Serving Refugee Populations: The Next Financial Inclusion Frontier

Guidelines for Financial Service Providers

Version for Public Comment: July 2016

"Financial inclusion shouldn't be just for citizens—it should be for all."

Sonja E. Kelly, Fellow, CFI

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Introduction to the Guidelines

By end 2015, an unprecedented 65 million people around the world have been forced from home. Among them are 21.3 million refugees, of whom 45% are in the productive age bracket and half are women.[1] Six in ten refugees have been living in protracted displacement situations for more than 10 years, and two-thirds have self-settled in urban areas. A large segment of these refugee populations appear to be as eligible for access to financial services as any other client segment, but financial service providers (FSPs) have largely overlooked refugees as a viable client segment.

These guidelines seek to examine why refugee populations are financially excluded and how FSPs can successfully reach and serve this untapped financial market segment. In **Section 1**, we compare emerging global research on the economic lives of refugee populations with common concerns expressed by the financial service industry, in order to explain why refugees are financially excluded. In **Section 2,** we present six concrete steps that FSPs can take in preparation for serving refugee clients in addition to nationals. Finally, in **Section 3,** we summarize emerging good practices from FSPs who are serving refugees, to provide recommendations and tips for FSPs as they begin to build the business case for financial inclusion of refugees.

This is a preliminary version of the guidelines, for which the SPTF is seeking input from the broader global financial services industry. **Please send feedback to info@sptf.info.**

While the guidelines specifically intend to present refugee populations through the lens of financial service providers as potential clients, they do not attempt to address *all* aspects of an FSP's engagement with a new client segment. Rather, they focus on the unique aspects of serving refugees, based on questions and concerns emerging from the research and interviews with experts and practitioners. It is our hope that the guidelines will increase interest among FSPs in serving more refugees to expand this new frontier of financial inclusion.

This version of the guidelines is based on a comprehensive literature review, interviews with dozens of experts and practitioners, a case study of the refugee portfolio of the FSP Al Majmoua in Lebanon, a global webinar to solicit input and feedback on initial findings, and a workshop in Morocco to test initial findings. The guidelines will be presented at a global webinar in July 2016 and at a Training of Trainers workshop in Europe for FSP technical assistance providers in September 2016 to solicit further feedback with a view for a final version to be published by late 2016. See more at http://sptf.info/working-groups/refugee-microfinance

This version of the guidelines was developed by independent consultant Lene M.P. Hansen for the Social Performance Task Force (SPTF) under a UNHCR-funded project to advance the financial inclusion of refugees. The Consultant gratefully acknowledges everyone who has contributed time and insights to the guidelines. Any omissions 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 SPTF or UNHCR.

Editor: Leah Wardle

[1] http://www.unhcr.org/global-trends-2015.html

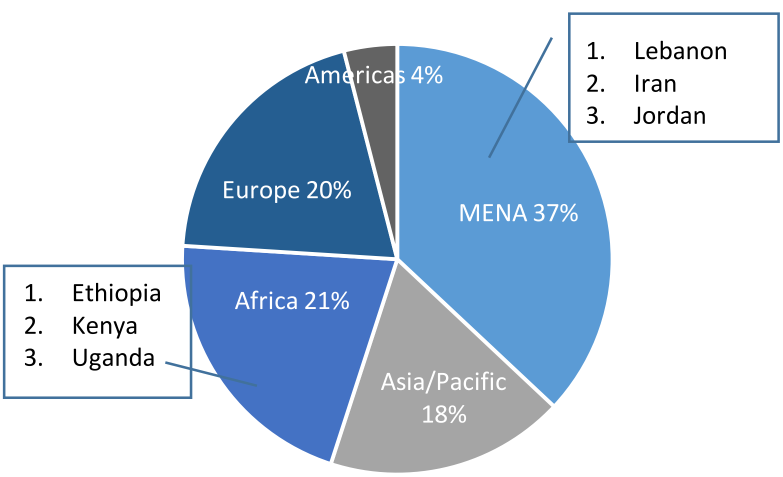
Section 1. Refugees as a Potential FSP Market Segment

Refugees are forcibly displaced by conflict, persecution, or natural disasters that affect people indiscriminately of economic status. 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. In this section, we examine some of the general characteristics of refugees that are pertinent to FSPs, along with the key reasons why FSPs exclude refugees from financial services.

1.1 Overall Market Size and Characteristics

Refugees are defined as people who "owing to a well-founded fear of being persecuted for reasons of race, religion, nationality, membership of a particular social group or political opinion, [are] outside the country of [their] nationality, and [are] unable to, or owing to such fear, unwilling to avail [themselves] of the protection of that country."[2] There are 65 million people in forced displacement at end 2015,[3] of whom 21.3 million people are registered with UN agencies as refugees.[4] Refugees come from a small set of geographies but end up widely dispersed. Seventy-five percent have been displaced from only seven countries (Palestine, Syria, Afghanistan, Somalia, Sudan South, Sudan and the Democratic Republic of Congo), but they have fled to 169 countries with around 85% residing in developing countries (see **Figure 1**). A little over half of all refugees registered by UNHCR are residing in Europe or sub-Saharan Africa.[5]

Figure 1. Regions hosting refugees, 2015



Refugees are less transitory than most people imagine. Fifty-six percent of all refugees are estimated to have been in protracted displacement[6] for more than 10 years.[7]

Additionally, the majority of refugees do not live in camps. Contrary to popular perception, only about one-third of refugees currently live in managed camps. Even so, some refugee camps and settlements (Dadaab and Kakuma in Kenya; Gihembe in Rwanda; and Zataari in Jordan, for example), have become large enough that they sustain enterprises and value chains for both hosts

[2] The 1951 United National Convention relating to the Status of Refugees and its 1967 Protocol. One hundred forty-eight States have signed one or both of these documents as at April 2015.
[3] "Displacement" refers to people who are forcibly displaced as a result of armed conflicts, situations of generalized violence, violations of human rights, or natural or human-made disasters. This includes refugees, internally displaced peoples (IDPs) and other "persons of concern" to UNHCR, such as asylum-seekers and stateless people.
[4] UNHCR has registered 16.1 million refugees while UNRWA has registered 5.2 million Palestinian refugees (June 2016), http://www.unhcr.org/figures-at-a-glance.html.
[5] UNHCR Global Trends 2015. , http://www.unhcr.org/global-trends-2015.html
[6] UNHCR defines a protracted situation as one in which 25,000 or more refugees of the same nationality have been in exile for five years or more in a given country. Hence, it is likely that many more refugees have been exiled for longer.
[7] UNHCR: World at War – Global Trends of Forced Displacement in 2014. http://www.unhcr.org/556725e69.pdf

and refugees,[8] who bring innovations, (for example, in artisanal manufacturing) and make use of a wide ranging network of national and transnational contacts.[9] This market potential has in turn attracted both mobile network operators and a few FSPs.[10]

Refugees are no different from national populations in that they increasingly use technology. In Uganda, for example, more urban refugees (96%) than the national average (45%) use mobile phones, while in the rural refugee settlements, roughly 70% use a mobile phone[11] for keeping in touch (e.g., via REFUNITE[12]), for price checking (among farmers), getting training, receiving humanitarian aid, remitting funds, and making payments.

Half of the world's refugees are under 18 years of age and represent a huge potential workforce. 45% of all refugees or 9.5 million people are in the productive age bracket, of whom half are women.[13] Even if we deduct the conventional 15% of the potential refugee market due to lack of need, capacity, or interest, there remains a potential financial services market of at least 5.3 million working age adults living in protracted displacement in urban areas around the world, and an additional estimated 3 million adults living in densely populated camps.

1.2 Demand profile: Refugees' Needs for Financial and Related Services

Refugees are socio-economically diverse, and their financial needs evolve over time with their displacement phase and migratory plans.[14] Needs and thus demand for financial services can be broadly determined along the general spectrum presented in **Table 1**, but will also depend on vulnerabilities at arrival in the host country (e.g., poor health), the level of integration (acceptance), their human and social capital (e.g., education, marketable skills, and familiarity with the host culture), financial inclusion in their country of origin, and – especially – their income generating capacities and opportunities.

At least half of all refugees today have been displaced for more than ten years.[15] At minimum, some 13.8 million people fall into *Phase 3 or 4* in **Table 1** below, which means that their key demands for financial and non-financial service do not markedly differ from the core FSP clientele of national poor.

As many FSPs will be aware from serving particularly poor national clients, material poverty is in itself stressful, but it is the psychological nature of poverty that affects clients' usage of financial services. Stress makes people risk-averse, and more likely to make decisions that benefit them sooner rather than in the long term. This can limit how much people are willing to invest in future business, health care, and education.[16]

[8] Humanitarian Innovation Project (HIP): Refugee Economics – Rethinking Popular Assumptions, June 2014 and S. Lakhani: Forced Displacement: moving from managing risk to facilitating opportunity. World Bank, February 2013.
[9] See e.g. Betts, L. Bloom & N. Weaver: Refugee Innovation – Humanitarian Innovation that starts with Communities, Humanitarian Innovation Project, Oxford University, July 2015.
[10] As documented in e.g. a HIP: Refugee Economics – Rethinking Popular Assumptions, op.cit., for East Africa – tempered by the review by GSMA: Disaster Response – Mobile Money for the Displaced, December 2014, and Global Partnership for Financial Inclusion (GPFI): The Use of Remittances and Financial Inclusion, September 2015 for West Africa.
[11] HIP: Refugee Economics – Rethinking Popular Assumptions, op.cit., p.30.
[12] https://refunite.org/
[13] UNHCR: Global Trends 2015, op.cit., statistics table 13.
[14] Adapted from European Commission: Financial Services Provision and Prevention of Financial Exclusion, May 2008.
[15] UNHCR: *World at War – Global Trends Forced Displacement in 2014* estimated that the average duration of a 'displacement situation' for refugee populations of 25,000 or more from one country was 17 years.
[16] J. Haushofer: "The Cycle of Poverty Is Psychological, Not Just Financial" Science: Vol. 344, Issue 6186, 23 May 2014, pp. 862-867.

In addition to these psychological constraints, poor refugees face the stress and trauma of having endured conflict or disaster at home, having had to flee across border(s), leaving everything and perhaps family behind, and being in a foreign environment with limited assets and support networks, and hence refugee clients' knowledge and ability to take decisions in the short, medium, or long term on usage of financial services may be further impeded than FSPs are used to among their national clients.

Table 1: Indicative financial sector service demands by displacement phases

Displacement Phase	Key Determinants for Duration of Stay	Key Financial Needs (Demand Profile)
Phase 1: Arrival Focus on immediate basic needs for protection, shelter, food, medical services, and communications technology to reconnect with family.	Degree of trauma experienced during flight.	Survival cash for housing, food, medical services, and often to repay debt incurred during escape.
Phase 2: Initial displacement 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. End goal often return or resettlement.	**Financial services**: Savings, remittances to family in country of origin; micro-/consumer credit for furniture, appliances, school fees, business equipment; and health insurance. This demand can remain latent due to real or perceived financial exclusion. **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 Focus on making an increasingly better living.	Success of livelihood (enterprise/job). End goal either integration or return/ resettlement.	**Financial services**: Savings products, micro/consumer credit, mortgage/ home improvement loans, business loans, transactional accounts for cross-border payments and remittances, and health insurance. **Non-Financial services**: job placement, vocational or business training, linkages to the market /value chains, social/ business interaction with hosts.
Phase 4: Permanence Focus resembling host population, i.e. livelihood building to ensure the best life possible for self and family.	Success of livelihood (enterprise/job). End goal either integration or return/ resettlement.	**If integration** is the goal, financial service demands becomes more sophisticated and resemble those of hosts: savings, pension plans, credit, insurance, and transnational services (e.g. line of credit, remittances, insurance for family in country of origin). **If return/resettlement** is the goal: Savings for journey, transferable credit history (certificate), transferable pension schemes, and deferred annuities.

1.3 Key Drivers of Financial Exclusion for Refugees

Emerging evidence suggests that a refugee community that is nationally and transnationally integrated contributes in positive ways to the national economy, is economically diverse, and is far from dependent on international aid.[17] Refugees form part of the wider systems of consumption, production, and exchange, and seek out entrepreneurial livelihoods in the formal and informal sectors,[18] alongside–and in competition with—the core microfinance clientele of the urban and rural poor. Both nationals and refugees face difficulties in finding adequate shelter, limited job opportunities, increasing food prices, and precarious access to legal and social services and protection. Refugees could benefit from financial inclusion, just like nationals. So why do refugees remain largely unbanked?

Emerging evidence suggests three key reasons that refugees are excluded from financial services:

1. **Reputational Risk**: Societal fears and prejudices reflected in public policy and media which cause FSP concerns about their reputation
2. **Legal Barriers**: Legal and regulatory constraints
3. **Ignorance**: Lack of information, contact, and attention, or misinformation about refugees that fuels the perception of refugees as "high risk" clients

1.3.1 Political Risk and Reputational Concerns

National social pressures, domestic politicking, and fears of scarcity augmented by media reports can create a negative political environment in which it requires courage to argue for social and financial inclusion and integration[19] and makes it harder for FSPs to serve refugees.

Host government policies play a significant role in refugees' access to financial and other services. Several countries with long-standing refugee populations, including Kenya, Uganda, and Colombia, have taken important steps to enact or adapt legislation that emphasizes greater rights for displaced people and more integration of displaced populations into national development plans.[20] However, most other host states have resisted such policy changes, inhibited by one or more of the following factors:

- Concerns about national security and social cohesion, including concerns about upsetting an ethnic or religious balance in the country.
- Scarcity thinking that portrays refugees as unfairly competing with and/or taking jobs from nationals, diverting important development funds, receiving disproportional amounts of public funds, overwhelming public services (e.g., schools and hospitals), and/or exhausting scarce natural resources (e.g., land, water, and fire wood).
- Ignorance of the potential social and economic contributions that refugees could and do make.[21]

The media can augment these constraints to financial inclusion. Refugee populations are often portrayed in the media as a burden to their host countries.[22] Accordingly, public discourse on refugees

[17] HIP: Refugee Economics – Rethinking Popular Assumptions, op.cit.
[18] ODI: Protracted displacement: Uncertain paths to self-reliance in exile, HPG Commissioned report, September 2015.
[19] Stefanie Lämmermann for European Microfinance Network: "Financial Exclusion and Access to Credit", Social Watch, 2010, and ODI Protracted displacement, op.cit.
[20] ODI: Protracted displacement, op.cit.
[21] S. Lakhani, Forced Displacement, op.cit.
[22] See early assessments of the impact on neighbouring countries of the exodus of Syrian refugees in 2012-14, e.g. World Bank: Lebanon Economic and Social Impact Assessment of the Syrian Conflict, September 2013 – as opposed to the more balanced and nuanced analysis presented by the World Bank MENA Region: the Impact of the Syrian Conflict on Lebanese Trade in April 2015.

is often highly politicized,[23] and perceptions of negative economic and social impact abound. Refugees are discussed as "aid beneficiaries," as they typically settle in countries where the host population is already under political, economic, and social stress. Anxieties over scare resources feed xenophobia, stereotypes, and misconceptions, and reduce the opportunities for refugees to find livelihoods and integrate in their host community. If these attitudes are reflected among existing clients and staff of FSPs, refugees may have little chance of accessing financial services.

Fact-based research is an antidote to the barrier of political and reputational risk. Emerging research from protracted refugee situations demonstrates that refugees make important contributions to local economies as consumers, producers, employment-creators, and as providers of diverse human capital.[24] In fact, the majority of self-settled refugees in protracted situations have their own 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 host economy.[25]

Aid and protection agencies can also play a significant role in the political environment for financial inclusion. Sometimes they contribute to retaining the view of refugee populations as requiring relief assistance to justify continued funding.[26] But over the past five years, many aid organizations have shifted away from an aid-centric approach and have instead sought to understand the often successful livelihood strategies of refugees, and the support they may need to sustain these initiatives. Based on the mixed lessons from past experiences and shrinking budgets, they are increasingly looking for private sector partners across the well documented "humanitarian-development divide."[27]

Governments, development actors, and private sector entities, including FSPs, that acknowledge displacement as a fixture within their community, can help understand their markets, and develop speed and agility in design and adaptation of existing services to integrate refugees. This acceptance and integration of refugees might bring the added benefit of preserving humanitarian funding for acute new crises[28] and for the segment of refugee populations that may require social safety nets.

In the political debate, the financial services industry has argued against sceptics of inclusion before – microfinance began all those years ago because we argued the poor were bankable. In the beginning, we thought we knew a lot more about the national poor than we have learned since, and many stereotypes were broken in that process. In considering the expansion of financial services to refugees, we must realize that existing clients, staff, local communities, national media, authorities and funders hold many engrained stereotypes as "truths." Working with refugees means acknowledging and working to overcome these stereotypes.

1.3.2 Legal Barriers

Legality barriers create a strong disincentive both for refugees to approach formal financial institutions and for FSPs to serve them.

In addition to many other barriers to financial inclusion that refugees share with poor citizens, they are often confronted with the additional challenges of uncertain legal status, limited rights to work or to move, and inadequate identification papers and documentation of residence. Some refugees lose their ID or passport during their escape, and they may not have easy access to registration, or fear that official registration will increase their risk of detention or deportation. Even with a UNHCR refugee

[23] S. Lakhani: Forced Displacement, op.cit.
[24] See e.g. HIP: Refugee Economics – Rethinking Popular Assumptions, op.cit.
[25] ODI: Protracted displacement: Uncertain paths to self-reliance in exile, HPG Commissioned report, September 2015.
[26] Ibid.
[27] Ibid.
[28] Ibid.

registration card, local officials and employers might not recognize the paperwork as valid or sufficient for access to formal employment or social benefits.[29] Further, the rights to formalize a business may be restricted,[30] and because refugees often rent space in multiple occupancy houses where rent includes utilities, they are unlikely to have their names on a utility bill or lease that could be used as proof of address. In many countries, credit worthiness requirements (proof of income or a credit history for transactional bank accounts) further impede refugees' chances of gaining access to financial services.[31] Without access to mainstream financial service providers, refugees are more likely to use informal money lenders or other providers with higher interest rates, less transparency, and subsequently more risk.[32]

In accordance with the 1951 Convention relating to the Status of Refugees and its 1967 Protocol,[33] which confirm refugees' freedom of movement and their right to work, some host countries have modified their legislation and policy frameworks (including Peru, Philippines, Uganda, Kenya and Columbia), and as a result, have maintained or increased their ranking in the recently published Microscope Index (2015) of financial inclusion.[34] Many other countries, however, retain restrictive policies on freedom of movement, access to productive assets, temporary residency, and employment for displaced people.

In just a few countries, FSPs are legally disallowed from serving non-citizens or refugees. In Nepal, for example, a citizenship certificate is generally required to access microfinance services,[35] which excludes refugees from Bhutan or politically sensitive Tibet. However, many countries more subtly discourage FSPs from serving refugees. For example, in Yemen, the Social Fund for Development (an apex lender for microfinance institutions) will only provide funds to FSPs that serve Yemeni nationals.[36] In other countries, regulated FSPs may automatically disqualify refugees if they lack identity and residence documentation, due to strict Know-Your-Customer (KYC) and Customer Due Diligence (CDD) requirements introduced with stricter Anti-Money Laundering and Counter Terrorism Financing (AML/CTF) regimes in many countries after 2001.[37] Other onerous restrictions include those placed on FSPs' access to official refugee camps or on refugee's access to work and business ownership, as enforced, for example, in Thailand,[38] Jordan,[39] and Lebanon.[40]

But lack of citizenship documentation, identity, or residence papers is not a problem specific to refugee populations; many among the core FSP clientele of poor citizens have the same problem. Around the world, FSPs have found alternative ways of adequately verifying the identity of

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[29] A. Sylvester for Women's Refugee Commission: Beyond Making Ends Meet: Urban Refugees and Microfinance, Sanford School of Public Policy, Duke University, April 2011.

[30] For example, Afghan refugees in Pakistan and Syrian refugees in Lebanon must register their companies through national partners or sponsors. ODI: Protracted displacement, op.cit.

[31] Information Centre about Asylum and Refugees: Financial Inclusion amongst New Migrants in Northern Ireland: A Literature Review, June 2009.

[32] Information Centre about Asylum and Refugees: Financial Inclusion amongst New Migrants in Northern Ireland: A Literature Review, June 2009.

[33] *The 1951 Convention Relating to the Status of Refugees and it 1967 Protocol* http://www.unhcr.org/about-us/background/4ec262df9/1951-convention-relating-status-refugees-its-1967-protocol.html

[34] Economist Intelligence Unit: Global Microscope 2015 - The enabling environment for financial inclusion. https://centerforfinancialinclusionblog.files.wordpress.com/2015/12/eiu_microscope_2015_web.pdf

[35] ANSAB: Nepal Microfinance Case Study, December 2004.

[36] The Social Fund for Development provides seed capital, grant and BDS to "intermediary financial institutions [that have] to make sure that those that borrow money are Yemeni citizens, are of legal age, have an income-generating enterprise […]. http://www.sfd-yemen.org/category/9

[37] Center for Financial Inclusion and ACCION: Financial Inclusion… For Whom? op.cit.

[38] HIP/Refugee Studies Center: Refugee livelihoods and the private sector: Ugandan case study, Working Paper Series no. 86, November 2012.

[39] Interview with Tamweelcom 12 October 2015.

[40] SPTF Field study of Al Majmoua, November 2015.

undocumented clients that work in the informal sector. The few FSPs that currently serve refugees have overcome legal challenges, typically by seeking prior approvals and support from national authorities[41] or local government and municipal actors, while soliciting advocacy support from UNHCR vis-à-vis national policy makers. Some regulators and advocacy efforts are helping to lower legality barriers, including:

- In 2013, the Financial Action Task Force (FATF) recognized financial exclusion as a money-laundering risk and issued new guidance to enable countries to reduce AML/CFT requirements, allowing FSPs to simplify their documentation for customer segments assessed to have lower risks.[42] Many countries have already implemented special risk-based AML/CFT treatment for microfinance and other small-value financial transactions, including Pakistan,[43] Indonesia,[44] and South Africa.[45]
- Uganda, Tanzania, and Kenya accept letters from the local authority in rural villages ("peasant passports") as an alternative for FSP clients who do not have an official identity card, and in Egypt, UNHCR and World Food Programme (WFP) negotiated with the government to accept the UN refugee registration card as sufficient identity documentation to meet KYC requirements for FSPs.[46]
- Germany has reduced KYC requirements to allow FSPs to serve new migrants and refugees,[47] and the European Commission's Committee on Employment and Social Affairs has recommended that FSPs supported by the European Progress Microfinance Facility (EPMF) should "view refugees and asylum seekers as a target group."[48]

In addition, technology used in digital financial inclusion provides innovative tools, including new identification and verification measures (e.g., biometrics, smart cards) to create user profiles that support more effective identity verification, fraud prevention and support risk-based monitoring of transactions.[49] While these technologies do open new risk areas related to the need for third parties to verify account holders and remote account opening,[50] they also offer opportunities for data gathering and analytics, which help to assess the credit risk posed by users who have no formal credit records.

It is not only external regulatory policies on legality that prevent FSPs from serving refugees. The financial services industry has long accepted the norm that proof of citizenship, identity, and residency reduces risk. Such documentation is meant to ensure that an account owner or a borrower can be found in case of a problem, and it implies that legal contracts like loan agreements can be enforced through the national justice system.[51] With the industry's primary focus on national clients, many FSPs

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[41] As First Microfinance Bank in Tajikistan did prior to a small pilot project to serve Afghan refugees in 2012, see http://unhcr.kz/eng/news-of-the-region/news/1839/

[42] http://www.fatf-gafi.org/media/fatf/documents/reports/AML_CFT_Measures_and_Financial_Inclusion_2013.pdf

[43] With simpler CDD requirements for low value accounts, the number of branchless banking accounts in Pakistan grew 63% in one year to 2.96 million in September 2013. http://blog.microsave.net/do-the-new-regulations-in-indonesia-foster-growth-of-branchless-banking-well-almost/

[44] New regulations introduced simpler CDD requirements, allowing a customer with any photo identity card issued by the government or a reference letter from local community leader to open a basic savings account. http://www.kpmg.com/ID/en/IssuesAndInsights/ArticlesPublications/Documents/Financial%20Inclusion%20in%20Indonesia.pdf

[45] World Bank/CGAP: AML/CFT Regulation: Implications for Financial Service Providers that Serve Low-income People, 2005.

[46] GSMA: Disaster Response: Mobile Money for the Displaced, December 2014.

[47] http://www.trust.org/item/20151028102756-pbj3k/?source=leadCarousel based on Letter: "Übergangs-regelung hinsichtlich der zulässigen Legitimationsdokumente gem. §4 Absatz 4 Nr. 1 GwG ' from the Federal Financial Supervisory Authority of Germany (BaFIN) to banks of 21 August 2015

[48] http://www.europarl.europa.eu/oeil/popups/summary.do?id=1411959&t=d&l=en

[49] GPFI: Global Standard Setting Bodies and Financial Inclusion – The Evolving Landscape. Consultation Document, November 2015

[50] CGAP: A Guide to Regulation and Supervision of Microfinance - Consensus Guidelines, October 2012.

[51] Center for Financial Inclusion and ACCION: Financial Inclusion… For Whom? Op.cit.

have included requirements for a national ID in their eligibility criteria, without adding the flexibility of substitute documentation. This is not often a deliberate act of discrimination, rather a matter of not viewing non-nationals as potential clients and thus not considering alternatives to conventional eligibility requirements.

1.3.3 Ignorance

Many FSPs are unfamiliar with their country's refugee populations, and are uninformed as a consequence. Refugees are typically not very visible in their host country market place, and they are rarely familiar with local FSPs. Some refugees may have a low level of financial education, others may prefer alternative (informal) financial service providers that they know and trust. Refugees may be concerned with keeping their personal information safe from authorities, or they may distrust mainstream FSPs due to poor experiences from home. Refugee populations will rarely initiate contact with host country FSPs, often because they assume that they will not be eligible customers, they expect discrimination due to past experiences, or simply because they do not speak the host country language confidently and do not believe FSPs have interpreters.[52] They would often be right.

Box 1: Research on Refugee Livelihoods

- For some refugees that are vulnerable at arrival, the duration of exile may further deplete their resources for self-reliance and they will require social safety nets. Others, such as the longer-exiled Somali refugees in the Dadaab camp in Kenya are appreciably better off and far more engaged in livelihood activities than new arrivals.
- With the benefit of strong social capital (education, international employment networks, etc.) and the UNRWA safety nets, livelihoods of Palestinian refugees in Jordan and Lebanon have stabilized and after three generations broadly resemble those of host populations, i.e. only about a quarter live in poverty.
- Research in Uganda has documented a wide range of refugee economic profiles, tiered from surviving to managing to thriving. Similarly, in urban areas of Kenya, stronger self-sufficiency was identified among some refugee communities, and was attributed to their possession of social capital, in particular education, language skills, and economic networks.

Source: ODI Refugee economies, op.cit.

This lack of contact, information, and familiarity with refugees has left most FSPs to make decisions based on very limited information and common myths, notably that refugees are a "very high risk" market segment, either because they are in the country temporarily, are the responsibility of humanitarian agencies, do not have access to markets/are not accessible to FSPs, and/or are too poor or too aid-dependent to repay loans. However, this view is not supported by findings emerging from more recent research focused on refugees as economic actors.[53]

Rather, research documents that refugees engage in income generation at all stages of displacement, and that time and market opportunities influence the degree to which they achieve sustainable livelihoods (see **Box 1** for examples).

Contrary to the myth of asset-less, isolated and aid dependent refugees, very few actually rely fully on aid, which is often unavailable (especially for urban self-settled refugees), insufficient or unreliable. Instead, refugees incorporate available aid into their complex survival and livelihood strategies.[54] Refugees with greater skills and education, language, ethnic, cultural and social ties, and national and transnational economic links tend to enjoy greater self-sufficiency.

[52] Information Centre about Asylum and Refugees, 2009, op.cit.

[53] Notably the series of studies of refugee economies in East Africa published by Refugee Studies Centre and University of Oxford as part of the Humanitarian Innovation Project in 2012-14. Examples in Box 1 are taken from this source.

[54] HIP: Refugee Economics – Rethinking Popular Assumptions, op.cit

Flight risk is an oft mentioned concern among FSPs when considering refugees. With over half of refugees living in protracted displacement situations, however, the vast majority are more geographically stable than is typically assumed.[55] While refugees do frequently shift residence—due to high cost of living, safety concerns, deportation, return, or resettlement—we are learning that the mobility of refugees is associated first and foremost with economic opportunity. As entrepreneurs, refugees exploit family, business, and transnational networks to trade, and their livelihood strategies form part of wider, in-kind and cash-based economic systems that involve both host communities and their community of origin.[56] Additionally, many refugees use movement as part of their economic strategies, as documented by the cross-border movements of Afghan refugees to and from Pakistan; the Somali trade networks linking refugee settlements in rural Uganda and camps in Kenya to the capital cities; and the Eritrean refugees registered in Uganda who travel to South Sudan for work.[57]

A core determinant for geographic stability seems to be the success of a chosen livelihood strategy; without many other ties binding a refugee to one area, s/he might consider moving elsewhere if s/he runs out of options to put food on the family table. A secondary driver of geographic stability is social ties—a strong network (family, friends, and community) in an area appears to be a disincentive for "flight." These drivers of refugee movement and stability are not dissimilar from those of nationals and it does not appear that refugees are inherently more prone to abscondment than national clients. Rather, increased opportunity for successful livelihoods through access to financial services would increase stability–understood as consistent return to places of business. This is anecdotally documented in some microfinance projects that include refugees, which also indicate that social capital and stronger roots in an area can actually be built through savings and/or credit groups.[58]

Despite the widespread risk perception, the financial services industry hardly knows enough about refugees to deduce that they are a "flight risk." The "vast majority [of microfinance interventions] have been small-scale interventions undertaken by humanitarian agencies or dual-mandated agencies working with uncertain and short-time horizon humanitarian funding."[59] Most have been attempted "quick-wins," poorly planned and short-term add-ons of micro-credit components to livelihood projects implemented in refugee camps, and many resulted in high arrears and largely undocumented impact prior to closure.[60] Looking beyond the headlines of the very few examples of "flight risk" among refugee borrowers,[61] we find significant design and delivery weaknesses,[62] which could as well explain the refugees' decision to leave without repaying their debt.

[55] At the end of 2014, two-thirds of the UNHCR registered refugees had been in exile for over ten years. If the UNRWA registered Palestinian refugees are factored in, 56% of all global refugees as at end 2015 live in 'protracted displacement'. See UNHCR: Global Trends, 2015, op.cit., p. 20.
[56] HIP: Refugee Economics – Rethinking Popular Assumptions, op.cit.
[57] HIP: Refugee livelihoods in Kampala, Nakivale and Kyangwali, October 2013.
[58] E.g. Al Majmoua's mixed-nationality loan groups including Syrian refugees in Lebanon and Banco FINCA's village banks including Colombian refugees in Ecuador. For the latter see M. Fielding: Microfinance Partnerships – A Bridge for Refugees, Master Theses from University of San Francisco, December 2011.
[59] ODI: Protracted displacement, op.cit., p. 28.
[60] 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.
[61] The most often quoted example is from a settlement in western Zambia, where half of the refugees provided with group-guaranteed credit through a camp loan committee supported by a British humanitarian NGO repatriated to Angola after the peace declaration in 2002 without settling outstanding balances – in sharp contrast to Angolan borrowers in a sister camp served by the same NGO but with stronger management. See Forced Migration Review No. 20: "Sustainable livelihoods: Seeds of Success?", May 2004, pp. 10-11.
[62] See e.g. K. Jacobsen: Microfinance in protracted refugee situations, op.cit.

Indeed, from the small group of FSPs that currently serve refugees, the overwhelming feedback is not about increased actual credit risk. These FSPs report portfolio at risk (PAR) ratios among refugee clients that are at par with, better, or negligibly higher than for their overall portfolios. They do, however, emphasize the importance of appropriate segmentation and effective risk mitigation, while reporting fiercely loyal refugee clients grateful for being given a chance.

In conclusion, while refugees face additional barriers to financial inclusion as compared to their national peers, their potential as a viable market segment does not differ significantly from nationals, in terms their entrepreneurial potential, economic strategies, or demand for financial services. While much research is still needed, a new picture is emerging of a large segment of refugees as resourceful and presumably bankable economic agents, who already form part of the informal economy as consumers, traders, producers and employers and whose additional trans-national networks might actually augment their potential success as FSP clients.

FSPs could benefit from engaging in this new frontier of financial inclusion through client-centric market research to better understand refugee populations and identify among them the client segments they can best serve. Enabling access by refugees to existing products and services may create a larger and more diverse portfolio resulting in greater financial self-sufficiency. In the process, FSPs could help refugees build additional social capital and put down stronger local roots to contribute more to the local host economy. These outcomes contribute to achieving an FSP's social goals, such as increasing client inclusion, economic empowerment, integration, and social cohesion. FSPs should not underestimate the reputational benefits and enhanced staff morale that can result from such efforts to be part of the solution to a global problem.

Section 2. A Framework for Financial Inclusion of Refugees

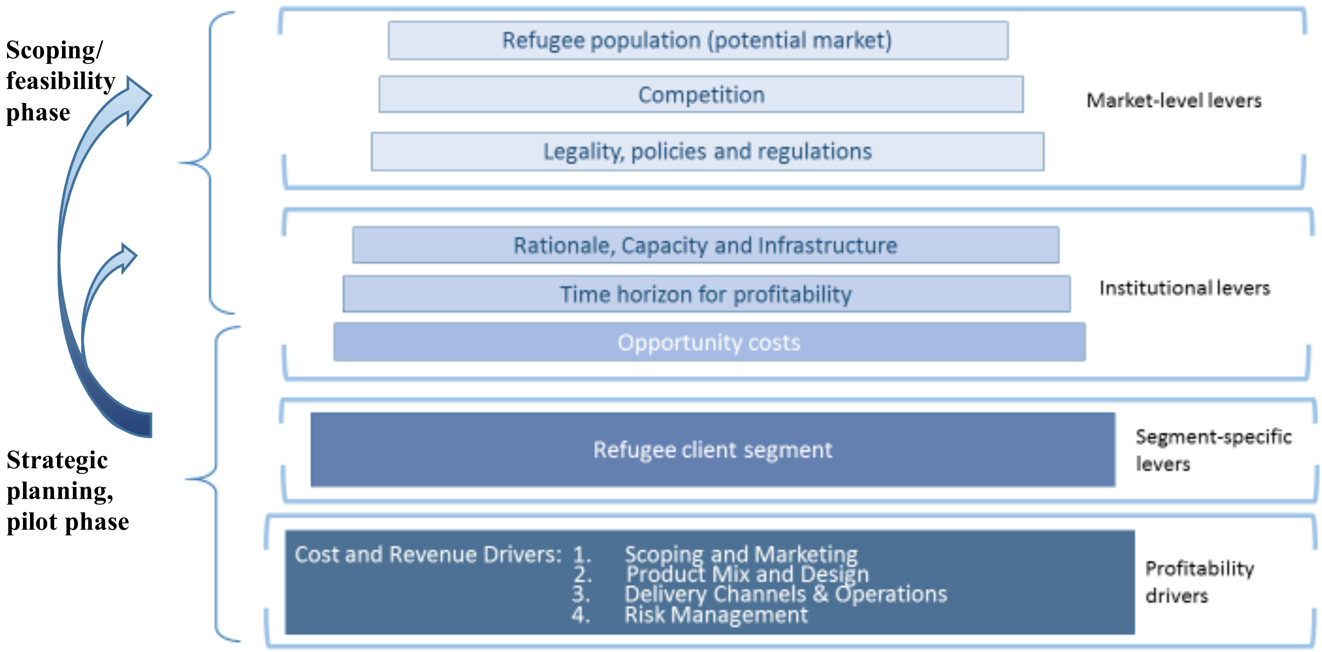
This section lays out six important steps in the process of preparing for the inclusion of refugees in the portfolio as a new client segment (see **Box 2**). These steps do not differ much from the process that should normally be applied for expansion into any new client segment. However, refugee populations are typically less known and potentially more contentious than other segments, so more upfront information is needed, and FSPs must be prepared to explore and debunk myths and preconceived ideas in and around their organization in the process. Therefore, preparations can take longer than for other client segments and a patient approach is needed. Below, we will explore each step in detail.

Box 2. Six Preparatory Steps for Including Refugee Clients

1. Conduct a scoping study
2. Create a strategic plan
3. Make contact
4. Segment potential clients
5. Adjust eligibility and appraisal criteria
6. Conduct a pilot test

These guidelines are structured in a framework (see **Figure 2**) that can eventually be used by FSPs to build a business case for expanding services to refugees. FSP decision-makers (owners, Board, investors) will ultimately want to see a business case to justify the potential investment and operational adjustments necessary to include refugees. They will want to understand whether their inclusion will generate sufficient additional benefits to the FSP in terms of its financial and social goals, even when compared to other potential growth plans. As we explore the framework, we do not purport to tackle all aspects of client segment expansion. Rather, we will focus on emerging learning from the field, to provide recommendations, tips, and ideas that are specific to the expansion of financial services to refugee populations.

Figure 2: A Tentative Business Case Framework for Inclusion of Refugees



From other emerging states of practice which have inspired these Guidelines,[63] we have learned that a compelling business case needs to explore levers related to the external market in which the FSP operates, and the internal institutional drivers and capacities that may provide comparative advantages in the market place. The time horizon for investments to bear fruit and the opportunity cost of not including refugees should also be clarified. The business case should be determined by further levers identified during client segment research and appraisal, to build up familiarity with the new client segment. The business case will ultimately rely on an FSP's ability to balance the costs and revenues involved, including profitability drivers such as marketing, product design and mix, delivery channels, operations, and risk management.

2.1 Step 1: Conduct a Scoping Study

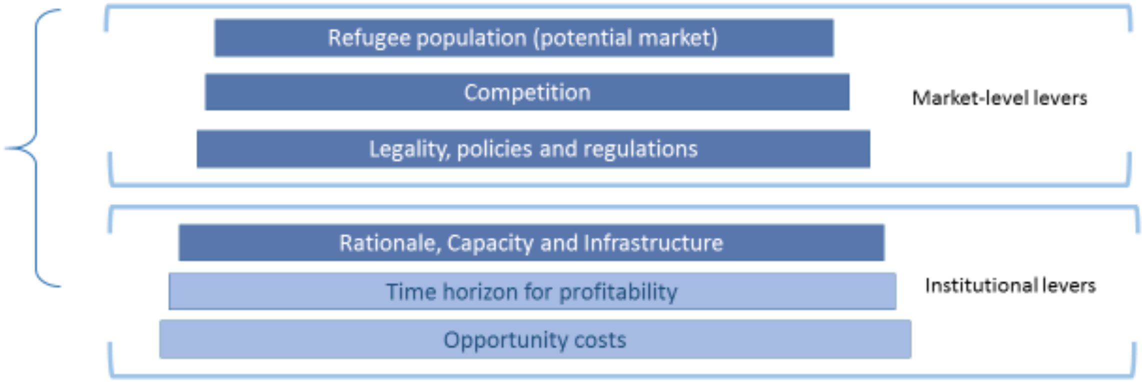
Start the exploratory journey into expanding the frontiers of inclusion with an open-ended and open-minded board discussion on why your FSP does/does not serve refugee (or IDP or migrant) populations in the country. Ask what the potential benefits and risks would be and what additional information your FSP would need to decide on a strategy of expanded inclusion. The process of uncovering and confronting unspoken stereotypes within and around the organization can in itself be an eventful journey towards 'walking the talk' of inclusive and responsible finance, and can help implement social performance management (SPM)[64] in practice.

While FSPs with a strong social mission and experience in serving marginalized national client segments might quickly accept the feasibility of expanding services to refugees, there will likely be many questions raised related to market size, bankability and credit risk, profitability, and reputation for which answers are not readily available. It might be helpful to use the framework proposed here in order to systematize these questions and gather needed information.

[63] See in particular CGAP: The Business Case for Youth Savings: A Framework. Focus Note no. 96, July 2014, from which the business case framework proposed here is adapted.
[64] See http://sptf.info/get-started/what-is-spm

Make it a point to compile all the questions and concerns for which you do not have an upfront answer, and incorporate these into a scoping or feasibility study. The study should focus on the top two levels of the framework (see **Figure 3**), namely the market and the institutional levers for engagement.

Figure 3: Focus of the Scoping Study



2.1.1 Explore Market-level Levers

Consider at least the following questions (and see **Annex 1** for more):

- Is there a viable potential market size and scope in our current/future operating areas?
- How competitive is the environment?
- What are the key legal, policy, and regulatory parameters and constraints to take into account?

Sourcing information on the market levers might require contact with agencies that are new to your FSP. To get an initial sense of the socio-economic profile of refugees in a given area, you might approach the UNHCR country office, International Organisation for Migration (IOM) or international and national NGOs working directly with refugees. Enquire about the number and concentration of refugees (segment density) in geographic locations that your FSP can reach.

To understand how the policy framework and regulations in a specific country may facilitate or hamper the inclusion of refugees, contact the national regulator (e.g., the Ministry of Finance or Central Bank) as well as the government agencies in charge of service provision to refugees (e.g., ministries of social affairs, interior or in some countries specific ministries for migration). Consider contacting the local authorities in the FSP areas of operation–municipalities or district authorities are often responsible for service delivery to refugees and will have important data on locations, numbers, and types of services already provided to refugees—as well as demand gaps.

As you reach out to these agencies, look for potential partnerships with *existing* platforms or initiatives such as Migrants Organise in the UK,[65] Terre d'Asile in France and Tunisia,[66] or the Consortium for Refugees and Migrants in South Africa.[67] UN organizations may also have established platforms such as livelihood cluster groups at the national level,[68] which will have data and information to share. The UN Development Program (UNDP) is the global lead on UN's early recovery and livelihood clusters, and can also be a good first point of contact for FSPs.

[65] http://www.migrantsorganise.org/
[66] http://www.france-terre-asile.org/
[67] http://www.cormsa.org.za/
[68] See https://www.humanitarianresponse.info/en/clusters/early-recovery

2.1.2 Discuss Institutional Levers

An FSP's internal motivations, characteristics, and strengths all influence whether and when a business case may exist for serving refugees, relative to other product lines and client segments. Consider at least the following questions (and see **Annex 1** for more):

- How strong of a driver is our social mission and/or corporate social responsibility?
- What is the institution's capacity and infrastructure to allocate resources to including refugees?
- Over what time horizon do we expect (or require) profitability from including refugees?
- What are the opportunity costs of including refugee as opposed to investing resources into other ventures?

Based on the market information obtained from the protection or development agencies in your area (see **section 2.1.1**), consider how well your FSP's infrastructure (branch network, agents) is positioned to serve the geographies where refugees are located. Can your FSP effectively reach these areas? Does it require investment in additional means of transport for staff? In new distribution channels? Also consider what it would take to prepare your operations, systems, and current staff to serve refugees. Developing a strategy for outreach and marketing, adjusting eligibility and appraisal criteria (including in the MIS), and working with new partner organizations can require substantial management attention, staff time (and in some cases, new staff appropriate to the refugee market), and other resources. Is your FSP willing to devote the necessary resources to the task?

Additionally, consider the level of possible internal resistance. Recall that inclusion of refugees can be a sensitive issue, and it will be important to orient the entire organization to a more inclusive portfolio. Specifically, departments such as marketing, information technology, finance, and operations need to be brought into the process early on, in order to build buy-in and support across departments.[69] It is vital to ask staff at all levels, as well as existing clients, what they think about the idea. Allocate experienced field staff and use focus groups to discuss the issues and make sure to note concerns. The goal is to create a strategy that all stakeholders, especially staff and existing (national) clients, can buy into.

The social and/or strategic mission, reinforced by strong support from the FSP leadership is critical for determining a business case, because it helps to justify upfront investments and ensure the patience of the management and board.[70] The pioneering FSPs on the refugee inclusion frontier emphasize the importance of a clear strategy for inclusion of "all poor in the country" (indifferent of nationality), and the need for visionary leadership to support such a strategy. In addition to management and board conversations, ask existing funders/investors/shareholders whether they are interested in the new venture. What is their expected time horizon for increased financial revenue? During the market scoping you may have uncovered opportunities for new funding from protection agencies or others. While this may be an incentive to proceed, consider the size and time horizon of such funding compared to the estimated investment and the time it will take your FSP to plan and pilot the expansion.

The initial review of feasibility should give you a sense of the potential benefits and risks of expanding the inclusive finance frontier to refugees. At this point in the process, you should be able to answer the following questions:

- How large is the potential new client segment, and how do they differ from your existing clients?
- What are the main legal, informational, and procedural barriers to expanding inclusion to this client segment by your FSP, and can these be overcome?

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[69] http://www.fi2020progressreport.org/addressing-customer-needs/
[70] CGAP: The Business Case for Youth Savings, op.cit.

- What is your core rationale (value proposition) for expanding inclusion to refugees?
- What are the main costs and benefits?
- What are the main concerns among your key stakeholders that a strategy should address?

With informed answers to these questions, a board (with management and owners/investors) should be able to decide whether or not to proceed to the planning phase. If the conclusion is that further engagement is feasible, you are ready to take the next step. If it is not, at least you will have answered the question of "why not?" for the time being.

2.2 Step 2: Create a Strategic Plan

Leadership has decided that serving refugees is potentially feasible. Now, management should develop a plan for an in-depth look at the new client segment and at the drivers of costs and revenues (see **Figure 4**) that are likely to influence the eventual business case.[71]

Figure 4: Researching the Client Segment and the FSP's Response Capacity

At this time, it is a good idea to identify a "champion" inside the FSP who is ultimately responsible for getting the strategic planning process to the finish line. Ensure the champion is afforded the necessary resources, including time away from other tasks, to develop the strategy. The champion could be the head of the SPM committee, staff from the research and development department, or an executive board member. Regardless of who is chosen, they will need consistent and ongoing board support and encouragement, and the ability to call cross-department meetings on a regular basis, in order to bring and keep everyone on board.

Throughout the process, make sure to keep all stakeholders fully informed – including staff and existing clients. They need to see their concerns being heard and addressed. Use newsletters, staff meetings, client forums and feedback from external stakeholders, including funders and investors to increase buy-in. As the strategy develops, share it with local and national authorities as relevant to garner support and approvals if needed, and share your plans with protection agencies (for example through a livelihood cluster group, if it exists), to establish potential linkages to additional funding and/or providers of non-financial services.

As your strategy becomes public knowledge, expect increased visibility and potential offers of additional support, as well as critiques from stakeholder groups that you may not have included from the start. Make sure to have a communication strategy that can address such increased attention, such as an FAQ sheet, a flyer or a letter explaining where you are in the process, and add new contacts to the dissemination list.

[71] As emerging knowledge on refugee populations in general has been presented in Section 1, and as the client segment analysis will differ in each country and be specific to each FSP, we combine these two levels of analysis in this section of the guidelines.

2.2.1 Segment-specific Levers

The inclusion of any new client segment requires careful and client-centric market research. To develop a strategy for inclusion of refugees, in-depth client market research is necessary, because the information gap–and the level of prejudice–is typically higher. The key question to consider is:

- Which client sub-segment(s) of refugees should your FSP target?

The answer to this question will vary between markets and among FSPs. The overall potential market information obtained in the feasibility study will inform the analysis, as will the type, mission, and profile of the FSP and the characteristics of its current clientele. As for any client segment expansion, include a deeper analysis of the market and business competition in the different localities where refugees are active, including existing and potential value chains, and their viability for existing and new enterprises. In particular, assess the availability of relief and other grant-based ("free") services, which may have created a high level of dependency or even entitlement among some refugee segments, which could impact the credit culture.

Before your FSP can begin the segment research, you must first find potential clients.

2.3 Step 3: Make Contact with Refugees

Finding refugees in the FSP market can be a challenge. When displaced, people tend to seek out the nearest or most likely place of assistance. Hence, refugees' first point of contact in a new location is often a protection agency (government/UN/INGOs), family, friends, or community associations. During this step, use the contacts established in the scoping phase—including authorities, UNHCR and protection agencies—to seek out groups of refugees. In addition, the IOM,[72] diaspora associations and migrant community organizations or networks are good places to initiate the contact, especially in environments where refugees are primarily self-settled.

FSPs can also look for refugees in the value chains where they may have an advantage. Like any other entrepreneur, refugees seeking to earn a living in the informal economy will evaluate their own skills and experience and look for market gaps. Such opportunities often include goods or service that are in demand at home but missing in the host environment, such as ethnic food stores, restaurants, grocers, music/event services, and remittance providers.

Make your FSP more visible as a potential service provider by meeting and posting information materials in appropriate languages at UNHCR offices, municipal social development centers, schools, health clinics, places of worship, and stores that serve refugee populations (e.g., supermarkets and other merchants accepting refugee e-vouchers or cards). Also consider using online platforms and social media, which are widely used by refugees. For example, the *Welcome to Europe* platform W2Eu[73] or *Service Info* in Lebanon, which is a new pilot website that refugees use to find and rate resources that help ease the transition to life in a new country.[74]

[72] IOM is often contracted by governments to provide pre-departure information and arrangements for resettling refugees in addition to their work with the wider migrant communities, so they may both have valuable information on refugee populations as well as be a good place to disseminate information to remaining refugees.
[73] http://w2eu.info/
[74] https://en.reset.org/blog/web-platform-provides-service-info-syrian-refugees-lebanon-09142015

Consider hosting a social event[75] to bring together existing clients and refugees, or participate in community events hosted by other organizations. Refugees are often socially isolated and value opportunities for interaction with their new neighbors. Initial social or information meetings can work well as a first filter and a point of interaction to collect data on interest in and prior and current usage of financial and non-financial products and services. Consider conducting such meetings jointly for similar socio-economic segments of new national and refugee clients to foster social relationships, reduce competition concerns among existing clients, and thus facilitate subsequent group formation for savings- or group-guaranteed loan products.

Connecting with the migrant communities and especially their financial service providers can yield important information on usage of financial services by non-nationals, including refugees. Contact mobile network operators and remittance service providers (whether formal or informal) to explain your intent and ask about demand. In doing so, you may also find opportunities for closer cooperation or agent linkages (see **Box 3**).

Box 3: Who (else) remits money?
Migrants – and by extension refugees - use informal remittance providers ("Hawala" or "Hundi" operators) operating from mobile phone shops, travel agencies and groceries. Compared to FSPs and registered Money Transfer Operators (MTOs) these unregistered transfers are relatively anonymous, fast and inexpensive. Remittances are also sent by mail and hand-carried across borders by the migrants themselves or friends, family, or a trusted agent. Migrants' associations, churches, mosques and other religious organizations also play a role in remittance transfers.
Source: A. Kosse and R. Vermeulen: Migrant's choice of Remittance channel, ECB Working Paper 1683, June, 2014.

If refugees in your area are encamped, it is often necessary to get permission from national and camp authorities prior to access, and the level of access may be restricted, along with the movement of refugees in and out of the camp. However, as Equity Bank in Kenya has discovered,[76] it is often worth the effort to explore encamped client segments, as many camps have their own informal economies driven by refugees themselves (often with close and consistent trade ties to host country nationals), who could benefit from more structured financial services. Request meetings with camp merchants, suppliers, and retailers to better understand the livelihood options and economic strategies that appear to be successful in and around the camp (see **Box 4**). Remember to enquire about trade and other economic networks to the surrounding markets.

Box 4: Camp markets are often vibrant
The Kakuma refugee camp in Kenya is home to over 177,000 refugees, mainly from South Sudan, Somalia, and Ethiopia. Despite restrictions on movement and a constraining business environment with limited employment opportunities, the camp hosts a vibrant economy that serves both refugee and host communities. The services industry is particularly robust, including the sale of groceries, food, clothes, and electronics, as well as hotel and restaurant management.
Source: Samuel Hall: A Market Assessment and value chain analysis in Kakuma Refugee Camp, Kenya, May 2016.

2.4 Step 4: Segment Potential Clients to Determine Whom to Serve

Segmentation refers to dividing a client base into groups with similar characteristics. Segmentation is important for all client segments and is absolutely vital for identifying refugee clients with the best chance of successfully using your financial services. Segmentation should be managed internally; FSPs currently serving refugees agree that client selection and appraisal (i.e. segmentation) must not be

[75] See example at: http://www.emnbelgium.be/news/open-door-day-migrant-entrepreneurs
[76] Equity Bank now operates two branches in Kakuma and Dadaab refugee camps respectively, serving some 15,000 refugee clients with transactional savings accounts, individual and group loans.

outsourced to authorities or humanitarian/protection agencies, as they tend to select or refer only the most vulnerable, while FSPs in general can best serve the working or entrepreneurial poor.
Use a segmentation matrix to identify whom among the identified refugee communities you can best serve. When segmenting different communities or groups of refugees, consider at least the following segmentation criteria. For each criterion, decide on parameters that would qualify/disqualify clients from inclusion by your FSP, such as:

- Migration plan, which includes the arrival date and expected duration of stay.
- Language skills and local market familiarity.
- Socio-economic wealth group (as compared to neighbors, whether in the host community or camp), including:
    - Material wealth (assets and income versus household expenses);
    - Financial education (literacy) level, and financial service experience and preferences, including prior and current usage of bank accounts, remittances, payments, savings and other products; and
    - Current and prior business experience (including from their country of origin), business plans, and repayment capacity. These aspects can also be determined at a later stage, as part of a loan application and appraisal process.

FSPs can segment refugee populations in their areas into socio-economic segments using elements of the Graduation Model,[77] or more conventional wealth ranking or poverty assessment tools. When using poverty tools, however, be sure to include a measure of financial exclusion (e.g., prior and current access to and usage of financial services) as some refugees may not qualify as materially poor, but are still financially excluded.

The segmentation process should enable your FSP to determine which client sub-segments would be a better fit for your products. Deselect sub-segments that you do not think you can serve well, such as the most vulnerable,[78] those lacking entrepreneurial potential, or those whose migration plan is to move within a short time frame, for example. While this may seem like “exclusion” to some, it is more important to choose client segments that you can serve well, than to be all-inclusive and serve clients poorly or lose your investment.

When determining the preferred client segments, factor in the level of xenophobia in your local environment. If you are operating in an environment that is hostile to refugees, then your FSP may want to start by including sub-segments of refugees that are perceived to be less of a competitive threat to the national population and to existing clients. Often, women and youth are less threatening.

You might also start by financing businesses that do not directly compete in core national value chains. Al Majmoua in Lebanon took this approach, financing home-based production of Syrian *aghabani* embroidery and Syrian bread by female refugees.[79] As national clients become more accustomed to refugee clients, your FSP can more toward giving equal access to all services for eligible clients, regardless of refugee status or nationality.

After identifying the client sub-segments that you are most likely to serve well, it is time for a review of the front office paperwork to determine if it is “refugee-ready.”

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[77] See CGAP: Reaching the Poorest: Lessons from the Graduation Model, Focus Note no. 69, March, 2011.
[78] See Women’s Refugee Commission: Dawn in the City - Guidance for Achieving Urban Refugee Self-Reliance, October, 2011.
[79] SPTF: Serving Refugee Populations in Lebanon - Lessons Learned from a New Frontier. A Case Study of Al Majmoua in Lebanon, December 2015.

2.5 Step 5: Review and Adjust Eligibility and Appraisal Criteria

At this time in the preparation process, it is worthwhile to review the eligibility and selection criteria and documentation requirements that are reflected in manuals, application, appraisal, and approval forms, especially for credit products. Typically, an FSP does not need to make drastic revisions to the existing eligibility criteria used for national clients, but it may be necessary to make minor adjustments in order to ensure that the new client segment will actually be eligible for your services. Small changes in eligibility criteria can make a huge difference, as the change from "we serve all Lebanese" to "we serve all poor in Lebanon" was for Al Majmoua's ability to include refugees as clients.

You may need to add eligibility filters that exclude refugees you cannot serve well (e.g., the client must plan to remain in the local community for at least 12 months), or you may need to drop or revise criteria, or at least look for alternatives. Look especially closely at the lists of documentation required for clients, for example, if your FSP requires specific identification documents and/or proof of residence/address, this may automatically exclude most of the refugees you want to serve.

To find alternatives to traditional identification and proof of residence documents, ask your regulator which alternatives are acceptable within existing KYC rules. These could include UN or UNHCR registration cards, consular IDs,[80] or IDs issued by local authorities. Also, consider alternative address verification methods, including physical visits, confirmations of residency from local authorities, landlords, or village/clan/religious leaders, or a digital solution, as presented in **Box 5**. Then, while retaining the general requirements of personal identification and geographic point of contact, add "or other acceptable substitute documentation" to your eligibility criteria.

Box 5: Overcoming the ID constraint
In Zambia, FINCA offers biometrically linked accounts. Clients are registered at a FINCA branch by providing a digital scan of their fingerprint. Then, when they make transactions at a branch or an agent outlet, they sign into their accounts by scanning their fingerprint. This simple, technology-enabled solution makes financial services easily accessible to everyone—even those without formal identification.
Source: http://www.fi2020progressreport.org/addressing-customer-needs

Check your manuals and application forms for requirements related to the conventional concept of "stability" used for many years in microfinance.[81] Globally, almost all FSP clients have become more mobile, and the industry is learning[82] that people do not need to be stationary in order for financial services to work. While FSPs will need a confirmed geographical contact point for each client, it is not necessary that the client is there *all the time*. Consider revising your appraisal documents using "location consistency" (regular return to the place of contact) as a more appropriate criterion, and define how regularly the client needs to frequent the place of contact. The movement of clients can be tracked by traders they regularly do business with, by schools or health clinics, or via mobile phone activity.

Pioneers in digital financial inclusion are developing applications to create customer-approved user profiles that allow FSPs to establish potential bankability (credit scores). Consider using these new technological alternatives, which replace the traditional credit criterion of 'local roots' with a huge

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[80] Like the Mexican "Matrícula Consular" issued by consulates and widely accepted in the USA as official identification, see GPFI, op.cit.
[81] CGAP: Supporting Microfinance in Conflict-affected areas, Donor Brief No. 21, December, 2004.
[82] For example from the work of Mercy Corps among pastoralists in the Horn of Africa, as presented at the 2015 SEEP Conference, see http://www.seepnetwork.org/2015-session-descriptions--full--pages-20788.php#FS1

number of other data points and analytics, including location consistency, and the size and diversity of a business-owner's customer network (see examples in **Box 6).**

During the appraisal process, make sure to ask about existing debt, but train staff to avoid the *a priori* exclusionary practice of disqualifying clients that have any other loans outstanding, as this is likely only to lead to clients withholding information from your FSP. While most refugees may have borrowed from friends and family, some may also have experience with ROSCAs,[83] which can be an advantage because they will already be familiar with basic loan and saving practices. Rather than acting as an automatic disqualifying criteria, existing outstanding debt should be factored into a subsequent repayment capacity assessment.

Box 6: Phone-based credit worthiness

- PERC—a USA-based think tank devoted to use of alternative data in credit reporting—confirms that many forms of alternative data, such as rental, utilities, and cell phone payments, definitively predict creditworthiness and could readily be incorporated into credit scoring models.
- Launched by Commercial Bank of Africa and Safaricom in Kenya in 2012, *M-Shwari* taps into the personal histories of poor and unbanked customers regarding their telephone use and mobile money activity to make credit-scoring decisions.

Source: FI2020 Progress report: http://www.fi2020progressreport.org/technology .

- First Access in Tanzania and InVenture in Kenya use prepaid mobile phone history to assess borrower creditworthiness on behalf of microfinance institutions. Customers grant consent for access to their phone records and these companies analyze that history to generate a loan recommendation that is texted to the loan officer immediately.

Source: http://www.firstaccessmarket.com/ and https://inventure.com/

Once potential refugee clients have been identified through segmentation and informed and screened at introductory meetings, and internal criteria and forms have been adjusted as necessary, the standard FSP appraisal process for payments, credit, savings and/or insurance products should be followed. However, it is advisable to put experienced credit/business service officers in charge of conducting additional meetings to fully appraise refugee clients and eventually explain the products, terms and conditions on offer. Such meetings may need to be repeated more than once, and all meetings should be conducted in appropriate languages or with interpreters.

2.6 Step 6: Conduct a Pilot Test and Compile Data for the Business Case

The segmentation and appraisal process may have uncovered specific vulnerabilities or demands in the new client sub-segment of refugees. Do not ignore these refugee-specific needs. Decide how you can take them into account in the sequencing, mix, range, and delivery mechanisms of products and services. A pilot test of a product is the best way to gain insights into which products would work best and how they might need to be adjusted, especially if your FSP does not have experience with non-nationals.

As with any other product validation, decide whether your FSP wants to pilot test the inclusion of refugees in one product/service in all branches, in several products in two or three branches, or whether you think there is demand and capacity enough to open up more products in all branches from the start.

[83] In different countries, ROSCAs go by different names, e.g. susu's, sanduq's, or ho/hui.

Design the pilot as you would any other product development plan.[84] If stakeholders have expressed significant concerns over credit risk, you can limit the initial exposure (capital) to the new refugee client segment until a stronger relationship is built, for example by starting with a payment/transfer (remittance), savings and/or insurance product, if these are already well-established products in your portfolio and the demand is confirmed by the selected client sub-segment. If your FSP can only offer credit products (with or without compulsory savings), start with a lower-value loan product that has an initial training and savings period, or similar.
Make sure that you budget costs, including staff time, for the pilot project as well as the compilation of findings, client feedback and lessons learned, and define relevant indicators of success for the pilot and collect baseline information against which you monitor progress and results. Make sure that your operations, risk management, and MIS departments are part of the evaluation team.

The pilot test will provide much more detailed information on how your FSP can best market services to the new client segment(s), how products should be delivered in a refugee-inclusive client portfolio, which adjustments may be necessary in operations, and how you can best identify and mitigate the risks to ensure eventual profitability. In Section 3, we explore these aspects by linking back to the profitability drivers in the business case framework presented in **Figure 2**.

Section 3. Potential Profitability Drivers

As illustrated in **Figure 2**, the profitability drivers to be identified will eventually determine how compelling the business case will be. Identifying the key drivers of costs and revenue during the pilot test can lead to adjustments in the selection of refugee client sub-segment(s), but most commonly, it will serve to clarify the product sequence, mix and range to be offered to refugees, and adjust the delivery approaches to work optimally for the selected sub-segment(s). The key questions to ask in the evaluation of the pilot test include:

- Which approaches to marketing would work best?
- Which products should we offer, in which sequence and through which delivery channels?
- Which operational adjustments/innovations would be necessary?
- How do we identify and best mitigate risks?
- Will this venture be profitable and when?

In this section, the guidelines present evidence from research and experience from FSPs already serving refugees to highlight recommendations, tips, and ideas structured as along the likely profitability drivers to outline a potential business case for including refugees as FSP clients.

3.1 Marketing Financial Services to Refugees

Outreach efforts can be difficult and costly, but they can also be very effective in bridging information barriers, bringing in new clients, creating publicity, and enhancing the institution’s brand image.

During the preparation phase, your FSP will likely have made contact with new potential partners, organisations as well as private sector service providers, so use the opportunity to market your FSP: bring information materials and explain what you can offer.[85]

[84] Using e.g. the MicroSave Toolkits for Planning, Conducting and Monitoring Pilot-Tests or Product Roll-Out. See http://www.microsave.net/files/pdf/1366178832_Overview_of_Toolkits.pdf
[85] CGAP: The Business Case for Youth Savings, op.cit.

Consider facilitating greater contact between national and refugee clients by conducting marketing events and informational sessions with mixed groups of existing and new national clients and refugees. If your FSP already offers non-financial services—financial education or business development services (BDS)—allow refugee clients to mix with nationals during training sessions as a way to promote social cohesion.

FSPs currently serving refugees all agree that word of mouth is the best marketing channel. In general, refugees tend to trust referrals from other refugees. Once some refugee clients are being served (well) by FSPs—for example, during the pilot test—they will spread the word and bring in new clients, and thus lower the cost of marketing. Private sector partners and refugees having become familiar with an FSP are also generally better referrals than authorities, humanitarian NGOs or protection agencies, who tend to refer according to vulnerability or need, and hence do not necessarily refer the most appropriate potential clients to your FSP.

3.2 Products and Services: Sequence, Range, and Mix

The financial needs of appropriately segmented refugees do not differ significantly from the needs of national clients. Serving refugees is not about developing specific niche products. Rather, it is about expanding–and in some cases adjusting–existing products and services so that they *also* cater to refugees (and other non-nationals). As such, products should be standardized but inclusive meaning that they are equally accessible to both refugees and nationals. In fact, as emphasized by all the pioneering FSPs serving refugees, it is important to offer the same products and services to all clients, including refugees, to promote social cohesion in the community and reduce hostility between groups.

3.2.1 Non-financial Services

Almost all FSPs offer some kind of client training, but often the capacity extends only to basic information about the FSP's products. Induction training has been built into lending operations for decades, and the business case has been largely confirmed.[86] However, for new refugee clients, induction training may not be sufficient. Many refugees also need market orientation training to know their legal rights, local business registration, tax and VAT rules, and local markets and value chains, as well as general life/social skills training, including topics such as language, computers, health, and household budgeting.[87] Like many national clients, refugees also benefit from financial literacy, business management skills training, and technical training in self-selected, marketable vocations, particularly if the host environment differs significantly from that of refugees' countries of origin, and/or if prior experience with microfinance is limited.

We are learning from FSPs already working with refugees that more comprehensive and continuous non-financial support services (NFS) are not only a valuable add-on[88] to standardized financial services, but an essential aspect of successfully serving refugees.

Not all FSPs offer NFS as it is a notoriously cost driver and requires significant staff resources and up-front and ongoing investment for an expected benefit of increased client uptake on more profitable products, and better financially educated clients. The specific NFS provided by FSPs vary widely with context and history, social mission and target market, the FSP's internal capacity and any partnerships established with other NFS providers. However, if your FSP already offers NFS to (some segments of)

[86] Citi Foundation: Bridging the Gap: The Business Case for Financial Capability, March, 2012.
[87] See featured initiatives and toolkits specific for refugees at EPALE – a European adult learning network https://ec.europa.eu/epale/en/blog/how-support-integration-migrants-refugees-and-asylum-seekers
[88] Positive Planet: Responsible Inclusive Finance and Customer Empowerment, Thematic Paper by the e-MFP University Meets Microfinance Action Group, September 2015.

national clients, enable access to these services also for refugees based on the findings from the client segmentation and appraisal process.

NFS can be offered alongside remittance and savings products even before refugee clients are assessed as credit-ready, and can impact how successfully refugees will eventually use financial products.[89] FSPs can use NFS as an opportunity to better understand this new client segment and create more effective feedback loops between clients and the FSP, which may improve the product offering and deepen client loyalty and retention.

The segmentation matrix discussed in **Step 4** (see **section 2.4**) can help in establishing common-interest groups of national and refugee clients for specific NFS. As Al Majmoua in Lebanon experienced, some NFS are best offered in differentiated groups[90]—refugees and nationals may need different technical and vocational training, for example—while other NFS work well in mixed nationality groups with a similar demand profile, including training in household budgeting, financial education, and personal development, as well as social activities, such as community clean-ups, tree planting, and sporting events to promote integration and social cohesion.

As a continuing service offering, NFS can guide borrowers' business development process, entry into formal business ownership, or employment, and can be a mutual learning experience. Refugees benefit from market information to better integrate and become successful in the new economy, while FSPs staff and existing clients can benefit from increased knowledge of the refugees clients' economic strategies.[91] New ways for ongoing NFS to generate potential increased uptake and cost-savings in credit provision are emerging (see **Box 7**).

Box 7: A peek at the Future of NFS?
RevolutionCredit, an online lender in the United States, offers online courses and videos to increase financial literacy, and when customers take a course or watch a video, it is recorded in their client profile. The idea behind tracking these activities is to identify consumers who are less risky borrowers. RevolutionCredit does not aim to replace credit scores. "It's really more of a booster," says founder Zaydoon Munir. Source: *http://www.fi2020progressreport.*

Retain the principle of equal terms and access by all clients to any NFS offered. This may require negotiation with external funders who may wish to primarily or exclusively fund support services for refugees. Explain to such funders that "special treatment" for refugees is likely to breed resentment among national clients, and could spell disaster for your portfolio quality. Set an overall goal to serve refugee and national clients equally, while maintaining flexibility to allow for disaggregating client groups by interest in specific activities.

Base specific NFS offerings on client demand, and involve clients in the design of curricula, topics, and delivery methods. Create informal, safe spaces for refugee and national clients to meet with staff to discuss needs and demands based on market opportunities, and engage experienced staff to also observe and listen out for unspoken needs. Listen for constraints such as transportation to the activities and timing (e.g., preferences for weekend or morning activities). Ask for ideas to address constraints—clients may well have alternative ideas that your FSP has not thought of yet. In the NFS design process, the ability and willingness of all potential clients to contribute to the cost of NFS should be explored, including identifying (paid or volunteer) trainers/facilitators from among the refugee

[89] Kathleen E. Odell: Measuring the Impact of Microfinance: Looking to the Future, Grameen Foundation, January, 2016.
[90] Al Majmoua: Implementing Partner Performance Monitoring Report to UNHCR for 2014 for livelihood center in Mt. Lebanon, 15 February, 2015.
[91] See K. Krell: The Impact of Microfinance on African Refugees in Urban Areas – Case study: Congolese Refugee Women in Tel Aviv, [undated].

community–especially if there are language barriers and/or topics include technical skills training specific to a community, for example, “ethnic” handicrafts or food production.

During NFS activities, expect tension and be patient. Al Majmoua found that it took an average of two sessions among youth and four sessions among women in Lebanon for NFS participants to start feeling comfortable dealing with each other.[92] As refugees are often less integrated in the local community and might have had experiences which trigger distrust in new institutional settings, train staff to focus on personal relationship-building with new refugees both during meetings and in between. For example, staff can send reminder SMSs about meeting times, topics covered during the last meeting and send something as simple as birthday greetings. Build trust by delivering on promised next activities, rather than over-promising.

Even with the likely benefit to the FSP of more successful, more loyal clients of financial services, NFS is undeniably expensive. Few FSPs are offering NFS as an integral part of their product range, fully cross-subsidized by the loan portfolio revenue.[93] Some FSPs cover some of the NFS costs by charging participation fees, or by cost-sharing with business development providers, NGOs or sometimes banks. Other FSPs outsource or partially outsource NFS management (including fundraising) to other institutions or sister companies, sometimes with a vision to establish an increasingly sustainable entity (such as an “academy”) focused exclusively on commercially viable training, business development services, and technical assistance services to clients but also to other FSPs as consulting experts.

Most commonly, however, FSPs raise external grant funding to cover the costs of NFS. Such funding is often short-term, and therefore most appropriate for research, preparation, and pilot projects to help develop models for more sustainable, ongoing provision of NFS. Even if your FSP covers NFS through short-term project funding, it is absolutely essential to avoid stop-and-go NFS provision. Develop a longer-term plan for “graduation” or referral of NFS participants so that the majority gain access to your financial services or to other providers of continuing NFS. The commitment of an FSP to serve clients in the long-term is a core determinant for loyalty, and abandoning NFS clients due to funding constraints is a huge opportunity cost with serious consequences for client retention, especially in competitive markets.

There are options for making NFS accessed by refugees more cost effective. The French FSP ADIE, for example, reduces costs by recruiting retired bank staff as volunteers to conduct trainings, provide BDS and mentor clients.[94] MicroFy in Israel has partnered with Tel Aviv University to deliver BDS courses to refugee clients.[95] Your FSP could explore NFS partnerships with (I)NGOs that already provide integration and welcome services for refugees in your area, be they faith-based, such as the Diakonie in Austria,[96] or refugee-specific like the Refugee Services of Texas.[97] They may be able to offer financial education as well. Some humanitarian NGOs like the International Rescue Committee (IRC) already deliver financial literacy trainings to refugees in the USA.[98] Cost-cutting partnerships might also be forged through public-private-sector business platforms which are emerging in some countries, such as the Humanitarian Private Sector Partnerships Platform (HPPP) in Kenya that arranges “business2business” meetings between national and multi-national company representatives and refugee entrepreneurs.[99]

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[92] Ibid.
[93] Emerging business models for integrated NFS may come from BRAC, SEWA Bank India and Banco Adopem in the Dominican Republic.
[94] http://www.adie.org/nos-actions/ nos-services-aux-micro-entrepreneurs
[95] http://www.microfy.org/#!about/v98l0
[96] https://diakonie.at/english
[97] http://www.rstx.org/about-us.html
[98] https://www.rescue.org/
[99] http://www.unocha.org/top-stories/all-stories/east-africa-how-make-living-refugee-camp

Providing market-led vocational training with the aim to get refugees (and other clients) into formal employment while retaining them as financial services clients is another "graduation model" used by some FSPs. As decades of experience with this approach has demonstrated, however, incentivized apprenticeships or job placements do not always translate into sustainable employment in the longer-term.[100] Continued access to employment or income streams may be better achieved by linking clients to sustainable (commercial) value chains managed by social (or socially responsible) enterprises.
Build on the initiative and drive that refugees may demonstrate themselves, and/or link to public-private programmes that offer commercial job placements (see **Box 8** for examples).

Box 8: Promising Practices for linkages to formal employment

- Ethiopian refugees in Dallas, USA, gained "on the job" training in easy-to-find jobs at convenience stores in order to gain market and business skills instead of expensive training, and hence built up their skills and potential as future entrepreneurs.

Source: http://www.fmreview.org/innovation/ nibbs.html

- Upwardly Global in the USA offers job placements for skilled immigrants and refugees by training and linking them to companies looking to recruit and retain internationally-trained talent.

Source: https://www.upwardly global.org/us-immigration-issues

- The externally funded production workshop established by Al Majmoua in Lebanon in collaboration with the social enterprise Artisans du Liban has enabled trained Syrian refugee women to produce handicrafts-to-order from home. Supplies are pre-financed and designs are delivered to the producers, with full payment provided upon pick-up and quality control of the handicrafts.

Source: SPTF: Casestudy of Al Majmoua, op.cit., annex 3

- The refugee-run agricultural wholesaler Kyangwali Progressive Farmers Ltd. buys up produce from smaller refugee growers in Uganda.
- The social enterprise Technology for Tomorrow in Uganda trains and employs camp-based refugees to produce *Makapads* (sanitary napkins) for distribution by UNHCR.

Source: HIP: Refugee Economies, op.cit.

3.2.2 Financial Services

3.2.2.1 Remittances, Transfers, and Payments

Remittances are defined as cross-border, person-to-person (P2P) payments of relatively low value. The proportion of refugees in the migrant remittance market is not accurately known, but it is likely that a significant segment of refugees already send and receive remittances,[101] whether through formal or informal channels. Trends in Europe suggest that higher educational level and use of other online/mobile banking platforms correlates with increased use of formal remittance providers,[102] whereas refugees with limited host country language skills and/or insufficient ID documents for sending and/or receiving remittances, more often use the informal remittances markets.[103] Note the extent that potential clients use remittances and their preferred provider type during **Step 4**.

For FSPs that offer money transfer services, remittances can be a natural *transaction intercept*, or touch point to unbanked refugees, and a foundation on which to offer other inclusive and sustainable

[100] For one example among many, see WRC: Dawn in the City, op.cit., p. 20.
[101] Global Partnership for Financial Inclusion (GPFI), the World Bank, and the International Fund for Agricultural Development (IFAD): The use of remittances and financial inclusion, Sept 2015.
[102] A. Kosse and R.Vermeulen: Migrant's choice of Remittance Channel – Do General Payment Habits play a Role?, ECB Working Paper Series No. 1683, June, 2014.
[103] See Carlos Vargas-Silva: Remittances Sent to and from Refugees and Internally Displaced Persons, KNOMAD Working Paper no. 12, March 2016.

financial services, creating what the Global Partnership for Financial Inclusion (GPFI) calls "financial citizenship"[104] for the new customers. This model is exemplified by a financial inclusion project for Eurasian migrants in Europe, which helped banks and microfinance institutions (MFIs) conduct market surveys to analyze recipient behavior and financial skills especially focused on remittances. Using the transaction intercept model, a group of educators were contracted and trained to offer on-the-spot individualized 30-minute interview sessions with remittance customers waiting in line in bank branches. Sessions covered the topics of finance, budgeting, and personal day-to-day finance, before potential clients were invited to open an account with the bank. The project was successful in "converting" 42% of unbanked remittance senders to bank account holders, and banks were supportive. Some banks removed fees on deposit accounts, included financial education in their customer relations, and often hired the educators as marketing agents.[105]

Payments and P2P transfers could in principle also serve as potential transaction intercepts between FSPs and refugees that use mobile money platforms to send or receive payments, including humanitarian cash transfers. So far, research into the use of mobile money suggests that most displaced persons withdraw the majority of receipts immediately and do not use mobile platforms for savings. However, FSPs may be able to leverage refugees' familiarity with mobile money channels by offering other mobile money products. Mobile money platforms certainly have advantages in terms of lower transaction and time costs for clients who have mobile devices and access to power for charging. Additionally, managing money on mobile platforms can decrease risks of theft and misuse for clients, as long as personal data is adequately protected. These delivery channels rely on a well-trained and consistently liquid agent network accessible in safe transaction (cash out) spaces.[106]

Most MFIs are limited by law to conduct operations in national currencies, so they are mainly involved in the remittance marketplace as agents of national or international MTOs. This reduces the margin on remittance services and may dampen the appetite for engaging in such partnerships, even though remittance services are in demand by their customer base, and by refugees in particular. Similarly, regulations, liquidity constraints, and limitations in banking systems may prevent them entering the payments market.

By contrast, FSPs with full banking services have developed strategies to cross-sell existing products to remittance and payment recipients, even if only a few are leveraging their comparative advantages to provide complementary transaction accounts, like savings, insurance, and loan products to better serve remittance users.[107] Equity bank in Kenya breaks this mold. It has built a successful business case for its two branches in Dadaab and Kakuma refugee camps, respectively, on a profitable mix of cash-based transfer services for humanitarian agencies, salary accounts for locally based staff, remittances and payment services, as well as savings accounts to start their client relationships with refugees living in the camps.[108] The Equity Bank case exemplifies how FSPs can earn revenue by transferring cash from humanitarian agencies to refugees. Such contracts with humanitarian agencies require the FSP to have the right infrastructure and capacity, including sufficient liquidity and scalable delivery systems such as accounts linked to debit/ATM/smart cards. Keep in mind that while they can be attractive from a revenue perspective, such contracts are not necessarily good transaction intercepts to refugee clients as the client selection process is not within the control of the contracted FSP.

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[104] GPFI, op.cit., p.10.
[105] The projects was supported by the European Bank for Reconstruction and Development (ERDB) and Microfinance Center Poland provided technical assistance. See GPFI, 2015, op.cit., Case study 4. The transaction intercept model was originally pioneered by BanPro in Nicaragura with support from IOM and the Inter-American Development Agency.
[106] See GSMA: Disaster Response – Mobile Money for the Displaced, December 2014.
[107] GPFI, 2015, op.cit.
[108] Interview with GM A. Wanjuki Ndwiga of Equity Bank Kenya, 27 June 2016.

Humanitarian cash transfers, whether transferred physically, electronically, or via mobile platforms, remain cash grants. The graduation of refugee cash transfer recipients to financial service provision is neither organic nor automatic, and attempts by your FSP to capture potential refugee clients from or via cash transfer programmes should be preceded by careful segmentation, appraisal, and information dissemination to avoid the confusion of terms and conditions well-known from historic failings to institutionally segregate the two types of service provision. Cash-based transfers may be a more promising transaction intercept for public social protection services, i.e. Government-to-People (G2P) payments in economies where refugees are eligible for public grants.

3.2.2.2 Savings Products

There is a likely demand for safe, inexpensive, and accessible small-value savings products among refugees, starting from the initial displacement phase (see **Table 1**), even if evidence from the broader migrant community does not suggest a high usage of mobile money platforms to store savings. Unbanked refugees may store cash at home or save in informal ROSCAs.[109]

Savings products with no- or low-fees and low minimum-balance requirements do not generate substantial revenues for FSPs, but the business case for small savers looks more promising when opportunities to cross-sell more profitable products (payments, remittances, and credit) are factored in. The key revenue drivers are loans, other financial products (insurance or money transfers), savings account fees, technology (e.g. ATMs), and higher loan interest rates for smaller and otherwise costlier-to-make types of loans to small savers.[110]

Deposit-taking FSPs and MFIs acting as agents for banks may well be able to cross-sell a competitive package of products to refugees starting with a savings account which might double as a payments/transactional account to manage payments to or from public or protection agencies. In addition to general storage of excess cash, refugees might also be interested in the opportunity to gradually generate a cash deposit for a loan, as an alternative to finding national guarantors (see **Box 9)**.

For FSPs with a longer-term profitability horizon, savings products specifically for youth could be extended to include segments of refugee youth, given that half of all refugees worldwide are younger than 18 years of age. There may well be a strong business case for offering savings services to refugee

Box 9: Savings and payments before loans

- Equity bank in Kenya opened branches in Dadaab and Kakuma refugee camps, building the business case on a combination of revenue from cash-based transfers (via debit cards) from humanitarian agencies to refugees, and the potential for local salary and savings accounts. In Kakuma camp today, some 23% of all 30,000 savings accounts are held by refugees, and around 200 refugees have taken individual loans collateralized by stock or chattel.

Source: Interview with Equity Bank, Kenya, 27 June 2016

- In order to take a loan from MicroStart in Belgium, clients must have a 50% personal guarantee from a guarantor. However, because MicroStart knows that it is difficult for migrants and refugees to find guarantors, they offer an alternative. The client opens a separate bank account that s/he uses to save a cash deposit as a guarantee for the loan. Once the client saves enough for the guarantee, s/he is eligible for a loan. A double signature by a loan officer or advisor is required for withdrawals from the account.

Source: http://microstart.be/fr/services-proposes

[109] See emerging evidence of this at http://odihpn.org/magazine/loan-cycles-of-innovation-researching-refugee-run-micro-finance/
[110] CGAP: Is There a Business Case for Small Savers?, Occasional Paper no. 18, September 2010.

youth for established FSPs that see opportunities for developing future markets, and for additional cross-selling opportunities, including life insurance, building society contracts, credit cards, and consumer loans.[111]

For non-deposit mobilizing FSPs, the standard induction training combined with compulsory savings may mimic the incentives of a savings product.

3.2.2.3 Insurance Products

Urban refugees with retail businesses may demand theft and fire micro-insurance, whereas rural refugee populations with access to land could be interested in agricultural, weather-based index and livestock insurance, including *Shariya*-compliant *Takaful* products.[112] Including refugee clients in insurance products is another way to build a financial client relationship while providing an important service.

In economies that do not have public social insurance schemes, or where refugee populations are systematically excluded from such schemes, health insurance for clients and their families is likely to be in high demand. Among poor nationals in countries where healthcare is particularly expensive—for example, in Jordan and Lebanon—meeting the costs of an unexpected health emergency is the most common reason women give for having to liquidate or decapitalize their businesses.[113] As such, a health insurance product extended to refugees could also serve to lower FSP credit risk. The Microfund for Women in Jordan is considering expanding its credit and compulsory hospital plan for female borrowers, *Afituna* ("Caregiver") to Syrian refugees. Clients pay a nominal monthly premium with their loan repayment and receive 15 JOD (USD 21) cash pay out for each night they or any member of their family spend in hospital.[114]

While a business case has been made for life insurance, personal accident and funeral coverage as well as health covers like the "hospital cash" product mentioned above, microinsurance requires FSPs to maximize scale and minimize administrative costs.[115] If your FSP already has a pooled and underwritten credit life or health insurance or hospital plan in place for national clients, consider including refugee clients too.

3.2.2.4 Credit

Despite a high demand for credit among refugees, careful client appraisal including a detailed assessment of repayment capacity is necessary before offering credit products, since not everyone will benefit from debt. Keep in mind that some refugees will prefer group loans and others–typically larger, more established entrepreneurs–will prefer individual loans.

Solidarity group lending as a methodology works best when groups self-select their membership.[114] Refugees can self-select members to form groups just like any other client segment can, as demonstrated by refugees in the Dadaab refugee camp in Kenya, who are receiving and servicing

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[111] CGAP: The Business case for Youth Savings, op.cit.

[112] Takaful is a mutual insurance scheme. Participants pay premiums to a fund that invests in a Shariya-compliant manner to enable payouts to participants in times of death, crop loss, or accidents. See more at: http://www.cgap.org/sites/default/files/CGAP-Focus-Note-Islamic-Microfinance-An-Emerging-Market-Niche-Aug-2008.pdf

[113] http://www.microfund.org.jo/PublicNews/Nws_NewsDetails.aspx?lang=2&site_id=1&page_id=107&NewsID=547&Type=P&M=8

[114] http://microfund.org.jo/public/main_english.aspx?M=3&page_id=1

[115] R.C. Koven and M.J. McCord: Is There a Business Case For Microinsurance?, Best Review, October 2014. Research into the business case of microinsurance is continuing under the MILK project of the Microinsurance Centre, see http://www.microinsurancecentre.org/milk-project/milk-overview.html

[114] K. Jacobsen: Microcredit and other loan programs in protracted refugee situations: Lessons from the Alchemy Project, Feinstein International Center, Tufts University, June 2004.

solidarity-group loans for agriculture through Equity Bank. However, the bank has so far used a revolving fund via an NGO to finance the credit product, due to credit risk concerns.[115] Other FSPs working with refugees seek to mitigate the credit risk associated with refugees by requiring groups to have a majority of nationals, even if the actual repayment performance of these mixed-nationality groups mirror that of national groups.[116]

Box 10: Refugee Clients' insights on guarantors

Manal*, a client of Al Majmoua, Lebanon: "The most difficult thing is finding a Lebanese guarantor. I was able to get my neighbor to sign, but for others it is hard. It was also difficult to find Lebanese for the group, as Lebanese have to be majority. I understand the reason, but it feels unfair. The Lebanese feel superior, don't trust Syrians and they are afraid we will leave, even if we explain we have made provisions for repayments."

Salwa:* "Totally agree - I applied for an [Al Majmoua] loan but I could not find a Lebanese guarantor, so I am stuck."

**Names have been changed for privacy*.

Joining a mixed-nationality group can be extremely difficult for refugees without a strong social network in the host community (see **Box 10**). Given the prevailing low risk tolerance of most FSPs for refugee borrowers, mixed-nationality groups may be a starting point and may promote social cohesion locally. Consider an incentive for national group clients to increase the attractiveness of including refugee members. As an example, Al Majmoua allows Lebanese clients in mixed-nationality groups to access higher-value loans. Eventually, however, well-performing refugee clients should be given the chance to access loans in fully self-selected groups.

Depending on the existing product range of your FSP, a Village Savings and Loan Groups (VSLA) or village bank type group loan product may be appropriate for some refugee clients, especially in rural areas and/or in camps. There is emerging evidence that VSLAs offer a pathway to financial inclusion when groups are linked to more formal FSPs. This approach has been piloted by Asylum Access in Tanzania, where many FSPs require refugee-exclusionary citizenship documents.[116]

Many refugees run businesses that in size would qualify as SMEs, even if they are not registered. Younger, less established refugee business ventures may initially merit smaller loan sizes and shorter loan terms with more frequent repayment plans in combination with a savings product,[117] in order to build trust, develop a credit history and satisfy FSP risk assessments. However, demand for higher loan amounts and longer terms should be met over time, also for refugee clients that perform well.

Consider options for increasing the flexibility of credit, which would benefit refugees as well as all other borrowers. AMK in Cambodia, for example, has launched a popular credit line that allows clients to draw down credit as needed, rather than pay interest on unused capital. AMK found that customer draw-downs and payment patterns allowed it to offer the service sustainably and without incurring liquidity issues.[118]

3.2.3 Leverage Refugees' Transnational Networks

Once your FSP has established a refugee-inclusive portfolio that performs well, it may be worthwhile to explore the product development potential of the often strong ties that refugees have to their home communities. Refugees (and migrants and other diaspora clients) are often far better informed on the politics, local market opportunities, networks, language, and culture of their country than most

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115 Interview with Equity Bank Kenya, 27 June 2016. See also: http://www.actionafricahelp.org/543-kakuma-refugee-group-effort-to-be-self-reliant

116 Al Majmoua: Assessment of the Group Loan product Offered to both Syrians and Lebanese In 2014.

116 https://realizingrights.wordpress.com/2012/05/10/expanding-refugee-access-to-microcredit-strengthens-local-communities/

117 WRC: Dawn in the City, op.cit.

118 http://www.fi2020progressreport.org/addressing-customer-needs/

foreign investors, and may be interested in and willing to take on risk by investing "back home" when others will not. Post-conflict and fragile states in particular can benefit from diaspora investment. Refugees and migrants can be instrumental in socio-economic reconstruction efforts as the bridge between the end of conflict and the beginning of financial inclusion in their home communities. However, in order for such linkages to develop, financial infrastructure must be in place.[119]

If your refugee clients have prior experience with FSPs in their home country, explore if these institutions remain in operation and consider contacting them for referrals to verify client credit history and develop institutional linkages. Such linkages could result in mutually beneficial new product development, including cross-border remittances, payment and re-payment services, and perhaps even mortgage-like arrangements involving the home country FSP verifying, valuating, and documenting immobile assets (like land and property) which can enhance the security for loans in the host country for the refugee client.

Likewise, ensure that refugee clients can take the credit history developed with your FSP with them to their next destination, whether home or to a third country as resettled refugees. Provide a certificate documenting the duration, services, and performance (e.g., a credit score) of your refugee (and other non-national) clients.[120]

3.3 Delivery Channels and Operations as Profitability Drivers

To the extent your FSP can use its institutional infrastructure and capacity to leverage *existing* channels to reach new refugee clients, delivery will be relatively inexpensive. Even if upfront investments are required, the low level of financial inclusion among refugee populations in general suggests that the acquisition cost per client will be lower than for many national clients who may already be banked elsewhere,[121] and that costs per client will decline over time, as the refugee segment of the portfolio grows and products and processes are standardized across a "refugee-inclusive" portfolio.

Upfront investments of management and staff time and funds to include refugees may also create an opportunity to experiment with innovative delivery methods that could be leveraged for other client segments across the FSP portfolio. For example, new delivery channels could be forged through relationships with new partner organizations or service providers, which can help establish contact to refugee communities. Some of these new channels (e.g., social media platforms, diaspora community networks, and especially large-scale social safety net programs that use FSPs to deliver cash transfers), can act as "aggregators" bringing larger numbers of potential clients within reach of FSPs. For example, the Hunger Safety Net Program in Kenya automatically achieved scale for Equity Bank. In the past five years, Equity Bank has opened up five new branches in northern Kenya to support the delivery of cash transfers through bank accounts.[122] It may also be possible to piggyback on existing outreach and marketing efforts by social authorities and protection agencies.

Similarly, your FSP could leverage first round clients as effective channels to bring in new clients (word of mouth), which will lower the cost of acquisition. This approach appears to be particularly successful among refugees, because referrals based on positive experience from other refugees are likely to

[119] GFPI, op.cit.
[120] This model was pioneered by the American Refugee Committee for Sierra Leonean refugees in Guinea and Liberia. See: T. Nourse: Refuge to Return: Operational Lessons for Serving Mobile Populations in Conflict-Affected Environments, AMAP MicroPaper # 4, May 2004.
[121] It costs more to convince a client to (also) bank with you, if they are banked elsewhere. See CGAP business case, 2014, op.cit.
[122] http://www.hsnp.or.ke/index.php/our-work/delivery-of-cash-transfers

attract many more, given the high level of financial exclusion. Employing direct sales agents among refugees to market your FSP and its products may also significantly increase uptake. There may also be efficiency gains in hiring refugees themselves, if legally possible.

If already in use by your FSP, mobile money platforms may be a viable and cost-effective delivery channel, as many refugees have access to mobile phones. Mobile phones can be used to send clients monthly text message reminders to make deposits or repayments, and can be combined with a low-cost ATM cards (used only to check balances),[123] which might be a popular channel for refugees to engage with the FSP. However, evidence suggests mobile banking should be accompanied with some level of face-to-face interaction.

For the benefit of all clients, seek to minimize transaction costs for clients. Like many national clients, refugee clients can be equally unhappy to use their small business profits for transport to weekly meetings across the city, for example.[124] Make sure to afford influence to refugee clients on the timing and duration, distance and logistics of interactions with the FSP, even if the costs cannot and maybe should not be completely subsidized.

Bear in mind that investments may be required for existing resources (staff, systems) to serve the new client segment effectively. As discussed in **Steps 4-6**, operational adjustments to procedures, manuals, and documentation and related staff training may be required. Market research and pilot tests will also require additional resources.

Crucially, remember that the large information gap and the stereotypes surrounding refugee populations will extend to staff and national clients and may need to be countered by awareness raising, regular informal contact, and staff training. In a foreign and often hostile environment where refugees may experience xenophobia, harassment and isolation, the importance of creating level, safe spaces and interfaces with welcoming staff cannot be overemphasized. ADIE in France provides two days of inter-cultural training for all its volunteer client mentors and has recently included a two-hour session dedicated to working with refugees.[125] Al Majmoua in Lebanon has employed some staff from among refugees to facilitate the interface.

MIS systems might need to be adapted to adequately track new client segments. Make sure to involve the MIS department in the design and pilot testing of products. If your FSP is offering both financial and non-financial services, make an effort to record baselines for both types of services in an integrated database/system based on unique client identifiers (e.g., a client number). If your MIS is tuned to the total client interface in this manner, you will be able better to track the elusive cross-sales between products. Define indicators of progress (e.g., portfolio growth, uptake by product, delinquency, and client retention based on risk categories, as well as early warning triggers to help detect counter-productive trends that require further adjustments to products or operations.[126] Ensure that your frontline data recording and reporting formats accurately capture the indicators and measures that you decide to monitor.

Selecting appropriate and relevant indicators and measures is important for measuring not only client performance but also client outcomes. Beware of indicators proposed (or required) by external funders which may push monitoring and service delivery in particular directions. For example, some government funders emphasize getting refugees into jobs as fast as possible, and provide funding to

[123] These services were successfully introduced by XacBank in Mongolia for youth clients.
[124] W. Kamugi: Microfinance as a Livelihood Strategy – a Case study of Forced migrants in Johannesburg, South Africa, African Centre for Migration & Society, University of Witwatersrand, February 2014.
[125] Interview with ADIE, 14 June 2016.
[126] M. Hamad: "The Impact of Microcredit Programs in Alleviating Poverty and Restoring Livelihoods of the Targeted Populations in Bosnia and Herzegovina" in Journal of Economic and Social Studies, Vol. 2, Issue 1, Spring 2012.

institutions based on the number of refugees in work/jobs within six months. This has driven many refugees into inappropriate/low level jobs as placements became more important than exploring and matching the skills and knowledge that the clients possessed.[127]

Finally, take care in how you report results to external stakeholders and the public. Reporting of nationality-based data can be politically sensitive in many countries and illegal in some. If your FSP reports the personal data of refugees to authorities, it could and increase refugees' risk of harassment, if not detention or deportation. The Smart Campaign's Client Protection Principle[128] on *Privacy of Client Data* offers guidelines for how to treat client information so that you do not unintentionally cause harm to clients.

3.4 Risk Management

Your FSP should aim to replace assumed credit risk with documented probable risk as you build your refugee-inclusive portfolio over time. Assumptions about refugee populations being high risk are often reflected in standardized FSP risk management systems. In addition to the review of eligibility and client selection criteria (see **Step 5, section 2.5)**, regularly review the risk management and mitigation measures to make sure these are based on probable risk and not in unfounded assumptions, especially regarding "flight risk." Even if risk is *perceived* rather than documented, higher risk categories of customers call for stronger risk management – not for a strategy of avoidance.[129] A risk-based approach also does not imply "zero failure."[130]

There are still too few FSPs actively serving refugees worldwide to provide benchmark data for performance, but the available evidence strongly suggests that refugees, migrants, and other non-national clients when appropriately segmented and selected do not pose a significantly increased credit risk. From experience in France, Belgium, Italy, Lebanon, and Kenya, the overwhelming feedback is not about flight or credit risk. Despite initial risk concerns, these few FSPs have experienced little or negligible actual increased credit risk in their refugee portfolios. Portfolio at risk over 30 days (PAR30) for the refugee client segments of these portfolios appears to be equal to, better, or in a few cases slightly higher than the overall PAR30 for the FSPs.[131]

However, the perception of high flight risk persists. The most comment risk mitigation strategies used by FSPs serving refugees include making smaller loans, with shorter terms and more frequent repayments; and requiring national co-members in groups and/or national loan guarantors (see **section 3.2.4**). In order to manage credit and flight risk, rethink your current risk management and mitigation strategies. Consider the following strategies:

- Relying more heavily on character assessment, using references from refugee associations, community or religious leaders
- Assessing upfront whether the potential client is likely to relocate within 12 months, using indicators of intent to "put down roots" (e.g., children enrolled in school, spouse employed, enrolment in classes, participation in local societies/associations, housing rental)
- Assessing commitment to business (e.g., space rental, membership in local business associations, business registration, supplier/customer inventories, order books)
- Verifying credit history in country of origin (which could be verified with country of origin FSPs), use of humanitarian cash transfer services (cards, vouchers), and/or evidence of regular remittances to family in country of origin (indicative of regular income)

[127] file:///C:/Users/User/Downloads/UsRefugeeOutcomes-FINALWEB.pdf
[128] http://smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles
[129] T. Curry, Comptroller of the Currency, Speech, Association of Certified AML Specialists, 17/3/2014.
[130] FATF 23/10/2014, op.cit.
[131] See SPTF: Case study on Al Majmoua, op.cit., for a detailed example.

- Requiring the client to save or provide cash (or asset) collateral for loans. In some situations, it may be possible to establish links with FSPs in refugees' country of origin and through them have assets pledged to host country FSP for loans
- Applying emerging technologies that develop an alternative credit score based on mobile phone usage, as discussed in **section 2.5**.

Adjustments to the standard risk mitigating requirement of a national credit guarantor are being explored with some success. For example, ADIE in France uses a solidarity group guarantee for groups of non-national clients, breaking from the assumption that repayment performance is related to nationality. They also use a "testimony guarantee" from two influential witnesses (e.g., a local community leader) among the socially tight-knit but highly mobile communities of Roma clients. The non-cash guarantee carries a moral responsibility for re-payment. Non- or late repayment by the guaranteed client will bar the guarantors from accessing credit and may negatively affect all borrowers of the community, effectively leveraging peer pressure for repayment. The result has been a better repayment rate among Roma borrowers than in ADIE's overall portfolio.[132]

Portfolio performance indicators should include early warning triggers to help detect actual credit risk in refugee-inclusive portfolios to inform a more accurate risk perception. This is especially important, because the standard risk management indicators may overlook emerging actual risks in a refugee-inclusive portfolio. Monitor arrears rates and delinquency by geographic and/or business purpose segment in both the refugee and national client portfolio to identify any signs of "cannibalisation" in the portfolio—the situation where loans to some refugee-run businesses out-compete businesses of other refugees or of existing national clients. Also monitor and compare retention/exit rates by client segment to detect problems. For example, while you might offer smaller, shorter loans to new borrowers, too-small loans and too-short loan terms or other ill-fitting product conditions might lead to a spike in client exit among refugees that need larger loans to sustain and grow their businesses. Combined with regular feedback sessions with clients, monitoring such early-warning triggers will give you a better idea of clients' satisfaction with products and terms.

While a strong focus on credit (and other) risks in the portfolio is always advisable, it is worth remembering that the most powerful source of security in microcredit tends not to be the FSP's use of (group) guarantees, but rather the strength of its lending, monitoring, and collection procedures, as well as the credibility of the institution's promise that clients who repay will have access to the services they need in the future.[133] The decision of an FSP to stay put with clients, including refugees, even in difficult times—flares of conflict in camps, for example—yields trust and a high level of loyalty.

The better the due diligence (appraisal) is up front, the better and more appropriate the risk mitigation regime can become. It is worth remembering the irony that "de-risking" refugees might seem to minimize FSP's own risk but leaves a significant clientele excluded, and may therefore contribute to increased financial market vulnerability by pushing these clients to smaller, informal financial institutions unable to deal with any higher risk—also known as "re-risking." Not serving refugees could have opportunity costs.

3.5 Profitability—The Business Case for Including Refugees

Concerns about profitability is an oft mentioned reason for FSPs not to serve refugees. They are thought to require lots of work and costs to include, and therefore not worth the effort, especially if FSPs have plenty demand among national clients.

[132] M. Degrand-Guillaud: description of ADIE's experience and positive outcomes of its activities for migrants' inclusion, 06 November, 2014.
[133] CGAP: A Guide to Regulation and Supervision of Microfinance - Consensus Guidelines, October 2012.

There is no one-size-fits-all solution to achieving profitability. Institutions operate in different external and internal contexts and have different business case considerations influencing the choices they make and the profitability outcomes they achieve.[134] The business case for including refugees is still emerging, but it seems to follow the trends of other new states of practice in that it should take a broader, longer-term view of profitability, and that it is likely to strengthen over time as refugee clients' relationships with institutions deepen.[135] The more products an FSP has to offer, the better the chance of developing a compelling business case, which might include revenue from offering cash-based transfer services to refugees for humanitarian agencies. The pilot testing of refugee-inclusive service provision should be able to provide indications of how and when the investment will pay off in customer acquisitions (portfolio growth), in additional client loyalty (retention), and in corporate social responsibility (CSR)/social performance gains during roll-out.

Arguably, the need for NFS is the most significant cost associated with expanding services to refugees. NFS are "higher touch" and thus more costly to develop and deliver than standardized financial products, and slower to reach scale. Emerging research finds that NFS contribute to clients' bankability, usage of financial services, and to a material improvement in client well-being (social performance outcomes).[136] The challenge is to find ways to enhance the financial capability of clients—as this drives active usage, retention, and reduced risk—while enabling FSPs to attain and retain overall financial self-sufficiency.[137] A core aspect of making NFS sustainable is the ability for the FSP to graduate clients to and/or cross-sell more profitable credit products. Take advantage of induction, training, and support service materials that exist in the global industry, and seek out cost-sharing or co-funding partnerships to lower the upfront costs.

While cross-sales or cross-subsidies by more profitable credit products may be substantial, they are difficult to track (see **section 3.3**), and as a result it is uncertain whether they can cover the costs. A potential alternative to track profitability of the new client segment is to use a client relationship-based approach as pioneered for small savers, and focus on "total client profitability." This approach considers the entire banking relationship of the client with the FSP over the longer term, and asserts that profitability increases over time. It also demonstrates that the opportunity cost of eliminating (or not serving) refugee clients would only relate to marginal costs—the FSP would still have to pay its fixed costs. When considering opportunity cost to eventually answer **decision point 6** on opportunity costs (see **Annex 1**), only factor in costs that would actually be saved by eliminating/not serving refugees.[138]

In the short term, external funding for the preparation phase (**section 2**) of including refugees may well be available from both protection agencies like UNHCR, as well as from more traditional microfinance funders and investors. The overall purpose of grant funding should be to buy down the (perceived) risk of this new client segment and to test or prove the viability of the business case. Subsidies work best if they have a clear objective, measurable results, and a pre-determined exit strategy.

A number of FSPs who are sceptical about using their own capital to serve refugees have been requesting partial loan or credit guarantee mechanisms from funders to share the perceived risk. The global experience with credit guarantee funds over the past 20 years has been mixed, but the industry has learned from these experiences. As with other subsidies, guarantees should be used to support

[134] CGAP: The Business case for Youth Savings, op.cit.
[135] Bankable Frontier Associates 2012; Westley and Martin 2010 quoted in CGAP (2015), op. cit.
[136] Odell: Measuring the Impact of Microfinance, op.cit.
[137] See The Monitor for Citi Foundation: Bridging the Gap: The Business Case for Financial Capability, March 2012, at http://www.citifoundation.com/citi/foundation/pdf/bridging_the_gap.pdf
[138] CGAP: Is There a Business Case for Small Savers? Occasional Paper # 18, September 2010.

the risk of *institutions*, not of clients. Risk-sharing funds should decrease over time as the viability of the business case emerges, and should not subsidize interest rates or collateral requirements for clients—otherwise, subsidies can distort the market. Nor should subsidies ever justify pushing non-ready clients into taking credit, as this could fuel over-indebtedness.[139]

Seek out funders that adhere to good practice guidelines,[140] and have a CSR or social/responsible finance commitment to match. Funders should be able to commit funding for the medium term (multi-year funding); commit to the testing of the business case; have an acceptable risk appetite; create the space and opportunity to "crowd-in" additional investors; and not present a reputational risk due to its presence as a funder. This latter issue is especially relevant when considering UNHCR or other protection agencies as funders, for the following reasons:

- Refugee and other borrowers may be less likely to repay loans known to be backed by UNHCR.[141]
- Because protection agencies inherently tend to focus on the most vulnerable, and take a needs-based approach to any service, they may wish to fund primarily (or exclusively) very vulnerable refugee clients and/or subsidize interest rates for these clients.[142] This contradicts the equal access principle, and the fact that FSPs can best serve the working or entrepreneurial poor—whether they are refugees or nationals. Be prepared to negotiate the principles of equal access and expansion of access to existing products for refugees on equal terms to other clients.

There is always a risk that short-term access to financial, and particularly NFS under a subsidy, will not lead to long-term inclusion or usage by the targeted clients. Any risk-sharing or subsidization should be carefully designed to enable your FSP to comfortably engage in a test of the viability of the chosen business case, and then gradual take over. Define a clear exit strategy for the funder. This requires negotiations and agreement between funder and FSP on monitoring and measurement of progress and a determination of the "end result"– i.e. when a business case is deemed to be viable or not. In both cases, funding should be phased out when the end result is reached.

This is an important moment for pushing the boundaries of financial inclusion to refugee populations and many stakeholders within and around the financial services industry are asking FSPs to engage. Financial services have historically focused on the citizens of nation states, but citizenship and "stability" are increasingly fluid concepts, and the sheer magnitude of displaced populations today demands that pro-poor FSPs examine their motivations for excluding refugees. In particular, socially motivated FSPs should consider how outreach to refugees fits within their mission.

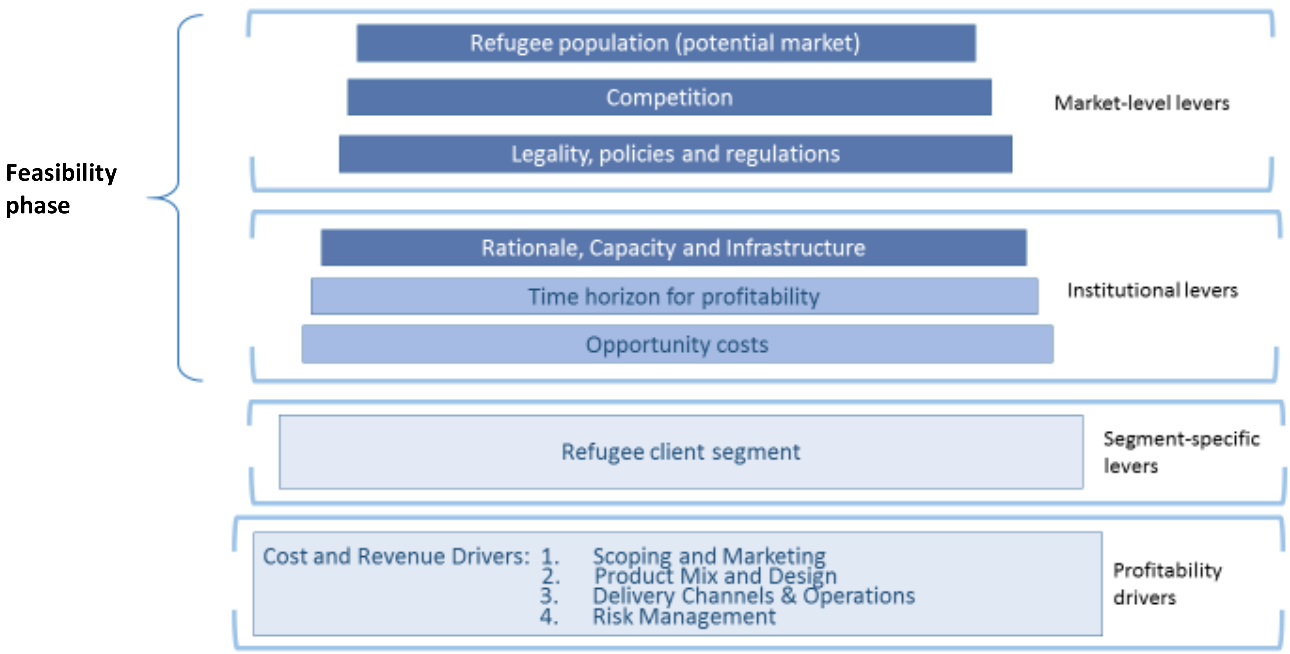
Serving refugees is not as difficult as it first appears. FSPs are deterred for a host of reasons—fear of financial loss, limited resources to invest in market research, or social or political prejudice. In short, the "unknown" nature of refugees is daunting to many FSPs. However, despite additional barriers related to legal status and language, refugees share many similarities with FSPs' core clients and should not be feared.

These guidelines have reviewed the arguments against including refugees, and find none to be insurmountable. Proposing a draft business case framework, the guidelines have sought to present recommendations and tips for FSPs willing to engage in this new frontier of financial inclusion, based on emerging evidence from the literature and the experiences of pioneering FSPs that are already serving refugees. It is our hope that the guidelines will prove useful for FSPs interested in reaching and serving refugees as an additional client segment within their portfolios.

[139] See e.g. Mercy Corps: Financial Inclusion - Approach and Principles, June 2014.
[140] As described in CGAP: A Market Systems Approach to Financial Inclusion Guidelines for Funders, September 2015.
[141] WFC; Beyond making ends meet, op. cit.
[142] See for example SPTF: Al Majmoua case study, op.cit., p. 8.

Annex 1: Building the Business case: Questions for the Feasibility Study

Tentative Business Case Framework for Inclusion of Refugees



1. Market Levers

Decision Point 1: Is there a viable potential market size and scope in our current/future areas?
Determine the general size and scope of the potential new client segment in your country, in current and prospective areas of operation. How long have they been there and how long are they likely to stay? How protracted is the conflict/disaster from which they fled?

Both in rural and urban areas, self-settled refugees typically live in same communities as the poor, and face the same challenges of high unemployment, poor housing, price inflation and scarce access to resources (water, grazing, etc.). Like the national poor, self-settled refugees also operate primarily in the informal economy and face harassment, have inadequate social safety nets, and are vulnerable to exploitation.[143] Both in urban and rural environments, as well as in camps, refugees tend to congregate in national communities, providing an opportunity for aggregation of clients (scale). Avoid only focusing on livelihoods, because refugee economies form part of a complex system of consumption, production, exchange, and finance. In several markets, there is evidence of dense economic interaction with host communities, and some larger and older refugee camps function as centers of economic gravity for agricultural and trade value chains, remittances, and brokerage—so look at camp environments as well.

UNHCR and other protection, development, and migration agencies[144] and local authorities/municipalities can usually assist with numbers, location maps and basic socio-economic profiles of refugee populations in your area. Also contact diaspora organisations, refugee/migrant community associations, and providers of cash-based relief services (merchants serving refugees with

[143] WFC: Beyond making ends meet, op.cit.
[144] These include UNDP, IOM, the International Committee of the Red Cross (ICRC), and local and international NGOs. In some countries, these organizations are already meeting regularly in a livelihood cluster group or similar.

ATM cards or e-vouchers) and remittance service providers to get a sense of the demand and current usage of financial services by refugees. Finally, ask frontline staff and existing clients what they know about refugees in their communities.

Decision Point 2: How competitive is the environment?
Capturing future refugee clients early on can create a key competitive edge for your FSP, as the potential market of refugees is often underserved by other FSPs. There can be significant benefits (visibility, reputation and funding) in being the first mover in the market, especially if refugees are primarily served by international humanitarian NGOs in the country, as national stakeholders may prefer a national FSP to get involved. However, there may also be comfort in partnerships with other FSPs. Consider a discussion on "why not refugees?" in your national microfinance association or network. Getting other FSPs involved might have advantages for your FSP.

Get a sense of the competitiveness among the humanitarian refugee protection agencies—how many and which agencies and organizations are present, what services do they provide to how large a segment of the refugee population? Note opportunities for partnerships, entry points, and sources of further data and information on refugees on the one hand, and on the other, assess the risk of credit market contamination or harm to the credit culture due to relief availability and dependency.

Decision Point 3: What are the key legal, policy, and regulatory parameters to take into account?
Refugees often lack proper ID documentation, clear legal status and limited rights to work or movement. Regulatory requirements (such as "know your customer" and reporting requirements) can also create challenges that disproportionately affect refugees. And the general political discourse and level of acceptance of refugees in a country can create both opportunities for reputational gains and reputational risk–consider both aspects.

Approach the central bank and/or regulatory ministry to thoroughly understand whether and which restrictions may apply to financial inclusion of (which categories of) refugees. In a few countries, laws or regulations prohibit or discourage FSPs from serving refugees (or non-citizens more broadly), but in several countries with significant refugee populations, regulatory exemptions, facilitation, and even incentives are being drawn up for FSPs to also serve refugees, though these are often not widely disseminated. The more specific questions you can ask of regulators and policy makers, the more specific answers you might get.

If you are considering services to encamped refugees, check the degree to which your FSP would have access to meet and interact with clients and any restrictions on refugees to move and work outside the camp. Contact the relevant authorities such as the Ministry of Interior, local or specialized police or armed forces, and camp management authorities. UNHCR may be able to assist with introductions.

Take note of potential sources of support for FSP engagement (approvals, if necessary) from among policy makers or policy implementing authorities (e.g. municipalities, local government), as well as more negative reactions or policies that may require mitigation.

2. Institutional Levers

An FSP's internal motivations, characteristics, and strengths all influence whether and when a business case may exist for serving refugees, relative to other product lines and client segments.

Decision Point 4a: What are the key motivations (rationale) of the FSP for engagement?
While it cannot create a business case on its own, social commitment can help motivate an FSP to expand services to refugees in spite of the challenges.

Determine whether the institution's interest in refugees is based primarily on a social responsibility response to a refugee problem (as was the case for Al Majmoua in Lebanon)[145] or whether it is driven more by opportunities for portfolio growth based on a "triple bottom line" business case. Very likely, it will be a mix of both. Try to clarify what goals different decision-makers expect from each of the bottom lines, as this can inform the strategy.

Ask frontline staff and existing clients what they think about including refugees. Focus group discussions with clients and staff early on can provide very important insights into any fears and constraints (whether real or perceived) that your institution should address in a strategy for inclusion of refugees. Also ask your owners and key investors/funders whether they would be interested in supporting an initiative to include refugees and why.

Decision Point 4b: What is the institution's capacity and infrastructure to allocate resources to including refugees?

FSPs need to invest in adjusting existing products, creating distribution and marketing strategies, and cultivating partnerships with new delivery channels. These efforts can require substantial management attention, staff time, in some cases, new staff appropriate to the refugee market, and other resources. Some institutions may be able to leverage an existing, wide-reaching branch network and other resources. Others may need to make significant investments in new distribution channels, management information systems, and operational adaptations.

Determine if your FSP has appropriate existing infrastructure, including branches (and/or agents) at suitable locations and an adjustable MIS system. Do you have staff able to work with refugees (consider language and inter-cultural personal skill profiles)? How much staff time and resources could be allocated to serving refugees?

Also review your internal eligibility and selection criteria. Is your mission inadvertently excluding refugees or other non-nationals? Do your eligibility criteria prevent the extension of services to refugees (e.g., requirements of a national ID)? Could they be revised? Note which issues and adjustments may need to be addressed at a later stage.

Decision Point 5: Over what time horizon do we expect (or require) profitability from including refugees?

Consider the expected (estimated) demand versus your current product range. In particular, consider whether and how you could ensure access by refugees to NFS services (see **section 3.2.1**) through partnerships, linkages to BDS providers, or as a core service managed in-house. To a large extent, this will determine the level of investment needed and the potential break-even points. How and by when could especially the costs of non-financial services be covered? Consider the scope for charging fees and cross-selling profitable products to refugees which may "subsidize" cost-bearing services.

Review the availability and appetite for (additional) financing among existing and new investors and funders. If new humanitarian or protection funders appear interested, take note of their funding cycles, which may be short-term and consider options for leveraging such short-term funding with longer-term investments to smooth your FSP's cash flow.

[145] Al Majmoua did not initially develop a business case for financial services to refugees, but saw an opportunity to use their non-financial services as a de-linked social response to a national crisis. There was, however, pressure from some branches to provide credit to refugees living with relatives in Lebanon, who could act as guarantors and references for the new clients.

Decision Point 6: What are the opportunity costs of including refugee as opposed to investing resources into other ventures?

When faced with resource constraints, FSPs typically allocate their limited resources to the products operations and client segments likely to generate greater returns. The opportunity costs to FSPs of expanding services to refugees can be substantial, but if a sizeable potential client market exists in relatively proximity to your existing infrastructure, and if there is internal motivation and capacity to engage, the returns over a patient time horizon can be equally significant or greater, both in terms of financial and social performance. Ask:

- Could we get a better financial and/or social return on investing in another client segment or different expansion?
- Given our resources and the estimated investment required (product and systems adjustments, training, staff time, funds) as well as the potential benefits (growth, diversity, social performance improvement, visibility, and reputation), does an expansion of our services to include refugees seem feasible?