Serving Refugee Populations: The Next Financial Inclusion Frontier

SPTF Webinar, 20 July 2016

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The UNHCR-SPTF project so far

- **Problem:** Globally, there are 65 million people in forced displacement – some 21.3 million of them are refugees. These populations are generally invisible to and un(der)-served by Financial Service Providers (FSPs). Why and what can the financial services sector do to change this?
- **Sept-Dec 2015 (ongoing):** Research, literature review, interviews with experts and practitioners
- **Nov 2015:** Case study of Al Majmoua, Lebanon
- **Dec 2015:** First SPTF webinar to discuss emerging findings
- **May 2016:** Workshop at SPTF Annual Meeting, Morocco
- **July 2016:** FSP guidelines disseminated for public comment

The FSP Guidelines for Including Refugees

- **Goal:** To examine why refugee populations are financially excluded and how FSPs can successfully reach and serve this untapped financial market segment.
- **Section 1:** Reviews emerging global research on the economic lives of refugee populations and common FSP concerns to explain why refugees are financially excluded
- **Section 2:** Business case framework and six concrete steps for FSPs to prepare for inclusion of refugee clients
- **Section 3:** Emerging good practices from pioneering FSPs and recommendations, ideas and tips for FSPs to begin building the business case for financial inclusion of refugees.

Section 1: How big is the potential market?

Courtesy: UNHCR

Courtesy: HIP, 2014

- 74% of displaced people come from only 7 countries, but refugees exiled in 169 countries - 85% in developing economies
- Est. 12 million people exiled for more than 10 years
- 51% of all refugees under 18 years, 46% (9.5 million) in productive age bracket, half of whom are women
- 61% are self-settled, 65% in urban areas – only 35% in managed camps
- FSP market size estimate: **Minimum 5.3m working age adults in protracted displacement in urban areas + additional 2.7m adults in densely populated camps.**

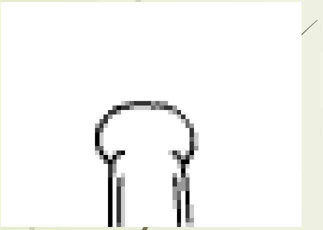
How different is the client segment?

- Refugees are as heterogeneous as core MF clientele and apply diverse economic strategies, many different business/ livelihood models.
- The majority is self-settled in urban areas. Many camps are now rural economic hubs with own value chains.
- Evidence of dense economic refugee-host interaction & regional networks; refugees contribute as consumers, traders, service/goods providers, employers to local economies.
- Refugees are at least as technologically literate as nationals. Many have and use phones and MNO competition seen in some camps.
- Urban/rural self-settled refugees and a good part of encamped refugees have similar financial service demands to the core FSP clientele of national poor.

So why are they not served by FSPs?

What practitioners mention:

- No/unclear legal status
- Contracts not enforceable
- Cannot access markets



- Too high risk of "flight"
- In country temporarily
- No (credit) history with FSP
- Not profitable – costs too high

- Not socially accepted so clients/staff resist inclusion
- Not our responsibility

- Do not speak our language
- Too poor/aid dependent

Drivers of financial exclusion of refugees:

1. **Political/Reputational Risk**
   - Societal fears and prejudices reflected in public policy, opinion and media
2. **Legal Barriers**
   - Legal, policy 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.

Reputational risks

National policy frameworks, the dynamism of the economy, and the receptivity to integration (acceptance) in each society determine access and engagement.

- **Domestic politics**: Some countries formally or more subtly discourage FSPs from serving non-citizens – but microfinance has found ways to develop in *unabling* environments before
- The '**burden myth**' (scarcity): Economy cannot handle new entrants/there is not enough to share – but the informal sector has always provided opportunities for expansion and innovation
- **Xenophobia, stereotypes, misconceptions** at all levels feed the reluctance to engage – but including refugees may be an excellent opportunity to diversify, grow and implement SPM
- **Working with refugees = working with stereotypes!**

Legal constraints

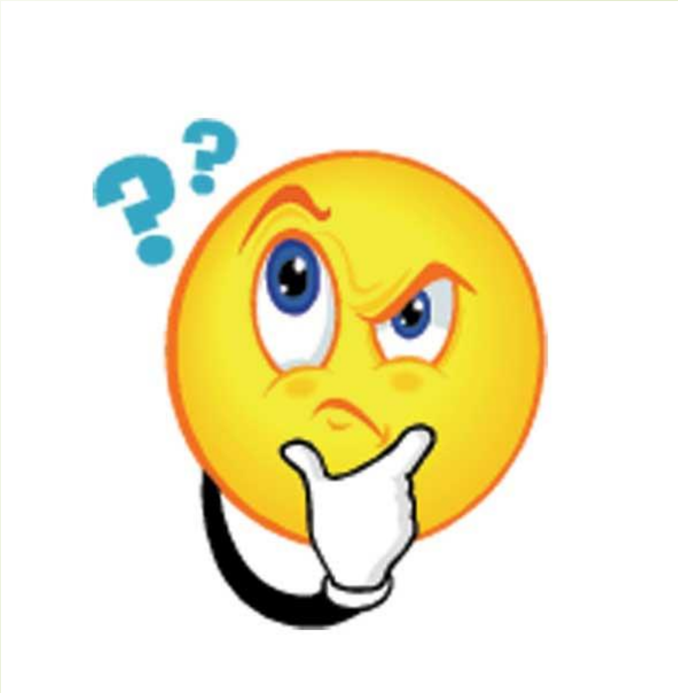
- Refugees often have uncertain legal status, limited rights to work or to move, and lack identification papers and documentation of residence.
- Our industry has long accepted the norm that proof of citizenship, identity, and residence reduces risk - but is it true that national clients are less risky?
- Lack of citizenship documentation, identity, or residence papers is not specific to refugees; also a problem for many poor citizen clients.
- The industry has found alternative ways of adequately verifying the identity of undocumented national clients that work in the informal sector.
- FSPs currently serving refugees have overcome legal challenges by seeking prior approvals and support from national authorities or local government, and by soliciting advocacy support from UNHCR.

Ignorance

- Refugees are typically **not very visible** in their host country market place, they are not familiar with local FSPs and will rarely initiate contact
- Many **FSPs are uninformed** about and unfamiliar with their country's refugee populations and make decisions based on very limited information and common myths: Refugees are perceived as a "very high risk" market segment
- This view is **not supported** by findings emerging from recent research on refugee economic strategies, livelihoods or by FSPs currently serving refugees
  - At least half of all refugees have been in exile more than 10 years
  - Most do not depend on aid but have complex livelihood strategies and transnational networks
  - Mobility of refugees is associated with economic opportunity: successful livelihoods
  - Increased opportunity for successful livelihoods through access to financial services would increase stability, integration and contributions to local economies.

Questions and comments?

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

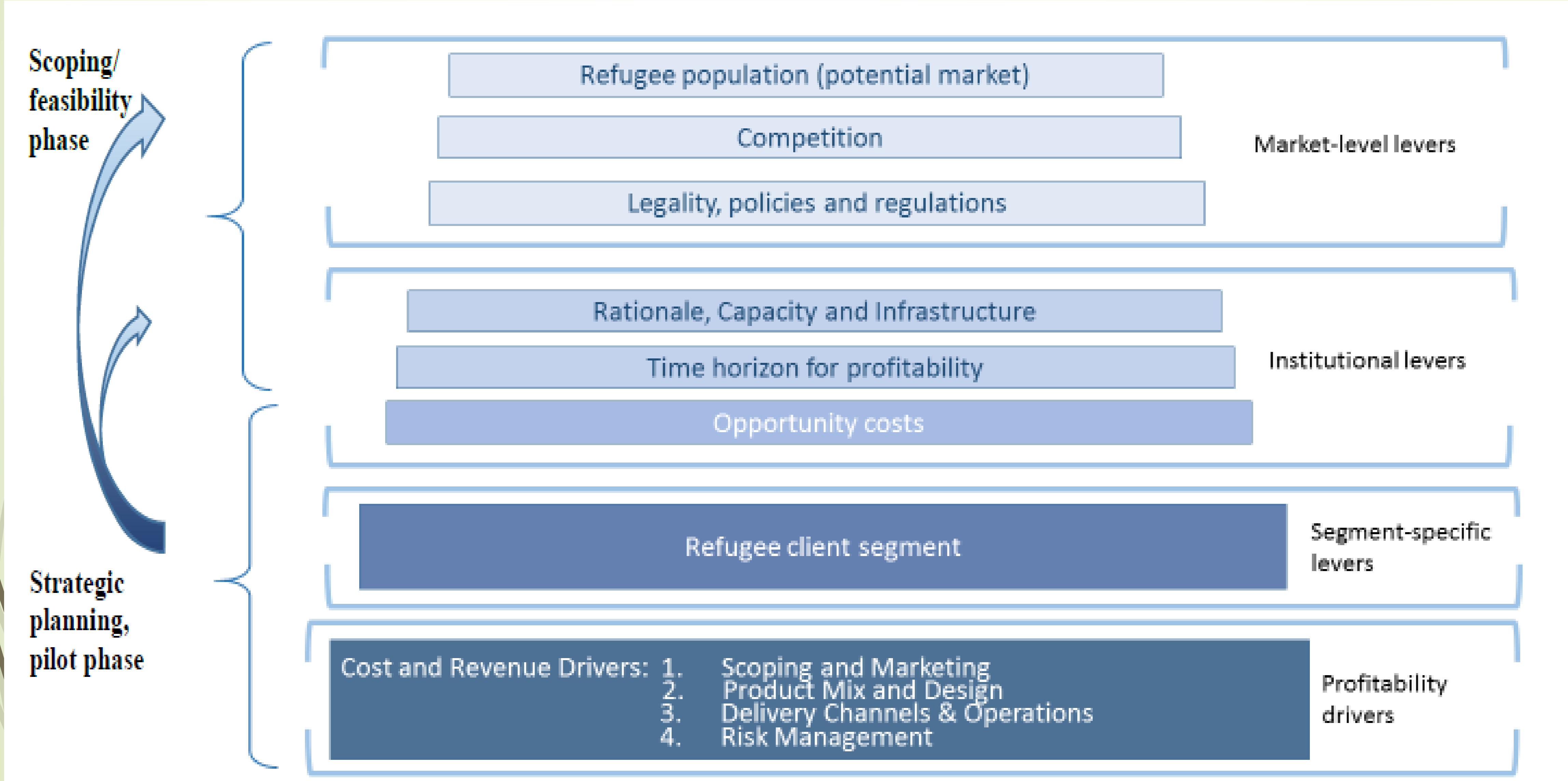


Section 2: How do we engage with refugees?

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

Proposed Business case framework



1. Scoping study: Market levers

- **Is there a viable potential refugee market in our areas? How different are they to our current clientele?**
- **How competitive is the environment?**
- **What are key legal, policy, and regulatory parameters and constraints?**

1. Contact UNHCR and other protection/migration agencies and local authorities/municipalities – they can assist with numbers, location maps and basic socio-economic profiles of refugee populations in your area
2. Contact refugee/diaspora community associations, (I)NGOs, and providers of cash-based transfers/remittances to learn about demand and current usage patterns
3. Check competition – from other FSPs and among humanitarian agencies
4. Contact your regulator to understand whether and which restrictions may apply to financial inclusion of (which categories of) refugees, if any. Also contact authorities in charge of camps.

Interest and capacity: Institutional levers

- **Which goals drive our interest in serving refugees – social, financial or a mix?**
- **What capacity, resources and infrastructure do we have to include refugees?**
- **What is our time horizon for profitability/returns on upfront investments?**
- **What are the opportunity costs of including refugee or not?**

1. Discuss "why not refugees?" in Board, with owners and key investors/funders and across departments – note all questions/concerns.
2. Ask frontline staff and existing clients what they think. FGDs can provide insights.
3. Consider how well your infrastructure can reach/serve refugees where they are and how well your products match the demand.
4. Determine what resources you can allocate to operational adjustments (eligibility and appraisal criteria, MIS, marketing) – and for how long.
5. What are key investments (costs) and benefits?
6. Does an expansion of services to include refugees seem feasible?

2. Develop your strategy

- **How do we plan for the inclusion of refugees?**

1. Identify a ‘champion’ (SPM committee, task force) with resources, time and support from the top.
2. Go slow and involve all departments, frontline staff and existing clients.
3. Keep all stakeholders fully informed. Use newsletters, staff meetings, client forums and feedback from external stakeholders, including funders and investors to increase buy-in.
4. Share strategy with local and national authorities/regulators to get support and approvals if needed, and with protection agencies to establish potential linkages to additional funding and/or providers of non-financial services.
5. Expect increased visibility, potential offers of additional support and critique. Develop a communication plan with a FAQ sheet or flyer explaining where you are in the process, and add new contacts to the dissemination list.

3. Research client segment: Make contact

Refugee client segment

Segment-specific levers

- **How do we even find refugees in our area?**

1. Deepen contact to refugees via protection agencies, community associations and NGOs – check for existing platforms of refugee services.
2. Look for refugee entrepreneurs in the value chains where they have an advantage (ethnic foods, music, services, handicrafts, remittance providers).
3. Make your FSP visible (outreach materials in appropriate languages at social, educational, health, and other service points of contact) and on social media.
4. Consider hosting or participating in social events bringing together existing/new national clients and refugees.

4. Segment potential clients

- **Which client sub-segment(s) of refugees should we target?**

1. Use a segmentation matrix to pinpoint whom among the identified refugee communities your FSP can best serve. Consider:
   - Migration plan (arrival date and expected duration of stay)
   - Language skills and local market familiarity
   - Socio-economic capital/assets:
     - Material wealth but also financial exclusion
     - Financial education, and financial service experience and preferences
     - Current and prior business experience (including from country of origin)
2. Do not outsource segmentation to authorities or humanitarian/protection agencies that may select or refer only the most vulnerable.
3. It is ok to deselect sub-segments that you do not think you can serve well
4. If hostility is high, consider sub-segments that seem less of a competitive threat to nationals and existing clients, e.g. women and youth, and/or businesses that do not directly compete in core national value chains (‘nostalgic’ goods/services).

5. Review eligibility and appraisal criteria

- **Are your front office procedures and paperwork “refugee-ready”?**

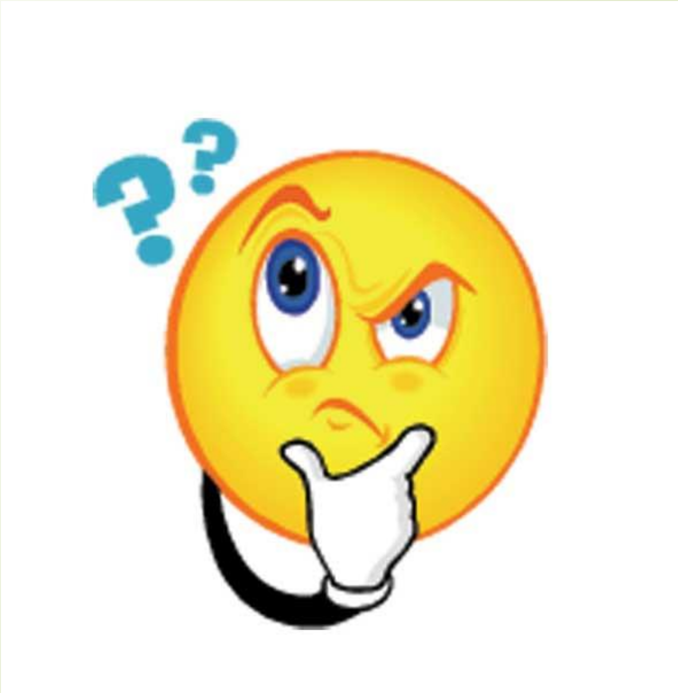
1. Review eligibility and selection criteria and documentation requirements especially for credit products
2. Ask your regulator which alternatives to conventional ID and proof of residence documents are acceptable within existing KYC rules
3. Consider alternative address verification methods
4. Check manuals and application forms for requirements related to “stability.”
5. Then appraise refugee clients as per usual practice but use experienced staff and allow for repeat appraisal meetings in appropriate languages or with interpreters.

6. Pilot test

- Pilot testing serves to adjust products and build the business case.
- Decide on the scope of the pilot based on demand and capacity.
- If there is significant credit risk concerns, you might start with:
  - A payment/transfer (remittance), savings and/or insurance product, if these are well established products and demand is confirmed or
  - A lower-value loan product that has an initial training and savings period
- Budget costs, including staff time, for the pilot project as well as the compilation of findings, client feedback and lessons learned.
- Define relevant indicators of success for the pilot and collect baseline information against which to monitor progress and results.
- Make sure that operations, risk management, and MIS departments are part of the pilot evaluation team.

Questions and comments?

- Do these steps make sense?
- What is missing?
- What else is of importance?
- What is your experience?



Section 3: Linking back to the business case

Cost and Revenue Drivers:
1. Scoping and Marketing
2. Product Mix and Design
3. Delivery Channels & Operations
4. Risk Management

Profitability drivers

Focus the pilot test 'indicators of success' to clarify potential profitability (revenue and cost) drivers:

- Which approaches to outreach/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?

This will help answer the question: Will this venture be profitable and when?

Potential profitability drivers: Outreach

Scoping and marketing can be costly, but also very effective in bridging information gaps, bringing in new clients, creating publicity, and enhancing your brand image.

- Market through the new potential partners, organisations and service providers identified during scoping: distribute information materials
- Conduct marketing events and informational sessions with mixed groups of existing and new national clients and refugees
- If you already offers non-financial services, encourage refugee clients to mix with nationals during training sessions
- Word of mouth is the best marketing channel: encourage pilot test participants, traders, diaspora contacts and existing clients to refer new potential refugee clients – consider an award/incentive for ‘best referrals’

Product mix, range and sequence

Serving refugees does not mean developing specific niche products! Rather, include refugees in existing products and services. Offer the same products on equal terms to promote social cohesion and avoid favouritism.

- **Non-financial services** (NFS) are not only a valuable add-on, but an essential aspect of successfully serving refugees. NFS is also a notorious cost-driver.
- **Remittances and payments** can be natural *transaction intercepts* to refugees.
- *Cash-based transfers* from humanitarian agencies to refugees can be a profit driver for FSPs with adequate delivery systems, but are not automatic transaction intercepts.
- **Savings/transaction accounts** is a good foundation to cross-sell more profitable products – refugee youth may be an attractive client segment for savings.
- Including refugee clients in **insurance products** can also build the client relationships.
- All types of **credit products** can work (group, individual, VSLA).
- Over time, explore **product development potential** of leveraging refugees' trans-national ties and networks:
  - Link to FSPs in countries of origin for credit references and cross-border products
  - Give well-performing refugee clients a certificate to take home/onwards

Operational adjustments

- Leveraging existing delivery channels to reach new refugee clients lowers cost.
- Operational adjustments to procedures, manuals, and documentation and staff training may be required. Market research and piloting will also require investments.
- MIS systems might need to be adapted to track the new client segment:
  - Define indicators of progress (e.g., portfolio growth, product uptake, delinquency, and client retention) by client segment - beware of indicators proposed by external (humanitarian) funders that may skew your monitoring
  - Integrate baseline and performance data with unique client identifiers for both NFS and financial services - this will help track the elusive cross-sales between products
  - Ensure that frontline data recording and reporting formats accurately capture the indicators and measures that you want to monitor
  - Protect client data, especially for refugees. Reporting of nationality-based data can be politically sensitive, illegal, or threatening.

Risk management

- No global benchmarks yet – but FSPs serving refugees report repayment performance at par with, better, or slightly higher than in overall portfolio.
- The most comment risk mitigation strategies used by FSPs:
  - Smaller, shorter loans with more frequent repayments
  - Requiring national co-members in groups and/or national loan guarantors. Can be extremely difficult for refugees
- Consider assessing the following instead:
  - Character, using references from diaspora, community or religious groups/leaders
  - Indicators of intent to "put down roots" and commitment to business
  - Usage of humanitarian cash transfer services (cards, vouchers)
  - Regular sending of remittances (indicator of regular income)
  - Credit history from FSPs in country of origin
  - Alternative credit scores based e.g. on mobile phone usage
- Include early warning triggers to help detect actual credit risk:
  - Compare arrears rates and delinquency by location and business purpose in refugee and national client portfolio segments for signs of "*cannibalisation*"
  - Compare retention/exit rates by client segment to detect "*loan value floors*"

Profitability

- Piloting will provide indications of how and when the upfront investment will pay off in customer acquisitions (portfolio growth), in additional client loyalty (retention), and in social performance gains.
- NFS is probably the biggest cost-driver – and will require FSPs to graduate clients to and/or cross-sell more profitable credit products. Use existing NFS materials, and seek out cost-sharing or co-funding partnerships to lower costs.
- If you seek funding, identify funders that adhere to good practice guidelines and can provide longer-term grants/patient capital while the business case is developed.
- Consider tracking "total client profitability," i.e. the entire banking relationship of the client with the FSP over the longer term. This should demonstrate increasing profitability.
- Cost-benefit: Only include marginal investments when calculating opportunity cost of eliminating (or not serving) refugee clients—fixed costs remain the same. The benefits in terms of growth, diversity, reputational gains and staff motivation could be substantial.

Feedback, Questions and comments?

- Do these considerations make sense?
- What has been overlooked?
- What else is of importance?
- What is your experience?

Summary

- FSPs are deterred from serving refugees for many reasons. The "unknown" can be daunting.
- Serving refugees is not as difficult as it first appears. There are additional barriers (legal status, language), but when properly segmented, refugees share many similarities with FSPs' core clientele, do not require 'specific products', and appear to perform as well as national clients – or better.
- The guidelines review the arguments against including refugees, and find none to be insurmountable.
- The guidelines present practical recommendations, tips, and ideas for interested FSPs, based on emerging research and experiences.
- Hopefully, the guidelines will prove useful for FSPs willing to engage in this new frontier of financial inclusion.

Thank you very much for attending!

Next steps in the 2016 UNHCR-SPTF project:

- **August:** Develop Training of Trainers Materials
- **Sept 28-29:** Training of Trainers seminar on Refugee Finance in Brussels for TA providers to further refine Guidelines and present tools to assist FSPs to engage
- **Oct:** Follow-up SPTF online training session
- **Nov:** Guidelines edited for final translation/publication by UNHCR (expected Jan. 2017)
- Possibly linking up interested FSPs to new UNHCR-SIDA Credit Guarantee Fund

What can you do?

- **Please join the conversation:** http://sptf.info/working-groups/refugee-microfinance
- **TA providers: Please consider attending the upcoming TOT on refugee microfinance**
- **Please send additional comments/feedback to Lene Hansen:** lenemph@hotmail.com