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CIRCLE

THE OFFICIAL NEWSLETTER ON MCPI'S SPM ADVOCACY

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Green Perspective: Sustainability in Microfinance

By: Natalia Agathou, Katherine Vilnrotter, Geert Jan Schuite (Triodos Facet / SBI)

First in a series of three

About Triodos Facet

Triodos Facet (TF) is a consultancy company that specialises in the promotion and development of sustainable micro, small and medium-sized enterprises (MSMEs), predominantly in developing countries. With its "sister" company ShoreBank International Ltd. (SBI), both consultancies will become wholly-owned subsidiaries under a newly-established Dutch holding company whose shares will be held by Triodos Ventures BV in 2013.

As integrated companies operating under a single international holding company, SBI and TF share an underlying conviction that a prosperous and secure future depends on the meaningful participation of those currently underserved by, and excluded from, the mainstream economy. In addition, we know that capacity constraints are often as significant a barrier as insufficient financial resources, and that the two must be addressed in tandem. To this end, the single enterprise will leverage SBI and Triodos Facet's complementary strengths to provide integrated capacity and capital solutions to:

- drive to the client's desired business results,
- equip households, local entrepreneurs, and small and growing businesses to achieve financially and environmentally sustainable growth, and
- expand inclusive finance by strengthening financial institutions that serve households, entrepreneurs and small and growing businesses.

> "...we believe that each individual MFI - regardless its size or success, benefits from a conscious decision on their approach towards social and environmental performance..."

The combined company synthesizes Triodos Facet's 20 years of experience supporting entrepreneurs and SBI's 30 years in assisting financial institutions as they extend their services to small businesses and lower-income households, starting with Grameen Bank in 1983. Over 130 consultants work for the company in the five registered offices (Netherlands, US, UK, Pakistan, India); seventeen countries where staff are based (Azerbaijan, Bangladesh, Belarus, Belgium, Brazil, Colombia, Indonesia, Kenya, Mexico, Nicaragua, Nigeria, Palestine, Peru, Poland, Romania, South Africa, Tanzania); and in project offices around the world.

Emerging interest from donors

As consultants, we see an emerging interest from investors and donors to include social and environmental performance as part of their portfolio management. More and more of these institutions talk about incentives, e.g. in the form of interest rate reduction for investees that implement an Environmental and Social Management System.

We, as consultants, see this growing concern by their increasing procurement of triple bottom line focused advice, a probable result of the various initiatives these investors took over the past few years, such as the Global Impact Investing Network (GIIN) and the principles for Responsible Investment (PRI). These initiatives formulate the aspiration of their signatory members to implement triple bottom line (people, planet and profit) principles in their investment decisions. When they invest in a microfinance institution, they will ask for social, environmental, and governance policies and performance of these MFIs – an important reason for MF practitioners to understand what this means for them, both 'on paper' as 'in practice'.

All these bottom lines

Some MFIs struggle with their single bottom line, let alone their second or even third bottom lines. At Triodos, we believe that each individual MFI - regardless its size or success, benefits from a conscious decision on their approach towards social and environmental performance, and start articulating their objectives and performance results in their own words. Without this 'ownership', social and environmental performance reporting will become a mere bureaucratic exercise.

Already an increasing number of banks and financial institutions (FIs) in the world have designed strategies around triple bottom line banking, sometimes referred to as 'sustainable banking' or 'responsible banking' or 'green banking'. Whatever the term is, those institutions have gone through a process of deciding whether incorporating the triple bottom line idea into their strategy and operations makes sense for them or not. The alternative (NOT thinking about the issue, or simply ignoring it) would leave the FI out of a growing sector of the market.

Triple bottom line finance may entail having a policy in place and an external communication strategy as part of their Public Relations. While this might seem opportunistic (sometimes it is referred to as 'green washing'), for some financial institutions this minimal approach makes sense – if done in an honest an open manner- they can explain their initial steps and their ambitions for further growth and implementation of responsible banking over time. Others include their triple bottom line agenda into their Corporate Social Responsibility or Social Performance Management. There are (M)FIs that have integrated social and environmental considerations in their Risk Management systems, and banks that create business from opportunities in green energy or organic agriculture. Some banks need a social and environmental management system in place in order to become eligible for investments from ADB or IFC.

There are many reasons why a financial institution with a single or double bottom line focus might consider these 'triple bottom line' elements and see how it wants to deal with it relative to its core business.

Disaster Risk Management

An extreme result of neglecting the environmental bottom line is the occurrence of climate-related events, such as floods, erosion (landslides) and typhoons.

An element in this focus on sustainable finance is addressing the increased visibility of the effects of natural disasters on human settlements. Disaster Risk Management is becoming more and more focused on the future of sustainable development. Global urbanization trends have led to an astonishing 1 billion people living in urban slums. They move from rural towns and villages to the outskirts of urban cities hoping for opportunities to better their lives and the lives of their families. Since these slums are outside of the 'formal' city and generally unreachable by the local authorities, they lack organized transportation; utilities such as energy, water and sanitation; and general organization (making them difficult to serve). These slums are also generally far more vulnerable to natural disasters than the cities and are devoid of support once disaster strikes.

From an MFI's perspective, the people living in these slums are extremely high risk – they lack financial/credit history, they live almost exclusively on informal salaries

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GIIN
GLOBAL IMPACT INVESTING NETWORK

The Global Impact Investing Network is a not-for-profit organization dedicated to increasing the scale and effectiveness of impact investing. Impact investments are investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.

Determining Variables Associated with Positive Poverty Movement

By Asuncion 'Chona' M. Sebastian

The ultimate goal of microfinance is to move the marginalized out of poverty; however, most studies neither categorize microfinance clients by poverty status nor measure their poverty movement (Maes & Vekaria, 2008). Available studies have shown evidence on microfinance improving the many indicators of quality of life such as income and asset. However, these items do not necessarily translate to the poor's upward movement out of the poverty ladder, or simply put, to their positive poverty movement. Thus, a study[1] attempted to identify the poverty status and poverty movements of clients of Negros Women for Tomorrow Foundation (NWTF) using the Progress out of Poverty Index (PPI). The 10,650 samples were randomly selected from among the clients with 2008 PPI data and that were based in the six provinces where NWTF has operated the longest. This selection criterion ruled out any possible difference in the operational efficiency of the NWTF branches that may have affected client survival and performance.

The variables tested for association with poverty movement—income of location of clients' businesses, and initial poverty index and entrepreneurial capacity of clients—were limited by the data that NWTF has been collecting since its adoption of the PPI. Any variable not included in the database would require collection of data based merely on recall, which is an unreliable method.

The study did not use the usual urban-rural divide because the some of the criteria for classification are not necessary indications of economic activities (e.g. presence of town/city halls). Besides, an agricultural area could become urban with the establishment of a milling facility. Thus, this study used the income levels of the municipalities and cities as proxy indicators for the areas' level of economic activities.

Profile of NWTF Clients

Of the sample population, 38% of the total sample population came from municipalities while 50% came from the cities; however, the biggest share (25%) of microfinance clients came from 1st class municipalities (Table 1). Data also proved this wrong: the richer the area, the higher is the likelihood that clients who conduct business in that area are non-poor. To illustrate the case, the average likelihood of clients in 4th class municipalities to be non-poor was high at 61.8. In contrast, the average likelihood of clients in 1st class cities was lower at 48.2.

The mean poverty rate of the samples was 49.67; mode was 31.5 and median was 45.75.

As of base year 2008, 78% of the samples had only one business while the rest (22%) had at least two businesses. The clients with only one business in 2008 had an average poverty rate of 43.26, while that of clients with more than one business stood at 54.69. Thus, those with more than one business had higher likelihood of being non-poor than those with single enterprise.

[1] The original study of the same title is yet to be published by the Ateneo Graduate School of Business.

Table 1. Geographic profile and poverty status of clients

INCOME CLASS	3.40	6.30	8.50	12.2	19.1	31.5	40.4	51.1	63.2	78.9	85.2	92.5	95.0	96.8	98.5	98.6	100	TOTAL	PERCENTAGE (%)	AVERAGE LIKELIHOOD
Others/ unclassified	9	64	99	118	152	194	161	124	88	85	52	44	27	33	-	34	6	1,290	12.11	42.7
4th class mun. | 25M	2	3	11	9	28	38	61	52	66	51	40	41	29	14	2	17	6	470	4.41	61.8
3rd class mun. | 35M	6	37	67	96	103	118	108	109	80	63	46	29	17	22	-	16	3	920	8.64	43.3
1st class mun. | 55M	11	73	117	167	295	366	280	404	249	232	141	119	88	50	3	61	12	2,668	25.05	48.9
4th class cities | 160M	6	18	33	38	79	88	93	89	73	62	45	46	27	26	1	34	9	767	7.20	52.8
3rd class cities | 240M	17	39	52	83	127	185	199	222	182	131	112	117	75	81	3	83	36	1,744	16.38	56.6
2nd class cities | 320M	11	43	79	70	155	156	121	109	121	101	67	63	38	35	2	42	13	1,226	11.51	48.9
1st class cities | 400M	25	66	91	121	164	203	139	175	125	117	91	81	37	55	2	58	15	1,565	14.69	48.2
Total	87	343	549	702	1,103	1,348	1,162	1,284	984	842	594	540	338	316	13	345	100	10,650		
Percentage	**0.82%**	**3.22%**	**5.15%**	**6.59%**	**10.36%**	**12.66%**	**10.91%**	**12.06%**	**9.24%**	**7.91%**	**5.58%**	**5.07%**	**3.17%**	**2.97%**	**0.12%**	**3.24%**	**0.94%**			

By 2011, most clients (34%) had the same poverty status. However, 23% of them had positive poverty movement, while 24% became poorer. There were also 2,051 (19%) cases of dropout. Many of the dropout clients came from the 1st class municipalities (33%), 1st class cities (19%), and 2nd class cities (15%). Almost 80% of those who dropped out of the program had only one business. There are no data, however, explaining the dropout. ***Results***

Location of clients' businesses. Continuing clients tend to experience positive change in higher-income areas, specifically in the cities (Table 2).

As for dropouts, the association is more apparent between the proportions of clients becoming poor and the dropout rates than between the geographic incomes and the dropout rates. The proportions of client becoming poorer and dropout rates are moderately negatively correlated with coefficient of -0.65279.

Initial poverty index. The impact of microfinance on poverty is greater for those starting in extreme poverty than those in moderate poverty.

At 3.40, the poorest segment, 66% of clients became less poor and 34% had no change (Table 3).

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(which cannot easily be verified nor consistent), and their homes and livelihoods could be completely wiped out if a natural disaster were to hit (rendering them unable to repay loans). Development banks and multilaterals are beginning to focus time and resources on the mitigation of disaster risk instead of only pumping huge quantities of money into picking up the pieces after entire communities are destroyed by natural disasters. One great example of this kind of project is the Barrio Mio project in Guatemala.

In our view, networks, like MCPI, could have a critical role in advocating the triple bottom line for its members, and promoting initiatives that are geared towards managing risks related to natural disasters with an environmental or ecological origin. A first step could be to invite all relevant partners (MFIs, NGOs, DFIs, municipalities, etc.) for a roundtable discussion, to assess needs and make an inventory of existing initiatives. Based on the results of this first inventory, the networks could then propose an approach for its members to internalize Triple Bottom Line Microfinance, and develop products and services that help mitigate climate change, support clients adapting to the effects and ultimately make them less vulnerable to natural disasters. ●

Barrio Mío is a 24-month project designed to transform high-risk urban neighborhoods in Guatemala into resilient, safe and productive communities. Barrio Mío will develop cost-effective and scalable models for urban upgrading and risk reduction based on a "Neighborhood Approach," and will achieve the following intermediate results:

- *Settlements redeveloped and shelters rebuilt to optimize use and reduce risk*
- *Household and neighborhood WASH (water, sanitation and hygiene) systems and practices improved to increase access to clean water and reduce environmental contamination*
- *Household assets improved to reduce economic vulnerability*

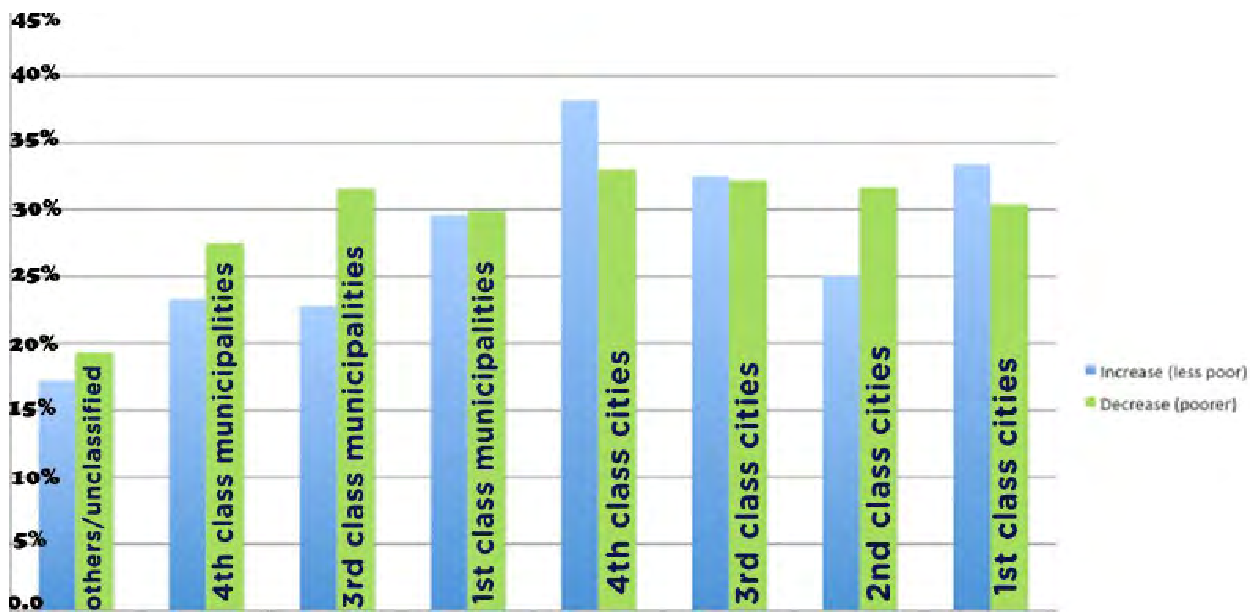
Barrio Mío is a collaboration of more than 15 international, national and local government, NGO, university, research, and private sector partners to address the unplanned growth and associated disaster risks in the Municipality of Mixco, located in the outskirts of Guatemala City, Guatemala. Mixco is one of the country's most densely populated areas, representing the combined swell of the capital city, overflow of rural migrants and overwhelmed local capacity to absorb rapid growth, which is increasingly mirrored by many urban centers throughout Latin America. As part of their neighbourhood approach, PCI (Project Concern International) with the help of ShoreBank International will be designing and implementing a survey of the inhabitant's financial behaviours to try to create an informal form of financial history (to start to understand their credit worthiness) that could be presented to local financial institutions. They will then be surveying those financial institutions to see if it would be possible to develop a financing scheme to support the relocated inhabitants.

PRI Principles for Responsible Investment

The United Nations-supported Principles for Responsible Investment (PRI) Initiative is an international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision making and ownership practices. In implementing the Principles, signatories contribute to the development of a more sustainable global financial system.

...Positive Poverty Movement from page 5

Table 2. Location of clients' businesses and poverty movement of clients



The "no change" scenario dominated the probability indexes between 6.30 and 78.90, accounting for almost 92% of the samples falling under these indexes. At 85.20, however, the number of clients with no change dropped from 48% to a range of zero to 32% and the proportion of clients becoming poorer expanded to 67%, further rising to 98% at 100 level. Out of the total samples falling under the indexes from 85.20 to 100.00, 76% would most likely be poorer.

Similar to the observation in the location of clients' businesses, the association is apparent between the proportion of clients becoming poorer and the dropout rate—they are inversely correlated with coefficient of -0.90167. Reasons behind this phenomenon were not established although it could be hypothesized that the poorer segments opted to drop out of the program rather than risk becoming even poorer. On the other hand, the richer population probably had a better capacity to absorb risks and hence they stayed on.

Entrepreneurial capacity. Within the categories, those with two or more businesses had greater tendency to achieve positive movement compared to those with only one business. Further, those with two or more businesses were less likely to drop out of the program than those with single business.

Of those clients with only one business, 36% did not experience a change in their poverty likelihood while those who own two or more businesses were likely to become poorer (30%) or remain the same (28%) (Table 4). However, between the two groups, those who had two or more businesses had slightly better chances of becoming less poor (24% versus 22% of those who have single enterprise). The resulting figures may be indicative of the inherent high-risk-high-return of entrepreneurial ventures. As well, those with two or more businesses were less likely to drop out of the program (18%) than those with single business (20%).

Table 3. Initial poverty index and poverty movement of clients

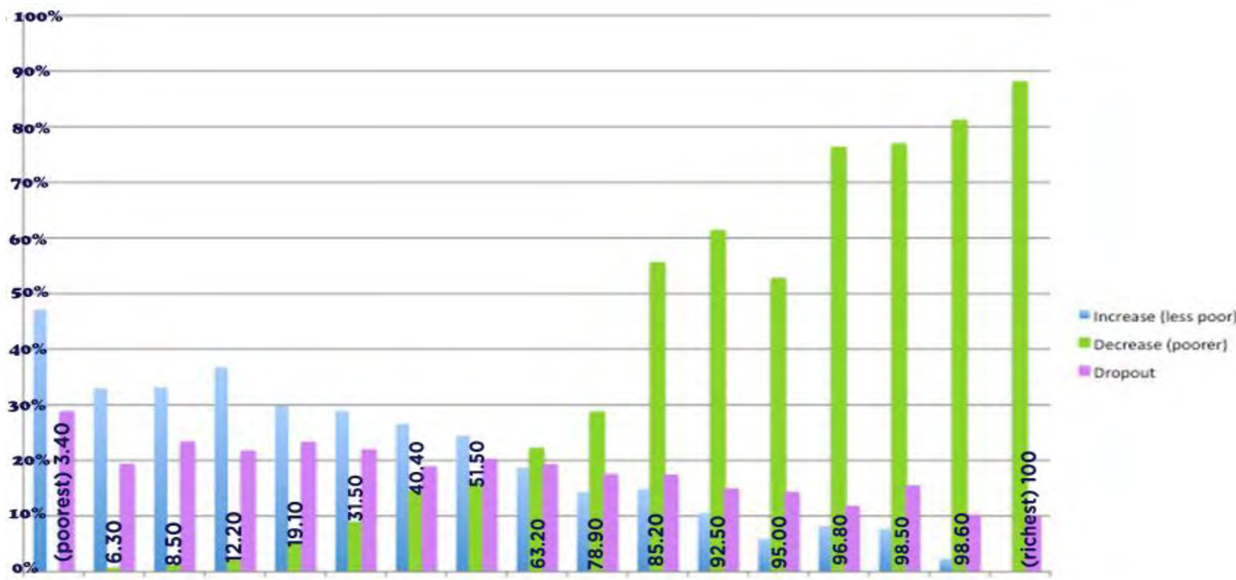


Table 4. Number of business and poverty movement of clients

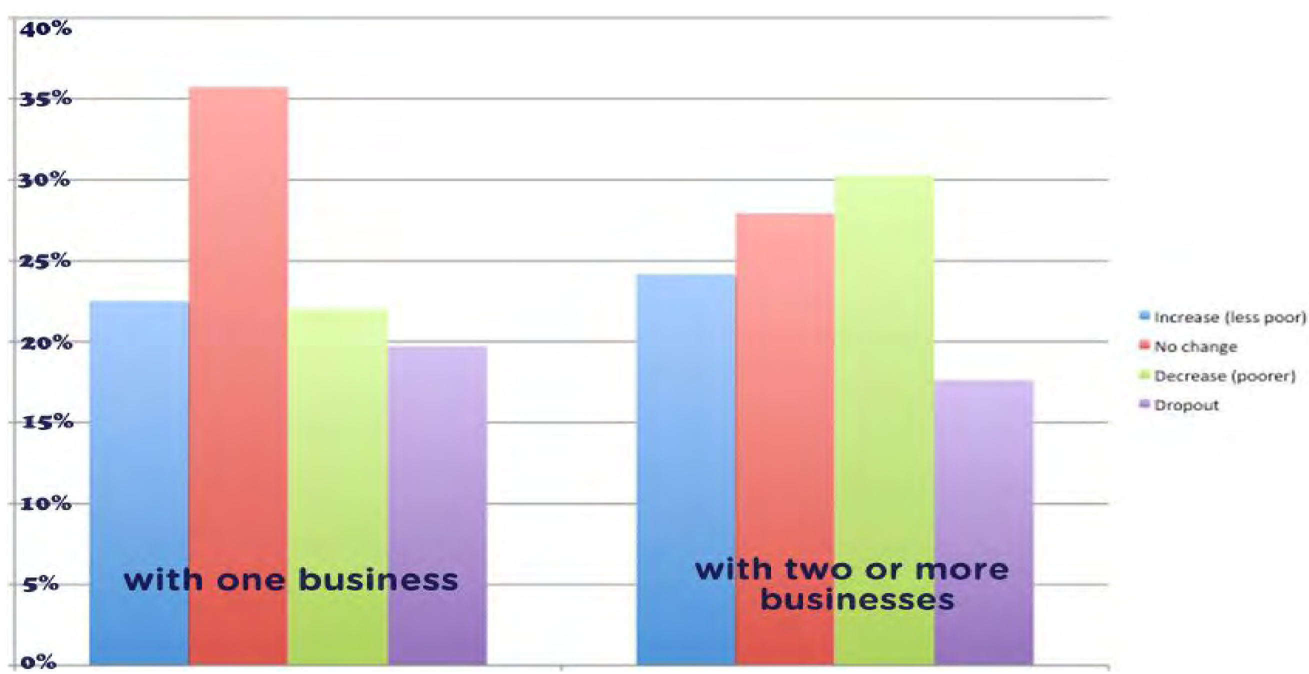
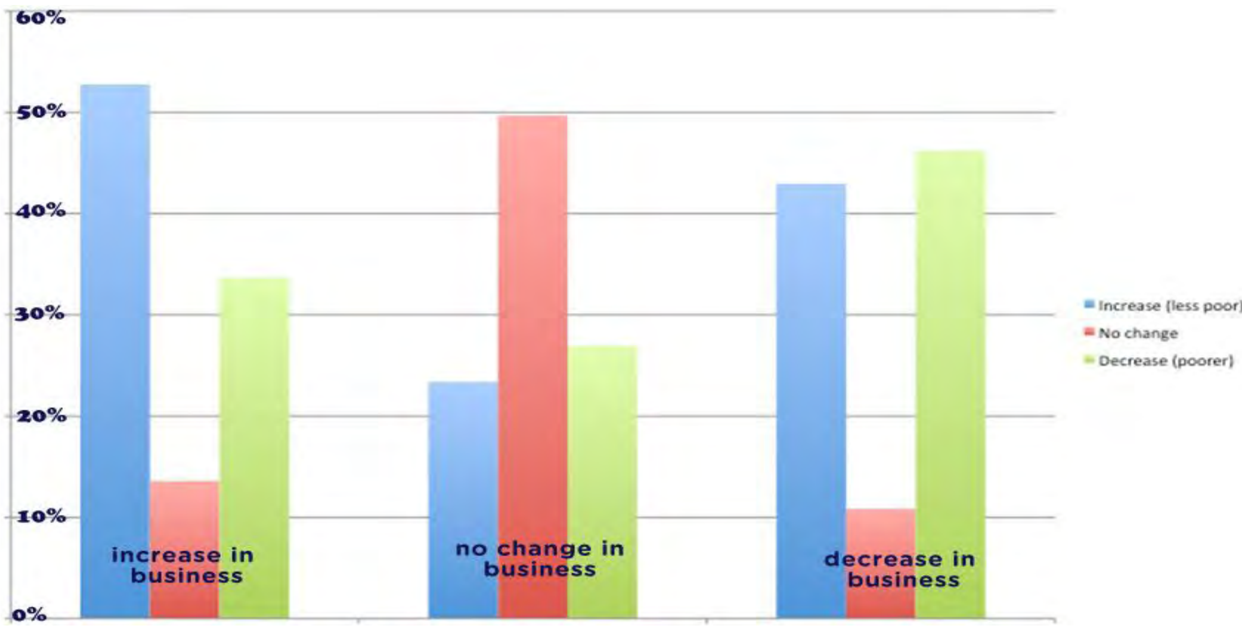


Table 5. Change in the number of business and poverty movement of clients



The direction of change in business is similar to the direction in the change of the clients' poverty likelihood (Table 5):

- 50% of the sample clients that did not change the number of their business had no change in their poverty likelihood,
- 53% of sample clients that increased the number of their business also became less poor, and
- 46% of sample clients that decreased the number of their business also experienced decrease in their poverty status and became poorer.

Direction for Future Research

Future studies may create a model that establishes the causal relationship of these variables and poverty movement, as well as identify other variables that could explain poverty movement of clients.

Available instruments intended to measure the entrepreneurial skills could also be used in predicting the clients' poverty movement.

Lastly, new studies could test the correlation of psychographics of clients and their positive poverty movement. The qualitative portion of the original study showed indications of differences in the psychographic profiles—specifically, business acumen, lifestyle, financial discipline, and aspirations—of microfinance clients with positive poverty movement and those with negative movement.●

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Maes, J., & Vekaria, K. (2008). Moving the World's Poorest Families out of Poverty: How Will Microfinance and Microenterprise Develoment Meet the Challenge? The USAID and the SEEP Network. Washington, DC: The SEEP Network Poverty Outreach Working Group.

Disaster Risk Reduction and Management

As presented by Rustico Biñas

Disaster risk reduction is the concept and practice of reducing disaster risks through systematic efforts to analyse and reduce the causal factors of disasters. Reducing exposure to hazards, lessening vulnerability of people and property, wise management of land and the environment, and improving preparedness for adverse events are all examples of disaster risk reduction.[2]

To be socially-responsible institutions, microfinance institutions (MFIs) take on clients from difficult areas – clients who are more exposed to different kinds of hazards. For some MFIs with so many branches, if one branch is affected by a hazard, the MFI has other branches that can help offset damages. However, sometimes, they never bounce back.

With the challenging climate condition, MFIs are not spared of these changes. Hence a more preventive approach is encouraged - disaster preparedness, disaster response, relief, rehabilitation, mitigation and adaptation.

The elements of disaster preparedness

The essence of disaster reduction is if the risk is high, the probability of disaster is high. If the risk is low, the probability of disaster is likewise low. Therefore, the objective of disaster risk reduction is to lower the risk by increasing the capacity of the individuals or communities. Typhoon and earthquake are referred to as hazards, not disasters. Thus, if there is an increased capacity, then the hazard will remain an incident and not turn into a disaster.

Disaster management and disaster risk reduction: clarifying the dividing line

Disaster Management (DM) is when a community could no longer cope with the hazard, and then tries to deal with it. It is working towards saving more lives and reducing the impact of the hazards. Activities for disaster management include ensuring that systems are in place to save lives and reduce the damages.

Disaster risk reduction is working towards building resilient individuals or communities, resolving the unsustainable development patterns and developing or strengthening their internal capacities.

Disaster risk reduction activities include building foundation (immunization, food access, etc.) of safety through activities that will espouse basic rights to be fully delivered. They also include building disaster risk reduction measures through activities such as hazard prevention and mitigation, and elimination or reduction of vulnerability to hazard by building individual survivability and community readiness (e.g., search and rescue).

When hazard strikes, with disaster risk reduction, all internal capacities are being used to cope with the events. There will be no need for external help because they have the internal capacities to cope. Disaster management, on the other hand, will use external help besides internal capacities. If all the set up contingency plan requires further assistance from the outside, then resource mobilization from the outside is activated.

Preparing for potential disasters

An individual client has basic requirements in order to be resilient. The basic needs include environmental sanitation, proper nutrition, immunization and proper hygiene. Next requirement is ecological services such as farming, livestock and poultry, and fishing. Also involved are the forest, mountains, plains, and oceans. The final level of requirement is the community itself that is supposedly organized to become a system and structure that helps individuals to survive and bounce back. Anything that will help individuals bounce back is called system.

How could MFIs respond to disasters?

It is a matter of how an MFI define its organization and finding its niche in the system. To illustrate how an MFI can find a potential role in disaster risk reduction, here is a sample of a Response Scenario. Stages are divided into Immediate for the first 24 hours; Short Term for the period of one week; Medium Term for one month; and Long Term for three months.

For the immediate time frame, among the services are search and rescue, shelter, food, water, and public information. The priorities of the sector should include triange, first aid, and acute medical and surgical services.

[2] http://www.unisdr.org/who-we-are/what-is-drr

For the short term time frame, sample services are security; environmental health services; and energy such as fuel, heating, and light. Recommended priorities at this level are epidemiological, care for the deceased, general curative care services, and control of diarrhea and acute respiratory diseases.

Going to the medium term, legal and physical protection, transportation and communications are recommended services. Restoration of preventive health care service, priority disease control program, and establishment of health information services are priorities.

Lastly, for long term, education; agriculture and employment; social services; and environmental protection are among the sample services that should be provided focusing on rehabilitation, training, and health information and education program.

What are the roles/functions of MFIs during post-disaster recovery?

There is no law that limits the MFIs to execute their development role in the society. This is now a challenge for the MFIs to identify where they can play a role to build the resilience of the community.

MFIs are encouraged to explore opportunities for collaboration with other MFIs and disaster management organizations with respect to disaster preparedness, response, relief, rehabilitation, mitigation and adaptation as long as it adds value to their work.

What's Up

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