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A New Frontier of Financial Inclusion: Serving Refugees?

**2016 Social Performance Task Force Annual Meeting
Workshop 3, 31 May 2016
Moderator: Lene Hansen, Independent Consultant**





Welcome to Workshop 3

- Globally, there are 60 million people in forced displacement – some 20 million of them are refugees (end 2014). Yet, these populations are generally invisible to and un(der)-served by Financial Service Providers.
- Objective: to demystify “refugee microfinance” and encourage participants to consider if and how they (or the FSPs they support) could extend financial services to refugees.
- Goals: Explore the reasons why refugees are largely un-served and discuss options for expanding financial inclusion to refugee populations based on global research and practical examples.
- The workshop will address three main questions:
 1. Which external and FSP-internal factors influence our perception of refugees as ‘high-risk’ clients?
 2. How can FSPs go about exploring the potential benefits and risks of serving refugees?
 3. What strategies, products and services are getting good results?

Programme

31 May	Workshop 3: Expanding financial Inclusion to Refugees 14:00-16:45
14:00	Welcome, introduction and overview
14:15	Question 1: Which external and FSP-internal factors influence our perception of refugees as 'high-risk' clients <ul style="list-style-type: none">• Presentation• Group discussions and feedback to plenary
15:00	Question 2: How can FSPs go about exploring the potential benefits and risks of serving refugees? <ul style="list-style-type: none">• Brief presentation• Group discussions and notes to moderator
15:30	Coffee/tea break
16:00	Question 3: What strategies, products and services are getting good results? <ul style="list-style-type: none">• Presentation by Al Majmoua and Questions/Answers• Group discussions
16:35	Wrap-up, key take-ways and next steps <ul style="list-style-type: none">• Join the community, sign up for training of trainers

Suggested Ground Rules ...

- ✓ **Seat yourself where you will converse most comfortably:
Groups: “Bowler” (English) or “Croissant” (French)**
- ✓ **Brainstorm freely; disagree openly, but courteously... it stimulates discussion & helps others ‘think aloud’!**
- ✓ **Speak up with interesting & relevant ideas that will add value!**
- ✓ **Avoid side conversations, let all participants benefit!**
- ✓ **Don’t leave the room unless you have to**
- ✓ **Please be prompt after the break**
- ✓ **Switch off cell phones!!!**
- ✓ **Others?**

Who are the “refugee populations”?



Courtesy: UNHCR



Courtesy: HIP, 2014

- 60 million people in forced displacement - 19.5 million registered refugees of whom 5.1m Palestinians under UNRWA mandate (end 2014)
- 74% of displaced people from 7 countries
- 50% of displaced people living in 7 countries
- Est. 13 million people stuck in protracted displacement. Average duration of displacement now 17 years.
- 51% of all refugees under 18 years, **46% (8 million) in productive age bracket**
- **61% are self-settled, 65% in urban areas** – only 35% in managed camps

Refugees are very similar to citizen clients

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

So...Let's get started:

- ▶ Do you know if there are refugees in the country of your FSP/the FSP(s) that you work with?
- ▶ Does your FSP/the FSP(s) you work with currently offer services to refugees?
- ▶ If not, why not??

- ▶ Why are refugees currently excluded from financial services?



Q1: Which external and FSP-internal factors influence our perception of refugees as 'high-risk' clients?

- Limited access by refugees to financial services is perhaps due to 4 specific features that have become stereotypical engrained in assessments and contribute to a **perceived higher risk** than the 'core clientele' of FSPs within any specific country context:
 1. **External environment** matters and influences demand and supply for microfinance
 2. **Legality and eligibility** lack of documents versus regulations and criteria
 3. **Familiarity, visibility and information** (lack of contact and information)
 4. **Mobility** (livelihood strategies vs. perceived flight risk)

1. External environment for inclusion

The national legal and policy frameworks, the dynamism of the economy, and the receptivity for integration (*acceptance*) in each society determine access and engagement;

- **Domestic politics:** Some countries formally or more subtly discourages FSPs from serving non-citizens – but microfinance has found ways to develop in *unabling* environments before;
- The '**burden myth**' (scarcity): Contracting economies cannot handle new entrants (no matter their nationality) – but the informal sector has always provided opportunities for innovation;
- **Xenophobia, stereotypes, preconceived misconceptions** at community (staff, existing clients) and national levels feed the reluctance to engage – but including refugees is an excellent opportunity to implement SPM
- **Working with refugees = working with stereotypes!**

2. Legality and eligibility constraints for inclusion

Limited Identity documentation versus KYC/eligibility requirements

On the demand side (refugees)

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

On the supply side (FSPs)

- Illegal to serve non-citizens? (legislation/policies)
- External KYC/AML-CTF/CDD requirements (regulations)
- *Internal eligibility requirements* (citizen-centric: verified address, local roots/vetting, guarantors)
- Capacity (sufficient demand among 'less risky' national clientele?)
- Data protection/security challenges – also from government

3. Visibility and information constraints

Lack of contact (familiarity) vs. proactive outreach and segmentation

On the demand side (refugees)

- Lack of relations (no info/ awareness of FSPs, language)
- Preference for informal/known financial service providers
- Lack of trust (fear of persecution/ insecurity, *assumed ineligibility*)
- Capacity (wealth, resources, educations, skills)
- Focus on immediate needs (pending migration path/plan)
- Relief dependency/entitlement (35% refugees encamped)

On the supply side (FSPs)

- Limited interest (Mission to serve poor *citizens*, exclusionary eligibility/selection criteria, assumed high risk, reputational risk concerns)
- Limited market research and visibility (no info, data contact or no common language – how to find clients?)
- No segmentation (assumed ineligibility, responsibility of ‘protection agencies’, lack of info on economic activities)
- Unclear needs (Are products suitable? Can refugees meet terms and conditions?)
- Poor reputation/experience (anecdotes of non-repayments/abscondment, difficulties partnering with protection agencies, ‘ruined credit culture’, etc.)

4. Mobility constraints for inclusion

Perceived flight risk vs. mobility and risk mitigation

On the demand side (refugees)

- Expected duration of displacement (plan)
- *Access to markets/econ. opportunities* (communication/local mobility, host-refugee interaction, local and trans-national economic opportunities)
- Mobile/Smart phone access (high and increasing)

On the supply side (FSPs)

- Poor reputation/experience (mainly anecdotal)
- Reputational risk (citizen clients and staff opposed, concerns about delinquency/cannibalizing portfolio of poor citizens)
- Exclusionary eligibility/selection criteria (ID, address)
- Exclusionary risk management/mitigation regime (assumed high risk → (too) short/small loans → low demand/repayment → increased guarantor/security requirements → lower demand/repayment/drop-out etc.)

Your turn: Group Discussion



- ▶ Discuss the constraints (risks) presented and think about your FSP/the FSP(s) you work with/your country:
- ▶ Complete **Hand-Out 1** as a group: summarize the mitigating measures you could take to overcome the constraints/risks discussed (include other risks based on your experience)
- ▶ After completing the mitigating measures: Reconsider all the risks and rank the top three risks from 1 to 3 (1 being the highest risk to your FSP)
- ▶ Select a broadcaster/rapporteur to present your **top mitigated risk (1)** to the plenary in 3 minutes

Time: 30 minutes

Q2: How can FSPs go about exploring the potential benefits and risks of serving refugees?

Potential Risks	Mitigating measures	Potential Benefits
1. “Unabling” environment		
Policies that prohibit/discourage FSPs from serving non-citizens	<ul style="list-style-type: none"> • Advocacy by MFI association and networks to Central bank • Lobby local authorities (municipalities) & politicians 	<ul style="list-style-type: none"> • Reputational gains: FSP(s) seen as part of solution, “first mover”; • Practical SPM application; • Financing: funders interested
Policies that discourage refugees from securing livelihoods	<ul style="list-style-type: none"> • Advocacy by UNHCR, humanitarian/human rights agencies, MFI association and networks • Partner with hum. agencies (e.g. livelihood clusters) for info and client segmentation 	<ul style="list-style-type: none"> • With rights to work and move freely, refugees contribute more to national economy as consumers, producers, even employers (e.g. Uganda) and become better FSP clients. • FSPs better able than NGOs to assess enterprise skills.

Potential risks and benefits contd.

Potential Risks	Mitigating measures	Potential Benefits
2. Legality and eligibility		
<p>Restrictive external KYC/AML-CTF/CDD and/or data reporting regulations</p> <p>OBS: Lack of documentation is not specific to refugee populations</p>	<ul style="list-style-type: none"> • Advocate (via network): refer to new FATF guidance (2013), EEC and good practice countries • Use of technology (smartcards, biometrics, InVenture mobile app credit score) 	<ul style="list-style-type: none"> • Risk-based regulations go easier on MFIs; • Combats “re-risking” with informal FSPs
<p>Restrictive FSP-internal eligibility requirements</p>	<ul style="list-style-type: none"> • Review criteria for any ‘<i>a priori</i>’ exclusionary clauses: • Adopt mission/strategy for inclusion of ‘all poor in the country’; • Adopt “ID or acceptable substitute documentation” 	<ul style="list-style-type: none"> • Reputational gains as inclusive FSP practicing SPM; • Potential growth (new clients)

Potential risks and benefits contd.

Potential Risks	Mitigating measures	Potential Benefits
3. Familiarity, Visibility and information gaps		
<ul style="list-style-type: none"> • Lack of exposure • Assumed ineligibility • Internal resistance 	<ul style="list-style-type: none"> • Board (and MFI association) discussion on why refugee are not served; • Strategy session with management; • 'Feasibility study' to build business case – <i>involve clients and staff</i> and go slow to develop buy-in; • Let national and refugee clients meet. 	<ul style="list-style-type: none"> • Uncovering internal stereotypes is an eventful journey, and can help clarify how to do SPM in practice; • Being “part of the solution” is a staff motivator!
Lack of client info, data, or common language	<ul style="list-style-type: none"> • Contact UNHCR and municipalities for geo. and socio-econ. refugee data; • Contact refugee associations/NGOs; • Be visible (info materials, outreach); • Look in value chains where refugees have an advantage (ethnic food, handicrafts); • Segment and select carefully (do not outsource/accept referrals) 	<ul style="list-style-type: none"> • Increased visibility; • UNHCR/investors are actively looking for FSP partners; • New partnerships and potential funding of pilots; • Better market research and segmentation practices; • Growth, reputation gains.

Potential risks and benefits contd.

Potential Risks	Mitigating measures	Potential Benefits
4. Credit and flight (mobility) risk		
<p>Assumed credit risk too high</p> <p>OBS: Mobility ≠ flight</p>	<ul style="list-style-type: none"> Refugee mobility is primarily associated with economic opportunities; Apply 5Cs with emphasis on character to selected segment(s) (ok to de-select); Aim for equal access to existing products, but NFS can be value-add; 	<ul style="list-style-type: none"> A2F acts to increase stability (more successful livelihoods); Negligible increased credit risk in integrated portfolios; Fiercely loyal/grateful clients
<p>Exclusionary risk management (RM) practices</p>	<ul style="list-style-type: none"> Update RM systems for a mobile world: Assess migratory plans, location consistency, intent to develop local 'roots', commitment to business, etc.; Use refugee associations/community or religious leaders as references (and potential guarantors); Consider credit history and linkages in country of origin 	<ul style="list-style-type: none"> Systems development also benefits national clients; Staff training, new practices are staff motivators; Stronger MIS/M&E; Visibility, reputational gain; Potential product development: transnational partnerships.

Discussion and review in groups



Please discuss and complete **Handout 2** as individuals:

- Which 3 types of info/data would your FSP need to consider refugees as a new client segment?
- From which 3 sources could you get this data/information?
- What 3 characteristics would be most important for your FSP to assess a new refugee client?
- List one way your FSP's client eligibility/selection criteria or risk management system would need to change to accommodate refugees?
- Drop the completed Handout in the Results Box – and enjoy your coffee/tea break!

Time: 15 minutes



Welcome back!

Results of feedback for Question 2:

- Info/Data needs:
- Top ranked refugee client characteristics:
- Updates needed to eligibility/selection criteria or risk management systems:

Introducing an expert: Al Majmoua of Lebanon

Al Majmoua:

- National NGO with 22 branches, 400 staff
- 4,400 active borrowers as at Oct 2015 – group/ind. loans
- SPM formalised in 2012, social + SPM ratings and TA
- Cash-free operations, repayments via post offices/OMT
- Significant project-funded portfolio of non-financial services.

Refugee portfolio:

- Driven by strong mission to serve all low-income people in Lebanon including migrant labour and encamped (Palestinian) and self-settled (Syrian) refugees;
- Gradual and careful introduction backed by client/staff feedback and market information
- Since 2013, 15% of active borrowers (8,000) are non-Lebanese, holding 12-13% of portfolio. Of these, around 20% (1,800) are 'current' refugees (mostly Syrians).

Al Majmoua Ratios	Jun 15
OSS	159%
FSS	133%
RoA	10%
RoE	17%
OER	52%
Cost per borrower	\$ 162
Debt/equity ratio	64%
Capital adequacy	66%
Portfolio yield	30.7%

Q3: What strategies, products and services are getting good results?

Strategies to explore refugees as new client segment:

- Develop a **clear strategy** for inclusion of 'all poor in the country.' This requires determined drive from the Board and senior management and a clear business case accepted by all stakeholders;
- **Be patient:** develop strategy slowly and involve staff and existing clients to alleviate fears and resistance, despite incentives of funding. Use newsletters, staff meetings, client forums and feedback from funders to ensure buy-in;
- **Research:** UNHCR, protection agencies, refugee associations and national/local authorities can assist with numbers, location maps and basic socio-economic profiles of refugee populations. Share your plans to solicit support – and approval if needed;
- Decide on a **client segmentation matrix** – who can you serve best? It's ok to deselect! **Don't outsource** client segmentation (selection, appraisals) to e.g. protection agencies, as they may select or refer the most vulnerable. Extend the segmentation matrix to existing clients to identify common-interest segments to bring together.

What works contd.

Products and services:

- ▶ Refugees are often socially isolated and value **opportunities for interaction** with their new neighbours. FSPs can host/participate in social events for hosts (existing clients) and refugees – and use these as initial screening/segmentation;
- ▶ **No financial product adaptation** is necessary for refugees to be included – offer the same products and terms to nationals and refugees – and mix (in groups). Allocate experienced loan officers and monitor performance instead;
- ▶ Needs-based **non-financial services (market info, training, BDS)** are good entry points and valued services in themselves – but design for sustainability;
- ▶ **Adjust risk management systems** to avoid 'a priori' exclusions, and monitor performance – watch out for early warnings: drop-out rates, increasing arrears by geographic or business purpose segment in mixed client portfolio (cannibalization)

- ▶ Serving refugees feels good – “to do good is a **staff motivator.**” Success stories have a positive impact on staff morale, SPM and reputation;
- ▶ **Don't be scared:** Appropriately segmented and appraised, refugees can be as good clients as any national low-income entrepreneur – and sometimes better.

Plenary discussion

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

Thank you very much for attending!



Next steps in the 2016 UNHCR-SPTF project:

- June: Preliminary Global Guidelines for FSPs considering serving refugees
 - SPTF Webinar to discuss and solicit further input from practitioners
- August: Training of Trainers Materials developed
- Sept/Oct: 2-day Training of Trainers seminar on Refugee Finance for TA providers to field-test Guidelines and tools for FSPs
 - Follow-up SPTF online training session
- Nov: Edit Guidelines for final translation/publication by UNHCR (expected Jan. 2017)
- Possibly linking up interested FSPs to upcoming UNHCR-SIDA Credit Guarantee Fund

What can you do?

- Please join the conversation: <http://sptf.info/working-groups/refugee-microfinance>
- Please consider the sign-up note for the upcoming TOT on refugee microfinance
- Please send additional input to Lene Hansen: lenemph@hotmail.com



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