8

Financial inclusion

Financial inclusion enables members of groups who are traditionally left outside of formal banking systems to access financial services through formal and informal financial service providers (FSPs). At the national level, it requires legislation and policies that make finance accessible to all segments of society, including refugees and other forcibly displaced people. Financial products and services also need to be adapted to the financial realities and needs of these populations, so that such variables as limited capital and assets do not exclude them from financial systems. At the same time, refugees and host community members need to acquire financial literacy and skills, so that they can confidently engage in financial markets.

Besides limited assets, other reasons why refugees, in particular, face difficulties accessing finance include lack of nationally recognized documentation required to open a bank account,[61] lack of bank branches in or near the settlements and/or camps in which they reside and their temporary status in the host country. Traditionally, people with limited capital, including refugees, have been perceived as high-risk clients by FSPs, who believe they will be unable to repay loans or interest on credit. However, excluding refugees, IDPs and members of host communities from financial services can be more detrimental to economic growth and self-sufficiency in the long run. Access to finance enables autonomy and the pursuit of livelihoods, whether it be as an employee or entrepreneur. It allows these populations to invest in their local communities and live more productive lives.

8.1 Description and key approaches

PROSPECTS' programming worked closely with policymakers and FSPs to create a more enabling environment for including refugees and host community members in financial systems. This included a review of requirements to open bank accounts, take out loans and access credit. It also involved working with FSPs to adapt products and services to the needs and realities of the target groups. Although the ILO already had extensive experience in adapting financial services to the needs of vulnerable groups prior to PROSPECTS, serving displaced people required adapting existing approaches to account for some of the specific challenges mentioned above.

Assessments of challenges on both the demand and supply sides helped lay a foundation for financial inclusion initiatives. On the supply side, the programme started by mapping financial services providers in the country and/or locality, as well as the financial regulations as they applied to the inclusion of refugees and/or IDPs. It also considered the need of refugees and host community members to access financial services (demand side) and the challenges they faced in doing so. In some countries, such as Iraq and Ethiopia, a high level of distrust was found between financial institutions and members of the target groups, while mapping on the supply side revealed a large gap in tailored products and services that would allow refugees, IDPs and returnees to participate in financial systems.

The programme's financial inclusion interventions took two distinct approaches. One involved intervening on the demand side, to develop financial literacy and knowledge of financial products among refugees, IDPs and host community members. In all countries, refugees and forcibly displaced people had limited knowledge of financial services and experience of interacting with formal financial institutions. Those who had been internally displaced were generally more ready and willing to engage with formal financial systems. The second approach focused on the supply side, working with policymakers and FSPs to enhance understanding of the financial realities of the target groups, develop/amend policies governing their access, and develop and pilot tailored financial products to enhance access. In Kenya, Uganda, Jordan, Egypt and Iraq, there was no explicit legislation or policy on access by refugees and forcibly displaced people to financial services, and issues related to Know Your Customer (KYC) requirements and refugee recognition impeded access in some cases. In all cases, banking policies and requirements served as practical barriers to refugees accessing financial services – even in Ethiopia, where the Refugee Proclamation guaranteed refugees the right to open bank accounts and access financial services. In practice, however, barriers such as the need to have nationally recognized documentation impeded their access. In contexts where the financial markets were less developed and nationwide financial inclusion indicators were very low, such as in Iraq, PROSPECTS intervened on both the supply and demand sides simultaneously.

61 Know Your Customer requirements (KYC) refer to minimum sets of identifying information used by financial institutions, typically commercial banks, to determine a client's risk level and to comply with anti-money laundering laws.

Through these two mutually reinforcing approaches, PROSPECTS tailored financial education and capacity-building measures and piloted new and innovative financial products for those operating in forced displacement contexts. Ultimately, both the supply- and demand-side interventions intersected in the financial market, as refugees, IDPs, returnees and host community members became clients of FSPs, using tailored products and services. At the same time, FSPs became familiar with the new client groups and trust built up through repeated interactions.

1. Building financial literacy and awareness

Refugees, IDPs and host community members face similar challenges in that their exposure to financial services is limited and they lack financial literacy, the latter being a key prerequisite to engage productively with FSPs. Moreover, these groups tend to rely on cash and informal forms of finance, such as borrowing from friends and family. In some cases, such as in Uganda and Kenya, informal savings groups, like Village Savings and Loan Associations (VSLA), had exposed refugees and host community members to basic financial concepts. This was a starting point from which to enhance knowledge and formalize financial transactions. In other contexts, informal savings groups were not as prominent and the population in general lacked basic financial literacy. This was particularly the case for certain sub-segments of the population, such as women, especially in Iraq. In such cases, financial education was used to build up people's knowledge of and confidence in making financial transactions and building/managing relationships with banks and financial institutions.

In most instances, awareness of and trust in formal financial institutions were low. The banking sector in several of the countries had a history of collapsing, with the result that people were reluctant to entrust their money to banks. In Iraq, for instance, host community members recalled relatives losing money when the banking system collapsed in the 1980s and, again, in 2014. More recent experiences in Lebanon created similar attitudes. FSPs, for their part, were reluctant to issue credit and loans to people who did not have the capital to support repayments. This concern is not unique to FSPs in PROSPECTS countries, but it is more pronounced, given the size of the populations in these countries with limited or no proof of assets, or a weak credit history.

A starting point for building the trust and confidence of refugee and host community members in financial institutions was financial education (FE). Iraq was the first PROSPECTS country to leverage the ILO's Global Programme on Financial Education and adapt an associated set of financial education training materials. This featured content translated into Arabic and Kurdish, as well as characters and stories adapted to the local context so as to effectively convey the meaning of such topics as goal-setting, savings, budgeting and record-keeping. The predominantly Muslim population also required that certain concepts, such as loans, were articulated in a way that complied with Sharia law.[62] As an outcome of this adaptation, PROSPECTS Iraq helped produce the first Arabic and Kurdish versions of the training manual *Financial Education for Refugees, IDPs and Host Communities.* Similar adaptations were later made in other PROSPECTS countries and were used to facilitate FE in Lebanon and Egypt, for example.

In all countries, the roll-out of FE required a network of locally based trainers and partner organizations. Trainers were certified through a three-step process: training of trainers on FE content and methodology; replicating this training for beneficiaries, with oversight by certified regional trainers; and a certification workshop. Trainers came from national institutions, as well as international organizations, business development service providers and NGOs. National institutions usually had an interest in rolling out FE to support national initiatives to extend access to finance. For instance, in Iraq, FE was launched to support the One Trillion Initiative, a national programme aimed at providing financing to micro, small and medium-sized enterprises (MSMEs). Staff members from the Central Bank of Iraq (CBI) and the Iraqi Company for Bank Guarantees (ICBG) received training, alongside personnel from commercial banks and microfinance institutions (MFIs). Similar to other ILO methodologies, implementing partners were also trained as trainers to enhance local support. This approach allowed them to help staff of national institutions implement the programme, as they often had competing priorities from their daily responsibilities.

62 Sharia law refers to religious law derived from the Quran.

An important aspect was to identify training partner(s) who could access refugee and host communities, particularly in instances where FE was planned inside refugee camps and settlements, such as in Kenya, Ethiopia, Iraq and Uganda. In the first three of these countries, approval processes are required to be followed to enter into camps and settlements, which can be time-consuming. For example, in Iraq, a partnering MFI was unable to access refugee camps in the Kurdistan region, even with support from UNHCR in dealing with the Department of Security in Dohuk. In Ethiopia, a partnering bank did have access to the Jigjiga camp but had to obtain additional clearance when it altered the types of services provided. In Uganda, on the other hand, refugee-led organizations (RLOs) proved to be instrumental partners in helping the programme deliver FE within settlements, as there was no clearance process to access them.

A secondary consideration in the training of trainers was the selection of candidates who could help institutionalize FE nationally. In Ethiopia, Uganda, Kenya and Iraq, central banks and networks of microfinance institutions were instrumental in adapting and implementing FE, typically providing insight for the adaptation of training materials and overseeing implementation. Training staff from national institutions in FE provided them with a deeper understanding of the programme and its potential to advance inclusive financial systems. In Egypt, PROSPECTS trained staff from the Ministry of Youth and Sport (MOYS) as FE trainers, who then supported the roll-out of FE in MOYS youth centres. In Ethiopia, the programme adapted and rolled out FE with the support of the Association of Ethiopian Microfinance Institutions (AEMFI), which helped reach a wider network of MFIs (see case study on next page). These partners served as multipliers in disseminating the methodology.

FE training was typically conducted as part of PROSPECTS' broader enterprise development initiatives. This integrated approach aimed to create an enabling environment by tailoring and combining FE tools to meet the specific needs of different contexts and target groups. By embedding FE within a wider enterprise support framework, PROSPECTS ensured that participants not only gained essential financial skills but also benefited from complementary resources, fostering sustainable economic growth and resilience among small enterprises. This enabled entrepreneurs to develop knowledge and the capacity to invest in their business ideas.

FE was offered alongside non-financial Business Development Services (BDS) training, such as Start and Improve Your Business (SIYB) and GET Ahead. This approach allowed individuals who had limited financial knowledge but were interested in starting or expanding a business to participate in FE. Likewise, those who completed FE and had ideas for a business start-up or expansion could then enrol in SIYB or other relevant training. This pathway equipped entrepreneurs with a clear understanding of loan terms and repayment conditions, enabling them to make informed borrowing decisions.

In Iraq, loans were issued to FE graduates based on the quality of business plans they produced after completing the SIYB training. Sequencing this with the FE component was critical, given the low financial literacy levels in the country. In Ethiopia, FE was a prerequisite for taking out loans from the partner Shabelle Bank. In Ethiopia and Uganda, FE was a factor in business-plan competitions, as it provided MSMEs that had received start-up capital with the knowledge to make informed decisions on business investments.

A valuable lesson learned was the trust-building effect created during the training phase itself. As some of the trainers were representatives of financial institutions, the training fostered direct ties and trust between participants and these institutions. Participants began to view financial institutions as less intimidating, while the institutions saw that the participants posed less of a risk and had stronger business foundations than initially anticipated. This mutual understanding helped establish a positive relationship early on, paving the way for successful financial engagements.

2. System strengthening

Prior to PROSPECTS, many FSPs in the countries in which the programme works had limited to no experience serving clients from forced displacement backgrounds. The latter were perceived by FSPs as lacking financial skills, collateral and the ability to repay loans on time. Some assumed that refugees could not legally open bank accounts or avail of financial services.[63] Additionally, there was a strong perception among FSPs that refugees were a high "flight risk", as they failed to realize that many refugees were in protracted situations

63 In PROSPECTS countries, there are no clear laws forbidding refugees from opening bank accounts. Rather, it is bank policies and procedures that serve as de facto barriers.

▶ Financial education and micro-insurance with the Association of Ethiopian Microfinance Institutions

The Association of Ethiopian Microfinance Institutions (AEMFI), established in 1999, is a non-profit, non-governmental body promoting microfinance in Ethiopia. With a network of 52 member MFIs, the AEMFI provides a platform for knowledge exchange, advocacy, capacity-building and performance monitoring, all of which focus on delivering financial services to vulnerable communities, including refugees and host communities.

In 2021, AEMFI and several of its member MFIs participated in the ILO training *Making Finance Work for Refugees, Displaced and Host Communities*. This capacity-building programme was designed to equip financial institutions with tools to serve forcibly displaced populations. The training focused on adapting financial services to the unique needs of refugees and host communities and explored strategies to address financial inclusion challenges in underserved areas. Through practical guidance and the ILO's inclusive methodologies, AEMFI members gained essential skills to support refugee financial inclusion, highlighting a commitment to socio-economic integration.

In parallel, the AEMFI also championed the institutionalization of financial education within its network. Through the ILO's *Financial Education Programme*, member MFIs have implemented comprehensive financial literacy initiatives that help individuals and families understand essential concepts in savings, budgeting and debt management. The AEMFI has played a central role in expanding financial education through training trainers in the ILO's FE programme, enabling the development of a robust network of national and regional trainers. By leveraging the ILO's structured training materials, which cover core financial literacy principles and adaptive strategies for refugees and host communities, the AEMFI ensures that trainers are well-equipped to educate diverse client groups in managing their finances sustainably.

Additionally, the AEMFI and the ILO, recognizing the need for risk mitigation and financial security, collaborated to introduce microinsurance as a valuable addition to MFI service portfolios. This initiative aligned with recent regulatory changes introduced by the National Bank of Ethiopia, under which MFIs are mandated to offer microinsurance to safeguard movable assets, often pledged as collateral. Microinsurance, which is especially critical in high-risk sectors like agriculture, addresses both borrower vulnerability and lender risk.

In December 2024, the ILO and the AEMFI delivered intensive microinsurance training for Ethiopian MFI managers and independent trainers, covering the diversification of financial products, client-centric product development and best practices in risk management. This workshop, informed by the local context and international case studies, equipped participants with the knowledge to design and implement effective microinsurance solutions. By incorporating microinsurance, MFIs can better serve rural and underserved communities, enhancing the resilience of both FSPs and their clients.

This partnership between the ILO and the AEMFI exemplifies a sustainable model for the financial inclusion of refugees and host communities in Ethiopia, embedding financial education and microinsurance within the strategic framework of MFIs. The collaboration strengthens both the institutional capacity of Ethiopian MFIs to support refugee and host communities through inclusive financial services and the financial resilience of the communities they serve, promoting long-term socio-economic stability. ■

and actually settling in their new host areas. There was also a lack of understanding of the practical barriers that prevented refugees from accessing finance, even when legal frameworks permitted it. As already noted, PROSPECTS teams started by assessing the financial sector in each country, including the laws, policies and institutions in place, and other factors influencing refugees' access to finance.

A complex landscape emerged from these assessments, highlighting the role of informal financial systems and alternative methods of financial transactions in the face of exclusionary banking requirements. In Uganda and Kenya, Savings and Credit Cooperatives (SACCOs) played a role in facilitating group lending, alongside VSLAs. In Jordan, Lebanon and Ethiopia, mobile money was also used to transfer funds between individuals. In Iraq, however, such transfers could only take place with exceptional approval, while in Kenya and Egypt, lack of documentation prevented refugees from obtaining SIM cards, which are necessary to make such transfers.

In all PROSPECTS countries, prior to the start of the programme, microfinance institutions had partially filled a gap in services. They had developed group lending products and loans that did not have the same capital requirements as those provided by commercial banks. However, the loans provided were usually smaller than those provided by banks and entailed higher interest rates. They were not targeted to refugees in all cases, either. Supporting MFIs as they introduced loan products in refugee communities allowed them to understand demand and client behaviours, and gain exposure among prospective clients. Over time, as trust and understanding built, some MFIs started lending higher amounts, close to levels offered by commercial banks. This was the case in Iraq with the partner MFI Al Thiqa, for example.[64]

In each country, the PROSPECTS teams had a different starting point, depending on the maturity of the financial system, but they used similar tools and approaches to develop the capacity of FSPs to serve refugees and host community members. The ILO's *Making Microfinance Work* (MMW) course was adapted to better address the financial inclusion needs of refugees, forcibly displaced people and their host communities. Renamed *Making Finance Work for Refugees, Displaced and Host Communities* (MFWR), this condensed, one-week course targeted financial professionals, policymakers and private sector actors. It focused on identifying and addressing the market barriers that prevent refugees and host community members from accessing financial services. Key modules cover segmentation of refugee and host community markets, designing effective outreach strategies, creating inclusive business models and developing approaches to overcome specific barriers to financial inclusion. By emphasizing practical solutions and innovative strategies, MFWR equipped participants with the tools needed to develop sustainable financial services that support both refugees and their host communities.

In some instances, country teams used the training to develop the capacity of service providers and related action plans to extend financial services in refugee-hosting areas. In Uganda, MFWR concluded with four FSPs developing action plans to serve refugee and host community members. These included plans for the establishment of a bank branch inside the Rhino refugee settlement, which was realized in 2023. In Kenya, three partner FSPs from the microfinance sector leveraged MFWR to conduct market research, adapt outreach strategies and develop financial products for piloting in refugee-hosting areas. This ultimately resulted in the delivery of loan products to urban refugees in Nairobi and the introduction of plans to extend them to camp-based refugees in Kakuma.[65]

In Ethiopia, MFWR was rolled out as a follow-up to a national consultation workshop on the National Financial Inclusion Strategy. The workshop helped highlight gaps in services for refugees, IDPs and host community members, to which MFWR was proposed as a support measure. In Iraq, MFWR was conducted with staff from the Iraqi Central Bank, the Iraqi Company for Bank Guarantees, commercial banks and MFIs, in an effort to expand the reach of the national One Trillion Initiative. In these cases, PROSPECTS teams positioned MFWR to advance national policies and strategies.

64 In 2023, PROSPECTS in Iraq started to see a slight drop-off in repayments, as refugees returned to Syria. This is discussed further under "Operational lessons learned", on page 120.

65 At the time of writing, fall 2025, loans had been issued by Longitudinal bank to urban refugees in Nairobi, but not yet to refugees living in the Kakuma camp.

▶ Strengthening the microfinance sector in the wake of economic downturn

At the time PROSPECTS was launched, in 2019, Lebanon had undergone a deep financial and economic crisis. Soon after the programme commenced, the situation in the country worsened, with the onset of the COVID-19 pandemic, the Beirut explosion, large and unmanaged forest fires, and widespread social unrest. The financial sector was largely insolvent and in desperate need of reform, as evidenced by triple-digit inflation and the loss of 98 per cent of the currency's value. In the early years of programming, PROSPECTS Lebanon did not work on system strengthening or engage with formal financial systems, largely because these had collapsed. In 2022, a window of opportunity opened as the market started showing some signs of stability, partly as a result of "dollarizing" the economy. Despite this, MSMEs still struggled to stay afloat and, without a stable financial service provider to serve them, they were increasingly cash-strapped. The programme took a sectoral approach and partnered with an MFI, Al Majmoua, to develop a blended finance approach for farmers and agri-food processors. This approach challenged the predominant subsidy model in the country and took the opportunity to reinvest in the microfinance sector, which had also become largely insolvent in the wake of the multiple crises.

Al Majmoua is a pioneer in the Lebanese microfinance sector. From its founding in 1997, it focused on developing affordable financial services for micro-entrepreneurs. Even amid the multiple crises, it maintained operations and issued loan products, one of the very few institutions that was able to do so. PROSPECTS partnered with Al Majmoua, given its history and knowledge of the microfinance sector.

Following a rapid market assessment, the programme team and Al Majmoua developed a financial inclusion product for the agriculture sector. Recognizing the diversity of potential clients in the sector, three types of farmers and agriculture-related businesses were defined to better target products and technical assistance:

- Microscale farmers and agri-food processors: primarily self-employed, relying on family members as daily workers during peak seasons; usually own or rent between two and four *donums* (a third of an acre) of land; and generally farm to supplement another main source of income. Loans for these farmers usually amount to less than US$1,500, owing to their limited repayment capacity and because the loans are primarily to help sustain their business. Syrian refugees largely fell into this category.
- Small-scale farmers: bigger farms and likely to plant two seasons per year; generally hold more assets and are better established in the market; employ few fixed-term workers and take on larger numbers of workers (between five and twenty) during peak seasons. These farmers are usually served with bigger loans (US$2000–7000) and can afford to repay larger monthly instalments. Usually, the loans are used for investment in land or acquiring new technology or machinery.
- Medium-scale farmers: well-established farmers with considerable land (50–500 *donums*), the majority of which is owned rather than rented; usually employ larger numbers of fixed-term workers; can easily afford to repay either monthly or seasonally. Loans are primarily used for expanding farms, creating jobs, or introducing new green practices. Loans are not the only type of finance used by this group.

The microfinance sector's high interest rates were partially subsidized by the programme, as a measure to help farmers and processors, particularly micro and small-scale operators, enter the formal financial system. The product incorporated both financial and non-financial BDS, making use of the ILO Improve Your Agri-Business (IYAB) training to help farmers and agri-food processors maintain or expand operations.

Loans were disbursed to microbusinesses and farms largely in the form of small, regular amounts, to allow for incremental growth. The MFI also preferred this method, as it limited its losses in the event of non-repayment. Market fluctuations at the time of the intervention (2023–24) were a challenge to its already tight profit margins and rising operational expenses.

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Medium-scale farmers' financial requirements to scale up their already large operations exceeded the capacity of the MFI, particularly as the financial sector introduced liquidity constraints at the time. Small-scale farmers and businesses were therefore the primary group targeted for the product, based on their existing capital and opportunities to scale up through investment. Micro-scale farmers required a blended finance approach.

Loan clients invested more in their businesses, and more strategically, than grant recipients. This was due, in part, to their recognition of the need to repay the loans and thus qualify for future financing. Of those reached through the MFI product, 85 per cent reported profitability in their business.

In engaging with the microfinance sector and supporting business growth during a time of crisis, the PROSPECTS team in Lebanon saw how, even in a crisis situation, opportunities can still exist for some businesses. For instance, as the crisis took hold in the south of Lebanon, farmers and agriculture businesses in stable areas saw an upsurge in demand from domestic markets. While providing food for the population was a primary objective at the height of the crisis, small businesses along supply chains sourced from stable areas did experience a boost in business, demonstrating that the impact of crisis is not even. ■

▶ Developing an enabling environment for entrepreneurship financing in Iraq

Iraq has a history of instability, tied to internal and external geopolitics. As a result of the Gulf and Iraq wars, and subsequent waves of violence, large numbers of IDPs and waves of returnees have characterized much of the displacement context. Unlike other countries in the region, in Iraq the number of refugees is relatively small. Many of the areas with large numbers of returnees suffer from weak infrastructure and labour markets. Iraq's economy remains dependent on the oil sector, with limited private sector opportunities. Entrepreneurship is also underdeveloped and the use of financial services to start and expand small businesses is extremely limited. However, in recent years, the Government has tried to support the development of MSMEs, partly in an effort to diversify the economy away from the oil sector and realize job-creation potential at the local level.

The national One Trillion Initiative was launched in 2016, whereby private banks were invited to service MSMEs with loans. Under the initiative, the Central Bank of Iraq (CBI) would advance the loan amount at a very low interest rate to encourage participating banks. However, the weakness of the financial sector, with its history of collapse, limited the initial impact, as entrepreneurs were reluctant to take on loans and commercial banks saw the potential client group as high risk, because it lacked the required collateral/guarantees. Consequently, the banks maintained unaffordable and inflexible guarantee requirements.

At the outset of PROSPECTS, the ILO launched an assessment of the demand for and supply of financial products in Iraq. The assessment revealed a weak ecosystem of enterprise support and rampant misperceptions on the part of FSPs vis-à-vis MSMEs, and vice versa. The programme therefore focused on strengthening networks of FSPs that were willing to adapt and extend services to refugees, IDPs, returnees and host community entrepreneurs and, subsequently, building their capacity to work with this client group.

PROSPECTS Iraq adapted the MFWR course and rolled it out with staff of the CBI, ICBG, MFIs and commercial banks. It also invited staff to FE training with groups of refugees, IDPs, returnees and host community members. In some instances, commercial banks and credit agents became FE trainers themselves. This was also a measure to support the continued application of FE within nationally based institutions by enhancing understanding of the target groups' needs.

PROSPECTS Iraq worked with FSPs to develop a wider network of enterprise support, encompassing the Ministry of Youth and Sport (MOYS), the Ministry of Labour and Social Affairs (MOLSA), business associations, chambers of commerce and chambers of industry. MOYS youth centres and MOLSA TVET centres were used as training spaces, and staff served as trainers for both SIYB and FE. This helped link financial services offered by the FSPs to other forms of BDS support. The programme also institutionalized the tool within a youth volunteer organization that was affiliated to MOYS.

In partnership with the CBI, ICBG and three commercial banks, PROSPECTS Iraq co-designed an MSME-specific loan product, including an innovative guarantee mechanism. Operationalizing the loan product took considerable time between the initial signing of a memorandum of understanding with the Central Bank (in December 2019) and the issuing of the first loan (March 2022). This was largely the result of having to clarify and modify banking procedures, and shift perceptions within FSPs towards serving IDP and host community MSMEs. Some of the more time-consuming, but critical, steps in creating the loan product included the following:

- Standard Operating Procedures (SOPs) were co-designed for FSPs to serve MSMEs run by IDPs and host community members. These cover, for example, reduced length of loan disbursement, seasonal repayment schedules that accommodated repayment by agricultural MSMEs, and compliance with Sharia law. The SOPs were agreed by the CBI, ICBG, ILO and participating commercial banks. They also serve as a reference point for other agencies and banks lending to MSMEs in the country.
- A new approach to MSME lending was co-designed, eliminating the need for personal guarantees from entrepreneurs by introducing a guarantee fund co-financed by the ILO and the ICBG. This innovative model established a savings fund, covering 35 per cent of the loan amount, which functioned as both a guarantee and a savings deposit. If the loan was fully repaid, this 35 per cent was awarded to the entrepreneur as savings. The remaining 65 per cent of the loan was guaranteed by the ICBG. By securing 100 per cent of the loan amount, the fund reduced the financial risk to commercial banks, facilitating their entry into lending to lower-income and IDP clients. Additionally, the 35-per-cent repayment reward encouraged entrepreneurs to practise responsible financial management, reinforcing their commitment to sound financial practices.

By design, partner banks were required to have a portfolio that comprised at least 30 per cent women and 40 per cent IDPs. At the time, refugees were not able to access funds under the national One Trillion Initiative, but they did have access to similar loan products through microfinance institutions with which the programme worked. As a measure of progress, after IDPs were included in the Initiative, the Central Bank asked the ILO to make a formal request to it to include refugees also, thus opening the topic up for discussion within the CBI. However, KYC requirements remained a barrier, as there was no other solution to identify and screen customers in Federal Iraq and the Kurdistan region. A further complication was the fact that Federal Iraq and the Kurdistan region have different definitions and processes for registering refugees, meaning that a refugee in one may not be recognized as such in the other.

The partnerships with the Central Bank of Iraq demonstrated that entrepreneurs traditionally left outside the banking system can all prove to be reliable when given the opportunity to access financial markets. Repayment rates among refugee, IDP and host community clients were in excess of 99 per cent, with rates among IDPs and refugees equating to those of host community clients. The intervention also shed light on the need to increase institutional and operational capacities of the private banking sector to serve refugee and host community entrepreneurs. This would include investment in dedicated staff, effective and efficient credit assessments, and enhanced customer services.

In the case of Iraq, transforming the financial sector to be more inclusive required both time and commitment to engage with both FSPs and entrepreneurs. On the side of FSPs, a clear and shared objective was required, together with the flexibility to customize and develop products suitable to the context. The ILO financial and non-financial training tools, once adapted, became part of an ecosystem of support for MSME growth and development. The model that was developed in Iraq supported the mobilization of resources in the country from other donor-funded projects, all of which aimed to strengthen access to financial systems among MSMEs.[a] ■

a The model was adopted by two ILO-funded projects in the country: Towards More and Better Employment Through Enhanced Support to Private Sectors in Southern Iraq (Italy) and Promotion of Small and Medium-Sized Entreprises (SMEs) in Iraq (Germany). These helped expand the model in Federal Iraq and strengthen the national financial system as a whole.

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8.2 Narrative and lessons learned

Operational lessons learned

Make a business case for long-term engagement by FSPs

The long-term engagement of FSPs in forced displacement settings depends on the profitability of new products and services and their alignment with the FSPs' mission and vision. While international finance can offset the initial costs and associated risks, return on investment needs to be evident for engagement in the long term. The potential scale of business with refugees, IDPs and host communities is large, as these populations are largely unserved by FSPs and concentrated in the same geographical areas (such as densely populated settlements, camps and urban neighbourhoods). However, while the number of customers is potentially high (population density), the size of the amounts involved in their transactions will be low (limited capital).

While the rationale for investing in refugee and host communities is clear, there is not yet evidence to prove medium- and long-term profitability to lenders. Most countries in which loan products have been launched have seen repayment rates of more than 94 per cent (Iraq, Ethiopia, Kenya, Lebanon). In Arab states, there has been a drop-off in repayments among refugees, largely due to the increasing possibility of return for Syrian refugees. This might be a future cause for concern should conditions for return continue to improve. In addition, the programme does not yet have evidence that engaging in refugee and host community markets generates profit for FSPs. Having such evidence, and of the multiplier effect in local communities, would help strengthen the business case. There may also need to be measures to mitigation drop off in repayments for refugee clients who return to their countries of origin.

Building trust and confidence between FSPs and new client groups

One of the key reasons why financial service providers are reluctant to serve refugees, IDPs and even vulnerable groups within the host community is their perception that these groups are high risk and therefore susceptible to not repaying loans and interest. This is known as “flight risk” by financial institutions. Refugees, in particular, fall into this category, as their status in the host country is perceived as temporary and the belief is that they will return home before a loan can be repaid. There is also a lack of trust on the part of refugee and host communities, who may perceive banks negatively, especially if there is no physical presence (a bank branch) in their locality. If refugees lost savings when they fled, they may believe that avoiding banks is to their advantage. As noted, host community members who live in countries where the banking system has collapsed may also be unwilling to engage with banks.

One related consideration is the duration of displacement, with refugees’ readiness, willingness and capacity to access financial services being higher the longer they are in the host country. In protracted situations, needs become more varied as the target population establishes itself in country. The longer refugees are in a host country, the more they need diverse financial services.

Where refugee populations were at a distance from bank branches, programme teams adopted village-agent models. PROSPECTS partners, namely commercial banks and microfinance institutions, recruited, trained and employed refugees and host community members as local representatives. This allowed members of these communities to become familiar with the FSP, while also bringing down the transaction cost of travelling to a bank branch. In Uganda, prior to PROSPECTS, Opportunity Bank had tried to set up financial services inside the Nakivale refugee settlement. The population was not familiar with the services and therefore hesitant to engage with an unknown institution. With PROSPECTS, Opportunity Bank adopted a village-agent model, whereby 25 refugees and host community members from the locality were recruited and trained to serve as bank agents. An adapted portfolio of agriculture finance became established in the community. In Ethiopia, Shabelle Bank hired digital banking agents in refugee camps. These agents helped refugees transfer funds between refugee camps and communities using mobile applications. Female banking agents were hired to support outreach to female clients in more conservative areas.

Another measure used to build trust and confidence in engaging financial institutions was the use of group savings and loans. In Uganda, refugee and host community members could set up group accounts with BRAC Bank and Opportunity Bank. In Ethiopia, Shabelle Bank operated group accounts for clients with limited capital. In Iraq and Ethiopia, cooperatives served as a collective entity with which financial institutions could engage to provide tailored credit, savings and loan products. By engaging with refugee and host community members as collective groups, rather than individual clients, the financial risk to both sides was mitigated.

Finally, building the capacity of FSPs, refugees and host community members to engage with one another helped build confidence. This included the roll-out of MFWR in Iraq, Kenya, Lebanon, Uganda, Egypt and Ethiopia, and the delivery of FE to refugee and host community clients in the same countries. This helped FSPs understand the client group and thus develop products and adapt procedures that could better serve them, while helping refugees, IDPs and host community members acquire the skills necessary to navigate finance.

Taking measures to reduce entry costs and perceived risks

While microfinance institutions in PROSPECTS countries had already provided proof that the risk of non-payment among traditionally unbanked populations was low, additional measures were required to encourage commercial banks to serve refugees, IDPs and host communities. In Iraq, the ILO used PROSPECTS funds as guarantees on behalf of host community clients (as detailed in the case study on page 118). This was one measure to de-risk the provision of loans, while enabling the commercial banks to build client relationships and gain experience in serving this new market segment. In Lebanon, capital shortage within the microfinance sector constituted a key bottleneck when it came to extending financial products. PROSPECTS worked with a partnering MFI to understand the agriculture sector and related financial needs. Capital was injected into the partnering MFI through a blended financial product, so that it could build capital and issue loans. A small guarantee was put in place to encourage the MFI to provide higher loan amounts and boost its lending to the higher-risk groups, in this case, farmers and agri-food producers.

Starting small and scaling up gradually

New and adapted financial services take time to become established, particularly when targeted towards groups that are traditionally outside of formal financial systems. Products also require adaptation as they are rolled out. PROSPECTS countries piloted financial products on a relatively small scale with FSPs. In doing so, they were able to assess the uptake of the products and collect feedback to inform adaptations, as needed. Moreover, doing this within a specific sector, geographical area and/or demographic helped build confidence in the product, while also limiting loss.

In Iraq, the programme initially invested small amounts as guarantees in three commercial banks. As actual disbursement to MSMEs began, two of the banks showed capacity and willingness to continue to roll out the scheme among MSMEs. Both banks demonstrated commitment to addressing administrative barriers within their own operations when issuing loans to new MSMEs, and they were ultimately able to administer the funds to approved MSMEs in a timely fashion. The banks subsequently provided two further rounds of additional investment.

In Lebanon, PROSPECTS started with a small pilot in the agriculture sector, focusing on small-scale farmers as a defined market segment. At that time, no other bank or MFI was lending in this sector, but demand for finance among the target group (farmers and agri-food processors) was high. After the pilot phase, the programme team in Lebanon invested additional funds to double the outreach of the product. By monitoring uptake and repayment, it was able to demonstrate how different types of farmers and agriculture businesses engaged with the product. In Uganda, PROSPECTS and Opportunity Bank invested both time and resources in defining sub-segments of the refugee population. Tailored products were then developed for and piloted in each sub-segment.

In Ethiopia, PROSPECTS started developing financial products with Shabelle Bank. Over time, it built a partnership with the Association of Ethiopian Microfinance Institutions, which has allowed the ILO to roll out products with other MFIs, building on the lessons learned from pilots with Shabelle Bank.

Changing mindsets to embrace sustainable financial services

PROSPECTS countries all have a legacy of receiving humanitarian assistance. Consequently, their populations have grown accustomed, to varying degrees, to receiving grants and free services. This is exacerbated by limited knowledge and understanding of the financial sector among the local population. The result is a culture in which individuals are seen by service providers as passive recipients of finance, rather than active customers who use finance to build and strengthen livelihoods. Pivoting away from humanitarian assistance and towards the use of investment, savings, loans and credit is a long-term process that requires changes in mindset. It is also contingent on market readiness and economic stability, which have proven to be more volatile in certain contexts, such as Lebanon.

Having positive examples of engagement with these types of financial products can strengthen the case, but in contexts where humanitarian assistance continues to be on offer, the transition is more difficult. In Iraq, a legacy of humanitarian assistance has made local populations reluctant to accept forms of finance that require investment of their own resources (that is, loans). This reluctance is further complicated by issues of trust in formal banking systems (see case study on page 118). In volatile contexts like Lebanon, future uncertainty around the value of the currency can also dissuade refugees and host community members from engaging with financial institutions.

Using blended finance to transition to formal financial systems

In post-conflict settings, where there is some level of stability, the legacy of grant provision will remain. Grants can still provide a relevant lifeline to MSMEs that have faced physical loss of infrastructure, capital and market opportunities, but they are best suited to business reactivation and recovery. A blended product that combines grants with loans at lower interest rates can be used to help businesses transition to formal financial systems and invest in development. This needs to be managed carefully, however, with a view to targeting grants to those without sufficient capital and avoiding market distortion. Overuse of grants constitutes a market disturbance and is therefore not a sustainable approach for medium-/long-term development.

Loan products that use subsidized interest rates as a form of blended finance are one approach that has been used by PROSPECTS programme teams. Using microfinance helps individuals and businesses rebuild a solid credit history, which is essential for accessing larger loan amounts in the future and thus more sustainable for business growth. Additionally, loans require repayment, which instils a sense of financial discipline and responsibility – crucial for sustainable resource management and preventing dependency on unstable external aid.

In Lebanon and Iraq, PROSPECTS teams used a blended finance approach to ensure a gradual transition from complete subsidy to full reliance on market prices. Grant-like elements were used to incentivize savings and repayment. For example, in Iraq, when loan recipients were successful in making repayments, they would receive 35 per cent of the initial loan as a deposit in savings accounts. In Lebanon, loan interest rates for farmers were subsidized as part of an agricultural credit scheme. This element also allowed the programme to alter the subsidy as the economy improved or worsened, reflecting the overall volatile context in country. With Al Majmoua in Lebanon, the second expansion of the loan product involved increasing the interest rate to bring it in line with the market rate. In conclusion, conflict-affected countries experience unstable economic activity and markets become dysfunctional, making it critical to understand the phase of recovery that the country is undergoing economically and, hence, recommend interventions that support the functioning of the market.

Identifying and understanding the financial needs of different sub-groups

PROSPECTS has targeted both refugee and host community members with the potential to contribute to economic development, including through business creation and social enterprises. Within these broader populations, distinct sub-segments face unique challenges and obstacles. Key variables, such as the duration of displacement and area of settlement, can affect levels of accumulated knowledge, social capital and, in some cases, assets. These factors help predict an individual's readiness to access formal financial systems, while also highlighting varying needs at different stages of displacement, which require tailored financial and capacity-building support.

Based on market research, Opportunity Bank in Uganda defined three broad sub-segments of the refugee population. In response, it developed three tiers of services: financial literacy training for customers who had been in Uganda for two years or less and lacked capital; group loans for those who had been living in Uganda for between two and five years and had a limited amount of individual capital; and individual loans for customers who had been in Uganda for five years or more, had an existing business and a bank account. Similarly, in Lebanon, the partner Al Majmoua defined three segments of the refugee and host community that reflected varying levels of financial capital and knowledge. Those without any capital or knowledge were excluded from the pilot, whereas more resources were used to support those with limited-to-moderate levels of capital and knowledge.

Adapting FE tools and loan products

PROSPECTS teams adapted FE training to their contexts, introducing into the training modules different characters and stories that would have relevance locally. In Sudan, for instance, FE trainers employed more games and role-play to illustrate concepts for participants with lower levels of literacy and numeracy. In Ethiopia and Iraq, Muslim populations were assured that the loan products were Sharia-compliant. In Iraq, this involved getting a letter signed by an imam, explaining how the financial products were compliant. In Ethiopia, the project assembled a Sharia advisory board for interventions implemented in the predominantly Muslim Somali region. This was particularly important in refining outreach strategies for commercial banks. Loan products for agriculture businesses in Lebanon took into consideration seasonal repayment schedules. Group loans were used in Uganda and Ethiopia, in part because the concept was familiar but also because they offset the individual risk of non-payment.

8.3 Sustainability

Sustainable financial inclusion would see both refugee and host community members continually accessing and using financial products to support their livelihoods and well-being. By working at the policy level, within national institutions, and with FSPs at the local level, PROSPECTS countries have taken steps to support long-term sustainability, even in the face of political change and unforeseen crises.

At the macro level, PROSPECTS has advocated for more inclusive financial laws, policies and strategies. In Ethiopia, it convened national stakeholders in a workshop to address challenges in rolling out the National Financial Inclusion Strategy and subsequently trained participants in MFWR. In Iraq, it worked with the Central Bank to include IDPs under the national One Trillion Initiative, ultimately supporting 200 IDPs and returnees to receive loans and expanding this pilot to other regions in the country. In Egypt, it supported the Ministry of Youth and Sport (MOYS) to incorporate financial education in its youth centres across the country. Positioning ILO methodologies and tools as mechanisms to advance national objectives is one measure to support their continued application.

Continuous advocacy with relevant authorities for policy change is essential. Equally important is engaging at the decision-making level, while simultaneously working at a technical level to implement these decisions in practice. For instance, PROSPECTS engaged at both levels to draft SOPs for financing MSMEs in Iraq, ensuring the procedures were technically sound and able to be formally endorsed by the CBI. In Ethiopia, a workshop on alternative forms of collateral prompted the director of the Financial Inclusion and Customer Protection Unit at the National Bank of Ethiopia to introduce a directive that required all banks to provide at least 5 per cent of their portfolio through mobile collateral.[66] This meant that refugee and host community pastoralists could use livestock as part of collateral. PROSPECTS also identified national institutions that could roll out FE as part of a national financial inclusion approach. This has been the case with MOYS in Egypt and central banks in both Iraq and Ethiopia.

Even when financial inclusion is informed by the ILO's tools and approaches and embedded within national strategies, national circumstances can change suddenly, so agility is required. This has been the case in Lebanon, where the financial crisis meant the programme had to adapt financial products. The initial loan product designed for farmers required additional subsidies to offset interest rates, which were gradually reduced as the market stabilized. However, with the onset of war, it is unclear how these interventions will need to be adjusted. The new circumstances likely call for higher reactivation grants to support enterprises that have sustained significant damage. Although the goal is to shift from a humanitarian approach to development finance, current conditions may require a temporary return to more humanitarian solutions (such as grants) to ensure continuity of services until the situation stabilizes.

66 Mobile collateral refers to assets that are movable, such as a vehicle, livestock, or bicycle, and which can be used for repayment of a loan, or as a forfeit in the case of default.

8.4 Integration with other areas of work

As previously mentioned, PROSPECTS has approached financial education primarily as a part of business development services. This has helped individuals apply the skills gained as a result of financial education by enabling them to access financial products that support the development, launch and growth of their business ideas. Without access to financial services, entrepreneurs encounter difficulties in making and receiving payment, investing in business infrastructure and taking steps to formalize. By filling a gap in financial BDS for refugee and host community entrepreneurs, PROSPECTS helped FSPs tap into an underserved market.

Where there was a legacy of savings groups – so, in Kenya, Uganda, Sudan and Ethiopia – PROSPECTS teams supported both the formation and strengthening of VSLAs and SACCOs, combining financial education, access to financial products and cooperative training as a means to build the capacity of the cooperative structures and increase business investment. This also helped producers build an income base by pooling financial resources, fostering better collective bargaining power and boosting sales.

In Lebanon, PROSPECTS adapted the SIYB tool to the needs of agricultural businesses, and integrated the Improve Your Agriculture Business (IYAB) training with FE and an agricultural credit scheme. This allowed trained farmers and agriculture workers to access credit for raw materials, equipment and solar-energy solutions, among other business inputs. This ultimately helped businesses scale up production and create and retain jobs.

In Egypt, Digitalize Your Business (DYB) training covered aspects of e-commerce and how to deal with digital payments. As more payments move online, covering topics like mobile and digital payments is an important measure in financial inclusion. Kenya and Uganda have also taken up DYB, covering e-commerce but also raising awareness of digital risk and cyber-crime – topics associated with online business transactions.

Financial inclusion can also be pursued in response to needs expressed as part of value-chain development. In Ethiopia, work on the milk value chain enabled producer cooperatives to open bank accounts with Shabelle Bank. This was also involved the introduction of a digital platform that linked milk producers with processors, so that money for the product could be transferred immediately following a quality inspection by the processor.

The programme also intervened on the side of FSPs, to overcome barriers in servicing refugee clients. By bringing FSPs, including commercial banks, into refugee-hosting areas, the programme paved the way for further private sector engagement in refugee settings. For instance, in Ethiopia, PROSPECTS supported the signing of a memorandum of understanding (MoU) between Shabelle Bank, UNHCR and Refugee Resettlement Services (RRS), which allowed Shabelle Bank to enter into camps for the purpose of providing financial services. Although time-consuming to arrange, the MoU enabled the first private sector entity to enter a refugee camp in Ethiopia with the purpose of doing business. It also brought national actors, in this case RRS, which traditionally interface with humanitarian actors, into contact with the private sector. By amending RRS processes to allow Shabelle Bank to enter the camp, RRS also became familiar with development actors and the types of services and support they offer. It can now more easily interface with and facilitate the entry of private sector entities into camps.

Having a bank account is often a requirement to be registered and receive social security. In Jordan, PROSPECTS facilitated dialogue between the Social Security Corporation and UNHCR to better understand the types of mobile banking services refugees in Jordan were able to access and if mobile wallets could be used to receive social security payments. In Ethiopia, UNHCR expressed an interest in knowing more about the commercial banks that have helped refugees open bank accounts, with a view to using these to pay cash assistance into. In Kenya, not having a bank account still prevents refugees from being effectively covered by social security.

8.5 Challenges

In the first four years of operation, PROSPECTS largely intervened on a pilot scale. Most countries had between two and four FSPs that were committed to rolling out services in refugee- and IDP-hosting areas as part of their long-term business model. Not all financial institutions were, however, able or willing to expand their operations into refugee-hosting areas. In most cases, opening bank branches is not viable. For instance, UGAFODE Microfinance Limited in Uganda did not conduct a pilot, as the cost of setting up the branch was too high. Here, village-agent models and mobile services proved useful, as demonstrated in Ethiopia, Uganda and Kenya.

The barriers to overcoming KYC requirements are high for refugees in countries where refugee IDs are not equivalent to national IDs. In Kenya, obtaining a national ID that would be accepted by commercial banks can take more than five years for refugees. In response, PROSPECTS worked with UNHCR to use its data to help profile and identify refugee clients for commercial banks, and obtain a UNHCR-issued letter of support to facilitate these clients' access to MFI loans. While these efforts did help some people access loans, this was on a case by case basis and did not work for refugee loan applicants. In Uganda, the programme team used its own profiling data to help refugee farmers provide sufficient identifying and background information to meet KYC requirements. In both cases, the programme used data, including information on place of residence, skills levels and educational background, to meet the KYC requirements. Use of data generated by PROSPECTS and UNHCR were only accepted on an exceptional basis, however, and not as part of the bank's Standard Operating Procedures.

In the Kurdistan Region of Iraq, despite refugees having residency and de facto work authorization, they were not registered in the Federal Government's database, as they were not recognized by it as refugees and therefore not included in national initiatives, such as the One Trillion Initiative. While PROSPECTS was successful in advocating for the inclusion of IDPs in such initiatives, refugees as a group of non-nationals were not included. This then led to setting up parallel tracks for refugees and members of the host community to access loans. In the case of refugees, loans were issued through microfinance institutions, and in the case of host community members, loans largely came through commercial banks. Because the terms and conditions of the products were different (in terms of loan amount, interest rates), this introduced tension and feelings of unfair treatment, as both refugees and members of the host community participated in the same FE training but ended up receiving different products.

In Lebanon, the intervention came at a time when the general rhetoric in the country became very anti-refugee. There were multiple political and operational challenges to including Syrian refugees in the targeted client pool. In practical terms, refugees could only be agriculture workers, rather than business owners or farmers. This meant that the benefits of access to finance would be indirect, as in, if Lebanese farmers and food processors accessed finance and were therefore able to expand operations, they would have greater demand for Syrian labour. The impact was therefore indirect, aimed at sustaining and creating jobs for Syrian refugees on these farms (the Syrian workforce constitutes more than 60 per cent of agricultural labour in Lebanon).

As already mentioned, obtaining authorization for FSPs to access refugee settlements and camps remains a key challenge – especially in Iraq and Ethiopia. Over time, these processes may become more streamlined, but facilitating partnership between FSPs and the respective authorizing agency can help set processes in motion, as demonstrated by the effect of the MoU between Shabelle Bank and RRS in Ethiopia.

Key takeaways

- Being able to access finance means entrepreneurs can start, invest in and expand their businesses. Legal access is one critical factor, alongside knowledge of how to save, invest and build capital over time. Without access to finance and financial education, MSMEs will be unlikely to grow and contribute fully to economic development.
- Access to financial services is not only an enabler of entrepreneurial development but also a basis for decent work, as bank accounts enable payment of wages, access to social assistance payments, credit and loans. If they're not recognized by financial service providers, refugees and vulnerable host communities risk being left behind.
- Tailoring financial products to the needs of those in varying stages of displacement is critical in refugee-hosting areas. Refugees and other forcibly displaced people who have spent longer periods in displacement often accumulate knowledge, social capital and assets, enabling them to better utilize formal financial services and products, such as loans.
- Piloting new financial products on a small scale enables effective risk management, provides insight into client needs and allows adjustments to be made before scaling up. This phased approach helps FSPs become more confident about serving a new client group, namely refugees, and refine products over time to better serve them.
- Grants as means to support access to finance for entrepreneurs are primarily effective in immediate post-conflict settings, where there has been a significant loss of capital, assets and opportunities. This tool should be handled with care and caution, however, as it has the potential to contribute to a culture of dependency and can make the transition to more sustainable forms of financing more difficult.
- As the economic situation stabilizes in a post-conflict setting, financial inclusion interventions should support the development of the financial sector, including building the capacity of banks and financial institutions to issue credit and loans. Guarantees and subsidies can be introduced using donor funding, which ultimately helps de-risk transactions and allows relationships between FSPs and clients to (re)build over time.
- The ILO's Financial Inclusion programme has seen a purposeful combination of financial education with system strengthening. Delivering training that includes representatives of FSPs, as well as refugee clients, has been shown to address misperceptions that either side might hold and foster trust between them. Incorporating FSP staff as trainers in financial education is an additional measure to help build trust.
- Know Your Customer (KYC) requirements remain a barrier for refugees to access finance – particularly where documentation requirements are strict and mired in bureaucracy. A second key challenge for financial institutions is gaining access to refugee camps or settlements in remote areas.
- Using group savings and lending mechanisms, cooperatives and village-agent models can provide accessible financial pathways in regions where individual transactions may be challenging or perceived as high risk. Leveraging the collective financial strength and risk-sharing aspect of these groups can help foster community-based financial security.

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