FINANCE FOR RESILIENCE TOOL

[FORTE]

a rapid assessment tool

February 2021

The COVID-19 pandemic, and especially its responses such as lockdowns and transport restrictions shocked the world in 2020. Rapid assessments of the crisis showed that especially poor people were hit hard, facing immediate threats to their food and livelihood security. Varies UN agencies indicated that progress towards achieving SDGs is likely to be set back by decades. The people suffering from hunger is on the increase. With that context in mind a research was started at Wageningen University to assess impact of shocks such as COVID-19 on the most vulnerable groups of people, anticipated to suffer even more.

The research assignment developed three methodologies that allows both academic as well as support organisations to better understand how more vulnerable groups in society respond to crisis and what room there is to enhance their resilience. These methodologies were tested in two case studies (migrant labourers in the sesame sector in Ethiopia, jobless migrant youth from pastoral communities in Somaliland). Concepts and methodologies are described in seven reports that to a large extent build on each other.

1. Guijt, J. and N. Rozemeijer. Enhancing the resilience of those most vulnerable to (food) system shocks – Synthesis paper. https://doi.org/10.18174/543741
2. Wigboldus, S. and J. Jacobs. Enhancing the resilience of those most vulnerable to (food) system shocks – Clarifying and unpacking key concepts. https://doi.org/10.18174/543742
3. Wigboldus, S. and J. Jacobs. Enhancing the resilience of those most vulnerable to (food) system shocks – Towards a sense-making framework and assessment methodology. https://doi.org/10.18174/543743
4. Roo, N. de and J. van der Lee. Exploring vulnerability and resilience from a multifaceted and systemic perspective – Case studies in Ethiopia and Somaliland. https://doi.org/10.18174/543744
5. Wattel, C.J., M. Sopov and M.A.J.M. van Asseldonk. Responsible finance for vulnerable groups under COVID-19. https://doi.org/10.18174/543745
6. Wattel, C.J., M. Sopov and M.A.J.M. van Asseldonk. Finance for Resilience Tool (FORTE) – A rapid assessment tool. https://doi.org/10.18174/543746
7. Fonteijn, H., J. Groot and X. Guo. Analysing the resilience of food systems with scenario analyses and reverse stress tests – Concepts and an application on the Ethiopian sesame value chain. https://doi.org/10.18174/543747

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Report WCDI-21-145

Focus on vulnerable groups

Many investments and public policies are geared to the most visible actor groups in the food system, such as agri-businesses and (semi)commercial farmers. Classical interventions are designed to increase productivity and competitiveness, as well as integration into markets. The needs of the most vulnerable actor groups in the food system are too often bypassed: the women, the landless, the casual laborers, the unemployed, the youth. This calls for specific policy attention, and adapted analytical tools. Analytical tools should dedicate more attention to drivers of vulnerability and resilience, as opposed to growth and investments.

Vulnerability and resilience

Vulnerable households can be faced with a variety of shocks and stressors. While drought remains the dominant shock facing households in Sub-Saharan Africa, price risk remains by far the most commonly reported covariate shock, much more so than weather shocks. Also idiosyncratic shocks such as death, illness and accidents also provide frequent shocks. Many households report sudden losses in income and assets, with health and weather shocks often repeatedly experienced by the same household. Risk remains higher in rural areas, particularly risks to income, since rural households prove more susceptible to income shocks because of agriculture dependence.

Many households have no means to cope with shocks. Government assistance remains limited, and social assistance proves most often informal. Reducing risks associated with agricultural livelihoods remains an important part of reducing household volatility.

The most recent risk, Covid19-induced responses have created particular shocks to those who are most vulnerable globally, leading to exacerbate poverty traps for many.

Why focus on finance?

Finance is only one of possible investment and policy options to support the most vulnerable in becoming more resilient to shocks.

The choice for finance is somehow an arbitrary one. One does not know a priori whether finance will be the highest priority for a given vulnerable group, if compared with other possible policy and investment interventions. However, finance is often and recurrently mentioned as one of the relevant bottlenecks, in relation to many different target groups and contextual situations. Access to finance can have a function in enhancing investments for growth and productivity, but it can equally play a role in smoothening consumption and otherwise stabilizing a household's economy in situations of volatility and shocks.

Finance for Resilience options

The FORTE tool focuses on domains within responsible finance that are the most relevant for very vulnerable groups, and for their coping strategies and resilience against shocks and stressors. There are two domains, partly overlapping, which meet this criterion:

1. **Risk financing:** risk financing is a concept from the world of insurance and finance. It involves putting in place a strategy to mitigate risk ex-ante as well as a strategy to ensure the availability of funds for post-disaster relief and reconstruction, commensurate with the scale and frequency of anticipated risks (OECD, 2014). Risk financing can be applied at macroeconomic level (e.g., as a public policy for disaster-preparedness). It is also relevant within companies, communities and organisations.
2. **Social protection:** social protection is a concept from the world of socio-economic policies. Social protection systems, policies, and instruments help individuals and societies manage risk and volatility and protect them from poverty and destitution (World Bank, 2018). Social protection policies are typically administered by governments, supporting their citizens against typical risks of disability, unemployment, retirement and other forms of loss of income and employment.

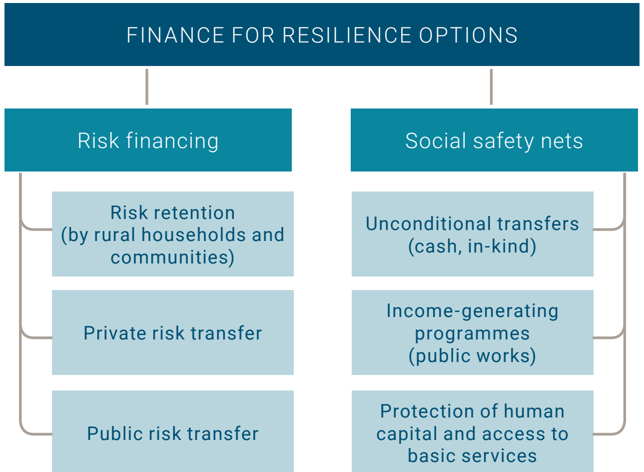
Social protection policies are typically distinguished into three sub-types:

a. **Social insurance:** premium-based insurances to protect individuals from income loss in cases such as old age, sickness, disability, or natural disaster.

b. **Social assistance or social safety nets:** public-budget-based interventions to protect individuals from poverty, destitution and vulnerability.

c. **Labor market programs:** interventions to reduce unemployment (skills investments, labor market intermediation) and/or to protect people from loss of income due to unemployment.

Figure 1: Finance for Resilience options.



1. Risk financing

Following the classification of OEDC (2009), risk financing can be segmented into three distinct layers based on the potential links between markets and the severity of a risk (where the severity of the risk is defined by the probability of occurrence and the magnitude of the loss event).

a. **Risk retention:** risk retention takes place in situations where there are frequent but limited losses that are part of the normal business environment. Within this "normal risk" or "risk retention layer", farmers, households and small communities cope with the risk themselves (**Figure 1**).

b. **Private risk transfer:** private risk transfer becomes relevant if losses are more significant and less frequent. These risks are then transferred to (or shared with) other parties in the (finance) value chain (e.g. through insurance or contractual price arrangements).

c. **Public risk transfer:** public risk transfer happens in case of catastrophes which by nature occur seldomly but cause very large losses. This type of risk is difficult to retain or to transfer or share through the market. When markets collapse there is an obvious need for public action (OECD, 2009).

2. Social protection

Several criteria can be used to cluster individual types of social safety net programs. In this framework, the World Bank (2018, 2008) classification is used based on three categories (**Figure 1**).

a. **Unconditional transfer programs:** these help to protect poor households by providing them with the resources they need to maintain a minimum level of consumption. Transfers can be in the form of cash or mobile money transfer, in-kind (food or other items), or in near-cash (i.e., vouchers or coupons).

b. **Income-generation programs:** these provide low-skill jobs for the poor during the course of a local infrastructure investment. They include public works, cash for work and food for work programmes.

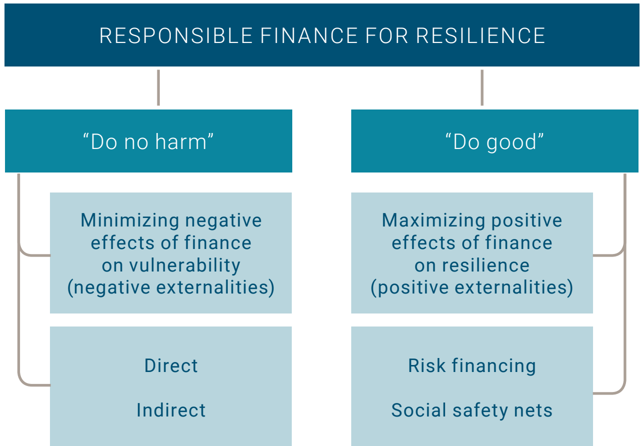
c. **Protection of human capital and access to basic services:** social safety net programs can also provide conditional transfers to encourage the use of education or health facilities, or other incentive provisions (f.i., fee waivers, subsidized access) to lower the cost of access to basic health and education services for the poor (World Bank, 2008).

Do No Harm / Do Good

The FORTE tool assessment builds on existing responsible finance frameworks. Responsible finance is about incorporating Environmental, Social and Governance (ESG) factors into finance decisions. There is a variety of frameworks for responsible finance[1], but all of them make a distinction between "Doing no harm" and "Doing good" (Crilly et al., 2016). Within the principle of "Do no harm" the objective is ensure that finance does not have negative externalities (neither directly nor indirectly); the do no harm principle is the basis for ESG risk management of many development investors. Under the principle of "Do good", the objective is to achieve positive impact and pursue positive externalities of finance.

The "Do no harm" is operationalized in the rapid assessment tool, by mapping finance-related causes of vulnerability. The "Do good" is operationalised by mapping the positive contribution of finance options to the resilience of the group at hand (**Figure 2**).

Figure 2: Two perspectives on responsible finance for resilience.



[1] There is a variety of standards to assess the responsible performance, including: the IFC Performance Standards, the CFS/FAO Principles for Responsible Food and Agriculture Investments, the Universal Standards for Social Performance Management, and the Client Protection Principles for Microfinance.

The FORTE tool

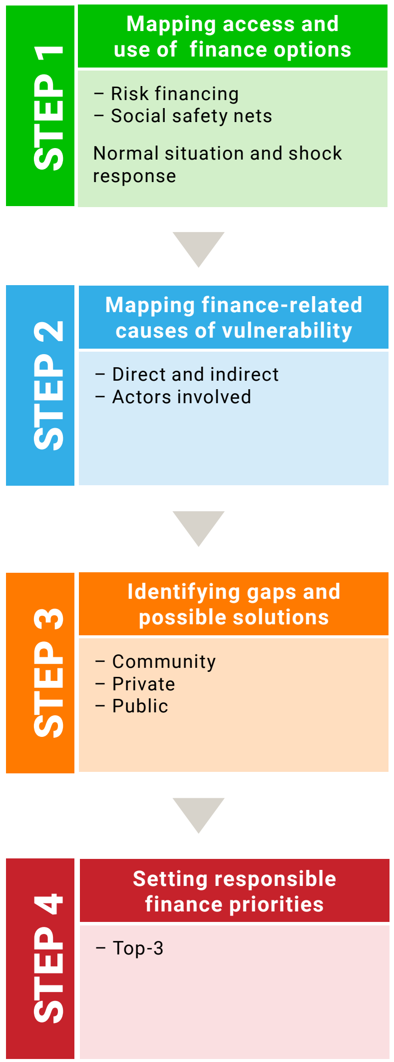
Objective of the tool:
Rapid assessment to identify opportunities for responsible finance in order to reinforce resilience of specific vulnerable groups.

The FORTE is a rapid assessment tool, which

- **focuses on finance**, as it is often and recurrently mentioned as one of the relevant bottlenecks, in relation to many different target groups and contextual situations. Access to finance can have a function in enhancing investments for growth and productivity but can equally play a role in smoothening consumption in situations of volatility and shocks.
- **provides a systematic mapping tool** of finance options available to the specific vulnerable group.
- **explores to what extent finance can increase or decrease** their vulnerability.
- **identifies strategies by vulnerable groups** using finance options as part of their coping strategies against adversities, including Covid-19.
- **identifies how responsible finance can contribute** to better resilience of this group against shocks and stressors.

FORTE helps to make an assessment in four steps.

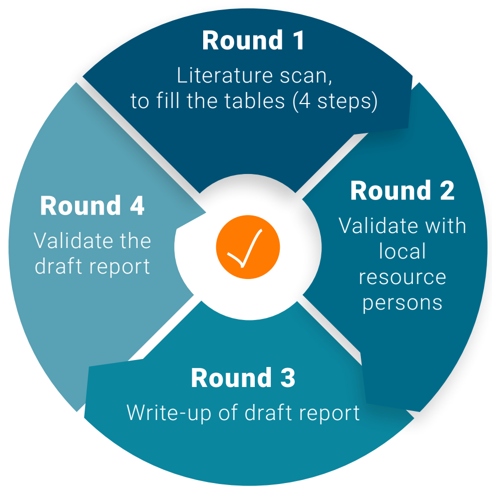
Figure 3: Content: four steps in the Finance for Resilience Tool (FORTE).



Process to implement the FORTE tool[2]

Implementing the tool requires four process steps (**Figure 4**). You start filling the tables in four steps, based on a literature scan. This is followed by a round of validation, actualisation and enrichment of the literature findings, by means of one or more expert workshops and/or expert interviews and/or focus group discussions with constituents of the vulnerable group themselves. You finally finish the write-up and – if considered appropriate – does a last validation round of the text with the same resource persons. The experts/ resource persons should be selected on the basis of their knowledge about the specific vulnerable group studied and its specific country/local context, and should be capable to interact between the topics of vulnerability and resilience, responsible finance, and policies and institutions.

Figure 4: Process: four rounds to complete the tool.



[2] Two case study examples of the FORTE tool are available, for Somaliland and Ethiopia. They can be found at https://doi.org/10.18174/543744

STEP 1
Mapping access and use of finance options

Objective of Step 1:

- *List the existing money management approaches to shocks in vulnerable groups*
- *Identify strategies of banks or microfinance institutes to support vulnerable groups*
- *Identify social protection measures by government*

In order to increase efficiency of approach, assessors should collect their first data via desk research, and validate them by focus group discussions, expert interviews, etc.

Where relevant, a distinction is to be made between financial mechanisms for coping with adversities during normal situations, and coping strategies under a shock. This distinction is based on the insight that vulnerable groups, by definition, have to cope with recurrent adversities that are part of their day-to-day life. For less vulnerable groups, such adversities may be perceived as shocks to their usual livelihoods, but for vulnerable groups they are no exception to their normal situation. For vulnerable groups, shocks are adverse circumstances with unusually large impact, or with are very time duration.

From a longlist of potential finance options (**Table 7**), only the most relevant options are to be shortlisted.

The tables are all structured in three layers. The first layer – closest to the vulnerable group itself – is the informal finance available within the community: relatives, friends, informal savings groups, money-lenders and the like. The second layer refers to semi-formal and formal finance options provided by banks, but also by social finance institutions such as microfinance institutions and savings and credit cooperatives. The third layer contains public finance options, usually provided by governmental agencies (national government, local government, decentralised bodies), or by (inter)national donors and NGOs active in disaster relief and development.

The tables short be kept short and concise. They should be accompanied with textual narratives, which give explanations about the short texts in the tables, and provide examples and literature references.

Table 1: Mapping existing finance options for risk coping for
ACTOR GROUP in TARGET AREA .

MAIN EXISTING FINANCE OPTIONS	DISTINGUISH NORMAL CIRCUMSTANCES AND SHOCK RESPONSE
Example: *Informal saving and dissaving*	***Example:*** **NORMAL:** *Pastoralists save mainly by means of livestock accumulation.* **SHOCK:** *Additional selling of livestock, or barter with livestock.*
A. COMMUNITY	
	NORMAL: **SHOCK:**
	NORMAL: **SHOCK:**
	NORMAL: **SHOCK:**
	NORMAL: **SHOCK:**
	NORMAL: **SHOCK:**
	NORMAL: **SHOCK:**
B. PRIVATE	
	NORMAL: **SHOCK:**
	NORMAL: **SHOCK:**
	NORMAL: **SHOCK:**
	NORMAL: **SHOCK:**
C. PUBLIC	
	NORMAL: **SHOCK:**
	NORMAL: **SHOCK:**
	NORMAL: **SHOCK:**

Note: See checklist of examples in **Table 7**

Table 2: Mapping social safety net options for
ACTOR GROUP in TARGET AREA .

MAIN EXISTING SOCIAL SAFETY NET OPTIONS	DISTINGUISH NORMAL CIRCUMSTANCES AND SHOCK RESPONSE
Example: *Traditional forms of social safety nets*	***Example:*** **NORMAL:** *Mechanisms to assist the poor, inspired by Islamic principles.* **SHOCK:** *Mechanisms to assist households in shock situations.*
A. COMMUNITY	
	NORMAL: **SHOCK:**
	NORMAL: **SHOCK:**
	NORMAL: **SHOCK:**
	NORMAL: **SHOCK:**
	NORMAL: **SHOCK:**
	NORMAL: **SHOCK:**
B. PRIVATE	
	NORMAL: **SHOCK:**
	NORMAL: **SHOCK:**
	NORMAL: **SHOCK:**
	NORMAL: **SHOCK:**
C. PUBLIC	
	NORMAL: **SHOCK:**
	NORMAL: **SHOCK:**
	NORMAL: **SHOCK:**

Note: See checklist of examples in **Table 7**

STEP 2
Mapping finance-related causes of vulnerability

Objective of Step 2:

- *Identify **direct causes** of vulnerability, where financial actors do harm to a vulnerable group in their direct engagement with them. For example, if a bank treats clients from a vulnerable group badly, or sells them products they do not need or at excessive prices or interest rates.*
- *Identify **indirect causes** of vulnerability, where clients of financial actors do harm to a vulnerable group. For example, if a bank finances a mining company that displaces villagers from their land, one could argue that the bank bears chain responsibility for this problem.*

Rather than a solution, finance can also be a root cause for vulnerability. Therefore, possible direct and indirect causes of vulnerability are mapped, as well as their relations to finance and financial actors.

Table 3: Mapping finance as DIRECT cause of vulnerability of
ACTOR GROUP in TARGET AREA .

CAUSAL DRIVER	FINANCIAL ACTORS
Examples:	
• *Some MFIS refuses migrant workers credit because they are not living permanently in the village and are therefore less subject to social control mechanisms that reduce the credit repayment risk.*	*MFIs ABC*
• *The targeting of cash transfers is not transparent, and it is contaminated by partisan politics.*	*Government agency for cash transfers*

Table 4: Mapping finance as INDIRECT cause of vulnerability of
ACTOR GROUP in TARGET AREA .

CAUSAL DRIVER	INTERMEDIATE ACTORS	FINANCIAL ACTORS
Example: *The banks finance mining companies who dislocate villagers from their land.*	*Mining companies YZ*	*Banks YZ*

STEP 3

Identifying gaps and assessing their persistence

Objective of Step 3:

- *Systematically review the limitations of the different finance options and*
- *Explore possible solutions to them.*

Ideally, **Table 5** should should systematically treat each of the most important mechanisms commented in Steps 1 and 2 of the analysis. In other words, the gap analysis synthesizes the finance options mapped (Step 1) and the finance-related causes of vulnerability (Step 2). It also combines elements of risk financing and social safety nets. Therefore, the gap analysis is not mechanical: it requires you to select the most important elements from each of these streams to arrive at a well-balanced gap analysis for the whole.

Step 3 should be complemented with a narrative reflection on why some of these gaps are persisting in spite of policy interventions of the last period (decade), and what new approaches can be found to overcome them.

Table 5: Gap analysis – Finance for Resilience.

FINANCE FOR RESILIENCE IN PLACE	MECHANISM	LIMITATION / REASONS FOR PERSISTENCE	SOLUTIONS
Examples:	*Selling animals in case of shock*	*Low animal prices in case of co-variate shocks*	*Cash for work, emergency loans*
A. COMMUNITY			

FINANCE FOR RESILIENCE IN PLACE	MECHANISM	LIMITATION / REASONS FOR PERSISTENCE	SOLUTIONS
B. PRIVATE			
C. PUBLIC			

STEP 4

Setting priorities in Finance for Resilience

Objective of Step 4:

- *Combine findings from literature, expert workshops, focus group discussions, interviews and own expert knowledge to formulate three policy and investment priorities.*

The formulation of these priorities is based on ingredients from the Gap Analysis (Step 3). But it requires a level of enrichment and in-depth reflection to formulate consistent and actionable policy and investment priorities.

It seems valuable to formulate these three priorities on a somewhat more aggregate level than the individual ingredients in Steps 1/2/3. Each priority could be elaborated into a set of more specific action points for a common goal.

Also, each priority could be linked to a certain level or actor cluster in the system around the vulnerable group.

The priorities are validated with the country experts.

Table 6: Top-3 priority – Finance for Resilience agenda for
ACTOR GROUP in TARGET AREA .

TOPIC	ACTION	ORGANISATIONS INVOLVED
Example: *Making financial services of MFIs and banks more accessible, useful and affordable for vulnerable group.*	***Example:*** • *Create a task force to identify how financial services for vulnerable group can be improved, and to monitor progress.* • *Broaden the network of bank outlets in rural areas.* • *Subsidize and reinforce (digital) unique ID systems, to create trust.* • *Offer digital savings and loans to informal savings groups (Hagbad and similar).* • *Exploit remittance revenues (thru mobile money), to create track record for small loans.* • *Develop livestock insurance, with premium subsidy; combined with preventive measures to limit risk of animal death.*	***Example:*** • *Central Bank (supervision)* • *Local banks and MFIs* • *Ministry of Agriculture Livestock and Natural resources* • *Development organisations / donors working with microfinance and responsible finance*

TOPIC	ACTION	ORGANISATIONS INVOLVED

References

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World Bank, 2018. *The State of Social Safety Nets 2018*. Washington, DC: World Bank. doi:10.1596/978-1-4648-1254-5.

ANNEX 1: Taxonomy of finance options

Table 7: NEW Overview of community, private and public finance options for vulnerable groups.

PROVIDER	EXAMPLES OF FINANCE OPTIONS	EXAMPLES OF SOCIAL SAFETY NETS
A. COMMUNITY	Household/family decisions • Assets • Consumption • Investments • Remittance Informal finance • Saving and dissaving • Credit • Village savings / loans/ insurance groups • Mutual insurance	Household/family decisions • Intra-household and intra-family support Informal safety nets • Traditional support systems (gifts) • Social emergency funds within village savings / loans / insurance groups • Community disaster funds
B. PRIVATE *Private sector (banks, MFIs, SACCOs, etc.)*	Formal finance • Saving • Credit and risk capital[3] • Remittance services • Insurance	Private sector contributions to safety nets • Such as: company collaboration with local food banks, sponsoring local initiatives for vulnerable groups, charity foundations, volunteer actions involving company staff
C. PUBLIC *Government, donors and NGOs*	Grant-based instruments • Grants for informal finance mechanisms • Grant for formal finance mechanisms Capital-based instruments • Risk capital and blended finance • Public-private insurance schemes (including risk-contingent credit[4])	Social safety nets • Cash, near-cash and in-kind transfers • Public works (food for work, cash for work) • Free or subsidized access to basic services (education, health care) • Conditional transfers Other instruments • Disaster relief • Matching funds for S/L/I groups and community disaster funds • Temporary employment subsidies and survival subsidies to rural and agri-businesses • Tax breaks and other incentives to rural and agri-businesses

Notes:

- These are longlist options, intended to provide inspiration and to create clarity about different types of finance options for resilience. There is no need to systematically address each of these options, but only the relevant ones for the target group at hand.
- The list is not exclusive or exhaustive of all available options. In a specific country context many other varieties may emerge.

[3] Risk capital is different from loans. Loans have a fixed interest rate and repayment schedule, whereas in the case of risk capital the dividend – and sometimes also the repayments of capital - fluctuates with the profits and losses of the financed company. Risk capital can take many different shapes, such as equity participations, mezzanine finance, subordinated loans, guarantees. Risk capital is also very common in Islamic finance, which prohibits charging interest.

[4] Risk-contingent credit is a loan with an insurance component. In case the insured risk materializes, the loan repayment is reduced or entirely cancelled.

Colophon

The Finance for Resilience Tool (FORTE) was developed within the WUR project "Enhancing the resilience of those most vulnerable to food system shocks and stresses" (KB35 2020/2021) and was subsidized by the Dutch Ministry of Agriculture, Nature and Food Quality. The project aimed to develop a more sophisticated understanding of the realities of the most vulnerable to agri-food systems shocks, and how to use that understanding to enhance their resilience to shocks and stresses. It focused on actor groups in informal/domestic rural markets.

The Finance for Resilience Tool focuses on the role of finance, both as a potential driver of vulnerability, and as a potential instrument in enhancing resilience. It is intended as a rapid assessment tool, to be applied for a specifically defined actor group in a particular geographical context (a country, a province, a region).

The tool was developed and tested for two different cases: migrant workers in an Ethiopian sesame producing region (Amhara region), and pastoralists in Somaliland. Both cases are available, to show how the application of the tool can take shape.

The Finance for Resilience Tool is the production of the Wageningen Centre for Development Innovation in cooperation with Wageningen Economic Research.

Contact:
Monika Sopov
monika.sopov@wur.nl
+31 6 2320 5345

Reference: Wattel, C.J; M. Sopov; M.A.P.M. van Asseldonk (2021). The Finance for Resilience Tool – a rapid assessment tool. Wageningen Centre for Development Innovation. Report WCDI-21-145. Wageningen, The Netherlands

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