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Financial Inclusion for Refugees: Learning from Financial Sector Deepening Uganda

Introduction

During a year that most of the world has spent locked indoors, we should remember that 1% of the world's population has been forced to flee their homes due to conflict or persecution. This is roughly 79.5 million people. 26 million are refugees, and almost half are under the age of eighteen.¹ Nearly three-quarters of displaced persons are hosted by neighboring countries, which often are in need of help themselves. They are frequently aided by international humanitarian agencies such as the United Nations High Commission for Refugees (UNHCR). Humanitarian aid responses focus on addressing the immediate needs of aid and shelter, often failing to account for the long-term nature of displacement. The reality is that refugees lead complicated and diverse lives and have valuable skills that can contribute to and enrich their host country.² The story of refugees, as proven in recent studies³, is one of resilience and innovation. Host countries can learn from each other in providing enabling conditions that help refugee populations. In this paper, we will focus on insights from Uganda, a country that hosts one of the world's largest refugee populations, and the steps they have taken to integrate their refugee population.

Uganda: the tiny country with a large heart

Uganda, landlocked between Kenya, South Sudan, the Democratic Republic of Congo, Rwanda, and Tanzania, hosts nearly 1.4 million refugees⁴ and continues to wel-

- 1 Refugees, United Nations High Commissioner for. "Figures at a Glance." *UNHCR*. Accessed February 7, 2021. <https://www.unhcr.org/figures-at-a-glance.html>
- 2 "Why Denying Refugees the Right to Work Is a Catastrophic Error | Paul Collier and Alexander Betts." *The Guardian*. Last modified March 22, 2017. Accessed February 7, 2021. <http://www.theguardian.com/world/2017/mar/22/why-denying-refugees-the-right-to-work-is-a-catastrophic-error>
- 3 Wilson, K et al., "Financial Integration in Refugee Economies: Evidence from Uganda," *Leir Policy Papers Series* Volume 1, no. 1, Leir Policy Paper Series (n.d.), accessed February 7, 2021, https://sites.tufts.edu/ihs/files/2021/01/Leir_PolicyPaper_Uganda_v6.pdf
- 4 Refugees, United Nations High Commissioner for. "UNHCR - Refugee Statistics." *UNHCR*. Accessed February 7, 2021. <https://www.unhcr.org/refugee-statistics/>

come them as nations across the world turn them away. Several factors make Uganda what the United Nations calls one of the “most welcoming countries in the world.” One factor is the long history of flight and resettlement in the region, which dates back to the country’s pre-colonial history. This is even reflected in the names of local groups. For instance, Batagwenda⁵, which means “the ones who could not continue traveling.”⁶

More recent events, such as the reign of Idi Amin, have also shaped the country’s perspective on displacement. Ugandans themselves were forced to flee to South Sudan, where they were given land and support, a kindness they have not forgotten.

Underlying Uganda’s laws on refugee protection and resettlement is a philosophy of promoting self-reliance and a development-oriented approach to financial inclusion. Between the Refugee Act of 2006 (which is one of the most progressive refugee policies in the world⁷), the 2010 Refugee Regulation, and the adoption of the Comprehensive Refugee Response Framework⁸, Uganda offers refugees the right to work legally, freedom of mobility, and the right to live in Ugandan communities (as opposed to solely in camps). They are also given land to cultivate, access to education, and healthcare. This robust legal framework is backed by multiple international organizations as well as faith-based and civil society organizations that deliver a range of services for immediate settlement and integration⁹.

Access to financial services can play a critical role in building resilience. Studies with refugee populations in Uganda indicate that remittances play a crucial role in helping tide over initial expenses, and in some cases, to start small businesses¹⁰. Overall levels of financial inclusion in Uganda have improved

substantially in the past decade. For instance, in 2018, 78% of Ugandan adults had access to financial services, compared to 57% in 2006¹¹. However, uptake of credit was much lower. Only 4% used formal lenders, 22% used informal lenders, and 19% relied on family and friends¹². Access to credit can play a critical role in starting and growing small businesses and is an essential source of livelihood. For refugee populations who often can’t rely on local friends and family, access to formal credit can be a lifeline to rebuild their livelihoods. Only 13% of refugees can access credit from SACCOs and other credit institutions.¹³ While the demand for financial services, especially savings and remittances, is high among refugee populations, a low supply of relevant, formal financial services, poor documentation, minimal trust in formal institutions, and high fees plague financial service access and usage¹⁴. As a result, most refugees either save in cash or use informal savings mechanisms.

Cash, while convenient, poses risks in an environment where resources are scarce. Money hidden under the mattress, or stored in a glass jar, makes the holder of such cash a target for theft. This increases the risk of physical injury during such theft and loss of social equity. Center leaders of informal savings groups are vulnerable targets. In the case of theft or fraud, losses to individual group members cannot be compensated since formal redressal mechanisms are absent. The informality of the system prevents security mechanisms like cash-in-premise insurance, which are encoded into the design of traditional savings and credit services.

Recognizing the critical need to deliver financial services to refugee populations in Uganda, which would, in turn, bolster their economic resilience

5 The Batagwenda is a tribe from Western Uganda, who migrated after their king died in a succession battle with his brother. When they reached Kitagwenda district, they could not travel further and decided to settle and came to be called Batagwenda i.e. those who could not travel anymore. “Tribes_8 - QSafarisAfrica,” n.d. Accessed April 19, 2021. https://qsafarisafrika.com/tribes_8/

6 Goldstein, Joseph. “As Rich Nations Close the Door on Refugees, Uganda Welcomes Them.” *The New York Times*, October 28, 2018, sec. World. Accessed February 7, 2021. <https://www.nytimes.com/2018/10/28/world/africa/uganda-refugees.html>

7 Refugees, United Nations High Commissioner for. “Uganda’s Progressive Refugee Act Becomes Operational.” *UNHCR*. Accessed February 7, 2021. <https://www.unhcr.org/news/latest/2009/6/4a3f9e076/ugandas-progressive-refugee-act-becomes-operational.html>

8 Refugees, United Nations High Commissioner for. “Assessing the Needs of Refugees for Financial and Non-Financial Services - Uganda.” *UNHCR*. Accessed February 21, 2021. <https://www.unhcr.org/publications/operations/5bd01fab4/assessing-needs-refugees-financial-non-financial-services-uganda.html>

9 Wilson K et al., “Financial Integration in Refugee Economies: Evidence from Uganda,” *Leir Policy Papers Series* Volume 1, no. 1, Leir Policy Paper Series (n.d.), accessed February 7, 2021, https://sites.tufts.edu/ihs/files/2021/01/Leir_PolicyPaper_Uganda_v6.pdf

10 Wilson K et al., “Financial Integration in Refugee Economies: Evidence from Uganda,” *Leir Policy Papers Series* Volume 1, no. 1, Leir Policy Paper Series (n.d.), accessed February 7, 2021, https://sites.tufts.edu/ihs/files/2021/01/Leir_PolicyPaper_Uganda_v6.pdf

11 <https://fsduganda.or.ug/wp-content/uploads/2018/10/FinScope-Uganda-Survey-Report-2018.pdf>

12 <https://fsduganda.or.ug/wp-content/uploads/2018/10/FinScope-Uganda-Survey-Report-2018.pdf>

13 Mentioned on a call with FSDU colleagues

14 Wilson K et al., “Financial Integration in Refugee Economies: Evidence from Uganda,” *Leir Policy Papers Series* Volume 1, no. 1, Leir Policy Paper Series (n.d.), accessed February 7, 2021, https://sites.tufts.edu/ihs/files/2021/01/Leir_PolicyPaper_Uganda_v6.pdf

and benefit livelihoods, FSD Uganda, in collaboration with FSD Africa, to launch the Financial Inclusion for Refugees Project (FI4R) in 2019. The project aimed to uncover insights about the financial lives of refugees and work with financial service provider partner organizations to design and deliver a set of relevant financial services profitably. The FI4R project includes BFA Global as a learning partner and provides an interesting case study in its conception and implementation.

About the FI4R project: identifying the organizing principles for success

The FI4R project in Uganda is part of FSD Africa's work on enabling access to financial services for forcibly displaced persons across four countries: the other three being Rwanda, the Democratic Re-

public of Congo, and Nigeria. Through the project, FSD Africa is keen on establishing a case for formal financial institutions to deliver financial services to refugees. The FI4R project has followed a three-step process i.e.

Step 1: A market assessment and “design sprint”

Step 2: An innovation competition where financial service providers had to apply

Step 3: Financial support of up to 60% of the project costs provided by FSD Uganda and ongoing technical assistance delivered by the learning partner BFA to winning entries

As a part of the engagement, each of the three partners selected in the innovation competition – Equity Bank Uganda Limited (EBUL), Vision Fund Uganda (VFU), and Rural Finance Initiative (RUFU) (see

Box 1: Details of the three partners selected

VisionFund Uganda (VFU) is the microfinance subsidiary of World Vision – a Christian relief, development, and advocacy organization. VisionFund Uganda is piloting a unique wholesale credit model within savings groups in the West Nile region by accessing existing and stable NGO-supported groups and leveraging repayment and share-out data from previous cycles to determine eligibility for additional loan capital. VFU aims to boost the availability of credit for savings group members, allowing them to invest in income-generating activities (such as agriculture and trade), which in turn will increase household incomes in refugee and host communities in the region.

Equity Bank Uganda Limited (EBUL) intends to use data from Kenya, Rwanda, and other areas where they operate to provide refugees in Uganda with bank accounts so they can access their humanitarian aid payments. EBUL will do this by setting up their systems and processes to ease refugee-verification, facilitate account opening, and support financial literacy. The bank will also set up an enabling infrastructure for cash-outs by extending their existing agent banking network to refugee settlements and host communities, and plan to develop a credit product for agent liquidity.

Rural Finance Initiative (RUFU) provides an unique opportunity by being a Microfinance Institution (MFI) incorporated as a Limited Liability Company that operates across borders. They began operations in South Sudan in 2008 and then in Uganda in 2017. RUFU provides refugees with a combination of savings and lending products. This leverages the village savings and loan association (VSLA) model, which aggregates groups using Ledger Links software developed by the Grameen Foundation. Each VSLA owns a phone they can use to make all their transactions, financial or otherwise, which are then stored on a database to be retrieved at any time. The system will also create credit scores, which will allow RUFU to process a VSLA loan application in real-time. The groups will be able to withdraw their money through the use of Mobile Money. RUFU, as an agent of Centenary Bank, will provide a savings product to the VSLAs where they can keep excess money between group meetings. Besides entrepreneurs in VSLAs, RUFU will also target entrepreneurs outside the groups with loans with a special focus on youth.

box 1 for details) — contributed 40% towards their projected expenses. The remaining sum was jointly funded by FSD Africa and FSD Uganda (split as a 50:50 contribution) as catalytic funding, along with the provision of technical assistance concerning products and services.

Financial Sector Deepening Uganda (FSDU) is part of a federation of nine FSD programs operating across Africa, which was created in 2001 with funding from the UK government's Department for International Development. The FSD model comprises independent, not-for-profit companies that work at the country level with stakeholders like governments, business leaders, non-profit organizations, research institutions, regulators, and policymakers to develop more inclusive financial systems. Through the FI4R project, FSDU plans to address critical market failures. The three key market failures identified in delivering formal financial services to refugees were:

- a. Supply side: formal financial service providers did not see refugees as a viable population segment
- b. Demand side: refugees preferred using informal savings mechanisms and were largely excluded from accessing formal financial services. For example, only 13% of refugees surveyed in Bidi Bidi Refugee Settlement prior to the initiative were able to access formal credit, with most of them depending on informal groups, which have their limitations, to meet their financial needs
- c. Policy and regulatory environment: high-risk perception of refugees due to Anti Money Laundering (AML) and terrorist-financing concerns¹⁵

The FI4R project focuses on impacting the lives of 40,000 low-income refugees and host customers.

Organizing principles for success

1 Play critical roles of connecting actors and facilitating conversations

Institutions like FSD Africa and FSD Uganda play an essential role in facilitating conversations between various actors, both in the refugee ecosystem and in the host country's policy, regulatory,

and market environment. FSD Uganda's role in conducting research to identify market failures and developing a plan of action to address these through the FI4R partnership presents important insights for system design. For example, the Uganda Communication Commission (UCC), in an effort to block money laundering and terrorist activities, asks providers to block SIM cards if their owners could not present proof of identity. With a backlog in issuing refugee identity documents by the Office of the Prime Minister (OPM), refugees without identity documents found their mobile wallets frozen. For a segment that depends on meager aid and remittances from family members elsewhere, both of which are stored in mobile wallets, this is akin to cutting a lifeline. FSD Uganda immediately got involved to address the problem. Through its evidence-based interventions and advocacy efforts, FSD Uganda has been engaging UCC, OPM, and UNCDF with the goal of shaping policy and legislation to enable refugees to use limited issuance documents (attestation cards) as admissible documentation for accessing mobile money and financial services.

2 Learning partners are key

At a program design level, the inclusion of a learning partner early in the process allows for continual learning and documentation¹⁶. Recognizing that one of the challenges for financial service providers was understanding the market potential of refugees, BFA Global used a 'financial diaries' approach to gain insights into the financial lives of refugees — how they coped and which strategies they used to build their livelihoods. The involvement of the learning partner has also helped make the financial design and delivery process more customer-centric. For example, refugees were uncertain about the various fees charged by financial service providers, which led to mistrust and low use of financial services. To address this challenge, Equity Bank has been sending a text message that shows how much people are charged and their remaining balances.

¹⁵ Money laundering is the process by which proceeds from a criminal activity are disguised to conceal their illicit origins. Anti money laundering is the process of identifying such processes. Terrorist financing is financial support, in any form, of terrorism or of those who encourage, plan or engage in it. Both of these are considered risks to financial institutions and financial systems within a country. <http://documents1.worldbank.org/curated/en/982541468340180508/pdf/634980WPORefer00Box0361517B0PUBLIC0.pdf>

¹⁶ Agaya, Martin. "New Lives, New Tools: The Financial Lives of Refugee Communities." FSDU, March 12, 2020. Accessed December 15, 2020. <https://fsduganda.or.ug/new-lives-new-tools-the-financial-lives-of-refugee-communities/>

3 Establish business value early

The FI4R project adopted a participatory approach to show financial service providers that designing and delivering products to refugee consumers posed business value. Besides conducting a study with BFA, FSD Uganda organized a four-day design sprint with financial service providers. Of the twenty applicants, six were selected, including Bank of Africa, dfcu Bank¹⁷, Post Bank Uganda, Ezee Money (a fintech), Rural Finance Initiative (RUFU), and the NEW Foundation¹⁸. Over four days, the six teams of three people met with urban and rural refugees, generated ideas for products and services, built rough prototypes, and visited a refugee settlement to test their ideas and gather feedback. This process of rolling up one's sleeves, interacting with customers early, and visiting the field to get prototype feedback helped establish business value in designing products and services relevant to refugee populations.

4 Pick partners strategically

FSDU recognized that it was not enough to generate interest in catering to refugee populations; it was important to show long-term value for both customers and financial service providers. Therefore, the choice of partners was strategic, factoring in the design that they would like to test, the insight on which it was based, and presenting convincing evidence that the innovation would succeed. For example, Equity Bank brought their experience from other geographical contexts and built on their existing banking platforms and agency management systems. Equity Bank's innovation was in using their current system that helped deliver mobile money and using that to partner with humanitarian agencies that provided aid, based on the insight that aid constituted an important segment of refugee-household income streams. Recognizing the need for cash-out points, Equity Bank also decided to work on a credit product for agent liquidity. On the other hand, Vision Fund Uganda chose to work with

existing savings groups in the West Nile region. Refugees did save, but used a number of informal mechanisms to do so. Using data from previous cycles to increase loan eligibility was one way to encourage them to save with savings groups. This, in turn, would help provide much-needed credit for small businesses. The third partner, RUFU, was selected since they had worked in rural areas in South Sudan and were interested in transplanting their tested systems to a Ugandan context.

5 Think long term

The FI4R project hopes to spur interest and innovation in catering to the refugee population in Uganda, among other financial service providers beyond the competition's winners. Initial insights from the refugee financial diaries showed that refugees are capable of saving. Even small amounts can make a significant difference in building assets, increasing income, and financial resilience¹⁹. These insights have been disseminated across the FSD Africa network, international NGOs and humanitarian aid agencies, as well as financial service providers in Uganda. In the spirit of long-term engagement of stakeholders, the entire ecosystem of players will be invited to a final dissemination event in early 2022 that will showcase the findings, learnings, and market opportunity demonstrated by the three implementing partners in this two-year intervention.

Barriers that persist

Despite the many factors that make Uganda a refugee-friendly country, many barriers to accessing financial services remain. While refugee identification cards (a document critical to obtain work permits or open an account) are being issued, it is difficult to get these cards, and issuance of refugee identification cards has slowed due to fears of money laundering and related identity verification challenges. The work-around is an attestation letter that allows refugees to access financial services. This letter was being accepted until the Uganda Communication Commission (UCC) issued an order to block refugee

¹⁷ dfcu Bank is registered as the Development Finance Company of Uganda Limited, and is a commercial bank. <https://www.dfcugroup.com>

¹⁸ Agaya, Martin. "From Ideas to Field Tests in 4 Days: A Design Sprint for Refugee-Centred Financial Services." FSDU, August 1, 2018. Accessed February 22, 2021. <https://fsduganda.or.ug/design-sprint-refugee-centered-financial-services/>

¹⁹ Agaya, Martin. "New Lives, New Tools: The Financial Lives of Refugee Communities." FSDU, March 12, 2020. Accessed February 22, 2021. <https://fsduganda.or.ug/new-lives-new-tools-the-financial-lives-of-refugee-communities/>

SIM cards²⁰. The OPM and FSD Uganda, along with UNHCR, stepped in to improve this process²¹. Meanwhile, the suspension in services is likely to erode trust for users who find their already meager savings in mobile wallets blocked and inaccessible.

Another barrier – not to financial services specifically but to economic well-being generally – is the hefty fines imposed by local authorities on refugee street hawkers who may not possess a refugee identification card²². Newer challenges began to emerge due to the pandemic, when refugees with active mobile money accounts began to withdraw significant amounts from agent locations, causing liquidity constraints. Other challenges include the security of savings group collection boxes in some camps. The pandemic has prevented members from meeting, from lending out their funds, and has encouraged large sums to be stored in one group members' house, putting them at risk of theft and attacks. Lockdown restrictions and economic slowdown have also resulted in a drop in income and inability to repay loans. The impact of Covid-19 on the project is still unfolding, and steps to address the eroding economic and financial resilience of refugee customers will need to be planned carefully.

Conclusions and recommendations

The FI4R partnership presents several opportunities, even as newer challenges emerge, which can be classified by the immediacy of action and impact.

a. Insights to action (immediate-medium term)

These include immediate steps that can be taken to maintain trust in financial services. For instance, the security of savings group collection boxes could be addressed through innovations in cash insurance policies developed for these groups. FSDU has also been strongly advocating for a switch to digital payments, minimizing the risk of theft or loss. However, this requires establishing an ecosystem where digital payments are possible, to reduce friction in transferring from digital to cash and vice versa.

b. Systems/process related (medium to long term)

As issues around refugee identification cards, enabling access to mobile money accounts, and agent liquidity begin to be addressed, it is important to think carefully about the design of systems and processes to ease these pain points.

c. Financial systems design (long term)

Even with the current partners that work across borders, there is a unique opportunity to use past transaction history from other countries. For instance, RUFU works in South Sudan and Uganda and would benefit from being able to access the transaction histories of customers who have come from South Sudan. Similarly, broader partnerships between telecom companies and financial service providers could provide a data trail of remittances, or previous transactions, which could be used for credit appraisal. However, this would require cooperation from multiple stakeholders and would need to be designed to allow data to easily migrate from one platform to another.

Insights from research conducted by BFA Global also suggest broader changes are taking place in the social fabric due to shifting family structures. Several respondents indicated that refugee families are a combination of biological and non-biological members. It may be worthwhile to understand this better while designing financial services with more stable refugee population segments. Adopting a gender lens while creating services, keeping in mind that children and women tend to be the most vulnerable among displaced persons, might also play a key role in building resilience.

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20 Refugee Cards, OPM Attestation Letters No Longer Valid for SIM Card Registration, Says UCC." *Daily Monitor*. Accessed February 22, 2021. <https://www.monitor.co.ug/uganda/news/national/refugee-cards-opm-attestation-letters-no-longer-valid-for-sim-card-registration-says-ucc-1852014>.

21 <https://www.unhcr.org/innovation/wp-content/uploads/2019/04/Displaced-Disconnected-WEB.pdf>

22 Wilson K et al., "Financial Integration in Refugee Economies: Evidence from Uganda," *Leir Policy Papers Series* Volume 1, no. 1, Leir Policy Paper Series (n.d.), accessed February 7, 2021, https://sites.tufts.edu/ihs/files/2021/01/Leir_PolicyPaper_Uganda_v6.pdf