# International Development Week 2024: Agricultural and Financial Systems' Adaptation to Climate Change

## Panelists:

**Tomás Soley**
*Superintendent, General Superintendence of Insurance of Costa Rica*

**Nadia Guerch**
*Senior Regional Director for Latin America, Eastern Europe, and Asia Pacific, Mennonite Economic Development Associates (MEDA)*

**Omoneka Oyier**
*Director, Business Value Creation, MEDA*

## Moderator:

**Carl Hiralal**
*Chair, Insurance and Pensions Advisory Board, Toronto Centre*

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## Transcript:

**Babak Abbaszadeh:**

Greetings everyone. Hello, I am Babak Abbaszadeh, CEO of Toronto Centre. Bienvenue à notre séance plénière conjointe avec MEDA sur «l'Adaptation des Systèmes Agricoles et Financiers face au Changement Climatique».

We are delighted to hold this conversation on "Agricultural and Financial Systems' Adaptation to Climate Change" during International Development Week, which is sponsored by Global Affairs Canada, in collaboration with Mennonite Economic Development Associates, or MEDA, a friend of Toronto Centre. Since our establishment in 1998, Toronto Centre has trained more than 26,000 financial supervisors from 190 countries and territories to build more stable, resilient, and inclusive financial systems. Since 2016, we have been incorporating climate risk in our programming because of the substantial implications to global financial stability, risk of crisis from climate change, and financial inclusion challenges. Today, we have global momentum to combat climate change, and to transition to a green economy. This is not easy, but this transition also presents a tremendous opportunity for countries to achieve sustainable economic growth, and supervisors have a key role to play, to oversee the financial institutions' risks and help consumers not become victims of greenwashing due to shoddy climate disclosures.

Toronto Centre is collaborating with several global bodies, such as the International Organization of Securities Commissions (IOSCO), which is the international standard-setter for securities. The Network for Greening the Financial System (NGFS) which encompasses close to 140 central banks from around the world, and the international standard-setter for insurance supervision, the International Association of Insurance Supervisors (IAIS); we are their implementation partner in climate-risk related supervisory capacity building. We know that to achieve net-zero and to support climate resilience and food security, we need to adopt a dynamic multi-stakeholder approach to problem solving. Financial supervisors are part of the multi-stakeholder ecosystem of crisis management and must continue to adapt to evolving risks.

Today our distinguished panelists will discuss the challenge of food security, particularly for the vulnerable and marginalized population in the emerging markets, from different angles. They are:

- Our very good friend Tomás Soley, Superintendent, General Superintendence of Insurance of Costa Rica (SUGESE). He's also the Superintendent of Securities.
- Nadia Guerch, Senior Regional Director for Latin America, Eastern Europe, and Asia Pacific, MEDA
- We also have Omoneka Oyier, Director, Business Value Creation, MEDA.
- We're also tapping our Carl Hiralal of the Insurance and Pensions Advisory Board, Toronto Centre, to moderate this conversation. I have learned a lot from Carl on this topic over the years.

You have received their bios. Welcome to our speakers. Toronto Centre's mission is sponsored by our key funders, Global Affairs Canada, the Swedish SIDA, and the IMF. I would also like to have a shout-out for the people on my team: Demet Çanakçı and Jake Dietrich and others who work so hard to make this webinar a possibility. I'm told we have about 270 registrants from close to 70 countries and a high number of agencies that are collaborating with Toronto Centre would like to learn more. Thank you, Carl. Merci, je cède maintenant la parole à Carl. Carl, over to you. Thank you.

**Carl Hiralal:**

Thank you Babak for the relevant background information and for setting the stage for an insightful and rewarding discussion by our panelists today. Our panelists come from two different organizations, but with a wealth of rich and practical experience in their specific fields. They're eminently qualified to address the topic at hand, "Agricultural and Financial Systems' Adaptation to Climate Change". And as you indicated, this is no small feat.

The financial services industry's primary goal is to develop and distribute products and services that are needed in the societies in which they operate. The agriculture sector is no different. There is a protection gap that needs to be filled. As you indicated, MEDA is doing a lot of work

on this. They have been in existence for over 70 years, lifting people out of poverty by employing a market-systems approach that integrates technical assistance with access to capital – and I would stress access to capital. So, in effect, the two organizations that the panelists work for have a common goal or outcome. Climate change knows no boundaries. I hope that, at the end of this session, the audience will have a better appreciation of the cascading impact of climate change on food security, financial inclusion, and gender equality. These are important linkages or interdependencies that both the financial sector, represented by Tomás, and MEDA, represented by Nadia and Omoneka, are trying to bridge to achieve a common goal, which is to address climate change through appropriate mitigation and adaptation measures and measures that promote sustainability, but at the same time are environmentally friendly. That again is not an easy task because environmental factors do present costs to our agriculture sector.

So, with that in mind, I would now like to turn to our first panel member to set the stage again for us. Tomás Soley is a seasoned financial services supervisor and it's appropriate that he set the stage for climate change because it is one of the biggest issues that financial services supervisors are grappling with at the moment. So, Tomás, based on your experience, can you describe the strategies that supervisory authorities are implementing to manage climate change risk in the insurance sector and other sectors in the financial services industry, as well as the region, because you have significant responsibilities in the region in your role as Superintendent in Costa Rica. And perhaps also, if you can identify the drivers that are defining the strategic actions and the timing in its implementation. So, can I pass this over to you?

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>
> **Tomás Soley**
> SUGESE

**Tomás Soley:**

Thank you very much Carl for this question and greetings to everybody from Costa Rica: green, sustainable, no army, and the longest democracy in Latin America. It's great to be here with this great panel. The financial supervisor has a unique position to build a bridge between public policy, such as the decarbonization strategy, adaptation strategy, and national commitments on the matter, the financial sector, and the real economy. In the case of my country, Costa Rica, we established four key aspects to define the climate action strategy of the financial sector. Creating a common vision is the first one, establish an internal and external dialogue, define a clear roadmap, and establish expectations through a call to action. Let me elaborate a little more.

Creating a common vision: this is the first objective and is key to creating synergies between different stakeholders and taking action. First of all, keep in mind that public policy is a great umbrella on which the financial regulator strategy must work, and it can also contribute a lot in the construction of said policy. We supervisors do not define policy, but we can help a lot in the process. The second part of the strategy was to establish an effective dialogue between financial authorities. A lesson learned in the case of Costa Rica, and I think it is the same in any country, is the need to create a dialogue at the highest level in order to align common objectives. First, the banking and insurance supervisors who had been working separately began working together; we saw the need to take the issue to the highest level. For this reason, and with the help of Toronto Centre, by the way, about four years ago, we managed to organize a high-level meeting between the board of directors of the Central Bank, the National Financial Supervisor Council, and the four superintendencies. It was interesting to understand that for some of the directors, this was the first time they had discussed the role of the financial regulator and the implication of climate change for the financial system.

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> **Tomás Soley**
> SUGESE

From this high-level meeting, it was possible to define sustainability and climate-change working groups between the four superintendencies and the coordination bodies within the Central Bank. An important effort to build internal capacity begins to address risks related to climate change and align the internal vision from the supervisors. Third, establish an effective dialogue with the market. One of the most important stages is the dialogue with financial entities, knowing what they are doing and transmitting clear expectations to them. In this process, it was interesting to observe how some entities had begun internal work in the same way. At the sector level, it was observed how the banking sector defined its green protocol, the insurance sector established a code of responsible conduct, and the National Stock Exchange also began their work process on sustainable finance. Understanding the level of maturity of the market is necessary to collaborate in the creation of additional capacities of the different actors.

And fourth, define a roadmap. In the case of Costa Rica, we established four strategic topics to work on: data, disclosure, vulnerability analysis, and supervisory practice. And finally, last but not least, declaration of action. In addition, last October, very timely and coinciding with the OECD Regional Summit on Environmental Sustainability celebrated in San Jose, Costa Rica, was also a historic day for the way climate is treated in our Costa Rican financial system. Our four superintendencies regulating the financial sector, insurance, stock market, financial, and institutional pensions, are launching a joint declaration commitment to our resilient and transparent financial systems in support for a transition to net zero and to be resilient against climate risk. In summary, Carl, building a common vision, establishing a dialogue between supervisors and the market, defining a roadmap, and making a call to action has allowed us as financial supervisors to move from speech to action. Back to you Carl.

**Carl Hiralal:**

Well, thank you Tomás. You described quite a lot of actions there and very important actions that are required by supervisors to incorporate climate change in day-to-day activities as a supervisor of financial institutions. I particularly note the point you raised about public policy because that is important, and supervisors have a role to influence the policy makers to take creative action there. You also talked about the team effort and all of the sectors involved, and that is important, and I hope this comes out a little more later because there' are significant interdependencies between the different sectors if we are going to fight climate change. In addition to that, I particularly note the fact that you highlighted environmental and sustainable processes to make sure that this happens well. With that in mind, starting with the environmental and the sustainable measures, that's a good segue to bring in Nadia from MEDA, because one of the things that they focus on is ensuring that the measures are taken into consideration regarding environmental issues.

Nadia, you have been working in many, many different countries, you have over 18 years of experience in this business. So, you are really bringing us practical experience with respect to this particular subject. You particularly, as we as financial supervisors deal with financial inclusion, gender equality, and access to finance. The work that you do is important in this context. The specific question to you is, you have been working in the Philippines among other countries and I understand this project was born from a need to explore opportunities to increase dignified livelihoods for women and young people in rural areas in the Philippines. With this in mind, could you identify what are the constraints these excluded communities faced and how is the project addressing their barriers, for example, in the cocoa sector? Could I pass this over to you? Thank you.

**Nadia Guerch:**

Sure. Thank you very much Carl, and thanks for the invitation. Very happy to be part of this conversation. So, the project specifically that I'm going to talk about is called RIISA, and RIISA stands for Resilience and Inclusion through Investment for Sustainable Agriculture. It's a five-year initiative led by MEDA in the Philippines with funding from Global Affairs Canada. As I go into the constraint, it is actually helpful to understand a little bit the context where we operate. The project is specifically focused on the Mindanao area, which is in the southern part of the Philippines. This is a region that is mostly rural and it's also one of the poorest areas in the country. It's also a region that is very well suited for cacao production, a crop that is highly prioritized by the government with a strong market potential both domestically and internationally.

However, despite this potential, the cacao sector in the Philippines is yet fully to contribute to the regional economy and farmers in particular, particularly small-scale producers involved in this production, continue to face significant poverty issues and livelihood sustainability. This actually, as we see it, has a number of constraints. First of all, the sector, and it has happened in many cacao producing countries, is very fragmented. Most Filipino farms, cacao farms in particular, are very small, ranging often from one to three hectares. The farmers involved in cacao production often grapple with low productivity, inadequate equipment, and very limited access to crucial resources such as finance, training, and markets. In this context, as you've said, women in particular, women involved in both farming and agribusiness, they face even greater challenges. And I have to say that the Philippines has made some significant progress in terms of reducing the gender gap. However, women continue to face, in this sector, significant gender-specific barriers and that includes social acceptability, gender biases, competing priorities between home care and business responsibilities, limited access to networks, and as well less access to finance, which is actually due to low control of assets, and financial resources.

> However, women continue to face, in this sector (agriculture), significant gender specific barriers and that includes social acceptability, gender biases, competing priorities between home care and business responsibilities, limited access to networks, and as well as less access to finance, which is actually due to low control of assets, and financial resources.
>
> **Nadia Guerch**
> MEDA

Another key constraint that is facing this region in particular is its very high vulnerability to climate change. That goes from severe drought episodes to unpredictable rainfalls, which has a direct impact on agriculture production. Cacao in particular, in this case, is very vulnerable to climate change impact. There is really a crucial need here to be more climate resilient in this sector because this has, really, a direct impact on the ability of farmers but also other market actors to sustain income generation out of cacao. So now, through this RIISA project, how does that meet this respond to those challenges?

So we have developed, and we implement, an integrated approach that precisely intersects economic development, environmental sustainability, and gender equality. That impact is what we call at MEDA the Triple Impact approach, which is core to our technical framework. And so how does that work in practice? On the economic side, the project will combine business development services, access to capital and resources and will facilitate market linkages and connection within the sector, and especially between the buyers, the suppliers, and other market actors, and that will generate more profitable and commercially oriented relationships that will result in more profit for both farmers and agribusinesses. In the same line, MEDA also intends to leverage local investment funds as well as financial institutions to unlock capital which is available in the market to be invested in SMEs and other cacao market actors. On the other side, recognizing the barriers that women in particular face in agriculture, and in this sector in particular, the project will also focus on mainstreaming gender equality and what we call ESG: environmental, social, and corporate government considerations within the business operations at the agribusiness level, but also at the farm and the household level, and it does so by incentivizing changes in practices and in power dynamics.

Additionally, also given the extreme vulnerability of cacao to climate change, the project also involves targeted technical assistance focused specifically on climate resilience. This technical assistance will involve capacity strengthening and access to resources and equipment that enable farmers to adopt climate-smart practices, enhance their adaptive capacity, and then ensure also more diversified and sustainable production. Finally, I would say this is important to the discussion that we're having today, and also an important part of this project, is solar power generating and learning and strategic partnerships, precisely between key industry players and involving the private sector, government players, and government institutions to support a more conducive regulatory environment and support mechanisms that will result, really, in more climate-resilient and inclusive sector growth. Maybe I can get into more details later on. Back to you, Carl.

**Carl Hiralal:**

Okay, thank you. You raise a number of important issues there and certainly you highlight the fact that there's a number of small farmers and many of them women. But also, because they're small farmers, basically because of lack of capital, they have low productivity and they probably don't have very good equipment, and so access to finance is important for the success of these kinds of projects. I hope that, later on, we can chat about that and maybe Tomás can pick it up later on. That's a very important segue for us and trying to identify from a practical perspective the problems smallholder farmers face. So, thank you for that.

Omoneka, I'm going to move over to you. You also have a fair amount of experience and expertise on the ground, both you and Nadia. When the rubber hits the road, you do spend a lot of emphasis in your work on digital financial services, women and youth, and access to finance. All of these are important to addressing the impact of climate change. More specifically, the question to you is, MEDA has a long history of innovation and entrepreneurship in the agri-sector. Can you tell us about a recently-approved Honduras project, or at least starting with the Honduras project, and in that context, as you frame your answer, what are some of the key features of this new project in Honduras and why was it important to incorporate these elements? Can I pass this over to you? Thank you.

**Omoneka Oyier:**

Thank you, Carl, and good morning/good afternoon to the audience. Thank you for having me today. As has been mentioned previously, MEDA has a 70-year history working in agri-food systems in Asia Pacific; East, Central Africa, and West Africa; as well as Central America, and this particular project that I'm going to be talking about, which is called Opportunities for Circular and Inclusive Diversification of Agriculture, I know it's a handful, so we shortened it to OCIDA. This particular project in Honduras is funded by Global Affairs Canada and will be a five-year project starting this year and ending in 2029 focusing on a number of areas that we believe to be innovative and drawing on MEDA's many years of experience working at the cross-section of economic development, environmental sustainability and gender equality.

The second area of innovation is going to be around digital solutions. These are digital solutions that address climate considerations, that also address issues around education, digital financial literacy solutions, but also digital finance solutions.

**Omoneka Oyier**
MEDA

The first innovative element that we're going to be introducing into this project has to do with the circular economy. By that, I mean a model, an economic model, whereby we are making the most use of the resources that we have, such as water, such as land, and the byproducts of the crops that will be grown – in this case coffee and cacao. We're ensuring that there's minimal waste – we are repurposing, recycling, and reusing as much as possible in this particular project. That's going to be a key focus of this project. Whereas before, many of the projects that we've run follow a very traditional linear model, as does the rest of the world, where there's a lot of waste at the end; a lot of byproducts that are not used at the end of the process. So, we're really going to be pushing the envelope when it comes to environmental sustainability on that front.

The second area of innovation is going to be around digital solutions. These are digital solutions that address climate considerations, that also address issues around education, digital financial literacy solutions, but also digital finance solutions. A big part of the project is ensuring that we're able to provide support in terms of access to finance for the women and the youth that we'll be targeting. And so, we will be looking at how can we leverage digital solutions to do that, not just to advance the financing and make payments, but also in terms of the data that is collected, so that data can help us and can help financial institutions make better credit decisions. It can de-risk a lot of the financial solutions or financial products that are being provided by different providers. But again, there's an element of how that data is collected and how that data is used that we will also be working with to ensure that there's privacy and there's no abuse and that data is properly used. So that's the second element, it's around digital solutions.

The third is around partnerships, and I think this has been a big lesson for us in terms of MEDA's history, is that when we're talking about agri-food systems, we are obviously taking a systemic approach. We're not addressing just one issue, and so we need partners in order to be able to have a significant impact. We will be working very closely with partners on the ground. Lutheran World Relief is one, Fundación Capital is another, but we'll also be looking to build partnerships with digital solutions providers, with providers of climate resilient technologies, with organizations that really know how to mainstream gender into economic development, so that's another aspect that we'll be focusing on through this project. So, just in conclusion, the three innovative elements are a circular economy approach, leveraging digital solutions, not just for distribution, but also to enable us to collect data and leverage that data to inform financial decision-making at banks or microfinance institutions, and the third is around partnerships, really partnering with institutions on the ground so that we have a much more effective impact. Thank you.

**Carl Hiralal:**

Thank you. That's a very involved answer, but obviously it's a very difficult task that you have at hand, but you did highlight some very important issues which are common to anyone who is looking at addressing climate change. The points you raised about digital solutions and partnerships are important, there are many, as Babak indicated, and it is a multi-stakeholder approach to address this. I'm glad that you see that that is an important part of the work that you're doing and again, you highlighted sustainability and environmental concerns, these are important, and I hope we will address them a bit more in detail later on.

So Tomás, you've heard from the people in the field, the practitioners who are what I refer to as "boots on the ground" and trying to address climate change from a very practical perspective. Obviously, the financial services industry, as I indicated, has an obligation to develop and deliver products that are needed in the societies where they operate – and, based on Nadia and Omoneka's discussions, I'm sure you appreciate that. So, in that context, concerns are further exacerbated by climate change, which arguably is one of the biggest threats to food security. So I want to change the discussion now and focus it on food security. Can you tell us what SUGESE has been doing, or Costa Rica has been doing, to develop capacity of its supervisors and also in the context of food security?

**Tomás Soley:**

Thank you Carl. Great question because one of the main concerns for any regulator is how to align the vision inside the supervisory body. From my personal point of view, to create a vision,

it is necessary to start by aligning internal expectations. At the beginning, for many colleagues in the superintendencies, this issue was not relevant. At most, it was seen as a trend, perhaps little related to our supervisory tasks.

Building internal capacity and capabilities to understand climate-related risks, physical transitions, and habitat loss, and their impact on financial stability, is critical. In the early stage, there was a lot of emphasis on leveling acknowledgement and creating awareness. Secondly, mature knowledge to understand that the strategy to confront climate-related risks could not be separated from the risk-based supervision frameworks that have been built. Climate-related risks might be identified, evaluated, and managed in the same way that the other risks that financial institutions are called upon to address. For this reason, once the capabilities have been created, the metrics and analysis scenarios have been defined, addressing supervisor practice is necessary.

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**Tomás Soley**

SUGESE

The roadmap considers, in this line of work, data, as my colleagues said before, developing of technical and data analysis capability to develop climate-risk assessment. It involves important coordination with different government entities and the private sector, of course. Disclosure: I might mention that two weeks ago we started the work of the technical group for the definition of a green taxonomy for the financial sector in Costa Rica. It is a joint project of the four superintendencies in coordination with the environmental ministry. The process will involve the creation of internal and external capabilities for development and correct use and maintenance of this important tool. The taxonomy, as you know, will allow us to introduce a climate-related disclosure regime for the financial sector in different ways. Third, on the other hand, for vulnerability analysis, the roadmap also establishes the need to identify exposure to climate risk and carry out vulnerability exercises and stress testing. The development of capabilities in this regard is identified also in this roadmap.

And fourth is supervision and regulation practices. At the later stage, the adjustment in risk-management regulations and investment policies might be considered, as well as the approach to this issue from supervisory practice and the evaluation of the supervisory entities. In this process, exploring the role of superintendencies in promoting and evaluating transition plans for the financial sector to a net-zero economy will not be absent. But that is not all, Carl. To be successful with this roadmap, and I strongly support the work of Nadia and Omoneka, it is necessary to insist that other aspects might be considered to manage the impact of climate action on financial systems, such as financial education, digitalization, innovation, financial inclusion, the gender gap, protection gap, and other issues that are involved. These subjects

make up another ring of work in the creation of supervisory capacities as well as in the analysis of supervisory practice. The effects of reducing the vulnerability of the most vulnerable people, like those in the agriculture sector, will not be a minor issue. If you allow me, I have a little example. In Costa Rica, we launched our central bank's payment system, electronic payment system, some years ago, 30 years ago, actually. But with the pandemic, it was a very important tool for everybody, especially for the small and microbusiness enterprises. I want to share a personal experience, I went to a national park beside the coast some months ago, and when we left the national park it was very hot, we were very thirsty, we met a little enterprise selling coconuts, and they received payment by SINPE; that is the tool from the Central Bank that is free to use in order to get the money for this service. The guy who was selling the coconut told me how important this tool for them was because they were creating a history with the bank with the different incomes in their bank account. So, the bank account gave them a tool to have a better life, of course, but in the process, they are building a banking history that will, maybe, in the future enable them to get a loan, to get insurance, and to be in the system, in the formal system and take advantage of that. So, this this is one of the issues that we are working on through capacity-building and there is more than climate change, there are other issues that we must take opposition to. Back to you Carl. Thank you.

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**Tomás Soley**
SUGESE

**Carl Hiralal:**

Okay, thank you. There's quite a lot there, but I'll move on in the interest of time. Nadia, I'd like to move to you again because you bring, along with your colleague, the individual actual country experiences. So, the question is, how are new environmental regulations affecting the various stakeholders in the cacao sector in the Philippines and perhaps elsewhere? And also, are banks and investors adapting their practices? How are these different stakeholders making the transition to more sustainable practices in agriculture? The two operative words in those sentences have to deal with environmental regulations and sustainable practices. Can I pass this over to you? Thank you.

**Nadia Guerch:**

Sure. Thank you, Carl, for the question. There's a number of regulations that have been laid out recently with an impact on the sector. First of all, at the global level, I think the European Union's new law on deforestation-free products, which I think was passed in June 2023, has a potentially significant impact on cacao-producing regions such as the Philippines. However, in such a fragmented agriculture system, this may actually place an additional burden on smallholder farmers, particularly in the sense that obtaining new certifications, introducing a new monitoring and compliance mechanism, will drive up the cost with no guarantee necessarily of being able to secure a higher price on the other end. There's also a number of opportunities related to this, which I will maybe elaborate on a bit later on.

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> MEDA

At the country level as well, in the Philippines, a number of regulations have been enacted recently to address climate change and adaptations. Just to name a few, the government of the Philippines has laid out a strict code of practice for growing cacao, and this code aims specifically to provide general guidelines, technical advice, food safety and quality of production, and post-harvest and processing of cacao, and these are all in line with better natural-resource management. Another example is the Department of Agriculture: the Philippines is supporting the establishment of the Adaptation and Mitigation Initiative in Agriculture to support, specifically, environmentally sustainable livelihoods that can effectively manage climate risk. There's also another example with the national policy that has been enacted in the Philippines establishing a framework strategy and a program on climate change and the creation, even, of a climate-change commission. So, these are all very important regulations that have been passed and enacted. Unfortunately, what we're seeing is that these have not necessarily translated into increased access to finance for small-scale producers, including cacao farmers.

And so, our assessment shows that, in this case, agriculture continues to be viewed as a high risk by formal institutions such as banks. In fact, even in the Philippines there is a reform called the Agri-Agra law that mandates all government and private banking institutions to allocate at least 25% of the total loanable funds for agriculture. However, in practice, what we are seeing is that this is not fully working, and banks tend to prefer, in the end, to pay penalties instead of lending to agriculture producers because of their high risk profile. There's a number of reasons that influence the high risk profile of farmers: that includes lack of information on credit worthiness, high transaction costs versus small ticket sizes, natural hazards, among other things, and all of this results in financial institutions becoming hesitant to extend credits until platforms such as insurance support networks or other risk sharing mechanisms are in place.

We also think that a lot of these industry policies, and even sometimes government policies, regulations, and standards, even though they tend to support cooperatives and SMEs, they're often considered as gender blind, only very few interventions or policies target women users or other traditionally marginalized populations such as indigenous people and their capacity to

contribute to, and to equally benefit, from cacao-sector growth. All of this results in the majority of small-scale producers and cacao producers, in this case, as well as rural SMEs involved in the cacao sector, ending up raising their own financing through informal and alternative sources. So I'll just say that, at the end, access to finance, but also the right support mechanisms in place and the right partnerships, continue to be major constraints that are facing the scalability of adaptive measures in the agriculture sector. However, there are also a number of innovations, and I want to highlight this, that are being tested and implemented and some of which are being also implemented as part of this project that I think are worth mentioning, which perhaps I can talk about a little later.

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> **Nadia Guerch**
> MEDA

**Carl Hiralal:**

Okay, thank you. There's quite a lot there. Omoneka, I move over to you, again, for individual country experiences and I'm looking at the time here. Could you answer this particular question: how is MEDA addressing the financial constraints facing the cacao or coffee sectors, particularly by producers? More importantly, are there new environmental regulations affecting the financial markets in Honduras and elsewhere? Are banks and investors adapting their practices? Again, a loaded question, but something that's very important.

**Omoneka Oyier:**

Thank you, Carl, I will try to address it in a few minutes, I know we're running out of time. I think the picture in Honduras, unfortunately, like many other countries, is showing a decline in actual access to finance, both in urban areas and in rural areas. For instance, the World Bank's Global Findex placed financial inclusion in Honduras in 2017 at about 47% of the adult population. In 2021 it was 37%. So there was an actual decline, and you see that decline at all levels: women, rural areas, and so on. Another aspect that is quite surprising is that the pandemic ushered in a digital revolution in many countries. So, for the first time, because they were in lockdown or couldn't move around, or because of social distancing, people were forced to use digital solutions. Unfortunately, in Honduras, we are not seeing that exponential growth. The percentage of adults that have made or received a digital payment between 2017 and 2021 sits at about 7% or 8%. So, we're really talking about an environment where access to finance is a significant challenge and, in the coffee and cacao sectors, even more so because the areas that we're talking about are particularly susceptible to climate change, particularly drought.

It's called the "Dry Corridor" of Honduras; it's six departments that experience long periods of droughts followed by heavy periods of rain driven by the El Nino cycle. And so that introduces another element of risk that would make it very difficult for financial services providers to address access to finance constraints there, which is why we are introducing the digital solution. There's a means of providing information that can help de-risk, and also putting in some of our own capital as a demonstration effect in those areas.

In terms of regulations, I wouldn't say for this particular country that there are new regulations; there are existing regulations that just need to be more effectively implemented. For instance, there is a national water law that is not currently being fully implemented, especially in the areas that we're talking, about where water resource management is going to be the key constraint, is going to be the main factor in terms of our circular economic model. How can we work with financial providers to help build their capacity, as Tomás said, in understanding what is resource management, understanding the issues in the Dry Corridor, and what technologies they can finance to enable small-scale producers in those areas to meet their production goals and therefore their income and job creation goals?

At the international level, Nadia has mentioned the EU's law on deforestation-free products. Coffee and cacao fall within those categories. So this is both a constraint and an opportunity. We need to find a way to position Honduras small-scale producers and integrate them into the global cacao and coffee market, but, to do so, they need to show that their products are deforestation-free. So how do we, again, use digital solutions to help bridge that gap and to provide financing that helps them meet the additional cost to production that meeting this new standard, these new sustainability standards, will require? So, it's a gap, it's a constraint, but we also see it as an opportunity that we can leverage digital solutions to bridge. Thank you.

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>
> **Omoneka Oyier**
> MEDA

**Carl Hiralal:**

Okay, thank you. A lot of issues, a lot of interest, and there's a fair number of questions in the Q&A. Let me take a question from the Q&A, and I will direct it to you, Nadia. The question is, what innovations and solutions, such as carbon credits, are local stakeholders testing to address adaptation challenges and environmental regulatory concerns? Can I pass that over to you? I'm glad somebody raised the point of carbon credits. Thank you.

**Nadia Guerch:**

Sure, and it's a very exciting question certainly and something I'm very excited about. So yes, in fact I'm going to talk specifically about this innovation, which we're currently implementing through that RIISA project in the Philippines. It's basically an initiative that is developed by MEDA and in partnership with a carbon-trading company called KenEco, which is a subsidiary of a large cacao trading company, Kennemer Foods International. The focus of this initiative is to leverage carbon-trading as an innovative approach to incentivize cacao producers to adopt sustainable agriculture and resource management practices and ultimately contributing, obviously, to the mitigation of climate-change impact. So the carbon-trading initiative in this partnership is, in partnership with a cooperative which involves the recent project and ultimately the payment scheme, defined by both the trading company and these cooperatives, and it's essentially to support the livelihood of cacao farmers.

So, just quickly, the rationale behind this approach lies really in the significant economic and environmental benefits offered by tree crops such as cacao. So you can easily apply this approach to other similar crops. The idea is that, by encouraging small producers to cultivate cacao under tree canopies, a continuous cash income can be generated from first harvesting. This practice is precisely what helps prevent the burning of forest areas and the destruction of biodiversity habitat, which provides an immediate solution for carbon sequestration. And in this way, carbon sequestration can become an additional source of income for farmers, complementing their existing crops. So, for now, we're excited we've launched this partnership with one cooperative and the idea is to expand it in the next few months to many small-scale producers and farming areas in the region.

**Carl Hiralal:**

Okay, well thank you. That is very encouraging. Perhaps, Tomás, I'll move to you on one of the questions in the Q&A, and then perhaps any other panelists could respond. The question is, how is increasing environmental regulation and also the new requirement for climate-risk reporting affecting the work of local producers and value chains and also financial service providers. What are the risks or unintended consequences, such as exclusion? You want to touch on that?

### Tomás Soley:

Thank you Carl. It's a great question there, really, and for regulators, we must always keep in mind this balance between what we are regulating, what will be the secondary aspects of the regulation, and avoid exclusion. These are some of the issues that we must take into consideration when we are defining regulations. At this moment in Costa Rica, we now have a lot of regulation because we're just beginning. I think, with taxonomy, it will permit us to have a bolder vision regarding what is important to regulate and how to make the disclosures easier. The taxonomy will identify how the challenges of the financial system are affecting the real economy. And by the way, right now, we have the code of responsible conduct for the insurance sector, and we have the green protocol for the banking sector, and the exercise that they made looks at how the value-change is affected when they are putting money in one sector, they are selling insurance, or buying services from any providers. That will have a real effect on the real economy through the financial system. They must measure what will this be, the better way to give incentives, correct signals to the real sector who are loaning money and who are having a contract of services like automobiles, tires, etc. So there is regulation right now in Costa Rica, but we know that the responsible enterprise code of conduct that the companies, the regulated entities are putting into practice will affect this channel of value-chains, of course, but that is not a regulation issue.

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>
> **Tomás Soley**
> SUGESE

### Carl Hiralal:

Thank you for that. Those are very difficult questions to address. Everybody is grappling with that. But Nadia, I have a quick question here that I'll pass to you and then I'll go back, perhaps we have time for one last question, and I'll go back to Omoneka. The question to you Nadia is, what is the best model to use for financially assisting farmers in fragmented agricultural geographical areas? That's one of the questions in the Q&A. Do you think you can take a shot at that?

### Nadia Guerch:

In terms of finance, globally, I think really in general moving to more sustainable agriculture will require building adaptive capacity and that will happen through investment in resilient infrastructure, supportive mechanisms including social safety nets – I think Tomás has talked about some of this – and a greater alignment between regulatory measures. And I think this is really critical, that alignment between regulatory measures, national policy approaches, and support mechanisms that facilitate the effective implementation of these measures. I think it should address, maybe more directly, these questions that include instruments such as blended finance, which really has the potential to bridge the funding gaps and catalyze private-sector investments in sustainability initiatives. And really, in bringing in this de-risking through blended finance, we'll introduce new investors in the sector and demonstrate commercial viability of investments, so blended finance can eventually be phased in over time. But that will require, really, a multi-stakeholder approach and partnership approach between the financial sector, the food and agriculture industry, donors, and investors, as well as non-government players, such as NGOs and the tech sectors, where we see more and more innovations also coming in terms of facilitating access to finance and also to a number of technology and practices that will ultimately enable scaling up the sustainable practices in the sector. So that would be sort of be my answer. Omo may have some addition to this.

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>
> **Nadia Guerch**
> MEDA

**Carl Hiralal:**

Okay, Omoneka, if you can add on to what Nadia said, but also another question directed to you while you have the floor. The question is, microfinance institutions frequently face criticism for potentially trapping rural individuals in the cycle of debt. So you're familiar with that. Despite the expansion of these institutions, the economic circumstances of the targeted population often show little or no improvement. My question is, in what ways do microfinance institutions contribute to enhancing the income of poor people? A loaded question, but I'm sure you are familiar with that challenge. Can I pass this over to you?

**Omoneka Oyier:**

Sure, yes. A very loaded question indeed. I think first of all, I would say that not every microfinance institution, and I think a lot of microfinance institutions probably will not fall in this category. There have been instances where we've seen examples of debt traps. For instance, in India there was a microfinance crisis a few years back. I think that for the most part, the microfinance institutions that we work with have a very strong social mission. And also we partner with them to help build the capabilities, again, in terms of understanding gender considerations and environmental considerations. They're not going into this blind and making assumptions about what is or what is not there, and then lending to people who don't have the capacity to repay. So there's really that sort of handholding accompaniment that must go alongside any financial services partner that we're going into. Whether it's a microfinance institution, an insurance provider, a large bank, or a digital financial services provider, there's a lot of work and handholding that comes into play to ensure that we are not building on top of the wrong assumptions. We really understand the context that we're going into, really understand the segment that we're working with, and we really try as much as possible to incorporate those considerations and design of the solutions that are eventually distributed.

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**Omoneka Oyier**
MEDA

So, I think that I'm not necessarily addressing this person's question directly. My answer is that I wouldn't put all microfinance institutions in same under the same umbrella; just like you have banks that are not working in the best interests of their clients, you have microfinance institutions also that fall in that category. But for the most part, the institutions that we've worked with have been aligned with our vision, our mission, and we've seen some success in terms of the economic development of the borrowers that they've worked with, but also their social improvement and also the use of environmental technology. Those have been the benefits that we've seen in our partnerships.

**Carl Hiralal:**

Okay. That's very encouraging. Tomás, I'll give you the last word here and pick up on what Omoneka just talked about, we only have about a minute left. Filling a protection gap is important and parametric insurance is one of the ways to deal with it, and microfinance institutions can use parametric insurance to de-risk loans. Are you seeing activity in that area in your region or in Costa Rica?

**Tomás Soley:**

For sure, Carl. We are launching, as the Association of Insurance Supervisors of Latin America (ASSAL), a working group on climate change-related risks and sustainability. One of the big issues that we are working on is a protection gap. This working group helped the whole association to create and to launch a call-to-action last May. Every country, most of them in the region, is working on that issue. The real thing is, and again, we do not make a public choice, we don't make public policies, but we can help a lot of governments to build this kind of policy.

Some countries are working, and Costa Rica is one of them, on creating the financial strategy to rebuild the economy after a natural catastrophe. One of the issues is how to rebuild the critical infrastructure because if the government could not rebuild the critical infrastructure, the protection gap will be very, very weak.

What I mean, and maybe calling the example of Hurricane Mitch in Central America, especially in Honduras some decades ago, is a good example. That the country could not rebuild the critical infrastructure, so those companies that have insurance take the money and go away because they recovered the money, but the economy as a whole couldn't begin the recovery. So, this is a big issue in the ASSAL, we are working on these kinds of discussions and it's a big issue in the International Association of Insurance Supervisors (IAIS). Our new chair of IAIS has made it very clear that climate change and the protection gap are two of the most important goals in these new periods for the insurance communities.

**Carl Hiralal:**

Alright, well thank you for that. We are running out of time here. Omoneka, I see a hand up. Do you have a ten second comment you want to make?

**Omoneka Oyier:**

No, no, no. I think we should close.

**Carl Hiralal:**

Alright, well thank you very much. There's a lot of issues, a lot of comments, and a lot of questions, but a lot of very important points were raised. We talked about the importance of the environment, doing these things in a manner which is sustainable, but also taking into consideration environmental considerations. We talked a lot about teamwork and in addition to that, Omoneka, you also highlighted the need for education of digitization, and I think that is important. You talked about partnerships and teamwork, and all of those things are important, and what is coming across here is that this is a multi-stakeholder solution. This is not one organization, one department that can solve this. I hope that message comes across, because there are many parties who have to come to bear some of the burdens in solving these problems. At the end of the day, gender equality and financial inclusion, in my mind took a retrograde step during COVID, and hopefully some of the measures that you all described today can erase some of those retrograde steps that were taken and take us forward. So, I thank everyone in the audience for their questions. I thank the participants again for the questions, and I thank the panelists and certainly the people at the Toronto Centre who put this together. Okay, so thank you very much and have a good evening and good morning, everyone.