Finance for Refugees: the state of play

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TABLE OF CONTENTS

BACKGROUND AND INTRODUCTION

NpM, Platform for Inclusive Finance, brings together Dutch development organizations, social investors, private foundations and commercial banks active in the inclusive finance sector. Together with the Dutch Ministry of Foreign Affairs (MoFA), NpM's 13 members share a commitment to expanding access to finance in underserved regions and to underserved populations, including refugees.

During May-August, 2018, the NpM, Platform for Inclusive Finance in the Netherlands initiated a preparatory process to expand access to finance for refugees in Jordan, Lebanon, and Uganda. In early July, a 2-day workshop and Roundtable Discussion was held in Amman, Jordan for 9 financial Service Providers (FSPs) from Jordan, 2 from Lebanon, and 11 investors and funders from the MENA region. As a first time opportunity to come together to discuss a common potential market, the workshop exchanged knowledge and discussed possibilities, obstacles and required interventions to financially include refugees, prior to presenting key findings to investors.

Simultaneously in June-July, a Diagnostic Study was conducted with four FSPs in Uganda. Following a brief data validation with refugees and FSP branch staff in the northern West Nile region, in the South West, and in Kampala, the consultant team conducted a joint kick-off workshop for all four participating FSPs in Kampala. This was followed by a 1-2 day Institutional Assessment and a one-day Action Planning session with managers and staff of each FSP individually to dispel some preconceived ideas and assumptions about refugees, identify opportunities and challenges, and define a preliminary approach for including refugees. The Action Plans were informed by the findings from the Institutional Assessments to identify capacity and funding gaps, and a preliminary budget envelope for TA and other support from investors and external funders was established. The field phase of the assignment was concluded with presentations and panel discussions by all four participating FSPs at a well-attended Microfinance Information Exchange event in Kampala, co-hosted by the Association for Microfinance Institutions in Uganda (AMFIU). A Diagnostic Study report for Uganda is available and findings will be discussed at the NpM's Annual Conference: "Finance for Refugees – Making it Work" to be held in The Hague, Netherlands on 07 September 2018.

1. FINANCIAL INCLUSION OF REFUGEES

Lack of access to financial services can represent a major impediment to income opportunities and economic welfare of individuals, particularly for the poor and vulnerable, and those engaged in the informal economy.[1] Affordable access to financial services can help refugees cope with negative shocks, reduce exposure to risk, and stimulate economic activity at community levels[2].

Over the past decade, the social intent to serve marginalized and vulnerable populations, and the emerging business case for financial inclusion *for all* has developed based on the evolving understanding of the complex money management strategies of poor people and the economic systems in which they live and work. While the financial services industry initially focused on availability and access[3] to appropriate and affordable financial services, full adoption of all types of financial services (including digital) by all people who can use them is now a widely accepted policy objective for governments and donors, as reflected e.g. in the post-2015 Sustainable Development Goals (UNCTAD, op.cit.).

We have learned where people are lacking access (on the rural-urban axis) and which demographic groups are particularly at risk of exclusion (women, youth, and the poorest).[4] However, among the financially excluded populations, the industry has only very recently begun to recognise the specific constraints faced by people who are not citizens, and within this large group of potential clients, forcibly displaced people including refugees are often the least served.

Today's refugees are as diverse as the conflicts and disasters that displace them, but the media often paints a homogenous picture of asset-less, relief-dependent victims in forlorn camps. For a vast majority of refugees, emerging research does not support this picture. Rather, there is evidence that a well-integrated refugee community contributes directly and in positive ways to the national economy,[5] is economically diverse, and is far from dependent on international aid.[6] Refugees form part of the wider systems of consumption, production, and exchange, and seek out entrepreneurial livelihoods in the formal and informal sectors,[7] alongside – and in competition with - the core microfinance clientele of urban and rural poor nationals. In most markets, the socio-demographic profile of refugee populations does not differ markedly from nationals – partly because most refugees are 'neighbours,' and partly because the majority have been in the host countries for long enough to assimilate.

Not all refugees are poor, but the competition for scarce resources, income opportunities, and services is most pronounced among people at the lowest economic echelons in any community. Like poor nationals, poor refugees face challenges of finding affordable shelter and income-generating opportunities, meeting increasing food prices, and accessing social services – and refugees may in addition face precarious access to legal and social protection. Especially in contracting economies, national social pressures, domestic politicking, and fears of scarcity can create a negative political environment in which refugees may face protection threats, and FSPs ignore or disregard their potential financial inclusion.[8] The demand for financial services among refugee populations does not differ from that of nationals, and no evidence has been found to support notions that FSPs need to develop specific products and services for refugees. To avoid

1 UNCTAD: Access to Financial Services as a Driver for the Post-2015 Development Agenda, UNCTAD Policy Brief no. 35, September 2015.
2 www.cgap.org/sites/default/files/Forum-The-Role-of-Financial-Services-in-Humanitarian-Crises_1.pdf (PDF)
3 World Bank: The Global Findex Database 2014 - Measuring Financial Inclusion around the World. Policy Research Working Paper no. 7255, April 2015
4 Center for Financial Inclusion and ACCION: FI2020 - By the Numbers; Benchmarking Progress toward Financial Inclusion, June 2015.
5 See e.g.: https://documents.wfp.org/stellent/groups/public/documents/communications/wfp288256.pdf (PDF), Nov. 2016.
6 Humanitarian Innovation Project (HIP): Refugee Economics – Rethinking Popular Assumptions, June 2014.
7 ODI: Protracted displacement: Uncertain paths to self-reliance in exile, HPG Commissioned report, September 2015.
8 Stefanie Lämmermann for European Microfinance Network: "Financial Exclusion and Access to Credit", Social Watch, 2010, and ODI: Protracted displacement - Uncertain paths to self-reliance in exile, HPG Commissioned report, September 2015.

perceptions of unequal access, FSPs should offer access to standardised services based on transparent and equitable ("nationality-neutral") eligibility criteria that do not inherently exclude foreign-born residents, but do also not specifically or exclusively target refugees.

Outside of general assumptions about language skills and cultural assimilation, nationality is not a useful indicator of potential success as an FSP client. It is important for FSPs not to silo new client segments by nationality. Instead, FSPs should take into account the time of arrival (displacement phase) and the plans for return or resettlement (migration path) of refugees, while focusing on legal residency and the standard appraisal criteria of economic participation as indicators, when segmenting the new market.

Recent focus on refugees in some areas of the world has led to initiatives by stakeholders to increase visibility, registration, data sharing, and access to services by refugees and the financial institutions considering them are customers. An eco-system is emerging, and financial inclusion of refugees has increased, even if uptake among FSPs remains subdued. Importantly, across borders, refugee customers of FSPs perform as well or better than nationals in terms of loan repayment.

In order to develop more inclusive financial markets it is necessary to address the specific constraints in each context that prevent an efficient match between demand and supply of financial services, limiting access, use and quality of available services. While legal and policy barriers remain, the biggest constraint to increased financial inclusion of refugees is a familiarity gap between refugees and FSPs, fuelled by ingrained stereotypes and preconceived ideas. The support system around FSPs, while growing, remains fragmented, and many FSPs continue to be constrained by a lack of (easy) access to the information, guidance and support needed to identify, assess, and potentially serve refugees as customers.

This state of play paper aims to provide a brief overview of the global potential market scope of refugees, and review the progress to improve access to finance by refugees in the past few years. Remaining barriers are briefly described, including policy clarity, relevant information, legal barriers, and funding. This list of gaps is by no means complete but it is hoped that the International Conference Finance for Refugees – Making it Work can contribute to filling the void.

This paper was written by Financial Inclusion Specialist Lene M.P. Hansen for the NpM, Platform for Inclusive Finance's Annual Conference. Any omissions or misrepresentations are the responsibility of the consultant, and the views and recommendations presented are those of the consultant, and do not necessarily represent the views of NpM, Platform for Inclusive Finance.

2. OVERVIEW OF THE POTENTIAL MARKET OF REFUGEES

In order to determine a potential business case for serving refugees, FSPs first want to understand the scope of the potential market, i.e. how many potentially eligible new clients are within reach of existing or planned infrastructure.

2.1 Market Scope

Before narrowing the scope to refugees, it is often useful to clarify the total market scope of all Foreign Born-Residents (FBRs) in a given market – there may be significant segments of non-refugee FBRs who are also not financial included, but who may be of interest for FSPs, ass illustrated in Table 1. Of all the 257.7 million foreign-born residents estimated to be in the world by end 2017, refugees and asylum seekers as registered by UN agencies only constituted 11% overall, but 30% of the total estimated FBR population in Africa.

Table 1

TOTAL ESTIMATED FOREIGN-BORN RESIDENT POPULATION BY REGION, DECEMBER 2017[9]

REGION	FEMALE	MALE	TOTAL	UN REFUGEES AND ASYLUM SEEKERS	REFUGEES AND AS IN % OF ALL FBR
Sub-Saharan Africa	10 975 090	12 000 898	22 975 988	6 776 998	29%
Americas	34 484 926	32 687 417	67 172 343	1 522 918	2%
Asia pacific	22 620 002	22 486 621	45 106 623	4 369 650	10%
Europe	40 510 569	37 384 648	77 895 217	7 422 902	10%
MENA	16 413 419*	28 887 656*	45 301 075*	8 339 777	18%
Calculated total	125 004 006	133 447 240	258 451 246	28 432 245	11%
UN reported total	124 636 567	133 078 858	257 715 425	28 432 245	11%

* Western Asia and North Africa, including Armenia, Azerbaijan and Georgia

In total, UNHCR recorded 71.4 million Persons of Concern at end 2017, of whom 68.5 million were forcibly displaced[10] (down to 67 million as at June 2018), but this figure includes the 40 million internally displaced people; as well as refugee returnees. While these segments share some characteristics with refugees and asylum seekers, they are nationals, and are hence not as unfamiliar a segment to FSPs as FBRs, and not as under-served.

9 www.un.org/en/development/desa/population/migration/data/estimates2/estimates17.shtml and UNHCR refugee data from: http://reporting.unhcr.org/population + 5.4 million refugees under care of UNRWA.

10 http://reporting.unhcr.org/population

The total potential FBR market in the productive age brackets (20-64 years) is reported by UNDESA at 191.5 million, or 75% of the total FBR population. This is high, but plausible as most non-refugee FBRs, e.g. migrant workers, would be adults. Conversely, refugee populations often include a high percentage of children, and globally, only 54% or some 15.3 million of all refugees and asylum seekers are in the productive age groups of 18-59 years, as per Table 2. The proportion of adults varies significantly by region, with a much higher 70-80% of the refugee populations in the Americas and Europe being in the productive age bracket.

Overall, forty-seven percent of all FBR are women, but a significantly higher proportion of FBRs (migrant workers) in the MENA region (68%) are male. Similarly, 47% of all adult refugee populations are women. Again, however, there are significant regional differences, with a smaller percentage of women among refugees in Europe (39%) and a higher 51% women among all adult refugees in Sub-Saharan Africa.

Table 2

FOREIGN-BORN RESIDENT ADULT POPULATIONS BY REGION, DECEMBER 2017 [11]

REGION	TOTAL FBR ADULTS (20-64 YRS)	OF WHOM, REFUGEES AND ASYLUM SEEKERS (18-59 YRS) [12]	REFUGEES IN % OF TOTAL FBR	FEMALE FBR (20-64 YRS)	REFUGEE/AS ADULT WOMEN (18-59 YRS)	% WOMEN ADULTS OF ALL REFUGEES/AS
Africa	15 016 830	2 710 799	18%	6 913 103	1 382 508	51%
Americas	50 194 324	1 187 876	2%	25 349 089	558 302	47%
Asia pacific	33 708 516	2 097 432	6%	16 811 038	1 006 767	48%
Europe	59 756 655	5 196 031	9%	30 768 103	2 026 452	39%
MENA	33 243 090*	4 169 889	13%	10 684 777*	2 084 944	50%
Calc. Total	**191 919 415**	**15 362 027**	**8%**	**90 526 110**	**7 058 973**	**47%**
UN total	191 499 592			90 314 764		

*Western Asia and North Africa, including Armenia, Azerbaijan and Georgia

In the following, we focus on the segment of refugees (i.e. people who have fled conflict or persecution across an international border) and asylum seekers (i.e. refugees, whose status has not yet been determined as such).

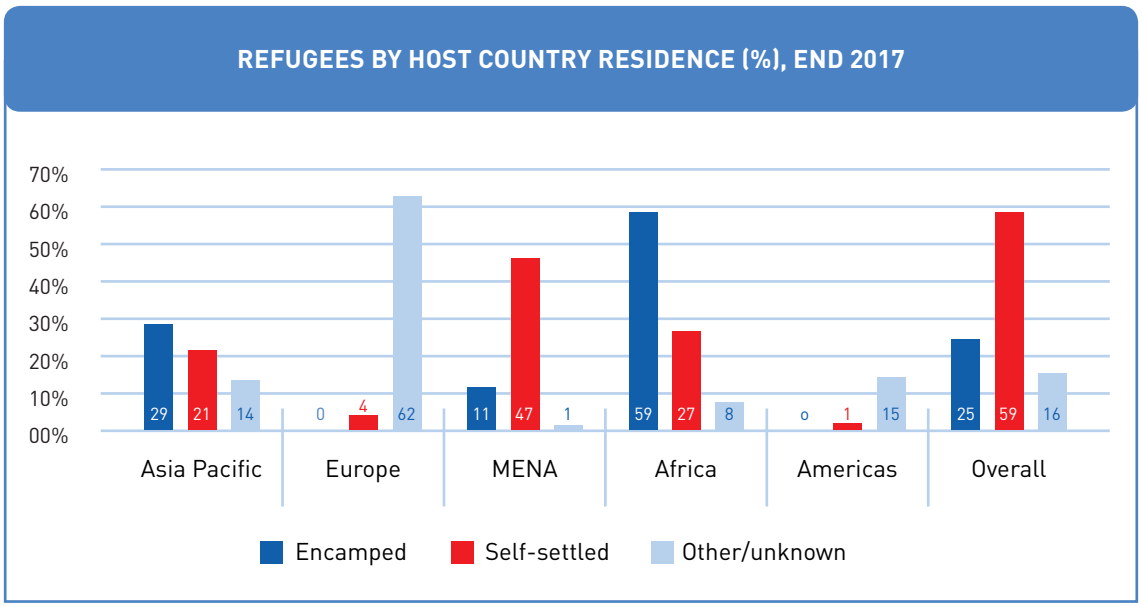
11 www.un.org/en/development/desa/population/migration/data/estimates2/estimates17.shtml and UNHCR refugee data from: http://reporting.unhcr.org/population

12 http://www.unhcr.org/5b27be547.pdf (PDF), Figure 19.

The conflicts and persecution that displace refugees can happen anywhere, but the majority of today's refugees (68%) come from just five countries: Syria, Afghanistan, South Sudan, Myanmar and Somalia. While refugees have crossed an international border, most do not travel far. 85% of all refugees, or 24.2 million people, are hosted in the global south, in countries neighbouring the conflicts they have had to flee. Thus in the countries hosting the largest number of refugees, the vast majority of the displaced are from neighbouring countries, sharing cultural and often linguistic traits. 98% of the refugees in Turkey and Lebanon are from Syria; 89% of the refugees in Uganda come from South Sudan and the DRC; and 99% of refugees hosted by Pakistan and Iran are from Afghanistan.

Contrary to the media picture of destitute refugees in forlorn camps far from everywhere, only 25% of all refugees are encamped, as presented in Figure 1.[14] Three quarters of refugees are self-settled in individual housing, predominantly (at least 48%) in urban areas.[15] In rural areas, most refugees (79%) live in what UNHCR calls "camps or camp-like settlements." However, many of these 'camp-like' environments, especially in Africa, are in fact unfenced, rural trading centres (clustered villages) with their own infrastructure, markets and agro-business value-chains.[16] Refugees in some rural settlements have access to land (like in Uganda and Rwanda), and operate trade and service businesses. Refugees encamped in countries that restrict movement, like Jordan and Tanzania, start retail and service businesses to meet demand within the camps, and find ways to interact with the surrounding community. Camps where humanitarian assistance is provided as (unconditional) cash rather than in-kind food aid tend to develop more vibrant markets,[17] creating positive economic spill-over benefits for the local economies.[18]

Figure 1



13 UNHCR: Global Trends: Forced Displacement in 2017, June 2018.

14 Calculated from UNHCR: Forced Displacement in 2017, Table 18. Refugees, including people in a refugee-like situation, by type of accommodation, end-2017. N= 19,941,347.

15 With the caveat that UNHCR only had residence data on 83% of registered refugees and 27% of asylum seekers in 2017, it estimated that 48% of refugees lived in cities and 35% in rural areas. UNHCR: Forced Displacement in 2017, Table 19. Refugees, including people in a refugee-like situation, by type of location, end-2017.

16 See e.g.: IFC: Kakuma as a Marketplace: A consumer and market study of a refugee camp and town in northwest Kenya, April 2018.

17 E.g. Zaatari camp in Jordan, see: www.refugeesinternational.org/blog/2016/03/16/market

18 An average refugee household receiving cash assistance increased annual real income in the local economy by USD 1,106-1,072 in settlements in Uganda. See: https://documents.wfp.org/stellent/groups/public/documents/communications/wfp288256.pdf?_ga=2.75724629.1931253350.1535659280-607546768.1530806353 (PDF)

Whether in rural or urban areas, refugees form part of the wider system of consumption, production, and exchange, and seek out entrepreneurial livelihoods in the formal and (more often) informal sectors, alongside – and in competition with - the core microfinance clientele of the national poor.[19] Both hosts and refugees in informal urban economies face challenges and risks of poverty, saturated labour markets, high unemployment, increasing food prices, difficulties in finding adequate shelter, and precarious access to legal and social services and protection. Refugees that self-settle in urban areas generally assimilate and integrate faster – because they have to. Self-settling generally means a loss of humanitarian assistance, but the urban environment also offers more opportunities to make a living.

The population of refugees present a large market for FSPs to explore, and it is likely that FSPs have infrastructure to reach this new market segment in most countries where refugees are concentrated. To understand which sub-segments of this potential market FSPs can best serve, they would consider displacement phase (duration in country), legal documentation, and level of economic activity.

2.2 Displacement Phase and Migration Path

Today's refugees are as diverse as the conflicts and disasters that displace them. While specific refugee populations may have been economically weakened by pre-flight shocks in their own countries, like e.g. Syrians, the generalisation from a 2015 study that "refugees differ from regular populations"[20] has not been validated in other markets. In fact, emerging evidence suggests that refugee populations are much more similar than different from nationals – partly because the majority are 'neighbours.'

The process of assimilation correlates first and foremost with the duration of displacement and migration plans. The longer refugees stay in a host country, the more assimilated they are likely to become. In 2017, two thirds of all refugees had been in exile for more than five years, and the median duration of exile was 10 years in 2017.[21] The most protracted refugee situation is that of the 3 million Palestinians displaced to neighbouring countries since 1947, who are being assisted by UNRWA and therefore rarely feature in UNHCR data. Of the refugees registered by UNHCR, some 13 million people were in protracted refugee situations at the end of 2017, including the 2.3 million Afghan refugees in Iran and Pakistan who have been displaced since 1979. Additional 6.9 million refugees have been in exile between five and nine years, including 5.4 million Syrian refugees in Egypt, Iraq, Jordan, Lebanon, and Turkey. During 2017, 4.4 million people fled conflict and human rights abuses and sought asylum outside of their country, and of these, 2.7 million became refugees, as illustrated in **Table 3**.

19 Humanitarian Innovation Project: Refugee Economics – Rethinking Popular Assumptions, June 2014.
20 World Bank: https://openknowledge.worldbank.org/handle/10986/23228
21 http://blogs.worldbank.org/developmenttalk/refugees-average-duration-exile-going-down-why-bad-news

Table 3

INDICATIVE REFUGEE SEGMENTS BY DISPLACEMENT PHASE		
DISPLACEMENT PHASE[23]	**KEY DETERMINANTS FOR DURATION OF STAY**	**INDICATIVE GLOBAL SEGMENTATION**
Phase 1: Arrival (<6-12 months) Focus on immediate basic needs for protection, shelter, food, health, and communication to reconnect with family	Degree of trauma experienced before and during flight, and support infrastructure at destination. Migration plan: Not yet determined	**12%** 4.4 million new arrivals during 2017, net 3.12 million
Phase 2: Initial displacement (6/12-18/24 months) Focus on access to housing, education, learning the language, work, or business start-up.	Receptivity of host community, assessment of economic opportunities, human/ social capital. Migration plan: Transit, return or resettlement.	**Est. 3%** 3.4 million new arrivals in 2016, net 0.7 million
Phase 3: Stable/protracted displacement (19/25-36 months) Focus on making an increasingly better living.	Success of livelihood (enterprise /job). End goal: either integration or return/ resettlement.	**Est. 12%** 3.8 million new arrivals in 2015, net 3.1 million
Phase 4: Permanence (<36 months) Focus on integration/ assimilation (i.e., livelihood building) to ensure the best life possible for self and family.	Success of livelihood (enterprise/job). End goal: either integration or returning home.	**73%** 19.1 million refugees in exile at end 2014. 16.1 million in UNHCR-defined protracted displacement.[24]

There would thus be at least **11.2 million adult refugees and asylum seekers** who have been in their countries of exile long enough to be fully assimilated, of whom 5.1 million are women.

22 www.unhcr.org/5b27be547.pdf (PDF)
23 https://sptf.info/images/Guidelines-for-FSPs-on-serving-refugee-populations-March2017.pdf (PDF)
24 16.4 million under UNHCR mandate and 3 million of the 5.4 million Palestinians under UNRWA mandate that are in exile outside of Palestine. UNHCR defines a protracted situation as 25,000 or more refugees from the same nationality having been in exile for five consecutive years or more in a given asylum country.

2.3 Socio-Economic Profile and Drivers of Economic Participation

Emerging research on the economic lives of refugees presents a picture similar to what we learned 40 years ago about the poor: they are not as unbankable as many thought. In fact, where comparable research has been conducted, refugee populations differ relatively marginally from nationals on most socio-demographic indicators. Firstly, refugees have very diverse socio-economic backgrounds. Some are highly educated and held professional jobs before fleeing, some have managerial skills or were business owners, while others were wage- or self-employed with specific trade skills. Others again were farmers and have only a few years of schooling, if any.[25] The ability of refugees to document their prior skill sets might be problematic, however, and skill sets may not match the labour demand in the host country. Differences increase with distance from home, and refugees having fled to neighbouring countries display more similarities with the host population than e.g. refugees who have been resettled half way around the world, but the differences decrease with increased duration of stay in exile.

Second, not all refugees are poor. However, the cost of the flight and the loss of property and assets in the process can deplete resources, and many refugees start their life in exile much poorer than they were at home. As a consequence, refugee populations in many markets are more fragile than nationals: they may be poorer on average, may have less social capital (language, local networks, etc.), and they participate less in the formal sector than the average national household. But they are more similar than different to the core clientele of most microfinance FSPs, and the marginal differences do not explain their financial exclusion.

The majority of especially self-settled refugees in protracted situations have strategies and priorities for achieving self-reliance and building livelihoods – they exploit available opportunities and use their transnational networks to ensure their livelihoods and contribute to the economy in which they find themselves, benefiting both themselves and their hosts.[26] While most refugees, especially in early displacement, are grateful for the humanitarian aid they may receive, among no refugee population has this assistance been considered sufficient to meet household needs,[27] and the motivation to earn an income is generally as high, or higher, than among nationals. Their success in doing so will depend on human and social capital (e.g., marketable and language skills, and familiarity with the host (business) culture), work experience and financial inclusion in their country of origin, the level of integration (acceptance) they meet in the host community, and – most importantly – the opportunities provided for them to actually apply their income generating capacities.[28]

Such opportunities are less accessible to refugees than to nationals in many markets, due to political, regulatory, administrative and social restrictions. Laws and regulations that restrict movement and access to (legal) work, ability to own property, and to register a business limit refugee livelihoods opportunities. In addition, refugees face numerous practical challenges, such as cumbersome processes to apply for work and other permits and prohibitive transportation costs. As a result, most refugees work in the informal sector where they receive lower wages and are more vulnerable to workplace abuse. The factors that limit integration of refugees in host societies in general (as addressed by UNHCR in the description of the humanitarian "protection

25 www.oecd.org/els/mig/UNHCR-OECD-Engaging-with-employers-in-the-hiring-of-refugees.pdf (PDF)
26 ODI: Protracted displacement: uncertain paths to self-reliance in exile, HPG Commissioned report, September 2015.
27 www.microfinancegateway.org/blog/2017/mar/removing-barriers-expand-access-finance-refugees
28 https://sptf.info/images/Guidelines-for-FSPs-on-serving-refugee-populations-March2017.pdf (PDF)

space,"[29]) apply equally to the ability of FBRs to participate successfully in the host country economy.

In countries like Uganda and Rwanda that have a progressive policy framework, which recognises refugee IDs, and enables refugees to move freely, and to work, refugees appear to develop livelihoods faster and more successfully. Developing social networks in exile helps refugees integrate faster, and of course it helps to speak the local language(s). But even in restrictive markets, refugees – like most FBRs and poor nationals for that matter - find ways around financial exclusion. They work informally or run home-based businesses, save in Savings Groups, borrow informally, and receive and send remittances, and many make incomes comparable to nationals.[30]

Some successfully exploit transnational business networks. The Somali diaspora, for example, has invested in hotels, real estate, and transport in Kenya's and Uganda's formal sector, generating jobs and economic activity for Somalis and nationals, and is investing in the rebuilding of infrastructure in Somalia. Likewise, the Syrian International Business Association seeks to mobilize the Syrian diaspora for impact investing to support economic opportunities in host countries and, eventually, in Syria itself. Since 2011, Syrians have invested more than USD 330 million in the Turkish economy, and there are 10,000 Syrian-owned businesses in Turkey, employing 9.4 people each on average.[31] The global refugee market has been estimated to be worth some USD 10 billion.[32]

Finally, the socio-economic are country-specific and **FSPs need better access to relevant information and data** on the refugee populations in their country to determine which segment of the potential refugee market they might be able to serve best.

2.4 Personal ID and Legal Residency

Having a valid and recognised proof of identity and legal residency in a country is core to the safety, access to services, and (formal) economic participation of refugees and other FBRs. It can facilitate the financial inclusion of refugees by allowing them to register SIM cards in their own name, and to open mobile money or bank accounts. But registering can also increase risks of visibility to authorities that may not respect data privacy. UNHCR's data protection policy recognizes that the stakes are high for refugees, and advocates for governments to adopt and implement strong legal and regulatory frameworks for personal data protection.[33] However, the **challenges of obtaining a valid personal ID is neither new nor specific to FBR populations**.

The World Bank estimates that there are some 523 million adults in the world who lack any form of government recognised ID, and 81% of these people are in Sub Saharan Africa and South Asia.[34] **Table 4** combines data from the World Bank's Identification for Development (ID4D) database of people by country who do not have an ID, with the country of origin and main hosting countries of the core populations of refugees today.

29 www.unhcr.org/registration-guidance/chapter2/2-1/
30 See e.g. Banking Frontier Associates: Refugees and Their Money: The Business Case for Providing Financial Services to Refugees in Rwanda, March 2018.
31 www.cgdev.org/blog/another-side-story-syrianrefugees-have-invested-over-300-million-turkish-economy; and http://buildingmarkets.org/sites/default/files/pdm_reports/another_side_to_the_story_a_market_assessment_of_syrian_smes_in_turkey.pdf (PDF)
32 UNHCR country representative, Saber Azam quoted in www.afr.rw/resources/news/article/refugees-in-rwanda-gain-access-to-finance
33 http://blogs.worldbank.org/voices/opendata/global-identification-challenge-who-are-1-billion-people-without-proof-identity
34 http://id4d.worldbank.org/global-dataset

Table 4

COMPARISON OF UNREGISTERED POPULATION SEGMENTS IN COUNTRIES OF ORIGIN AND HOSTS OF REFUGEES					
% POP NOT REGISTERED	ID4D[35]	REFUGEES[36]	REFUGEES[36]	HOST COUNTY[36]	% POP UNREG[35]
Afghanistan	33%	2.6 million	1.4m	Pakistan	38%
			0.9m	Iran	4%
DRC	40%	0.8 million	0.29m	Uganda	49%
			0.08m	Tanzania	47%
South Sudan	53%	2.5 million	1.06m	Uganda	49%
			0.77m	Sudan	38%
			0.45m	Ethiopia	65%
Syria	10%	5.6 million	3.54m	Turkey	2%
			0.97m	Lebanon	14%
			0.67m	Jordan	17%
Of total		11.5m (45% of all)	10.1m (88%)		

Some displaced people are undocumented because they never received identification in their countries of origin, and this may even have contributed to their need to flee. Others lose identification documents during their journeys. Displacement may thus be both a cause and consequence of lack of identification.[37] While the percentage of the population who are unregistered in the main countries of origin of today's refugees is high, it is still lower than in several of the main hosting countries. Thus, except for Afghans in Iran, South Sudanese in Uganda and Republic of Sudan, and Syrians in Turkey, there would be a higher chance of a refugee having an ID than a national.

35 http://id4d.worldbank.org/research
36 UNHCR: regional situations, June 2018.
37 http://documents.worldbank.org/curated/en/375811469772770030/pdf/107276-WP-P156810-PUBLIC.pdf (PDF)

2.5 Demand for Financial Services

Displaced people, including refugees, are no different from anyone else in wanting better and more dignified futures for themselves and their families. But to achieve their dream of a better future, refugees need identity documents, freedom of movement, work and employment – and financial services. Lack of trust in unfamiliar or formal financial services, cultural and social features, lack of information on available products and services as well as limited financial literacy all work to reinforce the disadvantaged position of foreign-born residents in the market. For refugees, additional legal barriers and lack of documents can obstruct equal access to income generating opportunities, public services, and finance. Their precarious legal status may limit free movement, work and/or business ownership and operations, resulting in real or perceived inability to access finance. Refugees may 'self-exclude' due to language barriers, assumed ineligibility, and fear of discrimination (e.g. fear of personal data being disclosed to authorities which could result in detention or deportation). In addition, the availability of humanitarian cash and food aid, and free or subsidised input-supply can inculcate perceptions of 'entitlement' or a lack of demand for more sustainable financial services among refugees.

Table 5

DISPLACEMENT PHASE AND KEY FINANCIAL NEEDS	
DISPLACEMENT PHASE	**KEY FINANCIAL NEEDS – MARKET DEPENDENT**
Phase 1: Arrival (<6-12 months)	Survival cash for housing, food, medical services, and often to repay debt incurred during escape, (receipt of) remittances.
Phase 2: Initial displacement (6/12-18/24 months)	**Financial services:** Savings, remittances to/from family at home and in 3rd countries; agricultural loans, micro-/consumer credit for furniture, appliances, school fees, start-up business equipment; and health insurance. If Transit/return is the goal: transaction account (for payments and receipt of income), savings (for journey and for rebuilding at home), short-term consumption loans and transferable credit history (certificate). **Non-financial services:** Market information and access, job placement/vocational training, business skills, life skills and social interaction with hosts.
Phase 3: Stable/protracted displacement (19/25-36 months)	**Financial services:** Savings products, micro/consumer credit, loans for school fees, home improvement, business, and agriculture, transactional accounts/channels (e.g. m- or e-wallets) for (cross-border) payments and remittances, and property and health insurance. **Non-financial services:** job placement, vocational or business training, linkages to the market/value chains, social/ business interaction with hosts. *If returning home is the goal:* Savings for journey, transferable credit history (certificate), cross-border credit (e.g. loans for rebuilding/restarting business at home, secured with collateral in host country), transferable pension schemes, and deferred annuities.
Phase 4: Permanence (<36 months)	Financial service demands mirrors those of nationals: savings, payments, credit, insurance, and transnational services (e.g. trade finance, remittances, insurance for family in country of origin).

However, overall the demand profile of refugees does not differ markedly from that of nationals, and in no market is there evidence that specific products or services need to be developed for refugees. This could in fact be counter-productive and act to increase tensions between national and refugee clients. Like for all clients, FSPs need to provide appropriate, affordable, and relevant products to customers. For refugees, the demand for financial services differs from that of nationals only with the duration of stay in the country and the livelihoods opportunities availed, as illustrated in **Table 5**.

For some refugees, the drive to join family or relatives elsewhere, as well as perceptions of comparatively better living, can drive their migration plan. If the migration plan is resettlement or onward movement to other destinations, livelihoods efforts will be focused on generating funds for the onwards journey, rather than establishing permanent livelihoods. FSPs and NGOs especially in Southern Europe have noted difficulties of serving refugees in transit, possibly because of a focus on credit. Savings-based products (possibly combined with short term loans) facilitating the accumulation of funds for the journey, as well as payments and remittances would be in demand, also for refugees in transit.

The vast majority of refugees, however, stay in the first country of exile that offers peace and a possible livelihood. The perceived flight risk associated with refugees is not confirmed by evidence. While some refugees (and other FBRs) are more mobile than nationals, their mobility is associated first and foremost with social ties (family and friends) and economic opportunity. Social capital and stronger roots in an area can actually be built through informal (or formal) financial inclusion, e.g. savings and credit groups.[38] Knowing this, FSPs can 'self-insure' against the perceived flight risk by serving refugees, helping them sustain a livelihood while in exile. For refugees considering a return due to improved security in their country of origin, a gradual approach will normally be taken. One or two relatives will be sent back to review the homestead/farm/village/town, infrastructure and services. If their reports are positive, a gradual return of all family members may begin which can take 1-2 years, and the income generating business or job in the country of exile will be the last to go. The business will be expected to finance the rebuilding/reestablishment at home, and therefore, access to credit (hence good repayment performance) will be a priority, and finance to grow the business in the host country can directly benefit a gradual, successful return.

FSPs need to conduct **feasibility studies to better understand the demand** among refugee population in their markets, and match it to their product and service offerings. FSP staff often need refresher training on **segmentation techniques** to identify the groups of refugees (and other FBRs) which they can best serve. And FSPs will often need **technical assistance** to review their policies, procedures and systems, including the MIS, for 'refugee readiness' and train staff on how to engage with the new segment. It is advisable for FSPs to start including refugees in well-established products with which staff is familiar to avoid a 'double-new' situation of a new products (e.g. digital channels) being introduced to a new segment.

38 E.g. Al Majmoua's mixed-nationality loan groups including Syrian refugees in Lebanon and Banco FINCA's village banks including Colombian refugees in Equador. For the latter see M. Fielding: Microfinance Partnerships – A Bridge for Refugees, Master Theses from University of San Franscisco, December 2011.

3. SUPPLY OF FINANCIAL SERVICES TO REFUGEES – PROGRESS TO DATE

At the international regulatory level, a 2015 GPFI report stated that "Since as far back as 2009, the G20 has recognised that even a well-regulated and stable financial system cannot contribute to national economic activity, promote job creation, increase income, and boost shared prosperity, if it excludes the majority of *citizens*."[39] Most National Financial Inclusion Strategies (NFIS) developed over the past five year also focus almost exclusively on citizens. Until very recently, so did the way financial inclusion is measured within the financial services industry.[40] The otherwise excellent 2015 update of the Guideline for Funders published by CGAP[41] made passing mention of IDPs as a potential client segment, but had no references to foreign-born residents. Refugees were largely ignored.

In 2015, only a handful of FSPs worldwide were serving refugees. FSPs and their investors either excluded refugees from their market 'field of vision', or were extremely wary of including refugees in their portfolios. Reasons given at the time related to reputational risk and legal barriers, but mostly to a lack of familiarity and a set of ingrained stereotypes and perceptions of refugees as a temporary, transient and unbankable population that was primarily the responsibility of humanitarian protection agencies. However, things are changing.

3.1 An emerging Eco-system for Financial Inclusion of Refugees

A lot for credit for this change goes to UNHCR itself. Realising as far back as 2011 that the numerous revolving grant funds disbursed to I/NGOs for micro-credit components of humanitarian or development projects over past years had neither grown to scale,[42] nor been very successful nor sustainable, UNHCR has instituted a gradual internal shift of approach to a more market-based focus on livelihoods and resilience.

One problem with the revolving funds and grants for financial service provision was the rigid annual funding cycle, which rarely matched the demand cycles or FSP operations. But this appears to be changing. UNHCR's Multi-Year, Multi-Partner (MYMP) strategic planning approach applies a longer-term vision to helping people of concern and their hosts. Strategies run for three to five years, and provide support to national systems, private sector institutions and civil society. In line with its Grand Bargain commitments and building on the lessons learned from the 2016 MYMP pilots that ran across six operations, the MYMP approach was applied in 2017 in an additional 16 operations: Algeria, Brazil, Cameroon, Chad, Colombia, Djibouti, Ethiopia, Kenya, Malawi, Mali, Mauritania, Mexico, Niger, Rwanda, the Regional Office for Northern Europe, and Ukraine. The 22 MYMP operations are currently translating their strategies into their 2018–2019 operational plans.[43]

39 GPFI: Global Standard Setting Bodies and Financial Inclusion – The Evolving Landscape. Consultation Document, November 2015. Author's emphasis.
40 Access is usually calculated as a percentage of the population – understood to be resident population, i.e. citizens, e.g. the Findex and other databases.
41 CGAP: A Market Systems Approach to Financial Inclusion - Guidelines for Funders, September 2015.
42 See a more detailed presentation of the well-known lessons learned from early microfinance interventions for refugees in K. Jacobsen: Microfinance in protracted refugee situations: Lessons from the Alchemy Project, Tuft University, 2004 and M. Azorbo: New Issues in Refugee Research: Microfinance and Refugees – Lessons Learned from UNHCR's experience, UNHCR Policy Development and Evaluation Service, Research Paper No. 199, January 2011.
43 http://reporting.unhcr.org/sites/default/files/gr2017/pdf/01d_Partnerships.pdf (PDF)

UNHCR is upgrading its country-based refugee registration and data management systems to better serve refugees and other stakeholders. The web-based Population Registration and Identity Management EcoSystem (PRIMES) aims to migrate 80% of all refugee data into a central Population Registry by end 2019, eventually furnishing refugees and other FBRs with a recognised legal digital identity. PRIMES is built from the UNHCR Profile Global Registration System (proGres) which has captured demographic and socio-economic data of around 10% of refugee populations since 2002, and would integrate with UNHCR's Biometric Identity Management System (BIMS), and a newly developed Rapid Application (RApp) that allows for off-line (e.g. home-based) registration of refugees and IDPs.[44] PRIMES includes a business intelligence tool (data port) to which UNHCR staff and authorised Implementing Partners can access to aggregated statistical data, guided by UNHCR's Policy on the Protection of Personal Data of Persons of Concern.[45] PRIMES could be an enabler for registration (biographic and biometric) and verification, which would be important for Know Your Customer (KYC) purposes; UNHCR's own case-management; humanitarian assistance (in cash and in-kind); and data management, including reporting, which would be relevant for FSPs.

UNHCR has also actively reached out to the financial services industry and other public and private sector actors. More research relevant to FSPs has been conducted, and better designed support facilities for these new actors are in place. Elements of an eco-system for the provision of sustainable financial services to forcible displaced populations is emerging, but coordination and coordination to enable practitioners to understand all that is going on is still a work in progress. The following list is thus by no means complete.

On the **humanitarian side**, the Comprehensive Refugee Response Framework (CRRF) was adopted with the UN resolution known as the New York Declaration for Refugees and Migrants.[46] The CRRF is expected to create a more coherent and robust response to refugee crises, and while the framework does not specifically address financial service provision, it does call for rapid and well-supported reception of refugees, support to their on-going needs, and expanded opportunities for solutions. So far, 15 countries in Central America and Africa as well as Afghanistan have implemented a CRRF.[47]

As a follow-on to the New York Declaration, UNHCR has released a draft Global Compact on Refugees for discussion at the UN General Assembly with a partnership approach to address existing challenges to forced displacement. One of the four objectives of the Compact is to "enhance refugee self-reliance." The intent of the Compact is in part to make resources available to countries faced with large-scale refugee situations, through "maximizing private sector contributions, including greater access to financial products and information services for refugees and host communities." The Compact addresses financial service provision directly by calling on States to "support access to affordable financial products and services for women and men in host and refugee communities, including by reducing associated risks and enabling low-cost mobile and internet access to these services where possible; as well as to support the transfer of remittances."[48] Not without its critics,[49] the non-legally binding Compact aims to develop, but does not yet include, a monitoring framework with indicators to track progress, which will be reviewed by a bi-annual Global Refugee Forum, meeting for the first time in 2019.

44 www.unhcr.org/primes.html
45 UNHCR: Policy on the Protection of Personal Data of Persons of Concern to UNHCR, May 2015, available at: www.refworld.org/docid/55643c1d4.html
46 www.un.org/en/ga/search/view_doc.asp?symbol=A/RES/71/1
47 www.globalcrrf.org/
48 www.unhcr.org/5b51fd587
49 See e.g. www.devex.com/news/global-compact-for-refugees-moves-forward-but-without-clear-path-for-implementation-93179

The **private sector** has also stepped up to the plate to better include refugees and other FBRs. Notably, the Tent Partnership for Refugees, a coalition of more than 80 companies, is working with global businesses to develop and implement concrete commitments to support refugees through hiring them, integrating them into supply chains, investing in refugees, and delivering services to them, in addition to being critical voices for policy reforms that enable more refugee self-reliance. To date, Tent Partnership commitments have provided support for nearly 200,000 refugees, including employment, education, investments in refugee entrepreneurs, and provision of financial services, across 34 countries. Tent Partnership also commissions research and analysis, and provides small grants with the goal of catalysing private sector action in support of refugees. Investment firms are encouraged to finance refugee-owned start-ups and SMEs, or the local companies that hire and source from refugees.

- Tent Partnership member Generali, through the Human Safety Net, is empowering refugees to set up 500 new businesses by 2020. Starting in Germany and France, refugees can access a competitive 6-8 month program of training and funding to equip them with the skills, resources and tools for becoming successful entrepreneurs;
- As part of global business, IKEA Switzerland has created a 'how to' toolkit for employment of refugees;[50]
- The George Soros-funded Open Society Foundation has pledged up to USD 500 million in private investment to address the challenges of migrants, including refugees, and their host communities, and will pilot a project in Jordan;
- Alight Fund has committed to raise USD 100 million in microloan capital to invest in 50,000 refugee and host community small-business entrepreneurs, and the approach is currently being piloted in Iraqi Kurdistan;[51]
- Building Markets is supporting a network of refugee-led SMEs in Turkey and Lebanon that could provide a starting point for impact investors interested in those countries; and, as an example of the numerous country-level investments taking place,
- Westpac, Australia's oldest bank, has provided AUD 2 million as an interest-free loan to a microloan scheme for refugees with work permits in Australia, managed by the NGO Thrive, seconding a banker as Chief Operating Officer to assist the NGO in the segmentation of customers. Loans of up to AUD 7,500 will be provided along with NFS in the form of business and market information, business establishment, and post-loan mentorship for recently arrived refugees. More established refugee businesses can apply for loans up to AUD 20,000 at a 9.5% p.a. interest with no deposits (collateral) required.[52]

Mobile Network Operators, mobile money providers, aggregators, and other Fintechs have emerged as important private sector partners and stakeholders for the (minority) segment of FSPs globally that are or are developing capacity to serve clients digitally. Working on mobile-phone-enabled solutions, electronic money models and digital payment platforms, along with digital ID systems and digital credit scoring/histories, the current focus area within the Finance for Refugee space is on distribution via FSPs of humanitarian cash assistance, and the potential such digital cash assistance may have as an enabler for financial inclusion of FBRs.

50 http://media.ikea.ch/filemanager/2017/06/RefugeeToolkit/IKEA_Toolkit_E.pdf (PDF)
51 www.tent.org/
52 http://thriverefugeeenterprise.org.au/

Within the broader **development community**, policymakers and international resource actors have also engaged to clarify positions, design support facilities, and begin to integrate available (and new) data to improve the foundation for better and more relevant research:

- In 2017, the G20 Global Partnership for Financial Inclusion (GPFI) presented its policy paper on sustainable and responsible financial inclusion of forcibly displaced persons identifying common challenges and priority action areas in 2018;[53]
- The Alliance for Financial Inclusion (AFI) presented a report in 2017 to inform regulators and policymakers (and other stakeholders) on their perspectives of the opportunities and challenges of financial inclusion of forcibly displaced persons (FDPs);[54]
- Based on a G7 request, the seven Multilateral Development Banks (MDBs)[55] jointly launched a new platform to enhance their collaboration on economic migration and forced displacement in October 2017. The platform aims to advance strategic dialogue and operational coordination to maximize the impact of MDBs' growing engagement in these two areas. A strategic framework for action has been prepared with three priority areas: cooperation on knowledge, evidence, and data; ensuring strategic coordination with governments, UN, and other partners; and deploying better-targeted instruments and products;[56]
- Informed in part by a joint study with UNHCR[57] to present the a collective understanding of forced displacement, the World Bank has integrated its concessional financial instruments for countries to enable support to both refugees and hosts in low-income countries (LIC) through the IDA-18 Sub-Window for refugees and host communities; and for middle income countries (MICs) through the IBRD Global Concessional Financing Facility (GCFF)[58] (see also **Annex 1**);
- The World Bank and UNHCR recently signed a MoU to establish a new Joint Data Centre to collect and analyse demographic and socioeconomic (anonymised) data on refugees, internally displaced persons, stateless people, returnees, asylum-seekers, and host populations. The new Centre responds to growing demand for more and better data, to inform a stronger global response to forced displacement and improve policies and programming to help affected people;[59]
- CGAP has approached finance for refugees from the perspective of financial services in humanitarian crises, conflict and disaster-effected markets. Having tested the Graduation Model for the extreme poor for a decade, a new World Bank hosted Partnership for Economic Inclusion (PEI) will work with governments to implement and scale up graduation-style programmes. PEI will also encourage and track results of the many innovations that are underway to serve FBRs;[60]
- The World Bank Identity for Development (ID4D) and Findex have presented their first report, integrating the data in the two databases. While their analyses still do not include FBRs, it might be expanded in future.[61]

53 www.g20.org/sites/default/files/documentos_producidos/policy_paper_on_financial_inclusion_of_forcibly_displaced_persons_-_priorities_for_g20_action_gpfi_1_0.pdf (PDF)
54 www.afi-global.org/publications/2533/Financial-Inclusion-of-Forcibly-Displaced-Persons-Perspectives-of-Financial-Regulators
55 African Development Bank, Asian Development Bank, World Bank Group, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, Islamic Development Bank, and World Bank Group, on this issue generally coordinating with the European Commission and UNHCR.
56 www.afdb.org/en/news-and-events/mdbs-launch-new-platform-to-coordinate-support-for-economic-migration-and-forced-displacement-18051/
57 https://openknowledge.worldbank.org/bitstream/handle/10986/25016/9781464809385.pdf (PDF)
58 www.unhcr.org/news/stories/2018/8/5b3b6b964/new-support-refugees-helps-hosts-world-bank-official.html
59 www.worldbank.org/en/news/feature/2018/04/20/world-bank-group-unhcr-sign-memorandum-to-establish-joint-data-center-on-forced-displacement
60 www.cgap.org/news/cgap-announces-new-platform-graduation-approach
61 http://pubdocs.worldbank.org/en/953621531854471275/ID4D-FINDEX-Note-Release2018.pdf (PDF)

While a number of initiatives are ongoing, FSPs and other private sector investors are asking for better coordination and information sharing in order for the eco-system to support actual financial inclusion on the ground. Programmes and platforms that promote policy reforms and advocate for facilitation of the key rights to recognised IDs, work, and free movement for refugees are needed. In addition, platforms that build the investment pipeline, and match investors with potential investees are demanded by private sector investors. Platforms could also support larger impact investors who may want to invest in funds that seek and manage smaller investments. Some impact investors and FSPs are requesting de-risking tools for refugee-related investments, such as political risk insurance, first-loss capital, and loan guarantees, which might unlock additional private capital. All stakeholders are requesting better data and information to inform the business case: insights into refugee livelihoods and economic participation, types and readiness of potential investments, scale and timeline of returns, and conduciveness of the policy environment.[62]

3.2 More Capital and Technical Assistance Funds available

The increasing visibility and political attention to refugee populations has galvanised investors and funders into action, and the market of finance and technical assistance (TA) to FSPs for financial inclusion of FBRs is to a certain extent chasing interested FSPs at the moment. Several facilities that FSPs can access to seek capital and technical assistance for inclusion of refugees, of which a few are listed below (see more details in **Annex 1**):

- UNHCR and UNCDF have established a joint, multi-year facility to to work with financial service providers in nine African countries, focused on encouraging FSPs to grant refugees and host communities access to credit, savings, financial services and micro-insurance. The facility is expected to engage at the policy and regulatory level to address issues of identification, for example; to provide grants, loans and TA to FSPs and other actors serving refugees; and to develop and disseminate better research. The Financial Inclusion of Forcibly Displaced People and Host Communities programme will be implemented over 2018-2022 under UNCDF's new strategic framework for 2018-2021;[63]
- The UNCDF-hosted Better than Cash Alliance, of which UNHCR is a member, the GSMA network, and UNCDF's own Mobile Money for the Poor (MM4P) programme launched in partnership with the Swedish International Development Agency (Sida), the Australian Department of Foreign Affairs and Trade (DFAT), the Bill & Melinda Gates Foundation and The MasterCard Foundation provide support to digital financial services (DFS) in selected countries, and are beginning to explore the potential market of FBRs.[64] The MM4P is funding Equity Bank Uganda to roll out biometric payment cards to refugees;[65]
- Both the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) have financing and TA instruments available for financial inclusion of refugees (and other FBRs). EIB is preparing a new microfinance TA facility for the MENA region, specifically targeting vulnerable populations, which is expected to include TA to FSPs willing to explore the feasibility of expanding activities to migrants and refugees; as well as non-financial services for these customers;[66]

62 Center for Global Development (CGD) is partnering with the Tent Foundation to identify sustainable ways for global businesses to engage in refugee issues, see: https://static1.squarespace.com/static/55462dd8e4b0a65de4f3a087/t/59c29cf4f09ca498814fa9e9/1505926390072/TENT_GlobalBusiness_V5SinglePages.pdf (PDF)

63 http://reporting.unhcr.org/sites/default/files//UNHCR_UNCDF_FinancialInclusion_ForciblyDisplaced_ HostCommunities.pdf (PDF)

64 www.uncdf.org/article/2698/refugees-migrants-out-of-sight-out-of-mind

65 https://allafrica.com/stories/201803120665.html

66 https://ted.europa.eu/udl?uri=TED:NOTICE:178094-2018:TEXT:EN:HTML

- UNHCR and Sida have developed a joint programme to facilitate access to financial services for refugees and their hosts in Jordan and Uganda. The Grameen Crédit Agricole Foundation (GCAF) is implementing the initiative, which is expected to offer debt finance and TA to FSPs willing to serve refugees. The programme kicked off with country assessments of the financial needs of refugees and the business case for serving them in April 2018.[67]

Alternative finance is one of the financial sector's fastest growth areas, worth an estimated €5.3 billion in the European Union alone. It is providing new ways of organising financial services, and aims to make finance more accessible to business segments who struggle to access mainstream services, including SME businesses, entrepreneurs, start-ups, and individuals with limited credit history, including FBRs. Alternative finance includes crowdfunding, peer-to-peer lending (both for businesses and individuals), BitCoin, invoice trading, etc.[68]

One of the best known crowd-funders in inclusive finance is KIVA. Since 2005, Kiva has facilitated USD 1.2 billion in lending to micro-entrepreneurs in 85 countries. Loans are crowdfunded by individuals around the world in increments starting at USD25 collected until the borrower's full request is crowd-funded. KIVA's in-country partner FSPs then facilitates the actual lending. Being risk-tolerant and low-cost (KIVA does not charge interest on its loans), KIVA funding incentivizes FSPs to experiment with lending to populations that they are traditionally reluctant to support, including refugees. In 2016, KIVA launched the World Refugee Fund (WRF) in collaboration with Alight Fund, the Tent Foundation, and UNHCR.[69] The WRF offers Kiva's 0% interest funding to FSP, who in turn provide loans to refugees, IDPs, and other FBRs. By end 2017, Kiva lenders had crowdfunded USD 4.5 million in loans to over 4,500 refugee borrowers across the globe, 60% to women. In 2018, the target is 8,000 displaced people with USD 7 million in loans. The fund is also working to mobilize additional corporate funding to magnify the impact of individual lenders. Each year on World Refugee Day, the fund matches donations to refugees dollar-for-dollar.[70]

3.3 Legal Barriers are being addressed

Authorities in many countries are establishing electronic ID systems, but only in a few markets is this process inclusive of refugees. Instead, UNHCR issues identification documents for refugees and asylum seekers who register, in cooperation with national host governments, and the documentation has improved over the past years with biometric technologies. In all markets, there is a segment of undocumented FBRs, but in the markets with the highest concentration of refugees (UNHCR 'situations'), the majority of refugees are documented.

UNHCR refugee registration cards or other IDs issued by national authorities are accepted as alternative personal ID documentation by regulators in an increasing number of countries,[71] and address verification via local authorities, settlement or camp managers, and/or by FSP staff will often suffice for KYC purposes. Refugees with a valid ID are allowed to work in many markets, including East Africa and all OECD countries, even if access to the labour market may be subject to certain administrative requirements (e.g. work permits), but it is severely restricted in the MENA region, especially for non-Syrian refugees.

67 http://reporting.unhcr.org/sites/default/files/gr2017/pdf/11_Better%20Futures.pdf (PDF)
68 www.bizgees.org/what.html
69 www.newsdeeply.com/refugees/community/2017/06/20/crowdfunding-a-stable-financial-future-for-refugees-and-hosts-2
70 www.newsdeeply.com/refugees/community/2017/06/20/crowdfunding-a-stable-financial-future-for-refugees-and-hosts-2
71 www.microfinancegateway.org/blog/2017/mar/removing-barriers-expand-access-finance-refugees

Progress has been made to lower the legal barriers, including efforts by regulators to simplify KYC requirements, and specifically address financial inclusion of refugees:

- Many countries, including e.g. Mexico and Nigeria, have followed the Financial Task Force recommendation to simplify KYC requirements, and have approved tiered KYC systems, under which low-value and low-risk accounts benefit from relaxed standards;[72]
- The European Union (EU) took an important step in 2014 by implementing a law requiring banks to offer basic payment accounts to all customers legally resident in EU countries, including asylum seekers and refugees. The application of this directive, however, is uneven across the Union, and regulators have issued guidelines on the financial integration of refugees only in about half of the EU countries.[73] The Netherlands is the only EU jurisdiction that accepts refugees' travel documents as valid documentation;[74]
- Germany reduced KYC requirements to allow FSPs to serve migrants and refugees in 2015. The German federal financial supervision agency, BaFin, adopted transitional provisions to allow refugees to open basic accounts even if they were unable to comply with standard German KYC requirements. Refugees can instead use a document certified by the German immigration authority to open such an account. In July 2016, a regulation was adopted, listing the documents required to verify identity for the purposes of creating a payments account in accordance with the German anti-money laundering law and the EU directive. In this list, the 'proof of arrival' document issued to asylum seekers in accordance with German Asylum Act, was included;
- The Belgian Financial Sector Federation (FEBELFIN) has set up basic banking services for asylum seekers and refugees. By law, each Belgian credit institution is obliged to offer these services to any consumer, though access is still conditional on verification of identity;
- In Zambia, UNCDF worked with Bank of Zambia to change the policy on what is an acceptable form of ID for opening a bank account. The list of documents accepted as valid for KYC purposes now includes the Refugee Certificate and Refugee ID card issued by the Government's Office of the Commissioner for Refugees;
- Likewise, in Malawi, the UNHCR Registration Card has recently been recognised as a valid document for refugees and asylum seekers to open bank accounts; and the Government of Rwanda has informed FSPs that refugees' proof of registration is a valid document, satisfying KYC requirements and opening bank accounts;[75] and most recently
- The Central Bank of Djibouti officially authorized refugees to open bank accounts in August 2018. The Banque Centrale de Djibouti announced that all refugees who hold a refugee ID card and who earn an income can now open bank accounts. The by-law complements the Government's decision to grant refugees the right to work, as provided in the new refugee law that was passed in January 2017.[76]

72 http://bruegel.org/wp-content/uploads/2018/01/People_on_the_move_ONLINE.pdf (PDF)
73 http://bruegel.org/2017/12/the-challenge-of-fostering-financial-inclusion-of-refugees/
74 http://bruegel.org/2017/12/the-challenge-of-fostering-financial-inclusion-of-refugees/
75 www.afi-global.org/blog/2018/06/advancing-financial-inclusion-refugees-through-inclusive-market-system-approach
76 www.globalcrrf.org/crrf_highlight/refugees-can-now-open-bank-accounts-in-djibouti/

3.4 More Refugees are Being Served

From the very few FSPs engaged in 2015, the supply of finance to refugees has certainly grown. This report does not pretend to know about all FSPs that are currently serving refugees, but to provide a sense of the different ways FSPs are engaging across the globe, the following few examples are provided:

- From a portfolio of 355 refugee borrowers in April 2016, the largest MFI in Jordan, Microfund for Women (MFW), served 4,047 Syrian refugee borrowers at end May 2018 with their group loan, recording a PaR(30) of 0.38% - lower than the average for their national portfolio. MFW will also begin disbursing individual start-up business loans and educational loans to Syrians.[77]
- Another pioneer FSP lending to refugees, Al Majmoua in Lebanon was serving 8,520 Syrian refugee clients through both individual and group lending methodologies as at end April 2018, recording a PaR(30 days) of 0.43%;
- In a small survey in 2017, half of 14 banks in the EU served refugee clients. Of these, four banks had introduced adapted products for asylum seekers, including a special free of charge account for a certain period, sometimes with limited transactional functions, and a debit card, while customers with refugee status could apply on equal terms for all the deposit products offered by the banks;[78]
- New Finance Bank (NFB) in Malawi opened a branch in the Dzaleka Refugee Camp in March 2018. This camp, which was established in 1994, is home to some 34,000 refugees. Like other old camps and settlements in Africa, entrepreneurship is thriving in Dzaleka. The NFB CEO acknowledged that "This is indeed a departure from what banking institutions normally focus" but emphasized that "we are extremely proud of this initiative and I am sure that the people and community of Dzaleka are very pleased that they now have their own first ever financial institution fully operational in the camp;"[79]
- The Tunisian MFI Enda Tamweel, has conducted a pilot with refugee entrepreneurs in Tunis, and is now preparing a second pilot phase in the Sahel area, which will include start-up loans for refugee businesses accompanied by non-financial services (NFS), including training;
- Opening Doors is a Community Development Financial Institution (CDFI) in Sacramento, USA. Established in 1993 as a refugee resettlement agency for refugees from the former Soviet Union and Southeast Asia, it developed a Microenterprise Assistance program, which has grown to serve both Hispanic immigrants and US citizens. NFS is provided to refugees on loan application processes and business development, and starter loans up to USD 10,000 are offered at 7.25% p.a. for up to 36 months. These loans establish credit histories and enable refugees to start and grow businesses, apply for larger loans through Opening Doors and ultimately access mainstream financial institutions.[80]
- Equity Bank is the main distributor of cash assistance to some 40,000 refugees in the Kakuma and Dadaab refugee camps in Kenya, also on-lending managed NGO funds to refugees through Equitel, a mobile SIM-based platform.[81] Cash payment services have also been extended to Rwanda in a commercial agreement with WFP and UNHCR,[82] and to South Sudan and Uganda;
- Similarly, the Bangladesh Bank is exploring the financial inclusion of Rohingya refugees by piloting agency banking for refugees receiving cash assistance on pre-paid cards;

77 www.microfinancegateway.org/blog/2018/jun/5-things-you-should-know-about-financial-services-refugees
78 http://bruegel.org/wp-content/uploads/2018/01/People_on_the_move_ONLINE.pdf (PDF)
79 www.unhcr.org/afr/news/stories/2018/5/5af45b034/refugee-camp-in-malawi-gets-banking-services.html
80 www.openingdoorsinc.org/whatwedo_pp_refugeeloans.php
81 IFC: Kakuma as a market place, April 2018.
82 www.unhcr.org/rw/12507-unhcr-wfp-equity-bank-sign-agreement-provide-dignified-living-conditions-refugees-rwanda-cash-based-assistance-programme.html

- The aggregator MFS Africa is developing portal to connect all mobile wallets for refugees in Rwanda, offering interoperability, transparency and ease of data analysis for FSPs, humanitarian organisations, and Fintechs. The MFS Hub connects mobile money systems to each other, and to money transfer organizations, banks and other financial institutions, enabling money remittances to and from mobile money accounts.[83] A similar aggregator EezyMoney, is proposing the same for Ugandan refugees;
- Working with BRAC, UNHCR has piloted the Graduation Approach in Egypt in 2013, and in Costa Rica, where poor urban refugees were targeted for savings and credit, skills training and mentorship, in addition to receiving cash assistance and food vouchers. In Cairo, the project expanded to include 1,000 Syrian refugees;[84]
- Within the confinements of a refugee encampment policy that does not allow free movement nor formal employment, UNCDF piloted an NFS project in 2017-18 for refugees in Nyarugusu refugee camp in Tanzania, which is home to more than 70,000 Burundians, establishing savings groups and leveraging digital literacy to build financial capability. Local partner NGOs provided financial education using Jijenge ("Build yourself" in Kiswahili), a tablet application developed by Fundación Capital, a Colombia-based development organization, and adapted to Tanzania. Jijenge is designed to build users' financial capabilities and introduce them to formal financial services. Users learn at their own pace how to register a mobile money account with an agent and use mobile money through a simulated game. For the refugees, Jijenge is an easy and fun way to learn how to make better decisions with their money.[85]

Currently, nine FSPs are crowdfunding loan capital for forcibly displaced clients on the KIVA platform, including Al Majmoua in Lebanon, Microfund for Women in Jordan, Interactuar and Fundacion Mario Santo Domingo, both in Colombia (and serving IDPs), the African Entrepreneur Collective and Kepler in Rwanda, and Kubo.financiero in Mexico.[86] In addition to Syrian refugees in the Middle East, lending has thus expanded to internally displaced persons (IDPs) in Colombia, Burundian and Congolese refugees in Rwanda, and FSPs funded by KIVA will soon be working with Syrian refugees in Armenia.[87]

KIVA published an impact report on its refugee portfolio as at June 2018, which is probably the first benchmarking of credit performance among forcibly displaced persons that the industry has. The report presented the credit performance of 7,800 refugee and IDP clients of 11 FSPs in 5 countries, the majority in Lebanon, Colombia and Rwanda. These clients had taken loans worth USD 6.6 million at an average loan balance disbursed of USD 855.[88] Contrary to the perceived risk of FSPs who have not yet served refugees, but fully consistent with every FSP that does serve refugees, the repayment rate and PaR(30) of refugee (and IDP) clients was lower than that for national clients and for the combined portfolio of the 11 FSPs overall. Serving refugees actually improved the PaR for the FSPs, as illustrated in **Table 6**.

83 www.fsdafrica.org/fdpfinance/
84 www.newsdeeply.com/refugees/community/2016/08/09/microfinance-startup-seed-funding-for-refugees
85 www.uncdf.org/article/3767/world-refugee-day-innovation-facilitates-financial-inclusion-of-refugees
86 Email communication with KIVA of 20 August, 2018.
87 www.kiva.org/blog/refugees-and-finance-out-of-sight-out-of-mind
88 www-kiva-org.global.ssl.fastly.net/cms/kiva_world_refugee_fund_impact_report_2018_6.pdf (PDF) with additional data for Table 6 received from KIVA.

Table 6

COMPARATIVE REPAYMENT PERFORMANCE OF REFUGEES AND NATIONAL CLIENTS IN 11 FSPS IN 6 COUNTRIES AS AT END MARCH 2018		
	PAR(1 DAY)	PAR(30 DAYS)
Refugee/IDP portfolios	7.12%	1.65%
FSP portfolio of nationals	12.61%	7.15%
Overall FSP portfolios	12.44%	6.98%

As many MFIs will know, KIVA loans may be free of interest, but managing the portfolio requires significant staff input to upload photos and descriptions of the projects to the KIVA platform in addition to the standard loan management. However, KIVA is a preferred loan partner of many, also because the portfolio is underwritten, and the risk to the FSP is therefore insignificant. Adding refugee clients to a web-based crowd-funding platform is not without challenges. In Jordan, for example, many Syrian refugees were very reluctant to have their businesses and photos uploaded on the internet. Many felt it was improper, especially for women, some feared protection issues, and the concept of publicly sharing a need for external funds, was perceived as embarrassing to some.[89] These sensitivities are important for other FSPs to remember, if approaching KIVA to join the World Refugee Fund.

On the NFS side, financial literacy and business management materials are being developed, translated, and adapted for refugees the world over. Market access for produce is always a concern when financing start-up businesses, and e-commerce is being explored as a possible way for refugee businesses to get broader market exposure. The MADE51 global, collaborative initiative initiated by UNHCR, for example, aims to better link refugee artisans and their products to international, regional and local markets via e-commerce. It focuses on market access, design and empowerment for refugee artisans. UNHCR has so far introduced product lines created by refugees in partnerships with local social enterprises in eleven countries. The products underwent market testing at the Maison & Objet trade show in Paris.[90] UNHCR is seeking strategic partners among private companies and/or development actors to complete and grow MADE51.[91]

Progress has been made – but we are a long way from financially including the 11.2 million adult refugees currently in protracted displacement. And many FSPs still have significant concerns about expanding services to include foreign-born residents.

89 www.newsdeeply.com/refugees/community/2018/07/20/lending-to-refugees-how-the-wisdom-of-the-crowd-proves-banks-wrong
90 http://reporting.unhcr.org/sites/default/files/gr2017/pdf/11_Better%20Futures.pdf (PDF)
91 www.made51.org/how/

4. REMAINING BARRIERS TO FINANCIAL INCLUSION OF REFUGEES

FSPs face competing priorities. In more mature markets, FSPs will often invest where they see less risk or higher returns (e.g. in high-density, urban areas or in higher-value, lower-volume market segments) at the expense of a social commitment to serving clients who are associated with higher risk, such as foreign-born residents. A lack of enabling legal frameworks, policies and negative public opinions may fuel reputational risk concerns for FSPs, and FSPs may face legal barriers both due to external KYC requirements and internally set eligibility criteria based on perceived high risk. Risks of market distortions brought about by subsidies, food and cash aid, and 'free' services offered by short-term humanitarian interventions may be an additional entry barrier for more commercial actors both in productive value chains and among FSPs that fear a contaminated credit market.

Government policies on protection and integration of refugees (and other FBRs) and a range of other societal factors at country-level will continue to affect the viability of the business case for financial inclusion of FBRs. The dynamism of the economy, market opportunities, competition for resources, environmental conditions, the level of formality in the economy, real or perceived corruption, and public service delivery in each society have an impact on people's ability to make a living, and their access to, and use of, financial services in general,[92] and affect the opportunities for refugees (and other FBRs) to develop and maintain successful livelihoods. The level of maturity and competition in the financial services market for nationals also plays a part in determining opportunity costs for FSPs to engage with the new segment.

4.1 Reputational risk – the Need for Clearer Policy Anchors

Reputational risk is often influenced by public opinion. Some societies are more welcoming of FBRs than others, which can be rooted in different historical developments shaping cultural attitudes and perceptions of the scale, impact and contributions of immigration in general. The public dialogue can influence these perceptions, and populist demagogy needs to be replaced by objective information. For example, public perceptions about the scale of immigration into Europe are often far from reality, which could be both a cause and a consequence of negative attitudes toward immigration in certain segments of society. Discriminatory rhetoric in media and politics has increased, and legislators in some countries pass ever more restrictive legislation. An increasing number of asylum-seekers were denied refugee status based on national security considerations in the EU in 2017.[93]

The findings of academic or industry-specific research on the impact of immigration and hosting of refugees on the economy, labour markets and public finances tend to be positive. But these conclusions are not sufficiently absorbed in political discussions about immigration.[94] Factual information about immigration and refugees needs to be better disseminated to impact the public discourse. To mitigate reputational risk, whether perceived or real, FSPs need a solid policy anchor to which they can point and say "we are contributing to this goal or objective."

92 Laemmermann, op.cit. and ODI Protracted displacement, op.cit.
93 http://reporting.unhcr.org/sites/default/files/gr2017/pdf/06_Europe.pdf (PDF)
94 http://bruegel.org/wp-content/uploads/2018/01/People_on_the_move_ONLINE.pdf (PDF)

National Financial Inclusion Strategies (NFIS) can help to promote financial inclusion for all, also of FBRs and refugees, and provide FSPs with a policy anchor and reference point for efforts to serve refugees. However, most NFIS remain 'citizen-centric' in their approach to financial inclusion. Based on a specific Maya Declaration commitment[95] to "provide the refugees and non-nationals with access to digital financial services," the Jordanian NFIS 2018-20 stands out as a particular pertinent example of a conducive framework that sets specific targets for the financial inclusion of marginalised group, including refugees,[96] helping Jordanian FSPs to engage in this politically charged area. The NFIS specifically states that "greater access to and usage of financial services by refugees will impact socio-economic inequalities in host communities by enhancing their self-reliance and enabling them to contribute to economic activity,"[97] and sets a target of 9% compounded annual growth rate in financial inclusion for the forcibly displaced. The NFIS for Tanzania 2018-22 recognises the financial including of forcibly displaced persons as an uncertainty to be resolved, and generally focuses on improving access and usage for *all* adults.[98] Financial Sector Deepening Africa (FSDA) and Access to Finance Rwanda (AFR) lobbied the National Bank of Rwanda to include refugees as a group for financial inclusion in the next Rwanda National Financial Inclusion Strategy.[99]

Government strategies can also provide a policy reference for FSPs.

- The Government of Uganda has developed a 20-year Refugee and Host Population Empowerment (ReHope) strategic framework to integrate humanitarian and development approaches of programming between the Government of Uganda, UN agencies, multilateral development banks, humanitarian and development actors, and the private sector. One of the four objectives of the strategy is "Expanding economic opportunities and sustainable livelihoods with a focus on women and youth." Uganda hosted a Solidarity Summit on Refugees in June 2017.[100] The World Bank/IDA is funding ReHope with an initial USD 50 million concessional loan;
- The Government of Rwanda (Ministry of Disaster Management and Refugee Affairs, MIDIMAR) and UNHCR have developed a 2016-20 Strategy for economic inclusion of refugees. Indicative of the policy shifts taking place within UNHCR, the strategy recognises that UNHCR often unintentionally destroys markets by offering goods and services for free, and includes the (re)building of markets that have been obstructed by humanitarian aid, partially through the shift by WFP and UNHCR away from in-kind food aid towards unconditional cash transfers, distributed by Equity Bank. The USD 20 million Strategy which has clear indicators for progress monitoring, is expected to be funded primarily by development agencies (e.g. World Bank) and private equity or impact investments.[101] While rather preferential in its choice of FSP, strategies such as developed in Rwanda could provide a policy framework for direction, support, and advocacy for FSPs, which would be replicable elsewhere.

It would help FSPs to engage if **central banks specifically address financial inclusion of FBRs** in their NFIS or other policy documents so that FSPs have a robust government-endorsed policy anchor for engagement with refugees that can mitigate reputational risk.

95 www.afi-global.org/maya-declaration
96 www.cbj.gov.jo/EchoBusv3.0/SystemAssets/PDFs/2018/The%20National%20Financial%20Inclusion %20Strategy%20A9.pdf (PDF)
97 Central bank of Jordan: The National Financial Inclusion Strategy 2018-20, p. 8.
98 www.afi-global.org/sites/default/files/publications/2017-12/NFIF%202018-2022.pdf (PDF)
99 www.unhcr.org/rw/wp-content/uploads/sites/4/2017/07/1-pager-Financial-Inclusion.pdf (PDF)
100 http://solidaritysummit.gou.go.ug/sites/default/files/UgandaSolidaritySummitonRefugees_KAMPALA %20DECLARATION.pdf (PDF)
101 www.unhcr.org/rw/wp-content/uploads/sites/4/2017/02/Economic-Inclusion-of-Refugees-in-Rwanda-Final-Version.pdf (PDF)

4.2 Information and data – the Need to Close the Familiarity Gap

FSPs need objective, accessible information and data on refugees and other FBRs to be able to assess the potential business case. While refugees may be among the most researched populations in the world, much of the data and information on their socio-demographic profiles, economic lives and entrepreneurial endeavours is either not reaching FSPs, framed in a 'humanitarian language' that FSPs cannot easily absorb, disaggregated by nationality, which is not a useful indicator of potential success as an FSP client, or lacking essential financial and economic data points that FSPs need to assess bankability, opportunity costs, and repayment capacity for credit.

If FSPs lack information on the economic opportunities and participation of refugees, the business case for serving them, and their credit risk, they will either ignore FBRs as a potential client segment altogether, or make assumptions. Like in society at large, these assumptions are often based on uninformed but widely believed stereotypes, e.g. that refugees are only in the country temporarily, that they are dependent on aid, that they do not have any assets to offer as collateral, and that they are not KYC-able. Many FSPs therefore continue to perceive refugees as very high-risk (and low return) clients.

National-level data, studies and analyses are needed that compile and present refugees (and other FBR segments) by indicators relevant to the assessment by FSPs of them as potential clients. Ideally, one demand-side baseline scoping study per country would be conducted and published to avoid the current duplication of studies by numerous FSPs and their investors or funders. One of the nine principles for the area-based implementation of the Uganda ReHope strategy, for example, is that partners will share information on studies they conduct to avoid duplication, emphasising the need to systematically gather evidence and link it to global initiatives to help bridge the information gap.

A first source of data is available from protection and development agencies in a given country,[102] and the 'situation' based data on UNHCR Persons of Concern are immensely helpful for an initial market scoping, but the breakdown of most demographic data by nationality ('situation') makes it hard for FSPs to gain an overview of the potential market. Socio-economic assessments[103] and 'vulnerability assessments' provide insights into the economic lives of refugee populations, and while UNHCR (that often commissions these studies) aims to promote awareness of refugees as a customer market segment for the financial sector, some of this research presents findings with a 'humanitarian' focus on the most vulnerable, and does not feature the successful sub-segments of refugees that do not require humanitarian assistance. Like most UNHCR data, the studies also often focus on a particular (nationality-based) sub-segment of refugees, which does not provide the market overview needed by FSPs.[104] Further, these studies also do not present the level of financial detail on enterprise longevity, turn-over, and cash flow; remittance flows; and usage of other financial instruments that is of key interest to FSPs.

102 www.microfinancegateway.org/blog/2017/mar/removing-barriers-expand-access-finance-refugees

103 E.g. Reev Consult for UNHCR: Livelihoods Socio-Economic Assessment in the Refugee Hosting Districts of Uganda, February 2017.

104 E.g. the recently completed annual Vulnerability Assessment of Syrian refugees (VASyR) as difference from the Vulnerability Assessment of refugees of the other nationalities (VARON) in Lebanon, see: http://reporting.unhcr.org/sites/default/files/UNHCR%20Regional%20Multi-purpose%20Cash%20Assistance%20Monitoring%20Update%20%28Middle%20East%29%20-%20May%202018.pdf (PDF)

More recent studies commissioned, e.g. by FSDA, UNCDF and IFC, which focus on refugees as consumers, producers, FSP clients and markets, are helpful to FSPs, but are often limited to one or several sub-national geographic areas.[105] Nevertheless, the vast majority of these studies, recently completed across East Africa, present the same picture of a vibrant, economically active and strong potential market segment waiting to be served by FSPs. Studies that extrapolate data to national level to provide an overview of the potential business case for inclusion of refugees are particularly useful.[106] Similarly, toolkits and guidelines have been produced recently that assist FSPs in the process of developing strategies for engagement with refugees, e.g. the UNHCR-funded Guidelines for Serving Refugees,[107] and the recent Toolkit on Remittance Services for Refugees, funded by UNCDF.[108]

But bridging knowledge gaps with data and market intelligence is not enough. Working with refugees means working with stereotypes, and the most efficient way for FSP staff and management to shift perceptions is to actually meet refugees. The Innovation Competitions recently launched by FSDA in Rwanda and Uganda provide an excellent – and replicable – process for such interaction. In Rwanda, 23 FSPs responded to the competition in December 2017 to visit Gihembe refugee camp and develop proposals for financial inclusion of refugees. Two FSPs, two Fintechs and an INGO were awarded accelerator grants (€11, 130) to develop new financial inclusion solutions, which may be followed up by larger grants (up to €167,000) to bring the concepts to scale. In Uganda, more than 20 FSPs applied for a similar process to visit refugee settlements after participating in 'refugee customer journey mapping workshops,'[109] and then proposing financial inclusion solutions for possible grant funding by FSD-Uganda. [110] The sister project in the DRC, ELAN DRC is now replicating the model, kicked off by a market intelligence study.[111]

While not focused specifically on refugees, a similar challenge competition was recently launched for the Arab States. The Arab Financial Inclusion Innovation Prize (AFIIP) champions a dynamic vision for financial inclusion, where innovation is facilitated by capitalizing on the fast-moving digital world. AFIIP is created to reward such innovations which can increase the outreach and reduce the costs of financial services to better serve low-income businesses and individuals. In collaboration with Sanabel, winning applicants will receive up to USD 50,000 in prizes, including a cash grant, consulting services, and the chance to present their idea at the 2018 Sanabel conference in Amman, Jordan. Adjacent innovations that apply successful products and services to new markets or develop new products for an existing domain in Arab countries are particularly called for.[112]

105 www.unhcr.org/afr/news/latest/2018/5/5aeb1c264/study-finds-refugee-businesses-play-vital-role-local-economy.html
106 E.g. www.fsdafrica.org/knowledge-hub/documents/refugees-and-their-money-assessing-the-business-case-for-providing-financial-services-to-refugees/
107 https://sptf.info/images/Guidelines-for-FSPs-on-serving-refugee-populations-March2017.pdf (PDF)
108 www.uncdf.org/article/3756/affordable-and-accessible-remittance-services-for-refugees-a-toolkit
109 www.fsdafrica.org/fdpfinance/
110 www.fsdafrica.org/knowledge-hub/blog/lessons-from-the-field-twelve-months-of-refugee-finance-in-east-africa/
111 www.fsdafrica.org/fdpfinance/
112 http://afiip.org/en

4.3 Legal uncertainty – the Need for clearer KYC Guidance

Legal barriers continue to create a disincentive both for refugees to approach formal financial institutions and for FSPs to serve them. From an FSP perspective, prospective clients should ideally have a legal and recognised identity and proof of (legal) residence. Licensed and regulated FSPs are required to verify this identity as part of KYC requirements, and many are unsure how to do this. In addition, recently arrived refugees often have no fixed address, which regulated FSPs require as part of their due diligence.[113]

In some countries, refugees are barred from even opening a bank account, making it impossible for regulated/licensed FSPs to serve them. In countries where refugees do have the right to open a bank account, the validity of a refugee ID is usually the first hurdle. Even if especially microfinance FSPs have worked around the lack of documents for national clients for decades, the fear of serving illegal residents causes FSPs to exclude refugees, unless their ID documentation is verifiably and legally valid.

The extent to which refugee documents are recognised as valid, e.g. for access to financial (and other) services, varies among host countries. Even where a UNHCR ID is generally recognised as valid, governments may require additional documentation of legal residence (residency permits, work permits, visas, etc.), and government agencies (and local authorities) may differ in their understanding of the validity of documentation. Few central banks have issued specific guidance to FSPs on the validity and KYC procedures applicable to refugee ID documents. In addition, strict anti-money laundering and counter terrorism financing (AML/CTF) rules can make FSPs – or their international corresponding banks - reluctant to on-board refugee customers from certain countries of origin, especially if they lack a passport, even where government directives state that UNHCR or government-issued ID documentation should suffice. If policies are unclear or ambiguous, many FSPs will adopt internal policies to exclude or limit access for refugees to be safe.

Governments should **inform FSPs on the documentation** issued to refugees (and other FBRs) and its validity, and central banks should **issue guidance to (regulated) FSPs** on how the documentation issued can be verified as part of required KYC and AML/CTF regulations.

There are additional issues of documentation, over which FSPs have control. Some FSPs have mission statements or policies that unintentionally exclude or limit access by refugees and other FBRs, e.g. mission statements like "we serve all citizens in the country" or application forms requiring a national ID as the only acceptable ID. As part of the preparation to become 'refugee ready,' FSPs need to review internal policies, loan documentation and eligibility and appraisal criteria for language that requires adaptation for an inclusive portfolio.

113 www.microfinancegateway.org/blog/2017/mar/removing-barriers-expand-access-finance-refugees

4.4 Investments, Capital, and TA – the Need for External Support

For many FSPs, the availability of capital to lend to refugees is not a constraint, once the perceived challenges are resolved in a strategy approved by the Board. Some, especially smaller FSPs, however, need capital to meaningfully expand their inclusion of refugees. With the increased interest in finance for refugees from many funders and investors, sources of additional funding are becoming available to FSPs that have a clear expansion plan based on an informed feasibility study – or FSPs that are exploring how to include refugees. An initial, non-exhaustive list, is provided in **Annex 1**.

Some FSPs will require operational grant funding to strengthen systems and infrastructure able to serve refugees well, and/or meet their demand for products and channels that are convenient.

Box 1: Preparatory steps for FSPs

1. Conduct a scoping study
2. Generate the strategy
3. Make contact and conduct market research
4. Segment potential clients
5. Adjust eligibility and appraisal criteria
6. Conduct a pilot test

The FSP Guidelines for Financial Inclusion of Refugees proposes a preparatory process with six steps for FSPs new to the refugee market (see **Box 1**). This process has been tested with at least five FSPs to date with promising results. These processes have also confirmed that external TA – be it exclusive to the FSP or through a competitive challenge process - often is necessary to compile relevant feasibility data, assist with the development of a strategy, and to help all staff and stakeholders in and around the FSP buy into the opportunity of serving refugees.

The NpM, Platform for Inclusive Finance International Conference on Finance for Refugees is a timely convening platform to clarify and match the demand for additional external support to the available resources.

ANNEX 1: AN INITIAL, NON-EXHAUSTIVE LIST OF FINANCING RESOURCES

The list of bilateral and sub-national investors and funders is long. Only a few regional or international resources will be listed here to provide an idea of the approaches of various investors.

For FSPs:

- The **European Investment Bank (EIB)** has been implementing a €2.2 billion Economic Resilience Initiative in the Southern Neighbourhood States and Western Balkans since 2013, aiming to capacitate the regions to absorb and respond to crises and shocks, such as the Syrian refugee crisis, through investments in infrastructure, development of the private sector and stimulating growth and job creation, and also to "contribute to address root causes of migration." Under this Initiative, 26 projects are ongoing in 9 countries, including e.g. a €2 million loan to Microfinance for Women (MFW) of Jordan in 2014.[114] EIB also lends to Al Majmoua in Lebanon, and is looking to expand the Greater Anatolia Guarantee Facility in Turkey to provide **loan guarantees and counter-guarantees to businesses** in Turkey, including refugee-run businesses, in Turkish regions where income is less than 75% of the national average and where companies receive only 10% of total Turkish lending.[115]
- The European Investment Bank (EIB) is preparing two new microfinance TA facilities for the EU Southern Neighbourhoods region, i.e. Algeria, Morocco, Tunisia, Egypt, Palestine, Syria (suspended), and prioritizing projects in Jordan and Lebanon. The first facility is €2.27 million, financed jointly with the European Commission under the Neighbourhood Investment Facility (NIF), and is expected to offer **training and TA to FSPs** in areas such as governance, financial management and compliance, product diversification and market assessment, transformation, risk management, monitoring and SPM. In addition, training and other services to improve **financial literacy and business skills among clients** of support FSPs would be available.[116] The second is a €2 million TA programme for FSPs supporting specifically the financial inclusion of more vulnerable persons in the Southern Neighbourhood of the EU, including refugees, forcibly displaced people, migrants, and youth. This programme, funded through the Facility for Euro-Mediterranean Investment and Partnership (FEMIP), would provide **TA to FSPs willing to explore the feasibility of expanding activities to migrants and refugees**, including for scoping studies, market research, making contact with refugees, and drafting subsequent strategic plans, conducting pilot tests, case studies, and fine tuning existing products and procedures; as well as TA for market-led vocational training, business skills training and other NFS aimed specifically at migrants and refugees.[117]
- The **European Bank for Reconstruction and Development (EBRD)** has designed a refugee response plan, and invests in infrastructure, SME development and economic inclusion and gender in Jordan and Turkey. MFW in Jordan, for example, has benefited from a loan and TA from EBRD for its inclusion of Syrian refugees.[118]
- The **African Development Bank (AfDB)** established an Initiative on Migration and Development in 2009, focused on the promotion of remittance flows as a development tool and a link to productive investments and promoting business opportunities and job creation. AfDB supports the development **of financial services for migrant workers**, creating incentives to channel funds into productive uses in countries of origin, as well as strengthening financial systems in receiving countries, in particular by empowering local agents, such as micro finance institutions. Financing is provided via the €6.3 million Migration and Development Trust Fund financed by France and IFAD, and developing and testing new financial products that respond better to the needs and capacities of migrants, considered risky for MFIs;[119]

114 www.eib.org/en/projects/initiatives/resilience-initiative/index.htm
115 www.eib.org/en/stories/hope-for-syrian-refugees
116 https://ted.europa.eu/TED/notice/udl?uri=TED:NOTICE:154236-2018:TEXT:EN:HTML
117 https://ted.europa.eu/udl?uri=TED:NOTICE:178094-2018:TEXT:EN:HTML
118 www.ebrd.com/refugee/refugee-response-plan.html
119 www.afdb.org/en/topics-and-sectors/initiatives-partnerships/migration-and-development-initiative/migration-and-development-trust-fund/

For Government actors:

The traditional multilateral finance organisations are making funding available to countries with large refugee populations, and a few examples are listed here:

- Expanded from the Concessional Financing Facility for MENA, the World Bank Global Concessional Financing Facility (GCFF) provides financial support to middle-income countries (MIC) impacted by refugee crises to build resilience among both refugees and hosts. The GCFF supports policy reforms and programs in areas such as education, health, and job creation to create sustainable development outcomes. Relying on donor grants, the facility leverages every dollar to yield 4 times the amount for long-term loans with low interest. Its current goal is to raise USD 1 billion in grants for Jordan and Lebanon, as well as USD 500 million in grants for other MICs, during the next 5 years in order to generate USD 6 billion as concessional financing to MICs. The CGFF is part of the World Bank's Global Crisis Response Platform, which responds to crises by combining knowledge, resources, and financial tools.[120]
- In 2016, the International Development Association (IDA) funded a USD 175 million allocation to the Development Response to Displacement Impacts Project (DRDIP) for concessional (low or no interest) loans to Ethiopia (USD 100 million), Uganda (USD 50 million) and Djibouti (USD 20 million) to help improve access to basic social services, expand economic opportunities, and enhance environmental management for communities hosting refugees in target areas of the three countries. A USD 5 million grant was provided to the Intergovernmental Authority on Development (IGAD) to establish a regional secretariat for Forced Displacement and Mixed Migration for the Horn of Africa in support of an evidence-based regional response, policy dialogue with member states, and research;[121] The concessional loan to Uganda partially funded the ReHope strategy put in place;
- As a follow-on to DRDIP, the World Bank and IDA created a new financing sub-window under the 18th replenishment (IDA18). This financing sub-window has USD 2 billion available to help countries manage refugee influxes, targeting both refugees and host communities with longer-term solutions. To be eligible, countries need to (1) host at least 25,000 refugees, or refugees must amount to at least 0.1 percent of its population; (2) have an adequate framework for the protection of refugees; and (3) have an action plan or strategy with concrete steps, including possible policy reforms for long-term solutions that benefit refugees and host communities. Creating jobs, working with the private sector, and gender are key focus areas.[122] So far, eight countries have been found eligible for funds under this window: Uganda, Cameroon, Chad, Republic of Congo, Djibouti, Ethiopia, Niger, and Pakistan.[123]
- The European Commission's Migration and Home Affairs Division established the €3.1 billion Asylum, Migration and Integration Fund (AMIF) as a financial instrument for 2014-20. This facility supports national and EU initiatives to promote better management of migration flows and the implementation, strengthening and development of a common approach to asylum and immigration, which to date has had little impact. It also allocates funds for education and language training for non-EU nationals, assistance to vulnerable migrants, refugees and asylum seekers, information exchange and cooperation between EU States and training for staff on migration topics;[124]

120 www.ncbi.nlm.nih.gov/pmc/articles/PMC6003081/
121 www.worldbank.org/en/news/press-release/2016/05/31/horn-of-africa-world-bank-175-million-financing-supports-regional-initiative-on-communities-hosting-refugees
122 www.worldbank.org/en/topic/fragilityconflictviolence/brief/eight-countries-eligible-for-new-ida-financing-to-support-refugees-and-hosts
123 www.worldbank.org/en/news/feature/2017/12/04/additional-financing-available-to-support-refugees-and-host-communities
124 https://ec.europa.eu/home-affairs/financing/fundings/migration-asylum-borders/asylum-migration-integration-fund

- The Council of Europe Development Bank (CEB) also has a Migrant and Refugee Fund (MRF), established in October 2015, which supports member states in accommodating and integrating migrants and refugees who arrive on their territory. At end-2017, 21 CEB member states had contributed to the MRF along with the EIB. The fund has €25 million available, and is funding various projects around Europe; and[125]
- The Asian Development Bank (ADB) normally focuses on investing in infrastructure, but in July 2018, it allocated a USD 100 million grant from the Asian Development Fund as a first tranche of a USD 200 million grant to the Government of Bangladesh to develop basic infrastructure and services for displaced Rohingya refugees in Cox Bazar, within the framework of multisector Joint Response Plan managed by the UN-led Inter Sector Coordination Group.[126]

125 https://coebank.org/en/project-financing/donors-and-trust-funds/migrant-and-refugee-fund/
126 https://reliefweb.int/report/bangladesh/adb-100-million-grant-approved-first-phase-proposed-200-million-package-displaced