

DEMAND-SIDE APPROACH TO INCLUSIVE GREEN FINANCE DATA COLLECTION

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Elizabeth Mukwimbais is a 62-year-old Tanzanian woman who now has solar lighting and electricity in her home. It means that Elizabeth now has lighting at night and doesn't have to buy expensive kerosene. Photo by Russell Watkins/DfID.

ABSTRACT

The objective of this Guideline Note is to discuss a first approach on collecting Inclusive Green Finance (IGF)-related data from the demand-side, specifically from Demand-Side Surveys (DSS), to support financial regulators and financial service providers to measure the needs and perspectives of the target populations related to the impact of climate-related events and other IGF policies related to the 4Ps conceptual framework.

CONTEXT

The frequency of climate change events and increased intensity has been a growing concern for many developing and emerging countries and is amongst the greatest threats to financial stability, financial inclusion and poverty alleviation. The World Bank Findex reports that 1.7 billion people remain unbanked globally. At the same time, a lack of inclusive and climate-informed development can result in 100 million people pushed into poverty by 2030,¹ which may include the already unbanked population.

This led to increasing recognition from financial regulators on the need to understand green finance landscape at a national level and design appropriate policy instruments.

In response, AFI member countries endorsed the *Sharm El Sheikh Accord on Financial Inclusion, Climate Change and Green Finance* in September 2017 and in 2019 AFI's newest working group was formed, Inclusive Green Finance Working Group (IGFWG). These initiatives support the implementation of international agreements and goals such as the United Nations Sustainable Development Goals (SDGs) and the Paris Agreement, in the quest for sustainable development.

Some regulators within the AFI network have initiated climate change strategies to build financial resilience and while few of the regulators are collecting and sharing information on green finance for specific purposes, data collection on green finance activities in general is still lacking.

IGF is a relatively new thematic policy area to mitigate

or build resilience to the social, economic and financial effects of climate change.

According to the 4P Framework on IGF, promotion policies² states the first step for financial service providers to acquire knowledge about climate change impacts on financial and economic sector. They also serve to provide a platform to generate a common understanding of green definition among the relevant actors by promoting the creation of a taxonomy and encouraging related-environment data collection. Data collection and information dissemination can be powerful tools because they create benchmarks for Financial Service Providers (FSPs) to measure their performance.

AFI member institutions are increasingly interested in developing mechanisms to collect IGF-related data from both the supply and demand-side. This information is necessary to assess the needs of vulnerable populations, the potential economic impacts of climate events and help policymakers drive policy interventions.

While very few of the financial regulators are collecting and sharing information on IGF for specific purposes, data collection on green finance activities is, in general, still lacking. Hence, this guideline note proposes a first approach to collecting demand-side IGF data.

The demand-side data has the advantage to potentially bring additional granularity of information and a broad perspective from individuals, households and enterprises, allowing flexibility to collect different data and indicators compared to supply-side data.

The following key questions are to be considered as a first approach to collecting green finance data.

1. What is the purpose of collecting green finance data?
2. What information do you want to collect?
3. What will the information be used for?

PURPOSE AND KEY CONSIDERATION

INCLUSIVE GREEN FINANCE CONCEPT AND TAXONOMIES

According to United Nations Environment Programme, green financing is to increase the level of financial flows (from banking, micro-credit, insurance and investment) from the public, private and not-for-profit sectors to sustainable development priorities.³

1 World Bank, 2016.

2 Promotion polices and initiatives prepare the private sector to offer financial services for green projects or related climate action activities to qualified beneficiaries, for example, through awareness raising, information sharing, capacity building and data collection.

3 <https://www.unenvironment.org/es/node/20885>

Green finance has become a buzz word for achieving the SDGs and therefore, attribute to the mainstream economic activity. From tackling global threats such as climate change, to delivering new opportunities in environmental and social risk management and the financing of innovative technology, financial services have a critical role in achieving the SDGs.

As the markets for green finance grow, it has the potential to drive a shift towards an economy that ensures sustainable economic development.

However, defining IGF has been a challenge. There is presently no universally adopted definition for IGF. However, several countries and few regions have made progress in the adoption of environmental impacts within the financial sector and have developed their own green finance taxonomies such as the ASIAN Bonds Standards. Other examples from the AFI network members are:

WHY COLLECT INCLUSIVE GREEN FINANCE DATA?

Green finance data can be a useful tool to support the objective of the rapidly evolving IGF policy area and contribute to the broader goal of building individual and collective resilience to the effects of climate change, as well as in potentially supporting activities inclined towards the reduction of greenhouse gas emissions.



BANGLADESH

Bangladesh Bank issued a policy guideline for green banking, which sets the framework for “green banking” and also created a list of “green products” that are eligible for financing by the financial institutions. It also defines “green marketing” as “the marketing of products that are presumed to be environmentally safe.”⁴



CHINA

China has developed three different taxonomies that relate to lending, bond issuance and projects. It is currently working on harmonizing its taxonomies to come up with a single national green finance taxonomy that is also aligned with international standards.⁵



EUROPEAN UNION

The EU taxonomy is a tool that helps stakeholders including investors, issuers, and project promoters to transition towards low-carbon, resilient, and resource-efficient economies. It sets the performance thresholds that helps the above stakeholders to access green finance to improve their environmental performance, as well as identify their activities, which are already considered as environmentally-friendly.⁶



MONGOLIA

The Mongolian Green Taxonomy is a nationally-agreed framework of classification of activities that are considered green for use of various stakeholders to mitigate the risk of ‘greenwashing’ while mobilizing green financing resources.⁷

AFI member institutions increasingly show interest in developing and promoting the use of appropriate and affordable green financial products and services to catalyze climate actions. Several AFI member related countries have included elements of IGF in their national financial inclusion strategies. Amongst them are Bangladesh, Egypt, Sri Lanka, Fiji, Rwanda, Jordan and Argentina.⁸

However, the supply of green finance products and services will have to be put into perspective from the demand, as well as specific vulnerabilities linked to climate change impacts; and thereby collecting demand-side data on IGF is the critical first step to understanding individual coping strategies and their needs.

The DSS can ultimately provide policymakers with meaningful data and insights for evidence-based policy interventions and at the same time allow FSPs to customize their green products and services to meet the needs of the customers. A balance of both the demand and the supply of green finance data can contribute to the core objectives of financial regulators in ensuring the sustainability of the financial system and also meeting the SDGs. The information is also necessary to assess the needs of vulnerable populations and the potential economic impacts of climate events.

While some financial regulators are collecting and sharing information on green finance for specific purposes from supply-side perspective, data collection on green finance from demand-side in general is still lacking. Collecting information from individuals on whether they are frequently affected by natural disasters and the mechanisms they apply to cope with the impact could provide better insights on the type of policies and products needed to address individual needs and measure the impact of relief policies implemented.

For example, understanding women’s coping strategies and needs could assist in designing appropriate green savings or insurance and credit products for renewable energy systems that are generally carbon-free, which provides relatively low-cost electricity to unconnected areas.

4 Bangladesh Bank (2011) Policy Guidelines for Green Banking.

5 “Guiding catalogue for the green industry” is the core framework and was established by seven Ministries and related commissions in 2016 and updated in 2019; China Banking Regulatory Commission (CBRC) issued in 2012 and subsequent years green credit guidelines; People’s Bank of China (PBOC) issued the “green bond endorsed project catalogue” in 2015. Source: OECD (2020).

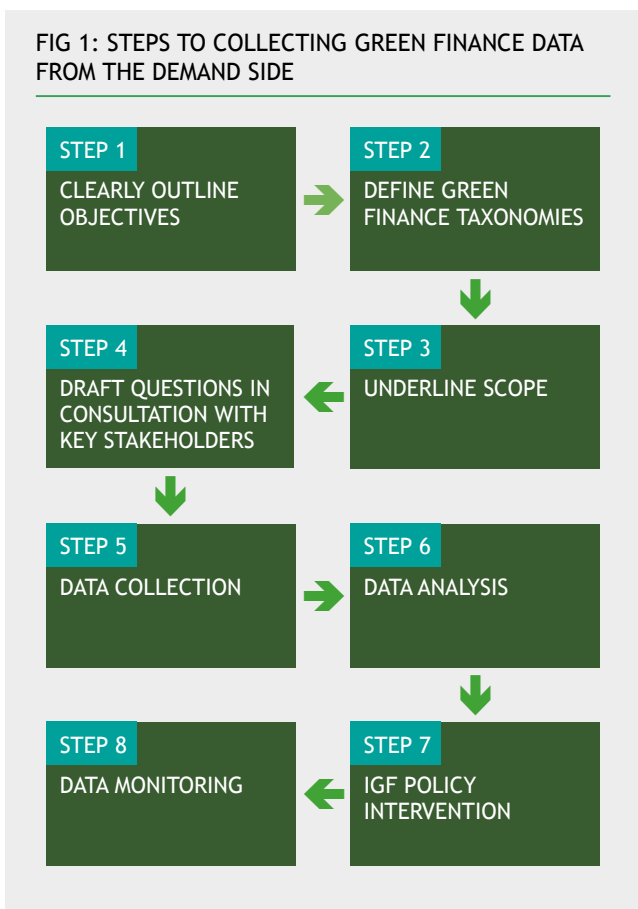
6 European Union taxonomy for sustainable activities. This regulation was adopted by EU co-legislators in December 2019, and published in the Official Journal of the European Union in June 2020.

7 UN Environment Inquiry, IFC and the MSFA (2018). National Sustainable Finance Roadmap of Mongolia: Unlocking Mongolia’s Potential to Become a Sustainable Finance Knowledge Centre in the Region.

8 IGF Survey of the Policy Landscape

GUIDELINES

There is currently no universally-systematic approach to collecting or measuring IGF data. Hence, the following outlines the steps that can be considered as a first approach to collecting IGF data. It is also important that these steps are considered in collaboration with *AFI Guideline Note 10: Financial Inclusion Data Tracking and Measurement Demand-Side Surveys to Inform Policymaking*



STEP 1 CLEARLY OUTLINE OBJECTIVES

Policymakers must clearly outline objectives for collecting IGF data from the demand-side and what the information captured will be used for.

The step should link to the 4Ps as the conceptual framework behind it, to define and follow the objectives of the demand-side indicators that policymakers intend to measure. Some examples of data collection approaches related to each one of the 4Ps are the following:

Promotion - If there is already in place an advocacy/ awareness campaign to enable the use of sustainable

energy, then some of the questions could be defined to measure the effectiveness of these campaigns.

Provision - Measure policies to ensure that financial resources for green projects or related climate action meet the needs of targeted beneficiaries. Hence, if there is a policy (as in Bangladesh) to promote ‘green financing’ then some questions should be devoted to measure the uptake, its usefulness and affordability.

Protection - Measure the impact of policies aiming to reduce financial risk by ‘socializing’ potential losses through insurance, credit guarantees, social payments, or any other risk-sharing mechanism. Therefore, if there is in place an insurance to prevent climate-related risks or a disaster relief program then these questions might allow authorities to determine relevance and suitability of such products. In the case of a natural disaster recovery program, some questions might ask for the impact of the disaster, access and usefulness of relief programs and time taken for recovery. (Refer to Table 1)

Prevention - This relates to forward looking policies that are already in place to prevent undesirable climate-related outcomes. Some of the questions could build upon the awareness of these policies and how to access it when required. It is also important that key objectives are linked to national and institutional policies to drive the overall green finance agenda.

The Reserve Bank of Fiji’s efforts on green finance is linked to national strategies⁹ on climate change and sustainable development. This was also emphasized by the frequency of climate change events that have affected the country and on average pushed 25,700 into poverty every year. This could increase to an estimated 32,400 per year by 2050.¹⁰

STEP 2 DEFINE INCLUSIVE GREEN FINANCE

Having greater clarity on a national definition for IGF is a crucial step for policymakers before accelerating the green finance agenda.

A sectoral definition aligned with the country’s green agenda could be in place in the absence of a national taxonomy. Defining IGF can be tailored to each country context, which will provide guidance and harmonize local approaches from regulators, private sector and donor agencies similar to the approach taken in defining the broader green finance.

⁹ Green Growth Framework for Fiji; National Adaptation Plan; and Climate Change Bill.

¹⁰ Climate Vulnerability Assessment: Making Fiji Climate Resilient, 2017

The Mongolian Sustainable Finance Principles defines green finance as “facilitating and financing projects involving renewable or clean energy, resource efficiency, clean production, reduced emissions, improved waste management, and other activities that contribute to green economic growth and development” (UN Enquiry et.al, 2018).

The Bangladesh Bank do not specifically define green finance. However, this is generally referred to in the Policy Guidelines for Green Banking as financing “eco-friendly business activities and energy efficient industries and infrastructure, such as renewable energy project, clean water supply project, wastewater treatment plant, solid & hazardous waste disposal plant, bio-gas plant, bio-fertilizer plant” (Bangladesh Bank, 2011).

STEP 3 UNDERLINE SCOPE

Determine the approach that would be taken to capture demand-side data. For instance, an exploratory and more targeted approach towards specific groups could leverage on focus group discussions, whilst a broader data collection approach from the demand can be incorporated into the overall financial inclusion DSS. The first approach can be taken, if this is an immediate priority and groups that will provide the relevant information can be easily identified, and eventually can contribute to test and clarify the relevant questions in the demand-side surveys. However, for cost-efficiency and better links to other dimensions of financial services, the latter approach would be recommended.

The Reserve Bank of Fiji has incorporated a section into its 2020 Financial Services DSS that will provide deeper understanding of coping strategies by different segments of the society and in particular, women’s resilience to climate change. Whilst green finance products such as credit and insurance¹¹ are offered by licensed financial institutions, it is uncertain whether products are meeting the needs of vulnerable segments such as lower income earners and women.

STEP 4 DRAFT QUESTIONS IN CONSULTATION WITH KEY STAKEHOLDERS

The questions should capture information that will assist in understanding risks, barriers, current coping strategies, and needs by different segments of the population. Additionally, the questions will assist in evidence-based policymaking and/or measure the effectiveness of existing policies.

Input from relevant stakeholders is also important, particularly the private sector; as well as other key

FIG 2: STRUCTURE OF GREEN FINANCE QUESTIONS

The questions can be structured as follows:



government agencies and representative organizations of the targeted population for wider use of data to formulate appropriate policies and for the private sector to design suitable products.

STEP 5 DATA COLLECTION

The quality of data collected from the demand-side heavily relies on respondents’ understanding of the concepts related to inclusive green finance. The enumerators or officers administering the survey need to be of the same understanding as those who developed the questions. Consequently, enumerators training needs to emphasize on the inclusive green finance aspect, particularly when it is a new concept to ensure that questions are appropriately administered.

STEP 6 DATA ANALYSIS

Analyzing the data is key to inform policy decision-makers on the barriers, needs and opportunities of the different segments of the population to climate change events. Some considerations on different segments’ resilience to climate change events could include gender, location and different age groups and how the inclusive green finance aspect intersect with other dimensions of financial access and usage included in the overall survey. Since inclusive green finance is a relatively new thematic area and many countries are yet to commence work in this area, technical expertise may be required to provide valuable enquiry on the information captured.

11 For insurance this is only a rider product and not an insurance class.

TABLE 1:
SAMPLE QUESTIONS FOR DSS

The following questions can be incorporated into an overall financial inclusion DSS. These are sample questions aligned to protection and prevention

objectives and would need to be contextualized for relevance.

- | | |
|---|--|
| 1. Have you experienced a climate-related event (flooding, cyclone, typhoon, drought, earthquake, tsunami, etc.) in the past 12 months? | <input type="checkbox"/> Yes
<input type="checkbox"/> No => Skip to 7
<input type="checkbox"/> Don't know => Skip to 7 |
| 2. Do you face repetitive damages and costs from these events? | <input type="checkbox"/> Yes
<input type="checkbox"/> No => Skip to 7
<input type="checkbox"/> Don't know => Skip to 7 |
| 3. Was your source of income affected by a climate-related event? | <input type="checkbox"/> Yes
<input type="checkbox"/> No => Skip to 7
<input type="checkbox"/> Don't know => Skip to 7 |
| 4. What was the estimated cost? | \$ |
| 5. How did you financially cope with this event? | <input type="checkbox"/> Use savings
<input type="checkbox"/> Insurance
<input type="checkbox"/> Borrow money from financial institution
<input type="checkbox"/> Borrow money from money lender
<input type="checkbox"/> Ask from family or friends
<input type="checkbox"/> Sell assets or livestock
<input type="checkbox"/> Government assistance
<input type="checkbox"/> Work for additional income
<input type="checkbox"/> Withdraw from superannuation
<input type="checkbox"/> Other - please specify |
| 6. How long did it take to recover? | <input type="checkbox"/> < 1 Month
<input type="checkbox"/> 2 - 6 Months
<input type="checkbox"/> 7 - 12 Months
<input type="checkbox"/> > 12 Months |
| 7. Should you experience a climate-related event tomorrow, how will you cope? | <input type="checkbox"/> Use savings
<input type="checkbox"/> Insurance
<input type="checkbox"/> Borrow money from financial institution
<input type="checkbox"/> Borrow money from money lender
<input type="checkbox"/> Ask from family or friends
<input type="checkbox"/> Sell assets or livestock
<input type="checkbox"/> Government assistance
<input type="checkbox"/> Work for additional income
<input type="checkbox"/> Withdraw from superannuation
<input type="checkbox"/> Other - please specify |
| 8. Are you aware of any climate-related financial products and services available that you can take-up to protect your family and assets against climate-related event? | <input type="checkbox"/> Yes
<input type="checkbox"/> No |
| 9. Are you willing to spend money to protect your family and properties/assets against climate-related events? | <input type="checkbox"/> Yes
<input type="checkbox"/> No => Skip to 7
<input type="checkbox"/> Don't know => Skip to 7
<input type="checkbox"/> Refuse => Skip to 7 |

TABLE 1 (continued)

10. What type of financial product are you most willing to take-up to protect your family and assets against climate-related event? (SELECT ALL THAT APPLY)	<input type="checkbox"/> Savings <input type="checkbox"/> Insurance <input type="checkbox"/> Investment <input type="checkbox"/> Credit product <input type="checkbox"/> Wait for government assistance <input type="checkbox"/> Other - please specify
11. What is the main reason why you are not willing to spend money to protect your family and properties/assets against climate-related events?	<input type="checkbox"/> I do not have enough money to spend on other things <input type="checkbox"/> Religious/cultural beliefs <input type="checkbox"/> I do not need it <input type="checkbox"/> Rely on family and friends to assist <input type="checkbox"/> Wait for government assistance <input type="checkbox"/> Other - please specify
12. Do you think there is a need for tailor-made climate-related financial products and services? Who should provide these?	<input type="checkbox"/> Yes. Financial Institutions <input type="checkbox"/> Yes. Government (fully-subsidized financial product) <input type="checkbox"/> Yes. Government and Financial Institutions (partly subsidized financial product) <input type="checkbox"/> No. There are sufficient climate-related financial products already available <input type="checkbox"/> No. There is no need. <input type="checkbox"/> Other - please specify

Source: Reserve Bank of Fiji.

STEP 7 IGF POLICY INTERVENTION

Country characteristics and circumstances differ, thus the findings from the DSS will enable policymakers to complete diagnostics and formulate appropriate IGF policy interventions that are evidence-based and set measurable targets that will address their respective financial needs.

Wider use of DSS data by other agencies from government to development organisations, academia and financial services providers can assist in accelerating the green finance agenda through policy sensitization, interventions, donor support and product design.

STEP 8 DATA MONITORING

The DSS data is also useful for monitoring the progress and effectiveness of policy implementation. For example in the case of Bangladesh, the DSS can be a useful tool to monitor the impact and relevance of its green banking policy (Bangladesh Bank, 2017).

Data monitoring is also important to ensure that policy interventions do not drift from its overall objective and allow policymakers to refine policies where necessary.

CONCLUSION

Inclusive green finance is emerging as an important policy agenda for AFI member countries to alleviate poverty, address climate change catastrophes, increase financial inclusion and maintain financial stability and sustainability.¹²

AFI member countries are increasingly showing interest in developing green products and services to meet the above mentioned policy goals. However, the supply of these green products and services needs to be put into the perspective of the demand of such products, as well as specific vulnerabilities linked to climate change impacts. Therefore, collecting demand-side data on sustainable finance is a critical first step to understanding individual coping strategies and their needs arising from the adverse effect of climate change.

The Guideline Note presents key steps to collecting demand-side IGF data. However, the suggested steps and DSS questions may have to be contextualized at country-level for relevance. While some countries are lagging behind with introducing green financial products and services, there are some (e.g. Bangladesh, Philippines, etc.) who are already far ahead with green financial products and services. The DSS could support these countries to measure the uptake and usefulness of such products and services, especially to ascertain whether they meet the needs of the targeted population. Thus, it is hoped that this Note serves as an important tool for AFI members wanting to collect IGF data and/or to measure the effectiveness of IGF policy interventions.

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ACRONYMS

AFI	Alliance for Financial Inclusion
DSS	Demand-Side Surveys
FDP	Financial Service Providers
FIDWG	Financial Inclusive Data Working Group
IGF	Inclusive Green Finance
IGFWG	Inclusive Green Finance Working Group
SDG	United Nations Sustainable Development Goals

¹² IGF Survey of the Policy Landscape

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