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Adapting to a New Normal

Strengthening Resilience to Climate Change:
Best Practices from the European Microfinance
Award 2019

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EUROPEAN
MICROFINANCE
PLATFORM

NETWORKING WITH THE SOUTH

FOREWORD

The world feels like a very different place from when the European Microfinance Award 2019 was underway, and even from when the e-MFP team began compiling the lessons and case studies that emerged from the process. Today, the world at large and the various stakeholders in the financial inclusion sector are wrestling with acute public health and economic crises that – as with all crises – disproportionately affect the most vulnerable populations.

This is a theme that runs through this paper. Climate change – from the sudden shocks of increasingly severe disasters to what this report describes as the ‘accretion’ of threats from changing climate context – remains objectively the greatest challenge facing us all. But there are lessons we will inevitably need to take from the response to Covid-19 that will continue to be applicable to how we can strengthen vulnerable populations’ resilience to climate change. Perhaps too, there are lessons from this paper – on partnerships, long-term thinking, risk management and proactivity

in particular – that the sector would do well to keep in mind as it tries to mitigate the effects of the pandemic.

I would like to thank the consultants who supported e-MFP in the Award evaluation process, Carola Menzel-Hausherr and Alicia Rondón-Krummheuer from the Frankfurt School of Finance and Management, for all their hard work and valuable insights. Thanks also must go to our colleagues at InFiNe.lu, Luxembourg’s Directorate for Development Cooperation and Humanitarian Affairs within the Ministry of Foreign and European Affairs, all the members of the Selection Committee and the High Jury. Thank you to the e-MFP Secretariat who oversee the entire Award process each year and support the production of this paper. And finally, thanks to all 41 Award applicants – more than ever, we wish you and your clients the very best during such difficult times.

Christoph Pausch,
e-MFP Executive Secretary



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ADAPTING TO NOT ONE, BUT TWO NEW NORMALS

Crises can be acute or chronic – short and devastating shocks, or the accretion of more gradual threats. At the time of publication of this paper, the world is trying to navigate its way through the Covid-19 pandemic, a twin public health and economic shock that will devastate lives and livelihoods all around the world. As with all crises, the poor are more vulnerable to the consequences. Only time will tell how the pandemic will impact the lives of the financially excluded. But it's clear the financial inclusion sector will be transformed.

This crisis (and especially the mitigation measures that have brought economies to a standstill) fits into the first category – a sudden shock to businesses, institutions and households. And while the world at large and stakeholders across the sector are preoccupied with the pandemic, there still looms a crisis that more commonly falls into the second category – the more gradual 'accretion' of threats. And that of course is what's really the greatest crisis of all: climate change.

Climate change has certain commonalities with Covid-19. Undoubtedly, the increased severity and frequency of natural disasters shares elements with the public health shocks of a pandemic. But the adverse impacts

of anthropogenic climate change are heterogeneous and include a mix of sudden shocks and also negative trends: drought, flooding, storms, extreme temperatures; these and other climatic changes are occurring with greater frequency and intensity, increasing risks to health, livelihoods, food security, water supply, economic growth and human rights. And as these risks increase, so does the vulnerability of households, business, ecosystems and people, threatening to undermine sustainable development and efforts to eradicate poverty.

However, while the changing climate impacts all countries, sectors, and people, they are not all affected in the same ways. The severity of impacts,

levels of vulnerability and the ability to recover from climate shocks depend on many factors. Climate change is particularly threatening to communities that rely on agriculture, forestry and fisheries - all primary economic activities deeply affected by climate conditions. As with Covid-19, the most vulnerable to these changes are the poor and marginalised, including rural communities dependent on natural resources for their livelihoods and for food security, and also urban communities that are hit by more frequent and intense flooding and storms.

Many such communities live in countries whose limited economic and institutional capacities already limit their ability to cope in the





face of existing weather-related challenges, which climate change exacerbates. And their vulnerability goes far beyond their own well-being; the impact of climate change is expected to force more than 143 million people from these vulnerable areas to migrate to major cities and urban centres by 2050¹. These “climate migrants” would be additional to the millions of people already internally displaced for economic, social, political or other reasons.

Climate change impacts and responses are closely linked to both human rights and sustainable development, which balances social well-being, economic prosperity and environmental protection. The 2015 United Nations Sustainable Development Goals (SDGs) provide an established framework for assessing the links between global warming of 1.5°C or 2°C and SDGs that include poverty eradication, reducing inequalities, and climate action. For instance, SDG13 explicitly mandates “*urgent action to address climate change and its impacts,*” including strengthening resilience and adaptive capacity to

RESILIENCE refers to systems being climate-proofed for the future. It is the capacity of ecological, social, or economic systems to adjust in response to actual or expected climatic stimuli and their effects or impacts and “...refers to changes in processes, practices, and structures to *moderate potential damages or to benefit from opportunities associated with climate change.*”

(UNFCCC - United Nations Framework Convention on Climate Change)

climate-related hazards; improving education, and human and institutional capacity².

The path of climate change is uncertain, and depends greatly on the speed and scale of mitigation measures being put in place over the coming years. However, even in the most optimistic scenarios, climate change effects are unavoidable. Even under the most ambitious and optimistic progress on climate change mitigation, it's clear that *adaptation* to a changing climate must be a critical and parallel process.

Strengthening resilience to climate change requires investment at every level – country, community, and household. And to maximise the

effectiveness of these investments, they must often be accompanied by education and awareness-building. There are no ‘one-size-fits-all’ solutions to building climate change resilience. For example, at the household and community levels, which are the focus of this Award, some actions respond to a short payback period and may lead to a fast increase of household cash flow (e.g. drip irrigation), while others are long-term investments where the benefit received is not necessarily in the form of income, but mainly in the form of reduction of risks (e.g. coastline protection).

The types of solutions differ greatly. Responses that are common for the agricultural sector are, for example: adapting crops to shorter

WAYS TO STRENGTHEN

RESILIENCE include a) reducing the exposure to risks, b) reducing the sensitivity of systems to shocks (e.g. using drought-resistant crop varieties) and c) increasing adaptive capacity (e.g. modifying a system). Measures can be taken ex-ante, ex-post or during shocks and they comprise actions aimed at increasing resilience in ecosystems as well as in social and economic systems.

(FAO - Food and Agriculture Organisation)

1 *Preparing for Climate Migration*, World Bank, <https://openknowledge.worldbank.org/handle/10986/29461>

2 <https://www.undp.org/content/undp/en/home/sustainable-development-goals/goal-13-climate-action.html>

Sunita Narain's³ Keynote Address at the 2019 Award Ceremony



"Forgive me when I say that climate change, it would seem, could not happen at a worse time in human history. It is clear that

things are now spiralling out of control. Every year we are told is the hottest year, till the next year comes around. Then a new record is broken. It is getting worse. From forest fires, to increasing frequency and intensity of storms, to blistering cold waves and spiralling heat.

We know something is wrong. Very wrong. But we are so distracted ... we simply don't seem to have the bandwidth to handle it. But we must. The fact is that climate change is real; it is happening, and it is making the poor in our world more marginalized. The farmers, pastoralists and all the others who work the land, use the water and make a livelihood, are the worst impacted. They are the victims of climate change. The poor in the world have not contributed to the making of the problem. But let's be clear, their pain will make our world more insecure. And this is only going to get worse. This is why we need to act and act now.

The fact is that we are only just beginning to see the impacts of climate change. These will become even more deadly as temperatures continue to spiral and this spiral gets out of hand. It is also clear that today the poor in the world are the victims of this 'man-made' disaster – local or global. The rich do not die in sandstorms. The rich do not lose their livelihoods when the next cyclonic system hits. But the fact is that this weird weather is a portend of what awaits us. The change is not linear – it is not predictable.

It will come as a shock and we will not be prepared for it – either in the developing or developed worlds. Climate change at the end will be an equalizer. It will impact all.

It is also clear that increasing numbers of disasters because of growing intensity and frequency of weird and abnormal weather will make the poor poorer. Their impoverishment and marginalisation will add to their desperation to move away from their lands and to seek alternative livelihoods. Their only choice will be to migrate – move to the city; move to another country. The double-jeopardy, as I have called it, in the interconnected world is the push from lack of options to the pull (the 'bright lights' [of the city]) that suggest a choice for better futures. This will add to the already volatile situation of boat people and walls and migrant counting, which is making our world insecure and violent. This is the cycle of destructive change that we must fight. Our globalised world is interconnected and interdependent. It is something we must recognise.

So, we have to invest in the economies of the poor; we have to build their capacities so that they can, not just withstand the next calamity, but indeed overcome the calamity. For this, we must invest in creating ecological assets – from rainwater harvesting to better food systems that are resilient. We must also redefine what we mean by 'resilience' – high-input agricultural systems are often productive, but less resilient. Farmers are more vulnerable to shocks when their debts are high. We need, therefore, to understand the strength of small-holder agricultural systems that are multi-crop, low-input and built for shocks. We must strengthen those and not replace them with ours. The knowledge of the poor is not poor. They are illiterate but very resource literate. Our mission must be to learn - and to give."

³ Sunita Narain is the Director General of the Center for Science and Environment (CSE), India and Editor of the magazine *Down To Earth*. In 2016 she was listed as one of Time Magazine's Top 100 Most Influential People, in the category of 'Pioneers', <https://time.com/collection-post/4299642/sunita-narain-2016-time-100/>



growing seasons, greater water stress, or extreme heat; investing in efficient water management practices, including irrigation and terraces. For the livestock sector, changing the management of pasture and grazing may be a suitable response. For the forestry sector, solutions may comprise improving the management

of forest fires and pest/disease outbreaks through (for example) the introduction of resistant and native species. Other solutions that can be of value across sectors are building/improving drainage systems to manage more intense precipitation and building or reinforcing structures for greater wind and flood resistance. Across

all of these, a key part of building greater resilience is developing more integrated and responsive financial systems.

What these solutions have in common is *resilience*. Resilient households adopt risk-reducing measures that help mitigate the catastrophic consequences of shocks; they demonstrate preparedness for future economic shocks; and they are able to smooth consumption without resorting to costly coping strategies, such as taking on unsustainable levels of debt or selling productive assets. But resilience to climate change goes beyond managing shocks. It also entails adapting to permanently changed environments, for example a reduction in rainwater, a shift in the seasons, or higher temperature extremes. In both cases, access to financial services can help households to adapt.

THE EUROPEAN MICROFINANCE AWARD 2019



Climate change finance is among the most complex and diverse areas of inclusive finance. At the highest level, it includes two broad approaches: first, reducing the impact of humans on the planet, including (but not exclusive to) reduction and sequestration of carbon dioxide emissions. Within the inclusive finance sector, this includes reducing MFIs' carbon footprints, and providing finance to make more environmentally friendly energy alternatives like solar lighting available and affordable to clients, as well as making trees and forests - the great CO₂ "sponges" - more valuable when they are growing than when they are cut down.

The other main approach, defined in the previous section, is *resilience*, and refers to financial and non-financial products and services that help vulnerable populations adapt to a changing climate, safeguarding their livelihoods from increased frequency and severity of natural disasters and changing rainfall patterns and pestilence threats.

It is this second approach that the European Microfinance Award (EMA) 2019 sought to highlight. So, what can financial institutions actually do to increase the resilience of their clients – and themselves?

How can Financial Institutions Increase Their Clients' Resilience?

There is a broad range of financial and non-financial products and services that enable climate-resilient development in the financial inclusion sector and strengthen resilience to climate change among vulnerable populations.

Firstly, financial products and services can facilitate **access to capital**, via:

- **Specific loan products** that fund investments in climate-resilient farms and businesses (e.g. asset building and diversification) and non-income generating purposes (e.g. home improvement or emergency loans). Successful credit products feature terms and conditions aimed at encouraging more resilient practices, for example sustainable soil and water management practices;
- **Targeted saving products** with the specific purpose of promoting climate change resilience, for example, by enabling the target population to undertake longer-term asset investments, manage predictable expenses and deal with emergency situations through access to appropriate

savings products such as fixed-term deposits with the flexibility to allow withdrawal without penalty in cases of climate change-affected disasters;

- **Transfer & remittance facilities**, which facilitate the speedy and affordable sending and receipt of funds in emergency situations, ensuring recipients can purchase critical supplies, meet continuing obligations, or otherwise mitigate the effects of a climate change-driven event.

Secondly, financial products and services can help target populations **manage risk**, most commonly via:

- **Insurance products** to protect the livelihoods and investments of poor and vulnerable people against the adverse impacts of climate change. Examples may include index (or non-index) flood, weather, property, crop or livestock insurance - among others.

Thirdly, non-financial products and services can facilitate resilience and/or complement the financial products and services by **filling a capacity gap**, including via:

- **Awareness-raising and capacity building** concerning climate risks, such as technical assistance and training;
- **Encouraging development of and adherence to relevant standards** that

strengthen vulnerable populations' resilience to climate change, for example minimum building standards; and

- **Technologies** that enable institutions and target populations to strengthen clients' resilience, lower costs, help to identify and address sector-specific risks and barriers, forecast extreme weather events and trends, conduct climate risk assessments, and provide information tools for climate risk screenings.

All of these activities can be further leveraged through **partnerships**, such as with insurance companies, researchers, FinTech or other technical services providers that specialise in the causes and consequences of climate change among vulnerable populations, and the solutions to mitigate its effects.

Eligibility Criteria

Eligible applicants were organisations active in the financial inclusion sector that play an *integral* role in the provision of financial (and, where relevant, also non-financial) products and services focused on strengthening climate change resilience within low income, vulnerable and excluded groups. While many applicants directly provide financial products and services, those that do *not*

directly provide them had to play an *integral* and *ongoing* operational role in the project (for example, an agricultural NGO providing training and other support for clients investing in drought-resistant farming, funded through loans from a partner financial institution).

Eligible institutions had to be based and operate in a Least Developed Country, Low Income Country, Lower Middle Income Country or an Upper Middle Income Country as defined by the Development Assistance Committee (DAC) for ODA Recipients⁴. Relevant products and services had to be fully operational for at least one year. Finally, eligible institutions had to be able to provide audited financial statements.

Selection Process

In total, 41 applications were received from 27 countries. The organisations were diverse, comprising 18 non-bank financial institutions, 5 banks, 4 NGOs, 2 cooperatives/credit unions, 2 insurance companies, 2 networks/associations, 2 social enterprises, 2 companies, 1 technical service provider, 1 private foundation, 1 insurance broker, and 1 agricultural organisation. The initiatives they presented were diverse, including innovations in index insurance, improved agricultural practices, value chain development, enhanced nutrition, education, clean energy, use of

⁴ http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DAC_List_ODA_Recipients2018to2020_flows_En.pdf

technology such as geo data, and disaster preparedness. Moreover, the applicants overwhelmingly were based in countries of both high vulnerability and low readiness in terms of climate change adaptation. Figure 1 below shows the 2019 EMA applicants' positions on the GAIN-Index⁵. The **vulnerability score** reflects a country's exposure, sensitivity and ability to cope with climate related

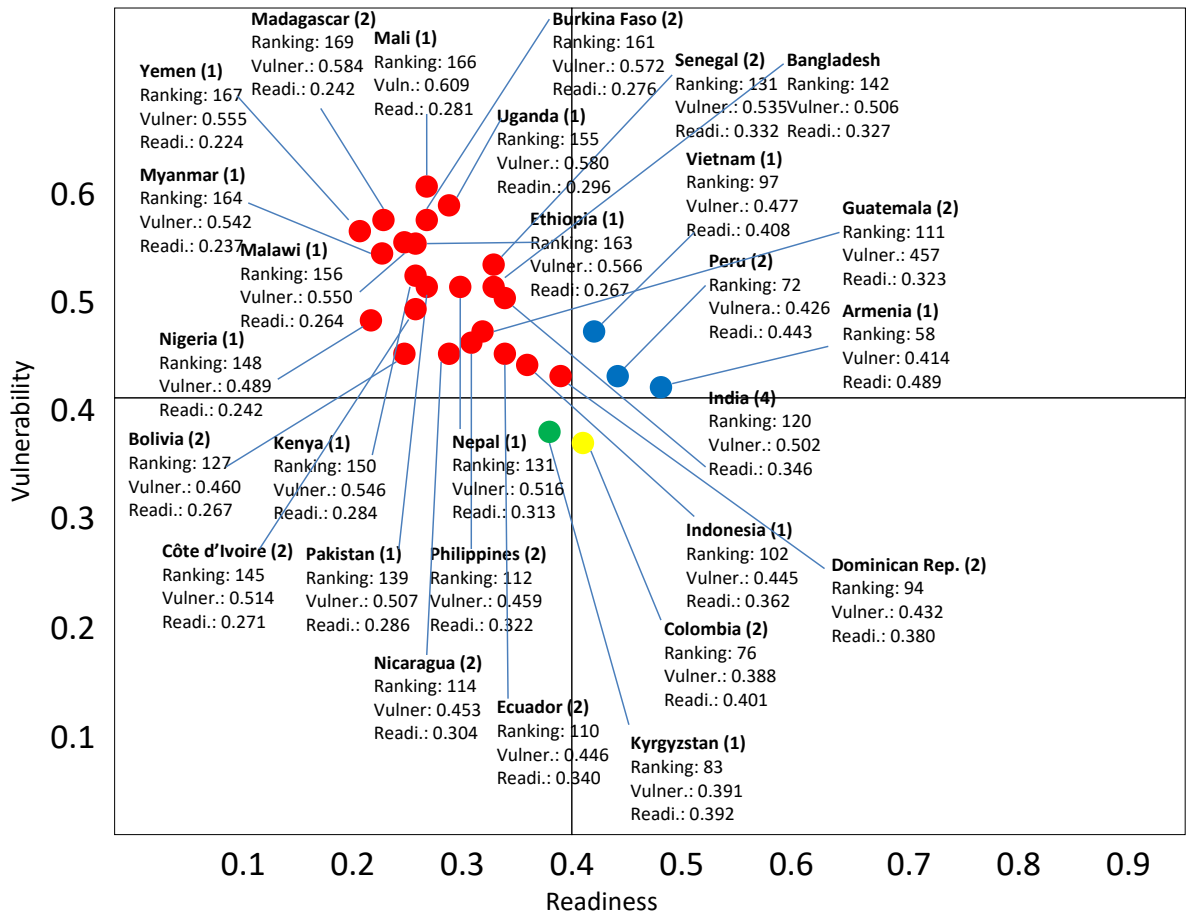
hazards; accounting for the overall status of food, water, health and infrastructure within the nation. The **readiness score** considers those portions of the economy, governance and society that affect the speed and efficiency of absorption and implementation of adaptation measures.

The vast majority of the Award applicants sit in the upper-left,

high vulnerability & low-readiness quadrant – revealing just how much resilience to climate change matters to these institutions and their clients.

18 applicants were selected for evaluation by the Selection Committee composed of 18 e-MFP and InFiNe.lu members, which chose ten semi-finalists and three finalists to proceed to the High Jury.

FIGURE 1: CLIMATE CHANGE VULNERABILITY AND READINESS WITHIN APPLICANTS' COUNTRIES



Source: GAIN Index (2019)

5 <https://gain.nd.edu/our-work/country-index/>

THE AWARD SELECTION PROCESS

41 APPLICATIONS FROM 27 COUNTRIES

Round 1

(short application form)

Committee composed of the e-MFP Secretariat and the Award consultants



26 APPLICATIONS FROM 18 COUNTRIES

Round 2

(more comprehensive application form)

Committee composed of the e-MFP and InFiNe.lu Secretariats and the Award consultants



18 PRESELECTED APPLICANTS

Selection Phase

Committee composed of e-MFP and InFiNe.lu members



10 SEMI-FINALISTS



3 FINALISTS

Final Phase

High Jury



WINNER



SEMI-FINALISTS, FINALISTS AND WINNER OF THE EUROPEAN MICROFINANCE AWARD 2019

Institution	Country	Category
APA Insurance Ltd	Kenya	Winner
ASKI Group of Companies, Inc.	Philippines	Finalist
Financiera Fondo de Desarrollo Local	Nicaragua	Finalist
Action for Social Advancement	India	Semi-finalist
Agronomika Finance Corporation	Philippines	Semi-finalist
Cooperativa de Ahorro y Crédito Fondesurco	Peru	Semi-finalist
Cooperativa de Ahorro y Crédito Norandino	Peru	Semi-finalist
Mukthinath Bikas Bank Ltd	Nepal	Semi-finalist
Tinh Thuong Microfinance Institution	Vietnam	Semi-finalist
VisionFund Myanmar	Myanmar	Semi-finalist

STRENGTHENING RESILIENCE TO CLIMATE CHANGE: THREE BROAD APPROACHES



The 41 initial applicants for the Award and the ten semi-finalists profiled in this paper represent a diverse and fascinating array of responses to an equally diverse range of climate challenges facing clients and the institutions themselves.

A full landscape of these interventions would be incomprehensibly complex – different institutions of many types with diverse initiatives and working in varied markets with different climate change contexts. Generally, however, we see three broad categories of intervention among the ten semi-finalists

(although these are not discrete silos, all initiatives fall into the first two categories, and several involve elements of more than one of the three categories).

The three categories of intervention are:

1. **Increasing Resilience to Unpredictable/High Impact External Shocks** - financial institutions look to mitigate the effects of sudden climate-related disasters on clients and their livelihoods;
2. **Helping Clients Adapt to a Changing Climate** - financial institutions focus on the long-

term adverse effects of climate change on clients, and provide products and services to help clients survive in a different context; and

3. **Strengthening Institutional Resilience** - financial institutions recognise the mutual interdependence of their own solvency and the financial health of their clients and focus too on systems and processes that manage and anticipate climate risks.

The following section will examine each of the three, and profile the Award semi-finalists that embody that approach.

1

INCREASING RESILIENCE TO UNPREDICTABLE/HIGH-IMPACT EXTERNAL SHOCKS



Unpredictable, high impact events – such as typhoons, catastrophic floods, massive wildfires – are an integral part of climate change and have been increasing both in severity and frequency.

The Philippines is particularly susceptible to typhoons.

ASKI – one of the three Award finalists – is an MFI in the Philippines that serves micro-entrepreneurs, farmers and fishermen in rural communities. Following massive typhoons in 2009, ASKI recognised the need for strengthening the disaster preparedness efforts within the institution and at the community level, to mitigate the effects of climate change. ASKI addressed these challenges both in terms of processes and products. This includes:

- The setup of a dedicated Disaster Risk Reduction Team;
- Publication in collaboration with its international partner and investor Oikocredit of a disaster risk reduction manual (DRRM): “12 Steps to Resiliency: A Guidebook on Disaster Risk Reduction and Business Continuity Planning for Microfinance Institutions”;
- Partnering with different stakeholders, including local government units, to conduct training for emergency response and disaster preparedness;
- The establishment of a resiliency fund from dedicated savings of ASKI clients, intended for relief and recovery in times of natural disaster;
- The setup of bridge loan products for heavily affected clients;

- The introduction of a Green Energy Loan programme (for solar lights and irrigation systems and biogas to increase resilience without generating GHG emission); and
- The enrolment of clients in microinsurance to mitigate the risks on the part of the clients and ASKI (e.g. via the Philippine Crop Insurance Corp and the Agricultural Guarantee Fund). In 2018, 566 out of the 1,488 farmers who signed up for crop insurance made claims, amounting to EUR 120,900.

ASKI's approach to increasing resilience to external shocks is notable for its holistic breadth, comprising insurance, resiliency funds, recovery and rehabilitation loans, staff capacity building and the collaboration with multiple partners, both local and international.



Also in the typhoon-susceptible Philippines, **Agronomika** is an MFI that serves approximately 750 clients (largely smallholder farmers, 30% of whom are women) with a range of agri-business loans. In cooperation with Kennemer Foods International (a local agri-business company and cacao exporter sourcing high-value crops from smallholder farmers), Agronomika has implemented a cacao-lending programme since the organisation was set up in 2016.

With a focus on new cacao trees, the initiative enables farmers to diversify existing farming (e.g. mixing short-term cash crops and coconut production with new cacao trees) and eventually increase farm incomes through multiple crops. Moreover, additional organic

ASKI Group of Companies, Inc.

The Philippines



ASKI Group of Companies, Inc. (ASKI) is an MFI in the Philippines created in 1987 that targets micro-entrepreneurs, farmers and fishermen - clients living in rural communities without access to larger financial institutions. The organisation provides dedicated credit products (e.g. for business purposes, housing and green energy, etc.), a savings product, and microinsurance and remittance services in partnership with third party agents to more than 113,000 clients. As well as financial products, ASKI offers complementary non-financial services, including financial education, basic entrepreneurship training and business development services, and preventive health services.

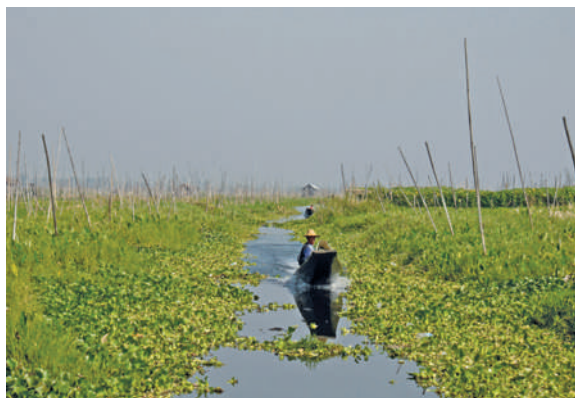
Besides frequent earthquakes, volcanic eruptions and tsunamis, the Philippines is significantly affected by climate change, in particular due to the increasing frequency and severity of typhoons, rising temperatures, rising sea levels, flooding and landslides. As a consequence, many of ASKI's clients experience severe damage or even total loss of their produce and assets/properties, which leads to bankruptcy and clients defaulting on their loans. On the institutional side, the portfolio impact on ASKI has been aggravated by more death claims, plus growing electricity and water operating costs due to heat waves.

matter from trees allows for an improvement of soil health and moisture. Farmers are able to generate natural defences for excessive droughts by increasing the water holding capacity of the soil. Improved maintenance and implementation of good agricultural practices help farmers to build their resilience to extreme weather.

While Kennemer provides technical support, training and coaching to the farmers, Agronomika has tailored its six-year cacao loan product and processes to farmers' cash flow in combination with crop insurance to protect clients from the effects of severe climate events. Agronomika aligns repayments with each harvest (i.e. only once the crop starts producing) and directly collects repayments through the sales of the cacao beans.

Agronomika stands out in building clients' resilience to unpredictable and high impact external shocks through its incentivisation of income diversification through promotion of multiple crops and encouraging smallholder clients to generate their own natural resilience against excessive drought by improving their soil's water retention capacity and implementing improved agricultural practices.

VisionFund Myanmar, established in 2014, is an MFI that serves more than 187,000 women in rural areas. As a consequence of climate change, like the Philippines Myanmar also experiences increasingly extreme weather events, including flooding, cyclones and tsunamis. To strengthen clients' resilience to external shocks and mitigate their negative coping mechanisms from disasters, VF-Myanmar has been



Agronomika Finance Corporation

The Philippines



Agronomika Finance Corporation (Agronomika) is an MFI based in the Philippines since 2016, serving approximately 750 clients (smallholder farmers, 30% women) with a range of agri-business loans. Climate change has had a significant impact on the lives of smallholder farmers in the Philippines who experience frequent crop losses and income volatility. Particularly erratic weather patterns that lead to periods of extreme droughts and rains also increase incidence of pests, diseases, degraded soil and crop failures.

As the occurrence of typhoons is increasing, smallholder farmers commonly do not have the means to strengthen their climate resilience and thereby secure their main income source. In Mindanao, the area of operations of Agronomika, agriculture and related services and industries account for 60% of the GDP and provide 57% of the total employment opportunities. Agronomika's long-term cacao farm establishment have been designed to alleviate the consequences of climate change faced by smallholder farmers, while 'nudging' clients towards diversified agriculture and improved agricultural practices to make them more resilient to extreme weather events.



relying on a mixed credit and insurance solution. Via the African and Asian Resilience in Disaster Insurance Scheme (ARDIS), an initiative of VisionFund International (VFI), VF-Myanmar receives and provides financial products coupled with operational services enabling the MFI to perform affordable and automatically-triggered recovery lending: providing loans to the affected community in the immediate aftermath of a disaster to recapitalise businesses, pay for emergency and household expenses, pay off old and new loans, whilst not becoming over-indebted. Disbursement of capital and credit from VFI is based on a climate derivative contract and a revolving line of credit that is triggered by natural hazard events. Fast recovery lending to the client is enabled by the provision of liquidity to VF-Myanmar from the ARDIS scheme in order to bolster its resources to cope with increased demand.

Clients are not insured *per se*, but they are the final beneficiaries. ARDIS is an alternative to insurance for clients who are unable to purchase insurance themselves; providing a climate indexed derivative product that backs up an indexed credit product and which enables MFIs such as VF-Myanmar to access capital and supply credit immediately after a natural disaster. ARDIS also provides advisory services to VF-Myanmar on recovery lending techniques, as well as aggregated climate data – useful for further lending decisions targeting the ultimate benefit of the clients. These advisory services currently take place when a disaster has happened, but ARDIS is developing a long-term and permanent education programme on recovery lending techniques and products.

VisionFund
Myanmar

VisionFund
MYANMAR



VisionFund Myanmar (VF-Myanmar), established in 2014, is an MFI serving more than 187,000 women in rural areas and is one of the largest MFIs in the country. As a consequence of climate change, Myanmar experiences increasingly extreme weather events; including flooding, cyclones and tsunamis. According to Germanwatch's Global Climate Risk Index 2019, Myanmar ranked as the third most exposed country to climate risk from 1998 to 2017, whilst suffering the most fatalities of any country in this time.

VisionFund serves mainly women in largely rural areas, most of whom are involved in agricultural or agri-reliant enterprises. Small-holder farmers whose existence depends on a consistent crop output are especially vulnerable to natural catastrophes. However, the decreasing yield of farmers leads to food insecurities and non-performing loans. As a result, clients have no resources to strengthen their resilience. Among others, they need insurance products to protect themselves, but 'traditional' insurance is not feasible for them. As part of the global ARDIS programme, VF-Myanmar purchases a climate-indexed derivative credit product specifically for typhoons as an alternative to traditional client-level insurance products, and which enables MFIs such as VF-Myanmar to access capital and supply recovery credit to clients immediately after a typhoon to help them cope in the aftermath.

VF-Myanmar is especially interesting among the semi-finalists as an example of local implementation of a global initiative, enabling new and vulnerable segments to receive the benefits of insurance via an index-linked instrument, protecting the institution as well as clients.

Disaster preparedness is also a key focus for **Tinh Thuong Microfinance Institution (TYM)**, an MFI in Vietnam operating in rural and coastal regions with around 154,000 clients, mainly poor and disadvantaged women. Its clients are especially vulnerable to the effects of climate change, with the risk of severe storms and high dependence on fishing. To support them and mitigate these consequential risks to the institution, TYM introduced in 2017 a disaster risk reduction (DRR) and climate change adaptation (CCA) programme, with a stated goal of ensuring sustainable livelihood of low-income women and families in coastal regions of Vietnam. The initiative started with improved awareness and capacity building for proactive preparedness and response to disasters and climate change risks (including changing habits, development of business continuity plans, identification and application of DRR/CCA measures, thereby ensuring supply chains and minimising economic losses in the medium and long-term).

TYM applies two-way communication practices with their clients, whose feedback is collected and forms the basis for TYM's review of products and services. The DRR/CCA programme to increase climate change resilience is one of TYM's responses to clients' specific feedback. TYM's initiative stands out for a real emphasis on prevention and institutional preparedness. So far, 64,601 poor and vulnerable low-income women in coastal areas have been trained on disaster risk and climate change. In almost all areas, women clients have established environmental protection teams. They become the "broadcasters" to update others on the weather situation and remind them to proactively prepare for natural disasters in order to minimize potential damages to their families. At least 30% of TYM's clients now integrate DRR/CCA measures into their own business strategies.

Tinh Thuong Microfinance Institution Vietnam



Tinh Thuong Microfinance Institution (TYM) is an MFI founded in 1992 in Vietnam, operating in rural and coastal regions with around 154,000 clients, mainly poor and disadvantaged women.

Vietnam is directly affected by an average of 7-10 tropical depressions and strong storms yearly. The impact of climate change affects all regions and business areas in Vietnam, however agriculture and fisheries suffer the most. 70% of Vietnam's labour force works in these sectors, as do most of TYM's clients. 80% of the population lives in rural and coastal areas which experience more extreme heavy rains, less predictable and unseasonal storms and floods, and erratic changes in environmental temperatures as well as recent and predicted sea level rises. The annual average temperature has increased by 0.5 °C within the last 70 years and the sea level has risen about 20 cm during the last 50 years. The population TYM serves is already experiencing significant economic losses - decreases in income, loss of life and property, and increasing exposure to food insecurity.

Non-Financial Services

Virtually all the Award semi-finalists incorporate non-financial services (NFS) in their climate resilience initiative, recognising that financial products may be necessary to strengthen resilience, but are seldom sufficient.

Examples of NFS are varied. Norandino focuses on financial education, offering workshops on budgeting, financial goal-setting, savings and debt advice. These are complemented by community savings groups, self-managed by women, that seek to promote economic, financial and social inclusion and empowerment among climate-vulnerable groups. Also in Peru, Fondesurco promotes climate adaptation practices to clients via a "Demonstration Farm" at which clients are taught 10 measures of climate change adaptation. Participants 'learn by doing', promoting the implementation of the measures in their own smallholder farms. There is also specialised training offered in agricultural productivity (livestock, agriculture and trade) and health (nutrition, nursing, dentistry, ophthalmology, obstetrics, and general medicine) and a 'Festival of Progress' which brings clients, former clients and their families together to build cooperative links through various activities.

Training is also key to Muktinath's approach. Since 2014 the bank has been training its clients and staff in climate smart technology. Agronomika also provides clients with technical assistance support on developing agricultural value chains.

TYM likewise provides a range of NFS to clients. Since 2017, it has provided, free to the client, training sessions on prevention and response to natural disaster risks and climate change; capacity building for women to develop business plan continuity, with identification of Disaster Risk Reduction/Climate Change Adaptation (DRR/CCA) measures, to maintain supply chains and minimise economic losses from climate disasters; and consultancy services at home for TYM clients working in industries particularly affected by natural

disasters – such as fishing, and marine aquaculture – in order to help them identify and integrate DRR and CAA measures into their businesses. TYM also supports women in joining agricultural value chains to increase sustainable business development.

ASA in India has a comprehensive range of NFS too. Among other activities, ASA trains Community Resource Persons (active community members who can pass on their own training in millet production practices); trains local farmers on topics ranging from seed sampling and biodiversity management to millet purchasing, grading and usage; and facilitating market linkages for clients.

Two of the finalists, ASKI and FDL, offer among the broadest ranges of non-financial services support among the applicants. ASKI has developed, in partnership with Oikocredit, a '12 Steps to Resiliency' guidebook on 'Disaster Risk Reduction and Business Continuity Planning for Microfinance Institutions'; offers training to clients and staff on humanitarian response and disaster preparedness in partnership with PLAN International; and supports affected clients with a disaster hotline, SMS system and social media to communicate evacuation warnings and other situational reports to clients before and during disasters such as typhoons.

FDL provides a considerable range of technical assistance (TA) services to clients, including training and group formation in producer schools; Diversified Agroforestry TA for coffee and cocoa to increase productivity, capture carbon, reduce emissions, and improve the resilience of agroforestry systems and the farmers' livelihood; specific TA for adaptation to climate change in the Dry Corridor; silvopastoral TA for cattle and milk producers; a combining of TA with payments for ecosystem services (bio Awards) for subsistence farmers' forest enrichment; and developing ecosystem resilience via multi-actor diploma programmes on strategies for municipal transformation to better face climate change.

2

HELPING CLIENTS ADAPT TO A CHANGING CLIMATE



In the opening part of this paper, we drew distinctions between on the one hand the low frequency/high impact shocks caused by climate disasters (even if that low frequency is increasing) and on the other the steady accretion of adverse effects that threaten clients and their livelihoods. Examples of this include increasingly erratic rainfall patterns (with consequent harvest failures), new pests, soil erosion and desertification. Several of the semi-finalists' climate change initiatives focus on responding to this second category of challenges.

APA is the winner of the EMA 2019 and one of the leading general insurance companies in Kenya. Climate change is profoundly affecting Kenya farmers due to their low resilience to climate shocks and dependence on rain-fed agriculture – especially through the increased frequencies of flooding and droughts and changing rainfall patterns. The effect on the institution was significant too, from deterioration of its investment portfolio, including securities of other financial

institutions, and record insurance losses due to weather related events.

APA has responded to this need with two products – an Index Based Livestock Insurance (IBLI) and an Area Yield Index Insurance (AYII). IBLI insures pastoralists against forage (food for grazing livestock) deterioration due to droughts that result in livestock deaths. Between 2015 and 2018, APA insured 37,034 pastoralists and paid approximately EUR 5.37 million in claims under this programme. With the help of this solution, pastoralists are now able to buy forage to keep livestock alive or transport them to better grazing places during droughts.

The AYII product pays out claims to farmers when the average yield in their area falls below a set level, regardless of the actual yield on each client's farm. AYII protects farmers against the damage to the insured growing crops due to excessive rainfall, flood, frost, hail damage, excessive heat wave, windstorm, pestilence, disease and drought. APA insured 582,504 farmers

under this scheme from 2016 to 2018 and paid claims amounting to EUR 826,106, which provide financial support to farmers in the event of losses arising from major agricultural shocks, minimising or eliminating the need for emergency assistance provided by the government during periods of agricultural disasters.

IBLI as well as AYII were initially promoted by the Government of Kenya's Ministry of Agriculture, Livestock and Fisheries and the World Bank. At present, APA works with multiple partners; including the State Department of Agriculture (that provides a premium subsidy for APA's agri-insurance), international reinsurers (including SwissRE that helped with product design and claims management), international development organisations (that are involved in strengthening the agriculture sector) and on-the-ground financial institutions, crop aggregators, and seed and fertilizer companies.

APA's initiative to help clients adapt to a changing climate stands out because of the particular challenges of serving pastoralists (especially with insurance); the partnership with government (for which the subsidies cost much less than the costs of a huge smallholder segment suffering failing crops); and adoption of the 'pooled' approach, with multiple insurers working collaboratively to aggregate resources to develop a local market, attract international investors, ensure higher net retention within the country (reducing risk for re-insurers), and build trust by increasing the number of stakeholders committed to the programme's success.

In contrast to APA's international approach, **ASA** of India focuses locally, partnering with financial institutions to facilitate access to finance even though it does not provide those financial services directly. Rather, ASA supports the 165,000 end-clients of its partners (predominantly farmers and value chain stakeholders, including indigenous communities) by strengthening their capacity to manage risks associated with climate change, poor nutrition and economic disempowerment.

To help clients adapt to a changing climate and empower them in risk management, ASA launched a solution linking the agro-biodiversity value chain, climate adaptation and nutrition. This includes:

APA Insurance Ltd Kenya



Established in 1977, APA Insurance (APA) is one of the leading general insurance companies in Kenya. It serves around 650,000 clients, both individuals and corporates across the country with a wide range of insurance solutions.

Over 75% of Kenyan farmers are smallholder subsistence farmers who are highly vulnerable to the economic effects of natural disasters. Microinsurance, agriculture and livestock insurance products are therefore of strategic importance for APA. They are distributed through financial institutions, farmers' organisations, cooperatives, individual agents, brokers, agriculture input suppliers, as well as government and international development organisations.

The agriculture sector is the main source of livelihoods for the majority of Kenyan people in terms of economic growth, employment creation, off-farm employment, and also foreign exchange earnings, and contributes greatly to food security. However, climate change is profoundly affecting these largely subsistence smallholders due to their low resilience to climate shocks and dependence on rain-fed agriculture; increased frequency of flooding and drought leads to significant decline in crop yields and livestock numbers as water resources become increasingly scarce, and results in low productivity and food insecurity.



- Developing better conservation and management practices;
- Using stress-tolerant varieties of traditional crops and leveraging the adaptation potentials of diverse crop species in mixed production systems; and
- Improving clients' abilities to produce, process and commercialise biodiversity-based products.

The initiative, piloted over 2013 and 2014 and rolled out in 2015, operates in Mandla and Dindori districts, which has a 80% tribal population dependent on agriculture for livelihoods. ASA has collaborated with the agriculture research institute of a local university, which has been working on identifying climate-resilient seeds appropriate to the local environment. Other important partners are the financial institutions which facilitate access to finance as well as Farmer Producer Organisations that serve as a platform for the delivery of services and credit, including provision of "breeder category" seeds and other farming products and equipment for producers and community members. ASA has also developed a "responsible and sustainable agriculture code" for promoting organic agriculture and agrobiodiversity conservation projects, which is validated by third party institutions.

ASA's initiative stands out for keeping communities at its centre, with a special focus on indigenous communities – strengthening the capacities of indigenous farmers to assess, document, monitor, conserve and manage stress-tolerant varieties of traditional crops for their effective deployment in value chains and resilient livelihood strategies.

Action for Social Advancement India



Action for Social Advancement (ASA), established in 1996 in India, is an NGO that partners with financial institutions to facilitate access to finance, but does not provide those financial services directly. Rather, ASA supports its 165,000 clients - female and male farmers and other value-chain actors (including indigenous communities) - and strengthens the capacities to manage risks associated with climate change, poor nutrition and economic disempowerment.

ASA's operational area in the central and central east region of India is affected by climate change; particularly due to increasing variability of rainfall. Drought and excessive rainfall lead to soil erosion and decreased (and disappearing) crop yields. The agricultural sector, which is dominated by smallholders and the main livelihood source especially for the tribal population, is particularly vulnerable. Food security is threatened, and migration is increasing.

FDL, one of the three EMA 2019 finalists, is an MFI in Nicaragua that has responded to the consequences of climate change by providing local interventions to increase not only the resilience of its clients, but also the resilience of the ecosystem. To tackle these issues, FDL has designed the “Green Microfinance-Plus” programme, which aims to consolidate the quality and scope of client resilience through multi-actor synergies and increasing the resilience of territorial ecosystems.

FDL’s “Green Microfinance-Plus” programme reduces transaction costs, combines technical assistance with payments for ecological services and adapted loans (e.g. for water-harvesting and irrigation systems, silvopastoral arrangements that allow for the intensification of cattle production based on natural processes) and agroforestry system developments, livestock intensification, pasture improvement, seed management and diversification and soil conservation).

FDL currently offers three “Green” Financial Products, all of which are accompanied by technical assistance:

- Since 2009, loans have been provided for green microfinance in the coffee/cacao highlands;
- Since 2015, loans have been provided for the Dry Corridor (a part of the country especially prone to unstable cycles of drought and flood, increasingly extreme temperatures, desertification); and
- Since 2013, loans have been provided for agroforestry-related income diversification activities (e.g. establishing cocoa and coffee plantations as tree/shade balancing areas for corn and bean production) in the buffer zone between farms and forest reserves.



Financiera Fondo de Desarrollo Local Nicaragua



Established in 1997, Financiera Fondo de Desarrollo Local (FDL) provides financial services to more than 63,000 urban and rural people in Nicaragua: predominantly urban micro-enterprises, SMEs, salaried workers and rural communities.

Climate change affects the whole economy but the agricultural sector (such as coffee growing) in particular struggles due to irregular cycles of droughts and floods, increasingly extreme temperatures, and desertification. This leads to an increasing vulnerability and decreasing resilience of farmers, as crops face various problems including early flowering, rust and disease, which are reducing yields and the farmers’ incomes. Without relevant information on how to adapt to changes and/or credit constraints for required investments, farmers are not able to strengthen their resilience.

The financial products offered by FDL include those for housing improvement, subsistence agriculture and animal husbandry, coffee plantation, and livestock, and green investments (addressing climate change adaptation in agriculture, livestock, coffee, silvopastoral livestock, water conservation and harvesting, irrigation systems and productive diversification).

Non-financial services include productive and commercial technical assistance; training and group formation in producer schools; development of new products; capacity-building of staff on local development; and certification programmes for local actors.



FDL's initiative stands out for really seeking to change the context in which its clients live, rather than being purely responsive to external threats. The institution has a strong, ongoing learning process with active feedback from high-touch relationships with clients, extensive non-financial services to complement the financial products, and a holistic view of environmental factors (for example, an unwillingness to promote cattle farming as an alternative to coffee because of the environmental impacts from grazing). Particularly interesting is FDL's decision to re-engineer its financial products and restructure its capacity to facilitate producer resilience in the coffee highlands and in the Dry Corridor through improved technical assistance and reduced costs.

Climate change has also been affecting Nepal and its farming communities in particular. In response, the Nepalese bank **Muktinath** introduced a Climate-Smart Agriculture (CSA) microloan. Through its partner iDE, bank staff have been trained in climate smart technologies, raising awareness among clients and staff of the effects of climate change, an approach that Muktinath is replicating in commercial lending via its climate smart Improving Agriculture Loan.

The effects of CSA microlending are impressive: an internal randomised survey in September 2017 suggested that a single investment in climate-smart farming technology reduced farmers' losses by 70%, and increased production and income by 250% on average compared to a control group.

While focusing initially only on two essential cash crops in the region of operation (cucumber and tomato),

Muktinath Bikas Bank Limited Nepal



Muktinath Bikas Bank Limited (Muktinath) is a Nepalese bank established in 2007 and serving 516,000 clients. Nepal is directly affected by the impact of climate change; including drought, landslides and floods. In recent years, the frequency of uneven climatic events such as erratic rainfall, rising temperature, hailstones, drought and hurricanes have significantly increased. This has led to increased vulnerability - especially of farmers' livelihoods, as they mostly depend on the traditional climate calendar for their farming, but they have little or no protection against the adverse climate.

In response, Muktinath has designed a micro-loan for improved climate-smart agricultural (CSA) practices. Since 2014, this initiative aims to minimize the effects of climate change on smallholder farmers (who are usually based in very remote locations) through the use of relevant technologies and techniques (including poly-house, drip irrigation, and varieties of resistant seeds). Muktinath also provides training to beneficiaries on various climate smart technologies, including Integrated Pest Management (IPM) products and adjusting the seasonal calendar for cropping.



Muktinath's CSA initiative stands out as an unusual intervention for a regulated bank, and is holistic, with its adjusted financial products alongside technical assistance and training.

Fondesorco is a Peruvian cooperative working in remote rural areas. To address the problem of climate change and the consequences to its clients, in 2012 Fondesorco introduced an internal Environmental Management System (EMS) and green lending products for sustainable practices. These include climate change adaptation measures such as ecosystem-based adaptation measures (a nature-based solution that harnesses biodiversity and ecosystem services to reduce vulnerability and build resilience to climate change) to reduce climate risks, alongside mitigation measures such as promotion of environmentally friendly technologies (renewable energy and energy efficiency products).

Fondesorco provides its various non-financial services in the form of capacity building for adaptation measures to climate change, including training with modules on Productivity and Good Agricultural Practices and development of a "demonstration farm", with education modules on beekeeping, agricultural terraces, conservation agriculture, hydroponics, bio-gardens, greenhouses, worm compost, water reservoirs, mixed nurseries, and integrated pest management, and tailored support for clients. Much of this began in 2012, during which climate-related changes led to a significant portfolio deterioration (with write offs of over US\$1.2 million) which threatened the viability of the cooperative.

Cooperativa de Ahorro y Crédito Fondesorco

Peru



Cooperativa de Ahorro y Crédito Fondesorco (Fondesorco) is a Peruvian cooperative formed in 1994 with the mission of increasing financial inclusion in remote rural areas. It provides financial products and services to more than 26,000 members.

Peru is among the countries most affected by and vulnerable to climate change. Across the Andes that make up much of the country, multiple mountain ranges are losing their glaciers to melting brought about by climate change. This results in a number of downstream effects, including flooding, topsoil erosion and rising sea levels, which in turn increase coastal erosion and storm surges as warming air and ocean temperatures create more frequent and intense coastal storms. In addition, torrential rains, exacerbated by the coastal El Niño phenomenon, cause physical damage and changes in the ecosystem. Agricultural production accounts for 44% of Fondesorco's portfolio and their clients' homes, equipment and fields and harvest are already affected, even up to total loss.

Because Fondesorco recognises the precariousness of the livelihoods of the highly vulnerable clients it serves and the associated risks to its own portfolio, the cooperative introduced new software, with an Environmental Management System to proactively identify clients' climate risks and map out potential response methods.

The final example for MFIs helping clients adapt to a changing climate is also a cooperative in Peru – **Norandino**. Its members' livelihoods are suffering through temperature increases and variations in the frequency and intensity of precipitation, which increases vulnerabilities and uncertainties for coffee growers and leads to increased pests and diseases. In response, coffee growers have been migrating to higher areas and changing land use, causing deforestation. Norandino's response to these challenges is the rehabilitation and renovation of climate change-resilient coffee groves in the areas of Jaén and San Ignacio in northern Peru.

In January 2016, Norandino, with the financial support of its international partner and investor Hivos Triodos Fond, implemented the "Renovation" credit product aimed at small coffee growers that are affected by yellow rust and that are willing to shift to organic agriculture and fair-trade programmes. In January 2018, 13 credit advisors were trained as '*extensionistas*' – agents focused on rural development processes. The lending product allows low cost investments up to 5,000 soles (~EUR 1,320) to rehabilitate or to renew half a hectare of coffee, with a 36-month term, repaid in three annual instalments.

This product helps and encourages farmers to diversify; for instance, adding trees, crops and animals with the aim of improving food security and generating additional income. Such shade management with timber trees can also help improve soil fertility and conservation while helping to comply with organic production standards.

The effects of climate change clients translate to threats to institutional resilience as well. Norandino's portfolio is 75% agricultural, of which 90% is coffee and cocoa crops and much of which has been affected by yellow rust. Norandino's initiative is particularly notable for its strong training of loan officer staff and agents – the '*extensionistas*' – in rural development processes, and the use of behavioural insights to promote new practices among its clients.

Cooperativa de Ahorro y Crédito Norandino

Peru



Cooperativa de Ahorro y Crédito Norandino (Norandino) is a cooperative formed in Peru in 2005, providing savings and credit products to more than 22,500 members. Norandino also offers non-financial products such as financial education training (budgeting, financial goals, savings and debt) and has created Community Savings Groups, self-managed by women seeking economic and financial development, social inclusion and empowerment.

Peru's change in climate is experienced through temperature increase, variation in frequency and intensity of precipitation, which increases vulnerabilities and uncertainties for coffee growers and leads to increased pests and diseases, migration of coffee growers to higher areas and land use change. The quality of the coffee beans is decreasing, which makes it less competitive and therefore increases poverty. Small producers are particularly affected by the reduction or loss of productivity and income. Norandino's members in particular are facing the effects of climate change on the quality and quantity of coffee produced; soil erosion from coffee plantations planted on unmanaged slopes; increased pestilence and disease; and decreased food security from the threats to the high-dependency coffee mono-culture.

Partnerships

Perhaps in more than any other area of financial inclusion, partnerships are critical. Climate finance touches on various disciplines and technical areas – agronomy, meteorology, risk, housing, materials sciences, education and relief management, among others. The climate resilience initiatives of the EMA semi-finalists involve partnerships with various stakeholder groups who offer the necessary support to financial institutions whose core expertise is more typically enterprise and household credit.

Universities and other research bodies play an important role. Since early 2019, Agronomika and Kennemer Foods International have partnered with Triple20 B.V, a research consultancy established within Wageningen University in the Netherlands, which has a strong focus on technology development and sustainable agri-value chains. ASA works with various agriculture research institutes who play a crucial role in developing and providing specific varieties of resistant seeds. Muktinath partners with Frankfurt School of Finance and Management, which provides support via staff training and capacity building on climate-smart technologies, product development and market research.

Producer organisations play an important role in climate-resilient agri-finance. ASA works with four very active Farmer Producer Organisations (FPOs), all of which function as community-led and owned platforms for delivery of services under the supervision of ASA. ASA facilitated the FPOs in accessing credit facilities from Nabkisan Finance Ltd., a financial institution itself supported by the Indian government entity, the National Bank for Agriculture and Rural Development (NABARD).

Government entities can be direct partners as well. The Kenyan State Department of Agriculture provides to APA a premium subsidy for its agriculture insurance products. TYM works with several Vietnamese government entities, including the Banking Policy Strategy Institute within the State Bank of Vietnam, a partnership which has led to a review of credit policies in the country to include resilience standards (to help borrowers comprehensively respond to the disaster risks).

Beyond central banks, other **financial partners** support the financial institutions on climate resilience. ASA works with Sammunati Finance Limited for its working capital requirements for commodity trading as well as direct linkages of farmers for input credit support. APA works with several reinsurers on product design, pricing, claims management, staff training and market development.

International organisations of various types – DFIs, NGOs and multilateral agencies among them – support MFIs as well. APA is notable in this regard, working with the World Bank, GIZ, FSD Africa, the ILO Impact Insurance Facility, the World Food programme, USAID, Red Cross, Mastercard Foundation and One Acre Fund. Fondesurco receives technical assistance from ADA (a Luxembourg-based NGO), MicroEnergy International and EnDev/GIZ via the Fondenergia initiative to expand access to renewable energy solutions in Peru, as well as via the UNEP Microfinance for Ecosystem-based Adaptation (MEbA) project.

VF-Myanmar has a different partnership model, sitting as it does within a **global network** of affiliate MFIs receiving support under the VFI umbrella. VF-Myanmar has tested its recovery lending methodologies via projects funded by Livelihoods and Food Security Trust Fund (LIFT) and the UK's Department for International Development.

Finally, the three finalists all distinguish themselves with a diverse depth and breadth of partners with different specialisations. APA's various partners have been mentioned above. ASKI has a long-standing partnership with Oikocredit (including development of the DRRM guidebook), as well as the CADYNAMCU Credit Cooperative, the Philippine Crop Insurance Corporation and Pioneer-CARD Crop Insurance, and Habitat for resilient house designs.

And FDL also has many partners, but a tripartite consortium stands out: Nitlapán, the Institute of Research and Development of the Universidad Centroamericana de Nicaragua which began the microfinance programme; the Local Development Fund Association-NGO; and FDL Financiera, the financial arm of FDL which was established in 2016.

3

STRENGTHENING INSTITUTIONAL RESILIENCE



Protecting vulnerable clients matters little if the institutions that serve them are vulnerable too – either to the direct effects of climate change (such as property destruction from natural disasters) or, more commonly, from portfolio deterioration, liquidity constraints and/or insolvency stemming from the primary effects of crises on clients and their capacity to repay. This very situation is playing out during the Covid-19 pandemic, with large numbers of poor households and the MFIs that serve them struggling for survival. Ensuring institutional resilience, therefore, must be part of any measure to strengthen the resilience of clients. While this is true for all institutions – including all the semi-finalists – ASKI and VF-Myanmar in particular have taken steps to also increase their institutional resilience.

For **ASKI**, the consequences of climate change's effect on its clients have been significant, with death claims due to excessive heat, increasing operating costs in

electricity and water consumption due to growing heat waves, and portfolio deterioration. The institutional resilience response to this is visible in the establishment of the Disaster Risk Reduction Team and the business continuity focus in the Disaster Risk Reduction Manual, as well as the ambitious introduction of microinsurance for clients through the Philippine Crop Insurance Corporation and the Agricultural Guarantee Fund.

VF-Myanmar also has experience with the consequences of extreme weather events on the institution itself, in a country among the most affected by climate change in recent years. For this reason, with the support of VF-International, since 2018 VF-Myanmar has been part of the ARDIS scheme, which serves to mitigate portfolio risks to the institution via a parametric insurance facility that provides recovery loans to clients who would not be able to access insurance on their own.

FACTORS FOR SUCCESS



As the three preceding sections of this paper show, the responses to the challenge of climate change are as varied as the threats of climate change itself. The ten semi-finalists offer credit, savings



insurance and other financial products for vulnerable clients in many industries and with different needs. They include mitigation as well as adaptation measures; staff capacity building as well as financial education to clients. They involve incentives to plant different crops, or purchase fertiliser or adopt new farming practices. They involve both responses to climate-driven natural disasters – for example through relief and recovery lending – to encouraging new activities and attitudes to maintain livelihood development in a changing climate. And institutions cannot strengthen clients' resilience if they themselves are vulnerable – so in various ways, they too must adapt to a new normal.

Nevertheless, despite the heterogeneity of the semi-finalists, there are a few common factors

that mark their initiatives out for excellence. First, and as the box on page 30 illustrates, no financial institution can strengthen vulnerable clients' resilience alone. They need **partners** – from government, funders, researchers, international organisations and others.

Second, all the semi-finalists' initiatives share high **client-centricity, and demand-side product development**. Each started from looking at how climate change adversely affects clients and working out what they will need to be able to adapt, and then – and only then – what can be done to provide it.

Third is a hard concept to measure – but easy to observe – and that is strategic **embeddedness**. Institutions working in vulnerable countries with client segments highly sensitive to climate change cannot 'tack on' climate resilience products as an afterthought, or to impress funders. It must be highly embedded in the strategic planning of the organisation, with buy-in from staff all the way to senior management and board. It should be reflected in organisational KPIs, product design, communications and risk management.

A mixture of **long-term and short-term planning** is needed, too. Like Covid-19, climate change moves both quickly and slowly – with sudden impacts like severe typhoons, and slower-building



crises like more frequent crop failures. Recognising the impacts and preparing as much as possible for both requires a perception of risk that anticipates low frequency/high impact and high frequency/low impact outcomes.

Strong responses are also **proactive**, rather than reactive. This means, as well as planning and anticipating the consequences of climate change on existing clients,

also identifying which segments are most affected and reaching out (and reaching down the economic pyramid where possible) to serve and protect new clients too. This means really taking the time to understand the nature of the challenge, who it affects, and what they need.

Related to proactivity and embeddedness is the final factor for success: a response or intervention

that is a greenfield initiative – **built from the ground up**, rather than solely tweaking or retrofitting existing microfinance products. Climate change requires thinking beyond traditional enterprise or consumer microfinance. The ten semi-finalists from the EMA 2019 all illustrate how new thinking can really work.



ABOUT THE EUROPEAN MICROFINANCE AWARD



The European Microfinance Award is a prestigious annual award with €100,000 for the winner and €10,000 for the runners-up, which attracts applications from organisations active in financial services around the world that are innovating in a particular area of financial inclusion. The Award was launched in 2005 by the Luxembourg Ministry of Foreign and European Affairs – Directorate for Development Cooperation and Humanitarian Affairs, and is jointly organised by the Luxembourg Ministry of Foreign and European Affairs, the European Microfinance Platform (e-MFP) and the Inclusive Finance Network Luxembourg, in

cooperation with the European Investment Bank. It serves two parallel goals: rewarding excellence and collecting and disseminating the most relevant practices for replication by others.

Previous editions addressed the following subjects:

- **2018, Financial Inclusion through Technology**

How can FSPs leverage technology innovations to improve efficiencies and service quality and increase outreach to new, excluded populations?

Winner: Advans Côte d'Ivoire (Ivory Coast), for its digital

savings and payment solutions for cocoa farmers and cooperatives, and their small digital school loans for farmers.

- **2017, Microfinance for Housing**

Can MFIs respond to the complex housing needs of low income and vulnerable populations, helping them access better quality residential housing?

Winner: Cooperativa Tosepantomin, for its holistic housing programme serving rural communities and promoting environmental responsibility.



- **2016, Microfinance and Access to Education**

How can MFIs increase access to education for children, or provide skills training for youth and adults to enhance their employment and self-employment opportunities?

Winner: Kashf Foundation (Pakistan), for its programme to serve low-cost private schools.
- **2015, Microfinance in Post-disaster, Post-conflict Areas & Fragile States**

What can MFIs do in order to operate in exceptionally difficult environments and circumstances, helping increase the resilience of the affected communities?

Winner: Crédit Rural de Guinée S.A (Guinea), for its innovative response to the Ebola outbreak in Guinea.
- **2014, Microfinance and the Environment**

Is it possible to integrate environmental governance into the DNA of MFIs and promote initiatives to improve environmental sustainability?

Winner: Kompanion (Kyrgyzstan), for its Pasture Land Management Training Initiative.
- **2012, Microfinance for Food Security**

Which microfinance initiatives contribute to improving food production and distribution conditions in developing countries?

Winner: ASKI (The Philippines), for serving smallholder farmers and fostering effective market linkages.
- **2010, Value Chain Finance**

What are the outstanding microfinance initiatives in productive value chain schemes?

Winner: Harbu (Ethiopia), for an initiative financing a soybean value chain.
- **2008, Socially Responsible Microfinance**

What innovative initiatives can MFIs undertake to promote, measure and increase the social performance of their activities?

Winner: Buusaa Gonofaa (Ethiopia), for the development of its client assessment system.
- **2006, Innovation for Outreach**

What are breakthrough initiatives within microfinance that deepen or broaden rural outreach?

Winner: The Zakoura Foundation (Morocco), for its programme on rural tourism.

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Down To Earth

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The inclusive finance sector has been actively supported by Luxembourg's Directorate for Development Cooperation and Humanitarian Affairs of the Ministry of Foreign and European Affairs over the last 20 years. The Ministry works closely with civil society stakeholders and networks specialised in microfinance to fund conceptual innovation, research and the development of new tools as well as political action in national and international fora, by focusing particularly on integrating the most vulnerable into the financial inclusion sector. Long-term commitment and strategic support have led to Luxembourg being globally recognised as a centre for financial inclusion.



The European Microfinance Platform

www.e-mfp.eu

The European Microfinance Platform (e-MFP) is the leading network of European organisations and individuals active in the microfinance/financial inclusion sector in developing countries. It numbers over 130 members from all geographic regions and specialisations of the microfinance community, including consultants & support service providers, investors, FSPs, multilateral & national development agencies, NGOs and researchers.

Up to two billion people remain financially excluded. To address this, the Platform seeks to promote co-operation, dialogue and innovation among these diverse stakeholders working in developing countries. e-MFP fosters activities which increase global access to affordable, quality sustainable and inclusive financial services for the un(der)banked by driving knowledge-sharing, partnership development and innovation.



Inclusive Finance Network Luxembourg

www.InFiNe.lu

The Inclusive Finance Network Luxembourg Asbl (InFiNe.lu) was created in March 2014 and is supported by the Luxembourg Ministry of Foreign and European Affairs – Directorate for Development Cooperation and Humanitarian Affairs. The uniqueness of InFiNe.lu is to bring together key stakeholders from the public, private and civil society sector in Luxembourg around the common objective of promoting financial inclusion. The network includes 34 members. InFiNe.lu aims to develop knowledge and expertise by stimulating exchange and collaboration amongst its members and capitalises on Luxembourg's leading position in the financial and development sectors.



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