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Recently, international funding agencies and practitioners in the area of corporate social responsibility (CSR) and small and medium enterprises (SMEs) have argued that microfinance institutions (MFIs) could promote the adoption of environmentally friendly business practices in microenterprises in developing countries. This article explores the potential and limitations of MFIs in promoting the spread of environmental risk management techniques and practices in microenterprises using a case study of an MFI-sponsored pilot program in this area in El Salvador. The author argues that caution should be exercised about the role that MFIs can play in relation to inducing change to the environmentally harmful practices of micro-entrepreneurs. In fact, this study reveals that the MFI had some difficulties in building internal skills and reconciling its environmental and performance objectives, limiting its ability to assist microenterprises in the area of environmental management. Furthermore, the pilot program, as it was designed, did not sufficiently take into account the psychological and financial barriers that constrain micro-entrepreneurs' capacity to engage in any meaningful environmental behavior change. Finally, factors such as the lack of an adequate legal framework and local infrastructure also countered the effort of the MFI and limited the potential of microenterprises for effectively engaging in environmental risk management practices. The article concludes by outlining the implications of this analysis for future research, policy, and practice in this area.

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