

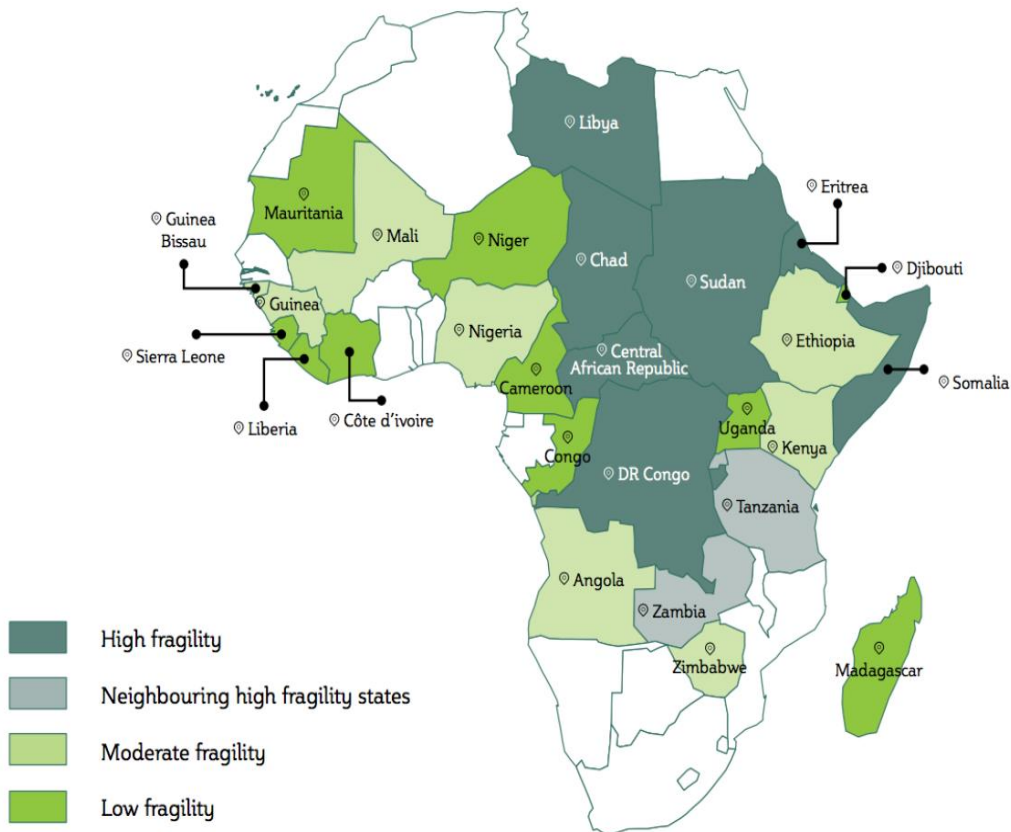
FINANCIAL SECTOR DEVELOPMENT IN PROTRACTED CRISIS

Beyond The Humanitarian Response

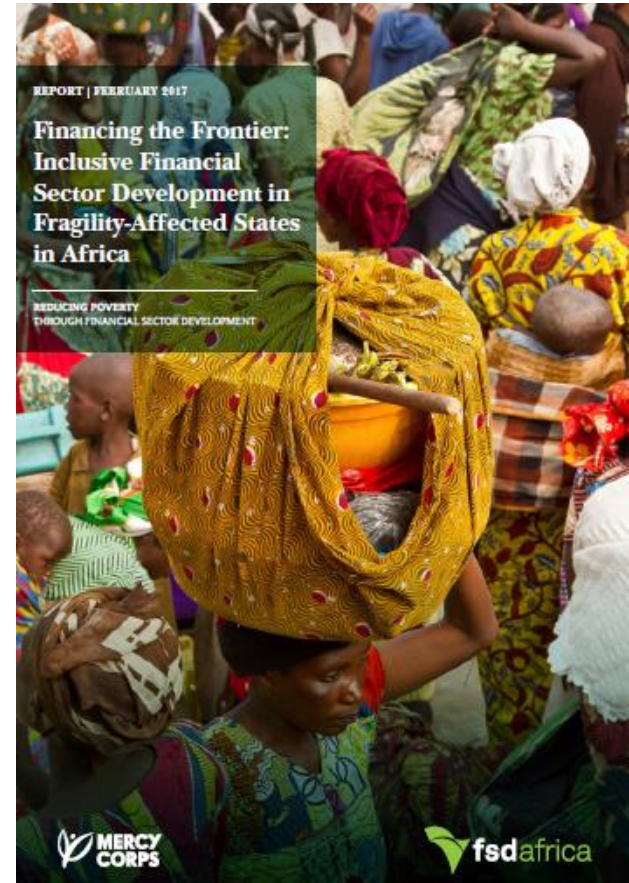
27 June 2017



What are We Trying to Answer?



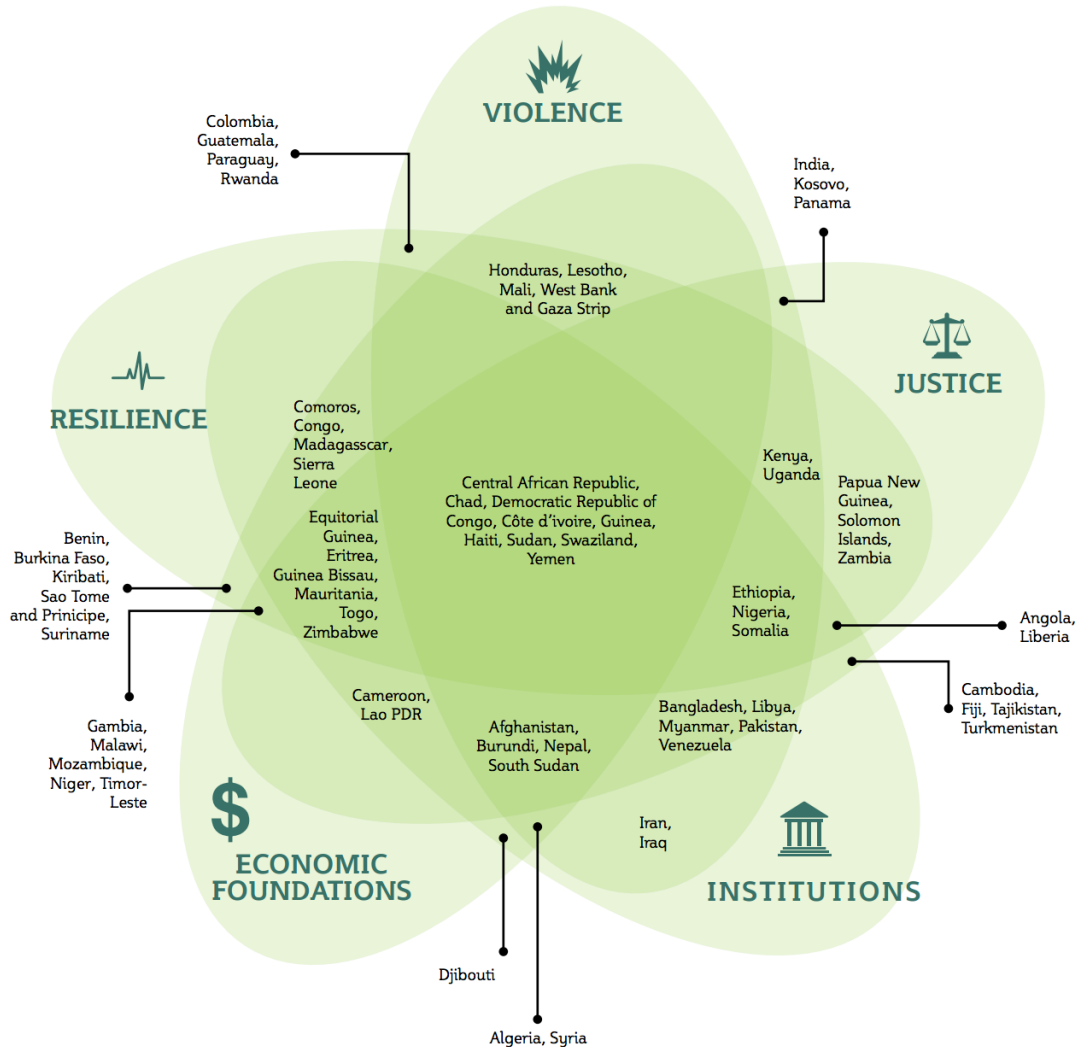
Source: Adapted by FSD Africa from the Department for International Development's (DFID)



What Do We Mean by Fragile?



What Do We Mean by Fragile?



What is Distinctive?

1. Private sector functional but more informal
2. Higher transaction costs: supply and demand
3. Changing/unpredictable political context
4. Constrained access/high mobility and displacement
5. Possible distortion by short-term humanitarian actors and aid
6. Weak institutions (public and private) in the formal financial sector
7. Reliance on informal financial mechanisms
8. Infrastructure challenges for payments and financial sector
9. Non-diversified economies: over-reliance on one commodity or sector
10. High risk of security challenges

Demand for Financial Services



Demand for Financial Services

– Consumers Behaviors

- › More risk averse and invest less
- › Lower experience with formal finance products and services
- › Save with existing social or business networks
- › High levels of trade finance
- › Higher rate of mobile money usage (country specific)
- › High demand for safe savings and credit for emergency or consumption needs



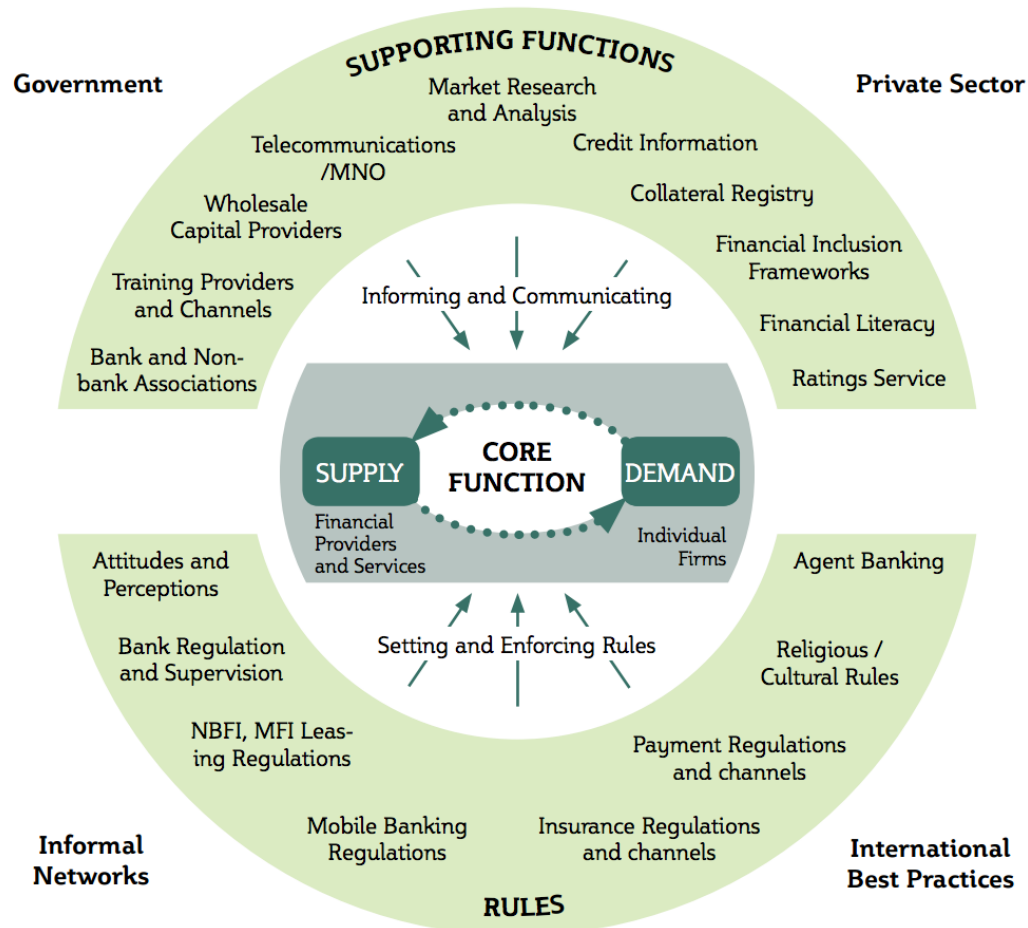
Challenges for Financial Service Providers

- › **Financial sector has few banks; limited financing alternatives**
- › NGOs dominate microfinance market – often limited sustainability to scale
- › **Minimal finance during active conflict; grows at a slow pace focused on short-term credit**
- › Banks are liquid - lack of investments (low competition)
- › Low financial intermediation among banks inefficient investing in private sector
- › **High cost of doing business: high electricity prices, small market size preventing economies of scale**
- › Limited space for new financial actors to enter market
- › **Sector-wide systematic risk due to dependence on one commodity or one investment sector**
- › Lack of conducive regulatory environment (i.e. limited deposits and regulations may limit investments)

Moving Forward With a Market Systems Approach



Move Forward With a Market Systems Approach



Move Forward With a Market Systems Approach

Financial sector supports other market systems. Required for other market system growth (i.e. agriculture, health, energy, construction, education systems)

Supporting Functions:

- › May be absent or mismatched
- › Limited or damaged infrastructure development (i.e. roads, telcom)
- › Lack of research companies to understand customer demand, preferences, and payment capacities
- › High levels of trade finance and informal finance
- › *Market facilitator plays a more active role?*

Regulations:

- › Lack of contract enforcing mechanisms
- › Higher use of religious or customary laws
- › Higher systemic risk
- › Limited consumer recourse

Promising Practices

Foundations

Adapted
Regulatory
Approaches

**Identification
Solutions**

Market Segments

**Refugees and
forcibly
displaced
populations**

Islamic Finance

Financial Products and Instruments

Inclusive
Insurance

**Liquidity and
Partial Credit
Guarantees**

Diaspora
Investment
Platforms

Financial Delivery Channels

Impact Investing
(including blended
finance models)

**Payments and
Remittances
Infrastructure**

Adapted Regulatory Approaches

- › Tiered KYC
- › Functional ID
- › Consumer Recourse
- › Collateral Alternatives
- › Mobile
Money/Remittances
/Agent Banking



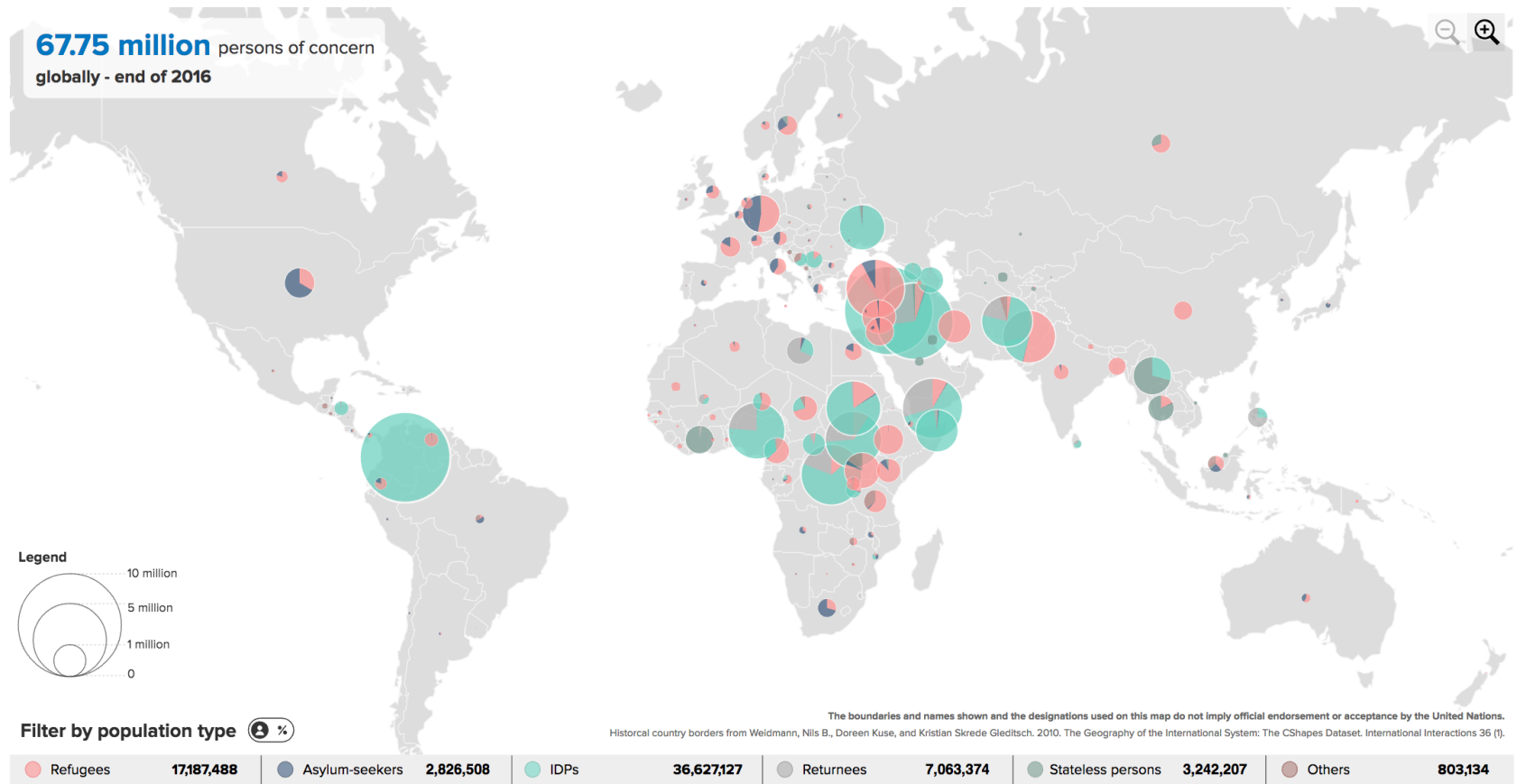
Delivery Channels— Payments infrastructure for remittances and mobile money



(GSMA, 2016)

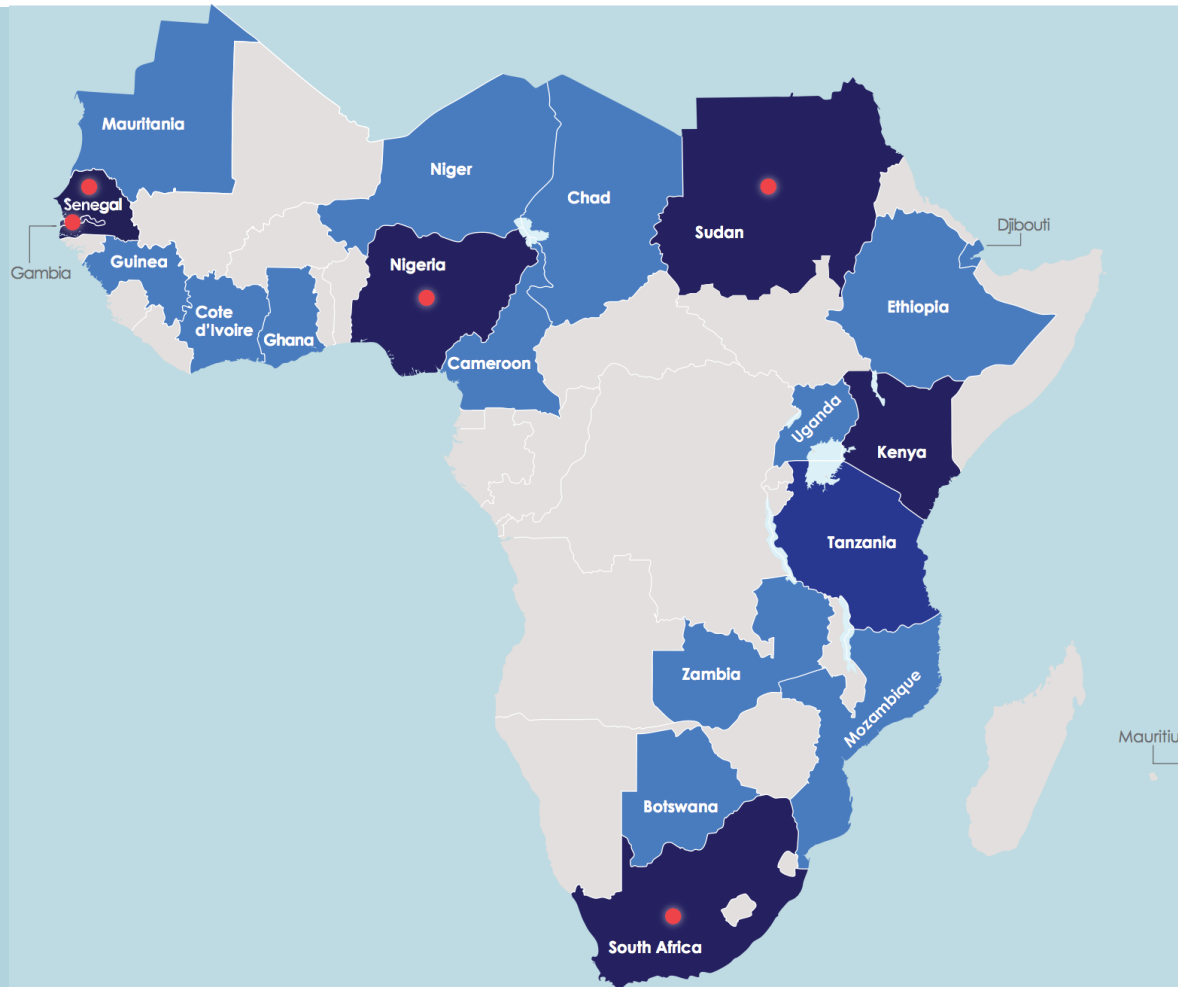
Client Segment

Refugee and displaced populations



Product and Client Segment

Islamic and ethical finance



Recommendations

1. Increase use of **blended finance** to build investment pipeline for **impact investors** and social enterprises

2. **Think long-term** in crisis and engage early to build relationships and gather market information for private sector entry points/expansion

3. Sequence interventions – constant diagnosis and feedback loops to take advantage of windows of opportunity – new products, actors, or market segments.

4. Build on what we already know in financial services (i.e. liquidity, customer preferences, push vs. pull products) – Adapt tactics

5. Complexity - Understand financial sector dynamics, political economy and **conflict dynamics**. Do No Harm - Ensure financial services do not exacerbate conflict

6. Ensure a positive business case



UPCOMING RESEARCH IN CONFLICT AND PROTRACTED CRISIS SETTINGS

NE Nigeria



Livelihoods and Market Recovery in conflict-afflicted states: Adamawa, Borno and Yobe

- Opportunities for agricultural-based market system activities for host communities, IDPs, and returnees
- Constraints to market systems from delivering solutions to crises
- Leverage points that facilitate market recovery, including financial services for host communities, IDPs and returnees

Syria



Coping in a Complex Crisis: What enables productive economic coping among conflict-affected Syrian communities?

- Positive economic and market factors: Roles of markets, financial services, remittances
- Social networks: As they relate to markets and access to resources, assets, and finance
- Humanitarian assistance: Cash versus other types of aid



**MERCY
CORPS**

THEA ANDERSON

Technical Lead – Financial Services in Crisis/Displaced
Populations

tanderson@mercy Corps.org