DVARA E-Registry

FINANCIAL INCLUSION AND ITS EFFECT ON CLIMATE RISKS

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Introduction

According to our analysis, low-income neighbourhoods are typically the ones that are most severely impacted by climate change. Extreme heat and increasingly frequent and intense weather-related natural catastrophes are examples of first-order effects of climate change that include fatalities, injuries, and property damage. Major climate-related shocks like flooding, droughts, and storms result in higher death tolls in highly vulnerable countries compared to the least vulnerable countries. Yet climate disasters produce even more destruction through second- and third-order effects such as disease, malnutrition, displacement, conflict, and loss of livelihoods. Because poor countries do not have adequate public health, institutions, and infrastructure to contain the damage, these second- and third-order effects further accentuate the gap in climate impacts between the rich and poor.

Dvara's first-hand experience from the ground tells us that the climate crisis is not "gender agnostic." Climate change has a disproportionately negative impact on women and girls, amplifying existing gender disparities and posing special risks to their livelihoods, health, and safety. Women make up 80% of people forcibly displaced by climate-related disasters in developing countries, and they are more likely to die as a result of natural disasters like droughts, floods, and storms. Women also experience larger second- and third-order effects, including increased risks of gender-based violence, dropping out of school, and early child marriage. Similar inequalities beset other marginalized groups, including the very young, the elderly, ethnic and religious minorities, indigenous people, and refugees.

Women in the Indian subcontinent rely more on natural resources but have less access to them. Women in these areas are disproportionately responsible for providing for their families' needs for food, water, and fuel. Agriculture is the most important employment sector for women in low- and lower-middle income nations like India, Pakistan, and Bangladesh, during periods of drought and erratic rainfall, women, as agricultural workers and primary procurers, work harder to secure income and resources for their families. They are under additional stress as a result, and frequently drop out of school to assist their mothers in bearing the burden. A recent case in example is Pakistan where a combination of climate hazards, constraining gender norms and high dependence on agriculture meant that women farmers are especially hard hit by current floods. Similar is the case from the eastern state of Bihar, India where flood is an annual occurrence. As climate change increases the incidence of flooding, women here are becoming more vulnerable to violence and trafficking. The fragile region has seen great increase in violence and insecurity unleashed upon girls and women in the wake of these concurrent disaster.

While the poor suffer disproportionately, they have the smallest margins and least access to resilience strategies that can help them avoid, absorb, and adapt to shocks. Losses and damages are concentrated among the poorest vulnerable populations, as the intersection of inequality and poverty presents significant limits to adaptation responses. Moreover, any given loss affects poor and marginalized people far more because their livelihoods depend on fewer assets; their consumption is closer to subsistence levels; they cannot rely on savings to smooth the impacts; their health and education are at greater risk; and they may need more time to recover.

When current vulnerabilities and disparities develop more as a result of the effects of climate change, these severe inequalities will undoubtedly get worse. Hence, it is crucial that any development agenda, including that for financial inclusion, takes into account how poor and vulnerable households may develop resilience and make adjustments to the way the climate is changing. No development project can be sustained if the effects of climate change are not taken into account, especially for the poor and vulnerable.

Financial Inclusion Could Help the Poor Build Resilience to Climate Shocks

It is high time to also focus on the adaptation needed by the poor, and on how financial services can be used by the poor and the vulnerable, especially women, to help them build resilience and adapt to the many challenges — and opportunities — posed by the climate crisis. When it comes to building resilience to climate shocks at the individual and household level, it is essential to consider the role of financial services and how to translate the macro-level climate finance commitments into products and services that can help vulnerable households.

Financial inclusion can help the poor build resilience to climate shocks. Financial inclusion refers to the access and use of financial services by individuals and businesses, particularly those who are unbanked or underbanked. These financial services may include savings accounts, credit, insurance, and other financial products.

Climate shocks such as floods, droughts, and other extreme weather events can have a devastating impact on the livelihoods of the poor, who often lack the resources and means to cope with such events. By having access to financial services, the poor can better prepare for and recover from climate shocks. For example, savings accounts can provide a buffer against unexpected expenses, such as those incurred from repairing a home or replacing lost crops. Credit can be used to finance investments in more resilient farming practices, such as crop diversification or the adoption of drought-resistant crops. Insurance can provide a safety net against crop failures or other losses resulting from climate shocks. Furthermore, financial inclusion can also facilitate the transfer of funds from urban areas to rural areas, where many poor people reside. This can provide a vital lifeline to those who have been affected by climate shocks and need financial assistance to recover.

In conclusion, financial inclusion could play an important role in helping the poor build resilience to climate shocks. By providing access to financial services, the poor can better prepare for and recover from the impacts of extreme weather events, ultimately improving their livelihoods and well-being.

How Can Financial Inclusion Help the Poor Build Resilience to Climate Shocks:

Access to Savings and Credit: Financial inclusion can provide the poor with access to savings accounts and credit, which can help them prepare for and recover from climate shocks. Savings accounts can provide a buffer against unexpected expenses resulting from climate shocks, such as repairing homes or replacing lost crops. Credit can be used to finance investments in more resilient farming practices, such as crop diversification or the adoption of drought-resistant crops.

Access to Insurance: Financial inclusion can also provide the poor with access to insurance products, which can help protect them against losses resulting from climate shocks. For example, crop insurance can provide a safety net against crop failures, while property insurance can help protect homes and businesses against damage from extreme weather events.

Remittances: Financial inclusion can facilitate the transfer of funds from urban areas to rural areas, where many poor people reside. This can provide a vital lifeline to those who have been affected by climate shocks and need financial assistance to recover.

Increased Income and Economic Opportunities: Financial inclusion can also provide the poor with access to financial products and services that can help them increase their income and improve their economic opportunities. For example, microfinance loans can be used to start small businesses that are more resilient to climate shocks, while financial education can help improve financial management skills.

How FPOs Can Play a Pivotal Role

Farmer Producer Organizations (FPOs) can play a significant role in building resilience to climate shocks by providing farmers with access to resources, knowledge, and services that can help them adapt to changing weather patterns and mitigate the impacts of climate change. Dvara E-Registry's experiences with these FPOs in last three years demonstrates the ways in which FPOs can help in resilience to climate shocks:

1. Facilitating access to climate-smart agriculture practices: FPOs can help farmers adopt climate-smart agriculture practices, such as conservation agriculture, agroforestry, and integrated crop-livestock systems. These practices can help farmers mitigate the impacts of climate change by improving soil health, increasing biodiversity, and reducing greenhouse gas emissions.

2. Providing access to weather information and early warning systems: FPOs can provide farmers with access to weather information and early warning systems that can help them prepare for and respond to climate shocks. This can include providing farmers with weather forecasts, flood alerts, and drought monitoring systems.

3. Facilitating access to credit and insurance: FPOs can help farmers access credit and insurance products that can help them prepare for and recover from climate shocks. This can include providing farmers with access to crop insurance, weather-based insurance, and credit products that are tailored to the needs of small-scale farmers.

4. Promoting the adoption of renewable energy: FPOs can help farmers adopt renewable energy technologies, such as solar panels and biogas plants, that can reduce greenhouse gas emissions and provide a reliable source of energy for farming activities.

5. Building partnerships and networks: FPOs can build partnerships and networks with other organizations, such as NGOs, research institutions, and government agencies, to leverage resources and expertise that can support climate resilience activities.

It could be summarised that FPOs can play a critical role in building resilience to climate shocks by providing farmers with access to resources, knowledge, and services that can help them adapt to changing weather patterns and mitigate the impacts of climate change.