



A UK aid Funded Project



Digital Financial Services – A Step Towards Financial Inclusion for Refugees

December 2022

With just 35% of adults accessing financial services and products, Ethiopia is one of the least-banked countries in the world. The use of digital financial services is also not widespread in Ethiopia, with cash still the dominant payment method. The exception is the southern Somali region, which has the highest uptake of digital financial services in the country. The most popular platform is HelloCash, a platform developed by BelCash Technology Solutions and introduced to the Somali region by the Somali Microfinance Institute, now Shabelle Bank, in 2015.

While the introduction of digital financial services into the Somali region represented a step towards greater financial inclusion, its roll-out was skewed towards bigger towns and market centres with more commercial activity and easier commercial returns. People in the more remote parts of the region that host large numbers of refugees were largely excluded.

A large market for financial service providers to tap into

The Somali region hosts more than 200,000 Somali refugees located in eight camps – three close to the regional capital, Jijiga, and five in the remote Dollo Ado region, close to the Somalia and Kenya border. Reforms to the Refugee Proclamation in Ethiopia in 2019 granted

refugees access to telecommunications and banking services, allowing them to own a SIM card and open a bank account, providing an opportunity for financial service providers to serve this market.

Opening up opportunities through digital services

Digital financial services allow users to store funds safely, to purchase goods and services at a distance, and transfer funds securely, including across international borders. For refugees, it means they can receive remittances from abroad – a critical lifeline for many Somali refugees. It facilitates business transactions through the ability to transfer and receive money remotely. Digital financial services also save people a lot of time and expense as they no longer need to travel long distances to their nearest bank or micro-finance branch to access cash. This is particularly relevant for refugees who do not have official permission to travel, and for women who face more restrictions on their

movement and greater safety concerns. It also allows people to build a record of financial transactions and a credit history, necessary if they wish to secure small loans in the future.

Digital financial services provide a cost-effective option for banks and microfinance institutions to reach remote communities in areas with poor infrastructure. The services are provided through a network of agents on behalf of the financial institution. These agents are formal businesses that are contracted and supported by a financial institution to provide a range of digital financial services to their customers.



SHARPE supports a sustainable digital financial services expansion business model

To help refugees and their neighbouring host communities take the first step towards formal financial inclusion, SHARPE developed a partnership with Shabelle Bank with the goal of developing the market for digital financial services in the remote parts of the Somali region where refugees are housed.

Developing the HelloCash agent network and on-boarding new customers and merchants required a significant investment by the bank with uncertain returns. SHARPE and Shabelle Bank therefore co-invested in the partnership, with an initial goal of creating 300 new HelloCash agents, 650 new merchants willing to receive digital payments for their goods and services, and 40,000 new HelloCash users in refugee-hosting regions. In response to strong uptake of the service and to support inclusion of women and refugee, SHARPE and Shabelle Bank therefore co-invested in the partnership, with a goal of creating 300 new HelloCash agents, 2,500 new merchants willing to receive digital payments for their goods and services, and 70,000 new HelloCash accounts in refugee hosting regions.

A total of £201,500 was committed by SHARPE with Shabelle Bank committing £251,000.

Shabelle Bank recruited a team of Know-Your-Customer (KYC) staff who were tasked with market development. They worked to promote and build awareness of HelloCash, on-board new users and recruit, train and

support 300 new agents in refugee-hosting areas, far from the bank's main office. SHARPE subsidised the expansion costs, paying for 100% of the salary costs and mobile devices of the KYC team and worked with Shabelle Bank to create the criteria, screen, select and place qualified agents in strategic locations. In exchange, Shabelle Bank covered the costs of promotional materials, agent toolkits and performance incentives. SHARPE also helped to secure access to refugee camps and the documentation required to officially operate as a HelloCash agent. Independently, Shabelle Bank spent an additional £200,000 to upgrade its infrastructure, taking the total investment to £451,000. This allowed the bank to manage up to 60 online transactions per second, a six-fold increase from 10 transactions per second, to meet anticipated demand throughout the Somali Region, including in the refugee-hosting regions supported by SHARPE.



Growing the agent network in remote refugee regions

Prior to SHARPE there were very few digital financial services agents serving the remote regions where refugees live, despite the large populations. Agents are the backbone of the digital financial ecosystem, but it must be profitable for the agents if the business model is to be sustained. HelloCash agents charge a small commission of 1% of the value of every transaction they perform. This allows them to diversify their business and earn additional income. Most agents already have small shops before becoming HelloCash agents, and offering digital financial services attracts customers to their shops, providing a dual benefit to the agent.

Agents can offer more than one mobile money service, with many HelloCash agents working with more recent digital finance platforms such as SAHAY and E-Birr, as well as Somalia-based platforms such as ZAAD. HelloCash, however, remains the most widely used.

To support the growth of the digital financial services ecosystem, SHARPE worked closely with Shabelle Bank to co-finance interest-free business loans of Birr 60,000 (£1,000) for 41 HelloCash agents. Since refugees do not have fixed collateral such as a house

or land, Shabelle Bank agreed to waive the usual fixed collateral requirement and accept personal guarantors to guarantee the loans, a first for the bank.

These micro-loans were intended to serve two purposes: to allow refugees to overcome the entry barriers to becoming a HelloCash agent by helping them to achieve the minimum level of liquidity required; and, to overcome an ongoing lack of liquidity, or cash-in-hand, which can be a major barrier to agent growth. Agents operating far from Shabelle Bank branches quickly run out of cash and need more working capital to serve their customers and grow their business.

All 41 loan recipients paid back their loans within six months, convincing Shabelle Bank of the viability of the refugee market for micro-lending. The bank is now developing a specific loan product for refugee business owners with no requirement for fixed collateral, the first product of this kind for this market. They will also establish mini bank branches inside four of the more remote camps, allowing them to provide better services to refugees and to their HelloCash agents inside the camps.



Partner:

Shabelle Bank and BelCash Technology Solutions

Business model



Sustainability



Increased digital transactions, revenue and profitability for HelloCash agents, Shabelle Bank and BelCash.



Financial inclusion for refugees and women

It quickly became apparent that the majority (75%) of new HelloCash accounts were opened by men and 83% of new accounts were opened by Ethiopians rather than by Somali refugees. HelloCash agents were also predominantly Ethiopian men from the host community.

Most households, particularly among refugees, have only one phone and one SIM card and therefore only one HelloCash account, which is usually in the name of a man. However, the phone and HelloCash account is often shared between different household members, with women using the service more often than men, despite not typically being the registered account holder. Women frequently use HelloCash accounts that are registered in the name of a husband or cousin. Women without accounts also transact directly through Shabelle Bank agents, especially in or near refugee camps. SHARPE's monitoring data indicates around 38% of HelloCash users are women, despite women holding only 25% of accounts.

To better understand the barriers to reaching more women and refugees, SHARPE led some specific research into the issue. What emerged from the women was a combination of factors – lower literacy levels, a suspicion of mobile money, a perception that mobile money was 'just for rich people', and a fear that registering with an Ethiopian financial service provider would impact negatively upon their refugee status and

entitlements. Shabelle Bank adapted their marketing and promotional messages as a result, increasing enrolment among both women and refugees.

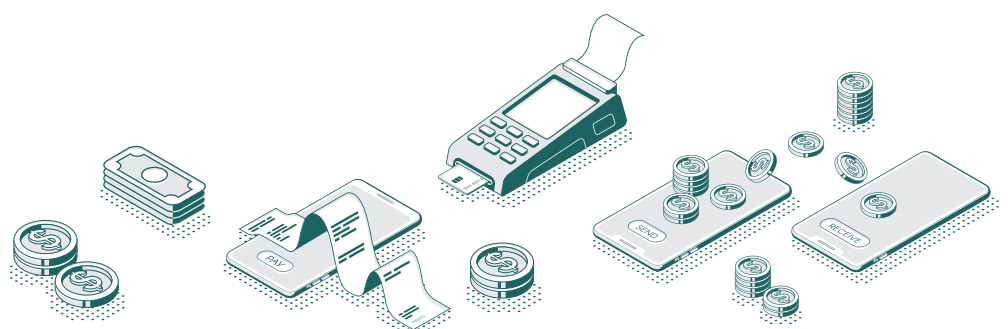
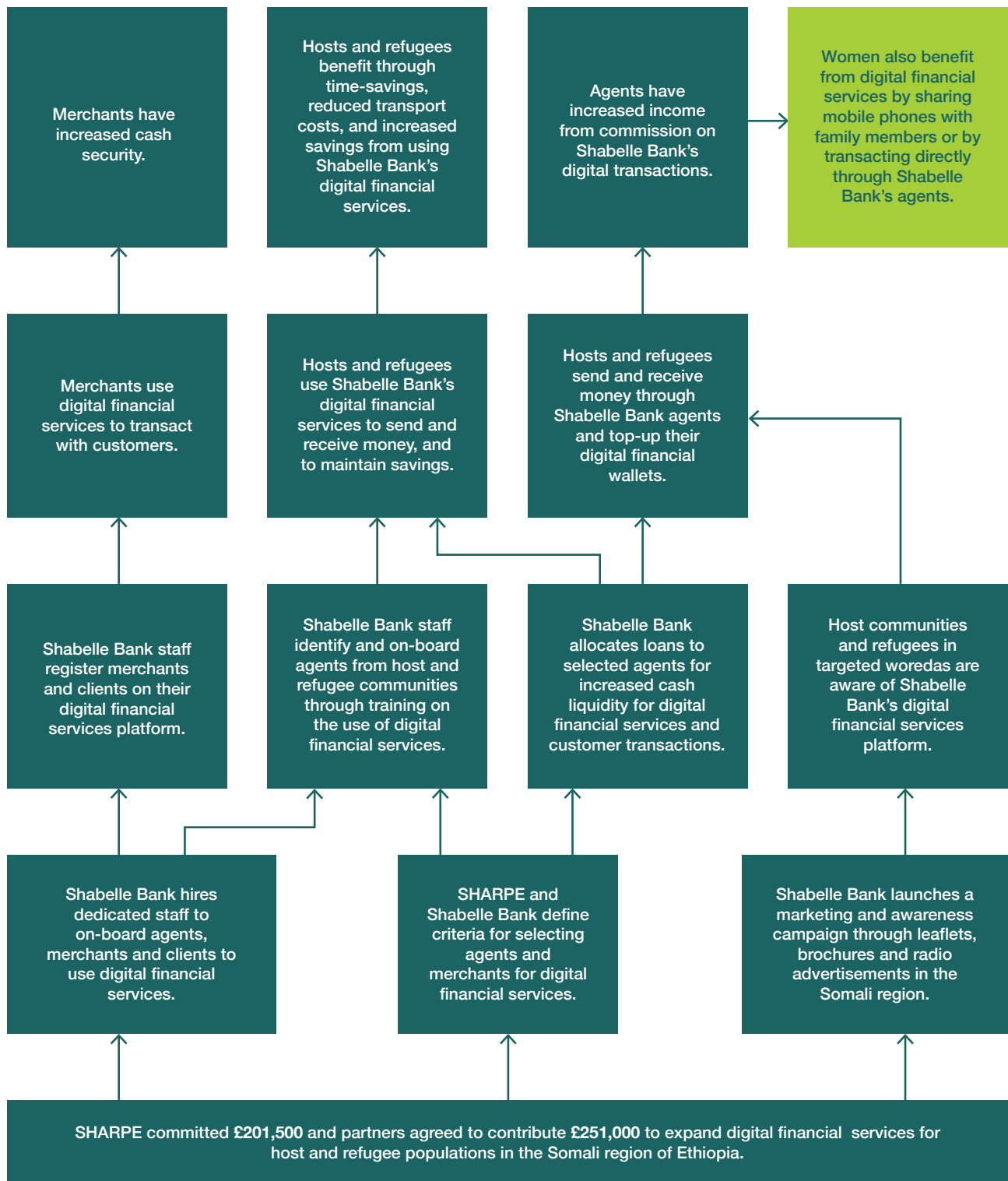
Although women in the Somali community engage in trading activities, this is often small-scale and informal. Larger, more formal businesses with the potential to become digital financial services agents are usually registered by men. It is not legally possible for a refugee to secure a business license, a pre-requirement for becoming a digital financial services agent, without a family connection in the host community who can apply for the license on their behalf.

Not having a HelloCash agent inside the camp and easily accessible was also assumed as a barrier to expansion inside the camps. SHARPE therefore focused on growing the refugee agent network, despite the legal challenges faced by refugees in securing work permits and business licenses.

With SHARPE's support, the number of HelloCash agents who are refugees has grown from eight to 32, with every camp in the region now having at least one refugee working as a HelloCash agent. With the increased number of agents inside the camps, the number of registered HelloCash clients across all refugee camps had increased from 4,220 to 12,410 at the time of writing.



SHARPE - Shabelle Bank partnership: expanding digital financial services for host communities and refugees in the Somali region



Results



Shabelle Bank has successfully grown the digital financial services market into refugee and host communities, an expansion that would not have happened without SHARPE's involvement. With this expansion into previously under-served communities, the digital financial services market is now more inclusive, resilient and profitable.



As a result of the SHARPE-Shabelle Bank partnership, there are an additional **262 HelloCash agents**, **2,200 more local businesses** are accepting digital payments through HelloCash, and an additional **70,685 people have HelloCash accounts**. The number of refugees working as HelloCash agents has grown **300%** and the number of refugees with accounts has grown at a similar rate, from 4,220 to 12,410, with more than one person typically using these accounts among the refugee community. However, not everyone who signs up to HelloCash is an active user, with **70,685 new accounts** recorded and **47,500 active customers** (inclusive of those, such as women, who use HelloCash without being a registered account holder).



People who are actively using HelloCash benefit in a number of ways. They save time and money through not having to travel long distances to the nearest bank branch to withdraw or deposit cash. It is safer and more convenient than cash and allows people to make business transactions across long distances, something of great importance given the challenges of travelling in the Somali region and the long distances between communities. HelloCash agents increase their incomes and strengthen their businesses. People are also benefiting from an increase in income and savings.



With the addition of **47,500 active HelloCash users**, Shabelle Bank has grown its customer base, its revenue and its competitiveness. These new customers have conducted digital transactions to the value of **£27,221,238 (Birr 1.78 billion)**, indicating it is a profitable business expansion for the bank. Shabelle Bank also invested in the upgrading of its server capacity, allowing the bank to serve 60 customers per second.

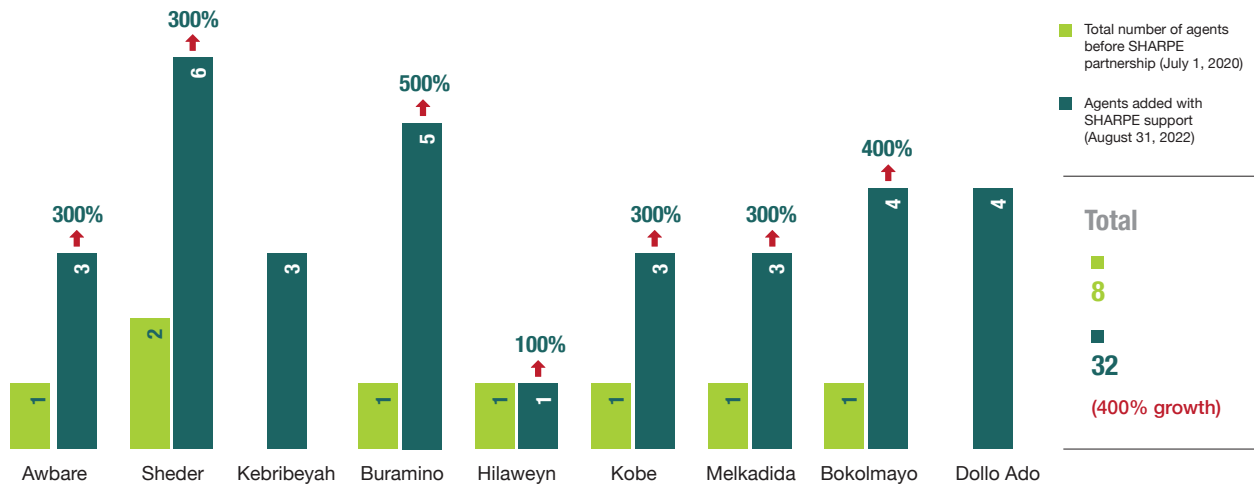


Shabelle Bank now acknowledges the viability and value of the refugee market and plans to continue to drive the expansion of digital financial services into refugee markets beyond the partnership with SHARPE.

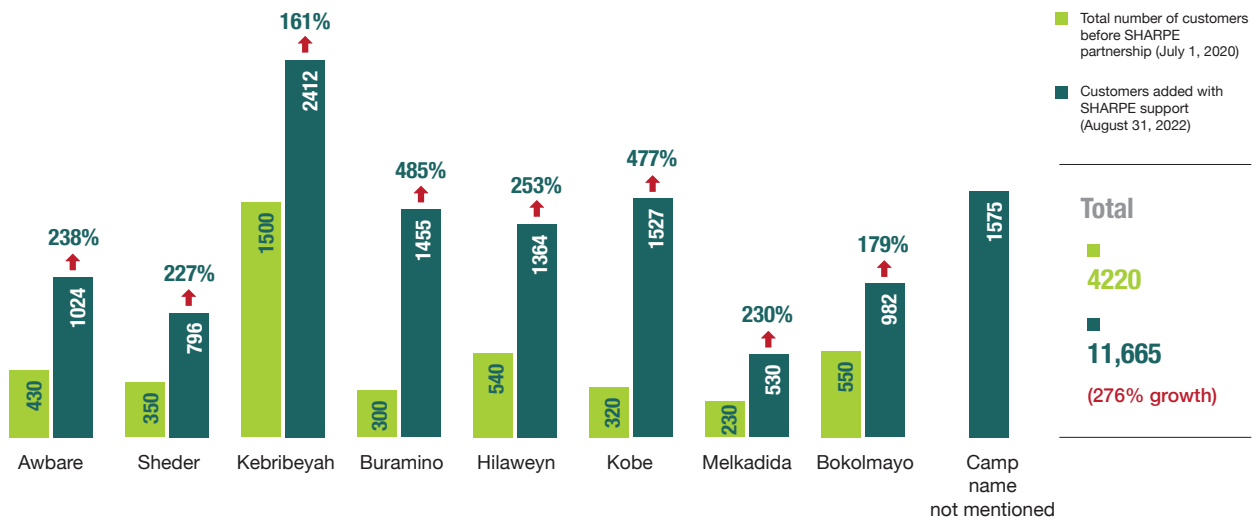


Mohamed Ahmed Kahiye is a refugee entrepreneur and operates a small retail shop inside Sheder refugee camp. He became a HelloCash agent for Shabelle Bank in August 2020 and also works as an agent for three mobile money services from Somalia, including ZAAD. He reports that ZAAD and HelloCash are the most in-demand services among his customers, making up a 40% and 30% share of his business respectively. Most of Mohamed's customers receive remittances through ZAAD and withdraw cash via HelloCash, services he can provide as an agent for both banks. Mohamed initially faced challenges with HelloCash due to network problems and a shortage of cash-on-hand due to the absence of a bank branch in the area. He sought to address these challenges with a soft loan from Shabelle Bank and, with SHARPE's support, Shabelle Bank will open a mini-branch inside Sheder camp to assist him with his agent business.

↑ Growth of Shabelle Bank's digital financial service agents network



↑ Growth of Shabelle Bank's digital financial service customers



Yasin Arab Muse works exclusively as a mobile money agent from his shop in Lafa'ise town, the closest town to Sheder refugee camp in the Jijiga area. He became a HelloCash agent in May 2021, then also became an agent of E-Birr. While E-Birr is free of charge for customers and HelloCash charges a 1% commission, Yasin asserts that his customers prefer HelloCash due to its reputation in the community. By the end of June 2022, he had conducted more than 1,500 HelloCash transactions, to the value of more than Birr 2.8 million (£42,750). HelloCash transactions make up 70% of his total business. The business is profitable and he has one employee (pictured). Yasin aims to open a new digital financial services outlet, with a shop as well as mobile money services.



Hodan Abshir Jama is a client of Kedir Mewlid who runs the Friendship Hello Cash agency. Hodan runs her own business in Awbare town, a host community, 75km away from Jijiga and a five-minute walk from Awbare refugee camp. She has been using her own HelloCash account for the past two and half years – one of three accounts opened within her family of six. Hodan uses her account 2-3 times a day to deposit the cash she makes from her small business.



I feel safer using HelloCash instead of taking money on public transport to the bank. It also takes up a lot of time if I have to leave my shop. I also use my account to send money to my mother.

Hodan Abshir Jama



We could not have pioneered inclusive finance for host communities and refugees without SHARPE. With the support from SHARPE we have been able to grow and we now see that remote host and refugee communities are good customers for us. We plan to continue to grow the refugee market and continue to expand our services to refugees. We will build mini-bank branches inside the more remote refugee camps and are developing new micro-lending products specifically for refugees.

Ahmed Omer Muhumed, Executive CEO Office Director and project focal person, Shabelle Bank S.C.



Lessons learnt



Digital financial services are an effective and commercially viable way to reach remote refugee and host communities and improve financial inclusion. Mobile money services are in high demand.



For remote 'last-mile' consumers, the ability to save money digitally and conduct financial transactions using their phone saves them time and money, increases their personal safety and makes it easier to conduct business transactions. It is also profitable for digital financial services agents and for financial service providers due to the high number of transactions conducted.



For refugees, and for women, barriers remain to digital financial inclusion. With mobile phone and SIM card ownership typically restricted to one per household, digital finance accounts are more often owned by men than women. Lower levels of literacy among women, and an initial mistrust of digital financial services, also inhibit women's participation in the digital economy. Refugees in more remote camps face an additional barrier given the distance to their local agent. While refugees are now able to own SIM cards and bank accounts, it is still not legally possible for a refugee to work as a digital financial services agent.