Inclusive private sector development in forced displacement contexts

Session Outcome Memo

Access to finance in the context of displacement

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Landscape for access to finance in contexts of displacement

- In contexts of forced displacement, the financial sector may be exposed to volatile prices, currency fluctuations and disruptions in the supply of finance from abroad. The provision of financial services in such context may not be reliable, further undermining trust between customers and financial institutions.

- As an example, Iraq has faced continuous crisis and conflicts since 2003. With a heavy reliance on oil, its financial sector is also exposed to global price fluctuations. Alongside high informality and low financial literacy amongst the population, there is low trust in banks and low rates of financial inclusion. This is compounded by a reliance on cash grants.

- In general, there is a lack of understanding within financial institutions of forcibly displaced persons and vulnerable host community members' financial needs and circumstances. Their precarious financial situations, the demand for products and willingness of financial institutions to serve this "high risk" segment, is distinct. For refugees, the precarious nature of their status in host countries makes their risk category even higher.

- Refugees are a distinct group, that face challenges in accessing finance, but it is equally important to recognize the varying situations of segments of the refugee and forcibly displaced population, such as women, in accessing finance.

- Microfinance institutions are structured to serve segments of the population that are generally considered high risk. Group loans can also provide a collective repayment mechanism that can offset individual risks. However, microloans are generally smaller, and come with higher interest rates than those offered by commercial banks.

Rationale for access to finance in contexts of displacement

- Access to finance is crucial for enabling entrepreneurship, access to opportunities and economic growth, which are essential for the self-reliance of displaced populations.

- Providing financial services to displaced individuals supports their financial stability, ability to establish businesses, and contribute to host countries' economies. At the same time, ensuring vulnerable host communities also have access to financial services contributes to improved social cohesion.
- With the right mechanisms and procedures in place, refugees can be a bankable population and profitable for commercial banks.

Challenges for access to finance in contexts of displacement

- Within vulnerable communities, there are low rates of financial literacy that would allow refugee and host community members to understand what is accessible to them, as well as the terms and conditions of financial products.
- The provision of cash assistance and grants in crisis contexts can create dependency. Transitioning people off assistance, and onto savings and loan products requires greater investments in behavioural change.
- In crisis contexts, community members may have negative experiences with financial institutions, particularly when the contexts have experienced considerable financial crisis. This may include experiences of losing money in the banking system. Rebuilding trust with financial institutions is a long-term and challenging process.
- Because MSMEs generate lower levels of profit and are more likely to operate informally, they are not generally considered to be bankable and are also more likely to be considered as high risk.
- Refugee IDs are not generally accepted by banks as a valid form of ID. This limits their ability to set up bank accounts and access financial products. Refugees also have limited assets that can be used as collateral.

Initiatives for access to finance in contexts of displacement

- To address commercial banks' initial distrust in serving "high risk" segments of the population, third party humanitarian/development practitioner can serve as guarantors. The ILO in Iraq played such a role for forcibly displaced persons to interface with the Central Bank of Iraq. This served as a de-risking model, enabling FDPs to access commercial loans despite strict requirements. By serving as an intermediary in the short term, ILO and the Central Bank reached over 2,000 FDPs and host community members, while helping them improving their financial literacy and build trust in banking system. This demonstrates that forcibly displaced persons and vulnerable host community members are bankable customers.
- To help build trust in a new customer base, market research can help reduce initial frictions. ILO and the Opportunity Bank in Uganda conducted market research to better understand refugees' financial needs. Based on data, the Opportunity Bank divided refugees into three key segments, and devised different services for each segment:
    - Dependent customers had been in Uganda for 2 years or less. Appropriate services started with financial literacy training.

- Subsistence customers had been in Uganda for 2 to 5 years and had set up small businesses, with some unmet financial needs. With this group, the bank used cooperative structures (SACCO) to issue group loans, and help individuals build credit history over time in a group setting.
- Resilient customers had been in Uganda for 5 years or more. People in this segment ran a business and had a bank account. This group could be issued loans directly, without needing financial literacy training or a cooperative structure to support their access to finance.

Necessary actions moving forward for increased access to finance in contexts of displacement

- Recognize refugees and displaced populations as bankable and seek to understand their unique financial needs. Studying different market segments within these populations can help define appropriate products and services.
- Implement a range of financial services tailored to different refugee segments based on their length of stay, level of capital and stage of business development.
- International organisations can support the drafting of guidelines and provide support to regulators to develop strategies for access to finance for forcibly displaced persons.
- Continue capacity building and financial literacy programs to empower displaced individuals and bridge the gap between financial institutions and these segments of the population.
- Address legal and documentation challenges to enhance the financial inclusion of refugees. This may consider viable alternatives to national IDs and passports.
- Serving displaced populations should be a win-win scenario for financial institutions and the displaced. Financial institutions should know more about the characteristics of forcibly displaced populations and require specific capacity building to make finance work for vulnerable segments of the population.
- De-risking models are necessary in the initial stages of engagement with new (high risk) client groups, such as refugees. Commercial banks may need to work with intermediaries while FDP and host community clients build credit history. After this partnership stage, banks can serve refugee clients as they would a national customer.

Key resources

- ILO's work on financial inclusion for Refugees, IDPs and Host Communities
- Making Finance Work for Refugees, IDPs and Host Communities
- ILO Global Programme on Financial Education
- ILO Financial Inclusion Strategy in Iraq