



MICROFINANCE INSTITUTIONS AND CLIMATE CHANGE ADAPTATION



Client: Abler Nordic (previously NMI), 2022



Sectors: Agriculture, Water, Climate Change



Service: Investment Advisory

Symmetry supported Abler Nordic to better understand how Micro Finance Institutions (MFIs) in East Africa and Southeast Asia are dealing with climate risks and to provide recommendations on how they can build resilience to climate change across their lending portfolio.

Key findings

- Based on discussions with over 30 MFIs it was found that despite many Financial Institutions (FIs) having portfolios covering climate-risk sectors (e.g. rainfed agriculture, livestock, forestry) or operating in highly climate vulnerable regions, they lacked any assessment of the current climate risks to their lending portfolio. None had a company-wide strategy to respond to climate change or had a clear approach to deal with climate-related risks. This represented a serious risk to their lending portfolio and overall business.
- Feedback from MFIs highlighted that even when they did possess an understanding of climate risks, their lending portfolio is driven by demand, so there is a need to work and raise awareness directly with their clients, mainly smallholder farmers. Many banks, especially MFIs, do not have the capacity and resources for awareness raising for potential clients.
- MFIs highlighted the need for partnerships to aggregate clients, for example, through cooperatives or farmers groups, train them, and support the creation of demand for more climate-related practices. FIs were motivated to provide finance for climate change related activities, but on the condition of support to establish low interest credit lines and/or technical assistance grants for various awareness raising and training programs.
- One of the main motivations for FIs to account for climate risks was in response to policy changes, in particular new regulations on Environment, Social and Corporate Governance. Few countries had such regulations in place, but this is gradually changing as more regulations by Central Banks are requiring financial institutions to show how they are responding to climate risks.
- It was recommended that FIs respond to climate risk by adopting the key elements recommended by the Task Force for Climate-related Disclosures, around four thematic areas: governance, strategy, risk management and metrics. These can be introduced in a straightforward manner and help to mitigate any climate risks.