

Summary G20 GPFI SME Finance Sub Group Workshop

“Climate smart financing for rural MSMEs – enabling policy frameworks”

On 23 February, members of the Global Partnership for Financial Inclusion (GPFI) and representatives of international and other organizations met to discuss the question of how to design policies and regulations that help MSMEs to adapt to and thrive in the context of a changing climate. Participants were presented case studies from Mexico, India and Zambia before discussing ways to approach the drafting of policy options to promote investment in climate-smart MSMEs and sharing experiences from their work.

In further detail

Most MSMEs are not equipped to absorb the economic effects of losses climate change may bring. Investment in climate-smart MSMEs, as well as investment that encourages rural MSMEs to become climate-smart, is therefore needed in order for rural communities to adapt and build resilience, as well as to reduce greenhouse gas emissions from rural areas. Participants were presented case studies as a basis for discussion:

The 10-year, Ministry of Agriculture-funded Sustainable Modernization of Traditional Agricultural (MasAgro) program in **Mexico** aims to achieve a sustainable increase in production, as well as maize and wheat yields, mainly among low-income farmers in rain-fed areas. The program combines research on seed enhancement and climate-smart agronomic practices, and provides capacity building for farmers and extension agents as well as inputs and crop input financing. A central aspect of the program is the building of a network of networks (e.g. 41 innovation platforms) that facilitates peer-to-peer learning. So far 300,000 farmers in all states but one have participated in the program. The Instituto Interamericano de Cooperación para la Agricultura recently evaluated the program. (Victor Kommerell, CIMMYT)

IFMR Holdings offers, through one of its subsidiary, financial services to 700,000 customers in remote rural **India** using a customer centric approach. It is in the process of scaling this up both directly and through its 100 plus originator partnerships with the potential of reaching out to 20 million low income and rural MSME customers. Prompted by the devastating Chennai floods in 2015, the company started developing catastrophe insurance with support from the BMZ/GIZ InsuResilience project. The multi-product platform offering savings, health/life insurance and catastrophe insurance products would help customers achieve several

of their medium to long term goals such as education. (Vipul Sekhsaria, IFMR Holdings)

In **Zambia**, NWK AgriServices - a cotton contract-farming operator - offers agricultural insurance combined with life insurance to its farmers. The agricultural insurance program protects farmers from weather-related losses and reduces the volatility of income over time. It has been running since 2012 and has covered approximately 52,000 farmers on a voluntary basis in the 2015/2016 season. It functions by allowing farmers to pay their insurance at the end of the season when they deliver their harvested cotton (in the meantime, the premium is pre-financed by NWK AgriServices). As a result, the average income of farmers increased. (Ulrich Hess, GIZ)

The three case studies were followed by an input from Mark Halle of UNEP Inquiry, who shared experiences in the field of climate smart financing of rural MSMEs. Mark also illustrated the five priorities for SME Finance work of UNEP under Italy's G7 Presidency: 1) public funds should be used to leverage private funding 2) sustainable banking is key 3) Green bonds can mobilize private funding for green MSMEs 4) Green FDI can be generated through bilateral investment treaties and 5) FinTechs can be market disruptors and enablers for climate smart financing especially in rural areas. He illustrated good practices from Bangladesh (where banks are refinanced if they commit to serve in rural areas) and Brazil (where lenders are partly liable for investments that are made with their loans).

Participants then held discussions on the basis of draft policy options which had been circulated beforehand and which were organized as follows:



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Figure 1: Policy types and instruments

Participants provided a number of comments on the draft circulated beforehand, amongst which were:

- The paper should emphasize the role of the topic for the Agenda 2030.
- The policy types identified were recognized as important to ensure financing for climate-smart MSMEs: legislative / regulatory, economic / fiscal, information / communication-based, agreement / incentive-based (see figure 1: policy types and instruments). Participants remarked that the interlinkages between these policy types should be recognized and discussed when describing policy options. Moreover, the pros and cons of having four versus three policy types were discussed.
- It should be highlighted who would be the implementer of any new policy, what ministry or agency needs to be addressed.
- Policy coherence and coordination is key to success.
- The paper should put more emphasis on policy innovations.

Way forward

The paper will be revised by GIZ and the World Bank drafting team in the following weeks and will be shared with the GPFI SME Finance Sub-Group members for consultation by early April 2017. The received comments will be incorporated in the

paper and the final draft of the paper will be presented at the GPFI plenary and ideally endorsed by GPFI plenary in May 2017.