FINANCIAL INCLUSION

Fiscal Year 2017 Sector Focus

Mercy Corps strives to provide full financial inclusion for chronically underserved individuals and businesses through market-driven approaches in countries affected by conflict, natural disasters, and economic and political crises. Mercy Corps improves access to, uptake, and continued usage, of a broad variety of financial instruments through a variety of delivery channels. Mercy Corps works with market stakeholders at all levels to ensure financial products and services are accessible; affordable; and age-, gender- and context-appropriate, and are delivered in a sustainable, scalable manner.

Why It Matters: Globally, there are over 2.5 billion people excluded or underserved by the financial system. Without access to financial services, poor and marginalized populations cannot fully participate in the economy and therefore cannot ensure their own security, growth, and resilience. Financial inclusion provides a necessary foundation to achieve Mercy Corps’ global priorities, including food security, energy access, youth employment, economic and market recovery, and gender inclusion.

Who We Support: MC takes a wide-range of approaches in complex and fragile states to achieve our vision of increased access to and usage of financial services for diverse groups, individuals and businesses.

How We Do It: Mercy Corps takes a market-led approach to financial programming, investing in a range of formal and informal financial actors to maximize impact and systematic change. Mercy Corps uses a variety of interventions based on the specific country and context, with an eye to scale and sustainability. This includes interventions with strong research components to understand impact and influencing factors.

In countries experiencing complex crisis, our goal is often to maintain incomes, assets, and levels of food consumption and to help vulnerable populations avoid going deeper into debt or resorting to negative coping mechanisms, such as shedding assets or limiting food intake. In countries that have recently experienced a complex crisis or have a high potential for fragility, we strive to diversify incomes. While in stable countries, or those already in or moving to a post-crisis state, we strive to increase sustainable incomes and build resilience.

Theory of Change

Mercy Corps’ financial inclusion theory of change states that within an inclusive financial systems, participants are able to access, use, and afford a range of financial services and products. In doing so, they may then better manage their economic assets to cope with shocks and stresses, adapt to changing circumstances, and transform their lives.

A robust financial life for individuals and a reliable, innovative financial system help enable greater employment, better access to education, improved equality and civic engagement, more peaceful communities, and more environmental sustainable practices.

In this way, financial inclusion is both a tool for other sectors and a strategy unto itself.
Mercy Corps is a recognized leader in financial inclusion by our peers, partners, and those we serve. There are five complementary strategic areas in which Mercy Corps is well poised to excel in FY2017 and beyond.

**Strategic Areas**

1. **Financial Identity**
   A functional identification (ID) is a necessary foundation for financial inclusion and a fundamental right for all people. An ID, in its most basic form, is a prerequisite to access services, information, jobs, and financial services. In its more advanced forms, an ID, especially on digital channels, allows individuals to build authentic and verifiable information on their credit history and cash flow, unlocking access to a wider range of financial products. However, millions globally do not receive a formal ID at birth or, due to movement within borders or across borders (such as IDP and refugee populations), require a new ID to access financial services. Formal identification can be a government or community-issued ID, third-party document, biometric registration, and increasingly a SIM card or phone number unique to that individual.

   **Opportunity**
   Building systems and structures to ensure everyone has a functional ID is the foundation of Mercy Corps’ financial inclusion strategy. To ensure vulnerable populations, especially refugees and IDPs, are not excluded, Mercy Corps works with private and public sector partners to advocate for and facilitate access to government-issued or third-party IDs. Mercy Corps also works to increase levels of mobile phone access to create larger digital footprints.

   New actors that generate and analyze data about borrower/consumer behavior and history are redefining the financial services landscape. Mercy Corps partners with and invests in innovative financial service providers and companies incorporating new data sources and analytics into their credit assessment models. Mercy Corps promotes the use of digital channels within rural areas, especially with informal savings and lending groups, and collaborates across the agriculture sector to build financial identities for actors at all levels of the market system.

2. **Insurance and Resilience**
   Individuals and businesses are exposed to financial risk, including from damage to, or loss of, assets fluctuations in currency value; and changes in the price of goods at market. Often, especially in the context of crisis, many of these risks occur simultaneously. Risks are exacerbated in the populations with whom Mercy Corps works due to poverty, lack of market power, market failure, insecure governance, climate change, and conflict. These populations often face the consequences of these risks without access to financial products and other support that would help them mitigate these risks and plan longer term coping and adaptation strategies. At the same time, these risks discourage investment and access to credit, making it more difficult to escape poverty and create employment.
Opportunity

Financial delivery mechanisms and specific financial products that are widely available in developed economies hold great promise for poor and marginalized populations. Access to secure, reliable savings, credit and insurance products encourages healthy investment and attempts to minimize the consequences of shocks, stresses, and the immediate and long-term impacts of climate change. Mercy Corps works with, and through, a variety of insurance products and providers. In addition, we explore additional credit options, such as short-term, flexible cash-flow loans and longer term lines of credit, to supplement traditional working capital loans and give individuals flexibility and choice. Mercy Corps' leadership in microinsurance for catastrophic natural disaster and microfinance provides a strong platform for growth.

3. Technology to Enhance Financial Inclusion

As the world moves towards digital technology, large segments of the population are being left behind. Globally, over a billion women do not have full access to a mobile phone or to technology-based financial services even in their most basic form. While this represents a lost opportunity for the global private sector, participants of Mercy Corps programs also face the risk of being left behind.

Opportunity

With an estimated 2.5 billion people in the world still lacking access to formal financial services, technology can play a central role in increasing access to reliable, low-cost financial services, including payments, insurance, credit and savings at scale. Mercy Corps sees technology as the key driver to lower transaction costs and payments. Digital technology including mobile phones can offer effective delivery mechanisms for market information, financial literacy training and skill development opportunities. Digital platforms are also accessible entry points for other financial services, allowing people to access money while also establishing a place where they can safely save money, access capital and insurance products, even across borders. Mercy Corps is deepening our work with technology providers, financial institutions, mobile network operators (MNOs), remittance channels, mobile card technologies, and other market players. We are strengthening usage for those already accessing technology and ensuring marginalized populations gain access to, and benefit from, technology.

4. Asset Finance and Credit Innovations

For individuals, access to assets supports financial stability, productivity and quality of life. For businesses, assets enable business expansion and job creation. However, both groups often lack the ability to pay the full cost of assets outright and thus credit becomes a critical tool for economic progress. Unfortunately, access to credit remains limited in many contexts around the world. Even in places where there are innovative approaches to credit provision, such as embedded credit offered by suppliers, bottlenecks in loan capital supply prevent scale-up of services. This is especially critical for women and girls who suffer from high time-poverty due to lack of productive assets.
Opportunity
Asset finance solutions - such as leasing, hire purchase, equipment finance, and Pay-As-You-Go models- better suit the needs of low-income consumers, smallholder farmers, micro-entrepreneurs and SMEs and enable investments that otherwise would not be possible. Mercy Corps focuses on the promising technology and business model innovation in the nexus of asset finance, agriculture and energy. This includes removing bottlenecks to spur demand and facilitating positive feedback loops. Mercy Corps emphasizes collaborating with private-sector actors, including renewable energy and agricultural input/equipment companies, to pursue in-house or third-party asset financing solutions for their customers.

5. Sharia Compliant Finance
Millions of people around the world cannot access financial services because available products do not comply with their religious or ethical beliefs. In wealthier areas, Sharia-compliant finance, also referred to as Islamic finance, is a huge industry and growing rapidly, reaching $2.5 trillion in global assets concentrated in the Gulf and South Asia. Yet the industry has not expanded broadly to Africa (in the Horn and across the Sahel), Central Asia, and the Middle East.

Opportunity
Developing and expanding sustainable, Sharia-compliant finance models could unlock financial access for millions. In addition to the unmet demand among Muslim populations, Mercy Corps and others recognize that non-Muslim communities also appreciate the transparency and ethics that Sharia-compliant products can provide relative to conventional interest-bearing products. Mercy Corps is building on our existing leadership in East Africa within the Sharia-compliant financial sector, deepening influence through partnerships, new product development, and regulatory influence as required. As conflict and movement reshapes parts of West Africa and the Middle East, Mercy Corps has the opportunity to expand our presence and build new partnerships for financing in complex crises.

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