



# FINANCIAL INCLUSION

## Mercy Corps' Approach

MARCH 2020

Financial inclusion works to increase people's access to and use of affordable financial services. It is not an end in itself, but it enables people to make quick and easy payments; borrow to invest in their farms and businesses; save for the future; and insure against shocks. Mercy Corps uses financial inclusion to help rural women, youth, and people on the move improve and protect incomes and assets, and manage risk. In doing so, we support stronger, more inclusive economic growth that increases food security and reduces poverty in fragile and rural environments.

# Financial Inclusion for Whom?

## Rural:

Most of the world's poor live in rural areas, and increasingly fragile contexts affected by climate change and conflict, which make it difficult to adapt livelihoods and build assets. Currently, there is \$170 billion of unmet demand for finance among smallholder farmers.<sup>i</sup> Increasing investment in agriculture is also 2-4 times more effective in raising incomes among the poorest than investment in other sectors.<sup>ii</sup> Serving rural populations in fragile contexts is essential to alleviating poverty.

## Women:

Just 59% of women own a bank account in developing countries; 10% less likely than men.<sup>iii</sup> Women are consistently under-represented and excluded, but like men, they must also have the power to accrue wealth, make decisions about how to use it, and be treated fairly and with dignity.<sup>iv</sup> Financial inclusion is a critical component of women's economic empowerment, which can result in better outcomes for children, household nutrition, and communities.<sup>v</sup>



RURAL YOUTH  
& WOMEN

## Youth:

Globally, there are more than 1.2 billion youth aged 15-24.<sup>vi</sup> The ILO estimates that youth are three times as likely as adults to be unemployed<sup>vii</sup> and are disproportionately financially excluded. However, youth are early adopters of technology, and more likely than older adults to own a mobile phone: They represent a huge impact opportunity for tech-enabled financial inclusion services.

## People on the move:

There are more than 70 million forcibly displaced people in the world,<sup>viii</sup> comprising refugees, internally displaced people (IDPs) and asylum seekers. They face multiple barriers in accessing finance; are perceived as costly and risky clients; have limited legal rights; and often lack formal IDs. As crises become more protracted, longer term solutions and access to finance become critical to their survival.



PEOPLE ON  
THE MOVE

# Financial Inclusion to What End?

Close to 1.7 billion people are still unbanked.<sup>ix</sup> Yet, a bank account alone does not unlock economic growth or overcome poverty. Financial inclusion is only a means to an end, and we cannot count success merely in the number of accounts opened, savings groups formed, or loans disbursed.

Mercy Corps uses financial inclusion as a powerful tool to support stronger, more inclusive economic growth that increases food security and reduces poverty in fragile and rural environments.

To achieve this, financial inclusion must deliver measurable results, helping individuals and communities to increase employment, productivity, and income; accumulate assets; and build resilience to shocks and stresses.

## Income growth:

We help people increase their incomes by using financial services to start and grow their businesses and achieve a positive return on investments.



INCOME GROWTH

## Asset accumulation:

We help people accumulate savings and physical assets by accessing savings accounts or groups, and increasing their agency to control these assets.



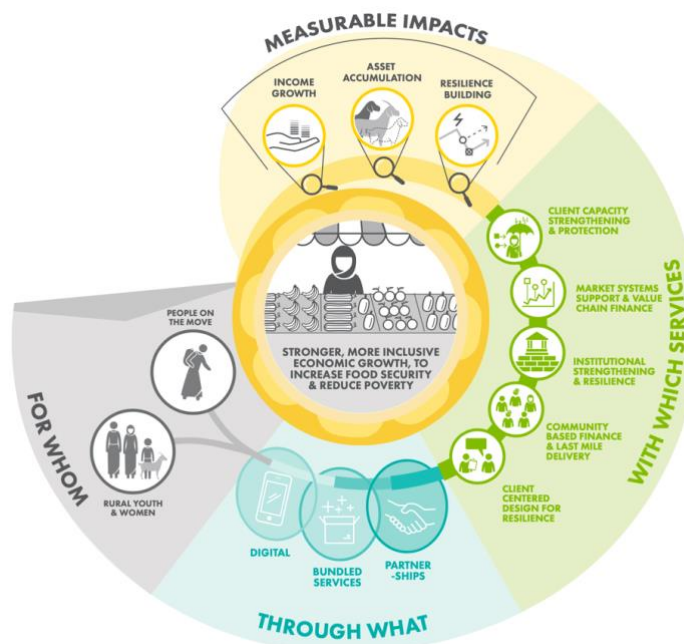
ASSET ACCUMULATION

## Resilience building:

We help people manage risks, protect investments, and maintain their wellbeing in the face of shocks and stresses like climate change, conflict, and market instability. We also support the resilience of financial service markets, so they are available during times of greatest need.



RESILIENCE BUILDING



# Financial Inclusion Through What?

Mercy Corps delivers impactful and scalable financial inclusion through digital technology, bundled services, and strategic partnerships.

## If not digital, why not?

Mercy Corps pushes the frontiers of digital innovation in financial inclusion, while ensuring our work remains relevant and impactful for the poorest and most vulnerable.



DIGITAL

### › DIGIFARM

*Digifarm is an integrated mobile platform that offers farmers access to inputs, credit, and information on farming best practices. Developed by Safaricom with support from Mercy Corps' AgriFin program, DigiFarm currently has more than 1 million farmers registered on the platform, whom can purchase inputs via M-Pesa and receive push information on farming practices.*

There is a profound change underway in the financial inclusion sector as technology changes the nature of financial services and the business models that deliver them. But this change comes with risks – that, in particular, women and the rural poor will remain not only financially excluded but become digitally excluded as well. Rural populations are 40% less likely to use mobile internet<sup>x</sup> and while the coverage gap has narrowed substantially, the global usage gap is still 3.3 billion people. This presents a unique opportunity to meet the needs of people in new, and more effective ways.

From mobile money to credit scoring, and crypto currencies to e-learning, supporting digital development is a cornerstone of our financial inclusion approach, which has the potential to exponentially increase youth and women's financial autonomy and decision-making. Mercy Corps has a responsibility to push the frontiers of digital financial inclusion in the countries where we work, while ensuring that the poorest and most vulnerable are not left behind. When designing financial inclusion services and programs, we ask "if not digital, then why not?"

## Scale & impact through bundled services

Finance alone will not improve economic growth and reduce poverty. Mercy Corps bundles financial products with additional goods and services to respond to users' needs and maximize impact.<sup>xi</sup>



BUNDLED SERVICES

The financial inclusion sector's broader shift towards needs-based service bundles<sup>xii</sup> complements Mercy Corps' market systems approach to development. Bundled services can be effective in three ways:

## PROMOTING AGRICULTURE, HEALTH, AND ALTERNATIVE LIVELIHOODS

*Mercy Corps' PAHAL program in Nepal bundles formal and informal financial services, together with financial literacy training and access to good agricultural practice training, irrigation systems and more. Households showed declining food security to near zero levels, and farmers doubled their gross income over 3 years.*

---

1. **Leveraging impact:** Each component of the bundle elevates the other's impact to create a multiplier effect. For example, a loan bundled with hybrid seed, fertilizer, and farmer training can improve adoption of improved inputs and yields. Bundling services is particularly important to ensure financial services are matched with products that help households drive growth and manage risk.
2. **Driving scale:** Initially unpopular or complex financial services can be bundled with simpler and more popular products to drive scale. For example, health insurance bundled with mobile phone top-ups can make insurance quick and easy to purchase.
3. **Reducing cost:** Critical, but costly services can be bundled with more profitable ones to overcome cost barriers and cross-subsidize. For example, by bundling credit with purchase contracts, the cost of delivering credit to a farmer can be offset by the benefit of securing supply.

## Leveraging partnerships

**Taking a market systems approach, Mercy Corps builds partnerships that have scale potential and a clear path to economic viability.**

Working through a market systems approach, Mercy Corps identifies and builds strategic partnerships with key market actors to avoid distorting the market or crowding out potential private sector services. Organizations providing financial services to the rural poor have three primary motivations: client impact (e.g., social enterprises); profit (e.g., banks); and supply security (e.g., commodity traders & out-growers). We work to build partnerships across all three models and align our incentives and performance indicators to assess partnership success.

Only in the most fragile and least developed markets will Mercy Corps act as a direct service provider. In these contexts, we may work through Financial Service Providers (FSPs) to provide direct cash or vouchers, or facilitate informal financial services such as savings groups.



**PARTNER  
-SHIPS**

## TRANSFORMING THE ECONOMY THROUGH SMART AGRICULTURE

*In our NU-TEC program in northern Uganda, Mercy Corps has partnered with DFID and Equity Bank to manage a Risk Sharing Fund (RSF). With closely aligned objectives, we're supporting Equity Bank to develop new and relevant products that help increase capital flows to agri-SMEs and climate smart business.*

---

# Our Approach & Services

Mercy Corps works with FSPs to address the market failures that create financial exclusion. We help deliver appropriate products and services at the right price, place, and time. We work with women, youth, and “people on the move” to strengthen their capacity to afford, understand and utilize services, and address the rules, regulations, and social norms that constrain them in doing so.

Markets exist in almost all environments—even those affected by severe crisis—and are vital engines of economic recovery and growth. Mercy Corps plays an important role helping market actors: 1) lower barriers to entry and reach populations where thus far the profit motive has been an insufficient incentive for FSPs; 2) help build trust between institutions and the clients they (could) serve; and 3) support the innovation of appropriate and impactful new products.<sup>xiii</sup> We achieve this through the following approaches and services:

**Client Centred Design for Resilience:** Understanding the diverse financial needs, risks, and aspirations of people living in poverty is the key to serving them effectively.<sup>xiv</sup> Supporting client-centred iterative design, Mercy Corps helps define what solutions people demand, what is viable for business, and what is feasible within the landscape of technology and regulation. We incorporate resilience thinking into the design process to identify and respond to potential shocks and stresses.



**Client Capacity Strengthening & Protection:** Financial and digital literacy remain a major barrier to financial inclusion.<sup>xv</sup> Mercy Corps works with women in particular to overcome those constraints by developing basic skills and literacy in tandem with financial products.<sup>xvi</sup> Through a market systems approach we ensure people are eligible to make profitable use of financial services, support client protection principles, and strengthen client capacity.



**Market Systems Support & Value Chain Finance:** The majority of the world’s poor are farmers,<sup>xvii</sup> and in the absence of FSPs, major commodity traders and other ‘non-traditional’ FSPs are working within supply chains to provide the financing that small scale producers and businesses desperately need. We work closely with these non-traditional actors to improve access to appropriate financial services that drive more efficient, equitable, and productive markets.



**Institutional Strengthening & Resilience:** Trust in FSPs and the financial system is a crucial component of effective markets and economic growth.<sup>xviii</sup> People rely on the financial system itself to be resilient and continue to function in the face of shocks and stresses so it can still serve the poorest when they need it most. Mercy Corps helps strengthen organizations that have scale potential, and a clear path to economic viability. We also work with all our partners to make product and service adjustments that reduce access barriers and increase reach.



**Community Based Finance & Last Mile Delivery:** For the most vulnerable and most remote, informal approaches such as savings groups remain a critical means of building assets and improving resilience. Savings groups remain a flagstone of Mercy Corps’ work supporting food security in the most fragile contexts. These approaches also offer opportunities to use graduation to formal financial services; introduce digital tools to improve efficiency and effectiveness; and work through non-traditional and highly localised “FSPs” to meet last mile delivery needs.



## CONTACT

MIKE WARMINGTON

Director, Financial Inclusion | Technical Support Unit

[mwarmington@mercycorps.org](mailto:mwarmington@mercycorps.org)

SANDRINE CHETAIL

Senior Director, Economic Growth | Technical Support Unit

[mwarmington@mercycorps.org](mailto:mwarmington@mercycorps.org)

### About Mercy Corps

Mercy Corps is a leading global organization powered by the belief that a better world is possible. In disaster, in hardship, in more than 40 countries around the world, we partner to put bold solutions into action — helping people triumph over adversity and build stronger communities from within. Now, and for the future.



45 SW Ankeny Street  
Portland, Oregon 97204  
888.842.0842  
[mercy Corps.org](https://www.mercy Corps.org)

- i Rural and Agriculture Facility Learning Lab “Pathways to Prosperity” (2019)
- ii World Bank <https://www.worldbank.org/en/topic/agriculture/overview>
- iii World Bank “Global Findex Database – Overview” (2017)
- iv Mercy Corps “Designing Women’s Economic Empowerment and Equality Initiatives [draft]” (2019)
- v Hendricks, S “The role of financial inclusion in driving women’s economic empowerment, *Development in Practice*, 29:8, 1029-1038, (2019)
- vi UNCDF “Inclusive Finance and Rural Youth” (2019)
- vii ILO “Global Employment Trends for Youth” (2017)
- viii UNHCR, 2018 <https://www.unhcr.org/uk/figures-at-a-glance.html>
- ix World Bank “Global Findex Database – Overview” (2017)
- x GSMA “Connected Society: The State of Mobile Connectivity” (2019)
- xi Rural and Agriculture Facility Learning Lab “Pathways to Prosperity” (2019)
- xii When financial products are packaged with additional, non-financial products or services such as data, physical goods, or capacity strengthening.

- xiii Karlan, D “*The next stage of financial inclusion, Stanford Social Innovation Review*” (2014)
- xiv Mastercard Foundation <https://mastercardfdn.org/client-centricity/#slide2>
- xv GSMA “*Connected Society: The State of Mobile Connectivity*” (2019)
- xvi Hendricks, S “*The role of financial inclusion in driving women’s economic empowerment, Development in Practice, 29:8, 1029-1038*, (2019)
- xvii FAO *Farming Systems and Food Poverty*” (2001)
- xviii FSD Africa <https://www.fsdafrica.org/about-us/>