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The Role of Financial Services in Humanitarian Crises

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"We must return our focus to the people at the center of these crises, moving beyond short-term, supply-driven response efforts towards demand-driven outcomes that reduce need and vulnerability. To achieve that, international providers will need to set aside such artificial institutional labels as 'development' or 'humanitarian' working together over multi-year time frames with the Sustainable Development Goals as the common overall results and accountability framework."

Ban Ki-moon
"Report of the United National Secretary General for the World Humanitarian Summit" (2016)

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Acronyms

ATM	Automated Teller Machine
CDD	Customer Due Diligence
FSP	Financial Services Provider
IDMC	Internal Displacement Monitoring Centre
IDP	Internally Displaced Persons
ILO	International Labour Organization
IRC	International Rescue Committee
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
ODI	Overseas Development Institute
UNHCR	United Nations High Commissioner for Refugees
WFP	World Food Programme

FOREWORD

Today, a record 65 million people have been forcibly displaced by war, conflict, or natural disaster, and more than 90 percent of them are hosted by developing countries (World Bank 2016b). Jordan, Turkey, and Lebanon are struggling to cope with an influx of refugees from the Syrian crisis, and Kenya, Tanzania, and Uganda have been hosting refugees fleeing violence and disaster in neighboring countries for decades.

For the World Bank Group, helping developing countries address the urgent challenge of aiding displaced people is a key priority. Not only do refugees need help, but their host communities face enormous pressures on their infrastructure, public services, and markets—pressures that have the potential to undermine their political stability.

The increasing scale, frequency, and complexity of forced displacement, both within countries and externally, have spurred development institutions to rethink their approaches to humanitarian crises. In particular, there is no longer a dichotomy between humanitarian assistance and development interventions as two distinct, sequential responses. As the approach shifts, we need to recognize that financial inclusion is a particularly powerful tool that countries and development institutions can mobilize to help mitigate the devastating impact of humanitarian crises.

More than 75 percent of adults who live in countries that are coping with humanitarian crises remain outside the formal financial system. Financial inclusion would provide both refugees and residents with a diversified set of financial products (including savings, remittances, credit, and insurance) that are critical for vulnerable communities as they try to mitigate shocks, build up assets, and promote local economic development. Changes in the methods of distributing emergency relief are also opening up pathways to financial inclusion. Aid agencies are moving from emergency cash transfers to digital payments via electronic cards, presenting new opportunities to link displaced people to a broader array of financial services.

This timely paper—a collaboration between the World Bank's Middle East Finance and Markets team and the Consultative Group to Assist the Poor—provides an important framework for understanding the role of financial services during periods of humanitarian crisis. It offers specific guidance to development partners, governments, and financial market actors by outlining operational lessons for financial-sector interventions. By doing so, the authors have made a significant contribution that will help advance the global policy discussion and encourage further research into the role of financial services in building sustainable livelihoods for people in crisis.

The proposals outlined in this paper—which was funded by the State and Peace-Building Fund within the World Bank Group—directly support our broader objective of promoting diversified, efficient, and inclusive financial systems at the global and country levels. Continued collaboration across sectors, institutions, and borders is the only way that the global development community will be able to address the immense challenge of forced displacement in a sustainable manner. The detailed analysis in this paper will provide invaluable guidance to the World Bank Group's country operations as well as to our development partners.

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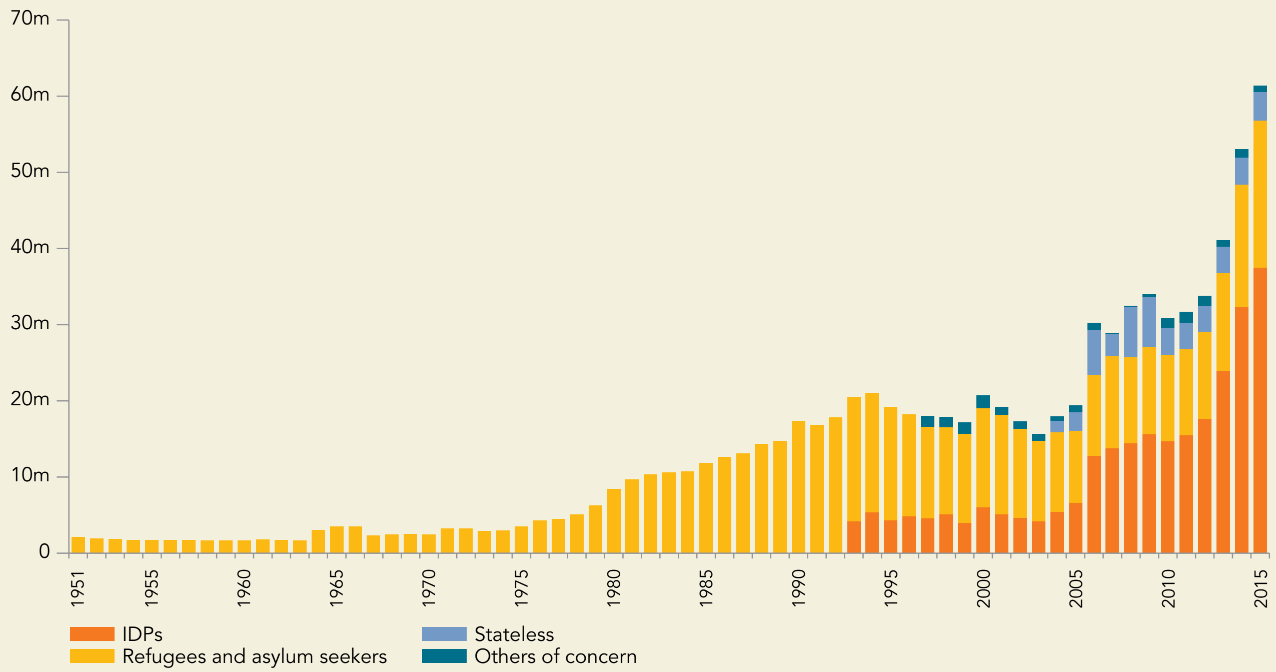
Executive Summary

Humanitarian crises pose a formidable development challenge. Whether caused by conflict, natural disaster, climate-related events, or some combination of the three, crises have been steadily increasing in frequency, severity, and complexity. While the nature and incidences of these crises vary significantly, they affect millions of people, particularly the most vulnerable. Some populations are displaced from their communities or countries as a result of crises; others stay where they are, by choice or necessity, and must navigate unpredictable and dangerous environments. Forced displacement is becoming more common and more protracted. In December 2015, the number of individuals forcibly displaced by conflict or violence peaked at 65.3 million, more than doubling in only five years (see Figure 1). In addition, since 2007, 25.4 million people are displaced every year, on average, due to natural disasters and climate-related events,[1] and in countries affected by such disasters, an estimated $250–300 billion is lost due to the disruption of local markets and livelihoods (UNISDR 2015). Crises are also becoming more protracted: 90 percent of countries making appeals for humanitarian assistance in 2014 had been registering annual appeals for three years or more; 60 percent of the appeals had lasted over eight years (Bennett et al. 2016).

FIGURE 1. **Displacement on the Rise (figures over 1951–2015)**



Source: UNHCR 2016. Data do not include those displaced by natural disasters nor do they include Palestinian refugees registered under the United National Relief and Works Agency for Palestine Refugees in the Near East (UNRWA).

1. The majority remains within their country (IDMC 2016). The total number of people displaced by disasters at the end of 2015 is not known.

As the average duration of displacement has increased since the 1990s, recent high-level dialogue has focused on the need for a new development archetype that integrates humanitarian programming with a development approach focused on resilience and livelihoods among the displaced and their hosts. At the heart of this approach is a recognition of the importance of tackling the medium-term needs created by forced displacement in a manner that complements short-term crisis response programming. This is particularly important given the need for sustainable development interventions amid limited funding resources, and the frequency and scale of crises around the globe.

Financial inclusion—access to and use of quality financial services to all income segments of society—is one potentially foundational opportunity to bridge the humanitarian-development divide. Financial inclusion allows low-income households to build assets; mitigate shocks related to emergencies, illness, or injury; and make productive investments. It also stimulates local economic activity by financing microbusinesses and is positively correlated with economic growth.[2] Increased use of emergency cash transfers to address immediate vulnerability of crisis-affected people may offer an opportunity to enable financial inclusion through new digital deployment mechanisms. Card- and mobile-based emergency cash transfer programs offer the opportunity to link beneficiaries to transaction accounts for the first time and, from there, to a broader set of financial services (payments, savings, insurance, credit). Financial inclusion can act as a bridge between short-term interventions focused on protection and the provision of basic services, and longer-term interventions focused on sustaining livelihoods and creating economic opportunities.

In this context, this paper seeks to enhance the knowledge of policy makers and donors on the role of financial services mitigating humanitarian crises by synthesizing existing empirical evidence as well as operational lessons from programmatic evaluations. Where evidence is strong enough, the paper recommends actions that policy makers and donors can take to improve the provision of financial services to crisis-affected populations. The paper also identifies future research and policy priorities.

Role of Financial Services in Humanitarian Crises

For populations affected by crisis, the ability to cope with a shock is particularly vital, given that the destabilizing impact of shocks is often magnified by fragile and unstable environments. Yet, despite the use and usefulness of financial services in crises situations, financial exclusion is particularly acute among crisis-affected countries. Over 75 percent of adults living in countries with humanitarian crises remain outside of the formal financial system and struggle to respond to shocks and emergencies, build up productive assets, and invest in health, education, and business. Demand for financial services in crisis contexts, however, is high. Forty-five percent of adults in countries with humanitarian crises saved money in the past year; only 7.6 percent report having saved at a formal financial institution. Among a host of interrelated factors, financial exclusion can be compounded by sharp contractions in the real economy, operational disruptions of key financial services providers (FSPs), destroyed physical and financial infrastructure, the lack of assets to secure loans, and legal barriers, including the inability to adhere to customer due diligence (CDD) policies.

Emerging evidence shows that financial services have a positive role to play in crises situations.[3] Existing evidence suggests that access to financial services can strengthen the resilience of individuals and households in the face of negative shocks and significantly contribute to supporting livelihoods and stimulating economic activity after a crisis or disaster. Remittances help maintain consumption during difficult periods and contribute positively to local economic activity. Savings, whether formal or informal, can provide a form of self-insurance and

2. For a comprehensive analysis of the evidence on financial inclusion, see Cull, Ehrbeck, and Holle (2014).
3. The authors reviewed over 100 publications on financial services and crises. Of those, fewer than 20 were rigorous evaluations.

thus help people to weather economic shocks without resorting to negative coping mechanisms such as assets depletion and child labor. While credit is often used as another coping mechanism for emergency expenses and to manage basic consumption needs, there is a risk that this can lead to a debt burden rather than improved well-being if it is not invested in productive ways. Insurance was found to have positive effects on consumption, asset protection, and the recovery of small businesses. Implementation of insurance schemes targeting the poor, however, has been challenging in crisis-prone environments, in part because of weak institutional and legal capacity, transactions costs, and limited demand due to low trust and low financial literacy.

A household strategy that uses multiple financial tools rather than just one or two is more likely to be successful in mitigating risk, because people face multiple risks at once and may use different tools to protect themselves against different risks (World Bank 2013). Livelihood programs that combine financial and nonfinancial supports (training, asset transfers, and cash transfers) have proven effective in stimulating consumption and resilience (food security, mental health, size of household assets).

Research has shown that cash transfers have important multiplier effects on economic activity and that digital delivery can improve efficiencies, decrease leakage, and provide additional security and convenience. Nonetheless, to date, t**here are few operational examples where delivering aid through digital transfers has actually led to the use of a suite of financial services.** Currently, only 6 percent of all humanitarian assistance is channeled through cash, and while the infrastructure and platform for financial service linkages may exist where crises occur, people often cash out for immediate consumption. Outcomes depend on the surrounding payments infrastructure, regulatory framework (enabling linkages to financial services), and sociocultural factors that may result in the preference of cash. Furthermore, donors may have incentives to prioritize getting transfer payments operational rather than investing in a delivery mechanism linked to longer-term access to financial services.

Barriers to Delivering Financial Services in Humanitarian Crises

Barriers that impede the delivery of financial services include the lack of effective policies and crisis preparedness, particularly the lack of system preparedness to scale up delivery options. This can include the lack of a simplified CDD regime and clear agent regulations to facilitate digital transfers.

Crises can cause damage to physical infrastructure (roads, telecommunications networks, power grids, bank branches, automated teller machines [ATMs], and agents) that prevent the immediate use of the financial system in recovery. Conversely, robust and resilient payments infrastructures can help to address the challenges crises pose. Aid agencies and diaspora communities often lack a good way to get money to affected populations, even for those already included financially, and especially if they have crossed international borders. Financial infrastructure such as automated clearing houses, large-value interbank settlement systems, credit bureaus, and collateral registries are often underdeveloped in countries affected by crisis.

Recommendations

Leveraging financial services as a tool to mitigate humanitarian crises will require the sustained commitment of FSPs themselves. Developing contingency plans, building reserve funds, diversifying client bases, and investing in staff training are important for maintaining business continuity during humanitarian crises. Donors can play an important role in supporting market players to prepare for and manage crisis situations. Support can include injecting liquidity into local financial markets while also supporting connectivity, settlement, and the management of agent networks. Investing in consumer experience and awareness can help to promote the uptake and use of financial services by affected communities. To promote long-term market development during periods of crisis, private-sector actors should be incentivized to participate in financial markets through targeted subsidies and liquidity support, and by mainstreaming tools for adaptation, for example, through risk management and adequate liquidity and provisioning structures.

Looking ahead, investing in host country systems and capacity to manage crisis by leveraging financial services should be prioritized. Interventions must support host country priorities. Crisis-adaptable regulations should be developed and may include reviewing CDD requirements that may act as barriers to financial access, notably for forcibly displaced populations. Regulatory reforms that enable mobile money should be expedited. This includes agent regulations, tiered or simplified CDD, and e-money regulations. While investments in payments infrastructure should be a priority well before crisis ensues, crises also present an opportunity to "build it back better" by investing in infrastructure or expanding the payments infrastructure into areas or populations previously excluded. This includes building out agent networks for cash-out points and investing in adequate mobile and broadband connectivity. Payments system interoperability is also critical and can be invested in before a crisis.

Donors need to play a role in building deliberate linkages between humanitarian and development efforts through financial services provision. This includes explicitly embedding financial inclusion objectives into humanitarian programming and aligning the operational incentives of aid agencies with the integration of financial sector actors into emergency programming. Donors can also play a leading role in structuring innovative financing mechanisms, including concessional financing for middle-income countries that are hosting large percentages of displaced populations and the use of blended debt-grants financing and guarantee mechanisms.

Further evidence is needed to better understand the demand for and use of financial services by different segments of populations affected by crises. Improved evidence around specific products that have high potential in crisis environments is also needed. This includes further evaluation of the impact of digital payments transfers on financial inclusion objectives.

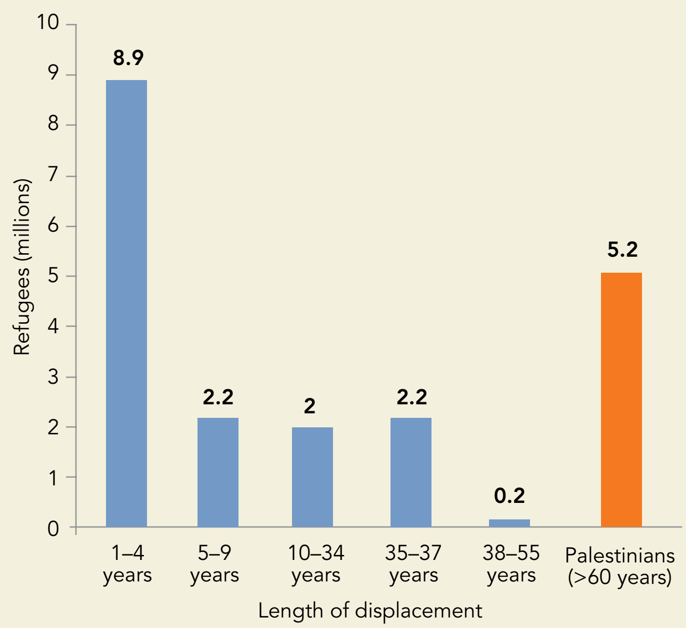
Why Explore the Role of Financial Services in Crisis Environments?

In crisis contexts, financial services have long been used to help vulnerable and excluded people cope with shocks, minimize risk exposure, and stimulate economic activity. For example, beginning in the Balkans in the 1990s, and for nearly two decades, UNHCR provided microfinance programming to promote livelihoods and to provide emergency relief services. Recently, policy makers are placing greater emphasis on the role of financial services in managing crisis and recovering from it. This is in large part due to the following factors.

Displacement is increasingly for longer timeframes, thus warranting longer-term solutions. UNHCR estimates that 40 percent of the refugees under its mandate (6.7 million people) are in a protracted situation (UNHCR 2015),[4] and a recent policy paper found that refugees have been in exile for 10 to 15 years on average (see Figure 2).[5] This average has been on the rise over the past two decades (Devictor and Do 2016). Simultaneously, the number of people affected by natural disasters rose almost 50 percent to 141 million people in 2014, a trend best explained by a rise in occurrences of droughts. Nearly 20 million of these affected people were displaced, and the majority of the displacement was caused by weather-related events (OCHA 2015). A majority of disaster-displaced people stay within their countries, but some seek assistance and safety by crossing borders.[6]

The increasing shift to cash transfers in humanitarian contexts presents a compelling opportunity. The humanitarian sector is increasingly shifting from in-kind transfers to cash-based programming, which is more efficient and effective, on top of providing freedom of choice for the end beneficiary and important multiplier effects on an economy. Evidence suggests that cash transfers result in increased food consumption and other household expenses, improved psychological well-being (reduction in stress) (Haushofer and Shapiro 2013), and a reduction in monetary poverty and child labor (Bastagli et al. 2016). The United Nations High Level Panel on Humanitarian Financing has called for not only scaling up cash transfers in humanitarian programming but also for defaulting

FIGURE 2. Duration of Refugee Displacement



Source: Devictor and Do (2016), using UNHCR 2015 figures; CGAP. Note: Original dataset excludes Palestinians whose displacement situation has lasted over 60 years. This figure is not directly comparable to the other data points, which show average lengths of displacement of individuals registered as refugees as of December 2015 rather than the length of displacement (i.e., Palestinian refugees are not all >60 years old, but the situation of this group has lasted >60 years.

4. “Protracted” is defined as a situation in which 25,000 or more refugees from the same nationality have been in exile for five or more years in a given asylum country. Note that Palestinian refugees do not fall under UNHCR’s mandate and are therefore not included in this data set. Afghan refugees represent the largest protracted refugee group per UNHCR’s definition.
5. Palestinians excluded. Median is four years.
6. For more information on disaster-induced cross-border displacement, see The Nansen Initiative (2015).

to cash transfers in humanitarian responses. The World Food Programme (WFP), among other humanitarian actors, has made a policy shift to increasingly move away from direct food assistance to the use of cash. While cash currently represents a very small portion of the global humanitarian response, the number of people receiving cash assistance from WFP alone has tripled in the past six years to just under 10 million. In 2015, WFP transferred $680 million in cash to these recipients (WFP 2016).

At a global level, humanitarian agencies are increasingly relying on digital deployment of emergency cash transfers using mobile distribution mechanisms (cell phones, card-reading point-of-sale [POS] devices, text message platforms, and cloud-based data management platforms). Similarly, many programs are using bank branches and agent banking to process cash-out for card-based programs. New mobile technologies and branchless banking platforms that manage cash transfer programs rely on existing financial infrastructure and leverage recent technological advancements that allow digital financial services to develop in many lower-income countries. New actors can be found in humanitarian responses, notably financial institutions, card acquirers, mobile network operators, banking agents, and financial sector regulators. These technologies offer important new opportunities for responding reliably and at scale during a crisis, and for reaching remote areas that are not accessible using traditional manual distribution mechanisms.

Countries affected by crisis tend to have high rates of financial exclusion, yet high demand for financial services. Over 75 percent of adults living in countries with humanitarian crises remain outside of the formal financial system (see Box 1). These individuals do not have the option to choose from an array of formal and informal services that allow them to respond to financial shocks and emergencies, build up productive assets, and invest in health, education, or business within their households. Analysis of the most recent Global Financial Inclusion Database (Findex)[7] shows that just under 24 percent of adults in countries with humanitarian crises have an account with a financial institution or mobile money provider. Forty-five percent of adults in countries

BOX 1

Approach Used for Presenting Financial Inclusion Data

This paper presents financial inclusion data for countries with humanitarian crises. These countries were selected in line with the classification presented in IRC (2016). This classification is based on the Assessment Capacities Project (ACAPS), which was created in 2009 to support humanitarian needs assessments. ACAPS (2016) prioritizes countries according to three categories of crisis: (1) severe humanitarian crisis, (2) humanitarian crisis, and (3) situation of concern. The analysis in this paper includes country categories 1 and 2. ACAPS data are frequently updated, using secondary data from a range of sources, including nongovernment organizations (NGOs), international organizations, and media. The categories are based on two indicators on the extent of the current crisis (the percentage of the population in need of assistance due to recent or protracted disasters and the level of access to the affected population), and three indicators that together inform on a country's underlying vulnerability to crisis (the under-five mortality rate, the Human Development Index, and the number of protracted internally displaced people [IDPs] and refugees).

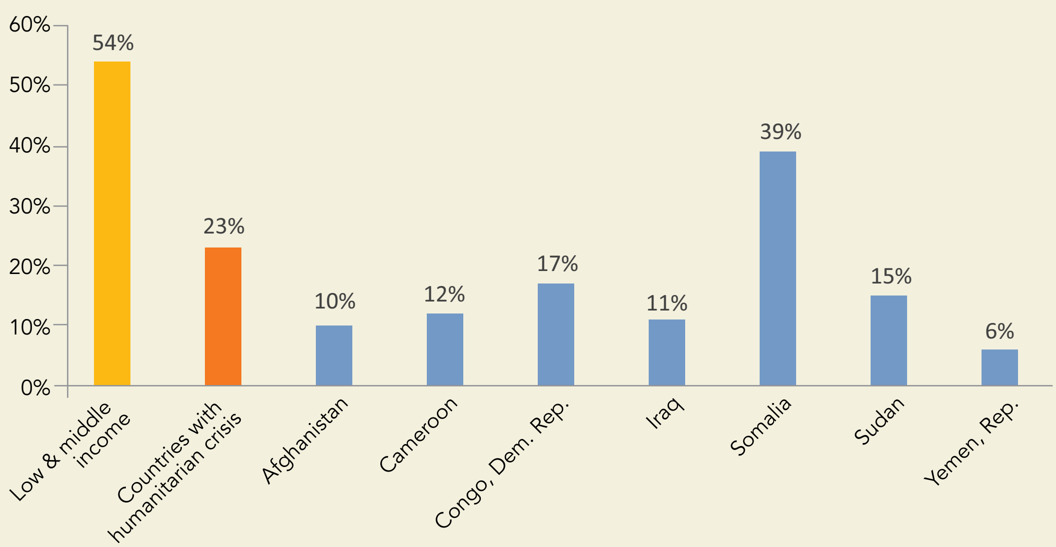
Note: For more information, see ACAPS (2016).

7. Some countries with humanitarian crisis, such as Eritrea, Libya, Gambia, and North Korea, are not covered by Findex. Hence, these countries are excluded from all financial inclusion data analyses in this paper. Further explanations are provided where applicable.

with humanitarian crises saved any money in the past year, while only 7.6 percent report having saved at a formal financial institution in the past year (see Figure 3). Ninety percent of refugees live in low- and middle-income countries, a majority of which have low levels of financial inclusion (World Bank 2016b). Women living in countries with humanitarian crises are 30 percent less likely than men to have an individual account (23 percent versus 16 percent), with the largest gender gaps found in Lebanon (62 percent of men versus 33 percent of women) and Afghanistan (16 percent versus 4 percent). This gap is significantly larger than in other low- and middle-income countries, where women are on average 18 percent less likely than men to have an account.

Crises disproportionately affect developing countries and by extension the vulnerable and financially excluded. At the end of 2015, developing countries hosted 99 percent of all IDPs and 89 percent of all refugees (including Palestinian refugees). In comparison, the six richest nations are estimated to host less than 9 percent of all refugees (Oxfam 2016). From 2008 to 2014, the majority of disaster-related displacement occurred in lower middle-income countries, with China, India, and the Philippines accounting for 60 percent of the global disaster-related displaced population (OCHA 2015). Reflecting a global trend, these countries are also experiencing rapid urbanization, which increases the poor's vulnerability to natural disasters because of weak infrastructure and poorly constructed buildings.

FIGURE 3. Account Penetration in Selected Countries with Humanitarian Crisis



Source: UNHCR 2016. Findex 2014. Figure shows data for seven countries in "severe humanitarian crisis" as defined by IRC based on ACAPS. "Countries with humanitarian crises" is computed for 21 out of 31 countries of the IRC/ACAPs framework with either severe humanitarian crisis or humanitarian crisis. It does not include countries for which Findex data on account penetration were not available, i.e., Central African Republic, Eritrea, Libya, and Syria (severe humanitarian crisis), and Djibouti, Gambia, Lesotho, North Korea, and Swaziland (humanitarian crisis). Data for Sudan include South Sudan.

Photo by Sujan Sarkar

Insight into the Financial Lives of Crisis-Affected Populations

Recent demand-side research underscores the importance of financial management tools used by vulnerable people to meet their financial needs and manage economic uncertainty,[8] particularly given that they operate within informal economic structures, and thus act as consuming households and self-employed firms simultaneously. Financial diary research found that, regardless of how poor the household, no household in a 250 sample used fewer than four different types of instruments,[9] and every household held both savings and debt of some sort (Collins et al. 2009).

Faced with irregular incomes and uncertain production and investment opportunities, poor people generally require financial management tools that allow them to manage short-term cash flow (smooth consumption), address emergencies and manage risk, and build up household assets to finance life-cycle events and productive activities.[10] These financial tools are often informal (family and friends, rotating savings schemes), because the economic and opportunity costs of interacting with formal financial institutions can be high.

The financial needs of those affected by conflict and disasters are no different, including IDPs and refugees (see Box 2). However, the barriers to financial access in crisis-affected countries are far greater. This is particularly the case in conflict-affected countries where infrastructure is often destroyed or decayed, and for refugees who face constraints with regard to identity documentation, assets that can be used to secure loans, and perceptions that they are a flight risk.

Demand for and use of financial products by crisis-affected people

The volatile and unpredictable external environment poor people face heightens the importance of accessing and using financial services to manage vulnerability and promote basic livelihoods. Data suggest the need for financial intermediation via credit products is elevated in crisis environments. Adults in these economies also appear to be in greater need of credit than those in low- and middle-income countries. While 51 percent of adults in countries with humanitarian crises report some form of borrowing in the past year, only 43 percent in low- and middle-income countries do so (see

BOX 2

IDPs versus Refugees

While both IDPs and refugees are displaced populations, crossing a border differentiates a refugee from an IDP. Crossing borders represents a significant set of obstacles, experiences, and rights for the individuals involved. Globally, there are many more IDPs than refugees (41 million versus 21 million). Syria has at least 6.6 million IDPs, followed by Colombia with 5.7 million. Other countries such as Nigeria, DRC, Iraq, and Sudan have substantial numbers of IDPs—over 2 million each (IDMC 2016). Nearly half of refugees come from either Syria or Palestine. This figure goes up to 60 percent when including Afghanistan, and to 75 percent when including four other sub-Saharan countries (Somalia, South Sudan, Sudan, and DRC). See Annex 1 for more terminology.

8. Including Findex, Finscope, financial diaries, and financial landscape studies.
9. The financial diary methodology tracks households over extended periods of time to document their financial management tools. Researchers conduct house visits with families every two weeks gathering information on all financial activity in the household. Collins et al. (2009) were among the first to use this methodology and to document the complex financial lives of poor people. Since *Portfolios of the Poor* was published, the same methodology has been used extensively in multiple locations.
10. For more on empirical evidence surrounding financial needs of the poor, see Chapter 2 "Clients," in Ledgerwood (2013) for a more intensive discussion of the aggregate financial needs to the poor.

Figure 4). Yet borrowers in countries with humanitarian crises are nearly half as likely to have borrowed from a formal financial institution. Only 9 percent in low- and middle-income countries and 5 percent in countries with humanitarian crises report borrowing from a formal financial institution. Informal financial services tend to be flexible and close to where poor people live; however, these services may lack product characteristics and quality-assurance mechanisms required to meet the full financial needs of those who are excluded.

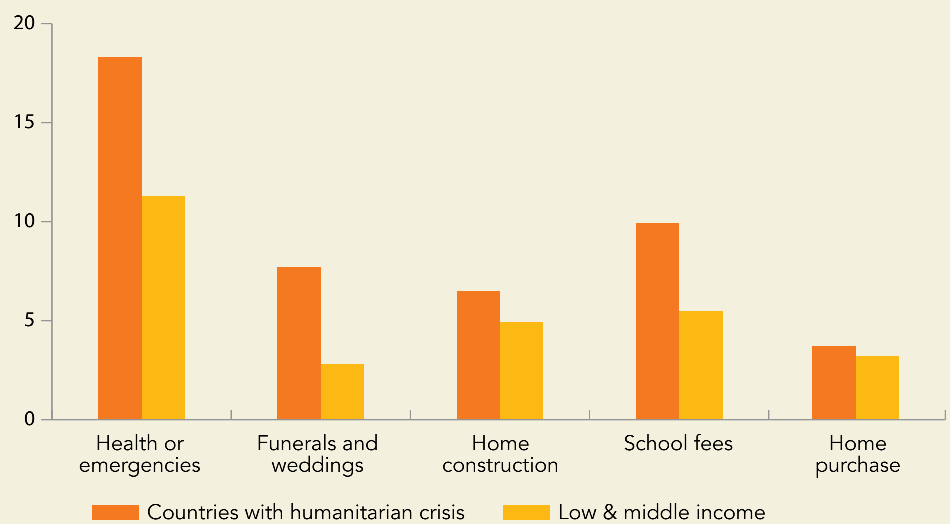
A 2016 survey of more than 4,500 Syrian refugee households in Lebanon revealed that 90 percent of households are indebted, with an average amount of $857 per household (UNHCR, UNICEF, and WFP 2016). A study in Haiti conducted by ACTED found that the percentage of households in debt rose 13 percent after the 2010 earthquake. The greatest contributing factors to household debt levels were business costs and school fees (Jusselme and Brenna 2011).

While the share of adults in countries with severe humanitarian crisis who report having saved in the past year (43 percent) is only slightly smaller than the share in all low- and middle-income countries (54 percent), these savers are significantly less likely to save at a formal financial institution—and more likely to save using a community-based method (see Figure 5). Low levels of formal savings behavior may also be linked to low state capacity and low trust in institutions, including financial institutions. These data suggest there is demand for savings vehicles within a crisis context and a need to make linkages between informal savings behavior and the formal financial system.

Profiles of crisis-affected populations

The profiles of crisis-affected populations can vary widely. These populations can be rich or poor, highly educated or illiterate, skilled or unskilled. Each crisis scenario requires stakeholders to understand the specific profiles of the people with whom they are engaging. For example, while many Syrians displaced by the ongoing civil war are highly educated and skilled, other refugees, like Somalis or

FIGURE 4. **Reasons for Loans Reported by Borrowers**



Source: Findex. Data are from 2011 because the question was asked differently in 2014. "Countries with humanitarian crisis" includes the IRC/ACAPS categories "humanitarian crisis" and "severe humanitarian crisis." The data, however, exclude Eritrea, Libya, and Somalia (severe humanitarian crisis) and Ethiopia, Gambia, and North Korea (humanitarian crisis) because Findex data on borrowing reasons were not available for these countries. Data for Sudan include South Sudan.

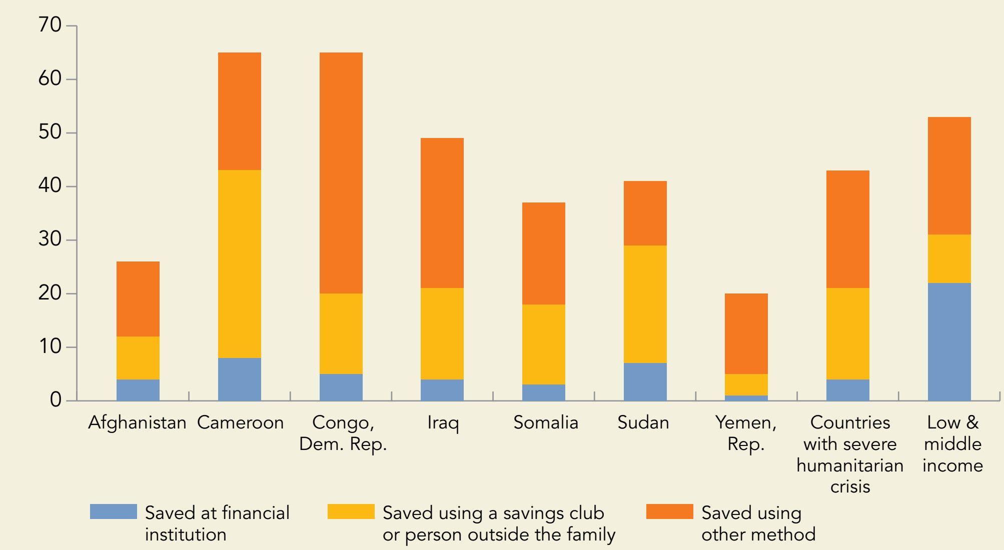
Afghans, generally have much lower levels of income and education. Displacement is a common phenomenon linked to crises, particularly conflict. Conflict itself can be induced and magnified by climate change; populations from low-income and lower middle-income countries are more likely to be displaced because of climate change. However, not all crises result in long-term displacement.

Populations affected by natural disasters may be temporarily displaced, and can often return to their communities relatively quickly. Natural disasters are more likely to impact poor people who often live in more precarious housing where infrastructure and access to services are already limited. Low-income populations may settle in areas prone to natural disasters because these areas provide economic opportunity, affordable land, or access to amenities (Hallegate 2017). As such, the profiles of populations that are impacted by natural disasters are likely to mirror the profiles of poor people in any particular country.

In contrast, refugees tend to be displaced for longer periods and see their social networks dramatically impacted, even when they return. Globally, refugees are increasingly living in cities and outside of refugee camps. For example, in Jordan, more than 80 percent of refugees are living outside the camps. For those who do live in camps, these settlements are often located in remote rural areas and tend to become economic hubs in themselves. For example, Zaatari camp is now the fourth largest city in Jordan. The largest camp in the world, Kakuma, is located in northern Kenya and hosts nearly 200,000 people. Because those who are forcibly displaced are often unable to take possessions with them, they are less likely to have assets that can be used to secure loans, and they lack immovable collateral required by many FSPs. While some may be able to move with savings, the journey itself often consumes a significant amount of whatever savings they were able to take with them. As noted earlier, this results in a greater propensity to borrow to manage basic needs.

There is a clear need to better understand the various segments that make up crisis-affected people, their individual needs, and their constraints. In the absence of such global data, the following provides a basic segmentation of key vulnerable

FIGURE 5. Formal and Informal Savings (% of adults)



Source: Authors' analysis of Findex 2014 data; excludes Central African Republic, Syria, Eritrea, and Libya, for which Findex data are not available.

groups affected by crisis, with particular reference to refugees.

Youth. Children and youth younger than 18 represent over 50 percent of refugees. Displacement for this group has important life implications because this formative period can determine lifetime outcomes. Research indicates the importance of savings over credit for youth globally. Access to savings and forming savings habits are particularly important because they could lead to opportunities for future education, health care, and employment both during the displacement period and after return or resettlement (Kilara et al. 2014). Yet access to financial services tends to be heavily restricted for minors, particularly because countries have age limits on who is authorized to open an account, and many youth do not receive formal identity documents until they reach the legal age of the majority.

Unaccompanied minors. There are large and growing numbers of unaccompanied minors among the world's displaced people. In its latest report, UNHCR (2016) estimates that there are 98,500 unaccompanied minors. This group may face additional obstacles to accessing and using financial services. As indicated earlier, research has shown that savings is particularly important for this segment as a lever for further economic opportunity. For example, many countries have age limits on who is authorized to open an account, and without a parent or guardian to rely on, this subsegment of youth would require specific exemptions or solutions.

Women. Women now account for 49 percent of refugees. These women often have the double burden of caring for children and the elderly while also contributing to their family's income through informal or formal employment. The top 15 countries hosting refugees together have 170 women-only legal restrictions of employment (World Bank 2016b). At the same time, the cultural norms around mobility, freedom to engage with public institutions, and vulnerability to violence present a distinct set of challenges for serving this segment. Of particular significance will be the ways in which financial services are delivered. Convenience is essential given women's restricted mobility and scarcity of time. Security is critical given that women have a relatively high risk of being abused. Streamlined product features may be important given that women are more likely to be illiterate and less likely to have formal identification to adhere to CDD requirements of formal financial institutions.

Legal barriers complicating access to financial services in crisis contexts

Access to and use of financial services is complicated by legal barriers, some of which are specific to crisis contexts. Others are not, like the absence of valid identification documentation that prevents around 375 million adults from accessing accounts (World Bank 2016c). IDPs, whether displaced by natural disasters or conflict, are citizens in their own country, and they retain all rights accorded to other citizens. Theoretically, they also retain their national identity and any financial privileges that this entails, such as opening a bank account, registering for a mobile wallet, or receiving a government transfer. Exercising these rights, however, may not always be feasible when displacement is linked to civil unrest and/or abuses of existing political structures, but IDPs often have access to family or friends who speak the same language, can offer refuge or assistance, and can support access to family assets and job opportunities.

On the other hand, those who have fled their countries and crossed an international border as a result of crises can face bigger complications in accessing healthcare, housing, education, and legal services, let alone financial services. While UNHCR formally registers refugees and issues identification documents to them, formal financial institutions often do not recognize these as valid identification documents.

Prevailing CDD requirements usually require national identification documents or passports, which may have been destroyed or lost in the event of a sudden disaster or displacement due to conflict, making it difficult for affected communities to access financial and other services. Policy makers could consider measures to diversify what financial sector institutions can accept for identification. For example, the Central Bank of Jordan specifically authorizes UNHCR-issued identification documents as acceptable identification for meeting CDD requirements. In Finland, Moni, a payments company, provides anonymous prepaid cards to asylum seekers by relying on the combination of a case number from the Ministry of International Affairs and police records, thereby protecting the asylum seekers' privacy while fulfilling CDD requirements. Some FSPs, however, may require additional documents such as a proof of address (e.g., utility bill) to process a financial transaction, in their efforts to detect and report suspicious activity. Regulation allowing providers to adopt a risk-based approach may help balance financial sector access and integrity in crisis contexts.

Photo by Yavuz Sariyildiz

Evidence on How Financial Services Support Crisis-Affected People and Communities

Research indicates that access to and use of financial services can improve the well-being of people living in poverty, thereby bringing us closer to achieving the United Nation's Sustainable Development Goals (SDGs) (Klapper et al. 2016). Although the mechanisms used to improve social outcomes vary and depend on context and circumstances, evidence increasingly shows that strengthening the ability to withstand negative shocks is key. For populations affected by crises, the ability to cope with a shock is especially vital, because the destabilizing impact of shocks is often magnified by a fragile and unstable environment.

While analysis of disasters is mostly captured in aggregate levels (e.g., the total dollar figure of estimated damage after a cyclone), loss affects poor and marginalized individuals far more acutely. Poor people have fewer assets to support their livelihood, consume close to subsistence levels, and often cannot rely on savings to ensure health and education outcomes are maintained during periods of crisis (Hallegate 2017).

For the purposes of this paper, the authors reviewed more than 100 publications on financial services and crises.[11] Evidence suggests that access to financial services can strengthen the resilience of individuals and households in the face of negative shocks, and that they can play an important role in supporting livelihoods and stimulating economic activity after a crisis. (In this paper, resilience refers to the ability of an individual to minimize overall welfare loss during an economic shock.)[12] Negative shocks can vary from idiosyncratic shocks at the individual level, such as a health problem, to shocks at the community level, such as flooding or weather-related events, or the national level, such as war or civil unrest. A household strategy that uses multiple financial tools rather than just one or two is more likely to be successful in mitigating risk, since people face multiple risks at once and may use different tools to protect themselves against different risks (World Bank 2013).

Remittances help people cope with shocks and support economic activity

By increasing the safety and ease of sending money, payments services allow people to leverage their networks for support during challenging times. In Kenya, for example, mobile money (M-Pesa) increased a household's resilience in dealing with negative shocks related to weather or illness (Jack and Suri 2014). Specifically, while shocks reduced consumption by 7 percent for households without access to M-Pesa, the consumption of households with access remained unaffected, due to an increase of inward remittances after the negative shock. Similarly, in Rwanda, households sent airtime credits to people affected by natural disasters (Blumenstock et al. 2016). Between December 2007 and February 2008—a period of post-election violence in Kenya—households leveraged the then-nascent M-Pesa to safely help their relatives and friends sustain themselves during this period of dramatically limited mobility and access to money (The Economist 2015).

Beyond their significant microeconomic benefits, remittances can have positive effects on local or community-level economic activity. For example, in the Kakuma refugee camp in northwest Kenya, the impact of remittances was found to extend well beyond the camp. The Kenyan government cut off the remittance flow between Somalia and Kenya for

11. Of those, fewer than 20 were rigorous evaluations, on which this section focuses.
12. Socioeconomic resilience can be measured by an economy's ability to minimize the impact of asset losses on well-being. For a more detailed discussion, see Hallegate (2017, fn 31).

four months following the April 2015 Garissa University College attack. During those four months, consumption fell in the area—not just among those living in the refugee camp, but also among those living nearby. This effect demonstrates the positive impact remittances to the camp has on the welfare of the surrounding communities (Sanghi et al. 2016).

Access to savings increases resilience

By providing a form of self-insurance, savings accounts can also provide a buffer against the impact of negative shocks and may strengthen a household's livelihood. In the Philippines, households that used savings accounts had stronger recovery from the effects of Typhoon Yolanda (Hudner and Kurtz 2015). Interestingly, formal and informal financial services seem to contribute somewhat equally to building a household's resilience. In northeastern Burkina Faso, an area with low rainfall and therefore a high propensity for droughts, financial diaries revealed that households primarily rely on savings to handle shocks (Gash and Gray 2016). Otherwise they reduce consumption or sell livestock. Therefore, providing ways of storing value and removing barriers to formal savings accounts could significantly improve households' abilities to withstand shocks without resorting to negative coping mechanisms (e.g., assets depletion, child labor).

Access to savings accounts is also one of the components of the Graduation approach—a sequenced intervention targeting the ultra-poor and designed to build self-reliance. This approach encompasses a combination of ongoing cash transfers, coaching, livelihoods training, and savings accounts. Six randomized assessments (in Ethiopia, Ghana, Honduras, India, Pakistan, and Peru) were conducted by Innovations for Poverty Action and the Abdul Latif Jameel Poverty Action Lab between 2007 and 2014. The evaluations used data from more than 20,000 people in 10,000 households and found higher levels of income, consumption, assets, food security, and mental health in treatment groups at the end of the program. One year after the program ended, the primary impacts of the program (on consumption, assets, and food security) declined only slightly or not at all. In five of the six sites, the estimated benefits outweighed the program costs (Banerjee et al. 2015).

A separate assessment found that in Bangladesh, seven years after the program launched, earnings had gone up 37 percent, with significant increases in consumption and savings (Balboni et al. 2015). Until recently, all of the existing evidence on the Graduation approach had been derived from experiences in stable environments, and it remained to be seen whether the positive outcomes could be replicated in crises-affected situations. In 2013, UNHCR started piloting the approach with refugees in five countries (Egypt, Costa Rica, Ecuador, Burkina Faso, and Zambia). These pilot projects should help to determine whether the Graduation approach's successes are replicable in different contexts.[13]

Community-based savings groups (SGs), which combine access to savings and credit, have been used extensively in crisis contexts. Program designs vary and include village savings and loan associations (VSLAs), self-help groups, and rotating credit and savings associations (ROSCAs).

Evidence shows that SGs consistently increase the amount of savings and the use of credit among participants. A study of an SG in Burundi, which targeted vulnerable populations displaced by the civil war, also demonstrated significant poverty reduction. Over the course of the evaluation, the poverty rate among households in the control group increased by 10 percent, while the poverty rate of treatment group households fell by 4 percent, suggesting that access to SGs allowed households to mitigate—and even prosper despite—negative shocks. Other studies indicate that households with access to SGs have greater food security, potentially because of a higher likelihood of borrowing from SGs in the aftermath of shocks (Gash and Odell 2013).

13. A mid-term evaluation carried out in Egypt found the pilot program for urban refugees demonstrated positive short-term impacts in employment generation, business development, and income levels, but that the program lacked the activities needed to sustain such impact for the medium to long term.

Insurance and social protection can work together to reduce vulnerability

Insurance can provide critical financial support during periods of crisis, and is particularly relevant for regions or countries that are prone to weather-based natural disasters. Ideally, households would already have access to insurance programs to protect them from risks associated with such events. Index-based drought insurance products have positive effects on consumption and asset protection.[14]

In Kenya, insured households were found to be 36 percent less likely to anticipate drawing down assets, and 25 percent less likely to anticipate reducing meals upon receipt of a payout compared to uninsured households (Janzen and Carter 2013). In drought-prone areas of Senegal and Burkina Faso, farmers who purchased insurance invested more in inputs and had greater yields (Delavallade et al. 2015). Insurance is also critical for business recovery. Researchers found that two years after the 2011 earthquake in Christchurch, New Zealand, firms that had purchased insurance were more likely to have greater productivity and performance compared to uninsured businesses (Poontirakul et al. 2016).

Nonetheless, designing and marketing disaster insurance for low-income households presents a unique set of challenges, and there is mixed evidence on actual implementation. Challenges related to developing insurance markets include weak institutional and legal capacity and high transaction costs, especially for poor people.

Research indicates that low levels of financial literacy and trust in insurance make it difficult to stimulate demand (Clarke and Grenham 2013). Even where access to insurance is prevalent, there are challenges related to claims management, payout processes, and the design of products that reach the poor and do not exclude the extreme poor (Hochrainer-Stigler et al. 2012). A review of microinsurance schemes concluded that "experience is mixed" on microinsurance reducing long-term risks of disasters and that "evidence is less positive" on disaster microinsurance reducing disaster losses (Mechler et al. 2006). A study is underway in India that will evaluate disaster microinsurance for urban small businesses (Patel and Bhatt 2016). Urban small businesses have not commonly been targeted for microinsurance, and therefore this evaluation could shed light on an important segment.

More research is needed on the role of credit for crisis-affected populations

There have been no rigorous evaluations of microcredit in crisis environments, and existing evaluations of microcredit in stable environments primarily focus on traditional microfinance products that are intended to support microenterprises. Given the increasing recognition that borrowers use funds for consumption smoothing purposes as well as—or in lieu of—business investments, additional research on the impact of other forms of microcredit would be of value (e.g., emergency consumer credit).

Research indicates that refugees already face substantial debt burdens, and more credit will not necessarily lead to improved well-being if the funds are not invested productively, which requires access to markets and the right to work. Taking on additional debt may be necessary to manage emergencies, but other financial services are likely to have fewer negative effects.

Digital cash transfers can offer an entry point to financial inclusion, although more testing, operational roll-out, and evaluation is needed

Cash transfers are an important element of a country's risk management strategy and play an important role in meeting immediate economic needs during a crisis, whether it is done by leveraging existing national programs or by sending humani-

14. Weather-based index insurance is a relatively new approach for insurance that triggers payouts without the need to submit a claim. Payouts are based on an index comprising objectively assessed weather conditions that often correlate with farmers losing assets. Indices can include rainfall, wind, crop yields, and satellite-determined vegetation levels.

tarian actors to affected communities. Researchers have calculated multiplier effects of up to 2.5 for vouchers and cash transfers, meaning that for every $100 in cash assistance, $250 is generated in the local economy. A Food and Agricultural Organization (FAO) analysis of a social cash transfer pilot in Ethiopia found multiplier effects ranging from 1.26 to 2.52 (Kagin et al. 2014), while an evaluation of WFP's food voucher program in Lebanon calculated a multiplier effect of 1.51 in the food products sector (Bauer et al. 2014). Similarly, IRC released a study in 2014 estimating the impacts of the UNHCR winter cash transfer program for Syrian refugees in Lebanon and calculated a multiplier effect of 2.13 (Lehmann and Masterson 2014).

The push to transition from physical cash delivery to digital transfers is based, in part, on the idea that digital payments will lead to greater financial inclusion. Well-designed transaction and savings accounts built into digital transfers can offer vulnerable communities the opportunity to save money and build assets during periods of significant economic uncertainty. They may also provide an entry point to a broader array of financial services (credit, insurance) by interfacing with FSPs and the formal financial sector. The link is not guaranteed, however, and outcomes seem to depend on a variety of factors, including the product's design and features, the duration of the transfer, the surrounding payments infrastructure, and the regulatory framework that can influence recipient preferences for physical versus digital cash.

Specific socio-cultural factors can also influence use of digital payments, particularly in conflict and crisis settings. For example, while mobile money users avoided 2008 post-election violence in Kenya by relying on digital cash, a recent study in Afghanistan found that individuals exposed to or fearful of violence withdrew their mobile money balance to increase cash on hand in an emergency (Blumenstock et al. 2015).

The chain that links humanitarian assistance and financial inclusion can indeed be complicated in practice, first of all, because only 6 percent of all humanitarian assistance is channeled through cash (World Bank 2016a), despite evidence of the efficiency of using cash and its numerous global advocates (see Figure 6). Even when aid is channeled through cash, enabling sustained use of broader financial services through one-off or time-limited cash transfer programs has proven to be quite difficult. Mercy Corps (2014) offered this summary: ". . . delivering aid through e-transfers does not automatically lead to the uptake of new financial services by program participants. Instead, participants typically withdraw their full transfer when it becomes available and rarely use their new accounts after programs end. This holds true in both large government social safety net programs and humanitarian cash transfer programs. . . ."[15] There are several reasons for this. Because infrastructure might be missing or destroyed, including for merchant acceptance networks, the cost and distance to an access point, the availability of funds at an ATM, or even social stigma of queuing for assistance, beneficiaries may prefer to cash out. Besides, there are trade-offs between financial inclusion and humanitarian objectives that factor into programming decisions and resource allocation.

Where the objective is to respond rapidly to crisis, it is likely more important to prioritize getting transfer systems operational than invest in a delivery mechanism linked to financial services. Indeed, transfer amounts, transfer purpose (immediate consumption needs versus recovery or livelihoods development), and the intensity of institutional or donor pressure to monitor and trace the delivery and use of aid all impact incentives to deliberately open pathways to financial inclusion.

Even without clear links to financial inclusion, digital delivery can still offer benefits. Increased efficiency and decreased leakage are the most commonly cited reasons to use digital delivery, but evidence suggests that digital delivery can also enable consumption smoothing, provide additional security and convenience (e.g., faster receipt of funds, eliminating need to queue in long lines in some cases), and increase options for where and how

15. GSMA (2014) reported similar findings: in nearly all examples of mobile money cited in its research, displaced populations immediately withdrew the full amount of their transfer.

recipients spend the funds. This is illustrated in an evaluation of a post-drought cash transfer program in Niger, where randomly assigned households received cash transfers in cash or through Zap, a mobile money platform (Aker et al. 2011). Zap significantly reduced costs for the NGO running the program and for recipients accessing the transfer. Compared to those who received physical cash transfers, the mobile platform recipients used their funds to buy a greater variety of items, ate food from more diverse sources, sold fewer assets, and grew more diverse crops. The researchers hypothesize that the differences can be attributed to the increased privacy that the mobile channel afforded recipients and women's greater control over spending decisions within the household.

FIGURE 6. Chain from Humanitarian Assistance to Financial Inclusion

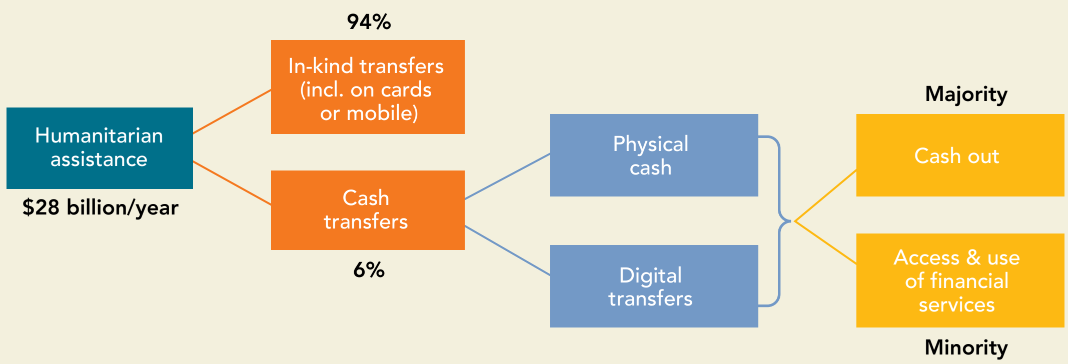


Photo by Prakash Hatvalne

SECTION IV

Barriers to the Delivery of Financial Services in Crisis

Despite emerging evidence that FSPs support the use of financial services in crisis environments, operational challenges can deter development actors from making the intentional linkages or investments necessary to support financial access and use. Although there are numerous case studies and guidelines on how to deliver financial services in contexts of disaster or conflict, pervasive challenges remain at the policy and infrastructure level, and operational challenges unique to current humanitarian and financial inclusions contexts are emerging.

Policy environment

Policy and regulatory environments that enable financial institutions to provide services to poor people are a priority in any context, but they are particularly important in crisis environments given pressing and urgent humanitarian needs. There is often a lack of explicit national policies toward promoting resilience in times of crisis, particularly for refugees. In certain instances, government policies prevent refugees from settling in host countries, often by restricting access to services, including the formal financial sector. Policy makers may be ill-equipped during times of crisis to make appropriate reforms and investments either because of political instability or because traditional policy technical tools (monetary and fiscal policy, payments systems, liquidity, and refinancing facilities) may be ineffective in light of the severity of particular crises.

One of the biggest challenges most crises-prone countries face when confronted by a large influx of displaced people is the financial system's lack of preparedness to scale up and to develop rapid delivery channels. In a very short period of time, humanitarian actors may have to manage the distribution of cash transfers to thousands of beneficiaries. In practice, a simplified CDD regime is seldom in place, thus limiting the ability of humanitarian organizations to link cash transfers to transactional or savings accounts and delaying their ability to respond quickly with long-term solutions. There are several examples of successful application of simplified CDD requirements for humanitarian purposes (e.g., the Philippines and Haiti). Allowing the use of aid agency-issued identification, notably for refugees, and classifying the aid agency as a "customer" are two strategies that have been effective (Levin et al. 2015). Lack of, or opaque, agent regulation may hinder the financial sector's ability to respond to the increased demand, particularly in remote regions where branches are not viable, or to sufficiently oversee agent management and conduct. Regulation may need to be modified to allow for third-party vendors or agents to act as cash-in and cash-out points during crises.

This presents a challenge for governments to quickly (1) understand the issues and identify the trade-offs, (2) put in motion the necessary regulatory changes that may be needed, such as agent regulation or simplified CDD, and (3) where relevant, address political concerns related to host community versus refugee-related services. More effort is needed to help countries prepare for and quickly respond to crisis situations, and much of this work is needed well before a crisis ensues.

Physical and financial infrastructure

Physical infrastructure, such as roads, telecommunications networks, power grids, bank branches, ATMs, and agents, can be severely impacted as a result of conflict or natural disasters. Without this basic physical infrastructure, financial institutions are unable to participate as part of the recovery process. Financial infrastructure, such as payments systems, automated clearing houses, large-value interbank settlements, credit bureaus, and collateral registries, are generally underdeveloped in many developing countries, not only those affected by crises. Yet a robust and resilient payments infrastructure can help to address challenges brought on by crises. Diaspora communities tend to react fast—even before international aid—but they often lack an effective way to get money to the affected populations, including to those who have accounts, and especially to those who have crossed international borders.

After the 2010 earthquake in Haiti, getting aid through the financial system was nearly impossible as a result of the destruction. Fonkoze, a microfinance institution (MFI), resorted to partnering with the U.S. military to deliver money by helicopter so that Haitians abroad could remit funds to their families, and customers in Haiti could access their savings (Luce 2010). Although various institutions and those responsible for financial system infrastructure are increasingly aware of the need to prepare for crises, not enough attention has focused on ensuring that both physical and financial infrastructure are crisis-ready.

Countries that are affected by crises do not necessarily face physical damage, but crises present opportunities to improve existing physical and financial infrastructure. Humanitarian organizations such as WFP and UNHCR increasingly rely on the host country's existing national payments systems to distribute cash assistance to refugees. This added volume of transactions may strain existing systems, including ATMs, branches, and agents, but coordination between host countries and humanitarian actors can improve the business case for providers to serve previously unconnected regions of the country.

Rather than invest in one-off or closed-loop systems, investments by the humanitarian community can be structured to support infrastructure expansion and agent networks that can be sustained by the private sector well beyond the crisis period. For example, to prepare for its partnership with WFP cash transfers in Kenya's arid and semi-arid lands in 2012, Equity Bank had to "increase agent presence ten-fold" in certain counties (Zimmerman and Bohling 2013). To expand cash transfer programs for Syrian refugees in Lebanon and Jordan, humanitarian agencies facilitated an expansion of POS and iris scan recognition machines, with a focus on rural areas. These investments not only support the immediate crisis but also benefit the expansion of the financial system to previously excluded communities.

Donor engagement

While donors are increasingly prioritizing the provision of financial services in both humanitarian and development contexts, much needs to be done to achieve complementarity between those two types of programming. Donors influence operational incentives and capacities to leverage financial services in crises by offering technical assistance and financing to encourage FSPs to operate in these volatile and risky environments. They also support the development or reconstruction of financial infrastructure, including outreach to potentially hard-to-reach areas that might not otherwise attract FSPs that operate only when there is a good business case to do so. Yet, the priorities of humanitarian donors do not always align with the needs associated with creating sustainable and resilient financial sectors.

Provider and product selection decisions of implementing agencies are often based on cost efficiencies or speed and are not necessarily conducive to long-term sustainability. For example, donors may use parallel systems to deliver emergency transfers rather than partnering with financial-sector actors. In response to the 2010 Haiti earthquake, donors invested heavily in building mobile money agent networks to facilitate disbursement of a massive influx of aid to the country. Because donors failed to adequately study the sustainability of such a setup for FSPs, the effort ended when donor subsidies ended.

Some donors are ambivalent about multipurpose cash transfers and unrestricted recipient ownership over accounts, because these products tend to give donors less control and visibility and limit their ability to measure and track results. Donors may be more apt to take on scrutinized, limited-purpose financial tools that help them meet their needs, but that do not easily link aid recipients with sustainable, meaningful financial services solutions. These choices detract from the business case for FSPs and reduce potential added-value of financial services to recipients. Donors that prioritize financial inclusion for poverty alleviation and economic opportunity often do not sufficiently consider the role and risks of shocks.[16] However, efforts are being made to encourage better informed decisions.

In 2016, a group of humanitarian payments providers, donors, and financial inclusion experts developed the Barcelona Principles for Digital Payments in Humanitarian Response. These principles aim to guide the use of digital payments to improve response and enable resilient and inclusive financial infrastructures that recovering populations can access into the future (Martin and Zimmerman 2016).

Constraints to accessing cash to finance operations (liquidity) often prevent FSPs from operating in crises. Donors have addressed these constraints in a variety of ways at national or regional levels. For example, the donor-established Central American Emergency Liquidity Facility (ELF) lends to FSPs that have liquidity problems during economic crises or natural disasters. The Indonesia Liquidity Facility After Disaster (ILFAD), funded by USAID and managed by Mercy Corps, serves a similar function, with an exclusive focus on natural disasters.

Donors have a unique role to play in supporting FSPs and governments to prepare for and cope with crises. Improving the complementarity of humanitarian and aid funding can go a long way in creating the necessary market incentives for market actors—host countries and FSPs—to make the necessary investments in capacity, infrastructure, and policy.

16. There are many global efforts to support and guide the development or deepening of digital payments in noncrisis environments, including the G20 Principles for Digital Financial Inclusion, the World Bank guidance on Payment Aspects of Financial Inclusion, and the Better Than Cash Alliance's Responsible Digital Payments Guidelines and 10 Accelerators to Inclusive Digital Payments Ecosystems. Little of this guidance, however, considers issues specifically related to crisis contexts and/or related populations.

Photo by Ingrid Bonilla Rodriguez

Emerging Challenges and Lessons for Providers

A crisis affects both people and institutions. Providers working in crisis-prone regions are as likely to experience set-backs as the clients they serve. Putting in place mechanisms to support an institution's crisis preparedness and response is critical to ensuring that services can resume quickly after crisis ensues and that the institution will not suffer significant losses. Similarly, consumer outreach is required to promote market uptake of products introduced during a period of crisis.

Despite substantial efforts to instill the importance of preparedness planning and risk management of FSPs, there is still much room for improvement. Many providers do not have crisis response plans nor have they taken precautions to mitigate risks such as diversifying the client base, supporting clients to build their own resilience, or negotiating arrangements for short-term liquidity needs. Emerging lessons in this respect include the following:

- **Invest in preparedness.** A large body of literature points to the importance of preparedness in mitigating risks and better managing crises: global good practices have been well documented.[17] For FSPs, guidelines on how to minimize risks associated with operating during disasters and conflict focus on ensuring business continuity and rapid recovery from shocks, not only for the institution itself, but also for its clients, and to the extent possible, for the sector. General recommendations include developing contingency plans, building reserve funds, diversifying the client base, collaborating and sharing knowledge with other institutions or networks, and investing in staff training. Preparedness is also critical for mobile network operators and their agents.[18]
- **Address liquidity constraints to incentivize providers.** Liquidity is one of the first and most critical constraints providers face during a crisis. Agents that provide cash-out functions for emergency transfer programs require adequate liquidity and supporting connections to efficient payments and settlement systems. Donors play an important role in supporting the national payments channel ecosystem, which encompasses setting up digital transfer programs and ensuring distribution, cash, and liquidity management.

  Traditional FSPs, including banks and MFIs, may be unable to access market finance (interbank, from external investors) due to operational deterioration, decrease in deposits, and macrofinancial imbalances in debt markets. To help mitigate these constraints, donors can provide support through lines of credit, financing through apex institutions, or partial credit guarantees to local financial institutions that promote the expansion of small businesses.

  In many post-conflict settings, supporting apex institutions to inject quick liquidity into the market while supporting MFIs has been a standard since the Local Initiatives Department (LID) was created in Bosnia and Herzegovina in 1996 (Goodwin-Groen 2003). LID was considered a success; it exited the market after fulfilling its mandate to inject liquidity and build capacity among market actors. Many apex institutions that have subsequently been established in post-conflict settings, however, have not been effective at meeting stated objectives (Forster and Duflos 2012).
- **Understand client needs and opportunities to serve new segments.** While FSPs need to work with their existing clients who may be affected by crisis, they may also have an opportunity to

17. For example, see SEEP's Minimum Economic Recovery Standards and Disaster Risk Reduction program: http://www.seepnetwork.org/minimum-economic-recovery-standards-resources-174.php and http://www.seepnetwork.org/disaster-risk-reduction-program-pages-20799.php, respectively.
18. See GSMA (2015 and 2016).

serve new clients. A recent Social Protection Task Force (SPTF) and UNHCR publication synthesizes many of the lessons that FSPs have learned from their experiences serving refugees (Hansen 2016). As with any other new client segment, FSPs need to invest in up-front market research before launching or expanding their services. These steps are even more important for refugees, where lack of information and institutional barriers may be more acute. SPTF emphasizes the importance of scoping and developing strategies, building relationships with refugee populations, segmenting clients, revisiting any criteria that exclude refugees (such as identification or residency requirements), and learning from pilots. Awareness and capability is particularly important when rolling out digital payments solutions to mitigate crisis, especially if mobile money is not well developed or widely used before a crisis hits.

- **Respond to a crisis—doing nothing can damage an FSP's reputation.** Where there are recurring natural disasters, FSPs that do not respond immediately to clients, through either direct relief efforts or collaboration with relief agencies, may lose the confidence of communities they serve. FSPs that are well established and whose clients are affected can take on relief efforts without negative operational impact on their viability. Numerous case studies from Bangladesh, India, Sri Lanka, and Nepal, among many others, have demonstrated how FSPs have directly supported aid delivery or partnered with aid organizations to ensure that assistance reaches their clients.[19]
- **Use consumer experience and awareness to help promote uptake and use of formal services.** Network outages, liquidity problems, and a lack of transparency can undermine effective adoption and use of financial services (Zimmerman and Baur 2016). A WFP conditional cash transfer program targeting food-insecure households in drought-prone areas of eastern and coastal Kenya aimed to achieve financial inclusion objectives alongside its food assistance goals (Zimmerman and Bohling 2013). In support of this objective, the program initially tried to use a mobile money platform linked to M-Pesa to make the transfers but switched to a bank account-linked debit card system when it found network connectivity was too weak to support a mobile money platform. Even on the debit card system, the program faced challenges, notably related to enrolling recipients, ensuring that agents had sufficient liquidity, and managing technology failures.

Recent GIZ and CGAP research in Jordan identified the need to raise awareness of mobile money as a key success factor for its uptake and use by both Syrian refugees and low-income Jordanians alike. Methods for training and awareness building vary by context. After Typhoon Haiyan struck the Philippines, Mercy Corps launched a mobile money cash transfer program to support recovery and tested two ways of raising client awareness (Causal Design 2015). The study compared the impact of a one-hour financial literacy training versus the impact of voice messages delivered to recipients to encourage savings. The study found that the one-off training had no effect on the likelihood that recipients would increase their savings behavior, but that the beneficiaries who received the voice message reminders increased their use of formal and informal savings products.

Because crisis contexts are often typified by low-infrastructure environments with limited formal financial sector development, consumers typically have limited options. Consumers are often mandated into a specific type of account with an FSP that is chosen by a humanitarian actor. Lack of choice does not always translate into acceptance of formal financial services, particularly if these services are of poor quality or poorly managed. In fact, consumers will continue to rely on informal services—whether in the form of VSLAs, ROSCAs, or *hawalas* (money transfer networks)—over poor-quality, inconvenient, expensive, or otherwise poorly designed financial products or services, as consistently shown by Findex data analysis.

19. See the seven case studies produced by the Foundation for Development Cooperation (Nagarajan 2006a, 2006b, 2006c, and 2006d) and the Banking with the Poor Network (2006a, 2006b, and 2006c) on microfinance and disaster relief.

SECTION VI

What's Next?

There is no doubt that more can be done to support people with financial services in times of crisis. Financial inclusion can help bridge humanitarian programming that focuses on protection and access to basic services with financial tools that enable vulnerable populations to build assets, better manage economic risks and shocks, and support livelihoods over the medium term. Donors, in particular, have an important role to play in shaping the dialogue with countries affected by crisis by investing in critical "win-win" investments that can benefit the country's economy and strengthen the resilience of affected populations. The following are priorities for relevant stakeholders, with a focus on policy makers and donors.

Recommendations for supporting crisis environments through financial inclusion

While supporting the ability of affected communities to leverage financial services is the ultimate goal, this can happen only when a basic financial infrastructure is in place. Thus it is not feasible to improve financial services for crisis-affected people without addressing system-wide and infrastructure issues.

Prioritize investments in a resilient digital payments infrastructure. Elements of strong, robust, resilient, and reliable payments systems include (1) sufficient access points for cash-in/cash-out and other transactions, whether via mobile phones, POS devices, agent networks, ATMs, or branches; (2) well-managed agent and merchant networks that are equipped to manage liquidity needs at access points; and (3) adequate mobile and broadband connectivity to enable real-time, online transactions and settlement. Interoperable payments systems or systems that connect multiple types of providers to the same system are important. These would help to reduce the need for rigid partnerships or reliance on voucher and other closed systems that do not link recipients to financial services. By the time a crisis happens, it is often too late to address systemic issues to respond to immediate needs. Nonetheless, crises present opportunities to "build it back better," by investing in infrastructure that should have been there in the first place, or by expanding services to areas or populations previously excluded. Ensuring that these systems are responsive to shocks should be a component of a country's preparedness strategy.

Expedite regulatory reforms that enable digital financial services and mobile money, including the acceptance of alternative means of identification for refugees to address CDD requirements. Regulatory enablers include regulations on agents, simplified CDD requirements, and e-money regulations. The role of mobile money in expanding financial inclusion is well documented, and the benefits can extend to both local and displaced populations.

Provide incentives for private-sector actors and partners to roll out sustainable financial services. Targeted subsidies should encourage market development, specifically mitigating risk to encourage long-term provision of financial services by private operators during periods of crisis. Ultimately, FSPs need to continue to provide services well beyond the emergency crisis response period. Private actors must also adapt to crisis environments, for example, by ensuring that they have adequate risk management and liquidity/provisioning structures in place. Humanitarian and development practitioners must recognize and understand the business needs of private providers and should build in relevant incentives that address the increased risks during the crisis period and take into account the adaptations required to sustain operations into the future.

Recommendations for policy makers and governments to support host country capacity

Developing countries host the vast majority of the world's displaced populations and take on enormous economic and sociopolitical weight on behalf of the international community. They cannot be expected to finance these costs on their own while managing the strain on services that also affect local populations. Donors and global policy makers must recognize the importance of these public goods and enable host countries to support their response to crisis. Host countries should be offered tangible assurances that their support of displaced people will not translate into de facto absorption of them into their economies. "Win-win" development solutions that improve socioeconomic outcomes for both host communities and the displaced should be championed. Donors need to understand that these solutions are not only technical, but they are political as well. Solutions include the following:

- **Invest in projects that also support host country priorities.** In addition to investments that lead to tangible improvements in a country's financial infrastructure, developing and testing medium-term "win-win" interventions that enhance the economic resiliency of both host and refugee communities should be prioritized.
- **Support the creation of crisis-adaptable regulations that develop a resilient enabling environment for financial services for IDPs and refugees.** This includes simplified CDD requirements that reduce constraints refugees and IDPs face when accessing payments infrastructures. This could include time-bound regulatory flexibility on the ability of third-party vendors or agents to act as cash-in and cash-out points during periods of crisis.
- **Develop innovative financing mechanisms to mobilize the resources necessary to address crisis and forced displacement,** including concessional financing for middle-income countries hosting large percentages of refugees and the use of blended debt-grants financing and guarantee mechanisms. The Jordan Compact is a step in this direction.[20] First loss guarantee mechanisms can also be a useful tool, particularly to finance refugee-related programs for FSPs. These guarantee mechanisms can also incentivize private-sector funders to enter the market, provided they are deployed efficiently and in a well-coordinated manner.

Recommendations for donors regarding global programming principles

Increasingly, the humanitarian community itself sees the critical need to link to longer-term development given the limits of humanitarian funding and the increasingly longer-term duration of displacement. This will require concerted and strategic efforts to create deliberate links between humanitarian and development efforts through the provision of financial services. This could include the following:

- **Address impediments and incentives that drive the behaviors of institutions and programming staff on the ground.** Most humanitarian organizations are guided by donor funding that is committed *after* a crisis ensues. These commitments are short term and require frequent and regular replenishment. This funding cycle creates an environment where long-term planning and programming is effectively impossible. Stefan Dercon, chief economist at the U.K. Department for International Development, recently proposed a global risk pooling mechanism that would allow contributions before crises and make them accessible to affected countries after crises (Clarke and Dercon 2016).

20. Middle-income countries, like Jordan, can now borrow at concessional rates, while accessing trade concessions to the European Union.

- **Explicitly embed financial inclusion objectives into humanitarian program design.** With more secure and longer-term funding horizons, it is possible to create explicit links between humanitarian assistance programming and financial inclusion. Many international organizations already have separate teams for relief and development in their mandates, and could use financial services to link the two operationally. One step in doing so is to more closely share knowledge among the internal teams.

Future research and learning agenda

Despite the predictability of disasters and the concentration of displaced people in select countries, the international community has not put enough focus on embedding rigorous evaluation or research of the impacts of various financial services provisions into program designs. This is a missed opportunity to understand where and how the humanitarian and development communities could optimize the use of financial services to improve responses, build livelihoods, and improve long-term resilience. Specific evidence gaps include the following:

- **Improve understanding of the demand and use of financial services in crises by different subsegments of those affected by crises.** More research is needed on different segments, their demand for and use of financial services, and their behavioral preferences. As noted in Section II, the needs of different groups vary greatly, and a better understanding of how financial services can address their financial needs and livelihoods would greatly improve program design and targeting. Such research can also support increased customer uptake and use of financial services.
- **Improve the evidence base on specific products that have high potential in crisis environments.** The role of insurance, particularly disaster insurance, is an area that warrants further research. Additionally, given the growing trend to digitize payments, more research on understanding the impact of such digitization on well-being and financial inclusion outcomes is necessary. Particular attention should be placed on (1) the impacts on the lives of different segments (e.g., refugees, IDPs, women, youth) and (2) the sequencing of financial products.
- **Improve the evidence on the role of financial services for livelihoods programming.** While there has been some research on building livelihoods in post-crisis recovery contexts, more evidence is needed on the role of financial services in these models and the types of livelihood programs that work for specific segments of people affected by crisis. More efforts also are needed to evaluate the impact of microcredit in crisis contexts and its role in supporting livelihoods.

Photo by Mohammad Moniruzzaman

Conclusion

Looking forward, close coordination among donors, governments, regulators, FSPs, and civil society organizations will be critical to improve development responses to humanitarian crises, which are increasing in severity, length, and complexity. Financial inclusion can play an important role in bridging the humanitarian-development divide by providing a platform to bring efficiencies to emergency transfers through digital and mobile distribution channels, and more broadly by providing financial tools (payments, savings, insurance, and credit) to promote economic resilience and improved economic opportunities in periods of crisis. While finding sustainable solutions to humanitarian crises may seem like an intractable prospect, integrating financial services into both emergency and related development programming can be an important enabler of the process.

ANNEX 1

Terminology

Asylum Seeker	A person who flees into another country and applies for asylum, i.e., the right to international protection under the 1951 UN Refugee Convention (or Geneva Convention). An asylum seeker may be either a refugee or a migrant, but only refugees obtain asylum when their claim is validated. Obligations under the 1951 Convention prevent penalizing asylum seekers that have illegally entered a country. There are 3.2 million asylum seekers globally (UNHCR 2015).
Crises-Affected Populations	In this paper, this term refers to group of people affected by a conflict or natural disaster, including those related to climate change. Such groups may be forcibly displaced or not. They include directly impacted communities and host communities in case of displacement.
Forcibly Displaced Person	A person who is *forced to flee* his or her home. There are 65 million people forcibly displaced globally by conflict or violence (UNHCR 2015), including refugees, IDPs, and asylum seekers.
Internally Displaced Person (IDP)	A person who is forced to flee his or her home but who *remains within his or her country's* borders. There are 40 million IDPs globally (UNHCR 2015).
Migrant	A person who leaves his or her country to seek a better life abroad (e.g., employment, study, or family reunification). A migrant continues to have the protections of his or her own government, even when abroad. There are close to 250 million migrants globally (Ratha et al. 2016). They remit an estimated US$580 billion to their home countries, of which US$432 billion go to developing countries (World Bank 2016e). "*Environmental migrants* are persons or groups of persons who, for compelling reasons of sudden or progressive changes in the environment that adversely affect their lives or living conditions, are obliged to leave their habitual homes, or choose to do so, either temporarily or permanently, and who move either within their country or abroad" (IOM 2007) (emphasis added).
Refugee	A person who has been forced to leave his or her country to escape conflict or persecution. A refugee under the 1951 Convention is defined as a person who "owing to well-founded fear of being persecuted for reasons of race, religion, nationality, membership of a particular social group or political opinion, is outside the country of his nationality and is unable or, owing to such fear, is unwilling to avail himself of the protection of that country." Refugees cannot be expelled or returned to places where their life is in danger. This definition does not include people who have not crossed an international border or economic migrants. People displaced by natural disasters (~25 million per year) or climate change are not refugees. It is unclear how many have crossed borders or returned, or how many have been displaced in total at a specific date. There are 21 million refugees globally (UNHCR 2015) of whom 16.1 million are under UNHCR's mandate and 5.2 million Palestinians who are under UNRWA's mandate. The number of refugees decreases when they return, resettle, or get naturalized, except for Palestinians who retain their refugee status regardless of citizenship.
Stateless Person	A person who does *not have the nationality of any country.* Stateless persons have not necessarily been forcibly displaced, but they fall under UNHCR's mandate. There are at least 10 million stateless persons globally (UNHCR 2015).

Humanitarian Assistance (or Aid)	Aid and action designed to save lives, alleviate suffering, and maintain and protect human dignity ***during*** and in the ***aftermath of man-made crises and natural disasters,*** as well as to ***prevent*** and strengthen preparedness for the occurrence of such situations. According to Development Initiatives (2016), funding for humanitarian assistance reached a record US$28 billion in 2015.
Official Development Assistance (or Aid)	Aid to support economic, environmental, social, and political development of countries. Official development assistance as measured by the OECD Development Assistance Committee was US$131 billion in 2015.
Protracted Displacement	"Situation in which 25,000 or more refugees of the same nationality have been in exile for five years or longer in a given asylum country," according to UNHCR.

ANNEX 2

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