



Gender Perspective in Building Resilience Through Financial Inclusion

Hiwot Mesfin and Musa Hasen Ahmed

October 2022 / No.IF-009

Highlights

- Climate shocks adversely affect welfare of female-headed households.
- Climate shock decreases remittances.
- Households that use mobile money are more likely to receive remittances and less likely to experience climate shock induced hunger.
- Policymakers need to consider the gender variations in climate vulnerability when designing interventions, such as expanding mobile money infrastructures.



Source: Al Jazeera¹

1 <https://www.aljazeera.com/news/2021/11/19/unsounds-alarm-on-somalias-rapidly-worsening-drought>

Executive summary

The effects of climate shocks on welfare and households' coping mechanisms has been extensively addressed in the literature. However, there is a dearth of evidence on how climate shocks impacts on fragile societies especially in Africa. Due to this knowledge gap, in this study, we examine an African context, specifically Somalia in a postconflict era, to understand household welfare through the lens of the interactions between climate shock and financial inclusion.

Our results show that female-headed households are more likely to fall below the poverty line, have a larger poverty depth, and shift their diet due to

climate shock than male-headed households. Interestingly, we find that remittances decrease following climate shock, both on average and for female-headed households, but such reduction does not have a significant adverse effect on the households' coping ability. Additionally, we find that mobile money improves households' coping ability. Policymakers need to consider: 1) the gender variations in climate vulnerability when designing interventions; 2) further investigating the reasons behind the reduction in remittances following shocks; and 3) expanding mobile money infrastructure to reap its benefits of improving coping abilities of the vulnerable.

The context and importance of the problem

The effects of climate shocks tend to be more devastating to the poor and vulnerable segments of a society, such as women and children. Moreover, lack of strong institutional capacity, for example, due to a long lasting conflict, makes the management of climate induced shocks even more difficult. Studies document that in order to minimize the adverse effects of climate shocks, governments and households often use various coping mechanisms such as, providing insurance, social protection/safety net programs, informal risk-sharing networks, outmigration, consumption reduction, and selling assets.

In this study, we focus on investigating the effects of climate shocks on Somali households' welfare and diet quality and test for one specific coping mechanism, i.e., the role of financial instruments such as remittances and mobile money in helping households mitigate climate shocks' adverse effects. We also further investigate whether women are disproportionately affected by climate shock and whether the roles of the financial instruments vary in their ability to help absorb the effects of the shocks.

Given that societies assign varying roles and set different expectations based on the individuals' sex, men and women are likely to be affected by environmental factors, such as climate shocks, in different ways and their adaptation strategies may differ as a result of existing gender norms. In patriarchal societies like Somalia, men are assigned higher authority and have higher decision-making power compared to women and they are expected to fulfill the financial well-being of their households. Women, on the other hand, are expected to “compliment” the men by raising children, obtaining and preparing food, and taking care of other household chores, such as fetching water and cleaning. Furthermore, studies also show that men and women differ in their spending habits such that men are more likely to spend their money on household durables and women on food and nutrition for their families. As a result, we expect the welfare effects of remittances received by men and women to vary.

Results and implications

Summary of evidence

This brief is based on a study that employs a rich and representative dataset that comes from two rounds of the World Bank’s Somali High-Frequency Survey. The study makes use of detailed information on drought shock, access to remittances, and use of mobile money services, along with a diverse set of household welfare indicators that includes standardized poverty measures such as poverty, hunger, and poverty depth as well as diet diversity indicators.

Climate shocks adversely affect welfare of female-headed households.

The results show that on average, female-headed households are about 11% more likely to fall under the poverty line when they face climate shocks compared to male-headed households, and they also experience a 5.2 percentage points increase in their poverty gap index. However, we find no difference between male and female-headed households in their likelihood of experiencing hunger in response to exposure to climate shocks. Another interesting heterogeneity we observe is that female-headed households respond to climate shock by consuming more pulses and fruits. More specifically, female-headed households, when they experience climate shocks, increase their consumption of pulse by about 10% and their consumption of fruits by about 13%, compared to their male headed counterparts.

Climate shock decreases remittance but does not further decrease welfare and diet quality.

We find that both the likelihood of receiving remittance and its amount decrease among households that experienced climate shocks. The results show that climate shock on average reduces the likelihood of remittance by about 3.3% and the amount by about 36%. Based on our results, female-headed households experience further reduction in remittances following climate shocks whereby their likelihood to receive remittance decreases by about 12% and the amount received by about 36%. Interestingly, we do not find evidence that this reduction further devastates neither households' welfare nor their diet quality and these results do not vary between men and women headed households.

Households that use mobile money are more likely to receive remittances and less likely to experience climate shock induced hunger.

Mobile money increases the likelihood of receiving remittances, specifically for female-headed households, by about 5%. Furthermore, we find that mobile money users are less likely to experience climate shock induced hunger. This effect, however, seems to be arising from other reasons than its effect in increasing remittances as we do not find remittances to help cope with climate shocks.

Critique of the policy

Given the fact that existing institutions in Somalia are weak due to long standing conflict, it poses challenges to designing and implementing any policy. Moreover, because financial instruments such as remittances are outside of the control of the Somali government, it could be difficult to implement a policy that could increase the flow remittances, especially during climate shocks. However, it would still be possible for the government (or, other stakeholders) to further investigate why remittances decrease following climate shock and use that evidence and design policies such as information campaigns and/or use prizes when someone remits a certain amount per a specified time period etc to encourage the flow of remittances.

Policy recommendations

Our study is closely related with some of the targets of the SDG such as Goal-1—“End poverty in all its forms everywhere” and Goal-13 that targets, among others, strengthening resilience, adaptive capacity and reducing exposure and vulnerability of the poor to climate-related shocks. It also touches some targets from Goal-2 such

as ending hunger, malnutrition, and ensuring access by all people. On top of that the gender disaggregated results are also linked with Goal-5 of “gender equality”.

The main policy implications that arise from our study are: Firstly, special attention is needed while designing policies to help female-headed households better cope with climate shocks. Secondly, it is necessary to investigate further why remittances decrease and how Somali households compensate for the lost remittance to protect their livelihoods from further decreasing. Last but not least, policy makers could capitalize by expanding mobile money services further, for example, by improving network and electricity infrastructures as well as increasing integration among mobile money service providers.

Suggested further reading

- IMF (2021). Somalia enhanced heavily indebted poor countries initiative—request for additional interim assistance. IMF Country Report No. 21/69
- SDG, UN (2019). "Sustainable development goals." <https://sdgs.un.org/goals>
- World Bank. (2018). Somalia economic update, august 2018: Rapid growth in mobile money—stability or vulnerability? World Bank



Mission

To strengthen local capacity for conducting independent, rigorous inquiry into the problems facing the management of economies in sub-Saharan Africa.

The mission rests on two basic premises: that development is more likely to occur where there is sustained sound management of the economy, and that such management is more likely to happen where there is an active, well-informed group of locally based professional economists to conduct policy-relevant research.

www.aercafrica.org

Learn More



www.facebook.com/aercafrica



www.instagram.com/aercafrica_official/



twitter.com/aercafrica



www.linkedin.com/school/aercafrica/

Contact Us

African Economic Research Consortium
Consortium pour la Recherche Economique en Afrique
Middle East Bank Towers,
3rd Floor, Jakaya Kikwete Road
Nairobi 00200, Kenya
Tel: +254 (0) 20 273 4150
communications@ercafrica.org