



Desarrollo Rural Sostenible de Centroamérica  
Unidad Regional de Asistencia Técnica

# Access to micro-finance for adaptation to climate change

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# What is microfinance?

- Microfinance is the provision of a broad range of financial services to poor and low-income households and their microenterprises
  - Deposits
  - Loans
  - Payment services
  - Money transfers/remittances
  - Insurance



# The Microfinance Industry Today

- Despite the growth and depth the microfinance industry has experienced in some countries, many formal financial institutions still deny the poor people financial services because of:
  - Perceived high risks
  - High costs involved in small transactions
  - The poor's inability to provide marketable collateral for loans
- However, providing the poor with improved facilities to save and to have better access to credit and insurance helps them manage risk, build assets, increase income, and enjoy a better life



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# Microfinance and Insurance

- The importance of access to financial services for development cannot be denied
- The myth on banking and credit access to low income people who are economically active has been demystified, but the insurance industry is yet to innovatively unpack its services to this segment of population
- So, the next step in the battle for financial services for low income people is in the insurance industry: **providing innovative, affordable, efficient and effective insurance services with (very) few exclusions to the low income people**



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# Making microinsurance operational

- Servicing the low income market is expensive for insurance companies
- Effectiveness in delivery is conditional on innovations that reduce costs and risks for insurance companies
- As for microcredit, it is feasible and profitable to serve the target market, as long as a large client base is served
- Therefore, **to make microinsurance feasible and profitable it is a necessary condition to achieve large pools/large volume business**





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# **Financial innovation for adaptation to climate change and reduction of climate risks of the productive rural sector**

**Microfinance: policy and practice in  
Central America**

**-Project Proposal (work in progress)-**

# Characterization of Central America

- Central America = Belize, Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama
- Central America is one of the most vulnerable regions to climate change
  - Poverty levels: HIGH –more than half of the population in some countries-
  - Exploitation of natural resources for subsistence of the poor
  - Relatively low degree of diversification of production, export goods and markets of destination
  - Biophysical vulnerability associated to geoclimatic location
- The region has faced, historically and recurrently, natural phenomena of catastrophic character (hurricanes, ENOS, earthquakes, volcanic eruptions, floods, landslides, droughts)
- The situation is expected to get worse as a direct consequence of climate change ⇒ adverse effects will manifest in the level of income, production, infrastructure, means of life of the population and its health, and on the capacity of the environment to provide essential resources and services for human life



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# The proposed project

- General objective: to promote adaptation to climate change and reduce exposure to climate risks in the rural sector of Central America = to improve the future growth potential of the region and achieve sustainable economic development
- Basic premise: to transform the socio-economic-environmental threat associated to climate change and its risks it involves into a development opportunity for the rural sector



# The proposed project

- Financial policies and prudential regulation
  - To develop and implement financial policies and regulations that promote the efficient mobilization of resources from the financial sector towards the rural sector for adaptation to climate change and reduction of vulnerability to climate risks
  - To develop strategies, policies and programs to redirect resources from development banks to first tier institutions towards adaptation to climate change and reduction of vulnerability to climate risks



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# The proposed project

- Adapted financial products and services
  - To design, test and commercialize innovative financial products and services that promote adaptation to climate change and reduction of exposure to climate risks
  - To promote and provide increasing financing flows towards productive activities and investments related to adaptation to climate change and reduction of climate risks –Investment Fund = Public-Private Partnership



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# The proposed project

- Knowledge management and training
  - To build regional capacities and multiplication effects
  - To promote the development of new initiatives and/or the replication of project's activities on other economic sectors of the region or other regions through dissemination of results and impacts



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