PROFILING THE MOST VULNERABLE

Client data reveals who suffered the most negative effects from COVID…and who is most at-risk from the next crisis.

FOOD INSECURITY AND FINANCIAL COPING STRATEGIES

About this brief:

COVID lockdowns not only disrupted the livelihoods of low-income workers at the height of the crisis – it exposed and exacerbated certain fundamental weaknesses in household finances, such as insufficient savings and poorly-capitalized businesses. These weaknesses will carry on into the future and are likely to worsen due to the war in Ukraine, which is expected to result in growing food insecurity. The continued vulnerability of FINCA clients in many low-and-middle income countries is therefore a continuing concern.

FINCA serves a diverse clientele; some are more fragile than others, owing to the interplay between poverty, family composition, gender, livelihoods and other factors. Using survey data from 2020 and 2021, we describe clients at different levels of vulnerability, including those who went hungry or were forced to sell-off their belongings in the aftermath of COVID. While these are not a majority of clients, they represent those who suffered the worst effects and who remain at greater risk from imminent external shocks.

The data in this brief is from FINCA's Mission Monitor survey enhanced with COVID impact questions commissioned during 2020-2021 in 13 FINCA subsidiaries. More than 11,000 clients were interviewed in Latin America, Africa, and MESA, with the generous support from SPTF.

Supervised machine learning classification and regression trees are used to conduct the analysis and identify the most vulnerable client segments.

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COVID'S IMPACT ON FOOD SECURITY

From Reduced Food **Quality** → to Reduced Food **Quantities** → to Experiencing **Hunger**

Clients who reduced consumption of expensive food

- **Overall** 77%
- those with 15% or higher poverty probability 85%
- ...of those, with 3+ children 93%
- ...of those, residing in rural locations 99%

Clients who reduced the number of daily meals

- **Overall** 50%
- those with 21% or higher poverty probability 64%
- ...of those, female 78%
- ...of those, with 3+ children 89%
- ...of those with no current source of income 98%

Clients who went hungry for a day or longer

- **Overall** 14%
- those with 32%+ poverty probabilities 31%
- ...of those, who borrow from FINCA, but not save 39%
- ...of those, borrowing below $200 48%
- ...of those, female 54%
- ...of those with less than secondary education 60%
- ...of those with 4+ children 67%

Represents the increased likelihood of identifying a food-insecure client with each additional variable. The % value at each level can be thought of as the total risk factor for a client who meets all the criteria up to that point.

For example, if a client is a rural inhabitant with at least 3 children and a poverty probability greater than 15%, then the likelihood that they have reduced the consumption of more expensive food is 99% - a near certainty.

Reduced Food Quality – widespread. 77% of all customers reduced the consumption of expensive foods such as protein. Only a few additional classifying variables are needed for the likelihood of this issue to reach 99%.

- A greater than 15% poverty probability (based on assets), plus having 3 or more children brings the likelihood of reducing more expensive items to 93%, meaning that nearly all households with such characteristics reported the reduction in food quality.
- Adding a rural place of residency further raises the likelihood to 99%.

Reduced Number of Meals – common. 50% of FINCA's clients reported skipping daily meals. The likelihood of experiencing this issue rises to 64% when we raise the poverty probability to at least 21%. Even more variables are needed to bring the profile into focus, however:

- Gender – 78% of women with at least 21 percent poverty probability report skipping meals.
- Family Size – among females with at least 21 percent poverty probability, 89% of those with 3 or more children reduced the number of meals.
- Income – the likelihood of skipping meals rises to 98% among those who did not have any business or source of income during the time of the interview.

Going Hungry – uncommon but severe. Only 14% of clients went hungry for a day or longer. A larger set of compounding factors is needed to bring the is needed to riase the likelihood of this issue to 67%.

- Poverty – raising the poverty threshold to 32% more than doubles the likelihood of suffering hunger to 31%.
- Small Loans – focusing on women with no savings but only small loans (under $200), raises it further to 54%.
- Education – among the smallest borrowers, the likelihood of going hungry rises to 60% for women with less than secondary education, Adding four or more children brings the total risk to 67%.
- The model reaches its maximum at 67%, meaning that the addition of further variables *from our available data* does not improve our ability to identify those who suffered from hunger. We interpret this to mean that the issue is deeper and more involved than our available data can depict. Further information outside our data set is needed to reach greater accuracy.

COVID'S IMPACT ON HOUSEHOLD FINANCES

From Depletion of Savings → to Borrowing for Consumption → to Selling-off Property

Clients who used savings to buy immediate necessities

- Overall: 58%
- earning income by trading or with regular wages: 65%
- ...of those, with secondary or collage degree: 73%
- ...of those, female: 81%

Client who borrowed money to buy immediate necessities

- Overall: 32%
- those without regular saving habits: 47%
- ...of those, employed in public or private sector: 56%
- ...of those, residing in urban areas: 63%
- ...of those, male: 70%

Client who sold-off property to buy immediate necessities

- Overall: 24%
- those having businesses in ag/or no other income source: 37%
- of those with poverty likelihood of +20%: 43%
- of those above 40 years old: 50%

More than 80% of clients lost income due to the pandemic. In order to maintain the consumption of immediate necessities, households employed different coping strategies, from drawing on savings to borrowing money and selling-off of property.

Using Savings – frequent

- The most widely used coping strategy – and normally the most desirable solution – was using savings to buy necessary goods, employed by 58% of clients.
- Most of those who used savings to supplement lost income were either business owners in the trade sector <u>or</u> earning regular wages through employment.
- Among these, women with higher education are especially prominent, raising the likelihood of this coping strategy to its maximum at 81%.

Borrowing for Consumption – a fallback

- Borrowing for immediate necessities is less common than using savings, but it may be more expensive. 32% of clients used this strategy.
- A lack of strong savings habits raises the likelihood that someone will borrow for immediate needs to 47%.
- The deficiency in savings habits is counter-balanced by stable employment, which affords them access to credit, making it more likely than not (56%) that they will resort to borrowing for immediate needs..
- Of those who earn public or private wages, being a male who resides in urban areas raises the likelihood of this strategy to 70%.

Selling-off Property – last resort

- 24% of clients resorted to the last and most painful coping strategy, selling off assets.
- The method was used more frequently by ag clients or those who had no other business/income source.
- Raising the poverty probability to >20% increases the likelihood of this strategy to 43% -- still less than half, however.
- Age is a final factor that pushes the occurrence of this strategy to 50% among clients older than 40.
- No other variables increase our ability to identify these clients, meaning that other factors outside our data set are involved.

The ability of our data to classify clients according to their financial coping strategies is more limited than for food security, never reaching 100%. Yet the outcomes are clear and directional in showing how the profiles change ifrom the strongest to the weakest households.

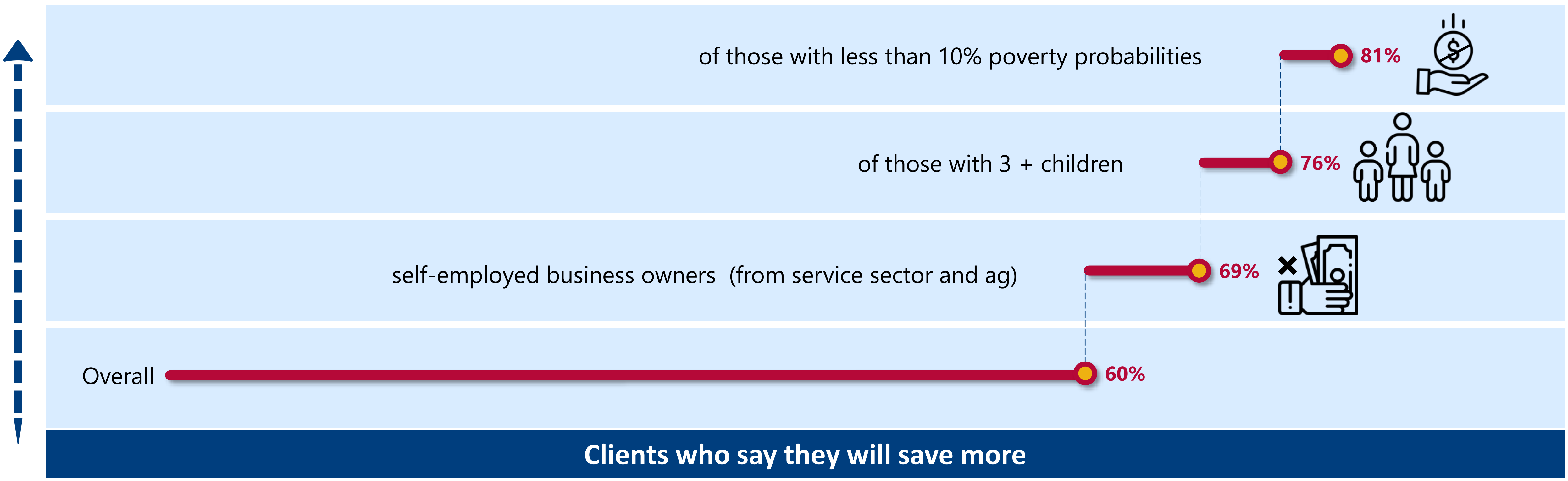
Clients with strong saving habits – especially women with at least a secondary degree – have better financial health and are better equipped to cope with unexpected budget shocks. Next down, those with regular income, especially men in urban settings, were able to get by with emergency loans. Finally, the most unfortunate, who are unable to save or borrow, have no option but to sell their property in order to meet daily needs.

A STRONGER FOCUS ON SAVINGS

(For Those Who Can Afford It)

In the aftermath of COVID – and facing the likelihood of rising food insecurity – it is more important than ever to strengthen our customers' long-term financial health and resilience. Having suffered the economic shock of COVID, most people express stronger intentions to save

WHO INTENDS TO SAVE MORE FOR THE NEXT EMERGENCY?



- Overall, 60% of customers express a desire to save more in the future, to avoid the negative experiences from COVID.
- Those who are willing to save more are predominantly self-employed, who experienced higher volatility in their earnings and understand the need for bigger savings as a buffer against income shocks.
- Among the self-employed, those with 3 and more children reach 76% likelihood of greater savings intent.
- Intentions are also shaped by the ability save. Clients with less than 10% poverty probability make-up most of those who intend to save more.

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