



BRINGING  
SMART  
POLICIES  
TO LIFE

## Terms of Reference for Research Advisory Council (RAC) for Inclusive Green Finance initiatives for MSMEs project

### Project Background

In line with AFI's Strategic Objective 1 to develop policy guidance for members and recognize the complementarity of well-targeted academic research to AFI's existing policy programs, a Research Advisory Council (RAC) is being created specifically on knowledge developments on inclusive green finance (IGF). This RAC is a part of the broader Inclusive Green Finance initiatives for MSMEs project, which is funded by the International Development Research Center (IDRC).

To address the specific knowledge gap with regards to IGF policies for MSMEs, this project will leverage the AFI IGF Working Group (IGFWG), SME Finance Working Group (SMEFWG), and the AFI Gender Inclusive Finance Ambassador institutions to diagnose the key barriers for SMEs accessing green financing and explore how policies and regulations can drive IGF in the MSME sector, it will also plan actions to highlight the research insights and provide practical policy recommendations for financial regulators and policymakers. The diagnosis will also focus on the main barriers that MSMEs which are owned or led by women, or benefit women, face, highlighting potential interventions to tackle these barriers in certain AFI member jurisdictions, through working with the AFI members in these countries. The ability to actively involve a broad spectrum of policymakers through the AFI platforms previously mentioned is a unique and vital component of this project as it will ensure strong ownership and collaboration among AFI policymakers, balanced policy recommendations for market developed, from both a regulatory and academic perspective.

### What is the RAC?





A RAC will be created for the project to bring additional expertise and strategic insights into the diagnosis and planning. This RAC will be composed of representatives from relevant academic institutions, AFI partners, and research partners.

The RAC will work in tandem with the IGFWG, SMEFWG, and Gender Inclusive Finance Ambassador institutions, contributing to and commenting on the research as well as reviewing the research at certain stages of the project's progress. The contributions from the RAC will bring their unique perspectives to the conversation and enhance the outcomes.

RAC members will have the opportunity to actively contribute to shaping policy insights in the budding policy intersect between inclusive green finance, SME finance and gender inclusive finance, as well take part of direct insights from financial regulators and their work with policy developments in this area. The RAC members will be invited to the AFI Global Policy Forum in Manila, Philippines in September 2023 and through this unique platform will be able to gain

#### Alliance for Financial Inclusion

AFI, Sasana Kijang, 2, Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia  
t +60 3 2776 9000 e info@afi-global.org [www.afi-global.org](http://www.afi-global.org)

 Alliance for Financial Inclusion  AFI.History  @NewsAFI  @afinetwork

#afiGlobal

further insights and learnings about the latest trends and thinking on financial inclusion regulation and policy.

### **Who will be members of the RAC?**

The RAC will be composed of three members. The members of the RAC will be individual academics or development professions with experience in any of the relevant policy areas intersecting in this project. There will be an open call for RAC, for individuals and institutions to share their interest to become members of the group.

### **How will the RAC work?**

The RAC will be taking part in conversations to shape the components of the project, as well as provide written and oral comments and contribute to the three knowledge products produced as outputs from this project, listed below. There is no extensive writing expected from the RAC, rather comments and reflections on the direction of the work. The RAC is expected to provide strategic guidance into the development and analysis of the two in-country action research projects that will be taking place under the broader project.

- 1) An umbrella research paper that will provide an overview of gaps, barriers, and potential solutions to reduce the current market imperfections for MSME's access to finance, enabling climate action.
- 2) One knowledge product that includes two case studies based on the in-country projects, which will be developed over the first 18 months of the project, based on members' priorities and the knowledge generated from this project.

The case studies will capture the main challenges, learning opportunities, progress made to date, and policy and regulatory recommendations. The content will be developed from secondary desk research and primary qualitative semi structured interviews with different stakeholders involved in the development and implementation of the two projects. These case studies are also anticipated to provide concrete policy examples for policy peer learning among AFI members. The recommendations will feed into the work on the IGF for MSMEs toolkit, which is the third output deliverable.

These case studies will be based on two in-country research projects co-designed together with the AFI member institutions who will be leading the projects at the national level. The case studies are expected to provide deeper in-country insights on the multi-dimensional and gender aspects of the IGF policy and regulatory guidance. These projects will provide an opportunity for the practical implementation of the conceptual ideas developed in the research paper and provide direct insights into the implementation opportunities, risks, areas for further exploration, and knowledge sharing. The in-country projects will involve key national-level stakeholders, such as relevant government ministries and departments, the private sector, and civil society, through the leadership of the central bank or financial regulator.

- 3) A detailed Inclusive Green Finance for MSMEs Toolkit (as final knowledge product) with concrete examples and policy guidance on how to ensure MSMEs' access to green finance products.

The mandate of the RAC spans from the end of Q2 2023 to the end of Q2 2025. The RAC members are expected to take part in discussions at four working group meetings, of which one is physical and three are virtual. The physical meeting will be a combined physical IGFWG & SMEFWG meeting during the AFI Global Policy Forum in Manila in September 2023. AFI will provide funding towards the travel and accommodation costs. In addition there will be an additional four virtual meetings held only for the RAC members to facilitate conversation about the deliverables and coordinate input.

The AFI Management Unit will function as the focal point and secretariat for the RAC and will organise the meetings and share relevant drafts and outlines for input.

There is no monetary compensation provided to the RAC members for their contribution to the project. The contributions by the RAC members will be acknowledged in each of the knowledge products published under this project and the RAC members will through the project have unique access to on-going policy discussions and deliberations on IGF and financial inclusion developments.

This project is piloting this unique, translational approach of bringing academia and policy makers together and if successful there might be further engagement possibilities for the members of the RAC.

### **Project Outcomes**

The key outcomes of this project will be 1) Enhanced knowledge amongst AFI members on gender sensitive IGF policies to advance mitigation and adaptation amongst MSMEs, 2) Enhanced capacity of AFI member institutions to develop and implement gender sensitive IGF policies for MSMEs and 3) Enhanced awareness on gender sensitive IGF policies for mitigation and adaptation amongst MSMEs at the global level. Ultimately, this project is expected to contribute to the development and implementation of gender sensitive policies and regulations to advance IGF for MSMEs at the national level.

## Annex

### About AFI

The Alliance for Financial Inclusion ([AFI](#)) is the world's leading organization on financial inclusion policy and regulation. Currently, over 80 member institutions make up the AFI network including central banks, ministries of finance and other financial policymaking or regulatory institutions from over 70 developing and emerging economies. AFI empowers policymakers to increase the access and usage of quality financial services for the underserved through sustainable and inclusive policies and an effective use of digital technologies.

Policies developed and implemented by the members of the Alliance contribute to a range of the [Sustainable Development Goals](#). by setting their own agenda, AFI members harness the power of peer learning to develop practical and tested policy reforms that enhance financial inclusion with strategic support from both public and private sector partners.

AFI has 7 [Working Groups](#) (WGs): Consumer Empowerment and Market Conduct Working Group ([CEMCWG](#)), Digital Financial Services Working Group ([DFSWG](#)), Financial Inclusion Data Working Group ([FIDWG](#)), Financial Inclusion Strategy Peer Learning Group ([FISPLG](#)), Global Standards Proportionality Working Group ([GSPWG](#)), Inclusive Green Finance Working Group ([IGFWG](#)) and SME Finance Working Group ([SMEFWG](#)).

As the key source of policy developments and trends in financial inclusion and as the primary mechanism for generating and incubating technical content in the network, the Working Groups serve as "communities of practice". Providing a platform for knowledge exchange and peer learning among policymakers to share, deliberate and deepen their understanding, the working groups offer leadership and expertise in their respective policy fields and support the network to monitor new developments in emerging fields.

The knowledge generated via the working groups is disseminated for implementation by a range of [capacity building activities](#) such as joint learning programs, member trainings, trainings by private sector partners. The practical experience members garner from engaging in peer learning based capacity building is then applied by members as [in country implementation](#) projects which are supported by the provision of financial or technical support to AFI member institutions in conducting activities that aim to deliver financial inclusion policies, regulations, supervisory tools or enablers for the development of policies, such as national financial inclusion strategies

The working groups receive strategic guidance and insight from the High-Level [Global Standards & Policy Committee](#), while the [Gender Inclusive Finance Committee](#) supports WGs in integrating gender considerations into all aspects of their work and support members in fulfilling their [Denarau Action Plan](#) commitments to promote women's financial inclusion and reduce the gender gap in access to finance.

AFI members have made further commitments in a range of other accords which can be read [here](#).

The AFI's five regional initiatives support policy implementation in Africa ([AfPI](#)), Latin America and the Caribbean ([FILAC](#)), the Pacific Islands ([PIRI](#)), Eastern Europe and Central Asia ([ECAPI](#)) and the Arab Region ([FIARI](#)).

## Inclusive Green Finance (IGF)

[Inclusive Green Finance](#) is an evolving policy area pioneered by AFI member institutions implementing policies, regulations and national strategies to mitigate or build resilience to climate change. In May 2019, AFI published a scoping study on inclusive green finance - 'Inclusive Green Finance: A Survey of the Policy Landscape'- outlining the 4P Framework on Inclusive Green Finance. An updated version was published in June 2020 '[Inclusive Green Finance: A Survey of the Policy Landscape \(Second Edition\)](#)'. The policies fall within four key pillars of inclusive green finance categorization, namely the 4Ps of inclusive green finance:

- **Promotion** policies 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.
- **Provision** policies help to ensure financial resources for green projects or related climate action activities are provided to qualified beneficiaries, whether through lending policies, refinancing or other financing schemes.
- **Protection** policies reduce financial risk by "socializing" potential losses through insurance, credit guarantees, social payments or other related risk-sharing mechanisms.
- **Prevention** policies aim to avoid undesirable outcomes by lowering financial, social and environmental risks.

## MSME Finance

Micro, Small and Medium Enterprises (MSMEs) are universally recognized as major driver that contribute to economic development and GDP, export, employment creation and innovation, especially in developing and emerging countries. However, access to finance remains one of the key constraints for MSMEs' growth. MSME finance gap in emerging economies is estimated at approximately \$5 trillion - 1.3 times the current level of MSME lending. These numbers are even more staggering, at about \$8 trillion, if MSMEs in the informal sector were also included. Governments, financial regulators, the private sector and other relevant stakeholders play key roles in facilitating MSME finance, addressing financing constraints and mitigating the credit gap through financing vehicles and enabling infrastructure tools. As this thematic area matured in the AFI network, the [SMEFWG](#) issued a [Policy Model for MSME Finance](#) in 2021, to guide members through a set of principles which should be considered when developing or reviewing MSME finance policies. This guidance was derived from the AFI network's best practices and their codification from several knowledge products published in recent years by the SMEFWG.

The sixth guiding principle in the [Policy Model for MSME Finance](#) includes prioritizing the green sector through the categorization of the 4Ps (Provision, Promotion, Protection and Prevention) framework of inclusive green finance.

As MSMEs make up 90 percent of all businesses in developing economies, MSMEs can contribute to long term climate change mitigation through a variety of ways. Various incentives to support green MSME finance include effective risk-sharing tools actioned through green credit guarantee schemes and establishing a restructuring fund and other risk reduction measures for MSMEs.

## Inclusive Green Finance Working Group (IGFWG)

Launched in 2019 in Kigali-Rwanda, the [Inclusive Green Finance Working Group \(IGFWG\)](#) is working to develop green financial inclusion policy solutions while focusing on the communities most vulnerable to climate change. In response to the increasing interest from the AFI network, member institutions are committed to work together and collaborate with partners in identifying, understanding and implementing inclusive green finance policy solutions.

This WG has 61 members from 54 member countries. The IGFWG members have developed thirteen knowledge products (KPs) and AFI members have reported 11 policy changes on IGF in just three years. The current members in the IGFWG have a good gender balance with 45% women and 55% men. The Working Group aims to:

- Produce policy guidelines and tools for formulating financial inclusion policies;
- Provide peer reviews of members' draft policies and regulatory frameworks; and
- Contribute to AFI's engagement with global Standard-Setting Bodies (SSBs) and financial inclusion ecosystems at national and regional levels.

The IGFWG has developed KPs to provide a deeper understanding on the intersection of IGF, MSMEs and GIF. Recent publications include:

- [Inclusive Green Finance Policies for MSMEs \(2020\)](#). This report takes stock of policy initiatives and practices from financial regulators in greening MSMEs in the AFI Network. One of the key findings of the report is that financial regulators and policymakers recognize the implications of climate change on MSMEs, and thus, are starting to link climate change and financial inclusion in their National Financial Inclusion Strategies (NFIS).
- [Green Credit Risk Guarantee Schemes for MSMEs \(2022\)](#). Climate change and environmental degradation pose a significant risk to the performance, competitiveness and sustainability of MSMEs in developing countries. Contributing significantly to a country's gross domestic product, MSMEs can play a significant role in strengthening a country's resilience to climate change. This report elaborates on policy considerations for the implementation of credit guarantee schemes (CGSs) that can be used to support green lending to MSMEs.
- [Towards an Inclusive Green Future: An Analysis of the Intersection Between Inclusive Green Finance and Gender Inclusive Finance \(2022\)](#). Women are disproportionately affected by climate change and environmental degradation due to existing gender inequalities, from access to financial resources and land, to education and health. The purpose of this special report is to examine the intersection between inclusive green finance and gender inclusive finance, with a special emphasis on how to integrate gender considerations into AFI's 4P Framework.

Other IGF and IGFWG publications can be found in Annex I or [here](#). Since AFI is a knowledge sharing member led platform, the AFI IGF Management Unit launched in 2020 the [Inclusive Green Finance Resources](#), an alive Database where IGF policies implemented by AFI members can be found.

## **SME Finance Working Group (SMEFWG)**

The SMEFWG was formed in 2013 with the vision to contribute to the development of MSMEs in developing and emerging countries, through the provision of accessible and usable financial services. The SMEFWG promotes the development and implementation of policy frameworks that improve MSMEs access to financial services, within national contexts, through the implementation of smart policy frameworks. The SMEFWG also provides a platform for AFI member institutions to discuss the challenges and opportunities to achieve sustainable development for this vital part of the global economy.

The [SME Finance Working Group \(SMEFWG\)](#) has developed significant guidance on policy and regulation for MSME access to finance, culminating in the publication of the MSME Finance Policy Model in 2021 with the objective to guide members through a set of principles and the key elements to be considered in developing or reviewing their MSME finance policies. The principles are derived from the compilation of best practices from the AFI network, complemented and benchmarked by insights from other international stakeholders in MSME development. In addition, the SMEFWG has worked on the topic of Inclusive Green Finance and produced knowledge products namely [Green Credit Guarantee Schemes for MSMEs](#) and [Inclusive Green Finance Policies for MSMEs](#).

Other related publications on SME finance can be found [here](#).

## **Gender Inclusive Finance Ambassador Institutions**

The Gender Inclusive Finance Ambassador initiative was formally inaugurated in September 2019, at AFI's annual Global Policy Forum. The purpose behind this initiative is to accelerate the pace of change through the strategic implementation of the Denarau Action Plan commitments and members' efforts to reduce their national gender gaps in access to finance. The creation of the Gender Inclusive Ambassador initiative gives recognition to member institutions with strong gender commitments and serve as a means of encouragement for other member institutions to take similar steps to become ambassadors at future dates, so that the pool of Ambassadors continues to grow as members advance in their gender inclusive work. To date thirty two member's have been recognized as Ambassador institutions for the works they are doing to improve women's access to finance and women's leadership and institutional diversity in their own institutions.