

## EXECUTIVE SUMMARY

Climate change deepens poverty. It is widely accepted in the AFI network that climate change is a threat to development and that it has already imposed a high cost on low-income and vulnerable populations in developing and emerging economies.

However, there is ample research that shows financial inclusion is one of the best ways to build individual - and collective - resilience to the effects of climate change. Savings, credit, insurance, money transfers and new digital delivery channels all provide a financial buffer against climate-driven events like changing weather patterns, cyclones and storm surges, and aid in recovery and reconstruction. Meanwhile, supportive financing for green technologies, like solar-powered home energy systems and cleaner cookstoves, help to mitigate the effects of climate change and include those at the bottom of the economic pyramid in the transition to low-carbon economies.

Inclusive green finance is a new and evolving policy area in which AFI member institutions are beginning to devise and implement policies, regulations and national strategies to mitigate or build resilience to the sweeping environmental, health, social and economic effects of climate change. To understand the scale and scope of these efforts, AFI conducted a member survey in 2018 that asked why financial regulators were working on climate change, how they have been integrating climate change concerns in their national financial inclusion policies and other financial sector strategies, and how they are collaborating with national agencies or institutions.<sup>1</sup>

More than 90 percent of AFI members interviewed for the survey indicated they are already taking or plan to take steps to address the impacts of climate change in their countries. The survey uncovered a growing trend in the AFI network to link financial inclusion and climate change at the national level, either in National Financial Inclusion Strategies (NFIS) or other financial sector strategies. More than 75 percent of the 19 countries<sup>2</sup> included in the survey have explicitly linked climate change and financial inclusion in their national financial sector strategies, and many have already enacted a broad range of policies to turn their strategic objectives into reality.

In line with the Sharm El Sheikh Accord on Financial Inclusion, Climate Change and Green Finance - and more recently the Nadi Action Agenda - these policies

include individuals and MSMEs in climate mitigation and resilience efforts and have one thing in common: they either catalyze financial services for climate action from the private sector or use financial infrastructure to deploy them.

The policies fall within four key pillars of inclusive green finance policy and can be understood as the 4Ps of inclusive green finance: Provision, Promotion, Protection and Prevention. This framework provides financial policymakers and regulators with a typology of available policy options.

### 1. PROVISION

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Provision policies help to ensure financial services are provided to qualified beneficiaries, whether through targeted lending for renewable energy projects or through refinancing recovery and reconstruction efforts.

### 2. PROMOTION

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Promotion policies create incentives for the private sector to offer financial services to qualified beneficiaries, for example, through moral suasion, awareness raising and capacity building for green lending, or data collection and dissemination on green finance.

### 3. PROTECTION

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Protection policies reduce financial risk by “socializing” potential losses through insurance or social payments, or by giving one early access to their assets in a time of crisis, such as early withdrawals from pension funds. Policies in this category provide a much-needed safety net and help to build resilience by accelerating and facilitating recovery from extreme climate events.

### 4. PREVENTION

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Prevention policies aim to avoid undesirable outcomes by lowering financial, social and environmental risks. As part of this effort, AFI members are enacting Environmental (and Social) Risk Management (ERM or ESRM) Guidelines to proactively assess and address the social and environmental externalities and risks of their institutions’ activities, including the unintended consequences of financing.

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1 For more information on the AFI member survey and results, see Appendix 1.

2 These AFI members represent 14 percent of the entire AFI membership.