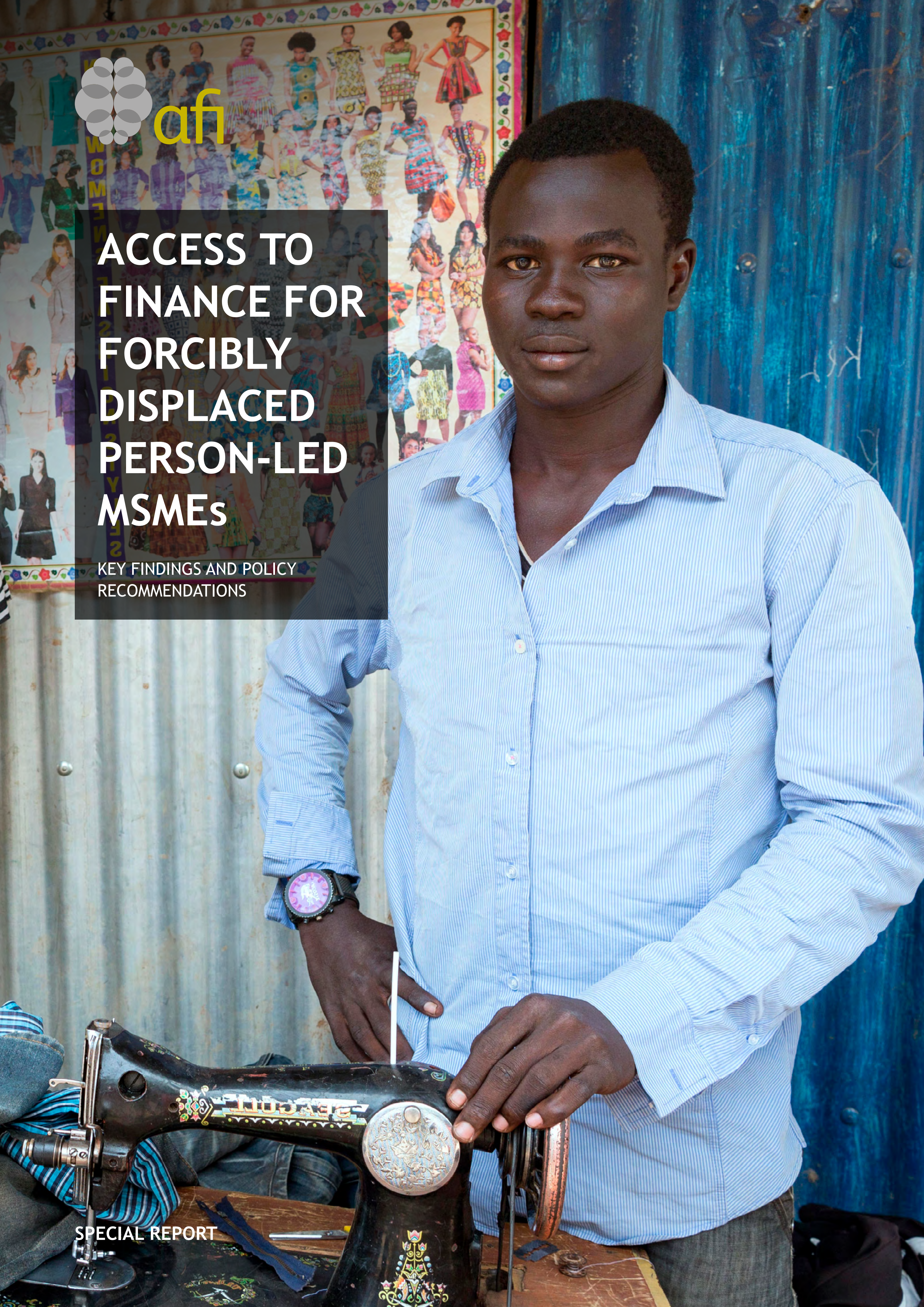

ACCESS TO FINANCE FOR FORCIBLY DISPLACED PERSON-LED MSMEs

KEY FINDINGS AND POLICY RECOMMENDATIONS

SPECIAL REPORT

CONTENTS

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Cover photo: Tailoring in the refugee camp Kakuma, Kenya. (Agencja Fotograficzna Caro / Alamy Stock Photo)

EXECUTIVE SUMMARY

The purpose of this special report is to examine global policy and regulatory approaches to enhancing access to finance (A2F) for FDP-led MSMEs and in turn, provide key considerations for financial policymakers and regulators when developing and implementing their own national-level policies and regulations in this area.

The United Nations High Commissioner for Refugees (UNHCR) estimates that the global forcibly displaced population reached over 108 million people[1] at the end of 2022, with more than 85 percent residing in developing countries. As of the end of September 2023, the number of FDPs reached 114 million people.[2] Due to the protracted nature of the conflicts responsible for forced displacement and the intensification of climate change-induced disaster events, this number is likely to continue growing.

Based on the literature review and key informant interviews conducted for this report, it is estimated that a significant majority of FDP-led micro, small and medium-sized enterprises (MSMEs) operate in the informal sector, rendering them part of an 'invisible economy.'

Nevertheless, FDP-led MSMEs can positively contribute to a country's GDP,[3] investments, or exports[4] on a medium to long-term horizon. Their contribution comes from their skills, experience, capacities, and drive to integrate into their new environment and economy. Entrepreneurship and leading MSMEs are a means for FDPs to attain self-reliance, and FDP-led MSMEs need to have A2F in order to grow. However, FDP-led MSMEs face many barriers, some on an individual level (e.g. legal status, cultural differences, literacy levels), some related to their business (e.g. identification, capacities, collateral, credit history), some from financial institutions (e.g. openness; policies, systems, and procedures; capacity to scale the business) and some regulatory (e.g. legal status and identification of FDPs, national policies for MSMEs, A2M). It is also important to recognize that these barriers intersect; they do not operate in isolation and often act as multipliers. Additionally, the barriers faced by men are different and generally less severe than those encountered by women. For instance, UNHCR asserts that "women refugees in general, tend to pursue entrepreneurship as it provides flexibility to balance work with domestic roles. But they face additional barriers combining and balancing their entrepreneurial ventures with household responsibilities or cultural norms. Moreover, women refugees experience greater financial inclusion barriers compared to their male counterparts."[5] FDPs living with a disability are also an extremely vulnerable group, face their own challenges, and require special attention in this context.[6] When examining the lived realities of FDPs through their lens, it is essential to apply other perspectives as needed to ensure that solutions are developed in a people-centric manner, incorporating the needs of many different groups.

1 UNHCR. 2023. Global Trends Forced Displacement in 2022. Available at: https://www.unhcr.org/sites/default/files/2023-06/global-trends-report-2022.pdf

2 UNHCR. 2023. UNHCR: Forced displacement continues to grow as conflicts escalate. War and violence drove global displacement to an estimated 114 million by the end of September 2023. Available at: https://www.unhcr.org/news/unhcr-forced-displacement-continues-grow-conflicts-escalate

3 International Monetary Fund. 2022. Venezuela's Migrants Bring Economic Opportunity to Latin-America. Available at: https:/www.imf.org/es/News/Articles/2022/12/06/cf-venezuelas-migrants-bring-economic-opportunity-to-latin-america

4 Ramzi Fathallah. 2020. Under the radar? How Syrian refugee entrepreneurs operate in Lebanon's informal economy. American University of Beirut. Available at: https://www.aub.edu.lb/ifi/Documents/publications/research_reports/2019-2020/20200215_syrian_refugee_entrepreneurs_adapt_and_operate_in_lebanon.pdf

5 UNHCR. 2022. Global Roadmap for Refugee Entrepreneurship. Available at: https://www.unhcr.org/fr-fr/en/media/global-roadmap-refugee-entrepreneurship

6 United Nations. 2003-2004. International norms and standards relating to disability. Part V: Persons with disabilities and multiple discrimination - rights of special groups. Available at: https://www.un.org/esa/socdev/enable/comp505.htm#:~:text=Disabled%20refugees%20are%20an%20extremely,protect%20the%20rights%20disabled%20refugees

Shop in Anwald refugee camp, Northern Iraq where 8000 Iraqi people have found refuge. (Ton Koene / Alamy Stock Photo)

Sudanese refugee at mobile phone accessories and repair shop, Cairo, Egypt (Alan Gignoux / Alamy Stock Photo)

This report proposes the following key considerations for financial policymakers and regulators which are further elaborated in Chapter 7 on Policy and Regulatory Recommendations:

- Consider FDPs (including FDP-led MSMEs) amongst the disadvantaged segments in your country, ensuring they are explicitly addressed in related national policies such as in the National Financial Inclusion Strategy (NFIS) and National Financial Literacy Strategy (NFLS).[7]

- Promote disaggregated data collection and monitoring and evaluation (M&E), to develop evidence-based policies and to respond to the serious lack of information, data, and key performance indicators for the FDP-led MSME sector.

- Develop risk-based, tiered KYC and CDD for FDPs and FDP-led MSMEs, and provide regulatory clarity to financial service providers (FSPs).

- Leverage alternative credit history, particularly for refugees who understandably lack a credit history in their host country.

- Establish and leverage outcome-oriented coordination structures, including at the country and regional level.

- Expand support to FSPs, so that they are empowered and incentivized to provide A2F for FDP-led MSMEs.

- Communicate with all stakeholders, especially FDP-led MSMEs and establish a mechanism for them to voice their needs, concerns, and complaints.

Finally, this report shows that there are innovative and transferable practices available to inspire different stakeholders, and it highlights the resources available to guide and support financial policymakers and regulators in enhancing A2F for FDP-led MSMEs.

7 Alliance for Financial Inclusion. 2020. Integrating FDPs into a National Financial Inclusion Strategies, AFI Guideline Note No.41. Available at: https://www.afi-global.org/sites/default/files/publications/2020-12/AFI_GN41_AW_digital.pdf

1
PURPOSE OF THE REPORT AND METHODOLOGY

The purpose of this special report is to examine current global policy and regulatory approaches to enhancing A2F for FDP-led MSMEs, providing key considerations for financial policymakers and regulators.

The report is not intended to provide an in-depth analysis of policy and regulatory approaches worldwide. Instead, it offers an initial scoping or exploration of a heavily under-researched policy area.

Two research methodologies were used:

1. Desk-based research and literature review on FDPs, MSMEs, FDP-led MSMEs, and related policies, regulations, and program initiatives, using data collection analysis grids. This included over one hundred documents in various formats including policy documents, research publications, market studies, articles, interviews, and online conferences.

2. Key informant interviews using an open-ended questionnaire. A total of 14 interviews were conducted, specifically with four AFI member institutions, five humanitarian and development organizations, one association, and four FSPs serving FDPs.

Portrait of two young afghan men in Tehran, Iran. (Pascal Mannaerts / Alamy Stock Photo)

2 DEFINITIONS AND CONTEXT OF FDP-LED MSMEs

As discussed in ***AFI's Guideline Note No. 41 on Integrating FDPs into NFIS***, the definitions related to FDPs and forced displacement more broadly are "continually discussed and contested by the international community".[8] This report uses definitions of FDPs provided in UNHCR's 2022 Global Trends in Forced Displacement Report and covers asylum seekers, refugees, internally displaced persons (IDPs), returnees, and stateless persons.[9] In general terms, they are people who have been forcibly displaced "due to conflict, persecution, violence, or human rights violations"[10] and climate change-induced slow-onset or rapid onset disaster events that are becoming more frequent and causing forced displacement.[11]

The number of FDPs has been growing significantly over the years reaching over 108 million people around the world at the end of 2022.[13] As of the end of September 2023, the number of FDPs reached 114 million people.[14]

8 Alliance for Financial Inclusion. 2020. Integrating Forcibly Displaced Persons (FDPs) into National Financial Inclusion Strategies (NFIS). Available at: https://www.afi-global.org/sites/default/files/publications/2020-12/AFI_GN41_AW_digital.pdf

9 UNHCR. 2023. Global Trends: Forced Displacement in 2022. Available at: https://www.unhcr.org/sites/default/files/2023-06/global-trends-report-2022.pdf

10 Alliance for Financial Inclusion, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Chrissy Martin et al. 2019. Roadmap to the Sustainable and Responsible Financial Inclusion of Forcibly Displaced Persons. Available at: https://www.afi-global.org/sites/default/files/publications/2019-12/Roadmap_FI%20of%20FDPs_122019_0.pdf

11 The recent case of floods in the Horn of Africa is a good example. Mustaphas Haji Abdinur, Tanya Willmer. 2023. Horn of Africa floods displace more than two million. Nairobi. Available at: https://phys.org/news/2023-11-horn-africa-displace-million.html

12 Alliance for Financial Inclusion. 2017. Financial Inclusion of Forcibly Displaced Persons: Perspectives of Financial Regulators. Available at: https://www.afi-global.org/publications/financial-inclusion-of-forcibly-displaced-persons-perspectives-of-financial-regulators/

13 UNHCR. 2023. Global Trends: Forced Displacement in 2022. Available at: https://www.unhcr.org/global-trends

14 UNHCR. 2023. UNHCR: Forced displacement continues to grow as conflicts escalate. War and violence drove global displacement to an estimated 114 million by the end of September 2023. Available at: https://www.unhcr.org/news/unhcr-forced-displacement-continues-grow-conflicts-escalate

FIGURE 1: DEFINITIONS[12]

FDP CATEGORY	DEFINITION
ASYLUM SEEKER	"Individuals who have sought international protection and whose claims for refugee status have not yet been determined."
IDP	"Persons or groups of persons who have not crossed an internationally recognized state border, but have been forced or obliged to flee, leave their homes or places of habitual residence, in particular as a result of, or in order to avoid the effects of armed conflict, situations of generalized violence, violations of human rights or natural or human made disasters."
REFUGEE	"Individuals recognized under the 1951 Convention relation to the Status of Refugees, its 1967 Protocol, the 1969 Organization of African Unity Convention Governing the Specific Aspects of Refugee Problems in Africa, the refugee definition contained in the 1984 Cartagena Declaration of Refugees as incorporated into national laws, those recognized in accordance with the UNHCR Statute, individuals granted complementary forms of protection, and those receiving temporary protection."
RETURNEE	"Former refugees who have returned to their countries of origin, either spontaneously or in an organized fashion, but are yet to be fully integrated. Such returns would ideally take place only under conditions of safety and dignity."
STATELESS	"Defined under the 1945 Convention Relating to the Status of Stateless Persons as those not considered as nationals by any state under the operation of its law. In other words, they do not possess the nationality of any state."

Source: Current State of Practice: Policy Frameworks, Laws and Regulations Related to the Financial Inclusion of FDPs Across the AFI Network (p.9). 2022. Available at: https://www.afi-global.org/publications/current-state-of-practice-policy-frameworks-laws-and-regulations-related-to-the-financial-inclusion-of-forcibly-displaced-persons-fdps-across-the-afi-network/

2.1 FDP-LED MSMEs

The definitions of an MSME vary from one country to another.[15] For instance, micro-enterprises are defined as having zero to five employees in some jurisdictions and zero to nine in others.

Based on the literature review and key informant interviews, a large majority of FDP-led MSMEs operate in the informal sector and 95 – 99 percent are microenterprises representing sole proprietorships, cottage industries, or very small enterprises (VSEs). FDPs owning larger businesses (SMEs) are those who have been in the host country for a long period, have an entrepreneurial background from their country of origin, and could secure an official status and related documents allowing them to open and operate a business, access formal financial services, and be able to sign contracts. For instance, Syrian refugees in Egypt, Jordan and Turkey, or Venezuelans in Colombia and Peru.

In terms of the proportion of the total FDP population that entrepreneurs represent, International Finance Corporation (IFC) studies estimate that in Colombia, 13 percent of FDPs are micro-entrepreneurs and 33 percent are self-employed while in Peru, the rate is 45 percent for micro-enterprises and self-employment combined.[16] A study in the Mbera refugee camp in Mauritania found that the rate of self-employment was around 13 percent.[17] The Organisation for Economic Cooperation and Development (OECD) has found that, over time, the percentage of refugees being self-employed or launching a business tends to align with the rate of local entrepreneurship in the host community.[18] It should be noted however, that women may face additional barriers to becoming entrepreneurs, such as differing socio-cultural norms within the host community even if they have an entrepreneurial background.

Self-employment for FDPs is often a necessity due to the challenges in obtaining formal employment. For others, it is an opportunity to continue the drive for entrepreneurship from their country of origin or an opportunity towards achieving economic self-reliance. Self-employment is the most accessible path for FDPs to meet the requirements for launching a business.[19]

According to UNHCR, given the context, entrepreneurship support seems to be an effective solution as it can contribute to increased economic inclusion, reduced aid dependency, and a stronger social cohesion of FDPs throughout their displacement cycle.[20]

15 Alliance for Financial Inclusion. 2017. Defining Micro, Small and Medium Enterprises (MSMEs) in the AFI Network. Available at: https://www.afi-global.org/wp-content/uploads/publications/2017-05/2017-SMEF-Survey-Defining%20MSMEs.pdf

16 International Finance Corporation. 2021. Venezuelan migration in Colombia: an opportunity for the financial sector. Unpublished; and, International Finance Corporation. 2022. Financial and economic inclusion of Venezuelan migrants and refugees in Peru, Gap Assessment. Available at: https://www.r4v.info/es/document/IFC_WB_Financialandeconomicinclusion_RyM_sep22

17 Agence Nationale de la Statistique et de l'Analyse Démographique et Économique (ANSADE). 2021. Rapport enquête de référence sur l'Offre et la Demande des Services Financiers en Mauritanie, rapport provisoire.

18 OECD. 2019. SME and Entrepreneurship Papers No.14, Policy brief on refugee entrepreneurship. Available at: https://doi.org/10.1787/70571d6f-en

19 Centre for entrepreneurs. 2020. Global Refugee Entrepreneurship Survey 2019. Available at: https://centreforentrepreneurs.org/wp-content/uploads/2020/04/Global-Refugee-Entrepreneurship-Survey-2019-report.pdf

20 UNHCR. 2022. Global Roadmap for Refugee Entrepreneurship. Available at: https://www.unhcr.org/media/global-roadmap-refugee-entrepreneurship

Income generation with Tibetan women refugees weaving carpets in a refugee settlement in Nepal.(Joerg Boethling / Alamy Stock Photo)

A refugee woman runs a sewing business and training center in Ajumani, Uganda (Alison Wright / Alamy Stock Photo)

2.2 MYTHS AND REALITIES ABOUT FDPS AND FDP-LED MSMEs

Myths regarding FDPs and FDP-led MSMEs persist due to pre-conceived opinions and a lack of information and data.

FIGURE 2: MYTHS AND REALITIES REGARDING FDPS AND FDP-LED MSMEs[21]

MYTH	REALITY
FDPs are not an attractive market segment.	The large numbers and concentration of FDPs can offer potential opportunities for FSPs.[22] A business case must be built to show scalability and profitability through a tailored and adapted offering. FSPs should also be encouraged to do their own market research on FDPs to explore their potential as a viable client base.
FDPs pose a flight risk given they could voluntarily repatriate, resettle or be forcibly displaced again.	They stay on average for more than 10 years (17 years when in a camp).[23] Very few registered refugees resettle to a third country.
They live among themselves, outside the local community.	Only 22 percent[24] of refugees live in camps. They mostly live among the local community.
Most of them have an irregular legal status.	Most FDPs want to regularize their legal status and work, and formalize their economic activities.
They only live on humanitarian assistance.	After a certain period, FDPs must ensure the livelihood of the family and find a job or start an income-generating activity to become self-reliant.
They have no business experience.	Many FDPs were business owners or have had some business training.

KII private sector citation:

“

FDPs are a market opportunity as consumers, as talent, as part of a value or supply chain, or a distribution channel. They are part of the humanitarian economy.

”

There are encouraging country examples of progressive policies aimed at facilitating FDP-led MSMEs, if one goes beyond the above-mentioned myths:

- In the context of the recent forced displacement of Ukrainian refugees into Poland, some Ukrainian FDPs continue to conduct business or maintain their business activities in their new host communities. This may be explained by the entrepreneurial level and capacities of FDPs, the enabling environment of the host community, and the proximity of both markets.[25] Interestingly, since the war eight percent of all new sole-proprietorship businesses have been opened by Ukrainians.[26] They have brought a high level of innovation to certain sectors such as retail. This was facilitated by the following: the Ukrainian postal system opened 21 branches in Poland and banks offer Ukrainian-language services, with one financial institution offering Ukrainians a no-fee basic transactional account without requiring a Polish address or phone number.[27]

- Syrian refugees in Egypt and Turkey encountered a welcoming commercial attitude in their host communities. In Egypt, this is complemented with conducive business conditions, a favorable microfinance sector, and a similar language and culture. In Turkey, a developed support structure exists where FDPs have the right to open an account and receive credit, own and lease moveable and personal

21 Adapted from International Finance Corporation. 2021. Venezuelan migration in Colombia: an opportunity for the financial sector. Unpublished; and, International Finance Corporation. 2022. Financial and economic inclusion of Venezuelan migrants and refugees in Peru, Gap Assessment. Available at: https://www.r4v.info/es/document/IFC_WB_Financialandeconomicinclusion_RyM_sep22.

21 Adapted from International Finance Corporation. 2021. Venezuelan migration in Colombia: an opportunity for the financial sector. Unpublished; and, International Finance Corporation. 2022. Financial and economic inclusion of Venezuelan migrants and refugees in Peru, Gap Assessment. Available at: https://www.r4v.info/es/document/IFC_WB_Financialandeconomicinclusion_RyM_sep2

22 For example, the IFC evaluated that for Venezuelan FDPs in Colombia, with a population of 1.3 million people, the volume of credit is USD250 million (with annual revenues for FSPs of USD40 million); the volume of savings and transactional accounts amounts to USD1.5 million (with revenues of USD51 million) and the insurance volume is USD14 million (with premiums of USD5 million). International Finance Corporation. 2021. Venezuelan migration in Colombia: an opportunity for the financial sector. Unpublished.

23 Directorate-General for European Civil Protection and Humanitarian Aid Operations (ECHO). 2023. Forced displacement. Available at: https://civil-protection-humanitarian-aid.ec.europa.eu/what/humanitarian-aid/forced-displacement_en#:~:text=Forced%20displacement%20is%20no%20longer,10%20years%20for%20most%20IDPs; World Bank. 2019. 2019 update: How long do refugees stay in exile? To find out, beware of averages. World Bank Blogs. Available at: https://blogs.worldbank.org/dev4peace/2019-update-how-long-do-refugees-stay-exile-find-out-beware-averages.

24 UNHCR. 2023. Refugee Facts. Available at: https://www.unrefugees.org/refugee-facts/camps/.

25 Key informant interview.

26 The Economist. 20 July 2023. How Ukrainian refugee entrepreneurs are changing Poland. Available at: https://www.economist.com/europe/2023/07/20/how-ukrainian-refugee-entrepreneurs-are-changing-poland.

27 Ibid.

property, be self-employed, and even invest and form a company. Furthermore, the IFC has implemented a risk-sharing facility aimed at local MSMEs, including those operated by FDPs.[28]

- Uganda's Refugee Asylum Policy and Refugee Settlement Model, together with the Refugee and Host Population Empowerment Strategic Framework (ReHoPe),[29] position Uganda as one of the most progressive host countries in the world. Refugees are permitted to enter Uganda without screening and are granted the right to work, freedom of movement, and access to land, education, and healthcare.[30] The Refugee Settlement Model enables refugees to live in settlements, rather than camps, providing them with land to grow food. Uganda's Self-Reliance Strategy goes further by allowing refugees to choose where to live and work, allocating plots of land for them to cultivate within rural settlements, and promoting refugee-host interactions through integrated social service provision and market access.[31]

While there are significant challenges to enhancing A2F for FDP-led MSMEs, these country examples demonstrate that barriers can be overcome if certain conditions are in place, such as the right for FDPs to have access to credit, decent employment, land ownership, and freedom of movement.

2.3 THE IMPACT OF FDP-LED MSMEs: GLOBAL CONTEXT

FDP-led MSMEs can have a positive impact on their host communities, bringing personal financial gains for business owners, operators, or partners, as well as the local population. This, in turn, generates fiscal benefits for the host countries. In terms of social impacts, a financially included and economically empowered FDP population can ensure social cohesion, stability, security, and community well-being.[32]

A study by the International Monetary Fund (IMF)[33] reveals that the gross domestic product (GDP) of Colombia, Chile, Ecuador, and Peru – countries that have received 69 percent of Venezuelan migrants – increased between 1.5 percent and 2.5 percent more between 2016 and 2022 (averaging between 0.10 percent and 0.25 percent per year), than compared to a scenario without migration. It is projected that further economic integration of this population will potentially increase these economies' GDP by up to 4.5 percentage points by 2030. Venezuelan migrants bring economic opportunities to Latin America through higher investment and productivity, despite the initial spending of between 0.1 percent to 0.5 percent of GDP by the host countries to cover infrastructure and service-related costs to accommodate FDPs.

The Syrian refugee population in Turkey makes up 4.4 percent of the total population, reaching up to 19 percent in the frontier regions of the country. Turkey has developed a legal framework enabling Syrian refugees to own and register their businesses, integrating them into the national economy. There are 15,000 Syrian refugee-owned registered businesses which mostly employ less than 10 people, and local chambers of commerce have a 'Syrian Desk' to support the integration of this population. They have exported goods worth up to USD7 million in just three years which may not seem significant at the country level, but is a large number for the host community and the Syrian refugees living among them.[34]

In Egypt, since 2011, Syrian refugee entrepreneurs operating formally have invested approximately USD800 million in capital. Even informal Syrian refugee entrepreneurs (SREs) have been reportedly creating job opportunities, hiring both Syrian and Egyptian workers. This exchange of expertise between local Egyptian and Syrian workers has effectively increased the country's exports and product development. Notably, there is a clothing brand that proudly states on its tag, 'Made in Egypt, with Syrian hands.'[35]

28 Alliance for Financial Inclusion. 2017. Defining Micro, Small and Medium Enterprises (MSMEs) in the AFI Network. Available at: https://www.afi-global.org/wp-content/uploads/publications/2017-05/2017-SMEF-Survey-Defining%20MSMEs.pdf

29 UNHCR. 2020. Uganda Comprehensive Refugee Response Portal, Country-Uganda. Available at: https://data2.unhcr.org/en/country/uga

30 Momodu, S. United Nations. 2019. Uganda Stands out in Refugees Hospitality. Africa Renewal. Available at: https://www.un.org/africarenewal/magazine/december-2018-march-2019/uganda-stands-out-refugees-hospitality

31 University of Oxford, Refugees Studies Center. 2019. Uganda's Self-Reliance Model: Does it Work? Available at: https://www.rsc.ox.ac.uk/publications/research-in-brief-ugandas-self-reliance-model-does-it-work

32 UNCTAD. 2018. Policy Guide on Entrepreneurship for Migrants and Refugees. Available at: https://unctad.org/publication/policy-guide-entrepreneurship-migrants-and-refugees; Refugee Investment Network (RIN). 2021. RIN and Acumen Partner to Spur Refugee Lens Investing in the Greater Horn of Africa. Available at: https://refugeeinvestments.org/rin-and-acumen-partner-to-spur-refugee-lens-investing-in-the-greater-horn-of-africa/

33 International Monetary Fund. 2022. Venezuela's-migrants-bring-economic-opportunity-to-latin-america. Available at: https://www.imf.org/es/News/Articles/2022/12/06/cf-venezuelas-migrants-bring-economic-opportunity-to-latin-america

34 Spark. 2021. Access or Non-Access to Finance? Challenges Faced by Syrian SMEs in Turkish Border. Available at: https://spark.ngo/wp-content/uploads/2022/10/EU-SME-TU-report.pdf

35 Ramzi Fathallah. American University of Beirut. 2020. Under the radar? How Syrian refugee entrepreneurs operate in Lebanon's informal economy. Available at: https://www.aub.edu.lb/ifi/Documents/publications/research_reports/2019-2020/20200215_syrian_refugee_entrepreneurs_adapt_and_operate_in_lebanon.pdf

Sudanese refugee styling customer's hair at barber shop, Cairo, Egypt. (Alan Gignoux / Alamy Stock Photo)

FSPs also recognize the positive impact of FDPs and attempt to adapt their offerings to meet their needs. In Lebanon, Syrian FDP-led-MSMEs began accessing credit from microfinance institutions as early as 2014, particularly from Al Majmoua, which built a portfolio of 9,376 Syrian clients by the end of 2019 including 6,346 female-led refugee nano and micro-enterprises. This group represented 10 percent of its client base, with a total outstanding portfolio of USD5 million (half of it to IGA), representing five percent of the total outstanding portfolio. The portfolio at risk (PAR) was maintained below one percent, a testament to the strong communication between clients and loan officers, regular business visits, and a flexible lending scheme. It should be noted that Al Majmoua provided FDP-led MSMEs with the same financial products offered to Lebanese clients. The institution also adopted a holistic approach in delivering financial literacy and entrepreneurship training to FDP-led MSMEs to enhance their overall financial health. Unfortunately, due to the compounded crisis in Lebanon since October 2019, Al Majmoua had to scale back its financing activities for FDP-led MSMEs.

In Jordan a microfinance institution (MFI) known as the Microfund for Women (MFW) serves 7,500 Syrian refugees, 40 percent of whom are involved in IGA.[36] MFW was the first institution to serve Syrian refugees in Jordan, starting in 2018. Initially targeting self-settled female refugees, MFW quickly expanded to also work with women living in settlements. Due to the protracted crisis the financial inclusion needs of these refugees have evolved, leading MFW to now focus on loans to businesses owned by women refugees (see Box 1 on Women FDP-led MSMEs – Global context). The financial performance of MFW is reported as positive, with a PAR for loans to Syrian borrowers below one percent. MFW offers a hybrid product combining a savings and insurance scheme to assist refugees and low-income Jordanians in building their assets. Finally, it offers complementary non-financial services, including financial literacy, entrepreneurship, and gender training.

Other studies and interviews confirm that the PAR of FDP-led MSMEs does not differ from regular portfolios. Vision Fund Uganda,[37] with an average loan size of USD1,000, and East African institutions, with loan averages of USD500 - USD600[38] show similar PAR ratios. In 2018, KIVA reported a repayment rate of 97 percent for an average loan of USD855,[39] while FINCA Zambia cites a PAR of between three percent to 3.5 percent for an average loan of USD1,500.[40]

36 M. Pistelli. 2019. How to Include Refugee Entrepreneurs in Microfinance. Center for Financial Inclusion Blog. Available at: https://www.centerforfinancialinclusion.org/how-to-include-refugee-entrepreneurs-in-microfinance

37 Key informant interview.

38 Wharton Business School. 2022. Investing in refugee entrepreneurs in East Africa. Available at https://knowledge.wharton.upenn.edu/podcast/knowledge-at-wharton-podcast/investing-in-refugee-entrepreneurs-in-east-africa/

39 KIVA. 2018. Kiva Refugee Fund Impact Report 2018. Available at: https://data.unhcr.org/en/documents/details/77399

40 Key informant interview.

BOX 1: WOMEN FDP-LED MSMEs — GLOBAL CONTEXT

Women constitute 51 percent of the global FDP population, with country-level variations. For example, between 59 percent and 64 percent of Ukrainian refugees are women.[41]

In terms of access to financial services, there are notable instances of a predominant presence of women among FDPs. For example, FINCA Zambia reports that women account for 65 percent of its 'refugee loan portfolio,' despite men making up 90 percent of its refugee clientele.[42] In other cases, there is a greater involvement of women in VSEs. For instance in Colombia, among Venezuelan refugees, women make up 58 percent of the micro-entrepreneur segment and 54 percent of self-employed refugees.[43] In Peru, 61 percent of micro-enterprises are owned by women.[44]

Forcibly displaced women tend to engage in micro-entrepreneurship, such as self-employment, home-based business, and income-generating activities, because this allows them to balance their multiple roles while providing for their families. They are often involved in trade, services, crafts, tailoring, and small production, all sectors with lower barriers to entry and higher degrees of flexibility. Social entrepreneurship or 'community enterprises' is another avenue they often pursue. Although they encounter the same barriers as men when starting a commercial activity, women face additional societal and gender-related barriers, including socio-cultural norms, domestic abuse, discrimination, lack of assets for collateral, little or no credit history, fewer opportunities to gain financial, digital, and commercial literacy, and a small or non-existent network, all of which substantially limit their access to capital.[45]

41 UNHCR. 2023. Global Trends Forced Displacement in 2022. Available at: https://www.unhcr.org/global-trends-report-2022

42 Key informant interview.

43 International Finance Corporation. 2021. Venezuelan migration in Colombia: an opportunity for the financial sector. Unpublished.

44 International Finance Corporation. 2022. Financial and economic inclusion of Venezuelan migrants and refugees in Peru, Gap Assessment. Available at: https://www.r4v.info/es/document/IFC_WB_Financialandeconomicinclusion_RyM_sep22

45 Clare Clingain and Daphne Jayasinghe with Abigail Hunt and Amanda Gray Meral. Citi Foundation. 2021. Women's economic empowerment in the face of Covid-19 and displacement. Available at: file:///C:/Users/panger/Downloads/EHoA%20%20COVID-19%20Strategic%20Response%20and%20Recovery%20Plan%202021_0.pdf;International Labour Organization. 2022. Review of national policy, legislative and regulatory frameworks and practice in Egypt A baseline study on the access of refugees and asylum seekers to the labour market. Available at: https://www.ilo.org/global/programmes-and-projects/prospects/publications/WCMS_861695/lang--en/index.htm; King Hussein Foundation, University of Plymouth, University of Nottingham, Haydn Green Institute for Innovation and Entrepreneurship, UDA Consulting, American University of Beirut. 2019. Policy Brief: Poverty alleviation and Arab women refugees in Lebanon : empowerment through grassroots micro-entrepreneurship.

Soon after arriving at Refugee Camp Al Za atari,this resiliant and entrepreneurial mother and her daughter opened a fresh Fruit and Vegetable Market at Champs Elisee inside the Camp. Al Mafraq, Jordan.(Imago / Alamy Stock Photo)

Some interesting initiatives are underway for forcibly displaced women entrepreneurs. In Jordan, MFW complements its loans with business development services (BDS) through its learning academy. This MFI also supports feasibility studies for startups when loans exceed USD4,000.[46] KIVA has set relatively ambitious goals with its refugee-focused 'Commitments-to-action (CTA), Unlocking Financial Opportunities', aiming to reach 75,000 refugees by 2026 with USD60 million in loans, and exceeding 60 percent women borrowers.[47]

A more traditional approach is group guaranteed lending, more commonly practiced among women village savings and loans associations (VSLAs). For example, FINCA Zambia is assessing the possibility of extending its women VSLA scheme to a nearby refugee camp. Similarly, Equity Bank in Kenya had a VSLA scheme in Kakuma refugee camp, which has now been transformed into integrated settlements.

In some European countries, MFIs and BDS providers have fully integrated the needs of refugee women in their programs.

A successful approach to recruiting women has been implemented by Malmö-based 'Highway to Business,' a pilot program run by the Swedish Malmö Stad. As part of the application process, women are given the opportunity to discuss their business ideas with another woman. Since implementing this approach, there has been an increase in the number of applications from women, who feel more comfortable speaking about their business plans with women and in their native language. A small number of organizations have decided to offer entrepreneurship training solely to women, including Jumpp in Germany and IKF in Sweden. Both programs are addressing the challenges some women face, including traditional gender roles, childcare, and family obligations, which could impede their integration into society. Women who become entrepreneurs through these programs often find themselves in the crucial position of breadwinner.[48]

MicroStart, a Belgian MFI, directly supports women refugee committees, hires community coaches (eight out of ten are women) to accompany women, and conducts sensitization events, campaigns, and networking activities.[49]

These different examples underscore the importance of BDS in enhancing A2F for women FDP-led MSMEs, which cover non-financial services aimed at raising the skills and profiles of women FDPs, offering support with their residency and status, business counseling, training, mentorship, networking opportunities, as well as social cohesion programs and violence prevention programs, all integrated within a global advisory approach.[50]

In the LAC region, two funding initiatives were recently launched. The first is the Diversity and Inclusion Social Bond, financed by the Inter-American Development Bank (IADB) and Oikocredit (each contributing USD10 million), which promotes and expands access to credit for MSMEs owned and led by women, both local and migrants, and other vulnerable segments of the population.[51] The second initiative by BlueOrchard under the Schroders Group, in collaboration with the IADB and Global Affairs Canada, focuses on gender equality, diversity, and inclusion in the LAC region, and specifically targets local and migrant women alongside other underserved groups through a blended finance approach totaling USD100 million with a final goal of USD200 million.[52]

46 M. Pistelli. 2019. How to include refugee entrepreneurs in microfinance. Available at: https://www.centerforfinancialinclusion.org/how-to-include-refugee-entrepreneurs-in-microfinance

47 Kiva. 2023. Kiva announces global commitments for women and refugees. Clinton Global Initiative 2023 Meeting. Available at: https://www.kiva.org/blog/kiva-cgi-commitments-to-action-2023

48 Centre for entrepreneurs. 2020. Global Refugee Entrepreneurship Survey 2019. Available at: https://centreforentrepreneurs.org/cfe-research/global-refugee-entrepreneurship-survey-2019/

49 MFC Working Group. 2022-2023. Fostering Refugees' Financial Inclusion: microStart Belgium case study. Available at: https://mfc.org.pl/enhancing-refugees-financial-inclusion/ and https://youtu.be/njLiMvX1pWQ

50 King Hussein Foundation, University of Plymouth, University of Nottingham, Haydn Green Institute for Innovation and Entrepreneurship, UDA Consulting, American University of Beirut. 2019. Policy Brief: Poverty alleviation and Arab women refugees in Lebanon: empowerment through grassroots micro-entrepreneurship. Available at: https://www.aub.edu.lb/ifi/Documents/publications/policy_briefs/2018-2019/20190430_resilient_women_refugees.pdf

51 IDB Invest. 2023. Jardín Azuayo Announce First Diversity and Inclusion Social Bond with Incentives. Available at: https://idbinvest.org/en/news-media/idb-invest-jardin-azuayo-announce-first-diversity-and-inclusion-social-bond-incentives

52 BlueOrchard. 2023. Advancing Gender, Diversity, and Inclusion Investments in Latin America and the Caribbean. Available at: https://www.blueorchard.com/advancing-gender-diversity-and-inclusion-investments-in-latin-america-and-the-caribbean/

3
FINANCIAL HEALTH OF FDPs

As outlined by previous AFI research, "as displaced people settle down — no matter how temporary or long-term — to become self-sufficient and thrive, they will need to establish new financial relations. This can be for simple transactions, such as receiving aid through payment cards, receiving and sending remittances, or doing money transfers. Alternatively, it can involve something more complex, such as obtaining a loan to start a business."[53]

FDPs go through a series of phases during their stay in their new host communities, based on the 'Financial Health Pyramid:'[54]

- **Phase 1 - Arrival phase (1-2 months in the country):** low independence and low stability, with household income essentially from cash handouts supported by humanitarian organizations.
- **Phase 2 - Survivelihood (3-12 months in the country):** very little income from limited livelihood activities with support from iNGOs and NGOs, need for basic financial services such as group savings schemes and mobile services for transactional purposes, some MFIs and FinTechs start to show interest in FDPs.
- **Phase 3 - Ratcheting up (over 12-48 months in the country):** where household income comes from multiple sources including entrepreneurial activities, access to some financing for income-generating activities and microbusinesses, the use of mobile money, remittances, and digital transactions increases and MFIs may offer savings, loans, and for some, microinsurance.

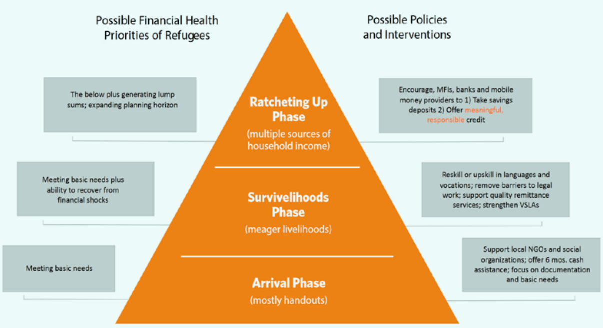
From a financial inclusion policy perspective, the evolution of the policy agenda should progress up the 'Financial Health Pyramid' from: support from NGOs for registration, documentation, and cash assistance; moving to uplifting the adaptation of FDPs to a new culture, in their work-related capacities, financial literacy, understanding of the local environment, and to encourage money transfers and financial group schemes; and then advancing to support for FSPs to engage in more structured savings and credit products to meet the evolving needs of FDPs.[55]

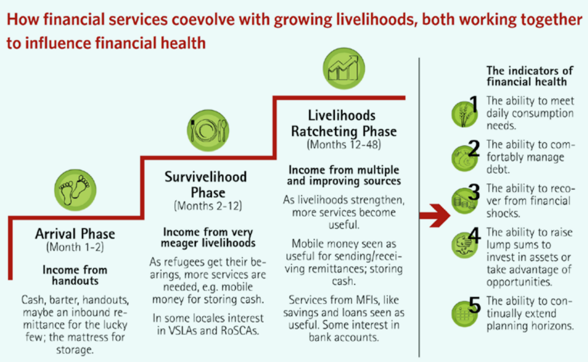
53 Alliance for Financial Inclusion. 2017. Financial Inclusion of Forcibly Displaced Persons: Perspectives of Financial Regulators. Available at: https://www.afi-global.org/publications/financial-inclusion-of-forcibly-displaced-persons-perspectives-of-financial-regulators/

54 Henry J. Leir Institute, The Fletcher School of Law and Diplomacy, Tuft University. 2020. Supporting the Financial Health of Refugees: The Finance in Displacement (FIND) Study in Uganda and Mexico. Available at: https://sites.tufts.edu/ihs/supporting-the-financial-health-of-refugees-the-finance-in-displacement-find-study-in-uganda-and-mexico/

55 Ibid.; Findev Blog. 2018. Getting It Right: Providing Financial Services to Refugees, Five key recommendations based on market studies in Jordan and Uganda. Available at: https://www.findevgateway.org/blog/2018/10/getting-it-right-providing-financial-services-to-refugees

FIGURE 3: FINANCIAL HEALTH PYRAMID





Source: (Left) Henry J. Leir Institute. 2020. Supporting the Financial Health of Refugees (p. 33). Tufts University – The Fletcher School of Law and Diplomacy. Available at: https://sites.tufts.edu/journeysproject/files/2021/01/IRC_Report_Final.pdf

(Right) Henry J. Leir Institute. 2021. Finance in Displacement: Joint Lessons Report (p. 5). Tufts University – The Fletcher School of Law and Diplomacy. Available at: https://www.rescue.org/sites/default/files/document/6473/findfinalreportv3greenred.pdf

4

BARRIERS TO FDP-LED MSMEs' ACCESS TO FINANCE

FDP-led MSMEs suffer from the compounded effects of multiple barriers when accessing formal finance. The first are demand-side barriers related to what they experience on an individual level and the business they wish to launch. Second, are barriers coming from the supply-side due to the internal processes of FSPs, which are often a response to demand-side or regulatory barriers. The final set encompasses policy, legal, and regulatory barriers.

4.1 DEMAND-SIDE BARRIERS

Before even considering launching an enterprise, FDPs face their own personal and family-related barriers.[56] They endure personal and family trauma, and are often subject to discrimination and xenophobia. Adapting to a new social and cultural environment is a challenge, including learning a new language and navigating discrepancies in gender and religious norms within their new community.

Economically, they struggle to secure a livelihood and are uncertain about their future, which reduces their willingness and capacity to launch their business. Their personal and business network must be rebuilt but they lack information and knowledge about formal financial services, the digital environment, and support programs. Their skills and professional experience may not be recognized while their personal assets are severely limited or non-existent, usually left behind in their place or country of origin.

At the same time, FDPs must deal with a legal status that remains unclear and precarious, especially in the first months following their arrival. This uncertainty extends to their identification and related documents, which are necessary to meet KYC and CDD requirements for account openings and continued access to formal financial services.

Finally, they face logistical challenges related to their often-restricted mobility and location, which is usually in remote areas, encampments, or settlements, compounding the distance to formal support services.

LACK OF VERIFIABLE IDENTIFICATION DOCUMENTS

Particularly for asylum seekers and refugees, the challenges brought by their uncertain legal status and lack of verifiable identification can make them ineligible in accessing formal financial services. As a result, many must turn to alternatives such as mobile money accounts or digital wallets which are somewhat easier to access and use in many countries,[57] but limits the use of formal financial services to basic cashing out and transactional services. Alternatively, they may access finance in the informal sector with schemes such as Savings and Credit Cooperatives (SACCOs), Rotating Savings and Credit Associations (ROSCAs), VSLAs, tontines, and similar arrangements, or through microfinance loans.[58]

LACK OF COLLATERAL

Equally limiting is their capacity to meet the requirements of financial institutions in terms of collateral, guarantees, or guarantors to secure financing because FDP-led MSMEs have little or no assets and their capacity to acquire moveable assets, land, or even be granted any property rights in most jurisdictions is highly restrictive.

BUSINESS OWNERSHIP AND CAPACITY TO ENTER INTO CONTRACTUAL AGREEMENTS

While business ownership by FDPs is allowed in several jurisdictions, such as in Egypt, Uganda, Kenya, Ethiopia, Colombia, and Armenia, it is de facto not feasible because of a range of barriers. This includes difficult-to-obtain work or residency permits, prohibitively high costs to obtain permits, restrictions on accessible sectors of activity, requirements mandating a local partner or guarantor, or limits on the freedom of movement necessary to run their business. Consequently, self-employment which often falls in a legal grey area and within informality, remains the only viable option for FDPs who cannot find employment.

56 Myrtho Chliova, Stefen Farny, and Virva Salmivaara. Supporting refugees in entrepreneurship. OECD. 2019. Accelerating local economic development through refugee-led SMEs - SME and Entrepreneurship Papers No. 14. Available at: https://www.refugeeselfreliance.org/blog/2023/6/27/recording-accelerating-local-economic-development-through-refugee-led-smes

57 A list of all its member countries which have simplified KYC to enable mobile wallets for refugees can be found in Alliance for Financial Inclusion. 2020. Inclusive Financial Integrity: A Toolkit for Policymakers. Available at: https://www.afi-global.org/publications/inclusive-financial-integrity-a-toolkit-for-policymakers/#:~:text=This%20toolkit%20provides%20practical%20guidance,based%20approach%20guidance%20relating%20thereto

58 International Labour Organization. 2023. Review of national policy, legislative and regulatory frameworks and practice A baseline study on the right to work and rights at work for refugees Egypt, Ethiopia, Iraq, Jordan, Kenya, Lebanon, Uganda, Sudan. Available at: https://www.ilo.org/global/programmes-and-projects/prospects/publications/WCMS_882697/lang--en/index.htm

There are also limits to their capacity to enter into contractual arrangements, including securing rental premises, conducting trade, providing employment, and purchasing raw materials or supplies. These are just some of the constraints which keep them in the informal sector.

ACCESS TO MARKETS

Finally, FDP-led MSMEs face barriers in accessing markets to sell their goods and services, including national markets, value chains, supply chains, direct buyers, or intermediaries. This restriction on engaging in larger scale, national level market access limits the growth of MSMEs or even the mere existence of their business, and creates very intense competition among FDPs themselves.

4.2 SUPPLY-SIDE BARRIERS

Barriers also come from FSPs and how they are organized, structured, and willing to serve FDP-led MSMEs.

DIFFICULTY IN BUILDING A BUSINESS CASE

The lack of data and information on FDPs and FDP-led MSMEs, including their profiles, behaviors, and needs, makes it difficult to evaluate their potential and build a business case for this segment, limiting the interest and willingness of FSPs to invest in developing or adapting their offerings.

CONFORMITY AND INTERNAL RULES

Directly linked to the status and official documentation of FDPs, AML/CFT/CPF-related requirements such as for KYC and CDD often lead FSPs to be conservative in their approach, limiting the de facto ability to access finance from formal financial institutions.[59] This is especially true for refugees. Even when the legal and regulatory framework lays the groundwork for refugees to access bank accounts, loans, and other financial services from banks, such as in Djibouti, Sudan, and Ethiopia, a lack of specific guidelines and procedures often makes it difficult for refugees to do so.[60]

FSPs also add an extra layer of validation. For example, new banking regulations in Mexico require foreign nationals to present a valid passport, their Clave Única de Registro de Población (CURP) or Unique Population Registry Code, which is their personal ID number, and sometimes a permanent residency card to open a bank account. While temporary residency cards and humanitarian visas are accepted in lieu of a permanent residency card, FSPs, in wanting to limit their risks prefer permanent residency cards as this indicates a higher likelihood of the account holder staying in Mexico. Migrants must also provide a Mexican phone number and email address.[61]

59 In Uganda's Refugees Act of 2006, in the bill of refugee rights, the right specifically to open a bank account is not mentioned. Similarly, in Kenya, Lebanon and Egypt, for example, there are no specific legal provisions recognizing the ability of refugees to open bank accounts.

60 International Labour Organization. 2023. Review of national policy, legislative and regulatory frameworks and practice - A baseline study on the right to work and rights at work for refugees Egypt, Ethiopia, Iraq, Jordan, Kenya, Lebanon, Uganda, Sudan. Available at: https://www.ilo.org/global/programmes-and-projects/prospects/publications/WCMS_882697/lang--en/index.htm

61 International Rescue Committee. 2021. Supporting-financial-health-refugees-finance-displacement-find-study-uganda-mexico. Available at: https://www.rescue.org/report/supporting-financial-health-refugees-finance-displacement-find-study-uganda-mexico

Women that received microfinance loans make soap as a new income to generate business in Adjumani, Uganda. (Alison Wright / Alamy Stock Photo)

Even when financial policymakers and regulators authorize alternative documents as a means of verification (e.g. refugee card, temporary visa, UNHCR document, country of origin's passport, and others) and issue directives to provide clarity to their regulated entities — as seen in Brazil, Colombia, and Peru[62]— FSPs cannot validate these documents because their IT systems are still not interoperable with those of the authorities. The internal rules of FSPs generally do not allow any discrepancy from the official directive, leading to a cautious approach to compliance.

RISK MANAGEMENT

Even if the PAR ratios of FDPs do not deviate significantly from the total portfolio, risk management remains the main barrier for FSPs with risks stemming from the uncertain legal status, lack of collateral, and potential of onward migration of FDPs. Figure 4 presents the types of risks identified by four institutions participating in a conference panel discussion addressing refugees in particular, followed by their mitigation measures to show that adaptation is feasible[63] (Figure 4).

Credit was the only risk identified by all participants. FDPs have no or rarely accessible credit history in the host country and it seems impractical to consider their credit history in the country of origin, even for pan-African financial institutions. Alternative credit scoring or risk-based, tiered KYC procedures are not yet options in a majority of cases, however, there are several initiatives that use alternative credit scoring for FDPs, which are discussed later in Chapter 7 on Policy and Regulatory Recommendations. Consequently, these institutions have begun to incorporate some additional socioeconomic indicators beyond their regular appraisal criteria, which usually include legal residency, economic participation, literacy level, proficiency in the local language, business experience in their home country, and stability (Figure 5).

These criteria reflect a strong willingness from these four institutions to offer formal financial services to FDP-led MSMEs.

62 Banco Central Do Brazil. 2020. Guia Acesso a Serviços Financeiros Refugiados e Migrantes; SBS Peru. 2023. Guía práctica para la inclusión financiera Peru, Poblacion refugiada y migrante. Available at: https://www.sbs.gob.pe/Portals/3/jer/Materiales_EF/2023/GuiaPracticaPoblacionRefugiadaMigranteDigital.pdf; Colombia Banking Association. 2022. Guia_verificacion_de_identidad_Colombia; SBS Peru. 2022. Acceso al sistema financiero por parte de la poblacion migrante y refugiada en Peru. Available at: https://www.sbs.gob.pe/Portals/4/jer/PUB-NOTA-POLITUCA/Nota%20Acceso%20al%20SF%20Migrantes%20y%20Refugiados_vf.pdf

63 European Microfinance Week. 2023. Advancing the Access to Finance for the Forcibly Displaced - a panel discussion.

FIGURE 4: FDP-RELATED RISKS

Perceived risks initially	Bancamia	VisionFund	Al Majmoua	UGAFODE
Lack of info/familiarity/credit history	x			
Flight/credit risk	x	x	x	x
Reputational risk (government/clients)			x	
Observed risks now				
Mobility/tracking/flight	x		x	x
Lack of/poor experience	x			
Presence/liquidity of agents		x		
Dwindling humanitarian aid		x		
Bankability (collateral/indebtedness)			x	x

FIGURE 5: ADDED APPRAISAL CRITERIA

Indicators and criteria	Bancamia	VisionFund	Al Majmoua	UGAFODE
Duration in the country	x		x	
Legal residency documents/KYC-ability	x	x	x	x
Same phone number for the past 12 month				x
Experience: >2 years in a savings group with a good record (or " + good record" if you wish to save some space)		x		

LIMITED OFFERINGS

The interest and capacity to adjust or adapt products for FDPs remain limited as the business potential is often perceived as constrained. From our key informant interviews, new products or products specifically for FDP-led MSMEs are largely considered to be unnecessary.

KII FSP citation:

> "Do we need special products for this clientele? Some say we need to develop them. I think the regular products are fine but need some adaptation. We only embed risk mitigation factors related to the status of the refugee and linked to the renewal of the document."

KII iNGO citation:

> "There is a need for product adaptation. At the minimum, we must provide access to the same products as the host community, but adapted to meet the risks and unique needs of FDPs."

Regulation, investments, and operational costs also limit the capacity of FSPs to provide access to their services, whether physically at branches, technologically via bank machines or digital platforms, or through agents.

Ultimately, it is recommended that FSPs develop capabilities in-house or partner with BDS providers to better manage their risks, however, this approach would raise costs and require strict management of service delivery.

A LARGELY INFORMAL SECTOR

Each type of FSP has its strengths and weaknesses in the FDP-led MSMEs segment. Figure 5 compares the barriers associated with the different FSP categories.

The literature review and key informant interviews revealed that informal schemes and MFIs are the most involved with FDP-led MSMEs. Informal schemes, while generally close to FDPs both physically and socially, lack resources and cannot be scaled-up. On the other hand, the flexibility and adaptability of MFIs are their main advantages. Their proximity to FDPs, along with their mission and objectives, are positive factors that align them well with the needs of vulnerable populations. However, to operate profitably and on a scalable basis, they need support financially, technologically, and in capacity building. Mobile financial service providers and telcos need to expand their offerings if they are going to better capture the entire market. Insurers are even farther out of reach as most FDPs are unlikely to choose specialist products and services, even if there is a range of offerings available, with the exception of microinsurance which is a more accessible alternative.

FIGURE 6: BARRIERS FOR FSPS AND FDP-LED MSMEs

	Barriers
Banks	• Limited information on FDPs and a reluctance to serve them due to the lack of a clear business case • Risk management of FDP accounts • Conformity and restrictive internal rules • High costs vs. low capacity to scale
MFIs	• Financial and human resources • Older systems and technology • Limited products and offerings • Informality of their clients
Insurers	• Limited demand from FDPs for very specialized offerings
Informal schemes	• Limited means and resources • Low capacity to scale their offerings • Informality of the sector
Mobile financial services/ Telcos/Transfer agents	• High costs and low expertise to widen offerings beyond transactional activities

Egyptian refugee does engraving on the wood in Mosul, Iraq. (Sipa US / Alamy Stock Photo)

4.3 POLICY, LEGAL, AND REGULATORY BARRIERS

In general, bureaucracy, procedures, additional layers of regulation, unclear regulation, and complex administrative systems complicate A2F for FDP-led MSMEs. Furthermore, stringent KYC and CDD requirements appear to be the main barrier. While regulations sometimes authorize the launch and operation of an FDP-led business, challenges related to their legal status often make formal commercial activity unfeasible. A person's capacity to successfully launch and sustain a business over the medium to longer-term is essential to go beyond self-employment and informality.

In some cases, regulations add an additional layer of difficulties for FDP-led MSMEs. For example, the Jordan Investment Commission prohibits foreigners from owning businesses in certain key sectors, such as food processing, crafts, sewing, and hairdressing — sectors commonly involving women. Moreover, home-based enterprises owned by FDPs are ineligible for the financial support of NGOs.[64] In Lebanon, Syrian refugees are allowed to work in limited sectors, including agriculture, environment, sanitation, and construction. In Egypt, non-nationals are prohibited from working in importing, exporting, and the tourism sector. Because of these restrictions, humanitarian partners must intervene to ease the conditions of FDP-led MSMEs and guarantee a minimum livelihood.

On the positive side, under the radar authorizations exist. Jordan's 2018 Council of Ministers decision allows Syrian refugees to open home-based businesses, while in Sudan refugees can run kiosks, tea stalls, and clothing shops in refugee camps. Unfortunately, these measures often perpetuate the informal sector status of FDPs and FDP-led MSMEs, limiting their access to formal finance and support from public authorities.

Colombia allows free movement and the possibility for Venezuelans with temporary protection or migration status to open and invest in companies. In Ethiopia, the 2019 Refugees Proclamation grants FDPs the right to engage in agriculture, small industry, commerce, and handicrafts with a permit that is renewable annually, allowing them to operate in open market settings.[65] While beneficial, FDPs must navigate the application process to obtain a permit, understand any associated costs involved, and confirm the extent of the permit's allowances.

These examples show the importance of A2M and financial education, in conjunction with A2F and, by extension, access to BDS.

64 World Bank. 2020. The Mobility of Displaced Syrians: An Economic and Social Analysis. Available at: https://www.worldbank.org/en/country/syria/publication/the-mobility-of-displaced-syrians-an-economic-and-social-analysis

65 International Bank for Reconstruction and Development and The World Bank. 2023. PS4R Policy & Research Paper, Advancing Refugee-Entrepreneurship, Guidelines for the Private sector, Governments and the Development Community. Available at: https://thedocs.worldbank.org/en/doc/848f8400f8c614057e83ea130d050ebc-0570012023/original/FINAL-PS4R-Refugee-Entrepreneurship-Paper.pdf

5
CURRENT BEST PRACTICES OF FSPS TO ENABLE ACCESS TO FINANCE FOR FDP-LED MSMEs

This section explores different examples of initiatives by FSPs to serve FDP-led MSMEs.

WELCOMING FDPs

Migrante, a Chilean FinTech organization supported by the IADB,[66] targeted FDPs who do not have financial records in their new country with a very specific model. It financed the purchase of motorbikes for those involved in the gig economy and migrant workers, and also provided financing for their personal and domestic needs. The institution has reached a point where it can widen its market coverage to other countries with large migration flows and begin serving the local vulnerable population. In Ecuador,[67] the 'Caja de Ahorros el Cayambeno' savings bank offers both locals and refugees access to microcredit, while Pinchincha Bank and BanEcuador similarly offer credit to migrants.

ESTABLISHING ENABLING ELIGIBILITY CRITERIA

Al Majmoua[68] which is the largest MFI in Lebanon, grants loans of up to USD1,500 to refugees lacking residence permits, provided they have a Lebanese, Palestinian, or Syrian guarantor with a valid residence permit. It phases its strategy into three categories of FDPs namely vulnerable, developing, and economically stable and active. Furthermore, it adjusts its eligibility criteria based on the duration of the applicant's stay in the country, the household income-to-expense ratio, and whether they have a child enrolled at school.[69]

ADAPTING PRODUCTS AND DELIVERY CHANNELS

Some finanical institutions proactively seek solutions, adapting their product offerings especially their lending products:

- Most FSPs finance small loans as shown in previous examples or on a short-term basis as a risk mitigation strategy. For instance, FINCA Zambia does not go beyond twice the six-month pass received by refugees in Zambia.
- SympliFi offers a credit card to provide working capital to Nigerian entrepreneurs.[70]
- Noviti Finance in Lithuania suggests a special bond issuance from public authorities to offer partial guarantees, with some interest compensation for FSPs and their borrowers, and an equity program to support the coverage of certain markets by FSPs.[71]
- Microfon Bulgaria recommends extending the repayment schedule provided there is a guarantee fund supporting it, and allows a grace period on the loan.
- Adie in France uses a 'stepped' approach in the amount of financing and guarantees, i.e. 50 percent from a guarantor or 25 percent from a cash deposit.
- VSLAs and similar programs are often used to initiate relationships with FDPs, with FINCA Zambia and Equity Bank in Kenya's Kakuma camp serving as notable examples.

66 Inter-American Development Bank. 2022. Migrante: catering to LATAM immigrants with no financial records. Available at: https://www.fintechnexus.com/migrante-catering-to-latam-immigrants-with-no-financial-records/ and https://www.iadb.org/en/news/idb-lab-supports-chilean-fintech-focused-migrants

67 Key informant interview.

68 M. Pistelli. Center for Financial Inclusion. 2019. How to Include Refugee Entrepreneurs in Microfinance. Available at: https://www.centerforfinancialinclusion.org/how-to-include-refugee-entrepreneurs-in-microfinance

69 European Microfinance Week. 2020. Financial inclusion of forcibly displaced people. Available at: https://www.european-microfinance-week.eu/2020/Programme-Sessions-38/-Panel-session-Financial-inclusion-of-forcibly-displaced-people

70 For more information, visit: www.symplfi.co/back-a-loan

71 MFC Working Group. 2022-2023. Fostering Refugees' Financial Inclusion: microStart Belgium case study. Available at: https://mfc.org.pl/enhancing-refugees-financial-inclusion/ and https://youtu.be/njLiMvX1pWQ

RWANDA, Butare, urban refugees from Burundi, Josiane Mukumana and husband Albert Nishimirimana. (Joerg Boethling / Alamy Stock Photo)

- Successful initiatives rely on the alignment of BDS with the provision of financial services. For example, Al Majmoua achieved a low PAR through strong communication between clients and loan officers, regular business visits, and a flexible lending scheme. The MFI provided FDP-led MSMEs with the same financial product offered to Lebanese clients and also adopted a holistic approach in providing them with financial literacy and entrepreneurship training, with the aim of enhancing the overall financial health of refugees.
- Innovation Norway and UNHCR identified mechanisms allowing refugees in Kenya and Jordan to access credit or reimbursable grants in their country of asylum and to make repayments in their immigration countries, namely Australia, Canada, and the United Kingdom.[72]

In general, guarantee schemes, partial guarantee funds, or any other risk-sharing facilities can motivate FSPs to get involved and serve FDP-led MSMEs.

ENHANCING OUTREACH

Some financial institutions take it upon themselves to accompany refugees in their new locations. Following displacement from South Sudan to Uganda, the Rural Focused Initiative (RUFI) decided to cross the border and offer its services to refugees in an environment where they felt inadequately served by Ugandan FSPs. RUFI even went as far as rehiring some of its former South Sudanese staff among the refugees now in Uganda as loan officers, further facilitating outreach.[73] This approach also helps support customers in overcoming language barriers, socio-cultural conventions, and trust.

FINCA Zambia serves FDPs in a camp population with basic financial services and microloans if they have a pass to leave the camp whereby 150 refugees out of a total of 7,000 clients are being served and life insurance is included with the microloans, at an average value of USD1,500 for 6-12 months). Equity Bank, in collaboration with UNHCR and WFP, began its outreach operations in 2012 in Kenya, Rwanda, and Uganda.[74]

72 M. Pistelli. UNHCR blogs. 2023. Gaining ground on refugee financial inclusion through advocacy, innovation and partnerships. Available at: https://www.unhcr.org/blogs/gaining-ground-on-refugee-financial-inclusion-through-advocacy-innovation-and-partnerships/

73 International Labour Organization. 2023. Making Finance Work for Refugees - RUFI's journey in serving refugees and host communities in South Sudan and Uganda. Available at: https://www.ilo.org/global/topics/employment-promotion/social-finance/financial-inclusion/WCMS_881611/lang--en/index.htm

74 International Finance Corporation. 2019. Private Sector and Refugees, Pathways to Scale. International Finance Corporation. Available at: https://www.ifc.org/en/insights-reports/2019/psr-pathways-to-scale

A shop owner runs her business after receiving a micro loan in Adjumani, Uganda. (Alison Wright / Alamy Stock Photo)

BOX 2: DOING BUSINESS IN REFUGEE CAMPS

FDPs trying to launch and operate a business in a refugee camp generally go through the same constraints faced by FDP-led MSMEs, plus the additional limitations and constraints characterized by encampments, such as the remote locations; legal, regulatory, and policy related barriers; severely limited resources and services; low phone and internet coverage; little or no financial services; and no freedom of movement. The economic conditions of the camps, coupled with their instability and insecurity, bring further challenges. These constraints do not exist for FDPs who settle in urban areas.

These barriers do not, however, prevent some FDP-led MSMEs from thriving. Most businesses undertaken by camp-based refugees are small-scale and informal, requiring no permits from camp authorities. These businesses, which require little start-up capital, are in trade, services (e.g. motorcycle repair, mobile agents, crafts, personal services), and small-scale production, often related to the population's needs covered by humanitarian aid and NGO support. They address the needs of the inhabitants, often overcoming language and cultural barriers. Nonetheless, they face a very competitive commercial environment especially when new waves of refugees arrive with many offering similar products and services.[75]

Telcos, banking agents, and money transfer operators respond to the basic transactional needs of the population. Although microcredit schemes for refugees are officially authorized, they are rarely operational, with some precedents established by iNGOs in camps or close to the camps[76]. In Mauritania, in the town of Bassikounou near the Mbera refugee camp, there is an initiative underway involving the Banque El Amana (BEA) and an MFI known as Djikke opening a joint branch, whereby Djikke would offer and manage microloans funded by BEA, which will also provides regular financial services. Djikke has already launched savings and credit groups for small businesses with the help of the ILO.[77]

In the Nakivale settlement in Uganda, FDPs have the right to work and freedom of movement through Uganda's self-reliance model. Somali and Congolese FDPs run their businesses, attracting many Ugandan nationals to the settlement to buy and sell goods and services. The main Nakivale schools and hospitals serve both refugee and host populations, demonstrating a strong integration with the host community. In Katwe, a major Congolese refugee hosting area in Kampala, Ugandan landlords benefit from the presence of refugees as tenants, some Ugandan business models have been built in response to the refugee market, and some Ugandans run shops that sell mainly to refugee customers. Interestingly, some Ugandan nationals are employed by refugee business owners.[78]

Doing business in a camp can also prove highly successful. The Kakuma camp in Kenya, established in 1992 and one of the largest in the region, is a prime example. This concentration of 160,000 residents, or 220,000 including the adjacent town, was estimated in 2016 to generate USD56 million annually in consumption. Moreover, over 2,000 businesses are operating in the camp, providing services and employment to its residents.[79]

75 King Hussein Foundation, University of Plymouth, University of Nottingham, Haydn Green Institute for Innovation and Entrepreneurship, UDA Consulting, American University of Beirut. 2019. Policy Brief: Poverty alleviation and Arab women refugees in Lebanon: empowerment through grassroots micro-entrepreneurship; International Labour Organization. 2022. Review of national policy, legislative and regulatory frameworks, and practice in Sudan A baseline study on the right to work and rights at work for refugees and other forcibly displaced persons; Key informant interview; El Amana Bank. 2023; International Finance Corporation. 2018. Kakuma as a marketplace. Available at: https://www.ifc.org/en/stories/2023/kakuma-refugee-camp-private-sector-means-business?cid=IFC_LI_IFC_EN_EXT

76 International Labour Organization. 2022. Review of national policy, legislative and regulatory frameworks, and practice in Sudan A baseline study on the right to work and rights at work for refugees and other forcibly displaced persons. Available at: https://www.ilo.org/global/programmes-and-projects/prospects/publications/WCMS_853749/lang--en/index.htm.

77 AFI member interview. Central Bank of Mauritania. 2022.

78 Alexander Betts, Imane Chaara, Naohiko Omata, and Olivier Sterck. 2019. Refugee Economies in Uganda: What Difference Does the Self-Reliance Model Make? Available at: https://www.rsc.ox.ac.uk/publications/refugee-economies-in-uganda-what-difference-does-the-self-reliance-model-make

79 International Finance Corporation. 2018. Kakuma as a marketplace. Available at: https://www.ifc.org/en/stories/2023/kakuma-refugee-camp-private-sector-means-business?cid=IFC_LI_IFC_EN_EXT

Small business in refugee camp in Northern Iraq. (Ton koene / Alamy Stock Photo)

STRENGTHENING COMMUNICATIONS

FSPs should tailor their communications efforts and documentation to better meet the needs of FDPs. A key success factor involves considering cultural factors, such as engaging FDP partners and colleagues or working with local actors already involved with FDPs e.g. UGAFODE and Bancamia. Providing services in the language of FDPs, as VisionFund does in Uganda when it hires and trains FDP staff, and addressing religious concerns, such as Islamic finance, are important strategies.[80]

PROVIDING ACCESS TO MARKETS

Incubators and accelerators can provide greater access for migrants and FDP-led MSMEs. As an example, in Ecuador,[81] an incubator program concentrates resources on supporting the development of small enterprises that generate employment and wealth for refugees and the host community. Similarly, StartMashreq is an incubation program for refugees and host communities in Iraq, Jordan, and Lebanon.[82]

For FDPs, social enterprises often serve as a gateway to employment and self-employment. Market linkage social enterprises, such as Ten Thousand Villages,[83] connect buyers with producers and provides market information. In the same way, in Jordan the mission of Sitti Social Enterprise is to ensure self-reliance among refugee and displaced communities.[84]

Another option to develop markets is through the use of technology. Most jurisdictions facilitate access to SIM cards for FDPs, allowing them to send and receive money, operate agencies (either telcos or financial institutions), access digital financial services (transactional and specialized services), and run businesses.[85] The Jordan Payments and Clearing Company (JoPACC) in Jordan has been a trailblazer for such digital-based initiatives.[86]

PROMOTING INVESTMENTS AND REFUGEE NETWORKS

Other financial institutions that appreciate FDPs as a valuable opportunity are investment and impact funds, which have seen a recent surge in their number and coverage[87] following the long-standing efforts by KIVA. Since 2016, KIVA has lent USD32 million to more than 34,000 refugees in a dozen countries through crowdfunding and investments.[88] This new phenomenon signifies the attractiveness of the segment:

- Oikocredit and BlueOrchard funds, both in collaboration with the IADB as previously mentioned.
- Fund for Action and Innovation by Refugee Entrepreneurs (FAIRE) in France, offers refugee and migrant entrepreneurs with access to BDS to successfully develop their startup, coupled with a EUR 20,000 loan at a zero percent interest rate.[89]
- In Uganda, starting in 2019, UNHCR and the Swedish International Development Cooperation Agency (Sida) introduced a guarantee scheme and the Grameen Crédit Agricole Foundation provided financing to FSPs. This initiative supported VisionFund (loans and NFS), BRAC (NFS), and UGAFODE (small loans to microentrepreneurs), reaching 27,700 refugees out of a total of 110,400 clients and with a portfolio of EUR2.8 million from a total portfolio of EUR7 million. The success of this program attracted other FSPs to the FDP segment.[90]
- Acumen, with USD137 million invested in 139 companies partnered with the Refugee Investment Network (RIN) to find ways to serve displaced populations in Ethiopia, Kenya, and Uganda.[91]
- DWM's USD50 million Displaced Communities Fund, previously known as the Global Displacement Fund, aims to make equity investments to strengthen financial services for refugee populations in Uganda, Kenya, Ethiopia, Nigeria, Jordan, Pakistan, and Colombia.[92]
- RIN, with the IKEA Foundation, the Japan International Cooperation Agency (JICA), and Swiss Development and Cooperation (SDC), built and offers a platform called Refugee Lens Investing, which is defined specifically for the Horn of Africa environment through which different types of prospective FDP-led MSMEs are assessed and qualified to receive investments.[93]

83 For more information, visit: https://www.tenthousandvillages.com
84 For more information, visit: https://sittisoap.com
85 GSMA. 2019. The digital lives of refugees: How displaced populations use mobile phones and what gets in the way. Available at: https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2019/07/The-Digital-Lives-of-Refugees.pdf
86 For more information, visit: https://jopacc.com/default/eng
87 Impact Alpha. 2022. Migration surge spurs impact funds to target financial services for people on the move. Available at: https://impactalpha.com/migration-surge-spurs-impact-funds-to-target-financial-services-for-people-on-the-move
88 KIVA blog. Available at: https://www.kiva.org/blog/rooted-in-impact-guiding-principles-for-growth
89 For more information, visit: https://en.faire.eu/a-propos
90 Key informant interview.
91 RIN. 2021. RIN and Acumen partner to spur refugee lens investing in the greater horn of Africa. Available at: https://refugeeinvestments.org/rin-and-acumen-partner-to-spur-refugee-lens-investing-in-the-greater-horn-of-africa/
92 Amahoro Coalition.2020. Available at: https://dwmarkets.com/wp-content/uploads/2020/09/dwm-displaced-communities-fund_amahoro--2020-09-19.pdf
93 See RIN. Available at: https://refugeeinvestments.org

6

RECOMMENDATIONS FOR FINANCIAL SERVICES PROVIDERS

1. BUILD INSTITUTIONAL AND HUMAN CAPACITY

FSPs should change their culture, policies, and processes to adapt their offerings and structure, and develop product conditions and programs that meet the needs of their FDP clients, regulatory requirements, and their KPIs. They should follow a phased approach, beginning with the collection of fully disaggregated data, including by sex and age, to help with the design of basic products such as basic bank account opening, transactional services, digital services, savings, and basic lending. A similar gradual approach should be implemented to allow FDP-led MSMEs and FDPs in general to build their credit history, especially using alternative credit scoring methods, paving the way to the next step of designing and offering more complex financial products.

2. ESTABLISH PARTNERSHIPS

To extend their reach, FSPs should explore potential partnerships with banking agents, transfer agents, and mobile service providers, and connect with BDS providers to develop aligned approaches.

3. ESTABLISH A SPECIALIZED UNIT OR IDENTIFY A CHAMPION

Internally, FSPs should either establish a unit or appoint a champion dedicated to handling the FDP portfolio.

4. PROMOTE PRODUCT AND SERVICE AWARENESS AMONG FDPs

FSPs should promote their offerings to FDPs, build connections with community groups, and work with influencers or ambassadors who are well-connected with FDPs and FDP-led MSME communities.

5. SEEK PARTNERSHIPS TO ALIGN A2M, BDS, AND A2F

The key to establishing successful and sustainable entrepreneurship practices is connecting refugee entrepreneurs to markets.[94]

FSPs, often unable to individually provide A2F, A2M, and BDS — all vital to any successful commercial initiative, especially in the case of FDP-led MSMEs, should develop agreements, partnerships, or the joint provision of services to effectively support this clientele and consequently reduce their risks, making the business model both viable and successful.

94 UNHCR and Impact Hub. 2022. Global Roadmap for Refugee entrepreneurship. Available at: https://www.unhcr.org/sites/default/files/legacy-pdf/63565bc94.pdf

Palestinian refugee Ahmed Ali sells Meshaltet pastries in Al Shati refugee camp, west of Gaza City. (SOPA Images Limited / Alamy Stock Photo)

7 POLICY AND REGULATORY RECOMMENDATIONS

The following recommendations concern the formation of an enabling policy and regulatory environment for FDP-led MSMEs, under the responsibility of financial policymakers and regulators or any other supervisory authorities that can exert an influential role.

7.1 CONSIDER FDPS (INCLUDING FDP-LED MSMEs) AMONG THE DISADVANTAGED SEGMENTS IN YOUR COUNTRY

In adopting the 2019 Kigali Statement,[95] AFI members recognized FDPs as a disadvantaged segment whose specific needs and barriers should be considered in a country's national financial inclusion strategy and policies. Including FDPs within the NFIS and targeted financial inclusion policy initiatives can be a pathway to enhance their economic empowerment, self-reliance, and contributions to the host economy. There should also be clear and explicit mention in support of their MSMEs or any commercial initiative.

In addition, FDP and FDP-led MSMEs should be included in the National Financial Literacy Strategy (NFLS), which would also address their digital financial literacy. FDPs may not know their rights or understand the local formal financial system, and many lack financial and technological literacy, which limits their A2F. For example, the Bank of Uganda's Second Financial Literacy Strategy 2019-2024 includes refugees in the target audience of its programs.[96] As recently as November 2023,[97] AFI and the Bank of Uganda co-hosted a regional training program on the financial inclusion of FDPs with specifically designed coverage of FDP-led MSMEs. This event also provided an opportunity for participants to visit microenterprises led by refugees.

Effective practices emphasize the following key success factors: specifically evaluate the literacy levels of FDPs through a national financial diagnostic study (Central Bank of Jordan); establish working groups with multiple stakeholders, including a broad representation of FDPs (Bank of Uganda); and ensure extensive information delivery of the financial literacy and financial education program through face-to-face training, tablets, SMS, mobile, and multiple touchpoints such as savings groups, merchants, etc. (Bank of Tanzania in 2017, however these have been discontinued).[98]

To support financial policymakers and regulators, multiple programs in financial literacy and other areas related to FDPs, as well as organizations and institutions supporting them, are readily available and offered by IFIs and iNGOs.[99]

From a wider perspective, FDP-led MSMEs could also be included in a country's MSME development policy or agri-development policy from an A2F perspective, as well as any national level gender policies. These strategies should include promotional activities targeting FDP-led MSMEs and their host communities.

FDPs and FDP-led MSMEs contribute substantially to the economic and social fabric of their immediate host communities and, more broadly, to the host country. It is in the interest of financial policymakers and regulators to support the livelihoods of FDPs, including their access to finance and markets. Therefore, sound sex- and age-disaggregated data collection and analysis on the FDP population is necessary to ensure that policies and regulations are properly informed.

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95 Alliance for Financial Inclusion. 2019. Kigali Statement. Available at: https://www.afi-global.org/global-voice/maya-declaration/kigali-accords/#:~:text=Launched%20during%20the%202019%20GPF,disadvantaged%20from%20formal%20financial%20systems

96 Tilda Nabbanja and Mariam Zahari. Alliance for Financial Inclusion. 2021. Financial literacy transforms refugee livelihoods. Available at: https://www.afi-global.org/newsroom/blogs/financial-literacy-transforms-refugee-livelihoods/

97 Alliance for Financial Inclusion. 2023. Financial inclusion for forcibly displaced persons: Bank of Uganda hosts AFI regional training. Available at: https://www.afi-global.org/newsroom/news/financial-inclusion-for-forcibly-displaced-persons-bank-of-uganda-hosts-afi-regional-training/

98 Alliance for Financial Inclusion. 2021. Integrating vulnerable groups in national financial education programs and strategies, Guideline Note No. 48. Available at: https://www.afi-global.org/wp-content/uploads/2021/10/GN48_CEMCWG_191021.pdf

99 The International Labour Organization has an integrated widely-used approach that targets FDPs, FDP-led MSMEs and vulnerable populations; UNITAR (with UNCTAD, UNHCR and IOM) offers an e-learning course on 'Entrepreneurship for Migrants and Refugees' aimed at strengthening the competencies of policymakers and practitioners. UNHCR launched a platform specifically for Brazil - the Refugee Entrepreneurs Platform (Refugiados Empreendedores). Available at: https://www.refugiadosempreendedores.com.br/; the Refugee Entrepreneurship Network, part of the Centre for Entrepreneurs offers such services in 19 countries. Available at: https://ren.centreforentrepreneurs.org/; the Entrepreneurship Platform ('people beyond borders') offers training, knowledge sharing, and resource materials for refugees. Available at: https://peoplebeyondborders.org/entrepreneurship-platform/

Yazidi women learn sewing in a camp for internally displaced persons at Dawodiya in Iraq's Kurdistan region.(Paul Jeffrey / Alamy Stock Photoz)

7.2 PROMOTE DISAGGREGATED DATA COLLECTION AND MONITORING AND EVALUATION (M&E)

Gathering sex- and age-disaggregated data on FDP-led MSMEs lays the foundation for any meaningful intervention developed and implemented on their behalf. While this data is scarce at the moment, some progress is being made. In the key informant interviews, AFI members — the National Bank of Rwanda, Bank of Zambia, and SBS Peru — indicated that the FDP-led MSME segment will be included in their forthcoming market scoping exercises. The IFC has commissioned 'Market Gap Studies' in Peru and Colombia that aim to segment the FDP-led MSME market and identify the potential offered by these different sub-segments to FSPs, employing a thorough secondary and primary data collection methodology.[100] Continuous data collection should be encouraged to facilitate the monitoring and evaluation (M&E) of policies and regulations, to understand whether the desired impact is being achieved, and to identify any necessary adjustments. Such data is also helpful in accurately determining the contributions made by FDP-led MSMEs to the host economy.

KII iNGO citation:

"Further evidence is needed through data generation to demonstrate that FDPs are sufficiently viable to access formal financial services."

7.3 DEVELOP RISK-BASED, TIERED KYC AND CDD FOR FDPS AND FDP-LED MSMEs

Stringent KYC and CDD frameworks are still the norm in many jurisdictions, posing challenges for FDPs in meeting regular requirements, thereby hindering their access to and usage of formal financial services. Financial policymakers and regulators must examine different risk-based adjustments to these regulatory requirements, such as proportionate, tiered-KYC and CDD developed based on robust data or evidence-informed national or sectoral Money Laundering/ Terrorist Financing/ Proliferation Financing (ML/TF/PF) risk assessments to account for the unique profiles of FDP-led MSMEs, similar to the earlier adjustments made by MFIs (as shown in Figure 6).

Moreover, since many FDPs have access to mobile services prior to financial services, financial policymakers and regulators should examine the operational advantages of leveraging e-KYC to overcome related access barriers and ensuring harmonization of financial services regulatory requirements for KYC with that of telecommunications such as for SIM cards. Additionally, mobile phones, even through a basic USSD model can be leveraged to give FDP-led MSMEs access to financial institutions, simplifying transactional services and, eventually, enabling access to more specialized services such as savings, loans, and microinsurance.

100 International Finance Corporation. 2021. Venezuelan migration in Colombia: an opportunity for the financial sector. Unpublished; and, International Finance Corporation. 2022. Financial and economic inclusion of Venezuelan migrants and refugees in Peru, Gap Assessment. Available at: https://www.r4v.info/es/document/IFC_WB_Financialandeconomicinclusion_RyM_sep22

7.4 LEVERAGE ALTERNATIVE CREDIT HISTORY

Another major constraint to A2F for FDP-led MSMEs is their lack of credit history in the host country and the difficulties faced in evaluating their credit risk. A regional bank in Africa is currently evaluating the feasibility of internally cross-checking the credit history of refugees in their home country. Financial policymakers and regulators should therefore evaluate different credit scoring methodologies such as behavioral, to compensate for this lack of data and information. Multiple projects are exploring alternative scoring methodologies, many of which are at their inception phase: the UNHCR Cash Assistance Project in Jordan is using mobile phone data from refugees to verify their identity and determine eligibility for cash assistance; FinTech Lendefi in Uganda provides microloans to refugees and host communities using alternative data; the mobile lending platform Tala in Kenya uses an AI-powered model to assess creditworthiness, including for refugees with limited financial history; Lenddo in Southeast Asia utilizes social media data and online behavior to assess loan eligibility for refugees and migrants; and the Grameen Foundation's Progresso initiative in Guatemala uses digital tools to assess creditworthiness and deliver financial services to refugees and IDPs.

7.5 ESTABLISH AND LEVERAGE OUTCOME-ORIENTED COORDINATION STRUCTURES

- **IN-COUNTRY COORDINATION STRUCTURES:**

Improved cooperation between ministries and departments, and the private sector is essential, particularly through the creation or enhancement of a national multi-stakeholder committee, such as a 'National Council for FDPs.' This can help to align priorities and actions, especially between ministries and departments with a humanitarian mandate and those focused on economic and financial development. Such a committee would ensure that a holistic approach is taken to advance the financial inclusion and economic empowerment of FDPs in the country. For instance, policy interventions should address the whole spectrum of FDP needs, including A2F, A2M, BDS, capacity to launch businesses, security and protection, and cultural and language integration. Some countries have made significant progress in this area. Djibouti's 2016 'Cadre d'action global pour les réfugiés' is based on a national strategy to guarantee the protection and socio-economic inclusion of refugees including a national law for refugees and inclusion in education in 2017, inclusion in the health system in 2018, and access to bank accounts and credit in 2018.[101] Uganda's Office of the Prime Minister is responsible for the Comprehensive Refugee Response Framework and Development Response for Displacement Impact which covers health, social, education, economic, labor, and others, and is co-led by UNHCR and IOM.[102] In Latin America, Peru's forthcoming 'Comité Consultivo de Inclusión Financiera para población refugiada y migrante', was created through the NFIS.[103]

A communication strategy[104] should also be developed and implemented to inform host communities of the importance of FDP-led MSMEs to the local economy which can play a pivotal role in encouraging their peaceful integration and assimilation.

- **REGIONAL COORDINATION STRUCTURES**

Coordination needs to occur at the regional level because forced displacement can be transnational, for instance, in the case of cross-border asylum seekers and refugees. A regional coordination mechanism capable of developing and following a potential regional action plan can help overcome some of the barriers to enhancing A2F for FDP-led MSMEs. The IGAD[105] and the Interagency Coordination Platform for Refugees and Migrants (R4V) from Venezuela[106] are excellent examples of such mechanisms. Regional development banks should also be engaged to improve environments so that they are conducive to FDP-led MSMEs and to design multi-country strategies and policies.

The financial sector needs to engage in discussions and the planning of programs based on blended finance, social bonds (i.e. refugee-related bonds), private sector investments and investment funds, crowdfunding, diaspora investment, Islamic finance, risk-sharing facilities and credit lines. It is also necessary to find ways to combine the efforts of FSPs, IFIs, investors, platforms, networks, and public authorities in the development, implementation, and monitoring of such programs.

101 Secrétariat CRRF (ONARS/UNHCR Djibouti). 2019. Guide du CRRF – Note conceptuelle, Opération de Djibouti. Available at: https://globalcompactrefugees.org/sites/default/files/2019-12/Guide%20to%20the%20comprehensive%20refugee%20response%20in%20Djibouti%20%282019%29.pdf.

102 UNHCR. May 2017. Comprehensive refugee response framework – Uganda. Translating New York Declaration Commitments into Action. Available at: https://opm.go.ug/comprehensive-refugee-response-framework-uganda/

103 SBS Peru. 2023. Guía práctica para la inclusión financiera Peru, Poblacion refugiada y migrante. Available at: https://www.sbs.gob.pe/Portals/3/jer/Materiales_EF/2023/GuiaPracticaPoblacionRefugiadaMigranteDigital.pdf

104 Alliance for Financial Inclusion. 2019. Communication Strategies for National Financial Inclusion Strategies Implementation. Available at: https://www.afi-global.org/publications/communication-strategies-for-national-financial-inclusion-strategy-implementation

105 Intergovernmental Authority on Development (IGAD). 2019. Kampala Declaration on Jobs, Livelihoods, and Self-Reliance for Refugees, returnees and host communities in IGAD Region. Available at : Kampala Declaration on Jobs, Livelihoods & Self-reliance for Refugees, Returnees & Host Communities in IGAD Region | UNHCR Africa

106 For further information, visit: https://www.r4v.info/en/home

7.6 EXPAND SUPPORT TO FSPs

Financial policymakers and regulators play a key role in enabling FSPs to effectively serve FDP-led MSMEs. Some of the recommendations include:

• Equip FSPs with the information, data, tools, and methodologies to know, understand, and evaluate the FDP market and to build their business case.

• Provide FSPs with the necessary information related to the different KYC and CDD requirements and put in place a simple process or system to validate the identity of their FDP clients. In other words, provide regulatory clarity and guidelines with regards to addressing KYC and CDD for FDP-led MSMEs.

• Offer capacity building and technical assistance to FSPs to better develop or adapt their financial services and products for FDPs and FDP-led MSMEs.

• De-risk the lending mechanisms by providing FSPs with guidance and tools to adapt their risk appraisal and management methodologies and processes. Risk-sharing facilities, insurance coverage, credit lines, and other structuring financial support should be evaluated.

7.7 COMMUNICATE WITH ALL STAKEHOLDERS

Expand access to information for FDP-led MSMEs, informing them about their rights, available financial and non-financial products, and services, how to access these resources, and how to build their banking and credit history. This will assist FDPs in navigating the administrative processes related to self-employment and business startups. FDPs should also have a mechanism to voice their needs, concerns, and complaints, necessitating their explicit inclusion in national consumer protection policies and regulations.

Clear and consistent communication with FSPs is necessary to ensure they are fully informed about the regulations and mechanisms available to serve FDP-led MSMEs and that all operational constraints are dealt with promptly and fairly.

Refugees coming from the northern cities of Gao, Kidal and Timbuktu, settled at a camp for internally displaced persons in Sevare, Mali, on January 23, 2013. Photo by Julien Tack. (Abaca Press / Alamy Stock Photo)

8 CONCLUSION

Forced displacement has increased sharply in recent years, manifesting in multiple forms and varying patterns with no signs of abating in the near future. This is especially considering those who will be forcibly displaced by evidently worsening climate-induced disaster events, both rapid and slow-onset. It is crucial for laws, policies, and regulations to be adapted to FDPs, as they should for any other disadvantaged segment at risk of being left behind in the pursuit of inclusive growth and sustainable development.

Host countries can benefit economically and socially from FDP-led MSMEs. Yet, FDP-led MSMEs still face significant barriers when accessing formal financial services, ranging from difficulties in gaining FSP recognition of official identification documents to open an account, to understanding how to develop a business case to meet the requirements to access MSME financial services.

However, as illustrated by the many examples and case studies in this special report, these barriers are not insurmountable. Some FSPs adjust their risk appraisal methodology, adapt their products, facilitate the delivery of these services, and communicate with FDPs in their own language. BDS, which often supplement their offerings, are an important success factor, if not the main one.

Importantly, financial policymakers and regulators are key agents in establishing a conducive environment for FDP-led MSMEs, in coordination with other financial sector and economic actors. They have a vital role to play in unlocking the creativity, talent, and potential of FDPs, thereby facilitating a pathway to sustainable development for all.

Rohingya girl made a local business in the Kutupalong camp in Cox's Bazar, Bangladesh. (NurPhoto SRL / Alamy Stock Photo)

ACRONYMS

A2F	Access to finance
A2M	Access to market
AFI	Alliance for Financial Inclusion
AML	Anti-money laundering
BDS	Business development services
CB	Central bank
EU	European Union
FIAP	Financial Inclusion Action Plan
FDP	Forcibly displaced person or people
GDP	Gross domestic product
GPFI	Global Partnership for Financial Inclusion
IADB	Inter-American Development Bank
IDP	Internally displaced person or people
IFC	International Finance Corporation
IFI	Institutional financial institution
ILO	International Labour Organization
IGA	Income-generating activity
iNGO	International non-governmental organization
IOM	International Organization for Migration
IT	Information technology
JOPACC	Jordan Payments and Clearing Company
KII	Key informant interview
KYC	Know your customer (client)
MFI(s)	Micro-finance institution(s)
MSMEs	Micro, small, and medium enterprises
NFIS	National Financial Inclusion Strategy
NFLS	National Financial Literacy Strategy
NFS	Non-financial services
NGO	Non-governmental organization
NSCE	North South Consultants Exchange
OECD	Organisation for Economic Co-operation and Development
PAR	Portfolio at risk
PS4R	Private sector for refugees
R4V	The Interagency Coordination Platform for Refugees and Migrants
ROSCA	Rotating savings and credit association
RUFI	Rural finance initiative
SACCO	Savings and credit co-operative society
SEPS	Superintendencia de Economía Popular y Solidaria (Ecuador)
SBS	Superintendencia de Banca, Seguros y AFP (Peru, Colombia)
SDG	Sustainable Development Goal(s)
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNCDF	United Nations Capital Development Fund
UNHCR	United Nations (High Commission for Refugees) Refugee Agency
UNITAR	United Nations Conference on Trade and Development
VSE	Very small enterprise
VSLA	Village savings and loan association
WB	World Bank
WB4R	World Bank for Refugees
WFP	World Food Programme

Lutaya Primary School, constructed and financed by Jesuit Refugee Services since 2005, Yei in South Sudan. (Sean Sprague / Alamy Stock Photo)

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