


FINANCIAL SERVICES PRIMER FOR HUMANITARIANS

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Financial services facilitate a wide range of economic and household activities in any society. They enable trade and business expansion and allow individuals to save, send and borrow money. Humanitarian cash transfers, particularly when delivered electronically, can expand access to financial services among disaster and conflict-affected populations. This primer is written for humanitarian actors engaged with cash transfer programming. It defines **what** financial services are, **why** they are critical to consider in emergencies and **how** they can amplify the impact of cash transfer programs.



1. UNPACKING KEY CONCEPTS

The following concepts and terms are important for humanitarians considering activities and objectives related to financial inclusion.

The broad definition of **financial inclusion** is a state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. Financial services are delivered by a range of providers, most of them private, and reach everyone who can use them, including disabled, poor, rural, and other excluded populations.¹

Financial services are instruments that support the management of income, assets and risk. They include savings, loans, remittances, payments, insurance and equity investments.

Payments include the transfer of money for a variety of reasons, including the purchase of goods and services, government transfers of assistance, bill payment, direct deposit of salary or sending remittances. Humanitarian cash transfers are a type of “payment” that is typically short-term and may be delivered as physical cash or through electronic transfers (e-transfers). Payment products are the most widely used formal financial service and a natural entry point for wider access to financial services.²

Formal vs. informal: Financial services can be formal or regulated (commercial / public banks, credit unions, commercial microfinance institutions) and informal or unregulated (money lenders, savings groups, community microfinance). This paper recognizes that informal financial services play a valuable role before, during and after crises, and that a mixture of both formal and informal financial services is most effective.

Access (or supply) is defined as the availability of financial services that are affordable and appropriate for the needs of a target population.

Access alone does not lead to financial inclusion. While access to financial services is the entry point, we also need to consider the role of “adoption” and “usage” to meet the broader goal of financial inclusion. For example, the presence of a mobile money agent in a village means very little unless villagers open up mobile money accounts and use them.

“Adoption” or “uptake” refers to the moment when a person is convinced of the need for a specific financial service and signs up for it. This occurs when a person opens a bank account or mobile wallet. Adoption relies on the potential user’s understanding of the convenience value (both in terms of time and money) that the product or service offers. **“Usage”** refers to the degree to which a person actually engages with the product or service, for example, by regularly adding money to a savings account.³ **Adoption does not automatically lead to frequent usage.**

Financial education is the use of tailored messages to raise awareness among target populations on financial management strategies. It can lead to behaviour change and improve adoption and usage of financial services. In humanitarian contexts, financial education should not be a tool to advocate for a specific financial product, service or provider. Rather, it should focus on providing an understanding of the various financial management options that are open to them and ensuring that **people understand the costs and benefits** of engagement. Financial education should ensure that participants can evaluate pricing and services offered by financial service providers.

Financial service providers (FSPs) can include banks (commercial and public), microfinance institutions (commercial and community-based), credit unions, savings and credit cooperatives (SACCO), mobile network operators (MNO), post offices, savings groups, insurance providers, remittance agents and others. Whether a financial service is legally considered formal or informal depends on the regulations of the specific country.

2. WHY IS ACCESS TO FINANCIAL SERVICES RELEVANT FOR HUMANITARIAN CASH TRANSFER PROGRAMS?

Globally, two billion people are excluded or underserved by **formal financial systems** and rely primarily on cash and informal financial services offered by family or community members. They may ask friends or neighbours to act as “money guards,” holding cash for a nominal fee. They may also borrow food from a neighborhood store (store credit) or borrow cash or inputs from traders (trade finance), which is often repaid with farm produce at reduced prices. Cash, for lack of other options, is often stored under the mattress or invested in assets such as jewellery or livestock.

Informal financial services, such as those described above, play a critical role in many economies. In the aftermath of a natural disaster or conflict, immediate community members are often the first to help their friends and neighbors. However, disasters that affect entire communities often disrupt previously relied-upon systems and coping mechanisms: people may lose physical cash stored in their homes or with money guards, avenues such as store credit or trade finance may be severely limited, and traditional coping mechanisms, such as informal savings groups, may be destroyed. This can force vulnerable populations to sell any remaining assets or borrow at high

interest rates, steps that make recovery even more difficult. In these circumstances, people often borrow from one source to repay another and resort to other negative coping mechanisms such as asset shedding, reducing food consumption, or withdrawing children from school, all the while falling into a deeper debt trap. This makes populations excluded from formal financial systems uniquely vulnerable to the effects of a shock or crisis and severely limited in their ability to recover.

In the aftermath of disaster or conflict, humanitarian cash transfers ensure that vulnerable populations can meet their immediate household needs (food, shelter, medical expenses) and protect any remaining assets. Leveraging cash transfer programs to improve access to financial services holds the potential to support livelihoods recovery and avoid disaster-vulnerability cycles. Improved access to financial services can diversify where and how people save, open up more avenues to access cash and credit (beyond immediate social circles) and increase access to livelihood protection tools such as insurance. Many questions remain about how to responsibly link populations to financial services, but there is a clear case for exploring program models that promote these linkages.



Cassandra Nelson, Philippines, Mercy Corps

3. HOW CAN HUMANITARIAN CASH TRANSFER PROGRAMS AND FINANCIAL SERVICES BE LINKED?

Humanitarian responses prioritize speed and cost efficiency while supporting the basic needs of affected populations. Providing access to financial services within this context can be seen as unnecessarily time consuming, resource intensive and/or part of “recovery” or “development” efforts that are not relevant to emergency response.

However, the rise of protracted crises and chronic disasters is compelling humanitarian actors to link emergency relief and longer-term recovery programming. Focusing on **how** cash transfers are delivered could address humanitarian assistance goals while also diversifying and improving the poor’s financial management tools and risk management strategies. The growth of electronic transfer (e-transfer) products is also expanding options for linking cash transfers to digital financial services.

For example, humanitarian cash transfer programs that open individual accounts for beneficiaries can serve multiple functions. Assistance can still be delivered to individuals in need, while also giving them new options to access remittances from friends or family who may be able to support them in the aftermath of a disaster. This might also open up a safe avenue for them to safely store their money.

As the examples on the next page illustrate, linking cash transfers with financial inclusion objectives depends on a number of factors, including incentives, user-comprehension, and the appropriateness and availability of local products and services. However, despite the challenges, there is great potential for new financial services to support the recovery process when they are convenient and fill unmet needs.

EXAMPLES: CRISIS, CASH TRANSFERS AND DIGITAL FINANCIAL SERVICES IN THREE CONTEXTS

HAITI



0.6%

Several donors, including the Bill and Melinda Gates Foundation and USAID, invested in jumpstarting mobile money in Haiti following the 2010 earthquake. New mobile money services were used by many aid agencies to disburse post-earthquake cash transfers. Despite intentional efforts to link cash transfer recipients with financial services, there is very little evidence of uptake. As of early 2015, only .06% of Haitians are active users of mobile money and the aid community seems to have fallen short of their ambitious goal to transform Haiti's financial services landscape.⁴

PHILIPPINES



45%

Oxfam partnered with Visa and local FSPs to distribute prepaid cards to households affected by disasters. Despite the fact that the cards were not linked to a bank account, 45% of recipients kept balances of \$15-20 USD on their card. They reported doing so "for their 'disaster emergency fund' and for future livelihood investments."⁵

UGANDA



47%

Forty-seven percent of displaced people in Uganda said they used their mobile money accounts to receive money from family and friends.⁶



4. FURTHER AREAS TO EXPLORE

This primer has identified several opportunities to integrate financial inclusion objectives with humanitarian cash transfer programs. But we recognize that additional operational guidance and evidence is necessary to support practitioners wanting to make that connection. Below, we list technical guidance and research that the ELAN – and other actors – can undertake to advance knowledge and practice about improving financial inclusion through cash transfer programs.

1. Build the evidence base and develop proven program models.

Clearer hypotheses and evidence are needed to understand exactly when and how access to financial services improves the lives of emergency cash transfer recipients. Research and examples are needed to demonstrate:

- Barriers and enabling factors that affect uptake and use of new accounts introduced through cash transfer programs. How can programs be designed to help overcome low adoption rates?
- Viable theories of change that outline likely outcomes and impact when cash transfer recipients access and use new financial services. What improvements should we be looking for when there is wide uptake of savings, credit or insurance products? What indicators are appropriate to monitor and measure this impact?

2. Build the capacity of cash transfer implementers to assess financial services needs and opportunities. Connecting cash transfer recipients with appropriate financial services should always begin with an understanding of the target population's current financial management practices and needs, as well as an understanding of available products and their appropriateness. Capacity building efforts could focus on:

- Developing training modules and easy-to-use tools that improve basic knowledge of financial services among humanitarian cash implementers. This could include review of financial service product categories, provider types and an overview of opportunities and risks of engagement.
- Reviewing common humanitarian assessment tools to gauge their integration of a financial services “lens.” Modify assessment tools or create supplemental resources if necessary.

3. Develop best practices for partnerships between humanitarian agencies and financial service providers.

Opening new FSP accounts for cash transfer recipients comes with new opportunities and responsibilities for humanitarian agencies. Best practice guidance could help practitioners determine which FSPs meet minimum standards - and are most appropriate - to serve the target population as clients. Guidance could also support humanitarians in initiating and navigating successful partnerships with FSPs.

The ELAN will work to implement these recommendations with support from the humanitarian and financial services communities. If you are interested in participating or learning more about these ongoing efforts, please contact:

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THIS DOCUMENT HAS BEEN ADAPTED FROM THE FOLLOWING RESOURCES:

- ¹ Center for Financial Inclusion, Glossary, <http://www.centerforfinancialinclusion.org/publications-a-resources/financial-inclusion-glossary>
- ² A Digital Pathway to Financial Inclusion, Dan Radcliffe and Rodger Voorhies, Bill & Melinda Gates Foundation, December 2012, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2186926
- ³ A Progressive Approach to Financial Inclusion, Amit Jain, Olga Zubenko and George Carotenuto, MasterCard Global Insights Paper, October 2014. http://www.mastercardadvisors.com/financialinclusion/MasterCardAdvisors_Financial_Inclusion_2014.pdf
- ⁴ "Push to make Haiti an e-cash economy fell far short". Angel Gonzalez, Seattle Times. <http://old.seattletimes.com/flatpages/nationworld/haiti-shaky-recovery-part-2-earthquake-five-years-later-annivers.html>
- ⁵ Oxfam and Visa team up for an innovative payment solution for disaster-affected communities, Amy O'Donnell and Maria Teresa Nina Espinola Abogado, May 2015. <http://policy-practice.oxfam.org.uk/blog/2015/05/oxfam-and-visa-team-up-for-innovative-payment-solution-for-disaster-affected-communities>
- ⁶ Disaster Response, Mobile Money for the Displaced, GSMA, December 2014. <http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2015/01/Disaster-Response-Mobile-Money-for-the-Displaced.pdf>

SUGGESTED LINKS FOR FURTHER READING:

- A Progressive Approach to Financial Inclusion, MasterCard Advisors**
http://www.mastercardadvisors.com/financialinclusion/MasterCardAdvisors_Financial_Inclusion_2014.pdf
- CGAP Website (The Consultative Group to Assist the Poor)**
<http://www.cgap.org>
- Digital Finance for Development Handbook (USAID and FHI360),**
<https://nethope.wufoo.com/forms/digital-finance-for-development-handbook-request/>
- Mobile Money for the Displaced (GSMA),**
<http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2015/01/Disaster-Response-Mobile-Money-for-the-Displaced.pdf>
- The Opportunities of Digitizing Payments (Better than Cash Alliance, Bill & Melinda Gates Foundation, World Bank Group)**
http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/10/27/000456286_20141027124326/Rendered/PDF/903050WP0REPLACEMENT0Box385358B00PUBLIC0.pdf

This resource was created by the Electronic Cash Transfer Learning Action Network (ELAN). The ELAN works to improve how electronic cash and electronic vouchers are used to assist survivors of natural disasters and conflict. It brings together staff from humanitarian organizations and the private sector to improve e-transfer programs. Members of the ELAN's "pathways to financial inclusion" working group contributed to this document and will collaborate to address the needs identified in this primer.

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The Electronic Cash Transfer
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