

REBUILD

Boosting Livelihoods



Scaling local refugee lending – Kampala & Nairobi

Learnings & Insights - April 2023

In Partnership with: **IKEA Foundation**


 **Open
Capital**

The International Rescue Committee (IRC) and the IKEA Foundation have partnered through a 5-year program to improve the livelihoods of urban refugees and host residents in Nairobi and Kampala. The program, Refugees in East Africa: Boosting Urban Innovations for Livelihoods Development (Re:Build), seeks to enable 20,000 direct beneficiaries to achieve sustainable livelihoods and long-term self-reliance, through market-systems approaches. Different market actors have attempted to implement market systems approaches but these require initial capital investment in order to establish evidence of results and impact. Funded by the IKEA Foundation, Re:Build brings together the International Rescue Committee (IRC), the Center for Global Development (CGD), Open Capital (OCA), Kampala Capital City Authority (KCCA), and Nairobi City Country Government (NCCG). Re:Build is committed to generating and sharing evidence for innovative, sustainable livelihoods solutions that can be adopted to support refugees and host residents in other cities in East Africa and beyond.

As part of its multi-faceted approach, Re:Build aims to increase urban refugees' access to formal financial services and mitigate income volatility through a holistic approach.¹ To that effect, Re:Build, with support from OCA, conducted a deep assessment of the refugee lending landscape to identify opportunities to catalyze formal financing, which informed the design of market systems interventions being implemented in collaboration with key private sector players. This paper takes stock of the learnings and insights from our work over the last two years, to drive awareness on the current state of the sector and incentivize stakeholder groups (financial service providers, corporates, investors, etc) to support Re:Build's objective to increase financial inclusivity and facilitate refugee integration into commercial value chains.

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- Banks (Equity Bank Kenya Limited, Opportunity Bank Uganda Limited)
- Microfinance Institutions (UGAFODE Microfinance Limited)
- Non-profits, social enterprises, etc. (Kiva, Patapia, Inkomoko)
- Ecosystem players (FSD Africa, FSD Uganda, Refugee Investment Network)
- Sector experts (Hannington Thenge)

¹ The proposed holistic approach to urban refugee financial inclusion involves facilitating collaboration between multiple players who provide different yet complementary services or support to address the critical barriers to full inclusion. For instance, financial service providers who specialize in more traditional financial products can collaborate with government agencies and non-governmental organizations (who would help provide identification documentation) to ensure refugees can open bank accounts and access financial products effectively; "holistic" approach ensure we address both demand and supply side barriers

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While urban refugees are typically engaged in economic activities in their host communities and in need of more formal financial products and services, few financial institutions are serving their needs. Without adequate access to such services, urban refugees lack avenues to conduct financial transactions, or access capital to address their most pressing needs, let alone achieve sustainable livelihoods. The lack of significant financial inclusion opportunities for urban refugees stands in contrast to the initiatives available for camp-based refugees (such as loan guarantees and bank account opening support). Some ecosystem players have endeavored to implement interventions to address this gap in financial inclusion for urban refugees; however, with the private sector only recently engaging in this nascent space to address systemic challenges and better serve the refugee segment, there remains an opportunity for further engagement with financial service providers (FSPs) and other anchor players to develop holistic financial services that can adequately serve urban refugees. In this paper, we highlight the available financial services and products available to urban refugees, propose viable models to show the bankability of urban refugees, and reflect on the learnings from Re:Build's initiatives to complement market efforts and catalyze financial inclusion (including lending) to urban refugees and host communities in Kampala & Nairobi.

We aim to outline recommendations for Financial Service Providers (FSPs) based on our findings and develop a model that builds on urban refugee lending initiatives in the market. By doing this, we hope to catalyze lending to refugees to enable urban refugees directly access capital. To achieve this, we explored different questions: How much access to financial resources do refugees in Kenya and Uganda have? To what extent do beneficiaries understand the financing opportunities available to them? From a lender's point of view, which financial institutions have made deliberate and targeted efforts to engage urban refugees? If so, how have they implemented this, and if not, what factors have driven this? What conditions would enable urban refugees' access to capital? What initiatives/ programs have been successful in the market, and how could these be expanded? What have been or are the limitations to provision of services to refugees? Subsequently, what learnings can we take forward from these different efforts?



Members of God's Love urban savings and loaning group (USLA) in Kampala pose for a group photo after a savings session. The group has digitized its book-keeping through Ensibuuko and has also attained qualification to access credit directly from formal banks.

Through consultations with various eco-system players and broader research initiatives, we found out that FSPs often struggle to make a business case for refugee-lending due to demand- & supply-side challenges, and regulatory limitations. Strict Know Your Customer (KYC) requirements and challenges in obtaining identification documents often prohibit refugees from accessing financial services. As well, lenders' fear of refugee relocation increases uncertainty about loan repayments and lack of collateral or guarantors restricts access to credit products. Some refugees have mistakenly perceived loans as handouts and many lack the necessary support to successfully service loans, especially within urban areas where there is weaker social cohesion. Despite the challenges around risk management in lending to refugees, lenders are adapting to overcome these hurdles. Through this reflection, we take stock of the key insights from various sector engagements and outline the opportunities for continued engagement.



Florence Kavugho Kyose, a Congolese refugee owns a salon in Kampala. With access to financial services, hairdressing is one the key businesses refugees undertake due to the low start up capital involved.

While there isn't a one-size-fits-all for urban refugee lending, it is critical for stakeholders to apply a push and pull market systems approach to catalyzing efforts. Learnings from lenders who have already started serving displaced communities and their host residents can support the process for those that are new to refugee lending. In turn, as FSPs endeavor to avail financing opportunities (referred to herein as the "push") for the ongoing demand, it is equally as important to build refugees capacity to take up these opportunities (referred to herein as the "pull"). It is important that the market is ready and capable of absorbing the capital it needs to rebuild, establish sustainable livelihoods, and achieve economic self-reliance. It is similarly important for sector players to come together and serve refugee communities, as they do other market segments, to better facilitate their integration in a dignified manner.

Opportunities exist for different stakeholder groups to build on the current traction and learnings, resultantly informing design of tailored and innovative approaches to refugee-lending. We have seen lenders benefit from leveraging their existing strategy & financial products to tailor approaches of engagement with target beneficiaries. For example, coupling credit products with financial literacy training, business management coaching and mentorship, collaborating with community leaders, among others. Approaches that have enabled a starting point for engagement with the refugee segment, and could be leveraged as entry for other interested players. For guarantors, there is opportunity to incorporate learnings from traditional guarantee-lending which has revealed existing bottlenecks that are hindering the use and success of existing models. These learnings can inform innovative approaches to designing facilities that tackle existing barriers. Finally, support partners can use a collaborative approach to avoid duplication of efforts and support interested lenders and guarantors to identify opportunities and synergies in refugee lending.

To capitalize on these opportunities, a collaborative approach between the various sector players would catalyze efforts to extend access to formal financing. While multiple initiatives have been launched to bridge the financing gap for these market segments, the siloed approach exhibited still falls short of adequately meeting urban refugees' needs and often results in duplication of efforts. There is a latent opportunity for support partners to engage more collaboratively, thus enabling interested parties to identify synergies and provide guidance as needed. This includes identifying the needs of the different parties and aligning on the relevant resources required to help address them. For example, refugee-supporting organizations such as Re:Build can supplement financial institutions efforts to build pipeline for potential borrowers and play the verification role for required documentation. Similarly, local government can support in the registration and verification of refugee identification documentation to allow for easier access to licenses, business permits and financial services. Financiers, in turn, can contribute through focusing efforts on credit profile assessment and other key decision aspects around designing innovative financing mechanisms. This joint ecosystem approach can help streamline the numerous initiatives targeting refugees and help gain traction in not only financial inclusion, but sustainable integration of urban refugees into local economies.

Problem statement

Access to formal financial services has consistently emerged as a key challenge to refugees' ability to integrate effectively into their host communities.² This challenge is especially evident for urban refugees, for whom access to banks and other mainstream services remains an under-developed or deprioritized aspect of local economies. Without adequate access to financial products and services, refugees lack avenues to conduct financial transactions, or access capital to address their most pressing needs, such as engaging in business or self-development activities, e.g., education or professional qualifications. While demand needs are yet to be addressed, development partners, enabling organizations, and some financial service providers have launched programs to address this financial inclusion gap, in turn contributing to awareness of the business potential that exists in serving refugees. The private sector has only recently engaged in interventions to address systemic challenges to better serve the refugee segment; players such as Kiva, SIDA, Grameen Foundation, FSD Africa³, among others. Despite current progress, there remains an opportunity for further engagement from more commercial financial institutions, corporate investors, and other partners.

In this paper, we reflect on the learnings from Re:Build's initiatives to complement market efforts and catalyze lending to urban refugees and host communities in Kampala & Nairobi.

As with any other demographic, formal financial services enable individuals to meet basic needs and finance income-generating activities, in turn allowing them to contribute to social and economic activities in society. However, while significant demand for similar services exists among urban refugees, FSPs face limitations in lending to this market segment due to various challenges including demand-side, supply-side, and regulatory constraints. Through our work, we build on current sector efforts by i) collecting learnings from different players to understand key bottlenecks and ii) explore opportunities to develop tailored market-systems approaches to overcome these constraints. This paper will be of interest to stakeholders seeking to sustainably advance financial inclusion to displaced populations and their host communities, which provides lenders with the opportunity to participate and contribute to their local economies, build stable lives for their families, and ultimately improve their livelihoods. This includes, but is not limited to, lenders, development partners, policymakers, guarantors, refugees and their representative bodies, researchers, and consultants. While findings laid out in this paper focus on the urban refugee context in Kampala and Nairobi, we believe that these insights and learnings can be applied to similar geographies when replicating interventions.

² United Nations High Commission for Refugees, Financial Inclusion, [\[Link\]](#). Factors such as perceptions of refugees as flight risks, lack of proper identification documentation, lack of credit history and lack of collateral have contributed to the inability of refugees to access financial services from formal institutions such as banks [\[Link\]](#)

³ Kiva: a non-profit organization that crowdfunds loans for financially excluded groups (e.g., refugees) or borrowers that are creating social impact in their communities, [\[Link\]](#); SIDA (Swedish International Development Cooperation Agency): government agency responsible for the bulk of the country's official development assistance efforts, [\[Link\]](#); Grameen Foundation: a non-profit organization that works to empower marginalized communities through a microfinance model, [\[Link\]](#); and FSD Africa (Financial Sector Deepening Africa): a specialist development agency, supported by UK aid, working to finance high-potential financial market development programs across Africa, [\[Link\]](#)

As of 2021, UNHCR reports ~ 225,000 refugees residing in Kampala and Nairobi, with the actual number likely exceeding this when factoring unregistered refugees.^{4,5} In Kampala, majority originate from Somalia, Eritrea, and the Democratic Republic of Congo (DRC), accounting for 43%, 22% and 21% of the total urban refugee population respectively. ⁶ In Nairobi, urban refugees predominantly originate from DRC, Somalia, and Ethiopia accounting for 37%, 26% and 15% respectively.⁷ Across both cities, refugees are mostly located in low-income neighborhoods with varied levels of integration with hosts. Most urban refugees in Kampala are self-employed, with ~50% of refugee businesses operating in the formal market and registered with Kampala Capital City Authority (KCCA), the city's governing body. In Nairobi, the Refugee Act passed in February 2022 enables more refugees to gain formal employment; however, it is worth noting that the lines between formal/ informal and employed/ self-employed are usually blurred, even in Kampala. Many refugees also take up low-level jobs that may not fit within specific value chains, for example, street hawking, domestic work in private homes, menial work in businesses, among others. At all income levels, refugees face challenges that hinder their ability to strengthen their livelihoods and achieve self-reliance, making the majority vulnerable to financial shock.

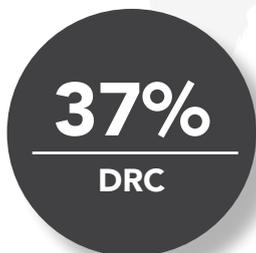
Refugees in Kampala

COUNTRY OF ORIGIN (Source: UNHCR April 2023 Data)



Refugees in Nairobi

COUNTRY OF ORIGIN (Source: UNHCR April 2023 Data)



⁴UNHCR (February 2023), [\[Link\]](#); UNHCR (December 2022), [\[Link\]](#)

⁵Re:Build, An Analysis and Evaluation of Refugee-Related Policies and Legislation. October 2022, [\[Link\]](#)

⁶UNHCR Uganda factsheet, February 2023, [\[Link\]](#)

⁷UNHCR Operational Data Portal, Nairobi, [\[Link\]](#)

While there has been increased focus on financial inclusion for refugees worldwide, access to formal financing remains limited, including in Kenya and Uganda. Moreover, a study by the World Bank/UNHCR indicates that only 2% of loans accessed by urban and camp-based refugees in Kenya were from formal sources.⁸ Similarly, in Uganda, only 29% of hosts and 24% of refugees have received or report being likely to receive loans from financial institutions.⁹ With such limited access, displaced persons especially in low-income countries, often rely on informal sources such as primarily borrowing from relatives and friends. As financing needs evolve and become more complex over time, such informal sources of capital are limited and unreliable. Demand for financial services varies depending on the refugee displacement phase, which becomes more complex and similar to the needs of locals as settlement moves towards the permanence stage.¹⁰ The different stages include: i) arrival (6-12 months) – with focus on basic needs e.g., food and shelter; ii) initial displacement (~12-24 months) - where focus lies in basic integration to sustain short-term livelihood; iii) protracted displacement (~19-36 months) – with focus on building livelihoods; and iv) permanence (>36 months) - where the focus is longer-term assimilation and livelihood building. Therefore, across the displacement phases, financing needs evolve from survival cash and remittances to savings, credit, insurance products, etc.

The Financial Inclusion Gap



of loans accessed by urban and camp-based refugees in Kenya are from formal sources

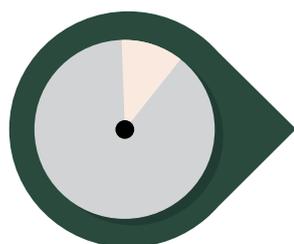


of refugees have received or likely to receive loans from financial institution in Uganda



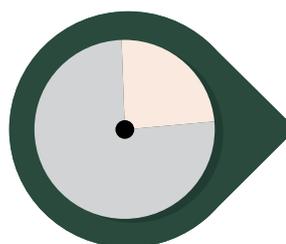
of hosts have received or likely to receive loans from financial institution in Uganda

Demand for Financial Services



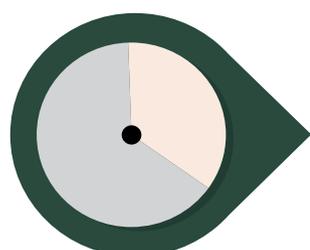
Arrival
6 - 12 months

focus on basic needs e.g., food and shelter



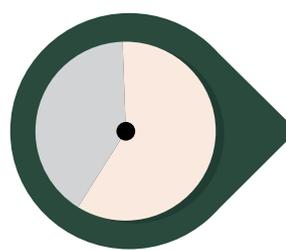
Initial displacement
~12 - 24 months

basic integration to sustain short-term livelihood



Protracted displacement
~19 - 36 months

focus on building livelihoods



Permanence
>36 months

focus is longer-term assimilation and livelihood building

2021 Study by World Bank & UNHCR

Stakeholders within the refugee financing space can be grouped into profiles across supply- and demand-side functions. The supply side comprises lenders, whose primary roles is to lend to borrowers; guarantors, who provide risk-sharing coverage to lenders (e.g., loan guarantees) in case of defaults; and support partners who complement supply and demand efforts in the eco-system. Similarly, the demand side comprises of profiles seeking to access financial products & services availed by the supply-side. These include individuals (refugees & host residents), self-managed groups e.g., VSLAs ¹¹, or businesses defined as refugee-owned, refugee-led, and refugee-supporting businesses. ¹² Figure 1 provides an overarching view of the different stakeholder groups playing a key role in the refugee financing landscape.

Supply side			Demand-side
Lenders	Guarantors	Support partners	
Fulfil primary role of lending to borrowers (refugee businesses)	Provide guarantees to lenders in case of defaults	Provide ecosystem support to lenders and/or beneficiaries	<ul style="list-style-type: none"> Comprises of individuals seeking financing from lenders Businesses can be categorized into three buckets
Banks & other traditional lenders (e.g. KCB, Equity)	Multinational agencies (e.g. UNHCR, IFC)	TA providers (e.g. Hivos)	Refugee-owned business: Either 51% of owners are refugees OR 20% of owners are refugees & business has atleast 1 refugee listed as "key person" in operating docs
MFIs - Microfinance Insititutions (e.g. UGAFODE, FINCA)		Development Institutions (e.g. Sida, Norfund)	Knowledge partners (e.g. FSDA)
FinTech businesses (e.g. Pezesha)	Village Savings & Loans Associations (VSLAs)	Fund advisors (e.g. Open Capital)	Refugee-supporting business: Project that provides a good/service that supports humanitarian efforts OR enterprise/investment that intentionally supports refugees
Lending groups & associations			

Figure 1: An overview of the stakeholder groups engaged in the refugee lending landscape

⁸ World Bank/UNHCR, "Understanding The Socioeconomic Differences Of Urban And Camp-based Refugees In Kenya" (2021), [Link]

⁹ Refugees' digital financial services' (DFS) needs (2020), [Link]

¹⁰ NpM, Platform for Inclusive Finance, Finance for Refugees: The state of play (August 2018), [Link]

¹¹ FAQs on Village Savings and Loan Associations (VSLAs), [Link]

¹² Refugee Investment Network, [Link]

The formal refugee lending landscape includes different types of players, e.g., Tier 1 institutions (commercial banks) and Tier 2 institutions (credit and finance companies), as well as other impact-focused organizations, such as social enterprises and Non-Government Organizations (NGOs). Figure 2 provides an overview of the key players currently engaging in the refugee market at varying capacity. These players operate at different stages across the refugee lending spectrum:

- i. Lenders that are not currently lending to the refugee segment; however, demonstrate interest but are yet to establish the business opportunity. These players could benefit from developing an understanding of the refugee profile and refugee clients' needs
- ii. Lenders that have not engaged refugee communities but provide products that are particularly useful to refugee communities (e.g., Sharia-friendly financial products)
- iii. Players that have engaged refugees from a camp-based perspective and offer some financial services to them (e.g., financial literacy training & account opening)
- iv. Players currently lending to refugees and in need of support to scale efforts (e.g., adjusting processes to meet the refugee profile, developing a pipeline development approach, etc.)
- v. Players that are fully engaged in the refugee lending space and are actively and sustainably providing formal financial services to urban refugees

Lenders with precedent for engaging in the refugee lending space in Uganda & Kenya				
	Tier 1	Tier 2	Tier 3	Tier 4
				
				
Legend:	Camp-based only	Urban-based only	No border	Both camp & urban-based only

Figure 2: A summary of the lenders with precedent for engaging in the refugee space in Uganda & Kenya

In Uganda, Micro-Finance Institutions (MFIs) have primarily led efforts to extend formal financial services, with key focus on rural settlements and recent developments in urban refugee lending.

Like most FSPs expanding their reach to refugees, MFIs such as UGAFODE Microfinance Limited have established that existing financial products were already well suited to many refugees, and in fact internal policies, systems and documentation required reviews and adjustment to establish market viability.¹³ In turn enabling efforts by other MFIs like Vision Fund Uganda, Rural Finance Initiative (RUFU), FINCA Uganda; with UGAFODE serving the refugee market through 6 urban and 11 rural branches across Uganda.¹⁴ Resultantly, some commercial players like Centenary Bank are leveraging partnerships with MFIs to lend to refugees through authorized banking agents. For example, RUFU as an agent of Centenary Bank has previously extended loans and savings services to refugees in Palorinya, Bidibidi, Pagirinya, Maaji, and Yangani. While commercial lending is still limited, enabling organizations have initiated projects that incorporate de-risking mechanisms to incentivize engagement with tier 1 banks, e.g., Equity Bank Uganda Limited (EBUL) through FSD Africa and Opportunity Bank Uganda Limited (OBUL) through Opportunity International. In this regard, OBUL's refugee loan portfolio has extended formal financial services to >400 refugees & host residents across 4 urban and rural locations.¹⁵ Similarly, through FSD Africa's Financial Inclusion for Refugees (FI4R) project,¹⁶ EBUL seeks to provide fully-fledged bank accounts and debit cards from which clients can access their humanitarian aid payments. EBUL has also been rolling out an agency banking network in Uganda's refugee hosting areas. As well, social enterprises e.g., Patapia also operate in this space, providing financing to women refugees through small low-interest loans with no collateral requirements.¹⁷

In Kenya, the refugee lending space is less developed, mirroring the dynamics of refugee integration and ability to contribute to the local economy.¹⁸ Commercial players like Equity Bank have already set a strong precedent in lending to refugees in camp settlements such as Kakuma where the bank enabled beneficiaries to open bank accounts and access credit. The bank, occupying 97% of market share in Kakuma, dominates the camp's banking market and leverages partnerships with NGOs to provide entrepreneurs with loans, accepting inventory as collateral.¹⁹ Based on these learnings, Equity bank has expressed commitment to extending services to urban refugees and is currently initiating these efforts in collaboration with other partners, such as IRC. Additionally, other players like RefugePoint, an INGO, previously partnered with Kiva and UNHCR to provide 0% interest loans to urban refugees in Nairobi. Not to mention other lenders such as Gulf Africa Bank and Tropical Bank Uganda that currently offer products that are in demand within refugee communities, i.e., Sharia-law compliant products. Establishing a high potential opportunity for such players to engage refugees and meet some of the existing gaps in the space. More broadly, there is room for stakeholders within the eco-system to collaborate and support lenders to build upon current efforts and actively support refugees and host residents. In the appendix, we provide a broader outlook of the various players in the refugee-lending space across Uganda and Kenya.

¹³ Making Finance Work for Refugees: UGAFODE's journey in serving refugees & host communities in Uganda (2022), [\[Link\]](#)

¹⁴ Ibid.

¹⁵ OCA consultations & analysis

¹⁶ FSD Africa Finance for all: The financial inclusion for refugees project in Uganda (2020), [\[Link\]](#)

¹⁷ Patapia, [\[Link\]](#)

¹⁸ The Kenyan Government passed the Refugee Act 2021 in February 2022, which allows refugees to access the labor market, [\[Link\]](#)

¹⁹ Kakuma as a Marketplace, A consumer and market study of a refugee camp and town in northwest Kenya (2018), [\[Link\]](#)

This paper draws on learnings and reflections from our work across 3 key areas: (i) financial landscaping assessment of lending opportunities across Kenya and Uganda, (ii) technical support provided to two high-value financial institutions, and (iii) designing an innovative results-based lending model to supplement FSP lending efforts. We leveraged a multi-faceted approach to identify market trends in refugee financing, shortlist high-potential players, assess financing models, and gaps in lending opportunities.

We first conducted market research to deepen our understanding of the products available to refugees, assess limitations in current lending and inform high potential opportunities to advance financial inclusion. Through this, we identified multiple stakeholders in the East African region who have sought to engage urban and camp-based refugees through innovative financing products and services. Informed by this research, we held consultations with the identified players to further inform insights on the mechanisms used to promote financial inclusion and the typical challenges faced in extending services to refugee populations. In the appendix, we provide additional details on the various stakeholder profiles consulted during this upfront research piece.

Following the key stakeholder consultations, we prioritized two financial service providers in Kenya and Uganda to engage through strategic advisory support. Selection of the FSPs was informed not only by the banks demonstrated engagement with refugees in the priority regions, but also their commitment to addressing bottlenecks to better serve the target communities. Therefore, we developed tailored advisory support packages to build the internal team's understanding of the urban refugee market (including senior staff), strengthen internal systems and processes for refugee-focused lending, with the goal of enabling the banks to better serve urban refugees.

Drawing from these learnings, we sought out to develop an innovative results-based financing (RBF) mechanism in collaboration with the Re:Build program team and technical advisors. With the overall objective to sustainably increase lending to urban refugees, we established that such a risk-sharing facility can innovatively complement existing efforts by creating incentives for lenders that address the existing bottlenecks; hence creating an environment that is more conducive for scaling financial inclusion. Potentially through replicating the model at scale in similar regions and geographies. Key design considerations for this intervention were informed by research and consultations conducted with FSPs and working groups, including technical advisors, the IRC program team, and players such as the Refugee Investment Network (RIN) to inform the technical design & practicality of an incentives-based risk-sharing mechanism.

Challenges hindering refugees' access to finance can be categorized into three key areas: demand-side, supply-side, and regulatory environment. Supply-side challenges are those limiting lenders efforts to avail financial services while demand-side challenges are those affecting borrower's ability to access said services. Regulatory challenges affect the sector at large where policy and institutional frameworks are yet to be well-defined to enable refugees' engagement in socio and economic activities. We reflect on these learnings as we seek to inform key considerations for future efforts in the sector.

Demand-side

Psychological and social wellbeing support remains critical to alleviating fear as refugees engage in solutions to better integrate into their host communities. Through focus groups under the FI4R project, discussions revealed that even refugees who are thriving in Kampala, live in constant fear of threats from their origin countries while also being stigmatized by the hosting communities.²⁰ In turn making it difficult to engage in income generating activities especially when they are often cheated financially by landlords, business owners, and mobile money agents, or even sexually harassed. Therefore, it is imperative that sector initiatives recognize the reality of refugees' plight and provide support resources to address the underlying bottlenecks. As well, there is a need for such support to influence a shift in mindsets towards formal financial services to enhance uptake of available products and services. Refugees continue to rely on informal methods e.g., keeping their money at home, as many believe that banking solutions are not designed to benefit them. As we work to influence the formal financial sector to adapt policies and processes to serve the growing demand, similar support is required to influence thinking and attitude towards the benefits of formal financial services. This includes creating awareness about the available products that support refugees' needs.

Refugees have demonstrated a strong entrepreneurial spirit and have set up micro-businesses within their host communities that require capital investment to scale. Among refugees, it is evident that small investment amounts can make a difference in how quickly they integrate into society. Some case studies have demonstrated how entrepreneurs have leveraged small profits from trading in commodities within the community (e.g., selling sorghum-based drinks, charcoal, etc.) to procure assets such as motorbikes or livestock to start a business.²¹ Therefore, interventions such as business clinics could enable entrepreneurs to acquire business acumen, identify their key business and financing needs, and also gain knowledge on businesses that are environmental friendly. Financial service providers and technical advisors should also keep in mind the influence of individual values on the solutioning process (e.g., Muslim entrepreneurs may not consider traditional debt financing for their businesses). It is also important to extend similar support to refugee-serving businesses to build their capacity in formally integrating refugees across business functions and value chains. Broadly, it is important to identify the businesses' existing gaps and provide tailored support and financial services to address them.

Engagement in savings groups is beneficial as FSPs consider savings contributions a form of collateral and an entry point for individuals seeking first-time credit facilities. Research shows that most refugees who have obtained loans from formal financiers, have been engaged in rotating savings groups with other peers, while engaging in a group income-generating activity, such as women selling charcoal, tailoring, and selling garments, or farming agricultural produce. Through these savings groups, individuals make weekly contributions allowing them to borrow up to a certain amount from the group, and subsequently make payments until it is paid off. These VSLAs and smaller savings group form an attractive and ready market for larger FSPs as the basics of discipline in borrowing and saving among members are inculcated in borrowers at this unregulated level. FSPs leverage information about group contributions to establish an individual's understanding of financial obligations/commitment and inform decisions to extend first-time loans. It is important to note that an exit strategy is required to shift primary access to finance from group lending, and graduate borrowers to individual loans, understanding the need for collateral and securities.

²¹ Ibid.

Strategic insights

Urban refugees today are more likely to permanently engage in their communities than be a “flight risk”. Refugees in urban cities are typically involved in income-generating activities and need financial services but are rarely served by formal financial institutions. Many FSPs, in the past, have faced challenges with refugees relocating and cite this as a risk factor in serving refugees, especially urban refugees who are not as geographically restricted as camp-based refugees. Often flagged as a concern when monitoring loans since urban refugees are more mobile. However, previous studies²² have shown that refugees rarely resettle and are usually more focused on gaining economic self-reliance; in fact, between 2014 and 2018, only 1% of refugees in Uganda resettled. It is important for banks to understand the refugee profile and the roots they seek to establish, e.g., education for their children, setting up businesses, etc., to better establish how to support them. This could include close collaboration with refugee supporting organizations who could serve as references or verification partners for clients seeking loans from banks.



A member of the God's Love urban savings and loaning group (USLA) addresses the group during a savings session. The group, made up of refugees and host community members not only provides financial services to its members but also promote social cohesion between refugees and host communities.

Current lending efforts have demonstrated that existing financial products are already well-suited for many refugees; as such, FSPs need to strategically assess ways to serve these population groups effectively. With access to ready and affordable capital, refugees have shown they have the commitment and ability to contribute to their local economies similarly to local host residents. However, structural constraints continue to hinder their efforts to access the required capital. Rather than develop new products for refugees, banks consider ways to tailor internal processes to meet the needs/ inherent characteristics of urban refugees. This includes building on current risk mitigation techniques to better address the challenges in serving urban refugees (e.g., stringent KYC requirements and absence of collateral).

²² Getting Financial Services to Refugees Right, [\[Link\]](#)

Case study: Fine Spinners' supports urban refugee integration into C&T markets

As part of its work facilitating refugee integration into commercial value chains, Re:Build engaged Fine Spinners (FS), a key anchor player in the Clothing and Textiles industry in Uganda, to train and facilitate integration to market for ~100 refugees and host residents. The pilot intervention was designed to create market opportunities for trained clients to integrate across FS channels through direct employment, as retailers or distribution agents. Following an intensive 6-month training, where clients acquired niche tailoring skills, majority expressed interest in pursuing entrepreneurship opportunities, either as retailers or distributors; however, lacked the required start-up capital. As such, their ability to access opportunities available, including market linkages through FS' networks, was limited. This is true of refugees and host residents across different value chains and geographies. With FSPs such as UGAFODE and Opportunity Bank actively working to increase access to finance for these communities, there is opportunity for lenders to collaborate with other private sector players to complement pipeline development efforts and assess opportunities for such entrepreneurs to pursue their goals sustainably and independently.

Stakeholders within the refugee financing space can be grouped into profiles across supply- and demand-side functions. It is evident that over the past two years the private sector has begun to establish its role in enhancing refugee livelihoods and endeavored to implement interventions in that regard. Therefore, to enhance current market efforts, stakeholders within the ecosystem (i.e., humanitarian organizations, FSPs, funders, etc.) need to take a collaborative approach, pooling resources to leverage their capabilities and orient around the underlying bottlenecks that hinder access to finance. This will also support sharing of learnings, identification of synergies, and avoid duplication of efforts through siloed approaches. With better visibility on efforts in the market, ecosystem players can leverage an adaptive approach to programming, enhancing previous efforts to address persistent bottlenecks.

There is need to develop innovative incentive structures to stimulate bank participation in the refugee financing space. Research and consultations showed that there are existing loan guarantee funds (LGFs) and other de-risking models in the market that remain underutilized or struggle to achieve the expected results. While these models have the potential to mitigate the risks faced by FSPs in lending to refugees by providing risk-sharing benefits to lenders, demand and supply-side challenges hinder their efforts to advance financial inclusion. As such, it is important to build on the lessons learned and design structures to address limitations and enhance existing efforts. For example, Re:Build is piloting a risk sharing facility that layers an incentives model on top of a first-loss guarantee to address existing bottlenecks to refugee lending. By incentivizing banks to lend more to refugees, financiers can closely assess & adapt their internal processes and approaches to meet the needs of this customer segment. This will help them better understand the opportunities available in engaging more challenging markets.

Case study: Re:Build sets out to pilot risk-sharing facility with local commercial lender

Through the Re:Build program, OCA engaged two Tier-1 banks across Kenya and Uganda that demonstrated a focus/ commitment to serving refugee populations. Congruous to their strategic objectives, OCA provided tailored advisory support to both banks enabling them to develop insights on the market dynamics of urban refugees both cities, laid out recommendations to consider while refining their refugee lending strategy and established pipeline development approaches. During these engagements, OCA noted high potential to increase urban refugee lending by accessing lenders capacity & eagerness to engage in innovation, feasibility to implement proposed interventions, and potential impact and scale. Following this, Re:Build identified Equity Bank Kenya as a high potential partner for a proof of concept to demonstrate the business case of extending formal financing to ~100 urban refugees initially through a first loss guarantee mechanism, and establish potential to scale more broadly in Kenya and beyond. Through this facility, a proof-of-concept amount of KES 2.3M (USD 17,831) would be allocated to facilitate access to loans to Re:Build clients over an 18-month period. A maximum of up to KES 50,000 (USD 388) will be provided to the refugees. If this model proves successful, IRC intends to scale up this facility with support of other donors, to similarly serve at least 5,000 additional beneficiaries with formal financial services by 2025.

Despite efforts to evolve from traditional guarantee lending, FSPs continue to heavily rely on guarantors and other NGOs and INGOs to provide upfront grants that are transferred directly upon implementation. As part of our work designing and launching the RBF/ LGF model, we found that there is need to influence change in mindset in this regard. As such, Re:Build is incorporating a 50/50 fund split in the facility, with a 50% deposit made upfront to the bank and held in escrow with the bank, and 50% of the funds to be disbursed for results achieved against pre-determined targets for loan origination and possibly impact. More to this, we found that traditional lenders who are new to the refugee lending space are yet to appreciate the impact aspects of a results-based facility. However, some players that have made significant progress and already incorporate refugee lending as part of their strategy are more likely to embrace both loan origination and impact-based incentives, such as gender and climate focus.

There are lending opportunities in the refugee space that meet different banks' expertise, risk appetite, and interests. These include lending to different beneficiary profiles, e.g., savings groups, refugee-led businesses or individuals, on-lending to MFIs that have experience in lending to refugees, etc. To avoid compromising lenders risk exposure, we encourage banks to leverage their areas of expertise to build their internal capacity to understand the business opportunities available in the immediate-to-long term, while engaging other partners to supplement efforts. We have seen a preference for the group lending methodology given that groups offer a form of collateral, enabling lenders to extend first-time loans to refugee populations. This includes lending to Village Savings and Loans Associations (VSLAs), Urban Savings and Loans Associations (USLAs), Saving and Credit Cooperative (SACCOs), etc. These groups however are required to be registered and compliant with tax authorities to serve as an entry point to refugee lending for some FSPs.

Operational insights

When engaging FSPs, delays in efficiently collaborating may be constrained due to limited capacity and resources, given bank staff's internal obligations and mandates. It is important to monitor the dynamics involved to accommodate bank staff's internal engagements and adapt scheduling to enhance collaborative efforts. Due to other internal commitments and mandates by governing bodies like Central Bank, banks efforts to initiate changes at a fast pace are often limited. Therefore, building relationships with senior-level team members can enable earlier buy-in and subsequently contribute to accelerating the adoption of new approaches. This includes pulling senior management into critical conversations to inform key design considerations and hasten necessary processes to get implementation underway.

Regulatory environment

Policy and regulatory updates are important when it comes to enhancing financial inclusion for refugees. Refugee financial inclusion focal points need to be established to enable the provision of consistent technical and financial support. For instance, due to the fragmented nature of registration entities and ID systems, FSPs rarely receive timely information relating to document verification on refugees who are being relocated, which has far-reaching implications on risk management. As well, strict regulatory requirements hinder banks' efforts to adapt their systems (e.g., KYC requirements) to meet the needs of refugee clients. Encouraging sharing of information (e.g., refugee databases) between local government, humanitarian agencies, and FSPs can help synergize private-sector-driven interventions while minimizing duplication of similar efforts by these different players. Strict confidentiality guidelines can be incorporated to address any concerns on the sensitivity of this information.

Across both the demand and supply side, there is more work to be done to advance financial inclusion for displaced communities. In this section, we outline some of the opportunities that have come across as we engaged the different stakeholder groups.

Lenders

Based on the lenders' experience and strategy, explore tailored approaches to engagement when assessing lending opportunities. We encourage lenders to use existing frameworks and incorporate the refugee sector into them. As previously outlined, some lenders have successfully started lending to refugees by leveraging the group lending methodology. Through this, they have been able to better meet refugees' needs and start to map out a path towards individual lending. This is especially relevant since groups' individual interests start to diverge over time, as individual needs begin to emerge more strongly. It is also important to work with other eco-system players that can fill existing gaps e.g., working with technical advisors to better understand refugees' livelihoods, their demand needs, and develop approaches to adapt to better serve them. We have seen that a key impact opportunity with the refugee context is not necessarily developing new products but rather tailoring processes to meet their needs. This includes thinking about how to better assess credit risk, tailor KYC requirements, etc.

Guarantors

Donors and development partners leverage learnings from limitations of traditional guarantee-lending and coordinate efforts to tackle existing bottlenecks. While there have been risk sharing facilities developed to mitigate FSPs risk of lending to new market segments, it is important to adapt, innovate, and build upon those efforts. One example is the results-based financing model, that Re:Build seeks to pilot with a commercial lender, which is designed to complement existing efforts by creating incentives for lenders that address current supply and demand bottlenecks. Through this proof of concept, Re:Build aims to share learnings, prove the business case to lenders, and establish evidence for other donors to avail funding geared towards replicating and scaling the risk-sharing model across geographies.

Support partners

There are different players interested in advancing financial inclusion for refugees and many are already engaging in different capacities. However, such siloed approaches often result in duplication of efforts. We see opportunity for support partners to engage more collaboratively, enabling interested parties to identify synergies and provide guidance as needed. This includes identifying the needs of the different parties and resources to help address them. For example, refugee-supporting organizations such as Re:Build can supplement financial institutions efforts to build pipeline for potential borrowers and play the verification role for required documentation. In turn, enabling financiers to focus efforts on credit profile assessment and other key decision aspects.

While there is no one-size-fits-all for lenders interested in engaging refugees, it is critical for stakeholders to apply a push and pull market systems approach to catalyzing formal financing in the refugee market. Learnings from lenders who have already started serving displaced communities and their host residents can support the process for those that are new to refugee lending. For example, the use of meticulous strategies to minimize the likelihood of defaults amongst refugees. Broadly, there is need for different eco-system players to collaborate on the opportunities that are being laid out. As FSPs endeavor to avail financing opportunities (referred to as the “push”) for the ongoing demand, it is equally as important to build refugees capacity to take up these opportunities (referred to as the “pull”). It is important that the market is ready and capable of absorbing the capital it needs to rebuild, establish sustainable livelihoods, and achieve economic self-reliance. It is similarly important for the financial system to come together and serve refugee communities, as they do other market segments, to better facilitate their integration in a dignified manner.



Policy makers during a round table discussion on financial inclusion at Golden Tulip Hotel, Kampala.

Financiers engaging refugees in Kenya and Uganda

Organization	Overview
Patapia	<ul style="list-style-type: none"> Patapia is a social enterprise providing micro-finance and startup support for women in Uganda with loans ranging from USD 250 to USD 500, provided at a 3% interest rate and payable within a year Loan applicants are required to be part of a group of 5 – 10 female guarantors and borrowers must join a savings scheme to which they contribute USD 5 monthly
BRAC Uganda	<ul style="list-style-type: none"> BRAC Uganda is an MFI that has partnered with Kiva* to provide financing to refugees in Kampala BRAC does not provide special products for refugees, they instead have access to all available products Loans range from UGX 350,000 (~USD 105) to UGX 3.5M (~USD 1050) at an interest rate of 25% p.a.²
UGAFODE	<ul style="list-style-type: none"> UGAFODE has also partnered with Kiva to provide financing for urban refugees³ Refugees have access to all products and services. The MFI worked with CompuScan, a credit reference bureau, to get refugee IDs included in their system Loan products range from UGX 100,000 (USD 30) to UGX100 million (~USD 30,000)
Opportunity Bank Uganda	<ul style="list-style-type: none"> OBUL provides loans to urban refugees ranging from UGX 100,000 (~USD 30) to over UGX 5 million (~USD 1,500) at an interest rate of 24% p.a. Loans are provided with flexible collateral requirements Applicants are required to have an active bank account, preferably with OBUL
African Entrepreneur's Collective (AEC); rebranded to Inkomoko	<ul style="list-style-type: none"> Inkomoko (and their regional branches, such as AEC Kenya) provide micro-lending services to refugees. This lending is typically camp-based; AEC has disbursed ~3000 loans amounting to USD 7.7M to date, with ticket sizes of up to USD 50K and 95% repayment rates¹
Action Africa Help International	<ul style="list-style-type: none"> AAHI has disbursed ~USD 226k to ~869 businesses in Kakuma so far but is constrained by shortage of capital
Refuge Point	<ul style="list-style-type: none"> Based in Nairobi. In partnership with Kiva and UNHCR, they previously provided 0% interest loans to urban refugees in Nairobi, starting from ~USD 125⁵

<p>Acumen</p>	<ul style="list-style-type: none"> • Acumen is a global nonprofit changing the way the world tackles poverty by investing in sustainable businesses, leaders, and ideas • In 2021, Acumen and The Refugee Investment Network (RIN) partnered with the IKEA Foundation, the Japan International Cooperation Agency (JICA), and the Swiss Agency for Development and Cooperation (SDC) to build the field for 'refugee lens investing' ("RLI") in the Greater Horn of Africa⁶ • In 2022, Acumen launched a <u>Refugee Lens Venture Accelerator</u> to enhance the investment readiness of a cohort of entrepreneurs and early-stage ventures in Kenya, Uganda, and Ethiopia
<p>Equity Bank (Uganda & Kenya)</p>	<ul style="list-style-type: none"> • Equity Bank is one of the largest banks in Eastern and Central Africa with total assets exceeding USD 10B • Equity has engaged significantly with refugees in camps, and has supported the opening of banks for camp-based refugees in Kenya and Uganda • Equity Bank has provided financing to 60 refugee groups (300 refugees total) in Marsabit, Northern Kenya. FSD acted as guarantor for this initiative, providing KES 35M guarantee on the loans provided (KES 11M of this was used, with a default of just KES 1M). The initiative has since ended its operations. IKEA Foundation further supported this initiative through resource and refugee mobilization.

Sources:

1) OCA consultations; 2) MFTransparency, [\[Link\]](#); 3) Accion, [\[Link\]](#) | Note: * Kiva is an international nonprofit organization that leverages a crowdfunding platform to provide funding for causes around the world. Kiva loans are provided through field partners such with flexible collateral requirements, [\[Link\]](#); 4) Inkomoko, Who we are, [\[Link\]](#); 5) Innovative Microlending in Kenya – Kiva Zip & RefugePoint, [\[Link\]](#); 6) Refugee Investment Network, [\[Link\]](#)

Refugee-focused Loan Guarantee Models in Kenya and Uganda

Organization	Overview	
Equity/FSD Guarantee facility	Not specified	Equity Bank provided financing to 60 refugee groups (300 refugees total) in Marsabit, Northern Kenya. FSD acted as guarantor for this initiative, providing KES 35M guarantee on the loans provided (KES 11M of this was used, with a default of just KES 1M). The initiative has since ended its operations. IKEA Foundation further supported this initiative through resource and refugee mobilization
SIDA/UNHCR partial credit guarantee facility	Announced in 2019	Facility set up to encourage FSPs in Uganda to lend to refugees and develop refugee-facing products without compromising risk management standards. Sida acts as the primary guarantor, covering up to USD 15M . The facility partially covers a micro-finance investment vehicle from Grameen Credit Agricole to finance up to 3 FSPs (e.g., UGAFODE, others not yet made publicly known)