Reckoning with Reality

Five Key Findings from the Finance in Displacement Studies, a Research Initiative facilitated by the German Federal Ministry for Economic Cooperation and Development (BMZ) and the Open Society Foundations

Joscha Albert, Swati Mehta Dhawan, Karen Jacobsen, Lisa Klinger, María Teresa Nagel, Radha Rajkotia, Barri Shorey, Anneleen Vos, Cate Wanjala, Kim Wilson, Hans-Martin Zademach, and Julie Zollmann

April 2021

Managing finances is a significant challenge for migrants and refugees, with implications for both their futures and those of their home countries. From 2019 - 2021 a research collaborative between Tufts University, the International Rescue Committee, and Catholic University Eichstaett-Ingolstadt conducted case studies in Jordan, Kenya, Mexico, and Uganda on refugees and migrants who had been in these host countries between three and eight years.[1] This brief highlights our main findings and policy recommendations.

Overall, we found that financial services alone cannot produce significant improvements in financial outcomes. Improved financial outcomes depend on refugees' ability to navigate pathways to sustainable work and some form of integration, which in turn depend on documentation and the rights to operate a business, work, and move freely in their host country. Still, certain mainstream financial services were valued, and while our respondents could not enjoy regular use of them until their incomes improved, they did not want to be locked out of them. What they rejected was to be experimented upon with fledgling services that were designed "just for them."

Our five findings are summarized below and reflect insights from all four case studies.

[1] In Kenya and Jordan, we interviewed in each case close to 90 people three times over 2019-20. In Uganda, our interviews were conducted in Kampala and in the Bidi Bidi camp, in Mexico they took place in Tijuana. In total, we conducted 566 in-depth individual interviews with respondents from fifteen countries of origin.

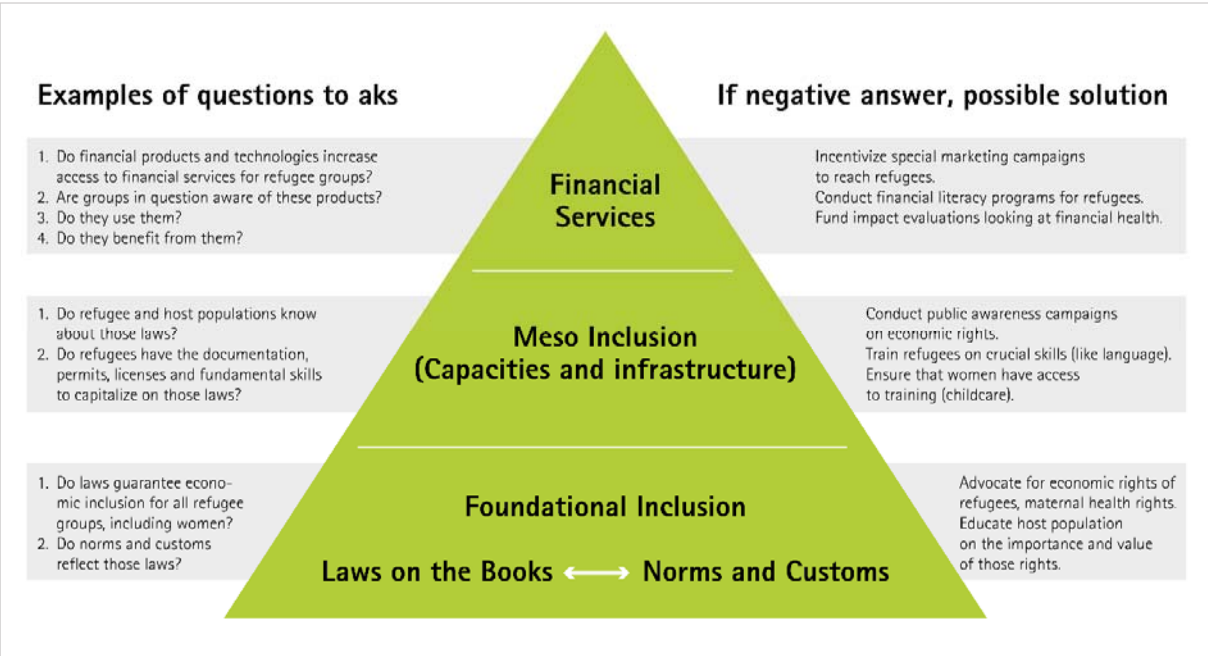
Finding #1: For financial inclusion policies to make a positive impact, they must build on host government policies that give refugees rights, opportunities, and provide appropriate documentation.

Explanation: Refugees need documentation, such as asylum ID cards and work permits, to access livelihood and income opportunities. Without the ability to earn an income, refugees have limited uses for financial services. Humanitarian cash assistance and remittance services can be crucial lifelines. Still, if refugees cannot grow their livelihoods, then savings, credit, and insurance services will not generate a positive impact and, in many instances, be rendered irrelevant.

Even when refugees were able to obtain documents in places like in Uganda, local officials' norms and behaviors often thwarted refugees’ efforts to make an honest living. This caused refugees to seek work in the informal sector, with few protections and many ways to become exploited.

Figure 1 illustrates how foundational issues enable improved uptake and impact financial services. Laws enforced in practice would build the foundational layer supporting the use of financial services. Conducive social norms, particularly amongst authorities, would also contribute to safe, sustainable livelihoods.

Figure 1: Economic and financial inclusion for refugees in service to integration



(Source: authors’ illustration)

Without the fundamental building blocks, financial services (except for cash assistance and remittances) become irrelevant. Inadequate wages or the inability to operate a business mean refugees can neither afford nor use credit, savings, or insurance services. The most critical factors obstructing refugees’ livelihoods and incomes were their legal status and the documents that denoted legal status. Identity documents, crucial to obtaining other needed documents, were hard to come by. Identity documents allowed their bearers to apply for work permits, small business licenses, driver’s licenses and other permits, and licenses that enable licit and robust livelihoods. These same foundational IDs facilitated access to financial services. Still, in many cases, even official documentation was not enough for refugees to access the full range of financial services offered to the host population. Nor was such documentation enough to ward off harassment by local authorities in Kenya, Jordan, Mexico, and Uganda.

The consequences of a lack of legally recognized and easily obtainable IDs, permits, and licenses are serious for both refugees and their host country —refugees are driven into the underground economy.

In all four sites, we saw many instances of refugees and migrants borrowing or paying for identity documents from other refugees or locals. A lack of IDs does four things: 1) forces refugees to use underground financial services such as unregistered hawalas, services that are invisible to regulators; 2) thwarts financial customer due diligence by tracing transactions to the wrong customer (the person lending the refugee an ID); 3) encourages locals to perform acts of petty corruption; 4) prevents access to other documents such as business licenses and work permits.

Altogether, these outcomes leave displaced people to fend for themselves in the shadows, as illustrated by the following examples.

> **In Kenya**, refugees are no longer allowed to register for their own mobile money (M-PESA) accounts. In order to receive cash assistance or remittances they have to borrow a Kenyan friend's ID, and in the process violate "Know Your Customer" rules and regulations[2]. But they have little choice; it's either borrow the ID or lose any chance of prospering.
>
> **In Mexico**, migrants need a valid visa or residency card to send and receive remittances. Those who lack proper documentation rely on acquaintances, neighbors, and employers to access money transfer services for a fee (a bribe). Banks in Mexico are nearly inaccessible to refugees and migrants, as new regulations require foreign nationals to present a valid passport, a Mexican social security number, a residency card, a Mexican phone number, and an email address.[3] Again, being locked out of the financial system means that refugees and migrants will borrow the IDs of others.
>
> **In Jordan**, refugees must provide the same documents as foreign nationals to open a bank account. Even when refugees have the required documentation, only a few banks have agreed to open accounts because refugees are seen as high-risk. As a result, only a small percent of those we interviewed had a bank account. Syrian refugees are allowed to open a mobile wallet with the identity card issued by the Ministry of Interior (MOI), but this opportunity is not given to refugees of other nationalities, such as Sudanese, Yemenis, and Iraqis. To receive remittances, refugees must present their MOI cards. If those are not available (which they aren't for all non-Syrian refugees), they need to produce valid passports, and in some cases even work permits. None of these documents are easily obtained. Lacking these documents, refugees have no option but to borrow a fellow refugee's ID or that of a Jordanian.

[2] Know Your Customer regulations require financial institutions to conduct background checks on their customers to ensure that they are properly risk assessed before being onboarded. They are the foundation of anti-money laundering efforts as well as efforts to combat terrorism.

[3] As we have mentioned, laws and regulations on the books are one thing, and social norms are another. In Mexico, presenting all necessary documentation is insufficient if a bank employee suspects the migrant or refugee of opening an account for an illicit business. When suspicions arise, bank employees can require further documentation at their discretion, discouraging further attempts to open an account.

Recommendations

To address the challenges of weak foundational policies and harmful social norms, host governments should be encouraged and supported by donors and the private sector to:

- Reduce work barriers and restrictions, including limitations on freedom of movement. In consultation with refugees, civil society members, employers, policymakers, and regulators, a review and revision of national laws and policies to allow for increased economic opportunities should occur.
- Provide current, easy-to-procure documentation, particularly documents related to identity and the various permits required to secure shelter and a decent livelihood.
- Challenge current norms held by government service providers, employers, and financial service suppliers that stigmatize refugees and block them from using mainstream services.

In Jordan, the Jordanian government and international donors should expand support and opportunities to non-Syrian refugees by:

Permanently waiving work permit fees for refugees of all nationalities, not just Syrians

- Addressing documentation challenges for non-Syrian refugees to access work permits, including waiving visa overstay fines
- Ensuring the allocation of work permits does not lead to a forfeit of refugee status

In Kenya, the government should implement the Comprehensive Refugee Response Framework (CRRF), which acknowledges the need to strengthen refugee capacities and build resilience. The CRRF seeks to ensure that refugees have the right to develop their skills, become self-reliant, and contribute to the local economy. The government should prioritize free movement and revamp refugee work permits to ensure that they can be quickly and easily processed online and guarantee consistent application of requirements for permits.

In Mexico, the government should streamline and reduce the paperwork required to open a bank account. Many refugees aim to work in nearby factories which pay wages through a bank, so not having a bank account reduces employment opportunities.

Uganda gives refugees the right to work legally, move around the country, and live where they choose. But officially, refugees only receive humanitarian assistance, including cash assistance, in the settlements. Multiple international, faith-based, and civil society organizations deliver a wide range of services. The Ugandan government's handling of a 2019 SIM card scam was commendable.[4] The Office of the Prime Minister, working in close coordination with UNHCR and the Ugandan Communication Commission, addressed the problem and restored service to refugees, many of whom use their SIMs to send and receive mobile money. However, despite these gains, refugees still experience constant setbacks to their income. Local authorities such as the Kampala Center Commercial Authority regularly harass street sellers, either insisting on bribes or shutting down businesses altogether. To match its progress in refugee financial services:

- The government should provide the permits and licenses needed by refugees to conduct profitable livelihoods. It should first study the pathway to procuring documents in an effort to unblock chokepoints.
- The government should oversee the behaviors and practices of local authorities to ensure they treat refugees trying to improve their livelihoods.

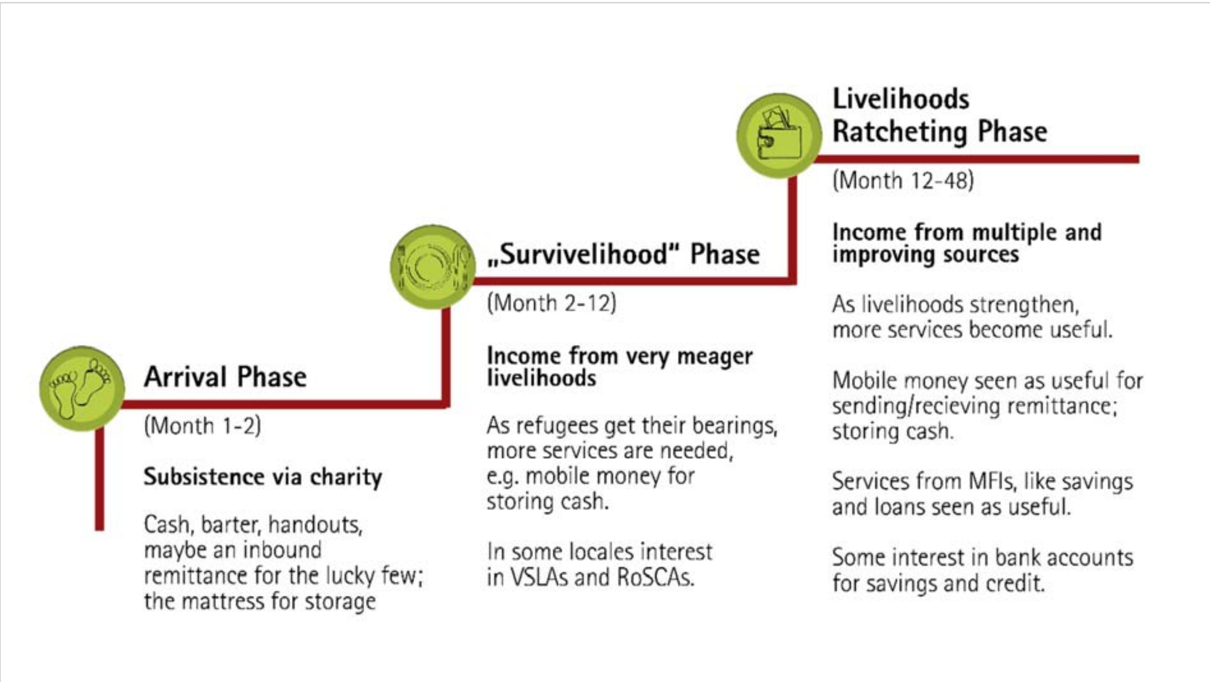
[4] For more on the scam: Please see this article in the Daily Monitor, Scam Rocks SIM Card Registration, Oct. 2019

Finding #2: The need for and the uses of financial services co-evolve with progressions in the diversification of refugee livelihoods.

Explanation: If refugees are allowed to participate in healthy economies, their livelihoods progress naturally. They may begin in their new host country completely dependent on handouts. From there, they might go on to earn a wage, often meager (what we call 'survivelihoods'), and from there, they ratchet up to more stable and diverse livelihoods. Early financial portfolios may only include basic instruments such as cash and remittance transfers. Over time, as livelihoods diversify or improve, refugees look for different kinds of financial services beyond loans and savings, such as leasing and insurance. However, in many contexts, they are locked out of the financial services they could use and are prevented from improving their livelihoods. In these instances, more sophisticated forms of savings and credit become irrelevant (see Figure 2a).

As refugees gain their bearings, learn new skills, and participate in the local economy, more uses for financial services emerge. In the Arrival Phase, handouts in the form of cash gifts (via mobile money and remittance services) may satisfy their financial service needs. As their livelihoods develop, the need for insurance, savings, and credit services will evolve. Given this, regulators, NGO practitioners, and financial service providers do not need to "force the market". Removing obstacles to mainstream services (such as documentation, language barriers, and friendly touchpoints) may be far more effective strategies than urging users to adopt niche services.

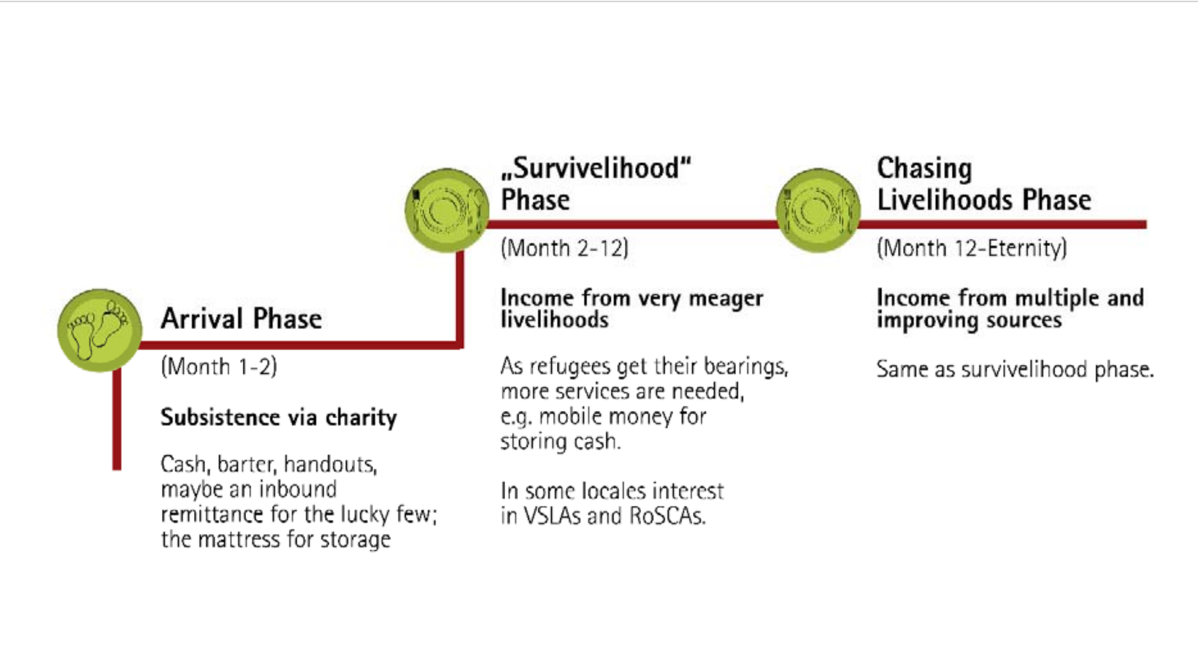
Figure 2a: Diversification of refugee livelihoods and financial services in welcoming economies



(Source: authors' illustration; Note: The indicated phases do not necessarily reflect the time one spends in each phase before moving on to the next)

However, this progression only occurs in healthy, welcoming economies or at the very least in those that are not punishing (i.e., where there are barriers such as lack of documentation). In such economies, refugees are unlikely to progress, and we see a process that looks more like the diagram below. Instead of ratcheting up their livelihoods, refugees resort to chasing countless meager ones. When the foundational issues mentioned in Finding #1 are not addressed, they flatline the development of livelihoods and the adoption of more financial services (see Figure 2b).

Figure 2b: Refugee "survivelihoods" and financial services in less welcoming environments



(Source: authors' illustration; Note: The indicated phases do not necessarily reflect the time one spends in each phase before moving on to the next)

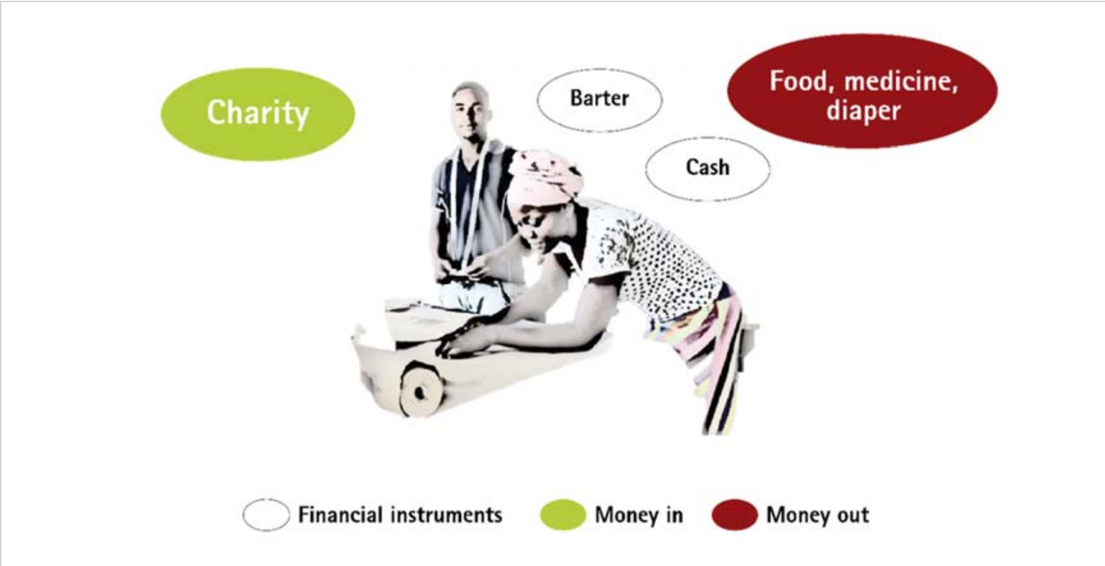
In Jordan, most of our respondents were stuck in the survivelihoods phase, with income that was unstable, lumpy, and seasonal. Some attempted to start low-level trading businesses that were financed mainly through informal credit, NGO business grants, or small informal savings. But low consumer demand, limited personal networks, and macro-economic shocks such as COVID made these precarious.

Vulnerable households, such as those headed by single women, relied heavily on aid beyond the arrival phase, unable to graduate to the next level. As they struggled to establish their livelihoods, their sole focus was on smoothing cash flow to meet their basic needs of shelter, food, and medicine. They do this through informal borrowing (friends, family, or shop credit), one-off cash grants, small informal savings at home, and occasional remittances from abroad. For more significant investments, some used micro-credit programs and informal crowdfunding. Due to foundational issues, very few refugees were able to reach the third phase (the "livelihoods ratcheting" phase) in which they could make good use of bank accounts, formal credit, or mobile wallets.

In Uganda, many households, including female-headed households, were able to transition from the arrival phase to the survivelihood phase after just a few months. After several months to a year, they could transition again toward the healthier incomes experienced in the ratcheting phase. Our research shows that refugees' financial portfolios evolved from basic instruments to more sophisticated ones — all predicated on improved income.

Figures 3a and 3b illustrates how a Congolese couple who arrived with no money initially had very little use for financial services.

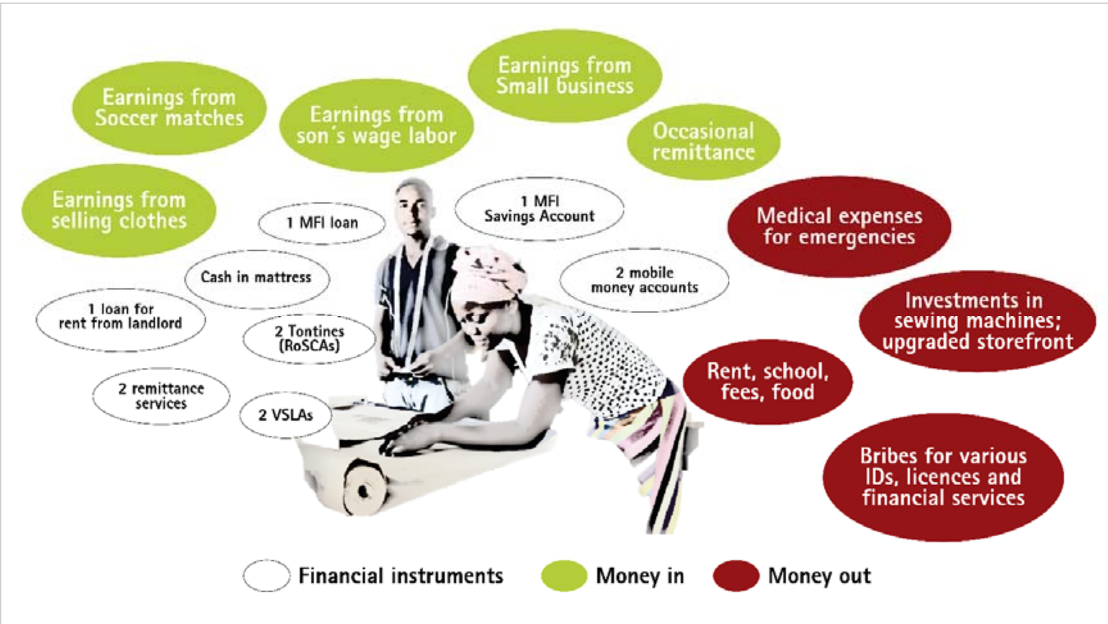
Figure 3a: Example of a basic financial portfolio



(Source: authors' illustration)

However, over time, as their sources and amounts of income increase, so did their use of financial services. As livelihoods became more robust, so too did their financial portfolios.

Figure 3b: A financial portfolio addressing more sophisticated needs



(Source: authors' illustration)

Recommendations

Municipal and national governments, as well as international donors and aid agencies, should help refugees 'smooth the way' – i.e., make it easier for refugees to pursue their own goals, by:

- Remove barriers to the ratcheting process, such as poor access to documentation. Provide local Help Desks to support displaced people in navigating documentation requirements.
- Smooth the way also through expanded access to information and mentoring skill-building: Many migrants, especially newcomers, rely on informal information about immigration procedures (e.g., application fees and the asylum process) and pursuing employment, including starting a small business or finding suitable housing, language classes, and childcare. This information should be provided by official channels and regularly updated.
- Support refugee-led and religious organizations that often do the heavy lifting when it comes to new arrivals and long-term arrivals unable to survive without charity.
- Strengthen social networks and improve cross-cultural exchanges with members of the host population through services such as building urban community spaces to allow friendly meeting places for nationals and refugees; community gardening activities; business apprenticeships and mentoring programs.
- Include refugees in national social protection, education, and health programs.

While not assuming linear progress, donors and humanitarian and development practitioners should tailor programs to the different phases of livelihood growth.

Finding #3: Financial service providers (remittance, mobile money, banking, and MFI services) need not create new services for refugees. Instead, they should adapt existing mainstream solutions that are popular with the host population by making necessary adjustments (such as language or documentation needs).

Explanation: Different organizations have been nudging refugees into services, channels, or platforms that are not yet mature or have not yet found solid footing within host populations. For example, services that rely on networks such as remittances via mobile wallets may only be in an experimental stage with a host population, as is the case with Jordan. As such, one cannot expect widespread adoption by refugees.

This finding is important for two reasons. First, refugees and migrants do not constitute a market; they are not a homogeneous group defined by similar traits, customs, and preferences. They speak different languages, have different priorities, and use different financial practices. Their livelihoods and financial needs evolve at different paces and in different ways. Because of this population's diversity, a supplier would need to develop a business case for each market subset, an expensive and defeating proposition. Second, refugees and migrants are not a segregated group either in camps or in urban areas. They continually interact with members of the host population and can see and observe the financial products their hosts use. When ready, refugees will want to use those products.

Fintech companies and bilateral and multilateral agencies are keen to pursue special products for displaced people, but these "solutions" are unnecessary. To make existing products and services relevant, suppliers can adjust marketing materials and user interfaces. Language might be the first issue to tackle. Adapting available and reliable products and services to refugee contexts eliminates the need and expense of creating specialty products.

For example, **in Kenya**, rather than allowing refugees to access regular M-PESA wallets, refugees served by the World Food Programme (WFP) were required (because of changing policies and a legal crackdown) to use a stripped-down version of mobile money which only allows the receipt of Bamba Chakula, WFP's program of digital food aid vouchers. Rather than facilitating financial "inclusion," this system has created what amounts to economic apartheid between refugees and the host population. Refugees must seek separate SIM cards and registrations (often using IDs borrowed from Kenyan friends) to manage other transactions, such as receiving remittances, making payments, storing savings and borrowing, or transacting outside the camp environment. This current special-purpose system blocks opportunities for refugees to financially integrate into the national mobile payment system. Plus, the existing system has the added benefit of being cheaper and more efficient for WFP and its partners.

Jordan, on the other hand, has been a shining example of financial inclusion of refugees. The National Financial Inclusion Strategy recognizes refugees as a critical segment for inclusion — an important starting point. However, refugees' access is still restricted. They are excluded from the banking system and only allowed to open mobile wallets, which are neither mainstream nor reliable. Mobile wallets' usefulness are deeply curtailed by liquidity issues such as limited cash in/cash out networks, weak grievance redressal mechanisms, and limited functionality (such as transaction limits and no international transfers). Even these watered-down services are unavailable to non-Syrian refugees unless they can produce the valid passports needed to open mobile wallets.

Uganda is more welcoming than Kenya or Jordan in terms of inclusion. While opening a bank account has required a passport in the past, the government has worked with UNHCR and Equity Bank to open accounts. Biometric registration is also promising in its early stages.

Recommendations

Host governments and Central Banks must abolish the financial hierarchies that separate refugee groups from host populations. State actors must ensure access to mainstream financial services by refugees of all nationalities. The private sector should improve its customer service, address complaints regarding handling procedures, and quickly redress grievances.

- Provide a clear regulatory framework that allows for the easing of Know Your Customer and customer due-diligence rules. A regulatory framework with a tiered, risk-based approach that balances proof of identity requirements with risks associated with terrorism and money laundering would be a good first step toward financial integration.
- Permit the use of alternative forms of government-issued refugee identification documents that are easy to access during initial registration and re-application.
- Eliminate refugee hierarchies based on countries of origin. Ensure access to all refugee nationalities.

In Kenya, this means allowing equal bank and M-pesa access to refugees with their own documentation.

In Jordan, the government should allow UNHCR ID cards to serve as documentation to access financial services, so access is not limited to Syrian refugees and includes other nationalities. The government should revise regulatory and identification, credit, and asset requirements for opening regular bank accounts.

In Mexico, attestation letters and other kinds of attainable documents should offer easy access to remittances and even banking services. Mexico would do well to study Uganda's policies.

Finding #4. The uncertainty of long-term prospects discourages refugee investment in skills and assets, limits self-reliance, and produces a permanent dependence on charity. Instead, they invest their energy in hoping for resettlement, a highly unlikely prospect for most.

Refugees' perceptions of their long-term prospects (and so-called 'durable solutions') are an essential factor in refugees' engagement in their financial health. When refugees live with ongoing uncertainty about whether they will be allowed to live and work in the host country, they tend to neglect investments in their livelihoods and stake all their hopes on the chimera of resettlement. When they cannot plan on better livelihoods, they refrain from making significant investments. For example, suppose there is no legal pathway to residency. In that case, refugees have little incentive to invest in an improved shelter (that could also house a business) or assets such as laptops or vehicles. Nor do they invest in developing new skills and knowledge. Instead, they only invest enough to get by, hoping that they may be resettled elsewhere. This leaves them trapped in the "survivelihood phase", where they barely earn enough to survive, let alone grow their businesses or diversify their household incomes.

If prospects for long-term residence increase (such as documentation that allows business operation), refugees are more likely to make livelihood investments (such as committing time to vocational training), and their financial health strengthens. They expand their planning horizons beyond their daily needs and into the future.

Simple policy actions by host governments and financial institutions can reduce uncertainty and increase incentives for planning and investment in time, social networks, or physical assets.
Without the prospect of long-term solutions, very few will invest in transferable skills, businesses, or property. The ensuing uncertainty cultivates a type of "livelihoods fatalism," or an utter lack of agency in managing their lives.

In Kenya, particularly in Nairobi, nearly all our research participants hoped to be resettled, especially since being allowed to work in Nairobi was such an unlikely prospect. One Ethiopian man, a doctor, became depressed and defeated after many failed attempts to get a job in his field. Today, his wife sells samosas and injera on the streets of Eastleigh, trying to help them bide their time until they might be resettled and build a life again. Many respondents said they are simply waiting and praying for resettlement. They said investing in skills they might use abroad raised their hopes too much. Investing in assets in Kenya felt too risky and might, they speculated, even work to defeat their chances for resettlement. Being "stuck waiting" made many feel like they were wasting their time.

In Jordan, the degree of uncertainty depends on the nationality of refugees. Syrian refugees have greater access to labor markets and can better integrate socially, yet we saw limited self-reliance.

Syrians pointed to limited access to rights that would afford longer-term stability, such as the right to own a business or property in their own name, obtain a driver's license, or enable their grown children to work as teachers or engineers. Refugees from Iraq, Yemen, Sudan, and Somalia cannot access legal work and remain in fear of detention as they work to support themselves. They must apply for a work permit like any other foreigner, but doing so is expensive and puts their refugee status in jeopardy. A young Yemeni participant said his cousin's brother was deported after he applied for a work permit. Several others had similar fears, which were confirmed by a recent Human Rights Watch report which found that Yemeni asylum seekers are being deported after applying for work permits. In such an uncertain and limiting environment, most non-Syrian refugees are hanging onto hopes of migrating to or resettling in a country where they can work. In the meantime, their sole focus is to survive the daily demands of life in displacement.

In Uganda, a country known to welcome refugees, prospects for more durable solutions seemed more promising. It was not difficult to find refugees of every nationality engaging in the "ratcheting" phase of livelihood growth. Education was available to children and adults. Business, computer skills, and language training were available to adults. Except for street-sellers who had to endure the indignities and despair of being taunted by the city authorities, many businesses could become licensed as, for example, transportation and haircare operators. Until the 2019 shuttering of SIM card availability for refugees (prompted by abuses by the host population), financial services were also more accessible to refugees, including remittance services, some banking services, and even microcredit. However, microcredit was still limited, not because of government policy but because of a lack of local understanding of refugee populations.

Recommendations

Host governments and the international community should join forces to reduce uncertainty for refugees by increasing long-term livelihood options while communicating those options with clear and consistent messaging. Some examples:

- The prospect of resettlement creates (misguided) hope and harms self-reliance. In Jordan and Kenya (but really in all host countries), UNHCR should provide clear and regular communication regarding resettlement from the country, as well as regular updates on individual applications, ideally through digital tracking of their application status.

Finding #5: Our "financial health" framework modified for refugees is useful for analyzing the role of financial services in people's financial health. We found that financial services are only one contributing factor to financial health.

Explanation: We have adapted the Council for Financial Inclusion's financial health framework for use in displacement contexts and have come up with five benchmarks for financial health. Refugees or migrants are 'financially healthy' when they accomplish the following over the course of four years, beginning with their arrival:

1. **Meet basic needs**. Access the resources they need such as food, shelter, clothing, medicine, or other essential products and services from gifts, loans, savings, income, bartering, or charity.

2. **Comfortably manage debt.** Refugee and migrants arrive indebted to smugglers and those who financed their journeys (friends, family, other). Some debt is manageable, but too much can render individuals and households vulnerable to ostracization, violence, and extortion.

3. **Recover from financial setbacks.** Loss of a job, a medical emergency, or an asset can produce financial hardship. Being able to borrow from social networks, access humanitarian aid, or dip into savings enables recovery from a setback.

4. **Access a lump sum to enable investment in assets and opportunities.** Many refugees arrive stripped of their assets and savings. Being able to borrow a lump sum enables people to invest in assets or opportunities to increase safety or income or long-term prospects such as education, training, or better housing. A lump sum is at least 5% of the per capita GDP of the host country.

5. **Continually expand planning horizons.** Over time, new arrivals move from daily hand-to-mouth struggles (what we call survivelihoods) to increase their activities and find themselves able to contemplate a financial future beyond the present day.

Regarding these five financial health indicators, there is more work to be done by humanitarian and development practitioners as well as scholars. As the framework is relatively new, our indicators are subject to interpretation. For example: what is a desirable lump sum? Or, what is comfortably manageable debt? In the US, after years of study, financial health outcomes have become benchmarked. A lump sum is defined as 5% of the per capita GDP. And a debt-to-income ratio should be no higher than 33%. Such specific benchmarks will help practitioners and researchers measure and respond to financial health outcomes in different displacement contexts. In the US, the Financial Health Network has been able to refine its indicators as it expands its partnerships. Major banks have taken on the challenge of focusing on financial health for both employees and customers. In countries like Kenya and Uganda, where companies like Equity Bank have an expansive reach, similar activities could be undertaken and could include refugee populations.

Our studies show that financial services are only one of many contributing factors to financial health. Others include the robustness of social networks, the quality of friendships, favorable family structures, access to good information, skills-building opportunities, educational opportunities, and the ability to work and to move freely. Strokes of good luck matter, too.

In conclusion, our findings show that financial services alone cannot produce economic outcomes or financial health. A combination of factors, including legal frameworks and social norms, must come together to make financial services useful and powerful.

Recommendations

- Research and set benchmarks for refugee financial health, something that will require the combined efforts of practitioners, policymakers, and researchers.
- Combine financial services with livelihood support programs and financial planning services (using the Financial Health Framework) rather than standalone financial services.