IJNRD.ORG ISSN : 2456-4184
INTERNATIONAL JOURNAL OF NOVEL RESEARCH AND DEVELOPMENT (IJNRD) | IJNRD.ORG
An International Open Access, Peer-reviewed, Refereed Journal

Green Microfinance: Why it matters?

Arjita Awasthi, Jagriti Gupta, Prof. Dr. Akhil Mishra

Banaras Hindu University, Varanasi, U.P.

Abstract:

In the present scenario, green microfinance has emerged as a tool to integrate the principles of environmental sustainability to promote ecologically sound practices in financial and social aspects of microfinance. This paper aims at presenting a comprehensive view of dimensions of green microfinance and its importance for the marginalized people. The study is descriptive in nature and based on the secondary information collected from the previous research papers. The findings of this paper suggests that environmental policy, ecological footprint, environmental risk assessment, green microcredit and environmental non-financial services can be used as the dimensions to measure the green microfinance. Further, the paper also highlighted the importance of green microfinancing in facilitating the life of vulnerable people by incorporating the ecological aspects in financial activities which they carried out with the help of microfinancing. Finally, the paper also suggests some policy implications on the basis of the result of this study.

Keywords: Green microfinance, Microfinance Plus, Microfinance.

1. Introduction:

Microfinance is one of the recent tools in the world of finance which has come into existence to serve the rural and urban poor to meet their fundamental needs. Microfinance is a world in which poor and socially marginalized people are served with wide range of affordable and high-quality financial products and services which enables them to take part in the development of the nation.

In the quest of sustainability, a new dimension has been added in the traditional bottom line of microfinance (financial and social) which is commonly referred as Microfinance plus. The emergence of microfinance with environmental responsibility give birth to the concept of green microfinance (Rippey, 2009). Green microfinance refers to the provision of microfinance services that specifically support environmentally sustainable activities and projects. It combines the principles of microfinance, which aims to provide financial services to low-income individuals and communities, with a focus on promoting environmentally friendly practices and addressing environmental challenges. For example, in Guatemala, Génesis disbursed 4,000 microcredits with subsidized rates in early 2012 to support small coffee and cocoa farmers using environmentally friendly production techniques such as organic fertilizers, soil conservation, and agroforestry (**Allet & Hudon, 2013**).

Although, awareness about the environmental concern among the microfinance users and providers has increased, still there is a little evidence available on green microfinance, its dimensions, and why it matters. This paper seeks to identify the dimensions of green microfinance and why it matters. More specifically, it assesses what are the different indicators for measuring green microfinance and how it is beneficial for the environment and the society.

The findings of this study suggests that environmental policy, ecological footprint, environmental risk management, green microcredit and environmental non-financial services are five dimensions for measuring the green microfinance. Further, the study shows that the green microfinance is imperative from both environmental as well as societal point of view. It ensures environmental sustainability on one hand, while on the other hand, it helps poor people to earn their livelihood by providing them with day jobs.

1.1.Rise of Green Microfinance:

In India, as on 31st march, 2023 total outstanding loan portfolio was 3,48,339 crore for microfinance sector. Gross loan portfolio of the microfinance industry rose 22% in FY 2023 to ₹ 3.5 lakh crore serving 6.6 crore unique borrowers which was just .It shows that there is a rapid growth in microfinance sector in Indian context which includes not only micro credit but also savings, insurance and digital payment services.

Microfinance, since its inception in 1980s-1990s, serving the double bottom line which consists of financial along with social objectives. The balancing of these social and financial goals is exercised in different ways among different types of microfinance policies or institutions **(Marconatto et al., 2016)**. But, with the advent of Sustainable Development Goals in the year 2015, the concept of **green microfinance** has emerged. Because in order to tackle the poverty in real manner; first we have to be environmentally sustainable so that no natural calamities can affect the economic conditions of the vulnerable people. Green microfinance has added the environmental objectives to the traditional financial and social bottom lines which is called the triple bottom line of microfinance. Green microfinance is related to MFIs' concern about the positive or negative environmental impact of their clients' activities (Anderson et al., 2003). Other reason of MFIs to incline towards green microfinance is the risk associated with climate change and natural disasters that may hamper the ability of their clients to repay the loan. In addition, inclusion of environmental objectives open up new investment frontiers, allowing MFIs to tap from new (green/climate) funds and market segments (**Mahbouli & Fortes, 2015).** Green microfinance does not only ensure provision for environmentally targeted financial services, but it also offers non-financial services such as technical assistance for more environmentally friendly practices and provide training for raising environmental awareness (**Huybrechs et al., 2019**). Conclusively, it can be inferred that MFIs are more focused towards inputs and processes rather than output.

1.2.Objectives:

1.2.1. To identify the dimensions of green microfinance.
1.2.2. To examine the importance of green microfinance in present scenario.

2. Literature Review:

Archer (2009) suggests that ignoring the environment might correspondingly endanger the health of poor people. On the basis of their analysis Allet et. al., 2015 find that larger MFIs and MFIs registered as banks tend to perform better in environmental policy and environmental risk assessment.

Marion Allet in her paper "Why do microfinance institutions go green" in 2012 found that microfinance institutions that are most proactive in environmental management are primarily motivated by social responsibility. Allet in 2014 explored that MFIs for which legitimation is the dominant driver tend to adopt a defensive approach and set up more superficial negative strategies to appear green.

Forcella & Hudon in their paper "Green Microfinance in Europe" conclude that the additional revenues generated from these green loans could help microfinance institution to strengthen their environmental bottom line.

Moser & Gonzalez describe that green microfinance is an attempt to supplement microfinance products and services with tailored pro-poor climate change strategies with a view to enhancing the adaptive capacity of millions of microfinance clients worldwide. Huybrechs et. al., 2019, comprehend that green microfinance aims for environmental objectives in addition to microfinance's traditional financial and social goals.

According to Mia et. al., 2018 microfinance institutions in South-East Asia were initially established to alleviate extreme poverty by providing a wide array of customized financial products. Hou Juan (2013) found that green microfinance can promote social equity and environmental sustainability.

According to the study conducted by Morduch et al., 2003, Microfinance enables poor people to increase their household incomes, build assets, and reduce their vulnerability to the crises that are so much a part of their daily lives. Allet, 2011 in his paper "Measuring the environmental performance of microfinance" created a new tool to measure the environmental performance of microfinance institutions is proposed.

Atahau et al., 2020 seek to develop Sustainability microfinance models and policy formulation to alleviate poverty in rural communities in East Sumba. Forcella & Huybrecks identified that green microfinance programs specifically designed to foster environmentally sustainable and economically rewarding rural practices do not necessarily manage to influence the evolution of the environmental value of the clients' farm.

Forcella et. al., 2018 conclude that better coordination and appropriate tools, products and strategies need to be developed to achieve the potential of a very promising green microfinance sector. According to Zhang et. al., 2020, the measurement instrument and research framework provide a self-assessment tool for organizations to strategize the preparation and implementation of green innovation for optimal sustainability outcomes.

3. Research Methodology:

This study is exploratory in nature and based on secondary data which have been collected from previous research papers, articles, annual reports of companies and government. The paper is purely theoretical and descriptive where a comprehensive literature review has been performed using keywords "Green microfinance" or "Microfinance Plus". This literature survey helped us to identify key concepts, define uncommon terms and theories logically so these can be easy to read and interpret.

4. Green Microfinance: Why it Matters?

The pursuit of 'sustainable development' has become mainstream among policymakers, practitioners, scholars, and the general public. Here, we adhere to the ideas of "transformations to sustainability," which are supported by the necessity of fundamentally challenging existing structures and processes that are the cause of unfair social interactions and ecological degradation (**Huybrechs et al., 2019**). This transformational viewpoint highlights what constitutes significant change toward sustainability which reflects certain framings and underlying assumptions that prioritize certain activities over other options. A current trend in microfinance is going "green" by including environmental goals into its typical double bottom line of financial and social performance in response to growing sustainability concerns (**Abid, 2018; Dowla, 2018**).

A concept known as "green microfinance" brings together the fundamentals of microfinance with an emphasis on activities and practices that are ecologically friendly. It attempts to increase financial inclusivity while tackling environmental and climate change issues. Green microfinance recognizes the dying need to move toward an economy that is less polluting and more sustainable. Green microfinance focuses on financing environmentally responsible projects and activities that have a positive impact on the environment **(IFC, 2012)**. Individuals and communities can participate in environmentally friendly projects and activities through green microfinance. It provides funding for projects like clean water and sanitation, sustainable agriculture, eco-friendly businesses, and renewable energy systems. Green microfinance contributes to the mitigation of climate change, the preservation of ecosystems, the conservation of natural resources, and the promotion of sustainable practices by providing support for these initiatives.

Green microfinance can drive systemic change by influencing financial institutions, policies, and market dynamics. By demonstrating the viability and profitability of sustainable investments, it encourages mainstream financial institutions to adopt green finance practices.

Green microfinance is the use of "service terms and incentives" to promote the sustainable use of resources by the poor. The aim is to reduce vulnerability, create a sustainable environment, improve adaptation and mitigate the risks of climate change by reducing greenhouse gas emissions. Green microfinance extends financial services to low-income individuals and communities, helping them generate income, improve livelihoods, and reduce poverty **(Kaplinsky, 2014).**

It's possible to argue that poor people don't really care about climate change because they are already struggling financially and socially. However, the concept of green microfinance has more logic than meets the eye. The following are a few arguments in favor of the idea: *First,* the poor are most reliant on their ecosystems for survival, but they are also least prepared to deal with climate change-related disasters like flooding, hurricanes, landslides, and water shortages and droughts. Nearly a quarter of the total disease burden in developing countries is due to environmental factors. Unclean water, inadequate sanitation and waste disposal, and air pollution are major problems for the poor. Rapid deforestation and biodiversity loss continue to deprive people of valuable forest resources such as firewood, food and medicine. Land degradation poses a major threat to the livelihoods of the poorest billion people, who are likely to live in particularly degraded and vulnerable areas. Rural population growth, agricultural expansion and intensification, and poverty projections in the coming decades point to a potentially serious conflict between natural resource sustainability and rural poverty. *Second,* the poor often neglect sustainable agricultural practices and degrade environmental conditions in order to make short-term gains from microcredit. For example, improper land management, burning wild plants to clear land for agriculture, overfishing, and excessive cutting down of trees for sale or burning for fuel. *Third,* Poor households now rely on non-renewable energy sources, which are highly inefficient and sometimes expensive. Examples include coal, kerosene, fertilizer, and wood. Renewable energy sources are found in remote areas suffering from energy poverty, i.e., important in areas with no access to the power grid. Electricity can extend working hours beyond sunset and make life more comfortable for the poor. Alternative energy sources not only reduce CO2 emissions, they are also cheaper. *Fourth,* Jobs will be created for the poor to support green microfinance programs. They set up and maintain alternative energy systems (photovoltaic systems, solar cookers, etc.), manufacture small accessories and spare parts, and sell them to various markets, including upper- and middle-class alternative energy system owners.

Thus, green microfinance is in line with the Sustainable Development Goals set by the United Nations. This covers several areas such as affordable and clean energy (SDG 7), decent work and economic growth (SDG 8), sustainable cities and communities (SDG 11) and climate action (SDG 13). By directing funds towards green and sustainable activities, green microfinance supports the achievement of these global goals.

Thus, green microfinance offers a range of benefits, including environmental sustainability, climate change mitigation and adaptation, financial inclusion, poverty alleviation, job creation, local economic development, social and health benefits, resilience and risk reduction, and market development.

5. Dimensions of Green Microfinance:

The quench of sustainable development has added a recent thread in microfinance, namely Green Microfinance, by incorporating environmental objectives with the traditional bottom line of financial and social objectives **(Abid et al 2018)**. To achieve the triple bottom line objective of microfinance, it is necessary to establish the different dimensions that measure MFIs' environmental performance. Previously, environmental performance was often used as a substitute for social responsibility **(McGuire et al. 1988)**. Furthermore, due to the complexity and variety of measures and indicators used for measurement, evaluating environmental performance is extremely challenging **(Forcella & Hudon 2014)**.

We identified five major dimensions of environmental performance in microfinance:

(1) Environmental policy; (2) Ecological footprint; (3) Environmental risk assessment; (4) Green microcredit; and (5) Environmental non-financial services.

1. Environmental Policy

The first approach is to start incorporating environmental concerns into the official mission of the business and to develop a framework conducive for the implementation of environmental programs. The presence of a stated environmental policy **(Azzone, et al.,1996)** and employees with environmental tasks and duties **(Olsthoorn, et al., 2001)** are indicators for measuring this dimension.

2. Ecological Footprint

The second dimension is associated with a set of specific objectives and close monitoring of MFIs' levels of water and energy usage, paper consumption, carbon emissions, and so forth. Environmental audits **(Azzone et al, 1996, Jasch, 2000)**, the establishment of quantifiable objectives **(Jasch, 2002)**, environmental reporting or disclosure **(Weber, 2008)**, and environmental training for staff **(Jasch, 2000, Rao et al., 2009)** were the most frequently mentioned indicators in previous studies relevant to measuring MFIs' internal performance.

3. Environmental Risk Assessment

It involves screening and monitoring all loans for environmental compliance. This dimension is concerned with the management of indirect environmental impacts at the portfolio and customer levels. There are two primary indicators that are typically used to assess the environmental risk management dimension: no credit is given to non-sustainable projects project **(Weber, 2005)** and tools for risk analysis and monitoring of loans **(Pratt & Rojas, 2001).**

4. Green Microcredit

The fourth dimension also assesses the environmental impact at the client level. Some MFIs modify their financial products to promote environmentally friendly activities such as eco-tourism, agroforestry, waste management, and recycling, as well as to facilitate access to environmentally friendly technologies such as renewable energy (solar home systems, solar lighting, solar water heaters, biogas digesters, and other similar devices).

The following indicators are used to assess this dimension: green financing for sustainable businesses or start-ups **(Pratt & Rojos, 2001; Weber, 2005)**, as well as the relationship between credit pricing and the debtor's long-term performance **(Weber, 2005)**.

5. Environmental Non-Financial Services:

This strategy is rarely employed in traditional banking. It is more particular to the microfinance sector because non-financial services are just as significant as financial products for them. Some of the indicators used to assess this dimension include: an environmental chart that clients must sign, and an environmental awareness programs to raise awareness on environmental risks; actions to promote environmentally friendly micro-enterprises; training and other services to assist clients in developing environmentally friendly activities **(Allet, 2011)**.

Ultimately, these criteria could serve as a foundation for measuring environmental performance, although they are not exhaustive for a variety of reasons. First, information on these outcomes is relatively inadequate, and second, environmental management is still a new and little-known subject in microfinance.

Finally, these indicators provide critical information on existing strategies and techniques that MFIs might use to achieve a triple bottom line. Information can be used for research as well as to provide operational instructions to MFIs interested in contributing to environmental management.

6. Conclusion:

Green microfinance commonly known as microfinance plus is aimed at serving the needs of poor people along with facilitating the environmental sustainability. It serves the three pillars of sustainability: people, planet and profit. The

purpose of this paper is to find out the dimensions of sustainability and why it matters in the present scenario. The study is purely theoretical in nature and based on previous literatures. The findings of this study suggests that there are mainly five major dimensions of measuring the performance of green microfinance namely environmental policy, ecological footprint, environmental risk assessment, green microcredit and environmental non-financial services. Besides this, the study also highlights the importance of green microfinance by underlining its role in serving the vulnerable and the environment simultaneously. The policy implications of this paper are as follows: *First,* this study can help policy makers to frame policies for marginalized people to integrate environmental aspects in their financial activities which they use to do to earn their livelihood through microfinancing. *Second,* this can also help government to measure the growth of green microfinance with the help of above given dimensions at the local, state and national level. *Further*, the importance of green microfinance shows the need to design policy framework for the successful implementation of green microfinance practices. At the same time, the study also has some limitations that it is purely theoretical in nature and not empirically investigated. As a future scope, this paper can be validated by collecting quantitative data from them directly. A case-study based analysis can also be conducted to find out the ways in which green microfinance institutions plays out in the field of socio-ecological change. A comprehensive involvement with how and why finance coupled with the transformation to sustainability requires modesty towards manageability and predictability of interventions. At the same time greater ambition and political awareness are needed in the light of collective process of defining and achieving specific social, economic and ecological objectives.

7. References:

1. Abdur Rouf, K. (2012). Green microfinance promoting green enterprise development. Humanomics, 28(2), 148-161.
2. Allet, M. (2011). Measuring the environmental performance of microfinance. Université Libre de Bruxelles.
3. Allet, M. (2014). Why do microfinance institutions go green? An exploratory study. Journal of Business Ethics, 122, 405-424.
4. Allet, M., & Hudon, M. (2015). Green microfinance: Characteristics of microfinance institutions involved in environmental management. Journal of Business Ethics, 126, 395-414.
5. Atahau, A. D. R., Huruta, A. D., & Lee, C. W. (2020). Rural microfinance sustainability: Does local wisdom driven-governance work? Journal of Cleaner Production, 267, 122153.
6. Azzone, G., Noci, G., Manzini, R., Welford, R., & Young, C. W. (1996). Defining environmental performance indicators: an integrated framework. Business strategy and the environment, 5(2), 69-80.
7. Dowla, A. (2018). Climate change and microfinance. Business Strategy & Development, 1(2), 78-87.
8. Forcella, D., & Hudon, M. (2016). Green microfinance in Europe. Journal of Business Ethics, 135, 445-459.
9. Forcella, D., Castellani, D., Huybrechs, F., & Allet, M. (2017). Green microfinance in Latin America and the Caribbean: An analysis of opportunities.
10. Gonzalez, L., & Moser, R. M. B. (2015). Green microfinance: the case of the Cresol System in Southern Brazil. Revista de Administração Pública, 49, 1039-1058.
11. http://microfinancehub.com/2010/06/05/why-green-microfinance-matters-to-the-poor/
12. Husson, T. (2015). Green Microfinance: A Solution for Access to Essential Services. Retrieved October, 16, 2018.
13. Huybrechs, F., Bastiaensen, J., & Van Hecken, G. (2019). Exploring the potential contribution of green microfinance in transformations to sustainability. Current opinion in environmental sustainability, 41, 85-92.
14. Jasch, C. (2000). Environmental performance evaluation and indicators. Journal of cleaner production, 8(1), 79-88.

15. Kaplinsky, R. (2014). “Bottom of the pyramid” innovation and pro-poor growth.
16. Khan, S. A. R., Zhang, Y., Kumar, A., Zavadskas, E., & Streimikiene, D. (2020). Measuring the impact of renewable energy, public health expenditure, logistics, and environmental performance on sustainable economic growth. Sustainable development, 28(4), 833-843.
17. Littlefield, E., Morduch, J., & Hashemi, S. (2003). Is microfinance an effective strategy to reach the Millennium Development Goals. Focus note, 24(2003), 1-11.
18. McGuire, J. B., Sundgren, A., & Schneeweis, T. (1988). Corporate social responsibility and firm financial performance. Academy of management Journal, 31(4), 854-872.
19. Mia, M. A. (2021). Participation of women in the South Asian microfinance industry: An observation. Journal of Public Affairs, 21(2), e2481.
20. MOSER, R., BARBOSA, M., & GONZALEZ, L. (2016). Green microfinance: a new frontier to inclusive financial services. Revista de Administração de Empresas, 56, 242-250.
21. Nugroho, L. (2014). CENTRAL BANK REGULATION AND ITS IMPACT ON GREEN MICROFINANCE☹Extensive internship report).
22. Olsthoorn, X., Tyteca, D., Wehrmeyer, W., & Wagner, M. (2001). Environmental indicators for business: a review of the literature and standardisation methods. Journal of cleaner production, 9(5), 453-463.
23. Rao, P., Singh, A. K., la O’Castillo, O., Intal Jr, P. S., & Sajid, A. (2009). A metric for corporate environmental indicators… for small and medium enterprises in the Philippines. Business strategy and the environment, 18(1), 14-31.
24. Weber, M. (2008). The business case for corporate social responsibility: A company-level measurement approach for CSR. European Management Journal, 26(4), 247-261.