

# OVERVIEW OF THE FRAMEWORK

An analytical  
framework for  
the integration of  
Financial Inclusion  
and Sustainable  
Finance



for better  
financing



# CONTEXT

Since the turn of the millennium, meeting the needs of the world's poorest has been on the global agenda, actioned in the United Nations Sustainable Development Goals (SDGs), which were designed as a shared blueprint for peace and prosperity for people and the planet, now and into the future, and have resulted in unprecedented efforts to 'leave no one behind' in a globalising world.

*Inclusive, sustainable financial services* are emphasised as critical to many aspects of human development, with financial inclusion positioned prominently as an enabler of many of the SDGs – and, for the past few decades, strongly promoted as a policy measure for achieving equitable social development as well as financial and economic growth. Globally, financial inclusion levels have indeed increased, owing in large part to efforts by financial inclusion and sustainable finance initiatives, within the enabling context of new digital technologies that have given rise to new financial services providers, offering new products, via new delivery channels and new business models.

The wider context of the emphasis on financial inclusion, however, has been the stark income and wealth inequalities evident in many countries; and, during the same period, a series of global financial, climatic and health shocks that have highlighted the fragility of our global financial system and how it serves (or underserves) people at the bottom of the income pyramid.

The 17 SDGs represent not only a values-based framework for a well-functioning society to address the world's most pressing needs, but also an *integrated* framework that, in its insistence on sustainability, takes a holistic and inclusive approach to achieving social, ecological/environmental and economic outcomes (alongside governance objectives). Furthermore, in their emphasis on sustainability, the SDGs are a global call and commitment to work together more collaboratively, and to go above and beyond current actions to ensure lasting peace and prosperity for **PEOPLE** and **PLANET**.

For development tools/objectives like sustainable finance and financial inclusion, in other words, the SDGs map out a particular set of values and approaches. Furthermore, inclusive, sustainable financial services will be fundamental to fulfilling at least 13 of the 17 SDGs. And yet, for both sustainable finance and financial inclusion, the reality has been a tendency to skew strongly towards a particular focus area: 'sustainability' interpreted as pertaining to achieving *environmental* objectives (PLANET) in the case of sustainable finance; and 'inclusiveness' and 'inclusion' as pertaining to achieving *social* objectives (PEOPLE) in the case of financial inclusion. What is more, in terms of both conceptualisation and implementation, the two approaches have tended to lack mutual integration and collaboration.

How money is allocated, and for what and whom, is instrumental in shaping a society's functioning; in this way, globally and within countries, the financial sector is a powerful enabler of or obstacle to inclusive economic growth. So, how can financial services providers promote inclusion, sustainability and economic growth while reducing inequality and preserving our environment? Sustainable finance and financial inclusion are two mechanisms that are increasingly valued and in use towards this end. But hitherto their contributions have been uncoordinated with each other, and thus not deliberately complementary.

What if sustainable finance and financial inclusion could be combined and integrated, to be complementary within a single, coherent framework? This would surely allow for better impact overall. Given multiple global crises, given the urgency of the SDGs, given the need for genuinely inclusive, sustainable financing for **PEOPLE** and **PLANET**, the time is now for exploiting the natural synergies between these two approaches. It will, however, require global financial leaders to work together.

## Financial inclusion and sustainable finance: A critique

Research from countries in which the Making Access Possible (MAP) programme works finds that a *financial inclusion* focus supports equitable and inclusive economic growth. Successful financial inclusion initiatives increase access for low-income individuals, households and small enterprises to appropriate financial services. In the process, financial inclusion increases resilience through facilitating access to basic services and infrastructure, healthcare, education, and income-earning opportunities, and boosts human capital formation.

At its most 'basic', the key objective of financial inclusion is to ensure the *accessibility and reachability* of formal financial products and services for every individual, across the income spectrum; these financial products and services include payments/transactions, insurance, savings, remittances, credit schemes and loans. This form of financial inclusion is valuable and can be measured with relatively straightforward metrics such as 'access to a bank account' or 'access to an ATM' or even 'bank account ownership'. By expanding access to appropriate formal financial services, financial inclusion plays a much-needed intermediating role in the economy between microeconomic and macroeconomic actors.

More nuanced forms of financial inclusion, including the version practised by MAP, emphasise understanding consumers' financing needs based on their *actual current usage* of financial services (whether formal or informal) to support their activities in the real economy. They also emphasise understanding (in fine detail) how and where people – especially low-income people (who are in the majority in least developed countries, or LDCs) – spend their money, which is most often in the informal economy and, therefore, how such expenditure might be brought into the formal economy for the benefit of all: the citizenry, the government and the private sector. In such cases, financial inclusion metrics are based on rich, granular data on consumers' uptake and usage of a range of (formal and informal) financial services, per livelihoods segments, which can be further disaggregated by demographic indicators such as geographic location (urban/rural), age, and gender, to provide insights into investment opportunities for financially including larger sections of the population.

Financial inclusion is therefore a mechanism that the financial sector uses – albeit in a limited fashion currently, for the most part – to engage, interact and transact with low-income households in a bid to include them in the financial system. In financial inclusion's simplest and most limited form, the emphasis is on increasing access. More nuanced models identify opportunities for financial services providers and products to meet consumers closer to where they are, rather than requiring them to conform to existing offerings, and join the dots between economic and social exclusion and financial exclusion. In the

MAP research on clean energy investment opportunities in low-income markets, for instance, we have highlighted the connections between poverty, environmental degradation, energy exclusion and financial exclusion. This kind of wider conceptualisation of financial inclusion therefore adds a 'sustainability' dimension (including, in the case of energy exclusion, environmental sustainability).

For the most part, nevertheless, financial inclusion has kept a strong emphasis on **PEOPLE**; and to a large extent this has been a strength.

By contrast, while the prevailing approach to *sustainable finance* has been broad and all-encompassing, aiming to make an impact in terms of social and environmental objectives, the environmental initiatives continue to dominate the sustainability aspect of the agenda, with sustainable finance approaches being focused predominantly on the SDGs related to the **PLANET**.

Underlying or embedded in most conceptualisations of sustainability are concerns for social equity and economic development. By the same token, sustainable finance practised in a sophisticated/evolved manner will by definition include social improvements – e.g. financing clean energy initiatives aimed at addressing environmental degradation within low-income communities. Nevertheless, for the most part, within their emphasis on sustainable finance financial institutions have missed an opportunity to prioritise the wider, social issues. Furthermore, within sustainable finance approaches, ESG (Environment, Social, Governance) has emerged as a galvanising construct for how private sector players are measuring and reporting on their sustainability intent and efforts.

We argue, however, that as a simple categorisation framework, ESG is impoverished, inadequate for capturing the *depth and breadth of metrics* that should in fact be considered and reported on if one is to fulfil the intent of strategies marketed under the banner of ESG in sustainability reports. The fact that ESG has its origins in minimising business's *exposure to risk* and emphasises *doing minimal harm* is a clue to its tendency to be underwhelming as a metric for successful business and investment contribution to **PEOPLE** and **PLANET**, let alone to peace and prosperity.

Furthermore, while ESG has emerged fairly recently as a common theme in the sustainability arena, we argue that in fact it is not new; practitioners who have been working within sustainable finance and financial inclusion alike assert that the basic tenets of the ESG focus have been central to their work for the better part of the past two decades – albeit in their own areas of separate focus.

As the once-separate technical areas of sustainable finance and financial inclusion more and more start to overlap within their shared commitment to inclusive growth objectives, there has been increasing dissent in the discussions around ESG, with many arguing it is at a crisis point for relevance and usefulness; this is especially the case, some critics insist, when it comes to institutional capability and memory, where ESG is proving inadequate to help new entrants into the sustainable finance sphere get acquainted with the work done to date and the conceptual framework needed for designing and measuring future initiatives.

A further criticism directed at ESG is that it decouples environmental, social and governance imperatives from the financial and economic imperatives of business. Certainly, it is the productive activities in generating profit that have negative impacts on the environment, for example – and so clearly it is important to be precise in terms of causation. But ultimately improvement in terms of ESG metrics is dependent on investment. And, thus, more constructive metrics are needed, which integrate environmental, social and governance accountability within *revised conceptions* of good investment and financing and which recognise that higher, long-term returns will be generated by strong environmental and social performance.

It is argued that ESG alone is not sufficient to get the private sector on board for sustainable financial inclusion impact – in other words, for financially including low-income consumers at the kind of scale needed for more inclusive growth. To get the private sector on board to fulfil its role and responsibility in supporting the achievement of the SDGs, more needs to be done.

Finally, a big challenge at play in the current blending of sustainability with ESG is the tendency to privilege one of the core constructs – e.g. environmental or social – at the expense of the other; for example, in some geographic regions, environmental risks are focused on as being more prominent than social risks, whereas in others the opposite is the case. The MAP research, however, demonstrates that the environmental and social objectives are in fact coupled when it comes to risks; more significantly, this means they are also intertwined when it comes to opportunities to move the needle on financial inclusion and sustainable finance.

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The mutually supportive role the two imperatives – environmental and social – play points to opportunities for the financial sector and policymakers to leverage both in a more complementary manner, suggesting a new way forward for society to accelerate progress on the SDGs.

## PURPOSE

In the context already mapped out above, the purpose of the research was to explore how financial inclusion and sustainable finance can be mutually leveraged to contribute to inclusive economic growth and the achievement of the SDGs. The assumption is that being able to identify opportunities for sustainable investing, which both delivers profits for financiers and tangibly enhances consumer well-being and livelihoods, is key to tackling the economic, social and environmental issues of our time. To that end, an analytical framework linking sustainable finance and financial inclusion within the context of strong social and environmental objectives has been developed. The framework identifies the way in which **PEOPLE** and **PLANET** outcomes are currently served by financial inclusion and sustainable finance, respectively, but also identifies gaps for further exploration in the currently unexploited synergies between the two approaches; the ‘shadow-space’ between financial inclusion and sustainable finance suggests potential products and financing mechanisms that could deepen inclusion and widen sustainability in support of better financing.

The new analytical framework also investigates the current focus on ESG, with specific reference to *measuring impact*. The framework puts forward a broader set of measurement indicators for business to track and rate its impact on society – through its economic and financing activities – in the areas of ESG by strengthening the financial inclusion emphasis. The reworked framework includes enhanced focus on social objectives as encapsulated in the SDGs, acknowledging financial inclusion as a mechanism for sustainable finance and thus, by extension, supporting the private sector to more fully embrace its role in contributing to the SDGs.

The outcome of this research can be understood as an evolution in the emerging relationship between financial inclusion and sustainable finance within the context of ESG principles as they relate to the SDGs. Importantly, the relationships between social and environmental outcomes in the context of sustainable finance and financial inclusion have been explored and mapped out. This then provides useful guidance to role players positioned to bring about meaningful shifts in implementing sustainable finance or financial inclusion in LDCs – linked to the SDGs.

As things stand, environmental themes and outcomes are the primary consideration in relation to capital flows through ESG-linked funds and infrastructure capital projects within the sustainable finance realm, whereas social outcomes are secondary. The inverse relationship is evident in how financial inclusion, with its focus on a suite of retail products for consumers, puts emphasis on social outcomes, with environmental outcomes being indirectly impacted, or secondary in focus.

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*What if the two constructs—financial inclusion and sustainable finance—were intertwined and symbiotic, sharing large areas of commonality, with environmental and social outcomes showing up as sometimes overlapping, sometimes interlocking and sometimes nested within each other?*

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FINANCIAL INCLUSION  
SUSTAINABLE FINANCE

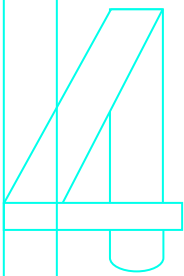
# ENABLE

For financial sector development that enables inclusive growth on a scale sufficient to challenge poverty and inequality, we argue for the continued – and in fact *increasing* – relevance of financial inclusion. Bringing households into the formal financial system through more inclusive financing increases resilience and opens up opportunities, addresses political and economic tensions, and fulfils a role as the mechanism for money to reticulate at the local level, while simultaneously addressing impact and outcomes (including environmental) where this matters most.

Financial inclusion, with its strong emphasis on households and the real economy, acts at the micro level (despite national-level coordination and policies) as an enabler of economic and social inclusion, while sustainable finance acts at the macro level – through directing targeted investment flows into the overall economy. Financial inclusion in this way is the link between the financial sector (macro) and genuine, real-economy activity (micro) on the ground. Put differently, if financial inclusion is the arteries, and finance the blood that flows through them, then increased financial inclusion means improved delivery of vital life blood to the healthy body that is society and communities.

We argue here that financial inclusion and sustainable finance are complementary, especially with regard to achieving the SDGs. Nevertheless, as also argued, actions to promote financial inclusion within sustainable finance have thus far been implemented in seeming isolation. Integrating financial inclusion into sustainable finance frameworks becomes not only logical but imperative if financial institutions hope to address the needs of underserved populations; and doing so can go a long way towards tackling a range of pressing social issues in LDCs. We argue that when financial institutions adopt financial inclusion as part of their sustainable finance frameworks, this will open the way for them to contribute to the SDGs and measure that contribution through *meaningful* ESG metrics.

To refocus sustainable finance, and indeed the entire financial system, to address the twin needs for environmental protection and social upliftment more directly, practical guidance is required. However, currently that is in short supply. This document highlights the importance of linking sustainable finance and financial inclusion in service of achieving the SDGs. The framework's focus on *inclusiveness*, *sustainability* and *growth* suggests the need for new models of investment that have the potential to benefit financiers and bottom-of-the-pyramid households and small businesses alike, while strengthening countries' financial sectors and increasing countries' potential for self-determination.



# SUSTAINABLE FINANCE AND FINANCIAL INCLUSION:

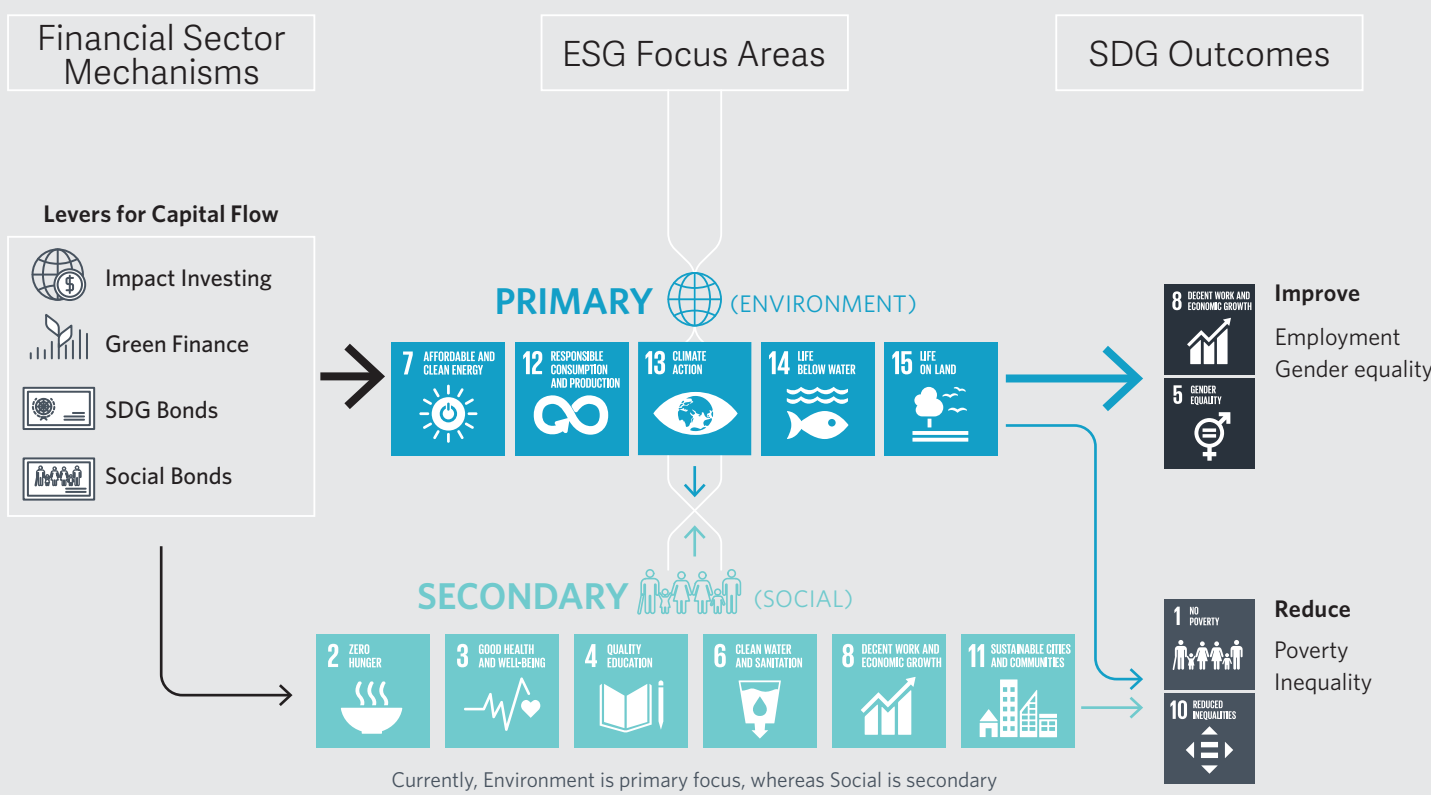
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## LINKAGES

The European Commission (2021)<sup>1</sup> defines *sustainable finance* as the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects. This should, in turn, directly contribute to achieving the social objective of improved livelihoods for individuals. LDCs face many environmental, social and governance challenges. Establishing a robust and sustainable financial sector not only aids in the management of risks related to the environment/climate and society but also derisks markets, allowing for bigger investment flows and deeper financial market development.

The linkages between typical sustainable finance mechanisms and focus areas, environmental and social objectives, and the SDGs are summarised at a high level in Figure 1.

Figure 1: Sustainable Finance linkages



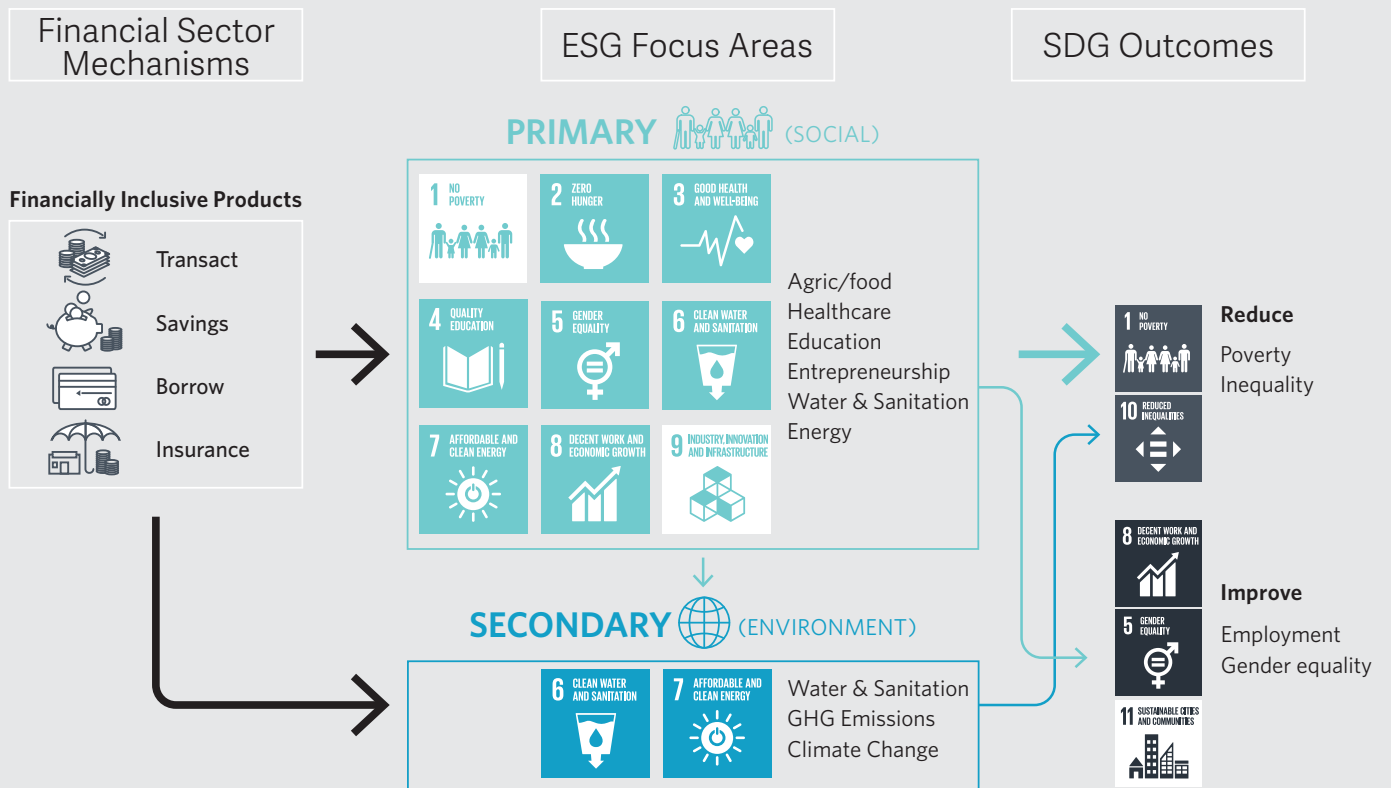
1. European Commission. (2021). *Overview of Sustainable Finance*. Available at: [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/overview-sustainable-finance\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/overview-sustainable-finance_en)

*Financial inclusion* is a critical enabler in enhancing the quality of life of households and individuals, especially the low-income, as well as raising the productive capacity of micro, small and medium enterprises (MSMEs). The goal of financial inclusion is – through improving access to appropriate financial services that fully meet consumers’ financial needs – to increase economic and social inclusion by supporting people’s needs and activities in the real economy. In this way, financial inclusion increases people’s ability to obtain and sustain opportunities and helps to improve livelihoods. Poverty, unemployment, and gender inequality, as well as a lack of service delivery, crime, and social unrest, are among the socioeconomic challenges that the SDGs strive to address in order to leave no one behind; and the more nuanced versions of financial inclusion (as described earlier) are able to tackle the interdependent relationships between economic exclusion/poverty, environmental degradation, vulnerability, gender inequality, and social exclusion, through proceeding in the first instance from a deep understanding of consumers’ real financial needs as reflected in their real-economy activities.

Financially inclusive products – for payments/transactions, savings, credit and insurance – have the ability to produce positive social outcomes by reducing poverty and financial inequality. Such products, however, remain focused at the *retail* level; and, historically, the underlying intention of increasing access to retail financial products spoke to social (**PEOPLE**) objectives.

The linkages between typical financially inclusive products and focus areas, social and environmental objectives, and the SDGs are summarised at a high level in Figure 2.

Figure 2: Financial Inclusion linkages



**Sustainable finance is more focused on environmental issues.** The scope of sustainable finance has been seen as broad and all-encompassing, but environmental initiatives have dominated; and financial institutions have missed the opportunity to address pressing *social* issues on a broad scale and systemically.



**Financial inclusion is more focused on social issues.** Financial inclusion, on the other hand, has much traction in addressing broad social issues, while being less focused historically on environmental issues.



## AMPLIFYING IMPACT:

# ANALYTICAL FRAMEWORK

Sustainable finance and financial inclusion are, therefore, two separate (but clearly related/compatible) constructs, both of which enjoy substantial support among governments, development institutions and the private sector, and both of which contribute to the achievement of a set of development objectives (the SDGs). The question is, therefore, whether these two areas can be synchronised to mutually leverage impact, in order to accelerate progress towards the SDGs. It is our belief that indeed they can be synchronised: that their high levels of complementarity indicate that, when combined, their effectiveness will likely exceed the sum of their parts. For this reason, we believe that any sustainable finance framework should integrate financial inclusion, with the SDGs providing the shared and coherent goalposts.

In order to move towards such a framework, the technical approach seeks to integrate goals and mechanisms of each practice area, embedded within the holistic construct of the SDGs (see Figure 3, and further discussion thereafter). The proposed integrative framework makes a case for pursuing joint financial inclusion and sustainable finance objectives, models and approaches. We argue that bringing the two constructs into dialogue with each other can:

- Provide the rationale for policymakers, regulators and the financial sector more broadly to adopt financial inclusion principles as a crucial component of their sustainable finance and sustainable banking frameworks and strategies, in order to more effectively address the social objectives of the SDGs (alongside the environmental objectives).
- Positively influence how corporate/financial institutions use their strategy, management approach and governance in the origination, development and deployment of services and offerings that can be more socially inclusive and positively affect financial inclusion.
- Inform the identification of financially inclusive investments and market opportunities likely to contribute to the attainment of **PEOPLE** and **PLANET** objectives simultaneously by bridging the chasm between capital projects and retail products as experienced by households.
- Inform regulatory decision making around implementation of the corporate/financial sectors' sustainable financing framework, which then provides line of sight on how the policy approach can lead to real and felt effects by households in LDCs.



## Goals

The framework seeks to highlight a transformation of the financial system to focus on the goals of *inclusiveness*, *sustainability* and *growth*, within the context of the value system of the SDGs.



## Role players

The analytical framework has been developed with role players that will be crucial in implementing the change this research advocates for, namely:

- Regulatory bodies such as central banks and/or stock exchanges at country level.
- International financial institutions, such as the International Finance Corporation (IFC) and the International Monetary Fund (IMF).
- Development partners, and banking associations and networks – specifically, the Sustainable Banking & Finance Network (SBFN).
- Commercial and retail banks.
- MSMEs and their advocates and associations.
- Large corporates and other private sector role players who are embedding financial inclusion into their sustainability strategies and reporting.



## Values informing the approach

There are currently three strategies in use in the financial system to demonstrate sustainability, which can be understood as a maturity progression: greenwashing, going beyond, and direct investment. The *greenwashing* approach is in effect a labelling exercise in sustainability and ESG reporting, where existing activities are shallowly linked to SDGs (most often by positioning SDG icons alongside text describing existing activities). By contrast, the *going beyond* approach involves a more deliberate attempt to add to existing activities in a way that would contribute to sustainability, either because of a profit orientation or not; for example, a corporation could invest in contributing to the health of the community in which it operates, despite the fact that such investment is not strictly required under traditional business considerations. Finally, *direct investment* is seen in firms that have begun integrating sustainability principles in their operations and seek to fulfil more of a role as a development partner in the context of growing their business; companies directly involved in producing or financing only clean energy equipment or infrastructure would be an example of this.

The hope of achieving the impact required to attain the SDGs lies largely in the *going beyond* and *direct investment* strategies, because business as usual will not result in the realisation of the SDGs, which is why we encourage financial institutions and corporations to explore and participate in these approaches.



## Focus

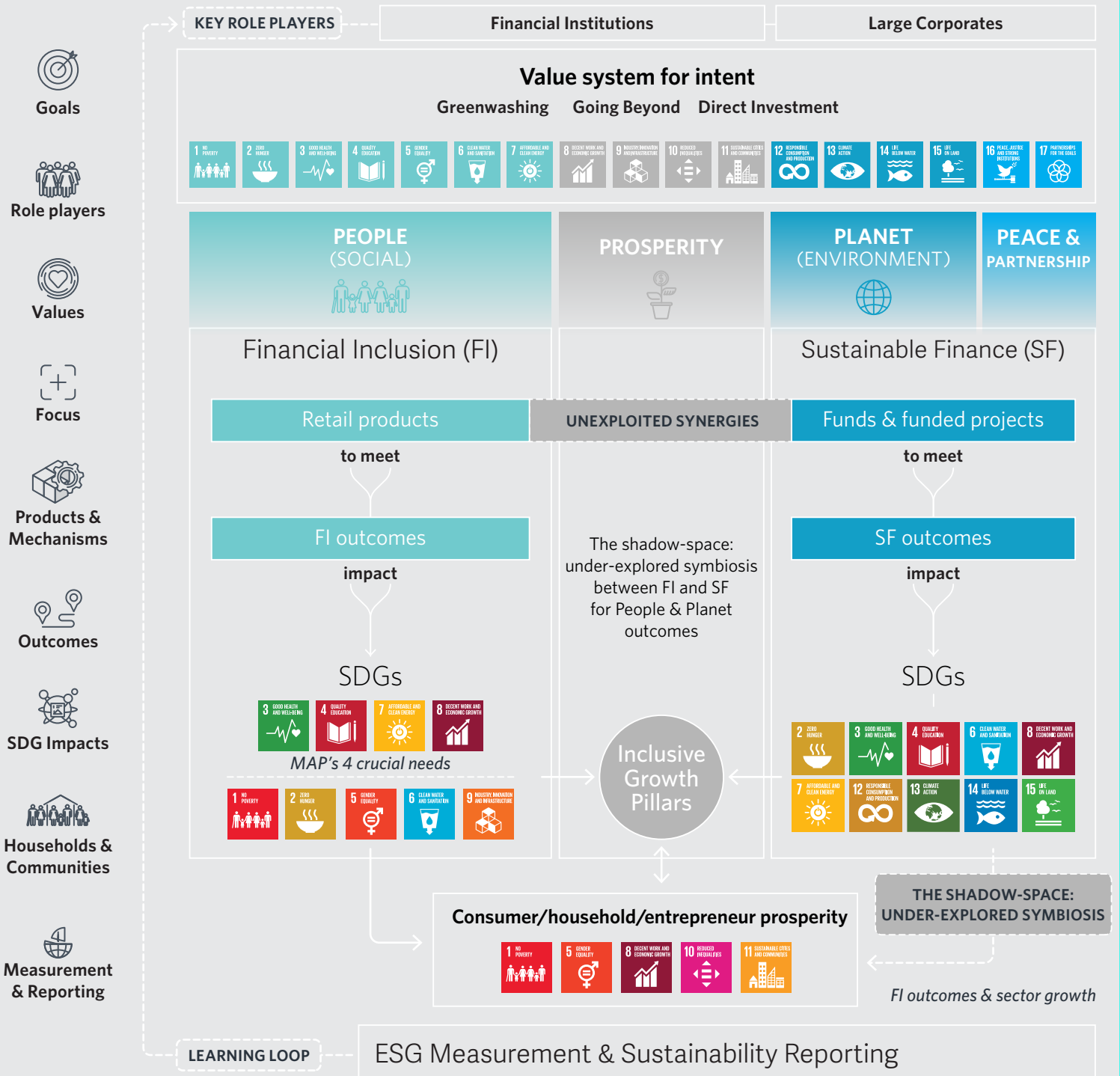
Using the 5P structure of the SDGs (people, prosperity, planet, peace and partnerships) assists in elucidating the primary focal points, namely **PEOPLE** and **PLANET**. We identify the linkage from financial inclusion to the **PEOPLE**-focused SDGs, and from sustainable finance to the **PLANET**-focused SDGs, as well as the cross-linkages. These linkages and cross-linkages should be more intentionally leveraged, for greater impact, including increasing consumer, household and entrepreneur PROSPERITY – which the UN ties to ‘fulfilling lives and economic, social and technological progress occurring in harmony with nature’.

Figure 3

Inclusion

Sustainability

Growth



Goals



Role players



Values



Focus



Products & Mechanisms



Outcomes



SDG Impacts



Households & Communities



Measurement & Reporting



## Products and mechanisms

Financial institutions and corporations are the primary custodians of retail product introduction as well as the point at which major funding and projects begin; they are therefore well positioned to have a direct impact at the household and community level. *Retail products* - including savings, credit, insurance and transactions/payments - meet the financial inclusion objectives of lowering transaction costs, increasing opportunity to invest in future earning potential, saving time, increasing levels of privacy and security with regard to finances, and increasing resilience through offering the ability to mitigate against risks faced at a household level. *Sustainable financing mechanisms* such as impact investing, social bonds, 'green finance', and sustainability-linked bonds, to name a few, which are typically facilitated through funds and capital projects, seek to meet the following long-term goals: carbon footprint reduction, clean energy, pollution reduction, and waste reduction. While financial inclusion is focused on (micro-level) retail financing, sustainable finance is focused on higher-level (macro) financing. Together these two mechanisms attempt to grapple with the same problem (sustainability) from different angles.



## SDG impacts

MAP has previously proposed nine pillars that can be used to assess the extent to which countries have the key elements and structural underpinnings in place for enabling inclusive growth, and has identified that financial inclusion plays a role in seven of those nine pillars:

1. Macroeconomic context.
2. Education and skills.
3. Basic services and infrastructure.
4. Health and human development.
5. Asset building and entrepreneurship.
6. (Challenging) corruption and rents.
7. Fiscal transfers and social protection.
8. Financial sector development.
9. (Challenging) unemployment and income inequality.

**The 4 crucial needs**

In combination with MAP's household needs analysis, looking at how households use financial services to meet real economic needs, MAP identified that financial inclusion plays a role in seven of the nine pillars to support inclusive growth. Pillars 2 through to 5 are crucial real-economy needs at a household/micro level and therefore represent additional areas of impact for the MAP version of financial inclusion, which goes beyond the traditional benefits of financial inclusion and links directly to the **PEOPLE** goals of the SDGs. Furthermore, pillar 7 (in the form of redistribution/social grants), pillar 8 (financial sector development) and pillar 9 (challenging unemployment and income inequality) are areas that financial inclusion supports indirectly, either through specific products (e.g. digital payments for social grants) or through the fact that increased participation in a country's formal financial sector has the benefit of deepening and stabilising that sector, and through the impact of the traditional benefits of financial inclusion (e.g. increased disposable income means reduced poverty).



## Households and communities

Crucially, the framework highlights how the linkages and overlaps between financial inclusion and sustainable finance present as a gap - a shadow-space of under-explored symbiosis - in the current financial system. Furthermore, the PROSPERITY goals, which embody the triple goals of inclusiveness, sustainability and economic growth, are neither sufficiently focused on nor activated in the financing mechanisms provisioned to citizens and households at the bottom

of the income pyramid in LDCs. And ironically, these goals (inclusiveness, sustainability and growth) are critical for societal stability, which is necessary for financial sector stability, of which financial inclusion is a critical enabler.

Retail products in the financial inclusion realm have a direct link to consumers and households – whereas the financial mechanisms of sustainable finance (which primarily take the form of ESG-linked funds and capital/infrastructure funding projects) do not. Addressing this vacuum in the public-private sector nexus is key to achieving the Global Goals; we believe financial institutions and corporates alike should focus on designing and offering products (e.g. financing of renewable energy sources for households) that would enable households and communities, as the vehicles for achievement of the social-focused SDGs, to also contribute towards the achievement of the environment-focused SDGs. How we then ensure that both the retail products and financial mechanisms of sustainable finance are localised and contextualised is a key question for subsequent phases of this work.



## Measurement and reporting

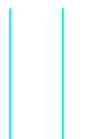
Finally, the integrative analytical framework highlights the importance of both measurement and reporting. We make the case that financial inclusion and sustainable finance are mutually complementary (to achieve social and environmental goals) and that, in fact, financial inclusion can be a lever of sustainable finance that helps mitigate social risks and strengthen social outcomes. Financial services providers will need to integrate financial inclusion into their sustainable finance frameworks; then, the ESG framing will start to function effectively for measuring and tracking the private sector's SDG contribution.

Given the research's emphasis on the *household* as the focal point for understanding how financial inclusion and sustainable finance are linked, sustainable finance data frameworks will need to more effectively encompass household metrics for truer reflection of society's achievements; i.e. *new methodologies and measurement metrics* will need to be considered and implemented. Applied intentionally, the new indicators could present a learning feedback loop whereby key role players who adopt the argument we put forward and integrate it into their approaches can tailor and adjust their financial inclusion and sustainable finance activities accordingly, for better impact.

In the process, we will gain an enriched version of ESG that balances **PLANET** and **PEOPLE** objectives towards increased **PROSPERITY**.

# 6 ESG, SDGs, REPORTING &— FINANCIAL INCLUSION

At a policy level, some countries are already realising the need to incorporate financial inclusion in their sustainable finance frameworks and activities. For instance, SBFN members have consistently agreed that financial inclusion is an essential component of sustainable finance and a critical enabler for achieving several of the SDGs, and in some countries, financial inclusion has been acknowledged within supporting frameworks for sustainable finance.



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# MOVEMENT

## SOCIAL

### DESIGN

However, at a measurement level, financial inclusion has not been included explicitly as a consideration when looking at progress on sustainable finance policymaking and implementation. Given the extensive activity and coordination that already exist in the financial inclusion space, both at a policy and private sector level, it should be easy to incorporate financial inclusion within national sustainable finance frameworks, if the necessary linkages at country level are created to ensure coordination between the two areas. This can be done by leveraging existing national financial inclusion policies and coordinating with existing implementation structures for financial inclusion. Furthermore, the SBFN's measurement framework can easily be updated to include this expanded focus.

To ensure the impact needed to achieve the SDGs, the private sector, particularly the financial sector, would need to be included in adopting financial inclusion outcomes within their sustainable finance activities. Financial institutions can play a major role in broadening access to financial services for low-income households and MSMEs, yet often their ESG reporting is limited to a focus on their own employees (i.e. only those within their immediate ambit of control). Yet far greater social impact can be achieved by financial services providers through the products they provide to their existing and new customers. There are already examples of banks that include financial inclusion in their ESG reporting, which is encouraging. The research therefore developed a sample list of potential indicators that banks and other financial services providers can incorporate in their ESG reporting. Suggested additional indicators include, for example: number of bank clients that have active mobile money or similar accounts; number of entry-level or affordable health insurance or medical scheme policy holders as percentage of all adults in country; percentage of student loans provided by institution that are to female students; number of loans provided by institution for access to energy for households (total active). Importantly, such reporting should aim to put a particular provider's impact into perspective in relation to the overall relevant social issue (e.g. not simply number of affordable housing loans – but proportion in relation to total number of households in the country). Ideally, companies should also demonstrate their own performance over time with regard to these indicators, with the intention that companies go beyond their historical track record in addressing social or environmental issues through financial inclusion.

Beyond incorporating financial inclusion in sustainable finance frameworks and in ESG reporting (which by implication would strengthen the social impact), there is a broader issue that needs to be addressed: the inherent shortfall of ESG when it comes to its potential to *drive aspirational changes* in investment and access to finance towards reaching the SDGs. For, we can surely do better than ESG as a corporate risk-mitigation tool that helps the private sector minimise negative impact; as we argue, ESG has the *potential* for great positive impact, particularly with regard to social objectives.

What is more, *failure* to address the social risk and to take responsibility for business and financing's role in shaping the wider society is itself becoming a great risk to doing business seamlessly – and is definitely an impediment to large-scale mass market growth. Given that business cannot flourish in an unstable social environment – and that complex problems require complex solutions – we propose the broadening of the ESG framework with the addition of new indicators under the banner of *realising market opportunities*. (We also propose a separation between the new indicators and the risk-reduction indicators.) To address the broader social risks that threaten market stability, companies need to consider and contribute more proactively towards positive change in the communities they operate in: with 'communities' here meaning not just those in geographic proximity to a company's physical operations but also consumer segments that, by virtue of their size and needs for financing, would help to bolster the robustness of the formal financial system could they be included. This widening of a company's conception of community requires considering the social challenges of not only their employees but also the broader society. Potential indicators include corporate social investment linked to prevalent social issues in the country, investment in community development (beyond minimising the negative impact of operations) and investment in sustainable employment creation (beyond operations of the institution or the lifespan of operations in the area). For this reason, we recommend that, as far as possible, institutions collect and publish information on the following in relation to the

communities in immediate proximity to their physical operations as well as those who are likely new target segments for financing, and demonstrate that their social interventions and corporate social investment are focused on addressing any issues that can be identified from this information: income distributions, education, access to healthcare, access to affordable housing, access to energy, and access to clean water and sanitation.

Similarly, in setting their organisational strategy and establishing their governance policies, companies need to consider the inputs of both their internal and external stakeholders – including consumers and communities – more deeply in the decision-making process.

For financing to be sustainable, it must be a collaborative effort with multiple players at the table. Given UNCDF's long history of collaborating with multi-stakeholder groups to improve financial services provision to people who are underserved by the private sector and government, stakeholders will be consulted to ensure that regulatory and policy issues alike are considered from multiple perspectives.

**Compiled by:**

Aiden Choles | Christiaan Loots | Dr Kameshnee Naidoo |  
Dineo Mogotsi | Mokena Mokapela

**Edited by:**

Jacquie Withers

**Design by:**

Garageast



**About the design:** Financial inclusion and sustainable finance are noble targets but are they really inclusive if they operate as a dichotomy? The pivotal points of people, planet, peace, partnership, and prosperity are explored visually throughout the document as we open up the shadow-space between financial inclusion and sustainability. As the document progresses it transitions from a linear look at the situation to an intertwining of ideas and diversity of viewpoints and the opportunities that reveal themselves between the two established pillars of capital development.