




# INCLUSIVE GREEN FINANCE: A SURVEY OF THE POLICY LANDSCAPE

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# FINANCIAL INCLUSION & CLIMATE CHANGE: WHAT IS THE CONNECTION?

## CLIMATE CHANGE DEEPENS POVERTY

- > Climate change could push an additional ~100 million people in poverty by 2030
- > Effects are **sudden and extreme** (floods, droughts, storms) or **gradual** (sea level rise, coastal erosion, melting glaciers)

### IMPACTS INCLUDE



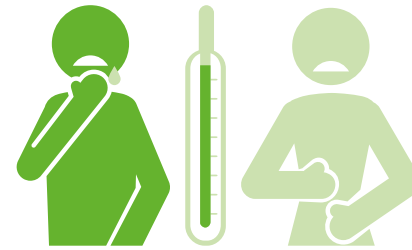
#### DISPLACEMENT FROM AGRICULTURAL LAND AND NATURAL RESOURCES

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.

## CLIMATE CHANGE-RELATED FINANCIAL RISKS



### PHYSICAL RISKS

Physical risks are the direct impacts on economies from slow-onset climate change, such as changing precipitation and rising temperatures or sea levels, as well as rapid-onset climate change, such as extreme weather events and disasters.



### TRANSITION RISKS

Transition risks accompany the transition to less polluting and low-carbon economies. These changes in policies and priorities can change the value of assets and increase the costs of certain types of businesses. This can also result in stranded assets.



### LIABILITY RISKS

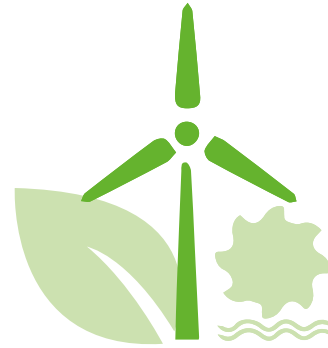
Liability risks relate to people or businesses seeking compensation from losses because of physical or transition risks.

## FINANCIAL INCLUSION BUILDS RESILIENCE TO CLIMATE CHANGE



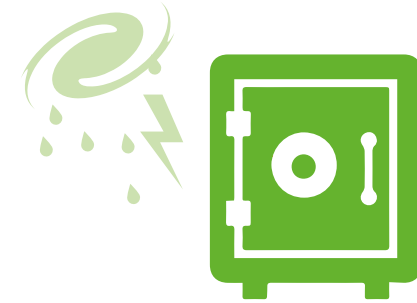
### SAVINGS (ESPECIALLY FORMAL)

Buffer against cost increases, diversity risks, access credit, accelerate recovery and reconstruction.



### CREDIT

Investment in e.g. low-carbon technologies, rebuilding and reconstruction, more resilient housing and agriculture.



### INSURANCE

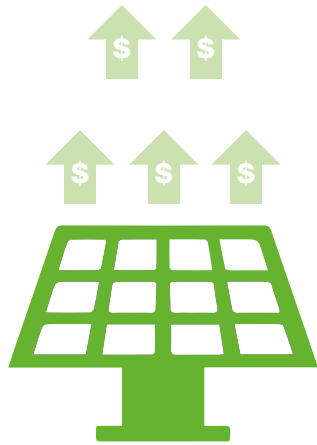
Safeguard against the effects of extreme weather events and gradual climate change.



### DIGITAL FINANCIAL SERVICES

Enabling the spread and use of savings, credit and insurance, as well as humanitarian assistance after extreme weather events.

## FINANCIAL INCLUSION CAN ADVANCE CLIMATE CHANGE MITIGATION AND POVERTY REDUCTION



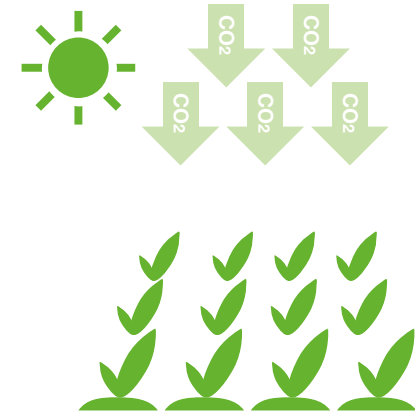
### RENEWABLE ENERGY (SOLAR, MINI-HYDROELECTRIC)

Clean, relatively low-cost electricity to unconnected areas; increase incomes.



### ENERGY EFFICIENCY

Purchase of assets that consume less energy such as cooling systems, clean cookstoves.

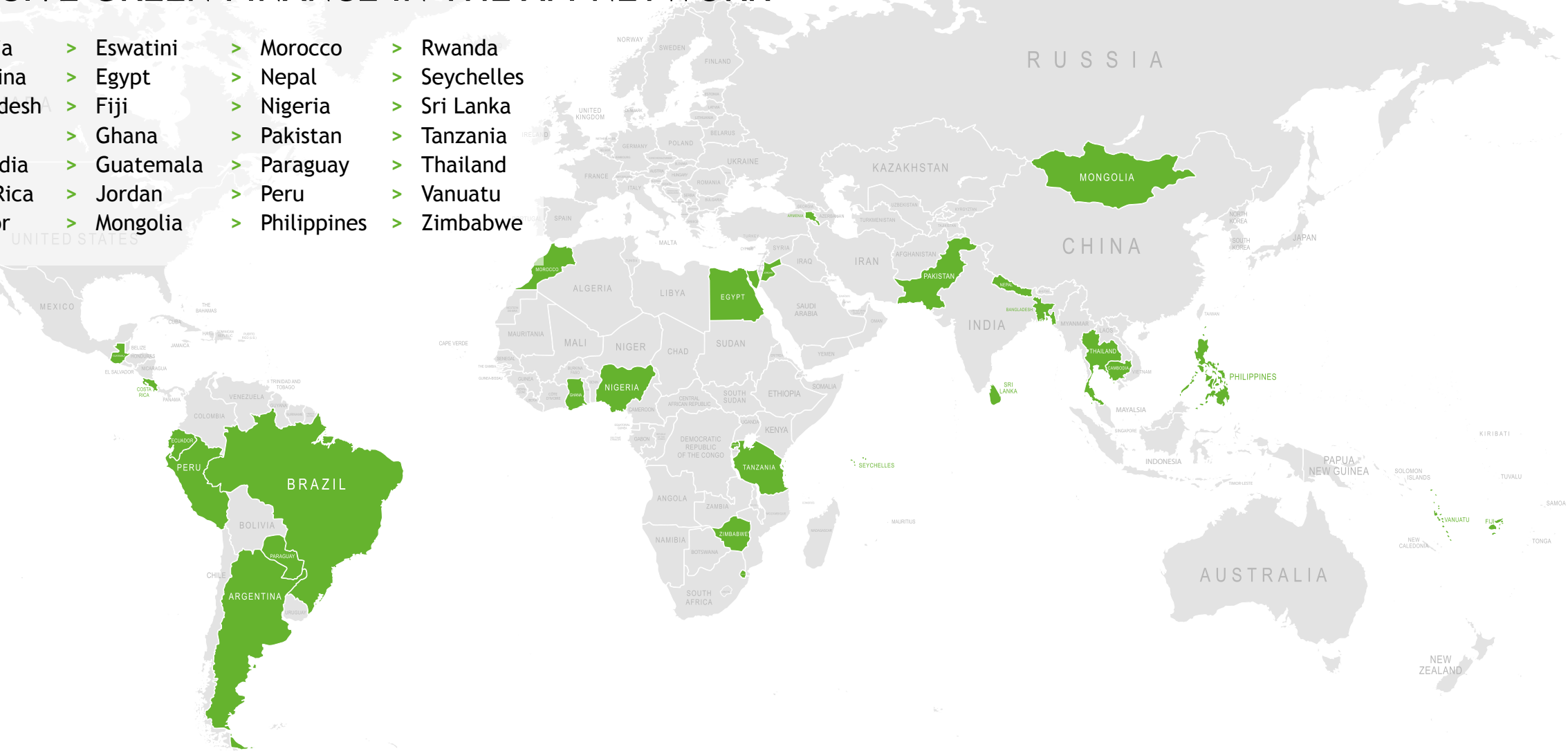


### CLIMATE-SMART AGRICULTURE

Ecosystem or nature-based farming with reduced CO<sub>2</sub> emission.

# INCLUSIVE GREEN FINANCE IN THE AFI NETWORK

- > Armenia
- > Argentina
- > Bangladesh
- > Brazil
- > Cambodia
- > Costa Rica
- > Ecuador
- > Eswatini
- > Egypt
- > Fiji
- > Ghana
- > Guatemala
- > Jordan
- > Mongolia
- > Morocco
- > Nepal
- > Nigeria
- > Pakistan
- > Paraguay
- > Peru
- > Philippines
- > Rwanda
- > Seychelles
- > Sri Lanka
- > Tanzania
- > Thailand
- > Vanuatu
- > Zimbabwe



# STRATEGIES & POLICIES FOR INCLUSIVE GREEN FINANCE

Chinese workers walk on a section of a large floating solar farm project under construction by the Sungrow Power Supply Company on a lake caused by a collapsed and flooded coal mine in Huainan, June 2017. When finished, the solar farm will be made up of more than 166,000 solar panels which convert sunlight to energy, and the site could potentially produce enough energy to power a city in Anhui province, China. (Photo by Kevin Frayer/Getty Images)



# LINKING FINANCIAL INCLUSION & CLIMATE CHANGE IN NATIONAL FINANCIAL SECTOR STRATEGIES



**7** AFI MEMBERS EXPLICITLY INTEGRATE CLIMATE CHANGE IN THEIR NFIS:

- > **Argentina**
- > **Bangladesh** (planned)
- > **Egypt** (planned)
- > **Fiji**
- > **Jordan**
- > **Rwanda**
- > **Sri Lanka** (planned)



**5** AFI MEMBERS IMPLICITLY INTEGRATE CLIMATE CHANGE IN THEIR NFIS:

- > **Armenia** (planned)
- > **Eswatini**
- > **Philippines**
- > **Tanzania**
- > **Vanuatu**



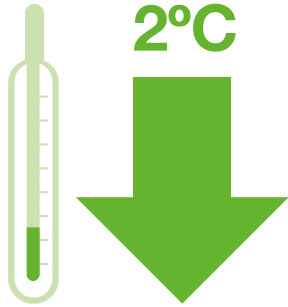
**11** AFI MEMBERS LINK CLIMATE CHANGE AND FINANCIAL INCLUSION IN OTHER FINANCIAL SECTOR STRATEGIES:

- > **Bangladesh:** First and Second Action Plan
- > **Bhutan:** Green Finance Roadmap (planned)
- > **Fiji:** Sustainable Finance Roadmap (planned)
- > **Ghana:** Sustainable Banking Principles
- > **Morocco:** National Roadmap for Aligning the Financial Sector with Sustainable Development
- > **Nepal:** Financial Sector Development Strategy
- > **Nigeria:** Sustainable Banking Principles
- > **Sri Lanka:** Sustainable Finance Roadmap
- > **Thailand:** Sustainable Banking Guidelines
- > **Cambodia:** Sustainable Finance Principles
- > **Philippines:** Sustainable Finance Framework

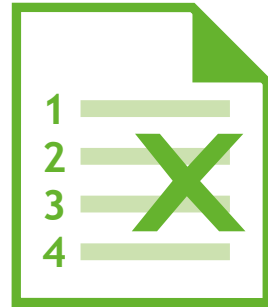
A man wearing a straw hat and a grey jacket is sitting amidst a vast sea of discarded plastic bottles. He is focused on sorting through the waste. The bottles are of various colors and brands, creating a dense, multi-colored background. In the foreground, there is a large black tub filled with more bottles and a red mesh bag. The overall scene depicts a recycling operation in a developing area.

**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.**

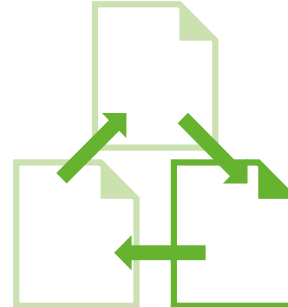
## INVOLVEMENT OF CENTRAL BANKS AND FINANCIAL SECTOR REGULATORS IN NATIONAL CLIMATE AND SUSTAINABLE DEVELOPMENT POLICIES



Financial regulation plays an important role in supporting commitments to the **Paris Agreement**.



Most of AFI members interviewed **were not involved in the development** of national climate change strategies.



Some members are directly involved:


- > **Bangladesh Bank**
- > **Bank of Thailand**
- > **Bangko Sentral ng Pilipinas**



Some members were consulted on climate change policies:

- > **Central Bank of Armenia**
- > **Central Bank of Jordan**
- > **Reserve Bank of Fiji**

# THE FOUR Ps OF INCLUSIVE GREEN FINANCE POLICIES



ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT (ESRM) GUIDELINES ADDRESS THE SOCIAL AND ENVIRONMENTAL EXTERNALITIES AND RISKS OF A FINANCIAL INSTITUTION'S ACTIVITIES.



DATA COLLECTION



MORAL SUASION,  
AWARENESS RAISING  
& CAPACITY BUILDING



LENDING QUOTAS



OTHER FINANCING  
SCHEMES FOR DISASTER  
REHABILITATION AND RECOVERY



REFINANCING GREEN  
LENDING



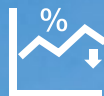
OTHER FINANCING  
SCHEMES  
FOR GREEN LENDING



INNOVATION INVESTMENT  
FUNDLENDING



REFINANCING RECOVERY  
& RECONSTRUCTION



LOWERING OF BASE  
INTEREST RATE



AGRICULTURAL  
CLIMATE RISK  
INSURANCE



MOBILE MONEY  
FOR G2P PAYMENTS



POST DISASTER  
REHABILITATION  
FACILITIES



CREDIT GUARANTEES



EARLY WITHDRAWAL  
FROM PENSION FUNDS

# PROMOTION

Policies and initiatives prepare the private sector to offer financial services for green projects or related climate action activities to qualified beneficiaries.



Bhutanese women working on their field, most of the fieldwork is done by hand, Bhutan. March 2014. (Photo by anandart/iStock)

## PROMOTION POLICIES: AFI MEMBER EXPERIENCES



### MORAL SUASION, AWARENESS RAISING & CAPACITY BUILDING

- > **Bangko Sentral ng Pilipinas (BSP):** Makes business case for green lending; green finance as public good; promotion of sustainable banking principles.
- > **Bank of Thailand:** Training on green lending.
- > **Bank Al-Maghrib:** sensitized the financial sector on sustainable development and risks of climate change.
- > **Central Bank of Egypt:** Sent out staff and banks to learn about sustainable finance.
- > **Royal Monetary Authority of Bhutan:** Coordinated and organized stakeholder workshop in preparation for the development of their Green Finance Roadmap.

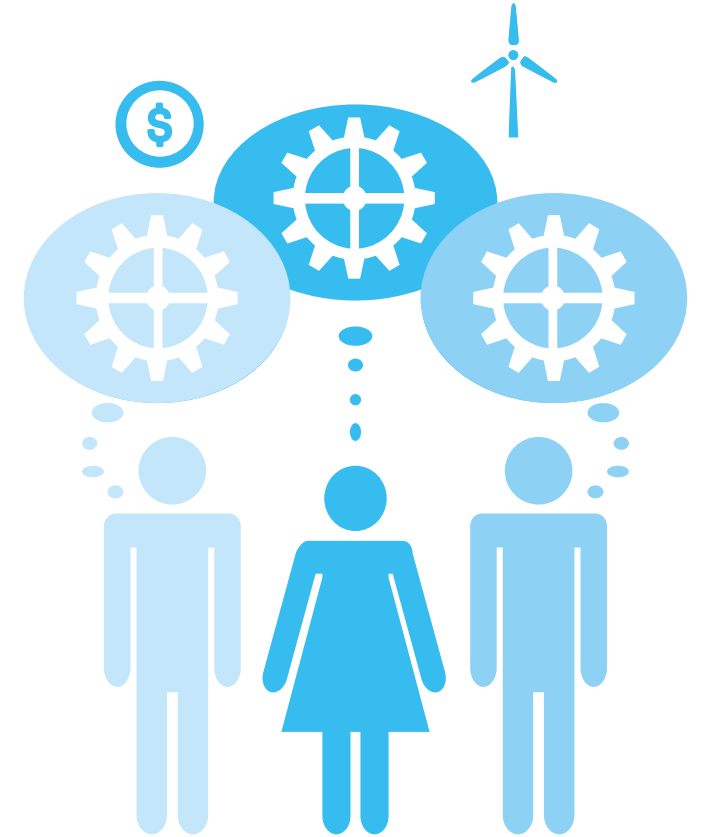


### DATA COLLECTION

- > **Bangladesh Bank:** Collects and shares data on green finance, including sex-disaggregated data.
- > **Bangko Sentral ng Pilipinas:** Gathers data on the impacts of disasters to local banking operations.

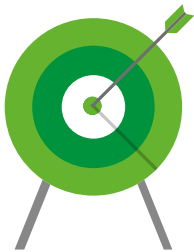
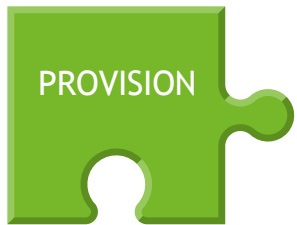
# CHALLENGES OF PROMOTION POLICIES

- > Indirectly help banks and other financial services providers to determine the best course of action
- > Success approach depends on the market
- > Responses to policy options can be slow or even non-existent
- > Businesses may not appreciate the value of the incentives (e.g. lack of awareness of green technologies)
- > Incentives could be poorly designed or fail to elicit the desired response, or it may simply take time for the market to adjust
- > Coordinating initiatives might be challenging when implementing promotion policies



# 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.



Fishing village residents work to clean their town of mud after flooding brought on by El Niño rains, Cabo Blanco, Peru. February 2017. (Photo by CLJ Giordano/Shutterstock)



## PROVISION POLICIES: AFI MEMBER EXPERIENCES



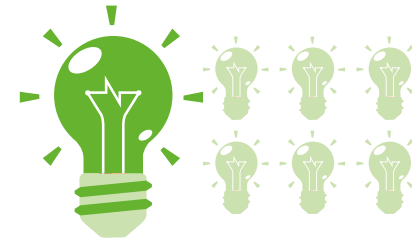
### LENDING QUOTAS

- > **Bangladesh Bank:** 5% of all loan disbursements and investments for green financing.
- > **Nepal Rastra Bank:** at least 10% of portfolios to green energy projects.
- > **Central Bank of Egypt:** 20% of their total credit portfolio to finance MSMEs including renewable energy and climate-resilient irrigation.



### REFINANCING GREEN LENDING

- > **Bangladesh Bank:** Subsidized loan for purchase of low-carbon products.
- > **Nepal Rastra Bank:** Subsidized loans for solar energy, biogas and waste treatment projects.
- > **Central Bank of Argentine Republic:** relaxed conditions for agri loans with climate insurance.



### INNOVATION INVESTMENT FUND

- > **Bank Al-Maghrib:** Innov Investment Fund.



### REFINANCING RECOVERY & RECONSTRUCTION

- > **Superintendencia de Banca, Seguros y AFP (SBS) Peru:** Rescheduling of retail loan repayments during disasters.
- > **Bangko Sentral ng Pilipinas:** Agricultural Value Chain Framework.
- > **Central Bank of Sri Lanka:** Moratorium on loan repayment.

## PROVISION POLICIES: AFI MEMBER EXPERIENCES



### OTHER FINANCING SCHEMES FOR GREEN LENDING

- > **Central Bank of Jordan:** Medium-Term Advances to Licensed Banks Program.
- > **Central Bank of Seychelles:** Lower interest loans to MSMEs and to households through the Seychelles Energy Efficiency and Renewable Energy Program (SEEREP).
- > **State Bank of Pakistan:** Financing scheme for renewable energy projects.
- > **Central Bank of Armenia:** Longer term financing for products such as renewable energy.
- > **Ministry of Finance of Eswatini:** Prioritized financial services for climate-smart technologies.



### OTHER FINANCING SCHEMES FOR DISASTER REHABILITATION AND RECOVERY

- > **Nepal Rastra Bank:** Refinancing facilities to rebuild from floods and fires.
- > **Vanuatu:** Natural Disaster Reconstruction Credit Facility.



### LOWERING OF BASE INTEREST RATE

- > **Reserve Bank of Vanuatu (RBV):** Lowered the reserve requirement to incentivize banks to lend to affected low-income people.

# CHALLENGES OF PROVISION POLICIES

- > **Provision policies can be comparatively challenging to monitor.**
  - How should the beneficiaries be defined?
  - What constitutes renewable or green products?
  - How does one distinguish between adaptation to climate change and general economic development?
  - How can greenwashing be avoided?
- > **Financing of provision policies**
- > **Other questions:**
  - Should promotions and bonuses for lenders' staff be tied to good performance on green lending programs?
  - How can the system avoid being gamed, distorted or misused?



# PROTECTION

Policies reduce financial risk by “socializing” potential losses through insurance, credit guarantees, social payments or other related risk-sharing mechanisms.



Small scale green house vegetable farming in Africa, Karshi, Nigeria, December 2018. (Photo by Tayvay/Shutterstock)

## PROTECTION POLICIES: AFI MEMBER EXPERIENCES



### AGRICULTURAL CLIMATE RISK INSURANCE

- > **Central Bank of Armenia:** Subsidizes 50-60% of policies for agricultural climate insurance products.
- > **Morocco:** “climate multi-risk” insurance product to protect investments in major cereal crops against a variety of climate-related damage.
- > **Central Bank of Nigeria:** Anchor Borrowers’ Program.



### CREDIT GUARANTEES

- > **Central Bank of Nigeria:** Guarantees 50% of the loss if a smallholder farmer defaults on a loan.
- > **Central Bank of Ghana:** Ghana Incentive-Based Risk-Sharing System for Agricultural Lending.



### 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.



### POST DISASTER REHABILITATION FACILITIES

- > **Philippines:** Countryside Financial Institutions-Calamity Assistance Program.
- > **Fiji:** Natural Disaster Rehabilitation Facility.

# CHALLENGES OF PROTECTION POLICIES

- > **Risk sharing has consequences:**
  - Having insurance gives farmers more incentive to make productive agricultural investments than receiving cash grants
  - Other effects may not be so desirable
- > **Access and outreach can be challenging.**
- > **National coordination between relevant stakeholders is vital in insurance development**
- > **Access to the appropriate data might be challenging**



# PREVENTION

Policies aim to avoid undesirable outcomes by lowering financial, social and environmental risks.

- > Addresses the impacts of a financial institution's activities
- > Supports more holistic finance
- > Lowers financial, societal and environmental risks



The solar powered vending machines installed by a for-profit social enterprise called Piramal dispense clean drinking water via a pre-paid smartcard to residents who have no access to water on tap in their homes. New Delhi, India. (Photo by In Pictures Ltd./Corbis via Getty Images)

## 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.

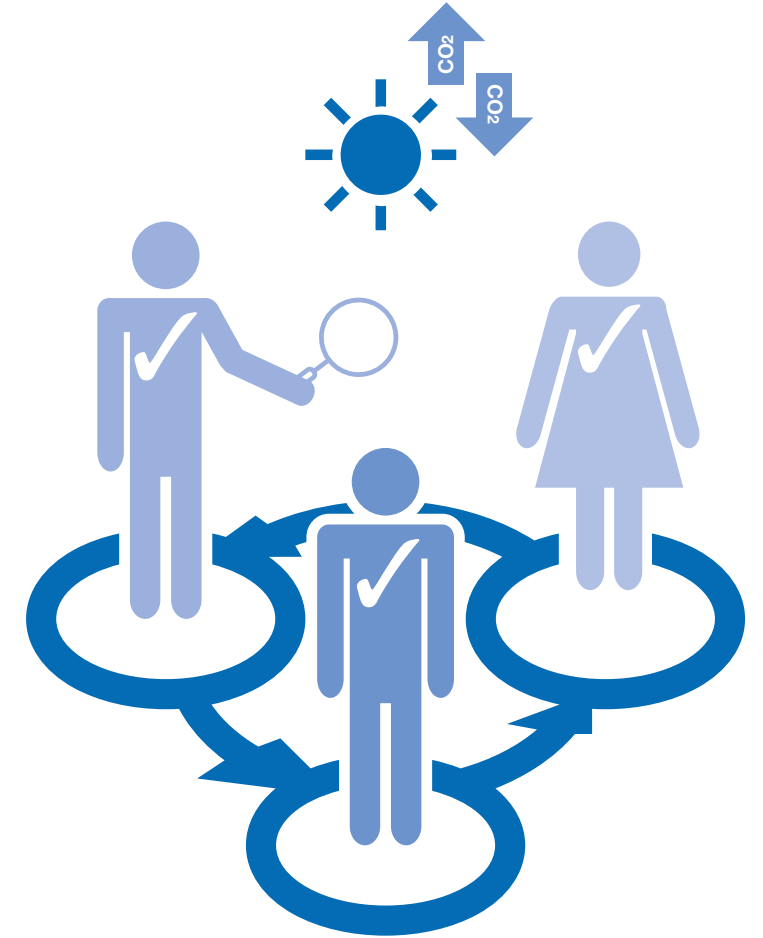


- > **Bangladesh Bank:** ERM as Guidance on Environmental and Social Risk Management for Banks and Financial Institutions (2017).
- > **Banco Central do Brasil:** Social-Environmental Responsibility Policy (PRSA) (2014).
- > **State Bank of Pakistan:** Green Banking Guidelines (2017).
- > **Nepal Rastra Bank:** Guidelines on Environmental and Social Risk Management for Banks and Financial Institutions (2018).
- > **Banco Central de Paraguay:** Guide for the Management of Environmental and Social Risks (2018).



# CHALLENGES OF PREVENTION POLICIES

- > ESRM guidelines require both training for FSP staff and supervision resources from the regulator.
- > With voluntary guidelines, there is a risk that not many FSPs will apply them.
- > Ensuring that conducting more thorough credit checks does not lead to financial exclusion.
- > Current scope of ESRM guidelines could be expanded to include greenhouse gas emissions and take climate change adaptation needs into account.
- > Wider use of ESRM guidelines would necessitate capacity building for supervisory institutions as well as increased compliance monitoring.



# TRENDS AND CONSIDERATION IN INCLUSIVE GREEN FINANCE

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.

50%

**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.

## THE FINANCIAL STABILITY-CLIMATE CHANGE- FINANCIAL INCLUSION NEXUS



The pervasive economic impacts of climate change are a growing concern for financial sector policymakers, especially those with an implicit mandate to protect financial stability.



Physical risks and transition risks that comes along with climate change can impact financial stability.

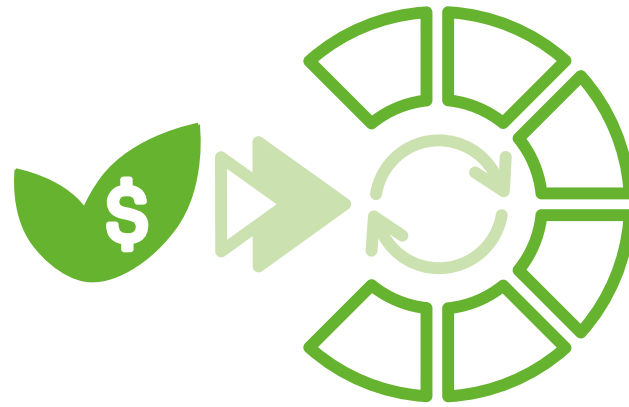


Resilience, recovery and reconstruction can be improved significantly through financial inclusion.

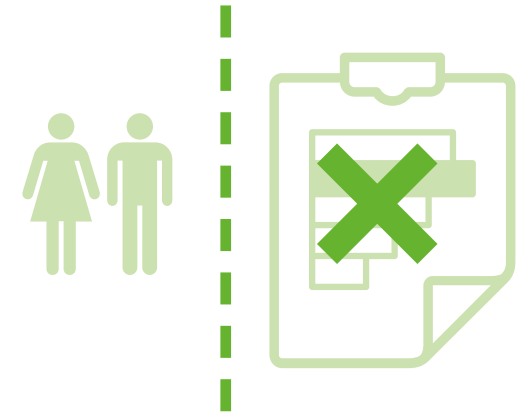
## MSMEs IN THE GREEN ECONOMY



Micro, small, and medium enterprises (MSMEs) which account for an average of 90% of private enterprises in developing countries play a **vital role in the development of a green economy.**



Given the innovative nature of the sector, it is also important to consider how **MSMEs could drive climate action, both mitigation and adaptation efforts.** As a key sector for economic development, MSMEs must become more resilient to economic shocks from climate-induced disasters, but face a number of challenges, one of which is access to climate finance due to weak policies, limited knowledge and awareness, and economic other barriers.

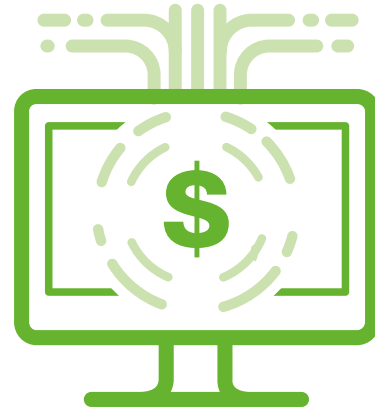


**Financing for green activities can be difficult to obtain for MSMEs.** Financial regulators can weigh in on the discourse and provide enabling policies to make finance available to the sector. ensure that green financing is accessible across the specter, not only for large-scale mitigation and adaptation efforts, but also for MSMEs.

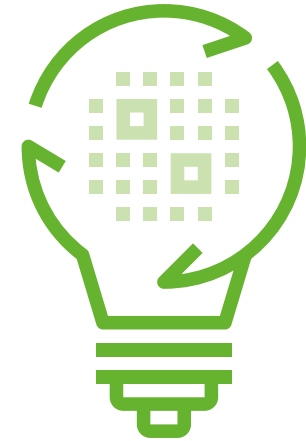
## LEVERAGING DIGITAL FINANCE TO ACCELERATE CLIMATE ACTION



The most in need of **greater financial inclusion** are also the most vulnerable to the impacts of climate change.



Most AFI members have **provided an enabling environment** to accelerate financial inclusion through digital financial services.



In the search for **innovative solutions** to mobilize financial resources for climate action, big data and ecosystems is a policy area that financial regulators must weigh in on.

# 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?



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

2019

Launch of the Inclusive Green Finance (IGF) Working Group





2020

Launch of the 2nd edition of 'Inclusive green finance: A survey of the political landscape'





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