIs need to know a lot of information about their clients' business ventures in order to determine whether an individual has the capacity to repay the loan they are requesting. While the institution might not make suggestions about the business of a given entrepreneur, the MFI does have the power to determine ultimately who will receive a loan and who will not.

In the past few years, however, there has been not only a surge in green enterprises, NGOs and consumer activism, but also a growing niche interest in one corner of the microfinance world in uniting the principles of environmental sustainability with the demonstrated social and fiscal success proven by microfinance organizations globally over the past three decades.

One organization focused on the intersection of microfinance and the environment is Green Microfinance. Green Microfinance is a for-profit company specifically devoted to pursuing the green agenda in the microfinance world and facilitating partnerships and product development. Green Microfinance has partnered with leaders in the microfinance sector, including the Grameen foundation, to promote environmentally sustainable economic ventures for micro-entrepreneurs, among other things. Similarly, the SEEP network is forging partnerships among the small enterprise development organizations and MFIs with which they work to fund sustainable energy initiatives.

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35 A more integrated approach would suggest that environmental sustainability needs to be integrated into the overall operations of an institution, akin to general sustainable banking principles that would apply to the banking sector as a whole. In contrast to this integrated approach, a “Microfinance-Plus” approach would combine regular microfinance with some additional program (like training, education, health insurance). Green Microfinance argues that the environment should not be considered “Microfinance-Plus” but rather should be integrated.

36 On the grassroots level, organizations like Fundacion Denis Ernesto Gonzalez Lopez (in Nicaragua) have been adapting microlending strategies to include opportunities for pairing microfinance with environmental programs. In the U.S. there appears to be more of a separation between the movements of Corporate Social
Internationally, there are many grassroots organizations seeking to incorporate environmental sustainability into their activities—particularly around the promotion of sustainable agricultural practices. One grassroots organization in Nicaragua—Fundación Denis Ernesto González López—uses an integrated model of microfinance and environmental sustainability. The organization—a recipient of international support from American Jewish World Service for the past four years—employs microfinance as one tool among many in its comprehensive efforts to improve the living and working conditions of the most vulnerable sectors of Nicaraguan society.

Located in the impoverished coffee growing region of Matagalpa, Nicaragua, Fundación Denis Ernesto González López offers small loans to enable area farmers to purchase the necessities required to engage in subsistence farming activities. Access to capital represents a significant challenge for members of this rural community. Most families are unable to receive services from more established microfinance institutions (MFIs)—being too remote from the central area where most MFIs operate and lacking the essential collateral to obtain and repay loans.

While the foundation provides these small loans as part of their sustainable agriculture and poverty alleviation work, they have found a way to connect these loans to their environmental conservation work as well. Out of concern over water scarcity and water quality as well as heightened soil erosion in the region, the foundation actively encourages community members to practice soil conservation and reforestation on their private lands. As an additional incentive to encourage community members to participate in these conservation activities, the foundation offers a lower interest rate to those

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Responsibility (CSR) at the tops of America’s corporations and on the ground in developing countries, where the lines between environmental, social and economic sustainability tend to be much more blurry than black and white.
farmers willing to participate in these environmentally beneficial agricultural practices. Fundación Denis Ernesto González’s environmental microcredit provides the essential capital that farmers need while also producing positive environmental benefits for the wider community.

Despite growing interest in the connections between the environment and microfinance, the microfinance industry is not yet well poised to capture and measure the “environmental” components that might enable a microfinance institution to become triple bottom lined. Similarly, the industry is just beginning to figure out how to measure and evaluate many of the additional “social” or otherwise “nonfinancial” elements that make the world of microfinance work (such as the benefits resulting from the formation of group lending networks, the training of poor citizens to organize and empower themselves, as well as the benefits of clients learning the basic skills that enable them to borrow capital, invest it in their businesses and save money for the future).\(^{37}\) Essentially, there are other benefits generated by the nonfinancial aspects of microfinance—including those which potentially could originate from the social mission or some element of an environmental sustainability plan—which could ultimately help the overall financial bottom line as well.

**Double Versus Triple Bottom Line, A Zero-Sum Game?**

In the journey towards a triple bottom line, we should not make this a zero sum game or find ourselves in the scenario where we have to trade off social performance for environmental performance. These absolute, black and white trade-offs are reminiscent

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of the traditional big labor versus environment debates where industry has successfully pitted jobs against the environment. So long as society saw improvement in environmental performance as the equivalent of lost jobs, the industries themselves could stay out of the fray.

But times have been changing, and new alliances in the United States have shown that Blue and Green are realizing that together they can achieve a greater end than if they work separately. Some companies, however, have been quicker to adopt, at least symbolic, sustainability measures, in part because of their clear benefits to the fiscal bottom line. Wal-Mart, for example, has been praised for its efforts towards sustainability while at the same time attacked by labor unions in the United States for their seemingly exploitative practices in connection to their workers. At Wal-Mart, increasing fuel efficiency of their trucking fleets represents a clear conservation measure that saves dollars at the end of the work day. Paying their workers a better wage or providing benefits might however, undermine the whole cost structure of their business model.

The Wal-Mart scenario seems to favor the notion that the globalized economy is one in which even the local, small farmers will need to adapt to the changing demands in the mega-economy. In many ways, the big monopoly is more efficient in the way it operates and can obtain a smaller environmental footprint because of the increases in efficiency throughout its supply chains and operations. However, its continued monopolistic dominance in the marketplace suggests potential for major social impacts
around the world as a result of even the tiniest local communities needing to bend their lives and livelihoods to the demands of one mega-corporation.  

*Sustainable Business Principles to Guide the Process*

At its foundations, Wal-Mart is a company with a mission to produce profits for its investors and corporate leaders. NGOs—like BRAC, FINCA, and Ashoka—have come into existence because of their interest in serving some bigger mission, beyond becoming financially sustainable enterprises. With this mission as a core guiding principle of its operations, such social enterprises are better-suited to seeing with a broader vision for how activities which may be not-directly financially sustainable could be essential components to ultimately improving the overall social and financial performance of the organization. Paul Hawken, in the *Ecology of Commerce* identifies a list of core principles for sustainable businesses. While not explicitly referred to using the term “Triple Bottom Line,” these principles have very much formed the foundations for our modern understanding of how an economy could achieve financial, social and environmental benefits at the same time.

**List of Principles for Sustainable Businesses:**

- Replace nationally and internationally produced items with products created locally and regionally

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38 There are clearly some trade-offs, but not every scenario is a “Wall-Mart” scenario. Hawken is more of an advocate for strengthening economies at the local level to prevent resource drain—both physical resources, financial resources and human capital—and to maintain the essential fabric of cultures and communities as they are.

- Take responsibility for the effects they have on the natural world.
- Do not require exotic sources of capital in order to develop and grow.
- Engage in production processes that are human, worthy, dignified, and intrinsically satisfying.
- Create objects of durability and long-term utility whose ultimate use or disposition will not be harmful to future generations.
- Change consumers to customers through education.
- Replace nationally and internationally produced items with products created locally and regionally

Keeping this list of sustainable business practices in mind will be useful as microfinance institutions begin to examine their own environmental sustainability and understand how environmental sustainability fits within their overall organizational strategy and objectives. Microfinance institutions with a strong social mission likely hold many of these same principles at their core, but couched in different language and a vision more explicitly focused on poverty alleviation. For MFIs which have already become successful, double-bottom-lined organizations, then an MFI might best dedicate its focus to meeting the more environmentally explicit elements of these principles.

For conservation organizations interested in exploring opportunities to target their efforts at poor communities, developing partnerships with effective microfinance institutions may represent the best strategy for gaining institutional knowledge about microfinance while also encouraging increased environmental awareness and expertise among microfinance and development institutions focused more on financial and social sustainability. Such partnerships could focus on financing entrepreneurs engaged in green businesses or supporting the entrance of more green technology into emerging
markets (like solar panels, solar ovens and other green energy devices)—something which many microfinance institutions in the developing world are already experimenting and finding success with.

**Conclusion**

While thinking around environmental sustainability in the context of poverty alleviation and of global climate change is just beginning to evolve, advances in green technology at the “top” of the development pyramid are enabling the rapid implementation of improved products and other solutions to balance the needs of society and the environment in the developed world. The falling costs of green technology—especially in the face of rapidly rising global petroleum prices—are enabling alternative energy sources, like solar paneling, to become accessible to more middle-income consumers. Most urgently needed now are strategies for scaling up the production of the most efficient and environmentally sound technologies enabling even the poorest of the poor to access off-the grid energy and environmentally sustainable alternatives to more natural resource intensive utilities and “appliances” (like solar ovens instead of traditional wood-burning stoves). Microfinance institutions will likely play a significant role as enablers of this movement towards green development —providing the critical capital necessary for the poor to access microloans for both green business start-ups and also for the financing of energy alternatives. Enabling green development among communities at the bottom of the pyramid represents a particularly urgent challenge for conservation and development organizations concerned about the impacts of climate change on the extreme poor—who are the most vulnerable to not only the impacts of
climate change but also any environmental costs associated with traditional modes of production associated with business and economic development.

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