

FINANCIAL SERVICES MARKET ASSESSMENT

Dollo Ado and Bokolmayo Refugee Camps
Somali Regional State
Ethiopia



Author: Hien Minh Vu, UNHCR consultant
June 2020

Acknowledgements

This study is generously funded by the IKEA Foundation. It was commissioned by the UNHCR Sub-Office in Melkadida and was implemented through an individual consultancy agreement. The views, analyses, and findings presented in the report are those of the author and do not necessarily reflect the opinions of UNHCR. The author is solely responsible for the content.

This study was carried out in the five refugee camps of Dollo Ado and Bokolmanyo. I would like to express my appreciation for the support of the Agency for Refugee and Returnee Affairs (ARRA), the local Woreda and Kebele administrations, and the Refugee Central Committees (RCC) in all camps. It would not have been possible to carry out the study without this support.

I am grateful for the overall guidance of Abubakarr Talib Jalloh, UNHCR Head of Sub Office in Melkadida. His support has been crucial in making this study possible. I am also immensely grateful for the technical guidance and general supervision provided by Saboor Atrafi, the UNHCR Livelihoods Officer in Melkadida. His guidance throughout the course of this study has been critical in achieving the objectives of this assessment. I substantially benefited from the support, inputs, comments, and feedback from Ibrahim Yunis Hassan, Mohammed Bishar, Tofik Rahmeto, Michael Sanderson, Dejan Tanaskovic, Giulia Naboni, and Lilian Otieno.

I would like to particularly thank all the key informant interviewees from the public and private sectors who participated in this study: Mohamed Hassen, Mustefa Bule, Abakula Golicha, Ahmed Abas Aden, Yared Yassin, Merga Segni Tadesse, Yusuf Abdirahim, Abdiaziz Haji, Hussien Farah, Abdikadr Mohamed Farah, Belete Seyoum, Wosen Sembft, Abdirahman Moalim, Mohammed Mussie, Wondwosen Ararso, Abdirisaek Issack, Alfatah Hassen Muse, Atsebeha Mebratu, and Ahmad Abdi.

I wish to thank all participants in the various focus group discussions: RCC chairmen, Kebele leaders, group leaders, representatives, and all households from the refugee and host communities in Bokolmanyo, Melkadida, Kobe, Hilaweyn, Buramino, who spent time with us, and shared their experiences and views on financial services in the camps.

I am grateful for the support of Yussuf Gedi and Abey Mohammed, who served as data collector and interpreter during the data-collection process in the field. I appreciate the support of the UNHCR staff who facilitated field research and logistics during the study process: Tenaw Kassa, Anab Omar Abdi, Abdisalam Jimale, Abebe Firde, Ayele Asresahagne, Frank Mashapa, Asfera Getachew, Abdiwali Mohamed, Asha Adbdikadir Maalim, Mohamed Sabdow Ganway, and Abdihakim Ahmed.

Last but not least, I would like to thank all the individuals that contributed directly or indirectly to the accomplishment of this study.

Abbreviations

ARRA	Administration for Refugee and Returnee Affairs of Ethiopia
CBE	Commercial Bank of Ethiopia
CPDA	21st Century Pastoralist Development Association
CRRF	Comprehensive Refugee Response Framework
ETB	Ethiopian Birr currency
FDG	Focus Group Discussion
HH	Household
HHS	Household Survey
KII	Key Informant Interview
MFI	Microfinance Institution
NBE	National Bank of Ethiopia
NFIS	National Financial Inclusion Strategy
NGO	Non-Governmental Organization
NRC	Norwegian Refugee Council
OIB	Oromia International Bank
RCC	Refugee Central Committee
ReST	Relief Society of Tigray
SMFI	Somali Microfinance Institution
UNHCR	United Nations Refugee Agency
VSLA	Village Savings and Loan Association
WASH	Water, Sanitation, and Hygiene
YEP	Youth Education Pack

Executive summary

The Dollo Ado and Bokolmanyu districts of the Somali regional state of Ethiopia are host to over 160,000 refugees, located in five camps and adjacent host communities. The area, which borders Somalia and Kenya, is predominantly rural and underdeveloped. The principle sources of livelihood for both the refugee and host community are characterized by pastoralism, agro-pastoralism, and small-scale retail businesses. Refugees and host community populations share common religious, cultural, and linguistic heritage and live peacefully alongside each other.

Refugees rely primarily on humanitarian relief. The refugee caseload is managed and supported by local authorities, together with international governmental/UN and local and international non-governmental (NGO) organizations. In addition to the provision of basic services, such as registration, protection, camp management and coordination, food and non-food items, health care, and supplementary nutrition, various livelihood projects are implemented to promote income-generating and self-reliance opportunities. These interventions aim to transform the lives of refugees and host communities through investments in agriculture, livestock, financial services, education, energy, and environment sectors.

Financial inclusion plays an important role in poverty reduction. Due to the remoteness of the Dollo Ado and Bokolmanyu refugee camps, most refugee and host community populations lack access to financial services. Despite the nascent development of the financial services sector, access to financial services remains critically low. Only less than 1 percent of the refugee adult population have access to loan services, whereas the corresponding numbers for savings services are higher at nearly 7 percent.

This assessment finds that, although there is high demand for loans from various business groups in the camps, this demand is currently underserved by the existing formal financial institutions. The donor-funded Dede-bit microfinance program, launched in 2017, is the first initiative to offer loans for refugees and host communities, whereas Somali Microfinance, Oromia International Bank, and the Ethiopian Commercial Bank only have a few loan clients. In a more flexible form, NGOs operating in the area have recently supported the creation of informal village savings and loan associations (VSLAs), to help refugees and their host communities pool their savings and gain financial confidence before reaching out to formal financial institutions. In addition, people also engage in similar self-help savings and credit groups, and informal financial mechanisms, such as borrowing from family, friends, traders, wholesalers, and input suppliers.

This study shows that the financial services sector is at an early stage of development in Dollo Ado and Bokolmanyu. The first commercial bank, the Commercial Bank of Ethiopia, was established in Dollo Ado

town in 2012 and in Bokolmanyo in 2019. The second commercial bank, the Oromia International Bank, opened a branch office in Melkadida in 2019. In addition, with the support of UNHCR, the first microfinance institution, the Dede-bit MFI, opened branches in the Dollo Ado and Bokolmanyo refugee camps in 2017 and was followed by the opening of the Somali Microfinance Institution in Dollo Ado in 2018 and in Bokolmanyo in 2020.

By analyzing local supply and demand, together with the existing financial rules and regulations, this study finds that the demand for financial services in Dollo Ado and Bokolmanyo is high and that the current supply of financial products and banking services are not sufficient to meet the market demand in an affordable and accessible manner. Demand for loans from the farmers, livestock groups such as milk sellers, meat sellers, livestock traders, as well as the retail shops in the camps is critically underserved by the existing conventional banks and microfinance institutions operating in the area. There is a substantial gap in providing loans to the recently launched large-scale agriculture cooperatives under UNHCR's livelihoods program funded by the IKEA Foundation. More generally, a lack of adequate access to credit has hampered efforts to promote financial sustainability amongst refugees and host communities who are engaged in farming, livestock production, renewable energy production, Prosopis charcoal briquette production, or gum and incense retail cooperatives. There is a market opportunity for both the existing financial service providers, as well as any new financial institution that wishes to invest in the area.

Despite the limited availability of financial services in the refugee camps, this assessment finds that the current financial inclusion programs implemented by a variety of international organizations have had positive social and economic impacts on the lives of refugee and host communities. A UNHCR-funded microfinance program run by Dede-bit microfinance institution has allowed a selected number of refugee and host community retail businesses to access in-kind loans and boost their business activities. Similarly, access to savings and digital banking provided by Somali MFI, Ethiopian Commercial Bank, and the Oromia International Bank have allowed refugees and host communities to deposit their incomes, process salary payments, or transfer money for commercial or family purposes.

The analysis reveals that there are potential opportunities for investors and donors to improve the sustainability of the local economy. The camps are located in a strategic area bordering Somalia and Kenya, and its market value is estimated to be worth over US\$33 million annually. The financial services sector is unsaturated, and there is potential for further investment in this sector. There is a sizeable refugee population, with a young workforce that is supported by the donor community to establish businesses and access financial services to promote business sustainability in the area. The local government supports development projects in the agriculture and livestock sectors, and the underlying telecommunication infrastructure that would support business operations already exists in the area.

Notable investments in the agriculture sector by UNHCR and the IKEA Foundation has led to the creation of concrete canals, modern irrigation technology, and legal cooperatives registered under the Ethiopian government's cooperative laws. Similar investments in the livestock sector, Prosopis charcoal production, renewable energy, and Somali gum/incense have also created market demand for financial services.

This assessment also finds that there are various challenges that may undermine investment potential in the financial services sector. These include the remoteness of the area, the modest purchasing power of the refugee and host community clientele, high unemployment rates, natural hazards, such as seasonal flooding and drought, and the lack of physical collateral available to refugees. Evidence on the ground shows that, despite these challenges, multiple financial service providers have opened branches in both Dollo Ado and Bokolmanyu districts and are in the process of expanding their services.

The refugee proclamation of 2019 grants more rights for refugees for better social and economic integration, which would potentially allow refugees in Dollo Ado and Bokolmanyu to own assets and be provided with residence cards. The Ethiopian government has also launched a national financial inclusion strategy in 2017, which promotes access to financial services of the local population. These developments, coupled with market opportunities, have influenced the private sector to initiate services in both districts of Dollo Ado and Bokolmanyu, albeit at a modest level. To improve the market system, the government's development plans envisage the construction of a paved road from Negelle to Dollo Ado town, and the realization of this project will have a significant impact on business connectivity, employment creation, and further development of the financial services sector in the area.

Contents

Acknowledgements	2
Abbreviations	3
Executive summary	4
Introduction and background	8
Camp establishment	8
Administration and operations	10
Socio-economic context	11
Rationale and objectives	12
Methodology	14
Approaches and data	14
Limitations	16
Situation on the supply side of the financial market	18
Formal financial institutions	21
Informal financial institutions	34
Situation on the demand side of the financial market	39
Mobile banking	40
Remittances and international transfers	42
Savings	45
Loans	48
Challenges and opportunities in the financial service market	54
Legal and social regulations	54
Supporting functions	56
Target beneficiary groups	58
Target economic sectors for financial services	59
Conclusion	62
References	i
Appendix	ii



Picture 1: Melkadida Refugee Camp, Bokolmayo Woreda, February 2020. @UNHCR/Giulja Naboni

Introduction and background

Camp establishment

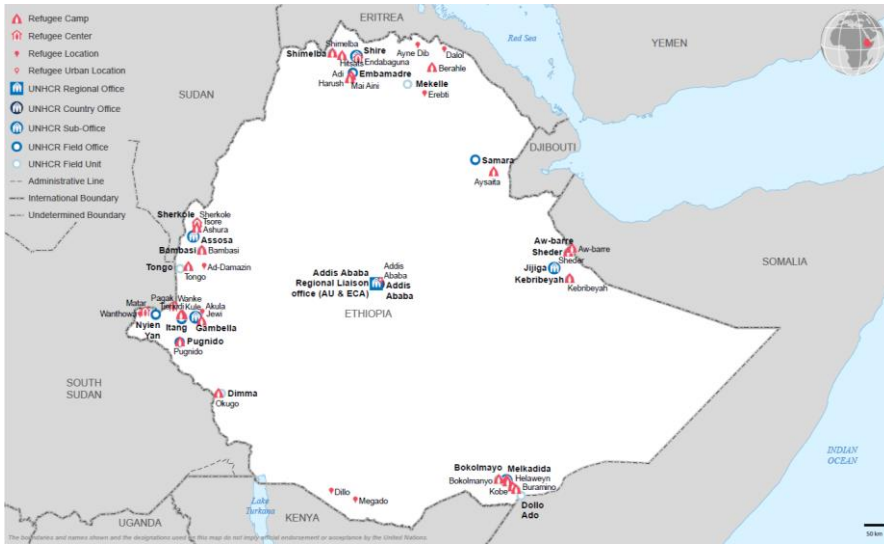
Ethiopia has a long history of hosting refugees. According to UNHCR, the country currently shelters more than 760,000 refugees, the majority of whom are from neighboring South Sudan (45 percent) and Somalia (26 percent)¹. Due to protracted conflict and violence, large numbers of Somalis have been both displaced internally and fled to neighboring countries since the early 1990s.

Ethiopia hosts the third-largest number of Somali refugees in the world, following Kenya and Yemen. Out of more than 765,000 Somali refugees, approximately 200,000 are in Ethiopia, and 160,000 are located in Dollo Ado refugee camps². Dollo Ado is a woreda (district) in the Somali region of Ethiopia and a border town with Somalia and Kenya. The refugee camps were established over a decade ago, and cross-border movements from Somalia into the camps continue, depending on the levels of physical and food insecurity, and overall economic adversity in Somalia. During 2007–2012, the escalation of a complex conflict and severe drought led to the worst famine in the last 25 years. The combined effects of this event contributed to a significant movement of refugees across the border and into the region. During 2009–2011, five refugee camps were established in Dollo Ado.

¹ UNHCR ProGres data as of 30/Apr/2020. <https://data2.unhcr.org/en/country/eth>

² UNHCR ProGres data as of 30/Apr/2020. <https://data2.unhcr.org/en/country/eth>

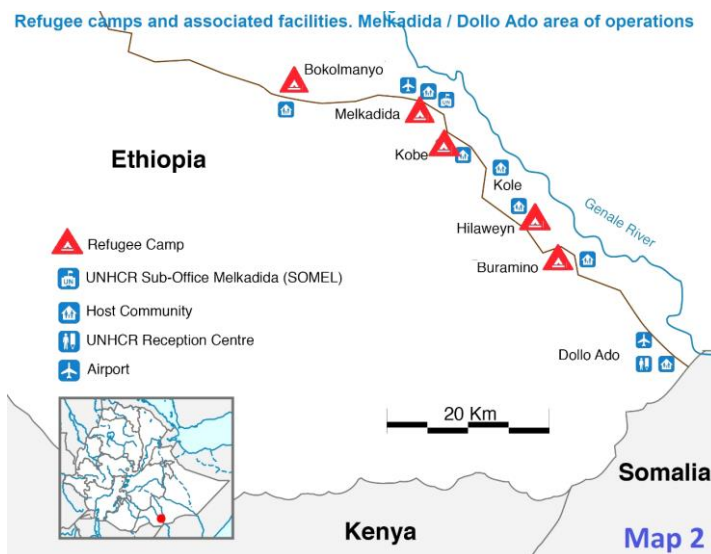
Map 1: Refugee camps in Ethiopia



Source: UNHCR

The first camp opened in Bokolmanyo, and this process continued with other camps along the river in Melkadida, Kobe, Hilaweyn, until the last one in Buramino. Bokolmanyo is the furthest camp from the border, 90 km from Dollo Ado, and Buramino is the closet camp, being only 25 km from Dollo Ado. In 2016, the government upgraded Bokolmanyo to the status of a woreda (district) administration. It has 18 kebeles (communities), including Melkadida and Kobe, whereas Dollo Ado district has 21 kebeles, including Hilaweyn and Buramino. Each camp is located adjacent to a local host community. The UNHCR Sub-Office in this area was initially established in Dollo Ado as “Sub-Office Dollo Ado” but was subsequently moved to Melkadida.


Map 2: Refugee camps in the Dollo Ado and Bokolmanyo Woredas





Source: UNHCR


Administration and operations


The refugee camps are managed by the Administration for Refugee and Returnee Affairs (ARRA), which is part of the Ethiopian Ministry of Peace with funding from and in collaboration with UNHCR and supported by other implementing partners. There are various programs supporting refugees and host communities, including registration, protection, camp management and coordination, food and non-food item distribution, livelihoods, education, health care, nutrition, and environmental protection. Currently, there are more than 20 partners, including national and international humanitarian organizations that are engaged in the provision of other basic needs for the refugees and host communities in the area. The key programs can be summarized as follows:


- 


Livelihood
Implementation of livelihood programs financially supported by IKEA to engage both refugees and host communities in income-generating activities. These programs include agricultural production, livestock production, small-scale retail businesses, energy, and environment.
- 

Food distribution
Provision of monthly food rations through General Food Distribution events and for primary school through School Feeding in partnership with WFP and other NGOs.
- 

Protection
Provision of security, protection from sexual exploitation and abuse, services for disabled people, old-age support, child protection, and durable solutions.
- 

Health
Provision of basic health care services within health care centers located in all camps. 24/7 emergency healthcare services are also provided.
- 

Nutrition
Nutritional screening is carried out for the newly arriving refugees as well as those living in the camps. The nutrition projects at the reception centers are implemented in partnership with IMC and MFS-Spain.
- 

WASH
Water systems rely mainly on the Ganale river and are relatively reliable. NRC and IRC are the critical partners for WASH services.
- 

Education
Provision of a variety of programs targeting both refugees and host communities: early childhood care and education, primary and secondary education, alternative basic education, youth education program/vocational skills training, and adult literacy³.

³ ARRA. Melkadida/Dollo Ado Zonal Coordination Office. <https://arra.et/melkadida-dollo-ado-zonal-coordination-office/>

Socio-economic context

The largest ethnic group living in Dollo Ado and Bokolmanyo are the Somalis, who favor the refugees coming from Somalia to easily and peacefully integrate into the area. Most of the refugees originate from the Gedo, Bay, Bakol, and Banadir regions of central and southern Somalia. They are not from the same clans as the residents in the local/host community but speak the same dialect and share a similar religion and culture.

The region is characterized by low rainfall, often below 500mm per annum. However, there are two perennial rivers, the Ganale and the Dawa, running through the area and joining together near Dollo Ado at the border with Somalia to become the Jubba River. These are the prominent sources of freshwater in the area. Most of the local population are agro-pastoralists or full pastoralists. The Bokolmanyo area has more favorable conditions for livestock production. The refugees are also largely agro-pastoralists and pastoralists in their home country, and they are relatively compatible with practices in the local/host communities (MercyCorps-WFP 2018).

A minority within the local/host population in the region make their living in small-scale retail businesses. Strategically located at the junction of Somalia and north-west of Kenya, Dollo Ado benefits from lively cross-border trading activities. This area becomes an interconnection hub for both refugees and host communities, who often have family or relatives on the other side of borders.



Picture 2: Refugee in Makadida Refugee camp, April 2020. @UNHCR/Giulia Naboni

However, this also remains one of the least developed and isolated areas in Ethiopia. The population faces a high level of conditions that make them vulnerable due to various challenges. Despite the strategic location, poor infrastructure significantly impedes all movements and livelihood activities. There are only unpaved roads within the area connecting refugee camps, and from Dollo Ado and Bokolmanyo to other towns. During the rainy season, roads often become blocked and unpassable as water pools on the surface or results in flash floods. Heavy rains cause overflowing riverbanks and damage agriculture production as well as the population's settlements. The local ecological system is over exploited and degraded. In the last decade, economic hardship and food insecurity in the area has been aggravated by frequent droughts. Livelihood and income-generation activities remain limited to a relatively modest scale in the local community, whereas most refugees continue to rely on humanitarian assistance (Betts 2019).

Rationale and objectives

The purpose of this study is to determine the market demand and supply for financial services in the refugee and hosting communities of Dollo Ado and Bokolmanyo. The study intends to analyze the financial service providers, type of financial service products available in the refugee markets, and the economic sectors that need access to financial services. The objective is to identify market gaps and provide a set of high-level recommendations for private sector investment in the financial services sector. The study also attempts to showcase investment potential by providing baseline market information and an overview of potential investment opportunities.

In the underlying fragility of Somalia, there is little prospect for refugees to return to their home country in the near future. Given the protracted nature of the displacement in Dollo Ado and Bokolmanyo, the international and local partners joined forces to promote self-reliance amongst refugees and host communities. Embracing innovative strategies, refugees and forcibly displaced people are encouraged to cultivate a sense of self-reliance, rather than dependence on humanitarian aid (World Bank 2017) (UNHCR 2014). They have skills and experience from their home country that could enable them to integrate into the local economy (Betts 2017). This integration helps expand the market and creates spill-over effects for overall host communities. The accomplishment of this goal has required solid engagement from the host government, international and local organizations, donors, private sectors, and relevant institutions.

The unique investments made by the IKEA Foundation in Dollo Ado refugee camps have significantly contributed to the development of a sense of self-reliance amongst refugees and host communities. The funding of approximately \$100 million during the period of 2012–2018 was initially intended to support

emergency needs, and gradually moved toward livelihood interventions to promote economic and environmental sustainability for both refugee and host communities⁴.

This is the largest fund from the private sector for a refugee complex at a global level. In addition, the host government has also demonstrated its support for these interventions, through the introduction of a revised national refugee law granting increased employment and property rights to refugees.

The Dedebit microfinance program, which was launched under the UNHCR livelihoods program in 2017, is the first intervention of this type for refugees in Ethiopia, and it is expected to boost market-based livelihood creation opportunities⁵. Access to financial services could leverage the impact of other income-generating activities, helping both refugees and host communities start or expand businesses, improve incomes, and diversify their economic opportunities. Starting in 2017, the microfinance project has gone through a short lifetime and has shown some positive impacts as well as various challenges. Together with the expansion of other financial service providers and the availability of financial products in the area, such as mobile banking, money transfers, and local lenders, the financial services market has become more vibrant and better connected within the Somali region and the rest of Ethiopia.

In the context of the financial sector in Ethiopia more generally, the National Bank of Ethiopia (NBE) is the central bank and financial market regulator. It allowed domestic private investment in banking and insurance in 1994. The formal establishment of microfinance institutions was granted in 1997. NBE has promoted the development of the traditional savings institutions (such as credit unions, and savings and credit cooperatives) of the society along with the microfinance institutions in order to encourage participation of the banks and other financial institutions in economic development. The emerging financial sector has played a key role in Ethiopia's economic development. The authorities had implemented active interventions to accelerate the sector growth, such as expansion of branches and new financial products. As a result, the number of bank branches increased from 681 to 4,257 between 2010 and 2017; the deposit-to-GDP ratio increased from 25.9 percent to 31.4 percent in the same period (Birru 2019). In 2017, NBE released the "National Financial Inclusion Strategy" (NFIS) setting targets of promoting financial inclusion. One core target of Ethiopia's NFIS is to increase account ownership from 22 percent in 2014 to 60 percent by 2020 (NBE 2017). The remote districts of Dollo Ado and Bokolmanyo have also witnessed the impact of such positive regulatory measures in the financial services market.

⁴ UNHCR Ethiopia, Melkadida, internal reports.

⁵ UNHCR Ethiopia, Melkadida, internal reports



Picture 3: FGD with the RCC members of Kobe refugee camp, April 2020. @UNHCR/Giulia Naboni

Methodology

Approaches and data

In an attempt to better understand the microfinance pilot and the financial market in this area as a whole, this assessment explores both the supply and demand side of local consumer finance and the challenges and prospects of the financial market. The following specific issues will be investigated:

- Situation on the supply side
- Situation on the demand side
- Gaps in the financial services market
- Discussion and way forwards

The assessment was carried out over 3 months from early March to early June 2020, including a desk review, research design, fieldwork arrangement, data collection, analyzing and report writing, validation workshop, revision, and finalization. The study employs both qualitative and quantitative methods by using primary data from a field survey and secondary data from relevant institutions. The structure of the report addresses those issues in the order as set out here.

The choices of research techniques were based on the principle of feasibility and resources, objectivity and comparability. The assessment uses both qualitative and quantitative methods and employs both primary and secondary data sources to supplement and triangulate for better validation.

The analysis draws mainly from primary data, which were collected from three types of interview:

- Key informant interview (KII)
- Focus group discussion (FGD)
- Household survey (HHS)

The qualitative analysis is based largely on KII and FGD. The KIIs and FGDs were semi-structured, using open-ended questions wherever possible. The interviews explore the knowledge, experience, and attitude to general livelihood activities and the specific situation of financial services in the region. Depending on the knowledge, experience, and responsibilities of the interviewee, the interview might be organized and proceed differently. The insights would provide a general view of what is going on from the supply and demand sides, including current and target clients, obstacles and opportunities, and some lateral recommendations to improve the performance, upcoming implementations, strategies for the Dedebit-REST-CPDA microfinance program. This work includes 15 KIIs, which were carried out with managers and staff of financial institutions, livelihood officers and program heads of local authorities, UN agencies, and NGOs. An additional 10 FGDs, one for the host community and one for the refugee camp at each location, were carried out with community chairmen, cooperative representatives, other relevant group leaders, influential hosts, and refugee community members. FGD participants were asked not only to share their own opinions but also to estimate the ratio ranking. Occasionally, the FGD members had divergent views and had to agree on the final answers. The FGD findings are based on majority views and rational arguments. All KIIs and FGDs were recorded, and notes were taken on site and then transcribed to compile the complete notes to capture everything that was said. The support of an interpreter was available if the participants did not speak English particularly well or not at all.

The quantitative analysis was based mainly on HHS. The stratified sampling approach is appropriate for the context of this target population. Stratification is a process of dividing populations into homogeneous subgroups before sampling. The 5 locations, where each location refers to a host community and an adjacent refugee camp, are suitably partitioned into 5 strata or 5 subgroups. Then, simple random sampling is expected to apply within each stratum. However, without access to full household lists and financial client lists, coupled with the limited time and resources, the random sampling could not be performed in a statistically representative manner. The sampling design of this study was adapted to the local context. This approach would be able to provide descriptive statistics and help to understand the features of this specific sample, which focuses on financial service clients. The findings are also compared and validated with qualitative analyses.

Therefore, the selected HHS are based on particular factors of interest: the current financial service clients and the potential clients, both of whom are engaged in income-generating activities. Those households represent various livelihood activities in the communities as well as beneficiaries of ongoing programs. Selections were made by referring to leaders or local residents of communities, randomly selecting bank officers, and randomly choosing from business and market centers. HHS tends to investigate access to financial services in relation to demographic characteristics, assets, skills, and

employment, together with financial service satisfaction and difficulty. Most of the questions in the survey are closed and/or multiple choice, with a few open-ended questions that invite a narrative response.

Based on the assessment tools for MFI Practitioners (SEEP), which is widely used for microfinance evaluation, in parametric statistics, 30 or 35 (if not at home, absent, cannot find) is the accepted minimum size of each stratum or subgroup of a simple sample (SEEP 2005). Accordingly, the target is 30 households for each location and 150 households in total. Regarding the ratio between refugee and host communities, the populations across locations are relatively equal, but the populations in the host communities account for nearly half of the refugee community in the area⁶. In addition, the number of business owners and traders from the host communities is lower than that of refugees. This situation is also the same for beneficiaries of the ongoing microfinance program. Hence, the number of sampled households in the host community is planned to be around half of those in the refugee community and subject to slight adaptation on the spot with more relevant information, references, and observations during the field work.

The HHS was collected through CAPI (computer-assisted personal interviewing) using the Kobo Toolbox platform on a tablet. The author spent approximately half of her work in the field completing KIIs and FGDs, and the other half of her time to complete HHS, with the assistance of another data collector, who assisted in the HHS process.

The secondary data source is from records of financial service providers and the previous implementing partners and stakeholders. The references also provide supplemental information and indicators, which are pooled from a larger sampling and better represent the entire population of all locations, improving the analysis.

Limitations

Limited scale: The field works for data collection took one month, with the assistance of one interpreter and one data collector. In light of the logistical challenges related to the COVID-19 pandemic, time, resources, and lack of household and financial client lists, the HH sampling is not analyzed from a statistical standpoint and, hence, cannot generalize for the entire population. This approach rather allows analysis from the descriptive statistics of sampled households and featuring outstanding stories and, therefore, could complement the findings from the qualitative analysis.

COVID-19 restrictions: The data collection was conducted during the current global coronavirus pandemic. Although there were not any cases in the refugee camps at the time of the field research,

⁶ According to a report of REST-CPDA (2019), the population of adjacent host communities is approximately 70,000 people, compared to 160,000 refugees. Data were obtained from the district administrative in 2017.

there were restrictions on movement and social gatherings, imposed by the government. That issue put further constraints on fieldwork in terms of the time required to complete the consultations, the number of people in the group discussions, and public gatherings/meetings.

Language translation bias: The author does not speak the local languages, potentially causing some misunderstandings and biases from both sides through interpretation. Nevertheless, efforts have been made to verify the accuracy of the information and ensure that the insights are credible and trustworthy.



Picture 4: Women selling milk at the Melkadida host community market, May 2020. @Hien Vinh Vu



Picture 5: Hello Cash banners outside the Bokolmayo branch of SMI, June 2020. @UNHCR/Giulia Naboni

Situation on the supply side of the financial market

As in other developing countries, the financial sector in Ethiopia can be classified into three groups: formal, semiformal, and informal sectors. The formal financial sector is under the regulation and supervision of the central authorities, which include institutions such as banks, insurance companies, and microfinance institutions. The semiformal institutions are registered but not regulated, and they include savings and credit cooperatives, and credit unions, whereas the informal institutions are not registered or regulated by any authority, and they include traditional associations, local groups, local money lenders, traders, neighbors, friends, etc.

Dollo Ado and Bokolmanyo have two types of actors playing on the supply side of the financial market: formal and informal financial institutions. In the context of isolated location, limited economic activities, and unstable security, the financial market appears in relatively early stages of market development. Restrictions with regard to refugee ownership of land and physical assets prevent the financial service providers from offering loans and, therefore, exploit the full market potential in the area.

Following the New York Declaration for Refugees and Migrants adopted by United Nations General Assembly in 2016, Ethiopia has played a progressive role in the Comprehensive Refugee Response Framework (CRRF) process. This Declaration supports countries and communities that host large numbers of refugees and promotes refugee inclusion.

This has resulted in the passing of a revised refugee proclamation in early 2019 that grants more rights for refugees, such as more liberalization of the right to work, increased provision of services, including education and financial services, more freedom of movement, and an improved asylum application process.

Along with pursuing market opportunities, the recent developments in the regulatory environment have, arguably, positively influenced the decision of some financial service providers to open branches in Dollo Ado and Bokolmanyo. Currently, there are four formal institutions operating in the two districts, namely Commercial Bank of Ethiopia, Oromia International Bank, and Somalia Micro-Finance Institution. The microfinance project funded by IKEA Foundation is also considered as a formal institution, and it is operated and implemented by Dedebit MFI in partnership with the local NGO CPDA. In addition to formal financial institutions, there are a number of informal Village Savings and Loans Associations (VSLAs) supported by NGOs, and other informal groups, traditional money or in-kind transactions, trader agreements, family and friends lending, etc. that are seen as informal financial activities.

This Somali region is characterized by an Islamic banking system, which is in line with the values and beliefs of Islam and governed by the principles of Sharia Law. This banking system has the same purpose as conventional banking, apart from the fact that it is based on a broad range of ethical and moral Islamic values. One important feature of Islamic finance is interest-free banking, which allows lenders and borrowers to share the risk and profit of the equity on the basis of agreements. This is different from conventional financial products, where interest acts as the price of credit or saving. This is, in effect, the “opportunity cost” of the money. Although the Muslim population accounts for 33.9 percent in Ethiopia, there was no single financial institution providing sharia-compliant products⁷ until the Directives of National Bank of Ethiopia were issued in 2011 and granted the license for commercial banks to engage in interest-free-banking products⁸. Subsequently, NBE granted the first license for Oromia International Bank S.C on September 16, 2013 and the second for Commercial Bank of Ethiopia on September 17, 2013. Since then, the number of financial institutions that have obtained the license has increased. As of March 2018, 10 commercial banks have opened Islamic windows.

⁷ Ethiopian Central Statistical Agency in 2009

⁸ National Bank of Ethiopia SBB/51/2011

Table 1: Summary of formal financial institutions

Financial institutions	Branches	Savings accounts	Loan accounts	Remarks
Commercial Bank of Ethiopia	Dollo (2012)	15,000	1 host client on process	None are refugee clients
	Bokolmany (2019)	1,000		Around 30 refugee clients
Somalia Microfinance Institution	Dollo (2018)	598	481	Most clients are in Dollo town. None are refugee clients
	Bokolmany (2020)	144	215 host clients waiting for disbursement	Around 36 are refugee savings clients
Oromia International Bank	Melkadida (2019)	857	4	Around 200 refugee savings clients. All clients are from Melkadida and Kobe
IKEA-funded/ Dede-bit MFI	Melkadida (2017)	3100	550	2,328 refugee savings clients and 415 refugee loan clients

Source: Figures were collected through KIIs with managers and officers of the financial institutions. Most of the numbers are estimated, and a few numbers are retrieved from the records.

Formal financial institutions

1. Commercial Bank of Ethiopia (CBE)

Currently, there are 18 banks in the Ethiopian financial sector, including 3 state-owned banks and 16 private banks. Most of the private ones were established during the last 12 years. CBE is one of the public banks owned by the government, together with Development Bank of Ethiopia and Construction and Business Bank. Established in 1942, CBE is the largest commercial bank and the dominant bank in the market. As of mid-2019, CBE comprised 28.4 percent of the total number (1,587) of Ethiopian branches and 49.1 percent of the capital. CBE also showed massive expansion in the market. In 2018/19, CBE opened 203 of the 807 new branches in the country, mobilizing 60.3 percent of total deposits and providing 32.7 percent of total new loans due to its extensive branch network (NBE 2019).

With that dominant capacity, CBE was the first and only commercial bank in Dollo Ado district at the time of opening in 2012. The branch was opened in Dollo town and, as of 2019, offers mostly money transfers and savings; further, it only serves the host communities because the law prevents refugees from opening an account in formal financial institutions. However, in 2019 the government adopted a new progressive law that grants more rights, allowing refugees to work outside of the camp, access social and financial services, and register life events (births, marriages, etc.). Seizing this opportunity to expand the market share in the area, BCE opened a new branch in Bokolmanyo town in 2019, and this is also the first formal financial institution in this newly established district. Since then, BCE has begun opening doors and providing financial services for refugees.



Picture 6: Bokolmayo Branch of the Commercial Bank of Ethiopia, June 2020. @UNHCR/Giulia Naboni

CBE is a commercial bank and operates on a “for-profit” basis. Because of the difficult conditions in Dollo Ado and Bokolmanyo, the bank encounters higher transaction costs and higher sector-specific risks in pastoralist and agro-pastoralist settings. It is crucial for the bank to carefully establish the collateral requirement to properly secure loans when clients are unable to repay. Although the bank has already offered loan services, most of the applicants in the area lack appropriate collateral. These loans are typically fixed assets and liquid cash savings.

Currently, there are approximately 15,000 savings accounts in the Dollo branch, but there are no refugee clients as of yet⁹. To be more specific, the two refugee camps in the Dollo Ado district are approximately 25 km (Buramino) and 35 km (Hilaweyn) away from the branch, representing one of the main barriers constraining market expansion¹⁰. The bank offers both conventional and Sharia-compliant products for both savings and loans at the request of clients. The clients can open a savings account with a 7 percent interest rate or an interest-free savings account. The ratio between these two types of accounts is essentially the same in the Dollo branch.

Regarding loan services, the bank can provide loans of up to two million ETB, but it has not provided any loans so far. There is only one approved loan application that is in the process of being disbursed; the client will be the first to receive a loan. Moreover, there is a revolving loan fund for 14 CBE staff and 2 mortgage clients. There is a substantial number of loan requests from customers, which points to the market potential for expansion of loan services.

“We are ready to serve refugees because now they have the right to access financial services in our bank. Initially, it was difficult to register bank accounts for the refugees because they failed to meet the requirements, but now the government has approved laws that allow the refugees to engage in the labor force, and this has paved the way for them to be registered and open an account with the bank. The bank is willing to open accounts for the refugees upon their request.”

Yared Yassin, CBE branch manager in Dollo Ado

In the case of the Bokolmanyo branch, after almost one year, also no one has yet received access to loans, because they are unable to meet the loan requirements¹¹. As of April 2020, there are approximately 1,000 savings accounts in the entire district and only around 30 accounts from refugees. It is noted that the Bokolmanyo branch also covers Melkadida and Kobe communities.

⁹ KII with CBE branch manager in Dollo Ado

¹⁰ FGDs with refugees and host communities

¹¹ KII with CBE branch manager in Bokolmayo

“Before opening this branch, we expected to reach 5,000 refugees out of about 15,000 households in those three camps [Bokolmanyo, Melkadida, Kobe]. The current number of refugee clients is far lower than anticipated.”

Merga Segni Tadesse, CBE branch manager in Bokolmanyo

Apart from loans, the CBE is still the key provider of savings and money transfer services in the area. In the last few years, the two districts have witnessed an improvement of not only the quantity of branches and capital but also the diversification and quality of services. For instance, savings services fit with different kinds of clients: women’s, youth, student, business, and safe box (for those who live far away from branches and can keep their savings in a box and bring it to the branch). CBE also offers services consistent with the requirements of Sharia law.

To reach more clients located far from the branch, they offer a door-to-door service so that staff can come to the homestead of the clients. Besides, CBE delivers services in all types of channels via agent, internet, mobile, and card banking forms. ATMs are available only at 2 bank branches in Dollo town and Bokolmanyo. In January 2019, in partnership with World Remit, BCE launched its first-ever international mobile money transfer service to Ethiopia¹². This service offers the diaspora a low-cost and secure way to send money directly to any mobile phone in Ethiopia. Clients with a registered CBE mobile money account will receive their funds within one working day. For those areas with poor transport facilities/infrastructure, digital banking technology reduces the transaction cost, time, and transport burdens significantly.

2. Oromia International Bank (OIB)

OIB is the second commercial bank in the area. It is a private bank based in Addis Ababa and was established in 2008. The Bank is one of the most influential and popular private banks in Ethiopia. It is also known for its pioneering interest-free banking services¹³. Currently, it has 280 branches, accounting for 5 percent of the total in the country, the share of capital is 2.8 percent, and the share of loans disbursed is 2.2 percent with respect to the financial market of Ethiopia (NBE 2019). OIB runs a wide range of commercial banking services, from fully fledged conventional banking services to sharia-compliant interest-free banking services.

The first OIB branch of the area opened in May 2019 in Melkadida. At the time of an interview with the branch manager in Melkadida, OIB was preparing to open another branch in Dollo Ado at the end of June 2020. The underlying reason for selecting Melkadida as the first branch is to exploit the market opportunity in the absence of any formal financial institution to provide financial services for several main

¹²World Remit website. www.worldremit.com

¹³ Oromia International Bank S.C. official website. <https://orointbank.net/>



international and local organizations as well as a local authority for refugees, including UNHCR and ARRA. As a consequence, the majority of the current clients of OIB are from the local/host community in Melkadida.

“We expect to gain financial self-sufficiency and make a profit from this branch [Melkadida] after two years from its opening, and after one year for the Dollo Ado branch.”

Abakula Golicha, OIB branch manager in Melkadida

Due to its proximity, the Melkadida branch is likely to attract clients from Melkadida and Kobe. According to an interview with the branch manager and staff, in order to serve the needs of the various population groups in the area, it has 346 conventional savings accounts and 511 interest-free bank accounts, with an average value of 16,000 ETB and 3,800 ETB, respectively. The interest rate for a conventional savings account is 7 percent annually. The majority of clients are from the host community of Melkadida, whereas the number of clients who have obtained loans amounts to merely 4, and these loans are still in the process of being disbursed. The maximum amount of loan the branch could offer is 1,520,000 ETB. The borrowers are staff of NGOs, or in a position of power in the community and have better-secured resources than the average of the local community. Similar to BCE, the branch has experienced a large number of people demanding access to loans for their business, agriculture inputs, and asset investment. Then again, applicants often lack tangible, fixed assets to offer as collateral.

Applicants for loans are required to own high-value assets, such as concrete houses, farmland (100 ha), vehicles, or machinery, which is not possible for refugees and also substantially constrained for the host community. Even if they have access to loans, the interest rates are also high, between 9 percent to 17 percent, depending on the purpose of the loan and duration of repayment. The staff are offered a

priority rate of 7 percent. OIB does not yet have free-interest banking for loans¹⁴. In addition, the OIB branch also provides financial services in all types of channels through agent, internet, and mobile banking but not card banking due to poor infrastructure for installing ATM machines. To target refugees with family and relatives in Somalia or abroad, the bank also provides various services for remittance and international banking. Furthermore, according to the branch manager, they are in the process of opening 5 new mobile agents in 5 refugee camps or host communities. The banking agents offer a variety of transactions and payments. This is a progressive step to increase the outreach of potential clients who have almost no access to formal financial services.

“Many people request for loans. These days, I go to do an assessment to see the collaterals and verify whether or not they meet the system requirements, and I typically do this around 20–30 times per week. Most of them plan to invest in an ice-making business, seeds for agriculture, purchasing vehicles, or building/construction (in Dollo).”

Abakula Golicha, OIB branch manager in Melkadida



Picture 8: Somali Microfinance branch in Bokolmayo, June 2020. UNHCR @Giulia Naboni

¹⁴ KII with OIB Branch Manager and Staff in Melkadida

3. Somali Micro-finance Institution (SMFI)

A proclamation issued in 1996 by the Ethiopian government endorsed the establishment of Microfinance Institutions (MFIs). This proclamation has paved a new and alternative path in the market to facilitate access to financial services for poor people at an affordable cost. Since then, financial services to the poor have been paid more attention to by policy actors and stakeholders. The government has taken concrete steps to develop an inclusive financial system not only to address the previously excluded people but also to mainstream financial institutions to reach the underserved regions more effectively.

As of the end of 2019, SMFI is one of 38 MFIs in Ethiopia. It is privately funded by the Somali regional government and other shareholders. It was founded in January 2011 and began operating in December 2011. SMFI is dedicated to providing financial services to the poor in Somali region where the vast majority of the population is without access to financial services and characterized mostly by Islamic practices and beliefs. With strong support from the Somali regional state, the institution has been displaying substantial efforts in expanding its outreach within this short period and has reached 31 branches and served up to 100,558 clients. Among those, it has provided loans to 38,387 clients and opened 62,171 savings accounts. The main source of loanable fund of the institution is savings¹⁵.

The first SMFI branch opened in Dollo Ado town in March 2018. The second branch of SMFI opened in Bokolmanyoo town in January 2020 in partnership with Mercy Corps to share operational expenses. The branches provide local money transfer, savings, loan, mobile, and agent banking forms. Savings and loan products align with Sharia-compliant principles, such as free-interest banking savings and loans. Loans are offered in kind (input, items), rather than cash. SMFI also receives funds from the government and partners to channel support, relief, and other relevant programs through a microfinance scheme for beneficiaries. The Dollo branch began with savings, money transfer, and agent banking Hello Cash in 2018, a loan service in 2019, and has recently launched Hello Solar, an in-kind loan providing solar panels and televisions in early 2020¹⁶.

As of March 2020, the Dollo branch has 598 savings clients, and the average value of each account is approximately 6,200 ETB. It has 481 loan clients, including 7 individuals, 403 groups, and 71 cooperatives, and the average value of each loan disbursed is around 44,500 ETB¹⁷. Part of the loan comes from government to support cooperatives. The proportion of loans at risk is 3.7 percent, which refers to the ratio of borrowers failing to make a scheduled repayment on time. However, most clients are in Dollo town. There are only 2 borrowers from Buramino and Hilaweyn.

¹⁵ Brief introduction from UNHCR report in preparation for partnership with SMFI

¹⁶ KIIs with Branch Managers in Dollo Ado and Bokolmanyoo

¹⁷ KII with SMFI branch manager in Dollo Ado

“There is a huge demand for loans, but we have limited capital and funds. We expect to partner more with UNHCR and other INGOs to reach more refugee clients. If you go to the refugee areas, you will see that the refugees are more active than the host community. Somali refugees come from different parts of their country—they have varying experiences and try hard to live in a new place, finding any way they can to sustain their lives here.”

Ahmed Abas Aden, SMFI branch manager in Dollo Ado

Bokolmayo branch was only in less than 3 months of its existence at the time of data collection. However, it is reported that there are 144 savings accounts, and the average value of each account is approximately 3,750 ETB. Most clients are in the host community consisting of approximately 75 percent of the total. Similarly, the branch has already finalized 7 groups (35 members) and 180 individuals from the host communities to distribute loans. Part of the funds comes from government, with the purpose of creating more job opportunities. Loans are ready to be disbursed. However, due to the COVID-19 pandemic, disbursement remains pending. Meanwhile, the process of providing loans for refugees depends on ongoing discussions and preparations with ARRA and UNHCR.

An important and helpful approach of the SMFI is to inform and raise awareness within communities and to provide technical advice to their business projects. Realizing the low level of financial literacy of the people in the area, SMFI is dedicated to improving potential and current clients' knowledge, skills, and confidence to understand and utilize the range of products and services available.

“Every week, we organize meetings and training sessions to help people better understand savings and other financial services. It helps raise their awareness”.

SMFI branch manager in Bokolmanyo

In addition, SMFI has engaged in cash distribution for livestock insurance to over 1,000 beneficiaries for host communities in Dollo Ado district as part of a WFP program. In 2019, it launched a revolving loan scheme partnered with IMC for 105 refugee beneficiaries—53 in Kobe camp and 52 in Melkadida camp. Each approved loan values 4,500 ETB, and they are in the process of being disbursed as soon as possible¹⁸.

SMFI established clear requirements for selection criteria to access loans. There are 21 criteria for individual loans, including property certificates, business plans, location of business in marketable places, compulsory savings of 20 percent of loan size, and ID cards. However, there are only 2 criteria for group loans: a residential confirmation letter from the local authority and a business plan. The

¹⁸ Dataset sent by SMFI staff

members of the group could act as guarantors for each other, in effect serving as social collateral¹⁹. The maximum loan size that the branch can approve is 300,000 ETB for clients who are determined to have credible business plans after a thorough evaluation.

“We target productive, poor people. They are already doing something. We know they do not have much money, but they are willing to work. That willingness would reduce the likelihood of a loan default.”

Ahmed Abas Aden, SMFI branch manager in Dollo Ado

Following the successful operation of M-pesa mobile banking in Kenya, similar services have been initiated and expanded rapidly in Ethiopia. These services allow users to deposit, withdraw, and transfer money, pay for goods and services, and access credit and savings, all with a mobile device. Customers can deposit and withdraw money from a network of agents. These branchless banking services contribute substantially to expanding the financial market to remote and underdeveloped markets. Taking advantage of this essential tool to expand financial inclusion, SMFI is the first and only provider of agent banking located in all refugee camps and host communities. In general, the client must have a SIM card and register an account based on that phone number. If they do not have an ID card, they can ask others to help buy them a SIM card. As a result, the process of registration should be relatively simple. The quality of services has been improving over time; for example, the maximum amount of cash can be withdrawn at agents, there is reduced waiting time to receive cash, and there are no transaction fees.

There are 14 agents in all 5 camps and host communities. The agents are often the shop owners offering Hello Cash services at their shops. For its convenience and proximity, agents are located in business market centers. The number of transactions per day and value of these transactions reveals that agents in refugee camps handle more transactions than those in the host community, but they also open fewer accounts than the host. However, the demand for new accounts is increasing among refugees²⁰. The agents also reported that the number of transactions, including cash transfers, increase after the monthly food distribution.

¹⁹ Details of selection criteria set in appendix

²⁰ Dataset sent by SMFI staff

Table 2: Hello Cash agents

Location	No. Hello Cash agent	No. transaction/day	Total amount/day (ETB)
Bokolmanyo Camp	3	15-20	30-40,000
Bokolmanyo Host	3	12-15	20-22,000
Melkadida Camp	1	15	10-13,000
Melkadida Host	2	15	12-20,000
Kobe Camp	1	12-18	16-24,000
Kobe Host	1	10-12	15-20,000
Hilaweyn Camp	1	15-20	20-35,000
Hilaweyn Host	1	20	5-8,000
Buramino Camp	1	15	15-20,000
Buramino Host	0	N/a	N/a

Source: The number of agents provided by SMFI branch manager in Dollo. Transaction numbers are collected from a random agent in each community.

4. Dede-bit – ReST/CPDA Microfinance Institution

This microfinance institution is part of the self-reliance programs supported by the IKEA Foundation, which prioritizes three key sectors: agriculture, livestock, and financial services. In 2016, UNHCR and IKEA Foundation reached an agreement to provide funding for the microfinance scheme. The project is partnered with Relief Society of Tigray (REST) and 21 Century Pastoralist Development Agency (CPDA) and operated technically with Dede-bit Microfinance Institution. These implementing partners are national non-governmental organizations with a significant amount of experience and knowledge of the local context. However, they were not working in a refugee program previously. REST is responsible for technical support for CPDA, and CPDA is responsible for direct implementation at the field level. Dede-bit microfinance is a registered microfinance enterprise in Ethiopia.

It fills the financial management gap of the work with REST and CPDA on the microfinance component. REST-CPDA has already implemented other livelihood projects and has a head office in Melkadida as well as branch offices in other camps. That advantage reduces the burden on the cost of installation for facilities, and IKEA fund has already incurred all operational expenses for REST-CPDA for a period of 5 years. By the end of 2019, the microfinance program had disbursed 13.5 million ETB worth of loan items. 70 percent of these loans have been allocated for the refugees, and 30 percent were for the hosts²¹.

To simplify the process and improve the financial sustainability of this pilot project, Dede-bit has begun providing only voluntary savings and group loans to refugee and host community clients who can fulfill a 20 percent compulsory down payment. Both services are Sharia compliant and offer interest-free banking. There are various lending methods that can be applied in Islamic MFI products. The most

²¹ REST-CPDA reports

commonly used approach is cost-plus markup sales, which are referred to as Murabaha²². The loans are offered in the form of input supplies, assets, and goods, but not in cash, with a 5 percent markup on items. The markup rate was approved by all partners and donors. Hence, the institution buys the goods and adds the additional fee to cover the operational costs and resells back to the client. The loans were disbursed in sequence, starting first in Melkadida in December 2017, and in Bokolmanyo, Hilaweyn, and Kobe in July–August in 2018, and Buramino in May 2019.

In terms of savings services, the clients can easily open a book account with a minimum of 50 ETB. By November 2019, 3,100 individual refugee and host community clients had active voluntary savings accounts across all camps, compared to 732 clients at the end of 2018.

This increasing number of clients shows the clear impact of creating savings habits and practicing how to utilize money over the longer term and in a more efficient manner. As of November 2019, the total amount of savings reached over nearly 18,000,000 ETB, including both individual voluntary and group savings (cooperatives and informal savings)²³. Kobe communities constitute the largest number of clients and savings value. The female clients appear to save more frequently than male clients.

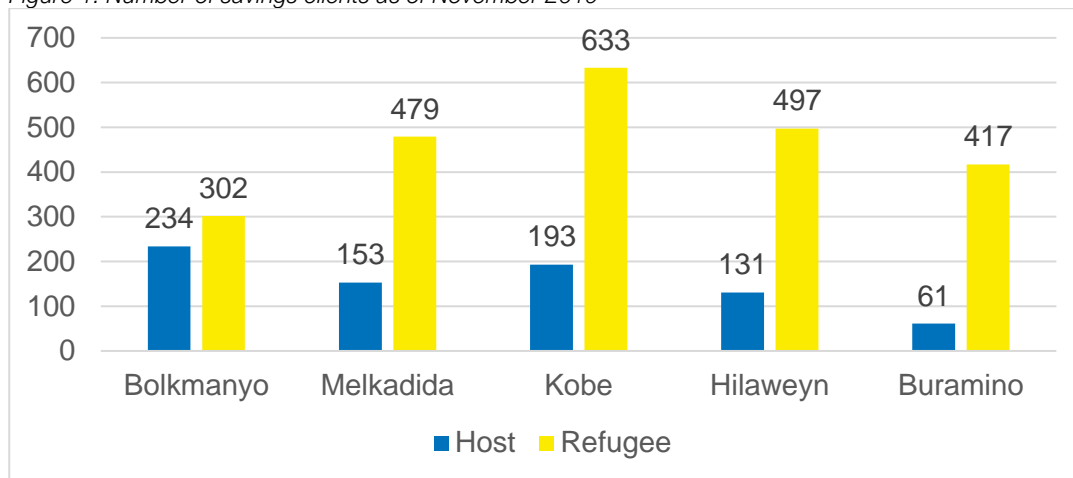


Picture 9: Dedebit-REST-CPDA office in Kobe, June 2020. @UNHCR/Giulia Naboni

²² Dedebit operational manual

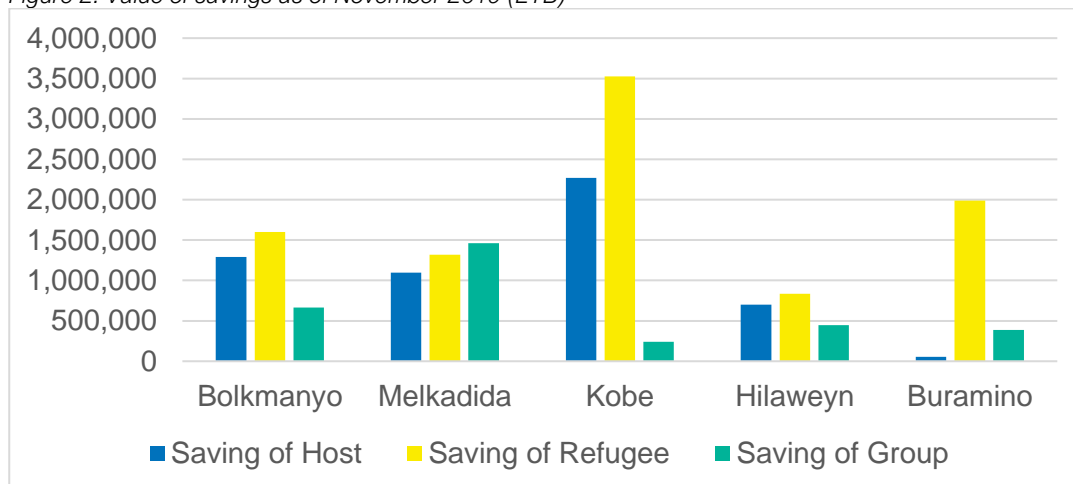
²³ The microfinance project did not record the number of savings clients had made via group savings.

Figure 1: Number of savings clients as of November 2019



Source: Dede-bit-REST-CPDA records

Figure 2: Value of savings as of November 2019 (ETB)



Source: Dede-bit-REST-CPDA records

The MFI program has applied a set of criteria to select and train beneficiaries and manage portfolios. The objective of MFI is to facilitate entrepreneurship and job creation by providing access to loans and savings for both refugee and host communities. The program prioritizes support for women clients, particularly women-headed households, people with special needs, and youth jobseekers.

These are vulnerable households that often have no alternative source of income to support their livelihoods other than the relief assistance provided by UNHCR and ARRA. The key criteria are being a permanent resident in the refugee camp and host, willing to form a group, willing to start or expand a business, and being able and committed to work. Additionally, clients are required to save at least 20 percent of their loan before accessing their first loans. Clients cannot withdraw up to finishing the group loan. This deposit provides security as loan collateral for the institution. After all group members repay their total loan, they can withdraw or complete the last payments of their loan.

Dedebit MFI is aware of the challenges to this pioneering project for vulnerable people who mostly are without access to formal financial services. They believe that there should be an integrated approach, combining financial and non-financial services, to meet the numerous needs of the clients. The implemented models are constantly revised to adapt to each specific situation. In particular, they focus on non-financial support with respect to business development, counseling, marketing, and related support services.

Those potential clients were first invited to a meeting to be introduced to the program. Participants who were interested in the program were then registered for a more detailed orientation. After an evaluation of their understanding of the procedure, policy, and norms of the program, they form groups of at least 3 members. Potential clients form their own group on a self-selecting basis. It is likely that working in the same area, membership in the same indigenous groups, and sharing the same values, may serve as a basis for enhancing the self-selection process. Afterward, these groups are guided and supported to prepare business loan applications. A committee of representatives from UNHCR, ARRA, REST-CPDA, RCC, and an influential member/leader in the community, then screen the applications. If the applicants pass this stage, they are continuously supported in the business plan and management during the entire duration of repayment. In each camp, there is a local office consisting of a loan officer, accountant, and incentive focal person (community mobilizer), all of whom are engaged in managing and supporting the activities of clients throughout the camp.

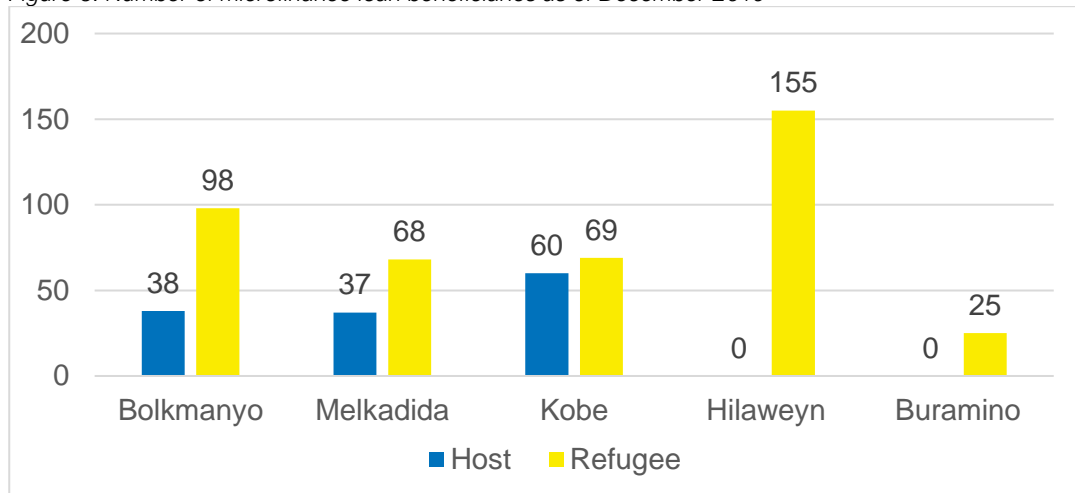
Figure 3 shows the number of clients who received loans in the first cycle in 2017–2019. All four camps are currently implementing these services. Buramino has lagged behind, and there were only 25 clients who had received loans in May 2019, and others are still waiting for distribution due to disagreements with the administration sides. There are 550 clients through 5 communities who had their loans approved, but the number of applicants was much higher.

Nearly 600 applicants from each camp applied for a loan, but only somewhat more than 100 were selected²⁴. All engaged managers and staff of the project, as well as program officers, noted the significantly higher demand for loans to start or expand their livelihood activities. Due to limited funding for microfinance schemes, only a small fraction of the demand can be served. The vast majority of clients invest loans for their retail business (petty trade, boutique, restaurant, carpenter, butchery, etc.), followed by animal trading. The loan amount varies from 20,000 ETB to 65,000 ETB, and the loan cycle is 12 months. Moreover, some groups of beneficiaries had completed their first cycle and had already received a second loan, for a larger amount, in December 2019²⁵.

²⁴ *KII with REST-CPDA manager*

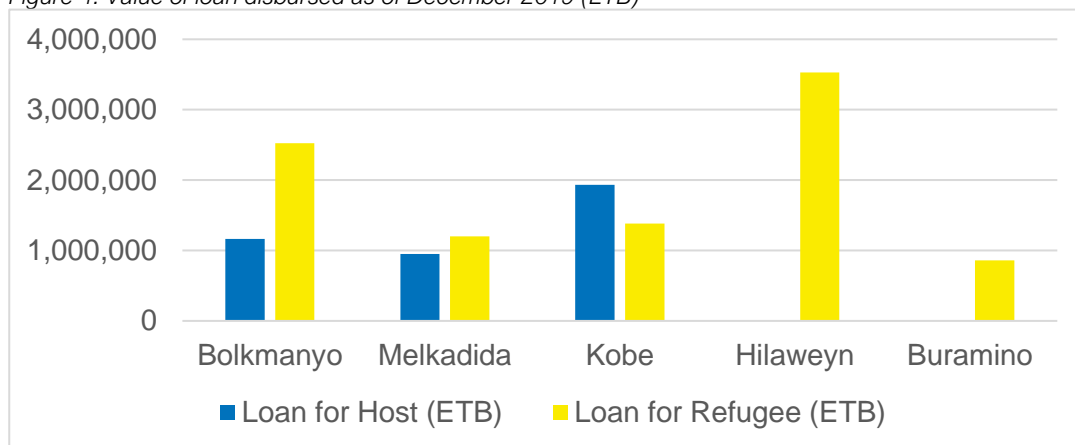
²⁵ *We cannot get further details*

Figure 3: Number of microfinance loan beneficiaries as of December 2019



Source: Dedebit-REST-CPDA records

Figure 4: Value of loan disbursed as of December 2019 (ETB)



Source: Dedebit-REST-CPDA records



Picture 10: Rest/CPDA employees at Kobe refugee camp, June 2020. @UNHCR/Giulia Naboni

Table 3: Value of disbursed loan and repayment rate as of March 2020

Communities	Disbursed time	Refugee (ETB)	Host (ETB)	Total (ETB)	Duration of cycle	Repayment rate
Melkadida	Nov 2017	1,201,097	950,175	2,151,272	28 months	66%
Bokolmayo	Jul 2018	2,525,696	1,163,061	3,688,757	21 months	52%
Hilaweyn	Jul 2018	3,527,763	0	3,527,763	21 months	21%
Kobe	Jan 2019	1,380,970	1,934,700	3,315,670	14 months	62%
Bur-Amino	May 2019	860,560	0	860,560	10 months	46%
Total		9,496,086	4,047,936	13,544,022		48%

Source: Dedebit-REST-CPDA records

However, the response to managing the late repayments has been to reschedule the loan repayment durations, therefore providing loan-takers more time to repay their dues. Table 3 shows the progress of repayments through communities. The late repayments are primarily due to a mentality in the humanitarian setting, in which beneficiaries consider the loans to be grants and market fluctuations. These factors impact beneficiaries' incomes and repayment abilities. This, combined with limited follow-up of clients on the part of stakeholders, has meant that the loan cycle has extended significantly longer than the planned 12 months.

Informal financial institutions

In general, to cover the shortage of formal financial services, the rural savings and credit cooperatives or microfinance are the main sources for rural and poor people throughout developing countries. In Ethiopia, various types of traditional deposit mobilization and loan provisions were originally established approximately 100 years ago, including iqub and idir. Iqub is a rotating savings scheme involving a group of people having common objectives and who are able to mobilize resources together, particularly

finance, and distributing them to members on a rotating basis. Idir is an insurance scheme, organized by a group of people that have the objective of providing social and economic insurance for the members during economic shocks and/or emergencies such as death, accidents, and damage to property (Emana 2009). The recent savings and credit cooperatives (SACCOs) or the same ones but in rural areas (RuSACCO) promoted by government and development partners also work using the same approach. Nonetheless, there have yet to be registered any credit cooperatives or credit unions in the area, and only the traditional and unregistered groups are currently practiced.



Picture 11: Livestock sellers at the Melkadida host community market, April 2020. UNHCR © Giulia Naboni

1. Village Savings and Loan Association (VSLA)

Similarly, the Village Savings and Loan Association model forms self-managed and self-capitalized savings groups that use member savings to lend to each other. The model has been applied worldwide to help the poor access and manage their own basic financial services. In general, MFI focuses on credit and largely intends to leverage the owners of established businesses to increase business profit. In contrast, VSLA focuses more on improving cash-flow management to meet basic needs and mitigate shocks, particularly for those people without access to formal financial services. Initially, VSLA was introduced in the area with the assistance of the Norwegian Refugee Council (NRC) in October 2017. This is an early stage of the financial inclusion strategy, which aims to develop savings habits and build

financial confidence. NRC supports the groups with savings boxes, passbooks, and recording books. Through field agents who were trained first, all groups were provided with guidance for group management, financial literacy, and business development. There are 20 groups—10 for refugees and 10 for hosts, out of a total of 280 members. The total savings amount is 719,440 ETB, social fund 41,565 ETB, and loans received from NRC 1,900,000 ETB. Each group was disbursed with 100,000 ETB to invest in income-generated livelihood activities²⁶.

Loan groups perform the selection of the members. During group formation, emphasis is placed on criteria such as trustworthiness, economic background/motivation, attitudes toward cooperation, willingness to repay loans reliably, and social relations. The members agree on the length of the operating cycle, which ranges from 9 to 12 months. The amount to be saved is determined by discussion among all members on the basis of consensus. The management committee is democratically elected by members, including the chairperson, secretary, treasurer, and two money-counters, and they all chaired the weekly meeting.

Mercy Corps has joined forces to establish new VSLAs following a similar approach. As of February 2019, 36 field agents from both refugee and host communities have been trained. Out of them, 27 field agents have consequently supported establishing and training VSLAs. Each group at VSLA has 15 to 25 members and also creates a management committee and organizes regular meetings.

With the support of Mercy Corps, there are 99 VSLA groups in refugee and host communities (20 in each location), plus 5 groups in Kole (a host community located between Kobe and Hilaweyn) and 6 groups in Dollo town²⁷. The total number of members is 377 males and 2,000 females, with average regular savings of 13,680 ETB and with an additional contribution to the social fund of 2,260 ETB from each member. Depending on the amount of savings and the maturity of the groups, some have already begun distributing loans for members. As of the end of 2019, 19 members received loans with a total value of 41,000 ETB²⁸. Other groups are expected to receive access to credit soon.

Mercy Corps continues to support VSLA, initiating a partnership with SMFI to further accelerate VSLA members' access to more financial services in particular, and boost financial inclusion for the population in general. Additionally, they plan to promote active VSLA to RuSACCO as a legalized cooperative form. This approach would create opportunities for field agents to be certified and to work privately.

“They need to know how to handle their savings. They should keep and use them in future or invest back into their activities. Mercy Corps have trained people to use mobile banking, savings habits, and

²⁶ KII with NRC livelihood and food security acting coordinator

²⁷ Document shared by Mercy Corps

²⁸ Document shared by Mercy Corps

managing money over the longer term. Before, they did not care about tomorrow, but now this issue is changing. They think about our children's food, health, and education for tomorrow."

Mohammed Mussie, ARRA program head in Hilaweyn.

Table 4: VSLA supported by NGOs

	No. of groups		No. of members	Average saving (ETB)	Average social fund (ETB)	Credit (ETB)	Remarks
	Host	Refugee					
NRC support	10	10	280	2,570	150	1,900,000	Credit funded by NRC and disbursed to 19 groups, each group 100,000 ETB
Mercy Corps support	63	36	2,377	13,680	2,260	41,000	Plus 5 groups in Kole and 6 groups in Dollo

Source: NRC and Mercy Corps records

2. Other self-help groups and other mechanisms

Similar to VSLAs, the local people also form by themselves traditional self-help groups and provide loans for member on rotation basis or variation of common agreement. Members often share common ethnic background, neighboring location, interests, needs. They also organize regular meetings and create a management team to keep track all activities. Without any other options to access financial services, this formation and practice is remarkably helpful to the people with no access to formal financial institutions in the area.

"I am a YEP graduate from vocational trainings. Once I requested loan from REST-CPDA microfinance to buy some metal items for my workshop. Application was dismissed because they are expensive...Now I belong to an informal savings and credit group of 20 members. Each person contributes 200 ETB per week. These days, we contribute only 50 ETB as the slowdown of market and business under Covid-19 restrictions. In the end of the month, the money is given to one member, and continues for others in the next months."

A technician in Bokolmanyo camp

Furthermore, it is common practice to rely on loans from traders, local money lenders, family members, relatives, and friends. In the cases of local context, most of refugees sell part or all of their food ration to exchange or to buy other products and for other purposes of household needs. Most of FGDs stated that it is prevalent to buy food or other consumption goods on credit to the shop sellers and traders.

The retail merchants also rely primarily upon other merchants or wholesale traders. The farmers and livestock traders are connected to the input suppliers through trade-credit activity. This mechanism allows the lenders provide credit in term of in-kind loans, and receive money back throughout the circle of borrowers' business or after harvesting season. The inter-connection of credit and commodity are guaranteed mainly by trust and relations. This is a more flexible option, that also has the potential to increase demand and reduce the cost of credit to borrowers.

“Currently, there is no credit provider in this host community [Buramino]. They have to borrow the money from family, neighbours, traders, local lenders, informal groups. It is usually without fee, but sometimes it costs small fee depending on the agreement from both sides...In our community, there are around 6 informal groups (x15 members) do savings and credit by themselves.”

FGD in Buramino host.



Picture 12: Member of the Buramino solar energy cooperative working on the mini grid, May 2020. ©UNHCR/Giulia Naboni



Picture 13: Microfinance loan beneficiaries outside their shop in the Melkadida refugee camp's market, June 2020. @UNHCR/Giulia Naboni

Situation on the demand side of the financial market

To explore the demand side of financial services, the analysis draws from complementary of HHS, FGDs, KIIs, and relevant indicators from secondary data. Without a representation of the entire population, the HHS contributes to shed more light upon the overall picture provided by FGDs, KIIs, and secondary data. This approach aims to explore the key features of financial service users in relationship to local demographic characteristics and livelihood activities, such as demand, purpose, impact, and difficulty for both refugee and host communities.

To arrive at the target of 150 HHS, a larger number of households were screened to determine the relevance of their experience and knowledge for the study. Finally, there were 157 valid households left for analysis, consisting of 56 households from the host community and 101 households from refugees²⁹. The survey collected general household characteristics regarding demographics, livelihoods, and access to financial services. Approximately 65 percent of respondents were male. The ratios were similar between refugee and host respondents. 42 percent of respondents were principal household decision-makers, and this ratio was slightly higher for host than refugee respondents.

²⁹ Bokolmanyo (host: 11, refugee: 20), Melkadida (host: 12, refugee: 21), Kobe (host: 12, refugee: 19), Hilaweyn (host: 11, refugee: 20), Buramino (host: 10, refugee: 21)

The component of respondents between both communities appears to be compatible, which reflects a similar gender sensitivity and cultural practices. Financial services available in the area are categorized into four groups: mobile banking, remittances, savings, and loans. This section examines the decision-making of users and non-users in terms of other household characteristics.

The following provides a typical story depicting how people socially integrate, economically manage their livelihoods, and are engaged in formal and informal financial mechanisms in this area:

“I am Ethiopian, but my husband is Somali, and we lived in Somalia for 20 years. I came back here last year after my husband passed away, and I then opened this shop. I have 2 daughters who have graduated from university [outside of Somali region], but they have not had jobs yet. I use BCE service to transfer some money for them. I have a son working in Mogadishu as a carpenter. He sometimes sends me money through the mobile banking network in Somalia [EVC Plus] to Dolla Ado. I have another daughter in Dollo to help me take that money to buy stocks for my boutique and send some money to me. For the items bought from the wholesaler there, I pay only half, and half is on credit... I do not know anything about loans from formal institutions or any other programs. I have long experience in business; if I could get some more money, I want to invest in other products that are not available around here, to make my shop more competitive.”

A shop owner in Bokolmanyo host.

Mobile banking

In the national financial inclusion strategy released in 2017 by NBE, one area of the strategy involves ensuring the supply of an adequate range of suitable products, services, and access points. This aim requires the diversification of financial services powered by technology and innovative delivery channels. Among those, mobile banking and agents are key and efficient channels for improving outreach in rural areas where there is a lack of appropriate infrastructure. In this area, the current mobile banking services are provided by Hello Cash of SMFI, BCE, and OIB. Only Hello Cash has agents in all 5 camps. The network coverage and mobile phone penetration are the main factors for determining outreach and growth in the market. All 5 locations are covered by a mobile phone network, except for Melkadida, where the network is only available near to the main road. It was reported from FDGs that a significant number of households who participated in the study own mobile phones. For example, they estimated that 70 percent of households own a mobile phone in Hilaweyn camp. The study did not determine the overall phone ownership amongst the general population. Mobile phone ownership can be lower amongst the general population compared to the households that participated in this study.

The sampled HHS shows that 97 percent of households have at least one mobile phone. That high ratio is likely due to the sampled HHS including active people engaging in business and production. Around 22 percent of sampled HHS used mobile banking services. This result was higher for host communities than refugees (30 and 18 percent, respectively). The demand for mobile banking could be associated with HHS' connections to people outside the area. Almost all mobile banking users from host communities have family or relatives outside of the communities or outside the region, whereas only a third of the refugee users have such connections. This finding could explain why refugees are not using the mobile banking services as much as the host communities—they do not need to send or receive money. A few cases are constrained by legal documents and the significant distances required for traveling to financial service centers.

Approximately 71 percent of mobile banking users are Hello Cash clients. They are attracted by the local availability/proximity and convenience of agents. Hello Cash, is also the only provider that has agents located in all 5 camp and host communities. However, its banking offers services within the Somali Regional State only. The rest are among CBE clients, and some others carry out transactions through friends and neighbors. Half of the users transact once or twice a month.

"I have a Hello Cash account. The customers who work for NGOs, government, and partners, come to my restaurant and eat on credit sometimes. Then, they transfer money to my account at the end of the month when they receive their salary."

A restaurant owner in Hilaweyn camp

According to random agent interviews and FGDs, most transactions were found to be for local money transfers and business transactions between Dollo Ado and the camp markets. The services have been improved over time. In one FGD, the clients complained about the limited amount of money that they could withdraw, *"It took me 15 days to withdraw 3000 ETB but, in the end, I had to take sugar instead, and she [the opposite lady] also experienced the same situation and had to take clothes instead of a money transfer"*³⁰. However, in a KII with the SMFI branch manager and agents, they confirmed that this situation did occur in the past, but now there are no withdrawal limits. A large number of withdrawal transactions often take only one day. The services become even more attractive because transactions are free of charge. The clients in the sample do not use the service frequently. Nearly 43 percent of users make a transaction only once a month, or even more occasionally. A few cases perform transactions as much as 15 times per month for payments in relation to their larger-scale businesses in the area.

³⁰ FGD with host community in Kobe

“I use Hello Cash frequently for purchasing goods from Dollo Ado for several of my larger shops—about 15 times every month.”

A shop owner in Kobe camp.

Table 4: Frequency of mobile banking transaction by users (N = 35)

No. of transactions per month	No. of users	%
1	15	42.86
2	4	11.43
3	6	17.14
> 3	10	28.57
Total	35	100%

Source: Author’s calculation from HHS

Remittances and international transfers

Remittances are often a crucial component of sustainable livelihood activities in refugee and other forced-displacement contexts. Somalia is a net receiver of remittances, which comprise almost 25 percent of the country’s GDP³¹. The refugees in Dollo Ado camps appear to receive surprisingly low remittances compared to other members of the Somali community. Approximately 7 percent of adults receive remittances, and even in host communities, which is not typically observed in similar contexts (Betts 2019). However, the refugees and host communities in Dollo and Bolkomayo are engaged in both inbound and outbound remittance/transfers.

In the less-developed economy, there is usually little or no presence of formal services for remittances and international transfers. Prior to the establishment of BCE and SMFI branches in Bokolmanyo and OIB over a year ago, Dollo Ado was the only place offering formal international transfers via a CBE branch and a few other remittance agencies. As the commercial hub of the area bordering with 2 other countries, Dollo is the center point for vibrant markets and family connections, where transactions are mostly channelled through informal methods. The demand for the services is expected to be amplified from the refugee complex in the area.

The sampled HHS shows that 18 percent of households use international transfer services via both formal and informal means or a combination of both. This result refers to both flows of outbound and inbound transfers. The ratio is almost the same between both refugees and host communities. The relevant evidence in the HHS reveals that a higher proportion of refugee users has family and relatives

³¹ World Bank, *Remittances Prices Worldwide*, (2017), officially recorded remittances to Somalia that are estimated at \$1.4 bn for inbound flow and \$1 mn for outbound flow.

in Somalia, but a higher proportion of host users has relatives in other countries, instead of Somalia. The situation of family connection also applies for all HHS, not only for the international transfer users.

Table 5: Household connection in the HHS

Percentage of HH in the sample	Host (N = 56)	Refugee (N = 101)
HHs have family/relatives outside area but in Ethiopia	0.96	0.39
HHs have family/relatives in Somalia	0.27	0.94
HHs have family/relatives in other countries	0.54	0.23

Source: Author's calculation from HHS

FGDs participants shared that when they need to receive and send money from/to Somalia or abroad, they typically travel to Dollo Ado to use remittance agencies or mobile banking services there, and even cross the border to Somalia to perform transactions through their social network. The household data support that experience by showing various types of remittance agencies in Dollo, such as Dahabshiil, Iftin express, and Kaah Express. More popularly, EVC plus is a mobile banking service from Somalia but available in border towns. Outbound money can be sent to Dollo Ado by Hello Cash locally, or other friends can be asked to assist; then, from Dollo to the other side of the border by EVC plus or remittance agencies or via their personal connections, and vice versa for the opposite direction of the inbound flow. Hence, without a suitable market and limited conditions, users flexibly handle the transactions with lower cost and based on their networks.

"I send money to my father in Somalia, once or twice monthly. I send money through Hello Cash to my friend in Dollo Ado, and he then helps me send it through Dahabsiil [remittance agency] in Dollo."

A respondent in Kobe camp

"To perform the international transfers, we have to go to Dollo Ado. As refugees, we must ask for permission issued by ARRA. The pass permit allows travel in 3 days, but it is not enough for us to do our business activities [together with the transaction process]. Even the procedure to obtain permits might take too long. Therefore, it would be convenient for us to have a remittance agent here."

FGD in Melkadida camp

Nonetheless, despite the new opening of the BCE branch and SMFI in Bokolmany, the people still prefer to travel to Dollo Ado to manage their transactions. This preference is mainly because the exchange rate for foreign currency is better in a free market, and they could also take that opportunity to buy goods in Dollo. The banks charge high transaction fees, which are incurred through poor exchange rates. However, the majority of users process transactions occasionally or once a month, which accounts for 65 percent, reflecting the small scale of their activities and requiring a low frequency of transactions. In contrast, some others receive money from family or relatives in Somalia.

“We know they offer remittance services and money transfers in new branches here, but the cost is high, and we lose money. For example, if our family send in foreign currency (e.g., USD Dollars), we are only given in local currency, ETB. They apply a poor exchange rate and we, therefore, receive much less money. In Dollo Ado, we can get a better exchange rate and receive more money.”

FGD in Bokolmanyo camp

“Sometimes, I use the ECV plus mobile banking service to receive money from my son when my agricultural production is not good. That helps me to cover the cost of basic needs for my family here.”

A farmer in Buramino camp



Picture 14: YEP graduate in his shop in Bokolmanyo, May 2020 ©Hien Minh Vu

Savings

Similarly, the financial market and livelihood activities are based largely on practices of traditional groups, local lenders, traders, family, and neighbors, for both refugees and host communities. According to an estimation from FGDs, the ratio of HHS that have savings or earn some additional money ranged from 5 to 90 , which appears to be inconsistent and may lack accountability. This discrepancy is understandable because it is not easy to determine an accurate rate of savings in such communities.

“We think that most people have some savings, more or less. They can keep savings at home, EBC in Dollo, Dedebit MFI, VSLA, and informal groups.”

FGD in Hilaweyn host

“About 20 percent of households have savings, but the amount of savings is not much because they do not have work to do for making good money. They earn a small amount of money; for example, they sell food rations to earn/save 20 ETB per week, and incentive workers can earn 700 ETB per month.”

FGD in Hilaweyn camp

In the HHS, around 70 percent of households appeared to have savings. However, it is important to clarify that the HHS purposely sampled the current financial service clients and the active business owners in the market center. This approach could lead to a higher rate of savings from better-off HHS than the average in the area.

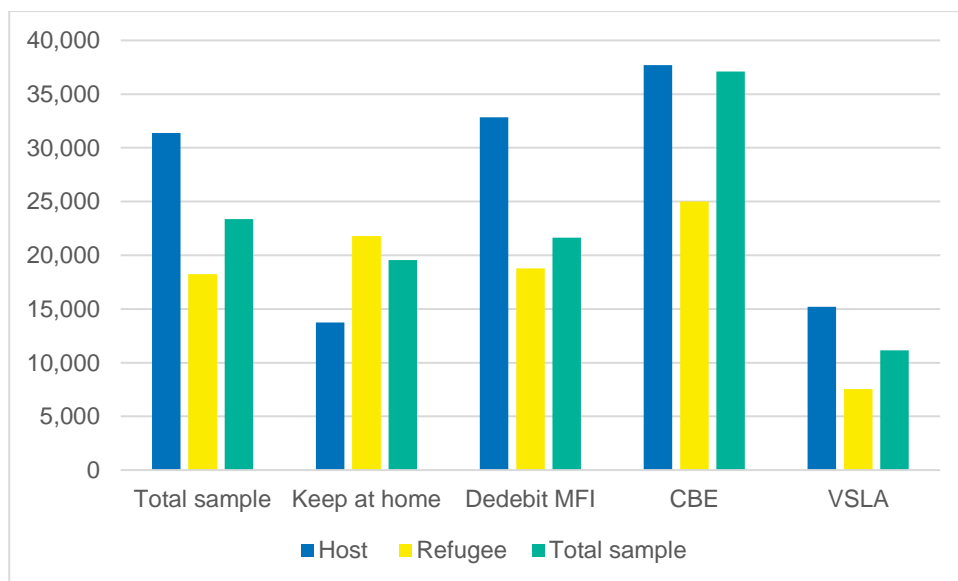
Further evidence illustrates that people manage their savings behavior based on their conditions and purposes. HHS largely tend to save their money in Dedebit at rates of approximately 43 percent. However, this ratio might also be exaggerated because Dedebit microfinance beneficiaries are the only clients who have received a formal loan service in the market and are targets to be included in the sample. Therefore, they are also savings clients as compulsory savings for loan-takers.

The second main approach, 34 percent of the total, for maintaining savings is at home. This strategy is primarily chosen because savers can access their money immediately when required, rather than taking time to withdraw. Another factor contributing to their decision is the total amount of savings. Some respondents explained that they keep part of their savings at home, and the other part in institutions, if it is larger than a certain amount.

The HHS shows the total value of savings kept at home tends to be lower than that kept in financial institutes (BCE, Dedebit MFI). The value of savings held by refugees (18,000 ETB) is also less than savings for those in host communities (31,000 ETB).

Moreover, the further descriptive number demonstrates that HHS with more members involved in income-generating activities tend to have more savings, regardless of household size. CBE has the advantage of being a government-secured institution and dominant market power so that it can provide assurance and safety in terms of keeping their clients' money. Moreover, the highest amount of savings appears for clients of BCE. Hence, the wealthier tend to keep savings in more secured options, which intuitively makes sense.

Figure 5: Value of savings from HHS (N = 110)



Source: Author's calculation from HHS

"I keep my savings in 3 different places. It is more secure in BCE because this is a state-owned institution. The OIB branch in Melkadida is in close proximity, and Dede-bit MFI is where I can obtain loans."

A respondent in Kobe host

The next common option is VSLA groups, including both the batch supported by NRC and Mercy Corps, as well as informal self-managed groups. Most participants stated that they were relatively satisfied with these groups, and they found them to be friendly and dynamic. They also reported benefitting from deposit mobilization, microcredit, and insurance activities.

Although the amount of savings was substantially lower than for other more popular options, it helps smooth their cash flows and cope with unexpected situations. Members' participation in VSLA was found to be most likely constrained by other better opportunities, and these members were found to have rather modest savings.

"I am a cashier at VSLA and keep a money box of savings. Our group has 25 members. We meet every week and save 15 ETB and a separate 5 ETB as a social fund...Yesterday, one member's son

was hit by accident, and we extracted 400 ETB of social fund for him for medication and treatment... I am a YEP graduate from tailor training. However, I do not have enough money to buy a sewing machine to start my own business. Now, I work as a guard in IRC. I wish we will soon have enough savings in our association and will receive loans."

VSLA member in Melkadida camp

As per cultural norms, some people leave their savings or daily money earned to neighbors or business fellows in market centers, where they have safe boxes³². This practice appears in a few cases of HH interviews and was mentioned in FGDs. In addition, from the data provided by OIB, there are significant numbers of savings clients (over 800 in Melkadida and Kobe) that were not well represented in the sampled survey. Furthermore, comparing across communities, approximately 50 percent of HHS have savings in Buramino and Hilaweyn, whereas the ratio is approximately 80 percent in Kobe, Melkadida, and Bokolmanyo. This difference may be due to the presence and convenience of the service providers in the communities, particularly for Dede-bit clients. Dede-bit program implementation has lagged behind in Buramino. The office of the Dede-bit program is located at a relatively long distance away from Hilaweyn communities. Although there are an OIB and head office of Dede-bit in Melkadida and close to Kobe, new branches of BCE and SMFI are in Bokolmanyo. Together with many other opinions gained from the FGDs, location appears to play a crucial role in determining market share and customer outreach.



Picture 15: Shop owner and tailor in Kobe camp, May 2020 ©Hien Minh Vu

“One of the challenges for our office is the long distance to the residence and business center of the communities.”

Ahmad Abdi, REST-CPDA accountant in Hilaweyn

“The Dedebit office is located on the other side of town and is almost 2 km from our refugee camp. This inconvenience prevents us from effectively using the savings services.”

FGD in Melkadida camp

“Oromia International Bank branch is right in the town center, and it is easy to access.”
A respondent in Melkadida host

Loans

Credit and loan providers analyzed in this research were from various forms available in the area, such as banks, microfinance, informal groups, traders, wholesalers, neighbors, and families. However, most of the cases in this context are borrowers from newly microfinance schemes and trade-credit connection activities. So far, only 8 host clients have obtained loans from formal institutions of OIB and SMFI, although loans and credits appear to be the most in demand of all financial products³³.

In this household survey, approximately 68 percent of participants had attempted to apply for loans, and 64 percent had successfully attained them. A similar explanation as in the savings section applies here, in that the ratio is expected to be higher than the average of the entire population because this is a specific HH sampled from current financial clients and active business owners. Those several cases failed to access loans from Dedebit and a few from OIB and CBE. Regarding their answers, Dedebit microfinance did not provide any feedback about why they could not obtain loans, whereas the commercial bank applicants mentioned a lack of collateral.

“I requested a loan of 1 million ETB from Oromia International Bank but without success. The reasons include: first, I do not have enough collateral in terms of owning a large house; second, there was a complex process involving many documents. My purpose for obtaining loans is for my business, building a new house, and buying a vehicle.”

A respondent in Kobe host

“I applied for a loan from the Dedebit microfinance program many times. But I did not succeed. We were a group of 3 people and had savings of 5,000 ETB. They just said come back, come back next time. We do not know why, and now I am hopeless.”

A respondent in Hilaweyn camp

³³ All FGDs ranked loans and credits as the most in-demand financial product

Among the loan takers in the HHS, 48 percent are engaged in credit on trading activities, and 42 percent are Dede-bit beneficiaries. Approximately 10 percent mentioned that they had borrowed from family or friends. These figures are in accordance with the reported purposes of using loans. The vast majority of borrowers demand for the purpose of business investment, which accounts for 66 percent. This figure is attributed to the target clients of the Dede-bit MFI scheme for business activities.

The trade–credit mechanism between buyers and sellers is also widely used in the market for both host and refugees and even between both communities³⁴. The other purposes are household consumption (19 percent), livestock production (14 percent), and agriculture production (6 percent).

“I opened this boutique last year using my savings. I buy goods on credit for my shop from Dollo Ado.

I can repay the money for the wholesaler after I collect money from my sale to my customers here.

Now, the value of my items owned to the wholesaler is about 10,000 ETB.”

A boutique owner and tailor in Kobe camp

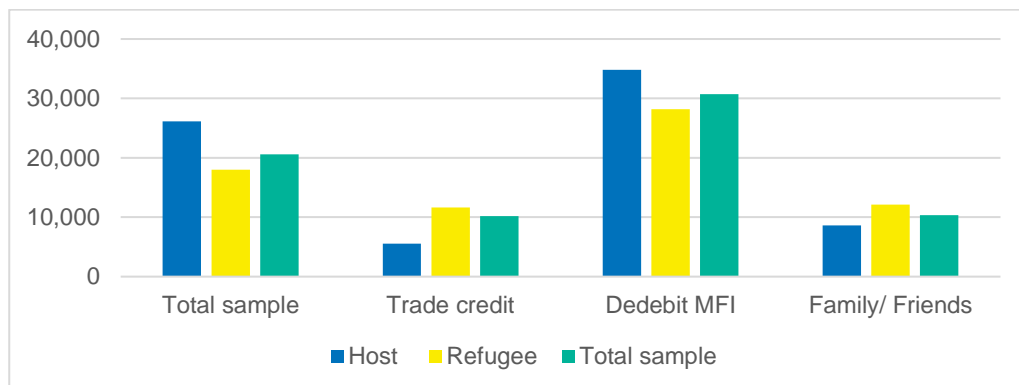
“I used to work for the owner of that barbershop at the corner over there. Then, I borrowed money from my family to open this one for myself. I want to have more money to do other business and open a tailor shop for my brother, who graduated from NRC training to start his own business too.”

A barber in Kobe camp

Approximately 10 percent of respondents accept credit from family and friends. A few cases obtain loans from SMFI and VSLA. In terms of loan size, the average amount of Dede-bit microfinance loan appears to be the largest, followed by trade credit and family lending (30,700 ETB, 10,870 ETB, and 10,360 ETB, respectively). However, an important factor to consider for measuring loan size is the cycle period. A Dede-bit loan is expected to have a 12-month cycle, whereas trade credit typically has a 1-month cycle, or even less, when the business is purchasing new stocks. Similar to savings, HH with more members involved in economic activities could positively influence the loan size. The average loan size of HH with one member engaged in economic activity is 18,000 ETB, whereas for HH with more than one member engaged in such activity, this figure amounts to 26,000 ETB.

³⁴ FGDs

Figure 6: Value of loans (N = 100)



Source: Author’s calculation from HHS

“I applied twice for the Dedebit microfinance program and twice obtained loans. In 2018, I received 18,000 ETB for the first time. Because I was doing well, in 2019, I received a larger amount of 40,000 ETB for the second time. I have invested to expand my business and have faced no problems of repayment.”

A respondent in Melkadida camp

“I received 10,000 ETB from REST-CPDA microfinance to expand my petty trade and livestock trading. I wish to increase the loan size up to 200,000 ETB or even 300,000 ETB to invest in my business and especially in livestock trading. Now, I spend some money for house construction and had to stop livestock activity. I have experience in livestock and want to sell in the market in Somalia... It is supportive for those people who are willing to change and develop their livelihoods, but they did not get the opportunities [to get loans]. Therefore, it is better to provide more support for those people.”

A respondent in Kobe host

Repayment capacity is an important determinant that enables financial activities to be sustainable and profitable. The schedule of repayment is decided and agreed upon in the loan contract. The microfinance loan applies a monthly schedule, but the buyer-trader transactions are more flexible based on both sides’ agreements. In the survey, around 14 percent of borrowers admitted that they face difficulties in repayment. Unprofitable businesses, lost harvests, and problems in livestock production are frequently given as reasons that cause their late payment.

“I have been told to pay back 2,500 ETB every month for my Dedebit microfinance loan. But sometimes, my business does not make enough benefit to repay that amount.”

A respondent in Bokolmanyo camp

“There should be different types of loans and varying periods of repayment. If you do business, you can repay monthly, but if you work in agriculture and livestock, you only can harvest and benefit after a few months.”

FGD in Hilaweyn host

However, the vast majority of loan- and credit-takers are satisfied with the services and mechanisms they are engaged in to help expand their business or to begin new livelihood activities. The flow of cash clearly fuels their inputs and, therefore, creates higher income. Around 92 percent gained income by taking loans and credits. Some experienced stable income because their business was progressing at a relatively slow rate.

Overall, the feature of services that respondents praise most is the dynamics and social cohesion within groups or engaged networks. Around 90 percent of respondents from informal lender-borrower connections were satisfied with their network, whereas 50 percent of Dedebit loan-takers complimented their group relations, and 38 percent appreciated the technical support provided by the microfinance project. However, many other respondents, both with and without a Dedebit loan, as well as FGD participants, indicated their preference of having loans in individual form and in cash, rather than group form and in-kind.

“We would like to have loans distributed on an individual basis. We have different purposes of using loans and also varying levels of willingness to work on our activities. If there are people who do not commit to working hard to repay a loan, then the entire group would be affected. We also do not like to take loans in kind. It is better to have a loan in cash because the price of distributed items is higher in the market, and that makes it difficult to make a profit; sometimes, it is not the exact brand we ordered.”

FGD in Hilaweyn camp

In contrast, the one feature of services that participants want to improve most is the limited loan size. Most borrowers stated that they wish to increase the amount of loans. Considering all HHS, including current borrowers and non-borrowers, 93 percent of respondents wished to have bigger loans and credits. The remaining 7 percent did not want to take loans, because they are scared of being punished if they cannot repay them, or they feel old enough to take a risk; further, some want to have money as a grant. When being asked for further details regarding how to use their loans, most respondents confidently developed a plan of what they want to buy and invest in as part of their economic activities.

“I received a microfinance loan by items through a cooperative with the value of 49,000 ETB. I paid back everything within 12 months. Now, I want to expand my business and expect to have 70,000 ETB. It is said that they have not started the new cycle yet, and I have to wait for a REST-CPDA

announcement. I plan to expand the current business by adding more variety of food and fuel. I even want to open another shop, in case one loses, but the other might still benefit.”

A respondent in Kobe host

Repayment capacity is an important determinant that enable financial activities to be sustainable and profitable. The schedule of repayment is decided and agreed in the loan contract. The microfinance loan applies monthly schedule, but the buyer-trader transactions are more flexible based on both side agreements. In the survey, around 14 percent of borrowers admit that they face difficulties in repayment. Unprofitable businesses, lost harvests, and problems in livestock production are frequently given as reasons that cause their late payment.

“I have been told to pay back 2,500 ETB every month for my Dedebit microfinance loan. But sometimes my business does not make enough benefit to repay that amount.”

A respondent in Bokolmanyo camp

“There should be different types of loans and different period of repayment. If you do business, you can repay monthly, but if you work in agriculture and livestock, you only can harvest and benefit after a few months.”

FGD in Hilaweyn host

However, the vast of majority of loan and credit takers satisfy with the services and mechanism they are engaged in to help expand their business or to start new livelihood activities. The flow of cash clearly fuels their inputs and therefore creates higher income. Around 92 percent gained income by taking loans and credits. Some experienced stable income as their business going slow.

Overall, the feature of services that respondents praise most are the dynamics and social cohesion within groups or engaged network. Around 90 percent of respondents from informal lender-borrower connection satisfy with their network. While 50 percent of Dedebit loan takers compliment their group relation and 38 percent appreciate technical support from microfinance project. However, many other respondents, both with and without a Dedebit loan, and FGDs participants indicate their preference of having loan as individual form and in cash, rather than group loan and in-kind loan

“We would like to have loans distribute for individual basis. We have different purpose of using loan and also different willingness of working on our activities. If there are people do not commit to work hard to repay loan, then the entire group would be affected. We also do not like to take loan in-kind. It is better to have loan in cash. Because the price of distributed items is more expensive that make it hard to make profit. Sometimes it is not the exact type/brand we ordered.”

FGD in Hilaweyn camp

Whereas, the one feature of services that they want to improve most is the limited loan size. Most of borrowers wish to increase the amount of loans. Even in the entire HHS including current borrowers and non-borrowers, 93 percent of respondents wish to have bigger loans and credits. The rest of 7 percent do not want to take loans as they are scared of being punished if they cannot repay loans, or they feel old enough to take risk; and some want to have money as grant.

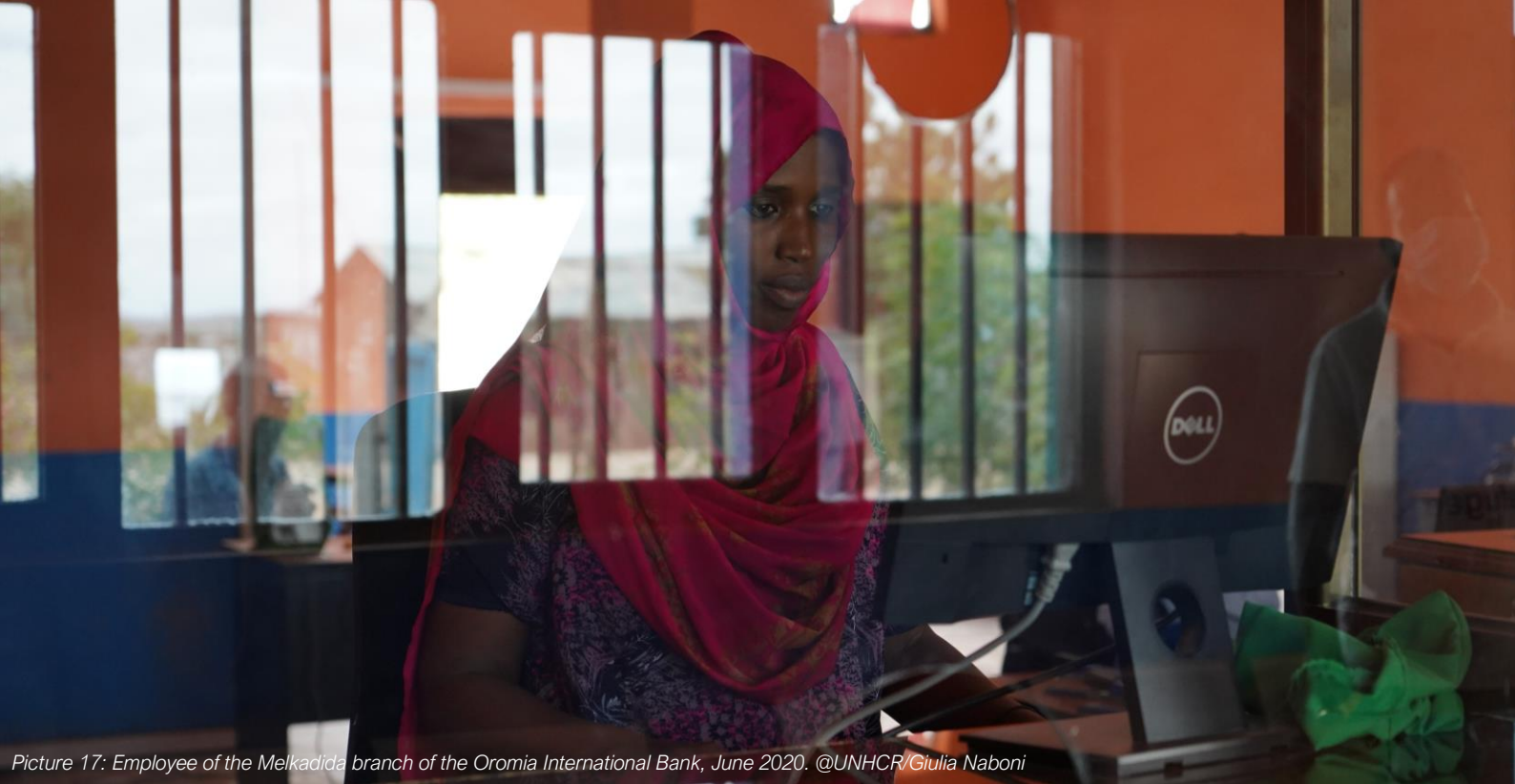
When being asked further details of how to use loans, most of respondents confidently come up with a plan of what they want to buy and invest in as part of their economic activities.

“I received microfinance loan by items through a cooperative with the value of 49,000 ETB. I paid back all within 12 months. Now I want to expand my business and expect to have 70,000 ETB. It is said that they have not started the new cycle yet and I have to wait for REST-CPDA announcement. I plan to expand the current business by adding more variety of food and fuel. I even want to open another shop, in case one loses but the other might still benefit.”

A respondent in Kobe host



Picture 16: Meeting of the Bokolmanyo RCC with community leaders. May 2020. @UNHCR/ Giulia Naboni



Picture 17: Employee of the Melkadida branch of the Oromia International Bank, June 2020. @UNHCR/Giulia Naboni

Challenges and opportunities in the financial service market

Legal and social regulations

The important landmark for refugees is the new version of refugee law issued in 2019 that provides refugees with more opportunities to integrate into the host country: liberalization of the right to work, improved provision of services, including education and financial services, more freedom of movement, and a better asylum application process. However, this new law still lacks details that would guide further implementation and programming. For example, refugees have the right to work only in line with the “most favorable treatment accorded to foreign nationals”, or it also indicates that ARRA “may arrange places or areas within which refugee and asylum-seekers may live” (Nigusie 2019). This requires a more complex bureaucratic process with government offices at multiple levels.

These regulatory measures have arguably influenced the market actors’ decisions to open branches in Dollo Ado and Bokolmanyu. In particular, BCE, OIB, and SMFI have opened new branches in the refugee communities. In the KIIs, the managers of banks and NGOs refer to potential market share from refugee clients as well as the various challenges:

“I find the refugees to be highly active in adapting to their host communities. Last week, I went to another area near the border and observed that the market is vibrant. I see the opportunities from them. But it would be better if we could work directly with them.”

Yared Yassin, BCE manager branch in Dollo Ado

“Refugees cannot access loans from SMFI yet because some regulatory issues have been discussed with local authorities.”³⁵

Yusuf Abdirahim, Mercy Corps governance and partnership advisor in Dollo Ado

In terms of the financial sector at a national level, NBE launched the “National financial inclusion strategy” in October 2017 to promote financial inclusion. One of the core targets is to increase account ownership from 22 percent in 2014 to 60 percent by 2020. The strategy evaluated the current state, barriers, underlying causes, and draws the path to financial inclusion. The main strategies are: (i) strengthen infrastructure, (ii) ensure the supply of an adequate range of suitable products, (iii) build a strong financial consumer protection framework, and (iv) improve financial capacities (NBE 2017).

Regarding the social norms of Islamic culture and practices, the refugees and host communities have similar religious backgrounds and can speak the same dialect. Except in some disputes in the past in one community, almost all participants of KIIs and FGDs confirmed that both sides peacefully live together and relatively well integrate. In addition, in the financial market, there are no fully fledged Islamic financial institutions yet—the providers have only offered some Islamic windows through conventional financial institutions, which is commonly referred to as free-interest banking. The Islamic-compliant products have reached reasonably large numbers of clients and beneficiaries, considering that this is an early stage of market development of financial services in the area. However, most clients use savings services. The poor and vulnerable people still have not had access to loans due to lacking collateral. Because Islamic banking operates on a risk-sharing modality, requiring borrowers to provide collateral is not necessarily Sharia compliant (Hersi 2018). That needs to have an adequate legal and regulatory framework to match with fundamental Islamic financial principles. The products and approaches should be diversified and fitting with the business models in various contexts of refugees and host communities.

“One of the key challenges is that the service providers have to adapt to the local culture of Muslim communities. Generally, people here do not accept the idea of interest rates from conventional commercial banks”

Mustefa Bule, REST-CPDA manager in Melkadida

³⁵ SMFI partnered with Mercy Corps in the newly opened branch in Bokolmanyo

Supporting functions

The market actors and implementing partners recognize the limited level of financial education and perception characterized by a barter economy and religious approaches, in both refugee and host communities. All donor-supported projects pay significant attention to awareness-raising. The Dedebit microfinance project, Somalia MFI, and VSLA are supported by NRC and Mercy Corps. In one way or another, interested people are provided with basic concepts of savings mobilization, microfinance, microcredit, insurance, and other related financial products. They receive further training and are guided throughout the process cycle to gain further knowledge of financial services and their role in business development.

Through simple VSLA groups, beneficiaries have gained positive benefits in various aspects:

“It has created and improved savings habits. It helps strengthen social cohesion, particularly during risk, and provides support via a social fund in case unexpected events occur, such as death, sickness, and marriage.”

Yusuf Abdirahim, Mercy Corps governance and partnership advisor in Dollo Ado

“The awareness mass helps significant participants change their mindset. They start using money to build self-reliant lives, not taking it as a grant and being dependent on relief. I think it could help 50 percent of refugees change through community circles.”

Atsebeha Mebratu, Dedebit MFI branch manager in Melkadida

However, due to resource constraints, the supporting function has not been able to accomplish the targets fully. The structure and responsibility arrangement to implement the project need to be well organized to attain better outcomes. Supporting policies also involve the supply side, such as tax incentives, and plans for improving infrastructure and security states.

“We plan to conduct mass awareness creation four times for each camp during this year, but due to the budget delay, only Kobe camp has conducted one of these sessions. In that camp, the number of participants was estimated at almost 300.”

REST-CPDA semi-annual report in 2019

“Less support and follow-up from the stakeholders, especially the loan committee, resulted in low repayment progress.”

REST-CPDA semi-annual report in 2019

“This program is also the first experience run by REST, CPDA, and Dedebit MFI, all of which somewhat overlap. There are a number of gaps among those IPs. The roles of CPDA are not clear. One project is run by 3 different partners, and conflict and mismanagement have been experienced.”

Mustefa Bule, REST-CPDA manager in Melkadida

“We benefit from tax incentives in this area. There are also several joint forces to guarantee a peaceful environment here. Since the opening of the branch, we have faced no problem with security.”

Yared Yassin, CBE branch manager in Dollo Ado

“We are a private commercial bank and do not receive tax incentives. However, we expect that there will be an infrastructure improvement. A new fuel station has opened recently. In the last few months, I heard that the first-phase plan of expanding a tarmac road from Negele was approved, and the electricity installations are also being considered.”

Abakula Golicha, OIB branch manager in Melkadida



Picture 18: Irrigation scheme in Hilaweyn, June 2020. UNHCR @Giulia Naboni

Target beneficiary groups

Conventional banks operate on a “for-profit” basis. They target all clients that would generate profit and seek to secure against risk by using collateral. In contrast, microfinance institutions and VSLA groups are particularly designed to serve the poor and vulnerable people. When donor grants go through financial inclusion schemes, they have specific criteria for beneficiaries. The IKEA-funded microfinance scheme targets women who are HH heads, HHS with no other sources of income, and those who have experience and a willingness to be engaged in livelihood activity. The Somalia MFI also targets “active-poor” people, meaning those who are impoverished but are already doing something and showing a commitment to work and to use loans efficiently. In contrast, VSLA form groups of any members who have the ability to save regularly. Members should have similar socio-economic levels because that will make it easier to save and borrow together. Although the providers offer a wide range of services for different clients and beneficiaries, the demand for credits and loans is much higher than the supply. The gaps are due to a lack of collateral, funding, and financial capacity.

“The numbers of savings clients and value of savings have outperformed our expectations. Loans are in significant demand, but we are a profit-maker, and it is risky if applicants do not have enough collateral. In Filtu, partners provide funds as collateral through banks to support livestock cooperatives. We hope there are partners granting funds as collateral to guarantee refugees and hosts to access loans, or they can form the group of hosts and refugees together, in which hosts can provide assets or money as collateral, and refugees could continue to work.”

Abakula Golicha , OIB branch manager in Melkadida

Most refugees have experience and knowledge in their home country in agriculture, livestock, and retail trade sectors. According to FGDs, almost all refugees and host communities have skills and experience in livelihood activities, ranging from 50 to 95 percent in agriculture, livestock, business and services, technical and craft work³⁶. However, large numbers of them cannot secure a sustainable livelihood.

“Refugees here come from regions of a pastoralist background, 90 percent of this community, but had to change livelihood when they arrived at the camp to adapt to this new environment and situation.

Now, only 20 percent of refugees here are doing livestock activities.” FGD in Kobe camp

“Refugees here come from towns in Somalia, so they have a business background, rather than agro-pastoralist as in the other camps. Up to 80 percent of us could do business.”

FGD in Bokolmanyo camp

³⁶ Estimation from FGDs

“Around 75 percent of us have experience in agriculture, but there is limited land for farming, and heavy rain has caused substantial flooding.”

FGD in Buramino host

Refugees have also gained additional skills through various programs and training sessions. In particular, the Youth Education Pack (YEP) funded by IKEA and implemented by NRC has provided literacy, life skills, and vocational training for beneficiaries. During 2013–2016, 2,862 trainees graduated from the YEP program. Some of them were supported with start-up kits and workshop places to establish their independent businesses. However, the supply of a newly skilled workforce wave was higher than the demand. On the one hand, the labor market is not yet mature or sufficiently large to absorb all graduates; on the other hand, the graduates lack experience after the program. Although the intervention was not completely successful, a number of graduates could run their business efficiently and maintain a secure livelihood, as well as continue further studies or be able to benefit when they return to their home country³⁷. Therefore, a large pool of the labor force is available in the market that could be intervened. A better market structure and development to create more jobs could boost the local economy and benefit both communities.

“I joined YEP technical training for one year and graduated in 2014, following another 8-month practice in Dollo. I came back to Melkadida and was given a start-up kit and loan from Dedebit/CPDA. I work with other graduates and people here. Our workshop is run well. We have clients from villages that are further away. We are also expanding our services by training others and are opening workshops in Kole and Helaquran. We keep managing our activities together.”

A technician in Melkadida camp

Target economic sectors for financial services

Financial inclusion is an important instrument to help develop self-reliance for refugees, as well as reduce poverty for the host community. The financial intervention has been implemented as part of various livelihood interventions, such as irrigation schemes and agriculture cooperatives, livestock-related product cooperatives, energy and environment cooperatives, and vocational education and training. All income-generating activities are leveraged and connected by smoothing capital flows and expanding markets. Despite the obstacles, limited scale and scope, the financial interventions show an initial positive impact through interlinkage and value chains with other livelihood interventions. For instance, agriculture cooperatives benefiting from irrigation schemes are encouraged to save in

³⁷ KII with former NRC livelihood coordinator

microfinance; small-scale business and livestock trading are the most prioritized to received loans from microfinance; skilled workers are given start-up tools.

“It [the microfinance scheme] has good impact. Beneficiaries are doing good business in the market, with 92 percent involved in petty trade and 15 percent being YEP graduates and cooperatives. They are saving, and they have begun to request another loan. Within such financial interventions, we also create another job opportunity—rather than providing money or items as a start-up, we could establish production centers to provide them with business or technical skills, and we can link to the market system. We don’t say that they are totally efficient, but they should be based on an understanding of the market system, business plan, engagement with the local market, and linked with the larger banks, such as BCE.”

Belete Seyoum, ARRA program head in Bokolmanyo

This study attempts to gauge the value of the local economy in order to develop a sense of the overall market size. This has been done by delineating into the number of business owners (700 in total) and livestock traders (average 86 traders in the market daily) and multiplying their daily revenues to roughly estimate the total economic output in the local market. It was found that the market is worth over 1.1 billion ETB (US\$33 million) annually³⁸. Additionally, the OIB manager also reported a comparatively high volume of capital flow. One year after opening, the Melkadida branch has reached 70 million ETB, which is mainly accounted for by savings and transfers. Hence, the evidence shows the opportunities for investors and donors to transform the local economy to be more market oriented.

One another feature of this financial market is characterized by seasonal production from agriculture and livestock, as well as a period of food distribution for refugees. The farmers and livestock herders depend on harvesting time or after fattening animals, and their production is also highly affected by volatile weather and disease. The result is that cash flows are highly seasonal and sometimes irregular, with earnings concentrated in certain times of the year. Together with the context of refugees whose income depends heavily on trading food distribution, financial flows increase during periods of food distribution. Hence, this requires that the providers diversify and adapt their products to match the needs of the local market context.

³⁸ This can be further validated. We asked 25 business owners from various scales and livelihood activities across 5 locations, which is broken down into business owners and livestock traders: (i) The number of business owners and service providers ranges between 100 to 200 in each location, and the total number is 700. The daily revenue from micro (200–300 ETB: milk sellers, vegetable sellers, food ration sellers), medium (800–2,000 ETB: butchery, cafeteria, small shops), to large (3,000–5,000 ETB: big shops) size was established. From observation, there are more micro- and medium-size business activities than those of large size, leading to a rough estimation of average business daily revenue of 1,000 ETB. (ii) The number of daily livestock traders ranges between 15 to 25 in each location, and the total number of traders is around 86. The daily revenue of each trader is between 8,000 to 11,000 ETB.

“I started my micro business by selling some food rations with the benefit of a couple of hundred ETB only. After receiving a CPDA microfinance loan of 31,800 ETB, I began animal trading with half of that amount and opened a store with the other half. The two parallel businesses help me to secure income, in case one does not run well.”

A respondent in Kobe camp

“Most refugees sell part of their food ration to merchants or local shops in order to exchange/buy other foods or for other household consumption. There should be another way to handle this situation.”

Mohamed Hassen, ARRA program officer in Melkadida

“The late repayment ratio is partly caused by confusion related to how funding is distributed. First it was grants, then it is changed to a loan. Hence, beneficiaries refused to pay back.”

Mustefa Bule, REST-CPDA manager in Melkadida

In this refugee context, for-profit financial institutions should adopt a business-like approach during humanitarian circumstances. Refugees used to receive relief, grants, or in-kind loans for free, and now they have begun to receive loans and must repay them. The stakeholders and partners must be clear when delivering grants or loans and prepare for the appropriate organizational capacity and structure of the program. Confusion in this refugee context is likely to result in low repayment rates and derail the credit track of targeted populations.

Awareness-raising is key to transform the attitude of refugees and host communities toward financial services if they are not well prepared.

“The refugees still depend on the mentality of direct aid, and Mercy Corps normally gives training and facilitation to connect SMFI so that they can get loans, but the community prefers cash relief or any other direct support. For long-term activities, we face a lot of problems to break this idea.”

Yusuf Abdirahim, Mercy Corps governance and partnership advisor in Dollo Ado

Conclusion

This study has demonstrated the current situation in respect to supply and demand, as well as the constraints and opportunities in the financial services market in Dollo Ado and Bokolmanyu districts. The evidence contributes to the development of the literature on financial services in the Dollo Ado and Bokolmanyu refugee-hosting area. It also provides insights and information for the private sector and other partners to aid in the design of appropriate financial inclusion interventions and to attract more market actors in order to promote self-reliance amongst refugees and host communities as a whole.

Access to financial services is critical for business development and the growth of the economy in Dollo Ado and Bokolmanyu refugee-hosting areas. Services such as loans, savings, remittance transfers, and mobile banking can allow low-income and vulnerable people to become self-reliant through investment and entrepreneurship. In line with the overall growth of the financial services sector in Ethiopia, the two remote districts of Dollo Ado and Bokolmanyu have experienced modest growth in the financial services sector in terms of branch expansion and diversity of financial service products in the past few years. Since the first commercial bank (Commercial Bank of Ethiopia) opened in Dollo in 2012, there are now 6 branches in the market from Oromia International Bank, Dede-bit Microfinance, and Somali Microfinance. All the financial institutions provide various conventional and Sharia-compliant products, and through different agents and digital banking channels. Nonetheless, there are still gaps in the financial market that leave the vast majority of the population without access to formal financial services. Currently, only a small fraction of the population can access formal and semiformal financial services. The only significant source of formal loans accessed by refugees and host communities is the donor-funded microfinance scheme implemented by Dede-bit MFI and partners. This project has provided loans for less than 1 percent and savings services for nearly 7 percent of the adult refugee population, whereas the other financial institutions (CBE, OIB, SMFI) could provide savings services for 0.5 percent of refugees. Despite the limited outreach, the findings show the positive impact of financial services on the livelihood of a majority of beneficiaries and clients.

By analyzing local supply and demand, together with the existing financial rules and regulations, this study finds that the demand for financial services in Dollo Ado and Bokolmanyu is high and that the current supply of financial products and banking services are not sufficient to meet the market demand in an affordable and accessible manner. Demand for loans from the farmers, livestock groups such as milk sellers, meat sellers, livestock traders, as well as the retail shops in the camps is critically underserved by the existing conventional banks and microfinance institutions operating in the area. There is a substantial gap in providing loans to the recently launched large-scale agriculture



Picture 19: Refugee farmer in Hilaweyn onion fields, June 2020. ©UNHCR/Giulia Naboni

cooperatives under UNHCR's livelihoods program funded by the IKEA Foundation. More generally, a lack of adequate access to credit has hampered efforts to promote financial sustainability amongst refugees and host communities who are engaged in farming, livestock production, renewable energy production, Prosopis charcoal briquette production, or gum and incense retail cooperatives. There is a market opportunity for both the existing financial service providers, as well as any new financial institution that wishes to invest in the area.

Despite the remoteness of the area, natural disasters, and poor infrastructure, the vibrant cross-border local economy is estimated to be worth more than 1.1 billion ETB (US\$33 million) annually. The active business owners, livestock-related activities, and farmers are expected to access more financial products, particularly loans and credits³⁹. Further, a large and young workforce is seeking opportunities in the labor market to access financial services to build livelihood activities. Mobile banking services powered by technology have started to become more popular and efficient due to the available telecommunication networks that make it convenient to perform transactions in rural areas where paved transport infrastructure does not exist. In addition, the local government is pursuing various development projects in the agriculture and livestock sectors, thereby creating further demand for financial services.

³⁹ All FGDs ranked loans and credits are the most in-demand financial product

The livelihood interventions supported by UNHCR and the IKEA Foundation have led to the creation of concrete canals, modern irrigation technology, and legal cooperatives registered under the Ethiopian government's cooperative laws. Similar recent investments in Prosopis charcoal production, renewable energy, and Somali gum/incense have also created market demand for financial services.

This assessment also finds that there are various challenges that may undermine investment potential in the financial services sector. These issues include the remoteness of the area, the modest purchasing power of the refugee and host community clientele, high unemployment rates, natural hazards such as seasonal flooding and drought, and the lack of physical collateral available to refugees.

Evidence on the ground shows that, despite these concerns, multiple financial service providers have opened branches in both Dollo Ado and Bokolmanyo districts and are in the process of expanding their services. The refugee proclamation of 2019 grants more rights for refugees for better social and economic integration, which would potentially allow refugees in Dollo Ado and Bokolmanyo to own assets and receive residence cards. The Ethiopian government has also launched a national financial inclusion strategy, which promotes access to financial services for the local population. These developments, coupled with market opportunities, have influenced the private sector to establish services in both districts of Dollo Ado and Bokolmanyo, albeit at a modest level. To improve the market system, the government's development plans envisage the construction of a paved road from Negelle to Dollo Ado town, a project which is expected to have a significant impact on business connectivity, employment creation, and further development of the financial services sector in the area.



References

- Betts, A., Bloom, L., Kaplan, J., Omata, N. (2017). Refugee economies rethinking popular assumptions. Oxford University.
- Betts, A. B., R., Greenland, J., Omata, N., Sterck, O. (2019). Refugee economies in Dollo Ado: Development opportunities in a border region of Ethiopia, Oxford University.
- Birru, Y. A. (2019). Ethiopian financial sector development. The Oxford Handbook of the Ethiopian Economy.
- Emana, B. (2009). Cooperatives: a path to economic and social empowerment in Ethiopia. ILO working paper.
- Hersi, R. (2018). The prospects and challenges of Islamic Microfinance in the IGAD region, HESPI
- Mercy Corps-WFP (2018). Inception phase report: Dollo Ado, Somali Region
- NBE (2017). Ethiopian national financial inclusion strategy.
- NBE (2019). Annual report.
- Nigusie, A. A., Carver, F. (2019). The Comprehensive Refugee Response Framework: progress in Ethiopia, ODI - HPG.
- SEEP (2005). Learning from clients: Assessment tools for microfinance practitioners.
- UNHCR (2014). Global strategy for livelihoods: A UNHCR strategy 2014-2018.
- World Bank (2017). Forcibly displaced: Toward a development approach supporting refugees, the internally displaced, and their hosts.

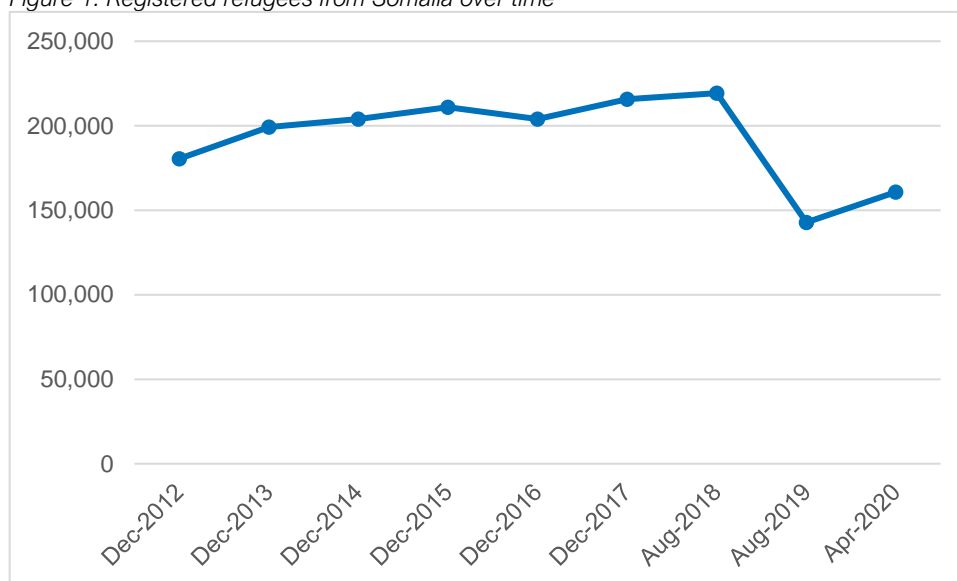
Online sources

- ARRA: <https://arra.et/>
- CBE: <https://combanketh.et/>
- Dedebit MFI: <http://www.decsi.com.et/>
- OIB: <https://orointbank.net/en/>
- NBE: <https://nbebank.com/>
- SMFI : <http://www.somalimfi.com/>
- UNHCR: <https://data2.unhcr.org/en/country/eth>
- VSLA: <https://www.vsla.net/>
- World Remit: <https://www.worldremit.com/>

Appendix

A. Demographic situation

Figure 1: Registered refugees from Somalia over time



Source: UNHCR

Table 2: All camps demographic (as of 29 February 2020)

Location	0-4 years	5-11 years	12-17 years	18-59 years	60+ years	Total
Bokolmanyo	5,260	6,193	6,176	8,731	518	26,878
Melkadida	8,089	8,168	7,456	10,047	597	34,357
Kobe	7,150	8,034	6,050	8,691	667	30,592
Hilaweyn	7,402	9,581	7,271	10,168	605	35,027
Buramino	6,494	8,675	7,362	9,360	597	32,488
Total	34,395	40,651	34,315	46,997	2,984	159,342

Source: UNHCR ProGres as of 29 February 2020

B1. Criteria for individual loan selection of SMFI (translated from Somalis)

1. They should prepare a clean business plan that includes the outcome of the loan
2. They should have a business place/rented business place
3. They should guarantee the loan if the clients are able to show asset collateral (e.g., land certificate)
4. The price of the certified land should be higher than the amount of loan
5. The owner of land or property who requests for a loan should be located in an area in which SMFI has a branch
6. The land/property certificate should indicate the apartment/building
7. They should provide a supportive letter from a cooperative office
8. The location of the business should be in a marketable location
9. They should open an account in SMFI
10. They should save at least 20% of the loan
11. They should have a valid business license
12. The business plan should be in harmony with the cooperative business license
13. They should have a registration form from a business industry office
14. They should possess a valid ID card
15. If it is a new cooperative, they should bring their manual/rules
16. If it is a long-established cooperative, they should bring their external audit documents
17. If it is a group or cooperative requesting a loan, they are expected to bring members' meeting minutes approval indicating the loan request
18. They should provide an application letter indicating the reason, amount, and inputs (regarding what they want to buy) for the loan
19. Their business should be legally and regionally accepted
20. Their business should be free from prohibited business activities
21. If their business is illegal but accepted in Ethiopia as legal, they should bring documents to verify

B2. Criteria for group loan selection of Dedebit-ReST-CPDA

1. A savings habit carried out in a microfinance center
2. Location of the micro business is provided
3. Above 18 years of age
4. Family-based groups are not acceptable
5. Mentally disabled persons are excluded
6. Collateral asset if he/she is not able to repay the loan
7. Form of business or economic activities
8. Availability of major raw materials and other necessary inputs
9. The skill of the borrower to effectively and efficiently operate a micro business project
10. Group members should have the business capacity to repay the loan
11. Liquidity, characteristics of the micro business (pattern of cash flow)
12. The group should be organized based on their consent and should be granted each other's consent
13. Group members should be permanently settled and not likely to move.

C1. Questions for KI: Financial Service Providers

1. Background of bank/institution
 - How many branches are in this region?
 - What was the opening year?
2. Services
 - What are the financial services the branches provide?
 - What type of services attracts clients the most?
 - What are the delivery channels?
 - What are the strengths and weaknesses of current services?
 - Do you have any suggestions to improve services?
3. Client market
 - What is the demand versus supply? What applications could the clients offer?
 - What is the target population?
 - Do you offer services to refugees? If Yes, are there any differences with the host?
 - What are the criteria/requirements to apply for those loans or to use the services?
 - What are the main groups that could obtain loans and use financial services?
 - What is the purpose of obtaining loans? (household consumption, business, emergency...?)
 - Who are the potential clients?
 - Are there any constraints and opportunities to increase the market share?
4. Performance
 - What is the total portfolio estimation? (numbers of clients, average savings, average loan size, default rate)
 - Are those numbers for geography/ethnicity/community different? If Yes, which factors have impacted?
 - Have the growth rates kept rising, decreased or fluctuated? Why?
 - What about sustainability? Profitably? Efficiency?
 - If these areas are not particularly good, Why? And how to improve them?
5. Environment policy and system
 - What is the situation with other financial service providers? Highly competitive?
 - Can you mention some other sources of funding?
 - What about partnerships and implementing-partner situations?
 - What are the legal rights and restrictions for the refugees?
 - Are there any security or accessibility issues for the refugees?
 - How would you describe the population/authority attitudes toward refugees?
 - What is the policy of local authorities and government to this region and to refugees specifically?
 - Are there any other restrictions and opportunities regarding policies/conditions?
 - Do you have any other recommendations or opinions?

Note: The questions vary for different key informants

C2. Questions for KII: Program Officers/ Livelihood Officers

1. Background of the institution
 - How many officers are in the area?
 - How many active years do they have, combined?
2. Economic situation
 - What are the main livelihood activities?
 - Are there more implementing programs moving toward the self-reliance strategy and market-based interventions?
 - How have those programs impacted the livelihood of individuals, households, and the community?
 - Could you describe the strengths and weaknesses of the current situation?
3. Financial services
 - How much do the people understand about finance (financial literacy)? (credit, savings, transfers, remittances, and insurance)
 - Are there any sources or channels to provide them with this information? What are they?
 - What is the demand of people for using financial services compared to the supply on the market?
 - Is the amount of loans sufficiently large for demand?
 - What main groups could obtain loans and use financial services?
 - What is the purpose of obtaining loans? (household consumption, business, emergency...?)
 - Are there any constraints related to obtaining loans or other financial services?
 - Are there any differences in terms of obtaining loans or financial services between host and refugee communities?
 - Do they face any difficulties in repaying loans?
 - What other potential people would use financial services?
 - Do the services satisfy the clients?
4. Impact
 - How have the financial services impacted the livelihoods of individual, households, and the community?
 - Do you have any suggestions to improve the outreach and quality of financial providers?
 - Do you have any suggestions for improving the performance of the clients and gain access to more financial services?
 - What other interventions are required?
5. Environment policy and system
 - How would you describe the partnership and implementing partner situation?
 - Are there legal rights and restrictions for the refugees?
 - Are there any security and accessibility issues for refugees?
 - What are the local population/authority attitudes toward refugees?
 - What is the policy of local authorities and government to this region and to refugees specifically?
 - Are there any other restrictions and opportunities policies/conditions?
 - Do you have any other recommendations or opinions?

Note: The questions vary for different key informants

C3. Questions for FGDs

1. Livelihood activities
 - List and rank the main livelihoods in the communities
 - Estimate the percentage of the population that have skills and experience in those livelihood activities
2. Financial services
 - Mobile banking: regarding the situation of demand and supply, estimate the percentage of people who have access, constraints, and opportunities
 - Remittances and international transfers: in terms of the demand and supply situation, estimate the percentage of people who have access, constraints, and opportunities
 - Savings: for the situation of demand and supply, estimate the percentage of people who have access, constraints, and opportunities
 - Loans: regarding the situation of demand and supply, estimate the percentage of people who have access, constraints, and opportunities
 - Rank the importance and need for services or the most in-demand service
3. Any other opinions/suggestions

D. Financial Service Market Assessment 2020 - Household questionnaire

Introduction

"My name is _____. I am here to assist in conducting a survey of Financial Service Market Assessment for UNHCR. Your household has been selected to participate in this survey, which is aimed at gaining a better understanding of the current situation in regard to financial service activities. If you agree, I would like to ask some questions about you and your household members, your household's means of securing the necessities of life, access to financial services, and other welfare conditions. Your participation in this interview is voluntary and, therefore, you are free to decide whether or not to participate or to decline to answer any question. Any information that you provide will remain confidential and will not be used for any other purpose than the aforementioned.

This interview should take about 30–40 minutes to complete.

Are you willing to go ahead? No or Yes? If No, Reason?

A. Interview details

1 Questionnaire number

2 Location? Code A2

3 Community? Code A3

4 Date

5 Start time

6 Name of interviewer

7 Name of respondent

8 Gender of respondent? Code A8

9 When did you arrive to live here?

10 Do you live with family or relatives here? No or Yes

11 Do you have ID? No or Yes

12 Household address/Block number?

13 Household contact phone?

Code A2	
1	Bolkomanyo
2	Melkadida
3	Kobe
4	Hilaweyn
5	Buramino

Code A3	
1	Host community
2	Refugee camp

Code A8	
1	Male
2	Female

B. Household members

- 1 How many persons are in your household (those who live together with you and share the same food at least once a day)?
- 1a Are there children less than 5 years of age?
- 1b Are there children 5–17 years of age?
- 1c Are there adults 18 years of age or older?
- 2 How many persons in your household are engaged in work generating income or products?
- 3 Do you have family members or relatives living in other towns/regions in Ethiopia? 0 = No; 1 = Yes
- 4 Do you have family members or relatives who live in Somalia? 0 = No; 1 = Yes
- 5 Do you have family members or relatives living in other countries, other than Somalia? 0 = No; 1 = Yes
- 6 Who is the principal decision-maker in your household? Code B5
- 7 Does your household have members belonging to those groups? Code B6

Code B5

1 = Self	7 = Grandparent
2 = Wife/husband	8 = Niece/Nephew
3 = Son/daughter	9 = Cousin
4 = Father/mother	10 = Male housemate
5 = Sister/brother	11 = Female housemate
6 = Grandchild	12 = Other (Specify)

Code B6

0 = None	
1 = Agriculture cooperatives	6 = Maintenance cooperatives
2 = Livestock cooperatives	7 = Business cooperatives
3 = VLSA	8 = Women group
4 = Energy cooperatives	9 = Youth group
5 = Technology cooperatives	10 = Other (specify)

C. Education and Skills

- 1 How many children in your household of school age (5–17 years) are currently attending school?
- 2 What is the education level of the household head? Code C2
- 3 Do your household members have any experience/skills in agricultural production? No or Yes?
- 4 Do your household members have any experience/skills in livestock production? No or Yes?
- 5 Do your household members have any experience/skills in business activities? No or Yes?
- 6 Do your household members have any experience/skills as technicians/mechanics/craftspeople? No or Yes?
- 7 Do your household members have any experience/skills in administrative/office/ computer fields? No or Yes?
- 8 Have your household members attended any vocational/technical/business skill training sessions? No or Yes?

D. Assets

- 1 Which durable items (high value) does your household own?
 - a Concrete house
 - b Fridge
 - c Generator
 - d Solar panel/electric inverters
 - e Television/set-top digital box
 - f Mobile phone
 - g Motor vehicle (car, van, lorry)
 - h Motorcycle/Tuk Tuk (motor rickshaw)
 - i Bicycle
 - j Other (specify)
- 2 How many productive assets does your household own or utilize?
 - a Chickens
 - b Goats
 - c Sheep
 - d Camels
 - e Land for cultivating

Code C2

- 0 = None
- 1 = Non-formal school
- 2 = Primary
- 3 = Secondary
- 4 = High school
- 5 = College/University
- 6 = Higher
- 7 = Other (specify)
- 99 = Don't know

E. Income and labor

- 1 In the last 12 months, has your household received any fixed salary? Code E1
- 2 In the last 12 months, has your household received any income from casual labor? Code E2
- 3 In the last 12 months, did your household receive any income for your business? Code E3
- 4 In the last 12 months, has your household received any benefit from agricultural production?
- 5 In the last 12 months, has your household received any benefit from livestock production?
- 6 In the last 12 months, did your household receive any other source of income? Code E6

Code E3

0 = None	
1 = Petty trader (hawking, grocery, airtime)	15 = Making bricks
2 = Butchery	16 = Construction/masonry
3 = Shop	17 = Carpenter
4 = Clothing/shoe store	18 = Crafts
5 = Hardware store	19 = Home brewery
6 = Agricultural/veterinary inputs store	20 = Charcoal dealer
7 = Mill	21 = Firewood dealer
8 = Mechanic/tire repair	22 = Miraa/Khat seller
9 = Traditional healer/doctor	23 = Livestock trader
10 = Motor taxi operator/transporter	24 = Crop produce sellers
11 = Hotel/food kiosk	25 = Fish trader
12 = Electronics/phone repair	26 = Pharmacist
13 = Tailor/clothes repair	27 = Community health vets
14 = Salon/barber shop	28 = Other (specify)

F. Financial services and Impact

- 1 Have you heard/do you know about any financial services? No or Yes?
- 2 Where did you obtain such information? Code F2
- 3 Has your household used mobile banking? No or Yes?
- 4 Why not? Code F4
- 4a Where do you use mobile banking? Code 4a
- 5 How often do you use mobile banking (on average, how many times per month)?
- 6 Has your household used money transfers/remittances? No or Yes?
- 7 Why not? Code F7
- 7a Where do you use money transfers/remittances? Code F7a
- 8 How often do you use money transfers/remittances (on average, how many times per month)?
- 9 Has your household had any savings? No or Yes?
- 10 Where do you keep these savings? Code F10
- 11 Why do you keep savings at home/friend, or why do you not keep them at a bank/savings group? Code F11
- 12 What is your amount of savings currently?
- 13 Has your household tried to obtain any loans previously? No or Yes?
- 14 Did you succeed? No or Yes?
- 15 Why did you not succeed in obtaining loans? Code F15
- 16 If you did obtain loans, how much do they amount to in total currently?
- 17 From whom did you receive these loans? Code F17
- 18 What was the purpose of attaining/spending the loans? Code F18
- 19 Does your household face any difficulties repaying loans? No or Yes?
- 20 What are the causes of your repayment problems? Code F20
- 21 Do you wish to increase the amount of loans? No or Yes?
- 22 How have loans impacted your income? Code F25
- 23 What was the reason for increasing your loan amount?
- 24 Why did you decrease your loan amount?
- 25 Are you satisfied with all the financial services you have been using? No or Yes?
- 26 What are things you like about the current services? Code F26
- 27 What are things you dislike about the current services? Code F27

28 Do you have any other suggestions/opinions to share? Text

Code F2
1 = Family/relatives
2 = Friends/neighbors
3 = Formal/informal groups
4 = Institution/organization
5 = Banks/MFI
6 = Public media (radio, tv, ads)
7 = Other (specify)

Code F4, F7, F11, F15
0 = None
1 = Lack of legal documents
2 = Lack of collateral
3 = Lack of people to form group
4 = Compulsory savings
5 = High fee/commission
6 = No benefit/no advantage
7 = Waste of time
8 = Not necessary/no demand
9 = Risky
10=Distance required for traveling to apply too far
11 = Other (specify)
99 = Do not know

Code F4a, F7a, F10, F17
1= Family/relatives
2 = Friends/neighbors
3 = Ethiopia Commercial Bank
4 = Oromia International Bank
5 = Dahabshill
6 = Somalia MFI
7 = Dedebit
8 = VLSA
9 = Telecom
10 = Local money saver/lender/shop sellers
11 = Other (specify)

Code F18
1 = Investment in crop production
2 = Investment in livestock production
3 = Investment in business
4 = Daily household consumption (food, mobile airtime, etc.)
5 = Health care
6 = Education
7 = Other household needs (bills, assets)
8 = Other (specify)

Code F20, F24
1 = Confusing aid between loan
2 = Loan activity was not profitable
3 = Emergency/shocks (illness, lost job...)
4 = Use business loan on household consumption
5 = Family celebration
6 = Disaster, fire...
7 = Lost harvest, livestock
8 = Other (specify)

Code F25
1 = Increase
2 = Decrease
3 = Stable
4 = Other (specify)
99 = Do not know

Code F23	Code F26	Code F27
1 = Expand existing business	0 = None	0 = None
2 = Undertake new business	1 = Low interest rate (for loan)/high interest rate (for savings)	1 = High interest rate/commission
3 = Good agricultural production	2 = Group solidarity/dynamics/friendly	2 = Size of loan small
4 = Good livestock production	3 = Training/technical assistant	3 = Collateral policy
5 = Price increase	4 = Other service together	4 = Transaction cost
6 = Demand increase	5 = Efficient service and simple procedure	5 = Attitude/behavior of officer
7 = Other (specify)	6 = Short distance to loan application center	6 = Force savings
99 = Do not know	7 = Easier or no collateral	7 = Excessive distance to loan application center
	8 = Other (specify)	8 = Other (specify)

G. Welfare: Diet and coping with difficult times

- 1 Do you receive food rations? 0 = No; 1 = Yes
- 2 In the last month, have you sold part of your food ration? 0 = No; 1 = Yes
- 3 Reason? Code G3
In the last month, was there a time that your household had to eat less because of a lack of food or
- 4 money to buy food? 0 = No; 1 = Yes
- 5 How long did this period last? Number of days
- 6 What did your household do to get through this difficult situation? Code
In the last 12 months, was there a time when your household did not have money to cope with other
- 7 situations (apart from food)? 0 =No, 1 = Yes

Code G3

- 1 = Investment in crop production
- 2 = Investment in livestock production
- 3 = Investment in business
- 4 = Daily household consumption (food, mobile airtime, etc.)
- 5 = Health care
- 6 = Education
- 7 = Other household needs (bills, assets)
- 8 = Other (specify)

Code G6

- 1 = Reduce portion of food
- 2 = Rely on less expensive food
- 3 = Reduce other consumption
- 4 = Borrow money/food from family/friend at no cost
- 5 = Borrow money at cost
- 6 = Sold personal assets
- 7 = Sold livestock
- 8 = Family members became employed locally
- 9 = Other (specify)

Contacts

Hien Minh Vu

Consultant

vumhien28@gmail.com

Abubakarr Talib Jalloh

Head of Sub-Office Melkadida, UNHCR

jalloha@unhcr.org

Annemieke de Jong

IKEA Foundation

annemieke.dejong@ikeafoundation.org

Cover photograph: @UNHCR/Ariadne Kypriadi