No financial inclusion without basic economic rights

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Without access to basic economic rights, refugees will not be able to build self-reliance. Case-studies from Kenya and Jordan show that providing financial services is not sufficient if rights are absent.

Between 2019 and 2020, the authors conducted qualitative research in Kenya and Jordan to understand the financial lives of refugees.[1] The aim of this research was to understand how refugees integrated financially into the host economy, how they managed their finances, and what role financial services played in this integration. The research focused on those who lived in non-camp situations and had been in their host countries for three to eight years.[2]

In both countries, instead of starting with the question of what financial services refugees might need, the authors looked at refugees' financial histories, livelihood journeys and financial risk management strategies to understand what factors supported or hindered their desired financial outcomes. This offered insights into the context within which refugees have a need for and use financial services.

One finding was that financial services did not lead to fulsome (by which the authors mean robust or profitable) livelihoods for refugees but that fulsome livelihoods led to increasing demand for a range of financial services. The authors concluded that efforts to boost financial inclusion can only have their desired impact when they build on host governments' policies that give refugees economic rights, opportunities, documentation and a clear pathway to a certain future. Unless these are ensured, livelihoods fail to progress and there is no demand for financial services beyond those required to receive humanitarian transfers, international remittances, and small savings or credit to secure basic needs of food, shelter and medicine.

Livelihood progression and the demand for financial services

Humanitarian actors assert that once refugees are integrated into the financial systems of the host country and have access to affordable financial services, they can build sustainable livelihoods, reduce dependence on humanitarian aid, and improve self-reliance. This theory of change often assumes a natural step-by-step progression in refugees' livelihoods but this was not the case for a majority of our study's respondents. Their livelihood progressions and hence the need for financial services depended on the degree of economic inclusion that their host country offered.

Let us consider the scenario of a welcoming host economy where refugees are allowed to fully participate in the local labour market. During the initial phase after arrival, refugees will depend on charity and on support from friends and family in the country or overseas. At this stage they need financial services to access humanitarian cash assistance or remittances more efficiently. As they acclimatise and build new information networks, they can find entry-level jobs. Where a context is favourable, refugees demonstrate linear upwards progressions in their livelihoods. They might go from cleaning tables at a restaurant to taking orders, or from working at a hair salon for low pay to becoming a freelancer commanding higher wages. As their incomes increase and diversify, they demand an account (bank or mobile) to receive income and keep savings, a payments account for personal or business payments, micro-credit to start or expand a business or build a new skill, and savings groups to build lump sums.

In the above scenario, offering timely and appropriate financial services at each stage of livelihood progression makes sense. However, a majority of our participants were stuck in what the authors call the 'survivelihood' phase, earning a meagre income from entry-level, often informal and seasonal, jobs or small home-based businesses. Their income was barely enough to cover basic needs and even a slight financial shock led them into debt. Their financial priorities were to smoothen consumption – that is, to balance their spending as incomes fluctuated – and to better manage financial shocks. To this end, most depended on informal credit from their social networks of friends and family, or on charity and humanitarian assistance. As their livelihoods did not progress, the demand for formal financial services flatlined.

In sum, the demand for financial services evolves only when refugees' sources of income grow, strengthen and diversify over time. Hence, it is crucial to remove the barriers to refugees' livelihood pursuits, while strengthening the supporting factors. Only then will financial inclusion efforts – such as through national policies and financial literacy – result in the positive impact intended.

Barriers to sustainable livelihoods

In Jordan, the government introduced several reforms to allow Syrian refugees to access jobs and set up businesses. However, Syrian refugees could only work in certain labour market sectors, which were characterised by low-wage and seasonal jobs. Our participants faced bureaucratic processes and delays in accessing work permits or registering businesses.[3] Refugees coming from countries other than Syria (our study covered Iraq, Yemen, Sudan and Somalia) had to work illegally as work permits were expensive. To add to this, most could not provide valid passports or were hesitant about official security checks and the risk of detention, as most had overstayed their entry visas. Having a work permit also meant that they would have to give up their refugee status, which jeopardised the possibility of resettlement.

In Kenya, the government adopted restrictive policies for refugees in the wake of several al-Shabaab terror attacks. In 2012, the government made it mandatory for all refugees to reside in camps and by 2014 it was a criminal offence for refugees to travel outside of Kakuma and Dadaab refugee camps without permission. Our respondents in Nairobi were unable to progress their livelihoods; they were denied work permits and faced constant harassment and discrimination. Those living in the camps felt stuck as they were not able to move and trade freely or leave the camp to build a new life as skilled professionals, in Kenya or abroad. Refugees faced long waiting times to process or renew their documents. Although they were allowed to work in theory, in practice work permits were rarely issued. And in 2015, the government restricted refugees' access to telecommunications and financial services, barring them from registering for a SIM card or an account with M-Pesa (a mobile phone-based payments and microfinancing service), both of which are necessary for economic integration in Kenya.

In both Jordan and Kenya, refugees were unable to fully integrate into host economies unless they had a secure legal status such as permanent residence or had acquired citizenship (by the process of naturalisation). This uncertainty discouraged refugee investment in long-term skills and assets, and led to limited self-reliance and prolonged dependence on charity. In such a scenario, there was no incentive for refugees to save or borrow money to invest.

Making financial inclusion work

1. Fix the foundations first

Financial inclusion policies must build on host government policies to facilitate refugee integration. In Jordan, this means opening up additional labour market sectors for refugees which are appropriate to their skills; facilitating access to documents such as work permits, business licences and driving licences; easing business registration; and ensuring legal protection in case of joint ventures with Jordanian partners. Equally critical is the need for governments and humanitarian organisations to provide a clear pathway towards long-term solutions, either through resettlement or through local economic integration by providing a legal status that allows for increased rights.

In Kenya, refugees need the freedom to work, move and use mainstream finance. The government and humanitarian organisations need to rectify the delays and opacity in refugee management processes, including issuance and renewal of documents such as refugee identity documents and work permits. Similar to Jordan, in Kenya refugees want clear pathways to a stable future in Kenya or abroad. A potential solution could be to explore legal pathways for migration through skills partnerships with third countries such as the US or Canada. Eligible refugees could be trained to develop and be certified in skills needed in these countries and be able to access legal migration pathways.

2. Allow access to mainstream financial infrastructure

In both Jordan and Kenya, refugees had to conduct their financial transactions using separate, closed and limited-purpose systems, which do not result in financial inclusion. In Jordan, humanitarian organisations and the government nudged refugees into using mobile wallets (digital wallets accessed using a mobile phone), for which the service ecosystem was still nascent and faced operational issues. Non-Syrian refugees in Jordan could not access a mobile or bank account due to lack of documents.

In Kenya, where access to the ubiquitous M-Pesa was necessary to sustain a livelihood, refugees had been blocked from registration since 2015. They could only access a highly restricted form of M-Pesa used to distribute assistance to refugees in camps and which did not allow them to deposit or keep money, send or receive transfers, or request credit.[4] In response to such exclusion, refugees accessed critical financial services using borrowed identity documents. Far from being creative workarounds, such adaptations increased our research participants' precarity and undermined the integrity of the financial systems. Instead of building separate financial systems for refugees, they should be allowed to access existing mainstream financial services and popular channels for financial transactions.

3. Broaden understanding of inputs beyond financial services

Once the research project team set their sights on the aim of improving the financial outcomes of refugees, they found that the framework of 'financial health' is better suited to understand the broader range of conditions required.[5] For this project, a refugee is defined to be financially healthy when they can do the following after having been in the host country for four to five years: a) meet basic needs of food, shelter, medicine and education; b) comfortably manage debts; c) recover from financial setbacks; d) access lump sums to invest in assets and opportunities; and e) continually expand their planning horizons.

Examining the financial lives of refugees in Kenya and Jordan revealed that financial services played only a minor role in improving their financial health. Instead, other non-financial inputs such as social networks, language skills, mental health support and feelings of personal security were equally critical. Based on this, the authors highlight two recommendations for practitioners.

The first is to broaden support for refugees, particularly women, to build social networks and friendships. These networks provide: critical information about jobs, housing and refugee rights; finance for setting up businesses; informal loans to meet basic needs at times of insufficent income; and avenues for raising emergency funds for health expenses. This could be, for example, setting up mixed-group interactions between host and refugee women to encourage skills swaps (traditional skills such as cooking or handicrafts, professional skills, and language skills) or assigning female mentors from the host community to help refugee women navigate the economic and social systems in the host country.

The second is to expand and strengthen the role of community-based organisations (CBOs) – a critical but often under-utilised player in the refugee support ecosystem. CBOs are grassroots organisations led by host or refugee communities and faith-based groups. In both Kenya and Jordan, the authors saw that they provided timely financial and non-financial support to their refugee members, irrespective of nationality and race. Given their close proximity to the community and their adoption of dignity-enhancing practices (such as calling refugees 'members', not clients), they were better able to respond to the ever-changing needs of refugees. Humanitarian organisations could forge deeper partnerships with CBOs and build their own technical and financial capacities to improve service delivery. Furthermore, CBOs could expand to include services such as professional psychological counselling, language training, mixed group networking, small business capital and paralegal services.

Conclusion

Only when the broader problem of economic and political 'exclusion' for refugees is addressed will any efforts towards their 'inclusion' in the financial sector have the positive impact envisaged by the international community. Although Jordan and Kenya are applauded for using innovative digital financial services to financially include refugees, such efforts have not resulted in improved livelihoods and self-reliance. It would be far more effective to start by addressing refugees' lack of economic rights while at the same time strengthening existing mechanisms that support refugee livelihoods, mainly social networks and CBOs. Livelihoods would then be able to progress, and as a result the demand for financial services would evolve.

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1. The research was conducted as part of the Finance in Displacement (FIND) project, supported by the German Federal Ministry for Economic Cooperation and Development (BMZ). For more details see Wilson K and Zademach H M (2021) *Finance in displacement: Joint lessons report*, Tufts University, International Rescue Committee, Catholic University Eichstaett-Ingolstadt bit.ly/finance-in-displacement

2. Three rounds of repeat interviews were conducted over a period of 12-18 months with 169 refugees in Jordan and Kenya to understand their financial and livelihood transitions.

3. Lenner K and Turner L (2018) 'Making Refugees Work? The Politics of Integrating Syrian Refugees into the Labor Market in Jordan', *Middle East Critique* bit.ly/politics-market-Jordan

4. GSMA (2017) *Refugees and Identity: Considerations for mobile-enabled registration and aid delivery* bit.ly/refugees-identity

5. The authors adapted the definition of 'financial health' developed by the Center for Financial Services Innovation, available at bit.ly/financial-health-global