UNSGSA

UNITED NATIONS SECRETARY-GENERAL'S
SPECIAL ADVOCATE FOR INCLUSIVE FINANCE FOR DEVELOPMENT

Summary Brief

Inclusive Green Finance: A Policy and Advocacy Approach

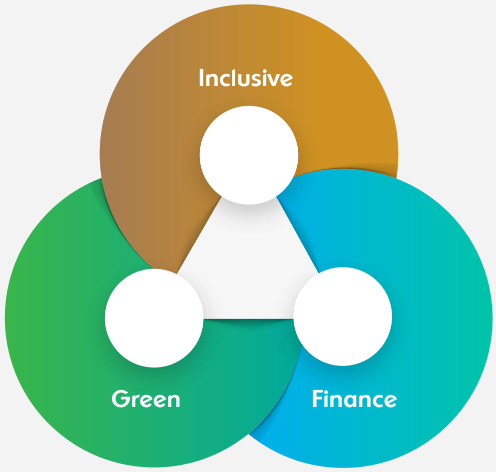
The Twin Challenges of Climate Change Risks and Financial Exclusion

Lower-income households are disproportionately hit by climate change, with fewer financial options to address and cope with its impacts, including floods, fires, and crop failures.[1, 2] Climate change risks and financial exclusion are closely linked. Out of 1.4 billion unbanked adults globally, over 1 billion live in the most climate-vulnerable countries. In these countries, 73% adults either do not have a bank account or are not financially resilient, compared to one of three in countries that are less vulnerable to climate change.[3, 4]

Over the past five years, policymakers and regulators have intensified efforts to use the financial sector to support collective responses to climate change. Authorities have emphasized the potential financial stability risks of climate change–including physical, liability, and transition risks–and what may be done to mitigate them. Regulators have supported guidelines for climate-related financial risk management in the banking sector. Efforts have also concentrated on improving disclosure, including through the Financial Stability Board's Task Force on Climate Related Financial Disclosures and introducing taxonomies to gauge climate risk exposure of financial institutions and make green activities visible and attractive to investors.

This work has focused primarily on risk management and opportunities for traditional players (e.g., banks, institutional investors), with less attention on tools and pathways for micro-segments, including households and micro-, small, and medium-sized enterprises (MSMEs), to respond to rising climate risks.

Boundaries of Inclusive Green Finance



- Focusing on low-income households, small businesses and vulnerable populations
- Responding to climate change, supporting positive impact on ecosystems and biodiversity
- Formal and informal financial tools to manage risks, smooth consumption, and make investments

Source: Center for Financial Inclusion

What is Inclusive Green Finance?

Inclusive green finance (IGF) is defined as access to and usage of financial services and products that build resilience to the negative impacts of climate change, loss of biodiversity and ecosystems, and facilitate participation of low-income households, small businesses, and vulnerable groups in the green and low-carbon economy.

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1 PCC 2022, World Bank GFDRR 2015, US EPA 2021, among others.

2 Perrault and Giraud. 2022.

3 Analysis based on Findex and Notre Dame Global Adaptation Index (ND-GAIN); most climate vulnerable countries defined as those with a climate vulnerability index value greater than or equal to 0.41 in the ND-Gain database.

4 Financial resilience as measured by Findex as the percentage of adults in developing economies who could access emergency money within 30 days without much difficulty.

IGF is part of the solution to manage the impact of climate change and the transition to green economies—yet it must be embedded in a broader approach and strategy for climate-resilient development that brings together government, civil society, and the private sector.[5] It must also be included in emerging supervisory and regulatory approaches on green finance, including both the national and global levels.

How Can Financial Services Support Climate Change Pathways?

Policymakers are beginning to examine how financial services can support climate resilience for micro-segments, including adaptation, resilience building, mitigation, and transition. The following framework outlines how financial services support these main climate change pathways.

Pathway	Role of Inclusive Financial Services	Examples of Inclusive Financial Solutions
Mitigation	Support adoption of low-carbon technologies and practices that can improve local environmental conditions for households and communities.	• Installment plans to pay for solar lighting systems • Financing of "clean" cookstoves that utilize gas or electricity
Resilience	Support the financial resources needed to reduce vulnerability, to manage through, and recover from climate-related shocks.	• Weather/livestock index insurance • Easy-access savings • Social protection payments for food or wage security
Adaptation	Support necessary changes to their lives and livelihoods in response to longer-term climate-related events.	• Financing to farmer producer groups for high-value crop diversification and value chain linkages • Financing for weather-proofing homes
Transition	Support significant reductions in vulnerabilities and shifts to new livelihoods in response to and in anticipation of climate events.	• Financing/remittances for migration • Financing for vocational training • Long-term savings

Source: Center for Financial Inclusion

How Can We Scale IGF to Support Sustainable Growth?

There are several ways policymakers and regulators can scale IGF to facilitate sustainable growth and mitigate the impacts of climate change.

Integrate IGF at the country level. This includes linking financial inclusion and climate change in National Financial Inclusion Strategies (NFIS) or other financial-sector strategies. For example, Bangladesh, Fiji, and São Tomé and Principe included IGF in their respective NFIS. Other strategies include sustainable banking principles and sustainable financial roadmaps (e.g., Morocco's National Roadmap for Aligning the Financial Sector with Sustainable Development).[6]

Invest in information, data, and tools. This includes investing in supply- and demand-side data to illuminate the role of financial services in addressing climate shocks. There is also a need to incorporate IGF into ongoing taxonomy development. In addition, global and national policymakers can invest in a research agenda that provides a deeper look at the combination of IGF interventions that can lead to more resilient communities.

Focus on use cases. Policymakers could support the responsible development and scaling of financial products that increase financial resilience to climate shocks (e.g., insurance, savings for smallholder farmers, targeted credit). There is also a need for research to enable the integration of IGF into social protection programs. These products must be underpinned by strong investments in public goods for resilience (e.g., data solutions for green finance products, satellite and water catchment infrastructure, open finance arrangements to support IGF solutions).

Integrate IGF into global and national-level regulatory frameworks. Advocacy is needed to advance financial-sector regulatory frameworks that incorporate IGF, while considering the trade-offs and unintended consequences of climate action on inclusive finance, including adverse impacts on vulnerable groups.

5 Intergovernmental Panel on Climate Change (IPCC). "Climate Change 2022 - Impacts, Adaptation and Vulnerability (Summary for Policymakers)." 2022.

6 Alliance for Financial Inclusion (AFI)

This policy note was written under the supervision of the Office of the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA), H.M. Queen Máxima of the Netherlands, in collaboration with members of the UNSGSA Inclusive Green Finance Working Group (IGFWG). A key objective of the working group is to elevate the interdependent and amplifying role of financial inclusion in global sustainability efforts and strengthen climate considerations in financial inclusion plans and strategies.

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