

Refugees' digital financial services' (DFS) needs

Assessment of drivers, barriers, and solutions for use of digital financial services by refugees in Kenya and Uganda

July 2020



Acknowledgements - Kenya

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
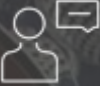
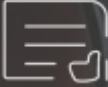
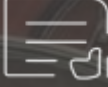

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List of abbreviations

AAHI	Action Africa Help International	MNO	Mobile Network Operator
AECF	Africa Enterprise Challenge Fund	MSC	MicroSave Consulting
AML	Anti-Money Laundering	MoE	Ministry of Education
API	Application Programming Interface	MSME	Micro, Small & Medium Enterprises
ASCA	Accumulating Savings And Credit Association	MVNO	Mobile Virtual Network Operator
ATM	Automated Teller Machine	NFC	Near-Field Communication
CAK	Communications Authority of Kenya	NHIF	National Hospital Insurance Fund
CBK	Central Bank of Kenya	NPL	Non-Performing Loan
Chama	Rotating Savings & Credit Association in Swahili	NRC	Norwegian Refugee Council
CRB	Credit Reference Bureau	OPM	Office of the Prime Minister
DCA	DanChurch Aid	POS	Point-of-Sale
DFS	Digital Financial Services	P2P	Peer-to-Peer
DI	Digital Identity	PPI	Poverty Probability Index
DID	Disability Inclusive Development	RAS	Refugee Affairs Secretariat
DRC	Danish Refugee Council	ROSCA	Rotating savings and credit association
EB-K	Equity Bank - Kenya	SACCO	Savings and Credit Cooperative Organization
EB-U	Equity Bank - Uganda	SCC	Smart Community Coalition
FIs	Financial Institutions	SG	Savings Group
GSM	Global System for Mobile Communications	SIM	Subscriber Identification Module
HSNP	Hunger Safety Net Program	STK	SIM Tool Kit
IFC	International Finance Corporation	SMS	Short Message Service
KCB	Kenya Commercial Bank	T&C	Terms and Conditions
KES	Kenyan Shillings	UGX	Ugandan Shillings
KYC	Know Your Customer	UX	User Experience
MFI	Microfinance Institution	UNHCR	United Nations High Commissioner for Refugees

Terminologies used

Terminology	Definition/description
Digital Financial Services	The broad range of financial services accessed and delivered through digital channels, including payments, credit, savings, remittances, and insurance
Digital channels	The internet, mobile phones, ATMs, POS terminals, NFC-enabled devices, chips, electronically enabled cards, biometric devices, tablets, phablets, and any other digital system.
Electronic banking	Commonly referred to as e-banking. Refers to the provision of banking products and services, including electronic payments, through electronic channels.
Fintech	Refers to technology and innovative business models in the provision of financial services.
Mobile banking	Commonly referred to as m-banking. Refers to the use of a mobile phone to access banking services and execute financial transactions. This covers both transactional services, such as transferring funds, and non-transactional services, such as viewing financial information on a mobile phone.
Mobile Financial Services	Refers to the use of a mobile phone to access financial services and execute financial transactions. This includes both transactional services, such as transferring funds to make a mobile payment, and non-transactional services, such as viewing financial information.
Mobile money	A type of electronic money (e-money) that is transferred electronically using mobile networks and SIM-enabled devices, primarily mobile phones.
E-float	The total outstanding value of e-money issued by an e-money issuer.
Agent	Any third-party acting on behalf of a bank, a financial institution or a non-bank institution (including an e-money issuer or other payment services provider) to deal directly with customers, under contractual agreement.



“Basic phones are the most prevalent mobile devices owned and used by refugees and host communities”

Note 1: Definitions adopted from: Alliance for Financial Inclusion. Guideline note no. 19, August 2016



1.0 Executive summary

This section presents the key insights and recommendations from the assessment conducted in Kenya and Uganda refugee camps and settlements.



Refugee and host communities' digital financial services needs

Main challenges faced by refugees and host communities in the uptake and usage of digital financial services were identified as:

- The need to align existing or new financial products to refugees' and host communities' financial needs.
- Financial and digital illiteracy.
- Deepening digital capabilities. There is a need to own and upgrade mobile devices.
- Strengthening livelihoods to increase income.
- Making digital financial services more accessible and convenient to use.

Align products to needs

- Financial service providers are currently offering products beyond vanilla that do not meet refugees' and host communities' financial needs holistically.
- Users are turning to informal alternatives due to the design gap.
- Financial service providers should re-design products such as savings, credit, transfer, payments etc. to meet the needs of the users.

Deepen financial and digital literacy

- Lack of information and knowledge of digital financial services is impacting choice and preference of users.
- Users overestimate switching costs and are reluctant to use alternate solutions. Thus, they continue to prefer branches even where affordable digital alternatives exist.
- There is a need for focused interventions to deepen financial and digital literacy.

Device ownership and access to charging points

- We observed that refugees mostly own and use old, outdated phones that often run on limited memory.
- The devices negatively affect their user experience making digital financial services unattractive to those that choose these services.
- There is a need to think through interventions that would enable users to get good-quality and low-cost devices to enhance user experience.

Proximity of access

- Challenges with agent liquidity and agent network management result in unavailability of services at agent points during peak season.
- In Uganda, service access points in and around the camps are sparsely distributed making it costly for users to access them (time and transport costs).
- In Kenya, there are no satellite points within the camps. Also, there are increasing levels of agent inactivity due to liquidity challenges. This has made on-demand services unavailable to users, therefore, making digital financial services unattractive to them.

Barriers to uptake and usage of digital financial services for refugees and hosts

Product and need mismatch, high cost of access, weak infrastructure, KYC challenges, and illiteracy

1	Mismatch between product features and needs	FSPs have extended very limited products and services beyond their traditional vanilla products that target specifically the refugees. The range of digital financial services' mix available to users in the refugee markets does not meet critical refugee needs such as savings, payments, credit among others. Some of the reasons is attributed to the
2	High cost of access	There are few access points for digital financial services users. The cost of data is also relatively high for the low-income earning refugee market segment. There is a lack of sharing of digital financial services' network infrastructure and unaffordable switching costs for users in the refugee markets to use alternative FSPs' infrastructure like ATMs. In addition to this, introduction of mobile money tax in Uganda and similar considerations in the Kenyan are affecting the affordability of digital financial services products for users.
3	Weak DFS and road infrastructure	Refugee markets are located in rural and remote areas served by sub-optimal road infrastructure. When it rains, the roads are impassable and transport costs go up. The network coverage in the areas is also often inadequate (often 2G/3G networks) with almost one-thirds of the refugee markets without a network connectivity. The weak infrastructure affects costs of data and transport and creates challenges for agents seeking to access bank branches for float management among other issues.
4	KYC challenges	Most refugees find it difficult to access identification credentials such as national/alien ID, movement passes, business licenses, and civil registration documents. These credentials are required by regulated financial service providers as part of the KYC requirements and their due diligence for serving clients. The lack of these documents cuts off access to formal financial services for the refugees. Lack of KYC documents continues to persist in the refugee markets and is a key barrier to digital financial services' adoption and usage.
5	Illiteracy (educational, financial and digital)	A significant portion of potential refugee digital financial services users have basic education or below. Many face challenges interacting with digital financial services' interfaces that are usually in English, Luganda, or Kiswahili in Kenya and Uganda. Majority of refugees do not have sufficient financial literacy that prevents them to fully appreciate formal financial services. The levels of digital literacy are even lower as a majority often interact with these services for the first time.

Demand and supply aspects that are driving the uptake and usage of digital financial services for refugees and hosts

Partnerships, private sector engagement, favorable regulatory and policy environment, big data, high market demand potential, and need to enhance livelihoods

Supply-side drivers



Partnerships: Leveraging partnerships and collaborations for scale adoption is a key driver to enhance uptake and usage. Partnerships to strengthen the policy environment, deepen technical capacities and attract more investments to innovate and/or upgrade digital financial services' infrastructure result in increase in access and usage.



Private sector engagement: The sustainability of digital financial services depends in large part on the degree and quality of private sector engagement. It is important that DFS interventions cater for the incentivization of private actors through innovative financing (providing risk guarantees, output-based financing etc.) and capacity building.



Favorable policy and regulatory environment: Trends in Uganda and Kenya point to a move by policy makers and regulators to encourage DFS at scale through market-led interventions. A shift from perceptions that refugees are high risk to that of contributors to the economy is enabling DFS in the refugee market. However, challenges - discussed later in this report - still exist.



Leveraging big data: Humanitarian partners and the private sector (e.g. PAYGO solar solution providers) are increasingly digitizing user data. PAYGO generate location, payment patterns and consumption data of the consumer. These data points can be used to create algorithms for credit scoring, fraud scoring and design marketing models.

Demand-side drivers



High demand potential: As per UNHCR, there are over 1.88 million refugees in both Kenya ([0.491 million](#)) and Uganda ([1.394 million](#)). The recent shift from in-kind to cash-based interventions for this large population has made the need to leverage digital financial services critical to livelihood protection in these markets. This demand potential continues to draw new actors into the refugee market.



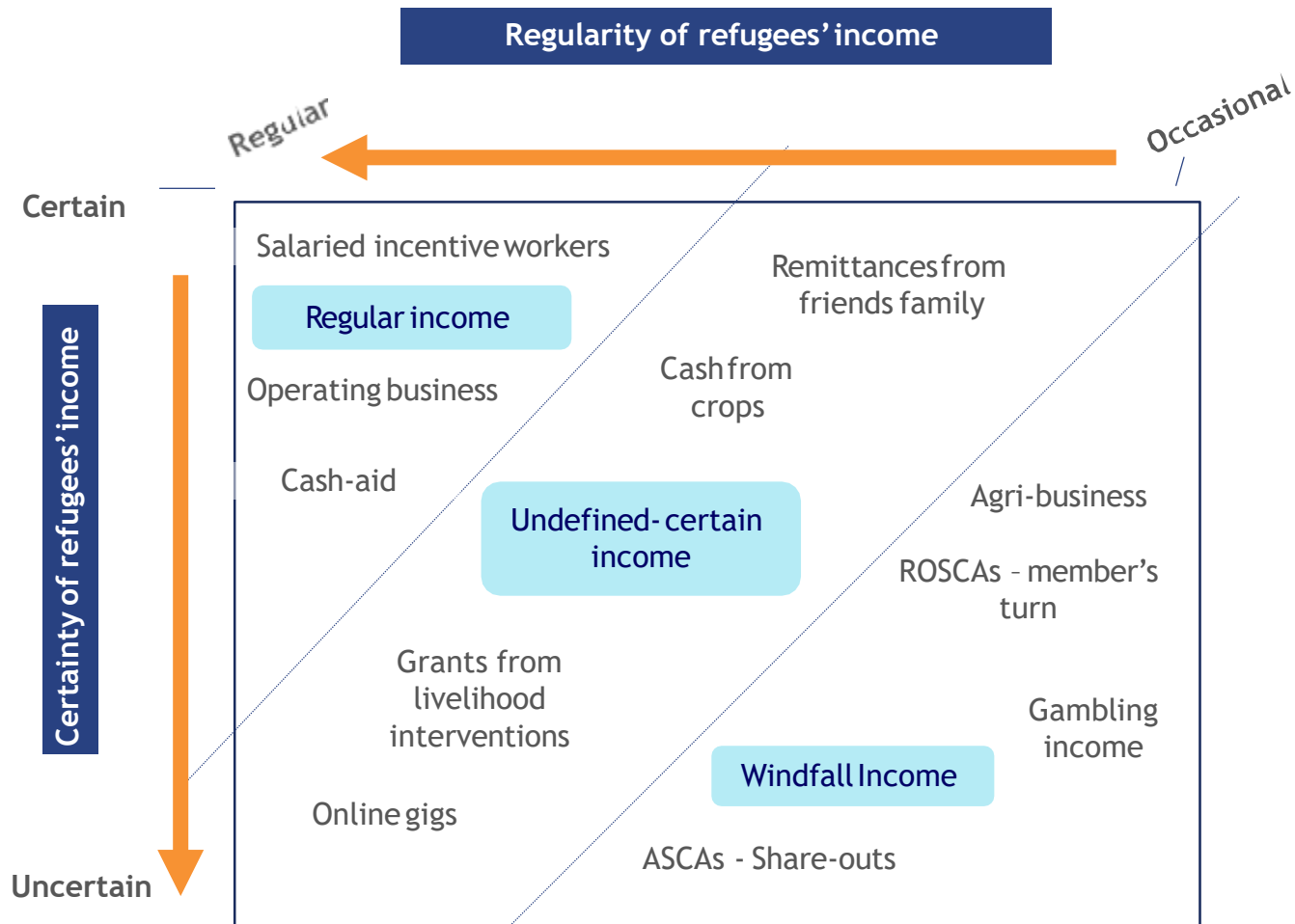
Need to enhance livelihoods: Due to forced displacement, refugees' financial lives and livelihoods are often built from scratch upon arrival at the camps. Their needs and aspirations to rebuild their livelihoods is driving demand for financial services. Digital financial services are helping break barriers to access in the refugee markets, thus, making it an attractive proposition.

Potential solutions to uptake and usage of digital financial services for refugees and hosts

At scale digital financial services adoption and usage needs integrated solutions leveraging specific strengths of the ecosystem actors. Inclusive digital financial services should be the cornerstone for any intervention.

1	Leverage Private-Public Partnership (PPP) models to create better DFS rails	Humanitarian assistance is key source of livelihood for most refugees in Kenya and Uganda. This does not make an attractive market for private sector. That being the reality, there is need to advance a PPP models that improve “DFS rails” such as the road network, electricity grid, telecommunications towers, access points etc.). The connectivity working group can lead such initiative.
2	Leverage large-scale integrations to strengthen the business case for MNOs	Leveraging large-scale integrations around high volume drivers such as social transfers, payments (B2P, P2B, P2P, G2P and P2G) has the potential to strengthen the business case needed to convince operators to boost their network coverage. Innovating in partnerships with MNOs is likely to drive faster buy-in and encourage improved investments.
3	Encourage the development of risk-cushioned finance for women and persons with disability	While refugees and host community face a challenge accessing credit, women and PLWD face more hurdles at structural level: Innovative financing such as introducing risk guarantees and hedged financing for these segments is key to their financial and digital inclusion. Currently gender-sensitive service delivery and inclusive product design for including PLWD is lacking. Banks are delivering services using mass market approaches and may need to differentiate their services to include these marginalized groups.
4	Linkage of savings groups to formal financial services likely to jumpstart deepening of access to credit for businesses and households	FSPs should focus on linkage of savings groups to the banks and NBFIs. These groups have many responsible borrowers. New lending products for groups and group members may need to be tested out and carefully designed before roll out. Groups continue to hold an important avenue to deepening financial and digital inclusion.

Cushioning refugees when regular income sources become uncertain is a key pressing need that drive users to seek for digital financial services alternatives



Refugees seek digital financial instruments that may help them achieve the following:

- Build lumpsum from certain income source.
- Convert virtual cash into physical cash closer to home and on-demand.
- Secure windfall income from immediate use.
- Facilitate receiving of remittances and cross-border payments, for an example, through online gigs.
- Provide information on best investment and reward options particularly pre-windfall.
- Smoothen their income during seasons when regular income sources become uncertain or delayed (respondents cited January- March and June - September as seasons when their income is usually more erratic).

DCA is piloting business case for VSLAs for refugees and hosts

Case of digitization of VSLAs and improved access to credit in West Nile, Uganda

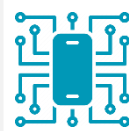


“ DCA in Uganda, in collaboration with Ensibuuko in 2019 launched the “Digitalisation of VSLAs and improved access to credit”-project to further financial inclusion by digitising VSLAs and improve access to credit for VSLAs. This is done with a digital solution named “MOBIS” a cloud-based VSLA & microfinance management platform designed uniquely to replace current practices by digitising the existing paper-based ledgers. It covers typical savings groups transactions and record-keeping usually done by the secretary. Group secretaries can add members’ information and use the app to log members transactions during meetings. ”

VSLA linkage project

- 1 Phase 1: Digitalization
- 2 Phase 2: Bank linkages
- 3 Phase 3: Digital market place

VSLA digitization and linkage details



Digitalization increases productivity and improve operational efficiency of VSLAs through automation of manual tasks, improved accountability and reporting. Generating this digital body of savings data is a critical first step to create a “reputation score” for each member and is an important component of other functionalities that are planned on the platform.



Digitalization of the processes and records of the VSLAs reduce the cost and risk of lending for Banks and MFIs, giving them visibility of the groups’ and women’s track records, while taking away the risk of moving cash. Integration with Banks and mobile money wallets will allow savings groups members to receive their loans and make repayments without needing to travel to a Bank



For the final phase, the focus is on acquiring and onboarding of merchants to support a vibrant ecommerce marketplace. This functionality enables opportunities for VSLA members to trade their goods and services on the platform and it gives access to wider markets and benefits from competitive pricing

Digitalization initiatives has great potential for both refugees and host community market

Digital VSLA Platform



Responsibilities

- DCA has partnered with Ensibuuko in a pilot test of digital VSLA platform.
- It involves digitizing village savings groups ledger and processes in Yumbe, West Nile Uganda.
- Platform channels; USSD, VSLA administrator android mobile application, web based management dashboard.

Outputs so far:

- Digitalized 100 savings groups
- Trained 15 Digital and financial literacy agents

VSLA Linkage to financial providers



Responsibilities

- DCA is in partnership with Equity bank Uganda, and Vision Fund in pilot of linking the Savings Groups to a Bank to provide a formal account & digital wallet.
- The partnership also seeks to develop relevant financial products; including credit, micro credit, savings, payments & insurance.

Expected outputs:

- Scale digitalization to 500 VSLAs
- Linkage of 500 VSLAs to a bank
- Design and rollout savings, loans and insurance products for the groups & Individuals
- Develop an E-commerce Marketplace

Learning and collaboration network

Responsibilities

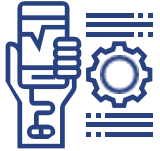
- In collaboration with other NGOs, CBOs working with savings groups, we have created a network to share lessons and experiences.
- Aggregate a business case FSPs, FINTECHs and other development partners working with savings groups.

Expected outputs:

- Scale digitalization & bank linkage to 2,000 savings groups in West Nile, Uganda

Summary recommendations (1)

We recommend: 1. Increased engagement of FinTech, 2. Introducing innovative financing to support FSPs, 3. Development of relevant products, and 4. Increased partnerships and collaborations



Stimulate FinTech engagements: To accelerate digital financial services' innovations, we recommend a structured engagement with FinTechs in the refugee market space. The traditional players are currently more focused on facilitating transfer and payments and offering demand deposit accounts, however they could play a key role in spurring breakthrough innovations in the short to mid term. Inclusion of FinTechs is likely to disrupt the status quo and bring the much needed rigor and focus on innovative solutions. Pilots that have provided positive cases include the Safaricom GSMA VSLA digitization in Kenya and DCA and Ensibuuko VSLA digitization in Uganda



Catalyze innovative financing solutions: Financial service providers in the refugee markets face a daunting challenge of providing services to transient customers with little or no assets to provide as collaterals. Such customers make it difficult for financial service providers to use their traditional banking approaches. The high risk environment also requires access to affordable and risk-covered finance for these service providers. Development partners and investors, therefore, may consider catalyzing investment in refugee banking through building risk cushions for financial service providers and advancing innovative financial instruments to help the providers sustainably deliver services.



Tailor-made financial products: Refugees' market financial behaviour is remarkably different from that of normal customers who enjoy rights as full citizens. It is important that digital financial services' stakeholders take advantage of insights from big data and other sources to design market-led and customer-centric products and services. Part of the reason why uptake has been low is due to a mismatch between market needs and product features. School fees and business loans are the low hanging fruits which can be used as a



Leverage partnerships and collaborate for effective financial and digital literacy: Current interventions have typically taken the form of "touch-and-go". They are short-term, small-scale, unsustainable, and usually driven by single agencies acting on their own. Collaborating for scale and impact is needed to accelerate the transformation of the high latent potential into a market opportunity.

Summary of recommendations (2)

Further, we recommend: 5. Involving facilitating agencies in linkages, 6. An ecosystem approach to digital financial services development, and 7. Hedged financing facility for women and persons living with disability



Linking VSLAs to formal financial services: There is a need for deliberate and dedicated efforts to **accelerate the ongoing efforts of linking VSLAs to relevant digital and formal financial services**. There are over 10,000 VSLAs (9,000+ in West Nile and 1,000+ in Kakuma) with a membership of at least 300,000 members saving at least USD 20 million annually. The VSLAs are constrained by limited liquidity to provide higher-order financial needs which can be provided by formal institutions. Intermediating this linkage may require a revolving or support fund to strengthen the VSLA capacities before linking them as appropriate. Pilot tests are ongoing through DCA partnership with Ensibuuko, Vision fund and Equity bank. This involves a digital VSLA platform for digitizing VSLA ledger and processes plus provide formal account and digital wallet in Yumbe, West Nile Uganda.



Ecosystem approach to digital financial services development: There is a need for an holistic ecosystem approach to digital financial services development that links enhancement of livelihoods to financial inclusion interventions. At the very least, users targeted with financial inclusion interventions need support to secure a means to meaningful livelihood. Digital financial services' development programming ought to incorporate livelihood protection approaches into its design. Helping users transit from subsistence to commercial farming increases their likelihood to use and adopt digital financial services at scale.



Encourage the development of hedged financing facility for women and persons living with disability (PLWD): While users face a challenge accessing credit, women and PLWDs face more hurdles at structural level. Innovative financing such as introducing risk guarantees and hedge finance for these segments is key to the financial and digital inclusion of women and PLWDs. Currently, there is limited gender-sensitive service delivery and inclusive product design for women and PLWDs. Banks are delivering services using mass-market approaches and may need to differentiate their services to specifically include these marginalized groups.

Risk guarantee with an insurance firm for single case insurance products such as maternity. Other interesting areas involve the setting up and linkage of gig based youth groups for online work and marketing (seed and growth venture funding can be done through a hedged/pool fund and linkage to formal financial institutions actioned through risk guarantee systems)

Summary of recommendations recommendation (3)

We recommend the establishment of digital financial services' focal points to enable the provision of consistent technical support to the development of the refugee digital financial services ecosystem in the camps

1	Promote information sharing. Develop a one-stop shop for business registration	Refugees face challenges getting information on how to register and start businesses. This is due to the fragmented nature of registration entities and ID systems: Encouraging centralized information sharing platform for financial institutions , humanitarian or development agencies can help synergize private sector- driven commercial and humanitarian interventions. Agencies should lobby government to implement the <i>Huduma</i> center type information center for refugees.
2	Develop regulatory guidelines for refugees clarifying exemptions and restrictions	Humanitarian agencies and private sector actors have in the recent past made progress with regulators: Discussions with authorities such as CBK and RAS on relaxing KYC and expediting provision of passes etc. have resulted in increased financial inclusion for refugees . There is need to provide regulatory guidelines on financial services for refugees to guide market practice as the shift to cash based aid gains permanence.
3	Leverage partnerships for large-scale client education and awareness campaigns on digital financial services	Raising awareness and implementing DFS education intervention for over 1.8 million strong and growing customer base is costly and cumbersome for any single DFS actor: Piloting roll-outs and implementing large scale awareness campaigns will require an inter-stakeholder approach . There is need to synergize efforts to improve financial literacy and awareness on DFS and financial services in general.
4	Provide consistent technical digital financial services' support to all stakeholders	Creation of a resident DFS technical advisory center to anchor support to humanitarian and private sector actors is advised: This will help coordinate and focus lobbying, policy intervention, building of market standards (best practices) and disseminating lessons across the industry. This is particularly advised in Kenya. DCA can take the lead in developing such a center. The legal counselling center by NRC is a good example to emulate in DFS for refugees.
5	A favorable tax regime to support development of DFS ecosystem in refugee markets	In Uganda, the tax regime has contributed to increased cost of doing business and accessing DFS: The Over-the-Top (social media) tax has resulted in deepening fear of using DFS due to the perception of high cost . A conducive tax regime that lowers the cost of access will go a long way in enabling at scale adoption and usage of DFS in the refugee markets.

Summary of recommendations (4)

At scale digital financial services adoption and usage needs integrated solutions leveraging specific strengths of the ecosystem actors. Inclusive digital financial services should be the cornerstone for any intervention.

1	Leverage Private-Public Partnership (PPP) models to create better DFS rails	Humanitarian assistance is key source of livelihood for most refugees in Kenya and Uganda. This does not make an attractive market for private sector. That being the reality, there is need to advance a PPP models that improve “DFS rails” such as the road network, electricity grid, telecommunications towers, access points etc.). The connectivity working group can lead such initiative.
2	Leverage large-scale integrations to strengthen the business case for MNOs	Leveraging large-scale integrations around high volume drivers such as social transfers, payments (B2P, P2B, P2P, G2P and P2G) has the potential to strengthen the business case needed to convince operators to boost their network coverage. Innovating in partnerships with MNOs is likely to drive faster buy-in and encourage improved investments.
3	Encourage the development of risk-cushioned finance for women and persons with disability	While refugees and host community face a challenge accessing credit, women and PLWD face more hurdles at structural level: Innovative financing such as introducing risk guarantees and hedged financing for these segments is key to their financial and digital inclusion. Currently gender-sensitive service delivery and inclusive product design for including PLWD is lacking. Banks are delivering services using mass market approaches and may need to differentiate their services to include these marginalized groups.
4	Linkage of savings groups to formal financial services likely to jumpstart deepening of access to credit for businesses and households	FSPs should focus on linkage of savings groups to the banks and NBFIs. These groups have many responsible borrowers. New lending products for groups and group members may need to be tested out and carefully designed before roll out. Groups continue to hold an important avenue to deepening financial and digital inclusion.

Summary of recommendations recommendation (5)

Banks have extended their vanilla products to refugees through digital channels. This has led to design gaps resulting in low adoption and usage. The banks have an opportunity to design products based on financial behavior to ensure uptake and usage of digital financial services for refugees and host communities

1	Users are concerned about their security and privacy and usually opt-out of bundled digital financial services	Design financial behavior not products: Refugees prefer DFS products that reinforce their financial behavior and catalyze the achievement of goals. Product features, and names of brands and providers were rarely mentioned during the interviews except with regards to user experiences.
2	Users say they have another solution hence non-adoption of digital financial services	Refugees have a tendency to overestimate switching costs: Refugees tend to keep using traditional products due to fear that interoperability costs to digital channels are unaffordable. DFS providers should deploy more below the line marketing strategies and design touch-led DFS solutions.
3	Users experience access barriers due to inappropriate design of channels and app based solutions	Refugees find USSD- and app-based solutions difficult to use, sophisticated, and slow: Most refugees have low quality phones with limited memories that run on slow android versions. App solutions should be light (DCA's VSLA training app for instance is 37.65 MB!), have simplified design features (1-3 steps on average), and can be accessed via at least more than one channel. Refugees are typically multi-channel users while host communities are single channel users.
4	Users procrastinate completion of requests and tasks in auto-sessions	Simplifying onboarding and user engagement processes: Most refugees procrastinate or change their minds completely when they are unable to complete auto-onboarding processes and service requests. Onboarding processes should have touch-based support. User requests and access procedure should be simplified to take advantage of artificial intelligence capabilities e.g. automated credit scoring to auto-complete information and forms.
5	Micro-insurance products that target health unknown and underused	Design products that address lifecycle needs component with 'default' onboarding as opposed to 'opt-in' features: Refugees were reluctant to sign-in for some products such as m-health but expressed the need to have themselves covered for medical emergencies. Testing default onboarding for such products may provide breakthrough in adoption.

Recommendations to regulators

Emergence of informal DFS channels. Driven by the KYC challenges bound to increase if not attended. At the moment, it seems refugee foundational IDs are not a priority for both governments (Kenya and Uganda).

- Current CBI market is dominated by large banks and MNOs. Competition is important as it can stimulate product variation and also more competitive process amongst many other things. UN, NGOs and government need to develop a more concerted effort to bring level play-field and accelerate competition
- Deployment of digital financial services for the benefit of such minority communities requires significant efforts in lobbying for inclusive regulative policy by all the sponsoring stakeholders. Acceptance of the refugee ‘proof of concept’ as standard KYC by the regulator was a significant achievement that may not have been possible without concerted coordination between UNHCR, UNCDF, the financial service providers, and the Office of the Commissioner for Refugees.
- In order to develop sustainable business ecosystems that will involve and support the target communities, stakeholders could engage policy authorities in seeking waivers or exception for business requirements or provide additional incentives to business owners from among the refugee community to help them participate as agents.
- The rise of informal agents within the camps is action that may require a deeper dive by the regulator due to the risks it poses to users. The agents emerge to fill gaps left by both insufficient number of agents (both bank and mobile money) and agents operating with limited liquidity is also a notable trend in Kakuma and Kalobeyei. These informal DF channel impacts the cost of transaction for the refugees. The regulator and ecosystem players need to work closely to understand the underlying driver and levers that require instant review
- UNHCR internal policy on data management, particularly for identity of the persons of concern is securely managed. It is crucial that data management of information peripheral to identity such as phone numbers maintain the same level
- Low uptake of DFS among the refugees and host community is also related the fact that it seems not a priority. To many low income households, the benefits associated with DFS do not outweigh the costs. In order to increase mass adoption, there is need for ecosystem players to compare the costs of entering/using DFS versus the household income and that of traders.

2.0 About the study

This section highlights the objectives of the study, approach and methodology used, study limitations and key observations noted during the implementation of this assessment.



About the study

This study has been commissioned by DanChurchAid (DCA) with the support of the Smart Community Coalition (SCC). The study was conducted in Kenya and Uganda in February, 2020. The study focused on assessing the refugee financial needs with a focus on digital financial services (DFS) needs.

About DCA



DCA assists the world's poorest to lead a life in dignity. The organization provides emergency relief in disaster-stricken areas and long-term development assistance in poor regions - to create a more equitable and sustainable world. DCA is a member of the ACT alliance alongside 110 other organizations. Aid is given regardless of race, creed, political or religious affiliation. In East Africa, DCA works primarily with camp and settlement based refugee and host communities.

About SCC



SCC is a public-private effort seeking to transform the operating model in humanitarian contexts. Co-chaired by Mastercard and USAID, the SCC organizes and mobilizes stakeholders according to their core strengths to address three fundamental pillars - energy, connectivity, and digital tools. SCC includes a coalition of about 30 members and three collaborators. It seeks to enable innovative, sustainable approaches to the delivery of basic services, creating hope and economic opportunity for the forcibly displaced and the communities that host them.

About MSC



MSC (MicroSave Consulting) is a boutique consulting firm that has, for 20 years, pushed the world towards meaningful financial, social, and economic inclusion. With 11 offices around the globe and about 190 staff of different nationalities and varied expertise, we are proud to be working in over 50 developing countries. We partner with participants in financial services ecosystems to achieve sustainable performance improvements and unlock enduring value. Our clients include governments, donors, private-sector corporations, and local businesses.

Recommended citation: MSC, DCA, & Smart Communities Coalition (2020). *Assessment of refugee and host communities financial needs: Drivers, barriers and solutions to uptake and usage of digital financial services*

Introduction to the assessment

The main objectives of the assessment were to glean insights from customers and key stakeholders about the financial needs of refugees and host communities and examine the extent to which the digital financial services meet these needs



Background to study

The Smart Communities Coalition (SCC) led by DanChurch Aid commissioned the assessment in January, 2020. MSC implemented the study. The assessment aimed to gauge access to digital financial services for refugees and the host communities in Kenya and Uganda. The assessment aimed to among others understand the drivers, barriers and solutions to sustainable and at scale access to digital financial services by refugees and the host communities in Kenya and Uganda.

This study consolidates key findings from recent secondary research and is supplemented by customer insights including focused discussion group engagements with merchants, agents, users, as well as non-users and integrates information from supply side digital financial services ecosystem players.



Assessment report contents

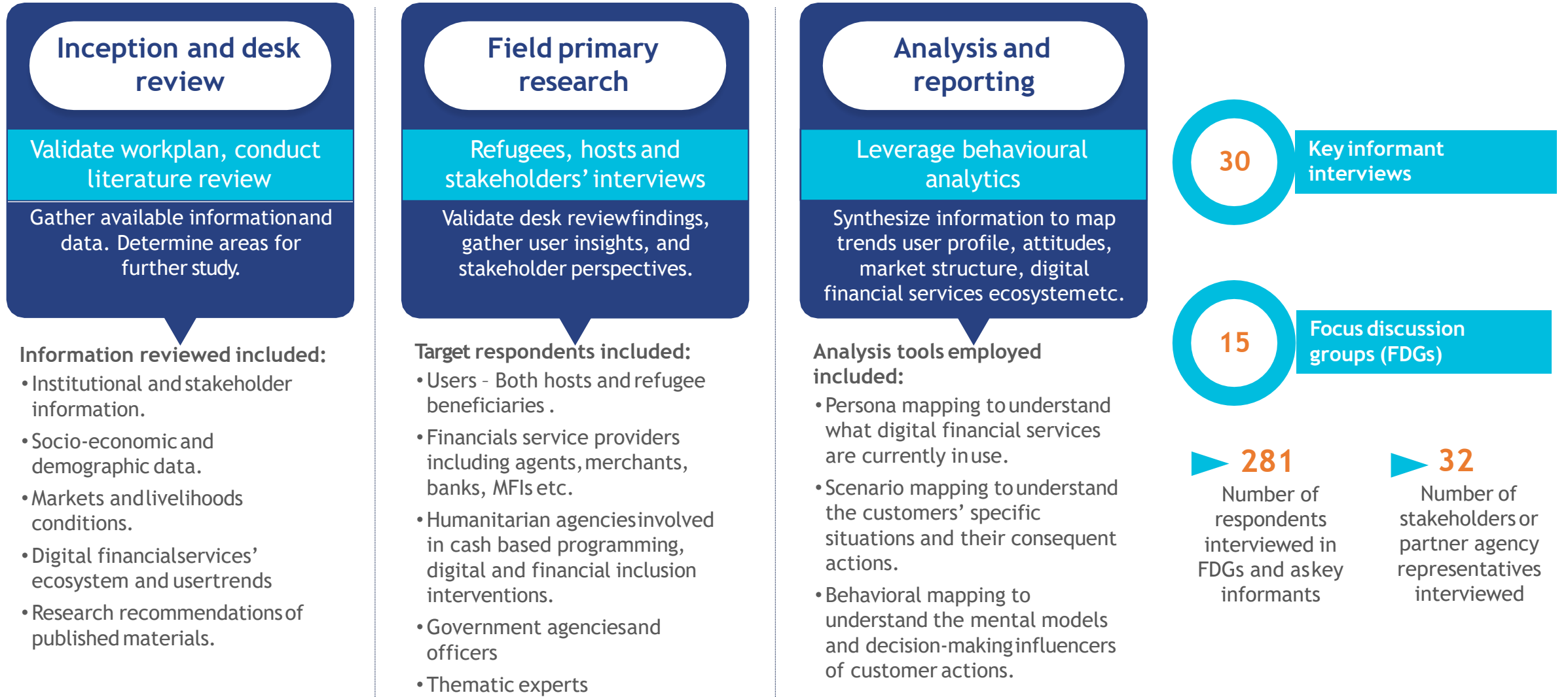
Digital financial services play a critical role in meeting the financial needs of refugees and hosts; However, there is scanty information on the type of financial needs and the extent to which digital financial services meet these needs.

This report contains findings of the assessment. These include:

- Assessment of the financial needs of refugees and host communities in order to establish demand-side trends for adoption and usage of digital financial services.
- Analysis of customer profiles, attitudes, preferences and choices with regards to access to and usage of digital financial services.
- Mapping of the current digital financial services ecosystem including the prevailing competitive environment.
- Recommendations to inform strategy and programming for financial inclusion and livelihood actors.

Our approach and methodology for the assessment

The focus has been on addressing the study objectives via secondary research and customer, beneficiary and stakeholder interviews through a qualitative assessment.



3. Country context and digital financial services ecosystem and markets

In this section, we provide a snapshot of the needs, barriers and digital and financial inclusion for the refugee and host digital financial services' markets along with ecosystem actors, interrelationships as well as current market trends in refugee digital financial inclusion.





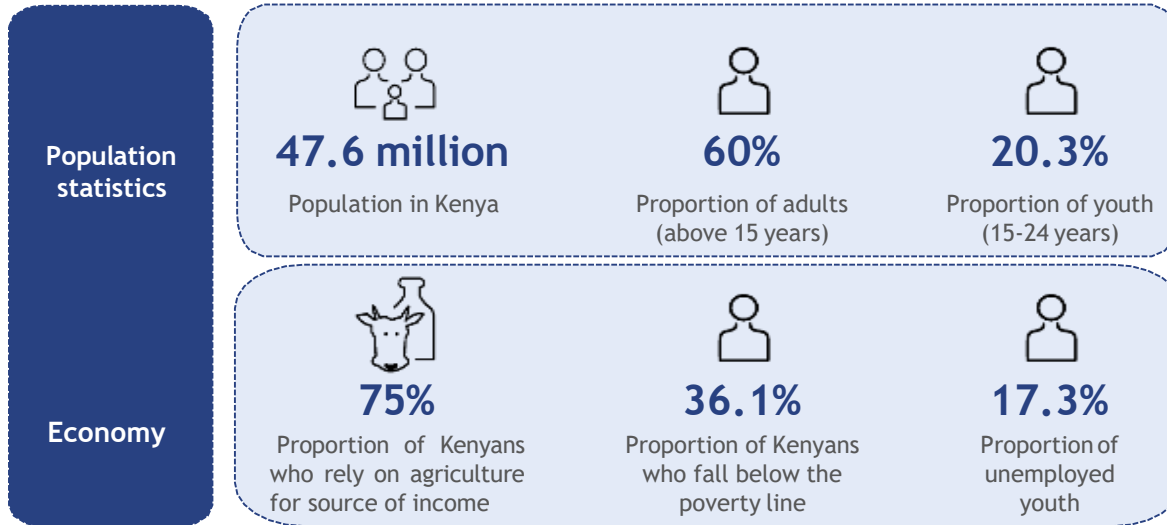
3.1 Kenya context

Focus on Kakuma and Kalobeyi

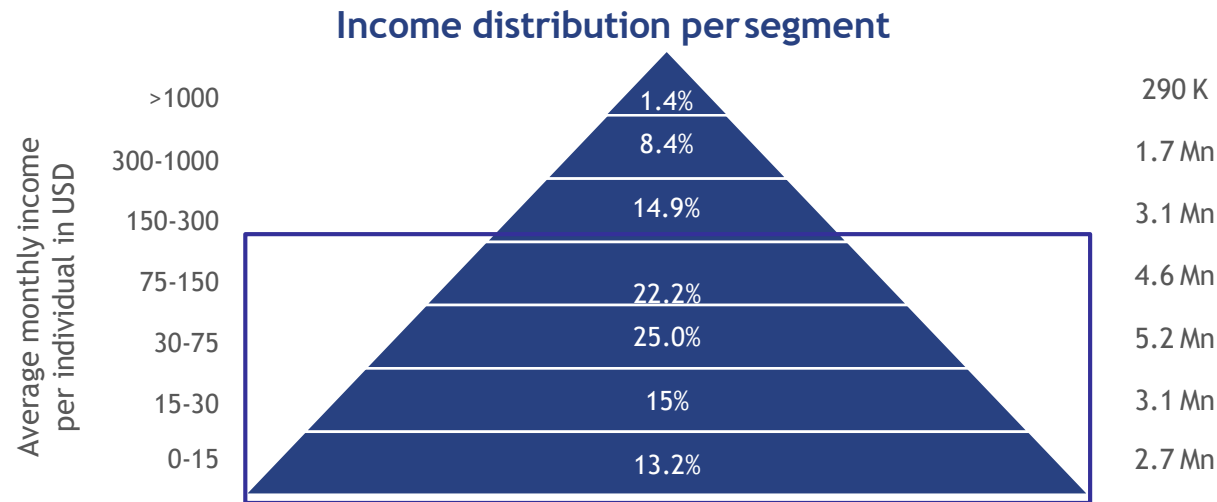
In this section, we provide a high level snapshot of the needs, barriers and solutions for digital and financial inclusion for the refugee and host digital financial services' markets in Kenya.



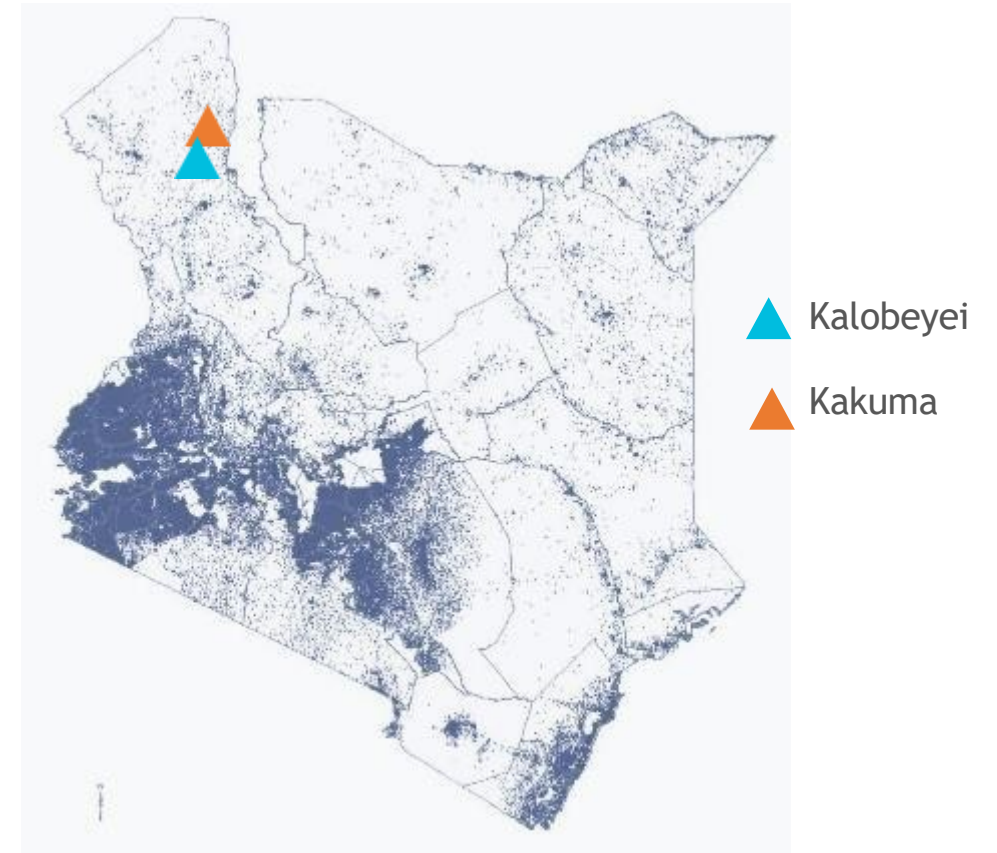
Kenya is a middle-income East African country



Source: World Bank, 2018; KNBS, 2019



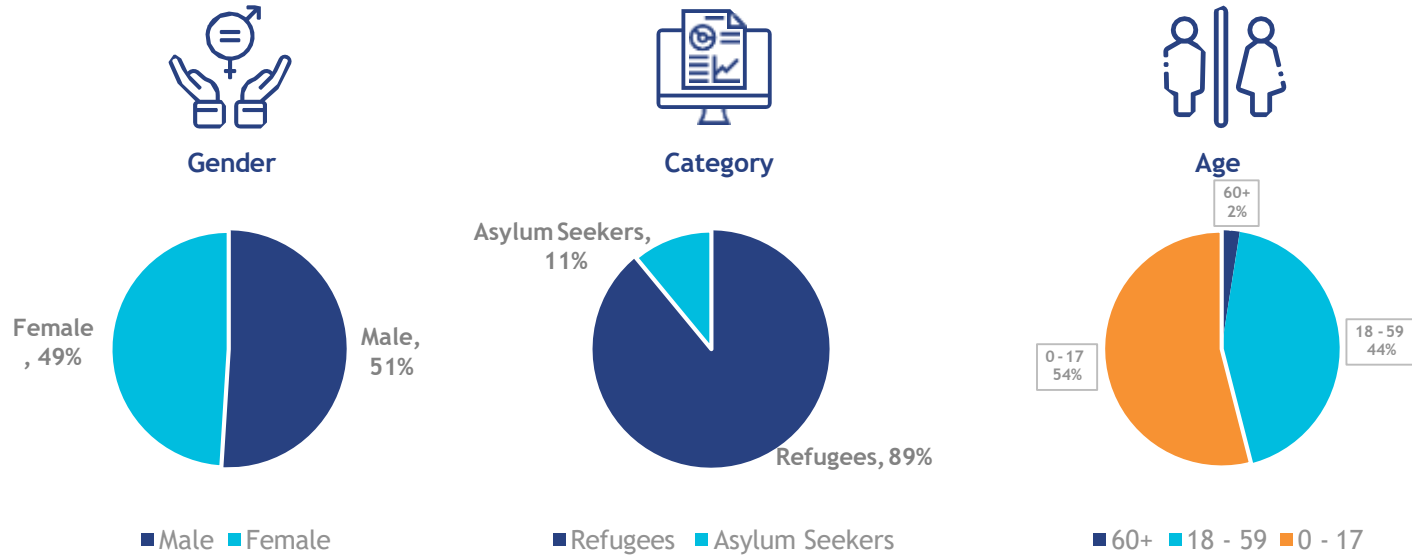
Population density of Kenya, 2019
(each dot represents 500 people)



Source: KNBS, 2019

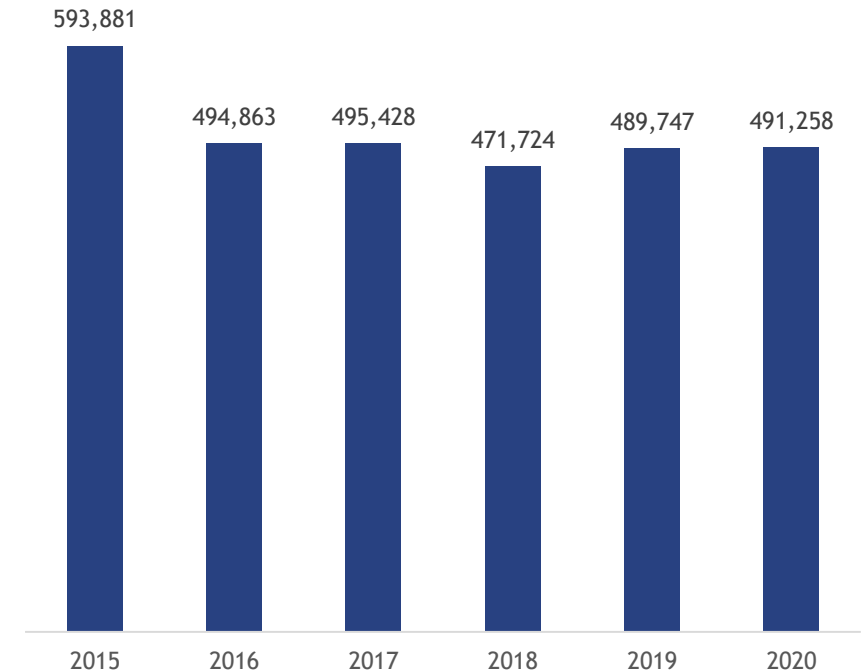
Kenya hosts 0.5 million refugees. 84% live in camps or settlements

Demographics



- Overall, Kenya’s refugee population shrunk from 2015 to 2018 due to the intended closure of Dadaab camp and the voluntary repatriation of Somali refugees. However, the number has grown since 2018 due to returning refugees after repatriation
- Over half of Kenya’s refugee population (53.9%) are of Somali origin.
- Other refugee nationalities include: South Sudanese (24.7%), Congolese (8.9%), Ethiopians (5.8%) and Burundians (January 2020).
- Urban refugees are integrated in various host communities. They are mainly found in major towns of Nairobi, Mombasa, Eldoret and Nakuru.

Refugee population trends (2015 to date)

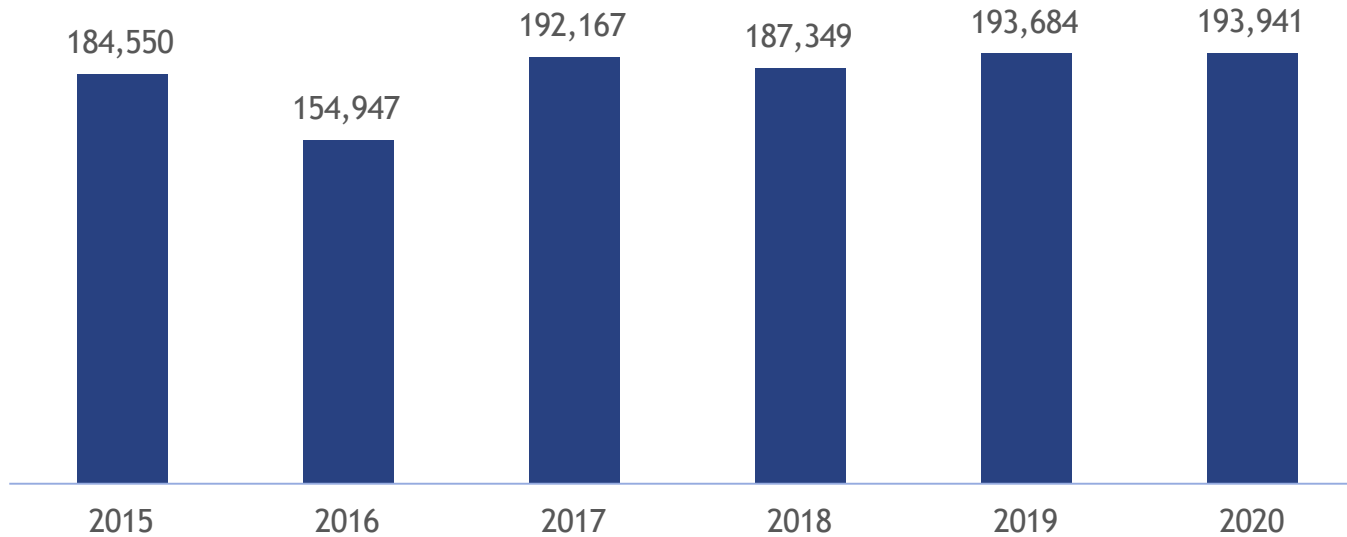


Source: UNHCR, 2020

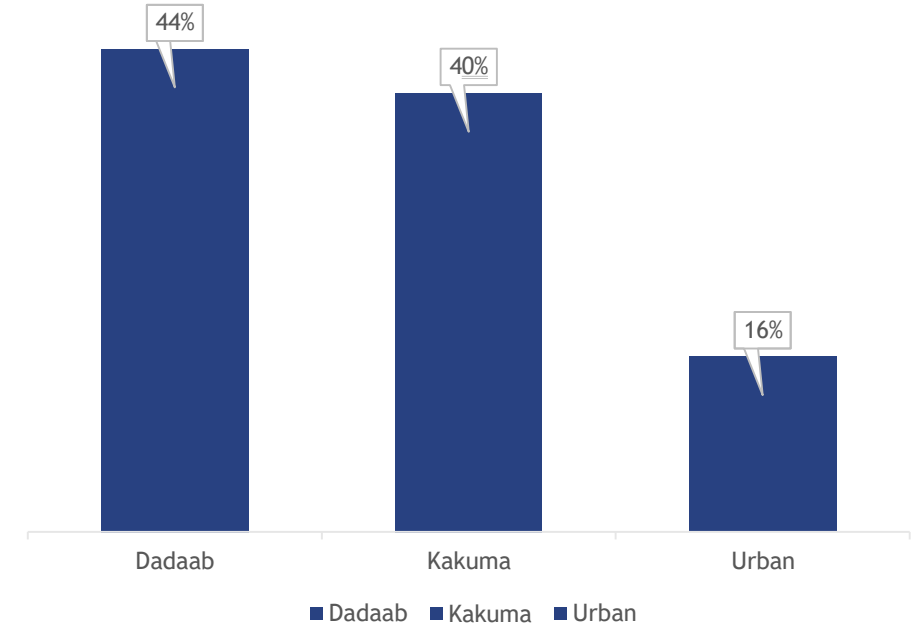
Kenya’s refugee population has shrunk by 17% since 2015 due to the intended of closure the Dadaab camp.

Kakuma and Kalobeyei population, however, has remained below 200,000

Kakuma and Kalobeyei refugee population trends



Refugee populations in Kenya by camp



Source: UNHCR, 2020

The population of Kakuma camp and Kalobeyei settlements has reduced marginally by 5% since 2015.

- Established in 1992, Kakuma became a major refugee camp in Kenya especially after the decision to close Dadaab camp. Thousands of refugees were relocated to Kakuma camp in 2009.
- The camp has had an influence on local population with high levels of in-migration reported since its establishment.

Host and refugee interactions in Kakuma and Kalobeyei



Intermarriages.



Co-ownership of businesses.



Renting of phones or SIM cards by hosts to refugees.



Hosts provide courier services at a fee to refugees' businesses as their movements are restricted.



Leasing agriculture land for farming through investment groups with mixed membership (host and refugee).



Mixed membership to savings and welfare groups.



Provision of in-kind trading on credit (e.g. food rations to host and refugee households) and advancing cash loans (money-lending).



Informal agent services (Both host and refugees).



Sharing social amenities and utilities e.g. schools and hospitals.

Refugees community impact on the host community economy

0.5%



Increase in individual incomes of host community attributable to camp's economy.

2.9%



Estimated increase in employment opportunities for the local host population attributable to the camp's economy.

3.4%



Refugee camp's contribution to Turkana's gross regional product/

A man with short dark hair, wearing a red safety vest over a green and white striped polo shirt, is looking at a smartphone held in his right hand. He is outdoors, with trees and a building in the background. The image is partially obscured by a white diagonal shape on the left and a blue and orange curved shape on the right.

3.2 Digital financial services' ecosystem for digital financial inclusion of refugees in Kenya

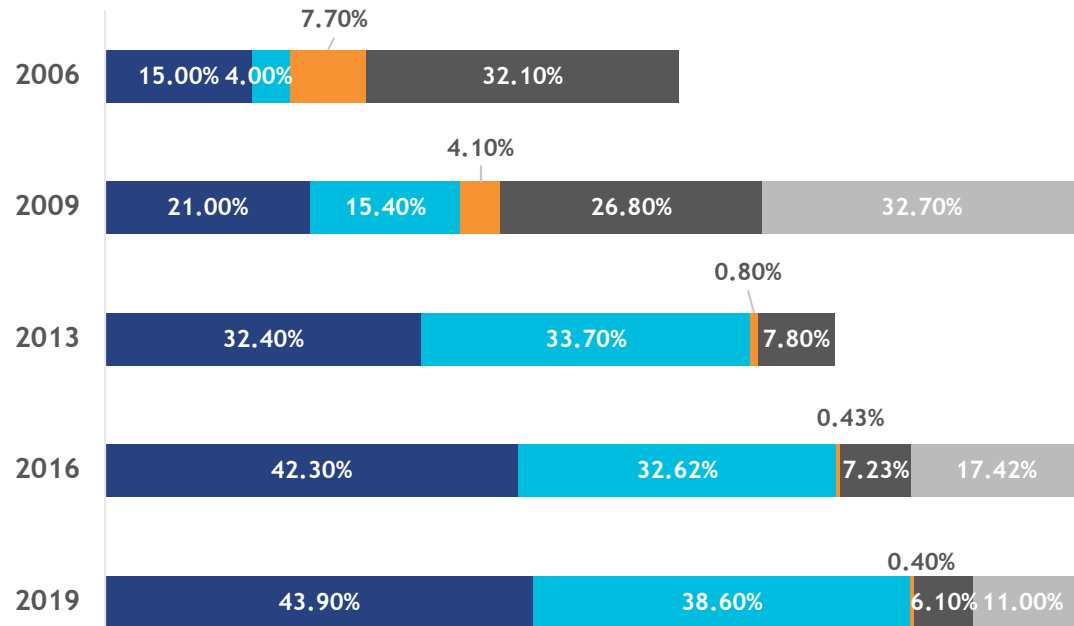
This section highlights the digital financial services' ecosystem actors, interrelationships as well as current market trends in refugee digital financial inclusion and needs' in Kenya



82.9% have access to formal financial services in Kenya

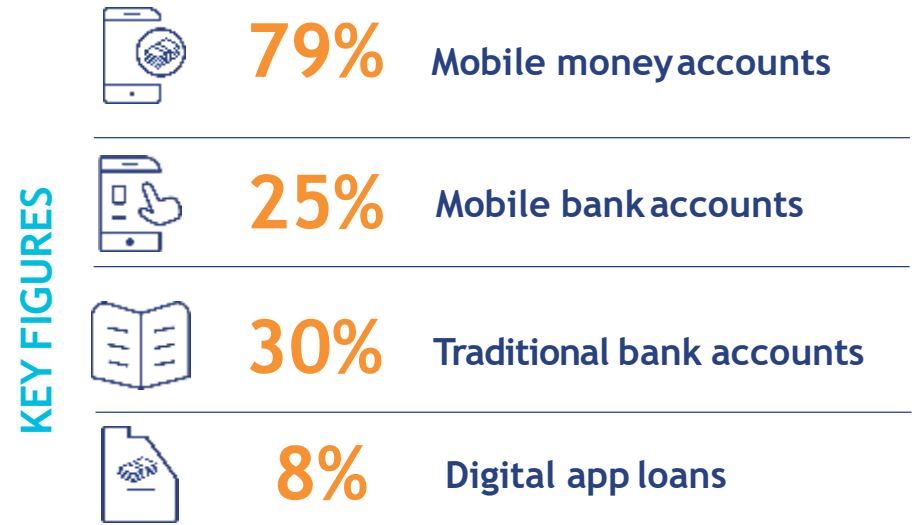
Nine in 10 Kenyans can access any form of financial services due to ubiquity of mobile financial services

Financial access by category



- Access by categories in percentage Formal Prudential
- Access by categories in percentage Formal non prudential
- Access by categories in percentage Formal Registered
- Access by categories in percentage Informal
- Access by categories in percentage Excluded

Kenya has made progress increasing financial access **by 52.3%** from **26.7% in 2006 to 89% in 2019.**

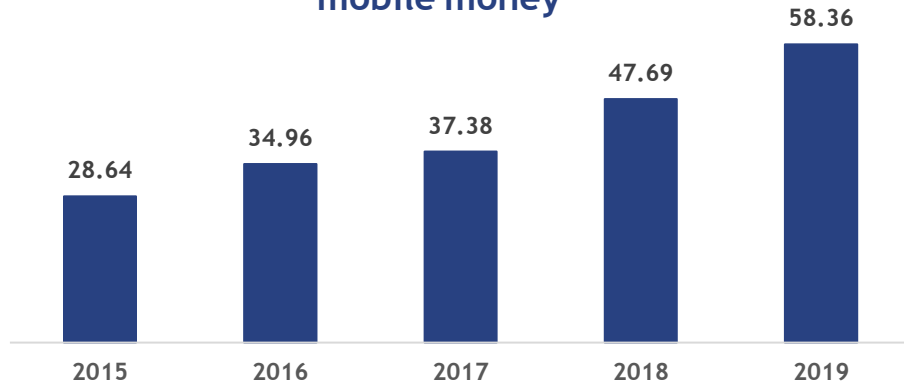


ROSCAs, VSLAs and ASCAs are a key source of financing in Kenya. These channels, however, are becoming more formalized through linkages to formal financial institution. As a result of the linkages and formalization in the last three years (2016-2019), **financially excluded group has declined by 6.42%.**

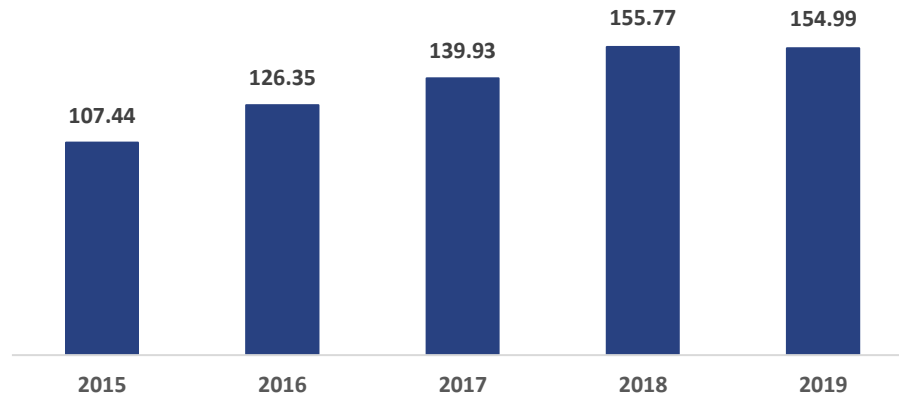
Source: 2019 FinAccess Household Survey

Digital financial services' adoption is largely driven by the use of mobile payment services

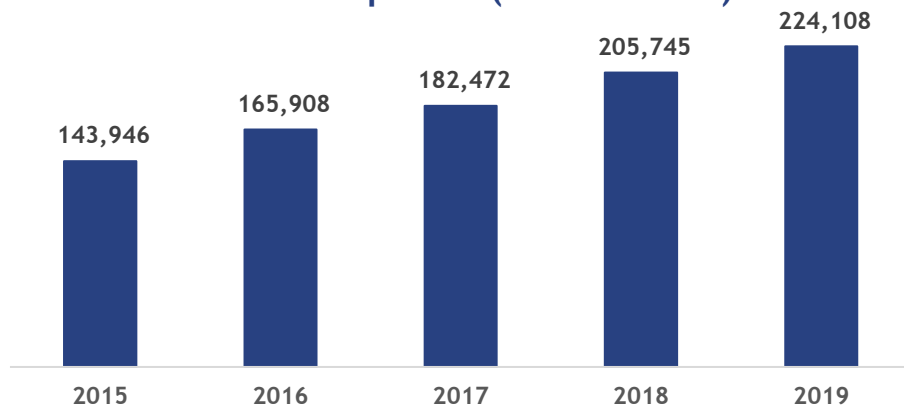
1. Number of mobile accounts almost doubled in the last 5 years leveraging mobile money



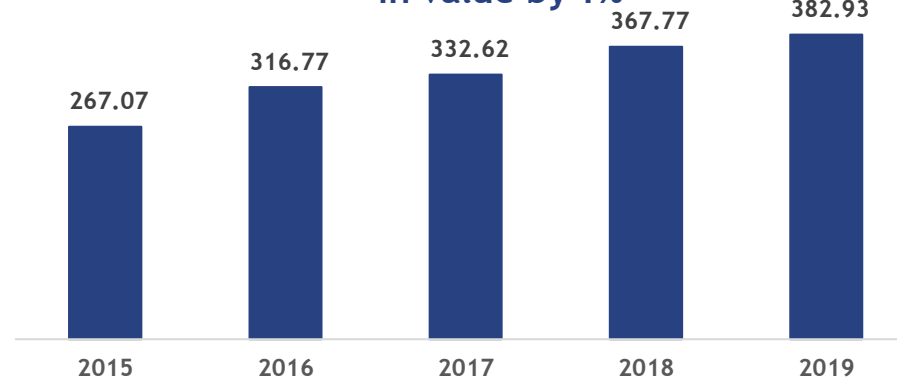
3. The volume of transactions via mobile devices increased by more than 44%



2. The number of agents increased by 56% over the same period (2015 to date)



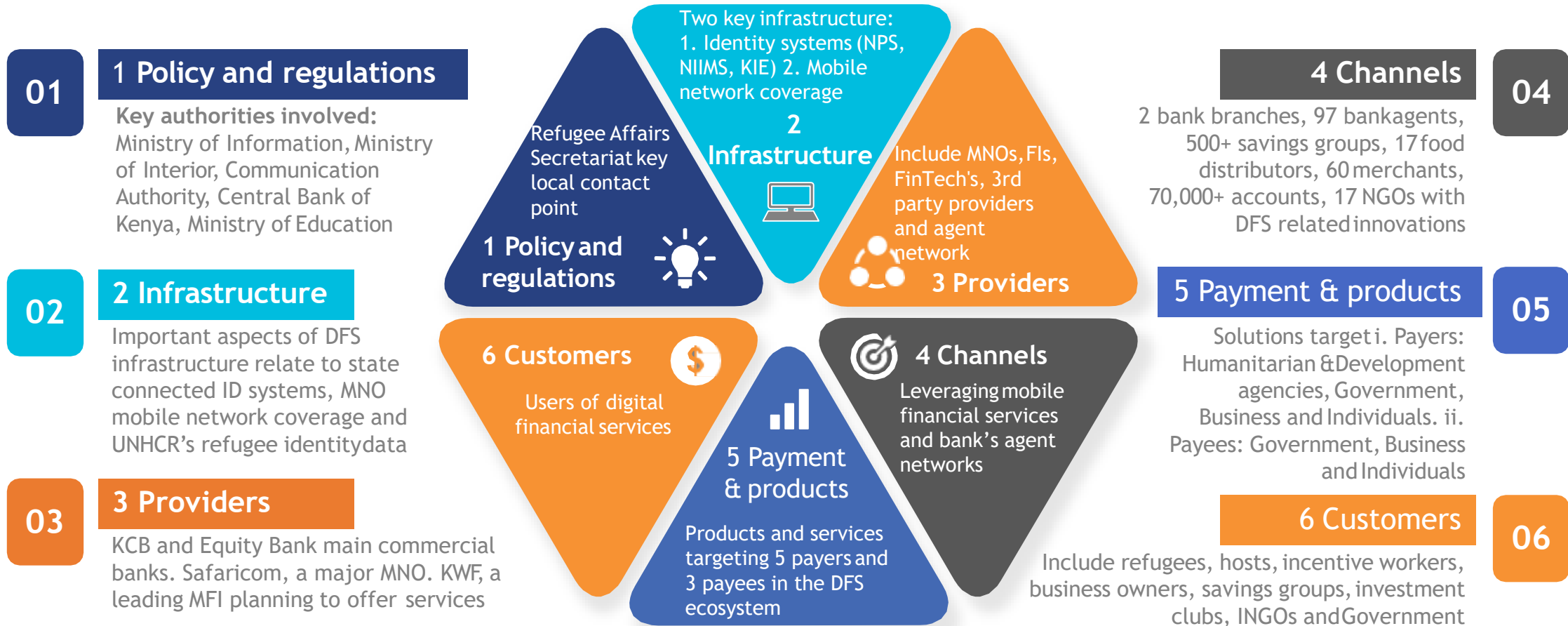
4. For every 1% increase in volume of transactions, there was a similar increase in value by 1%



In Kenya, the digital financial services' market is moving from access to advanced usage with mobile money being a key driver to adoption.

Source: CBK, 2020

Refugee digital financial services' ecosystem in Kenya: State ID systems and MNO infrastructure play a foundational role and influence innovation, entry and expansion

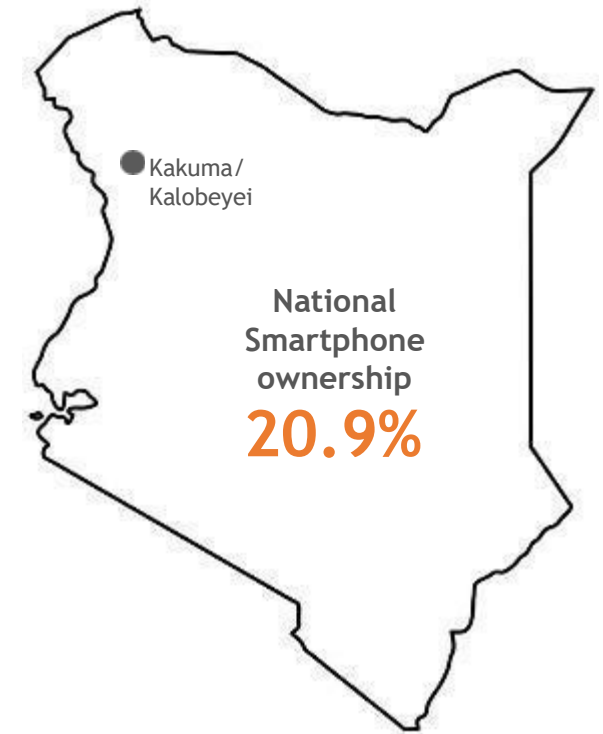
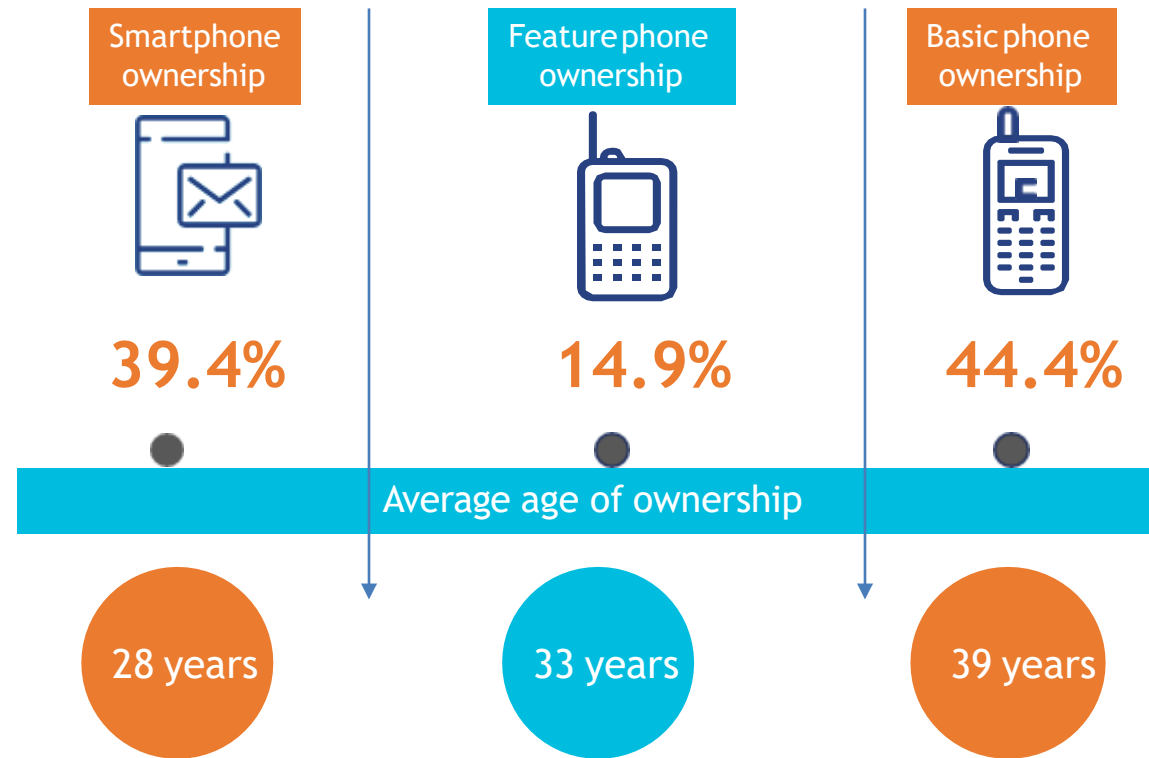


Acronyms	1.	2.	3.	4.	5.	6.
	NPS - National payment system	NIIMS - National Integrated Identification Management System (Huduma Number)	KIE - Kenya Identity Ecosystem	FI - Financial Institutions	MNO - Mobile Network Operators	INGOs - International Non-Governmental Organizations

There is high mobile phone ownership in refugee camps with internet accessible mainly via 3G/4G connected phones

In Kakuma, 98.7% of refugees have access to a mobile phone.
61.9% of refugees have access to 3G/4G network.
(Samuel Hall, 2018)

Source: OECD, 2019



Source: KNBS, 2019

- More than half of the refugees own a phone that can access internet and have at least some digital functionalities
- Though of low quality, **almost 40% of refugees in Kakuma have access to a smartphone**
- The majority of refugees using the internet, access it using **3G-connected smartphones**
- Refugees largely source digital financial services related information from family and friends and occasionally from the social media and SMS as complementary sources
- Almost all refugees own a mobile phone with **less than 2% not having access to one**

Refugees have a transactional interaction with digital financial services, driven by urgency of need and convenience



Transactional approach to digital financial services usage

Refugees have limited use cases in digital financial services. P2P and CICO were the most prevalent. The refugees pointed to minimal exploration on the T&Cs of the different use cases. They learn to use the apps through experiment rather than exploration



Use of slow networks

Many refugees in Kakuma spend their online sessions under slow 2G network and occasionally are able to access 3G, 4G, or wi-fi. Slow network with timed out sessions were reported. This discourages many refugee users in Kakuma from taking advantage of mobile banking and instead prefer going to touch-based channels such as a physical branch.



High data costs influencing limited usage of online digital financial services

Some refugees have adopted the use of airplane mode, or data-off functions to manage their data use. We noted refugees have an on-off behavior accessing online services through their phones and only do so for limited periods of time then quickly go off-line. High data costs was given as the primary reason for this behavior. Within the camps, there are hotspots for WIFI which can be accessed but cost



Airtime top ups often involve small micro-amounts

Airtime top-ups and purchase of data is done by the refugees in small micro-amounts. The use of airtime credit facility in Airtel and Safaricom networks was also reported. This behavior was attributed to low purchasing power and seasonality of income amongst the refugee digital financial services users. Due to this refugees were noted to access services strictly on-demand and preferred shorter simple products that enable them navigate the services they require and then log off.



Convenience and control driving preference of usage

Refugees interviewed perceive using biometrics, card, or mobile app sessions as more convenient over SMS- or USSD-based solutions. This is partly due to the fact that it gives them control over the food merchants who often keep their cards and SIM as collateral for the credit advanced. In addition, refugees note that SIM menus, though popular with them, are “hard-to-navigate and use” compared to services delivered over a human interface.



Low quality phones affecting quality of user experience

Basic phones, old, outdated, often underpowered and rarely fully charged. This has affected the refugees’ quality of experience when accessing digital financial services. During mock reviews, we observed instances of phones with low memories and little free memory space to use in case of advanced upgrades.

Digital credit is making an entry into the refugee camp and settlement in Kakuma and its environs

The pioneering element of Kenya's digital financial services' market is beginning to show in the refugee markets through adoption of digital credit and experimenting with tailor-made mobile payment solutions restricted for use within camps.

The incumbents

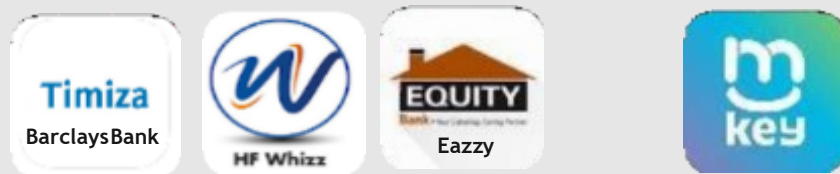
The incumbents still dominate supplying **97%** of all digital loans

MNO-FACILITATED



Partnerships between MNOs and banks e.g Safaricom with CBA and KCB have shown the biggest potential for rapid scale

BANKS



For example Equity Bank's fintech arm, Finserve, has launched mKey to drive volumes

The not-so-new providers in the block

53 players and growing

FINTECHS



Tala and Branch are international fintechs that have made good inroads



Newer fintechs are focused on niche or underserved segments

Digital Lenders Association of Kenya (DLAK)



VOOMA - a KCB product - is an android and STK/SIM based digital solution is the latest entry into the market in 2020. The digital solution will be extended to refugees in Kakuma camps. VOOMA has savings, credit, insurance and information services.

There is a notable rise of informal digital financial services' providers providing services by proxy to individual refugees with KYC challenges

In Kakuma and Kalobeyei, discussions with host and refugee communities show that proxy services for Bamba Chakula, Bamba Chapaa, KCB MPesa, and M-Shwari are the most prevalent.

Formal financial providers

Mainly commercial banks. Two service providers are prominent (Equity Bank and KCB). They extend mobile banking and payment solutions to refugee and host communities. While the full range of digital financial services are available to host communities, banks use KYC and partnership restrictions to exclude refugees from certain digital financial services such as digital credit.



Humanitarian agencies

Led by UNHCR and WFP partners, humanitarian agencies now collect their own digital identity data on refugees and share with commercial financial service providers (banks mainly) easing access for refugees as they no longer have to give information for account opening. Banks simply confirm the data with the primary beneficiaries. Partner agencies such as Lutheran World Foundation increasingly leverage UNHCR's data and accounts.



Informal DFS providers

Due to restrictions in movements, inability to access relevant KYC documents and non-ownership of required digital devices, refugees are turning to those with access to digital financial services and products to provide them with proxy access. This practice is prevalent with P2P, P2B, and remittance services.

The rise of informal agents within the camps to fill gaps left by both insufficient number of agents (both bank and mobile money) and agents operating with limited liquidity is also a notable trend in Kakuma and Kalobeyei. This trend increases the cost of transaction and exposes the users to prevalent frauds.



Access by proxy is often the only viable option for digital credit for a majority of excluded refugees doing business.



Host communities are leasing out their phones and SIM lines to refugees. This in turn is helping refugees access higher levels of credit. This is driven by the low limits set for refugees.




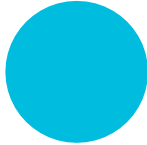
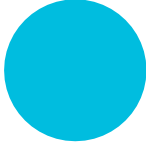

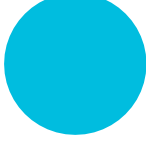
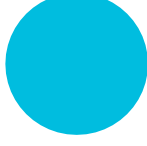
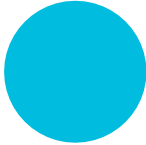

Digitization of cash aid assistance facilitates adoption and use of digital financial services in Kakuma/Kalobeyei and Turkana host communities.





The need to access internet is evident within the refugee community. We encountered evidence that when refugees are able to access internet services, they start to adopt advanced services e.g. online job search.

Refugees have a deeper phone penetration but are primarily basic users of digital financial services

The shift from in-kind assistance to a cash-based economy is fueling adoption of mobile devices among the refugees.

	Hosts	Refugees	
Own a phone			Phone penetration was higher amongst refugees than host interviewed.
Have data-enabled phones			Host community members showed prevalence for having data-enabled phones than refugees. Most refugees interviewed had feature phones from which advanced usage was at times reported.
Basic digital financial services users			The level of access and use of DFS solutions was noted as the same among both refugee and host community members interviewed. Payments form the most popular use case with SIM menu being the preferred channel.
Advanced digital financial services users			Host community's usage of advanced features was however noted to be higher during mock review

Key  Higher prevalence  Lower prevalence

Refugees and hosts typically use digital financial services to churn digital into cash or goods

Use of digital financial services is largely cash-out with minimal cash-in as reported by the agents. P2P remittances and payments are also common and often trigger one-time cash in or cash-out. The typically small-value transactions happen near home if through an agent and within 10 kilometer radius if through a branch. Savings and loans are rarely utilized services.

Inflows

- **B2P** received mainly from humanitarian aid interventions.
- **P2P** received from friends, customers and remittances.
- **Loans** received from friends, financial institutions etc.
- **Cash deposits** particularly by business owners and officials of savings groups seeing to secure the group cash.

Digital wallet

- **P2B** sent from the wallet mainly to purchase household basic consumables, pay for business supplies and services rendered by transporters and construction contractors.
- **Payment services fees and charges to facilitate P2B or P2P transfers** especially when not related to humanitarian interventions. These interventions normally cater for first time use but are designed to be self-paid by beneficiary beyond first time use.
- **Loan repayments including airtime credit among others** advanced to the wallet user or owner.
- **Cash withdrawals usually within three days** of receiving notification or becoming aware of its availability. Refugees typically withdraw all deposits they receive in their digital wallets first time.

Outflows

Refugees are typically 90-day active users while their daily use of digital financial services is minimal

Use of digital financial services, however, mirrors disbursement of humanitarian cash aid which usually happens in every 2-4 week cycles.



Refugees and hosts are not daily users of digital financial services but exhibit 90 day active behavior

This is consistent with the drive to convert digital cash to either household consumables or fast cash. Immediacy is a key driver to accessing digital financial services and can be exploited by service providers to increase activity rates of digital financial services in the camps.



Touch is king, cash is preferred

Channels that have touch components are trusted over purely technology-based digital channels. The physical bank branches are the most trusted while USSD based channels were noted as the least trusted.



Smartphone owners are more aware of digital financial services

Smartphone owners report greater awareness of digital credit, digital financial services, and providers compared to feature phone users both in the camps and host community areas. Feature phone owners exhibited lower level of awareness of digital financial services.



Transactional activity by refugees and hosts differ with the type and choice of channels

Bank branches experience peak moments between 8:30-1pm and are usually crowded between 0-7 days after “peak” - when mass disbursements from main humanitarian actors UNHCR and WFP are received. Use of card is mostly concentrated at the agent POS point and limited at the bank ATM channels. ATM channels are usually preferred for information services e.g. balance enquiry. Use of USSD and SIM based services are viewed by both refugees and hosts as tedious and cost intensive.



Alternative channels perceived as complement to traditional channels and rarely as substitutes to brick and mortar

CICO at agent points in the host community are mostly done over the weekends, during post banking hours (particularly in the evening) and during public holidays when banks are closed. Cash-in and cash-out with agents and merchants in the camp or settlement are transactions (mostly cash out) carried between 9am to 3pm during the day.

Limited use of digital financial services is driven by lack of phone ownership, agent illiquidity, inaccessibility to branch services, and a general lack of awareness of available digital financial services.



3.3 Market analysis of Kenya

This section highlights the current market trends in refugees' digital financial inclusion and needs in Kenya



Retail services operate an oligopolistic structure. While Safaricom maintains the largest share in telecommunications, Equity Bank leads the banks

Market population



Kakuma/Kalobeyei: 193,941
Kakuma Ward: 33,539
Total camp+ward: 227, 580

Source: KNBS, Census 2019

Refugees (73%) have regular income



70+% of hosts and refugees use mobile banking/money services



Humanitarian assistance is still the main source of income and livelihood for refugees. About a third of the refugees have no source of income other than humanitarian aid and remittances. One in every ten refugees owns a business or is self employed. NGOs are the main source of employment for refugees in the camps.



Kakuma market structure

The Kakuma/Kalobeyei operates an oligopolistic market structure. The food market is dominated by 17 wholesalers who control 70% of the food market value (estimated at USD 56 million annually). This is expected to continue in the mid-to long-run.



There are between **1,000 - 1,500 shops and shop owners** operating in the camp/settlement. These shops **sell mainly food and household items** to refugees. Collectively the shops handle **approximately USD 3 million in cash** or as digital money and **sell at least USD 1.7 million** worth of in-kind food rations every month (University of Oxford, 2019)



The banking and financial services is controlled by one bank - Equity Bank - who controls about half of the financial services market. KCB is poised to be the second most influential player after Equity Bank by market size based. KCB MoU with UNHCR is to roll out bank accounts opening - and therefore related financial services - in Kakuma Camp (an not Kalobeyei as indicated here), while Equity bank has done the same in Kalobeyei.

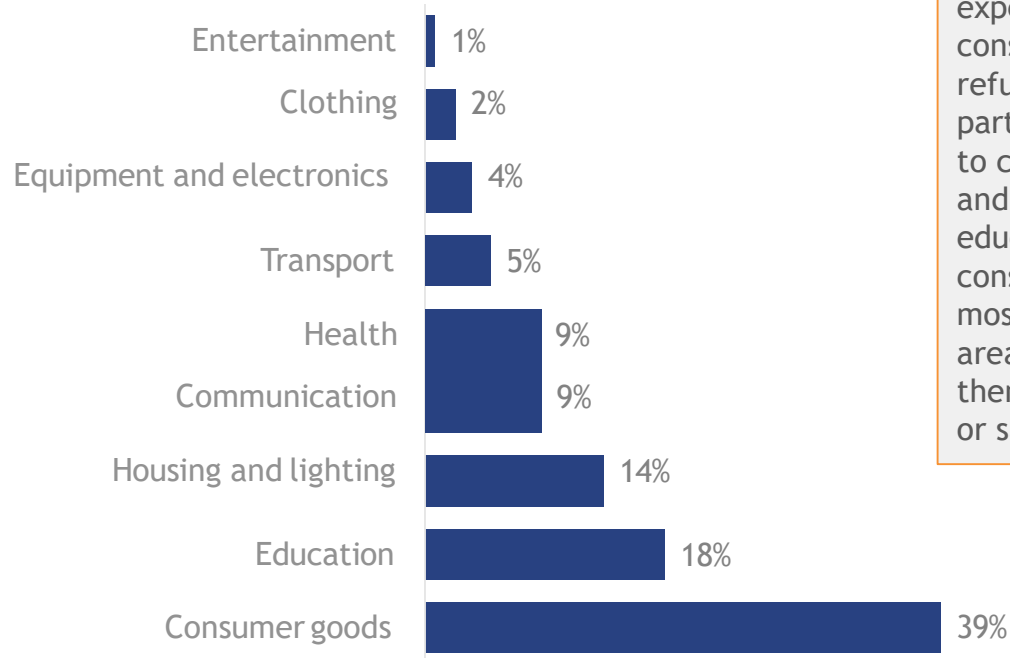


In the telecommunication, trade and services sector **Safaricom has the widest coverage** over the market and is, oft-times, the only viable MNO option.

Kakuma is a USD 56+ million (per annum) consumption-driven market

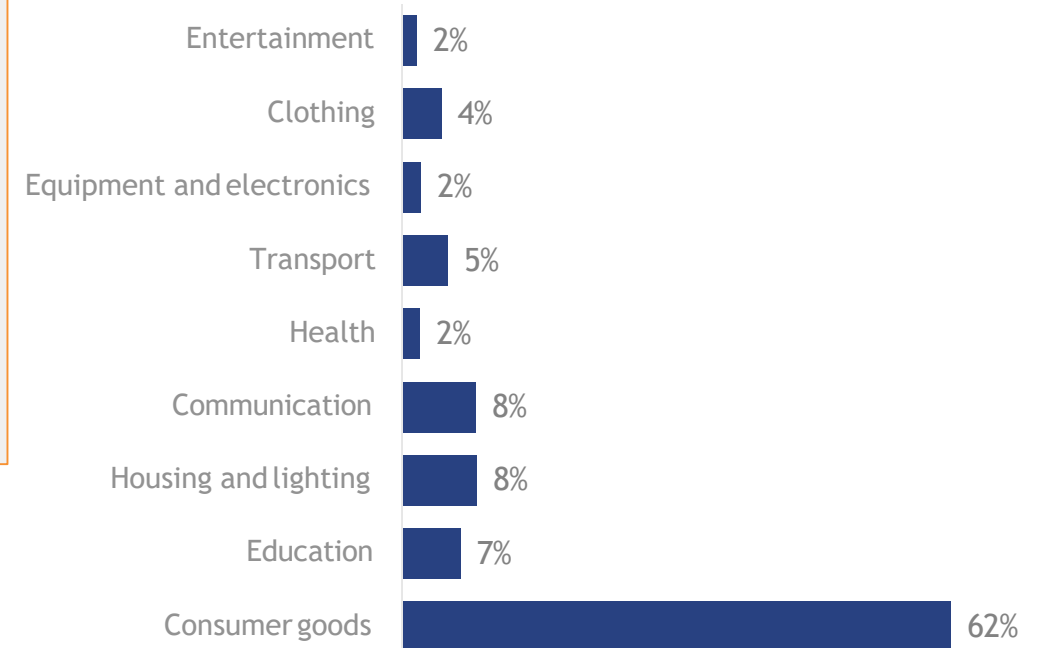
Refugees and hosts spend 62% and 39% of their incomes respectively on consumer goods

Household consumption patterns - Town



Other than expenditure on consumer goods, refugees are particularly stretched to cater for housing and lighting and education which they consider some of the most pressing need areas that drive them into borrowing or savings groups

Household consumption patterns - Camp



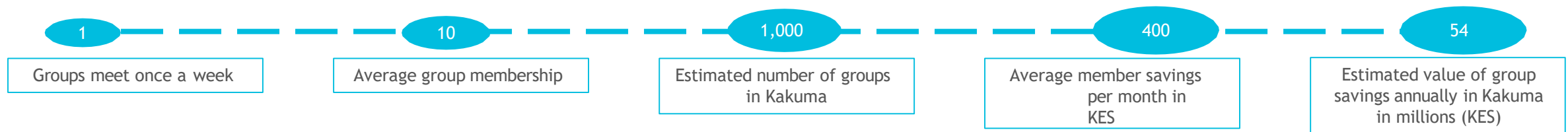
Source: IFC, Kakuma as a marketplace, 2019

Source: IFC, Kakuma as a marketplace, 2019

Expenditures in consumer goods, education, housing and lighting and communication top the list of needs on which refugees and host spend the bulk of their incomes.

Digital financial services' ecosystem players map

Players	Government	MNOs	Bank	NBFIs	Humanitarian	Distribution	Informal
Name	<ul style="list-style-type: none"> Coordinated by RAS on ground 	<ul style="list-style-type: none"> Safaricom Airtel 	<ul style="list-style-type: none"> KCB, Equity Bank 	<ul style="list-style-type: none"> Juhudi Kilimo (agri-finance) Africa Entrepreneurs Collective (AEC) who give soft loans 	<ul style="list-style-type: none"> SCC coalition partners UNHCR, WFP 	<ul style="list-style-type: none"> Bank agents Mobile money agents Bamba chakula agents Incentive workers Agency partnerships Community agents 	<ul style="list-style-type: none"> Savings groups Informal agents
Digital financial services	<ul style="list-style-type: none"> HSNP bank payment cards (Host) Web based solutions (e-citizen, PRA pin application) SIM-based P2G, G2P mobile payment services 	<ul style="list-style-type: none"> Mobile money solutions (e-wallets) Web based customer support App based products (savings and loans) USSD & SIM toolkits 	<ul style="list-style-type: none"> Debit cards/ wallets Mobile banking solutions (e-wallets) Internet/ online banking Call center, POS agents App based products USSD & SIM toolkits Emergent innovations (blockchain identity solutions) Merchant payments' facilitation 	<ul style="list-style-type: none"> Revolving fund schemes/ micro-loan, insurance via mobile money 	<ul style="list-style-type: none"> Debit card/ wallets Mobile money payments Digital database of refugee identity e.g. biometric identification Web based information/ reporting services USSD & SIM toolkit based solutions 	<ul style="list-style-type: none"> None, leverage existing solutions 	
Services offered	<ul style="list-style-type: none"> Registration of refugees Provision of Identity credentials Bulk payments (G2P) for hosts 	<ul style="list-style-type: none"> Loan disbursement/ repayment P2P payments 	<ul style="list-style-type: none"> Mobile banking solutions plus vanilla products Account to account transfers Bank to wallet transfers Payments, Savings, Insurance, Remittances Bill/Utilities/bulk payments 	<ul style="list-style-type: none"> Short term loans Savings facilitation Linkage to banks 	<ul style="list-style-type: none"> Refugee registration Data consolidation Bulk payment facilitation 	<ul style="list-style-type: none"> Savings Credit plus emergency loans Information sharing and training Dividend share outs (annually) Basic accounting and bookkeeping Facilitate linkage to formal financial services for individual members and group Micro insurance to members in distress 	
Agent distribution	<ul style="list-style-type: none"> Government offices (10 kilometer from camp) 	<ul style="list-style-type: none"> Approx. 250 agents 	<ul style="list-style-type: none"> 97 agents 	<ul style="list-style-type: none"> About 2,500 	<ul style="list-style-type: none"> About 300 Bamba chakula agents + bamba chapaa agents 	<ul style="list-style-type: none"> Merchant shops Wholesale traders 	<ul style="list-style-type: none"> Group leaders Community influencers
Partners	<ul style="list-style-type: none"> UNHCR, WFP main partners 	<ul style="list-style-type: none"> WFP, UNHCR 	<ul style="list-style-type: none"> INGOs and local NGOs Community groups, and County leaders MNOs, 3rd party fintechs, Local MSMEs 	<ul style="list-style-type: none"> Banks NBFIs NGO implementing partners 	<ul style="list-style-type: none"> Contractors Shop merchants Incentive workers Banks and MNOs 	<ul style="list-style-type: none"> INGOs Banks 	
Customers	<ul style="list-style-type: none"> 39,918 host beneficiaries have debit cards 137,534 households registered 	<ul style="list-style-type: none"> 69% of refugees active phone users 	<ul style="list-style-type: none"> 110,000+ 	<ul style="list-style-type: none"> Not determined 	<ul style="list-style-type: none"> 193,941 	<ul style="list-style-type: none"> Not applicable 	<ul style="list-style-type: none"> 5,000 - 10,000 refugees are organized into savings groups





3.4 Uganda context

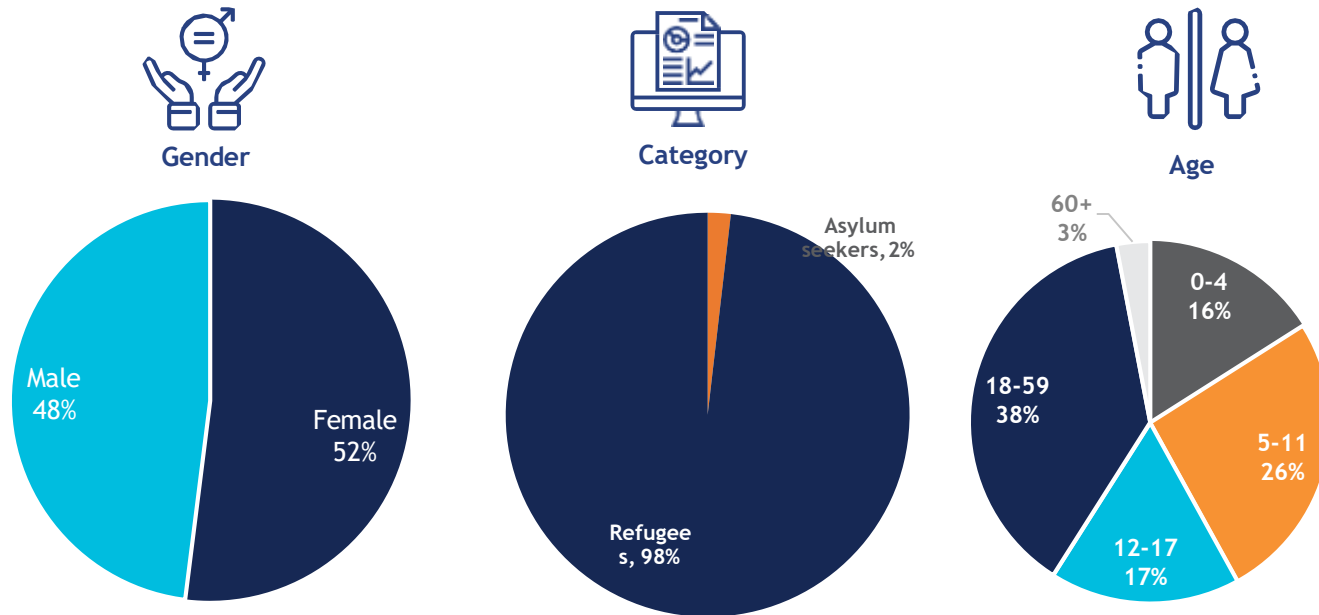
Focus on Bidibidi, Rhino and Imvepi settlements

In this section, we provide a high level snapshot of the needs, barriers and solutions for digital and financial inclusion for the refugee and host digital financial services' markets in Uganda.



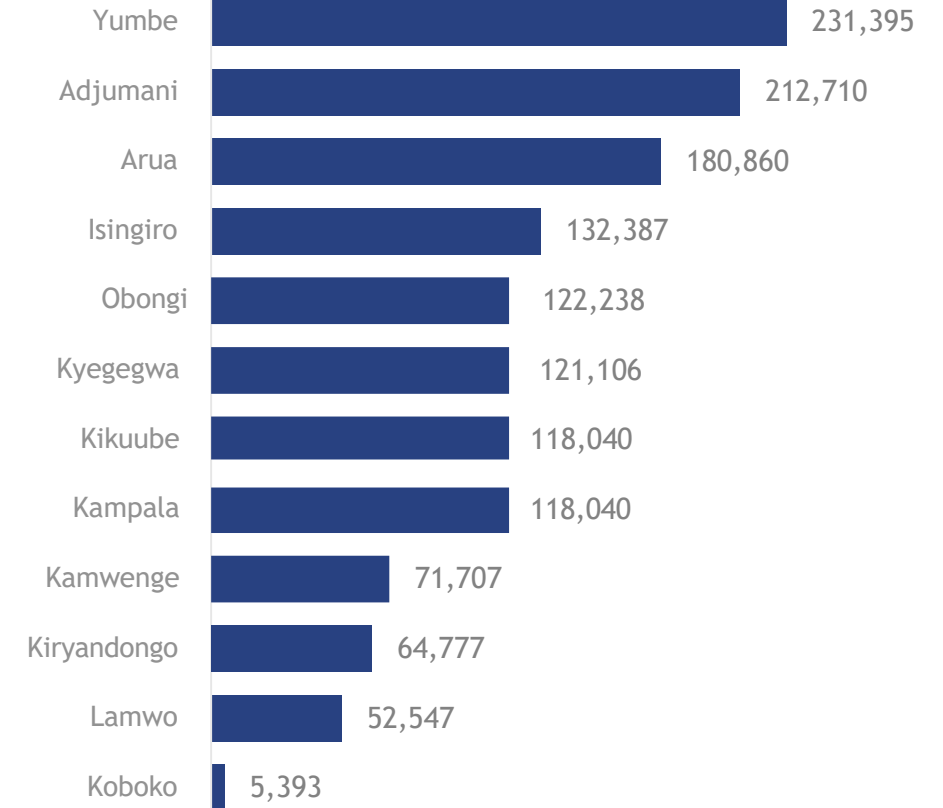
Uganda hosts 1.39 million refugees: 65.9% from South Sudan and 30.6% from DRC

Demographics



- Majority of the refugees are female and below the age of 18.
- West Nile (Yumbe, Adjumani, Arua and Koboko districts) has one of the largest refugee population in Uganda at 630,358 (44%).

Refugees population by location



Source: UNHCR, 2020



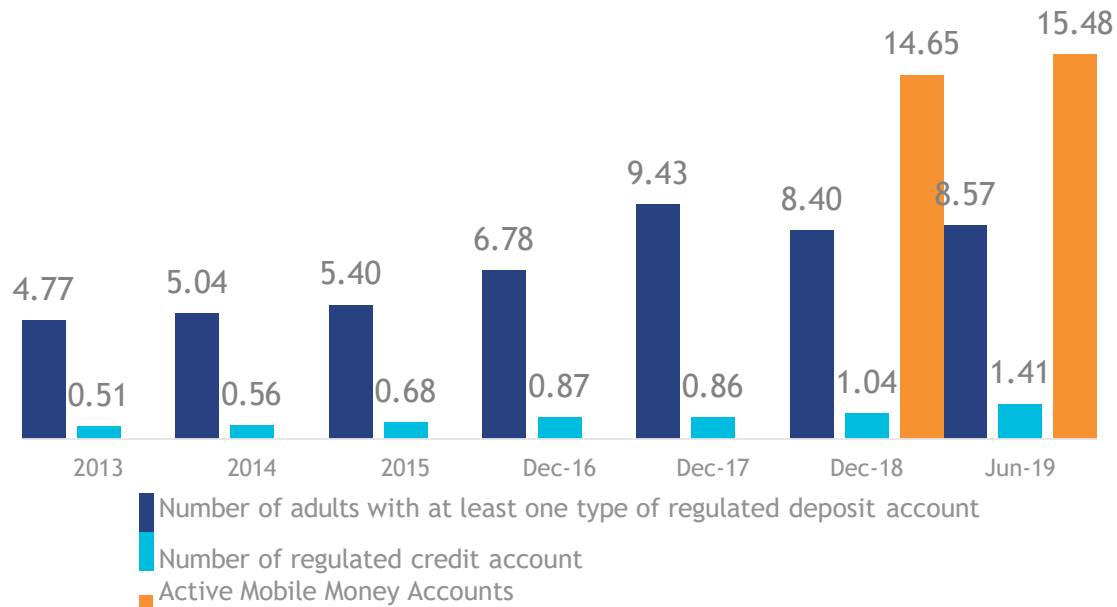
3.5 Digital financial services' ecosystem, adoption and use in Uganda

This section highlights the digital financial services' ecosystem actors, interrelationships as well current market trends in refugee digital financial inclusion and needs in Uganda

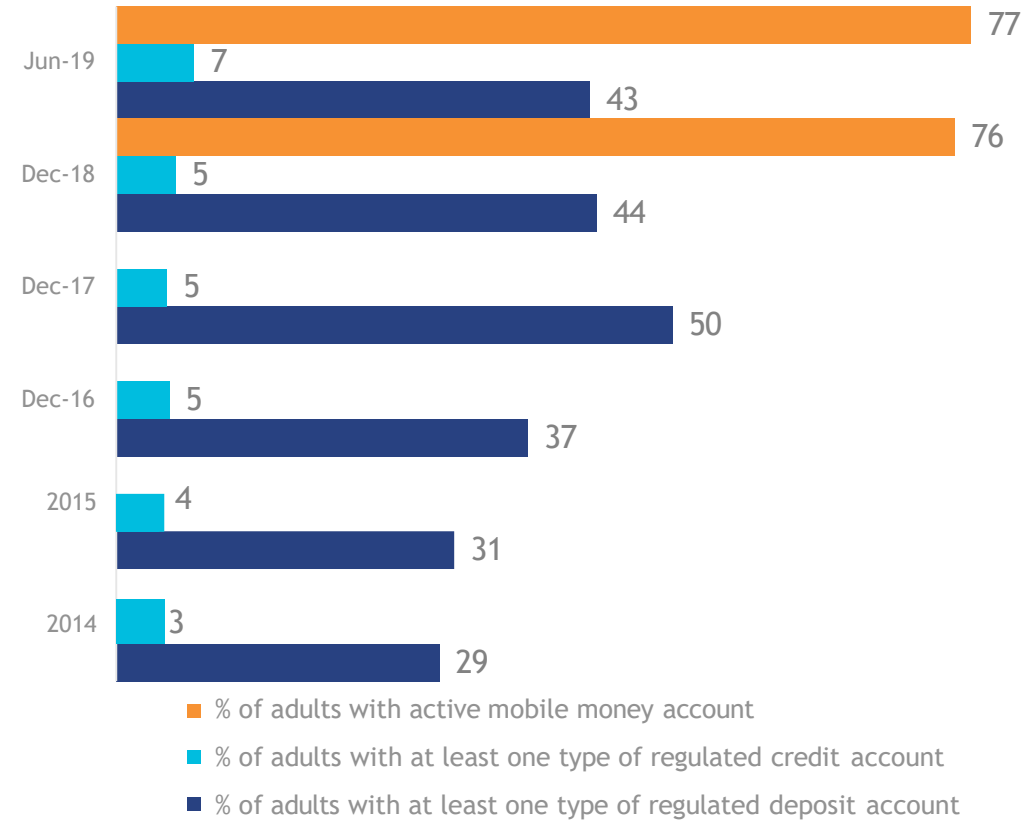


Uganda's financial inclusion is largely driven by mobile money. 58% of adults have access to formal financial services in Uganda

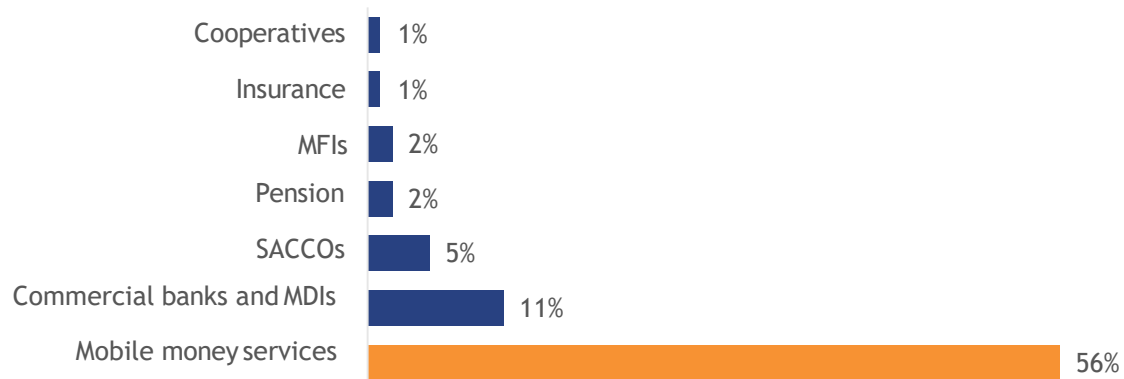
Number of accounts in millions



% of adults with accounts



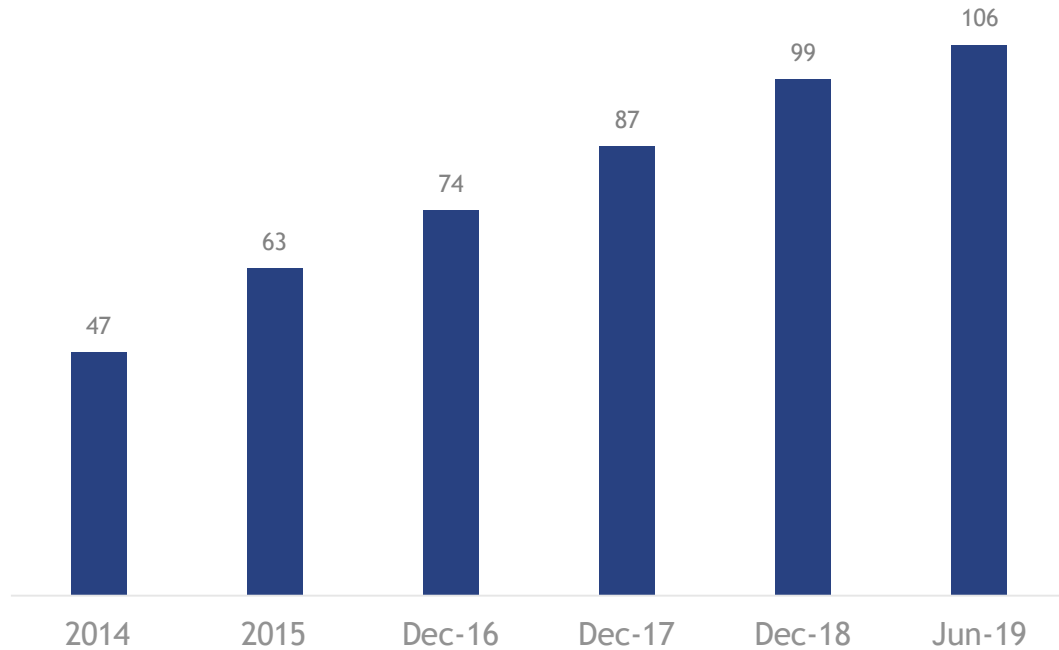
Uptake of financial services by type



Financial inclusion in Uganda is driven by digital financial services

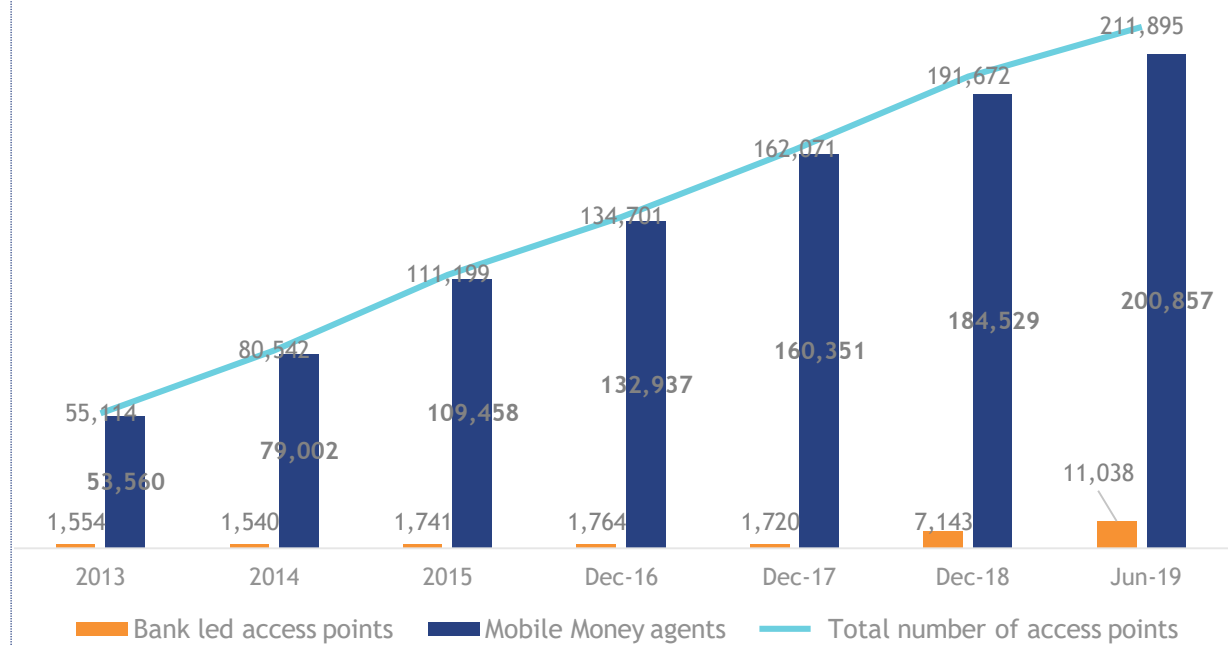
Mobile money agents lead in improving access to financial services in the country. More than three times growth in number of mobile money agents from 53,560 in 2013 to 200,857 in 2019. Mobile money service providers dominate the digital financial services' market.

Access points per 10,000 adults



Source: Bank of Uganda

Number of access points

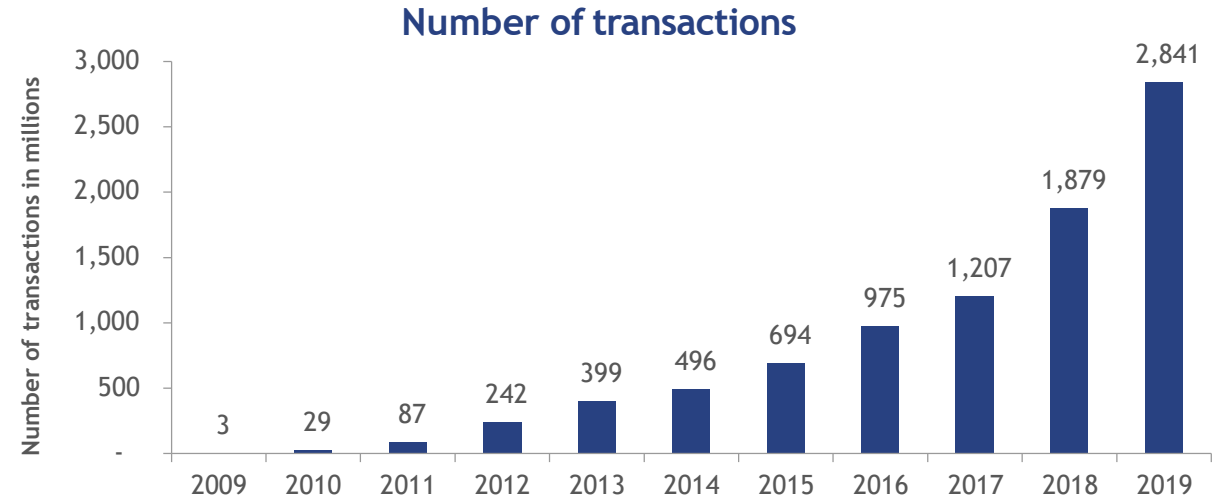


Source: Bank of Uganda

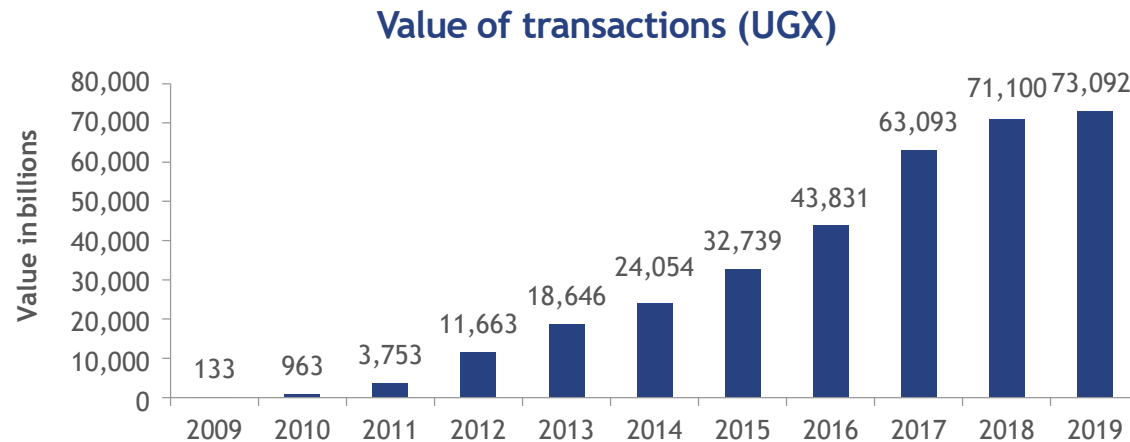
Uganda has more than 27 million registered mobile money customers transacting a value to the tune of USD 19.75 billion



Source: Bank of Uganda



Source: Bank of Uganda



Source: Bank of Uganda

There is limited inroads for digital credit within the refugees and their host community

There is generally low awareness and knowledge of the digital credit market in Uganda. A few community members have received marketing messages from MTN and Airtel but only a handful reported to have tried digital credit. Above situation was further dimed by the recent SIM card blocking creating more mistrust between FSPs and users

The incumbents

The incumbents still dominate supplying **97%** of all digital loans

MNO-
FACILITATED



Partnerships between MNOs and banks e.g MTN with CBAto offer MoKash and Airtel partnership with Jumo to offer Wewole have shown the biggest potential for rapid scale

Innovative digital credit providers

FINTECHS



Within the refugees and host community, where the VSLAs cannot fulfil the gap is filled with credit from family and friends and money lender

While the shift from in-kind assistance to a cash-based economy is fuelling adoption of mobile devices among the refugees. There is limited business case for the service providers due to basic DFS use cases

Agency banking



Physical cash through a mobile van



Mobile banking and cash



Physical cash transfers to beneficiaries at agency outlet

Mobile money



Cash disbursed to beneficiary sim cards

Only 10% of the accounts have a balance 10-20 days after payment is done - Postbankmanager, Yumbe

Source: 2019 (July), Alliance for Financial Inclusion

* In 2017, UNCDF partnered with DanChurchAid and Airtel Uganda to digitize cash-based transfers to refugees living in the Bidi Bidi. Over 15,000 refugees benefitted from mobile wallet transfers receiving USD 38 per month. Airtel Uganda on-boarded over 86,000 new customers during this pilot.



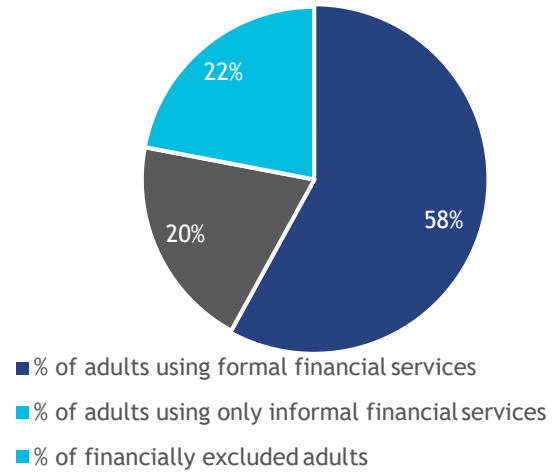
3.6 Market analysis of Uganda

This section highlights the current market trends in refugees' digital financial inclusion and needs in Uganda

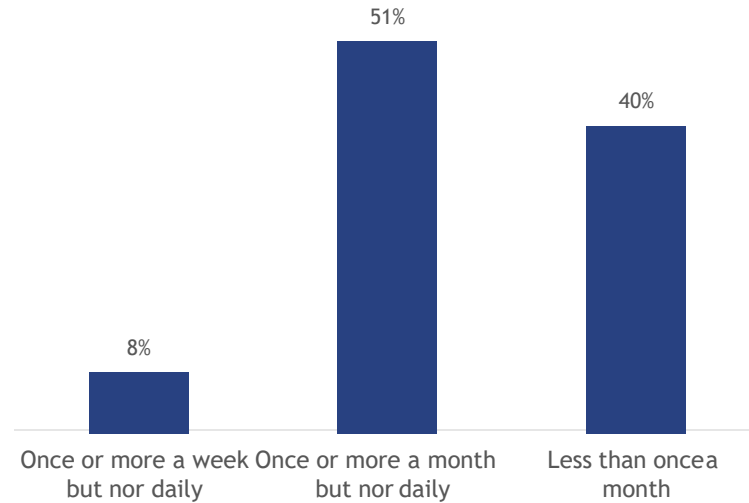


Uganda's financial inclusion is largely driven by mobile money

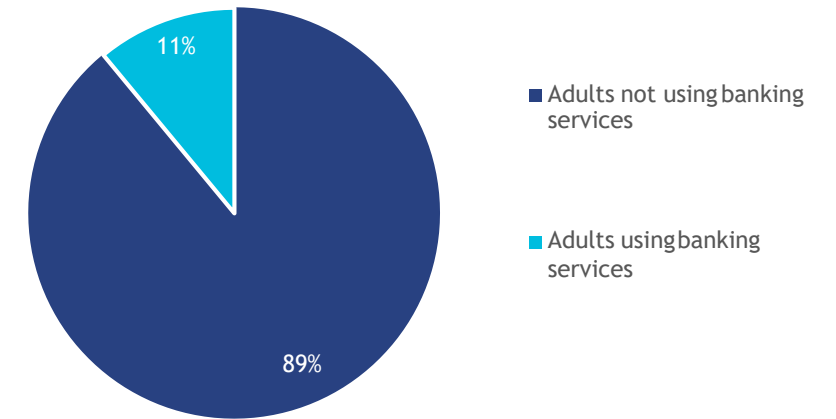
Access and usage of financial services



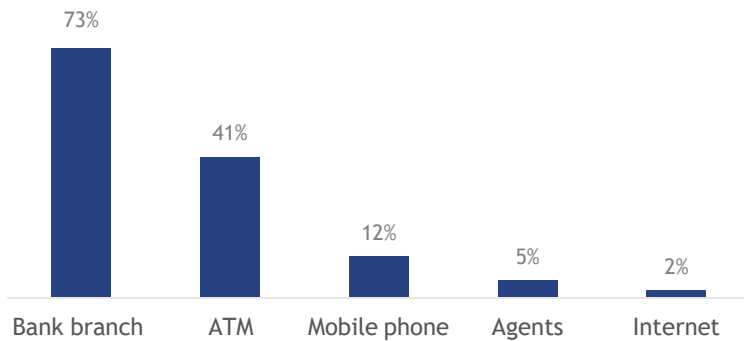
Frequency of usage



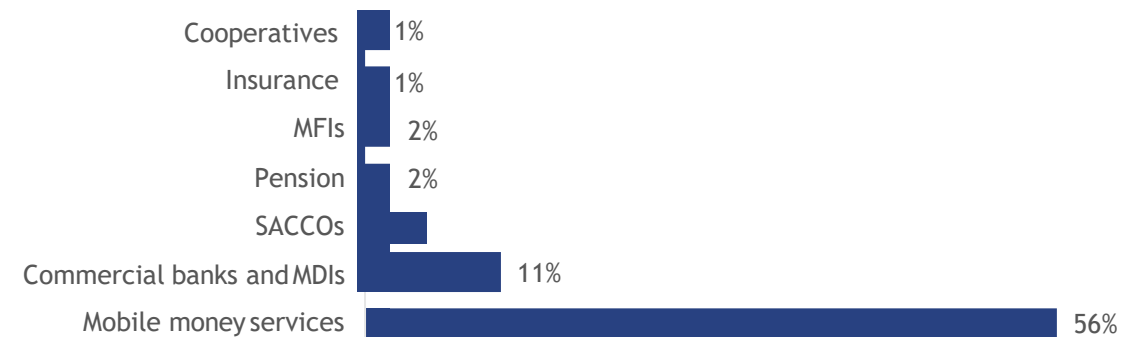
Adults using banking services



Channel used by formal financial services customers



Uptake of financial services by type

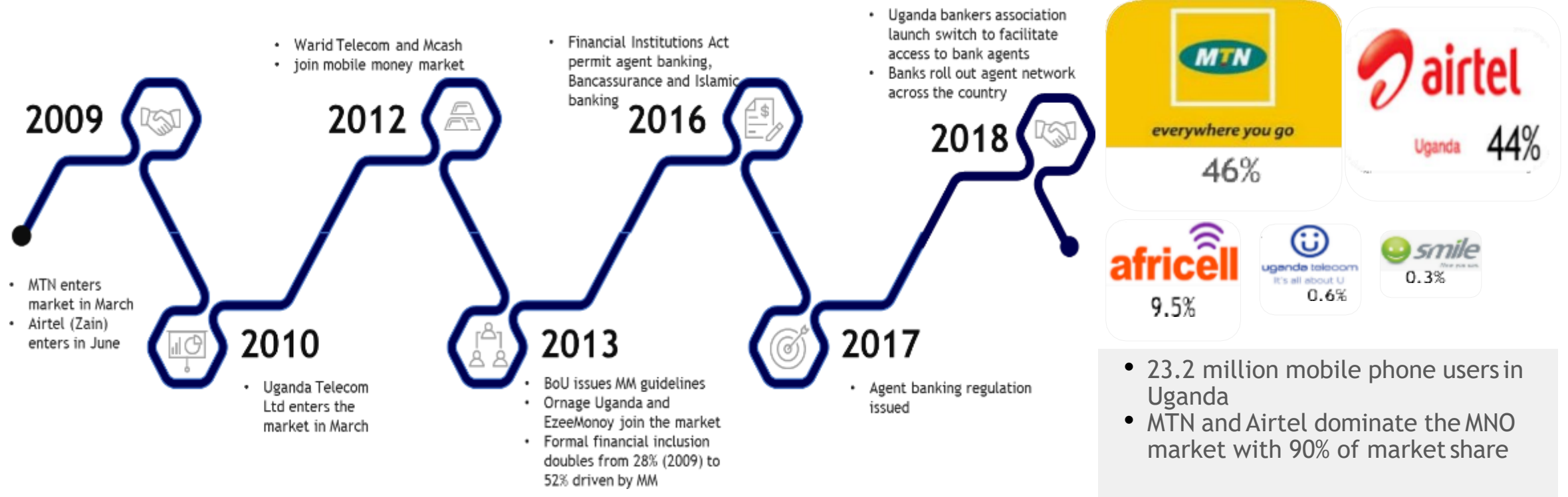


Source: : 2019 FinAccess Household Survey

Mobile money services have played a key role in financial inclusion in Uganda

Mobile money services have market estimated at US\$ 25 Billion in 2018

- Uganda's mobile money transactions have grown around 20 times from 3.7 trillion UGX in 2011 to 73.09 trillion in 2019
- Key regulations like the mobile money guidelines (BoU, 2013) and agent banking regulation (BoU, 2017) have greatly improved the overall financial inclusion in the country



Source: AFI, 2019: Uganda's Journey to Inclusive Finance Through Digital Financial Services



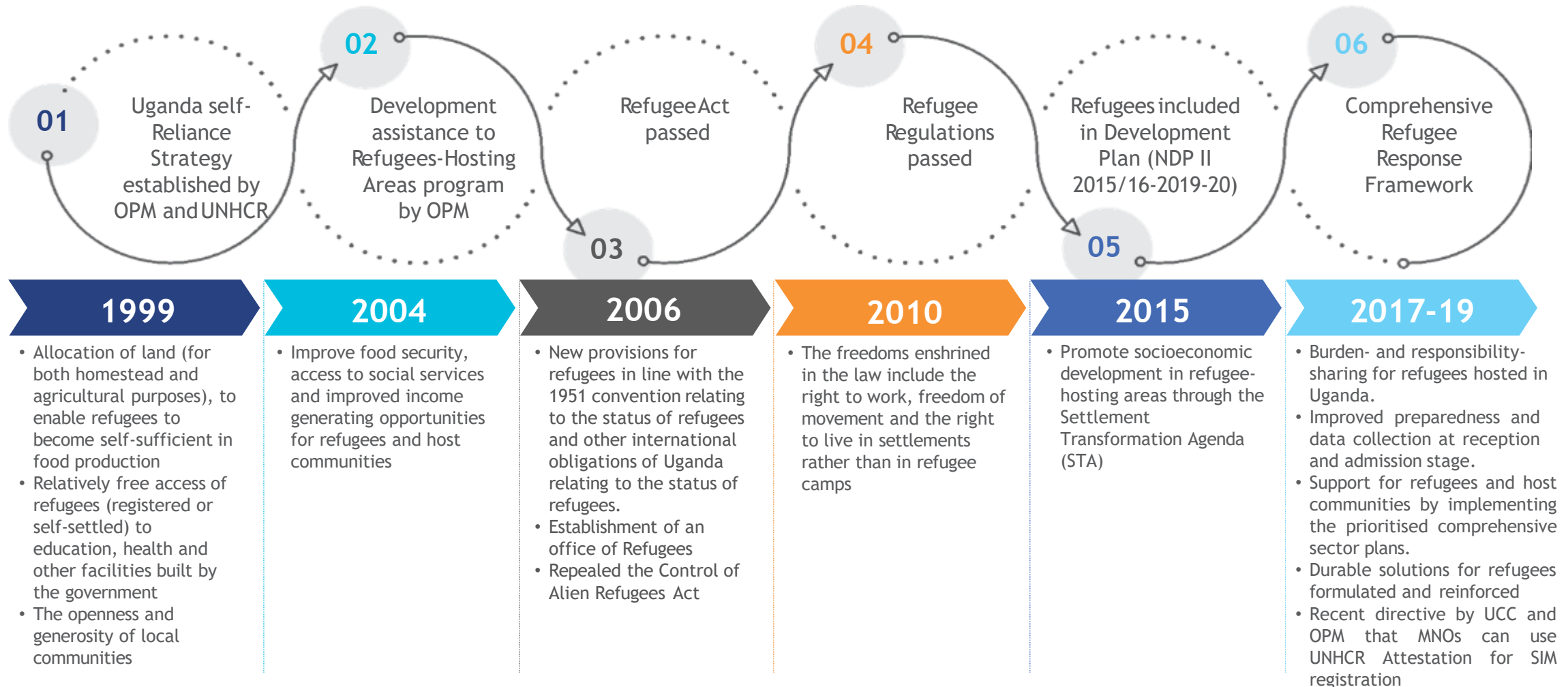
3.7 Policy and regulatory analysis of Uganda

This section highlights the current policy and regulatory trends in refugee digital financial inclusion and needs in Uganda



Uganda has one of the most progressive refugee policy in the world and a front runner in the Comprehensive Refugee Response Framework (CRRF)

Uganda is currently the home to the largest refugee population in Africa and third largest globally



4.0 Financial needs of refugees and host communities

This section analyzes the consumer financial needs, preferences, attitudes and profiles in Kenya and Uganda camps and settlements. It also outlines the similarities of the host and refugee communities in both countries.



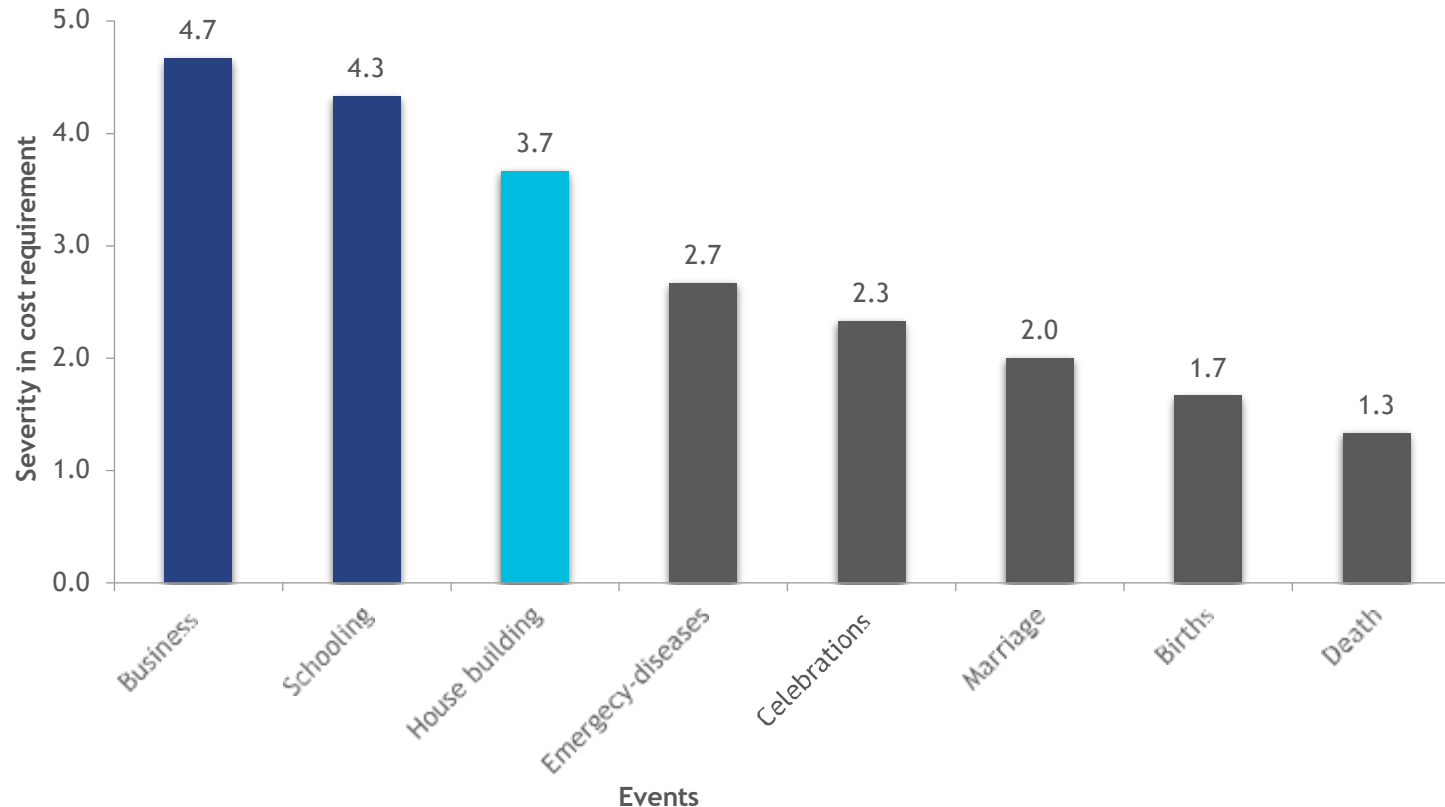
4.1 Financial needs of refugees and host communities in Kenya



Refugees demand for digital financial services that enable them meet their expenses related to the key lifecycle events

Starting-up and growing a business, catering for schooling needs, upgrading current temporary houses, and need for lump sum during emergencies key financing needs amongst refugees.

Major lifecycle events for the refugees

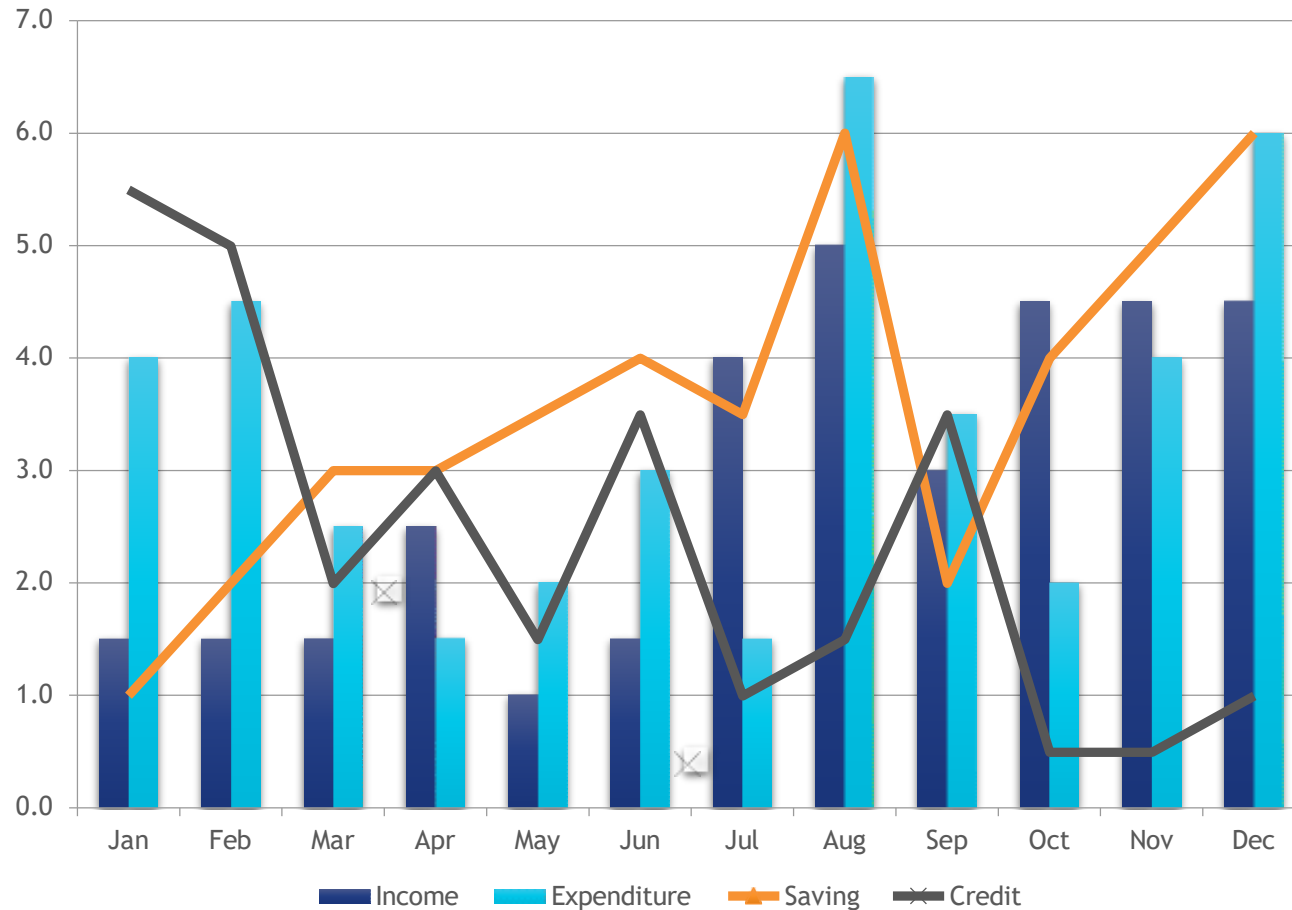


Source: Participatory rapid appraisal (PRA) exercise with refugees and host communities

- Need for start-up and working capital, taking children to school (mainly for educational materials, transport etc.), upgrading current housing, and catering for emergencies are the top four financial needs.
- Schooling and house building are aspirational needs while business is a regular goal.
- Incremental and breakthrough digital financial services and innovations will need to align to these refugee needs. For instance, the digital financial services must address the medium- to long-term goals such as business finance and addressing seasonal emergency and educational needs.

Host communities experience peak season in the second half of the year and lean season in the first half of the year corresponding to the agricultural seasons

Encouraging savings services in peak income seasons and marketing credit services in lean income seasons is recommended to gain traction amongst the hosts and refugees

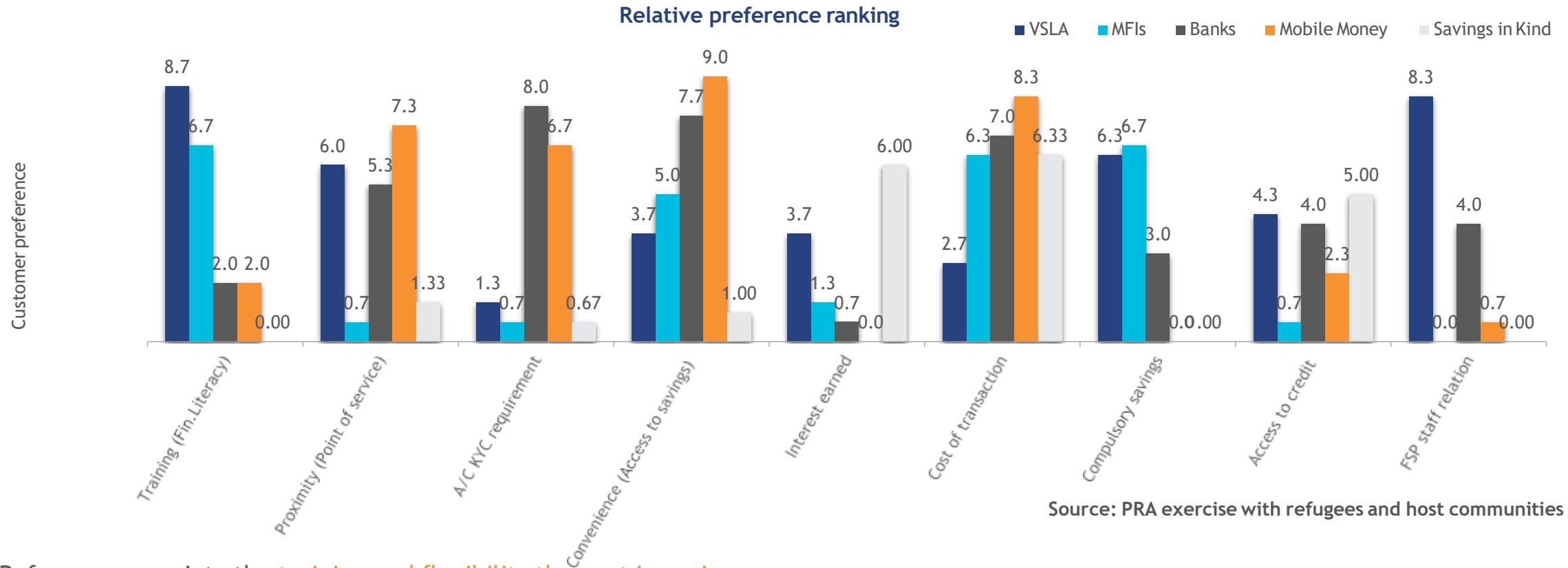


Source: PRA exercise with refugees and host communities

The financial lives and needs of refugees and hosts are more or less intertwined and mirror each other especially in Kalobeyei. Discussions with refugees revealed that their income mirrored that of hosts except for the availability of humanitarian cash and food aid. The seasonality is noted as follows:

1. Need to access credit is highest in January and February for households and November and December for businesses.
2. The July-September and November-December period had excess liquidity at the household level. This is usually the period when there are festival celebrations and savings groups do share-outs.
3. In January, August, and December, refugee households experience relatively higher expenditure compared to the usual and often feel the need to access credit to bridge the income-expense gap.
4. Households reported having more than average incomes and surplus in the second half of the year.

Refugees' prefer mobile money in terms of convenience, proximity and cost of transactions. VSLAs are preferred due to the training and client relations



Source: PRA exercise with refugees and host communities

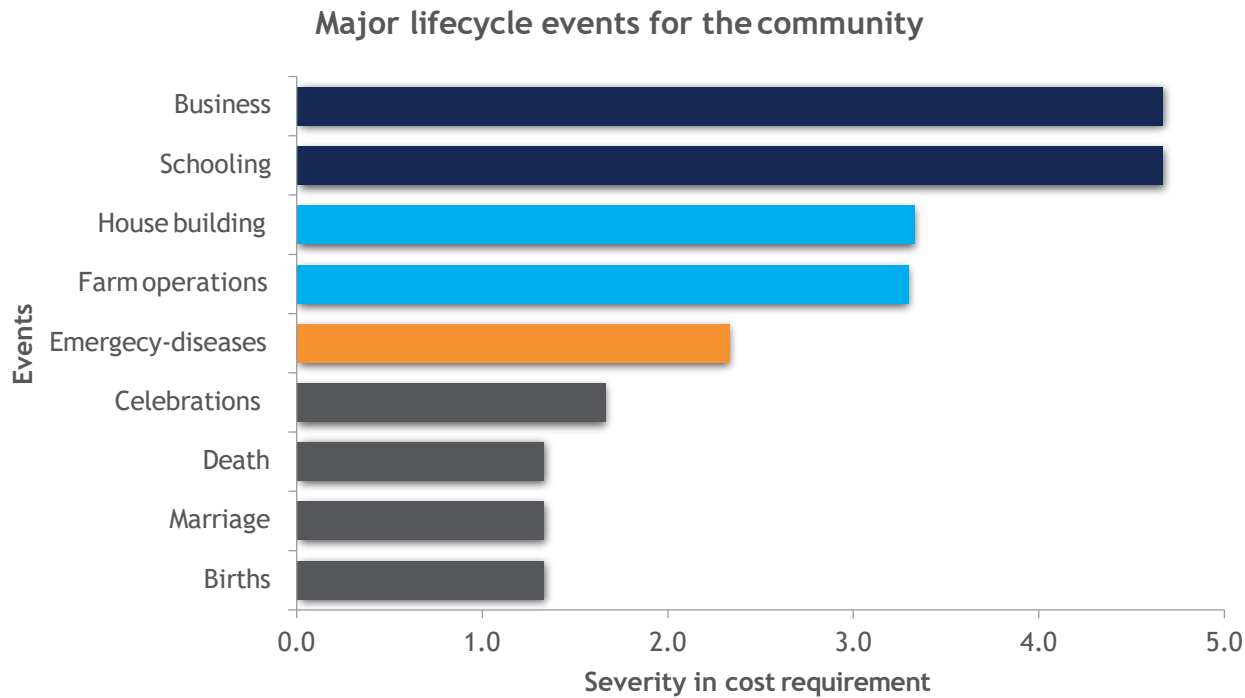
- Refugees appreciate the **training and flexibility they get in savings groups**.
- They **value their access to banks (through relaxed KYC)** and are proud to have a Kenyan bank account card.
- They view MFIs as expensive compared to other financial instruments and prefer mobile money for its convenience.
- **Mobile money is** also increasingly being **perceived as expensive**.
- Refugees **excluded from formal banking prefer keeping savings** in kind, with friends or groups. Majority save in their houses.

4.2 Financial needs of refugees and host communities in Uganda



School expenses and financing business are the main financial needs for refugees and the host communities in West Nile Uganda

Due to limited livelihood sources for the refugees and host communities, petty trading (household merchandise) thrives. Clamor for a better future make them save for their children's education.



Source: PRA exercise with refugees and host communities

Coping mechanisms

- Refugees and host communities save and borrow from the VSLAs. The little capital accumulated is then injected into the petty trade within the settlement which in most cases is never adequate
- Informal savings mechanisms- buying small ruminates, fattening them and sell them off when needs are apparent
- The respondents mentioned that, the slow growth in savings within the VSLAs limit them from advancing their economic empowerment

I begun with few chicken, sold and bought two goats, three years later, I sold the remaining chicken and goats to buy a cow

The community identified multiple shocks that affect their seasonality. These include the constricted output from farms due to weather vagaries, medical emergencies, and other unforeseen shocks. Further, the host community in Yumbe is a fragile community as they have also experienced displacement.

40% of the community income is directed to business and further 25% to catering for school expenses. Only 5% of the income is saved

The refugee and host community income vary from UGX 20,000 to UGX 200,000 per month.



Source: PRA exercise with refugees and host communities

- Most of community members are unable to build stable savings over the year due to the seasonality nature of their incomesources
- Majority of the refugees sell their food ration to earn some “income” which is later put in VSLAs and small business in order to build a future incomestream
- Digital financial services’ usage is limited among the refugees and host communities. Where CIP is received, the community cash out immediately (1-30 days)

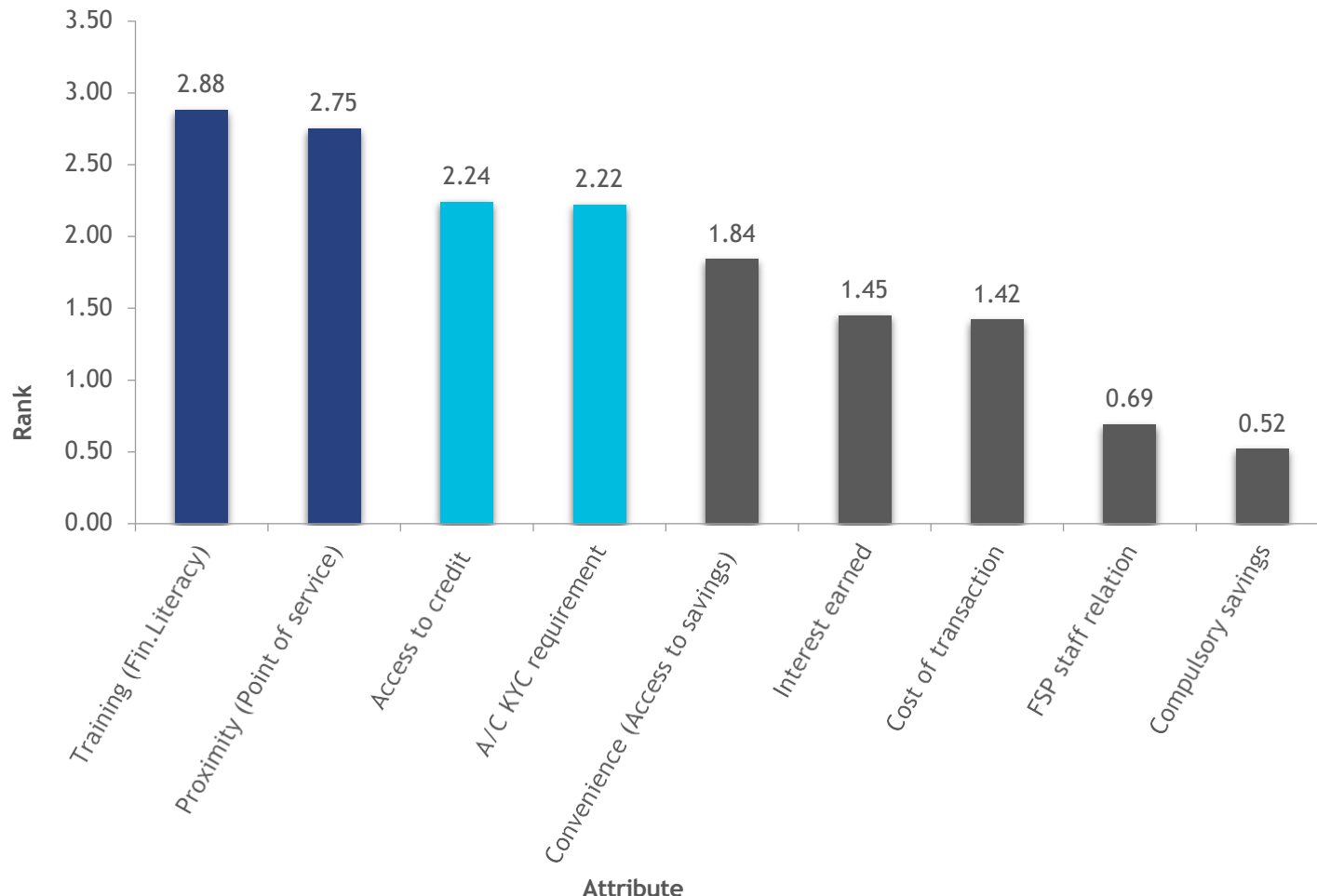
Only 10% of the accounts have a balance 10-20 days after payment is done - Postbank manager, Yumbe



Studies show that 80% live below the international poverty line of \$1.90/day (FAO and OPM, 2018) and 89% of refugee households had recently experienced food insecurity (Development Pathways, 2018)

Financial literacy, proximity of services and access to credit and training needs are main drivers for preference and usage of digital financial services

Product attribute ranking



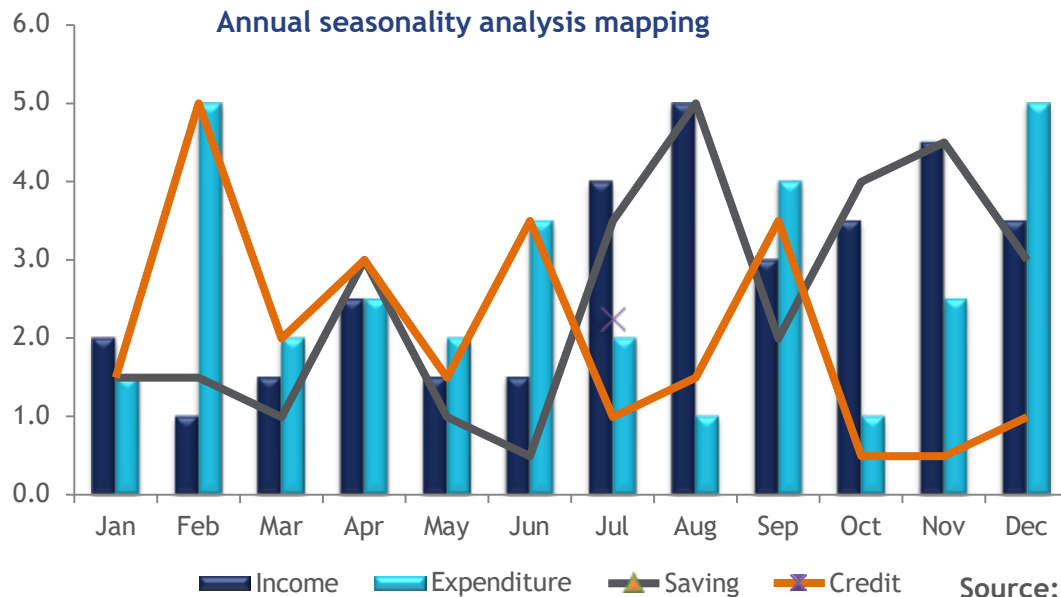
Source: PRA exercise with refugees and host communities


When designing products providers need to ensure they address the following areas that customers noted as key barriers. These are:


- 1) Non-financial aspects:** What added value e.g. training do the providers offer beside the digital financial services. Training determines the level of awareness and deepens customer loyalty.
- 2) Proximity of services:** This was also tied to availability of services. It was noted agents may be located within reach but are rarely functional during peak seasons.
- 3) Access to credit:** Only 29% of hosts and 24% of refugees have received or report being likely to receive loans from financial institutions (IFC 2019). Refugees, particularly business operators, are turning to savings groups for credit.
- 4) KYC requirements:** Over 60% of refugees lack foundational credentials and require relaxing of KYC requirements if they are to access formal financial services.


Refugees and host communities have similar seasonality in income, expenses, savings, and credit needs


Credit needs are complemented by savings (largely in VSLA) across the year. The community will save and borrow to cater for school-related expenditure and businesses due to the seasonality of income sources.



01  **Income**
The community has high income from July to December. This is related to agriculture production cycle (harvest time)

02  **Expenditure**
Greatest expenditure for the community are related to school calendar (February, June and September). Other critical expense times are festive season in December

03  **Savings**
The community is able to accumulate savings around the agriculture seasonality. The community saves largely in kind such as small ruminant animal stock and food reserves (cereals). When in cash, they save in their homes and VSLAs. There is little trust in digital financial services and hustle of access to digital financial services platforms to save

04  **Credit**
The credit needs of the community are largely driven by the high expenditure cycles. The main credit needs for the community are related to school expenses (fees, uniform, books etc.) in addition to financing farming operations

5.0 Persona mapping

This section highlight the main segmentation and characteristics of the respondents in Kenya and Uganda



Understanding the potential DFS market target clients in Kenya and Uganda

<p>Our Approach</p>	<p>Gather insights from the various segments of the market. Consolidate the key features based on users' needs, experiences, behaviours and goals. Develop cluster of characteristics that best describe the segment. Each persona represent the characters of the different segments of the market.</p>	
<p>Geographical-wise</p>	<p>Kenya: Consolidated digital financial services need, experiences, behaviors of refugees and their host community</p>	<p>Defining the character of a refugee:</p> <ul style="list-style-type: none"> • Qualitative research with the refugees • Key informant interviews with implementing partners
	<p>Uganda: Consolidated digital financial services need, experiences, behaviors of refugees and their host community</p>	<p>Defining the character of a host communities:</p> <ul style="list-style-type: none"> • Qualitative research with the hosts communities • Key informant interviews with local leaders, businesses and FSPs
		<p>Defining the character of a refugee:</p> <ul style="list-style-type: none"> • Qualitative research with the refugees • Key informant interviews with implementing partners
	<p>Defining the character of a host communities:</p> <ul style="list-style-type: none"> • Qualitative research with the hosts communities • Key informant interviews with local leaders, businesses and FSPs 	



5.1 Customer persona profiles from Kenya



Characteristics of the refugees



Think and Feel



- Banks and other formal financial service providers are very expensive
- Banks and MFIs are discriminative refugees. They give them very low credit limit
- They do not have adequate income to save enough. They rely on cash relief
- Their movement beyond camps is curtailed by the bureaucracy in acquiring movement documents.

Say and Do



- They use a mix of financial tools - Digital and traditional, formal, and informal
- They own old phones with limited memory that does not support them better in accessing internet.
- Decision to use digital financial services influenced by group members' preferences, influenced by peers and word of mouth.

Hear

- Financial institutions and mobile money accounts can be hacked and money can be stolen.
- Bank and MFIs have affordable and differentiated product for clients like them.
- Prefers bank branch to the bank or mobile agents



See

- Network coverage affects usage of digital financial services. Often travel to locations with strong network when transacting using digital channels.
- Needs a digital savings product that mimics savings group/ and/or ROSCA
- The main concern is the slow growth of their savings and loans schemes due to limited sources of income
- There are better infrastructures outside the camps but are limited to move out of the camps



Characteristics of the host community



Think and Feel

- Refugees are favored with a lot of projects done within the projects and few within the host community
- Banks and MFIs are discriminative refugees. They give them very low credit limit
- They do not have adequate income to save enough. They rely on cash relief
- Their movement beyond camps is curtailed by the bureaucracy in acquiring movement documents.



Say and Do

- There is great interaction between the refugees and host community: socially and economically
- They use a mix of financial tools - both digital and traditional, formal, and informal
- They own old phones with limited memory that does not support them better in accessing internet.
- Transact low values but frequently (monthly shares and loans at VSLAs).
- Their agricultural production is more subsistence, therefore, they do not save much.

Hear

- Going to the bank needs a whole day due to the long queues.
- To open and run a bank account, one needs a lot of cash.
- Formal financial institutions only give loans to the employed.



See

- There are very few agents operating. They are sparse, and have very low liquidity.
- Banks and mobile money agents are closing due to limited business in the settlements.
- Financial literacy sessions offered by the financial institutions are important as most people now understand the basic banking.



Four key personas for the refugees and host communities (1)



A champion

- Age: 25 - 35 years married refugee women.
- Have stayed in the camps for over 5 years
- High literate: Have education above secondary school
- They are digital and numeral literate. They use digital and mental accounting
- They use a mix of financial tools - both digital and traditional, formal, and informal
- Regular savers: Save at least KES 500 - 1,000 weekly
- Budding businesswomen: They have stable businesses within the camps serving refugees and host communities
- They are mostly multi banked: DFS is one of their access channel but they juggle between different service providers
- Income smoothening: They use digital credit in consumption smoothening and for business needs



A star

- Age: 18 - 30 years young men.
- Literate: Majority have at least completed college education .
- Technology savvy: They own gadgets and are comfortable with advanced use cases.
- Trusts digital channels: They are comfortable transacting through digital channels and think they are cheaper.
- Travelled: They are well travelled for education, leisure and business/work.
- Employment : Majority are working in formal employment.
- Economically ambitious: Apart from formal employment, they also have small businesses like petty businesses like boda-boda, and kiosks.
- Credit appetite: They have high appetite for credit, they are open to try out digital credit when offered.
- Active in community empowerment: Actively engaged in social activities and willing to support in community empowerment programs.

Four key personas for the refugees and host communities (2)



A plateau

- Age: 25 - 40 years married women from both the refugees and host community.
- Semi-illiterate: Majority are not schooled. A few have lower primary school education.
- Financially illiterate but sharp mental modelling: No formal transaction records but have a good grasp of every income and expense.
- Digital illiterate: own basic phone that mostly is for receiving calls from family.
- Laggards: Heavily dependent on the influencer's or important others' position and opinion. Few have mobile wallet
- Saves through household assets to build lump sum (keeping goats).
- They only trust the VSLA and lack the knowledge of the digital financial service
- They are aware of mobile money services and are registered for MPESA but rarely uses these services except for remittances from children



A mountain

- Middle-aged: 25- 50 years men.
- Literate: Majority have at least completed secondary school and are numeral literate.
- They have a more consistent income, expenditure and savings pattern.
- Highly entrepreneurial: owns large shops within the camps and also outside. They double up as mobile money agents
- They are multi banked: they have multiple bank accounts, mobile money MFIs and VSLAs
- High savers: Involved in multiple savings schemes- in-kind, mobile money, VSLAs, MFIs and banks.
- Mistrust with digital channels: They do not trust digital channels due to past experience with fraud cases.
- Great influencers: They have an settlement community and highly regarded.
- Their turnover (>KES 500,000 per month).
- Cites KYC as the biggest barrier to access and use of digital financial services for business owners.

What is common among the four segments?



- ❑ Building personal assets and micro enterprises is top priority in diversifying livelihood. **However, product and services currently provided are not tailored to the refugees and their host community context** Digital and financial literacy is also required to improve uptake and usage of the products and services
- ❑ They are regular users of informal financial mechanisms: **all of them are members of VSLAs where they save and borrow weekly or monthly.** There is need to link the VSLAs with formal financial institutions so as to build a larger operating capital and increase
- ❑ **Agriculture is their main source of livelihood.** The value of agriculture commodities traded is very low. Growth in value of agriculture production will lead to better income and livelihood for the community
- ❑ They are vulnerable to external shocks such natural calamities and as lifecycle events. **They however lack formal risk mitigation tools**
- ❑ **Network (GSM and broadband) access and KYC requirements** are limiting DFS experience for both the refugees and the host community

The above challenges point to the need for an ecosystem approach to provide solution to the refugees and their host communities. The various ecosystem actors must work to create opportunities and services that target the needs of these groups



5.2 Customer persona profiles from Uganda



Key customer profile for refugees and host community in Uganda

Majority of the community members have limited income and low literacy levels (financial and digital).



72%

Have incomes less than UGX 50,000



68%

Have no money left after paying their expenses



19%

Use mobile money as a savings avenue



25%

Use their mobile device for financial transactions



75%

Require assistance from the mobile money agent to transact



50%

Do not own mobile phones. 72% of these are women



52%

Lack the right documents for registration of mobile money

Source: [UNCDF & DCA, 2018](#) and MSC analysis

Characteristics of the refugees



Think and Feel

- Banks and other formal financial service providers are very expensive.
- Some banks are only accessible to rich people.
- They do not have adequate income to save.
- Implementing partners need to help them grow their VSLA accounts.
- The host communities have better livelihood sources than refugees.
- Blocking SIM cards was a motive to steal cash.



Say and Do

- VSLAs are the main financial intermediation platforms for refugees.
- They do not own mobile phone, therefore, cannot use mobile banking.
- Transacts low values but frequently (monthly shares and loans at VSLAs).
- They trust cash in their homes. Seeing cash every day gives them gratification although they understand the associated risks.

Hear

- Financial institutions can consume their savings.
- Network issues make banking tedious and unreliable.
- Financial institutions and mobile money accounts can be hacked and money can be stolen.
- Bank and MFIs have affordable and differentiated product for clients like them.



See

- Refugees SIM card registration is going to help them access financial services.
- Banks and mobile money agents are closing due to limited business in the settlements.
- Financial literacy sessions offered by the financial institutions are important as most people now understand the basic banking.
- The main concern is the slow growth of their savings and loans schemes due to limited sources of income



Characteristics of the host community



Think and Feel

- Refugees receive more support from program implementing partners than the host.
- They can be better-off if their main source of income (agriculture) is safeguarded.
- Saving in formal financial institutions and mobile money is risky.
- Banks charges for opening, running and closing accounts are very high for rural population.
- Mobile banking and mobile money are not safe.

Say and Do

- VSLAs are the main financial intermediation platforms for refugees
- They do not own mobile phone, therefore, cannot use mobile banking.
- Transact low values but frequently (monthly shares and loans at VSLAs).
- Their agricultural production is more subsistence, therefore, they do not save much.



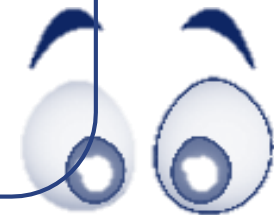
Hear

- Going to the bank needs a whole day due to the long queues.
- To open and run a bank account, one needs a lot of cash.
- Formal financial institutions only give loans to the employed.



See

- There are very few agents operating. They are sparse, and have very low liquidity.
- Banks and mobile money agents are closing due to limited business in the settlements.
- Financial literacy sessions offered by the financial institutions are important as most people now understand the basic banking.



Four key personas for the refugees and host communities (1)



Limited conqueror

- Age: 18 - 30 years married women.
- Semi-illiterate: Majority have at least completed primary school and are numeral literate.
- Digital laggards: Few have mobile phones and mobile money accounts.
- Financially illiterate but sharp mental modelling: No formal transaction records but have a good grasp of every income and expense.
- Regular savers: Save at least one-quarter of their incomes (UGX 10,000 to UGX 20,000 per month).
- Visionary: Focused to educate their children, they see opportunities in educated generation.
- Decision followers: They have limited decision in the household and especially financial and family planning matters.
- Economically ambitious: They are focused on building petty trade business to supplement seasonal income.



Free ambitious

- Age: 18 - 30 years young men.
- Literate: Majority have at least completed secondary school and are numeral literate.
- Socially inducted: Addicted to gambling and chewing Khat.
- Trusts digital channels: They are comfortable transacting through digital channels and think they are cheaper.
- Travelled: Majority have travelled in many areas of Uganda and beyond.
- Digital early adopters: Majority have mobile phones and smartphones.
- Economically ambitious: Beginning or running petty businesses like boda-boda, and kiosks.
- Poor savers: Have a more regular income but save less often. Seldom they will save in their mobile money account.
- Credit appetite: They have high appetite for credit, they are open to try out digital credit when offered.
- Active in community empowerment: Actively engaged in social activities and willing to support in community empowerment programs.

Four key personas for the refugees and host communities (2)



Betrayed believer

- Age: 25 - 35 years married women.
- Largely the host community.
- Semi-illiterate: Majority have at least completed primary school and are numeral literate.
- Operate MSMEs within the settlements.
- Digital laggards: Few have mobile phones and mobile money accounts.
- They only trust the VSLA and low trust for digital financial services: They will only use digital financial services after a thorough digital literacy and based on other users reference.
- Financially illiterate but sharp mental modelling: No formal transaction records but have a good grasp of every income and expense.
- They feel that the refugees are given priority and less attention is given to the host community.



Aggressive re-builder

- Middle-aged: 25- 50 years.
- Semi-illiterate: Majority have at least completed secondary school and are numeral literate.
- They have a more consistent income, expenditure and savings pattern.
- Highly entrepreneurial: Rebuilding business empire brought down in country of origin
- High savers: Involved in multiple savings schemes- in-kind, mobile money, VSLAs and banks.
- Trust digital channels: They are comfortable transacting through digital channels.
- They have limited formal financing for their businesses.
- Great influencers: They have an settlement community and highly regarded.
- Their turnover (>UGX 500,000 per month) is adequate to be a digital financial services' agent.
- The costs of operating a bank's saving account are too high and prefer mobile banking.

What is common among the four segments?



- ❑ They expressed the need to build small assets and capital for micro enterprises. **However, they have limited knowledge and access** to available financial intermediation tools and services
- ❑ They are regular users of informal financial mechanisms: **all of them are members of VSLAs where they save and borrow weekly or monthly.** They also borrow from family and friends
- ❑ **Agriculture is their main source of livelihood.** The refugees trade with the host communities on agriculture commodities through informal, low value market systems
- ❑ They are vulnerable to external shocks such natural calamities and as lifecycle events. **They however lack formal risk mitigation tools**
- ❑ Limited digital financial services access and use is partly contributed by the **lack of gadgets, stringent KYC requirements and network issues** within the settlements.

The above challenges point to the need for an ecosystem approach to provide solution to the refugees and their host communities. The various ecosystem actors must work to create opportunities and services that target the needs of these groups



6.0 DFS drivers and barriers for refugees and host communities

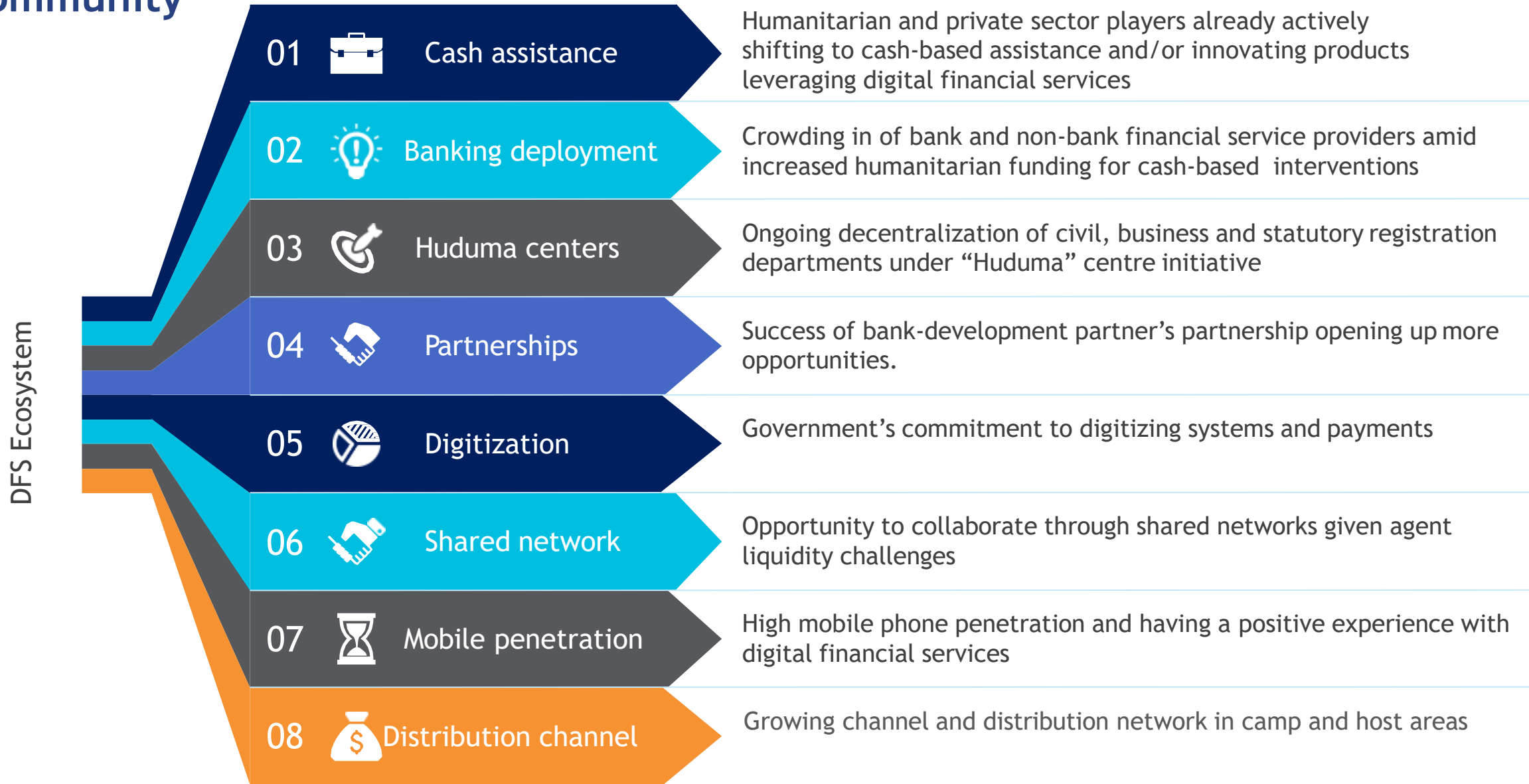
This section discusses the main drivers, barriers and solutions to digital financial services uptake and usage for refugees and host communities in Kenya and Uganda. It is build on an analysis of secondary research and primary interviews conducted with partners, users and regulatory agencies in Kenya and Uganda.



6.1 Drivers of DFS - Kenya



Ecosystem approach is facilitating access to DFS for refugees and the host community



6.2 DFS Barriers - Kenya



Refugee exclusion practices around getting relevant KYC and foundational credentials hinder more than 60% of refugees from accessing digital financial services

This is further fueled by Kenya's fragmented national identification system that has different agencies located in different places far away from the camps responsible for processing documents.

Identification	Issuing authority	Trend - Host	Trend - refugee	Comment
Birth or Death or Marriage Certificates	Ministry of Interior via Civil Registration Department (CRD).	67% Male, 66% female birth registration rate for children under five.	Refugees reported facing significant barriers in getting their children's birth certificate.	Lack of regular civil registrar in the camps contributing to increased challenges. Many refugees do not also understand the importance of having a birth certificate.
National ID card or Alien ID	Ministry of Interior via the National Registration Bureau.	88% of Kenyans above 18 years of age have IDs.	Only 40% of refugees in Kakuma have alien IDs.	Foundational credential required for bank account opening, SIM registration, and mobile money validation. Also required by security officers for identity validation.
Mobile operator issued SIM card	The Ministry of Information, Communication and Technology. Issuance regulated by the Communication Authority (CA).	106% SIM adoption rate national/ host community. Turkana region, however, showed a lower than average access and ownership of SIM cards.	The expiration of alien IDs contributing to increased numbers of refugees excluded from SIM ownership	Lack of foundational ID credential limit mobile money adoption and usage. Cases of SIM cards issued but non-functional outside camps an example of exclusion designed refugee digital inclusion.

For the host community, the national safety net card was noted by many respondents in the deep rural areas as their first ever bank document

Identification	Issuing authority	Trend - Host	Trend - refugee	Comment
Digital credit profile Majority of refugees' credit history not captured or leveraged	Credit Reference Bureaus provide credit profile of digital borrowers for screening against lending	34.8% of Kenyans are digital borrowers. Practice less prevalent in the Turkana host community. Many simply unaware of existence of digital credit	Similar trends to host in addition to exclusion practices that entrench non usage	Poor connectivity, lack of KYC, lack of access to smartphones, low literacy and awareness as well as high cost of data (airtime) main contributors to non-usage
National Safety Net Program card	Ministry of East African Community, Labor and Social Protection and Ministry of Devolution and ASALs	Main and often the only bank card ever used by host community in the deep rural	Relevant only to host community	Integrated Population Registration System used to validate data alongside Kenya's single registry system. Program was limited in reach and scope but contributed to increased levels of inclusion. Infrastructure can be used as to scale and deepen digital financial services adoption and use in future
National Hospital Insurance Fund (NHIF)	The Ministry of Health and The National Treasury	25 million Kenyans covered. Hosts employed as incentive workers covered. Majority of host population in Turkana interviewed reported not having a health insurance	Currently not issued to refugees. However, UNHCR and other agencies have opened discussions with the Ministry of Health to provide NHIF services to refugees on cash basis using a card.	Access to primary medical services are currently free within the camp/settlements. However, the move to cash-based medical insurance will require refugees to access, own and use medical cards

Difficulty in obtaining movement passes and KRA PIN is a major KYC related barrier

The lack of a centralized point for refugees and even hosts to apply for and process these documents often make the process expensive and time consuming. This often discourages refugees from making the effort to acquire them.

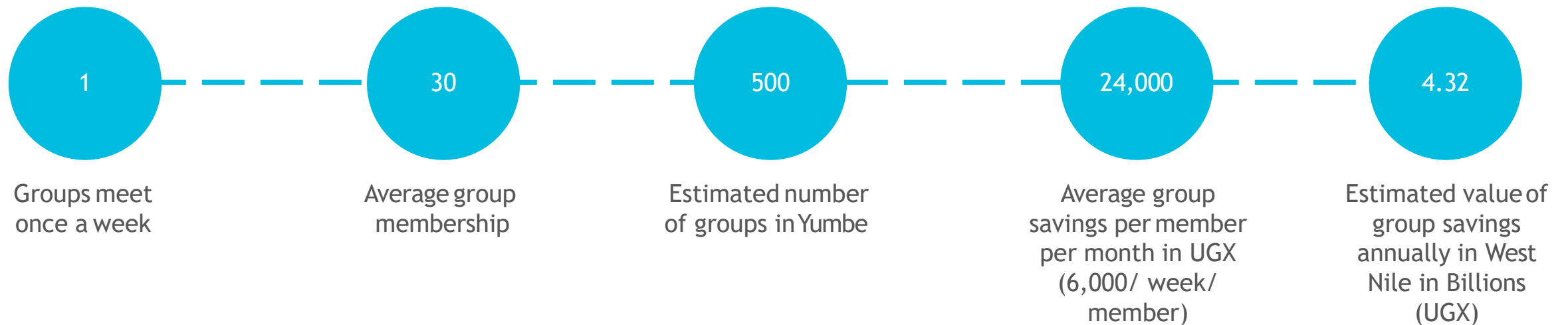
Identification	Issuing authority	Trend - Host	Trend - refugee	Comment
Kenya Revenue Authority (KRA) Personal Identification Number (PIN)	Issued by the KRA and governed by The National Treasury	3.6 million Kenyans filed returns in 2018. Hosts own national IDs and are able to get KRA PINs online	Lack of alien ID hinders refugees from getting KRA PIN, hence, are technically barred from opening bank account since it is a basic requirement	Relaxing KYC requirements will be key to overcoming this barrier
Refugee manifest registration document	Issued by Ministry of Interior through the Refugee Affairs Secretariat and facilitated by the UNHCR	Not relevant	All refugees and asylum seekers have or get a manifest within days of entering the refugee camp	The manifest is not considered a foundational credential in accessing formal financial services in Kenya despite being the most prevalent that refugees have
Movement pass	Issued by Ministry of Interior through the Refugee Affairs Secretariat and facilitated by the UNHCR	Not relevant	Movement pass given - usually for a maximum of 14 days to leave and return to the camp. Many travel for business, take children to school, to visit relatives or to seek for services not available at the camp e.g. medical treatment.	Refugees noted that getting a movement pass was a hustle. Some noted that by the time they got the movement pass, the need for it would be irrelevant as the issuance is often delayed.

6.3 DFS drivers- Uganda



Refugees and host communities accumulate in excess of USD 1.167 million annually within the village savings groups in Yumbe district only

The number of VSLAs is estimated to be higher than 10,000 across the West Nile (Arua, Adjumani, Koboko, Maracha, Moyo, Pakwach, Nebbi, Yumbe, and Zombo).



Source: Own compilation

There is great potential for formal financial institutions to tap on the informal savings and credit groups. However, the products and services must mimic the financial behaviour of the refugees and host communities.

6.4 DFS barriers -Uganda



Refugee exclusion practices around getting relevant KYC and foundational credentials hinder more than 50% of refugees from accessing digital financial services

This has been aggravated by the recent decision by the Uganda Communication Commission to suspend SIM card registration and block operational SIM cards among the refugees

Identification	Issuing authority	Trend - Host	Trend - refugee	Comment
Birth/ Death/Marriage Certificates	Ministry of Interior via Civil Registration Department (CRD)	50% registration rate for children under five	Refugees reported facing significant barriers in getting their children's birth certificate	Lack of regular civil registrar in the camps contributing to increased challenges. Many refugees do not also understand the importance of having a birth certificate
National ID card/Alien ID	Ministry of Interior via the National Registration Bureau	>70% of host Ugandans above 18 years of age have IDs	Only 50% of refugees in West Nile have new bio metric IDs. The recent move by UCC allows only for the head of household to register Simcard leaving out many young adults within the households	Foundational credential required for bank account opening, SIM registration and mobile money validation. Also required by security officers for identity validation.
Mobile operator issued SIM card	The ministry of information communication and technology. Issuance regulated by the Uganda Communication Commission (UCC)	Host SIM cards were not affected by recent blocking by UCC hence	Refugees were heavily affected by SIM card blocking. Majority reported their savings in mobile money cannot be accessed any more. This has created mis-trust between the refugees and mobile money providers	Blocking SIM cards and protracted access to identification documents among refugees may hinder uptake of digital financial services

Low financial and digital literacy among the refugees and host community threatens digital financial services' access and usage

01

Mobile ownership

- 50% of the population do not own a mobile phone
- Limited use cases- calling and seldom texting
- Mobile money business had picked in West Nile before UCC froze SIM card registration.
- Many customers do not own mobile phones, however, a majority of those without phones still use mobile money services through an agent, relative, friend or neighbor's phone
- Wide gender disparity in phone ownership
- The primary reason for low mobile phone penetration is affordability

02

Inter-operability

- Limited and costly mobile money inter-operability in Uganda is a deterrent to progressive financial inclusion in Uganda. Similarly, the interoperable bank services like the ATMs are also very expensive
- Limited stickiness in refugees bank accounts is not helping either.
- Most of the bank accounts are emptied almost immediately (10-20 days) and the beneficiaries spend the cash.
- Low levels of stickiness can be attributed to lack of alternative source of income, lack of a digitized ecosystem-accepting digital payments, and refugees mistrust of FSPs

03

Agent access

- Customers travel long distances to reach an agent.
- This presents a challenge to adoption of mobile money since most customers must walk to the mobile money agent.
- Most of the people travelling long distances spend more than two hours, moving from one area to another because agents in one area may not have enough liquidity to cover withdrawal and deposit needs

04

Agricultural productivity

- Limited productivity for agriculture livelihood due to adverse climate change
- Limited access to extension, market and weather information; limited access to financial services; and few market connections, value proposition for digital financial services is not always evident to them. Moreover, uptake varies significantly based upon the dynamics of the particular value chain (e.g., crop seasonality and established trade links)

Conclusion and recommendations

This section provides a summary of the key considerations, recommendation and insights gleaned from the study.



While drawing recommendations, we are cognizant that the two markets have similarities as well as differences

A comparison of operating environment in Uganda and Kenya spells out the differentiating factors in implementing recommendations given in this section

Uganda

- Uganda has a robust refugee and host community management or integration framework
- 1.2 Million + refugees and growing
- Refugees stay in settlement schemes- temporal and/or semi permanent structure
- DFS market is nascent and a handful of providers mostly with single model
- Digital credit is available but with limited scale. Largely led by MNOs
- Refugees live within a vulnerable community who have had history of displacement as well
- Telecommunication industry is driven by two main players controlling about 90% of the market: Airtel and MTN

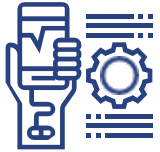
Kenya

- Kenya's legislation is still fluid although strong in refugee and host community management or integration framework
- 0.5 million and declining refugees numbers
- Refugees live in camps with permanent structures
- DFS market is advanced and crowded with many providers and models.
- Digital credit is easily available through different channels- banks, MNOs, fintechs, combined models and so on
- Refugees are hosted by a stable community
- Telecommunication industry dominated and controlled by one player- Safaricom



Summary recommendations (1)

We recommend: 1. Increased engagement of FinTech, 2. Introducing innovative financing to support FSPs, 3. Development of relevant products, and 4. Increased partnerships and collaborations



Stimulate FinTech engagements: To accelerate digital financial services' innovations, we recommend a structured engagement with FinTechs in the refugee market space. The traditional players are currently more focused on facilitating transfer and payments and offering demand deposit accounts, however they could play a key role in spurring breakthrough innovations in the short to mid term. Inclusion of FinTechs is likely to disrupt the status quo and bring the much needed rigor and focus on innovative solutions. Pilots that have provided positive cases include the Safaricom GSMA VSLA digitization in Kenya and DCA and Ensibuuko VSLA digitization in Uganda



Catalyze innovative financing solutions: Financial service providers in the refugee markets face a daunting challenge of providing services to transient customers with little or no assets to provide as collaterals. Such customers make it difficult for financial service providers to use their traditional banking approaches. The high risk environment also requires access to affordable and risk-covered finance for these service providers. Development partners and investors, therefore, may consider catalyzing investment in refugee banking through building risk cushions for financial service providers and advancing innovative financial instruments to help the providers sustainably deliver services.



Tailor-made financial products: Refugees' market financial behavior is remarkably different from that of normal customers who enjoy rights as full citizens. It is important that digital financial services' stakeholders take advantage of insights from big data and other sources to design market-led and customer-centric products and services. Part of the reason why uptake has been low is due to a mismatch between market needs and product features. School fees and business loans are the low hanging fruits which can be used as a



Leverage partnerships and collaborate for effective financial and digital literacy: Current interventions have typically taken the form of "touch-and-go". They are short-term, small-scale, unsustainable, and usually driven by single agencies acting on their own. Collaborating for scale and impact is needed to accelerate the transformation of the high latent potential into a market opportunity.

Summary of recommendations (2)

Further, we recommend: 5. Involving facilitating agencies in linkages, 6. An ecosystem approach to digital financial services development, and 7. Hedged financing facility for women and persons living with disability



Linking VSLAs to formal financial services: There is a need for deliberate and dedicated efforts to accelerate the ongoing efforts of linking VSLAs to relevant digital and formal financial services. There are over 10,000 VSLAs (9,000+ in West Nile and 1,000+ in Kakuma) with a membership of at least 300,000 members saving at least USD 20 million annually. The VSLAs are constrained by limited liquidity to provide higher-order financial needs which can be provided by formal institutions. Intermediating this linkage may require a revolving or support fund to strengthen the VSLA capacities before linking them as appropriate. Pilot tests are ongoing through DCA partnership with Ensibuuko, Vision fund and Equity bank. This involve a digital VSLA platform for digitizing VSLA ledger and processes plus provide formal account and digital wallet in Yumbe, West Nile Uganda.



Ecosystem approach to digital financial services development: There is a need for an holistic ecosystem approach to digital financial services development that links enhancement of livelihoods to financial inclusion interventions. At the very least, users targeted with financial inclusion interventions need support to secure a means to meaningful livelihood. Digital financial services' development programming ought to incorporate livelihood protection approaches into its design. Helping users transit from subsistence to commercial farming increases their likelihood to use and adopt digital financial services at scale.



Encourage the development of hedged financing facility for women and persons living with disability (PLWD): While users face a challenge accessing credit, women and PLWDs face more hurdles at structural level. Innovative financing such as introducing risk guarantees and hedge finance for these segments is key to the financial and digital inclusion of women and PLWDs. Currently, there is limited gender-sensitive service delivery and inclusive product design for women and PLWDs. Banks are delivering services using mass-market approaches and may need to differentiate their services to specifically include these marginalized groups.

Risk guarantee with an insurance firm for single case insurance products such as maternity. Other interesting areas involve the setting up and linkage of gig based youth groups for online work and marketing (seed and growth venture funding can be done through a hedged/pool fund and linkage to formal financial institutions actioned through risk guarantee systems)

Behavioural product design insights gleaned from refugee and host communities

Banks have extended their vanilla products to refugees through digital channels. This has led to design gaps resulting in low adoption and usage. The banks have an opportunity to design products based on financial behavior to ensure uptake and usage of digital financial services for refugees and host communities

1	Users are concerned about their security and privacy and usually opt-out of bundled digital financial services	Design financial behavior not products: Refugees prefer DFS products that reinforce their financial behavior and catalyze the achievement of goals. Product features, and names of brands and providers were rarely mentioned during the interviews except with regards to user experiences.
2	Users say they have another solution hence non-adoption of digital financial services	Refugees have a tendency to overestimate switching costs: Refugees tend to keep using traditional products due to fear that interoperability costs to digital channels are unaffordable. DFS providers should deploy more below the line marketing strategies and design touch-led DFS solutions.
3	Users experience access barriers due to inappropriate design of channels and app based solutions	Refugees find USSD- and app-based solutions difficult to use, sophisticated, and slow: Most refugees have low quality phones with limited memories that run on slow android versions. App solutions should be light (DCA's VSLA training app for instance is 37.65 MB!), have simplified design features (1-3 steps on average), and can be accessed via at least more than one channel. Refugees are typically multi-channel users while host communities are single channel users.
4	Users procrastinate completion of requests and tasks in auto-sessions	Simplifying onboarding and user engagement processes: Most refugees procrastinate or change their minds completely when they are unable to complete auto-onboarding processes and service requests. Onboarding processes should have touch-based support. User requests and access procedure should be simplified to take advantage of artificial intelligence capabilities e.g. automated credit scoring to auto-complete information and forms.
5	Micro-insurance products that target health unknown and underused	Design products that address lifecycle needs component with 'default' onboarding as opposed to 'opt-in' features: Refugees were reluctant to sign-in for some products such as m-health but expressed the need to have themselves covered for medical emergencies. Testing default onboarding for such products may provide breakthrough in adoption.

Policy and regulatory recommendations to enhance uptake and usage of digital financial services for refugees and hosts

We recommend the establishment of digital financial services' focal points to enable the provision of consistent technical support to the development of the refugee digital financial services ecosystem in the camps

1	Promote information sharing. Develop a one-stop shop for business registration	Refugees face challenges getting information on how to register and start businesses. This is due to the fragmented nature of registration entities and ID systems: Encouraging centralized information sharing platform for financial institutions , humanitarian or development agencies can help synergize private sector- driven commercial and humanitarian interventions. Agencies should lobby government to implement the <i>Huduma</i> center type information center for refugees.
2	Develop regulatory guidelines for refugees clarifying exemptions and restrictions	Humanitarian agencies and private sector actors have in the recent past made progress with regulators: Discussions with authorities such as CBK and RAS on relaxing KYC and expediting provision of passes etc. have resulted in increased financial inclusion for refugees . There is need to provide regulatory guidelines on financial services for refugees to guide market practice as the shift to cash based aid gains permanence.
3	Leverage partnerships for large-scale client education and awareness campaigns on digital financial services	Raising awareness and implementing DFS education intervention for over 1.8 million strong and growing customer base is costly and cumbersome for any single DFS actor: Piloting roll-outs and implementing large scale awareness campaigns will require an inter-stakeholder approach . There is need to synergize efforts to improve financial literacy and awareness on DFS and financial services in general.
4	Provide consistent technical digital financial services' support to all stakeholders	Creation of a resident DFS technical advisory center to anchor support to humanitarian and private sector actors is advised: This will help coordinate and focus lobbying, policy intervention, building of market standards (best practices) and disseminating lessons across the industry. This is particularly advised in Kenya. DCA can take the lead in developing such a center. The legal counselling center by NRC is a good example to emulate in DFS for refugees.
5	A favorable tax regime to support development of DFS ecosystem in refugee markets	In Uganda, the tax regime has contributed to increased cost of doing business and accessing DFS: The Over-the-Top (social media) tax has resulted in deepening fear of using DFS due to the perception of high cost . A conducive tax regime that lowers the cost of access will go a long way in enabling at scale adoption and usage of DFS in the refugee markets.

Recommendations to develop digital financial services' market ecosystem

At scale digital financial services adoption and usage needs integrated solutions leveraging specific strengths of the ecosystem actors. Inclusive digital financial services should be the cornerstone for any intervention.

1	Leverage large-scale integrations to strengthen the business case for MNOs	Leveraging large-scale integrations around high volume drivers such as social transfers, taxes, payments (B2P, P2B, P2P, G2P and P2G) has the potential to strengthen the business case needed to convince operators to boost their network coverage. Innovating in partnerships with MNOs is likely to drive faster buy-in and encourage improved investments.
2	Encourage the development of risk-cushioned finance for women and persons with disability	While refugees and host community face a challenge accessing credit, women and PLWD face more hurdles at structural level: Innovative financing such as introducing risk guarantees and hedged financing for these segments is key to their financial and digital inclusion. Currently gender-sensitive service delivery and inclusive product design for including PLWD is lacking. Banks are delivering services using mass market approaches and may need to differentiate their services to include these marginalized groups.
3	Linkage of savings groups to formal financial services likely to jumpstart deepening of access to credit for businesses and households	FSPs should focus on linkage of savings groups to the banks and NBFIs. These groups have many responsible borrowers. New lending products for groups and group members may need to be tested out and carefully designed before roll out. Groups continue to hold an important avenue to deepening financial and digital inclusion.

Annexes

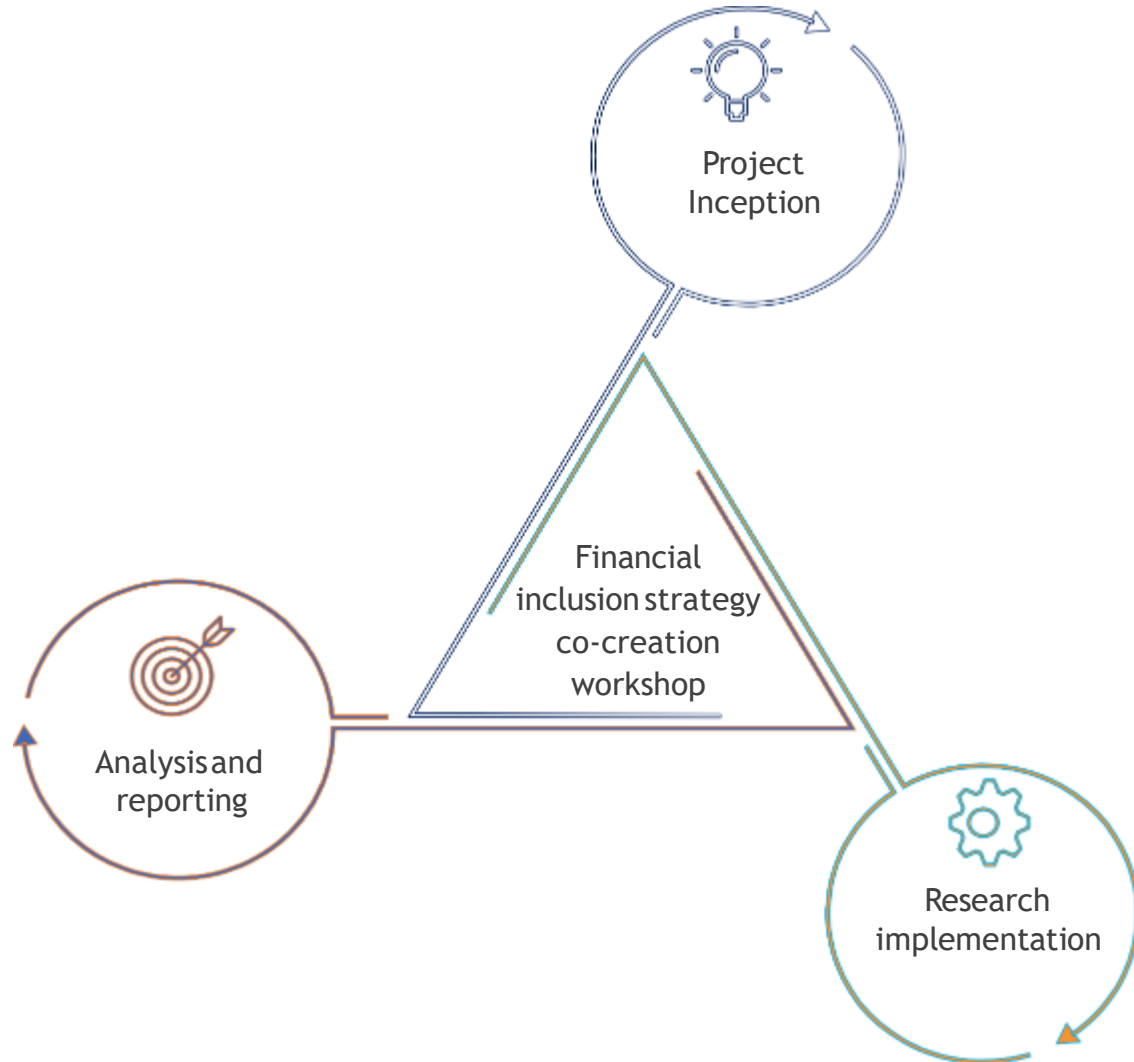


Annex 1- Research methodology, approach, and tools



An assessment approach implemented in three phases

A consultative and collaborative approach implemented sequentially as follows:



Project inception and desk review stage

- Inception meetings
- Desk review



Research planning and implementation stage

- Research planning and tools development
- Stakeholder interviews
- End-user research
- Triangulation of findings



Analysis and reporting stage

- Research data analysis
- Draft report writing
- Findings presentation
- Final reporting

The assessment is anchored on five key objectives



Assessment of the context and landscape in which the digital credit ecosystem and refugee banking operates.



Analysis of the refugee and host communities' financial needs and profile in Uganda and Kenya countries through a behavioral lens.



Application of critical thinking to understand the link between the borrowers' profile, the use cases, and the financial needs to leverage digital financial services for deepening access and usage for refugees.



Careful interpretation of previous research works (including those conducted by us), program reports, and relevant publications to identify additional insights.



Bringing out the opportunities for enhancing current programming, product design and service delivery leveraging digital financial services and products.

Assessment methodology (1)

We used a three-steps approach to gather evidence, synthesize trends and opportunities, and synthesize insights for projecting adaptable recommendations to partners and refugee/host market-players in the digital financial services ecosystem

Inception and desk review

Inception: Used the inception to scope target partner/stakeholder interviews, refine the assessment goals and develop a workplan to implement a rapid assessment.

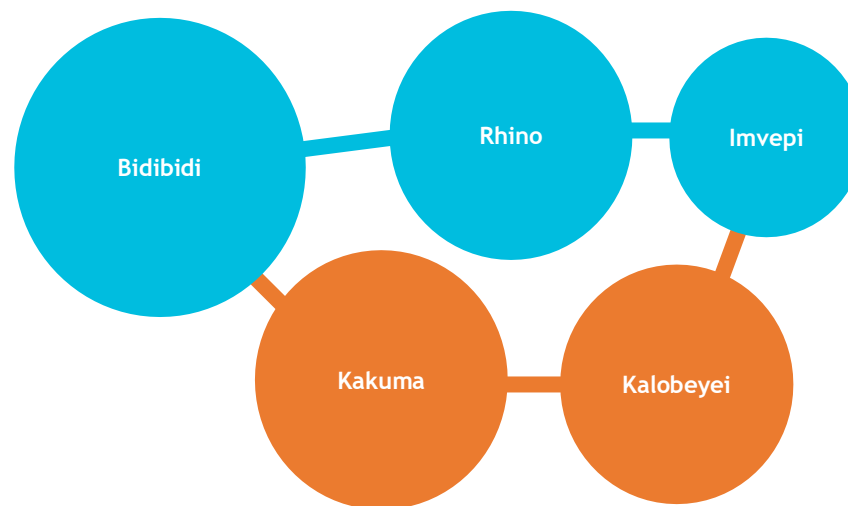
Demand-side: Refugees and host community members were targeted for interviews. 80% of those targeted were designed to be interviewed as part of Focused Discussion Groups (FDGs). Target interviews were to include women, youth, farmers and micro and small enterprises, agents, merchants and household heads. The sample included both refugee and host communities. Qualitative insights were generated by way of key informant interviews.

Supply-side: Stakeholders interviewed included Financial Service Providers, humanitarian and development partners, Mobile Network Operators and Government officials among others.

Field primary research

We worked with 15 FDGs with an average turnout of 15 members. A total of 228 refugee and host community members were interviewed. 70% of FDGs interviewed were from the refugee community. The rest belonged to the host community. 37 Key Informant interviews with refugee and hosts were also conducted. A total of 32 stakeholders were also interviewed. A list of the FDG groups, KII and stakeholder interviews conducted have been annexed to this report.

The criteria for sample selection are also discussed in the annex in this report.



Analysis, report writing, validation and dissemination

We used anonymized supply-side data sets of Kenyan borrowers for the years 2016, 2017, and 2018.

Data is shared by suppliers once a month; a total of 14 suppliers including banks, MNO-linked banks, MFIs, and FinTechs offering digital loans.

More than 8.1 million borrowers and 10.2 million loans. The data sets have been segregated into digital- and conventional-loan borrowers.

- Camps/settlements visited in Uganda
- Camps/settlements visited in Kenya

Research methodology (2)

Mix of heuristic and rapid appraisal methods applied to determine the key drivers, barriers and solutions. Interacted with refugees and host communities to understand their viewpoints and triangulate with stakeholder expert views.



Stakeholder selection and methodology for research

- Key informants and stakeholders: Refugees, hosts, groups, agents, digital financial service providers and financial service providers. Held personal interviews with these stakeholders
- Users of digital financial services: Refugees segmented by their duration of stay and user personas/profiles

Profile distribution

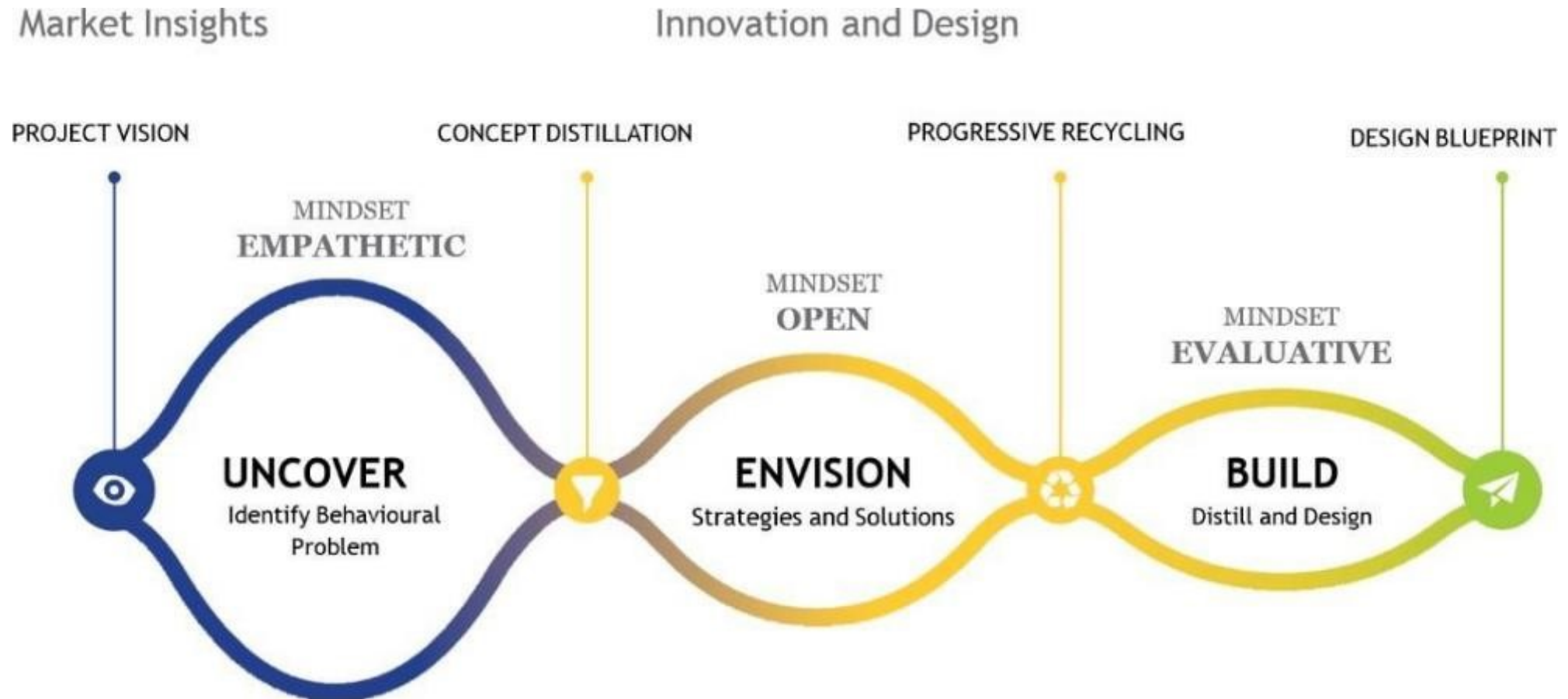
- User level assessment at refugee camps/settlement: Bidibidi, Rhino, Imvepi, Kakuma, and Kalobeyei.
- Digital financial service value chain actors (agents, distribution channel etc.).
- Financial needs assessment.

Analysis tools

- Persona mapping of the current and potential formal financial service users in order to understand what products they currently use, level of satisfaction and barriers to deepening access.
- Scenario mapping to understand the situational contexts availed to customers and their consequent actions.
- Behavioural mapping to understand the mental and design barriers and decision making influences of customer actions.
- Financial needs matrix mapping to map users needs versus market supply to identify gaps and inform designing of solutions.

The rapid appraisal is anchored on the MI4ID approach

The market insights for innovation and design (MI4ID) approach augments socio-behavioral research methods and human-centered design thinking to map needs, uncover barriers and design solutions





Annex 2- References



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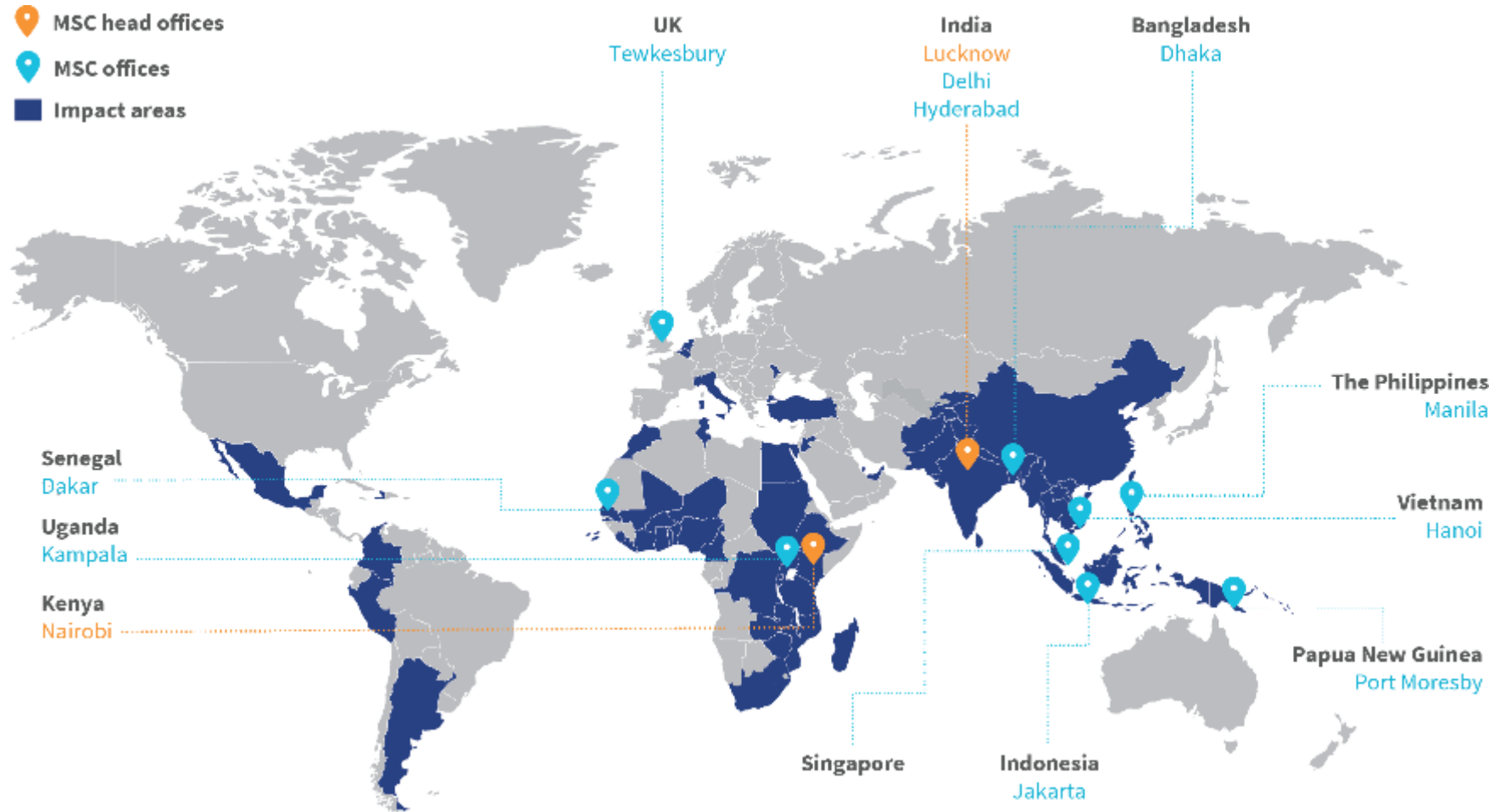
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