RESILIENCE IN ACTION TECHNICAL BRIEF

FINANCIAL SERVICES

FROM THE AMERICAN PEOPLE

Resilience Evaluation, Analysis and Learning

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CONTACT

The REAL Associate Award
c/o Save the Children
899 North Capital Street NE, Suite #900
Washington, D.C. 20002
Email: resiliencemeasurement@gmail.com
Website: https://www.fsnnetwork.org/REAL

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PREPARED BY

MERCY CORPS

Mercy Corps
45 SW Ankeny St.
Portland, OR 97204
USA

Why Explore the Intersection of Financial Inclusion and Resilience?

The connection between financial inclusion[1] and resilience[2] strategies has never been clearer. Both are essential to reducing poverty, catalyzing inclusive growth,[3] and achieving a wide range of development goals. Resilience focuses on building capacities within individuals, households, communities and institutions to learn, cope, adapt, and transform in the face of shocks and stresses. At their core, financial services can help people manage risks while protecting their livelihoods, reducing chronic vulnerability, and facilitating economic growth and recovery. A growing body of evidence demonstrates that when people can access and understand how to use a range of appropriate financial services (e.g., savings, borrowing, insurance, and payment services) they are better able to plan ahead, manage risks, absorb shocks and stresses when they happen, and recover faster.[4]

Yet, context matters. Financial services do not always build resilience and can even undermine it in some instances. For example, helping smallholder farmers access loans for inputs or equipment could worsen the impacts of a drought on their households by saddling them with debt just as they try to recover.

Two primary questions require further exploration to ensure financial inclusion better supports resilience. The first is how financial services can best be designed to support individual and household resilience, and what sets of interventions help to achieve this. The second is how to build and maintain the resilience of financial institutions and systems to ensure they continue offering services. Practitioners, financial service providers, donors and policy makers need to build a deeper understanding of how to design, target, and offer specific products and services for both vulnerable populations and institutions that positively affect resilience, while simultaneously contributing to long-term development goals.

WHY IS FINANCIAL INCLUSION RELEVANT?

Underserved populations frequently live outside populated areas, have limited financial options, and are perceived to be high-risk clients with low potential for earning lenders a profit. Subsequently, not enough financial providers offer a range of flexible, affordable financial products to the most vulnerable, including smallholder farmers, pastoralists, women, youth and micro, small, and medium enterprises (MSME). Financial providers often fail to meet the actual demand for financial products by offering services that do not address the core financial needs and financial behaviors of different market segments. At the same time, poorer and otherwise marginalized clients may have limited ability to meet institutional or legal requirements since they often lack legal documentation, consistent cash flow, or credit histories. Culture also plays a role, including gender-based norms or religious restrictions that limit access to financial products not tailored to their particular needs and interests.

1Financial inclusion occurs within financial systems when clients, especially the unserved and chronically underserved, are ensured access, quality and ability to use financial products and services, including credit, insurance, leasing, payments, remittances, and savings. Mercy Corps. (2017).
2 Resilience: the capacity of communities in complex socio-economic systems to learn, cope, adapt, and transform in the face of shocks and stresses. Mercy Corps.
https://www.mercycorps.org/research/resilience
3 World Bank, The Global Findex Database 2017. (April 2018).
4 Aker, J., R. Boumnijel, A. McClelland, and N. Tierney "How Do Electronic Transfers Compare? Evidence from a Mobile Money Cash Transfer Experiment in Niger." Tufts University. (2013).

How Should I Use This Brief?

The *Resilience in Action Series* aims to better equip practitioners and financial service providers in considering risk and resilience in financial service program design, as well as considering which meso and macro-level mechanisms can help support financial systems resilience. To move recommendations from the realm of theory to practice, we highlight the following: 1) guidance questions to apply resilience thinking, and 2) types of financial products and services that have been shown to build resilience via case studies.[5] Design considerations are discussed throughout, and key considerations are summarized at the end of the paper.

Getting Started

We suggest that practitioners and service providers working at the intersection of resilience and financial services begin by asking a set of five key questions to help apply resilience thinking. These questions are applicable whether attempting to integrate financial inclusion strategies into a broad-based resilience program or applying a resilience lens to a more targeted financial inclusion program. (See Figure 1)

The following section walks through the meaning of each of these questions, discussing how to apply them to programs, financial service products and service offerings, and systems.

Figure 1. Applying Resilience Thinking: The Five Questions[6]

5 This brief is not an exhaustive review of the role of financial services or financial delivery mechanisms as resilience capacities. Many project examples and research studies exist, especially on the use of the savings groups and insurance mechanisms for building resilience.

6 Adapted from the Resilience Framework presented in: Mercy Corps. "Our Resilience Approach to Relief, Recovery and Development." (December 2016).

Focusing on the Primary Development Goals: Resilience to What End?

Building resilience to shocks and stresses ensures sustained progress towards long-term development goals. Asking this question first helps us formulate the development goal that communities aim to achieve (e.g., economic wellbeing or food security), and then orient ourselves to take action in the direction of achieving it.

Timely access to financial services for individuals and households is not an end in itself; it is a means to help achieve other goals. Practitioners and financial service providers need to put thoughtful consideration towards defining, or reiterating, the overarching development goals of their work. Next, organizations must examine how resilience and financial inclusion relate to each other in the service of these goals. For example, financial inclusion has been a key approach in programs that have development goals ranging from food security to economic growth and even peacebuilding. How can financial services help individuals and households manage their finances better when faced with shocks and stressors, in order to continue trying to achieve these goals? Which products and services can they use quickly, and effectively, to help prevent them from sliding backwards economically? Which meso- and macro-level mechanisms support financial institutions to deliver continued services to communities? How can local, or perhaps national, governments support these institutions in order to maintain the pathway towards the long-term goals while navigating short-term shocks? Thinking about the end goal first and working backwards to identify how to achieve that goal, ensures that the design process will remain on track towards accomplishing multiple objectives.

Identifying and Assessing Shocks and Stresses: Resilience to What?

This question allows us to prioritize a set of shocks, stresses and underlying systemic constraints threatening the target population and describe how they relate to each other. Gaining a greater contextual understanding of the trends surrounding shocks and stresses—including their frequency, severity and impact across systems and at multiple geographic and temporal scales—helps us prioritize actions.

To understand risk, practitioners and financial service providers must identify likely and potential shocks and stresses for the target geography, populations, institutions, and systems. One type of analysis to understand risk is considering both the frequency and severity of shocks and stresses that can occur in a given geographic area. Figure 1 is a tool that can help with thinking through how often shocks and stressors occur, and considering how challenging the conditions are which they create. The figure depicts the relationship between frequency and severity of risks and advises actions to respond.

WHAT IS RISK?

Risk involves the likelihood, or frequency, that an event occurs, as well as the severity or impact of the effects stemming from an event. Exposure to risk is a combination of these two factors: frequency and severity. Low frequency and low severity risks may be absorbed, but high frequency risks create constant concern, even if of limited severity, with less severe ones requiring small adjustments and more severe ones suggesting more dramatic changes to avoid detrimental impact. Financial products and services can be tailored to help households absorb and adapt to a variety of these risks.

For risks with low frequency and low severity, having savings or access to emergency credit can enable households to self-insure as a way to absorb the consequences of a shock. For risks with low severity, but high frequency, households can invest in strategies and mechanisms that can help them plan and prepare for future shocks. Potential actions include increasing savings, investing in infrastructure (housing), gaining pre-approval for a loan, accumulating assets for future sale, or using finance to adapt livelihood strategies to shift the risk profile. For risks with low frequency but high severity, risk transfer mechanisms such as insurance, if they are available, are able to transfer the financial consequences of the risk to a third-party at a relatively low cost. Making this transfer of risk in advance provides a lump sum payment in the future than can be used to replenish lost assets after an event. Risks with high severity and high frequency require households and communities to transform their risk profile and often requires support from multiple external actors, including government, multilateral agencies like the World Bank and market actors (Insurance companies and reinsurers), to help reduce or transfer the risk in support of transforming infrastructure.

Figure 2. Risk Frequency and Severity Quadrant

SEVERITY	FREQUENCY: Low	FREQUENCY: High
Low	**RETAIN** Self-insurance and reserves	**MITIGATE** Invest in and improve techniques, equipment, and technology
High	**TRANSFER** Through insurance or other mechanism	**AVOID** Activities should be changed or moved if possible

Events and their impact often do not neatly fit into only one of the four quadrants, however. One event could have a series of financial ramifications for a household, some occurring in the short-term and others in the long-term. These impacts could then heavily influence the way individuals or households manage risk in the future. A valuable finding from a frequency and severity analysis could be that a variety of financial services are likely needed, combined with safety net measures provided by governments or multilaterals, to provide adequate protection and recovery over time.

Segmenting the Market: Resilience for Whom?

This question pushes practitioners and financial service providers to assess whose resilience capacity needs to be enhanced, as well as how and why different populations are vulnerable to different shocks and stresses. By investigating the geographic and social factors driving vulnerability—such as gender, race, ethnicity, cultural practices, and age—we can better understand the kinds of threats different groups face, informing which populations we target for future interventions, and how.

To determine which products and services would meet the financial needs of target populations, as well as help them build up assets in the face of risks, program and product designers need to conduct a market segmentation exercise. A given shock or stress can impact different segments of the client market in different ways. Needs may vary depending on geographic location, such as living close to a flood zone or further from a market, or livelihood group, such as farmers being affected differently by drought than pastoralists. Additionally, barriers or constraints to building resilience can exist at multiple levels—the individual and household level (e.g., behaviors, attitudes, knowledge), at the community level (e.g., availability, local governance, community norms), and at the systems level (e.g., infrastructure, policies, institutions). This exercise should consider a variety of demographic factors, such as age, gender, ethnicity, religion, access to social support networks, and mobility. Key features of target clients must be identified clearly through this exercise in order to understand their circumstances and level of vulnerability.

A resilience lens should then be applied to these market segment profiles. Practitioners and financial service providers need to identify the existing coping mechanisms and their effectiveness in responding to shocks and stresses for each of these profiles. They then should explore appropriate products and services, and their applicability in strengthening the resilience of each profile. It is critical to identify interventions, products or services that either build on existing effective coping mechanisms or introduce more effective mechanisms that are easy for the target population to adopt. Practitioners and financial service providers must also ensure that any new financial interventions do not produce unintended consequences which undermine progress toward the development goals.

Another key element to integrate into client segment profiles is consumer behavior. Ideally, practitioners will work directly with providers to learn more about consumer behavior—particularly how individuals' assessments of risk impact their demand for financial products and services. For example, catastrophe insurance can be a hard sell when target populations often perceive the frequency of these events to be low or nonexistent, even though the impacts could be devastating. What insights are known about how consumers use credit immediately following a shock? What are incentives to get households to build up more savings before shocks, or how do they manage savings during stressors such as long-term droughts? Determining key consumer behaviors can drastically improve the applicability of products and services and ultimately make them powerful tools in building resilience.

Determining Which Financial Products and Services Fit Best: Resilience through What?

Resilience capacities can serve absorptive, adaptive or transformative functions. We envision capacities as strands of rope, made stronger when woven together. These capacities equip individuals, households, institutions, communities and systems to prepare for and manage risk over time, increasing the likelihood of achieving relief, recovery and development objectives

Access to financial services can enhance both absorptive and adaptive capacities of individuals and households. **Absorptive capacities** are the strategies and resources used to immediately respond to shocks and stresses. Absorptive capacities provide the ability to minimize exposure and sensitivity to shocks and stresses through preventative and preparation measures, helping avoid permanent, negative impacts. Examples of financial services serving absorptive functions include insurance, informal savings, and remittances. **Adaptive capacities** allow people to make informed choices and adjust in response to long-term changes in their social, economic and ecological environment. Products which do this include loans for investment in new assets and formal banking services, as well as financial education, which ensures consumers can make informed financial decisions about their future. For example, education on insurance products tied to disaster risk reduction efforts can help clients see the cost and benefits of such a product through its immediate application and determine whether insurance is an effective risk management strategy over time. The third type of capacities, **transformative capacities,** focus on how systems can shape development outcomes for individuals and communities, as discussed in more detail below in the section "Resilience to What?"

INDONESIA: THE USE OF FINANCIAL PRODUCTS IN MITIGATING NATURAL DISASTER RISKS

The benefits of linking individuals to financial services go beyond purely financial gains. A 2017 Mercy Corps study of 600 households in Indonesia found existing clients of financial institutions found broader psychological benefits. Of who responded, 86 percent reported reduced anxiety and stress about their future. 76 percent of the clients who responded and who had access to disaster-related financial products, such as flexible savings accounts and disaster-related insurance, demonstrated an increased likelihood of investing in business or farming.[7]

Resilience capacities related to financial services ultimately depend on the types of products and services available to individuals, households and communities as well as the kinds of mechanisms active in the country to help manage systemic risk. There is no single type of product or service perfectly suited for any given context, but rather a need for a suite of diversified and flexible services tailored to different users, providing protection against different types of risk. For instance, what is needed when an individual is immediately dislocated or forcibly displaced may vary dramatically from what is needed to cope with a protracted crisis over several years.[8]

[7] Adapted from the Resilience Framework presented in: Mercy Corps. "Our Resilience Approach to Relief, Recovery and Development." (December 2016).
[8] Hansen, Lene Serving Refugee Populations: The Next Financial Inclusion Frontier https://sptf.info/images/RefugeeWG-Serving-Refugee-Populations-Guidelines-FSPs-Lene-Hansen.pdf (July 2016).

Furthermore, users need continued access to these diversified products and services over time to maintain recovery efforts post-shock.

Although giving individuals and households access to a variety of products and services is ideal, a practical first step is to identify products and services most relevant to the most pressing need. Trends in which types of products and services address which types of risks are provided in Table 1. For acute shocks, either ecological, economic, political or conflict-related, a quick response is needed. Easily accessible informal and formal financial services are most practical and useful in these cases. Catastrophic loss insurance, such as the hybrid insurance triggered by wind speed, rainfall and earthquakes offered by Mercy Corps' and Microinsurance Catastrophe Risk Organization (MiCRO) in Haiti, offers a quick payout to households after an extreme event, and later additional funding if losses are great. For protracted stresses, both ecological and conflict-related, formal credit and trade credit (which can take longer to access than formal) can be added to the mix of easily accessible informal and formal services. At the systems level, pre-positioned finance and liquidity facilities provide additional financing to maintain cash flows through institutions in the case of an ecological acute shock, such as an economic crisis. Loan guarantees can help de-risk financial institutions and extend products and services to market segments that are deemed "too risky" or in areas often difficult to serve due to economic, political and conflict related shocks. For protracted stresses, social safety nets and index insurance (for ecological stresses) can provide cash assistance directly at the household level, with guarantees and liquidity facilities assisting institution

Although financial services are related to recovery in a variety of settings, and can help achieve development goals, a more nuanced understanding of the impact of financial services in resilience programming shows that the evidence is mixed, and thus often context-specific. In some settings, informal services are most helpful, as was the case in helping households cope with the immediate effects of Typhoon Haiyan.[9] In Nepal, following the Gorkha Earthquake, informal savings helped households mitigate the worst effects of the disaster, but access to formal credit was the greatest predictor of long-term recovery.[10] Although there are mixed findings, some trends are becoming clear. For instance, there are clear tradeoffs in offering informal vs. formal savings; in contexts where social support systems matter significantly, informal savings services can be more effective because households need to harness the social capital for other reasons.

Importantly, it is not just the type of product that matters, but how it is designed and accessed to address or mitigate a particular risk environment, as defined by the shocks and stresses in that context. For example, the repayment terms of a loan can help herders and traders manage the boom and bust cycles associated with the livestock trade in drought-prone environments. Developing products to incentivize resilient behavior is also important. In Mongolia, XacBank, in partnership with Mercy Corps, developed an "ecoloan" that incentivized improved livestock feeding practices with the goal of improving livestock productivity while reducing extensive grazing and therefore

[9] Hudner and Kurtz, "Do Financial Services Build Disaster Resilience? Examining the Determinants of Recovery from Typhoon Yolanda in the Philippines." Mercy Corps (Nov 2013).
[10] Petryniak, Olga and Scantlan, Jill, "What Matters for Household's Recovery Trajectories Following the Gorkha Earthquake? A two-year panel study." Mercy Corps (2018).

environmental degradation. In contexts of frequent mobility or even displacement, mobile savings, digital transfers and even digital savings groups may be particularly critical. Understanding the context and making appropriate tweaks to design and access can make products and services significantly more useful.

Lessons from general financial services can be also applied to the resilience context. Accessible credit can help households make income investments to help them better prepare to cope with future shocks, as can the purchase of insurance that would pay out after an event.

Encouraging the use of easily accessible formal savings accounts or informal savings groups, and integrating behavioral nudges into products such as goal-based savings, can help households better build savings before shocks occur.[11] After a shock, lowering the costs of informal risk-sharing and delivering social protection payments through digital channels may help households affordably access funds when they are needed most.[12]

The Snapshots provided illustrate how tools function in different settings, emphasizing the importance of context and the immediate shock.

Practitioners and financial service providers are encouraged to review the Snapshot cases and think about how the type of shock or stress, context, and type of financial product or service (informal or formal) interplayed with one another to produce the achieved outcome. Lessons from these examples can be applied to product and service offerings in similar settings.

CASE 1 SNAPSHOT: ACCESS TO SAVINGS

Resilience Response: access to savings—either formal or informal—supports access to food and other basic needs immediately after an acute shock and avoids selling of productive assets in the short term.

Application and Evidence: In Nepal, households with formal savings before the 2015 earthquake saw longer-term gains in productive and various asset purchases one and two years after the 2015 earthquake, in comparison to households without formal savings.[13]

Photo credit: Tom van Cakenberghe/Mercy Corps

Photo of Shukra, who joined the Financial Literacy Training organized by Mercy Corps after the 2015 earthquake in Nepal. She says: "I joined this class to learn how to save money. I want to rebuild my house and if I join the cooperative and save with them, I can later take a low interest loan from them."

However, all households who saw positive change in their ability to draw on any kind of savings from 10 weeks to two years post-earthquake were more likely to have better food coping strategies and asset recovery.

These positive impacts demonstrate the important role that savings play in a household's ability to cope in the short-term while also achieving longer-term recovery.

In Syria, households that had liquid savings, but were physically unable to access them, had lower

[11] Moore, D., Niazi Z., Rouse, R., Kramer, B., Building Resilience through Financial Inclusion. https://www.poverty-action.org/sites/default/files/publications/Building-Resilience-through-Financial-Inclusion-English.pdf (January, 2019).
[12] Ibid.
[13] Petryniak, Olga and Scantlan, Jill (2018),

psychosocial well-being scores (5% lower) than those who were able to access savings or did not need to rely on savings for basic consumption needs.[14] Psychosocial well -being translates to a reduction of stress and anxiety, an increase in aspirations, and confidence in one's ability to adapt.[15] Households able to quickly recover from a shock are more likely to report saving consistently. Households participating in savings groups in Burkina Faso relied heavily on savings to respond to shocks, including savings for general household and 'earmarked' expenses.[16]

CASE 2 SNAPSHOT: CREDIT MECHANISMS—FORMAL AND INFORMAL LOANS

Resilience Response: Loans can provide immediate access to cash after a shock to help manage the immediate impact and avoid negative coping mechanisms. Formal or informal loans can be helpful, depending on the context. However, debt from pre-existing loans can have a negative impact on resilience goals.

Loans and other forms of credit can also support the acquisition of assets to support adaptive strategies, such as purchasing new equipment or investment in a diversified livelihood activity.

Application and Evidence: Formal loans can play an important role in recovery from shocks.[17] In post-earthquake Nepal, households with access to formal credit immediately after the earthquake had better food security and livelihood recovery in the short-term (10 weeks post-earthquake) and long-term (two years post-earthquake).[18]

Meanwhile, drawing on informal credit was associated with greater food insecurity post-earthquake. The assumption is that worse-off or less food secure households before the earthquake did not have pre-existing relationships with creditors.[19]

Similarly, during the 2010-2011 drought in Somalia, Mercy Corps found households with high rates of informal debt pre-crisis were more likely to use harmful coping strategies in the wake of a crisis[20] and were more food insecure.

Photo credit: Ezra Millstein/Mercy Corps (2018)

Photo of Saraswoti, who took the financial literacy training Mercy Corps facilitated to help families recover from the 2015 earthquakes in Nepal. She also took a loan from the SACCO Mercy Corps supports and has since expanded her snack shop.

Conversely, in Syria, Mercy Corps found that households with access to informal credit[21] had better food security, with significantly lower household hunger and engaged less in negative coping strategies even during periods of active conflict.[22] Households that successfully accessed credit scored 35% better on the household hunger scale and 20% better on the negative coping measure than those who did not access

[14] Howe, K., Krystalli, R., Krishnan, V., Kurtz, J., & Macaranas, R. "The Wages of War: Learning from how Syrians have adapted their livelihoods through seven years of conflict. Mercy Corps. (2018). https://www.mercycorps.org/sites/default/files/RD_SyriaReport_dl_FINAL_US-web.pdf
[15] Toth, R and Hoy, C. The Use of Financial Products in Mitigating Financial Risk. Mercy Corps. (May, 2017)
[16] Freedom From Hunger, "Building Resilience in Burkina Faso" , https://www.freedomfromhunger.org/burkina-faso
[17] http://www.microinsurancecentre.org/resources/documents/policyholder-value-of-microinsurance/piecing-together-partial-soutions-financial-tools-to-cope-with-shocks.html
[18] Petryniak, Olga and Scantlan, Jill (2018)
[19] Ibid.
[20] https://www.mercycorps.org/sites/default/files/WhatReallyMattersForResilienceSomaliaNov2013_0.pdf."
[21] The survey defined financial service providers to include a range of formal and informal mechanisms such as Hawala, micro-finance institutions, Islamic and non-Islamic finance institutions
[22] Howe, K et al. Mercy Corps (2018)

credit, regardless of the amount or source of funds.[23]

Not surprisingly, the research found that family and social networks provided the majority of borrowed funds.

Different contexts, however, yield different results: in the Philippines, households that took out either formal or informal loans after typhoon Haiyan were not significantly more likely to recover quicker than households that did not access either type of loan.[24]

CASE 3 SNAPSHOT: REMITTANCES

Resilience Response: Remittances offer an alternative source of cash for households. Similar to loans, they may provide cash immediately after a shock or during stress to support coping strategies, or as a way to invest in productive assets to support adaptive capacity.

Applications and Evidence: Evidence on how and when remittances affect household is mixed. For example, TANGO International found remittances were linked with households experiencing more severe hunger in Kenya but less severe hunger in Uganda.[25]

In Nepal, Mercy Corps found remittances did not appear to strengthen capacities immediately after the 2015 earthquake. Households that receive remittances in the 10 weeks following the earthquake were no more likely than their counterparts—who had not received remittances—to resort to negative coping mechanisms.[26]

However, Mercy Corps found positive change to years post-earthquake. Households receiving remittances were more likely to have purchased assets and rebuilt their homes.[27]

In Syria, Mercy Corps found remittances inflows had increased substantially since 2011 pre-conflict levels.[28] households receiving remittances report significantly better food security, including lower levels of negative coping behaviors and household hunger than households that did not receive remittances. households receiving remittances reported higher expenditure on food, daily consumption needs and total monthly household expenditures. these same households also reported higher level of social connections outside their immediate community.[29]

Photo credit: Lindsay Hamsik/Mercy Corps (2014)

Photo of Tivithatha in South Sudan who relied mostly on remittances from her sister to live.

[23]https://www.mercycorps.org/articles/syria/wages-war-how-are-syrians-adapting-their-lives-crisis
[24] Hudner and Kurtz, "Do Financial Services Build Disaster Resilience? Examining the Determinants of Recovery from Typhoon Yolanda in the Philippines." Mercy Corps (2015)
[25] Suzanne Nelson et al., (2016)
[26] Petryniak, Kurtz, and Frischknecht (2015)
[27] Petryniak, Olga and Scantlan, Jill (2018)
[28]https://www.mercycorps.org/articles/syria/wages-war-how-are-syrians-adapting-their-lives-crisis
[29]https://www.mercycorps.org/articles/syria/wages-war-how-are-syrians-adapting-their-lives-crisis

Defining the System Boundaries: Resilience of What?

In a resilience context, this question helps us understand the context and boundaries of our work. It refers to both the geographical area we are targeting as well as elements of social, economic and ecological systems within that area that relate to resilience.

Financial service practitioners, providers and clients are embedded in ecological, social, political and economic systems that determine risk, vulnerability, and resilience. For example, an economic development policy might contribute to desertification and exacerbate inequalities that make it difficult for poor, rural communities to cope with increasing and more severe droughts. A humanitarian assistance program with cash transfers may provide some short-term relief to a household, but the immediate effects can be limited as households are often expected to share this cash with non-recipients as a means of strengthening and forging new social connections, particularly in the context of crisis-related declines in local agricultural and livestock production capacities.[30] Norms based on gender, age or caste can limit access to social support networks or mobility, which then affect access to financial resources. Gender roles that predate a crisis may dictate that men have more control over assets, thus making it easier for men to use cash transfers to form and maintain important social connections in the marketplace, increasing their access to goods more so than women.[31] When considering the design, tailoring, and marketing of financial services and products, it is important to define the surrounding systems, and think how the boundaries of those systems can limit how individuals and households access and use the services.

One system which is key to consider is the financial system itself. The success of products and services in serving vulnerable populations relies on a financial system and enabling environment that can function during and after shocks and stresses. The system needs a series of mechanisms that help maintain its stability. This system also needs to function well enough to support longer-term transformative capacities to strengthen resilience within communities. Transformative capacities, as mentioned earlier, refer to the ability to transform underlying cultural, institutional and learning dynamics within systems.

GOVERNMENT-LED INITIATIVES: SOCIAL SAFETY NET PROGRAMS IN KENYA & ETHIOPIA

In countries where there is an existing formal social safety net, these mechanisms can be leveraged to offer surge financing and used as a form of collective crisis modifier, allowing existing resilience initiatives to scale up to address shocks. Over time, as communities build their resilience, they will also increase their ability to absorb shocks.

In protracted crises, and in recurrent crises with weak or non-existent social protection systems, greater investment in regular, consistent safety net transfers should be considered. Social protection systems like those in Ethiopia and Kenya, that target the chronically poor and respond to natural hazard disasters, are likely to be better placed to meet the needs of those hardest hit by a crisis.

[30] https://www.mercycorps.org/sites/default/files/the_currency_of_connections_Research_brief.pdf
[31] Ibid.

At a macro-level, affecting transformative capacities of a financial system relies upon government prioritization of disaster preparedness that include policies and regulations which support pre-planning and post disaster-financing mechanisms.

At a meso-level, a range of financial structures, products and mechanisms can also support the resilience of systems and institutions. This includes meso insurance, liquidity and partial risk guarantee facilities. Post-shock, in many cases, financial institutions are compelled to withdraw from the affected market, and risk ending up in a vicious circle of spiraling credit losses, reduced capital, and less liquidity as depositors remove their funds to cope with the emergency (VisionFund, 2015). In this case, the support of a liquidity facility could help stabilize the local financial system. Table 1 describes examples of liquidity facilities, and other meso- and macro-level financial services, which can help strengthen the transformative capacities of a financial system.

Table 1. Applications of Financial Services to Strengthen Transformative Capacities

MECHANISM	RESILIENCE RESPONSE	APPLICATIONS AND EVIDENCE TO DATE
LIQUIDITY FACILITIES	Demand for savings withdrawals, and delayed loan repayments from clients under stress can create liquidity problems for financial service providers. Liquidity facilities and contingent credit lines are a way to ease this challenge by providing rapid short-term liquidity into the institutions.	*Liquidity facilities* are often used in crises, both acute natural disasters such as earthquakes (e.g., Mercy Corps' Liquidity Facility After Disaster in Indonesia[32]) and in protracted crises, such as drought and climate shocks. They must be established pre-crisis to support financial providers to withstand shocks and reduce their financial losses. Vision Fund International applies a 'disaster resilient lending model [33] using liquidity as a tool to enable service providers to function during times of stress and shock (McCulloch, 2016). Liquidity is critical, as during and immediately post-crisis there may be a run on savings as clients withdraw funds to purchase necessities and start rebuilding or replenish assets. Existing clients may also demand new loans to rebuild or for short-term consumption whilst the institution may seek new clients requesting loans for similar reasons. On the supply-side, financial providers are affected similarly by crisis—damage to buildings and infrastructure, staff, and operations. Liquidity is reduced and loan portfolios suffer losses as (1) savings balances are reduced at the exact time clients have new credit demands; (2) clients may struggle to repay loans due to more urgent needs, often requiring a loan repayment grace period or rescheduling of loan; and (3) there may be higher non-performing loans than pre-crisis, thus

[32] www.cgap.org/blog/vulnerable-households-need-resilient-institutions-disasters
[33] http://visionfundmedia.org/DisasterResilience/Disaster-Resilience-full-report.pdf

MECHANISM	RESILIENCE RESPONSE	APPLICATIONS AND EVIDENCE TO DATE
		reducing the financial provider's assets. Development actors may have a role to play mobilizing liquidity, but also providing technical assistance to the financial providers pre-crisis, like conducting operational stress tests, supporting product development for savings and post-disaster credit products, and creating links to insurance companies for access to products at the client level as well as meso-level portfolio insurance for providers to bundle with liquidity funds.
GUARANTEE FACILITIES	Guarantees are used to encourage deployment of loans and other financial services to riskier customers. They can play a role in increasing access to financing for productive assets or other investments that help build household resilience.	Guarantees are often placed with financial providers or market actors to lend to new market segments, new sectors, or in a new location. However, in countries or more commonly, regions within countries, where there are no or limited functional formal financial providers—or the financial providers only serve a limited market segment—there is an opportunity to use non-bank financial providers as the point of entry (e.g., leasing companies, agriculture input sellers, and output aggregators). The use of well-structured guarantees is especially important for manufacturing, construction, and agriculture sectors—which can include lending against purchase agreements between buyers and suppliers and to replace assets.
PRE-POSITIONED FINANCE:	Pre-positioned finance (often at the local or national government-level) includes mechanisms that can automatically release funds based on pre-defined triggers, such as drought, or when otherwise deemed necessary. This model takes a risk-layering approach with contingency funds used for frequent events compared to insurance products designed for less frequent but severe events.	The Start Network, supported by Mercy Corps,[34] is testing drought-financing facilities in Pakistan and Zimbabwe linked to the growing period of staple crops. This will result in rapid release of funds, as required, to prevent farmers from resorting to negative coping strategies. Ideally, these mechanisms sit within a continuum of support, preceded by forecast-triggered financing for adaptive action and followed by traditional response funding for acute humanitarian needs.

[34] https://startnetwork.org/resource/drought-financing-facility-summary

Case Study: Financing the Livestock Sector in Kenya

The majority of livestock producers and traders have a limited range of options to reduce their exposure or sensitivity to re-occurring shocks and stresses, especially drought, animal disease, and market fluctuations. In Wajir County in northeast Kenya, Mercy Corps and partners recognized this challenge and the opportunity to tailor financial services to help build resilience of the producers to withstand shocks and transform the Wajir livestock market system.

With financial partner, Crescent Takaful Sacco (CTS), Mercy Corps piloted loan products to help communities mitigate the effects of unpredictable weather on their incomes. The Mercy Corps team discovered that a lack of sharia-compliant loans and diversity of terminal livestock markets was hurting the well-being of pastoralists, who traded livestock for a living. Without access to cash and markets, traders are limited in the number of animals they can buy at one time and they often struggle to find buyers to pay a fair price. The situation worsens during drought.

Mifugo Kash Kash (MKK), in Swahili, means Livestock Money. This loan product matches a financier and trader together to share the profits and losses from the livestock trading. Traders must be a part of a cooperative group to access the loan. These groups of men and women were required to take an 8-week financial management course.

After the loan was disbursed, Mercy Corps helped with market access by brokering an agreement between the six meat exporters in Nairobi and the trader groups. Traders were able to buy goats and other animals and transport them directly to the market. MKK was piloted during a time of severe drought, which provided an opportunity to test the products ability to strengthen the livestock market system and contribute to traders' resilience.

Photo credit: Mercy Corps (2018)

Photo of the Emocho saving group in Kenya that was established two years ago through the NIKE Foundation Girls Improving Resilience with Livestock (GIRL) program.

After learning from the initial pilot, Mercy Corps worked with CTS to adapt the product. The next iteration, the *Murabaha* product empowered traders to utilize their capacities to maximize profit.

Applying Resilience to Financial Service Programming and Design: Key Takeaways

Applying the five resilience key questions to financial service programming and product development will ensure that responses are context specific. At the same time, lessons-learned show that there are key design considerations applicable across contexts to ensure financial service programming can be maximized towards resilience outcomes.

ANALYZE AND UNDERSTAND SHOCKS AND STRESSES

Information is continually required to understand changing contexts, market actors' roles, market adaptation, and impacts of resilience-focused financial interventions. Iterative analysis of incoming data can be used to adapt financial and non-financial products and services in a short period of time, making the services more useful. Mercy Corps uses a risk and resilience assessment to understand how complex, interconnected drivers of instability affect different segments of society, including gender, ethnic, or religious groups.

ANALYZE AND UNDERSTAND VULNERABILITIES WITHIN THE FINANCIAL SYSTEM

Even the most appropriate suite of products won't be helpful if households can't access them when they need them most. Providers are also often affected by disasters or conflict. Physical access might be severed and liquidity may be limited. Working on financial services for resilience should be coupled with risk-mitigating measures for financial service providers themselves.

DESIGN DIVERSIFIED PRODUCTS FOR VARYING RESILIENCE NEEDS

Individuals and households need a range of flexible products to manage and respond to risks. Savings, insurance, and payments are as important as credit for vulnerable households. As it is difficult to anticipate which products are most useful after a disaster, ensuring access to a suite of products and services that are convenient and reliable is paramount.

DETERMINE HOW TO ADDRESS KNOWLEDGE, ATTITUDES AND BEHAVIORS MATTER THAT SHAPE FINANCIAL SERVICE USE

Basic skills, such as how to manage day-to-day cash flows, or how to better plan a financial future matter. For example, households may need education on both disaster risk reduction efforts as well as how to conduct a cost and benefit comparison to understand the role and relevance of insurance. Building these capabilities, before or after shocks, serves as an investment in promoting resilience to future shocks.

LEVERAGE TECHNOLOGY TO ADDRESS THE SHOCK AND STRESS CONTEXT

Digital services can play a key role in deploying services quickly in the wake of a shock and extend access to households with limited freedom of movement due to transportation costs or social norms. It is important to strengthen the use of technology while also ensuring it complements informal finance already in place, however. Mobile money and digital financial services is also encouraged at the institutional level by governments for social safety net payments and e-payments, when appropriate in humanitarian response.

ADDRESS THE ENABLING ENVIRONMENT

Advocating for meso-level interventions that can provide systems-level support for financial institutions, such as connecting with governments and bilateral on structuring large facilities to support microfinance institutions and banks during shocks. Financial service providers need to address constraints in the regulatory or legal environment of the overall market too. For example, Mercy Corps encourages exploring moveable asset registries, alternative collateral, flexible know your customer (KYC) regulations, and opportunities for vulnerable households to obtain a legally recognized ID.

Conclusion

Financial inclusion efforts can help households achieve development goals amongst the uncertainty and urgency presented by ecological, economic, political and conflict-related events. To accomplish this, however, there must be a ift in the design process of financial programs, products and services. The process needs to apply a resilience lens to design, focused on creating services that are appropriate and accessible to relevant populations, at relevant times, addressing relevant risks. This action brief offers a framework to help apply resilience thinking to this process.

Understanding resilience to what end, to what, for whom, through what, and of what, will create services effective at building resilience for individuals and households. Supporting the establishment of mechanisms that build the resilience of institutions and systems will contribute to maintaining the resilience of communities overall. The intersection of financial inclusion and resilience remains a dynamic space. Practitioners and financial service providers are encouraged to further experiment and refine programs, products and services, to make them even better at building and maintaining resilience, and then to share this knowledge with others.

Photo credit: Corinna Robbins//Mercy Corps (2018)

Villagers gather for their weekly VSLA meeting in Kitgum district, Uganda.

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RESILIENCE IN ACTION SERIES

The *Resilience in Action Series* aims to bring development and humanitarian practitioners one step closer to bridging the gap between theory and practice for integrating a resilience lens in programming, answering questions such as: How does a resilience lens change the design of interventions in key sectors or crosscutting themes? How should we shift the design and implementation of sectoral interventions to promote resilience-building within programs? Focal areas covered in this series include Gender Equity and Social Inclusion, Financial Services, and Ecosystems-Based Disaster Risk Reduction, among others.

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The Resilience Evaluation, Analysis and Learning (REAL) Associate Award is a consortium-led effort funded by the USAID Center for Resilience. It was established to respond to growing demand among USAID Missions, host governments, implementing organizations, and other key stakeholders for rigorous, yet practical, monitoring, evaluation, strategic analysis, and capacity building support. Led by Save the Children, REAL draws on the expertise of its partners: Food for the Hungry, Mercy Corps, and TANGO International.

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