

Climate Resilience Strategy

March 2023



SUMMARY

Challenge: Climate change is pushing millions of people into extreme poverty and undermines the effectiveness of our programs.

An Opportunity Solution: Climate Resilience Strategy for Microfinance, Agricultural Finance, and Education Finance.

THE CHALLENGE: CLIMATE CHANGE LEAVES CLIENTS AND PARTNERS VULNERABLE

Climate change threatens to exacerbate poverty and inequality globally. Over 100 million people will be pushed into extreme poverty by climate change by 2030, with developing countries expected to bear 75-80% of the costs.¹ The global surface temperature has reached 1.1 °C (~2 °F) above 1850-1900 in 2011-2020.² Climate change is having an adverse effect on Opportunity clients and partners. The majority of our 18 million clients across 30 countries are among those most vulnerable to climate change. They are failing to recover from frequent, adverse weather events, including unseasonal temperatures, droughts, flash floods, and other climatic changes occurring with greater frequency and intensity. Opportunity microfinance partners and programs have seen typhoons, flooding, and drought severely impact their portfolios and program delivery models. Partners face common problems such as limited staff capacities, incomplete climate policies, lack of flexibility in program or financial product structures, liquidity constraints, and operating in high interest rate environments. Climate change is projected to continue increasing the severity and frequency of these adverse impacts on Opportunity clients and partners.

OPPORTUNITY'S SOLUTION: CLIMATE RESILIENCE STRATEGY

In 2023, Opportunity launched a Climate Resilience Strategy that articulates how Opportunity intends to work with our partners and clients around the world to help build climate resilience in vulnerable communities. It is guided by four foundational principles:

- ▶ Client-focused climate adaptation (ahead of mitigation)
- ▶ Locally-led development
- ▶ Partnerships
- ▶ Climate as cross-cutting, with all corners of Opportunity playing a part in response to climate change

Opportunity's climate strategy covers key program pillars of Microfinance, Agricultural Finance (AgFinance), and Education Finance (EduFinance). The strategy also touches on our Health Program and Climate Change, and also the interplay with our cross-cutting issues of digital technology and gender equity.

MICROFINANCE AND CLIMATE

Financial inclusion builds resilience in those exposed to shocks. Well-designed financial products and services help vulnerable households prepare for shocks, reduce risk, increase investment in the face of risk, and respond when a shock occurs. In particular, access to credit can enable low-income households to build and diversify their asset base, thereby expanding the range of coping strategies available to them. However, due to climate change, the development gains that the financial inclusion sector has achieved face a severe threat. Opportunity's climate strategy work in the

microfinance pillar addresses both the threat that climate change represents and the opportunity to build on the role that financial services already play in building resilience in clients. For example, in Rwanda, smallholder farmers found Opportunity microloans useful in advancing the purchase of climate-resilient, high-quality seeds, fertilizers, and pesticides, as well as water pumps and simple irrigation equipment to lessen the impact of drought.

The microfinance climate resilience strategy puts forward three key actions:

- ▶ **A Climate Vulnerability/Resilience Scorecard:** to assess climate resilience at the household level
- ▶ **Promoting Environmental Best Practices:** across microfinance partners
- ▶ **Reducing exposure:** to climate risks for financial service partners

AGFINANCE and CLIMATE

The Climate Resilience Strategy integrates into AgFinance’s core competencies, strengthening current activities and processes to enhance client adaptation and improve overall resilience. The guiding principle is to take a client-centered approach to respond, first and foremost, to the needs of those living in impoverished rural households that are struggling to adapt to ever-increasing and severe weather shocks. Part of the strategy is to incorporate *Regenerative Agriculture* principles for improved soil fertility, moisture retention, and long-term productivity and profitability. This is coupled with improving financial resilience through financial inclusion, productive asset accumulation, and income diversification. AgFinance will be able to leverage the experience and networks needed to support resilience building in some of the communities most vulnerable to the effects of climate change.

Regenerative Agriculture Principles

1. Minimize soil disturbance
2. Maximize crop diversity
3. Keep the soil covered
4. Maintain living root year-round
5. Integrate livestock

The AgFinance strategy puts forth three key actions:

- ▶ **Pilot climate resilience projects:** Current pipeline pilots will focus on farmer adoption of co-developed RegenAg practices supported by farmer support agents (FSAs) in Malawi, Uganda, and Rwanda.
- ▶ **Build internal capacity for Financial Institution partners:** Supporting Financial Institutions with climate risk reviews, financial product adaptation, and impact reporting.
- ▶ **Operationalize climate-based credit support:** The AgFinance team is creating a financial vehicle in which interested investors may invest long-term, patient capital into a syndicated credit facility. This credit facility provides financial support in the way of guarantees, client collateral easement, and interest rate subsidies linked to the adoption of regenerative agriculture practices. The intent is to support and incentivize Financial Institution partners and clients to champion transitions towards more sustainable and weather resilient farms.

From the AgFinance perspective, success looks like smallholder farmers becoming more resilient to environmental, social, and economic shocks and stresses by leveraging localized incentives from strong, adaptive financial institutions.

EDUFINANCE and CLIMATE

We are in an exploratory phase on building a strategy for EduFinance, but expect the strategy to adopt a framework that has two key pathways for building resilience. The first involves building more resilient and inclusive education systems to mitigate the impact of climate and environmental change on education, and to reduce the impact of climate change, which can see children – particularly girls – pulled out of school due to negative impact on livelihoods. For example, under the current EduFinance program, both schools and families have access to loans that can stabilize education in case of crisis, speeding up physical recovery in the case of schools, and providing capital for school fees during a time of financial crisis for families. The second pathway recognizes the key role that education plays in building the world’s capacity to respond to climate change: focusing on building knowledge, skills, and agency for climate adaptation and mitigation to maximize the potential of educated populations for addressing the climate and environmental crisis. In addition to these pathways, the strategy would also explore building capacity within the EduFinance team. The long-term vision is to contribute to a climate-smart education system that protects children, teachers, and communities from climate-related disasters.

¹ Forecasts noted in “[Rapid, Climate-Informed Development Needed to Keep Climate Change from Pushing More than 100 Million People into Poverty by 2030,](#)” World Bank (2015) estimate and “[Climate Change: How Pollution is threatening our world,](#)” World Economic Forum (2014).

² [AR6 Synthesis Report: Climate Change 2023,](#) Intergovernmental Panel on Climate Change (IPCC), United Nations (2023).