Setting the Stage: 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
Setting up the workshop’s discussions

1. Why financial inclusion?

2. What role for financial services in humanitarian crises?

3. What is digital technology unlocking?
Why Financial Inclusion?
A Framework
Financial Inclusion: What is it and why is it important?

150+ million adults in the Arab world do not have an account*

2% Kenyans lifted out of poverty as a result of M-PESA**

* Source: Findex Data, CGAP calculation
Digital financial inclusion: from policy to fundamental enablers

“Fintech can have a major social and economic impact for them and across the membership in general. All countries are trying to reap these benefits, while also mitigating the risks. We need greater international cooperation to achieve that, and to make sure the fintech revolution benefits the many and not just the few.”

Christine Lagarde, Managing Director, IMF quoted in World Bank IMF Bali Fintech Policy Paper, Oct 2018

CGAP’s Regulatory Enablers for DFS

1. Non-Bank e-money issuance
2. Use of agents
3. Risk-based customer due diligence
4. Consumer Protection

Source: Finance for All, McKinsey Global Institute, 2016

Potential GDP boost amongst emerging economies due to digital financial services

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Financial Services in Forced Displacement Context?
An Evidence Review
Context: Forced displacement levels are high

Source: UNHCR. Palestinians excluded.
85% of FDPs live in developing countries

Men and Women are equally represented among FDPs
1 in 2 FDPs is a child under 18

88,000 people will have been newly displaced by the end of this workshop.

Source: UNHCR, Global Trends, 2017. Age-disaggregated data is only available for 27 million out of the 42.3 million of concern.

Photo: © UNHCR, Olivier Laban-Mattei, June 2017, Zaatari camp, Jordan.
 Longer displacement requires longer-term solutions

Source: Devictor & Do, 2016. Duration of the situation for Palestinians and not duration of individuals' displacement.
Financial access in crisis-affected countries

Access is low

Yet demand is high

Account penetration in selected countries with humanitarian crisis

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<tr>
<td></td>
<td></td>
<td>54%</td>
<td>24%</td>
<td>39%</td>
<td>17%</td>
<td>15%</td>
<td>12%</td>
<td>11%</td>
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Reasons for loans reported by borrowers

<table>
<thead>
<tr>
<th>Health or emergencies</th>
<th>School fees</th>
<th>Home construction</th>
<th>Home purchase</th>
<th>Funerals and weddings</th>
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<tbody>
<tr>
<td>Countries with humanitarian crisis</td>
<td>15%</td>
<td>5%</td>
<td>10%</td>
<td>5%</td>
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<tr>
<td>Low and middle income countries</td>
<td>10%</td>
<td>10%</td>
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Source: Findex
Informal services are the most in use

In part due to under-developed financial sectors, but not only

Formal and informal savings (% of adults)

Source: Findex
What are the demand and needs for financial services?

Segmentation and research is needed on a case-by-case basis

<table>
<thead>
<tr>
<th>Displacement period</th>
<th>On the move</th>
<th>Upon arrival</th>
<th>During displacement</th>
<th>Assimilation in host community</th>
<th>Return to original home</th>
<th>Resettlement</th>
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<tbody>
<tr>
<td>Remittances</td>
<td>Dark blue</td>
<td>Dark blue</td>
<td>Dark blue</td>
<td>Light blue</td>
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<td>Store of value</td>
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<td>Short-term credit for consumption</td>
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<td>Light blue</td>
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<td>Payment services</td>
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<td>Light gray</td>
<td>Light blue</td>
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<tr>
<td>Domestic P2P transfers</td>
<td>Light gray</td>
<td>Light gray</td>
<td>Light gray</td>
<td>Light blue</td>
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<tr>
<td>Insurance (assets and livelihoods)</td>
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<td>Light gray</td>
<td>Light blue</td>
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<tr>
<td>Long-term credit for investment</td>
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<td>Light gray</td>
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<tr>
<td>Housing credit to rebuild</td>
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Financial services do play a role in mitigating crises

1. Remittances help cope with shocks & stimulate economic activity at community level
2. Savings increase resilience (formal & informal)
3. Insurance reduces vulnerability (especially disaster insurance e.g. index-based)

Credit needs to be further researched
Recommendations for supporting crises through financial services

1. **Invest** in robust, resilient & reliable payment systems (access points, liquidity, connectivity)

2. **Allow digital** financial services & mobile wallets (incl. crisis-adapted regulation)

3. **Incentivize** private sector & humanitarian organizations to roll-out sustainable FS

4. **Develop innovative** financing mechanisms

5. **Research** demand, products with high potential, role of FS in livelihoods
What is Digital Technology Unlocking?
A Look at Cash and Financial Inclusion
The move to cash transfers is a huge opportunity to build resilience

Humanitarian and government agencies are able to effectively and efficiently implement CTPs.

The payments and ID infrastructure is developed to allow inclusive, digital payment mechanisms to disburse CTPs.

Households obtain a transaction account through a local, regulated FSP and are able to build a financial identity.

Households are more economically empowered and resilient.

This chain remains largely theoretical:
- Dominance of cash out
- Regulatory, market, and infrastructure barriers
- Programming objectives
Much more experimentation is needed to link CT to financial inclusion.

**Humanitarian assistance**

- **In-kind transfers**
  - 90%

- **Cash & Voucher Assistance (formerly cash transfer)**
  - 10%

- **Physical cash or paper voucher**
  - Majority
  - Cash out or purchase

- **Digital transfers**
  - Minority
  - Access & use of financial services

**Access & use of financial services**

- 28 bn$
In Summary…
High-Level Lessons Learned

| Role of FS                  | • Mostly for saving, remittances, and insurance  
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<th>• Credit - linked to livelihood opportunities</th>
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<td>FI and Crisis mitigation</td>
<td>• Preparation is key: investment in financial inclusion ecosystem and crises mitigation efforts</td>
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| Access                     | • Largest barrier is access – often linked to CDD  
|                           | • Solutions are technical AND political (lesson n°1) |
| Incentives to align        | • Development programs needs to complement humanitarian interventions  
|                           | • Graduation is one way of sequencing existing interventions to promote longer term resilience |
| Segments                   | • FDPs are not one homogenous group  
|                           | • IDPs represent 2/3 of 68.5m conflict-related FDPs |
| Privacy                    | • FDPs prioritize privacy over price or convenience in digital / formal financial transactions |

Financial services need to first work for the host communities to work for FDPs
Pending questions

1. Can digital cash transfers be an entry point to broader financial services?

2. What are the actual demand and needs for forcibly displaced populations?

3. What is the importance of financial services in promoting livelihoods?

4. How can emerging digital identities facilitate financial inclusion and portability?
Thank you

Merci

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