WORKING PAPER

# From Safety Net to Springboard

## How Integrating Inclusive Finance with Social Protection Can Drive Climate Action and Build Resilience

November 2025 • **Johan Roest, Liza Gordin, Swati Sawhney**

CGAP

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# Definitions

The terms *climate adaptation*, *climate mitigation*, and *climate resilience* are often used interchangeably in policy and practice, yet they refer to distinct but related concepts. Climate mitigation focuses on addressing the root cause of climate change by reducing greenhouse gas emissions or enhancing the capacity of natural and technological systems to absorb them. Climate adaptation, by contrast, refers to the process of adjusting to actual or expected climate change and its impacts to minimize harm or take advantage of potential benefits. Climate resilience is a broader concept that encompasses the ability of systems, whether communities, organizations, or ecosystems, to anticipate, prepare for, respond to, and recover from climate-related shocks and stresses, while maintaining essential functions and seizing emerging opportunities. Because these terms are sometimes conflated, we have provided clear definitions for each below to guide their consistent use in this paper.

| Term | Definition |
|---|---|
| **Climate adaptation** | In human systems, climate adaptation is the process of adjusting to actual or expected climate change and its impacts in order to moderate harm or take advantage of potential benefits (IPCC 2022) adaptation measures can range from incremental changes—such as modifying farming practices or improving water management—to transformative shifts, including redesigning infrastructure, relocating communities, or altering governance systems. Effective adaptation seeks to reduce vulnerability, enhance resilience, and where possible, harness opportunities created by changing climatic conditions. measures can range from incremental changes—such as modifying farming practices or improving water management—to transformative shifts, including redesigning infrastructure, relocating communities, or altering governance systems. Effective adaptation seeks to reduce vulnerability, enhance resilience, and where possible, harness opportunities created by changing climatic conditions. |
| **Climate mitigation** | Climate mitigation refers to human interventions aimed at reducing greenhouse gas emissions or enhancing the natural and technological sinks that absorb them (IPCC 2022). Mitigation measures can include transitioning to renewable energy, improving energy efficiency, changing land-use practices to protect or restore forests, and developing carbon capture technologies. Together, these actions help limit the magnitude and rate of long-term climate change. |
| **Climate resilience** | Climate resilience refers to the capacity of an entity to adjust to climate-related changes, developments, or uncertainties (IFRS Foundation 2023). It encompasses the ability to manage climate-related risks and capitalize on climate-related opportunities, including responding and adapting to both transition risks—such as policy, market, or technological shifts—and physical risks, such as extreme weather events or long-term environmental changes. Climate resilience includes both strategic resilience, which relates to long-term planning and positioning, and operational resilience, which concerns day-to-day processes and systems that enable an entity to function effectively despite climate-related disruptions. |
| **Adaptive social protection** | Adaptive social protection (ASP) strengthens the resilience of poor and vulnerable households by building their capacity to prepare for, cope with, and adapt to shocks. In doing so, it protects their well-being and helps prevent them from falling into poverty or becoming trapped in it due to such impacts. (Bowen et al. 2020). ASP is considered "adaptive" because it goes beyond traditional safety nets by integrating elements of disaster risk reduction (DRR) and climate change adaptation (CCA). |

# Executive Summary

**IN A WORLD INCREASINGLY SHAPED BY** climate extremes—droughts, floods, heatwaves—millions of people are being pushed to the edge of survival. For a rural farmer in the Sahel or a fisherwoman in Bangladesh, a single failed season can mean selling off livestock, pulling children out of school, or migrating in search of work. These are not isolated tragedies; they are systemic failures in how we prepare for and respond to climate risk.

Yet there is a powerful, underused solution hiding in plain sight: social protection systems. These programs—cash transfers, public works, social insurance—already reach over half the global population. They are designed to protect the vulnerable, and increasingly, they are being recognized as a frontline defense against climate shocks. But to truly unlock their potential, they must be paired with another critical tool: financial services.

## The Missing Link: Financial Services for Climate Resilience

Financial services—digital payments, savings, credit, and insurance—can transform social protection from a reactive safety net into a proactive platform for resilience. When households have access to these tools, they can smooth consumption during crises, invest in climate-smart technologies, and recover faster from shocks. These financial services include:

- **Digital payments** to ensure that aid reaches people quickly and transparently, even in remote areas. In Bangladesh, for example, mobile money platforms have enabled the government to deliver emergency cash within days of a cyclone (Vidal 2025).
- **Savings** to provide a buffer against uncertainty. In Senegal, women participating in village savings groups through the Yokk Koom Koom initiative increased their savings by over 120 percent, helping them invest in drought-resilient livelihoods and avoid distress sales during climate shocks (World Bank 2025).
- **Credit** to allow families to invest in adaptation, whether that's buying drought-resistant seeds, installing solar panels, or relocating to safer ground. In Bangladesh's Nuton Jibon project, access to microloans helped households to rebuild after floods and diversify their incomes (Meenakshy 2021).
- **Insurance**, particularly parametric products that trigger payouts based on weather data, offers a lifeline when disaster strikes. In Fiji, low-income households enrolled in social welfare programs received mobile payouts within a week of a cyclone, thanks to an innovative insurance pilot (UNCDF 2021; 2023).

Despite these benefits, financial services remain largely absent from most social protection programs. The reasons are complex: limited infrastructure, lack of trust, low financial literacy, and a disconnect between social and financial policy spheres. But the opportunity is too great to ignore.

## Why Social Protection Is the Ideal Delivery Platform

Social protection systems are uniquely positioned to bridge this gap in financial service provision. They already have the infrastructure, data, and trusted relationships needed to deliver financial services at scale. They reach the poorest and most climate-exposed populations–those who are often excluded from formal finance. And they are increasingly digitized, making integration with financial tools more feasible than ever.

Moreover, social protection programs are not constrained by the need to turn a profit. This gives them the flexibility to support beneficiaries in ways that private financial institutions often cannot: by subsidizing services, aggregating demand, and tailoring products to the realities of low-income households.

## From Safety Net to Springboard: A New Vision

The paper outlines a bold but practical vision: social protection systems that don't just deliver cash, but also enable people to save, borrow, insure, and invest. It proposes several innovations:

- **Lump-sum payments** that are timed to agricultural seasons, enabling investment in climate-resilient assets.
- **Matched savings schemes** that reward low-income households for building financial buffers.
- **Climate-triggered credit lines** (CLOCs) that activate automatically during droughts or floods.
- **Bundled services** that combine savings, credit, and insurance into a single, user-friendly package.

These are not theoretical ideas. Pilots in Kenya, Bangladesh, Ethiopia, and elsewhere are already showing what's possible. But scaling them will require investment, experimentation, and a shift in mindset—from seeing financial inclusion as a side benefit to recognizing it as a core enabler of climate resilience.

## A Call to Action

The convergence of climate risk, digital infrastructure, and growing investment in social protection presents a rare window of opportunity. If we act now, we can build systems that not only protect people from today's shocks but empower them to shape a more secure, sustainable future.

For policymakers, this means embedding financial services into the design of social protection programs. For funders, it means investing in innovation and evidence-building. And for practitioners, it means reimagining what social protection can achieve when paired with the right financial tools.

The message is clear: resilience is not just about surviving the next disaster. It's about giving people the means to adapt, thrive, and lead the way in a changing climate. Social protection, powered by inclusive finance, can be the engine that drives this transformation.

SECTION 1

# Introduction

**WHEN A SEVERE DROUGHT STRIKES A** rural farming community in a low-income country, families confront a cascade of hard choices: sell off livestock, pawn household assets, take on high-interest loans, skip meals, or send children to work or to live with relatives. With no financial safety nets, these coping tactics rarely stabilize livelihoods. Livestock and valuables are sold at rock-bottom prices, debts compound, nutrition and schooling suffer, and some households are forced to migrate in search of work. Climate change is turning this hard-luck story into a global reality: human-induced warming is already making heatwaves, floods, and droughts more intense (IPCC 2023), and about 1.2 billion people now live in areas of high climate risk (World Bank 2023). Women and girls are hit hardest; without targeted support, as many as 158 million of them could be pushed into poverty by 2050 (Turquet et al. 2023).

In this paper we argue that breaking this cycle requires action at the nexus of financial inclusion, social protection, and climate resilience. Investment in climate-resilient agriculture, gender-responsive financial tools, and adaptive social protection systems is essential. Integrating inclusive financial services—such as savings accounts, affordable credit, and weather-indexed insurance—into these programs can amplify their impact. For example, pairing timely cash transfers with financial products enables households to preserve assets, smooth consumption, and invest in drought-tolerant seeds or water-efficient irrigation. Studies of Ethiopia's Productive Safety Net Programme (PSNP) and Kenya's Hunger Safety Net Program (HSNP) indicate that reliable, predictable cash transfers enable households to better absorb shocks and stabilize their livelihoods—providing a foundation for resilience and long-term development. For example, Ethiopia's PSNP helps prevent asset depletion and supports investment in sustainable livelihoods, while Kenya's HSNP has shifted responses from emergency relief to structured safety-net approaches that strengthen household stability.

Despite a surge in climate finance commitments, total funding remains far below the estimated USD 5.8–5.9 trillion needed annually through 2030. It is also unevenly distributed, with only a small share reaching low-income countries and the most climate-vulnerable populations (OECD 2023). Countries have pledged billions for climate-resilience programs, yet frontline communities still struggle to access these resources (UNEP 2024). Three structural obstacles persist: (1) cumbersome application procedures that deter local governments and community organizations (Soanes et al. 2017); (2) a persistent bias toward mitigation, leaving adaptation chronically underfunded (UNEP 2024); and (3) rigid funding modalities that slow disbursement and hinder rapid responses to climate shocks (Cichocka and Mitchell 2022).

Climate-change debates still focus largely on the commitments and investments of national governments, multilateral agencies, and the private sector. While these actors drive large-scale mitigation and adaptation efforts, their work rarely meets the immediate, localized needs of low-income communities–the first and hardest hit by climate shocks (UNEP 2024). Many of these communities lack access to financial resources, knowledge, and the

institutional support required to absorb and recover from climate risks (Soanes et al. 2017). Despite sizable growth in climate finance pledges, international and national initiatives have struggled to ensure that those most affected truly benefit from these investments.

This disconnect underscores the urgent need for localized, inclusive approaches that empower households to pursue their own adaptation strategies. Social protection—the cash or in-kind transfers, social insurance, and labor-market measures that reduce poverty and vulnerability (ILO 2024; O'Brien et al. 2018)—offers a powerful, yet under-utilized bridge. With extensive coverage and established delivery systems, social protection already cushions families against economic and life-cycle shocks (Devereux and Sabates-Wheeler 2004). In the context of climate change, however, its role can–and should–extend far beyond traditional safety nets.

Momentum around climate adaptation is building, but the window to act is closing fast. UNEP's 2023 *Adaptation Gap Report* projects that developing countries will need roughly USD 215–387 billion every year this decade—five to ten times the USD 28 billion delivered in 2022 (UNEP 2023). Extreme weather already pushes about 26 million people into poverty annually, and the IPCC warns that both economic and non-economic losses will rise with every fraction of warming. Each year of delay locks in higher costs (IPCC 2023).

Robust social protection systems—cash transfers, social insurance and labor-market measures—already form the first line of defense, cushioning incomes and preventing distress sales of assets when droughts, floods or heatwaves strike. Their impact multiplies when systematically linked to inclusive financial services. Safe savings, affordable credit and climate-risk insurance allow families to smooth consumption during shocks, invest in climate-smart technologies and rebuild faster (Zetterli 2023). Digital payment platforms have shown how quickly integration can reach scale. Early programs that bundle transfers with savings or micro-insurance demonstrate the potential to strengthen financial inclusion and build household resilience (Weingärtner et al. 2019). Embedding these tools within social protection platforms would give frontline communities the financial buffers they need to manage risk and invest in long-term climate adaptation (Roest 2025).

Evidence for integrated approaches is promising but uneven. Unlocking their full potential will require aligning funding streams, generating robust evidence, and embedding financial tools directly into social protection operations—enabling those on the front lines of climate impacts not only to withstand shocks but to build secure and sustainable futures.

In this paper, we examine how social protection systems can more effectively leverage financial services to advance climate resilience goals. Drawing on CGAP research, as well as interviews and visioning workshops with leading social protection actors, the paper serves as both an analytical guide and a call to action for policymakers, funders, and practitioners. By exploring the intersection of social protection, financial services, and climate resilience, the paper aims to:

- **Outline the role and potential of social protection systems** in climate adaptation, resilience, and mitigation.
- **Identify the core capabilities of social protection systems** that can be harnessed to deploy financial services effectively to strengthen climate resilience.
- **Examine how financial services–**digital payments, savings, credit, and insurance–can strengthen social protection outcomes, particularly in the context of climate resilience.
- **Explore approaches** that leverage the key attributes of social protection, combining them with financial services, to open new pathways to resilience.

The argument proceeds in three steps:

1. Mapping the capabilities of social protection systems.
2. Linking those capabilities to the demands of a changing climate.
3. Showing how targeted financial services can help social protection meet its climate objectives.

SECTION 2

# Social Protection and Climate Resilience

SOCIAL PROTECTION—FROM CASH transfers and social insurance to public-works schemes—is now increasingly viewed as a critical lever for enhancing climate resilience, adaptation and mitigation. By offering predictable income, subsidized risk-sharing and access to essential services, social protection programs help households absorb immediate climate shocks while building the assets, skills and confidence needed to adapt to longer-term environmental change (Huber and Murray 2023). Adaptive-capacity theory supports this dual mandate: vulnerable populations require both short-term relief and structural support to shift livelihoods in a changing climate (IPCC 2022). When climate objectives are woven into program design—linking payments to disaster-preparedness measures, rewarding sustainable practices or financing transitions to greener jobs—social protection becomes a transformative platform that tackles underlying socio-economic vulnerabilities and accelerates low-carbon development (ILO 2024; FAO 2021; Costella et al. 2024). Yet integration of social protection into national climate strategies remains partial and uneven, in part because many countries still lack robust social protection infrastructure. Unlocking this opportunity will require scaled investment and, as argued later in the paper, the strategic deployment of inclusive financial services.

## 2.1 The Role Social Protection Can Play in Building Climate Resilience

Social protection can strengthen climate resilience in three important ways explored below: by increasing adaptive capacity; facilitating transitions to low-carbon economies and enhancing the capacity of women and girls to cope with climate impacts.

### INCREASING ADAPTIVE CAPACITY

Growing evidence shows that social protection systems reduce vulnerability and enhance adaptive capacity. Programs such as cash transfers and food assistance provide immediate support to affected communities, enabling them to meet basic needs and avoid harmful coping strategies such as selling assets or withdrawing children from school (Gentilini 2022; Ulrichs et al. 2019). Adaptive and shock-responsive social protection programs—those that integrate risk reduction strategies, early warning systems, and climate adaptation measures—help individuals and communities better prepare for, respond to, and recover from climate-related shocks (Costella et al. 2021; O'Brien et al. 2018; Davies et al. 2008). As a result, social protection not only serves as a safety net during crises but also contributes to more sustainable, climate-resilient development—reducing the need for costly emergency responses and mitigating long-term economic setbacks. India's Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) guarantees every rural household 100 days of paid work (Desai et al. 2023). As outlined in Box 1, the Sahel Adaptive Social Protection Program (SASPP) clearly illustrates how large-scale safety nets can reduce both immediate hardship and long-term risk (World Bank 2025).

BOX 1. **Social Protection for Climate Adaptation and Resilience: The Sahel Adaptive Social Protection Program (SASSP)**

The SASSP, managed by the World Bank, supports six Sahelian countries—Burkina Faso, Chad, Mali, Mauritania, Niger, and Senegal—in building adaptive social protection systems to help vulnerable households adapt to the impacts of climate change.

The Sahel is simultaneously one of the poorest, most conflict-affected and most climate-exposed regions on the planet. More than 40% of its people live below the poverty line, and Sahelian countries cluster at the bottom of the Human Development Index. Climate change is hitting the region 1.5 × faster than the global average, leaving ≈ 80% of farmland already degraded. Without swift adaptation, an extra 13.5 million people could be pushed into poverty by 2050. Fragility compounds the risk: almost 2 million refugees and 3.1 million internally displaced people are on the move inside the Sahel, straining already thin resources. Together, these statistics underline why robust, climate-aware social protection systems are not optional here—they are a lifeline.

Established in 2014, SASSP is a multi-donor trust fund that provides technical assistance and capacity building, and finances pilot interventions. The SASSP program focusses on both regional and country-level activities. At country level, activities support countries to strengthen their adaptive social protection system across four "building blocks": (1) data and information, (2) institutional arrangements, (3) programs, and (4) partnerships and finance.

Evidence showed that the integration of adaptive social protection systems had a positive impact on various outcomes such as poverty reduction, food security, productivity as well as resilience.

The SASSP now delivers regular payments to about 700,000 households (≈ 4.2 million people) and issues shock-triggered top-ups to another 1.2 million, driving tangible gains: rural extreme-poverty in Senegal has fallen 5%, while per-capita consumption jumped 60% in Chad and 60–100% in Niger. During a recent Niger drought, non-beneficiaries cut consumption by 24%, yet program households held steady, and participants in Mali are 57% more likely to save and 46% more likely to invest in productive assets. Rapid-response capacity is evident too: Mauritania doubled coverage to 75,000 households within weeks of 2023 floods, and Senegal swiftly reached 25,000 food-insecure and 16,000 flood-hit households. Beyond income, diets improved (protein consumption is up 7% in Senegal) and girls progressed in school (promotion rates are up 56% in Mali), underscoring how adaptive social protection is cutting poverty, buffering shocks and expanding opportunity across one of the world's toughest climate frontlines.

Source: World Bank 2023.

Read more about SASSP protection here.

## FACILITATING TRANSITIONS TO LOW-CARBON ECONOMIES

Social protection also eases the transition to low-carbon economies. Income support, retraining stipends, and active labor-market policies cushion workers displaced by the phase-out of carbon-intensive industries and channel them into green jobs (ILO 2024). Public-works schemes focused on reforestation and land restoration promote carbon sequestration, while livelihood-diversification components help communities adapt to shifting climate conditions (FAO 2021). Programs such as Brazil's Bolsa Verde (see Box 2) and Ethiopia's PSNP, which links predictable transfers to terracing, afforestation, and small-scale irrigation, show how social protection can embed mitigation incentives and rapidly scale assistance during droughts (Rigolini 2022).

BOX 2. **Bolsa Verde: Social Protection for Climate Mitigation in Brazil**

Launched in 2011, Brazil's Bolsa Verde program exemplifies how social protection can directly support climate mitigation. The program provided quarterly cash transfers to extremely poor households living in environmentally protected areas, conditional on their commitment to conserve forests and refrain from illegal deforestation. By aligning income support with conservation objectives, Bolsa Verde incentivized low-income families—often reliant on forest resources for their livelihoods—to adopt and maintain sustainable practices. This not only addressed extreme poverty in remote rural areas but also contributed to reduced greenhouse gas emissions through avoided deforestation. Although the program was suspended in 2018 due to shifting political priorities, it remains a globally relevant example of how well-designed cash transfers can deliver dual dividends for both social and environmental goals (Schwarzer, van Panhuys and Diekmann 2016).

### ENHANCING THE CAPACITY OF WOMEN AND GIRLS TO COPE WITH CLIMATE IMPACTS

Lastly, social protection can also increase women's and girls' capacity to cope with climate change impacts by pairing income support with measures that tackle the specific constraints they face (CGIAR 2023). In low-income countries, women supply roughly 63 percent of agricultural labor yet are eight percentage points less likely than men to own a formal bank or mobile-money account (Zetterli 2023)This finance gap, together with unequal land rights and care burdens, leaves them more exposed to climate shocks and less able to recover from them. When disasters strike, women are more likely to skip meals, pull daughters out of school, or sell productive assets—responses that deepen poverty and have lasting inter-generational costs. By contrast, resources controlled by women are spent disproportionately on food, health, and education, multiplying resilience gains for whole households. Because social protection programs already reach large numbers of poor women, they offer an efficient channel for gender-responsive climate action. Although evidence is still emerging, three promising "gender-intentional" approaches are gaining traction:

- **Climate-resilient livelihood bundles***:* For example, Tunisia's Insertion Économique, Sociale et Solidaire (IESS) program empowers women by allowing them to select water-saving crops, providing childcare support, and ensuring they have leadership opportunities within its cash-plus package. This approach combines regular cash transfers with complementary services and resources to promote long-term economic empowerment (Staab et al. 2024).
- **Gender-responsive disaster-risk-reduction safety nets***:* Guided by the United Nations Office for Disaster Risk Reduction (UNDRR) policy brief, some programs use a gender-responsive approach to disaster preparedness. They deliver anticipatory cash transfers—funds provided before a forecasted shock to help households prepare—and hygiene kits to women. Beneficiaries are identified using sex-disaggregated data and selected through women-led local committees (UNDRR 2022).
- **Just-transition social protection measures:** The International Labour Organization's (ILO) 2024 policy guide recommends using carbon revenues to finance wage top-ups, reskilling stipends, and portable benefits, while also expanding affordable care services to enable women to take up jobs in the green economy (ILO 2024).

## 2.2 Harnessing Social Protection Attributes for Effective Climate Action

As climate change deepens poverty and inequality, social protection systems can move households from passive recipients of aid to active agents of climate adaptation. Five attributes make them especially powerful.

- **Targeting the most vulnerable and climate-exposed populations**: Social protection systems

are designed to identify and support the poorest and most vulnerable populations who are often the most climate-affected: rural smallholders facing erratic rainfall and drought, informal urban workers hit by heatwaves and subject to market disruptions, and coastal communities confronting sea-level rise. Moreover, climate change compounds gender inequality. By 2050, up to 158 million women and girls could be pushed into poverty, according to UN Women's latest projections (UN Women 2024). Extreme weather erodes women's livelihoods, health, education, and safety, while those who rely on natural resources still lack adaptation tools and remain underserved by formal finance (Fruttero et al. 2023). Climate-driven conflict and displacement heighten the risk of gender-based violence, (Desai and Mandal 2021) and disaster data show women and children are around 14 times more likely to die than men when they strike (Okai 2022). Because social protection registries already hold granular household data, governments can steer climate funds quickly to areas where it is likely to have the greatest impact: to the women most at risk and to other vulnerable groups. See Figure 1 for examples of climate-sensitive social protection instruments.

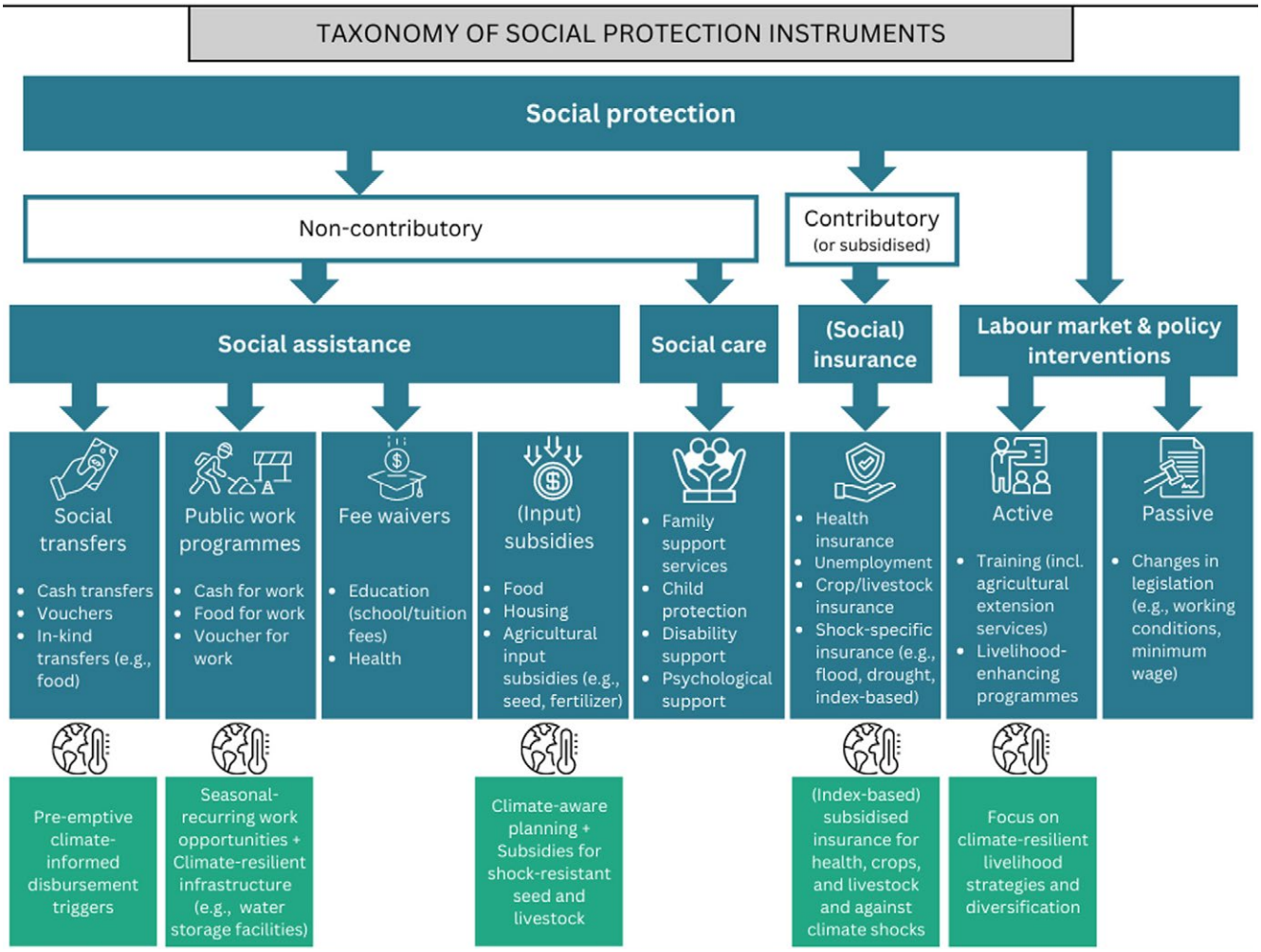
- **Predictability and stability in the face of climate shocks:** Regular, reliable transfers offered through social protection programs allow households to plan, smooth consumption, and avoid harmful coping strategies such as selling assets, withdrawing children from school, or relying on emergency aid. They ensure that vulnerable populations have a stable safety net even as climate risks intensify. Long-standing relationships with beneficiaries also mean programs are trusted and viewed as aligned with household interests.
- **Flexibility and shock responsiveness:** With the rising frequency and intensity of covariate shocks—such as climate disasters, economic crises, and pandemics—governments are increasingly acknowledging the need for adaptive, shock-responsive, and forecast-based social protection systems. Adaptive social protection systems—integrating early-warning data, scalable delivery models, and flexible finance—can anticipate and absorb large-scale disruptions. Many governments adapted their social protection responses during the COVID-19 pandemic by rapidly deploying emergency cash transfers and food assistance to newly vulnerable populations. In the context of shock-responsive social protection, this is *horizontal expansion*, as a result of which safety net programs achieved unprecedented coverage, reaching approximately 1.36 billion individuals globally – or one in six people (Gentilini 2022). They also expanded *vertically* by raising benefit

BOX 3. **Examples of Gender Consideration in Climate-Sensitive Social Protection Programs**

- **Mozambique's National Social Protection Strategy** prioritizes female-headed households for cash and in-kind support following climate-related disasters, ensuring that the most vulnerable households receive timely assistance to rebuild their lives and livelihoods (de Lima Vieira , Andrés and Monteiro 2020).
- **Fiji's gender-responsive disaster recovery programs** address women's specific needs, such as access to hygiene kits, reproductive health services, and safe shelters* during climate emergencies (UNCDF 2023; 2021).
- **Sahel Adaptive Social Protection Program (SASSP)** prioritizes female beneficiaries by aligning gender-sensitive targeting with climate adaptation objectives. As such this program effectively addresses overlapping vulnerabilities, particularly for women in households heavily reliant on climate-sensitive livelihoods (SASPP 2025).

* **Safe shelters**: Evacuation or transitional centers that are well-lit, lockable, offer separate sanitation and sleeping spaces for women and girls, include privacy partitions and GBV referral mechanisms, and are designed in consultation with women's groups to ensure security and dignity during climate emergencies.

FIGURE 1. **Examples of Climate-Sensitive Social Protection Instruments**

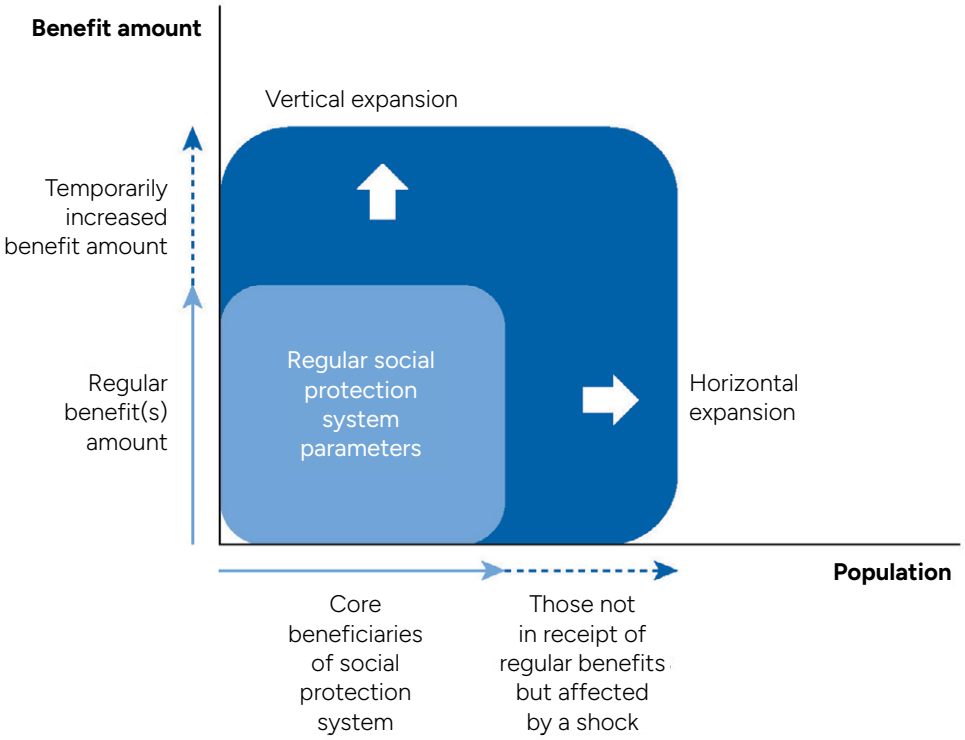



Source: Huber and Murray, 2023.

levels or the value of cash transfers to meet the heightened needs of vulnerable populations. This demonstrated not only the scale and reach social protection systems have, but also their capacity for rapid response. See Figure 2 for the modalities of horizontal and vertical expansion.

- **Sustainability and coordination:** Unlike short-term, donor-funded projects, social protection is embedded in national budgets and legislation, offering stable financing and political commitment and a low reliance on external aid. This also enables alignment with other national policies, such as disaster risk reduction, agricultural resilience and financial inclusion policies–including innovations such as linking transfers to savings or insurance products. Moreover, as social protection systems gain strong political backing and are increasingly recognized for their critical role in managing climate risk, they can more effectively mandate alignment among public agencies. This synergy ensures that resources and policy objectives support climate adaptation goals (ILO 2024). Governments already view social protection as a core economic and social policy tool—leveraging this existing framework for climate adaptation is a cost-effective and scalable approach.
- **Existing digital and financial infrastructure:** Social protection systems are among the most effective large-scale delivery mechanisms for resilience-building interventions. Their ability to reach millions,

FIGURE 2. **Modalities for Expansion in Shock-Responsive Social Protection**




Source: World Bank, 2017.

their structured operations, and growing integration with climate policies make them well-suited to large scale climate adaptation interventions. Many programs now pay benefits digitally, providing a ready platform for climate-smart financial services such as micro-insurance, savings "sweeps," climate-resilient credit, and mobile financial-literacy tools (Roest 2025). With proven large-scale delivery capacity and ongoing investment in identification (ID) and payment systems, social protection can move beyond cash to build long-term financial resilience.

Despite these inherent attributes, social protection systems rarely intersect with climate-finance or financial-inclusion initiatives, leaving much of their potential untapped. In the next chapter we will examine how integrating savings, insurance, and credit into social protection can transform it from a basic safety net into a powerful engine of climate resilience.

## 2.3 Challenges to Scale Social Protection for Climate Resilience

Despite growing consensus on the value of social protection for climate resilience, its integration into climate adaptation strategies remains elusive. There are two key interconnected obstacles that stand out in this regard:

- **Policy focus has remained on relief, rather than adaptation:** Most national social protection frameworks have been designed for short-term crisis relief. They rarely assign social protection agencies with an explicit climate-adaptation mandate, or link them systematically with early-warning, disaster-risk or financial-sector institutions (Agrawal et al. 2019).
- **Technical capacity lags ambition:** On the technical side, agencies often lack the capacity to implement even these limited climate commitments.

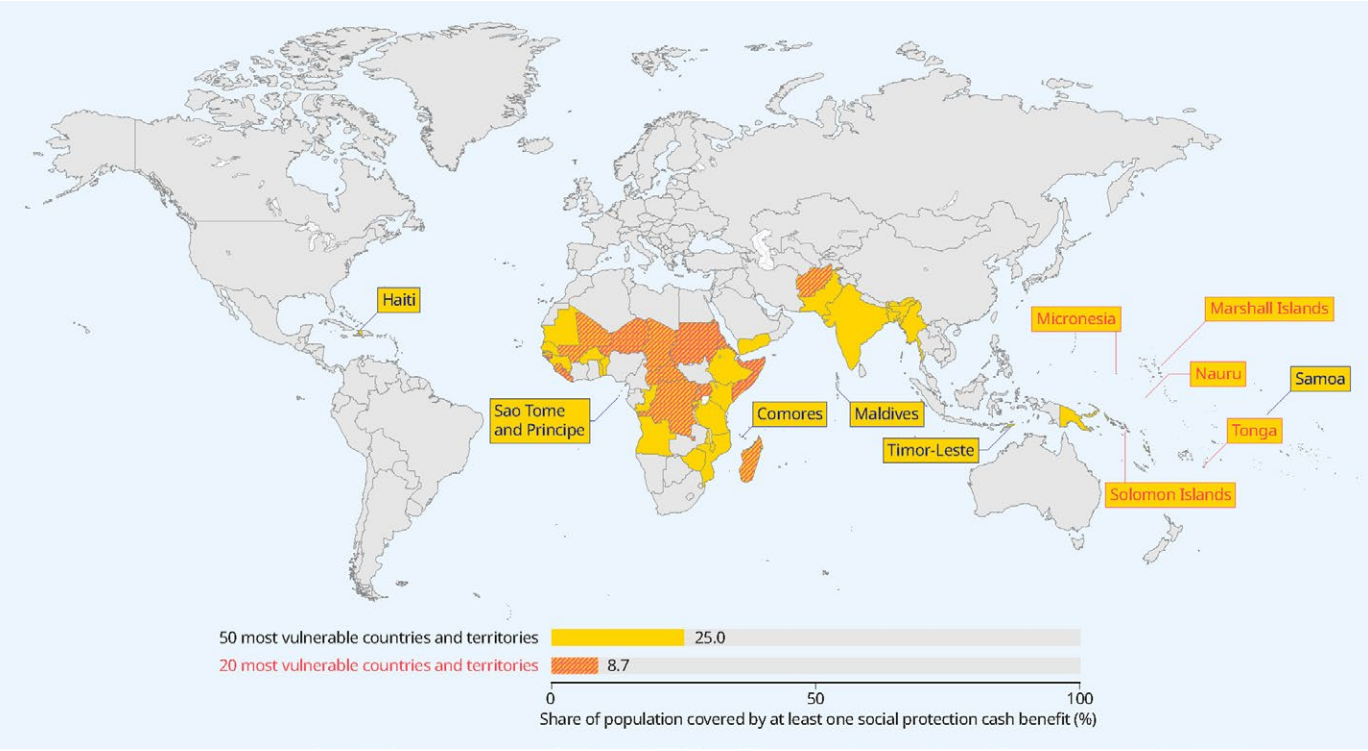
- **Data gaps:** Management-information systems seldom pull live hazard or poverty data, so planners lack the risk maps needed to pre-position or layer benefits.
- **Automation gaps:** Few programs have rule-based links to meteorological services, so "trigger" payments cannot launch automatically when danger thresholds are crossed.
- **Infrastructure gaps:** Patchy connectivity and weak local hardware slow routine digital payments and make rapid scale-ups unworkable.
- **Skills gaps:** Staff rarely receive training in climate-risk analytics or instruments such as weather-indexed top-ups and parametric insurance, keeping these tools confined to pilots rather than mainstream practice.

Regional disparities in coverage, infrastructure, and financing continue to limit the climate leverage of social protection systems (SIDA 2024; Costella et al. 2024).

Globally, 52.4 percent of people now receive at least one social protection benefit, confirming social protection's unrivalled potential as a delivery platform. Yet coverage is highly uneven. In the fifty countries most exposed to climate hazards, three out of four residents–and in the top twenty, nine out of ten–still receive no formal social protection support (ILO 2024). These gaps reflect both under-resourced national systems and limited access to international climate finance. Channeling domestic revenue and adaptation funds through existing social protection infrastructure is essential for the households most at risk to enjoy the same safety-net protection available in less climate-vulnerable regions.

The next chapter explores how embedding climate-risk management directly into social protection systems can unlock a vast, still-untapped opportunity: transforming existing safety nets into proactive resilience platforms that channel tailored financial tools—payments, savings, credit, and insurance—to the people who need them most.

FIGURE 3. **Coverage Rates (Weighted Averages) in Fifty Most Climate-Vulnerable Countries in 2023**




Source: International Labour Organization (ILO), 2024 - 2026.

SECTION 3

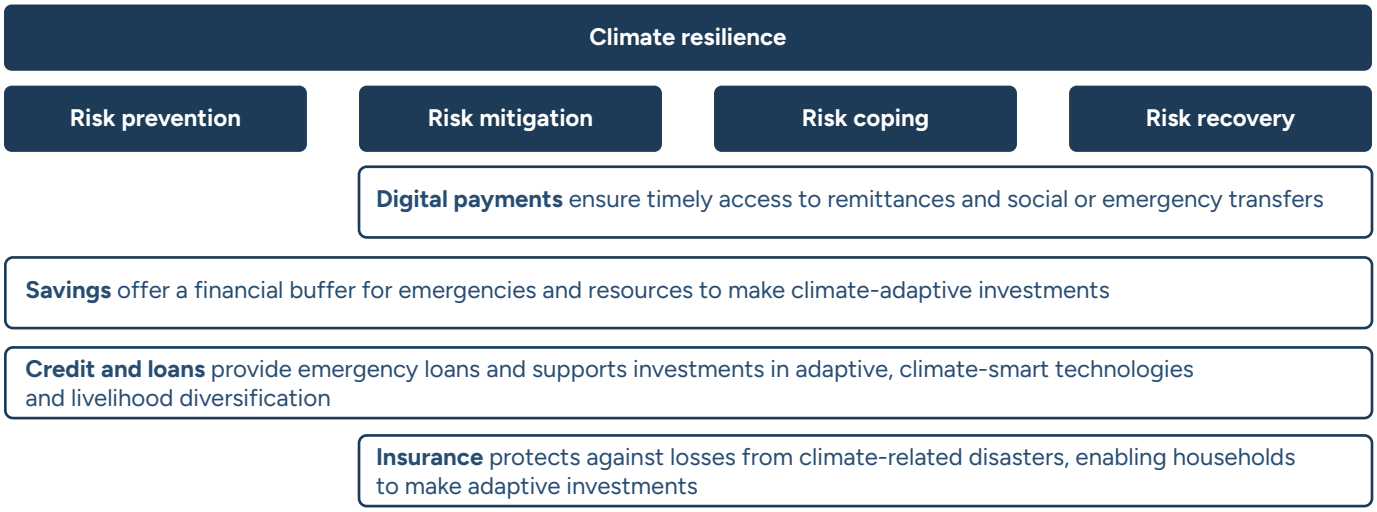
# Financial Services Are Vital for Climate Resilience but Remain Underused in Social Protection

**SYSTEMATICALLY INTEGRATING THIS** "payments-savings-credit-insurance" stack into social protection programs transforms them from passive safety nets into proactive resilience platforms. On-platform access to these tools allows vulnerable households to smooth consumption, invest in adaptation, and avoid distress sales—helping them anticipate, absorb, and recover from climate shocks rather than rely solely on post-disaster relief (Zetterli 2023; Haworth et al. 2016; Mahul and Lukas Signer 2023).

Financial services contribute to climate resilience in distinct, complementary ways, especially for low-income and vulnerable populations. For instance, digital payments ensure rapid, timely and reliable delivery of remittances and social or emergency transfers, which are crucial when physical cash channels break down during disasters. Savings offer a self-funded financial buffer, enabling households to make climate-adaptive investments and have access to financial resources during and after climate shocks without having to resort to disruptive coping strategies. Credit supports investments in adaptive, climate-smart technologies and livelihood diversification to reduce climate risks. And finally, insurance protects against losses from climate-related disasters, enabling households to make adaptive investments and recover from climate shocks (see Figure 4).

The next chapter will explore how each financial service can further enhance the transformative role that social protection plays in strengthening climate resilience.

FIGURE 4. **The Role of Different Financial Services in Climate Resilience**




Source: Authors

## 3.1 Digital Payments

Social protection agencies are rapidly shifting from manual pay-outs to digital platforms—mobile money, G2P platforms, and bank application programming interfaces (APIs)—to reach beneficiaries fast, trace payments, and cut delivery costs.

These transfers–which are in effect payments–provide immediate financial support to vulnerable populations, enabling them to cover essential needs and respond to climate shocks. As an example, during the COVID-19 pandemic on the back of digital payment systems, one in six people worldwide received an emergency cash transfer, and in low- and middle-income countries one in four opened their first financial account to collect it (Gentilini 2022; Demirgüç-Kunt et al. 2022).

Moreover, digital platforms can provide key resources to vulnerable populations before, during and after a climate shock. They enable support to be delivered at scale and with speed, such as through anticipatory cash transfers that proactively disburse funds based on climate forecasts, minimizing asset loss and preventing reliance on harmful coping mechanisms (Costella et al. 2021). Digital payments provide direct access to key resources, especially for those in remote areas (Hobson et al. 2022). Beyond this, these payment systems can also facilitate access to other financial services for individuals, such as savings, credit and insurance

BOX 4. **Digital Payments and Climate Resilience in Bangladesh**

In Bangladesh–one of the world's most climate-vulnerable countries–social protection, digital payments, and climate resilience are converging to support at-risk populations. The Employment Generation Program for the Poorest (EGPP) offers temporary employment to ultra-poor households during lean agricultural seasons and in the aftermath of natural disasters such as floods and cyclones, particularly in climate-affected districts. Since 2022 the Ministry of Disaster Management and Relief has shifted EGPP wages from manual cash to mobile-financial-service (MFS) channels such as bKash, leading to enhanced delivery speed, reduced leakage, and better tracking and accountability (Islam et al. 2022). As part of its climate adaptation efforts, Bangladesh also integrates climate-resilient public works—such as raised roads, embankments, and cyclone shelters—into EGPP implementation, thereby strengthening community resilience to future shocks (World Bank 2020).

(Murthy and Dale 2024). By leveraging digital payments, governments not only advance financial inclusion objectives through increased access to financial accounts but also increase government capacity to deliver social protection transparently, efficiently, and at lower transaction costs (Lowe et al. 2023).

Digital payment systems can deliver a variety of transfer types that strengthen climate resilience for social protection beneficiaries. *Unconditional cash transfers* provide flexible funds for both immediate consumption and climate-smart investments, while in regions with limited banking access, physical cash distribution remains indispensable. *Conditional or incentive-based transfers* reward individuals or communities for conserving natural habitats. *Public works programs* link wages to building or maintaining infrastructure that reduces climate risks. *Shock-responsive or scalable safety nets* automatically expand when disasters strike. *Livelihood grants and concessional loans* help households to transition away from climate-sensitive livelihoods, while *anticipatory financing* releases funds before hazards occur, minimizing losses. Across all these approaches, digital payment platforms enhance speed, transparency, and scalability—while ensuring that physical cash options remain available for communities with limited digital access.

Digital payment systems offer a significant opportunity by providing faster, more efficient, and transparent benefits to vulnerable populations. However, challenges remain, including limited connectivity, low digital literacy, device gaps, and lack of wallet interoperability—all of which continue to exclude some rural users, older adults, and people with disabilities. Physical cash channels therefore remain essential in the poorest or most remote areas.

Digital platforms are only the foundation. By enabling governments to control both the size and timing of transfers with precision, they make it possible to redesign the payment itself—shifting from small, routine installments to larger, strategically timed tranches that help families invest in climate-resilient assets. Chapter 4 picks up this thread, showing how "smart" lump-sum or seasonally aligned payments,

TABLE 1. **Conditional Cash Transfer Modalities and Examples**

| Transfer modality | Features | Climate-resilience contribution | Illustrative program(s) |
|---|---|---|---|
| **Unconditional cash transfer (UCT)** | Regular, no conditions; can be delivered digitally or in cash | Smooths consumption; frees liquidity for climate-smart inputs | Malawi's Social Cash Transfer Program |
| **Conditional / incentive-based transfer** | Payment tied to behavior (e.g. forest stewardship) | Rewards ecosystem services; reduces degradation | Brazil Bolsa Floresta |
| **Public works / cash-for-work** | Waged labor on public assets | Builds or maintains risk-mitigating infrastructure | Ethiopia Productive Safety Net Program; India Mahatma Gandhi National Rural Employment Guarantee Act |
| **Shock-responsive or scalable safety net** | Triggers extra top-ups when thresholds are crossed | Rapid income support after drought, flood, etc. | Kenya Hunger Safety Net Program |
| **Livelihood grant / soft loan ("cash-plus")** | One-off or phased capital plus coaching | Enables shift away from climate-sensitive livelihoods | Bangladesh Chars Livelihoods Program |
| **Anticipatory cash transfer** | Disbursed before forecast hazard | Prevents asset loss; funds early action | WFP Bangladesh flood AA pilot |

delivered through the very systems described above, can turn social protection from a stop-gap safety net into a springboard for long-term adaptation.

## 3.2 Savings

Savings play a crucial role in enhancing climate resilience by providing households and communities with financial buffers to withstand and recover from climate shocks (Haworth et al. 2016). This financial buffer allows vulnerable populations to manage unexpected shocks without resorting to damaging coping mechanisms (Chamberlin et al. 2023) and to invest in adaptive, climate-smart measures (Nabami et al. 2024). Community-based and informal savings groups further enhance resilience by pooling resources, enabling communities to rebuild and adapt more effectively to future climate challenges (Pienaah and Luginaah 2024).

While informal saving mechanisms–such as village savings and loan associations (VSLAs)–are used widely, especially in graduation and economic inclusion programs, formal saving products are less frequently integrated into social protection programs (Shepherd et al et al. 2015). Nonetheless, there are notable examples of programs that have successfully done so, often in combination with digital payments (Lowe et al. 2023). Pakistan's Ehsaas cash-subsidy program links transfers to beneficiaries' own savings accounts, giving them a formal, interest-bearing place to build reserves. Mexico's PROSPERA was a large-scale conditional cash transfer (CCT) program that promoted education, health, and nutrition among low-income families by depositing benefits directly into savings accounts to encourage financial inclusion and reduce poverty. It routed transfers straight into savings accounts, raising household balances by lowering withdrawal costs and improving account transparency—thereby deepening trust in formal banking (Bachas et al. 2021). Kenya's HSNP and the R4 Rural Resilience Initiative in Ethiopia demonstrate promising approaches by combining cash transfers or insurance with savings components (Roest 2025). 2015). Nonetheless, there are notable examples of programs that have successfully done so, often in combination with digital payments (Lowe et al. 2023). Pakistan's Ehsaas cash-subsidy program links transfers to beneficiaries' own savings accounts, giving them a formal, interest-bearing place to build reserves. Mexico's PROSPERA was a large-scale conditional cash transfer (CCT) program that promoted education, health, and nutrition among low-income families by depositing benefits directly into savings accounts to encourage financial inclusion and reduce poverty. It routed transfers straight into savings accounts, raising household balances by lowering withdrawal costs and improving account transparency—thereby deepening trust in formal banking (Bachas et al. 2021). Kenya's HSNP and the R4 Rural Resilience Initiative in Ethiopia demonstrate

BOX 5. **Savings for Social Protection Beneficiaries in Senegal**

In Senegal, social protection programs have successfully integrated savings practices into their efforts to build resilience among climate-vulnerable households. Through the Yokk Koom Koom productive inclusion initiative—part of the Sahel Adaptive Social Protection Program (SASPP)—cash transfers are complemented by coaching, life skills training, and participation in Village Savings and Loan Associations (VSLAs). These informal savings groups have helped beneficiaries—particularly women—develop consistent saving habits, improve cash flow management, and access small loans for income-generating activities. One impact evaluation found that 18 months after the program, participating households had increased their savings by 124%, with a 92% increase persisting after 36 months. This financial cushion proved vital in the face of climate-related shocks, enabling families to invest in livelihood diversification and avoid negative coping strategies. While the program does not focus on linking beneficiaries to formal financial institutions, it shows how even informal savings mechanisms, when embedded in social protection systems, have the potential to significantly enhance household resilience to climate risks (SASPP 2025).

promising approaches by combining cash transfers or insurance with savings components (Roest 2025).

Even with promising examples, most programs have yet to integrate savings at scale. Low-income households often have little surplus to save, financial infrastructure is thin, trust and literacy levels are low, and the per-account cost of small deposits is high. Even so, emerging evidence shows that pairing savings products with climate-adaptation support can deliver outsized gains, making this an attractive next frontier (Nabami et al. 2024).

Establishing a savings cushion is therefore as critical to climate resilience as timely cash transfers. Yet most social protection schemes still treat saving as an optional by-product rather than a core design feature. Section 4.2 shows how matched or automated savings, woven into existing payment flows, can transform routine benefits into a platform for long-term climate resilience.

## 3.3 Credit

Access to credit and loans can be a powerful tool for helping households manage climate risks and invest in adaptation. Well-designed loans finance drought-resistant seed, irrigation, flood-proof housing, or relocation—helping households diversify income and build resilient livelihoods (CIF 2018; Stewart et al. 2012; Zetterli 2023). Social protection platforms are increasingly testing this linkage. For instance, Brazil's *Bolsa Família* program—one of the largest conditional cash transfer programs globally—aligns with Brazil's *Programa Nacional de Fortalecimento da Agricultura Familiar* (*PRONAF*, or National Program for Strengthening Family Farming) to raise small-farm productivity by providing access to subsidized microcredit for family farmers (Soares and Silva 2010). In Ethiopia, the Household Asset Building Program (*HABP*), linked to the Productive Safety Net Program (*PSNP*), provides credit alongside agricultural extension services to support income diversification (World Bank 2013). And in Bangladesh, migration loan schemes have improved food security by financing seasonal moves (Bryan et al. 2014; Moore et al. 2019).

Evidence from adaptive programs reinforces that credit can enhance climate resilience. Bangladesh's Nuton Jibon Livelihood Improvement Project (NJLIP), operating in climate-vulnerable zones, showed how credit helped beneficiaries recover from weather shocks by rebuilding assets and restarting livelihoods (Kundo 2022). Similarly, in Romania, communities affected by coal mine closures received a package of cash transfers, job training, and microcredit to support transitions into new employment (Rigolini 2021, as cited in Bagolle, Costella, and Goyenoche 2023).

BOX 6. **Credit for Social Protection Beneficiaries in Bangladesh**

In Bangladesh, the Nuton Jibon Livelihood Improvement Project (NJLIP) demonstrates how community-based access to credit, when integrated into social protection, can help climate-vulnerable households better absorb and recover from shocks. NJLIP, an adaptive social protection program, combines livelihood training, savings groups, and access to microloans in regions prone to cyclones, salinity intrusion, and drought. Beneficiaries used loans to rebuild damaged homes, restart aquaculture and vegetable farming, or launch small businesses, while participating in savings-and-loan groups that enhanced financial discipline and mutual support. Many reported being better able to cope with floods and crop losses, and some diversified income through livelihood trainings. However, the program's loans were provided informally through village groups, and not via formal financial institutions. Moreover, small loan sizes, rigid repayment terms, and a lack of insurance or safety nets sometimes led to debt stress, especially after failed harvests or livestock loss. Despite these challenges, NJLIP shows how community-driven access to credit, embedded in a broader resilience strategy, can support adaptive capacities—particularly when complemented by infrastructure and training (World Bank 2022).

Yet credit is double-edged. There are several limitations and risks involved in leveraging credit for social protection programs. Collateral requirements exclude the poor; high interest rates and weak borrower protection can push families into over-indebtedness; and low financial literacy compounds the risk. Careful design of credit—concessional pricing, caps on total borrowing, and embedded financial education—is therefore essential to maximize the benefits of credit while minimizing the risks of exclusion, over-indebtedness, and financial instability. Strengthening the evidence base on what works, for whom, and under what conditions is equally critical to ensure that future efforts proceed with due caution and are grounded in real-world impact.

The evidence also shows that timing matters: loans should activate precisely when a shock looms, not months later. Conventional micro-loans rarely meet that test. Chapter 4 therefore explores how social protection systems could pre-approve, climate-trigger and disburse Conditional Lines of Credit (CLOCs) through the same registries, payment platforms and early-warning data described earlier—shifting credit from a post-disaster patch to a proactive resilience buffer.

## 3.4 Insurance

Insurance moves climate losses from households and public budgets to specialized risk carriers. By paying a small, predictable premium before a drought, flood, or cyclone, beneficiaries receive a swift, predefined payout after a trigger is met—avoiding the delays and uncertainty typical of ad-hoc disaster aid. This *ex-ante* risk financing allows families to keep livestock, children in school, and assets intact, in contrast to traditional *ex-post* disaster response, which often relies on delayed and uncertain emergency funding. In addition, governments can maintain the continuity and responsiveness of their social protection systems. At the system level, sovereign insurance mechanisms—such as regional risk pools—shield national budgets from extreme weather impacts, enabling timely and predictable support to affected populations. By transforming unpredictable, catastrophic expenses into manageable, planned-for costs, insurance empowers both households and institutions to invest more confidently in long-term resilience and adaptation (World Bank 2017).

Access to insurance also enables households to engage in higher-risk, higher-reward activities that support economic advancement and adaptation. By providing partial compensation for losses and acting as a source of liquidity after disasters, insurance helps beneficiaries rebuild their homes, assets, and livelihoods, and sustain consumption during recovery periods. Yet despite its promise, insurance remains significantly underutilized among low-income communities, where affordability, trust, and product design barriers persist (Zetterli 2023).

Insurance can also unlock higher-risk, higher-return choices—such as credit for drought-resistant seed, flood-proof housing, or new livelihoods—because losses are partly covered. When embedded in social protection delivery systems, it enables a layered risk-management approach: routine transfers handle frequent, low-impact shocks; subsidized insurance covers rarer, high-loss events; and sovereign policies protect the fiscal base (Bergthaller 2011.). Some early evidence and emerging models that demonstrate the successful integration of insurance into social protection systems include:

- **Income support + micro-credit + insurance.** Brazil's *Bolsa Família* program, combined with PRONAF rural loans, and Ethiopia's HABP under PSNP have used disaster risk financing and weather-indexed insurance to improve responsiveness to extreme weather events and boost farm productivity through bundled finance and risk cover (WFP, Oxfam America 2019).
- **Social welfare + mobile disaster insurance.** Fiji's The Fiji Pacific Insurance and Climate Adaptation Program (PICAP) piloted a scheme to provide climate and disaster risk insurance to social welfare beneficiaries in high-risk areas, with payouts delivered via mobile money (UNCDF 2022).

- **Informal sector inclusion.** Vietnam recognizes micro-insurance as a complement to social insurance for informal workers, without formal integration (Ramm and Ankolekar 2015).
- **Climate-linked migration loans.** In Bangladesh, targeted loan schemes finance seasonal migration away from drought-affected zones, supported by crop-failure insurance.

The World Bank has estimated that social protection mechanisms that are complemented by insurance have a greater impact on economic growth and poverty reduction (Carter and Janzen 2015). Beyond protecting individuals, insurance can also stabilize the systems that deliver social protection. Climate shocks can drain public budgets, delay benefits and erode trust.

Sovereign disaster-risk cover gives governments pre-arranged finance that triggers automatically when climate thresholds are breached, turning early warning into early action. The African Risk Capacity (ARC), a specialized agency of the African Union, provides a notable example. ARC offers parametric insurance to member states, with payouts based on satellite and rainfall data. These payouts are typically released within two to four weeks after the end of a growing season, enabling governments to scale up responses rapidly.

Niger, Senegal, and Malawi have used ARC payouts to support emergency social protection measures, including food distribution, cash transfers, and livestock protection—often delivered through existing social protection infrastructure (ARC 2023). Mexico and Peru have employed catastrophe insurance and contingent credit mechanisms to channel early social assistance following extreme weather events—reducing reliance on delayed disaster relief and helping keep core safety nets operational, notably through Mexico's Fondo de Desastres Naturales (FONDEN) and a Pacific Alliance catastrophe bond arrangement that included Peru (University of Wharton 2020).

Despite notable successes, three obstacles still limit scale. First, affordability remains a major constraint: premiums are often out of reach for poor households and fiscally constrained governments unless subsidized. Second, awareness is low. Limited financial literacy and mistrust deter uptake, particularly in remote areas. Third, insurers face significant distribution and delivery challenges in regions with weak infrastructure

TABLE 2. **How Insurance Strengthens Social Protection**

| | Mechanism | Illustrative examples |
|---|---|---|
| **At the Household / micro level** | Index-based crop or livestock cover stabilizes income and protects productive assets. | Kenya's Kenya Livestock Insurance Programme (KLIP) paid KSh 215 million (approx. US$2 million) to 12,000 pastoralist families during the 2016-17 drought, cutting expected distress sales by one-third, and enabling herders to buy fodder and water to keep their core breeding animals alive. Independent evaluations showed that insured households were 36 percent less likely to plan distress livestock sales and 25 percent less likely to expect to reduce meals than comparable uninsured households during droughts, illustrating how index-based livestock cover stabilizes both assets and food security (World Bank 2017). |
| **At the program / meso level** | Weather or disaster clauses top-up cash-transfer budgets when shocks hit. | In Ethiopia, the PSNP has used disaster risk financing and weather-indexed insurance to improve its responsiveness to extreme weather events, highlighting the potential of insurance to enhance shock-responsive social protection (Shaefer et al. 2016; Väänänen et al. 2019). |
| **At the national / sovereign level** | Parametric risk pools convert catastrophic losses into budgeted premiums. | In the first year of the African Risk Capacity (ARC) parametric insurance initiative, Mauritania, Senegal, and Niger received a combined payout of USD 26.3 million, enabling the funding of emergency cash and food support through their existing social protection systems (ARC 2024). |

BOX 7. **Disaster Risk Insurance in the Pacific**

A compelling example of integrating insurance into social protection systems for climate resilience comes from Fiji. In 2021, the government—through the Pacific Insurance and Climate Adaptation Program (PICAP), a joint initiative by the United Nations Capital Developmen Fund (UNCFD), United Nations Development Programe (UNDP) and the International Labour Organization (ILO)—launched a pilot to offer disaster risk insurance to recipients of social welfare programs. The initiative targeted low-income households in cyclone-prone regions, many of whom were already enrolled in national schemes supporting the elderly, persons with disabilities, and families with children. These beneficiaries received subsidized, index-based insurance policies that triggered payouts based on pre-defined rainfall and wind-speed thresholds. When a trigger event occurred, affected households received payouts via mobile money within seven days—enabling them to meet immediate needs such as food, home repairs, or school-related expenses without resorting to negative coping strategies. The program placed particular emphasis on women-headed households, recognizing their heightened vulnerability to climate impacts. According to UNCDF, the pilot illustrated how bundling climate risk insurance with social protection platforms can improve resilience, support more timely responses, and promote financial inclusion—especially when paired with digital delivery and clear communication strategies (UNCDF 2022).

and limited financial access. The administrative burden is further increased by the need to verify claims, assess damages, and manage payouts. At a systemic level, integrating insurance into social protection systems can be complex and costly, requiring coordination across multiple stakeholders—government agencies, insurers, donors, and distribution partners—which can slow implementation and raise transaction costs.

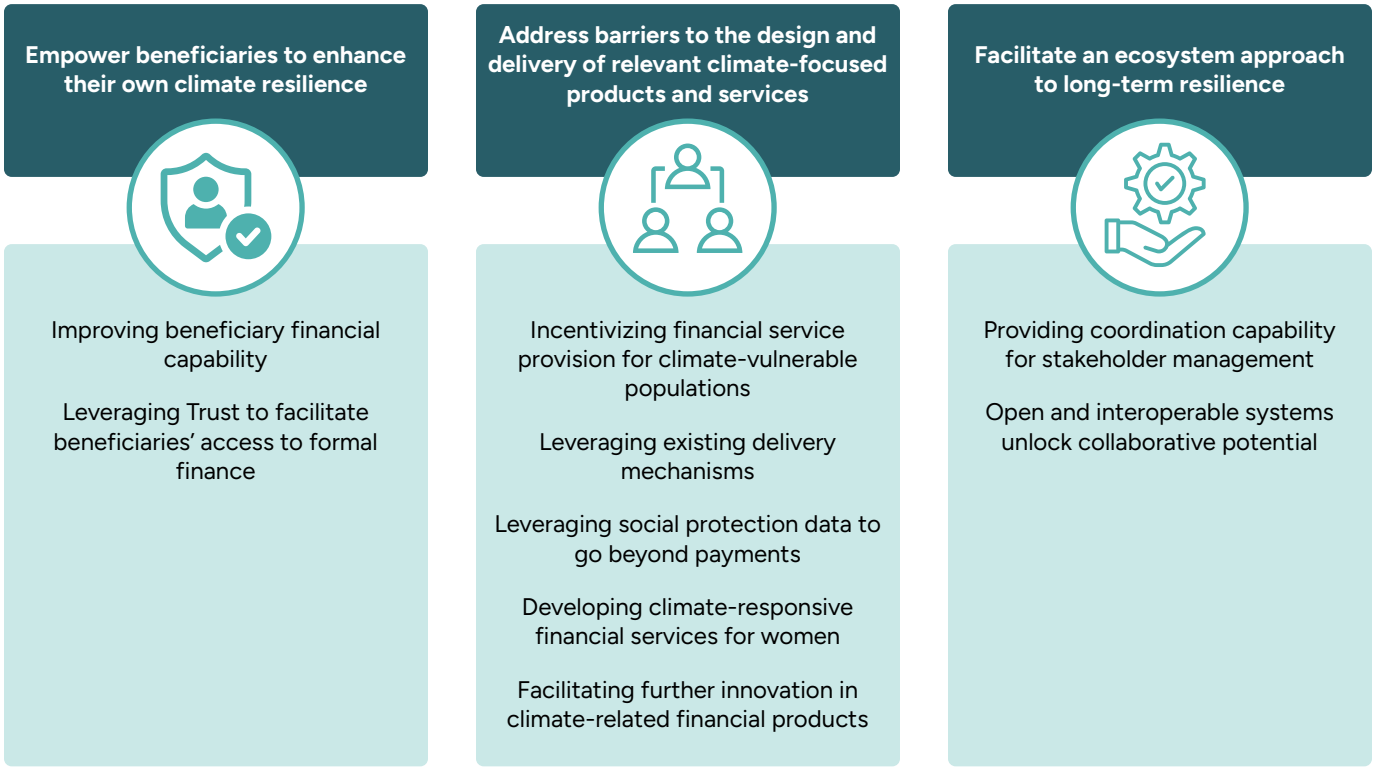
Parametric (index) insurance can ease many of these frictions. Because payouts are triggered by objective measures—rainfall, vegetation or wind speed—no individual loss assessment is required, cutting administrative overhead and speeding disbursement. The clarity of the trigger also simplifies communication with beneficiaries and donors, making the product well suited to social protection platforms that must expand rapidly after a shock. Yet it is no panacea: basis risk remains when households suffer losses that the index misses, and products must reflect local climate and livelihood patterns to stay credible. Subsidies, user-centred design and delivery through programmes that already reach vulnerable groups help, as do investments in last-mile payments, digital tools and financial-literacy campaigns.

In short, insurance strengthens social protection only when payouts are fast, predictable and well-targeted. Section 4.4 shows how parametric products—calibrated with the beneficiary and climate-risk data already held by social protection agencies—can slash delays, lower costs and put cash in people's hands within days of a drought or cyclone.

## 3.5 Combining Social Protection and Financial Services for Climate Action

Integrating financial services into social protection programs can transform them from basic safety nets into platforms that help beneficiaries build long-term resilience, seize economic opportunities, and adapt to climate risks. Today, increased investment in social protection, stronger climate policies, and expanded digital and financial infrastructure create favorable conditions for scaling this integration. Because these programs are not profit-driven, they can also invest in the guidance and support that beneficiaries need in order to use financial tools safely and effectively. While many programs already deliver digital payments at

FIGURE 5. **Key Areas for Social Protection to Amplify Beneficiary Climate Resilience Through Financial Services**




Source: Authors

scale, the opportunity goes far beyond payments. Three priorities stand out for climate-resilient integration: empowering households, fostering product innovation, and nurturing a long-term enabling ecosystem.

### 3.5.1 EMPOWERING BENEFICIARIES TO ENHANCE THEIR OWN CLIMATE RESILIENCE

There are two major ways in which social protection programs can empower their beneficiaries to get access to financial services and use them effectively:

- **Improving Beneficiary Financial Literacy**
  For financial services to boost climate resilience, beneficiaries must have the knowledge, trust and confidence to use them. Yet many social protection recipients, especially in rural or low-income areas, have little experience with savings, credit or insurance: the very tools that help households absorb and recover from climate shocks. Embedding both financial and digital literacy into program operations can close this gap, giving recipients practical skills to manage loans, insurance payouts and savings accounts. Traditional classroom-style training has produced uneven results, so new approaches are needed (Storchi and Broens Nielsen 2025). Where payments and services are delivered digitally, literacy efforts must also cover basic mobile-money and smartphone skills to ensure the channel itself does not become another barrier.
- **Leveraging Trust to Facilitate Beneficiaries' Access to Formal Finance**
  Trust is central to financial inclusion, yet many low-income households stay with informal options—savings groups or family loans—because banks seem distant, complex or unreliable. Social protection programs, by contrast, have earned credibility through regular payments and support. By offering savings, credit or insurance via these trusted channels—or by guiding beneficiaries to vetted providers—governments can help recipients enter the formal financial system with far greater confidence.

### 3.5.2 ADDRESSING BARRIERS TO THE DESIGN AND DELIVERY OF RELEVANT CLIMATE-FOCUSED PRODUCTS AND SERVICES

Financial institutions rarely understand or reach social protection beneficiaries, so low-income communities struggle to find climate-smart products such as weather-index insurance or loans for resilient livelihoods. Social protection programs can close this gap by aggregating demand across large beneficiary pools, reducing delivery costs, and offering incentives that make these markets attractive to providers. Better access—especially for women, who face additional barriers—allows households to protect their livelihoods and invest in long-term resilience.

There are five specific ways in which social protection can work with the financial sector to support the design and distribution of appropriate climate-focused products and services to their beneficiaries.

### 3.5.3 FACILITATING AN ECOSYSTEM APPROACH TO LONG-TERM RESILIENCE

Social protection systems are uniquely positioned to serve as platforms for orchestrating broad, cross-sector climate-resilience efforts. To fulfil this role, their ability to coordinate across an increasingly complex landscape is critical.

- **Coordination of Stakeholders**
  Delivering climate-oriented financial services alongside social protection requires close collaboration among social protection agencies, financial-service providers, regulators, meteorological services, and finance or agriculture ministries. Expanding beyond payments inevitably brings new actors and added complexity. Fortunately, social protection systems already coordinate diverse stakeholders for delivery, targeting and policy alignment. The same

TABLE 3. **Five Ways Social Protection Can Help Design and Deliver Climate-Focused Finance**

| | How it works | Value for beneficiaries and providers |
|---|---|---|
| 1 **Incentivize service to climate-vulnerable clients** | Social protection programs subsidize premiums or agent networks, co-finance digital infrastructure, or guarantee a minimum client base, offsetting the high fixed costs of remote, low-margin markets. | Makes low-margin, remote customers commercially viable and speeds rollout of weather-index insurance, seasonal loans and savings. |
| 2 **Tap existing delivery platforms** | Banks and fintechs plug into G2P payment platforms, biometric registries and last-mile agent networks instead of building their own. Shared Know Your Customer (KYC) and messaging keep onboarding simple. | Slashes acquisition and delivery costs, giving beneficiaries one familiar channel for transfers and new products. |
| 3 **Use program data to unlock credit and insurance** | Verified enrolment records and predictable transfer flow lower perceived risk; providers can price products more accurately. | Providers can price accurately, opening access to loans, savings and weather-index insurance once deemed too risky or expensive. |
| 4 **Design for women's needs** | Social protection programs co-create products with women's savings groups: flexible repayment schedules, pay-as-you-go premiums collected at meetings, and interfaces tested with female users. Female agents and group leaders spearhead delivery, while bundled training tackles mobility and phone-sharing constraints. | Strengthens women's financial autonomy; leverages peer networks to boost uptake and retention. Evidence from Mauritania shows a shift in gender norms, resulting in gains in mobility, control of earnings, and household influence. |
| 5 **Seed further product innovation** | With catalytic grants or sandbox space, social protection programs pilot seasonal loans, blended insurance-savings bundles and weather-triggered top-ups, iterating quickly with real-time beneficiary data. | Generates climate-responsive products tailored to actual cash-flow patterns and hazards, then scales what works across the program's existing platforms. |

institutional capability can be extended to savings, credit and insurance, making social protection a natural platform for integrated, climate-responsive service delivery.

- **Open and Interoperable Systems to Unlock Collaboration**
  Social protection systems can—and in some cases already do—operate as open, interoperable platforms that connect a wide range of actors. When built with flexibility, they let multiple financial-service providers disburse funds, giving beneficiaries a choice of providers and driving competition and service quality. Open infrastructure also allows non-governmental organizations (NGOs), humanitarian agencies and private firms to align their interventions with national systems, reducing duplication and improving the use of climate and development finance. Early examples of such integration highlight the potential of social protection systems to act as coordination hubs, linking diverse actors and resources to amplify impact and strengthen long-term resilience.
- **System-Level Dividends Create a Virtuous Cycle**
  Integrating digital payments, mobile money and basic accounts into social protection platforms does more than widen beneficiary access; it also strengthens the programs themselves. Shared platforms and electronic-Know Your Customer (e-KYC) systems reduce payment costs and fraud. They can also allow governments to scale top-ups within hours of a climate alert, freeing budget for complementary services such as nutrition or livelihood grants. Real-time transaction data improve targeting and accountability, while open, interoperable systems make it easier for humanitarian agencies and FSPs to plug in when shocks exceed program capacity. In short, the same financial infrastructure that helps households build buffers also makes safety-net programs faster, cheaper and more sustainable—creating a virtuous cycle in which operational savings are reinvested in wider coverage and stronger climate resilience.

SECTION 4

# The Way Forward: Integrating Smarter Financial Solutions Into Social Protection

**THIS SECTION SHOWS HOW INTEGRATING** financial services can build more adaptive and sustainable social protection systems. These ideas draw on CGAP research, interviews and visioning workshops with key stakeholders. Five priorities deserve further investigation.

## 4.1 Smarter Payments for Climate Resilience

Traditional social protection programs provide frequent, small payments designed to meet immediate needs. Re-imagining payments as resilience tools means larger, strategically timed transfers that let households invest in drought-resistant crops, water storage or other adaptive assets.

### The Innovation: Lump-Sum Payments

Instead of focusing solely on consumption support, social protection can act as a financial enabler, helping households make transformative decisions:

This approach transforms payments into a resilience-building tool by:

- Allowing bigger, less frequent payments, which give families the resources to invest in climate-adaptive assets.
- Supporting predictable schedules that build trust and allow confident financial decisions.

### Why It Could Work

**Empowering households to build financial buffers**: Larger, predictable transfers enable households to acquire assets that provide financial stability during climate shocks. Rather than just covering day-to-day expenses, these assets can generate income, serve as collateral, or be sold in times of need.

Continued on next page

*Example:* In Kenya, recipients of lump-sum payments were able to purchase livestock, which not only increased their income but also acted as a financial cushion during droughts. In contrast, households receiving smaller, frequent payments struggled to accumulate productive assets. (Haushofer and Shapiro 2015).

**Strengthening climate resilience through strategic investments**: With lump-sum payments, families can make forward-looking investments in climate adaptation, such as improving agricultural practices or securing alternative income sources. *Example:* Uganda's Social Assistance Grants for Empowerment (SAGE) program found that less-frequent payments increased livestock ownership, giving households a safety net during environmental shocks ( Bastagli, et al. 2016).

### Potential Challenges and How to Overcome Them

While lump-sum payments offer significant advantages, they also present potential risks that must be carefully managed.

- **Risk of mismanagement or theft**: Receiving a large sum at once can lead to impulsive spending, misallocation of funds, or increased vulnerability to theft, especially in cash-based economies. Beneficiaries may also face social pressure to share funds, reducing their ability to invest strategically. **Solution:** Pair lump-sum payments with financial literacy programs that help beneficiaries budget effectively, prioritize long-term investments, and resist unnecessary expenditures. Additionally, secure digital disbursement mechanisms, such as mobile money or direct bank transfers, can reduce the risk of theft and ensure funds are accessible when needed.
- **Challenges in cash flow management**: Some households may struggle to manage a larger payment over an extended period, leading to financial strain before the next disbursement. Without proper planning tools, families may deplete their funds too quickly, leaving them vulnerable during emergencies. **Solution:** Offer optional savings mechanisms that allow beneficiaries to set aside portions of their lump-sum payments for future use. Structured financial planning support, such as SMS-based reminders or community-based savings groups, can also help households distribute their spending more effectively over time.
- **Lack of trust in payment reliability**: If beneficiaries do not have confidence in the consistency and predictability of payments, they may hesitate to invest in long-term assets or make strategic financial decisions, undermining the intended benefits of lump-sum payments. **Solution:** Establish clear, transparent, and well-communicated payment schedules so beneficiaries can plan with confidence. Where possible, governments and aid agencies should commit to multi-year funding guarantees to reassure households that payments will be sustained over time.

Although lumpier payments may require higher liquidity at disbursement, they need not raise overall program costs. By combining financial literacy, secure infrastructure and trust-building, social protection programs can help vulnerable households not just to survive climate shocks, but to build lasting resilience.

## 4.2 Savings to Protect Against Climate Risks

For years, the development community has focused on graduation-style economic inclusion programs as a pathway out of extreme poverty. These programs provide a carefully sequenced set of interventions—including cash or asset transfers, skills training, financial education, access to savings and credit, and mentorship—to help ultra-poor households build sustainable livelihoods. While highly effective, their high-touch, resource-intensive nature makes them difficult to scale. As an alternative, embedding savings into social protection programs offers a more scalable solution. Unlike graduation programs, large-scale social protection systems already deliver regular cash transfers to millions of low-income beneficiaries, providing an existing infrastructure to promote financial resilience at scale. By integrating savings mechanisms—such as default savings options within cash transfers or financial literacy training—governments and financial providers can overcome key barriers like low trust in financial institutions and limited financial education.

Taking this one step further, innovative savings matching schemes, where contributions are incentivized through government or donor matching, offer a powerful way to strengthen financial security. By encouraging consistent savings behavior, these schemes help households build financial buffers that can be accessed during emergencies, enabling faster recovery and reducing reliance on negative coping strategies. By offering a complementary contribution—often a matching amount—for every unit of currency saved, governments effectively boost the perceived value of saving, leveraging behavioral insights. This behavioral nudge helps people resist the temptation to spend money right away and instead set it aside for future emergencies (Hinz, et al. 2013).

### The Innovation: Matched Savings for Long-Term Stability

This approach transforms savings into a resilience-building tool by:

- **Boosting financial buffers**: Encouraging households to set aside funds that can be used during climate shocks or emergencies.
- **Increasing the perceived value of saving**: Using behavioral incentives to help overcome short-term financial pressures by matching contributions.
- **Bridging social assistance and financial independence**: Helping beneficiaries transition from reliance on cash transfers to long-term asset-building.

### Why It Could Work

**Strengthening household resilience to climate shocks:** Matched savings create a financial cushion that households can rely on in times of crisis, reducing the need for harmful coping strategies such as selling assets or taking on debt. *Example:* In Pakistan, a pilot program enables social safety net beneficiaries to "graduate" into a savings scheme with matching contributions, helping them build financial independence once they are no longer reliant on cash transfers (Government of Pakistan – Ehsaas Programme & Bank of Punjab 2023; LEAD Pakistan 2025).

**Encouraging broader participation in savings programs:** Matching contributions make saving more attractive, particularly when structured to favor lower-income households. *Example:* Rwanda's Ejo Heza program uses its national social protection categorization system (Ubudehe) to offer higher matching rates for poorer households, ensuring broader participation (Rwanda Social Security Board n.d.).

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## 4.2 Savings to Protect Against Climate Risks (continued)

### Challenges and How to Overcome Them

- **Ensuring equitable access:** A key risk is that savings matching may primarily benefit those already capable of saving, leaving out the most vulnerable households. **Solution:** Higher match rates for lower-income groups, automatic enrollment, and simplified contribution mechanisms can help ensure the program is more inclusive.
- **Managing administrative costs:** Tracking eligibility, processing contributions, and maintaining savings accounts require resources that could divert funding from other social protection priorities. **Solution:** Leveraging digital payment systems and integrating savings programs with existing social registries can reduce costs and improve efficiency.
- **Ensuring program sustainability:** If funding for matched savings programs is inconsistent, trust and participation may decline. **Solution:** Blended finance approaches—combining government, donors, and private sector support—can provide stability and long-term viability.

By embedding savings matching within a well-designed social protection system, these programs can help vulnerable households move beyond short-term survival and build lasting financial resilience in the face of climate and economic shocks.

## 4.3 Leveraging Innovative Climate-Triggered Credit Mechanisms

Conditional Lines of Credit (CLOCs) are a novel financial tool designed to provide vulnerable populations with pre-approved access to credit triggered by climate-related shocks. Unlike traditional loans, CLOCs remain dormant until specific climate conditions are met, offering financial support when it's most needed. Integrated with social protection, CLOCs can deliver timely liquidity, reduce emergency-aid reliance and foster market-based climate risk financing.

### The Innovation: Pre-Approved Credit Lines Triggered by Climate Shocks

This approach transforms credit into a resilience-building tool by:

- **Targeting appropriate households**: Utilizing social protection's targeting abilities and data to identify suitable households.
- **Pre-approval and automatic activation**: Credit lines are linked to climate risk monitoring systems and automatically triggered when specific thresholds are met.
- **Flexible repayment structures**: Repayment is aligned with seasonal income cycles to prevent additional financial strain during recovery periods.
- **Efficient disbursement**: Credit is directly deposited into beneficiaries' mobile wallets or bank accounts for quick access.

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# 4.3 Leveraging Innovative Climate-Triggered Credit Mechanisms (continued)

## Why It Could Work

**Timely access to liquidity:** CLOCs provide rapid access to funds, helping communities avoid negative coping mechanisms such as selling assets or cutting back on essential expenses. By securing liquidity during a crisis, CLOCs help households recover faster and maintain economic stability. *Example:* In Bangladesh, farmers with access to CLOCs increased land cultivation by 18 percent, boosting crop production by 19 percent, even without having to draw on the credit because of the confidence it provided (Lane 2023). (*Also see section 4.5 for how this product can be bundled with insurance).*

**Reducing dependency on emergency aid:** Contingent lines of credit (CLOCs) shift climate-shock costs from government coffers to market finance, easing pressure on emergency-aid budgets. Because the funds are only drawn after a disaster—and frequently remain untouched, the mere guarantee encourages households and institutions to invest in prevention and risk-mitigation up-front, lowering the odds that relief will ever be needed. *Example:* In a large BRAC International pilot in Bangladesh, farmers offered a guaranteed, pre-approved "Emergency Loan" (a CLOC) expanded the land they cultivated by 18 percent and raised crop output by 19 percent—even though most never borrowed a single taka (Lane 2023).

**Behavioral influence and risk-taking:** CLOCs offer psychological security, enabling beneficiaries to make strategic financial decisions and invest in higher-return opportunities. This proactive behavior promotes economic growth, even in the absence of climate shocks. *Example:* Farmers with CLOCs in Bangladesh expanded land cultivation, increasing productivity before disasters struck. Some households never needed to activate their CLOC, yet still benefited from the confidence it provided, allowing them to take calculated financial risks that led to long-term gains (Lane 2023).

## Challenges and How to Overcome Them

- **Limited integration with social protection systems:** To date, most CLOC pilots operate outside national cash-transfer platforms, beneficiary registries, and disaster early-warning systems. Because they are stand-alone, CLOCs struggle to move beyond small pilots; reaching millions cost-effectively will require plugging into those existing social protection platforms. **Solution:** Targeted research and pilots should test how embedding CLOCs in social protection infrastructure (e.g. using registry data for rapid targeting or linking disbursement triggers to early-warning alerts) can unlock scale.
- **Risk of misuse or over-borrowing:** Without proper financial literacy, there's a risk that beneficiaries may misuse credit potentially leading to over-indebtedness. **Solution:** Embed or leverage existing financial literacy programs within social protection systems to help beneficiaries make informed borrowing and repayment decisions.
- **Managing credit repayment:** Ensuring that beneficiaries can repay the credit without further financial distress is critical for CLOC success. **Solution:** Linking CLOC instalments to periods when income is naturally higher, for example, deducting them from seasonal harvest proceeds or from predictable social protection transfers. This flexible, cash-flow-matched schedule both shields borrowers from post-shock strain and lowers default risk for lenders, addressing the repayment challenge while keeping recovery on track.

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## 4.3 Leveraging Innovative Climate-Triggered Credit Mechanisms (continued)

Social protection systems already serve as important mechanisms for supporting vulnerable populations through cash transfers, public works programs, and other forms of assistance. By integrating CLOCs with existing social protection structures, there is potential to create a more sustainable, market-driven approach to climate resilience—one that not only provides immediate support in times of need but also fosters long-term financial security for vulnerable populations. Despite the clear synergies between CLOCs and social protection systems, there are few documented cases of CLOCs being explicitly tied to social protection frameworks. This gap presents an opportunity for further research and pilot initiatives to explore how social protection mechanisms can enhance the effectiveness and scalability of CLOCs.

## 4.4 Climate-Responsive Insurance Innovation

Insurance can play a crucial role in strengthening the resilience of vulnerable populations by providing timely financial support in the face of climate shocks. By integrating insurance solutions within social protection systems, governments and development actors can enhance risk management strategies and improve financial security for at-risk households. A specific innovation in this regard is parametric insurance for climate resilience.

### The Innovation: Integration of Social Protection Data with Parametric Insurance

Social protection data can guide insurers toward products that fit the most vulnerable by revealing crucial demographic and risk profiles. A practical next step is to fold parametric insurance into social protection programs, so predefined climate triggers deliver fast, predictable payouts and speed climate-responsive aid.

### Why It Could Work

**Using social protection data to better understand beneficiaries:** Social protection systems already manage valuable data on beneficiaries, including financial and demographic information. While the use of this data by insurers is still evolving, it could offer insights into beneficiaries' vulnerabilities, financial capacities, and potential exposure to climate risks. In countries with large social protection programs, integrating such data could help insurers better understand the needs of beneficiaries and support more effective outreach for insurance options.

**Parametric insurance for faster response to climate shocks**: Parametric insurance integrates with social protection infrastructure to trigger rapid financial support when climate events like floods or droughts occur. By using existing beneficiary registries, digital payment systems, and early warning mechanisms, parametric insurance allows for immediate payouts, reducing the delays and bureaucracy typical of traditional relief efforts. This helps prevent negative coping strategies such as selling assets or taking on high-interest loans. For example, the PICAP successfully implemented parametric insurance to offer cyclone coverage, providing quick payouts that enabled households to recover swiftly from disasters.

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## 4.4 Climate-Responsive Insurance Innovation (continued)

### Challenges and How to Overcome Them

- **Basis risk in parametric insurance**: One of the key challenges in parametric insurance is basis risk, where the payouts do not exactly match the losses experienced by beneficiaries. This can lead to dissatisfaction and mistrust. **Solution:** Ongoing investments in climate data collection and modeling can refine trigger mechanisms to reduce basis risk and ensure payouts better match actual needs.
- **Affordability and scaling**: Affordability remains a barrier for low-income households to participate in insurance schemes. Without subsidies or government support, many beneficiaries would not be able to pay premiums. **Solution:** Governments can incorporate cost-sharing models into existing social protection programs or utilize donor funding to lower the cost of premiums for the most vulnerable populations.

Integrating innovative insurance models with social protection systems can create a more resilient and adaptive safety net, enabling vulnerable populations to better withstand climate shocks and build long-term financial security.

## 4.5 Enhancing Climate Resilience by Combining Financial Services

For social protection programs to deliver lasting financial security, a fragmented approach to financial services is not enough. Bundling complementary services—such as savings with payments, conditional credit with insurance, or parametric insurance with social protection data—creates a more cohesive and efficient support system for vulnerable populations. By integrating multiple financial tools, households can not only access resources when needed but also proactively manage risks, build financial buffers, and invest in long-term resilience. Additionally, bundling enhances operational efficiencies by leveraging shared infrastructure, reducing administrative costs, and streamlining service delivery. Governments and financial providers can optimize outreach, minimize redundancies, and improve financial inclusion by offering integrated solutions through existing social protection networks.

Bundling financial services within social protection programs ensures that assistance does more than address short-term needs. Bundled financial solutions create multi-layered safety nets that provide immediate liquidity while enabling future planning. Specifically, in the context of the innovations discussed above, there are two bundling strategies that could be effective.

### The Innovation: Combining Savings With Payments – From Consumption to Financial Cushion

Social protection payments can be transformed from temporary relief into a foundation for long-term financial security by integrating savings mechanisms. This can be done through automated savings deductions, where a portion of each transfer is directly allocated to a savings account or through matched savings incentives discussed in the section above to reinforce the habit of saving. The use of digital wallets and mobile-based access can ensure convenient and flexible transactions. If done effectively, combining the savings with payments can help households gain financial autonomy and reduce their vulnerability to sudden expenses.

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# 4.5 Enhancing Climate Resilience by Combining Financial Services (continued)

BOX 8. **An Example - Savings and Payments**

A notable example of combining savings with payments is the collaboration in Kenya's Wajir County, where the Hunger Safety Net Program (HSNP) provides regular cash transfers to vulnerable households to help them manage climate-related shocks. Complementing this, the Mercy Corps-led PROGRESS project offers access to financial services, including savings and credit facilities through the Crescent Takaful Savings and Credit Cooperative (CTS) and Village Savings and Loan Associations (VSLAs). This integration allows households to not only receive immediate financial support but also build savings, thereby strengthening their resilience to climate-induced stresses (Weingärtner et al. 2019).

## The Innovation: CLOCs and Insurance – A Dual Safety Net For Climate Shocks

CLOCs combined with insurance can create a layered financial defense against extreme weather events. This combination ensures that households receive immediate liquidity before a disaster and structured recovery support after an event. In practical terms, the bundling would work on three levels. First, it would involve *pre-disaster credit access* (the CLOC) where beneficiaries receive access to an emergency credit line as soon as a climate alert is issued. If the event results in verifiable losses, parametric insurance will then provide a *post-disaster insurance payout*. The insurance payouts can be structured to automatically clear outstanding CLOC balances, ensuring beneficiaries do not face long-term debt burdens.

While the value of bundling financial services is clear, implementation often faces significant behavioral and operational hurdles. Many low-income households have limited trust in financial products, low levels of financial literacy, and irregular income flows that make participation difficult. At the same time, service providers face challenges such as high administrative costs, complex delivery logistics, and difficulties in reaching remote populations efficiently. These issues are especially pronounced in the context of climate shocks, where timely access to financial support is crucial, yet often hampered by fragmented systems and slow processes.

As discussed in previous sections of this report, social protection programs are well positioned to help overcome these barriers. Their established credibility and wide reach can serve as a trusted delivery mechanism for introducing bundled services gradually and inclusively. Leveraging digital platforms already used for social transfers can simplify and automate complex transactions—such as savings deposits, CLOC disbursements, and insurance payouts—reducing friction for both users and providers. Financial literacy can be improved through integration of SMS reminders or conditional incentives, reinforcing positive habits. Moreover, social protection programs can facilitate public-private partnerships to subsidize costs and ensure affordability, thereby creating a viable ecosystem for financial inclusion at scale.

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## 4.5 Enhancing Climate Resilience by Combining Financial Services (continued)

BOX 9. **An Example - CLOCs and Insurance**

The African and Asian Resilience in Disaster Insurance Scheme (ARDIS) pairs parametric insurance with a contingent line of credit so micro-finance keeps flowing after climate shocks. When the global parametric climate index registers droughts, floods, cyclones or other triggers, the Natural Disaster Fund releases an instant cash payout and simultaneously unlocks an InsuResilience Investment Fund credit facility for Vision Fund's partner Micro Finance Institutions (MFIs). This two-layer trigger lets MFIs tap up to USD 3.95 million in zero-interest liquidity and issue recovery loans within days, preserving borrowers' livelihoods while donor aid is still *en route*. In 2020 alone, the mechanism fired four times—from Myanmar flooding to Honduras' Hurricane Iota—sending USD 315,000 in risk capital and opening credit that protected 675,000 borrowers (about four million people). Today the program covers 15 countries and five hazard types; MFIs pay roughly 0.5% of loan-portfolio value for the protection, keeping the model affordable while safeguarding predominantly women clients.

# Conclusion

THE OPPORTUNITY TO LEVERAGE financial inclusion through social protection for climate resilience is too significant to ignore. Financial services play a critical role in helping climate-affected individuals and communities adapt, recover, and build a sustainable future, and social protection stands as one of the most effective mechanisms to deliver these benefits at scale, ensuring that financial solutions reach those who need them most.

For funders and policymakers, social protection should no longer be viewed solely as a safety net, but as a strategic tool in the fight against climate change. While it already supports vulnerable communities, its full potential remains untapped. Stronger integration with financial services offers a powerful pathway to amplify its impact—an investment with the potential for transformative change. However, despite this clear promise, evidence on the best implementation strategies remains limited. Continued experimentation and rigorous data collection are therefore essential.

### *Now is the time to act.*

In the wake of the COVID-19 pandemic, social protection has gained unprecedented recognition for its ability to support millions in times of crisis. At the same time, its role in climate resilience is increasingly acknowledged, leading to growing investment in social protection systems. The convergence of these trends presents a unique window of opportunity to scale up financial inclusion through social protection and drive lasting climate outcomes.

This paper has demonstrated that not only is integration feasible, but social protection systems are uniquely positioned to make it work.

For social protection practitioners, the message is clear: financial inclusion should not be seen as an ancillary objective but as a fundamental enabler of climate resilience. The tools exist, the need is urgent, and momentum is growing. By embracing this vision, social protection can evolve beyond its traditional role to become a cornerstone of the global climate response—empowering millions while driving systemic change at scale.

However, this transformation requires significant investment. Social protection programs have traditionally focused on expanding coverage and increasing benefit levels, but financial inclusion must be recognized as a key factor in maximizing their effectiveness. Funders have a crucial role to play in driving innovation, fostering experimentation, and strengthening the evidence base to guide future investments.

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EXPERTISE FRANCE · GROUPE AFD

Federal Ministry for Economic Cooperation and Development

FMO · Entrepreneurial Development Bank

Gates Foundation

giz

Global Affairs Canada

IAIS · International Association of Insurance Supervisors

IDB LAB

IFC · International Finance Corporation

IMPACT FUND DENMARK

IFAD · Investing in rural people

ILO · International Labour Organization

JOA · JERSEY OVERSEAS AID

KFW

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LUXDEV · Luxembourg Development Agency

center for inclusive growth

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*CGAP members and strategic partners as of June 2025*

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*CGAP members and strategic partners as of June 2025*


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