ADVANCING INCLUSIVE FINANCIAL INTEGRITY FOR FORCIBLY DISPLACED PERSONS

POLICY BRIEF

CONTENTS

ACKNOWLEDGMENTS

This policy brief is a product of AFI's Financial Inclusion of Forcibly Displaced Persons (FDPs) workstream and the Global Standards Proportionality Working Group (GSPWG) and its members.

Contributors:

From the AFI Management Unit: Led by Mariam Jemila Zahari (Policy Specialist, Policy Analysis and Guidance), with contributions from Robin Newnham (Head, Policy Analysis and Guidance) and Gift Mpoola (Consultant, Policy Analysis and Guidance).

AFI Members: Reviewed by Thelma Saiwa (Reserve Bank of Malawi).

We would like to express our sincere appreciation to the peer-reviewers of this policy brief: Secretariat Team (Eastern and Southern Africa Anti-Money Laundering Group), Elizabeth Mukami (International Rescue Committee), Barry Cooper and Masiiwa Rusare (Cenfri), Professor Louis de Koker (La Trobe University), Mercy Buku (FinRisk Consulting), Florian Henrich (GIZ), Guadalupe Galambos and Astrid Devalon (World Food Programme), and John Warnes (UNHCR).

We would like to thank AFI member institutions, partners and donors for generously contributing to the development of this publication.

Image by Richard Juilliart/Shtterstock

1. INTRODUCTION

Globally, forced displacement is at its highest levels. Given exacerbating conflicts and intensifying climate-induced disasters, it is only expected to rise further.

Forcibly displaced persons (FDPs) are often marginalized in society, and consequently excluded from national financial inclusion policies and initiatives. Among the barriers to the financial inclusion of FDPs, is that they are often disproportionately impacted by the implementation of regulatory requirements relating to Anti-Money Laundering/Countering the Financing of Terrorism/Countering the Financing of Proliferation of Weapons of Mass Destruction (AML/CFT/CPF). Such barriers can be overcome if financial policymakers and regulators take steps to advance inclusive financial integrity for FDPs in their countries. Based on an examination of these barriers, this policy brief offers recommendations for financial policymakers and regulators to promote financial inclusion of FDPs while complying with the global standards for AML/CFT/CPF.[1]

2. DEFINING INCLUSIVE FINANCIAL INTEGRITY

Inclusive financial integrity (IFI) is achieved when there is a sound alignment between financial inclusion and financial integrity policy outcomes. Financial integrity entails the successful implementation of global standards for AML/CFT/CPF.[2]

This alignment can be attained when a country has established a safe financial system with effective measures to identify, assess, understand, and mitigate Money Laundering/Terrorist Financing/Proliferation Financing (ML/TF/PF) risks and acts as soon as those risks have been detected. At the same time, the country has ensured improved access to and usage of quality formal financial services in a way that enhances the livelihoods of the most disadvantaged segments and drives sustainable development that truly leaves no one behind.[3] In the context of financial inclusion, disadvantaged segments refer to groups in society who are disproportionately excluded from the formal financial system and typically require targeted financial inclusion policies to ensure their needs are addressed. According to AFI's Kigali Statement, these include women, youth, older people, people living with disabilities, FDPs, and rural populations, among others.[4]

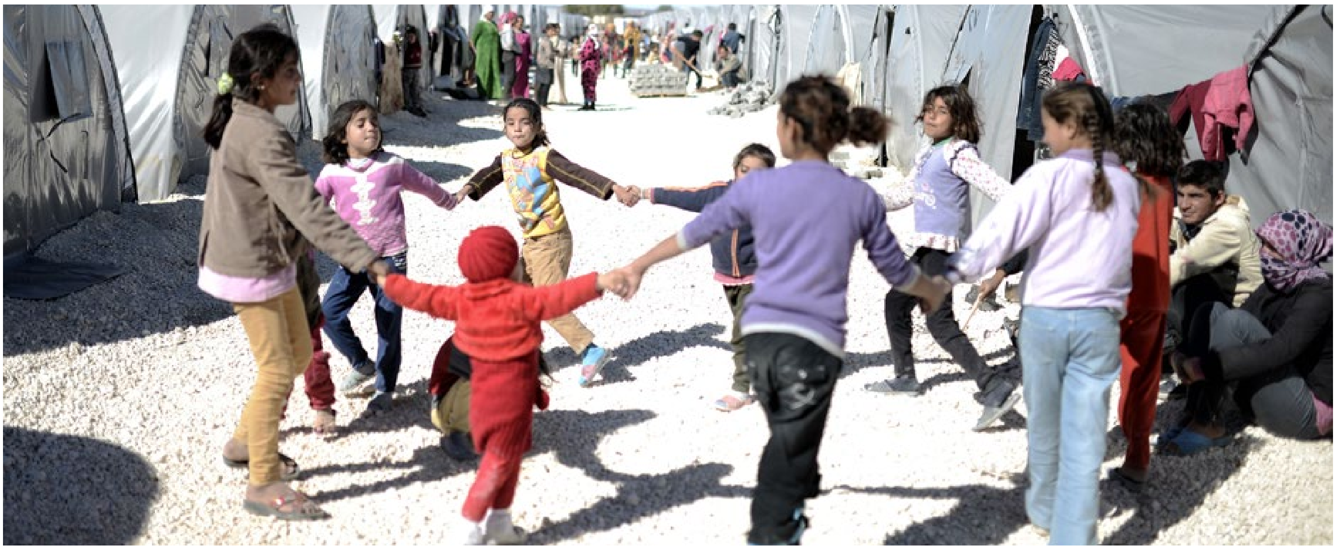

Image by Orlok/Shtterstock

1 AFI and Cenfri. 2020. Inclusive Financial Integrity: a Toolkit for Policymakers. Available at: https://www.afi-global.org/wp-content/uploads/2020/09/AFI_CENFRI_toolkit_AW_digital.pdf.

2 Ibid.

3 AFI. 2019. Kigali Statement. Available at: https://www.afi-global.org/wp-content/uploads/2020/11/Kigali_FS_20_AW_digital.pdf.

4 Ibid.

3. DEFINING FDPs

Forced displacement is caused, among other factors, by armed conflict, persecution, situations of generalized violence, violations of human rights, or natural disasters. FDPs are not a homogenous group of people.

Rather, they are a diverse and heterogeneous group with different financial inclusion needs and ML/TF/PF risk profiles. This policy brief uses the following United Nations High Commissioner for Refugees (UNHCR) definitions of FDPs:

- **Asylum seekers:** Individuals who have sought international protection and whose claims for refugee status have not yet been determined.
- **Refugees:** Individuals legally recognized as refugees per the 1951 Convention relating to the Status of Refugees and its 1967 Protocol.
- **Internally Displaced Persons (IDPs):** Individuals who have been forced to leave their homes but have not crossed an international border.
- **Stateless persons:** Individuals who are not considered nationals by any State under the operation of its law (no nationality).
- **Other people in need of international protection:** People who have been displaced across borders who have not been reported under other categories who likely need international protection, including protection against forced return as well as access to basic services on a temporary or longer-term basis.[5]

5 UNHCR. 2023. Refugee Data Finder. Available at: https://www.unhcr.org/refugee-statistics/methodology.

4. RATIONALE FOR ADVANCING IFI FOR FDPs

Financial inclusion plays a key role in mitigating humanitarian crises, building FDPs' livelihoods, and increasing financial resilience.

- Formal financial services have an important role to play in mitigating the effects of humanitarian crises.[6] For instance, in events that threaten the safety and well-being of large groups of people, the provision of urgently needed financial resources, such as through digital payments, remittances, emergency loans, savings cushions, and insurance products, can support them to better cope with complex and interwoven emergencies when they occur, e.g., unexpected health shocks that result from such crises.[7]
- Financial inclusion can also help FDPs build and enhance their livelihoods when they are in situations of forced displacement that are protracted, which is highly common globally.[8] For example, access to savings and credit products can enable FDPs to keep their funds safe, make savings, and finance economic activities. In the longer term, it can empower them to seize economic opportunities, start new businesses, and contribute to the economic growth of the host community or country,[9] provided they have the right to work and exercise fundamental economic rights.[10]

6 AFI. 2022. Towards Inclusive Financial Services, Financial Capability and Financial Health For All: A Policy Framework for the Financial Inclusion of FDPs. Available at: https://www.afi-global.org/wp-content/uploads/2022/09/Towards-Inclusive-Financial-Services-Financial-Capability-and-Financial-Health-for-All-A-Policy-Framework-for-the-Financial-Inclusion-of-Forcibly-Displaced-Persons.pdf.

7 CGAP. 2017. The Role of Financial Services in Humanitarian Crises. Available at: https://www.cgap.org/sites/default/files/Forum-The-Role-of-Financial-Services-in-Humanitarian-Crises_1.pdf.

8 Forced Migration Review. 2021. Understanding the dynamics of protracted displacement. Available at: https://www.fmreview.org/sites/fmr/files/FMRdownloads/en/externalisation/kraler-etzold-ferreira.pdf.

9 UNHCR. 2023. Access to Financial Services for Asylum Seekers and Refugees in Georgia. Available at: https://help.unhcr.org/georgia/wp-content/uploads/sites/47/2023/07/Access-to-Financial-Services-for-Asylum-Seekers-and-Refugees-in-Georgia.pdf.

10 Typically, these fundamental economic rights are defined by the national policy or law on FDPs, e.g., the country's refugee act.

> Research shows that financial inclusion policies can have a positive impact on the lives of FDPs if they build on host government policies that (i) give refugees foundational rights and opportunities and (ii) provide appropriate documentation and other data that FDPs can use to satisfy Know-Your-Customer (KYC) and Customer Due Diligence (CDD) requirements. For FDPs, financial inclusion can contribute to their financial health[11] by providing a sustainable means to safely store money, send or receive transfers such as remittances and social protection payments from government or humanitarian agencies, conduct everyday financial transactions, make non-cash or digital payments, and gain access to more complex financial services, such as credit, loans, and insurance for those starting or expanding businesses.

Given that forced displacement trends are on the rise, timely progress in advancing IFI for FDPs is critical.

> In their latest Global Trends in Forced Displacement report, the UNHCR reported that the number of FDPs rose to more than 117 million by the end of 2023, up from 108.4 million the previous year. Out of these, 37.9 million were refugees, 68.3 million were IDPs, and 6.9 million were asylum seekers. Unfortunately, the number of people who are forcibly displaced worldwide has only increased every year. Nearly 75 percent of FDPs are in low- and middle-income countries.[12] In recognition that forced displacement continues to rise, it would be important to accelerate efforts in creating enabling policies and regulatory environments that can advance IFI for FDPs.

The advancement of IFI for FDPs aligns well with relevant global frameworks.

> The Global Compact on Refugees is a framework for more predictable and equitable responsibility-sharing that appreciates international cooperation as necessary for devising sustainable solutions to refugee situations. It asserts the importance of ensuring access to affordable financial products for women and men in both host and displaced communities by reducing the associated risks in banking, supporting the transfer of remittances, and enabling low-cost mobile and internet access to these financial services.[13] UNHCR further asserts that "digital and financial inclusion are key components of protection and long-term solutions for FDPs, particularly refugees, asylum seekers, and stateless persons."[14]

An IFI policy reduces risks associated with financial exclusion.

> Including FDPs in the formal economy contributes to a reduction of ML/TF/PF risks associated with their financial exclusion. Financial policymakers and regulators have a significant role to play in ensuring that FDPs living in their jurisdictions are financially included. This will prevent FDPs from having to rely on high-risk, informal financial services that, due to their opacity, will increase financial consumer protection risks, such as over-indebtedness and, at the same time, jeopardize the country's AML/CFT/CPF efforts when they remain in the informal economy. For example, the use of formal systems will help protect the social protection payments to FDPs against fraud, corruption, and incorrect payouts.

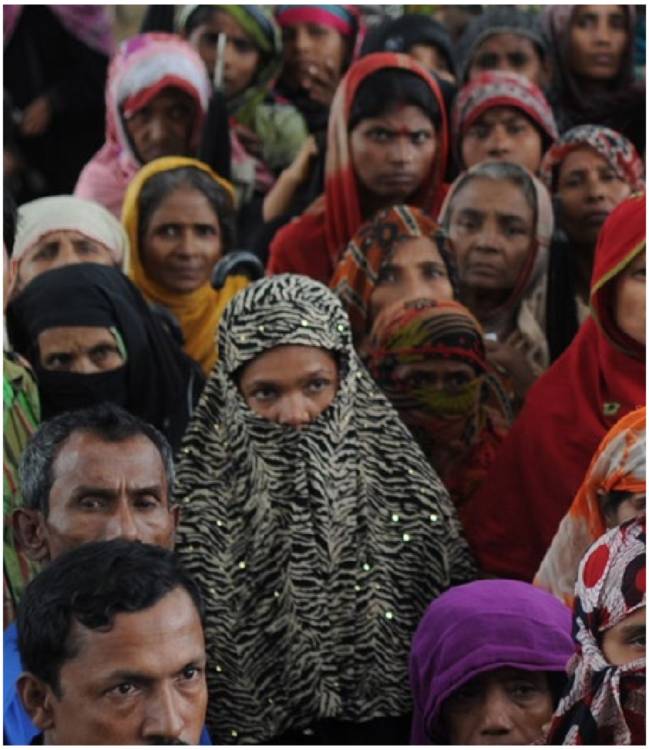

Image by ymphotos/Shtterstock

11 FDPs are considered financially healthy when they can not only meet basic needs, but also comfortably manage debt, recover from financial setbacks, make investments in opportunities, such as healthcare, education, training or better housing, and are able to extend their planning horizons and contemplate a financial future (see FinDev Gateway 2021).

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

13 United Nations. 2018. Global Compact on Refugees. Available at: https://www.unhcr.org/5c658aed4.pdf.

14 UNHCR. 2022. Displaced and Disconnected: East and Horn of Africa and Great Lakes Region. Available at: https://www.unhcr.org/innovation/wp-content/uploads/2023/02/Displaced-and-Disconnected-East-Africa-1.pdf.

5. POLICY RECOMMENDATIONS

FDPs disproportionately face AML/CFT/CPF-related barriers to financial inclusion.[15] This, in turn, impedes FDPs' access to and usage of quality formal financial services. For instance, in many countries, FDPs still grapple with challenges related to KYC and CDD requirements when accessing formal financial services, including "mobile money and other digital financial services."[16]

POLICY RECOMMENDATION 1:

Address FDPs in national, sectoral, and institutional ML/TF/PF risk assessments to ensure that they are considered in the country's risk-based approach and subsequent policies and regulations. A dedicated and customized risk assessment module may be required for FDPs.

FDPs are rarely addressed in national and sectoral risk assessments, even when they make up a sizeable part of the population.[17] This means they are essentially excluded from a country's implementation of a risk-based approach. Even when there is a risk-based, tiered KYC and simplified CDD framework in place, supervisors, regulators, and financial service providers (FSPs) still may not leverage it to onboard FDPs since they have not been explicitly addressed in the country's risk assessments.[18] AFI members and other financial regulators have requested more guidance on conducting national and sectoral ML/TF/PF risk assessments that cover FDPs. This is an indication that there is still much ground to be covered in the development of ML/TF/PF risk assessment methodologies or models that will ultimately support the achievement of IFI policy outcomes for FDPs. The Kingdom of Eswatini and Malawi have recently conducted ML/TF/PF sectoral risk assessments on their FDP population. These assessments have informed national roadmaps to advance financial inclusion for FDPs residing in their jurisdictions in compliance with global AML/CFT/CPF standards.

Importantly, explicitly addressing FDPs in ML/TF/PF risk assessments will ensure that data and evidence drive the formulation and implementation of related policies and regulations. Supervisors, regulators, and FSPs often tend to classify FDPs as a higher-risk category of customers, especially where cross-border money transfers are involved.[19] This is due to a lack of data on FDPs and the absence of an ML/TF/PF risk profile for FDPs. Consequently, this leads to an overestimation of risk levels.[20] The fact that some FDPs originate from armed conflict zones makes many supervisors, regulators, and FSPs regard them as an inherently risky group. In instances of forced displacement that result from conflict or violence rather than from natural disasters such as floods, cyclones and earthquakes, categorizing FDPs as high-risk can become a reflex.[21] This view is prevalent in situations where robust data from relevant stakeholders do not sufficiently inform ML/TF/PF risk assessments. Typically, this translates into the adoption of a blanket approach, which puts all FDPs in one category rather than assessing the specific risks across the different categories of FDPs, the reasons why they are FDPs, their locations, and what financial products they may use.

POLICY RECOMMENDATION 2:

Collect demand-side sex- and age-disaggregated data on FDPs that can inform national, sectoral, and institutional ML/TF/PF risk assessments as well as financial inclusion diagnostic studies so that evidence-based, targeted policy measures can be put in place, including for forcibly displaced women who may be disproportionally disadvantaged.

There is a pronounced lack of demand-side data on FDPs to ensure evidence-based policies that can advance IFI for them. As previously discussed, in most countries facing forced displacement, there is very limited ML/TF/PF data on FDPs to inform the national

15 Key informant interviews with financial policymakers and regulators, private sector, and humanitarian organizations in the Kingdom of Eswatini, Mauritania, Malawi, and Rwanda.

16 UNHCR. 2022. Displaced and Disconnected: East and Horn of Africa and Great Lakes Region. Available at: https://www.unhcr.org/innovation/wp-content/uploads/2023/02/Displaced-and-Disconnected-East-Africa-1.pdf.

17 From responses to a survey conducted among the AFI Global Standards Proportionality Working Group, comprised of more than 40 AFI member institutions.

18 Ibid.

19 From country level multi-stakeholder consultations in Eswatini, Malawi, Nigeria, and Tanzania.

20 Ibid.

21 Ibid.

risk-based approach to AML/CFT/CPF.[22] FDPs are also usually excluded from national data collection and analysis exercises to inform financial inclusion policies, such as demand-side and supply-side financial inclusion surveys.[23] There are still limited awareness levels among both AML/CFT/CPF and financial inclusion policymakers and regulators about the importance of collecting such data.[24] There may be high-level data relating to the numbers of FDPs and their location held by the relevant line ministries, UNHCR or other UN agencies responsible for FDPs. However, there is not much available data relating to FDPs that could be used in ML/TF/PF risk assessments or financial inclusion diagnostic studies.

Deliberate efforts should be made to enhance the coordination between AML/CFT/CPF and financial inclusion stakeholders so that their respective policy processes, including data collection exercises, can inform each other. For example, a financial inclusion diagnostic study that covers FDPs can inform an ML/TF/PF risk assessment and subsequent strategies or policy measures. Although this might be challenging in practice due to varying mandates and competing priorities, it is done in the Kingdom of Eswatini and Malawi, which have leveraged multi-stakeholder workshops to improve coordination and harmonize efforts towards achieving IFI policy outcomes for FDPs. Further, a handful of AFI member institutions have started collecting and analyzing demand-side financial inclusion data on FDPs, such as the Central Bank of Jordan and Bank of Uganda, and more recently, Banque Centrale de Mauritanie, National Bank of Rwanda, Ministry of Finance Eswatini, Reserve Bank of Malawi, Central Bank of Nigeria, and Bank of Tanzania. They have undertaken these exercises in close coordination with the line ministry addressing forced displacement, humanitarian partners, and, in some cases, financial intelligence units. Sex- and age-disaggregated financial inclusion data can also facilitate better policy responses for forcibly displaced women[25] and youth, who are disproportionately disadvantaged.

22 From responses to a survey conducted among the AFI Global Standards Proportionality Working Group.

23 AFI. 2022. Towards Inclusive Financial Services, Financial Capability and Financial Health For All: A Policy Framework for the Financial Inclusion of FDPs. Available at: https://www.afi-global.org/wp-content/uploads/2022/09/Towards-Inclusive-Financial-Services-Financial-Capability-and-Financial-Health-for-All-A-Policy-Framework-for-the-Financial-Inclusion-of-Forcibly-Displaced-Persons.pdf.

24 Ibid.

25 AFI. 2022. Financial Inclusion of Forcibly Displaced Women: Special Report. Available at: https://www.afi-global.org/publications/the-financial-inclusion-of-forcibly-displaced-women.

POLICY RECOMMENDATION 3:

Explicitly mention FDPs in national policies and regulations for both AML/CFT/CPF and financial inclusion. This includes risk-based, tiered KYC and CDD regulation that clearly incorporates different categories of FDPs in order to avoid uncertainty.

In most contexts, FDPs are not explicitly mentioned in national policies and regulations for both AML/CFT/CPF and financial inclusion, except in a few jurisdictions.[26] This is the case even where there is a sizeable population of FDPs residing in the country. Financial policy and regulatory frameworks do not recognize the special circumstances and legal status of FDPs. It is rare to find specific measures to address their unique needs.[27] Many financial policymakers and regulators are still unsure about their mandate regarding FDPs and do not instinctively address them in their policy process.[28] In some contexts, they perceive FDPs as a political issue and as a segment only addressed by the line ministry or agency assigned to FDPs, such as the Ministry of Interior, Ministry of Homeland Security, National Disaster Management Agency, or others, depending on the jurisdiction. Ideally, financial policymakers and regulators should be collaborating with the relevant line ministries or agencies in driving IFI for FDPs.

Additionally, the uncertainty surrounding the duration of displacement or the underlying causes that created FDPs makes supervisors, regulators and FSPs hesitant to develop medium-term and long-term financial inclusion solutions for FDPs.[29] Since FDPs are forcibly displaced due to various reasons, many of them have challenges in proving their identities, addresses or residences in the traditional sense. This is especially problematic in countries where the application of a risk-based approach is still nascent,[30] and there is still a focus on documents such as proof of address, which FDPs cannot always provide due to their circumstances of being uprooted. Furthermore, the formalization of refugee status, documentation, and renewal of status can take months in one jurisdiction, years in others, and decades

26 Ibid.

27 AFI. 2022. Survey Report on the Current State of Practice: Policy Frameworks, Laws And Regulations Related to The Financial Inclusion Of Forcibly Displaced Persons (FDPs) across the AFI Network. Available at: https://www.afi-global.org/wp-content/uploads/2022/03/FDP_surveyreport.pdf.

28 From responses to a survey conducted among the AFI Global Standards Proportionality Working Group.

29 From country level multi-stakeholder consultations in Eswatini, Malawi, Nigeria, and Tanzania.

30 Most countries hosting FDPs are in the low- and middle-income countries, where they are still using or transitioning from the rules-based approach to a risk-based approach. A risk-based approach provides greater flexibility than a rules-based approach: the former allows the FSP to consider the risks in their total, whereas the latter focuses solely on the compliance with the existing rules regardless of the underlying risks.

in another. This means FDPs are not consistently in possession of identification documents that will satisfy KYC and CDD requirements.

Financial policymakers and regulators must appreciate these challenges that are unique to FDPs and undertake thorough data coordination, engagements, consultations, and peer reviews with line ministries responsible for FDPs, humanitarian partners, and FSPs when designing policies, laws, and regulations to advance IFI for FDPs so that they are well-informed and well-implemented.

Encouragingly, AFI members in Mauritania, Kingdom of Eswatini, and Malawi have recently developed roadmaps for the financial inclusion of FDPs, which provide recommendations as to how FDPs can be better addressed by national AML/CFT/CPF and financial inclusion policies and regulations. In the specific case of refugees, a few countries such as Uganda, Nigeria, Kingdom of Eswatini, Zambia, Kenya, and Malawi have national initiatives on identification systems that issue special IDs to refugees. In parallel, AFI members in these countries have lowered KYC and CDD requirements so that refugees can use their special IDs to access and use simple formal financial services. While encouraging, these developments are still very few and more needs to be done to increase the willingness of financial policymakers and regulators to address all categories of FDPs, including asylum seekers and IDPs.

POLICY RECOMMENDATION 4:

Provide regulatory clarity to FSPs to ensure implementation. Clarify FDPs' legal status and the implications so that they are not unintentionally financially excluded due to limited data, a lack of regulatory clarity, and concerns related to non-compliance.

Due to limited regulatory clarity, it is rare for FSPs to apply simplified KYC and CDD with explicit, special consideration for FDPs to onboard them. Even in cases where FSPs appreciate the importance of providing formal financial services to FDPs (e.g., after acknowledging the business case verified through national financial inclusion diagnostics), they require (i) regulatory clarity from the central bank and (ii) more effective methods for the identity verification of FDPs. National KYC and CDD requirements often do not expressly address how to treat FDPs, which precludes FSPs from using the provisions and flexibilities to include FDPs financially. There can be a genuine willingness to assist at the branch level. In some cases, branches near or within camps have been designated in an effort to assist FDPs. Their ID challenges can push the transactions beyond the risk appetite of FSPs when strictly adhering to the FATF Recommendations. In general, FSPs are hesitant to onboard FDPs without clear direction from the government and regulators.[31]

It will help to clarify the uncertain legal status of FDPs. Many FDPs, especially asylum seekers and refugees who have been forcibly displaced across borders, have an uncertain legal status. In addition, often, each category of FDPs has different laws that apply to them, which causes legal uncertainty and an unwillingness among FSPs to serve them. For example, a country's refugee law and its AML/CFT/CPF law may not be sufficiently harmonized to clearly convey that refugees can indeed be onboarded if they are in possession of a specific ID that confirms their refugee status. Combined with a limited view of FDPs' business potential, this can lead to a situation in which very few FSPs have the risk appetite to include FDPs financially.

The legal status of FDPs should be properly clarified so that there is no uncertainty around their rights as they relate to accessing and using formal financial services. Regulatory clarity can also help FSPs to become familiar with the rights of FDPs, including through circulars, directives, consultative workshops or roundtables to ensure multi-stakeholder buy-in, coordination, and an enhanced understanding of FDPs' rights to formal financial services. Consultation and consistent collaborations with the relevant line ministries, humanitarian partners, and FSPs would be helpful in this regard.

POLICY RECOMMENDATION 5:

Encourage the issuance of IDs to FDPs who can use them to access and use formal financial services, and the establishment of an FDP ID database that can be leveraged for identity verification and that is compliant with international data protection and data privacy standards for FDPs who are particularly vulnerable due to their fragile circumstances.

FDPs still lack acceptable forms of identification. FDPs either lack ID, or if they have ID, it is often not recognized or accepted for KYC and CDD processes in the country in which they currently live. As already discussed, there are limited methodologies for verifying refugee identification documents provided. Furthermore, there can be delays of up to a month

31 From country level multi-stakeholder consultations in Eswatini, Malawi and Nigeria.

and years to process refugee card applications.[32] Regulations are often very strict on which identifiers to use for onboarding refugees. FSPs do not have much opportunity to work around challenges and may not be incentivized to do so due to high compliance costs. There are reports from FSPs on delays among FDPs in obtaining a new ID from months to years.[33]

It is important to note that forcibly displaced women are disproportionately affected by this challenge for various reasons, including socio-cultural norms.[34] The World Bank underlines that “displaced households have higher intrahousehold gender inequality in legal identification and employment than host community households.”[35] The vulnerability of forcibly displaced women is exacerbated by “their loss of civil documentation, social networks, and sources of income.”[36] They can also become subject to sexual exploitation and abuse when attempting to gain access to humanitarian assistance. This can extend to instances of obtaining ID.[37] Consequently, forcibly displaced women may be discouraged from gaining access to ID, which, in turn, prevents them from being onboarded and financially included. The establishment of “safe spaces” should be encouraged for forcibly displaced women to obtain their IDs without the risk of sexual exploitation and abuse.

Digital ID databases for FDPs exist (e.g., UNHCR ID management systems) but are not always used for verification as they need government approval. Financial policymakers and regulators can have consultations with the government, national ID agency, and relevant UN agency to identify ways to collaborate towards establishing an effective method to verify FDP identities for onboarding. The UNHCR databases could be significantly leveraged with respect to digital ID-proofing processes to establish initial and progressively expanded formal financial services to FDPs.[38] Additionally, in the case of cross-border FDPs, linkages to identity and financial history often remain in the country of origin, and typically, there is no cross-border sharing of information and financial history that can be applied in a new context to help with the onboarding process.

32 UNHCR. 2022. Displaced and Disconnected: East and Horn of Africa and Great Lakes Region. Available at: https://www.unhcr.org/innovation/wp-content/uploads/2023/02/Displaced-and-Disconnected-East-Africa-1.pdf.

33 Key informant interviews from a supply-side survey conducted as part of an FDP financial inclusion diagnostic study in the Kingdom of Eswatini.

34 AFI. 2022. Financial Inclusion of Forcibly Displaced Women: Special Report. Available at: https://www.afi-global.org/publications/the-financial-inclusion-of-forcibly-displaced-women.

35 World Bank. 2022. Poverty, Gender, and Displacement: A Policy Brief. Available at: https://documents1.worldbank.org/curated/en/371441644957327657/pdf/Poverty-Gender-and-Displacement-A-Policy-Brief.pdf.

36 UNHCR. 2022. Solutions to forced displacement are incomplete without gender dimensions. Available at: https://www.unhcr.org/blogs/solutions-to-forced-displacement-arent-complete-without-gender-dimensions.

37 Ibid.

38 Cenfri. 2022. Enhancing identity verification for refugees in Uganda. Available at: https://cenfri.org/wp-content/uploads/UPDATED_dentity-verification-for-refugees-in-Uganda-note_Oct-2022.pdf.

POLICY RECOMMENDATION 6:

Conduct awareness-raising and digital financial literacy programs for FDPs to build their trust in formal financial systems, empower them with knowledge about their rights to data protection and data privacy, and encourage them to register with relevant authorities to attain ID.

FDPs, specifically asylum seekers and refugees, may not wish to be identified due to safety concerns or lack of trust in government and formal systems. For instance, in Malawi, asylum seekers and refugees sometimes prefer to remain unidentified due to fear of discrimination, admonishment, or persecution.[39] Additionally, both language barriers and financial literacy barriers in the new host jurisdiction can make these categories of FDPs vulnerable, especially when it comes to ensuring informed consent from FDPs for the registration process to attain ID. Humanitarian partners are working to address this challenge. However, it can be more effective if the financial regulator and humanitarian partners enhance their collaboration so that they can jointly address such barriers. A concrete measure that may be effective is for all stakeholders to collaborate to develop a fact sheet targeted to FDPs, providing information on identification documents, their benefits, and how to attain them.

POLICY RECOMMENDATION 7:

Encourage continuous global, cross-sectoral, and multi-stakeholder dialogue on IFI for FDPs to ensure an up-to-date understanding of risks and the formulation of appropriate policy measures.

The FATF acknowledges asylum seekers’ and refugees’ unique identity challenges since many “do not possess identity credentials when they arrive in a host state because their credentials were left behind, lost or destroyed during flight” or they “may never have been issued with official identity cards or other credentials, often because they came from fragile or conflict-

39 Key informant interviews with financial policymakers and regulators, private sector, and humanitarian organizations in Malawi.

affected areas or faced discrimination preventing registration."[40] Acknowledgment is important, yet more dedicated dialogue and guidance focusing explicitly on all types of FDPs could encourage jurisdictions to address this issue and could lead to better results on the ground.

In this regard, certain jurisdictions that host refugees, such as Burundi, Jordan, Malawi, Nigeria, and Zambia have permitted UNHCR ID holders to satisfy KYC and CDD requirements. In contrast, countries that host other categories of FDPs, such as stateless persons, asylum seekers, IDPs, and returnees who do not possess or are not yet in possession of UNHCR ID, rarely make provisions for simplified KYC and CDD for these segments. More explicit mention of other FDPs in the FATF Recommendations and related guidance could encourage financial policymakers and regulators to address them in national AML/CFT/CPF policies and regulations.

A recent study by the World Bank, "Impact of the FATF Recommendations and their Implementation on Financial Inclusion," reveals that although the FATF Recommendations offer sufficient flexibility to support financial inclusion, the very cautious tone about these flexibilities can be a disincentive for regulators. It recommends that the FATF reconsider its very cautious tone regarding CDD simplifications and exemptions in its interpretive notes, guidance documents, and public statements. There could be more constructive and direct communication about these flexibilities and more encouragement of and incentives for their use in low- or lower-risk situations, such as in the FDP context. With the amendments made to Recommendation 1 to address proliferation financing (PF) risks, it would be helpful to guide institutions, regulators, and supervisors on how to treat FDPs in this context so that they are not adversely affected by the unintended consequences of the implementation of these recommendations.

40 FATF. 2020. Guidance on Digital ID. Available at: https://www.fatf-gafi.org/en/publications/Financialinclusionandnpoissues/Digital-identity-guidance.html#:~:text=6%20March%202020%20%2D%20The%20number,linked%20with%20crime%20and%20terrorism.

CONCLUSION

More needs to be done to help FDPs rebuild their livelihoods, contribute economically, and live with dignity. Financial policymakers and regulators need to make it easier for FDPs to access and use quality formal financial services, governments need to include FDPs in their crisis planning and national social protection programs, FSPs need to train staff, and donors need to build formal financial services into long term solutions for managing humanitarian crises that eventually become protracted.

Going forward, consideration of these policy recommendations by financial policymakers and regulators can help to make a significant contribution to improving the financial and economic lives of FDPs while ensuring the integrity of financial systems. As a first step, there are encouraging signs that sound national, sectoral, and institutional ML/TF/PF risk assessments that include or address FDPs can significantly contribute towards achieving both AML/CFT/CPF (financial integrity) and financial inclusion policy outcomes in a mutually reinforcing manner, making a real difference in the financial lives of FDPs.

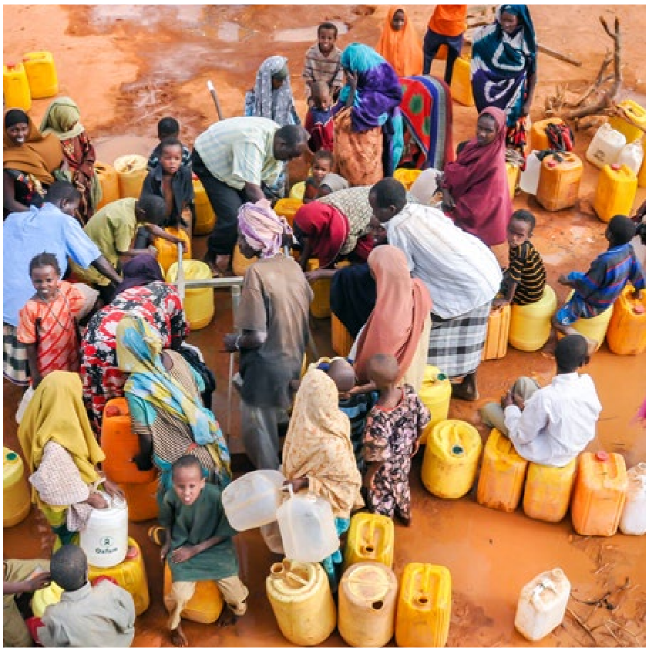

Image by hikrcn/Shtterstock

REFERENCES

AFI and Cenfri. 2020. Inclusive Financial Integrity: a Toolkit for Policymakers. Available at: https://www.afi-global.org/wp-content/uploads/2020/09/AFI_CENFRI_toolkit_AW_digital.pdf.

AFI. 2019. Kigali Statement. Available at: https://www.afi-global.org/wp-content/uploads/2020/11/Kigali_FS_20_AW_digital.pdf.

AFI. 2022. Financial Inclusion of Forcibly Displaced Women: Special Report. Available at: https://www.afi-global.org/publications/the-financial-inclusion-of-forcibly-displaced-women.

AFI. 2022. Survey Report on the Current State of Practice: Policy Frameworks, Laws And Regulations Related to The Financial Inclusion Of Forcibly Displaced Persons (FDPs) across the AFI Network. Available at: https://www.afi-global.org/wp-content/uploads/2022/03/FDP_surveyreport.pdf.

AFI. 2022. Towards Inclusive Financial Services, Financial Capability and Financial Health For All: A Policy Framework for the Financial Inclusion of FDPs. Available at: https://www.afi-global.org/wp-content/uploads/2022/09/Towards-Inclusive-Financial-Services-Financial-Capability-and-Financial-Health-for-All-A-Policy-Framework-for-the-Financial-Inclusion-of-Forcibly-Displaced-Persons.pdf.

Cenfri and IFAD. 2024. IFAD Remittance Innovation Toolkit. Available at: https://cenfri.org/wp-content/uploads/Remittance_Innovation_Toolkit-1.pdf.

CGAP. 2017. The Role of Financial Services in Humanitarian Crises. Available at: https://www.cgap.org/sites/default/files/Forum-The-Role-of-Financial-Services-in-Humanitarian-Crises_1.pdf.

EFInA. 2024. Financial Exclusion of Forcibly Displaced Persons in Nigeria. Available at: https://efina.org.ng/wp-content/uploads/2024/08/FDP-Advancing-financial-inclusion-for-forcibly-displaced-persons-in-Nigeria.pdf.

FATF. 2020. Guidance on Digital ID. Available at: https://www.fatf-gafi.org/en/publications/Financialinclusionandnpoissues/Digital-identity-guidance.html#:~:text=6%20March%202020%20%2D%20The%20number,linked%20with%20crime%20and%20terrorism.

Forced Migration Review. 2021. Understanding the dynamics of protracted displacement. Available at: https://www.fmreview.org/sites/fmr/files/FMRdownloads/en/externalisation/kraler-etzold-ferreira.pdf.

GSMA. 2020. Proportionate regulation in Uganda: A gateway for refugees accessing mobile services in their own name. https://www.gsma.com/mobilefordevelopment/wpcontent/uploads/2020/03/Uganda_Case_Study_Web_Spreads.pdf.

Toronto Center. 2024. The Role of Supervision in the Financial Inclusion of Forcibly Displaced Persons. Available at: https://www.torontocentre.org//videos/FINAL_The_Role_of_Supervision_in_the_Financial_Inclusion_of_Forcibly_Displaced_Persons.pdf.

UNHCR. 2022. Displaced and Disconnected: East and Horn of Africa and Great Lakes Region. Available at: https://www.unhcr.org/innovation/wp-content/uploads/2023/02/Displaced-and-Disconnected-East-Africa-1.pdf.

UNHCR. 2022. Solutions to forced displacement are incomplete without gender dimensions. Available at: https://www.unhcr.org/blogs/solutions-to-forced-displacement-arent-complete-without-gender-dimensions.

UNHCR. 2023. Access to Financial Services for Asylum Seekers and Refugees in Georgia. Available at: https://help.unhcr.org/georgia/wp-content/uploads/sites/47/2023/07/Access-to-Financial-Services-for-Asylum-Seekers-and-Refugees-in-Georgia.pdf.

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

UNHCR. 2023. Refugee Data Finder. Available at: https://www.unhcr.org/refugee-statistics/methodology.

United Nations. 2018. Global Compact on Refugees. Available at: https://www.unhcr.org/5c658aed4.pdf.

World Bank. 2022. Poverty, Gender, and Displacement: A Policy Brief. Available at: https://documents1.worldbank.org/curated/en/371441644957327657/pdf/Poverty-Gender-and-Displacement-A-Policy-Brief.pdf.

Alliance for Financial Inclusion
AFI, Sasana Kijang, 2, Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia
t +60 3 2776 9000 **e** info@afi-global.org www.afi-global.org
Alliance for Financial Inclusion AFI.History @NewsAFI @afinetwork