Developing Pro-poor Climate-Resilient Financial Services

Community Resilience Partnership Program (CRPP) Partnership Forum 2025

26th February, 2025

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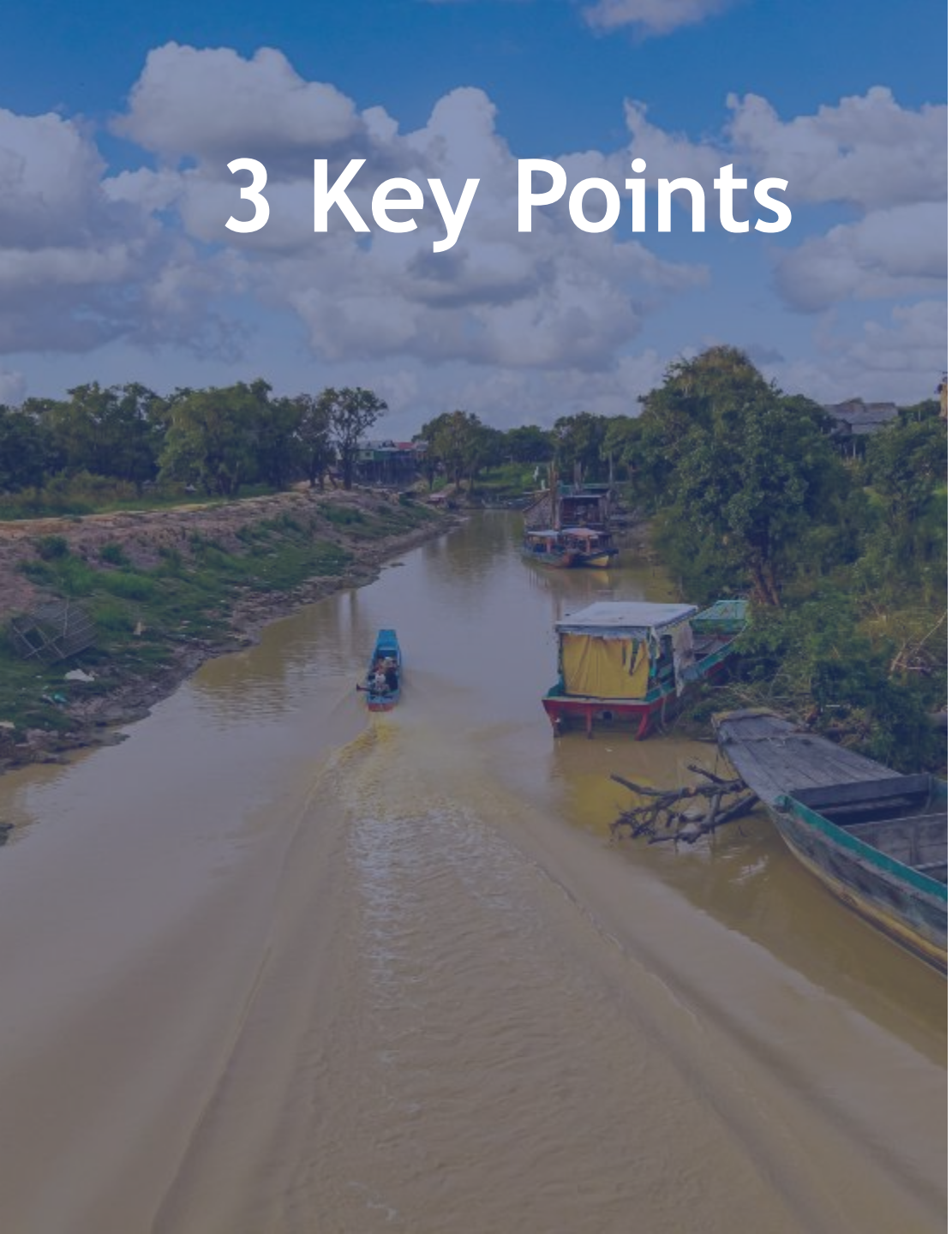
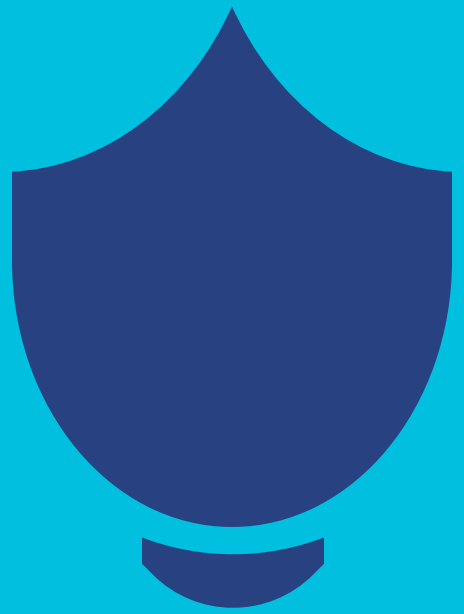


3 Key Points

- Inclusive financial institutions could play important role in getting money to the frontlines
- But there are issues with demand side adoption of financial services for adaptation
- Solving this requires development actors to seriously consider de-risking inclusive financial institutions

Inclusive Financial Institutions are well-positioned to facilitate climate action



90% Of MFI clients are women

80% of NBFC-MFI loans are disbursed through joint liability groups (JLGs), which have a NPA rate of less than 2%. The group lending model reduces risk by fostering peer accountability and collective responsibility.

Deep rural penetration and farmer connectivity

Experience in delivering financial products to poor and marginalized communities

Ability to integrate financial and non-financial services and products

Vulnerable households need suitable credit and insurance products and trustworthy delivery of these services for building climate resilience

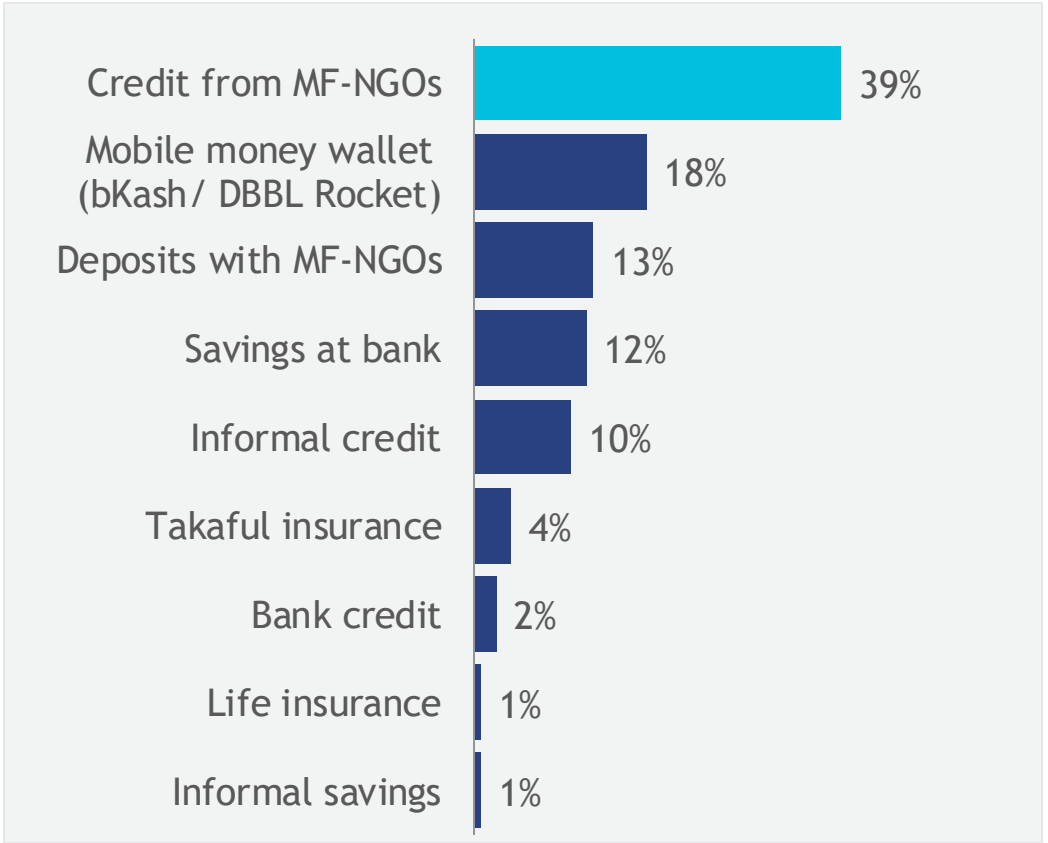
	Credit	Insurance
Purpose	Adoption of salinity-resilient rice, investment in livestock, and horticulture. Purchase of goods and equipment	Transfer of risk Multiperil general and life insurance
Factors for Success	Lower interest rates Instalments adjusted to cashflows Backed by insurance	Premium are subsidized Parametric products
Barriers to adoption	High-interest rates Small ticket size Not customized to meet localized adaptation needs	Subsidized agriculture insurance product is not available MFIs/ NGOs don't offer agriculture insurance considering it risky Limited knowledge and trust about insurance
Exemplary products	BRAC's Contingent Line of Credit (CLOC)	India's Pradhan Mantri Fasal Bima Yojana SEWA's parametric heat insurance for women

At present, the role of formal and informal microcredit is limited to offering ex-post-disaster liquidity support in Southwest Bangladesh

Type of financial product	Role in Anticipation	Role in Absorption	Role in Adaptation
Microcredit from MF-NGOs, Cooperatives, and Banks	●	●	●
Deposits with MF-NGOs and Cooperatives	●	●	●
Informal credit	●	●	●
Life insurance	●	●	●
Remittance	●	●	●

● Blue = positive role. ● Sky blue = no role.

● Orange = negative role. ● Dark grey = no evidence



Microfinance loans and MFIs are ubiquitous in Bangladesh. Microcredit is used by households for income generation and meeting expenses. The latter is the most used case after a disaster.

For smallholder farmers in Bihar, loans through SHGs and MFIs are the major financial tools to meet financial needs after a climate related event

	Not adopted	Least adopted	Regularly adopted
F	1. Parametric crop insurance 2. Livestock insurance 3. Recovery and reconstruction credit	1. Multiperil crop insurance 2. Loans from banks for income smoothening	1. Loan from MFIs 2. Loan from SHGs 3. G2P post-disaster relief
I	1. Intergroup savings 2. Intergroup credit	1. No information	1. Loan from moneylenders

Legend

F Formal financial

I Informal financial

Women-focused

Men-focused

Gender Neutral

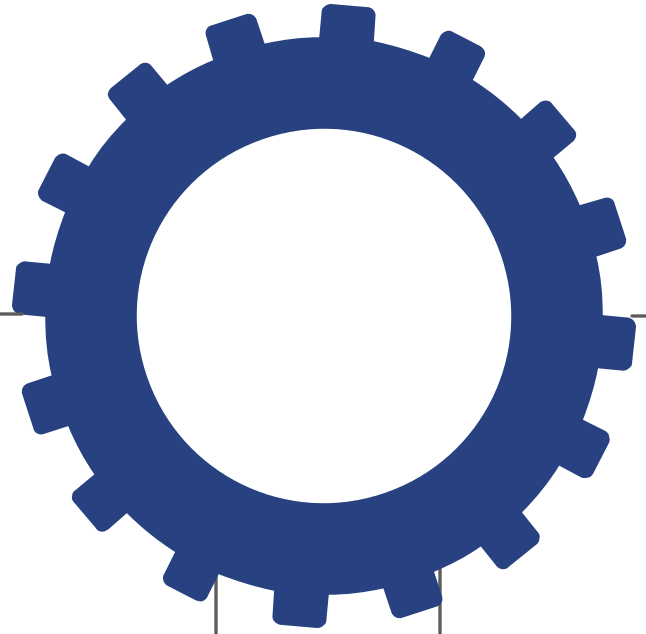
Financial Institutions have high perception of risks for financing adaptation in agriculture for example

Product risk

Failure of technology providers to deliver quality products or after-sales support can tarnish the reputation of the sponsoring MFIs, potentially damaging their relationships with borrowers and partners.

Counterparty risk

Limited evidence of resilient agriculture practices effecting the income and costs of farmers, creating MFIs to maintain larger cash reserves, straining liquidity management capabilities



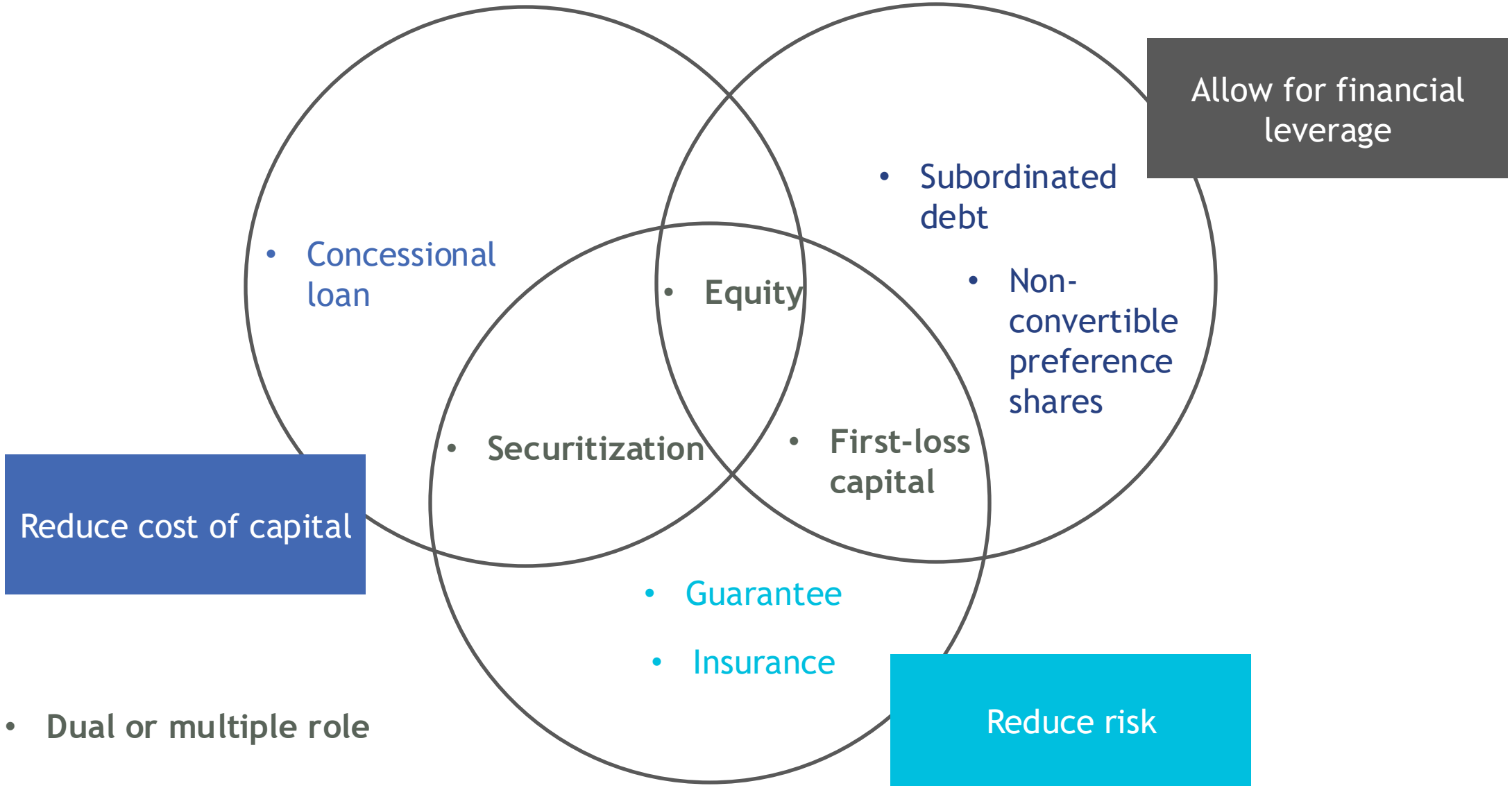
Operational risk

- Loan Misuse: Borrowers may divert funds to purposes unrelated to climate resilient agriculture, undermining the intended outcomes of the loan.
- Operational Inefficiencies: Inefficiencies in loan processing and risk assessment can drive up the costs of initiating and managing new products, affecting overall sustainability.

Credit risk

Higher loan amounts and extended payback periods increase default risk and loan recovery uncertainty. Irregular cash flows also strain MFIs' liquidity and require larger reserves.

FIs need support to enable them to address climate resilience and blended-finance could play an important role

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Financial resilience is a core component of climate resilience

It is the **ability** of individuals, households, and communities to use financial resources to **reduce, mitigate, and recover** from climate shocks and stresses.

It involves the **awareness** of accessing **internal capabilities and external financial resources**.

The ecosystem must **ensure quickly accessible**, appropriate, and acceptable financial resources before and after climate change-related impacts.

Financial institutions (FIs) can enhance access to finance to overcome financial barriers and facilitate the adoption of climate-resilient agriculture

Climate resilient Practices	**No-till farming** Direct seeded rice Zero tillage sowing	**Efficient irrigation systems** Solar pumps Drip irrigation Weather advisory	**Integrated nutrient & pest management** Biofertilizers Biopesticides	**Integrated farming system** Livestock Backyard poultry Goatery Mulching Crop diversification Shade management Biodigester
Cost (INR)	Seed drillers : 1.25-1.5 lakhs Drum rollers: 45 – 50 K	Solar pumps (5 HP) : 1.8- 2 lakhs Drip irrigation systems: 80-85 K	Bio input resource center setup cost : 70-85 K WC requirement: 40-50 K Soil testing kits : **45- 50**	• Crop loans – 30-45K • Cattle/ poultry/goats purchase: 50-70 K cost of setting up shed: 15-20 K • Small-scale biodigester: 15-17K • Medium-scale biodigester :30 -40 K
Financing opportunity	• Farm equipment loans for seeds tillers and drum rollers • Credit to set up custom hiring centers for seed tillers, tractors and other equipment	• Special purpose medium-term loans for solar irrigation pumps and drip irrigation systems • Small loans for smartphones	• Entrepreneur loans to set up BRCs • Working capital loans for BRCs • Small business loans for the purchase of biofertilizers, pesticides, and tolerant seeds	• Crop loans for intercrops and agroforestry • Loans to buy goats and poultry • Loans to establish sheds • Small loan for household-level biodigesters • Group loans to set up community biodigesters at the SHG level • Livestock insurance

Adoption of climate resilient agricultural practices has been slow due financial and non-financial barriers

Addressable by financial institutions

1 High investment requirement

Technologies, such as precision farming tools, seed tillers, and solar-powered irrigation systems, require substantial upfront investment, which many small-scale farmers cannot afford.

2 Higher cost of bio inputs

Eco-friendly inputs, such as organic fertilizers and pesticides, are more expensive than subsidized conventional inputs provided by primary agriculture cooperative credit societies (PACS*), which makes the transition financially challenging for farmers.

3 Insufficient de-risking mechanisms

Limited access to crop insurance, inadequate climate-resilient infrastructure, and lack of early warning systems hinder smallholder farmers' ability to mitigate climate risks.

4 Lack of awareness and training

Farmers lack awareness of resilient agricultural practices and their long-term benefits due to inadequate extension services, insufficient training programs, and limited access to technical assistance.

5 Limited institutional support

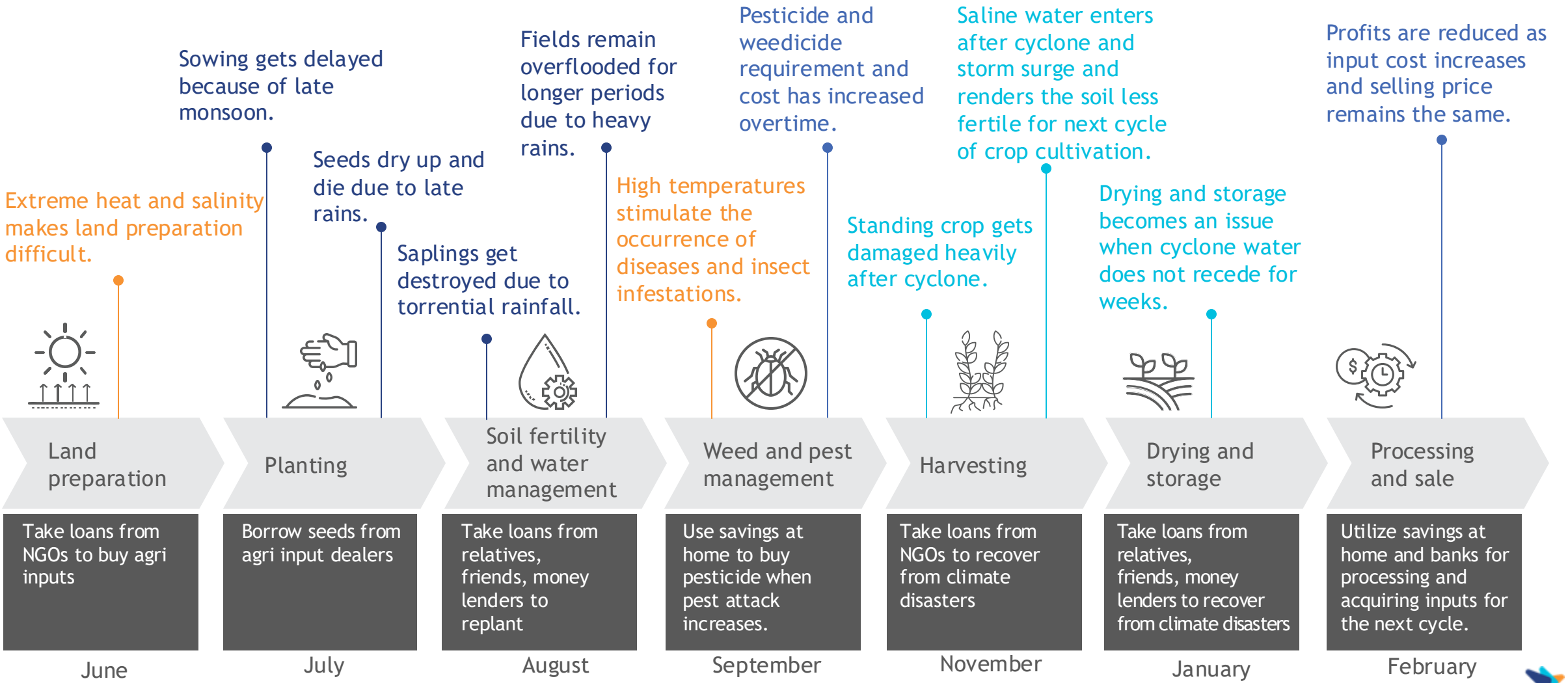
The absence of subsidies for resilience building technologies and weak institutional frameworks prevent farmers from adopting sustainable practices.

6 Counterproductive policies

Policies, such as free electricity for irrigation, reduce the appeal of solar pumps. Additionally, the high subsidies on urea make eco-friendly alternatives, such as biofertilizers and organic inputs, less attractive, which further hinders the shift toward sustainable farming practices.

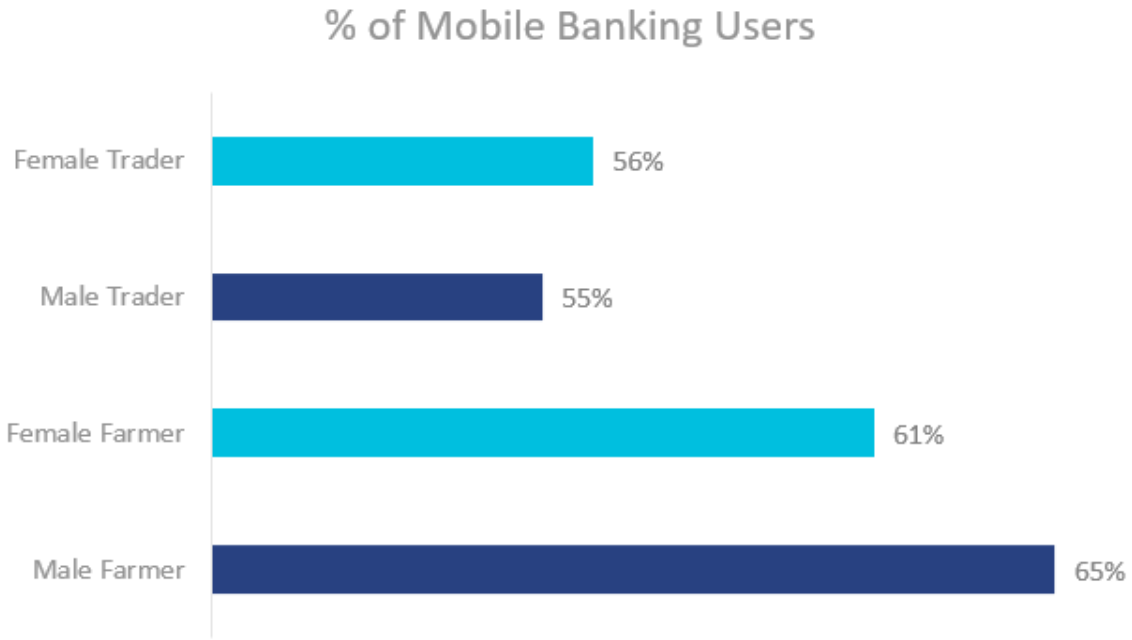
Climate variability and change have major impact on *Aman* rice cultivation cycle in Southwest Bangladesh

● Heat and salinity ● Erratic rainfall ● Cyclone and storm surge ● Other impacts



Role of mobile banking in adaptation

- Mobile banking facilities like bKash, Rocket and Nagad ease the transfer of money from the male members who migrate, to their family members who stay back.
- Some families also have members living in other countries who send remittances through mobile banking.
- There are instances of petty traders in Khulna using mobile banking for their trade but higher instances of use in rural areas.
- Some respondents received G2P payments during the Covid pandemic through mobile banking.



Source: MSC research findings