

## Who Cares about the Natural Environment in the Microfinance Lending Process?

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### Introduction

Soon more than one hundred million (<http://www.microcreditsummit.org/press/SOCR2006.htm>) people in the developing world will be receiving very small business loans through the investment vehicle known as microfinance. Most microfinance lending institutions (MFIs) appear to share the general intent to alleviate poverty for the borrowers (who are also commonly referred to as micro-entrepreneurs) and therefore offer funding for a wide range of business models with panoply of potential side-effects. My research is concerned with these side-effects, in particular the negative effects on the natural environment.

### Microfinance can be bad for the natural environment

Though an enthusiastic supporter of microfinance, particularly as exemplified by the growth of kiva.org, microplace.com, etc., I am concerned that microfinance as we know it today is accelerating a haphazard industrial revolution, *de facto*. The potential of this revolution to result in environmental damage is exacerbated by the fact that so many microfinance projects are agricultural in nature. A key good example of this is MFIs funding bicycle-based irrigation pumps whose effective use generated profits that funded the purchase of gasoline-powered portable generators (old technology non-point-source-polluters) which eventually led to a drawing down of the water table (Fisher 2006). The MFIs were the first step in creation of a major negative environmental change.

### Microfinance can be great for the natural environment

Contrastingly, there are many instances where MFI-funded development appears to be environmentally sustainable, *prima facie*. Thus FIS *microcredito* in Argentina finances and installs solar panels that electrify previously off-the-grid villagers (following the rent-to-own model); PlaNET microfinance in Brazil hopes to one day include environmental protection language in the lending criteria of projects it funds; and locals in Bangladesh (who were later named Ashoka Fellows) transformed filthy streets and jobless beggars into a for-profit fertilizer business (Zurbrugg 2002).

### Research Focus

My dissertation, to be submitted late in 2008, is built upon a content analysis of MFI lending criteria. It will seek to identify, understand and explain, "Who cares about the natural environment in the microfinance lending process?"

### The criteria underpinning MFI lending

MFI lending criteria documents are produced by a bank's headquarters, and distributed to regional offices and the field. They are concise, in part so that they are easy to translate into local dialects. They typically involve a handful of simple principles, such as, "we only lend to women in self-selected groups." A sample is pasted below as Figure 1. These documents are gathered together and accessible via [www.entrepreneurship.com/researchingmicrofinance](http://www.entrepreneurship.com/researchingmicrofinance).

<b>Récapitulatif du prêt</b>	
Durée des prêts	6, 8, 10 et 12 mois
Montant des prêts	Ligne de crédit progressive de 150 dinars à 1000 dinars
Garantie	<ul style="list-style-type: none"> <li>• Solidarité du groupe</li> <li>• Auto sélection du groupe</li> <li>• Bonne réputation des membres</li> <li>• Connaissance mutuelle</li> <li>• Proximité géographique des membres</li> <li>• de 4 à 7 personnes maximum</li> <li>• Garantie mutuelle (caution solidaire)</li> <li>• Contrat légalisé à la municipalité</li> <li>• Participer aux 5 réunions</li> </ul>
Frais administratifs	5 dinars
Conditions d'éligibilité	<ul style="list-style-type: none"> <li>• Une majorité de femmes dans le groupe</li> <li>• Avoir plus de 20 ans pour les hommes et 18 ans pour les femmes</li> <li>• Avoir une CIN tunisienne</li> <li>• Avoir une micro-entreprise ou la capacité d'en créer une</li> <li>• Appartenir à la population cible de Crenda</li> <li>• Ne pas être fonctionnaire avec un revenu élevé)</li> </ul>
Disponibilité du prêt	Toute l'année

**Figure 1.** Excerpt of sample lending criteria

### Bank employees are just doing their jobs

In my research I am hearing that field-level bank employees just follow the rules. They do not appear to share motivations with a kiva.org donor from Boston or Birmingham, and are not internally motivated to make the world a better place. This is not a shock, of course: It *is* something to think about, however.

### It has to be written down somewhere

This story jives with the adage that Stuart Hart reiterated in *Capitalism at the Crossroads*, "that which gets measured, gets done." I think that if concern for the environment is to manifest anywhere in the process, it would have to be in the lending criteria. In the fall of 2008 I will gather and code as many of these documents as I can. Anticipating the value of this effort to future researchers with different agendas I also plan to code the lending criteria in my database for other variables (i.e. gender, age, group size, etc.).

### What contribution do I hope this research will make?

*"Indeed social entrepreneurs' ability to change norms (e.g. money cannot be loaned without collateral, much less to the poor) may turn out to be more significant than the initial problems that they set out to address."*

This quote from Mair and Marti inspires a maelstrom of pragmatic "what if" questions in my mind, just five of which I will share here with you:

- What if the coupling of environmental sustainability with microfinance eventually becomes the norm, and that in turn influences all economic development to encompass such concerns?
- What if millions or billions of hungry and thirsty people start very small businesses and no one in the finance process advances any concern for the natural environment?
- What if financial institutions and Multi-National Corporations dive into the Base of the Pyramid via microfinance without incorporating a concern for the natural environment into their lending criteria?
- What if entrepreneurship scholars ceased to make the distinction between social and commercial entrepreneurship?
- What if practitioners began to recognize that the natural environment is a source of entrepreneurial opportunity?

As a dissertation, this is my first major research work. I am at once optimistic and daunted. I hope that twelve months from now I will not only be generating more questions, but that I will advance the conversation that is working towards practicable answers with attention to, "the role that research knowledge can play in the relief of suffering" (Seale 2004).

## References

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