SPTF Annual Meeting 2016: Plenary Day 1 Notes

Workshop 3: A New Frontier of Financial Inclusion: Serving Refugees (31 May 2016)

Speaker: Lene Hansen, Independent Consultant

Participants were asked to provide input from their countries: of 27 participants, 12 were aware of refugees in their markets, while only 4 knew of FSPs providing services to refugees.

“Why are refugees not considered as potential FSP clients?”
Participants brainstormed answers to the question: Their ideas:

- Legal status
- Risk of flight
- Low social acceptance
- Lack of social coherence
- Resistance
- No credit history
- Language
- (MFI would not want to share risk, information etc.

Lene's remarks::
Challenges faced with this type of client are trumped by the informal sector: working with very poor people, in some case they don’t have identification and are actually high risk, but they are still MFI clients.

“Working with refugees, with the unknown, require us to work with our own stereotypes.”

Refugees may steer clear from FSP because of ID requests, and because some FSPs, rarely, will only lend to nationals. Support is however starting in countries where regulation goes against the local focus on national poor, with no id and where clients are assessed at face value.

There is no evidence that shows that nationality or citizenship is a good basis for assessing reimbursement capacity.

Additional obstacle: visibility and lack of information:

- :Refugees realize that they may not go back in six months but they don’t realize that they are eligible: they remain invisible in the market as opposed to in the media.
- the microfinance industry doesn’t know the refugee population. Refugees have been overlooked,

- Refugees are perhaps considered the responsibility of humanitarian organizations and seen as too vulnerable.

Thoughts on risk:
- MFIs think "they have fled once, they will flee again"
- Lene noted, however, that national clients can also be mobile: "The drive to earn enough income to feed a family is not absconding. This type of migration can be seen in national portfolios as well and internally displaced people are equally considered eligible for microfinance services."
- Older industry literature on refugees as microfinance clients (the case of Angola, for example) that shows that refugees leave.
- More recent literature shows that the main problems in the cases of microfinance for refugees have been product design and wrong segmentation of clients. **If we help the refugees they can help build stability and reduce default risk**, as seen in examples in Ecuador, Lebanon and Jordan which show that PAR levels of refugee portfolios are slightly less than 1 parent that the total PAR of the MFIs. And the reasons for default were linked to poor product design and poor segmentation.
- Risk management systems have not been updated: the fact that risk is perceived as coming from the refugee status or risk of flight is mitigated by creating products who are longer, have more guarantors which may lead to more default. This shows that the problem is poorly designed products and delivery channels as opposed to the fact that the client is a refugee.

Group exercise - Groups were asked to propose mitigating factors for each of the key perceived risks (constraints) for increased inclusion of refugees (see results in Annex 1), and then re-rank the risks and present the top perceived risk.

The results of this exercise yielded the following results for the five groups of participants:

Group	**Top mitigated risk perceived for increased inclusion of refugees**
Bowler 1	The unabling environment: Lack of influence and time to improve negative perception
Bowler 2	The information gap: Resistance among existing clients and staff
Bowler 3	External legal issues: Lack of access by FSPs to encamped refugees
Croissant 1	External legal/regulatory constraints: Unclear if allowed to serve refugees

The workshop proceeded to discuss further possible mitigating measures for each of these constraints and the potential benefits that could be derived by FSPs as 'first movers' engaging with refugees as part of their social mission to expand responsible and inclusive finance (see slides 14-18). Participants questioned whether advocacy by itself was effective to overcome external negativity and legal constraints, given that this would take time and perhaps not generate sufficient impact in the short-run, and acknowledged that the information gap was very significant.

Due to time constraint, participants completed Handout 2 independently before or during the coffee break. Ten responses (37%) were received that are presented in Annex 2.

Thoughts from Lene on how to increase access to FSPs for refugees:

- Advocacy of associations and networks to central banks
- Lobbying with local authorities ("they have the problem on their hand so they might be open to solutions)
- UNHC/UNDP and human rights networks can be potential partners to make a common cause
- Reframing the mission of an MFI from serving all poor nationals, to all poor in the country could provide visibility
- Being able to present literature which is beginning to emerge (in depth study of services to refugees in Uganda for example)
- Less vulnerable refugees can be involved in microfinance programs while the most vulnerable can continue to benefit from humanitarian help

Audience question: "Why the focus on the legal aspects when there are so many MFIs implementing strategies to work around the laws?"
Answer: In some countries where the legal aspect is specifically prohibited, partnering to change the laws is useful. Also conversation with other organizations with which MFIs typically have not communication may increase understanding of what is allowed and what is not in countries where regulations further exclude refugees from services.

Ideas and attempts at easing the restrictions on refugees exist in countries such as Pakistan, South Africa and Indonesia to reduce the regulatory requirements on small financial transactions. Uganda, Columbia, Peru and the Philippines have experience dealing with displacement (not all caused by conflict) and the involvement of FSPs has been facilitated by improving the regulation. The Central Bank of Philippines, for example, has increased its list of acceptable documents to 22, and in Haiti, an experiment of ID free work has been put in place, using technology. The EU backed Microfinance Facility, also includes some flexibility.

Lene insisted on the need to remind everyone that the lack of documentation is not a specificity of the refugees. Many nationals don't have that either.

Information gap and resistance: Engaging staff and existing clients in the discussion as the business case is developed seems to be a way to break down the barriers in some cases. Questioning the board of the MFI and the local MFI association why refugees are not targeted. Research in progress is looking to dismantle the myth of the risk of flight of refugees.

<u>Profile of Al Majmoua (Lebanon), presented by Michelle Touma (Research Manager)</u>:
Introduction to Al Majmoua:

- In Lebanon, there is 1 refugee for every 4 Lebanese citizen
- Al Majmiua decided to target all the poor in Lebanon since 1998. It offers financial and non financial services to 57 000 active clients.
- Al Majmoua started by offering group loans and then diversified its products. It now offers loans to SMEs, start-up loans, housing loans and training in financial literacy, microenterprise etc., mostly to women.

- Al Majmoua experienced steady growth of portfolio and made conscious efforts to refocus on women when their percentage decreased. It recently underwent an SPI4 audit. An SPM committee oversees its SPM-related activities.

Al Majmoua's work with refugees - overview:

- Non Lebanese borrowers represent 15% of Al Majmoua's clients. 6% of its clients live in Palestinian camps.
- Al Majmoua has an extensive history working with Palestinians and Iraqis in 2007 and 2008, and is currently piloting work with Syrian refugees.
- The PAR of Palestinian clients is lower than whole portfolio, and drop-out rates are better than Lebanese clients. The same methodology is used for both types of clients.
- Al Majmoua made an effort to recruit employees from the community with 10% of the staff being Palestinian, 10% of loans disbursed to Palestinians, in line with the 10% percentage of Palestinians in Lebanon's population.
- The large influx of Syrian refugees in Lebanon has made it obvious that Al Majmoua will work with Syrian refugees. In proportion of Lebanese population, Syrians represent 22%.

Al Majmoua's work with Syrian reguees:

- In 2014, UNHCR and others approached Al Majmoua to serve the Syrian refugees.:
- The support from the management and the board was critical
- Al Majmoua conducted a study on refugees including the readiness of existing clients to accept the institution's work with the refugees. Al Majmoua's clients saw refugees as a risk to their access to employment and financial services. In order to reduce the fear of the host population and the refugees, it was decided to cater to 50% of local and 50% of refugees.
- Staff was trained on refugee rights and on stereotypes
- The MIS system was updated to be able to identify this new client segment
- A big lesson learned has been that it is important to continue to serve the hosting population:
- Activities for kids, trainings and mixed credit groups were created to reduce the fear of refugees. Going low profile was also a way to reduce the hostility of host population: targeting women and people who work from home for example.
- Less documentation was required from refugees.
- Activities that were targeted for development were chosen to provide diversification. For example: Palestinian embroidery and Syrian bread activities were financed. At the same time, embroidery classes were shared with Lebanese nationals. Groups of women, half Lebanese and half refugees, learned Aghabani embroidery and a business development group "Artisans du Liban" buys the production.
- Michelle stated that "Flight risk is still a risk that needs to be mitigated". Many clients, Lebanese and refugees, leave the country, even some staff who left in this recent wave of migration. With better weather a new wave is being prepared, One way to mitigate the risk is to identify community influencers to allow getting more information before getting the loans. Al Majmoua is also exploring collaboration with a Syrian NGO to be able to create a link across borders.
- Al Majmoua also hopes to set up a guarantee fund to mitigate the risk of flight, that guarantee fund would make Al Majmoua more comfortable working with refugees.

Audience Question: What is the business case? How to convince investors that microfinance for refugees is sustainable?
Answer: First of all, there is a social case. People are staying for a long time and settling in Lebanon. Al Majmoua sees that international institutions are welcome to share the risk and highlighted the importance of the guarantee fund.

Audience comment: Some donors offer a 50-50 risk sharing opportunity, either by guaranteeing the loan for institution serving the refugees or the portfolio of refugees (CGAP / financial arm of USAID).
Reply: The non-financial side Al Majmoua is doing well. On the financial side, Al Majmoua is planning to do better segmentation and identification of clients who are actually eligible for loans, with deeper market research, including qualitative research on clients referred by international organizations. It will potentially share data with UNHCR. It seeks to be able to differentiate between three type of clients: ineligible, eligible for non financial services, and eligible for financial services.

Audience question: Does Al Majmoua offer other services to refugees?
Answer: Al Majmoua has challenges with microinsurance: Lebanon has very high costs of health service and of insurance services, which refugee clients cannot afford.
Closing thoughts from Lene:

- How do we segment refugee clients? One model that seems to be useful is the graduation model, by adding a timeline to poverty evaluation, which will help MFIs decide which category they would like to target. It's ok to focus on what one does.
- One lesson learned is not to outsource segmentation.
- There is no need to develop specific products for refugees. Rather, it is effective to provide the same products to everybody to avoid hostility and encourage social cohesion. Refugees have the same need as everybody else.
- Non-financial services are an essential need of refugees. For example, market information, market access, figuring out what to do to sell what, language, and training to become a better entrepreneur.
- What needs to be incentivized is the willingness to target refugees not necessarily just the credit risk. The opportunity for interaction with other organizations should not be missed.
- "Once you become part of the solution as opposed to the problem, pride, credibility of all stakeholders is increased. Taking the jump and appropriately segmented and appraised, refugees can be good clients, even better, as you can tap into transnational networks. Also, refugees may be much more loyal, as they were given a chance".

Lene is working with SPTF to create guidelines for FSPs on serving refugee populations. You can follow the project here: http://sptf.info/working-groups/refugee-microfinance. There will be a training of trainers on this topic as well in fall 2016. Please email info@sptf.info if you are interested, or feel free to contact Lene directly.