BANGKO SENTRAL NG PILIPINAS
SUSTAINABILITY OFFICE

Sustainability for Microfinance Institutions

Reaching the Poorest through Sustainable Finance

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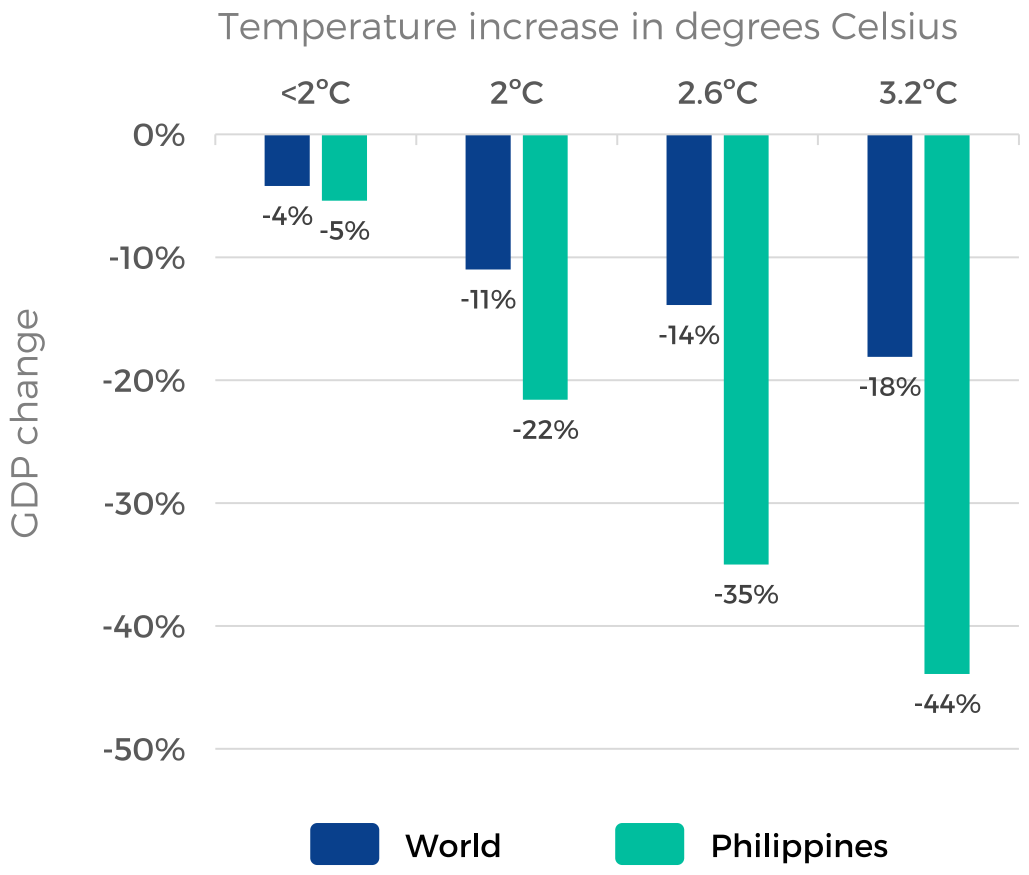
The country faces a precarious economic future in the face of global warming.

Without action, climate change will impose on PH economic damages up to 7.6% of its GDP by 2030 and 13.6% by 2040. **(World Bank)**

Projected GDP change by 2050: Philippines vs. Global average under different scenarios



Source: Swiss Re Institute (2021)

Further, some segments are disproportionately affected by climate events

Unbanked adults are climate-vulnerable

Over 80%

of the 1.4 billion unbanked adults reside in the most climate-vulnerable countries

There is a stark disparity between income classes in terms of ability to cover emergency expenses

33% (E) vs 16% (ABC)

cannot handle emergency expenses

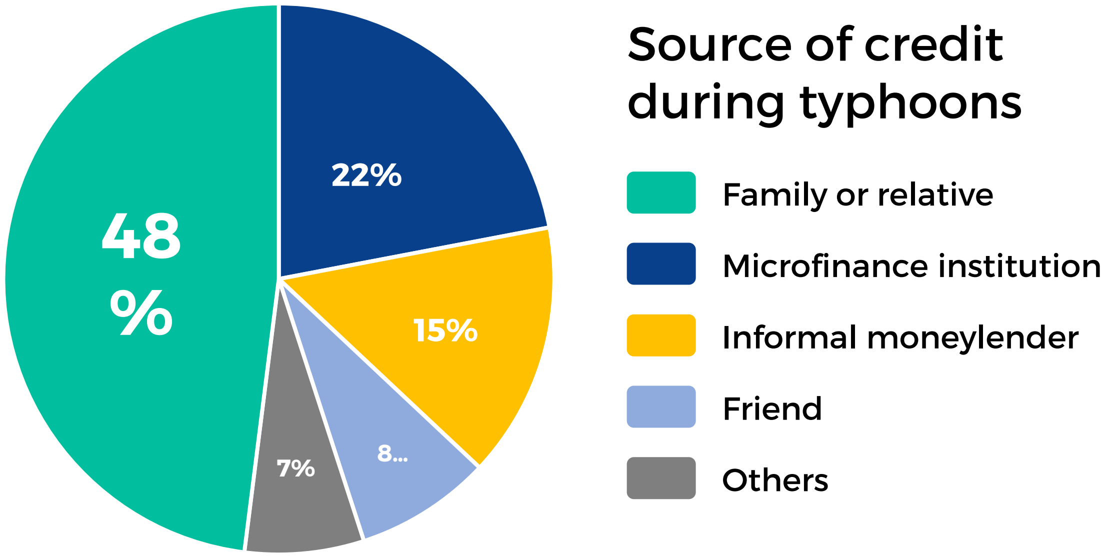
MSMEs are concerned about climate risks

60%

of PH MSMEs consider typhoons to be the biggest risk to their businesses

Sources: CGAP, 2021 BSP Financial Inclusion Survey, OECD

Relatives are the predominant source of credit during calamities.



Source: Microfinance and consumption-smoothing in the Philippines: Evidence from the Philippine Microfinance Survey

Projected losses underscore the importance of climate adaptation.

The PH climate change agenda is therefore anchored on adaptation with mitigation as co-benefit.

Adaptation

Adjustments in the ecological, socio or economic system to respond to actual or expected climate effects (extreme and slow onset) **to moderate potential damages or benefit from opportunities**.

Mitigation

Human intervention to **limit and reduce** of all **GHG emissions**.

Philippines' GHG emissions (2.2 tCO2e) is among the lowest in Asia, but will still do its share to contribute to global efforts

Climate Adaptation Financing: Challenges

90%

of global climate finance
was channeled to
mitigation in 2021/2022[1]

US$102 billion

annually (until 2030)
needed in APAC region for
adaptation investment[2]

1%

of known adaptation finance in APAC region
came from the private sector[2]

Sources:
[1] Climate Policy Initiative
[2] Asian Development Bank

“Indeed, climate risk is the ultimate systemic risk.”

BSP Governor Eli M. Remolona, Jr.

The BSP Sustainability Agenda

PH CLIMATE GOAL	**CLIMATE-RESILIENT ECONOMY AND COMMUNITIES**
OUTCOMES Our part in the goal	**Climate-resilient monetary and financial system facilitating inclusive adaptation and just transition** • Climate and nature-related risks and opportunities internalized by the financial sector • Climate and nature considerations incorporated into monetary policy • Financing solutions for adaptation and green transition are used by households, businesses, and communities – especially the vulnerable • Sustainability ingrained in BSP's culture and operations
STRATEGIC THEMES Our approach	**Manage climate risks to price and financial stability** · **Mobilize green finance** · **Implement sustainability in own operations**

BSP Issuances:
Internalizing sustainability considerations

Sustainable Finance Framework
Circular No. 1085, s. 2020

Environmental and Social Risk Management Framework
Circular No. 1128, s. 2021

Guidelines on the Integration of Sustainability Principles in Investment Activities of Banks
Circular No. 1149 , s. 2022

BSP Issuances:
Unlocking sustainable finance

Eligibility of sustainable finance as a mode of compliance for the mandated Agriculture, Fisheries and Rural Development credit

Circular No. 1159, s. 2022

Grant of Additional Single Borrower's Limit for Financing Eligible Projects and Zero Percent Reserve Requirement Rate Against Sustainable Bonds

Circular No. 1185, s. 2023

Beyond regulation, the BSP is working to address market gaps

Sustainable Finance Taxonomy

To promote transparency and investor confidence

Capacity Building

To strengthen market knowledge and skills

Data Support

To inform policy and market actions

Climate and nature imperatives for microfinance institutions

Build resilience

MFIs that strengthen their resilience through risk management and capacity building will be better equipped to support climate-vulnerable clients.

Finance resilience

MFIs need to develop financing solutions to support the adaptation needs of their clients.

Climate-resilient clients are more likely to repay, reducing risks for MFIs.

Building and Financing Resilience are mutually reinforcing imperatives

The Case for Building and Financing Resilience

Enabling institutions to preserve and create long-term value through:

- **Stronger risk management**
- **Strengthened client value**
- **Increased access to capital**
- **Regulatory alignment**

The industry is taking action

For instance:

- In partnership with Cerise + SPTF, MCPI conducted capacity building on the **Universal Standards for Social and Environmental Performance Management**
- MCPI has successfully conducted the 1st batch of Environmental Performance Management assessments in 2024

Financing Resilience
Sample Climate Adaptation Opportunities

Water-supply Solutions

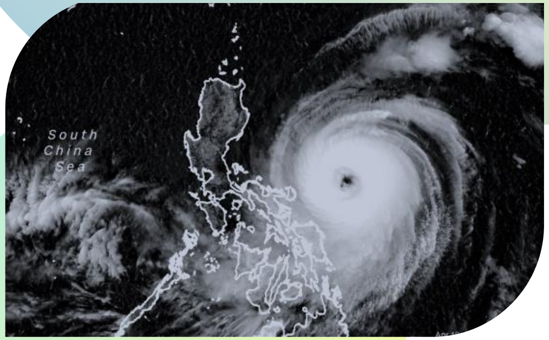
Rainwater harvesting systems, water storage, and sanitation facilities improve resilience to droughts

➢ **Water.org's WaterCredit Initiative**
- partnership with MFIs to provide affordable loans for water solutions
- 98% repayment rate, 76 million lives changed

Parametric and Business Disruption Insurance

Parametric insurance allows funds to be disbursed within days and consequently faster recovery from climate-related disruptions.

➢ **CLIMBS Weather Protect Insurance**
- payment issued within 10 days of verified weather events
- farmers receive seasonal crop and climate tips alongside insurance



Ways Forward:
Microfinance Institutions

- Integrate climate adaptation and resilience in organizational strategy
- Develop climate-responsive products
- Forge partnerships

Ways Forward:
Bangko Sentral ng Pilipinas

- Develop more granular guidance (e.g., taxonomy supplement for circular economy, and adaptation and resilience
- Address data gaps
- Explore development of market support tools (e.g., ESG reporting platform for SMEs)

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SUSTAINABILITY OFFICE

Thank you!

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View the 2023 BSP Sustainability Report