INCLUSIVE GREEN FINANCE: A SURVEY OF THE POLICY LANDSCAPE

SLIDE DECK
JUNE 2019
FINANCIAL INCLUSION & CLIMATE CHANGE: WHAT IS THE CONNECTION?
CLIMATE CHANGE DEEPPENS POVERTY

> Climate change could push and additional ~100 million people in poverty by 2030
> Low-lying coastal zones and marginal agricultural land most vulnerable
> Effects are sudden and extreme (floods, droughts, storms) or gradual (sea level rise, coastal erosion, melting glaciers)

IMPACTS INCLUDE

- **Displacement from agricultural land and natural resources (floods, heatwaves, wildfires)**
- **Loss of property and assets (farmland, livestock)**
- **Health risks (infectious disease, undernutrition)**
- **Socio-economic stresses (job losses, high food prices, strain on public services)**
FINANCIAL INCLUSION BUILDS RESILIENCE TO CLIMATE CHANGE

SAVINGS (ESPECIALLY FORMAL)
Buffer against cost increases, diversify risks, access credit, accelerate recovery and reconstruction

CREDIT
Investment in low-carbon technologies, agricultural inputs

INSURANCE (PARAMETRIC, WEATHER INDEX, MICROINSURANCE)
Safeguard against extreme weather and climate volatility

DIGITAL FINANCIAL SERVICES (E.G. MOBILE MONEY)
Humanitarian assistance after extreme weather events, payments for renewable utilities (e.g. PAYG solar home systems)
GREEN TECHNOLOGIES CAN MITIGATE CLIMATE CHANGE & REDUCE POVERTY

RENEWABLE ENERGY (SOLAR, MINI-HYDROELECTRIC)
Clean, relatively low-cost electricity to unconnected areas; increase incomes

CLEANER COOKSTOVES
Reduce premature deaths from air pollution, lower CO2 emissions

ACCESS TO FINANCE AND CLEAN TECHNOLOGIES
Safeguard against extreme weather and climate volatility
STRATEGIES & POLICIES FOR INCLUSIVE GREEN FINANCE
A NEW TREND IN THE AFI NETWORK

Of the 19 AFI members surveyed:

- 90%+ are taking or plan to take steps to address the impact of climate change on poor and vulnerable populations.
- 75%+ link climate change and financial inclusion in their national financial sector strategies.
LINKING FINANCIAL INCLUSION & CLIMATE CHANGE IN NATIONAL FINANCIAL SECTOR STRATEGIES

4 AFI MEMBERS EXPLICITLY INTEGRATE CLIMATE CHANGE IN THEIR NFIS:
> Egypt (planned)
> Fiji
> Jordan
> Rwanda

5 AFI MEMBERS IMPLICITLY INTEGRATE CLIMATE CHANGE IN THEIR NFIS:
> Armenia (planned)
> Morocco
> Philippines
> Tanzania
> Vanuatu

6 AFI MEMBERS LINK CLIMATE CHANGE AND FINANCIAL INCLUSION IN OTHER FINANCIAL SECTOR STRATEGIES:
> Bangladesh: Second Strategic Plan
> Fiji: Sustainable Finance Roadmap (planned)
> Jordan: Microfinance Action Plan
> Morocco: National Roadmap for Aligning the Financial Sector with Sustainable Development
> Nepal: Financial Sector Development Strategy
> Nigeria: Sustainable Banking Principles
LINKING CLIMATE CHANGE AND FINANCIAL INCLUSION IN NATIONAL STRATEGIES IS IMPORTANT, AND AFI MEMBER INSTITUTIONS ARE ENACTING A RANGE OF POLICIES TO TRANSLATE THESE STRATEGIES INTO ACTION.
THE 4P FRAMEWORK OF INCLUSIVE GREEN FINANCE POLICIES

**PROVISION** policies help a government ensure that financial services are provided to qualified beneficiaries, either directly by the government itself or by the private sector fulfilling a government mandate.

**PROMOTION** policies allow a government to create incentives for the private sector to offer financial services to qualified beneficiaries.

**PREVENTION** policies aim to avoid undesirable outcomes rather than addressing them after the fact.

**PROTECTION** policies reduce financial risk by “socializing” potential losses through insurance or social payments, or by giving exceptional access to one’s own assets.
INCLUSIVE GREEN FINANCE: A SURVEY OF THE POLICY LANDSCAPE

PROVISION

Financial services for climate action are provided to qualified beneficiaries, either by the government or private sector fulfilling a government mandate.

- Often a pragmatic first step for policymakers
- Shows a commitment to climate action
- Simple to verify
- Quick effect
PROVISION POLICIES: AFI MEMBER EXPERIENCES

LENDING QUOTAS
Bangladesh Bank: 5% of all loan disbursements and investments for green financing.

REFINANCING GREEN LENDING
Nepal Rastra Bank: Subsidized loans for solar energy, biogas and waste treatment projects.

REFINANCING RECOVERY & RECONSTRUCTION
Reserve Bank of Vanuatu: Disaster Reconstruction Credit Facility assists affected businesses.
PROMOTION

Government creates incentives for the private sector to offer financial services to qualified beneficiaries.

> Supports innovation
> Reaches more beneficiaries
> Lenders are highly motivated

SME sells airtime to paddy farmers on his solar-powered mobile phone, Bangladesh
**PROMOTION POLICIES: AFI MEMBER EXPERIENCES**

**MORAL SUASION**
Bangko Sentral ng Pilipinas (BSP): Makes business case for green lending; green finance as public good

**Awareness Raising & Capacity Building**
BSP Philippines and Bank of Thailand: Training on green lending

**Innovation**
Bank al Maghrib: Supports 300 startups over 5 years, including “cleantech”

**Data Collection**
Bangladesh Bank: Collects and shares data on green finance, including sex-disaggregated data.

**Lowering of Base Interest Rate and Reserve Requirements**
Reserve Bank of Vanuatu: Temporary incentive for commercial banks to loan to low-income people after Tropical Cyclone Pam.
PROTECTION

Policies that reduce financial risk by offering insurance or social payments, or by giving exceptional access to one’s own assets.

> Provides safety net in times of crisis
> Speeds recovery & reconstruction
> Builds resilience
PROTECTION POLICIES: AFI MEMBER EXPERIENCES

**CLIMATE RISK INSURANCE**
Central Bank of Armenia: Subsidizes 50-60% of policies for agricultural climate insurance products.

**CREDIT GUARANTEES**
Central Bank of Nigeria: Guarantees 50% of the loss if a smallholder farmer defaults on a loan.

**MOBILE MONEY FOR G2P PAYMENTS**
Government of Fiji: Mobile payments disbursed assistance from its “Help for Homes Initiative” after Tropical Cyclone Winston.

**EARLY WITHDRAWAL FROM PENSION FUNDS**
Fiji and Vanuatu: People could withdraw 20% from their retirement accounts to rebuild their homes.
PREVENTION

Policies that aim to avoid undesirable outcomes rather than addressing them after the fact.

- Addresses the impacts of a financial institution’s activities
- Supports more holistic finance
- Lowers financial, societal and environmental risks
### Prevention Policies: AFI Member Experiences

Environmental and Social Risk Management (ESRM) Guidelines address the social and environmental externalities and risks of a financial institution’s activities.

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<th>Country</th>
<th>Description</th>
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<tr>
<td>Bangladesh Bank</td>
<td>ERM as Guidance on Environmental and Social Risk Management for Banks and Financial Institutions (2017)</td>
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<tr>
<td>Banco Central do Brasil</td>
<td>Social-Environmental Responsibility Policy (PRSA) (2014)</td>
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<tr>
<td>Banco Central de Paraguay</td>
<td>Guide for the Management of Environmental and Social Risks (2018)</td>
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NATIONAL CLIMATE POLICY: HOW ARE CENTRAL BANKS & NATIONAL REGULATORS INVOLVED?
ACROSS THE AFI NETWORK, INCLUSIVE CLIMATE ACTION IS TAKING HOLD IN NATIONAL FINANCIAL SECTOR STRATEGIES. HOWEVER, REGULATORS STILL HAVE LIMITED INVOLVEMENT IN FORMAL COORDINATION MECHANISMS AND NATIONAL CLIMATE STRATEGIES.

Survey Results: 50% of AFI members interviewed have not contributed in any way to national climate strategies like Nationally Determined Contributions or National Adaptation Program of Actions.
AFI: RISING TO THE CHALLENGE OF CLIMATE CHANGE
AFI & INCLUSIVE GREEN FINANCE

AFI members consider climate change a threat to inclusive development and recognize that the poor are affected disproportionately.

HOW HAVE AFI MEMBERS RISEN TO THE CHALLENGE OF CLIMATE CHANGE?

2015
Financial inclusion first linked with climate change and SDG 13

2015
Peer learning on green financial inclusion scaled up

2017
94% of AFI members endorse Sharm el Sheikh Accord on Financial Inclusion, Climate Change & Green Finance

2018
Nadi Action Agenda endorsed at first international green financial inclusion conference

2018
First Maya Declaration on inclusive green finance

2018-19
Financial inclusion and climate change linked in national financial sector strategies

2019
4Ps of inclusive green finance inform national and global climate efforts