



LINKING FINANCIAL SERVICES AND SOCIAL PROTECTION FOR RESILIENCE IN KENYA

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Working paper



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Acronyms

BRAC	Building Resources Across Communities
BRACED	Building Resilience and Adaptation to Climate Extremes and Disasters
CFPR-TUP	Challenging the Frontiers of Poverty Reduction – Targeting the Ultra Poor (Bangladesh)
CGAP	Consultative Group to Assist the Poor
CT-OVC	Cash Transfer for Orphans and Vulnerable Children
CT-PWSD	Cash Transfer Programme for People with Severe Disability
CTS	Crescent Takaful SACCO
EDE	Ending Drought Emergencies
FGD	Focus Group Discussion
FSD Kenya	Financial Sector Deepening Kenya
FSP	Food Security Programme (Ethiopia)
HSNP	Hunger Safety Net Programme
IBLI	Index-based Livestock Insurance
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
KII	Key Informant Interview
KLIP	Kenya Livestock Insurance Programme
MFI	Microfinance Institution
NDMA	National Drought Management Authority
NGO	Non-governmental Organisation
NSNP	National Safety Net Programme
OPCT	Older Persons Cash Transfer Programme
OPM	Oxford Policy Management
PSNP	Productive Safety Net Programme (Ethiopia)
ROSCA	Rotating Savings and Credit Association
RRR	Rapid Response Research
RVF	Rift Valley Fever
SACCO	Savings and Credit Cooperative
SHG	Self-help Group
UK	United Kingdom
US	United States
VSLA	Village Savings and Loans Association
WFP	World Food Programme
WfWI	Women for Women International

Glossary

Adaptive social protection

'The concept that synergies can be gained if social protection, disaster risk management and climate change adaptation are considered simultaneously, in order to reduce vulnerability to the impacts of climate change and disasters' (O'Brien et al., 2018; www.opml.co.uk/files/Publications/a0408-shock-responsive-social-protection-systems/srsp-toolkit.pdf?noredirect=1).

Basis risk

'Basis risk in index insurance arises when the index measurements do not match an individual insured's actual losses. There are two major sources of basis risk in index insurance. One source of basis risk stems from poorly designed products and the other from geographical elements. Product design basis risk is minimized through robust product design and backed by testing of contract parameters. Geographical basis risk is a factor of the distance between the index measurement location and the production field. The greater the distance between the measurement instrument and the field, the greater the basis risk. Some households that experience loss may not receive compensation while others that experience no loss may receive payments. This basis risk is reduced when the area covered by the index is homogeneous both in terms of weather and in terms of farming techniques. Therefore, as the density of weather stations and satellite pixels is increased basis risk is minimized' (GIIF, nd.a; www.indexinsuranceforum.org/faq-page#n80).

Cash +

“Cash plus” programmes can be characterized as social protection interventions that provide regular transfers in combination with additional components or linkages that seek to augment income effects. This is done either by inducing further behavioural changes or by addressing supply-side constraints' (Roelen et al., 2017; www.unicef-irc.org/publications/pdf/IDS%20WP%20Rev%20Jan%202018.pdf).

Financial inclusion

'Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way' (World Bank, 2019; www.worldbank.org/en/topic/financialinclusion/overview).

Index-based insurance

'Index insurance is a relatively new but innovative approach to insurance provision that pays out benefits on the basis of a predetermined index for loss of assets and investments, primarily working capital, resulting from weather and catastrophic events... Before the start of the insurance period, a statistical index is developed. The index measures deviations from the normal level of parameters such as rainfall, temperature, earthquake magnitude, wind speed, crop yield and livestock mortality rates' (GIIF, nd.b; www.indexinsuranceforum.org/faq-page#n75).

Social protection

'Social protection can be defined as the set of public actions that address both the deprivation and vulnerabilities of the poorest, and the need of the currently non-poor for security in the face of shocks. This "public" response may be governmental or non-governmental (Norton et al., 2001). It has also been broadly defined as policies and actions which enhance the capacity of poor and vulnerable people to escape from poverty and better manage risks and shocks' (O'Brien et al., 2018; www.opml.co.uk/files/Publications/a0408-shock-responsive-social-protection-systems/srsp-toolkit.pdf?noredirect=1).

Social assistance

'Direct, regular cash or in-kind transfers to poor and vulnerable individuals or households. Transfers are non-contributory i.e. those in need are not asked to make contributions to be entitled to receive assistance. Some are targeted based on categories of vulnerability, and some are targeted broadly to low-income groups' (O'Brien et al., 2018; www.opml.co.uk/files/Publications/a0408-shock-responsive-social-protection-systems/srsp-toolkit.pdf?noredirect=1).

Sharia-compliant financial services

'One of the key principles of Sharia-compliant finance is that money has no intrinsic value and cannot increase in worth on its own. There can be no element of interest in Sharia-compliant financial products, making the approach asset-based rather than debt-driven. Instead, risk and profit sharing is encouraged through equity participation in a business. As most traditional microfinance products are based on interest and fees, they are at odds with Sharia-compliant financial services and require that financial service providers develop a different set of products to be Sharia-compliant' (FinDev Gateway, nd; www.findevgateway.org/topics/islamic-finance).

**Shock-responsive/
shock-sensitive
social protection**

"Shock-responsive social protection"... focuses on shocks that affect a large proportion of the population simultaneously (covariate shocks). It encompasses the adaptation of routine social protection programmes and systems to cope with changes in context and demand following large-scale shocks. This can be ex-ante by building shock-responsive systems, plans and partnerships in advance of a shock to better prepare for emergency response; or ex-post, to support households once the shock has occurred. In this way, social protection can complement and support other emergency response interventions' (O'Brien et al., 2018; www.opml.co.uk/files/Publications/a0408-shock-responsive-social-protection-systems/srsp-toolkit.pdf?noredirect=1).

Takaful

'The equivalent of Islamic insurance, takaful is a mutual insurance scheme. The word originates from the Arabic word for "kafala", which means guaranteeing each other or joint guarantee. Each participant contributes to a fund that is used to support the group in times of need, such as death, crop loss, or accidents. Paid premiums are invested in a Sharia-compliant manner to avoid interest' (Karim et al., 2008; www.cgap.org/sites/default/files/CGAP-Focus-Note-Islamic-Microfinance-An-Emerging-Market-Niche-Aug-2008.pdf).

**Idiosyncratic and
covariate shocks**

'Idiosyncratic shocks affect individual households or household members, for example job loss or the death of a breadwinner... Covariate shocks affect large numbers of people and/or communities at once. Such shocks are often concurrent. Covariate shocks may be natural, economic or political' (O'Brien et al., 2018; www.opml.co.uk/files/Publications/a0408-shock-responsive-social-protection-systems/srsp-toolkit.pdf?noredirect=1).

Executive summary

Climate – and other natural hazard-related disasters threaten people and communities around the world, compounding existing poverty and vulnerability and undermining long-term development and transformation. Facilitating the access to, and use of, adequate financial services such as savings, loans and insurance in underserved communities has shown potential to support resilience, allowing people to prepare for, cope with and adapt to shocks and stresses (Moore et al., 2019). The role of social protection programmes in helping people anticipate and cope with climate-related shocks such as droughts or floods is also increasingly appreciated (Ulrichs and Slater, 2016; Costella et al., 2018; O'Brien et al., 2018; Weingärtner et al., 2019a).

The Kenyan government has recognised the importance of financial services for strengthening development and enhancing resilience, at the same time as it has engaged in efforts to increase the adaptiveness of its large-scale social protection cash transfer programmes. One of these, the Hunger Safety Net Programme (HSNP), currently operates in four northern Kenyan drought-prone counties, including Wajir, and aims to help vulnerable households deal with climate shocks. In parallel, the Mercy Corps-led PROGRESS project, which is part of the Building Resilience and Adaptation to Climate Extremes and Disasters (BRACED) programme, operates in Kenya's Wajir county, where it provides pastoralist communities with access to Sharia-compliant financial services through a savings and credit cooperative, Crescent Takaful Savings and Credit Cooperative SACCO (CTS), and by supporting Village Savings and Loans Associations (VSLAs).

In this context, this paper explores how cash transfers and financial services are used, whether they support people in preparing for and coping with shocks and whether they help recipients

make longer-term investments that could increase their adaptive capacity. It does this through a review of existing literature and by taking into account the perspective of CTS clients and HSNP beneficiaries gathered through original research undertaken through the BRACED programme in North-eastern Kenya.

It thus aims to inform policy and programming by contributing to filling knowledge gaps around the potential, as well as the limitations, of more closely linking cash-based assistance and financial inclusion interventions to build the resilience of households to climate-related shocks and stresses. By assessing whether participation in social protection programmes facilitates access to financial services, it feeds into wider policy discussions in Kenya and beyond around integrated resilience interventions, financial inclusion, social protection and graduation.

Main findings

Use of formal financial services among cash transfer programme beneficiaries is low, while suspicions towards financial service providers remain high. There are high levels of mistrust among HSNP respondents of financial service providers, based on negative experiences in the past where people have been confronted with unexpected charges or have had to pay very high interest on their loan. This mistrust extends to CTS, and many respondents believed CTS would charge interest even though the institution applies Islamic banking principles and is therefore interest-free. One way in which cash transfer programmes already link to financial services in Kenya is by providing beneficiaries with bank accounts through which they receive their transfers. However, only a small share of HSNP beneficiaries use any formal financial service besides receiving HSNP transfers through their accounts at Equity Bank. Few manage to put aside savings, receive person-to-person transfers from family and friends or take out – mostly informal – loans.

Linking financial services with cash transfer programmes has the potential to strengthen resilience more comprehensively than any single project. The HSNP cash transfers are an important means for beneficiaries to smooth consumption and absorb some of the impacts of climate-related shocks and stresses such as floods or droughts. However, the transfer in itself is not enough for the majority of beneficiaries to make a meaningful livelihood investment, which could increase households' ability to shift their income and livelihood sources when they are under stress, as well as their capacity to adapt to a changing environment. Those HSNP beneficiaries who reported using any sort of formal or informal financial service beyond the transfer they received from government (i.e. who were saving, borrowing, receiving person-to-person transfers or taking out insurance) had a statistically significant higher level of subjective resilience than other HSNP beneficiaries, though the size of the difference is relatively small (0.07 difference in mean resilience score between users and non-users). Financial services appear to particularly support income and livelihood diversification, thus contributing to people's adaptive and transformative capacities.

Social assistance does not necessarily deepen financial inclusion among beneficiaries beyond account ownership.

Overall, the HSNP has expanded bank account ownership and appears to have enhanced beneficiaries' confidence in managing cash and using M-Pesa, but it does not appear to have had a substantial effect in encouraging or enabling people covered by the programme to access other formal financial services, either through the accounts used under the HSNP or through alternative financial service providers. In line with previous research, this demonstrates that signing people up for bank accounts is not enough to enhance use of formal financial services in a meaningful way. Nonetheless, establishing this financial infrastructure is an important first step with co-benefits

for access to financial services among the population more widely. Even though HSNP beneficiaries currently do not use their bank accounts to full function, they could do so in the future, and the expansion of bank branch networks facilitated through the HSNP means these banks are now also more physically accessible to others.

Key challenges to accessing and using financial services in Wajir include:

- **Fear of high interest rates charged by the financial institutions and related high levels of mistrust towards financial service providers:** The Islamic religion does not allow the charging of interest, and the importance of this was echoed across all sites.
- **Lack of cash:** Especially in remote areas in lean seasons, lack of cash prevents participation in savings and rotating credit groups.
- **Limited availability and awareness:** The majority of HSNP beneficiaries are not aware of CTS or the products it provides. This may also be because CTS services do not cover the whole county as it operates mostly close to Wajir town, and more recently in Habaswein. Still, awareness is also low among HSNP beneficiaries in Township, where CTS does operate, and they expressed interest in knowing more about the services. HSNP respondents had many queries related to interest or no interest charged, and whether an individual was eligible to borrow or only groups.
- **Fear of penalties by formal banks for loan defaulters:** Respondents would rather take smaller amounts from savings and loan groups, *Ayuta*, because they can repay this; with collateral, they fear losing their productive assets.

- **Fear that banks will offer large loans without ensuring people have a good repayment strategy:** This is a main reason for preference for rotating credit groups, *Ayudas*.
- **Lack of collateral required from formal banks to take out loans:** Respondents suggested banks needed to work on rebuilding trust, and also accepting 'social collateral' (trust, integrity) rather than financial collateral.
- **Time and literacy requirements to assemble documents for taking out formal loans:** This can restrict access to loans generally and limit the use of loans to cope with emergency situations.
- **Short loan repayment periods:** Going by past experience with Equity Bank, some respondents, even those with CTS loans, said the repayment period was an issue and needed to be increased and take seasonality into account.

Entry points and challenges for linking financial inclusion and social protection

There is potential for financial inclusion initiatives to 'piggy-back' on the financial infrastructure established through the HSNP – particularly the access to formal bank accounts – though changes to the system are required to facilitate meaningful use of services by beneficiaries. So far, HSNP systems are not used in this way. At small scale, graduation and resilience programmes have demonstrated their important function in bridging formerly unbanked poor populations with (formal) financial services, particularly through partnerships with financial service providers.

People's interest in the Islamic microfinance services provided by CTS and the fact that some HSNP beneficiaries already save and take out credit – albeit mostly informally – indicate some potential for deepening financial inclusion through social protection programmes. This is most directly relevant for people with higher financial and business-related capacities among the social assistance recipients. Because the HSNP targets beneficiaries by poverty level – with the poorest covered by regular transfers – it is likely that many households in this group of regular beneficiaries are ultra-poor and therefore struggle to put any money aside. They may also not be able to make the most use of existing loan and insurance products, or do not have a significant need for complex financial services (e.g. the elderly) and would not benefit from being encouraged into such schemes.

Establishing links between financial services and social assistance sustainably and at scale was viewed as a major challenge by many key informants interviewed for this study.

While there was general agreement that various actors – including government, non-governmental organisations (NGOs) and private financial service providers – had a role to play, views differed on what these specific roles were. There was some concern about weak government infrastructure and capacity to deliver services complementary to cash transfers at county level, as well as a fear of overburdening HSNP structures with yet another function. While the relevance of NGOs in delivering certain financial services or in supporting expansion to underserved areas was recognised, there were also question marks around the sustainability and ownership of NGO-led graduation programmes. Building on existing national and county government structures and forming public–private partnerships that include government, financial service providers, donors and civil society to develop and deliver adequate financial services in line with public policy and complementary to existing social assistance programmes were regarded as key strategies.

Ways forward

How services are provided will be critical to promote financial inclusion. Issues of mistrust will need to be tackled and financial services will have to be tailored to the needs and preferences of formerly unbanked populations in Wajir.

This includes helping people increase their financial literacy, so they are able to avoid unwarranted debt and can more competently assess what type of financial products could be beneficial to them; developing and offering adequate products in the Sharia-compliant microfinance space; and further increasing the reach of financial services through financial market development and technological innovation.

Allowing HSNP beneficiaries to make longer-term investments that strengthen their resilience to climate extremes and disasters would require additional, complementary components to cash transfers and financial services. According to respondents, three complementary interventions should be combined with financial service provision and social assistance: 1) financial literacy and business skills training, particularly to support diversification strategies and adaptation of livelihoods to recurring droughts and floods; 2) market access, product development and resilient market infrastructure; and 3) improved early warning systems that deliver climate and weather information in a way that can inform decision-making to help people use financial services more effectively. These activities could be delivered, for instance, through graduation modules, resilience programmes or financial inclusion initiatives. Longer-term (financial) responsibility for these complementary interventions should be clarified from the outset.

Should the HSNP aim to be a bridge between its clients and financial service providers, in a graduation-type model for the poor, it would have to work with the banks that carry out government cash transfers on providing services that are tailored to the HSNP beneficiary clientele and consider strengthening financial inclusion through a greater variety of institutions and services beyond the large banks. This could be done, for instance, by collaborating with semi-formal financial service providers such as microfinance institutions or SACCOs, or via the *Ayuta* model, an informal savings group structure common in Wajir.

A photograph of two women wearing hijabs, one dark and one light, looking down at a document held by the woman in the light hijab. The image is overlaid with a semi-transparent blue filter. The number '1.' is positioned to the left of the word 'INTRODUCTION' which is written in large, white, bold, sans-serif capital letters.

1. INTRODUCTION

IMAGE:
MARYANNE
REGISTERS
A MEMBER
TO CTS DURING
THE OFFICIAL
LAUNCH IN WAJIR
TOWN. PICTURE
TAKEN BY:
GETRUDE LUGAHI

Climate – and natural hazard-related disasters threaten people and communities around the world, compounding existing poverty and vulnerability and undermining long-term development and transformation. National and international actors are searching for new and better ways to help people deal with increasing disaster risks in a way that supports long-term resilience. Facilitating the access to, and use of, adequate financial services such as savings, loans and insurance in underserved communities has shown potential to support resilience, allowing people to prepare for, cope with and adapt to shocks and stresses (Moore et al., 2019). The role of social protection programmes in helping people anticipate and cope with climate-related shocks and stresses such as droughts or floods is also increasingly appreciated (Ulrichs and Slater, 2016; Costella et al., 2018; O'Brien et al., 2018; Weingärtner

et al., 2019a). See Box 1 for a definition of the resilience concept and capacities under the Building Resilience and Adaptation to Climate Extremes and Disasters (BRACED) programme.

Both financial services and social protection programmes such as social safety nets in the form of cash transfers are reaching greater numbers of people in low-income communities exposed to high climate-related risks every year (Demirgüç-Kunt et al., 2017a; Ivaschenko et al., 2018). However, there are limitations to the role these instruments can play in strengthening resilience, especially when they are used as standalone approaches. For instance, while well-designed financial services have proven effective in helping people prepare for and cope with idiosyncratic shocks such as a household member falling ill, their impact in addressing larger, covariate climate-related shocks and stresses in such communities is less established (Moore et al., 2019).¹ Financial services do not necessarily work in the same way for people with varying socioeconomic backgrounds, and formal financial services often remain out of reach or less effective for the poorest (Hammill et al., 2008). Whereas cash transfers through social protection programmes can contribute to building anticipatory and absorptive resilience capacities, their role in building long-term, adaptive capacity is less evident (Ulrichs and Slater, 2016).

Despite these challenges, the Kenyan government has recognised the importance of financial services for strengthening development and enhancing resilience. Initiatives such as

¹ Though resilience to climate-related shocks and stresses is the main focus of this paper, we recognise that other types of covariate and idiosyncratic shocks and stresses may compound the impacts from such events on individuals, households and businesses.

Financial Sector Deepening (FSD) Kenya² are driving financial inclusion in the country, and private financial and mobile service providers along with some non-governmental organisations (NGOs) and research institutions are increasingly engaging in product design and delivery. At the same time, Kenya has been expanding its social protection cash transfer programmes to provide a safety net to poor and vulnerable households, which often lack access to financial resources and services. One of these, the Hunger Safety Net Programme (HSNP), currently operates in four northern Kenyan drought-prone counties, including Wajir, and aims to help vulnerable households deal with climate shocks. In parallel, the Mercy Corps-led PROGRESS project, which is part of the BRACED programme,³ operates in Kenya's Wajir county. Here, it provides pastoralist communities with access to Sharia-compliant financial services through a savings and credit cooperative, Crescent Takaful Savings and Credit Cooperative (SACCO) (CTS), and by supporting Village Savings and Loans Associations (VSLAs).

In the context of rising financial inclusion and adaptive social protection programmes in North-eastern Kenya, this research aims to better understand the potential of Cash transfers and other financial services to support people in increasing their resilience to climate-related shocks and stresses. It focuses on how CTS clients and HSNP beneficiaries use cash transfers, loans, savings and insurance, whether they support people in preparing for and coping with shocks and whether they help recipients make longer-term livelihood investments that could increase their adaptive capacity.

² FSD Kenya is an independent trust that was initially set up by the UK Department for International Development (DFID) to strengthen the development of inclusive financial markets in Kenya (<https://fsdkenya.org/about-us/>).

³ BRACED is a DFID-funded programme that aims to build the resilience of vulnerable people against climate extremes and disasters across East Africa, the Sahel and Asia: www.braced.org

The study also considers complementarities and overlaps between social protection cash transfer programmes and financial service provision and the relevance of these interactions for people's resilience to climate-related shocks and stresses. In doing so, it seeks to understand the opportunities and challenges of integrating social protection with resilience interventions, particularly those focused on financial services. It does this through a review of existing literature and by taking into account the perspective of CTS clients and HSNP beneficiaries gathered from original research undertaken through the BRACED programme in North-eastern Kenya.

The research addressed the following questions:

- (How) Do financial services and social safety nets reach different target groups?
- How do people use financial services and social protection payments and what implications does this have for their resilience to climate-related shocks and stresses?
- What are the opportunities and barriers for supporting links between financial services and social protection in northern Kenya?

Based on responses to these questions, this paper aims to inform policy and programming by contributing to filling knowledge gaps around the potential, as well as the limitations, of more closely linking cash-based assistance and financial inclusion interventions to build resilience of households to climate-related shocks and stresses. By assessing whether participation in social protection programmes facilitates access to financial services, it feeds into wider policy discussions in Kenya and beyond around integrated resilience interventions, financial inclusion, social protection and graduation.

Box 1: Resilience concept and capacities within the BRACED programme

Within BRACED, resilience is understood to consist of three interlinked capacities:

Anticipatory capacity 'is the ability of social systems to anticipate and reduce the impact of climate variability and extremes through preparedness and planning. Anticipatory capacity is seen in proactive action before a foreseen event to avoid upheaval, either by avoiding or reducing exposure or by minimising vulnerability to specific hazards.'

Absorptive capacity 'refers to the ability of social systems, using available skills and resources, to face and manage adverse conditions, emergencies or disasters... While anticipatory capacity comes into play before a shock or stress, absorptive capacity is exercised during and after a disturbance has occurred to reduce the immediate impact on people's livelihoods and basic needs.'

Adaptive capacity 'is the ability of social systems to adapt to multiple, long-term and future climate change risks, and also to learn and adjust after a disaster. It is the capacity to take deliberate and planned decisions to achieve a desired state even when conditions have changed or are about to change.'

While **transformation** within BRACED is usually regarded as an approach to build, reshape and enhance all three capacities in a holistic and fundamental way, it is also considered an additional resilience capacity in some cases.

Source: Bahadur et al. (2015).



2. LITERATURE REVIEW: CONCEPTS AND EVIDENCE

IMAGE:
CLI-MARK WORKS
WITH LIVESTOCK
FARMERS' AND
PASTORALISTS'
ORGANISATIONS.
PICTURE TAKEN
BY: CLI-MARK
KENYA

2.1 The role of social protection and financial services in supporting resilience to climate-related shocks and stresses

It is increasingly recognised that social protection programmes can in certain contexts buffer the negative impacts of climate extremes and disasters, particularly by incorporating more adaptive and shock-responsive characteristics in the programme design or through better coordination with humanitarian responses (Davies et al., 2009; Kuriakose et al., 2013; O'Brien et al., 2018). Thus, adaptive social protection instruments can be vehicles for protecting those highly vulnerable to impacts from climate-related shocks and stresses, preventing

damaging coping strategies, and promoting livelihood resilience by increasing people's ability to withstand shocks (Devereux and Sabates-Wheeler, 2004; Kuriakose et al., 2013).

Box 2: Definition and typology of social protection

Social protection systems include policies and programmes intending to reduce poverty, deprivation and vulnerability by helping people manage various risks. Typical forms of social protection include:

- social safety nets – non-contributory assistance in the form of cash and food transfers, public works programmes or school feeding programmes
- social insurance – contributory programmes that protect from financial losses related to livelihood risks, e.g. pensions, health, unemployment or disaster insurance
- labour market interventions – measures aimed at enhancing the employment opportunities of the working age population, e.g. skills training, job benefits, labour standards.

While all social protection instruments can help the poor and vulnerable manage risks, social safety nets have the greatest potential for dealing with climate shocks. Safety nets – the fastest-growing type of social protection programme in developing countries – provide benefits to vulnerable individuals or households with no means of adequate support or who experience a sudden loss of income.

Source: Adapted from Costella et al. (2017).

While adaptive social protection programmes have been shown to increase the quality and timeliness of assistance in emergency situations, they often do not fully address chronic vulnerability to climate extremes and disasters (Slater and

Ulrichs, 2017). To strengthen the adaptive capacity of vulnerable poor people, an emerging community of practice is looking into opportunities for combining social protection, particularly cash transfer programmes, with other types of interventions, for instance supporting sustainable livelihood practices or access to markets and financial services.

At the same time, financial inclusion initiatives and research in the field are increasingly exploring the different ways in which financial services can contribute to the resilience of low-income individuals, households and small businesses (see for example Moore et al., 2019; Weingärtner et al., 2019b). A range of rigorous studies have found that enhanced access to formal financial services, including savings, insurance, credit and digital payments, supports people's resilience through various pathways. Most notably, these services have proven that they can be effective in helping people prepare for and cope with idiosyncratic shocks (Moore et al., 2019). However, the empirical relationship is less established for larger, covariate shocks and, in practice, formal financial services often remain out of reach for low-income populations. Incorporating financial services with interventions aimed specifically at enhancing the resilience of low-income households may be one way to address this challenge and make services more accessible, but more evidence is needed towards this end (ibid.).

Box 3: Financial inclusion and provision of financial services

Financial inclusion 'means that individuals and businesses have access to useful and affordable financial products and services that meet their needs [and that these products and services are] delivered in a responsible and sustainable way' (World Bank, 2019). Tailoring financial services to customer needs and preferences is critical to increase access to and trust in products and ultimately to achieve resilience impacts (Moore et al., 2019; Weingärtner et al., 2019b).

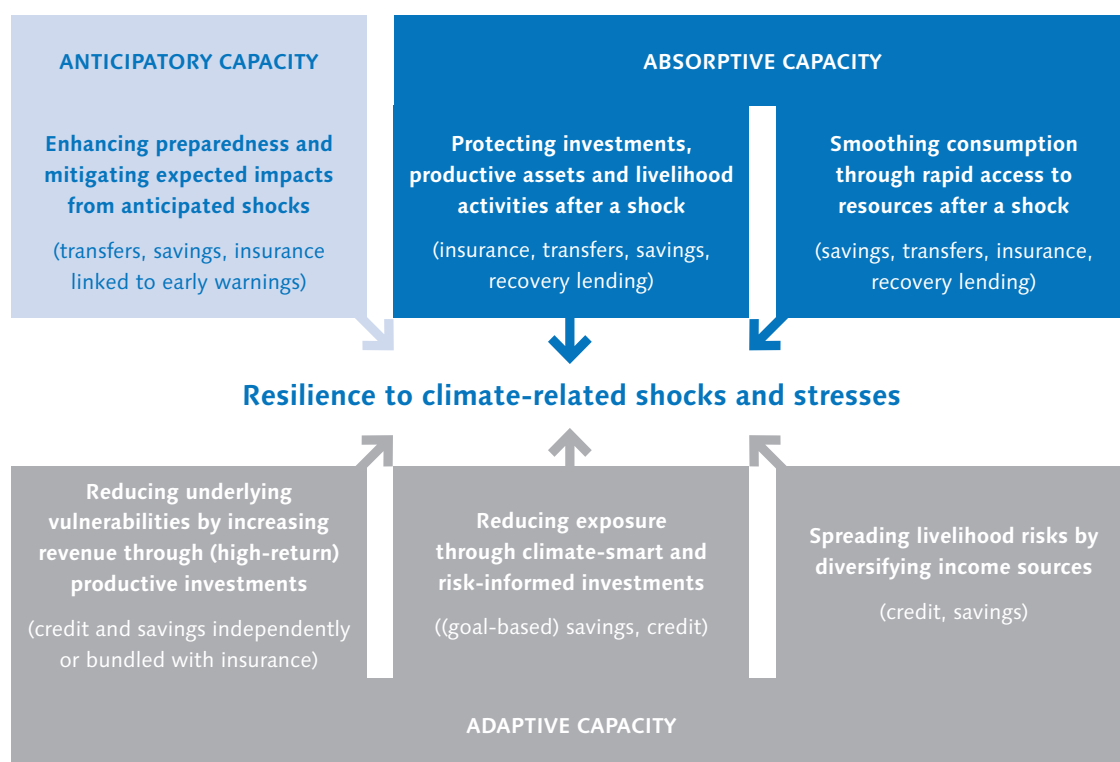
Financial services such as savings, credit, insurance, transfers and payments can be accessed through formal or semi-formal financial institutions including banks, microfinance institutions (MFIs) or SACCOs. Accounts such as those increasingly used to deliver payments under large cash transfer programmes are seen as a first step towards financial inclusion and a 'gateway to other financial services' (World Bank, 2019). However, formal accounts often incur user fees and require official documentation or proof of identity to obtain access. Distance and a lack of trust in financial institutions are further barriers to the use of formal accounts by low-income households (Karlan et al., 2014b).

Mobile network operators, FinTechs, postal networks, branchless banking agents and retail networks increasingly rely on technology for delivering financial services to remote or rural areas that are out of reach for traditional banks (CGAP, nd).

At community level, less formal savings groups (including self-help groups (SHGs), rotating savings and credit associations (ROSCAs) or VSLAs) can provide platforms for saving, lending and risk-sharing to lower-income or remote populations. Informal local money-lenders, shopkeepers or other contacts outside the family are also an important source of credit and informal saving for many without access to formal MFI or banking systems. Yet the low levels of savings and loans in informal networks can present a barrier to larger investment, and informal risk-sharing mechanisms can struggle to cope with the impacts from severe covariate shocks.

The various pathways in which cash transfers as well as other financial services, are expected to contribute to resilience are summarised in Figure 1.⁴ The following paragraphs go on to discuss these concepts along with existing empirical evidence on the role of financial services – including cash transfers and other payments, insurance, savings and credit – in resilience in more detail.⁵

Figure 1: The potential contributions of financial services for building resilience to climate – related shocks and stresses at household level



Source: Authors, based on Haworth et al. (2016); Demirgüç-Kunt et al. (2017b); Moore et al. (2019).

- 4 For further discussion of these concepts and how projects under BRACED have been approaching the design and provision of adequate financial services across different contexts, see Weingärtner et al. (2019b).
- 5 For more extensive reviews of the literature discussing impacts of financial services on which this section draws, see Demirgüç-Kunt et al., 2017b and Moore et al., 2019).

2.1.1 Cash transfers and other payments

Cash transfers are one of the most common types of social protection programmes, especially in low-income countries. The modality of cash is particularly suitable to address acute needs, while also allowing recipients to invest in productive assets, savings, human capital or livelihood diversification, which may have the potential to contribute to long-term resilience. Cash transfer schemes can differ in design. The HSNP in Kenya, for example, makes regular monthly payments to a fixed number of households, whereas the Productive Safety Net Programme (PSNP) in Ethiopia offers paid seasonal employment. In yet another approach, payments under Bolsa Família in Brazil and Oportunidades in Mexico are conditional on children attending school or visiting health clinics to address intergenerational poverty issues. Such programmes generally aim to provide relief to the economically poor who otherwise would be likely to resort to negative coping strategies such as selling assets and taking children out of school. While some perceive that social assistance may promote dependency, the evidence demonstrates that beneficiaries of both conditional and unconditional cash transfers can in fact save some of the money as contingency funds, or invest in more productive activities if the transfers are appropriate in size and predictable enough for them to plan for the future (Davies et al., 2009; Mathers and Slater, 2014; Bastagli et al., 2016; Handa et al., 2018).

Digital payments via accounts with a financial institution, a mobile money provider and over-the-counter transactions have been found to improve the security, transparency, convenience and efficiency of cash transfer programmes (Demirgüç-Kunt et al., 2017b). Evidence from Mexico, Niger and South Africa shows how digital payments have helped improve the speed of transactions and lowered costs for both recipients and

providers (CGAP, 2011; Babatz, 2013; Aker et al., 2016). While digital payments have the potential to reduce corruption and leakage, they do not eliminate these issues from cash transfer programmes. Erroneous or fraudulent registration, as well as payment agents charging beneficiaries for withdrawals, remains a major challenge (HelpAge International, 2012).

Furthermore, cybersecurity has become a critical concern: with increasing digital payments, 'the chances of getting exposed to cybersecurity risks such as online fraud, information theft, and malware or virus attacks are also increasing' (KPMG, 2018). A study from India found poor digital payment systems and lack of awareness were among the main contributors to a rise in such attacks (ibid.).

As well as to transfers through social assistance programmes, private person-to-person transfers – for instance remittances from family members or friends – can allow people to share risks with others. In countries with more migrants abroad, remittances tend to increase after natural hazard-related disasters, and evidence from household analysis in Bangladesh, Burkina Faso, Ethiopia and Ghana indicates that remittances play a positive role in preparing households for disasters and helping them cope, for instance by enhancing the quality of housing and access to communication equipment, stabilising consumption or preventing the sale of productive assets (Mohapatra et al., 2009).

Money transfer operators and mobile phone remittances are common mechanisms used because they are more affordable than bank transfers. However, experience from the Pacific Islands shows that such channels can also become unreliable during disasters, when communication systems break down or operators close their branches (Pairama and Le Dé, 2018). Nonetheless, mobile technology has become increasingly

important in facilitating person-to-person transfers within and across countries, for instance through fast-growing mobile money services such as M-Pesa and other providers in Kenya. Analysing the impacts of negative shocks and households' ability to share risks with family and friends in Kenya, early research has indicated that the household consumption when using mobile money is less affected by shocks than that of non-user households. The authors trace this back to a higher diversity of money senders and increased overall amounts of remittances received among mobile money using households (Jack and Suri, 2014).

Further to their safety net function, transfer services also offer relatively secure and efficient channels for transmitting funds for investments and sharing the related risks. There are indications that this can reduce reliance on livelihoods that are highly exposed to climate risks. In Kenya, for instance, a recent panel study found that households that use mobile money, particularly those headed by women, moved away from agriculture and into business (Suri and Jack, 2016). Generally, however, the relevance of transfer services in preparing for and coping with shocks is better established than its role in longer-term adaptation to climate change.

2.1.2 Insurance

Insurance is another instrument that can shield users from some of the impacts of climate related shocks and stresses and it can also reduce risk-related barriers associated with the uptake of new (more climate-resilient) technologies, for instance in agriculture (Hansen et al., 2018). Index-based crop and livestock insurance are relatively recent innovations that trigger payouts once a pre-determined threshold of an index, which captures or correlates with agricultural losses or livestock mortality, is reached (e.g. using crop yield data, data from rain gauges

installed on the ground to measure rainfall or remote sensing to monitor indicators such as vegetation or cloud cover). It is designed to reduce transaction costs and overcome some of the challenges associated with other types of agricultural insurance that have traditionally made insurance products inaccessible for smallholders (Chantararat et al., 2017; Hansen et al., 2018). However, index-based insurance in turn faces the challenge of basis risk, which may mean farmers or pastoralists are not sufficiently compensated even though they experience actual losses (Angelucci, 2008; WFP and IFAD, 2011; Clarke et al., 2012).

Index insurance, along with other types of insurance covering natural hazard related disasters, can fall into the category of social protection if publicly subsidised or supported by public investments. It is mostly inaccessible to the poorest if run on a commercial basis, depending on its design and financing model. Subsidised, well-targeted schemes, however, can act as a safety net for vulnerable farmers or pastoralists because they can prevent them from entering into a downward spiral of asset de-accumulation following a climate shock (Lybbert and Barrett, 2011; Chantararat et al., 2017).

In Kenya, index-based livestock insurance (IBLI) exists both as a social protection intervention and as a commercial product. Through the Kenya Livestock Insurance Programme (KLIP), the Government of Kenya fully subsidises IBLI coverage for a limited number of households across several counties. At the same time, livestock owners can purchase commercial coverage directly from insurance companies. In Garissa, Isiolo, Mandera, Marsabit, Moyale, Tana River and Wajir counties, Sharia-compliant takaful policies are offered through Islamic insurers, reflecting the needs of local populations (Johnson et al., 2018). Focusing on the safety net function of insurance, research on impacts of IBLI in Kenya found that insurance coverage increased the

probability of maintaining asset levels above a defined threshold associated with poverty traps and reduced the use of destructive coping mechanisms, decreased the probability of child undernourishment during a drought year and increased resilience to drought in the form of livestock holdings and child nutrition, and raised livestock productivity (Janzen and Carter, 2013; Cissé and Ikegami, 2016; Chantarat et al., 2017; Jensen et al., 2017).

2.1.3 Savings

Building up savings has various functions for supporting resilience to climate-related shocks and stresses. Savings can help people buffer impacts from shocks and smooth consumption, and can also support investments for risk reduction and adaptation. However, saving up for emergencies or larger investments can be difficult, for instance when people do not have access to a safe place for storing money or when poverty limits people's ability to save anything at all. Behavioural constraints to building or maintaining savings and accounts that are not well tailored to people's needs can be further barriers to saving (Karlan et al., 2014b; Dupas et al., 2016; Demirgüç-Kunt et al., 2017b; Moore et al., 2019). Saving in the form of assets such as livestock – common practice in many pastoralist communities – can have limitations when the assets themselves are vulnerable to climate-related shocks (Dercon, 2002).

Savings accounts with a built-in commitment feature can increase the likelihood that people will meet their savings goals (Moore et al., 2019). Evidence from Kenya and Malawi exemplifies how commitment-based saving has helped people save for emergencies, increase investments in agriculture and raise spending on preventative health products. Findings also show that 'hard' commitments, for instance in the form of limitations on withdrawals, are not always most effective.

Instead, 'soft' commitments, which label savings pots for a particular purpose, can be more impactful, possibly because they are less restrictive (Dupas and Robinson, 2013b; Brune et al., 2016; Jones and Gong, 2018). Informal savings groups can provide similar soft commitments through social bonds when members pool funds to make group investments or individual members declare what they are saving up for. Though it is acknowledged that such groups can help people build up savings, evidence on their resilience impacts so far is mixed (Moore et al., 2019).

In times of crisis, savings are among the most important sources of emergency funds, and liquid savings accounts appear well suited to facilitate rapid availability in the case of a shock. Literature assessing the role of savings in dealing with health shocks in Chile and Nepal support this notion. In Chile, individuals who were offered free accounts experienced lower reductions in consumption after a shock with negative impacts, while in Nepal, savings accounts were related to quicker recovery from health shocks (Prina, 2015; Kast and Pomeranz, 2018).

The resilience potential of investing savings in risk reduction or adaptation measures at the individual and household level is less well established. Nonetheless, research from Kenya, Nepal and other countries has shown that access to formal savings accounts acting as a form of self-insurance can shift risk preferences and incentivise productive investments, particularly among women (Carvalho et al., 2013; Dupas and Robinson, 2013a; Moore et al., 2019). In Kenya, market vendors, mostly women, who were provided with a savings account saved more and had 38% higher private expenditures and 60% increased business investment compared with the control group (Dupas and Robinson, 2013a). In Malawi, accounts helped farmers increase their savings, resulting in higher agricultural outputs and household expenditures (Brune et al., 2016). Nonetheless, access to

bank accounts has not led to positive outcomes in all cases.

A study from Chile, Malawi and Uganda found no evidence that basic bank accounts provided to the rural poor, even when fully subsidised, led to increased savings or enhanced development outcomes (Dupas et al., 2016; Demirgüç-Kunt et al., 2017b).

Overall, existing research implies that formal savings accounts and informal savings mechanisms are important instruments that help people cope with shocks. They also have the potential to support adaptive investments when paired with commitment devices and broader resilience interventions; merely expanding people's access to basic formal accounts is not enough. In practice, however, these links are not always fully explored, and a better understanding is needed of how savings can encourage investments that help households reduce climate-related risks and adapt to longer-term changes (Moore et al., 2019).

2.1.4 Credit

Similar to savings, credit can support people in coping with shocks. However, financial institutions tend to prioritise loans for productive investments over consumption and credit is often less readily available in case of a disaster when MFIs or banks are reluctant to lend, or savings groups and informal lenders are under increasing (financial) stress. Nonetheless, credit can be a preferred option for individuals or households to avoid other harmful coping strategies such as reduced consumption or the sale of productive assets (Moore et al., 2019). Recovery lending mechanisms aimed at enhancing access to loans post-disaster by backing MFIs with emergency funds or catastrophe insurance may be a way to address some of these challenges, but so far experience with this model is mostly at pilot stage in developing countries.

Credit is also expected to strengthen resilience through increased investments via different pathways: 1) reducing underlying vulnerabilities by raising revenue through (high-return) productive investments, 2) reducing exposure through climate-smart and risk-informed investments and 3) spreading livelihood risks by diversifying income sources (see Figure 1). Despite this potential, the extent to which loans from MFIs are actually invested instead of used for consumption has been debated (Jack et al., 2016, citing Banerjee et al., 2015) and questions remain about how to incentivise investments that strengthen rather than reduce resilience to climate extremes and disasters through microcredit (see Box 4). Offering credit for particular investments that are backed by the asset obtained may be one option to overcome such barriers and facilitate adoption of more resilient technologies. For instance, lowering stringent monetary collateral and guarantor requirements on credit and offering asset-backed loans through a SACCO in Kenya was found to incentivise farmers' investment in water tanks, which increased household water access and reduced time spent on fetching water and tending to livestock (Jack et al., 2016). Group lending may be another way to support adaptive investments, particularly when paired with wider resilience interventions and training or with climate and weather information, because it fosters self-discipline and can perform a social commitment function (Demirgüç-Kunt et al., 2017b; Moore et al., 2019).

There is also some evidence that microcredit can help households diversify their livelihoods, thus spreading the risk across multiple activities or several people in the household and stabilising income streams across seasons (Morduch, 1998; Armendáriz de Aghion and Morduch, 2005). For instance, access to credit can facilitate seasonal labour migration by covering some of the up-front costs. In Bangladesh, credit for domestic migration has

helped rural households diversify incomes and enhance food security and consumption (Bryan et al., 2014; Moore et al., 2019).

Overall, however, evidence on development impacts such as increased productivity or income from access to microcredit is 'mixed at best' (Demirgüç-Kunt et al., 2017b). Despite initial enthusiasm in the early days of microfinance, recent rigorous evaluations have produced more modest conclusions (ibid.). The discussion has also become more nuanced, as some of the positive findings appear highly dependent on context, the needs of the specific target group and the design of the loan product. This means financial services, including credit, need to be well tailored and designed for purpose if they are to best support resilience outcomes.

Box 4: Limitations of financial services for resilience

Despite the potential of financial services for resilience and evidence on some of their contributions, a range of important risks and limitations related to these services need to be recognised. Some of these provide opportunities for linking financial services with cash transfer programmes to support the resilience of poor people more effectively, as discussed in Section 2.2.

- **Outreach:** Microfinance has struggled to reach 'the poorest of the poor', and groups that are socially or economically marginalised remain excluded from formal or semi-formal financial institutions in large proportions. Existing evidence also indicates that microfinance, particularly credit and formal insurance products, may result in larger gains for the moderate rather than the extreme poor, even when their access is facilitated, for instance through subsidies. Informal financial services can reach further down the income ladder but support mechanisms such as savings groups are often compromised in times of disaster when entire communities are affected.

- **Resilience impact:** While the effect of well-designed financial services on consumption smoothing has been demonstrated in different contexts, impacts on the adaptive capacity of individuals and households are less clear. This raises questions of whether financial services 'sustain a survival economy or gradually build pathways out of it'. Initial experience with savings that include commitments towards a particular goal appears promising for supporting adaptation, but the practical applications of and evidence base on using such mechanisms for resilience investments are so far limited.
- **Increasing vulnerability:** Despite some successes, the microfinance literature has also established that inadequate or unwarranted credit can undermine, instead of support, resilience. Accessing microcredit without sufficient reserves or protection – for instance through bundling it with insurance that allows clients to pay back their loan even when they are hit by shocks such as unforeseen death, illness, market shocks or climate extremes – could leave people over-indebted and worse off than they were before, particularly when they operate in high-risk environments. Furthermore, negative environmental impacts from investments facilitated through financial services may increase exposure to certain hazards.
- **Privatisation:** Finally, there is some tension around the responsibility of the state to provide basic services or safety nets and the extent to which MFIs and NGOs have filled gaps in this area where state capacity is low and in some cases have gone on to relieve states of the need to deliver. As Hammill et al. (2008) put it, 'While in most cases the dollar value represented by microfinance operators remains too small a force to really see an impact, the recent enthusiasm to finance the poor rather than establish appropriate safety nets and good government policies to address the issues creating poverty is a real concern.'

Source: Adapted from Chapter 5 in Hammill et al. (2008).

2.2 Linking cash transfer programmes and financial services: graduation approaches, financial inclusion and integrated delivery mechanisms

Establishing explicit links between payments made from governments to individuals or households, including cash transfer programmes, and financial service provision has been purported to have 'the potential to become a vehicle for extending financial inclusion and improving the welfare of poor people' (Pickens et al., 2009). This would also mean increasing people's access to critical resources for coping with different types of idiosyncratic and covariate shocks or for undertaking investments that support adaptation, hence resulting in resilience benefits. Where cash transfers (both regular and emergency payments) help people cope with climate-related shocks, and regular transfers – if of sufficient size – allow people to accumulate assets at less stressful times, lump sum payments or loans can provide the necessary capital to invest in productivity or income-generating assets and activities. To protect assets and investments, insurance offers compensation for crop failure or prevents livestock loss.

In theory, this shows the complementarity of financial services with cash transfers delivered through social protection programmes in two ways:

1. **layering and tailoring financial services to strengthen resilience:** delivering a more comprehensive portfolio of accessible services to strengthen anticipatory, absorptive and adaptive capacities through various commercial financial services and social protection programmes, for instance by addressing different types and layers of risks or by catering to different target groups with diverse needs and preferences; and

2. **linking with existing infrastructure:** extending access to financial services to poor people covered by cash transfer programmes by building on existing networks and structures of cash transfer programmes.

One way social protection links to financial services is by providing bank accounts to beneficiaries. In practice, social protection programmes such as Oportunidades in Mexico, the Child Care and Old Age Pension schemes in South Africa and the HSNP in Kenya have started to supply beneficiaries with fully functional mainstream bank accounts to facilitate transfers. These programmes are increasingly moving away from handing out physical cash or using limited purpose electronic accounts set up only for the programme, which do not allow users to deposit additional funds, to store funds indefinitely or to access funds outside of the dedicated infrastructure (Bold et al., 2012). Through fully functional accounts, beneficiaries receive cash transfers and could also access other services, for instance using saving functions or making and receiving payments.

Yet the potential of transfers from governments to individuals or households for enhancing financial inclusion remains largely untapped. In 'most countries, far fewer than one-quarter of... payments [from governments] to the poor land in a financially inclusive account – i.e., one that enables recipients to store] payments and other funds until they wish to access them and make or receive payments from other people in the financial system' (Pickens et al., 2009).⁶ Furthermore, simply enrolling people in bank accounts through social protection programmes does not necessarily mean they are able or willing

⁶ Note that this figure refers not only to cash transfer programmes but also to any 'government-to-person payment', including workfare or wages and pensions to low-income employees.

to use these accounts to full function (El-Zoghbi et al., 2017). Wider challenges to financial inclusion – for example products that are not adequately tailored to the needs and preferences of the target group, high transaction costs for financial service providers in delivering to low-income clients, geographic distance between clients and financial institutions or a lack of competition in the financial market and regulatory barriers – also need to be addressed to achieve progress.

The potential of linking social protection and financial services has been well established in conceptual approaches related to 'graduating' out of poverty and promoting financial inclusion of the extreme poor to ensure sustainable escapes from poverty.

The graduation model was pioneered first by Bangladesh's Building Resources Across Communities (BRAC), which designed a project model for extremely poor women that gradually introduced a set of interventions including basic consumption support, savings groups, asset transfers and training. The objective of the sequence of interventions is that households will first meet their basic needs to then gradually build up their asset base through entrepreneurial activities. They are considered to have graduated out of extreme poverty once they find themselves on a trajectory of continuous asset accumulation and are resilient enough to withstand modest shocks without falling back into extreme poverty. Having built this resilience then allows households to access financial services such as micro loans and credit, which can further benefit their enterprises and income-generating potential (Marston and Grady, 2014; Sheldon, 2016).

BRAC specifically designed the graduation model because it realised that the extreme poor were unable to benefit from microfinance services owing to their limited asset base and high levels of risk aversion. They thus require social assistance or other forms of income support to stabilise their consumption and asset

base to start modest savings. This model was designed to help people graduate from ultra-poverty; additional empowerment is needed for households to graduate from poverty or beyond the thresholds set for social assistance programmes.

While the graduation model has been applied mainly at a pilot or project level, there are also more systemic approaches linking social protection recipients with financial services at a large scale. There is broad consensus among national governments, international organisations and researchers that this requires moving away from fragmented, short-term pilot projects to more harmonised and comprehensive systems that link beneficiaries with productive opportunities (World Bank, 2012; ILO, 2014; Devereux et al., 2015). Several governments across lower-middle-income countries have been putting in place social protection strategies to gradually scale up and develop systems. These debates focus on integrated interventions, for instance combining cash transfers with asset transfers, financial inclusion and training, as well as with basic services such as education and healthcare.

However, despite this consensus around the need for scaling-up, the evidence base on how to link beneficiaries with productive opportunities and 'graduate' them is still relatively weak. As the World Bank highlights, 'the concept of graduation remains a topic under debate. As of yet, there is little evidence of the longer-term impacts of graduation strategies, and some graduation objectives are seen as overly ambitious' (World Bank, nd). Furthermore, the graduation criteria for ultra-poor programmes are still very low; while graduates may escape from a state of deprivation, they remain under the poverty line. Premature graduation as a result of low thresholds can also mean that people fall easily back into more extreme poverty. A more sustainable departure from poverty is usually assumed in graduation programmes but rarely accompanied by continuous support or empirical testing (Sabates-Wheeler and Devereux, 2011).

Different variants of an integrated systemic approach to social protection have been developed in recent years in various countries, some with a more explicit focus on financial services than others. In contexts with high levels of rural poverty, there is a strong interest among policy-makers in linking social protection programmes for the 'working-age poor' with agricultural programmes to avoid dependency on social assistance and to achieve poverty reduction through increased productivity and economic growth (through access to markets, extension and financial services) (Cherrier, 2014). Ethiopia's Food Security Programme, for example, has been an explicit attempt to move away from seasonal humanitarian assistance towards sustainable escapes from food insecurity through a combination of cash for work and complementary programmes. Within this, the PSNP provides cash transfers to allow people to better cope with food insecurity during the lean season (Berhane et al., 2013). The PSNP is now trying to connect its beneficiaries with agricultural extension and access to financial services (Ministry of Agriculture, Ethiopia, 2014).

In Latin America, the governments of Colombia, El Salvador and Peru are integrating their cash transfer programmes (respectively, Familias en Acción, Comunidades Juntos Solidarias Rurales and Juntos) with selected rural development projects funded by the International Fund for Agricultural Development (IFAD) and implemented by each country's ministry of agriculture. The rural development projects focus on technical assistance, asset-financing, savings promotion and, in the case of El Salvador, also non-technical assistance and training (Maldonado et al., 2015).

It should be noted that approaches that integrate social protection and financial service components usually envision a broader range of complementary interventions (e.g. technical assistance or livelihood training) that go beyond financial services alone, as well as enabling contextual factors to facilitate sustainable poverty escapes (Devereux and Sabates-Wheeler, 2011).

2.3 Summary of evidence on complementary effects of cash transfer programmes and financial services for resilience-building

A common approach for linking social assistance with other types of support is the simultaneous provision of social assistance and complementary interventions to the same group of beneficiaries. This approach is sometimes used by programmes that combine a basic income or transfer (cash or asset) with financial services (often savings and credit) with the goal of supporting participants to 'graduate' from poverty. **This graduation model, most commonly implemented at relatively limited scale and through a project approach, has reported impacts on increased investments in productive assets, rising incomes and diversification of livelihoods** (Hashemi and Umaira, 2011; Sabates-Wheeler and Devereux, 2015). **However, whether these impacts materialise and are sustainable in the long term may depend on specific project design and context.**

Alongside the simultaneous provision of cash transfers and financial services to the same beneficiaries, other policies and interventions are pursuing an approach that is layered along different target groups, mostly defined through income

or asset levels. This means various types of public or commercial financial services are directed towards different beneficiaries. Access to financial services is seen as a type of support social assistance beneficiaries move into, once they no longer need to rely on consumption support. In a way, it is the extension of a graduation strategy, where people who have managed to stabilise and increase their asset base and income-generating capacity 'graduate into' different types of support.

Bangladesh's Challenging the Frontiers of Poverty Reduction – Targeting the Ultra Poor (CFPR-TUP) programme consisted of a sequenced and layered set of interventions over a 24-month period, after which participants were expected to graduate. The programme provided training, consumption support, asset transfers and savings, as well as skills training and regular coaching. Participation led to an increase in the value of cows owned, as well as the accumulation of new productive assets, such as livestock, sheds, rickshaws and pumps (Bandiera et al., 2013). There was an observed pattern of increasing asset accumulation two, four and seven years after the programme, indicating growing benefits over time (ibid.) Programmes following a similar model and piloted in six countries (Ethiopia, Ghana, Honduras, India, Pakistan, Peru) also resulted in an increase in assets, which was an impact sustained two years after the programme ended (Banerjee et al., 2015).

As graduation programmes have a strong focus on supporting entrepreneurship, they have had impacts in terms of increasing income from self-employment. Ethiopia's GRAD pilot, for instance, pursues a value chain approach, including access to loans from VSLAs and MFIs. This has led to an average \$100–\$200 increase in the annual income of participating households (DeVries et al., 2014).

The sustainability of impacts from graduation models is not consistent across projects. This is particularly the case when

households face larger shocks – as long-term evaluations have been done for only a few programmes (e.g. Banerjee et al., 2015) and some indicate that asset retention was not maintained after the programme ended (Bauchet et al., 2015). In Haiti's Chimen Lavi Miyo graduation pilot, a decline in assets was observed four years after graduation (Pain et al., 2015). In many cases, households were not able to build their resilience in a way that allowed them to withstand shocks without significant setbacks to their livelihoods. For instance, in the Rwanda Concern pilot, a health shock such as an illness was one of the main reasons participants dropped out of the programme (Sabates and Devereux, 2015).

This highlights a general issue around the sustainability of impacts of such types of intervention when they are implemented through project-type approaches that are limited in time and scope. To be resilient, households should be able to maintain improvements to their livelihoods in the long term, and have access to the necessary support to cope with larger climate shocks, for example through access to temporary safety nets, disaster assistance or insurance mechanisms.

It is also important to understand what services people can continue using or move into once the social protection support ends. Microcredit is often a core element of graduation programmes' theory of change, yet the accessibility of these services is a challenge, particularly in low-income countries. One partial solution to the problem has been the establishment of community-based savings groups such as SHGs, ROSCAs and VSLAs, which can help people save and access important resources, particularly during times of increased household expenditure. However, the low amounts of money saved, either individually or in the group, are frequently a barrier to making meaningful productive investments. In a Women for Women International (WfWI) graduation programme in the

Democratic Republic of Congo and Rwanda, lack of access to credit was a key obstacle for women who exited the programme to continue expanding their enterprises (McIlvaine et al., 2015).

Another common challenge is the lack of pro-poor services offered by formal financial institutions and technology/service providers. Ethiopia's FSP, for example, aims to link PSNP beneficiaries with financial services. Accessing these has been a challenge for extremely poor and socially excluded groups, as MFIs are reluctant to work with what they perceive to be 'high-risk clients', given their limited capacity to repay loans. In the past, failure of beneficiaries under the PSNP to repay loans provided through the Other Food Security Programme has set a negative precedent that continues to fuel reluctance among MFIs (DeVries et al., 2014). Preference is thus given to households that are slightly better off and have collateral, which is a barrier for poorer people and female beneficiaries in particular (Berhane et al., 2013).

Nonetheless, there appears to be potential for enhancing access to formal or informal credit among social assistance beneficiaries. A recent evaluation of the HSNP in Kenya found 'a large and strongly significant impact of the HSNP, of 23.6 percentage points, on the proportion of households purchasing on credit' from local shops (Merttens et al., 2017a). The authors suggest this may be because the regularity and predictability of transfers increase the perceived creditworthiness of beneficiary households. Regular transfers and payments through accounts set up under social assistance programmes may also help beneficiaries build up a digital financial record, which could enhance access to loans for low-income households without a prior credit history. Evidence from the US and Kenya shows how financial service providers have been using clients' digital payment records to calculate credit scores for larger numbers of people and extend

small-scale, short-term loans on the basis of these records. People with low incomes were among those benefiting most from this approach (Turner and Varghese, 2010; Turner et al., 2012; Cook and McKay, 2015; Demirgüç-Kunt et al., 2017b).

It has been argued that linking insurance with social protection systems could enhance households' and communities' ability to absorb climate shocks, improve their ability to reduce and manage risk, and reduce poverty (Väänänen et al., 2019). However, the scope and evidence for enhancing climate resilience by linking these instruments has not been explored at length (ibid.). The provision of regular income support is needed for those who are chronically poor and food insecure, to stabilise assets and prevent further impoverishment. Insurance, on the other hand, may benefit those who receive social protection transfers or vulnerable households that are just above the poverty line to protect their productive assets and reduce risk aversion to investing (Hansen et al., 2018). Studies in Cambodia, Kenya and Mongolia highlight how insurance indeed benefits better-off farmers and livestock herders in different ways than poorer ones, in terms of incentivising productive investments and protecting people against some of the impacts from climate-related shocks and stresses (Janzen and Carter, 2013; Bertram-Huemmer and Kraehnert, 2015; Falco et al., 2016).

An experimental study in northern Ghana randomised the provision of a cash grant to maize farmers, both on its own and in combination with weather index-based agricultural insurance. The study found that, when covered by agricultural insurance in addition to a cash grant, farmers invested significantly more in farm cultivation than did those who received only the grant. The binding constraint to farmer investment in this case is uninsured risk, which can lead to catastrophic losses. When provided with insurance against this risk, farmers are able to find resources to increase expenditure on their farms (Karlan et al., 2014a).

Exploring the synergies between social protection and financial services, a study in Vietnam finds that agricultural insurance and social protection play a complementary role, as in combination they protect people from different types and magnitudes of risks (Ramm and Ankolekar, 2015). However, in their comparison of HSNP and IBLI benefits, Jensen et al. (2017) find that, while the HSNP increases demand for IBLI, access to both programmes had no statistically significant synergistic effects. One explanation for this, the authors speculate, is that there is only little overlap of both programmes in the sample.

As for the impact of financial services on social assistance programmes, a simulation model built by Janzen et al. (2018) indicates that the mere presence of an asset insurance market can cut the need for cash transfers in the long run by half. While social protection provides critical assistance to those who are poor, some argue that a comprehensive approach to climate risk management requires subsidisation of risk transfer markets that prevent shock-driven descents into poverty, particularly for those vulnerable to climate extremes but above the poverty line (Chantarat et al., 2017). At the same time, social protection programmes are increasingly recognising the need to better manage climate risks. A number of programmes globally have been working towards more 'shock-responsive', 'adaptive' or 'shock-sensitive' systems, for instance by scaling up (i.e. increasing the amounts of payments for beneficiaries) or scaling out (i.e. reaching additional beneficiaries) payments under cash transfer programmes before, during or after a shock (Costella et al., 2017; O'Brien et al., 2018).

The systems and networks established for large regular and emergency cash transfer programmes provide an operational entry point into linking financial inclusion with social protection agendas. This includes, for instance, building on

existing social registries, relationships with financial institutions that coordinate transfers or digital cash delivery systems used for social protection purposes, which could equip large numbers of poor people with fully functional bank accounts. However, practical experience and evidence on the effectiveness of establishing such links is still scarce, particularly in low-income countries. Findings from a cross-country study including Brazil, Colombia, Mexico and South Africa – where financial inclusion and digital payments of government transfers are priorities pursued in parallel – indicate that this strategy is not necessarily more expensive than delivering cash in other ways, particularly where good financial infrastructure is already in place. However, even within the study's sample of middle-income countries, strong infrastructure exists in only two out of the four countries (Brazil and South Africa), and the situation in low-income countries is much less clear.

On the beneficiary side, Bold et al. (2012) find that use of accounts for anything beyond receiving the government transfers is very low. Similarly, the number of people using their HSNP bank accounts for savings in Kenya was found to be very small (Merttens et al., 2017a). Bold et al. thus conclude that 'early expectations about rapid and automatic take up of financial services, especially of savings, need to be recalibrated'. Overall, these findings imply that equipping people with fully functional bank accounts may increase the number of people counted as financially included in surveys such as the World Bank's Findex, which use account ownership as the primary metric. However, this does not automatically lead to the use of accounts for anything else than receiving cash transfers through social assistance programmes and therefore has limited implications for the depth or quality of financial service provision.



3. THE NORTH- EASTERN KENYAN CONTEXT

IMAGE:
A MEMBER OF
CTS SACCO LOOKS
ON AS SHE WAITS
TO BE SERVED.
WAJIR TOWN,
NORTHERN
KENYA.
PICTURE TAKEN
BY: PHELIX OUMA

3.1 Climate risks and livelihoods

The site of this research, Wajir county, is part of the arid lands of northern Kenya. It borders Ethiopia and Mandera county to the north, Somalia to the east, Marsabit and Isiolo counties to the west and Garissa county to the south. Wajir and its surrounding areas are considered Kenya's northern arid and semi-arid lands: Wajir receives an average of 240 mm of precipitation each year. Droughts and floods are the major climate-related threats in the county. Climate shocks and stresses also include increased aridity, soil erosion, reduced soil water retention owing to slash and burn practices and massive deforestation caused by the felling of trees for wood fuel and charcoal. Of the various types of shocks that affect Kenyan households, including

health-related, economic and political shocks, drought is the most persistent and destructive dominant hazard, according to the number of people affected, the area affected and the aggregate economic costs, estimated at \$12.1 billion from 2008 to 2011 (Republic of Kenya, 2012). In Wajir, drought is particularly destructive because it has a direct negative impact on livestock, which is the main source of food and livelihood.

The majority of people in Wajir practise pastoralism. Traditional pastoralism is a production system, with families deriving their livelihoods substantially or wholly from livestock that forage on naturally occurring rangelands. Men and boys often travel with the animals seeking water and grazing land. Families rely primarily on milk, but also on meat for nutrition, selling livestock as needed for income. It is common to buy goods on credit from shops and then to sell off animals from the herd to pay off the debt when prices are good. Building up herd sizes helps households manage risk and acquire social and financial capital. The settled rural population is largely clustered around grazing reserves and watering points. People mainly keep cattle, sheep, goats, camels and donkeys. In urban areas, it is common to keep poultry.

Though pastoralism is the mainstay for livelihoods, herding is not the sole income source for many households in Wajir. In rural areas, households engage in burning and selling charcoal, fetching water for a fee and other small businesses to bring in income. In settlements and towns, people find work in trade, transport, tourism, schools, small businesses and government jobs.

Still, the majority of families depend on the land for subsistence, leaving them highly exposed to climate-related shocks and stresses. The region is facing diminishing natural resources, particularly water and rangeland during times of drought, which threatens the pastoral livelihood system.

Households that have confronted continuing droughts and reduced rangeland have found it difficult to maintain herd sizes and, when selling off their livestock, have faced low prices because similar problems have affected entire communities. This has led to a constrained local credit system and cash-poor areas. Population growth is high, and small and medium-sized towns have grown quickly in recent decades. In Wajir, like the rest of the Kenyan drylands, inequality is widening, deepening uneven access to public resources.

3.2 Kenyan (adaptive) social protection and cash transfer systems

The HSNP is one of the four cash transfers under the National Safety Net Programme (NSNP) also known as *Inua Jamii*, which intends to reach the most vulnerable. According to evidence from existing evaluations summarised in a recent World Bank study, the NSNP has improved the welfare and resilience of the households that benefit from these programmes. Under the NSNP, more than 500,000 households receive cash regularly, and an additional 275,000 households in northern Kenya receive cash through the HSNP to help manage the impacts of droughts (Mwasiaji et al., 2016).

Three national cash transfer programmes under the NSNP are implemented by the Ministry of Labour and East African Affairs: the Cash Transfer for Orphans and Vulnerable Children (CT-OVC), the Older Persons Cash Transfer Programme (OPCT) and the Cash Transfer Programme for People with Severe Disability (CT-PWSD). The National Drought Management Authority (NDMA) under the Ministry of Devolution and Planning implements the HSNP. While the HSNP currently operates only in the poorest four arid counties of Kenya – Turkana, Mandera, Marsabit and Wajir – the three other programmes cover the entire country.

The HSNP is an unconditional cash transfer programme that is part of the national Ending Drought Emergencies (EDE) framework – Kenya's contribution to a regional effort to reduce the risk of humanitarian crisis in the wake of the 2011 Horn of Africa drought. The HSNP cash transfers are delivered in two ways: 1) a regular bimonthly cash transfer is made to chronically poor beneficiaries – regular beneficiaries; and 2) a cash transfer is made in a drought emergency to additional households – emergency beneficiaries. The HSNP has scaled up over 20 times to up to an additional 212,000 households (Oduor, 2018).

In 2012, the HSNP registered all households living in the four counties where it operates in its database, though not all receive transfers through the programme. In Wajir, the HSNP registered 96,288 households; of these, 19,201 are targeted to receive routine HSNP payments. When there are severe levels of drought, transfers can be scaled up to a further 25% of households in affected sub-counties in any given month. In the case of extreme drought, the programme covers an additional 25% of households.⁷ Because drought severity can differ across sub-counties, the duration of assistance received by beneficiaries also varies across locations. Unlike the OPCT, the CT-OVC and the CT-PWSD, which target other aspects of vulnerability, the HSNP targets poverty. Indicators that are considered in the poverty score include, for instance, living conditions, structure and size of household, health, education, livelihood, food security and nutrition.

The HSNP first started providing cash transfers to beneficiaries in 2009. These were transfers of KES 2,150, or roughly \$27 (at the January 2009 exchange rate), every two months for beneficiaries of regular transfers. The second phase of the HSNP began in

7 www.hsnp.or.ke/

March 2014, providing cash transfers of KES 4,900, around \$57 (at January 2014 exchange rates) every two months; amounts have since been adjusted to KES 5,400 (or \$53 at the January 2019 exchange rate). Emergency transfer beneficiaries receive the same amount but on a monthly basis – that is KES 2,700 (roughly \$27) a time – for those months when the drought alert is raised.

This research builds on evaluations of the HSNP, which have demonstrated that households use the cash transfers primarily for food, increasing household food consumption and meeting immediate, basic needs. On receiving the transfer, households spend money primarily on food and to repay debt because beneficiaries commonly purchase food and basic goods on credit during a difficult period and repay when they receive the transfer. The transfer thereby improves the beneficiary's 'credit-worthiness' with friends, neighbours and local traders. A portion of the cash is also used for education, home improvement and other immediate needs. Few beneficiaries were found to be able to save a portion of their cash to accrue productive assets over time. It was not common for beneficiaries to finance longer-term investments in productive assets or livelihood activities (Merttens et al., 2017b).

3.3 Recent developments around graduation in Kenya

The World Bank and the Kenyan government are pursuing social and economic inclusion services through the Kenya Social and Economic Inclusion Project. The project aims to support the HSNP and the NSNP, to better link NSNP beneficiaries to the National Hospital Insurance Fund and to expand nutrition-sensitive safety nets. In addition, the project seeks to expand NSNP coverage and improve the programme's effectiveness

in supporting households vulnerable to climate-related shocks and stresses.⁸ Several NGOs, government agencies and development partners are interested in promoting the graduation of HSNP beneficiaries and in strengthening the evidence base around graduation of the ultra-poor more broadly. In partnership with Mercy Corps, the BOMA Project was pursuing a graduation model – coaching, business training, savings, financial literacy and access to financial services – for women to launch businesses in Wajir and Turkana, Kenya (BOMA Project, 2016), through the Rural Entrepreneur Access Project. Part of the programme was done in partnerships with the International Livestock Research Institute to integrate IBLI into the graduation model (Mills and Russell, 2018). In 2016, the Kenyan government initiated two graduation pilot projects under the PROFIT Financial Graduation Programme with support from IFAD and technical assistance from BRAC, as part of the Programme for Rural Outreach of Financial Innovations and Technologies. These are implemented by CARE International Kenya and the BOMA project in Kitui and Samburu counties (BRAC USA, 2018). CARE is also implementing a second graduation pilot in the drylands of Marsabit with support from FSD Kenya. This pilot works directly with beneficiaries of the HSNP, providing them with training on savings and loans, business skills and financial literacy.⁹

⁸ <http://projects.worldbank.org/P164654?lang=en>

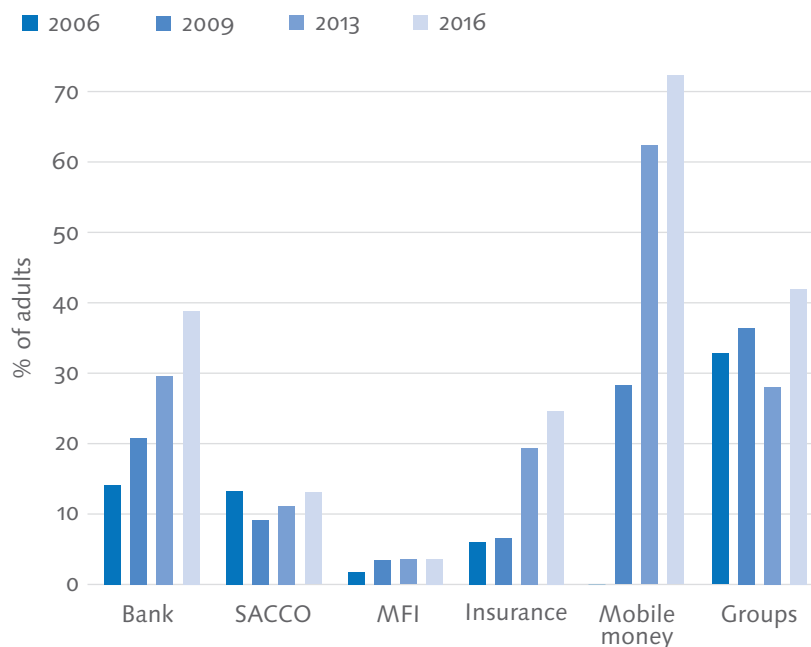
⁹ <https://graduatingpovertyinkenya.files.wordpress.com/2018/10/care-international.pdf>

3.4 Financial inclusion in Kenya's northeast

Kenya's financial sector is considered larger, further developed, more diversified and more efficient than that of other countries with similar income levels (Making Finance Work for Africa, nd). Over the past decade, financial inclusion has rapidly increased in Kenya and is relatively high overall compared with other countries across the East African region. Between 2013 and 2016, the number of people accessing any sort of financial services via a formal or informal financial institution in Kenya increased from 74.9% to 82.6%. This rapid increase was driven largely by an expansion of mobile money. While mobile wallets or banking were non-existent in 2006, usage increased to 71.4% in 2016 (Figure 2). Of this, close to 70% used these accounts to send money to and receive money from family and friends.¹⁰ Mobile phone platforms, along with a growing bank agent network, also contributed to a rise in registrations for bank accounts (FSD Kenya, 2016).

¹⁰ Authors' calculations based on data from the Kenyan FinAccess survey (FSD Kenya, 2016).

Figure 2: Access to formal and informal financial services (% of adults)

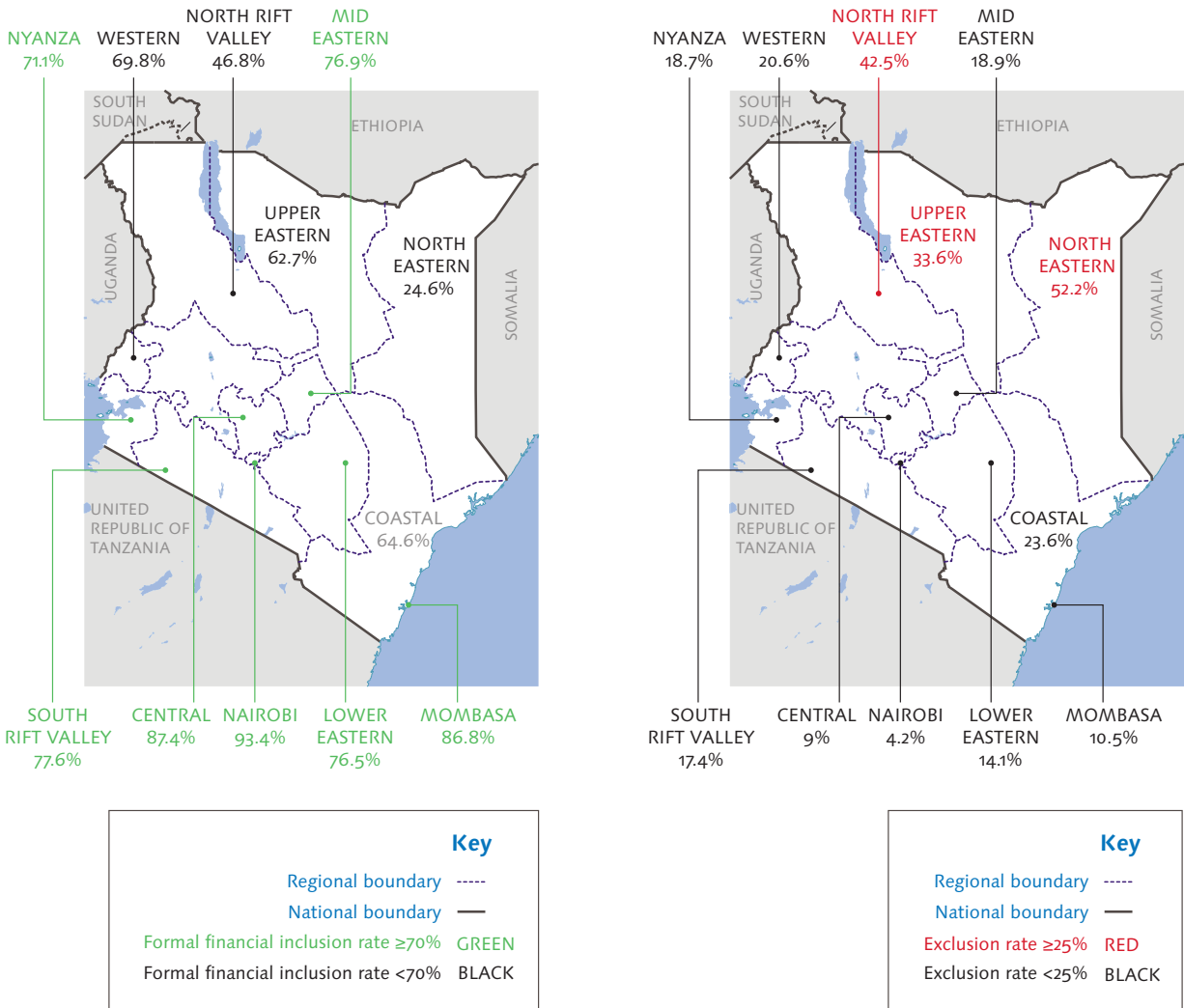


Source: FSD Kenya (2016).

However, differences in access to and use of financial services across Kenya remain and are rising in some cases. Despite an overall increase in financial inclusion, the rural–urban financial inclusion gap has grown in recent years. Whereas exclusion from access to any financial services was at similar levels in rural and urban contexts in 2006, 'exclusion in rural areas is now roughly double that of urban areas and is falling much more slowly' (Central Bank of Kenya et al., 2016b). Exclusion also remains high in the poorest wealth quintile (42%) and among those with no education (46.2%) (ibid.).

Furthermore, contrasts between geographic areas of the country are stark. The North-eastern region, which includes Wajir, has both the lowest rate of access to formal financial services and the highest rate of exclusion from any financial service at over half of the total population (Figure 3).

Figure 3: Formal financial inclusion (left) and exclusion from any type of financial services, including formal and informal (right) per county cluster¹¹



Source: Central Bank of Kenya et al. (2016b).

¹⁰ The FinAccess survey clusters various counties into sub-national entities as per the following definition: North Rift region (Turkana, Samburu and West Pokot), Central Rift region (Trans Nzoia, Baringo, Uasin Gishu, Elgeyo Marakwet, Laikipia, Nakuru and Nandi), South Rift region (Kajiado, Narok, Bomet, Kericho), Nyanza region (Kisumu, Siaya, Migori, Homa Bay, Kisii, Nyamira), Western region (Kakamega, Vihiga, Bungoma, Busia), Central region (Nyandarua, Nyeri, Kirinyaga, Murang'a Kiambu), Lower Eastern region (Kitui, Machakos, Makueni), Upper Eastern region (Marsabit, Isiolo), Mid-eastern region (Meru, Tharaka Nithi, Embu), Coastal region (Tana River, Lamu, Taita Taveta, Kwale, Kilifi), North-eastern region (Garissa, Wajir, Mandera).

Compared with the rest of the country, Wajir is underserved by formal and semi-formal financial institutions. The percentage of the population living within a 5 km distance from financial service locations was at less than 20% in 2013, which is among the five lowest of Kenya's 43 countries. The number of total financial service providers in Wajir – including commercial banks, bank agents, mobile money agents, ATMs, post offices, money transfer services and insurers – has increased in recent years from 154 in 2013 to 234 in 2016. Nonetheless, the county still remains well below the national average in service providers relative to population (Bill and Melinda Gates Foundation, 2013; Bill and Melinda Gates Foundation et al., 2016).


3.5 The PROGRESS project strategy and implementation in the context of Wajir

Recognising the low levels of financial inclusion in Northern Kenya, the PROGRESS project has emphasised the provision of adequate financial services through the development of financial market systems and products in Wajir. This aims at strengthening the absorptive and adaptive capacities of people and at driving transformative growth (Hujale and Mutisya, nd).

Since its start in 2015, the PROGRESS project has supported the formation of new VSLAs and facilitated training for existing ones, for instance on business skills and record-keeping. PROGRESS has also helped VSLA groups and individuals access formal financial services tailored to their needs. This has been approached through several activities on the supply and the demand side, for instance by raising awareness about microfinance among the local population, key community leaders and religious authorities. To enhance the provision of adequate products, Mercy Corps

(through BRACED and other programmes) has enabled the design and delivery of financial services that address the financing needs of livestock traders.

Finally, PROGRESS has worked with an existing financial service provider, CTS, to offer tailored-to context financial services and to establish branches in Wajir town and Habaswein. The objective of this partnership has been to enhance access to financial services in underserved Wajir county and fill a gap in the Islamic microfinance space in the predominantly Muslim County (see Weingärtner et al., 2019b for a more detailed overview of PROGRESS financial service interventions in Wajir). While some of the larger banks with branches in Wajir operate Sharia-compliant windows, these are less accessible to lower-income clients owing to higher fees and missing links with group-based lending.



4. METHODOLOGY AND STUDY SITES

IMAGE:
WOMEN MAKING
A NEW HOUSE.
PICTURE TAKEN
BY: OXFAM
EAST AFRICA

4.1 Research methodology

This study expands on existing literature and contextual knowledge discussed in the previous sections through the analysis of original data collected at national and county level in North-eastern Kenya. The research builds on a mixed-methods approach including qualitative and quantitative data and analysis. Data collection comprised key informant interviews (KIIs), a survey and focus group discussions (FGDs).

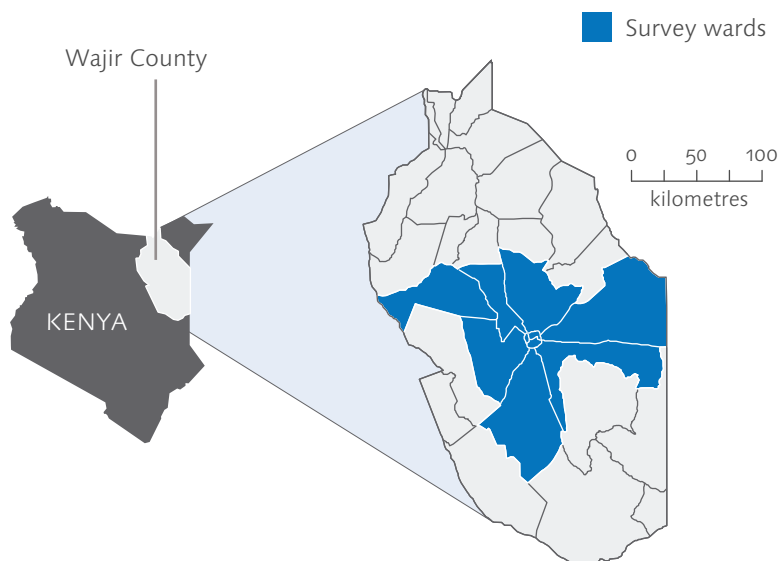
The main objective of the KIIs was to gain an overview of recent practical developments and debates around graduation and financial inclusion agendas in Kenya and to capture the views of stakeholders on the policy and supply sides about the potentials and challenges of linking financial services and social protection.

The survey aimed first to generate a better understanding of the use of loans from CTS and clients' financial decisions in their daily lives and in times of drought – something the PROGRESS project was keen to learn more about to help assess the relevance of its interventions. Second, the survey was conducted with the intention of evaluating the use of financial services among HSNP beneficiaries and analysing complementarity of financial services and cash transfers for resilience.

The FGDs were meant to complement and corroborate the findings from the KIIs and the survey by contributing detailed data about livelihood patterns, risk management strategies, use of financial services and challenges related to access and adequacy of financial products.

4.2 Overview of study sites

Wajir county was chosen as the major study site because both PROGRESS and the HSNP operate widely across the county. As well as fieldwork carried out in Wajir in July 2018, KIIs and stakeholder consultations took place in Nairobi and Wajir town throughout May to August 2018.

Figure 4: Study sites

Source: Authors, based on administrative boundary information from the Database of Global Administrative Areas (<https://gadm.org/index.html>).

Owing to ongoing clan clashes in north Wajir during the duration of the research, the security risk near the border to Somalia and high risk of flooding in May and June 2018, it was decided to restrict the survey to selected locations in 10 wards (Figure 4). Suitable locations were identified together with local experts from the PROGRESS team to minimise risk for enumerators and to ensure the sample adequately represented both urban and rural contexts.

4.3 Data collection and analysis

4.3.1 Key informant interviews

The first stage of the field research consisted of KIIs with 23 stakeholders from 16 different organisations, including government agencies active in disaster risk management and social protection, civil society organisations, banks and SACCOs, research institutions, donors and financial inclusion initiatives. Interviews were conducted between May and August 2018 via Skype or in person in Nairobi and Wajir town (Annex 1 provides a list of interview partners).

4.3.2 Survey

Interviews were followed by a quantitative survey, which was informed by initial stakeholder consultations, interviews and the PROGRESS approach to monitoring and evaluation. The design also drew on tested and proven survey modules on financial inclusion from the World Bank's global Findex (World Bank, 2017) and FSD Kenya's FinAccess Household survey series (Central Bank of Kenya et al., 2016a, 2016b). Relevant questions about respondents' subjective resilience capacities emerging from BRACED's Rapid Response Research (RRR) in Myanmar were also included (Jones, 2018). These questions were used to assess subjective resilience indicators and overall scores of respondents. Instead of the nine resilience-related capacity questions used in the RRR 9C model, we built a resilience score based on four of the capacities and overall approaches in line with the BRACED definition of resilience: absorptive, adaptive, anticipatory and transformative.

The survey was implemented in Wajir county in early July 2018 (Figure 4 shows the wards where the survey took place). Survey interviews were administered by experienced survey staff

after they were trained on the questionnaire. The survey was supervised by the PROGRESS monitoring and evaluation officer and quality controlled by the research team. It targeted:

- clients of CTS, the financial service institution working with the PROGRESS project in Wajir county
- beneficiaries of regular HSNP transfers in selected wards of Wajir county
- beneficiaries of HSNP emergency transfers in selected wards of Wajir county.

In June 2018, 105 individuals had taken out at least one loan – either as individuals or organised in groups – through CTS via the Wajir town branch. Given this relatively low number of clients at the time of the study, the team decided to target all borrowing clients for the survey.

Beneficiaries of HSNP regular and emergency transfers were randomly sampled from registry lists for Wajir county provided by the NDMA, which operates the programme, within the pre-identified locations (see overview of study sites in Figure 4 and a description of the beneficiary lists in Annex 2). According to these lists, 18,976 households had been registered as recipients of regular transfers and 35,426 as emergency transfer recipients in April 2018. Sampling took place separately from the list of emergency transfer beneficiaries and the list of regular transfer beneficiaries so as to ensure a sufficient number of respondents from both groups. Owing to the limited detail available in these lists, the sample was not further stratified by gender, location or other categories.

Initially, some overlap of survey group 1 and survey group 2 or 3 was expected. However, in practice, overlap was small, with only 12 cases of respondents being both HSNP beneficiaries

and CTS clients (for more detail see Table A2.1 in Annex 2). Although the existing overlap provides some indications of complementary effects between social protection and financial services, results should be treated with caution and need further corroboration.

Quantitative data was processed and analysed using Stata. The majority of data was used to produce descriptive statistics on the characteristics, financial service use and resilience capacities of HSNP beneficiaries and CTS clients. Furthermore, an independent t-test was conducted to assess differences in the mean subjective resilience score for HSNP financial services users versus HSNP beneficiaries not using any financial services.

4.3.3 Focus group discussions

FGDs were conducted after the survey by one of the authors in collaboration with a PROGRESS officer and with support from the PROGRESS team in Wajir. Nine focus groups were held with between four and eight participants in each group (see Table 1). Six villages in rural and urban areas were visited, representing a sub-sample of the survey locations that was selected together with local experts from the PROGRESS project team: Arbajahan, Barwaqo, Tarbaj, Township, Wagalla and Wagberi. Among these, Barwaqo, Township and Wagberi are located in the urban area close to Wajir town; Arbajahan, Tarbaj and Wagalla are remote rural sites in the interior of the county.

Table 1: Number of FGDs per location

	LOCATION	SUB-COUNTY	TYPE OF FGD/ INTERVIEW	BENEFICIARY GROUP
URBAN	Barwaqo	Wajir East	1 FGD women	HSNP emergency transfers
			1 FGD women	CTS
	Township	Wajir West	1 FGD mixed	CTS
			1 FGD men	CTS
			1 FGD mixed	HSNP regular transfers
			1 interview man	CTS
	Wagberi	Wajir West	1 FGD women	HSNP emergency transfers
	RURAL	Arbajahan	Wajir West	1 FGD women
1 interview woman				HSNP regular transfers
Tarbaj		Tarbaj	1 FGD women	HSNP regular transfers
Wagalla		Wajir West	1 FGD women	HSNP regular transfers

The methodology applied during the FGDs was a combination of a participatory seasonal calendar exercise and semi-structured questions. The objective of the calendar exercise was to identify the main livelihood risks and to understand patterns of seasonal vulnerability throughout the year. This was followed by a discussion on how financial services and HSNP cash transfers were used and whether they allowed households to cope with shocks in the short term, or to make investments that could reduce their vulnerability to climate and weather-related shocks and stresses in the long term.

FGDs were captured through flipcharts (for the calendar exercise), note-taking and audio-recording. The data was compiled, transcribed and translated by a research assistant together with one of the authors. The research team and authors then performed manual coding and analysis.

4.4 Limitations of the methodological approach

The restrictions to the selection of study sites described above were necessary to ensure operational rollout of the survey and FGDs without putting staff and enumerators at unwarranted risk, but also introduced limitations to the methodology. Most importantly, while survey findings are representative for HSNP beneficiaries at the selected ward level, they are not representative for the county as a whole or across Kenya. Primarily, wards with ongoing conflict or a tense security situation and at a greater distance from the urban centre of Wajir town were excluded, and findings should not be generalised across these locations. Overall, we would expect such wards to have lower access to financial services compared with the wards included in this study.

Second, respondents were sampled from pre-identified groups of people (CTS loan users, as well as HSNP regular and emergency transfer recipients) and not from the general population, meaning all respondents were CTS clients, HSNP beneficiaries or both. This strategy was chosen to ensure sufficient sampling from the main groups of interest, which would not have otherwise been possible given resource and time constraints. This helps provide an in-depth description of these specific groups but limits comparability with the population as a whole. Nonetheless, findings on a range of critical financial

inclusion and resilience metrics can be set in context of the wider population in Wajir and across Kenya because the survey included a range of questions also asked in other major surveys that are representative at the national (e.g. the World Bank's Global Findex) or sub-national level (e.g. FSD Kenya's FinAccess household survey).¹²

A third major challenge was working with the HSNP beneficiary lists provided by NDMA. The lists were first compiled in 2012 and have not been comprehensively updated since. In some cases, enumerators struggled to find individuals identified as respondents based on the contact details held by the survey team. In several instances, people had relocated for various reasons, including seasonal migration and conflict or social tensions between different groups. Of the initial sample of 347 people, 257 people could be interviewed for the survey (see detailed distribution across survey groups in Annex 2). The main reasons for interviews not taking place were that people could not be found at the given location or were not available for the interview (31 cases); people had migrated either temporarily to look for better pasture and care for animals or permanently for other reasons (26 cases); and people were physically or mentally not fit to be interviewed, had fallen ill or had deceased (23 cases). As the initial sample size was overestimated in anticipation of this challenge, and because patterns of presence and absence were similar between the HSNP regular and emergency transfer beneficiary groups, non-respondents were not replaced in the sample.

¹² The last wave of the FinAccess household survey sample from 2015 is representative at national level and for 13 sub-national county clusters. One of these clusters is the North-eastern region, which comprises Garissa, Mandera and Wajir.

Finally, though the methodology initially aimed to use gender-specific FGDs, this had to be adjusted across all sites owing to variations in the availability of informants of both sexes, as well as generally low numbers of HSNP and CTS beneficiaries per site. It was particularly challenging for the research team to find male respondents, which led to an overrepresentation of female FGDs in the study.¹³ The HSNP focus groups were also designed to consist of different groups for HSNP beneficiaries who receive regular transfers and for HSNP beneficiaries who receive transfers only when an emergency drought alert is issued. However, HSNP beneficiaries were often unclear themselves on whether they received regular or emergency transfers. It often became apparent during the discussion that both types of beneficiaries were present.

The research team also encountered several challenges in finding sufficient FGD respondents and had to cancel research in some sites as a result of low attendance. The research team called informants a day before to remind them about the meeting but people tend to switch off their phones to save battery or are unable to charge them.

¹³ Though slightly more women than men are registered as regular recipients of HSNP transfers (see Table A2.3 in Annex 2), this does not explain the gender difference in FGDs, especially since about half of CTS clients are male and half are female.



5. FINDINGS

IMAGE:
ISMAGAL WOMEN
GROUP IN
ISIOLO ARE IN
A TABLE BANKING
MEETING.
PICTURE TAKEN
BY: CTS ACP-EU

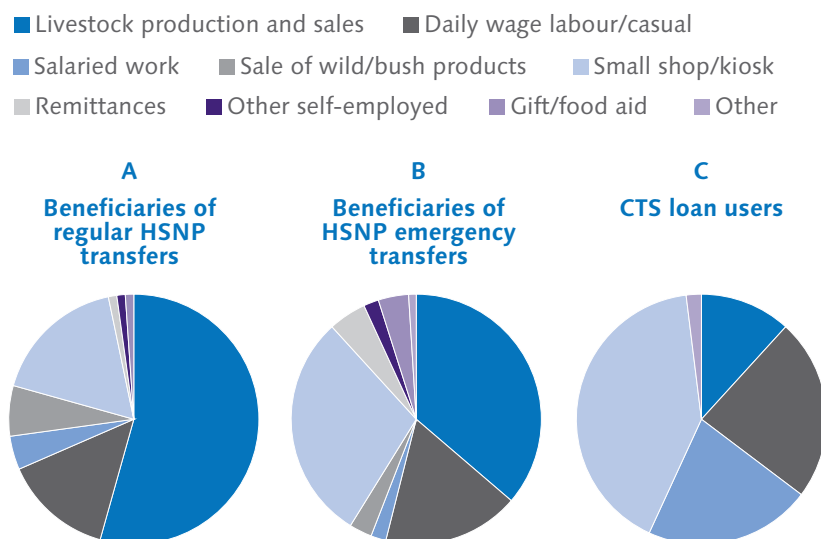
The following findings illustrate from the perspective of CTS clients and HSNP beneficiaries what types of financial services are available to them, how financial resources – including transfers, loans and savings – are used, whether and how they support people in preparing for and coping with shocks and the extent to which they help recipients make longer-term livelihood investments that increase their resilience to climate-related shocks and stresses. The section also draws conclusions on the opportunities and challenges of integrating social protection with resilience interventions, particularly those focused on financial services.

5.1 Livelihood characteristics of HSNP recipients and CTS clients

The livelihood characteristics of HSNP recipients are distinct from those of CTS clients. Participants in the HSNP focus groups reported that their livelihoods were linked to livestock-keeping and petty trade, particularly of charcoal, firewood, herbs, resins, gum and vegetables/groceries; some are involved in subsistence farming. Throughout discussions, participants often mentioned rearing goats, meat and milk production and selling animals during difficult seasons to purchase fodder for the remaining animals. Livelihoods for respondents depending on agricultural and pastoralist livelihoods in Wajir are highly seasonal and vary depending on the time of the year (see Box 5 and Figure 7).

Research participants in the CTS FGDs reported their livelihoods as being in the formal sector or entrepreneurship, with men mainly working in the transport sector and as *boda boda* drivers and women selling charcoal, firewood and *nyirinyiri*, which involves drying meat, preserving it for up to eight months and selling it. Notably, the CTS respondents in the sites closer to Wajir town had full-time jobs, such as teachers, hostel industry staff and NGO staff. Overall, CTS clients drew a much larger share of their household income from small businesses and salaried work (Figure 5). The differences in livelihoods suggest that those with steadier, higher household income-generating activities are more likely to be connected to formal financial services.

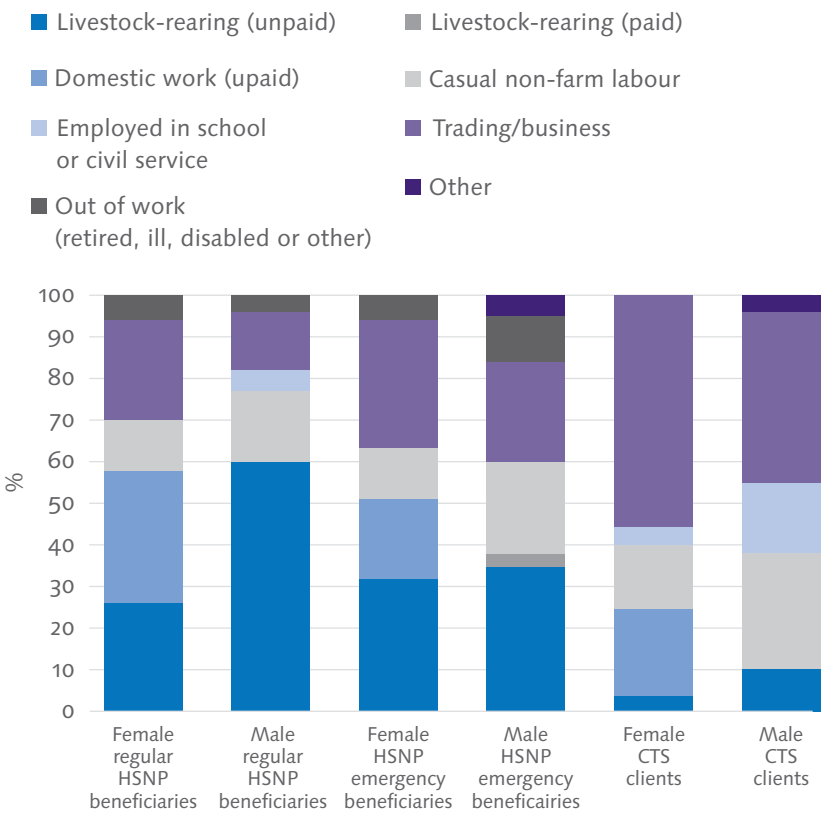
Figure 5: Main sources of household income for A) beneficiaries of regular HSNP transfers; B) beneficiaries of HSNP emergency transfers; and C) CTS loan users



Source: Authors, based on survey data.

Women who are CTS clients tend to engage mostly in trading or business, followed by unpaid domestic work and casual non-farm labour. They are much less likely than women in the HSNP programme to engage in livestock-rearing or to be out of work. Among men in the HSNP, livestock-rearing is the most prominent activity, though trading or business activities and casual labour are also common (Figure 6).

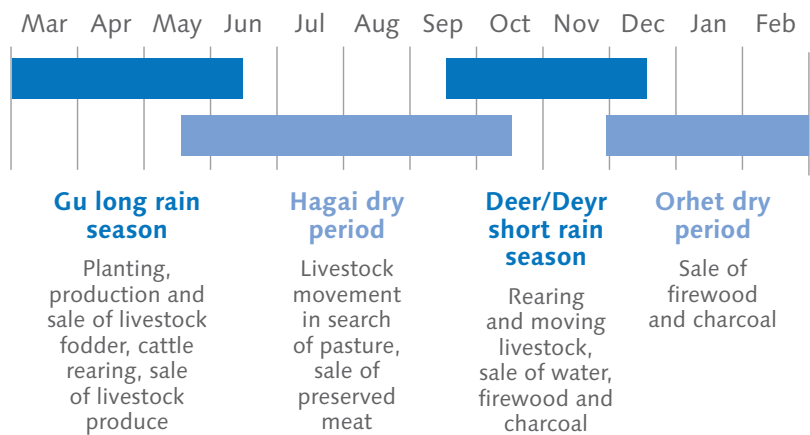
Figure 6: Respondents' main livelihood activity by gender and survey group



Source: Authors, based on survey data.

Box 5: Seasonal livelihood calendar for respondents depending on agricultural and pastoralist livelihoods in Wajir¹⁴

Figure 7: The seasonal calendar for farmers and pastoralists in Wajir



Source: Authors, based on focus group data.

For respondents, the year begins in March and ends in February the following year. The most labour-intensive season is the rainy season (Gu), which normally occurs between March and May. During this season, there is enough water and pasture, and herders who have migrated in search for pasture return to their homesteads with the livestock. It is during this time that plenty of livestock activities take place, including the sale of meat and milk. Generally, men are more involved in cattle-rearing while women take care of the goats. However, both men and women take part in milk-processing and sale.

Farming is the second most important activity that both men and women engage in during this season. Men are in charge of preparing (digging and ploughing) pieces of land close to their homes, while planting is done by

¹⁴ The information on livelihood seasonality was gathered during the seasonal calendar exercise of the FGDs with people dependent on agricultural and pastoralist livelihoods. The months provided are approximate because the seasons can vary in length and intensity.

both sexes; later on, women do the weeding. They plant watermelons and vegetables (spinach), sell animal products and cut the grass to sell as fodder. Women sell fodder but men cut the grass. Women are more involved in planting vegetables on small plots and preparing the food. During the harvest season in the months of June–July, the women transport their farm produce to the nearby markets.

During the dry period between June and September (Hagai), it is usually cold and windy and life is considered hard. There is insufficient grazing land, which leads to a deterioration in livestock health and affects the quality of meat. Herders move further away with their livestock in search of grazing areas, which reduces people's access to animal products. Because of this, meat prices tend to increase. According to respondents, this is the time when they start producing and selling dried camel meat called *nyirinyiri*, which can last up to eight months. Women purchase left-over camel meat from camel owners after the animal is slaughtered at a cheap price. During this period, the price of vegetables in the market increases because they have to be sourced from far away as a result of limited local production.

The short rainy season (Deer/Deyr) usually begins in October and continues until December. The start of the rains can vary significantly and sometimes does not occur until the beginning of the following year. During this time, herders (mostly young men) move with their livestock in search of grazing areas that are further away. Women, meanwhile, engage in the sale of water, firewood and charcoal. Women tend to search for firewood and charcoal for several weeks, which means they have to take their families with them.

During the dry period from January to February (Orhet), both people and livestock are the most vulnerable. At this point, most people rely on the sale of charcoal and firewood to support their families. They need go deep into the bushes to find it, facing harsh conditions.

5.2 Access to financial services

5.2.1 Awareness and perceptions about Crescent Takaful SACCO

Recognising market gaps in financial service provision, CTS established the first Sharia-compliant SACCO in Wajir county in 2017. CTS offers savings, lending and investment services for individuals and groups following Islamic banking principles. It provides a range of products, including *Ayuta Sokoni*, which pools funds from entrepreneurs to support them in various aspects of trade such as restocking their products. *Ayuta Al-Rafiq* is another product, which enables groups of friends to come together to define economic objectives such as co-investments in business and to pool resources. CTS also has the *Mifugo Kash Kash* product, which aims to empower small-scale traders to purchase livestock and access markets outside Wajir to boost their income. In Wajir, CTS operates through two branches: one in Wajir town and one in Habaswein. Its clients are mostly located in the vicinity of these two branches.

Respondents across the three CTS focus groups said they trusted CTS because it was Sharia-compliant and did not charge them interest. However, they also complained about the hidden administrative costs of taking out loans, which CTS had not clearly explained to them during application. This had affected their trust in CTS and respondents said the costs should be more clearly communicated. The application process was also considered too long and time-intensive (around two to three weeks). Nonetheless, clients generally expressed an interest in continuing to work with CTS and were keen to try out the different products, such as *Mifugo Kash Kash*.

In general, the services CTS provides are known mainly to people who live close to Wajir town. Most of the HSNP recipients consulted in Arbajahan, Tarbaj and Wagalla were not aware of CTS but expressed a willingness to join such a financial facility if it was available in their location. Only in Township were HSNP beneficiaries aware of CTS. One respondent noted that he was still wary because of the issue of interest. Despite efforts to raise awareness and work with local religious leaders, CTS continues to face challenges of mistrust and uncertainty about the compliance of its products and operations with Islamic finance principles.

5.2.2 Access to formal and informal financial services

Access to financial services among respondents generally seems to depend on proximity to Wajir town and other urban hubs. HSNP beneficiaries in the most remote villages, Arbajahan and Tarbaj, reported not using any type of financial services, not even rotating credit groups, because of low cashflow (HSNP; Arbajahan, Women's group) (HSNP; Tarbaj; Mixed group). Arbajahan has an Equity Bank branch but HSNP beneficiaries choose not to use it because of the interest attached to loan products. They are also not familiar with mobile banking. While *Ayuta*, merry-go-round savings groups or rotating credit groups could be a desirable option in these remote locations, respondents said they were unable to start groups because of a lack of cash. For *Ayutas* to work there needs to be a certain level of cash flow in the economy, which is a challenge in the more remote areas, where people rely heavily on subsistence and the trading of goods. Overall, the survey confirmed that lack of cash was the main constraint to saving among HSNP beneficiaries.

HSNP beneficiaries in Wagberi and Wagalla do use *Ayuta*. Generally, *Ayuta* is considered a more accessible source of financing than banks or other more formal financial institutions because it

can be started at any time, by anyone, and does not require official documentation from members. HSNP participants also prefer loans from *Ayuta* groups to those from more formal financial institutions because banks can claim important assets put down as collateral for a loan in case of default.

We would rather take out the loan from Ayuta that is not much money, but we can repay it. [To access loans from banks], we are required to show collateral in the form of assets such as land titles. We do not want to risk losing assets as collateral.
(HSNP, Wagberi, Mixed group)

These sentiments resonated with HSNP beneficiaries more broadly: close to 80% of HSNP respondents in the study locations regarded fear of not being able to pay back the loan as the main reason not to borrow money.

Access to *Ayuta* is often also determined by the type of business people are engaged in. The groups are formed according to what people do on a daily basis. As one respondent noted:

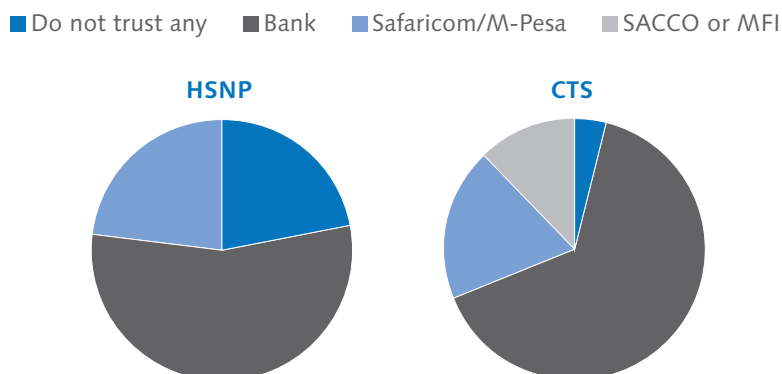
Depending on the group, for example, [there is] Ayuta for milk sellers, Ayuta for Sukuma wiki. One can get cash after one week, for example they give out 500 shillings on a daily basis which goes to one member.
(HSNP emergency transfer group, Barwaqo, Womens' group)

Having savings groups with people engaged in a similar business also seems to give members the confidence to be able to check on others better. Contributions given to a specific member are supposed to be used to buy more goods to improve their business. Defaulters are usually banned from taking out more money, which means that, when it is their turn for payout, they are skipped. Despite these benefits, groups being economically homogenous may also have negative implications for resilience,

as all members face similar risks, pointing to a potential trade-off between diversification of livelihood strategies and the confidence or oversight needed for the group to function well.

In an effort to link savings groups with the more formal financial services it offers, CTS also builds on *Ayuta* structures for some of its financial products, including *Ayuta Sokoni*, which pools funds from entrepreneurs to support them, for example to restock goods. However, there was significant suspicion among HSNP respondents towards financial service providers, based on negative experiences in the past where people had had to pay very high interest on their loans.¹⁵ This suspicion also extended to CTS, and many respondents believed CTS would charge interest – despite it applying Islamic banking principles.

Figure 8: Most trusted financial institution among HSNP beneficiaries and CTS clients



Source: Authors, based on survey data.

¹⁵ Credit facilities were once provided through the national Department of Social Services, where a group of 10 members would receive KES 10,000, but this scheme ended. They also once received loans through Oxfam to make traditional mats (*duful*). The interest charged for these loans deterred people from borrowing. This programme has since ended.

When asked which financial institution they trusted most out of the ones they knew, both HSNP and CTS respondents seemed to have the highest confidence in formal banks.¹⁶ However, among HSNP beneficiaries, mistrust in financial institutions was also high, with 22% not trusting any financial institution (Figure 8). In comparison, this rate was only 3.92% among CTS loan users.

While bank branches, including Equity and KCB, are readily accessible in Wajir town, uptake of services from these formal financial institutions is low across respondents. Some of the CTS clients use Kenya Commercial and Equity Bank to save (CTS, Township, SHG) or to pay school fees for their children. For example, some members of a CTS loan group have migrated to Wajir town and left families in Meru. Since CTS is not accessible in their home, they have opted to use a bank that they can access while outside of Wajir. Though people are reluctant to use banks to take out loans because of the interest charged, some access short-term loans from KCB via M-Pesa (CST, Township, Men's group). Through this facility, they can request KES 1,500 (almost \$15 at the January 2019 exchange rate) and repay after one month. Respondents sometimes resort to this strategy when products are available on the market at a cheaper price and they do not have ready cash. Another reason for taking out these short-term loans is to respond to demands such as for school fees or health emergencies.

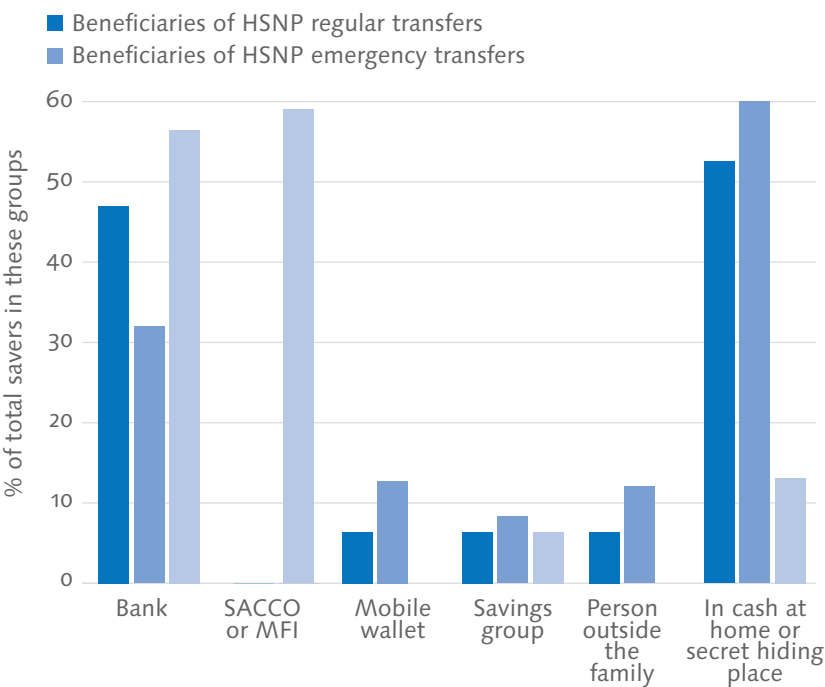
¹⁶ Though one of the reasons for this may also be the low level of knowledge HSNP respondents have about other financial institutions. However, CTS clients also showed most confidence in banks (64.71%), despite their familiarity with SACCOs, confirming this trend of relative trust in formal banks.

Saving in banks is a relatively common strategy not only of CTS clients but also of those HSNP beneficiaries who have managed to save money. In the 12 months prior to the survey, 18.5% of regular transfer beneficiaries and 24.5% in the emergency transfer group had set aside some money, mostly on a monthly basis. Of these, 47% and 32%, respectively, use banks for this purpose. Though data from this study does not conclusively explain the differences between the two HSNP beneficiary groups, some of the variation in overall saving rates may be because poverty levels are lower among emergency transfer recipients than among regular recipients,¹⁷ so they may simply have more money available to save.

The higher rate of bank savings among those regular HSNP beneficiaries who save, compared with saving emergency transfer recipients, may be related to their receiving more steady money flows through the HSNP into their accounts, though this would need corroboration. In any case, it appears that money is kept in bank accounts only for short periods of time, with the vast majority of recipients tending to withdraw transfers right away, either to spend all of it immediately or to spend some and save the rest in cash for later. Saving in cash at home or in a secret hiding spot remains the predominant strategy for HSNP savers (Figure 9).

¹⁷ As explained in Section 4, HSNP targeting is based on households' poverty scores, with the poorest households covered by regular transfers.

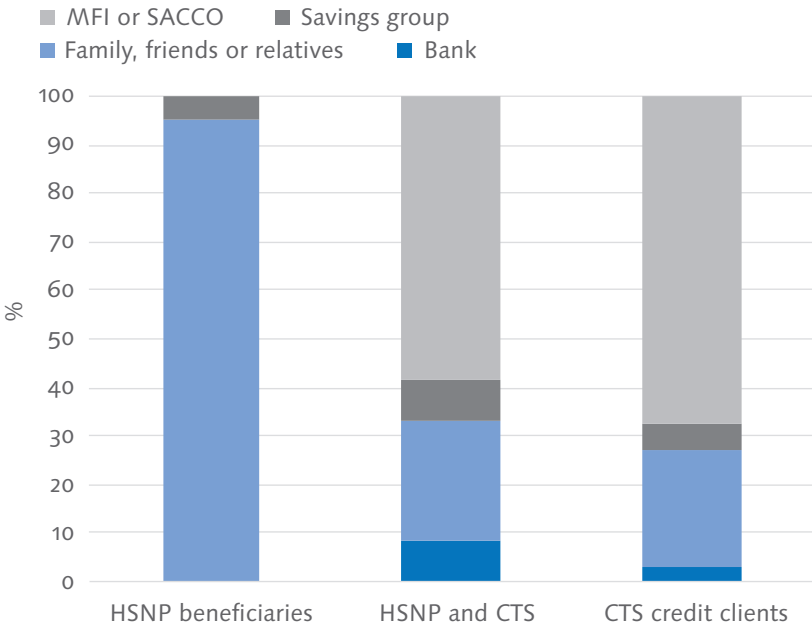
Figure 9: Savings per location among HSNP beneficiaries (% of those who save money)



Source: Authors, based on survey data.

Borrowing money is not very widespread among HSNP beneficiaries. Only 7.61% of people receiving regular cash transfers and 13.73% of those under the emergency cash transfer programme had taken a loan, irrespective of its source, during the 12 months prior to the survey. For those who had, borrowing from friends and family played an important role, while in total only eight HSNP beneficiaries in the sample – those who were also CTS members – had accessed a loan through a formal financial institution, including banks, MFIs and SACCOs (Figure 10).

Figure 10: Source of loan for those who have borrowed money over the past 12 months per group



Source: Authors, based on survey data.

However, the level of borrowing varies and, unsurprisingly, the average value of total loans taken out by HSNP beneficiaries is much lower than that of the loans accessed by CTS clients (Table 2). In the first months from the start of its lending operations in Wajir, CTS reported having given out a total of 42 loans to 34 individuals and issued 10 loans to groups made up of an average of around 6 members each (for an overview of CTS loan cycles and values see Annex 3). Group loans allow members with lower individual financial capacity (or lower appetite for financing) to pool resources. While some groups use this as an opportunity to make shared investments, others split the capital and use it individually. Even though the average loan amount per person for people who take out group loans is much lower than

the average individual loan per cycle – KES 258,286 (or \$2,547)¹⁸ compared to KES 45,553 or \$449 – this still remains well above the financial capacity of most HSNP regular and emergency transfer beneficiaries, who had borrowed KES 20,214 (\$199) and KES 33,750 (\$333), respectively, over the entire 12 month period prior to the survey (Table 2).

Similar to the differences in prevalence of savings, we assume the differences in mean loan values between the three groups to be related to the varying degrees of income expected as a result of HSNP poverty-based targeting.¹⁹ This also reflects the state of knowledge in the wider financial inclusion literature, according to which financial service providers struggle to reach the poorest of the poor with adequate services and credit and formal insurance products may have larger gains in store for the moderate rather than the extreme poor (Hammill et al., 2008). The large gap in mean loan value between HSNP beneficiaries who are also CTS clients and the remaining HSNP regular and emergency beneficiaries could result from several factors. Those who use financial services via CTS may also be at the upper income end of the spectrum of HSNP beneficiaries, increasing their financial capacity to access larger loans. At the same time, the higher levels of lending could reflect synergistic effects between receiving HSNP transfers and using formal financial services. Given the methodology used and the low level of overlap in this study, however, this cannot be reliably confirmed from the existing data.

¹⁸ Unless otherwise specified, all currency conversions for values from original data collected through this study are undertaken based on the June 2018 exchange rate (\$1 = KES 101.3935).

¹⁹ See Section 4.3 for more detail.

Nonetheless, there seems to be some potential for HSNP beneficiaries, especially at the upper end of the financial capacity spectrum, to access loans through SACCOs such as CTS. The three smallest group loans so far given out by CTS have ranged between KES 6,000 (\$59) and KES 14,000 (\$138) on average per group member and may be manageable for certain HSNP beneficiaries, particularly those who are already saving some of their money or borrowing informally for business investments. Whether these smaller loan values are attractive to HSNP beneficiaries and financially viable in terms of maintaining operational costs for CTS in Wajir, however, remains to be assessed in more detail and needs to be demonstrated in the long run.

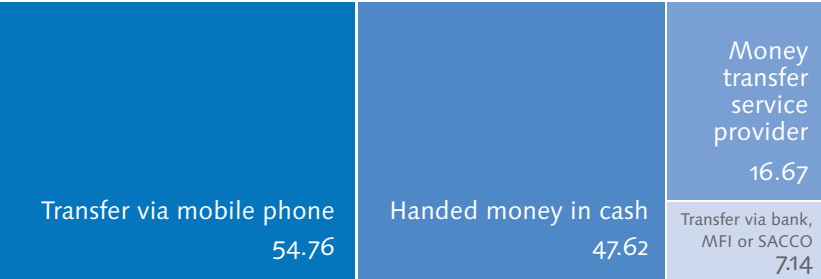
Table 2: Mean value of loans taken out by respondents who have borrowed money over the past 12 months

	MEAN LOAN VALUE (KES)	MEAN LOAN VALUE (\$)
HSNP regular beneficiaries	20,214	199
HSNP emergency beneficiaries	33,750	333
HSNP and CTS	668,571	6,594
CTS clients	517,174	5,101

Note: A few extreme outliers were excluded from this assessment. These were CTS clients who said they were borrowing from SACCOs/MFIs or friends and family only but had implausibly high loan values listed. It is assumed that this was because of recording errors. As a threshold for exclusion, the maximum amount of an individual loan issued by CTS in the relevant timeframe (KES 750,000) was multiplied by the maximum number of loan cycles over the same period (four) and then multiplied by three to account for potential loan access via additional SACCOs, MFIs, or through family and friends.

Person-to-person money transfers within Kenya overall played a role for less than one fourth of HSNP recipients and CTS clients interviewed. In the 12 months before the survey, around 15% of regular HSNP beneficiaries and 27.5% of HSNP emergency transfer beneficiaries have received money from a relative or friend living in a different city or area inside Kenya, whereas this is the case for 25.5% of CTS clients. The most common way of receiving these domestic remittances among HSNP beneficiaries is mobile money transfers, closely followed by being handed money in cash. The number of people having received international remittances is negligible.

Figure 11: Ways of receiving person-to-person money transfers from other cities or areas in Kenya among HSNP beneficiaries (% of all HSNP beneficiaries who receive person-to-person transfers)



Source: Authors, based on survey data.

Formal commercial insurance turned out to be the least used financial service among all three respondent groups in Wajir. A few CTS clients have taken out or renewed health, life or livestock insurance, while only one HSNP beneficiary had purchased any type of commercial insurance policy in the 12 months before the survey (livestock insurance). Low levels of knowledge about insurance and a lack of understanding of how it works appear to be the biggest barriers to insurance access among HSNP beneficiaries. More people seem to be aware

of the KLIP. However, with under 10%, awareness levels are by far the lowest among beneficiaries of regular HSNP transfers (compared with 22% among HSNP emergency transfer recipients and 45% of CTS clients). Again, this could be explained by the very high poverty levels in the HSNP regular transfer group. Even though the KLIP subsidises insurance premiums, limited assets and livestock ownership may reduce the value of the product to beneficiaries of regular HSNP transfers. In total, 11% of respondents from across all survey groups reported ever having been covered by livestock insurance under the KLIP, though no one claimed to have received a payout from it.

In sum, use of financial services, particularly formal ones, among among HSNP beneficiaries is very low: the majority do not use any formal financial services such as those offered by banks, MFIs or SACCOs beyond the transfers they receive from the government into the bank accounts set up for this purpose. A few people rely on informal savings groups but these are also less prevalent in the more remote rural areas. This mirrors the overall financial inclusion trends in Kenya, where the rural poor, particularly in the north of the country, are disproportionately excluded from access to financial services.

5.3 How participants use savings, loans and social protection payments

5.3.1 Use of financial services through *Ayutas* and informal borrowing

Most HSNP beneficiaries used *Ayuta* to clear their debts and increase stocks in their business (HSNP, Barwaqo, Women's group) (HSNP, Wagalla, Women's group) (HSNP, Township, Mixed Group) (HSNP, Wagberi, Mixed group). As described by respondents,

it is not possible to decide the timing of the payout in an *Ayuta*, as one has to wait one's turn. Because of the regularity of cycles, *Ayutas* help members plan how to invest money in the longer term but are less suited to supply emergency cash at any point in time. However, as the payouts happen frequently (sometimes on a weekly basis, depending on the group), members will get money during a drought – but will also need to pay into the pool. The groups themselves set pay-in requirements. Because the groups are so diverse in their economic activities, regular contributions also vary. In one women's group, for instance, members pay in KES 300 per day and receive a payout two or three times per month (HSNP, Barwaqo, Women's group). Other groups request only KES 50 per day (HSNP, Wagalla, Women's groups).

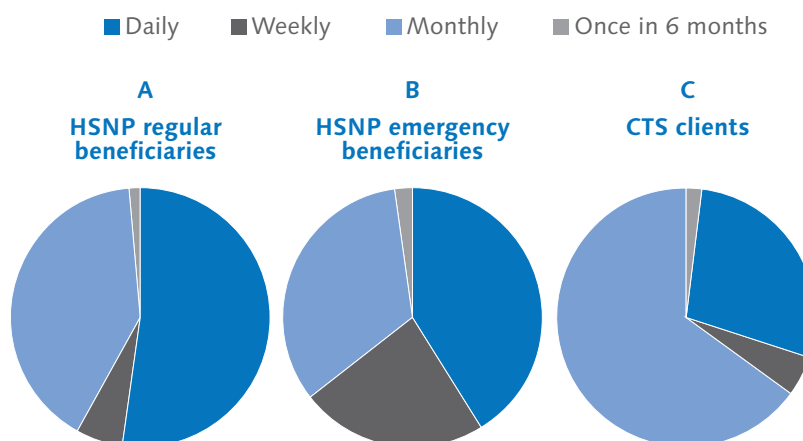
During droughts or floods, those engaged in small-scale businesses incur big losses, which can make it more difficult for *Ayuta* members to keep up their group contributions. However, the fact that members of *Ayutas* agree on a figure that is manageable for everyone to repay when a group is formed means events such as droughts or floods are ruled out as excuse not to pay one's share.

The majority of respondents would go out of their way to borrow from friends or relatives and pay the cash to avoid being deregistered from the group. Borrowing also emerged as a key coping strategy during drought, and is often the last resort people have to access cash to purchase food.

Those who borrow money informally also do so when they want to boost their stock, lack school fees or need to buy medicine. The repayment period depends on the individuals and can range from three days to several months. One respondent explained how he borrowed from friends and relatives and refunded them after an agreed period. He can borrow as much as KES 10,000 (\$99) at a time and return it in one month or even less, depending on what is agreed.

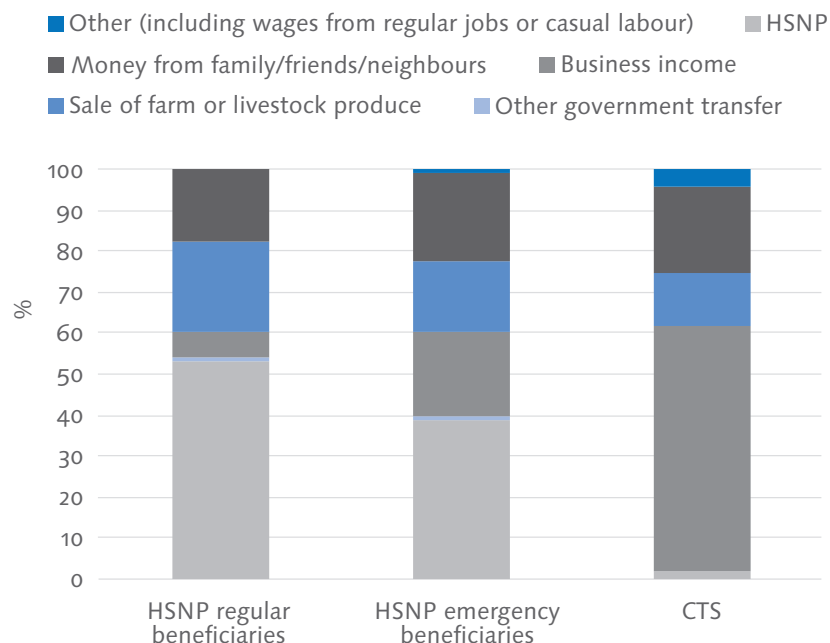
Borrowing informally from shopkeepers is very widespread among all respondent groups. Around 90% of HSNP beneficiaries had purchased something on credit from shopkeepers in the 12 months prior to the survey. Of CTS loan users, 85% had made purchases on credit, though they did so much less frequently than HSNP beneficiaries. For the most part, people under the HSNP purchase from shopkeepers on credit daily or weekly (Figure 12), whereas the majority of CTS clients do so once a month or less.

Figure 12: Frequency of purchasing items on credit from shopkeepers among HSNP beneficiaries (%)



Source: Authors, based on survey data.

The major source of repaying in-kind loans for beneficiaries is the HSNP, particularly among recipients of regular transfers, though money from friends, family or neighbours, the sale of livestock and farm produce and business income also played an important role (Figure 13). This supports results from a recent evaluation of the HSNP, which suggests that the regularity and predictability of HSNP transfers enhance the perceived creditworthiness of beneficiary households and thus increase the proportion of households purchasing on credit (Merttens et al., 2017a). It is also in line with general differences in main sources of household income discussed in Section 5.1.

Figure 13: Source of money for repaying purchases on credit

Source: Authors, based on survey data.

5.3.2 Use of formal loans

As part of this study, three groups of CTS clients that had formed for collective saving and lending were consulted through FGDs. The first group, called *Pioneer Self-Help Group*, was made up of two men and three women who were all formally employed (in NGOs, hotels and schools). They had started in 2016 as a savings group and managed to collectively save KES 300,000, which qualified them for a CTS loan of KES 900,000. This was used to purchase a piece of land and build a private school. The group is expected to repay the loan in three years and is considering taking out a new loan to keep expanding the school.

The second CTS group goes by the name *Buuri Boda Boda Group* and was founded in 2017. It comprises eight men who are all *boda*

boda drivers (motorcycles used for the transport of goods and passengers). Some also engage in other livelihood activities, such as tailoring, operating small retail shops and selling kitchenware. Up to now, the group has already taken out three loans from the SACCO. In the first round, they took out KES 100,000, which they repaid after four months. In the second round, they borrowed KES 400,000, repaying in eight months. The current loan is KES 750,000 and they are expected to repay in 12 months. Unlike the first group, the *boda boda* drivers decided to take out the loan collectively but split the money across the individual members, who invested it in a range of different activities across the various rounds (one bought a cow, others bought motorbike spare parts, another bought a sewing machine and a roll of material in the third round loan). This model has worked well for the group, which is also collectively responsible for repaying the loan.

The third group consists of six women in Barwaqo and is newly formed. It is still in the group saving stage and has not taken out a loan yet. The six women are engaged in petty trade (selling fruit and vegetables) and have plans to use a loan to diversify the types of goods to sell. They also aim to set up a business to sell *nyirinyiri*. *Nyirinyiri* is generally considered a very solid source of income, as the meat does not expire and there is constant demand. While the group has not started with its loan yet, the members were optimistic that it would assist them in expanding their business and to be able to start saving, which they can then rely on during times of drought.

These three cases exemplify the types of investments that CTS clients as a whole have been making with the loans taken out either individually or as a group through the SACCO. For the most part, clients access working capital or asset finance for business, with a majority investing in retail and grocery shops or transport, including taxis, tuk-tuks and motorcycles.

Only a handful of individuals and two of the groups have taken out a loan to invest in activities directly related to agricultural or livestock value chains that are subject to substantive seasonal fluctuations (see Box 5) and have relatively high exposure to climate-related shocks and stresses. These include livestock trading, butcher shops, milk trading and the *nyirinyiri* business of the woman's group.

In the year prior to the survey, CTS observed that livestock herders and traders took out loans mainly during the drier period in January/February, because this is when prices are relatively low. In these situations, loans can provide the additional cash needed to purchase animals at a good price for fattening. During the rainy seasons in March to May and October to November, it is mainly farmers and market dealers who take out loans. In the long dry season from December 2016 to June 2017, fewer people took out loans; instead, they relied mainly on their savings to cope. During the election period from June to September, people felt insecure about the political situation and were therefore hesitant to take out loans. Livestock trading, overall, was less interrupted by these events than other businesses, for instance those requiring stocking for market activities (KII8).

5.3.3 Use of HSNP transfers

Beneficiaries under the regular HSNP cash transfers are expected to receive KES 2,700 (roughly \$27) on a monthly basis but, because of the logistical costs involved in delivering the payment, they instead receive KES 5,400 (around \$53) every two months. Respondents observed a certain degree of irregularity in the payments, as they vary from being paid every

month to every two or three months.²⁰ The amounts also vary from one respondent to another, with a slight difference of KES 100–200 (\$1–2). The duration of HSNP assistance to respondents who had received emergency transfer over the 12 months prior to the survey varied between study locations and ranged from four months to one year.

Among respondents, there was a noted level of confusion about whether they belonged to the groups of people receiving regular or emergency transfers. There was also a certain level of resistance among beneficiaries of regular transfers who happened to receive several payments in one go (e.g. after six months) to reveal the total amount they had received and how they used the cash, so it is difficult to gauge whether beneficiaries invested in an asset that would be of long-term benefit or not. Reasons for the delay in receiving the cash included non-recognition of the fingerprints and conflicting names on the identity card.

Generally, HSNP regular transfer recipients stated that the size of the transfer did not allow them to make any significant investments. Instead, money they receive through the programme is used mainly for education expenses and consumption. The regular transfer is beneficial because it allows people to buy consumption goods on credit, as shopkeepers trust in their ability to repay them. This also means, however, that people tend to use a large share of the transfer to pay back debt. This allows people to survive but does not significantly improve their situation or move them out of poverty.

²⁰ Some of this divergence may also be related to confusion among beneficiaries about whether they are meant to receive the regular transfers (made every two months) or the emergency transfers (paid monthly for the months they are triggered), as discussed in more detail further down.

With regard to education, respondents said they used the cash to pay for school-related expenses (uniforms, material). Some also use it to pay teachers who are employed by the school board because the government employs an insufficient number of teachers in schools. Two examples were given of a parent who paid KES 600 for his three children. One woman had to pay KES 500 per child to send them to the Islamic school and another parent had to pay KES 1,200 per month to subsidise a teacher's salary.

The transfer is also used to buy food and household goods, including utensils, medicine and water for domestic and animal use. In many instances, these goods have already been purchased on credit, and the cash goes directly into paying off the debt. Following these expenses, cash is also used for livestock – either to purchase new ones (goats) or to cover veterinary costs for sick animals.

Only a few respondents are engaged in small businesses and use the cash to invest in these – for instance to trade household items in the open market, restock small mobile kiosks or acquire sewing mats (*duful*) for sale.

We were able to pay our debt, paid school fees and other family requirement, but we have not done any investment with this money because by the time we received we have a lot of debts, but if it came on monthly basis we could have done some investment as well as buy fodder.

(HSNP regular transfer group, Tarbaj, Female)

This money has helped us we can repay the credit because we are assured of receiving it.

(HSNP regular transfer group, Township, Male)

The use of the cash does not differ considerably for beneficiaries in the emergency transfer group, who also mainly prioritise the

purchase of food. However, the issue of bad credit was raised in one of the FGDs with HSNP emergency transfer beneficiaries (HSNP beneficiary of emergency transfers, Arbajahan, Mixed group). Respondents mentioned that they often received credit from shopkeepers but that those with a poor repayment record would not get credit. This raised indications – but does not provide enough evidence to demonstrate – that there may be a difference in creditworthiness between those who receive regular transfers and those who receive transfers more sporadically through the programme.

In cases where emergency transfer beneficiaries receive bigger lump sums, they are able to make larger investments. One person, for instance, had not been able to withdraw their payments for a longer period of time, so received KES 30,000 in one go and was able to build a house. However, as highlighted by the above respondent testimonies, whether investments from HSNP lump sums are possible will be influenced by a beneficiary household's ability to fund consumption and other expenditures while waiting for the larger payment. Otherwise, servicing debts with shopkeepers that have been incurred in the meantime may eat up the majority of the payment.

5.3.4 Expected long-term livelihood impacts of investments facilitated through financial services

Respondents from CTS client groups considered that being able to invest in businesses would allow them to increase their income sources and capacity to save. The expectation is that they will be able to use the profits from the investment to pay school fees with ease and hopefully increase their business stocks, which will have positive impacts on their household wellbeing. The private school built through one of the groups, for instance, has been a lucrative income source for group members, but also has had

positive spill-over effects for the community as it has generated employment opportunities for teachers, cleaners and cooks.

Loans are also considered to increase the resilience of people by allowing them to diversify into different income-generating activities. As the female group in Barwaqo put it:

When we have a challenge from one side we will move to the other side. We also believe that we can recover and venture into new business. (CTS, Barwaqo, Female)

The women anticipate, for instance, that Rift Valley Fever (RVF) may affect the camels from which they source their meat to produce *nyirinyiri* if it occurs again.²¹ In this case, they are planning to use the loan to diversify into the sale of other goods, such as clothes, to engage in goat trading or potentially to start a milk business.

The loans provide these entrepreneurial groups with the flexibility and confidence to invest in different types of businesses, depending on the demand in the market. They also multiply and diversify income sources, as well as types of goods sold, which protects them from the seasonal price volatility of specific goods linked to drought, flood or livestock diseases. Expanding their assets also allows groups to increase their collateral and thus access larger loans to invest more in their business. The group that built the school, for instance, is planning to expand with the help of a new loan, as well as to start investing in other businesses such as hardware shops and/or builder services.

Yes we are very confident we will be able to enter into new markets and start a business and be able to pay back our loans. (CTS, Barwaqo, Female)

²¹ In the months before the study, Kenya was affected by heavy flooding and cases of RVF were registered in Wajir, resulting in a temporary ban on the sale of meat.

Compared with how CTS clients perceived the longer-term resilience impacts of their loans, HSNP beneficiaries overall did not think that the transfers they received through the programme had similar effects. Given the limitations involved in being able to invest the transfer, expectations of long-term impacts are generally low. Nonetheless, the transfer assists people in paying for the education of their children, which was expected to have positive long-term benefits for families.

If we could get it on monthly basis it could have curbed the food shortages and it can give us an opportunity to invest. We would also like the amount to be increased.
(HSNP regular transfer group, Tarbaj, Female)

5.4 Resilience to climate-related shocks and stresses and seasonality in use of financial services

5.4.1 Respondents' perceptions of impacts of recent climate-related shocks

The major climate-related risks to respondents in all the villages visited are linked to droughts, floods and diseases (particularly RVF and cholera, which can be exacerbated by floods), bush fires and heat waves. The prevalence of such events varies depending on the month or the season, while some events occur across seasons. This section looks at each season and how climate-related shocks affect the livelihoods and food security of the respondents.

The rainy season is usually considered the most food secure, with plenty of milk and other animal products available. Livestock are in good condition and do not need to migrate to grazing areas. During this season, people engage in the sale of animal products, goats and cattle or exchange their livestock for grains. The main climate-related risk during this season is flooding, which occurred in 2017 and 2018. When flooding occurs, fields are submerged, resulting in crop losses, which then leads to an increase in vegetable prices on the market. Additionally, the floods affect the roads, which obstructs the transportation of goods to market. In combination, these factors lead to shortages in the supply of food, particularly in remote villages. People also experience shortages of firewood during the rainy season, as the shrubs are not dry enough to burn. This makes it difficult to hold bigger events, such as weddings. It was for the most part people in rural areas who mentioned all of these issues; those close to Wajir do not experience major challenges during the rainy season.

Respondents in all sites mentioned that, during Gu in 2018, there was an outbreak of RVF, which led to deaths and miscarriages among livestock. RVF is caused by a virus transmitted via mosquitos and can also be transmitted to humans when they come into contact with the blood of an infected animal. To reduce the spread of the virus to humans, the government banned the sale and utilisation of meat. This significantly affected livestock owners and traders and led to income losses during that period, as well as to high levels of anxiety among people afraid of getting infected. Owing to the lack of meat on the market, people had to compete for other sources of food, which led to an increase in the price of key food crops and made them unaffordable for many. Cholera is another major risk during Gu, with large outbreaks occurring every five to six years in the region.

Hagai (June–August) is the driest period, lasting up to seven months if the rains fail during Dyer. Respondents in Arbajahan and Tarbaj said Hagai there usually lasted five months (June–October), which they think is because of the lack of vegetation and the open lands. This is the season when boreholes and other water sources dry up and people need to migrate with livestock to find water. Arbajahan, for instance, has only two boreholes, which run through generators and a solar panel. These often overheat and break down in the dry months. Additionally, people come to Arbajahan from further away in search of water, which increases competition for this scarce resource.

People experience hunger during this season because of the limited supply of food and the spike in prices. Livestock are generally in a poor condition, which makes it more difficult for people to sell and leads to increased expenses on veterinary services. The cost of fruit and vegetables, as well as milk, rises during this time. Additionally, people are exposed to bushfires; people outside of Wajir town in particular mentioned this. During this time, people are highly food-insecure and use up their savings or assets to purchase food. Often, the only option left is to skip meals. No humanitarian assistance or food aid had been provided in the research sites in the past year according to participants.

During Dyer (starting in October) there can be short rain periods and the level of rainfall varies across sites. If the rains fail, Dyer is an extension of the dry period, with extremely high levels of food insecurity and increased prevalence of illnesses. In 2017, however, there was good rainfall in Dyer.

January to March (Orhet/Orazeed) is again hot and dry. If rains fail during Dyer, Orhet is the most food-insecure season, as people have then experienced a prolonged drought since June.

It is during this season that people have the least cash and rely the most on borrowing money from friends and family, buying food on credit or taking out loans to pay school fees. To generate cash, people also engage in the distress sale of livestock, although the market price is the lowest at this time.

5.4.2 The role of HSNP transfers in coping with climate-related shocks and stresses

HSNP beneficiary respondents stated that the transfers they received through the programme allowed them to cope during long dry periods by ensuring a minimum regular income to buy food and meet immediate household needs.

Especially now that it is given during hunger time, this reduces the burden of looking for food. The amount given is not so little, it can really help, it has really helped me and the children. I was able to buy some rice for food. Milk at this time is very little in the area, so we drink tea without milk but it helps.
(HSNP emergency transfer group, Barwaqo, Female)

While the HSNP transfers support households to cope and maintain food consumption during times of stress, beneficiaries are largely unable to make significant investments in their livelihoods to lasting effect. Some beneficiaries do buy assets, such as goats, which then serve as savings during times of cash shortage. However, climate shocks also affect livestock, reducing their value.

We are forced to sell the animals during the drought season, buy them fodder. (HSNP beneficiary of regular transfers, Township, Mixed group)

Continuous climate-related shocks generally make it difficult for people to invest. During a period of drought, they use up all their

savings to make it until the next season. They have less money to purchase any goods, which affects shopkeepers, who then have to rely on their savings to cover household needs. High food prices and the need to import food from other counties further exacerbate this situation, as people's limited resources are used up faster. The lack of pasture means the entire household has to go out and look for food.

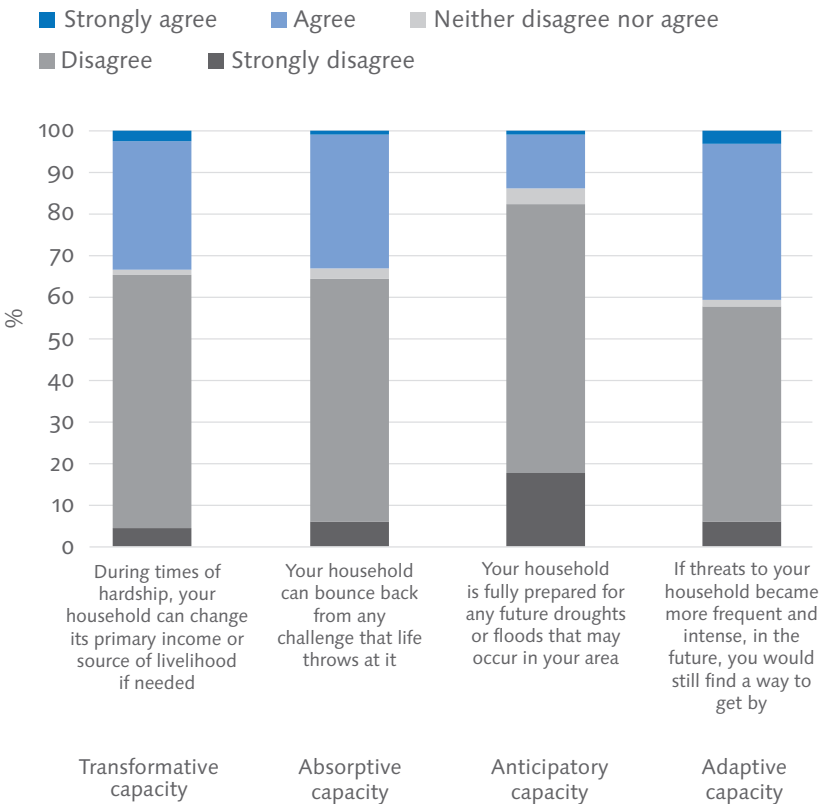
The droughts hugely affect our small businesses and sometimes we stay for a long period without selling anything and we are forced to spend the businesses capital for domestic purposes.
(H SNP emergency transfer group, Barwaqo, Female)

Overall, and in line with findings from previous studies, the H SNP transfers in Wajir appear to be very important in supporting beneficiaries' absorptive capacities but do not tend to enhance people's longer-term adaptive capacity in their current form (Ulrichs and Slater, 2016).

5.4.3 The role of other financial services in strengthening resilience

A small amount of H SNP beneficiaries manage to put aside savings, receive person-to-person transfers from family and friends or take out – mostly informal – loans. Similar to the transfers, savings and loans are mainly used to smooth consumption and cover larger costs or emergency expenditures, for instance related to education and health, thus supporting people's coping capacity. An even smaller group of respondents under the H SNP have invested in existing or new businesses of any kind. Overall, H SNP recipients' capacity to diversify their livelihoods, adapt to climate-related shocks and stresses or considerably increase their income levels thus appears limited. This is reflected in how respondents perceive their own subjective resilience (Figure 14).

Figure 14: Subjective resilience capacities among HSNP beneficiary respondents



Source: Authors, based on survey data.

Further analysis shows a positive and statistically significant relationship between financial services use and subjective resilience among HSNP beneficiaries. Those in the programme who reported using any sort of formal or informal financial service beyond the transfer they received from government (i.e. who were saving, borrowing, receiving person-to-person transfers or taking out insurance) had a statistically significant higher level of subjective resilience than other HSNP beneficiaries, though the size of the difference is relatively small (0.07 difference in

mean resilience score between users and non-users).²² The difference does not appear to be driven by whether a respondent is a recipient of regular or emergency HSNP transfers, however, as a second test between these two HSNP groups did not return significant results that would support a difference in their mean resilience score.²³

Table 3: Independent t-test assessing differences in mean subjective resilience score for HSNP financial services users versus HSNP beneficiaries not using any financial services

GROUP	OBSERVATIONS	MEAN	STANDARD DEVIATION	T-VALUE	P-VALUE
Financial services user	72	0.44	0.16	-3.04	0.003
Non-user	114	0.37	0.15		

Note: A composite resilience score was calculated from four subjective resilience capacity indicators initially captured on a five-point Likert scale. The score was then normalised, with 0 representing the minimum resilience score and 1 representing the maximum resilience score.

²² Results imply correlation but not causality. Other variables besides financial service use may be driving some of this difference (e.g. urban or rural location of the respondent, which could influence both the resilience scores and the use of financial services as implied by the discussion of qualitative data). Establishing causal effects between financial services use and resilience would require further testing.

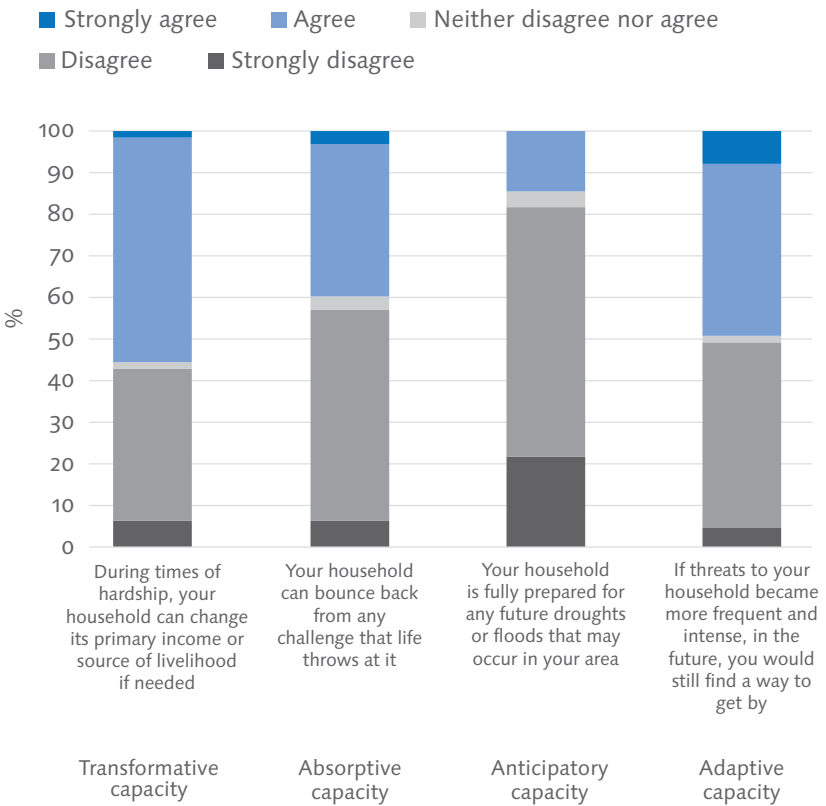
²³ Based on the HSNP targeting criteria for the two beneficiary groups, group attribution could also be regarded as a proxy for poverty levels, because those benefiting from regular transfers had a higher poverty score at the outset of the programme than those receiving emergency transfers in times of drought.

Among CTS clients, the increase and greater diversity in income streams generated through the investment of the loan reduces the reliance of some people on one livelihood, which may be more or less affected by climate-related shocks and stresses. Drought and floods lead not only to an erosion of assets but also to knock-on effects on the supply and price of food on the market. Being able to generate cash through different businesses allows people to purchase food during the dry months, as well as to keep savings, which can cover the increased costs incurred during that time. The main way loans contribute to resilience thus appears to be through diversification. This is mirrored in the subjective resilience scores of CTS members, who express a relatively high capacity to change primary income or source of livelihood if needed (transformative capacity) and to find a way to get by if threats became more intense and more frequent in the future (adaptive capacity).

CTS member respondents, however, also stated that they did not feel fully prepared for future floods and droughts and mentioned how climate-related shocks and stresses had a direct impact on their new businesses. The floods in April–June 2018, for instance, blocked the roads and led to low school attendance and ability of staff to come to teach. Food prices rose and increased the cost of school meals significantly, yet the school faced income shortages as parents were unable to pay the fees. The group who had invested in the school managed to overcome these challenges by using their profit savings to employ temporary teachers, buy food for the pupils and continue running the school. *Boda boda* drivers were affected by a lack of customers during the floods, as well as by blocked roads. Their entrepreneurial activities are also affected by price increases for different goods, which mean they make only marginal profits. Over the years, they have adapted to this by buying larger bulks

of goods in anticipation of price spikes during drought. However, when droughts and floods affect the region concurrently, it is difficult to keep restocking their goods. The *boda boda* drivers also use temporary migration to other counties not affected by floods as a strategy to continue earning an income.

Figure 15: Subjective resilience capacities among CTS members



Source: Authors, based on survey data.

Adapting to these challenges, the groups incorporate considerations around the risk of droughts and floods to their businesses into their loan repayment strategy. For instance, they borrow an amount they feel they can repay irrespective of potential shocks. The groups also select carefully the type of businesses they want to invest in, going for ones that are expected to be less affected by droughts or floods.

The group that invested in the school, however, considered that other major shocks and related expenses, such as illness, funerals or weddings, were potentially more significant for their financial situation than climate-related shocks and stresses.

5.5 Does participation in the HSNP facilitate access to financial services?

The HSNP uses the e-payment system, in which all beneficiaries have bank accounts through which they receive their transfers, and personal ATM cards linked to these accounts. This means, by nature, the HSNP increases the share of the population with formal account ownership. However, as described in more detail in the previous chapters, beneficiaries' use of these accounts for any services beyond receiving the government cash transfer is very low. The majority have not branched out to use other financial services such as taking out loans and insurance products offered by the bank or other financial institutions. Having these accounts has enabled a few of the respondents to receive remittances from their relatives outside Wajir, though this concerns only a very small minority of less than 2% of HSNP beneficiaries in the sample.²⁴ The larger share of remittances is transferred via M-Pesa or handed on in the form of cash.

According to respondents, being an HSNP beneficiary increases their confidence in managing cash, using M-Pesa and at least making some savings when the season is favourable, though these savings are mainly kept informally. Access to HSNP stipends

²⁴ Out of all HSNP beneficiaries who had received transfers from a relative or friend living in a different city or area inside Kenya in the 12 months prior to the survey (22% of all HSNP respondents), 7.14% did so via a bank, MFI or SACCO. That means, of all HSNP recipients, less than 2% received domestic remittances through this channel.

also contributes to their creditworthiness in shops because shop owners know they are getting a secure and regular source of income and HSNP beneficiaries frequently purchase consumption goods on credit. Only a minority of HSNP respondents are borrowing money for productive investments, though, for various reasons, including mistrust in financial institutions based on past experiences, concerns about interest and Sharia-compliance of products, lack of awareness about financial services and low levels of financial literacy. HSNP respondents in Barwaqo, for instance, said they had once saved with Equity Bank but were frustrated at the loans service that charged them interest. They also said the repayment period was short and gave them no relief. Since HSNP transfers are spent mostly on food and other household consumption, education, health and paying debts, with practically no cash left to save or invest, the active use of formal financial services among HSNP recipients is close to non-existent, particularly among recipients of regular transfers.

In sum, the HSNP has expanded bank account ownership and appears to have enhanced beneficiaries' confidence in managing cash and using M-Pesa but not to have had a substantial effect in terms of encouraging or enabling people covered by the programme to access other formal financial services, either through the accounts used under the HSNP or through alternative financial service providers. In line with previous research, this demonstrates that signing people up for bank accounts is not enough to enhance use of formal financial services in a meaningful way.

Nonetheless, establishing this financial infrastructure is an important first step with co-benefits for access to financial services among the population more widely (KII16). Even though HSNP beneficiaries currently do not use their bank accounts to full function, the expansion of bank branch networks facilitated through the HSNP means these banks are now also more physically accessible to others.

When HSNP started there were no banks in Northern Kenya. Now Equity has 8 branches and 350 agents. Initially, there was no cash in the economy. We have seen a transformation in terms of financial access. Not just for HSNP recipients, but also for non-beneficiaries. (KII16)

Through the HSNP, the UK Department for International Development funded Equity Bank to set up new branches in the counties covered by the programme. Equity incorporated the new clientele into its operations and:

... was very strategic in setting themselves up. In the early days it was very tough. But they used the HSNP programme to fund the start-up of the branches and agents. Now they are all set up and have a competitive advantage compared to the other banks. (KII16)

Other banks (Cooperative Bank, Postbank and KCB) have since joined the list of financial institutions delivering HSNP transfers – as well as payments through the other three large government cash transfer programmes – thus increasing competition in the market (KII15). Similar incentives have been set up by other donors and programmes, for instance in the form of loan guarantees or subsidies to facilitate expansion of financial service providers (KII14; KII1; KII3; KII8).

However, financial services infrastructure that could support people's resilience to climate-related shocks and stresses in northern Kenya remains much less developed than in the rest of the country. This means serious efforts to enhance the links between financial services and social assistance require investments not only in the services themselves but also in the enabling environment. As one key informant put it:

The challenge is that the regions with the highest needs also have the highest cost of delivering the necessary services. In relation to the leave no one behind agenda, the government needs to ask itself whether it is willing to foot the bill in those regions. (KII15)

5.6 Opportunities and challenges for increasing financial inclusion through government cash transfer programmes in Wajir

From FGDs and KIIs, it appears that two major issues need to be addressed to enhance integration between financial services and cash transfer programmes. One is building the infrastructure linking cash transfer systems with financial institutions to provide adequate services at scale; the second is overcoming the barriers, fears and perceptions that cash transfer beneficiaries face in accessing financial services. These two points are discussed in more detail in the following sub-sections.

5.6.1 Summary of key challenges to accessing financial services in Wajir

Fear of high interest rates charged by financial institutions is one of the major obstacles in accessing other financial services for both CTS clients and HSNP beneficiaries. The Islamic religion does not allow the charging of interest, and the importance of this was echoed across all sites.

In our religion taking interest is like committing adultery to a small girl. To them interest is not in line with religion. (CTS, Barwaqo, Female)

Further, lack of cash among respondents, as well as limited availability of services, is a key barrier to using other financial services.

The majority of HSNP beneficiaries are not aware of CTS loans. This may also be because CTS services do not cover the whole county as they operate mostly close to Wajir town, and more recently in Habaswein. Awareness is also low among HSNP beneficiaries in Township, where CTS does operate, and they expressed interest in knowing more about the services. HSNP respondents had many queries related to interest or no interest charged, and whether an individual was eligible to borrow or only groups.

The fear of penalties by formal banks for loan default is another major obstacle to seeking financial services.

Respondents feared, for instance, that Equity Bank would confiscate their assets if they were unable to repay their loan on time. In Barwaqo, one of the women in the HSNP respondent group explained that she had once taken a loan from Equity Bank. She saved up KES 20,000 and then borrowed KES 10,000 from the bank, allowing her to invest a total of KES 30,000. Repayment was due at the end of every week, which was difficult as her business was not doing well. According to her, many *Ayuta* groups took out loans in the same manner and their experience was also negative. Equity Bank claimed the most valuable assets in cases of default (e.g. taking away a fridge the woman used to cool the drinks she sold, which then had a negative impact on her business).

People also feared that banks would offer large loans without necessarily ensuring people had a good strategy to repay.

This is why the majority preferred to be part of *Ayutas*, where all group members are involved in the same business and are able to provide advice on how to make investments. They are also able to provide advice on how best to use a loan and what kind of

investment will benefit their business. This gives people a certain level of security, which is why they prefer such groups, although the size of the loan is significantly smaller than what a bank could provide.

Another challenge mentioned is lack of collateral, which is required from formal banks to take out loans. Respondents suggested banks needed to work on rebuilding trust, and also accepting 'social collateral' (trust, integrity) rather than only collateral. Respondents would rather take a smaller amount from savings and loan groups, *Ayuta*, because they can repay it; with collateral, they fear losing their productive assets.

Respondents also considered the time required to assemble documents to take out formal loans problematic, particularly when people's literacy levels are low. This can restrict the use of loans to cope with emergency situations. People said that, by the time someone is done with the paperwork, the emergency for which the cash is required has passed. One respondent noted that she wanted to pay a medical bill for her daughter-in-law who was sick, and she was disappointed not be able to access the loan in good time. Instead, she had to borrow money from a shopkeeper to pay the hospital bill. This was because the respondent did not have all the required collateral and documents such as signatures from guarantors for her loan application to go through. The issue of documentation affects nearly all the potential clients in Wajir.

The loan repayment period was not usually considered sufficiently long. Going by past experience after borrowing from Equity Bank, some respondents, including those with CTS loans, felt the repayment period was an issue and needed to be increased. On most occasions, those who have taken out loans have either undergone losses in their business because

of unfavourable weather conditions throughout the year or have not managed to access profits from the investments made from the loans borrowed to enable them to make the repayments without difficulties.

Even though we have used Equity loans before the experience was not good. The other issue is the interest that keeps us away from borrowing. It is very high. Most of us know that we will lose in the end. We are not aware of CTS but we will see if we can approach them for a loan in future now that we know it is Sharia compliant. (HSNP emergency transfer group, Barwaqo, Female)

5.6.2 Entry points and barriers to establishing better links between financial services and cash transfer programmes in Kenya

Building on the financial infrastructure established through the HSNP – particularly access to formal bank accounts – is a critical entry point to deepen financial inclusion, though changes to the system are required to facilitate meaningful use of services by beneficiaries. As highlighted by one key informant:

The potential for... MFIs to piggyback on the system to deliver other financial services is there. There is also the potential for HSNP beneficiaries to use the services, but [so far we don't] really see the system being used in that way. (KI18)

At small scale, graduation and resilience programmes have demonstrated the importance of bridging formerly unbanked poor populations with (formal) financial services, particularly through partnerships with financial service providers. The ongoing CARE graduation pilot in Marsabit, for instance, has been working with FSD Kenya and Equity Bank to deliver loans to petty traders organised in associations and complemented these loans with training activities on adequate loan use (KI14).

Similarly, Mercy Corps in Wajir has helped design and refine new financial products that cater to local needs and livelihoods (KII1; KII3; KII4; KII8).

Targeting of graduation pilots, including financial service components, can make use of HSNP beneficiary lists that are comprehensive registries in the counties where the programme operates. The targeting process is based on poverty levels and captures a range of households' socioeconomic characteristics (KII6). However, experience from existing graduation pilots that have aimed to use HSNP targeting structures also shows that, in many cases, the data has been either not specific or not accurate enough to allow targeting for the particular purpose of each graduation programme (KII17; KII14), which has led to additional targeting being implemented in these cases. Furthermore, maintenance requirements that some programmes had for targeting could not be met through the HSNP systems (KII17).

Establishing links between financial services and social assistance at scale was viewed as a major challenge by many key informants interviewed for this study. While there was general agreement that various actors – including government, NGOs and private financial service providers – had a role to play, views differed on what these specific roles were. There is some concern about weak government infrastructure and capacity to deliver services complementary to cash transfers at county level (KII17). Furthermore, one respondent viewed the multiple demands being put on the HSNP at national level, as it transfers into its third phase and expands into new counties, with the government increasingly taking over operations and funding from donors, as a test of whether the programme itself was resilient enough to add additional (graduation) components (KII15). While the relevance of NGOs in delivering certain financial services or in supporting expansion to underserved

areas was recognised, there are also question marks around the sustainability and ownership of NGO-led graduation programmes (KII15). Funding to deliver complementary interventions to financial services and cash transfers – in particular financial literacy training – is insufficient in some programmes and there is a lack of clarity about who should fund and deliver these types of activities (KII16). Building on existing national and county government structures and forming public–private partnerships that include government, financial service providers, donors and civil society to develop and deliver financial services in line with public policy and complementary to existing social assistance programmes were regarded as key strategies (KII15; KII14).

5.6.3 Complementary interventions to financial service provision and social assistance

When asked what else, apart from access to cash and financial services, would allow them to use financial services in a way that has a positive long-term impact on their lives, respondents mentioned a range of different factors.

Financial literacy: Many HSNP beneficiaries are very aware that they lack skills to make good investments and are eager to enhance their capacities in this area. They are interested in financial literacy training, as well as training on forming savings groups, developing a business or learning a specific trade. This includes, for example, the necessary knowledge to venture into a tuk-tuk business, as well as learning more about animal husbandry or traditional practices on preserving food.

Market access, product development and resilient market infrastructure: Another key issue is related to the impact drought has on the value of livestock and the increased need

to sell animals at a time when the price is lowest. HSNP and CTS respondents said they needed support to sell their livestock at a better price following droughts and floods. They also require more support in the production and sale of animal produce. This could entail, for instance, having access to cooling facilities to transport milk to markets and developing skills and tools for better packaging to ensure milk does not go off. Lack or low quality of infrastructure and modes of transport are further challenges preventing people from accessing markets, particularly during times of flood.

Early warning systems: CTS groups also said they required early warning systems that would allow them to be better prepared for prolonged drought periods. Business owners could then restock their shops before the prices spike (CTS, Township, Men's group). Early warning systems are also needed for floods or on the spread of diseases such as RVF, so people can take actions to prepare and reduce losses (CTS, Barwaqo, Women's group). Better access to early warning systems is an important aspect in addressing the low levels of perceived anticipatory capacity of respondents across all groups. The HSNP emergency transfers are already linked to early warnings and triggered by a vegetation condition index approximating drought. However, the confusion among HSNP recipients about whether they are covered by regular transfers or emergency transfers implies there is little understanding about why some people receive payouts only occasionally and, as a result, a missed opportunity to transmit drought (and potentially other) early warnings through the programme's channels.



6. CONCLUSIONS AND WAYS FORWARD

IMAGE:
ABUKAR
MUHAMMED
AND HER FAMILY
HAVE BEEN
WALKING FOR
TWO AND A HALF
DAYS IN SEARCH
OF WATER.
PICTURE TAKEN
BY: OXFAM
EAST AFRICA

Barriers to accessing financial services: Across the study sites, it became apparent that HSNP beneficiaries tend not to use any type of formal financial service beyond receiving transfers from the government through the programme. Access to informal financial institutions – such as rotating savings and credit groups – is also low, particularly in rural areas. CTS clients mainly located in or around Wajir town actively use the SACCO to save and to take out loans as groups or individually. Some also access other formal financial institutions, either because they receive their salaries through these banks or because they use bank transfers to pay school fees.

In remote communities, access to and use of financial services is highly constrained, as financial service providers (including CTS) only operate close to the urban centres. In the remote areas of Wajir, lack of cash in the economy is another major obstacle to engaging in any form of saving activities. Because the HSNP targets beneficiaries by poverty level – with the poorest covered by regular transfers – it is likely that many households in this group of regular beneficiaries are ultra-poor and therefore struggle to put any money aside, cannot make the most use of existing loan and insurance products or do not have a significant need for complex financial services (e.g. the elderly).

CTS clients are usually aware of a variety of services provided by the SACCO itself (e.g. housing schemes, or *Mifugo Kash* for livestock traders) but are not actively using many of these. HSNP beneficiaries who live in the same locations are often unaware of the presence of CTS and its range of services – although they registered an interest in learning more about Sharia-compliant banking.

What came out strongly across the different respondent groups was a deep mistrust of financial service providers, because of negative experiences with high interest rates on loans offered by a range of providers. Interest rates not only go against Islamic banking principles but also led to a rapid accumulation of debt among those who had taken out the loans, putting them in serious financial difficulties. Trust is key to engaging in any type of financial services, which is why respondents favour local savings groups to formal providers. They felt groups provided some level of protection from making unwise investment decisions, as they collectively decide whether someone can take out a loan or not. They did not feel that commercial banks provided these kinds of advisory services, which leave the clients alone and potentially puts them in a high-risk situation.

There may be a trade-off between banks providing such support services that are appreciated by clients and also requiring more substantive collateral, business cases or paperwork, which respondents mentioned as major barriers to accessing formal financial services.

This highlights that *how* services are provided will be critical to promote financial inclusion. Issues of mistrust will need to be tackled and financial services will have to be tailored to the needs and preferences of formerly unbanked populations in Wajir. This includes helping people increase their financial literacy so they are able to avoid unwarranted debt and can more competently assess what type of financial products could be beneficial to them; developing and offering adequate products in the Sharia-compliant microfinance space; and further increasing the reach of financial services through financial market development and technological innovation.

Social assistance does not necessarily increase financial inclusion beyond account ownership: HSNP beneficiaries get an ATM card and are formally Equity Bank clients but they tend not to make use of any other services provided by the bank. Findings from this study coincide with findings from the HSNP evaluation, that beneficiaries mainly use the cash received from the government for immediate consumption and household needs, and potentially save some money in the form of livestock. As respondents highlighted, the size of the cash transfer is too small and too irregular to make any more significant investments – so even though they have access to accounts they can use for saving, the majority cannot set anything aside. Most of the time the money is already spent before people receive it, because they purchase food on credit from shopkeepers in anticipation of the transfer.

Another issue mentioned, and that is mirrored in the main HSNP evaluation, is that HSNP clients feel they lack the necessary financial skills to use financial services. Hence, they 'invest' the cash in what they know – namely, livestock or their social networks. Respondents did raise an interest in hearing more about Sharia-compliant financial products and training on how to make better investments. This highlights that exposure to a formal banking system through the ATM cards is in itself not enough to promote use of financial services beyond account ownership.

Results from this study indicate that there is potential for SACCOs such as CTS to cater specifically to the needs and financial capacities of HSNP beneficiaries in Wajir, particularly in urban areas, because they offer group lending, lower administrative fees than banks and manageable loan amounts. However, a question mark about the financial viability of this strategy for CTS remains: next to a relatively high ratio of operational costs to loan value and fees, servicing formerly financially excluded target groups needs to be accompanied by adequate training on business skills and financial literacy to enhance capacity and trust, further increasing costs to the financial institution. Establishing presence in new places is also costly, and CTS has recently experienced challenges, having exhausted its funds to disburse loans and thus not being able to keep up with rising demand. Supporting the establishment of SACCOs in underserved areas and facilitating the necessary support services to enable links between low-income groups and formal financial services providers has been a key role for the PROGRESS project under BRACED. In particular, complementary services and training to facilitate access to and effective use of financial services among HSNP beneficiaries could be a promising area of engagement for graduation projects, as well as rolling out financial inclusion initiatives through public–private partnerships with microfinance services providers at a larger scale.

Combined findings from this study and a previous evaluation of the HSNP imply that shopkeepers may view HSNP beneficiaries as more creditworthy – and are more likely to sell consumption goods on credit to them – because they receive regular transfers from the government, which facilitates repayment. CTS currently does not collect information on whether its members are covered through the HSNP (or any other safety nets). Whether this information would also increase creditworthiness of beneficiaries among formal microfinance providers and could help them build up an official credit record at small scale while under the programme is a potential avenue for further investigation at the intersection of social protection and financial services.

Should the HSNP aim to be a bridge between its clients and financial service providers, in a graduation type model for the poor, it would have to complement the services with financial literacy training; work with the banks that carry out government cash transfers on providing services that are tailored to their clientele; and consider strengthening financial inclusion through a greater variety of institutions and services beyond the large banks, for example by collaborating with semi-formal financial service providers such as MFIs or SACCOs, or via the *Ayuta* model.

The role of cash transfers and financial services for resilience:

The HSNP cash transfers are an important means for beneficiaries to smooth consumption and absorb some of the impacts from climate-related shocks such as floods or droughts. However, the transfer in itself is not enough for people to make any meaningful investment in livelihood strategies, which could increase households' ability to shift their income and livelihood sources when they are under stress, as well as their capacity to adapt to a changing environment. It needs to be noted that this is not the main objective of the HSNP; the primary function of the programme is to provide a safety net.

Nonetheless, as this research has shown, there is potential to build on the structures created for the HSNP to advance financial inclusion and resilience objectives. HSNP beneficiaries who use informal or formal financial services for the most part perceive their levels of resilience to climate-related shocks and stresses, including droughts and floods, to be higher than do those not relying on any financial services beyond the transfer they receive from government.

Among CTS clients who are able to invest, diversification of business activities and income sources is a major livelihood strategy and exposure to natural hazards plays a considerable role in groups' investment decisions. People also make efforts to use financial services to enhance preparedness, for instance by taking out loans when prices are low in order to build up stocks that will allow them to continue retail operations in case of floods. However, this is limited by a lack of adequate early warning information and challenges to maintaining this strategy during long periods of consecutive droughts and floods that take a toll on resources. This is reflected in the low levels of anticipatory resilience capacity – meaning households' perceived preparedness to any future droughts or floods occurring in their area – across all respondent groups in the study.

Allowing HSNP beneficiaries to make longer-term investments that strengthen their resilience to climate extremes and disasters would require additional, complementary components to cash transfers and financial services. These could be delivered, for instance, through graduation modules, resilience programmes or financial inclusion initiatives. Relevant activities include business skills training, particularly to support diversification strategies and adaptation of livelihoods to recurring droughts and floods; enhancing access to markets and strengthening the resilience of value chains and market infrastructure; and enhancing access to early warning systems that deliver climate and

weather information in a way that can inform decision-making to help people use financial services more effectively.

Financial services are not a replacement for social protection and may not benefit social protection beneficiaries equally. A substantial portion of social protection beneficiaries is ultra-poor or belongs to households that are not expected to graduate, owing to illness, age or disability. It is particularly relevant to consider this point in relation to the other major cash transfer programmes operating under the NSPN in Kenya. Because they target beneficiaries based on such criteria, findings from this study on the HSNP are not easily transferrable to the CT-OVC, the OPCT or the CT-PWSD.

Social protection provides a cushion that financial services can be built upon, and the income from cash transfer programmes cannot necessarily be replaced by accessing financial services. Furthermore, some households may use financial services to a limited extent. For instance, while some elderly households may make use of a bank account, they may not necessarily profit from small loans or complex savings mechanisms and would not benefit from being encouraged into such schemes.

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Annex 1: Key informant interviews and informal consultations

Table A1.1: Interview respondents and participants in informal consultations

NAME		ORGANISATION
Halima	Abdullah	KCB Wajir branch
Denise	Akoth	Equity Bank
Abdullahi Antar	Amin	CTS Wajir branch
Karen	Austrian	Population Council
Hassan	Bashir	CTS/Takaful Africa
Abdirahman	Bulle	NDMA Wajir
John	Burns	Mercy Corps
Christy	Forster	Mercy Corps
Ric	Goodman	DAI
Diyad	Hujale	Mercy Corps
Nathaniel	Jensen	ILRI
Phyllis	Kariuki	CARE
Godfrey	Kuria	Equity Bank
Victor	Malu	FSD Kenya
Fred	Merttens	OPM
Nazia	Moqueet	BRAC
Gladys	Mutisya	CTS
Johnson	Mwambanga	NDMA
James	Oduor	NDMA
Florence	Randari	Mercy Corps
Dristy	Shrestha	BRAC
Peter	Thirikwa	NDMA
Tim	Waites	DFID

Annex 2: Sample description

Table A2.1: Distribution of survey participants across groups

SURVEY GROUP	SAMPLED		INTERVIEWED	
	NUMBER	%	NUMBER	%
HSNP regular transfer beneficiaries	128	36.89	92	35.8
HSNP emergency transfer beneficiaries	131	37.75	102	39.69
HSNP regular beneficiaries and CTS clients	4	1.15	3	1.17
HSNP emergency beneficiaries and CTS clients	11	3.17	9	3.5
CTS clients	73	21.04	51	19.84
Total	347	100	257	100

Table A2.2: Location of survey respondents (%)

WARD	HSNP	HSNP AND CTS	CTS
Arbajahan	12.89	8.33	1.96
Barwaqo	8.76	16.67	29.41
Elnur	7.22	0	0
Ganyure/Wagalla	21.13	0	0
Ibrahim Ure	4.12	0	13.73
Lagbogol	4.12	0	0
Tarbaj	13.92	0	0
Township	10.82	66.67	50.98
Wagberi	17.01	8.33	3.92
Total	100	100	100

Table A2.3: Respondent sex in HSNP lists for recipients of regular transfers and across survey groups in Wajir (%)

	HSNP REGULAR TRANSFER RECIPIENTS	HSNP SURVEY RESPONDENTS	HSNP AND CTS SURVEY RESPONDENTS	CTS SURVEY RESPONDENTS
Female	54.05	58.25	50	49.02
Male	45.95	41.75	50	50.98
Total		100	100	100

Note: Information on sex of beneficiaries was not available for HSNP emergency transfer recipients.

Annex 3: CTS number of clients and loan volume

Table A3.1: Number and volume of CTS loans to individuals and groups

Total number of individuals taking out loans	34	
Total loan rounds taken out by individuals	42	
Total loan amounts individual	KES 10,848,000	\$106,989
Average amount per loan cycle per individual	KES 258,286	\$2,547
Number of groups taking out loans	10	
Average number of people per group	6.3	
Total loan amount groups	KES 930,000	\$9,172
Average amount per group	KES 93,000	\$917

Note: As per exchange rate of 1 June 2018: \$1 = KES 101.3935.

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BRACED aims to build the resilience of more than 5 million vulnerable people against climate extremes and disasters. It does so through a three year, UK Government funded programme, which supports 108 organisations, working in 15 consortiums, across 13 countries in East Africa, the Sahel and Southeast Asia. Uniquely, BRACED also has a Knowledge Manager consortium.

The Knowledge Manager consortium is led by the Overseas Development Institute and includes the Red Cross Red Crescent Climate Centre, the Asian Disaster Preparedness Centre, ENDA Energie, ITAD, and the Thomson Reuters Foundation.

The views presented in this paper are those of the author(s) and do not necessarily represent the views of BRACED, its partners or donor.

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The BRACED Knowledge Manager generates evidence and learning on resilience and adaptation in partnership with the BRACED projects and the wider resilience community. It gathers robust evidence of what works to strengthen resilience to climate extremes and disasters, and initiates and supports processes to ensure that evidence is put into use in policy and programmes. The Knowledge Manager also fosters partnerships to amplify the impact of new evidence and learning, in order to significantly improve levels of resilience in poor and vulnerable countries and communities around the world.

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