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A PACT to Promote Resilience

Using a Framework to Understand How Fintechs and their Customers Cope, Survive, and Thrive

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Acknowledgements

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Introduction

Two years into the COVID-19 pandemic, the role of digital financial services in providing access to essential services is undeniable. Digital financial services have enabled governments and nonprofits to deliver timely social protection payments and aided families and friends of those in need to quickly share financial resources. The rise of platforms and small business fintechs allowed for new forms of commerce that have kept people employed and grown gig work opportunities, which helped customers in small villages and large cities alike to purchase goods needed for their households.

The role fintechs have played over the last two years is clear. We have data about the growth of fintechs during the pandemic, on how much capital they have attracted from investors, and many anecdotal stories about how individuals and firms using fintechs have experienced direct benefits from moving to digital solutions. But while there are many stories of the positive relationships between fintechs and their customers during the pandemic, we need data, metrics, and measurement standards to better understand and move the needle on measuring resilience.

With the support of Jersey Overseas Aid and Comic Relief, CFI conducted research to better understand fintechs, their resilience, and the impact they have on the livelihoods of low-income customers. CFI's research on fintech resilience is the first attempt to set forth a framework and call to action to understand the interconnectedness between progress at the provider level and the implications for users. Through our research, we found that, by and large, fintechs are operationally resilient, although many early-stage fintechs did have to resort to layoffs and salary cuts, or to slowing growth plans. However, measuring resilience — whether at the level of financial institutions or customers, as well as how they influence each other — is at an early stage of research.

To support our work in understanding how to measure and quantify fintech's resilience and impact, CFI developed the PACT framework. This helps us analyze the resilience of both fintechs and low-income customers, and see where and how there are direct connections between the two. PACT measures resilience as a combination of abilities and access to resources across four dimensions: Preparedness, Access, Capability, and Ties (Networks). This framework can inform investors and donors who are looking to support low-income customers.





Background

During the pandemic, amid global shutdowns and economic hardship, fintechs have largely managed to stay afloat, and in many cases have even seen impressive growth. Investors have noticed. In October 2021, Forbes Magazine noted: “The fintech sector is booming, with a record \$91.5 billion in global funding so far this year — that’s almost twice as much as what the sector collected in the entirety of 2020.”¹ While much of this growth and investment remains focused in “developed” markets, there is significant growth in major markets in Africa, Asia, and Latin America. Impact investors who are focused on developing countries described the market as “hot” and “frothy” in our conversations. They also expressed concern that competition to fund the next unicorn makes it more expensive and more difficult to fund mission-driven, low-income-focused fintechs.

These fears are not unfounded. A report by BCG’s Fintech Control Tower revealed that fintech investment increased by 173 percent in Q3 2021 compared with the same quarter in the previous year.² While the mismatch between supply and demand for funding makes the environment conducive to fundraising, concern remains that funders less interested in impact may pressure early-stage fintechs to move up-market.

Financial service providers that offer savings, personal financial management services, and even insurance face serious growth limitations given the high cost of acquisition and the low discretionary spending available to low-income households.³ This already incentivizes financial service providers to move up-market, serving those with higher discretionary income and leaving a significant portion of the population without access to a full suite of services.⁴ However, despite these challenges, the fintech sector has shown remarkable resilience, including among early-stage fintechs focused on low-income customers.



To better understand these dynamics, CFI explored the experiences that early-stage inclusive fintechs, investors, accelerators, and industry associations had with COVID-induced lockdowns and the aftermath of prolonged uncertainty. We spoke to the 283 eligible fintech applicants who participated in the 2021 Inclusive Fintech 50 (IF50) competition. The 2021 IF50 competition had representation from 66 countries and nearly 84 percent of applicants were optimistic about the future of fintech. Almost half of the 2021 applicant fintechs were less than two years old – starting in the face of the pandemic – and 84 percent were pre-series A. Their “youth” notwithstanding, the pool of applicants reached tens of millions of customers, and more than two-thirds of applicants operated B2B or B2B2C models, aimed at reducing customer acquisition costs and growing their low-income customer base.

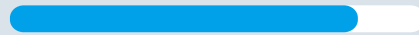
We spoke to some of the fintechs multiple times, providing the opportunity to hear about their initial responses to the pandemic as well as their later optimism and, in some cases, their management of massive growth. Accelerators and associations shared their experiences responding to fintech needs, and impact investors – ranging from angel investors to Series A funders – shared their experiences with fintech start-ups during the pandemic.

The PACT framework is the result of CFI's secondary and primary qualitative and quantitative research. We shared our initial draft framework in webinars with the fintechs and stakeholders we had previously interviewed, as well as additional philanthropic funders. CFI worked with measurement experts Tameo and 60 Decibels to further incorporate new and leading thinking on measurement. The framework still requires “road testing” to assess its utility for understanding the interplay, or lack thereof, between resilience of inclusive fintechs and low-income customers.

CFI manages the Inclusive Fintech 50 (IF50) competition, sponsored by Visa, MetLife Foundation, Jersey Overseas Aid, and Comic Relief, with support from Accion and IFC. As part of this research, we interviewed several past IF50 winners throughout 2021, and surveyed the 283 applicants to IF50 2021 about the impact of the pandemic.

The inclusive fintechs in this set are not representative of the entire fintech sector, and not even of the entire inclusive fintech sector, as they are (largely) pre-Series A. Their relative “youth,” size, and focus on low-income clients did make them vulnerable throughout the pandemic, and particularly thoughtful about their ability to advance despite adversity.

However, despite their vulnerability,



83.7 %

are more optimistic about their ability to provide meaningful financial services to low-income people than before COVID-19.



Understanding Resilience

Research on resilience is not new, dating back to the early '90s (see Box 1). [USAID](#)^{vi}, [FCDO](#)^{vii} (formerly DFID), [BMZ](#)^{viii}, and others in the development sector have been working on resilience for nearly three decades now. CGAP recently proposed a tentative definition of resilience as “the ability of individuals and households to reduce and mitigate risks, as well as to cope with and recover from various shocks, stresses, and life cycle events, so as to minimize any reduction in short-term consumption or long-term well-being.”^{ix} This is similar to previous definitions proposed by development theorists and practitioners. Barrett and Constanas (2013) defined resilience as, “the capacity over time of a person, household, or other aggregate unit to avoid poverty in the face of various stressors and in the wake of various shocks. If and only if that capacity is and remains high over time, the unit is resilient.”^x

BOX 1

The History of Resilience and Resilience Theory

Resilience theory and the history of resilience has been researched across multiple disciplines since the 1990s, when a group of researchers came together to create the Resilience Alliance (RA). Among leading researchers was Elinor Ostrom, whose work on resilience inspired her book on institutional diversity and laid the foundation for the study of institutional resilience, for which she received the 2009 Nobel Prize in Economics.

Resilience thinking recognizes that periods of gradual change interact with abrupt changes, and people, communities, societies, and cultures adapt and/or transform into new development pathways to cope with this dynamism. It also has a role in development theory and in conversations around financial health.

Measuring resilience as a property of systems, whether at the level of financial institutions or customers, or how they influence each other, poses three key challenges:

1. **The most resilient systems and actors are those that can adapt in the face of change.** This makes measurement a moving target that is continuously developing and evolving.
2. **Easy-to-measure metrics do not always enable accurate understanding of true impact.** Resilience theorists provide an early warning to avoid the trap of developing metrics that are easy to measure, rather than the true representative of outcomes.^{xi} For instance, it is easy to measure the number of people who repay their loan on time. However, this does not necessarily translate into a better outcome if, in the face of a shock, the loan repayment is only possible due to skipping meals.
3. **Resilience is not a single ability.**^{xii} People and institutions are resilient to different degrees, and this varies depending on the magnitude of the event, costs involved in managing it, and resources and abilities available at hand to cope with the event.

Acknowledging these challenges, this report examines how resilience shifts for early-stage inclusive fintechs and low-income customers using a conceptual framework — PACT.



Introducing the PACT Framework for Resilience

Early-stage inclusive fintechs^{xiii} and the low-income customers they serve are remarkably similar in their responses to and ability to withstand and adapt to external shocks. The PACT framework was designed to identify and analyze these shared dimensions of resilience and is adapted from academic and other socio-economic development programs.^{xiv} Both fintech (whether early-stage or not) and customer resilience is driven by a combination of abilities and access to resources across four dimensions — Preparedness, Access, Capability, and Ties (Networks) — or PACT. Although the framework lays them out as four distinct dimensions, the relations are not linear, as they influence each other in multiple ways.

PACT Framework for Resilience

PREPAREDNESS

FINTECHS

- Cash runway
- Manageable/flexible repayments terms
- Sufficient revenue
- Risk management plan

CONSUMERS

- Savings: as a habit and for emergencies
- Cashflow management: daily living expenses and management
- Risk management insurance

FINTECHS

- Know when and how to:
 - Access good advice
 - Reduce expenses
 - Increase income or add new revenue streams
 - Pivot or adjust business model
 - Merge, buy, or sell

CONSUMERS

- Know when and how to:
 - Access good advice
 - Reduce expenses
 - Find new income opportunities

CAPABILITY

ACCESS

FINTECHS

- Raising capital: from investors, donors (grants), accelerators, and government

CONSUMERS

- Infrastructure: phones and agents
- Products: savings, credit, and insurance
- Social protection, government, or humanitarian resources available

FINTECHS

- Leveraging social networks
- Building social capital networks
- Sharing social capital

CONSUMERS

- Leveraging social networks
- Building social capital networks
- Sharing social capital

TIES



The following sections offer a deep dive into each of the four dimensions — sharing what we heard from fintechs, the significance as it relates to customers, and opportunities for the future.

PREPAREDNESS

Preparedness refers to the ability to anticipate challenges and leverage financial tools (both formal and informal) to cushion, if not fully mitigate, a shock when it arises.

The infographic features a central white box with a light blue border. At the top left, there is a small icon of a checklist with three items, each marked with a checkmark. The box is divided into two sections by a horizontal line. The top section is labeled 'FINTECHS' in a vertical green bar on the left, and the bottom section is labeled 'CONSUMERS' in a vertical blue bar on the left. Each section contains a list of three items, each preceded by a right-pointing arrowhead.

- FINTECHS**
 - Cash runway
 - Manageable/flexible repayments terms
 - Sufficient revenue
 - Risk management plan
- CONSUMERS**
 - Savings: as a habit and for emergencies
 - Cashflow management: daily living expenses and management
 - Risk management insurance

“ A lot of it is luck... we had an investor come in just before COVID hit, and so we were fine. I have a friend who also has a start-up and they were not as lucky, so they couldn't make it through the pandemic.”

Interview with a fintech promoter

Many investors (impact, venture capital, and philanthropic funders) paused funding in March 2020 to assess the rapidly changing situation, and often, to refocus their funding decisions on their existing portfolio companies — good news for those who had already secured prior rounds of funding.

The Preparedness of Fintechs

On March 5, 2020 as the world locked down, Sequoia, a venture capital firm based in the U.S., sent a note to founders and CEOs of their portfolio companies to provide guidance on ensuring the health of their businesses and how to deal with the business consequences of COVID-19.* Of course, by the time this message was received, it was already too late to be “prepared” with, say, a two-year cash runway or a business continuity plan, especially for early-stage fintechs. Among respondents, only a handful of the fintechs had sufficient cash runway, and not because of intentional preparation ahead of the pandemic, but rather due to the sheer luck of having closed a round of funding just before the lockdown.

Negotiating manageable or flexible repayment terms is difficult for startups who cannot afford to be “choosy” about their investors. Nonetheless, fintechs, accelerators, and investors noted that the pandemic had changed their views in developing triggers and financing terms for future deals, opting for convertible notes and building in contingencies for shocks. Inclusive fintech founders who had long-established relationships with their angel investors were able to negotiate delayed payments.

None of the interviewees spoke about having had any kind of business continuity plan in place, although several fintechs noted that they thought it would be a valuable skill for accelerators and active investors to include in their mentorship and skills sharing. Only one fintech noted that they had developed a plan since the onset of the pandemic.

Almost definitionally, early-stage inclusive fintechs are not generating sufficient revenues and rely on investors to fund growth. Furthermore, lending fintechs, which are 34 percent of the 2021 IF50 applicants, found their revenue at least temporarily disrupted not only by the economic downturn from the pandemic but also by government-imposed repayment moratoria.

On the other hand, many fintechs in the payments space found themselves underprepared for the massive growth they experienced shortly after the pandemic hit. For example, fintechs who participated in the 2021 IF50 competition saw on average 12 percent compounded monthly growth rates (CMGR) as government social protection payments brought millions of new users onto their solutions. While this may be a better problem to have, it can be just as difficult to manage, especially without funding readily available.

How Fintechs Support Customers' Preparedness

For customers to be prepared, they need to have savings and insurance as safety nets for potential crises. While low-income customers tend to be very good short-term savers by necessity of dealing with irregular incomes and unexpected shocks, they have very little savings accrued to support them in a real crisis. The standard advice for households to have three to six months expenses in savings to cope with emergencies is nearly impossible for most poor households struggling to make ends meet. Even developed economies find that less than half the population has such emergency savings.^{xvi}

Limited resources force low-income customers to choose services they consider a necessary expense, which are inevitably payments and credit. Lower disposable income translates to lower savings and creates a vicious cycle where savings-focused services for low-income customers are not considered viable, and therefore are not prioritized by fintechs or investors. At least one investor noted that they did not fund savings-focused fintechs in their portfolio. Somewhat optimistically, 21 percent of IF50's 2021 applicants focused on savings and personal financial management.

Insurance has low uptake among low-income populations due to both demand and supply side challenges.^{xvii} Digitally-driven insurance initiatives did see equity investments to the tune of US\$7.5 billion in 2020; however, these were largely responses to the pandemic-induced demand by high-income customers.^{xviii} Insuretechs in India increased revenues by a factor of 30 on a month-by-month basis in 2021,^{xix} but FinAccess Kenya reports a decline in insurance use, and CENFRI reported a reduction in premiums collected by 64 percent in sub-Saharan Africa.^{xx} Few of these models cater to the needs of low-income customers.

Some early-stage fintechs, like Senang (2021 IF50 winner) in Malaysia, have shown a way to bring insurance into people's lives by linking it to daily gig work and covering costs via "gas points" to further lower the pain of paying.^{xxi} Reach52 combines affordable healthcare (products, information) and insurance in an effort to make insurance more accessible.^{xxii} Freemium insurance like those attached to airtime purchase and embedded insurance like Senang should provide ideas for others to follow.

Opportunities to Strengthen Preparedness for Fintechs and Customers

By understanding the interplay between fintechs and customer resilience, we begin to better identify priorities, particularly for donors and investors, as well as accelerators, board members, associations, and other stakeholders. Most early-stage fintechs are focused on growth, opportunity, and development. But preparing realistically for difficulties is something funders and other stakeholders should bring to fintechs in the form of business continuity plans and other actions to prepare for adverse events.

Every fintech will have different approaches but encouraging preparedness for low-income customers and not impinging on their ability to be resilient, should be part of the "pact" between inclusive fintechs and low-income clients.

Prepare with Security, Control and Rights

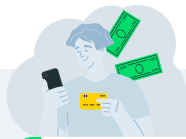
Investors generally follow these principles, which can be enhanced to support resilience:

- **Security:** What measures can be put in place with early-stage fintechs to ensure funders can recover their capital, even during an adverse event? How can investors help fintechs prepare in the event of external changes and shocks, like government-instituted loan moratoria? Would it make sense to hold the fintech to the growth figures promised at the time of investment? Can additional metrics focused on clients take precedence?
- **Control:** What covenants can be instituted by funders to keep themselves and their investees accountable to their mission? Can the covenants ensure that they do not change incentives and push the fintech to move up-market, away from underserved segments?
- **Rights:** While investors have the right to protect their investment, care should be taken with early-stage fintechs to define triggering events and responses that consider impact on low-income customers.



ACCESS

In the context of this framework, we define access as having capital when and where you need it.



FINTECHS

➤ Raising capital: from investors, donors (grants), accelerators, and government

CONSUMERS

- Infrastructure: phones and agents
- Products: savings, credit, and insurance
- Social protection, government, or humanitarian resources available

“ In the old days, I’d hop on a plane to ... just go and work the conferences, stand around ... to meet people and we can’t do that anymore...”

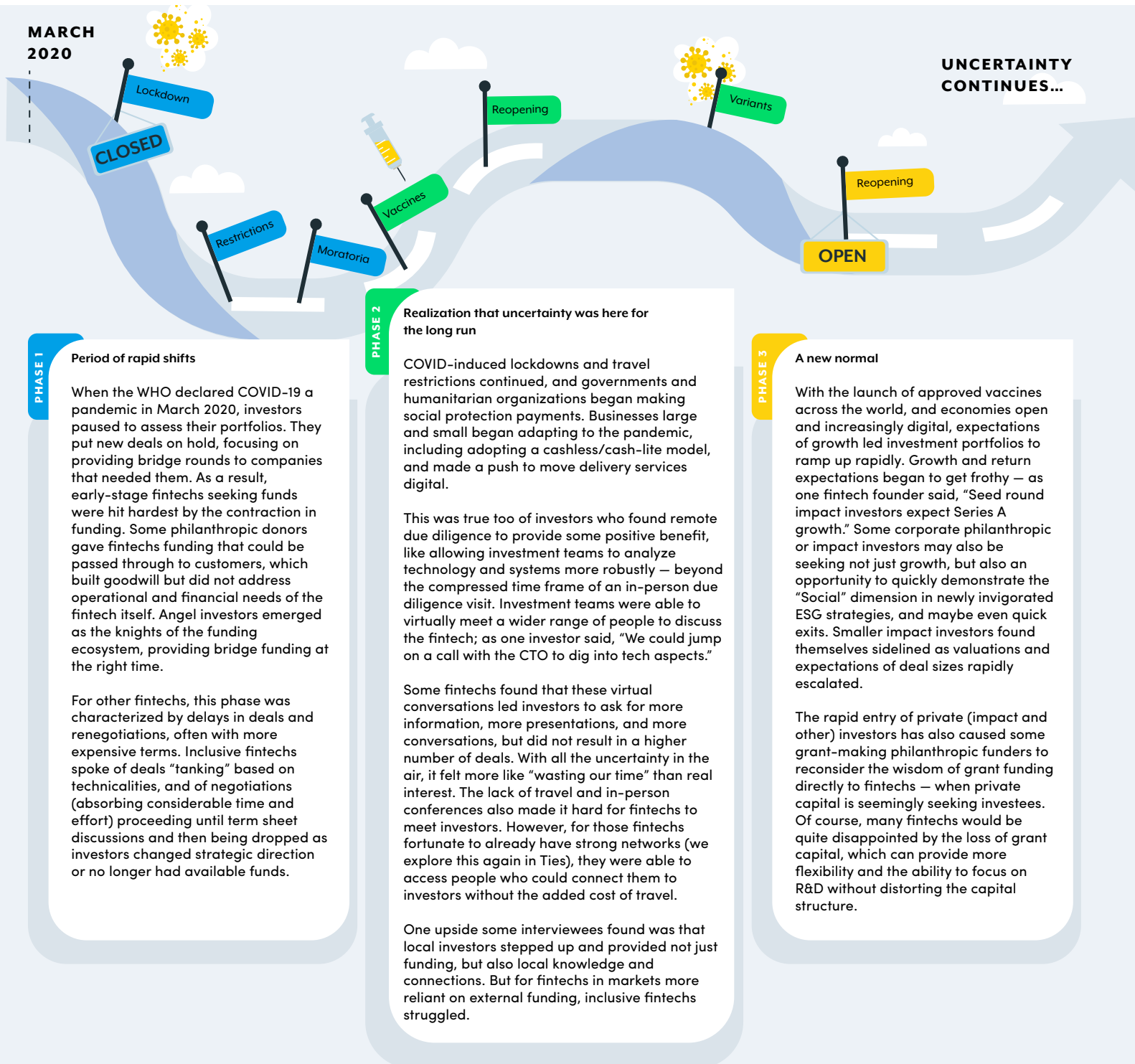
Fintech entrepreneur

COVID-19’s Impact on Fintechs’ Access

For many fintechs, bridge funding and/or growth funding from existing and new funders was essential during the pandemic. For others, finance was unavailable and caused delays, or even collapse in extreme cases.

During our interviews, funders and fintechs described access to capital amid the pandemic in a similar way – a rollercoaster ride that was halted during the initial three month “pause,” then restarted slowly (with a preference for existing portfolio investees), and then picked up a lot of speed with occasional peaks and dips. The end of this ride is not yet known.

The figure below outlines how access to capital fared against the timeline of the pandemic, as various shocks unfurled. Not all early-stage inclusive fintechs had the same experience, and reactions varied depending on the time at which interviews were conducted. We split the timeline into three phases:





How Fintechs Support Customers' Access

Fintech solutions relieved customers' financial stresses by facilitating rapid, timely, and safe access to and delivery of social protection payments in partnership with governments and humanitarian organizations. An estimated 1 billion new beneficiaries received social protection payments across 66 developing countries.^{xxiii} Others opened digital accounts to avoid potential COVID-19 transmission via cash and in-person exchanges, and to enable virtual payments to merchants, utilities, and others.

While the full increase in new users is not yet known, it will be significant. For example, in Bangladesh, 300,000 mobile financial services accounts were opened in April 2020. Between March and May 2020, following Bangladesh Bank's mandate to digitize wage payments of readymade garment workers, there was nearly a 200 percent increase in the number of workers who opened accounts, to over 2 million new accounts.^{xxiv} Merchant payments increased from \$74 million per month pre-pandemic to more than \$206 million in October 2021, and digital utility payments increased 234 percent in only five months during 2020.^{xxv} Digital payments and timely access to funds provided a much-needed cushion to tens of millions of low-income customers and small businesses.^{xxvi}

It is therefore not surprising to see that the IF50 applicants with payments and remittances solutions were posting compounded monthly growth rates (CMGR) of 12 percent. Even though pre-COVID experiences with cash transfers did not lead to big gains in financial inclusion, the confluence of events created by COVID may see more "stickiness" if government transfers lead to longer-term utilization of digital financial services. Among the IF50 pool, the CMGR of credit, insurance, and savings/personal financial management fintechs were 6 percent, 8 percent, and 9 percent, respectively.

To ensure that customers, especially new users, have physical access and the ability to convert digital G2P funds into cash or use them to make other payments, several IF50 winners (like Pesa Kit, Bankly, and Dinarak) are providing agent services. The human touchpoint and ability to provide assistance may be especially welcomed by women and other new users.^{xxvii}

Access to credit or relief from payments – easing cashflows – were essential for many low-income households and small businesses. Lending fintechs like Aflore, Tugende, and Basix Sub-K provided debt relief or extended payment moratoria to their clients. Others, like Awan Tunai, increased lending to MSMEs, enabling small businesses to restock, adapt, or grow their business by offering delivery and other pandemic-created services.

Overall, access to digital financial services enabled access to capital that would have been more difficult or impossible in the past. The impact on their financial resilience, however, remains unclear, largely because of a lack of metrics and the inability to separate out impact from formal versus informal services. As FinAccess Kenya found, informal financial services continue to play a significant role in the financial health of Kenyans. They found that business owners in Kenya are among the most financially included segment at 93.4 percent, yet their top three sources of finance are reinvested profits, savings on mobile money, and assistance from friends and family. The Central Bank Kenya Deputy Governor, at the opening of a December 2021 FinAccess event, posed critical questions on resilience, financial health, and the limits of access alone: "Are people truly financially included or have we provided them with a payment system?"^{xxviii}

Opportunities to Strengthen Access for Fintechs and Customers

In the face of an adverse event, the speed in which fintechs, small businesses, and consumers can access cash determines long-term stability.^{xxx} To prepare for future shocks, whether at individual markets or on a global scale, all ecosystem actors should aim to increase their ability to act with speed to minimize the negative effect of the shock.

“...we could have been distributing 17 million new handsets in Africa over the course of two years but we literally couldn’t afford to do that because nobody was paying / funding us... and that’s just heartbreaking if you’re a founder. If we could have kept going, we would have 17 million new customers (today)...”

Fintech founder

For example, impact investors could sustain access to financial services for low-income people by providing early-stage, inclusive fintechs with shorter-term, smaller ticket sizes and/or expedited due diligence, which would give fintechs time to assess the situation, continue providing needed services, respond to clients’ financing needs, and in many cases, get poised for significant growth.

Donors, particularly philanthropic capital providers and DFIs, and early-stage investors could provide resilience against future shocks by creating guarantee instruments that are triggered at the point of an agreed adverse condition. Creating such a pool of capital could prevent contraction of funds when fintechs and their customers need it the most. Finally, fintechs need patient capital to test innovative features that match the needs of customers.

CAPABILITY

In this framework, capability is focused on advice-seeking behavior, know-how, and the ability to respond quickly in terms of adversity. Capability tends to be the “go-to” element of the resilience framework for both fintechs and customers.



FINTECHS

- Raising capital: from investors, donors (grants), accelerators, and government

CONSUMERS

- Infrastructure: phones and agents
- Products: savings, credit, and insurance
- Social protection, government, or humanitarian resources available

Of the 2020 IF50 applicants:

- 53%** reduced operational costs
- 24%** percent paused business expansion
- 29%** helped customers reduce expenses
- 41%** provided flexible repayment (grace periods, extended terms)
- +25%** reduced fees or interest rates

Fintechs’ Capability to Adapt in Crisis

Fintechs are famed for their “agility” – the ability to pivot to new products, business models, or customer segments to stay afloat, or to take advantage of a new market opportunity. But even in good times, a “pivot gone bad” can cause a fintech to fail, or in the case of an inclusive fintech, can push them up-market, away from their mission.^{xxx}

Because of the pandemic, most fintechs we spoke to reported reducing their expenses by taking salary cuts (particularly among the C-suite) and/or delaying hiring, and some were forced to lay off staff. They

also sought new business models, moving to or strengthening B2B and B2B2C partnerships. In the initial economic slow-down, many fintechs stated that they used the “downtime” to streamline back-end issues that increased efficiency and were able to focus on strategy. Some used the time to increase communications with their customers — on WhatsApp, by phone, and safely in-person — and adjusted their solutions in response, building products that were ready for customers to be able to respond to the new economy.

Fintechs leveraged all the networks (ties) they could, to access high-quality advice to make strategic choices around product and business model changes. It was clear that some fintechs were concerned that these choices could lead them up-market, although none had abandoned low-income customers. Most of those we spoke to had directly focused on helping customers reduce their expenses or increase their income opportunities. One fintech identified pandemic-induced demand for insurance from new gig workers and households new to vehicle ownership and used the rollout to increase incomes for their financial advisors, who belong to similar segments as their customers (see Box 2).

BOX 2

A Win-Win-Win for Resilience

Aflore, a fintech company based in Bogota, recruits, trains, and manages a network of mobile-enabled financial advisors who offer financial advice and services through the Aflore app. When the pandemic hit, Aflore realized that the demand for motorbikes and cars would increase because people were reluctant to travel by public transport. This also created new opportunities for drivers and delivery of goods. Since all drivers must possess motor insurance before they begin driving, Aflore saw an opportunity for a new revenue stream (and likewise had the support of their own investors) for a product that was already familiar to their financial advisors and would not require much training to sell. This product provided increased income to Aflore, to its advisors, and to their customers — and ultimately a return to their investors.



How Fintechs Can Support Customers' Capability

Low-income households forego discretionary expenses in times of adversity and, in more adverse situations, forego necessities. For example, FinAccess 2021 found that in Kenya, more than half the population (a 20 percent increase over previous years) went without enough food or medicine in 2021.^{xxxi}

The scale of the pandemic and the shuttered economies stretched household resilience to (and past) the breaking point, even with the massive influx of social protection payments. The digitization of payments and the ubiquity of mobile phones also led to massive increases in the numbers of low-income people who turned to fintechs for help in reducing expenses (payment moratoria, access to lower priced or bulk goods, etc.) and finding new sources of income, including gig work and social commerce. While we do not wish to overstate the importance of fintechs in contributing to customers' capability, efforts to improve UX, adding intuitive features and building customer touchpoints and financial capability, and enabling access to timely information in simple terms, local languages, etc., were ways fintechs created a conducive environment for customer capability (see Boxes 3 and 4 for examples).

These efforts, of course, also benefited customers who had some level of digital and financial capability already. Small merchants, often already digitally savvy, found access to “restocking” loans, new credit options, and access to platforms that led to increased sales.

BOX 3

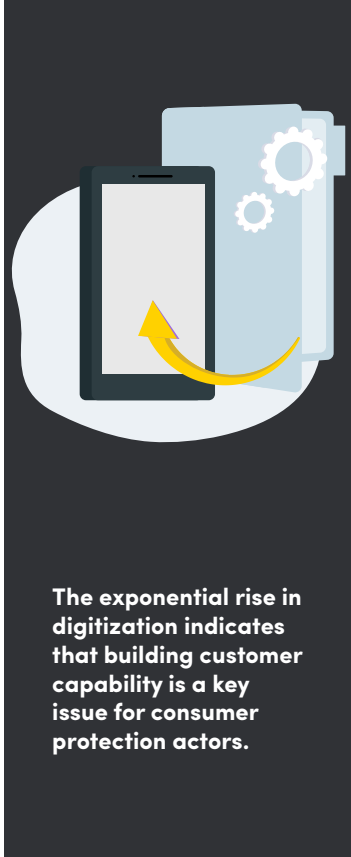
Reaching for Resilience

IF50 2020 winner reach52 established new partnerships that helped them develop new products, acquire users at a lower cost, and deliver affordable healthcare and financial services products to low- and middle-income people. They worked with community-based organizations who understood the needs of the local community and could help train more local agents in the community, who then could collect data on users' specific challenges and gaps that reach52 could address. As a result, they were able to expand from 100,000 users at the start of the pandemic to over 600,000 users, aiming to finish the year 2021 at 1 million users.

BOX 4

A Switch to Credit, and Growth

Kaleidofin, a neo-bank, began by offering goal-based savings solutions to underserved and unserved customers. Pandemic-induced lockdowns resulted in reduced or lost incomes for their customers, making savings difficult to prioritize. Many clients were small business owners who had used up their working capital early in the lockdowns and needed access to credit to restart their businesses. With credit bureau data impacted by loan moratoria, Kaleidofin saw an opportunity to leverage their clients' savings history to create a proprietary credit score (Ki-Score). This allowed them to underwrite \$800 million in new loans over a period of 16 months. These loans had higher ticket sizes than this segment could normally access and 55 percent were at rates lower than microcredit, with 1.5 times the duration — letting these businesses grow, despite the adversity.



Opportunities to Strengthen Capability for Fintechs and Customers

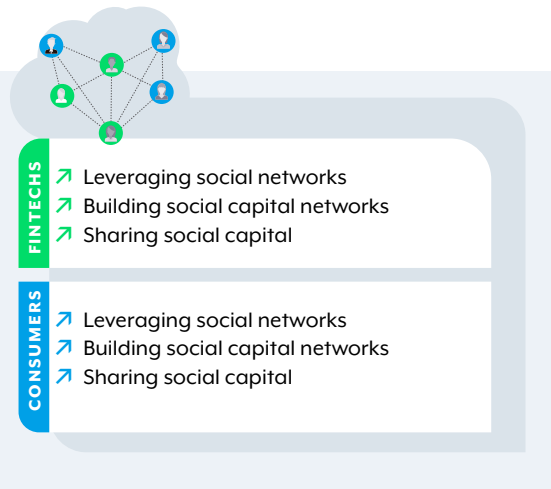
Both fintechs and customers need to be able to react quickly in the face of adversity. Agility is greatly improved if infrastructure, like open APIs, is in place, and the policy or regulatory infrastructure is likewise supportive. Investment in facilitating strong digital rails is beneficial to both fintechs and low-income customers.

While accelerators, board members, and investors stepped in to provide advice and expertise, there is still opportunity to ensure access to local knowledge and experience. For example, industry associations in Nigeria worked with a pool of volunteers and academics during the pandemic to provide technical advice. Local, regional, and global networks like the Financial Sector Deepening Trusts, industry associations, accelerators, and donors and other funders could pool funds and resources to strengthen such a rapid response to talent and advice for future shocks.

Finally, the exponential rise in digitization indicates that building customer capability is a key issue for consumer protection actors, to ensure clear information and access to grievance redressal mechanisms which could build trust in the system by low-income (and, indeed all) customers. Examples like the [Citizens Advice Bureau](#) in the United Kingdom that provide timely information may be adaptable to other markets.

TIES

Resilience strongly depends on social capital and the interactions and connections between people and organizations. Ties (or networks) played a crucial role for both early-stage fintechs and customers, and every person we interviewed spoke about the value of networks in getting through the pandemic.



“Those introductions and networking that investors can provide are more important now when travel is harder.”

Fintech entrepreneur

“Our proposal went straight to the leadership team because of that introduction.”

Fintech founder

The Value of Ties for Fintechs

Many fintechs benefitted from board members, accelerator partners, associations, fellow founders, and mentors who shared their skills and opened their networks. This enabled fintechs to find investors with capital to deploy, exchange market information, advocate with governments, connect in virtual and in-person forums with peers, work with mentors and experts to respond quickly with product or business model pivots, and broker new business partnerships. These “ties” provided fintechs with confidence and coaching—people to learn from and who could share solutions and ideas—that enabled fintech leaders to recharge and continue to advance, despite the adversity of the times.

Fintechs also strengthened their ties with employees and customers. They connected with agents and customers to provide vetted and accurate health, education, and business information. They worked with civil society organizations, local leaders, and others to identify ways in which they could leverage their networks. Tugende, a Ugandan fintech that helps customers build digital credit and own income-generating assets, leveraged their strength and relationships to connect customers to Give Directly grants and to advocate for their customers with the local government. Alongside their boda

(motorcycle taxi) driver borrowers and fellow startup peers, Tugende was successful in ensuring drivers were deemed “essential” early on in the pandemic. More recently, they convinced the government to lift the 7 p.m. curfew for boda boda drivers.

Another example of advocacy comes from the U.S. non-profit, SaverLife, which promotes savings to more than 600,000 of their low-income members and gathers data on usage of their savings. SaverLife’s analysis of their customer data led to the insight that many customers were eligible for but not receiving COVID-related government subsidies. They provided information on the application process, which quickly resulted in increased receipt of relief funds. For customers who received the payments, SaverLife shared how the social protection payments were being used (largely for housing, food, healthcare, and education). This information was crucial in building support for such subsidies and useful for local and federal government agencies, humanitarian organizations, donors, and customers themselves.

How Fintechs Support Customers’ Ties

We found several examples of how fintechs helped customers build social capital or leverage existing



social networks. Often essential information regarding healthcare or how to access social protection payments was facilitated through WhatsApp and other messaging services. Customers used the same channels to speak to fintech staff and to each other.

Building on existing social communication channels and networks helped fintechs build stronger ties with their customers and employees. For example, Oraan, a women-led fintech that provides savings and loans to women in Pakistan, mobilized donations, which they directed to their low-income customers. Additionally, through Oraan's platform, they provided safe spaces for their customers to discuss, ask questions, or seek advice. Philanthropic investors passed donations directly to the low-income customers of their partner fintechs.

Of course, as they have always done, low-income families leveraged their own trusted networks for support — sharing food, housing, care duties, and using informal financial tools. Increasingly, family support is becoming digital: remittances from Mexican migrants in the U.S. back to their families in Mexico are expected to surpass \$50 billion in 2021, a 26.7 percent year-over-year increase. Some of the increase reflects larger average remittances as migrants in the U.S. were able to retain or gain new employment, but it also reflects the visibility of digital remittances as opposed to those which are delivered in cash.^{xxxii}

Opportunities to Strengthen Ties for Fintechs and Customers

Stakeholders in the fintech ecosystem connect through working groups, associations, and other affinity groups. With greater intentionality, the ties among stakeholders — like investors or donors, for example — could be additive to the resilience of both fintechs and customers. For example, after the pandemic began, a coalition of donors, development finance institutions, and microfinance investment vehicles^{xxxiii} quickly came together, facilitated by CGAP and CFI to focus on how to support the resilience of the financial services sector. Likewise, the Global Impact Investment Network quickly surveyed their partners and shared resources through their monthly newsletters.^{xxxiv} Many investors created networks among their investees to share information and resources, and many associations and accelerators rapidly shifted into high gear to respond to stakeholders' needs.

Products that help customers connect to their social networks, helping them tap into informal sources of funding and tide over adversity are crucial, making continuing investments in mobile money infrastructure vital.



Looking Ahead

As fintech continues to grow, it is increasingly important to understand how fintech products affect customers, particularly vulnerable and underserved populations. Impact investors and fintechs, as well as research networks and academics, can all play a role in improving our understanding of the customer outcomes linked to fintech services and improving resilience. Using the PACT Framework, we highlight actions that can be taken by investors, donors, and fintechs to further this effort in the future:

1. **Encourage Preparedness: Plan for adversity**

The pandemic has been a case study of the importance of planning, and the consequences of not planning. After-Action Reviews (even as the pandemic continues to wax and wane) at all stakeholder levels – fintechs, investors, and other supporting organizations like networks and accelerators – should take place and result in the development of business continuity plans that consider the risks and needed responses. For all the optimism of fintechs, and the optimism inherent in human nature, anticipating future adversity is required. Climate change is already impacting countries and regions in adverse ways, conflicts will inevitably occur (sometimes driven by climate change and resource constraints), and diseases have proven their ability to upend markets; having a contingency plan and savings are critical for both businesses and individuals alike.

2. **Enable Access: Identify a clear theory of change and relevant impact indicators for different fintech business models**

The fintech space is constantly innovating and offering customers a wide variety of services, including personal and business loans, payment services, money transfer and remittances, insurance, and savings, among others. Even within

each of these services, fintechs offer myriad options with pricing and product design. Furthermore, fintechs may be serving customers directly, serving other businesses, or improving the infrastructure for financial services.

Even though there are several lessons learned from the microfinance industry about the impacts of financial services on unserved and underserved populations, fintechs offer more variety in their services, which may be linked to different impacts, requiring a more holistic approach. It is therefore important to identify a clear theory of change for different fintech business models and define the relevant indicators to monitor accordingly at the level of both the fintechs and their customers.

3. **Invest in Capability: Integrate data collection directly in customer platforms**

Collecting data on customer outcomes has historically been costly, involving specialized staff or outsourcing to experts. While these types of research efforts are still necessary today (for example, to define theories of change and impact indicators as discussed above), monitoring customer outcomes need not be the work of experts. Fintechs are, by definition, tech-driven companies that have built their success on their ability to make data-driven decisions. Their impact measurement and management should operate similarly. Once fintechs have defined the appropriate indicators and their business use cases, they can benefit from collecting impact data directly from their customers. This can be in the form of simple mobile surveys circulated among a random sample of customers on a regular basis. While this will entail an upfront cost to develop the surveys and integrate them into the user interface, it will cut costs in the long-term as fintechs gain valuable customer insights and business intelligence without having to engage external consultants. Development

fundings (multilateral development agencies and government agencies), donors, and research networks can contribute to building the capacity of fintechs to launch such initiatives.

4. Strengthen Ties: Demonstrate business value by examining networks

Fintechs tend to view impact measurement — especially at the customer level — as a burden, rather than a tool for business development. This mindset hinders most efforts to meaningfully collect and analyze customer data. Impact investors who are actively engaged in fintechs' governance can change this mindset by demonstrating the business value of impact measurement and providing examples of use cases. A deeper understanding of customers' social and information networks (ties) can improve the design of dissemination and delivery channels. Data on customers' ability to cope with shocks, save, purchase working capital for their businesses, or manage their household consumption can be very valuable to a fintech if it's analyzed. For example, the data can be disaggregated by product as well as by gender, location, income level, or customer satisfaction score (e.g., promoters vs. detractors) and used to inform product design and customer acquisition efforts. It will also allow both fintechs and investors to analyze correlations between impact performance and financial performance for various services, supporting fintechs with the development of their business strategy and incentive mechanisms.

Focusing solely on fintech resilience may not necessarily contribute to customer resilience as fintechs may move to more lucrative customer segments or increase prices, making it less affordable for poorer customers. Conversely, a focus on just customer resilience can lack strong business value and therefore risk being ignored by fintechs. The PACT framework is a first step towards understanding the interplay between fintech resilience and customer resilience — an area worthy of further investigation.



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