

# Guest editorial: An introduction to the special issue on green microfinance

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THE INCREASING RELEVANCE OF GREEN microfinance is unmistakable. In the context of the perpetuation of poverty, and faced with ecological limits, governments and development practitioners are seeking ways to contribute to 'sustainable development'. Although sustainable development has a wide array of definitions and is used for many different purposes, a recurrent thread in its interpretation is the linking of social, economic, and ecological goals. Especially in the last decade, and increasingly so over the last few years, we have also seen this combination of three pillars enter into the microfinance sector.

Indeed, in addition to microfinance's financial and social goals, a recent trend of 'green microfinance' or the 'third bottom line approach' to microfinance also aims for the inclusion of environmental objectives. Discussions regarding the linkages between microfinance and the environment strongly increase in visibility. Both the European Microfinance Platform and the Social Performance Task Force have action groups dedicated to the topic, and we see the uptake of green practices in microfinance management tools and reporting (e.g. the green index in SPI4, the Green Performance Agenda, and MIX Market). Green microfinance receives increasing attention at major microfinance events (e.g. European Microfinance Week, University Meets Microfinance, and FOROMIC), and has been the subject of international awards (e.g. the 5th European Microfinance Award). This reflects the multiplication of on-the-ground experiences and projects which link microfinance to environmental concerns.

But what *is* green microfinance? As we present the different contributions of this special issue, it will become apparent that it is a broad topic, which is probably one of the reasons why there is no widely adopted definition of green microfinance so far. To avoid being too normative and to allow for the wide panorama of possible entry-points and motivations, one could suggest the use of 'green microfinance' as an umbrella term for all microfinance which takes into account environmental considerations.

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Of course, a key linkage between microfinance and the environment relates to the impact that the microfinance institution (MFI) has on the activities of its clients; and how this affects environmental degradation or restoration. In this perspective, an environmentally sensitive MFI can decide to a priori exclude investments in supposedly harmful activities. Another approach aims to incentivize the adoption of practices which are considered environmentally friendly, by targeting financial and non-financial services to such activities, with or without explicit environmental conditions and financial cost reductions. Today's most popular type of green microfinance – microfinance for renewable energy and energy efficiency – also fits in this realm of trying to limit clients' impact on the environment, in combination with reaching social and economic objectives.

Other strands of green microfinance pay attention to how the present environmental turmoil in turn affects the livelihood and business security of (potential) microfinance clients. In particular, there is increasing awareness of the consequences of climate change, and its effect in developing countries, hitting hardest on the most vulnerable. This calls for a role for microfinance in facilitating climate change adaptation (e.g. through incentives and technical assistance to adopt adaptation measures, or micro-insurance and savings to cope with environmental shocks). Such interventions, which aim to reduce clients' vulnerability, also contribute to risk reduction for the microfinance institutions themselves.

'Green microfinance' thus clearly is a variegated reality, responding in different ways to multiple challenges and opportunities in the face of mounting environmental crises. In light of the above, we propose a more meaningful definition, which focuses on the impact on and through clients, still capturing the variety in possible objectives, motivations, and approaches:

Green microfinance tries to induce changes in decision-making and behaviour of microfinance clients – either passively (refusing to finance harmful activities) or actively (providing environmentally conditioned micro-financial and non-financial services, possibly combined with targeted subsidies) – in order to reduce clients' vulnerability to environmental stresses and/or to mitigate the impact of their practices on the environment, for reasons of financial risk reduction, livelihood improvement and/or conservation and restoration of natural resources.

Although the number of publications on the topic has increased in the last few years, the discussions in academic and grey literature are rather dispersed, and might not reflect the current dynamism. This special issue therefore attempts to bring together different contributions, acknowledging various dimensions of green microfinance and including contributions by different types of actors (academics, practitioners, funders).

A key issue in the discussions about green microfinance is whether there is a business case for it, and whether investment possibilities exist. The articles by Mahboubi and Fortes and by Agathou and Schuite provide us with insights on these matters, nicely setting the stage for the remainder of the special issue. Mahboubi and Fortes offer the perspective of an international impact investor and its increased

interest in green – in particular climate mitigation – finance. They share some thoughts regarding their learning curve and future plans, and give an impression of changes in investment climate. The article by Agathou and Schuite introduces the Green Performance Framework, a practical tool developed to support microfinance institutions who want to reflect on their (green) practices. They apply this framework to eastern and southern African MFIs, discussing their current and envisaged environmental performance. On the basis of this experience, they look at the aspirations of MFIs to go green, and the main challenges to doing so.

Next, Reichert and Trivella engage with the subject of financing small-scale renewable energy solutions. After introducing different financing options, they enter more specifically into the business model of a partnership between a financial institution and an energy provider, as well as the pay-as-you-go modality. They offer interesting information to fuel discussions on the role of microfinance for renewable energy. This is timely, as there are indications that microfinance for renewable energy has not really lived up to its expectations yet. In the March 2016 issue of EDM (27:1), Groh and Taylor discuss the possible reasons for this, and explore possible avenues for different types of involvement for microfinance in the expansion of energy services to the currently excluded.

We then move on to the topic of microfinance for climate adaptation. Fenton et al. provide an overview of the existing literature, indicating two key areas of focus. Part of the literature engages with the possibility of microfinance to contribute to the adaptive capacity of households, while the other body of research looks more into the exposure of the microfinance institutions themselves. The review elaborates on shortcomings in the existing literature and mentions a number of challenges for the implementation of climate-resilient microfinance. The authors call for more research through a specific adaptation lens in order to contribute to a better understanding of the possible links between microfinance and climate adaptation. In this context, Rondón-Krummheuer et al. take us to Peru and Colombia to introduce us to 'Microfinance for Ecosystem-based Adaptation', a project which tries to act upon vulnerability to environmental crises and the need to adapt to climate change. They present the conceptualization of the project, as well as its functioning and promising progress to date.

It is not only within the context of climate change adaptation that green microfinance projects are engaging with incentives for changing the practices of microfinance clients. An emerging strand of green microfinance aims to contribute actively to mitigation and/or environmental restoration more generally. Also in the March 2016 issue, Shahidullah and Haque will provide us with a case study of a green microfinance project in Bangladesh, where a combination of financial and non-financial services appears to have motivated farmers to reduce their greenhouse gas emissions through the adoption of more sustainable farming practices. From the same perspective, Bastiaensen et al. analyse the experience of Proyecto CAMBio in Nicaragua. This project combined credit with technical assistance and payments for environmental services to promote the adoption of environmentally friendly production practices. The authors point out that it is necessary to look beyond the isolated functioning of the project and its direct beneficiaries in order to face the

complexity of the human–nature dynamics. This can improve the understanding of how programmes translate in the field, and how they engage (or don't) with processes of poverty and environmental degradation.

Some of the issues related to green microfinance remind us of broader debates on natural management. Therefore, it seemed appropriate to focus the Crossfire debate on the popular policy tool of Payments for Ecosystem Services. The debate points to a number of political and ethical discussions which are also very relevant for debates on green microfinance. It provides food for thought regarding the underpinnings of the green economy, issues of global environmental justice, and the (un)sustainability of incentives for changing productive practices.

We hope that this special issue is a step towards further discussions regarding the important challenges of green microfinance, spurring further communication and collaboration between multiple actors in this field. A common thread in the conclusions of the different contributions in this special issue is the call for more research, experience, and debate about this topic. Much still needs to be shown for what the role of green microfinance can and cannot be. Interesting reflections are increasingly taking place, and more is certainly to come. We are happy to announce that further articles about this topic will appear in the March issue of this journal. Given the urgency of the climate and environmental challenges, and the importance of taking this into account in line with economic and social objectives, we all have the responsibility to further develop knowledge and experiences about approaches that could work for the triple bottom line.

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