

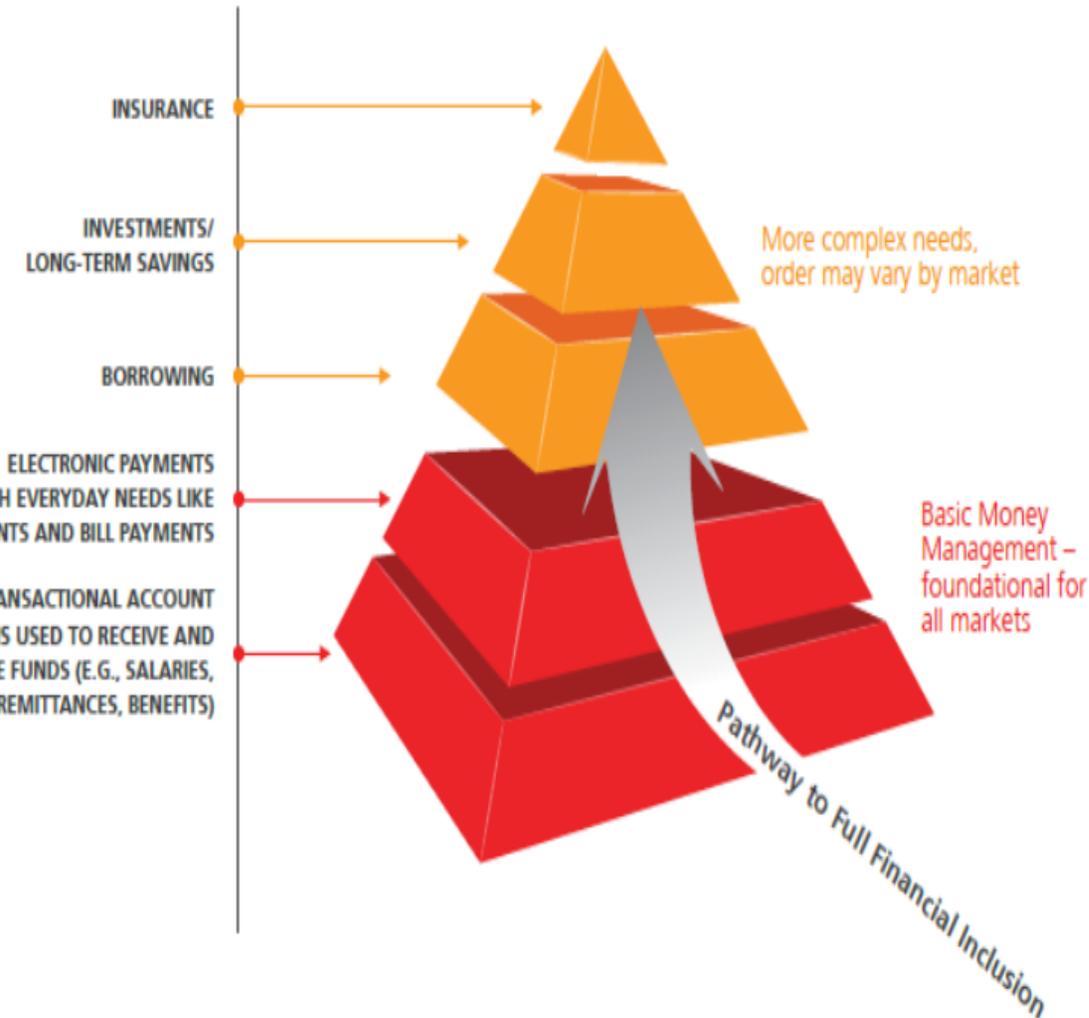
UNHCR-SPTF: Refugees – The Next Frontier in Financial Inclusion?

Webinar, 10 December 2015

Speaker: Lene Hansen, Independent Consultant



Financial Inclusion



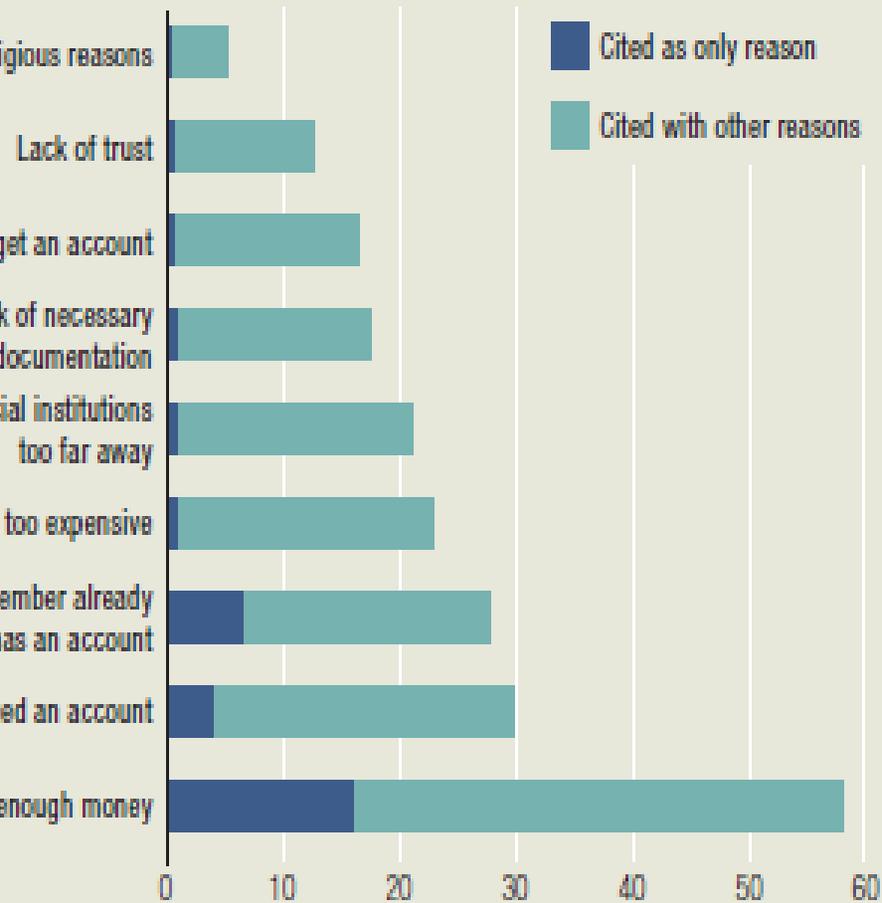
- The effective **access to, adoption and use** of available, affordable, convenient, quality and sustainable financial services by.
- The post-2015 SDGs includes strong emphasis on financial inclusion for **people** across income and geographies including women, persons with disabilities, youth, the aged, migrants and others.”
- The end goal of full financial inclusion is **all adults adopting all financial products** (e.g., payments, lending, long-term savings/investments, and insurance) and fully using them.

Financial Exclusion = Social exclusion

- **Lack of access to financial services can be a major impediment to income opportunities and economic welfare**, particularly for the poor, women and young rural populations, migrants and those engaged in the informal economy, as well as for firms, particularly micro and small enterprises;
- **Financial exclusion results in less ability to face financial shocks and unexpected expenses**
 - People excluded from savings services are more vulnerable to theft, as they are forced to keep their cash and savings at home;
 - People excluded from payment/credit options by mainstream financial sector are likely to turn to institutions that offer these services at a higher price/risk, further exacerbating their vulnerability and exclusion, and putting them at risk of becoming over-indebted.
- **Financial exclusion is deeply interrelated with social exclusion**
 - Those unable to access finance for enterprise development or personal consumption have greater difficulties in integrating socially and economically;
 - Lack of access to financial services can bar people from accessing services and activities, including employment and mainstream social activities and events specific to their cultural reference group.

Barriers for financial inclusion

Top barriers to use of an account at a financial institution
 by unbanked adults reporting barrier as a reason for not having one (%), 2014



could choose more than one reason.

ix database.

- **Income volatility** is the essence of fin. exclusion
- **Affordability** cited as barrier by 23% of unbanked adults
- **Lack of documentation** cited by 18%;
 - 41% of unbanked adults in the Middle East say they can't get an account. Reasons could include lack of ID or documentation requirements
- Lack of formal proof of **ID, domicile/residence** and wage slips especially affects rural dwellers, informal sector workers – AND refugees:
 - Policies/regulations favouring national citizens
 - KYC and AML/CTF requirements
 - Supplier-level requirements for credit history or national guarantors
- **Lack of familiarity/trust** in FSPs due to cultural differences, norms, perceived/real discrimination (e.g. against women, non-citizens), past poor experiences, lack of literacy skills, language;
- Voluntary exclusion not supported by 2014

Overview: Who are the refugee populations?

- 60 million people in forced displacement - 19.5 million registered refugees, of whom 5.1m Palestinians under UNRWA mandate (end 2014)
- 74% of displaced people from 7 countries (PAL, SYR, AFG, SOM, SSD, SDN, DRC)
- 50% of displaced people living in 7 countries (JOR, TUR, LBN, PAK, IRN, ETH, SYR)
- Est. 12.9 million displaced stuck in protracted displacement. Average duration of displacement now 17 years.
- 51% of all refugees under 18 years, 46% (6.6 million) in productive age bracket
- 61% are self-settled, 65% in urban areas – only 35% in managed camps
- Protracted displacement situations are complex and fluid, with new, old and returning displaced people; a mix of refugees, IDPs, migrants and host populations with widely differing needs and social and human capital amongst the displaced and their hosts; and opaque systems of support – sometimes international, but often local and informal.

Persistent Refugee myths are being busted:

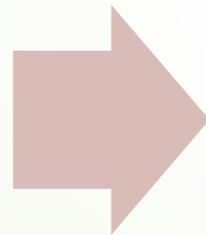
Refugee Myths:

Homogenous groups of asset beneficiaries dependent on aid

Physically isolated in camps with little economic activity

Burden on hosts, requiring social protection aid actors

Technologically illiterate



Emerging Evidence:

1. As heterogeneous as core MF clientele with significant diversity in economic strategies, many different business/ livelihood models.

2. Majority is self-settled in urban areas. Many camps are now rural economic hubs/centers of value chain gravity.

3. Dense economic refugee-host interaction & regional networks; refugees contribute as consumers, traders, service/ goods providers, employers.

4. Refugees have and use phones. MNO competition in some camps

Refugee characteristics – more similar than different

- Displacement from **conflict and natural disasters** is **economically impartial**: creates refugees from all walks of life. The most resourceful may leave earlier, manage displacement better;
- The socio-economic profile of refugee populations in protracted displacement **as diverse as core clientele** of MFSPs in terms of capacities, resources, network abilities;
- **Social and financial needs vary** among the displaced depending on migration phase and plan, income generating opportunities, vulnerabilities at arrival, and existing human and social capital (education, skill compatibility, language/culture, etc.) which can be built on:
 - Like with core clientele, not all refugees can benefit from credit. But a vast majority can benefit from payment services, savings, insurance, etc.
- The majority clearly have their **own strategies and priorities for achieving self-reliance** and building livelihoods – they exploit available opportunities in local economies and use their transnational networks to ensure their livelihoods and contribute to the economy in which they find themselves.

Refugees as potential FSP client segment

- Refugee populations are a largely un-banked (at least formally), but cannot be considered an un-bankable client segment. **Why are they overlooked?**
- A large segment of any refugee population would be as eligible for financial services as any other client segment. **Why are they un(der)served?**
- Access by refugees to financial services perhaps due to 3 specific features that have become stereotypical engrained in assessments and contribute to a **perceived higher risk** than the 'core clientele' of FSPs within each specific context:
 1. **External environment** matters and influences demand and supply
 2. **Legality and eligibility** (lack of documents versus KYC/AML-CFT regulations and requirements)
 3. **Visibility and information** (lack of contact vs. proactive segmentation by social capital)
 4. **Mobility** (livelihood strategies vs. perceived flight risk)

1. External environment for inclusion

The legal and policy framework (*legality*), the dynamism of the surrounding markets/economy (*econ. opportunity*), and the receptivity for integration (*acceptance*) in each society determine access and engagement;

- **Domestic politics of scarcity:** Many countries formally or more subtly discourages FSPs from serving non-citizens – but microfinance has four ways to develop in *unabling* environments before;
- The '**burden myth**' (scarcity): Contracting economies cannot handle new entrants (no matter their nationality) – but the informal sector provides opportunities for innovation;
- **Xenophobia, stereotypes, preconceived misconceptions** at community (staff, existing clients), local and national levels feeds the reluctance to engage – but some FSPs with strong missions of social inclusiveness have overcome this challenge.

2. Legality and eligibility constraints for inclusion

Limited ID/residence/work permits versus KYC/eligibility requirements

On the demand side (refugees)

- ➔ Lack of ID/documents
- ➔ Restrictions on movement/work
- ➔ Anonymity/reluctance of identification
- ➔ Fear of prosecution/insecurity

On the supply side (FSPs)

- ➔ Illegal to serve non-citizens? (how widespread is this?)
- ➔ KYC/AML-CFT requirements vs. alternatives
- ➔ Capacity (residual market, sufficient demand among 'less risky' clientele?)
- ➔ Visibility (outreach/info, appropriate language – how to reach clients?)
- ➔ Processes: alternative ID (UNHCR) and residence documentation (rental agreements), biometrics/smart cards
- ➔ Data protection/security – also from government

- The Refugee Act of 2006 and the Refugee Regulations of 2010 weakly implemented;
- Scarcity/competition fears still inform policies and generates perceived risk among FSPs in Yemen, Egypt, Jordan, Lebanon vs. more liberal regimes in e.g. Uganda, Kenya, Colombia
- Often trumped by informal economic opportunities – IDPs and poor nationals without ID served by MFIs if their character and business are favourably appraised;
- For regulated FSPs: Potential lack of recourse for FSPs if refugees default, but some restrictions eased (e.g. UK, BaFIN (Germany), South Africa);
- **How to overcome:** Advocacy, linkages with protection agencies and (especially local) authorities for approval has worked – often driven by strong social mission of FSPs e.g. to include 'all poor in country' and review/adapt standard eligibility criteria accordingly.

3. Visibility and information constraints

Lack of contact (familiarity) vs. proactive segmentation

On the demand side (refugees)

- Immediate needs (pending migration path/plan)
- Capacity (wealth, resources, educations, skills)
- Relief dependency/entitlement (encamped)
- Lack of trust (fear of prosecution/insecurity, conflict affliction/spill-over)
- Lack of relations (lack of language or awareness about services or preference for informal/alternative financial services)

On the supply side (FSPs)

- Visibility (clear business marketing in appropriate spaces/languages)
- Intro via protection agencies (municipalities, linkage to cash-based relief delivery (ATM cards, MM agents, e-vouchers, merchants))
- Segmentation (Graduation model, separate from relief agencies, clear eligibility criteria in appropriate languages)
- Financial products for relationship building (payments/remittances/savings first, group vs. individual credit, shariya-compliance, mobile)
- Non-financial services (training, market access (B2B), risk info, language) – partnerships or cross subsidization

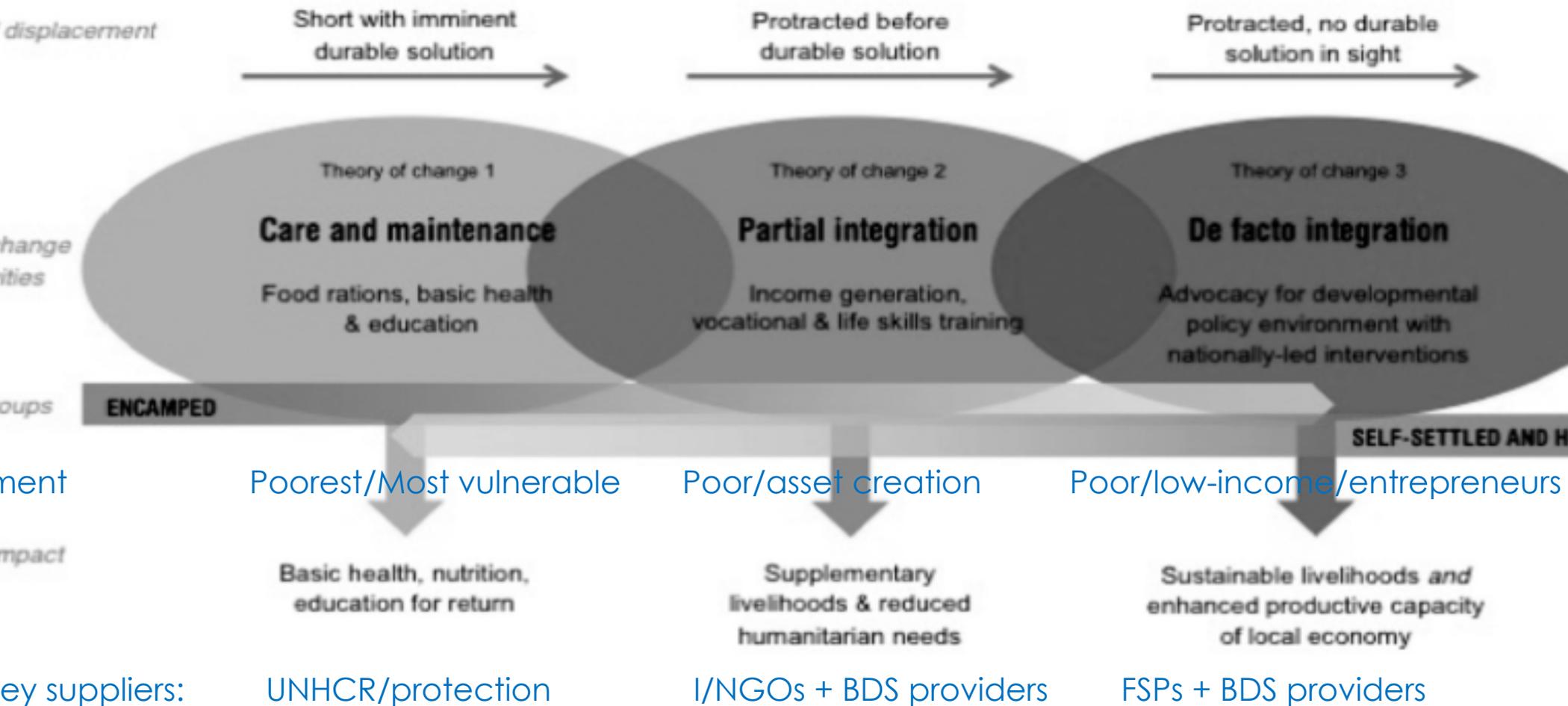
- Refugees' 1st point of contact often government/UN/INGOs and/or 'assistance networks.' For livelihood strategies: known demand/familiarity (skill/experience, demand gaps in new markets)
- Financial service demand evolves with migration phase/plan and econ. opportunities (usually survival funds over savings/payments/remittances to credit/insurance etc.) like core clientele
- **How to overcome:** Market segment research, proactive contact, careful segmentation, clear simple criteria for inclusive products 'for all nationalities.' FSPs often use NFS as entry/in addition to financial services.

The humanitarian-development divide

- This old issue is much debated – calls for change outnumber actual interventions
 - Most self-reliance and livelihood projects have been ad hoc, small-scale, by humanitarian- or dual-mandated agencies with short time humanitarian funding – few FSPs involved
 - Results have been mixed due to lack of expertise, undistinguished from relief, un-adopted products, inappropriate targeting/selection (often refugees only, most vulnerable first)
- Old, humanitarian ('protection till return') paradigm is giving way to more holistic market-oriented approaches. UNHCR now promoting longer-term self-reliance/livelihood approaches based on socio-economic profiles and value chain analysis
 - Conflicting target groups: FSPs can better serve less vulnerable -> segment "market" for self-employment assistance
 - Programming & funding (for non-fin. services) remains short-term and output focused -> development funders
 - Missing link: Mutually beneficial partnership strategy on supply side based on market-led, segmented demand
- Way forward: accelerating and expanding development opportunities that displaced people themselves have already begun exploiting and that will equally include and benefit their host neighbours
- Linkage opportunity for refugees to markets via FSPs: Increased use of humanitarian transfers (debit cards, vouchers) and cell phone coverage
 - Potential for relationships between refugees and FSPs (payments/remittances as credit history)

The humanitarian-development divide

Source: ODI *Protracted displacement: Uncertain paths to self-reliance in exile*,



4. Mobility constraints for inclusion

Perceived flight risk vs. risk mitigation

| On the demand side (refugees) | On the supply side (FSPs) |
|---|--|
| <ul style="list-style-type: none">→ Expectations of displacement duration→ Access to markets (communication/local mobility, host-refugee interaction, local and trans-national economic opportunities)→ Mobile/Smart phone access high and increasing | <ul style="list-style-type: none">→ Market research (camps/settlements/ urban/rural settled, duration/expectations, existing (informal) financial services and merchants)→ Risk management/mitigation (relationships, demand services/feedback loops, monitoring systems + value add services (info, referral, BDS))→ Delivery mechanisms (mobile money, agents at regular congregation points, transnational/transferable services) |

- Few but persistent anecdotes in industry on refugees as flight risk – often design/delivery problems;
- Loyalty/stability in location is more associated with success of chosen livelihoods/enterprises – no need for specific products (but non-fin. services a welcome add-on);
- Among FSPs currently serving refugees there is little or negligible actual increased risk, risk management/ mitigation regimes are often based on flight risk (national guarantees, lower loan size, shorter term)
- **How to overcome:** Add value with products (including social networks), monitor portfolio segments, and base risk management/mitigation regime on actual risk – e.g. portfolio cannibalisation.

Feedback

- So far, do you agree? Disagree?
- What are we missing?
- What has been overlooked?
- What else is of importance?
- What is your experience?



Case Study: Al Majmoua Lebanon

Environment:

- > Volatile: Sluggish but stable economy, Syria war spill-over, national political elite of strained/privatised basic services and **Refugee influx:**
 - 25% of resident population (Aug 2015) - GoL restrictions in 2014-15 has resulted in slow-
 - Labour supply up by est. 50%. Refugee workers competing with low-skilled foreign labour
- > Banking sector liquid, profitable, well regulated, but no microfinance regulations
- > Credit-only MF industry (NBFIs, NGOs) has doubled since 2007, competition increased
- > Assumed large, but unknown extent of multiple borrowing and over-indebtedness

Institution:

- > National NGO with 22 branches, 400 staff
- > 54,400 active borrowers as at Oct 2015 – group/ind. loans
- > SPM formalised in 2012, social + SPM ratings and TA
- > Cash-free operations, repayments via post offices/OMT
- > Significant project-funded portfolio of non-financial services.
- > NFS integration or spin-off TBD.

| Al Majmoua Ratios | |
|-------------------|--|
| OSS | |
| FSS | |
| RoA | |
| RoE | |
| OER | |
| Cost per borrower | |
| Debt/equity ratio | |
| Capital adequacy | |
| Portfolio yield | |

Al Majmoua's Refugee portfolio

- Driven by strong mission to serve all low-income people in Lebanon including rural and urban, employed and unemployed, labour and encamped (Palestinian) and self-settled (Syrian) refugees;
- Gradual and careful introduction backed by client/staff feedback and market research and market information
- Since 2013, 15% of active borrowers (8,000) are non-Lebanese, holding 12-13% of the portfolio. Of these, around 20% (1,800) are 'current' refugees (mostly Syrians);
- Avg. loan balance outstanding for refugees consistently 20% lower than for all borrowers
- 14,960 NFS beneficiaries (Oct 15), of whom 89% women, 43% non-Lebanese, 30% Syrian and 27% Lebanese refugees
- 2% of refugee beneficiaries of NFS accessed loans in 2014.

Performance:

- PaR(30) the highest for Syrians – but still negligible (0.85% - 0.3% higher than overall)
- Drop-out as calculated by Al Majmoua highest for Syrians at 48% (overall: 38%)
- Risk regime expounds 'flight risk' (should be reflected in PaR, but is not) – potential for portfolio cannibalization not yet tracked
- Risk mitigation has lowered loan size (could be reflected in drop-out)

What the clients said:

Feedback from a few FS clients/NFS beneficiarie

- **Outreach was effective:** Clients had heard about Al Majmoua from neighbour promotion meetings or were contacted directly by staff doing door-to-door v
- **Some previous exposure:** Many borrowers had had bank accounts at home – clients did not, but had borrowed from family/friends. None saved.
- **FS generated income:** Loans have helped sustain most businesses and a few h grown
- **NFS increased social integration/cohesion:** NFS trainings and social networks extracted especially Syrian women from social isolation, and helped break d barriers to Lebanese
- **Biggest FS challenge:** finding Lebanese group members and guarantors
 - One branch piloting repeat loans without guarantors & incentive loans to guaranto
 - One branch piloting individual business loan for 'left-over MEs' after group collapse
- **Biggest NFS (and FS) challenge:** Cost/effort of residence permit renewal (USD person for 6 months)
 - But also: translating new skills into income
 - Access to markets: training by Artisans du Liban for guaranteed sales of handicraft
 - Financing medical expenses (particularly high in Lebanon) – opportunity for micro-insurance?

Sharing experience: Lessons learned for other FSP

- **Don't be scared:** Appropriately segmented and appraised, refugees can be as good clients as any national low-income entrepreneur – and sometimes better;
- **Research refugees as new market segment:** If you can't find/'see' refugees, look for the value chains where they have an advantage, e.g. ethnic food, handicrafts.
 - Get data and seek approval/support from ministries, municipalities and protection agencies;
 - Market, contact and make FSP visible to refugees through protection agencies, schools, social service centres, medical clinics, and follow up by SMS and local staff;
 - Hold public awareness sessions to introduce existing clients and refugees to each other;
 - Do FGDs and home visits with refugees – understand both voiced and unvoiced needs;
 - Provide entry questionnaire with list of vocational topics and soft skills that refugees can tick by interest. Appraise carefully and validate information received.
- Ensure **top level and staff buy-in from start**, buy-in from other stakeholders **including existing clients**, and ensure continuous communication;
 - Hold FGDs with existing clients, staff and reflect concerns in time-lines and communication;
- Based on pilots, develop **own longer-term and clear strategy** – we funded NFS 46 short-term projects – pheew!

Lessons learned contd.

For Financial services:

- Clarify level of **risk appetite** – not all will go well (as with national portfolio);
- Make sure to **offer the same deal to nationals and refugees** – mix when possible product adaptation is necessary for refugees to be included – monitor performance instead;
- Allocate **experienced loan officers** for the portfolio!

For Non-financial services:

- **Needs-based training and BDS** are good entry points and valid services in themselves
 - Include business mentoring /coaching and ensure logistics for training (including travel to/from venue);
 - Cast net wide for trainers, both from host/origin country – the right trainers can make a difference;
 - Make efforts to institute referrals and job placements/opportunities/market channels for participants;
 - Secure longer-term funding and consider nominal fees. Link to FS or develop alternative plan.
- Serving refugees feels good – “to do good is a **staff motivator.**” Such stories have a positive impact on staff morale, SPM, and reputation.

Take-aways and Ideas for FSP Guidelines

- Displaced populations increase by 1.6 million per year. Rough estimate of at least 10 million refugees (40% of refugees of productive age) in protracted, urban/rural displacement who could benefit from access to financial services;
- So far, very few FSPs have engaged. Mixed track record due more to poor design and delivery by non-specialised organisations than to any inherent 'high risk' of this potential – and potentially good - client segment;
- The **business case for serving refugee populations:**
 - Emerging evidence that productive refugee populations benefit local economy + FSP mission of financial inclusion – we can be part of the solution;
 - FSPs better equipped to analyse market access and econ. opportunities for/strategies for refugees than protection agencies;
 - Informed by market research and careful segmentation, also serving refugees augments FSP portfolio and can contribute to social cohesion in communities;
 - Increases visibility/reputation/staff motivation of FSP – especially if among 'first movers' in market – and can attract funding (ensure own, coherent strategy);
 - No specific products necessary – include as additional segment in existing portfolio and monitor for early warnings to adjust risk mitigation (e.g. cannibalisation);
 - Product development opportunities for NFS and transferable/transnational services – especially to FSPs in countries of origin.

Take-aways contd.

- **Legality/eligibility issues** resolvable – check for ease of restrictions by government/central bank, seek support from local authorities, explore alternatives (e.g. UNHCR registration), adapt existing eligibility criteria/appraisal methodologies (e.g. seek alternatives to national guarantors);
- **Information (unfamiliarity) and social capital issues** – refugees are as diverse as national potential clientele, but with less ‘roots’ – research market, get data from protection agencies/refugee associations, ensure buy-in from existing clients and staff, segment and appraise diligently, and proactively make your FSP/services visible;
- **Mobility issues (flight risk)** appear more perceived/anecdotal than actual – stop pilots and adjust risk management regime to emerging risks and opportunities in new product development.

“Whether in the formal or informal sectors, refugee communities are often integrated within vibrant and complex economic systems. Recognising and understanding this represents an opportunity to turn humanitarian challenges into sustainable economic opportunities. It has the potential to unlock ways to enable those economic systems to be channelled to the benefit of refugees, host states, and donors, as well as possibly offering a neglected opportunity for private sector entrepreneurship.” (Betts et al)

Feedback and discussion

- Which other aspects of Al Majmoua's experience should the case study address?
- Which other aspects should the FSP Guideline address?
- What have we missed?
- Questions?
- Comments?
- What is your experience?





Thank you very much for attending!



Next steps in UNHCR-SPTF project:

- 31 December 2015:
 - * SPTF Case study on serving refugee pop (Al Majmoua)
 - * Outline of Global Guidelines for FSPs

- Please send additional input to: Lene Hansen lenemph@hotmail.com