

**Social Performance Task Force Webinar**  
**UNHCR-SPTF Project to Develop Guidelines for FSPs Providing Microfinance to Refugees**  
(held 10 December 2015)

*In September 2015, the Social Performance Task Force (SPTF) launched a partnership with the United Nations High Commissioner for Refugees (UNHCR) to develop guidelines for financial services providers (FSPs) that provide microfinance to refugee populations, and to write a case study that profiles one FSP with demonstrated success working with refugees. We hope that by sharing best practices and lessons learned to date, these resources will increase FSPs' interest in working with refugee populations, dispel misconceptions about the characteristics of these populations, and ultimately increase financial inclusion.*

### **Understanding Refugee Populations**

#### Linking financial inclusion to refugee populations:

Very few financial service providers (FSPs) currently provide microfinance products and services to refugee populations. In exploring why, it is helpful to consider this issue within the broader context of financial inclusion for all. Research shows that the nature of financial needs are about the same for everyone, whether poor or not poor, stable or displaced. It also teaches us to define financial inclusion not only as access to financial products, but also the adoption and use of those products. In the case of refugees, perceived costs, lack of required documents, lack of knowledge and familiarity with FSPs, lack of trust, and limited means to communicate, provide particular obstacles to financial inclusion.

#### Overview of refugee populations

- 60 million people in forced displacement; 19.5 million registered refugee populations
- Average duration of displacement is 17 years
- 35% of refugee populations are in camps and 65% are self-settled mostly in urban areas
- Refugee populations have diverse skills, vulnerability, and economic capacity. They engage, like any other population, in a wide range of income generating activities and some run businesses that offer employment. They also use technology, particularly mobile phones.
- Most refugees make an effort to secure income in the places where they settle. Very few depend primarily on relief aid.

#### Path to increasing financial inclusion of refugee populations

Due to strong similarities between financial needs of refugee populations and the core clientele of FSPs, it does not appear that FSPs need to change their product range to include refugees. Refugee populations would benefit from increased access to payment services, savings, insurance and credit. But FSPs could benefit from better understanding the financial management strategies of refugees to assess how their products and services can be offered to replace informal products currently in use. In improving outreach to refugees, FSPs might adjust their methods to assess credit worthiness of applicants to address the access barriers.

#### Factors that may explain why refugee populations are currently so underserved

1. External environment: National public and political sentiments reflected in policies or media, for example of xenophobia, fear of scarcity leading to resistance to extending inclusion to refugees, and assumptions that refugees are a 'burden'.

2. Legality and eligibility: Externally defined policies and regulations in the country may prohibit or restrict inclusion of refugees. Internally defined eligibility criteria of the FSP may inadvertently do so as well – but many FSPs work successfully with ‘undocumented’ nationals.
3. Visibility and information: Very few FSPs have deliberately decided not to include refugees, but they generally do exclude them due to lack of contact or knowledge. Refugees can be wary of reaching out to FSPs for fear of reprisal, lack of ability to communicate, or limited trust, and/or assumptions that they will not be eligible for products or services.
4. Mobility: Traditionally, microfinance has relied on roots in the community as a way to mitigate flight risk. However, research shows that being a national versus a refugee is not what is linked most strongly to stability. Instead, in all populations, increased success of the business tends to increase stability. If income generation is failing, people are more likely to ‘up and go’ and try their luck somewhere else. As displacement is protracted, however, data from most FSPs that are serving refugees show that the refugee loan portfolio PAR is not markedly higher than the overall PAR – the traditionally perceived higher ‘flight risk’ appears much less than other aspects of credit risk, e.g. drop out and potential ‘cannibalisation’ by well-performing refugee enterprises of less successful national businesses.

### **Humanitarian-Development divide**

Past experience has shown that humanitarian agencies struggle to provide microfinance services. It is difficult for clients to distinguish between relief versus loan, and humanitarian agencies have had insufficiently developed products, inappropriate targeting of clients, and lack of expertise. Many also are relatively short-term efforts and therefore cannot serve clients sustainably. UNHCR is very interested in developing more mutually beneficial partnerships with FSPs, but a communication gap remains. UNDP and other development actors can sometimes be effective ‘interpreters.’

### **Case Study: Al Majmoua (Lebanon)**

#### Background

Lebanon currently has one of the highest number of refugees in proportion to the resident population. Its refugee population includes Syrians, Iraqis, and Palestinians. Al Majmoua is a credit-only FSP in Lebanon with a strong social mission, and has included refugees (and migrant workers) in its portfolio for both financial and non-financial services for years. It has 22 branches 300 staff, 54,400 active borrowers. It also has a significant portfolio of non-financial services, almost exclusively funded by external grants.

#### Refugee portfolio

About 15% of active borrowers in the Al Majmoua portfolio are non-Lebanese. The PAR for all client segments and for the portfolio overall is below 1%. But, the drop-out rate for refugees is higher than for others. The highest is among Syrian refugees, at 48%, compared with the overall drop-out rate of 38%. The size of a loan to a refugee clients is on average 20% lower than the average loan size to national clients – which could be a contributing factor to drop-out, given the relatively high cost level in Lebanon. Al Majmoua has had good experiences including refugees with nationals in non-financial services (training, BDS and financial education), but very few of the refugees accessing these services have taken out a loan.

#### Client feedback:

Al Majmoua clients report satisfaction with the outreach of Al Majmoua, and generally say that the loans they received did help them develop their businesses. The main challenges they mention are difficulty in securing a national to be a guarantor for an individual loan, or to identify nationals to be group members for a group loan. Also, the financial cost of becoming or staying a legal resident was prohibitive to most.

#### Key lessons learned by Al Majmoua

The core message is that it is doable to provide microfinance to refugees. Tips:

- do careful market and segment research
- pushback against humanitarian funders/partners who tend to refer the most vulnerable as client for financial services
- secure buy-in at all levels: board, senior management, staff and existing clients by holding focus groups with existing clients and staff at the outset to listen for concerns and share expansion strategies, to increase comfort with the efforts to include refugee clients
- allay concerns about the potential competition for jobs and businesses from refugees. For example, Al Majmoua defined women and youth among refugees as a target group, as opposed to men, and focused on supporting businesses that met specific demands among and/or exploited traditional skills of the Syrian refugees
- organize events that bring refugee clients and national clients together

Ultimately, Al Majmoua found no need to develop specific products for refugees. It also reports that integration of nationals and refugees in loan groups and in non-financial services has increased overall social cohesion in the community and improved Al Majmoua's reputation.

#### **Topics that the Guidelines Will Address**

- Framing this discussion within broader financial inclusion efforts
- Confirming that there is a double bottom line business case for including (some segments of) refugees: refugees can be a viable additional client segment, contributing to a healthy portfolio, and increased inclusion is consistent with a social mission. An FSP can also experience significant reputational benefits and increase its attractiveness to funders
- Sharing practitioner experience that it is not necessary and can be counter-productive to create a separate product stream for refugees, because the needs of refugees and core clients are similar
- Arguing that FSPs have a comparative advantage to protection agencies in providing microfinance to refugees
- Exploring the idea that it can be helpful for FSPs in hosting countries and in countries of origin of refugees to link for product development opportunities
- Developing ideas to mitigate the real and perceived challenges to including refugee populations (e.g., legality or eligibility obstacles, insufficient information and social capital). These will include advocacy, careful outreach, inclusive internal policies, and adjustment of risk management regimes, e.g. creative alternatives to typical know-your-client requirements.

#### **Summary of Discussion and Questions**

- Question: In Nepal, we cannot lend to refugees because of policy restrictions. Can UNHCR advocate to relax the provisions? More generally, what are the recommendations for next steps

in a situation of restrictive policy? Answer: We have seen a willingness from UNHCR and other

protection agencies and international NGOs to advocate for increased inclusion. But, there hasn't been a lot of history of this to date, in large part because there have not been a lot of FSPs saying they'd like to work with refugees and asking for this type of advocacy.

- Question: In cases where FSPs do not know about refugee populations in their area but might be willing to serve them, what are the steps that you'd recommend to the FSP? Answer: Start by collecting data from protection agencies and municipalities or local authorities (e.g. social development centers, ministry of social affairs). UNHCR will know and has become better at profiling socio-economic characteristics of refugee populations. Also look for refugees in the value chains where they have a comparative advantage (e.g. country of origin food processing, restaurants, services). But do not outsource assessment and segmentation – based on data collected, carefully analyse which segment might make good clients and what barriers to inclusion national policies and regulations may need to be overcome. Then reach out through refugee associations, stores and social gathering points to make your FSP and its services visible.
- Question: At Al Majmoua, there was initial resistance by staff to outreach to refugees. What were their reasons for concern? Answer: Working to include refugees means addressing stereotypes. Concerns of the staff reflected the concerns of clients and public at large. Specifically, fear that foreigners would steal jobs, increase prices of rental and food, and have a negative impact on the social fabric in communities, etc. Loan staff were also very concerned about risk, and knew a worsening portfolio would affect staff bonuses. Al Majmoua is addressing concerns by continuously sharing research, learnings and portfolio performance data internally and has noted a gradual change of perception towards pride and satisfaction with being 'part of the solution to a national crisis.' Question: Even if product features didn't have to change, did Al Majmoua have to change how it marketed or explained products, or other aspects of how it interacted with clients? Answer: The Syrian refugees in Lebanon have the same language as the Lebanese and the cultures are very similar, so there weren't as many areas of difference as there might be in other countries with refugee populations. But Al Majmoua did have to make targeted efforts to find Syrian refugees: it went to the social development centers, posted information in schools and medical centers and other places where refugees would come. The key breakthrough for Al Majmoua was word of mouth. Once staff and existing clients and beneficiaries of non-financial services understood that Al Majmoua would consider lending to refugees, word of mouth helped considerably. In places where there is a bigger divide in language and culture, know that refugees will not come to you. You must go out proactively to find them in their value chain markets and service centers where they might be.
- Question: Is it sometimes necessary to provide materials like contracts in the origin language of the refugees? Answer: For Al Majmoua specifically, the language was not an issue. But in other countries, it has been necessary for FSPs either to develop materials in other languages or to get interpreters, who can be staff or volunteers – this strategy is working successfully for e.g. microStart in Belgium.

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SPTF and UNHCR welcome your input. To ask questions or share feedback, please contact Lene Hansen ([lenemph@hotmail.com](mailto:lenemph@hotmail.com)), the consultant leading the project, or SPTF [info@sptf.info](mailto:info@sptf.info).