UN environment programme | finance initiative

Principles for Responsible Banking

Theory of Change for Financial Health and Inclusion

September 2022

Common Pathway to Impact

Based on a theory of change approach, a Pathway to Impact considers the relationship between inputs, actions, outputs, and outcomes to achieve an impact. In other words, it shows the desired results (output, outcome and impact) of the actions banks take based on input data. The **Pathway to Impact for Financial Health and Inclusion** presented on Figure 1 has been created by UNEP FI's Financial Health and Inclusion Working Group based on work developed by the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA)[1] and UK's Financial Wellbeing Strategy.[2]

To better understand the Pathway to Impact for Financial Health and Inclusion please consider that:

- Input information/data from the country and the bank should be used to prioritize groups of customers and guide decision-making when implementing actions.
- Actions can be categorized into four types of enablers or inhibitors: actions related to products and services based on the **portfolio composition**, to **client engagement**, to internal processes and data analytics based on **internal policies and processes**, and to partnerships through the bank's **advocacy**. These can onset positive or negative impacts on financial inclusion and financial health.
- An action can be **deemed successful if it achieves the desired output** without generating a detriment of other indicators directly associated with negative impacts. Combined successful actions, if closely monitored, should generate the desired outcome and, moreover, impact.
- A focus on vulnerability and equality should be continuously kept.

For banks who focus just on Financial Inclusion, the pathway (Figure 2) asks that:

- **Special focus be put on unbanked, formerly banked, and underbanked** individuals, households, micro, small and medium-sized enterprises (especially those considered vulnerable due to certain socio-economic characteristics), without neglecting existing clients who can't access further financial opportunities to improve their financial health.
- Access to basic banking products should be the immediate result of actions, but access without barriers to suitable banking products and services, not just basic products, should be the targeted impact for banks focused on financial inclusion.
- Additionally, a target set for financial inclusion should seek to **achieve significant changes in the inclusion of vulnerable unbanked and underbanked groups while keeping a financial health approach on all actions taken.**

1 For more information click here
2 For more information click here

For banks who focus on Financial Health, the pathway (Figure 3) asks that:

- Your bank aims to sustain already high levels of financial health in your customers and/or increase their existing levels of financial health when they are low. This can be achieved by using the **three main drivers of financial health** (strengthening financial skills, increasing the access to and better usage of financial products, services, and increasing the access to financial advisory services). **This means that full financial inclusion of an individual is part of their pathway to higher financial health**.
- Although banks are not directly responsible for increasing the income of people and/or businesses, they share the responsibility for helping customers manage their finances effectively, which is directly linked to financial health and wealth creation.

Figure 1: Combined Pathway to Impact for Financial Health and Inclusion

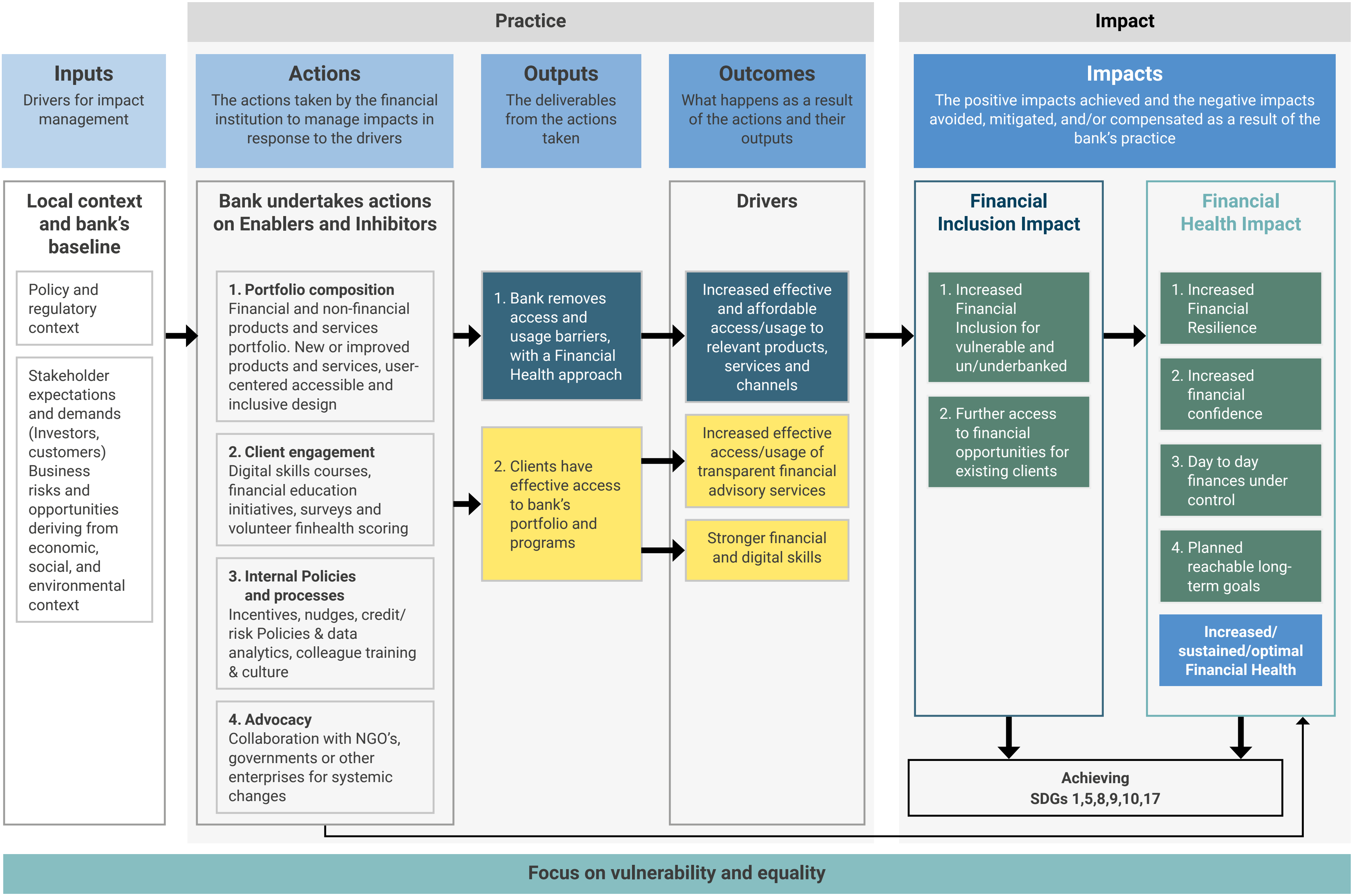

Figure 2: Pathway to Impact for Financial Inclusion

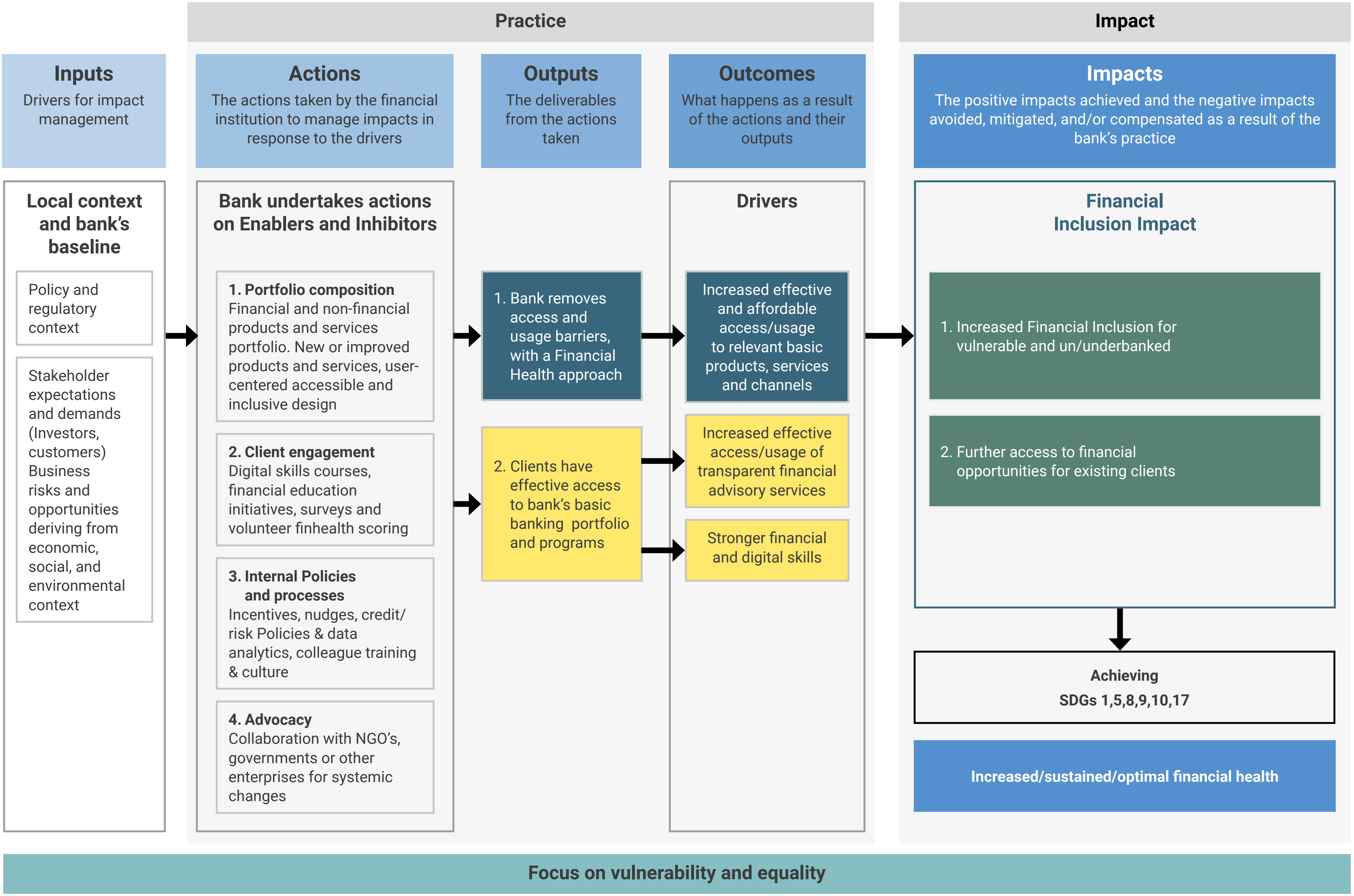

Figure 3: Pathway to Impact for Financial Health