

ADVANCING THE FINANCIAL INCLUSION OF FORCIBLY DISPLACED PERSONS

CASE STUDIES ON RWANDA, MAURITANIA AND AFGHANISTAN



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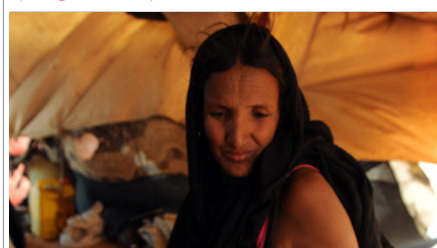
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EXECUTIVE SUMMARY

INTRODUCTION

In their latest annual *Global Trends in Forced Displacement Report*, the United Nations High Commissioner for Refugees (UNHCR) reported that at the end of 2019 almost 80 million people were forcibly displaced from their homes or countries due to conflict and persecution.¹ Out of these, 26 million were refugees; 45.7 million were internally displaced persons or IDPs; and 4.2 million were asylum seekers.

Unfortunately, this is an increase from the previous year's numbers and once again the world's forcibly displaced population remains at a new record high.

85%

At 85 percent, developing countries continue to shoulder a disproportionately large responsibility for hosting refugees.

Least Developed Countries (LDCs) including Bangladesh, Chad, the Democratic Republic of the Congo, Ethiopia, Rwanda, South Sudan, Sudan, United Republic of Tanzania and Yemen were home to 27 percent of refugees. This is despite accounting for just 1.2 percent of the global Gross Domestic Product (GDP), and having the smallest amount of resources available to meet the needs of people seeking refuge.

The COVID-19 global pandemic further underlined the systemic inequalities and discriminatory practices that are still present within our formal financial systems, and that have affected forcibly displaced persons (FDPs).² While those with ready access to digital financial services (DFS) during a time when movements were restricted could make use of them to mitigate the impacts of the crisis, the most disadvantaged and vulnerable segments of our populations such as FDPs were often excluded from these services and left behind. For instance, FDPs were noticeably excluded from national social protection systems, putting forcibly displaced women, elderly persons and persons with disabilities at great exclusion risk.³

Against this background, it is impressive to see⁴ that National Bank of Rwanda (BNR), Banque Centrale de

Mauritanie (BCM), and Da Afghanistan Bank (DAB) have shown commendable leadership in leveraging financial inclusion as a durable, dignified, and empowering solution to what is traditionally viewed as a humanitarian policy challenge. Despite grappling with already existing hurdles in economic development, they have begun to work towards transforming their policies and breaking silos in multi-stakeholder coordination to ensure FDPs are no longer financially excluded.

This document provides a synthesis of their unique case studies, and presents key considerations in taking future policy actions to advance the financial inclusion of FDPs within their jurisdictions. It must be noted that the barriers to FDP financial inclusion presented in each country case study are informed by desk-based research and key informant interviews, and not by full-fledged diagnostics culminated through national demand-side and supply-side surveys. Accordingly, they represent only high-level barriers and are therefore very preliminary and should be followed-up with proper diagnostic studies to ensure evidence-based policymaking.

This document should be used when leveraging AFI's special model of peer-to-peer engagement and learning, as well as country-led approaches to exchange knowledge and facilitate international cooperation among the membership around this policy challenge. Each case study can additionally be shared with national stakeholders at the country level in dialogue, consultations, and other coordination efforts involved in implementing policy change for FDP financial inclusion.

1 This number does not include persons forcibly displaced by climate-induced disasters. In 2018, 17.2 million people had been newly displaced from their homes because of extreme weather disasters, according to the UN Office for Disaster Risk Reduction (UNDRR). Increasingly, the international community's narrative is to ensure this sub-segment of FDPs are properly taken into account in national policies and strategies.

2 UNHCR & World Bank Joint Data Centre. September 2020. *The Consequences of COVID-19 on Forcibly Displaced People: A Primer on Research Activities*. Available at: <http://documents1.worldbank.org/curated/en/843081592599939814/pdf/The-Consequences-of-COVID-19-on-Forcibly-Displaced-People-A-Primer-on-Research-Activities.pdf>

3 Organization for Economic Co-operation and Development (OECD). June 2020. *The Impact of COVID-19 on Forcibly Displaced Persons in Developing Countries*. Available at: https://read.oecd-ilibrary.org/view/?ref=134_134464-6xiqyqrb7d&title=The-Impact-of-COVID-19-on-Forcibly-Displaced-Persons-in-Developing-Countries

4 There are excellent examples of progressive financial regulators within AFI's network - such as the Central Bank of Jordan - with proactive strategies to ensure refugees have a financial identity. However, the issue goes far beyond identity. Even with access to basic humanitarian payments through the digital channel, this is not financial inclusion in its entirety and the range of financial services refugees can access remains to be very limited, particularly access to formal channels for cross-border remittances. Opportunities are also limited by concerns about issuing identification and credit to people who have just entered a country, and must be reconciled with the concerns of both security services and financial regulators.

FINDINGS AND SYNTHESIS OF COMMON KEY CONSIDERATIONS

The case studies outline each country's peculiar context, high-level barriers to, and opportunities for advancing the financial inclusion of FDPs. The key considerations provided at the conclusion of each country case study have been categorized in accordance with the recommendations of the Roadmap to the Sustainable and Responsible Financial Inclusion of Forcibly Displaced Persons which was developed by a coalition of partners from the humanitarian and development sectors, including AFI, which authored the chapter on National Strategies and Regulation. Accordingly, the key considerations presented in this document carefully build on the Roadmap's recommendations which are summarized in Box 1.

Although the key considerations are specific to each country's context, patterns emerge across all three upon closer examination. The following is a list of the broader, common considerations that can be taken into account when taking forward further in-country policy actions to advance FDP financial inclusion:

CONDUCT A PROPER DIAGNOSTIC ON THE STATE OF FDP FINANCIAL INCLUSION TO INFORM EVIDENCE-BASED FINANCIAL INCLUSION POLICYMAKING

There is very limited data on the true state of FDP financial inclusion within each jurisdiction which is caused by an absence of a diagnostic undertaken for the population. FDPs were either excluded from national demand-side and supply-side surveys or not yet afforded specific studies that can accurately inform evidence-based financial inclusion policymaking, such as for the formulation of National Financial Inclusion Strategies (NFIS) that target FDPs. The high-level barriers presented in each case study in this document are therefore very preliminary and must be followed-up with proper diagnostic studies.

STRENGTHEN MULTI-STAKEHOLDER COORDINATION UNDER THE LEADERSHIP OF THE CENTRAL BANK

The national financial inclusion stakeholders across the three jurisdictions have an evident drive to ensure FDPs have equal opportunity to access formal financial services. However, multi-stakeholder coordination can still be strengthened, including through leveraging existing coordination mechanisms, meeting more regularly, and sharing information with each other. It is imperative to mobilize transformative multi-stakeholder coordination and collaboration that can transcend their different mandates and galvanize their joint efforts sustainably, for the long term. Given that the BNR, BCM and DAB have received broad national stakeholder

BOX 1.

RECOMMENDATIONS OF THE ROADMAP TO THE SUSTAINABLE AND RESPONSIBLE FINANCIAL INCLUSION OF FDPs⁵

- 1 **NATIONAL STRATEGIES AND REGULATIONS**
Maximize FDPs' potential for social and economic contributions, e.g. in terms of self-reliance, urban settlement, and access to labor markets through inclusive and flexible regulatory frameworks and NFIS that responsibly meet the needs of FDPs.
- 2 **RESILIENCY OF FINANCIAL INFRASTRUCTURE**
Build resilient and widely accessible financial infrastructure both physical and non-physical, which includes digital payment systems.
- 3 **IDENTIFICATION AND RELATED INTERNATIONAL STANDARDS ON AML/CFT**
Support FSPs to serve FDPs that are discouraged by high CDD norms and AML/CFT requirements through facilitating identity products issuance to FDPs, including through digital technologies, and providing guidance on risk-based, tiered KYC and CDD requirements.
- 4 **FINANCIAL CONSUMER AND DATA PROTECTION, FINANCIAL LITERACY**
Ensure fair and transparent treatment of all forcibly displaced financial consumers, increase their knowledge and skills, and their level of trust in formal financial services.
- 5 **BRIDGING HUMANITARIAN AND DEVELOPMENT APPROACHES WITH DIGITIZED PAYMENTS**
Leverage humanitarian cash transfers to provide pathways for FDPs to access formal financial services by ensuring FDPs receive assistance funds in a financial account where appropriate and leveraging existing digital and traditional government assistance payment systems where possible.
- 6 **ECONOMIC PARTICIPATION**
Stronger collaboration between financial inclusion stakeholders and those promoting economic participation, through a conducive policy and regulatory framework that encourages access to work and FDP entrepreneurship.

⁵ Alliance for Financial Inclusion, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Chrissy Martin et al. 2019. Roadmap to the Sustainable and Responsible Financial Inclusion of Forcibly Displaced Persons. Available at: https://www.afi-global.org/sites/default/files/publications/2019-12/Roadmap_FL%20of%20FDPs_122019_0.pdf

endorsement to lead the formulation and implementation of their respective country's NFIS, they are appropriately placed to strengthen coordination among stakeholders who are addressing the financial inclusion of FDPs.

EXERCISE CAUTION IN NAVIGATING THE POLITICAL COMPLEXITIES OF FORCED DISPLACEMENT

It is imperative for national financial inclusion stakeholders, particularly the central bank, which is leading efforts to advance FDP financial inclusion, to exercise caution when engaging with multi-stakeholders who are not yet committed to the policy change as opposed to those who are, such as government agencies providing services to FDPs (e.g. ministries of interior, social affairs and migration). Forced displacement is made challenging by political complexities that are constantly changing and can have complicated effects on the political will to ensure the forcibly displaced can have equal opportunity to access formal finance and economic opportunities. There is value in consistently being aware of the political terrain dictating the willingness of key stakeholders to stay committed to the cause.

ADDRESS THE CHALLENGE OF FDP IDENTIFICATION AND COMPLIANCE WITH RELATED INTERNATIONAL STANDARDS ON ANTI-MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM (AML/CFT)

FDPs largely do not have the acceptable identification necessary to satisfy Know Your Customer (KYC) and Customer Due Diligence (CDD) requirements to gain access to formal financial services. Even where there is a risk-based, tiered KYC regime that may enable simplified CDD for the onboarding and verification of FDPs, there is limited regulatory clarity provided to formal financial service providers (FSPs) for them to be sufficiently confident to offer formal financial services to FDPs. In addition to providing such clarity through mechanisms such as directives, national financial policymakers and regulators can consider explicitly taking FDPs into account in national or sectoral risk assessments. The resulting data can be helpful in strengthening simplified CDD for confirmed lower-risk FDPs by removing identification or proof of address requirements, towards offering low-balance accounts that are still subject to consistent monitoring and that can enhance FDP financial inclusion.

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CASE STUDIES: RWANDA, MAURITANIA, AND AFGHANISTAN

The case studies present a stocktaking and examination of each of the three AFI member's progress in advancing FDP financial inclusion, namely the policy and regulatory barriers that remain, the opportunities, and potential ways forward. In some sense, they can be considered a part of the preliminary diagnostic of FDP financial inclusion in the country.

The studies illustrate the country's forced displacement context, a high-level baseline of FDP financial inclusion, and the ecosystem of stakeholders advancing the financial inclusion of FDPs.

It is envisioned that the BNR, BCM, DAB, and the relevant national stakeholders advancing the FDP financial inclusion agenda within their respective jurisdictions will use the country case study and multi-stakeholder map for country-level efforts in implementing policy change for FDP financial inclusion.

METHODOLOGY

The case studies were developed based on extensive desk-based research and key informant interviews conducted with major stakeholders that are pertinent to the financial inclusion of FDPs in each country. This was followed by an examination of the policies, strategies, regulations, and legislations relevant to the financial inclusion of FDPs in the country and of the stakeholders and their initiatives who are crucial in driving the agenda moving forward. For the forcibly displaced, these include not only financial regulators and relevant ministries or traditional and non-traditional FSPs, but also non-governmental organizations (NGOs) and humanitarian and development agencies, particularly those engaged in fostering self-reliance, contributing to financial literacy, and rolling-out cash transfers for FDPs.

The document is intended to support peer-to-peer engagement and learning, and to inform future policy actions at the national level.

EVERY CASE STUDY EXPLORES THE FOLLOWING AND TO WHAT EFFECT FDPs ARE BEING CONSIDERED WITHIN THEM, THAT IS, WHETHER:

1

An NFIS is in formulation or already formulated

2

An NRA has recently or ever been conducted, or if there is one planned

3

There is application of simplified Customer Due Diligence (CDD) based on a Risk-Based Approach (RBA)

4

There is collaboration with relevant ministries and other stakeholders through various coordination mechanisms

5

An innovative regulatory approach to engage with FinTechs such as an active regulatory sandbox or innovation hub

6

There is roll-out of the Comprehensive Refugee Response Framework (CRRF)

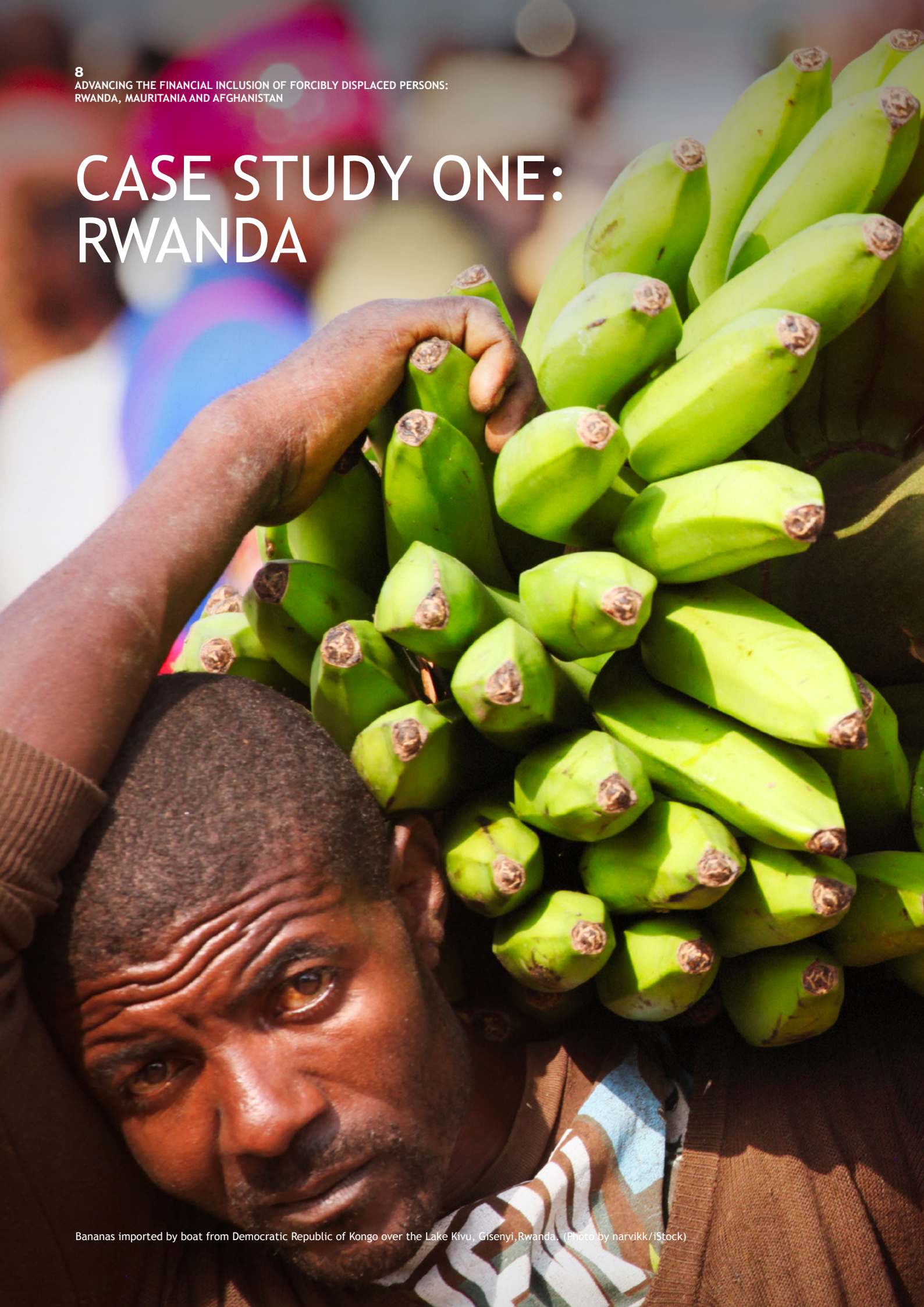
7

National digital ID system or intention to implement a national digital ID system

8

Efforts to create enabling regulatory environments for "portable" financial inclusion solutions that can be effective regardless of whether the FDPs integrate, resettle, or voluntarily repatriate.

CASE STUDY ONE: RWANDA



INTRODUCTION

For more than 20 years now, Rwanda has opened its borders to displaced persons who were forced to leave their home countries. According to the 2018 UNHCR's populations of concern data,⁶ Rwanda has served as a territory of asylum for displaced individuals from 31 origin countries⁷ including Afghanistan, Angola, Burundi, Central African Republic, Chad, Democratic Republic of Congo, Eritrea, Ethiopia, Kenya, Somalia, Sudan, South Sudan and Uganda.

Rwanda currently hosts more than 148,000⁸ refugees and asylum-seekers. Both communities make up 1.2 percent of the country's total population. A great majority of the forcibly displaced are from Burundi and the Democratic Republic of Congo (DRC), with only 0.2 percent from other countries of origin. Due to a recent reduction in the influx of refugees into the country, as well as low rates of repatriations to their home countries, various stakeholders are shifting their focus to the integration of refugees. This entails providing the refugees with economic opportunities as proactive measures to help them realize their full economic potential. A key contribution is to encourage a culture of self-reliance that involves improving their financial capabilities in order to invest in their enterprises, education and overall livelihood.

Yet FDPs in Rwanda are currently faced with numerous barriers to access formal financial services, including restrictions related to the legal and regulatory environment, low financial capability, and financial products and services which are not always accessible or appropriately fitting their needs. Overcoming these challenges will require a multi-stakeholder approach that engages the Government of Rwanda and its relevant ministries and financial regulatory institutions, FSPs, telecommunication providers, humanitarian and development organizations, and the refugees themselves. In support of this, the Rwandan National Financial Inclusion Strategy (NFIS) for 2020-2024, places refugees in the high priority segments for financial inclusion.⁹

FORCED DISPLACEMENT IN RWANDA

FDPs in Rwanda largely consist of refugees settled across six large camps where they are offered housing and food supplies, and a smaller proportion who live in urban and rural areas.¹⁰ They are granted freedom of movement, and the right to work and own businesses both within and outside the camps.

0.2%

Based on 2020 UNHCR data,¹¹ only 0.2 percent of refugees in Rwanda are from countries other than Burundi and DRC.

These countries currently include Eritrea, Somalia, Sudan, South Sudan, and Ethiopia. Rwanda hosts more than 76,000 refugees from DRC. A majority of the Congolese refugees live in five camps: Gihembe, Kigeme, Kiziba, Mugombwa and Nyabiheke; while the remaining 1.5 percent reside in urban areas.

The Congolese refugee population includes those who arrived in Rwanda in the mid-1990s, as well as those who arrived during the 2012 - 2013 renewed hostilities in eastern DRC. In addition, there was a spike in the number of Burundian refugees entering the country from 2014 onwards. Today, approximately 73,000 Burundian refugees are hosted in Rwanda. 12,481 or 18 percent live in the urban areas of Kigali and Huye, while most others live in Mahama which is the largest refugee camp in Rwanda, hosting about 60,000 people.

6 UNHCR Population Statistics - Rwanda. Available at: <https://data2.unhcr.org/en/documents/details/77054>

7 UNHCR. 2015. Submission by the United Nations High Commissioner for Refugees. For the Office of the High Commissioner for Human Rights' Compilation Report Universal Periodic Review: 2nd Cycle, 23rd Session, The Republic of Rwanda. Available at: <https://www.refworld.org/docid/56371c604.html>

8 UNHCR Global Focus: UNHCR Operations Worldwide. Available at: <http://reporting.unhcr.org/rwanda>

9 Government of Rwanda & Access to Finance Rwanda. 2019. National Financial Inclusion Strategy for Rwanda 2019 - 2024. Prepared by Nathan Associates. Not public.

10 Bankable Frontiers Associates (BFA). 2018. Refugees and Their Money: The Business Case for Providing Financial Services to Refugees. Available at: <https://bfa-global.com/wp-content/uploads/2020/01/Refugees-and-Their-Money-Assessing-the-Business-Case-for-Providing-Financial-Services-to-Refugees.pdf>

11 UNHCR. 2020. Rwanda Country Refugee Response Plan: January 2020 - December 2021. Available at: <https://reliefweb.int/sites/reliefweb.int/files/resources/69632.pdf>

12 UNHCR Population Statistics - Rwanda. Available at: <https://data2.unhcr.org/en/documents/details/77054>

51%

UNHCR 2020¹² records show that the gender distribution of the refugee population is 51 percent women and 49 percent men.

Minors below the age of 18 form the largest age group for both genders, which may be an indication that there could be a larger refugee youth population in the coming years.

There exists a social stratification referred to as Ubudehe, which was created in 2011 and categorizes Rwandans according to the financial status of each household. Within seven defined categories, the extremely poor make up 25 percent of the entire population and are stratified into the Ubudehe Category II and I referred to as the “very poor.” Key informants note that refugees mostly form part of this group, although differences between the most prominent refugee groups exist: Refugees from Burundi who had some possessions were able to liquidate them before fleeing to Rwanda. Those from DRC had no time to do so thus could only get out with their families.

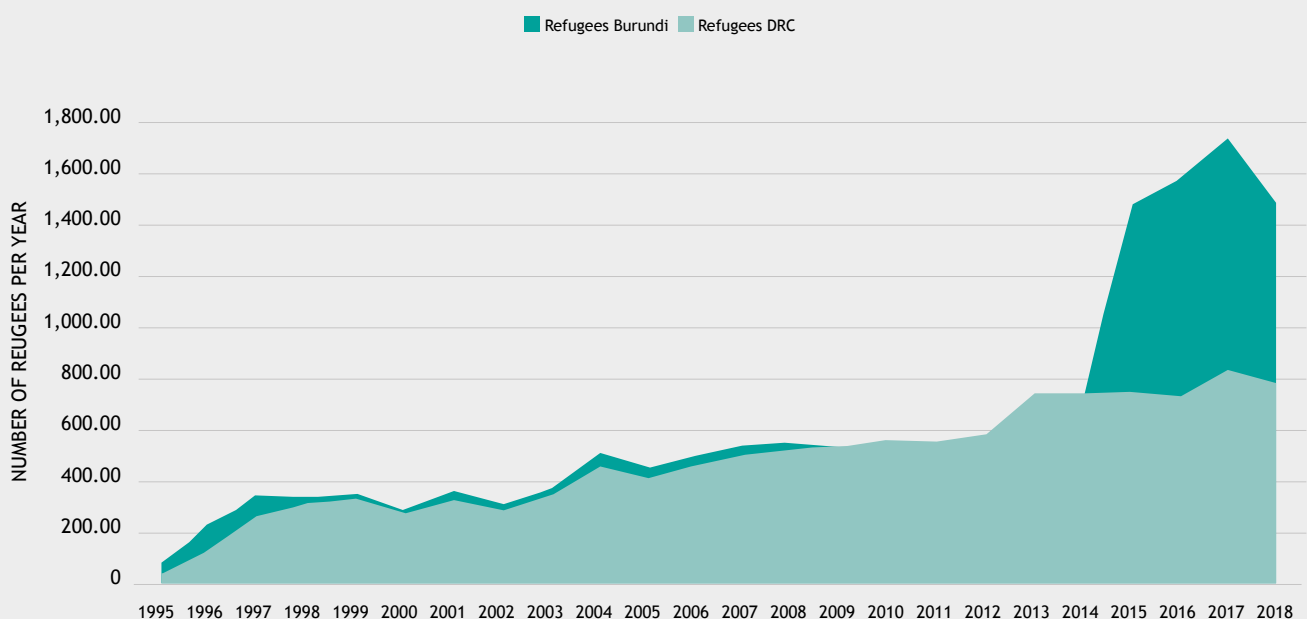
This affected their ability to access formal financial services upon reaching Rwanda, given the high initial capital costs required to open a small enterprise and to access other services.

Today, the main source of income for most refugees is monthly cash transfers. A study¹³ looking at the economic impact of refugees in Rwanda showed that a large percentage of the refugees in the sample relied on cash transfers as their only source of income. The second largest group had alternative sources of income which complemented the cash transfers received. The sources listed were odd jobs, agriculture, self-employment, remittances and salaried jobs. The total household income for both groups is equivalent to that generated by host communities living in rural areas, while the average family size is 3.5.¹⁴

13 Maastricht Graduate School of Governance (MGSG) research conducted May 2016.

14 UNHCR Population Statistics - Rwanda. Available at: <https://data2.unhcr.org/en/documents/details/77054>

FIGURE 1: NUMBER OF REFUGEES FROM BURUNDI AND DRC (1995 TO 2018)



RWANDA'S FINANCIAL INCLUSION LANDSCAPE FOR REFUGEES

Formal financial services in Rwanda include savings and investment products, credit and loan facilities, insurance products and remittance services.¹⁵ In 2016, Rwanda recorded a 32 percent increase in formal financial inclusion which was driven by non-bank formal financial institutions such as mobile money service providers, Umurenge SACCOs,¹⁶ and insurance companies.

MOBILE MONEY

The ease of access and low-cost attributes of mobile money have increased refugee and low-income Rwandans' ability to save and transfer money with minimal risk of theft¹⁷. Mobile money is one of the coping strategies of choice for refugees exposed to theft in the camps where they reside.¹⁸ Research¹⁹ shows that the most significant barrier faced by refugees in using mobile money is a lack of a legally recognized identification document (ID) to register for a SIM card. While mobile money plays a critical role in accelerating financial inclusion, mobile wallets also have limitations, for example, there is still an inability to provide savings records and loan facilities.

Microfinance institutions (MFIs) are playing an important role in financially including refugees within the camps. Despite the remote locations of most camps, MFIs entered this market to provide micro-credit facilities. One such institution is Umutanguha Finance Company which provides refugees with services such as savings and loan products.

“

...MFIs have come close especially... Umutanguha finance company. It opened in three camps to serve refugees and the results show that they can save, are doing business, [and] can access some loan. September 2018, [Umutanguha and AFR] launched products in Mahama camp such as the savings products bundled with finance education which is a limitation (sic). We have seen figures go up for savings, loans and progressive loans.”

Key Informant, AFR

REMITTANCES

Remittance services are a crucial financial need for refugees. They access these services from bank branches or agents that require only a valid ID.²⁰ Remittance service providers (RSPs) such as Western Union and World Remit in partnership with mobile money providers offer these services to beneficiaries directly into their mobile money wallets. There are however very few refugees that receive these remittances through the agents despite their presence in the camps. This is because of the high charges associated with these services. A trend observed within the camps was the access to remittance money through bus services offered by Volcano^{21,22} and the Western Union agents. The Equity Bank Limited agents have partnered with money transfer operators (MTOs) to offer these services as well.

“

Refugees in urban settings are able to access remittance services from Western Union while those in the camps access these services through mobile money.”

Key Informant, Inkomoko

“

Equity bank agent is a one-stop shop. When collecting your cash transfer from the agent, you also purchase your household essentials as well as the money sent to you through Western Union or MoneyGram. The same agents also open accounts for the bank.”

Key Informant, Equity Bank

15 Access to Finance Rwanda. 2016. FinScope Report: Financial Inclusion in Rwanda 2016. Available at: <http://www.statistics.gov.rw/publication/finscope-rwanda-2016#:~:text=The%20FinScope%20Survey%20not%20only,findings%20of%20FinScope%20Rwanda%202016>.

16 SACCO stands for Savings and Credit Cooperative Organization. Umurenge SACCO is a government initiative to financially include Rwandan citizen living in rural areas. The SACCO provides savings and loan products.

17 GSMA. 2019. The digital lives of refugees: How displaced populations use mobile phones and what gets in the way. Available at: <https://www.gsma.com/mobilefordevelopment/blog/the-digital-lives-of-refugees-how-displaced-populations-use-mobile-phones-and-what-gets-in-the-way/>

18 This is the case in Mahama and Gihembe for instance (BFA, 2018).

19 GSMA. 2019. The digital lives of refugees: How displaced populations use mobile phones and what gets in the way. Available at: <https://www.gsma.com/mobilefordevelopment/blog/the-digital-lives-of-refugees-how-displaced-populations-use-mobile-phones-and-what-gets-in-the-way/>

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21 Ibid.

22 Volcano is a bus service that allows people to send and receive money from friends and families living in Burundi.

INFORMAL FINANCIAL SERVICES

Informal finance refers to financial products or services that are not regulated and use community-based organizations to save and/or borrow money. A large proportion of adults utilize informal mechanisms to manage their finances through savings groups, for example those offered by community members within the camps who form unregulated groups called Village Savings and Loan Associations (VSLAs). These groups reported a 79 percent uptake while credit shops²³ accounted for 47 percent in 2016. The main limitation of these informal groups is the lack of access to substantive loan amounts given that this is determined by the amount of savings contributed. More formal FSPs enable its customers to access large loan facilities and a broader range of services including insurance products.

“

In the savings groups, people learn from each other. They contribute weekly/monthly on an agreed upon amount and have a committee that governs the group. Most times there are no interest rates charged on loans. The money collected is recorded then kept in a box which is put under lock and key.”

Key Informant, Inkomoko

Savings groups which offer both saving and credit, albeit at a micro-level, tend to be the financial solution of choice both for refugees and Rwandan low-income earners.

“

For those relying on cash transfers only, it will be very challenging to require them to start using formal financial institutions... Monthly maintenance fees will not be removed from them as they are being treated as normal clients. Refugees prefer to use savings groups because it is cheaper and accessible.”

Key Informant, UNCDF

Loans which can be obtained through these groups are however limited.

“

...they are saving in informal groups but how much of a loan can you get from there? If you have a bigger enterprise, you will have access to bigger loans from a financial service provider.”

Key Informant, AFR

Informal finance can also take the form of credit purchases from shopkeepers and business services who offer their goods and services in exchange for valuable items such as SIM cards and cash aid cards as collateral.

BARRIERS TO REFUGEE FINANCIAL INCLUSION

According to a 2019 joint study by the World Bank and the MINEMA, “access to formal finance is consistently identified as a major constraint to self-reliance by host communities and refugees alike. It is a particular challenge for refugees, who often lack collateral and legal identity and are also considered a flight risk by financial institutions.”²⁴ This section explores the existing barriers to refugee financial inclusion in Rwanda.

SUPPLY-SIDE BARRIERS

As shown in the previous section, refugees tend to be underserved by the formal financial sector. On the supply side, FSPs lack familiarity with, and trust in, this market segment. FSPs have expressed various concerns in considering refugees as viable client segments. A study²⁵ showed that in Rwanda, FSPs are concerned that refugees:

- > do not have a regular source of income;
- > are transitory in nature;
- > do not have experience with financial instruments; and
- > do not have necessary documentation to access financial services.

Despite their efforts to serve refugees the same way as rural-based Rwandan citizens, some FSPs tend to be uncertain of the legal framework that governs them while offering financial services to this community.

“

When providing financial services there is always risk. In terms of financial transactions especially for micro-finance institutions, the major risk is credit exposure risk.”

Key Informant, UNCPD

23 Credit shops offer goods on credit/in advance to be paid on a later date.

24 World Bank. May 2019. Rwanda: Economic Activity and Opportunity for Refugee Inclusion. Available at: <http://documents1.worldbank.org/curated/en/817901558950692659/Rwanda-Economic-Activity-and-Opportunity-for-Refugee-Inclusion.docx>

25 Bankable Frontiers Associates (BFA). 2018. Refugees and Their Money: The Business Case for Providing Financial Services to Refugees. Available at: <https://bfa-global.com/wp-content/uploads/2020/01/Refugees-and-Their-Money-Assessing-the-Business-Case-for-Providing-Financial-Services-to-Refugees.pdf>

“

Banks raise concerns around credit access because when you move to another country, you may already have an existing credit line, -there isn't that regulation to close and manage it from the other side (once you cross the border.”

Key Informant, AFR

While serving refugees, it is helpful to appreciate that their financial needs tend to differ depending on their financial status. The same BFA²⁶ report lists the segments that FSPs use to categorize refugee households based on their income sources. These segments are:

- > households with members who receive cash transfers only;²⁷
- > household members who receive cash transfers and have odd jobs;
- > household members who receive cash transfers and have salaried jobs, and
- > members who receive cash transfers and remittances.

Having more than one source of income enables them to have access to more formal financial services such as an Umurenge SACCO or a bank account. This however is not the case for most of them as they tend to either rely on cash transfers or secure odd jobs which do not provide substantial additional income. This causes them to opt into VSLAs in order to save any excess income.

“

There are different categories of refugees. There are those that only receive transfers from WFP of RWF 6,500 ...which is equal to almost USD 9 dollars per person. This is very little compared to the cost of goods they have to buy.”

Key Informant, UNCDF

“

[Refugees] need insurance for their business and for the savings groups²⁸ because they heavily rely on the incomes from the informal savings groups”

Key Informant, Equity Bank

Proximity to financial institutions from the remote camps and settlements where refugees reside is another barrier to financial inclusion.²⁹ FSPs require an incentive to bring financial services closer to the refugee community.

“

In terms of accessibility to the branches of banks other than Equity bank, there is a significant distance.”

Key Informant, UNCDF

“

...lack of access points like branch outlets in and around refugee camps. Refugee camps are largely based in rural areas, few are close to some towns (sic). In terms of figures, definitely access [to financial services] by hosts and refugees may not be equal.”

Key Informant, AFR

DEMAND-SIDE BARRIERS

Limited financial literacy is a barrier to refugee financial inclusion in Rwanda, and refugees have expressed their fears with respect to accessing formal financial services. Some of them had never used formal financial services in their countries of origin and were unaware of the business practices that would enable them to secure loans.

“

Some of them [refugees] fear to open a bank account and to access loans because they plan to in the future repatriate to developed countries. There is that fear of maybe some are young they have not really handled money (sic).”

Key Informant, AFR

Financial literacy programs have therefore since been introduced by various stakeholders to tackle this barrier.

“

The financial literacy programs cover small business management, things to do with loan management and not fearing loans (sic). There are those who have small businesses but do not have records and the banks need business records. The literacy programs help them with record keeping, how to record business transactions (etc.)”

Key Informant, AFR

“

Financial literacy matters a lot not just in the case of debt but also in day-to-day transactions. People can have access but are still financially illiterate because decisions made will not be informed. There was an educational financial strategy which ended in 2018 implemented by the ministry of financial and economic planning.”

Key Informant, BNR

²⁶ Ibid.

²⁷ The World Food Programme shifted to a cash transfer-based system in 2014, partnering with the Bank of Kigali to pilot transfers to mobile phones through the bank's mVisa platform. In 2016, Equity Bank won a bid to provide a payment solution to the WFP... while also offering accounts for refugees.

²⁸ This refers to Village Savings and Loan Associations (VSLAs).

²⁹ UNHCR & UNCDF. 2018. Financial Inclusion of Forcibly Displaced Persons and Host Communities: a UNHCR and UNCDF joint initiative. Available at: <https://reporting.unhcr.org/node/20859>

REGULATORY BARRIERS

The country's KYC regime presents a regulatory barrier to the financial inclusion of refugees.³⁰ The laws and regulations governing customer identification and verification do not explicitly address refugees, causing both refugees and FSPs to be unsure about the documentation necessary to satisfy KYC and CDD requirements to access formal financial services.³¹ According to the National Bank of Rwanda (BNR),³² FSPs are expected to follow the KYC and CDD requirements outlined by the GoR which stipulates that the minimum account opening requirements for non-residents is an "original and copy of an ID or passport."³³ This requirement tends to be difficult to meet for refugees who do not own such documents.

Even if they do, the requirement appears to be challenging to interpret due to language barriers and low levels of financial literacy. It has also been found that both FSPs and "refugees face obstacles related to a lack of regulatory clarity regarding the acceptability of proof-of-registration documents for the purposes of customer identification and verification" for accessing formal financial services.³⁴

MFI offering services to this segment meet this requirement by asking for UNHCR registration certificates. Banks, however, remain hesitant to use these registration certificates as a formal ID requirement.

“

[Refugees receive] cash flow lending from an MFI but it has a limit and is gradual. They access the first loan depending on their assessment and business project. They observe payment patterns and if satisfactory, it is increased. There exists, however, a certain limit which you can't go beyond if you do not have collateral.”

Key Informant, AFR

30 Bankable Frontiers Associates (BFA). 2018. Refugees and Their Money: The Business Case for Providing Financial Services to Refugees. Available at: <https://bflaglobal.com/wp-content/uploads/2020/01/Refugees-and-Their-Money-Assessing-the-Business-Case-for-Providing-Financial-Services-to-Refugees.pdf>

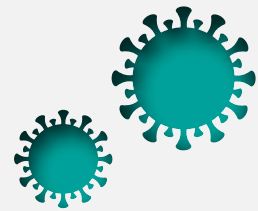
31 Ibid.

32 National Bank of Rwanda. 2014. Guidelines to Banks on Anti-Money Laundering and Combating Financial Terrorism. Available at: <https://dfsobservatory.com/sites/default/files/National%20Bank%20of%20Rwanda%20-%20Guidelines%20to%20Banks%20on%20Anti-Money%20Laundering%20and%20Combating%20Financin%20Terrorism.pdf>

33 Bankable Frontiers Associates (BFA). 2018. Refugees and Their Money: The Business Case for Providing Financial Services to Refugees. Available at: <https://bflaglobal.com/wp-content/uploads/2020/01/Refugees-and-Their-Money-Assessing-the-Business-Case-for-Providing-Financial-Services-to-Refugees.pdf>

34 World Bank. May 2019. Rwanda: Economic Activity and Opportunity for Refugee Inclusion. Available at: <http://documents1.worldbank.org/curated/en/817901558950692659/Rwanda-Economic-Activity-and-Opportunity-for-Refugee-Inclusion.docx>

IMPACT OF COVID-19 ON FINANCIAL INCLUSION OF REFUGEES IN RWANDA



The COVID-19 global pandemic has had ramifications on financial inclusion initiative planning and implementation in the country. Key informants note that the pandemic has resulted in the suspension of financial interventions such as financial literacy classes.

Physical distancing has hampered the source livelihoods of refugees, due to an inability to receive any earnings from their agents. A key informant interview with the Equity Bank underlined that "the agents receive a big portion of their revenue in cash, that cash has to be transferred to enable them to continue to operate by physically taking the money to an Equity bank to deposit to be converted to float." The pandemic has additionally necessitated the digitization of financial services.

“

There are no mechanisms to help with physical meetings, and traveling to the camp is really limited, meaning no mobility and no delivering financial education activity.”

Key Informant, Inkomoko

“

The COVID-19 had amplified the need to digitize financial transactions.”

Key Informant, UNCPD

Stakeholders are working on finding solutions that facilitate refugee livelihoods through the following initiatives:

- > **Online financial literacy workshops:** Financial trainings are currently being conducted through sending videos via mobile phones.
- > **Mobile wallet services:** Given the ongoing cashless initiative in the country, food and non-food interventions are now being provided through household members' mobile money wallets. Purchases are now made through mobile money services.
- > **Mobile money transaction-free charges:** These have been offered by telecommunication services in order to encourage cashless transactions in the country. In response to COVID-19 the BNR had set guidelines to reduce transfer fees for mobile money or electronic wallet and bank accounts transfers.

OPPORTUNITIES: POLICY AND REGULATORY ENVIRONMENT FOR REFUGEE FINANCIAL INCLUSION IN RWANDA

NATIONAL REFUGEE POLICIES

Rwanda signed and ratified the UN 1951 Refugee Convention and its 1967 Protocol, in addition to the 1969 Convention Governing the Specific Aspects of Refugee Problems in Africa (the OAU Convention).³⁵ The conventions enshrine the rights of refugees, including the right to work and to receive an education. The right to asylum is enshrined in the Rwandan Constitution in Article 28.³⁶ Rwanda passed Law No. 13ter/2014 of 21/05/2014, which relates solely to Refugees, in 2014.³⁷

“

The Government creates a framework into which the different agencies can plug in. With any policy initiative driven by the government, chances of success are higher than those driven by other agencies with different mandates.”

Key informant, Equity Bank

More recently the country has elected to apply the Comprehensive Refugee Response Framework (CRRF) at the national level. The CRRF is a new global instrument which aims to meaningfully integrate refugees into host communities from the very beginning of displacement through ensuring that refugees have the equal opportunity to become self-reliant and active contributors to local economies when they gain access to education and labor markets. The decision to become a CRRF roll-out country flowed naturally from four commitments that the GoR made at the 2016 New York Leaders' Summit, as follows:

1. A public launch of a joint government-UNHCR livelihood strategy, with a focus on graduating camp-based refugees out of assistance programs and increasing formal access to work opportunities;³⁸
2. Ensuring that 100 percent of refugees are in possession of refugee identity cards;
3. Ensuring that 100 percent of refugee students of secondary school age and 50 percent of those of primary school age will be integrated into national education systems; and

4. Ensuring that that 100 percent of urban refugees will have the opportunity to buy into the national health insurance system.

In March 2019, the government completed a Strategic Plan for Refugee Inclusion 2019-2024 which spells out how the four commitments will be implemented. The strategic plan's timeline is aligned with the National Financial Inclusion Strategy for Rwanda (NFISR) 2019 - 2024 discussed in the following section. The GoR has famously also offered a legal pathway to naturalization to refugees, though few have taken up the offer due to either a desire to eventually return home or hopes of third country resettlement. Accordingly, a sizable refugee population is likely to remain in Rwanda for the foreseeable future. This necessitates the adoption of long-term development solutions that will promote self-reliance and contribution to the host economy.

NATIONAL ECONOMIC AND FINANCIAL INCLUSION STRATEGIES

In 2012, the Ministry of Finance and Economic Planning and the BNR approved Rwanda's first NFIS with support from the World Bank³⁹. In 2015, the World Bank's Country Support Program (CSPs)⁴⁰ assisted in the development of laws and requirements on financial consumer protection, disclosure and credit reporting. The legal framework supporting microfinance and SACCOs were also updated to meet international standards. Financial education programs were designed, tested and offered to SACCO members in the country. Approximately 70,000 members received this training; more than half were women.

35 UN Refugee Convention (Convention Relating to the Status of Refugees, 1951. Available at: <https://www.unhcr.org/4ca34be29.pdf> Protocol Relating to the Status of Refugees, 1967. Available at: <https://www.unhcr.org/EN/ProfessionalInterest/Pages/ProtocolStatusOfRefugees.aspx> Convention Governing the Specific Aspects of Refugee Problems in Africa, 1974. Available at: <https://www.refworld.org/docid/3ae6b36018.html>

36 Constitute Project. 2015. Rwanda's Constitution of 2003 with Amendments through 2015. Available at: https://www.constituteproject.org/constitution/Rwanda_2015.pdf?lang=en

37 Government of Rwanda. Rwanda: Law n° 13ter/2014 of 21/05/2014. 2014. Available at: <https://www.refworld.org/docid/53fb08cd4.html>

38 Ministry of Disaster Management and Refugees (MIDIMAR) & UNHCR. 2016. Economic Inclusion of Refugees in Rwanda. Available at: <https://www.unhcr.org/rw/wp-content/uploads/sites/4/2017/02/Economic-Inclusion-of-Refugees-in-Rwanda-Final-Version.pdf> MIDIMAR changed to Ministry in Charge of Emergency Management (MINEMA) in October 2018.

39 This was made possible through the World Bank's Financial Inclusion Support Framework (FISF) program.

40 Country Support Programs is one of two main components of the Financial Inclusion Support Framework (FISF) initiated by World Bank Group. Available at: <https://www.worldbank.org/en/topic/financialinclusion/brief/financial-inclusion-support-framework>

The Mobile Money Regulatory Index⁴¹ shows that Rwanda had an overall regulatory index score⁴² of 97.50 in 2019. This translates to the extent to which Rwanda's regulatory framework enabled extensive mobile money adoption.

100%

All strategy components recorded the highest score of 100 except "KYC" and "infrastructure and investment environment" which recorded 92 and 87 respectively.

Since the first national strategy, Rwanda has set up a National Financial Inclusion Task Force which has completed the formulation stage of the second NFIS and which is currently awaiting approval for implementation.

The NFIS 2019 - 2024 was developed to further increase the level of financial inclusion in the country⁴³ and is strongly aligned with Rwanda's Vision 2050 "which aspires to take Rwanda to high living standards and high quality livelihoods by the middle of the 21st century."⁴⁴ The national strategy is underpinned by five pillars covering financial literacy, SME finance, agricultural finance, DFS, and responsible finance.

While it is not yet a public document, Rwanda's NFIS is intended to be implemented towards achieving the target of 100 percent financial inclusion by 2024 from 89 percent in 2017. This includes lifting the level of access to formal financial services from 68 percent to 90 percent. The NFIS 2019 - 2024 situates financial inclusion as a stepping-stone to sustained poverty reduction and an accelerator of economic growth, increased household welfare and income opportunities.

At the same time, the MINEMA together with the UNHCR has developed a refugee economic inclusion and livelihood strategy. The strategy is built on a vision that refugees and hosting communities will "fulfil their productive potential as self-reliant members of Rwandan society."⁴⁵ The strategy has three pillars, which are as follows:

- > **Pillar 1 supports wage-earning employment** and seeks to: (a) raise awareness of refugees' right to work; (b) provide technical and vocational skills training, and (c) support job placement services;
- > **Pillar 2 is centered on self-employment** and supports entrepreneurship and access to finance;

> **Pillar 3 supports advocacy** to the GoR, the general public, the private sector and refugees themselves for refugee self-sufficiency and entrepreneurship.

The strategy recognizes that "inclusion can help to graduate refugees from unsustainable long-term humanitarian aid while optimizing the contribution they can make to local economic development."⁴⁶

Evidently, the GoR sees value in the financial inclusion of refugees as a legal pathway towards their self-reliance and economic contribution to the host economy. It is imperative for the implementation of the NFIS 2019 - 2024 and the joint GoR-UNHCR 2019 - 2024 Strategic Plan for Refugee Economic Inclusion to be harmonized under the leadership of the government and in close coordination with all key implementing stakeholders.

“

Financial literacy will be further developed in the recently formulated NFIS. It is envisaged to have digital literacy to at least more than 60 percent by 2024. A Financial Inclusion division was established in 2019 by the BNR to oversee this. NFIS is however not yet approved. The approach taken by BNR is that financial literacy is never ending since people need to be constantly educated.”

Key Informant, BNR

UNCDF and UNDP provided support to the GoR in 2009⁴⁷ through an initiative called "Building an Inclusive Financial Sector in Rwanda, BIFSIR 2010 - 2015". The aim was to strengthen the financial sector and encourage financial inclusion.

41 GSMA. 2019. Mobile Money Regulatory Index. Available at: <https://www.gsma.com/mobilemoneymetrics/#regulatory-index?y=2019>

42 Money Mobile Regulatory Scores range between 0-100, with a high score associated with more enabling regulation.

43 Alliance for Financial Inclusion. 2015. National Financial Inclusion Strategies Current State of Practice. Available at: https://www.afif-global.org/sites/default/files/publications/fisplg-state_of_practice.pdf

44 Government of Rwanda & Access to Finance Rwanda. 2019. National Financial Inclusion Strategy for Rwanda 2019-2024. Prepared by Nathan Associates. Not public.

45 World Bank. 2019. Rwanda: Economic Activity and Opportunity for Refugee Inclusion. Available at: <http://documents1.worldbank.org/curated/en/817901558950692659/Rwanda-Economic-Activity-and-Opportunity-for-Refugee-Inclusion.docx>

46 Ibid.

47 Ministry of Finance and Economic Planning (MINECOFIN). 2015. Rwanda - Financial Inclusion Programme (R-FIP) 2016-2020. Concept Note-Final. Available at: https://info.undp.org/docs/pdc/Documents/RWA/Concept%20Note%20R-FIP_FINAL_LPAC.pdf

Partly as a result of this initiative, the size of the banking system grew substantially since 2008, accounting for 37 percent of the country's GDP in 2012; a non-bank formal sector developed comprising MFIs and Umurenge SACCOs who serve the unbanked population, and credit cards and payment mechanisms through agents were introduced.

+25%

On the demand-side, the BIFSIR initiative aimed to increase access to formal and informal financial services by 25 percent.

Recently, the GoR and stakeholders have begun to offer financial education modules to specific segments such as the youth, women and low-income groups. The initiative additionally provides capacity building programs for SACCOs, MFI and auditors. These programs will similarly target refugees who are acknowledged as not having equal opportunity to access formal finance by the central bank.

“

...there are some refugees who have stayed [in Rwanda] for more than 15 years. That [shows the] willingness of government to integrate these refugees in the local community and other systems, education, vocational training, schools in camps and around, not only primary and secondary but also vocational training. Also finding work except in government institutions (sic).”

Key informant, AFR

LEGAL IDENTIFICATION OF REFUGEES

Owning a valid and recognized proof of identity and legal residency in a country is crucial for the safety of an individual and it enables their economic participation. A government-issued ID can facilitate the financial inclusion of refugees. It allows them to register for SIM cards in their own name and open a mobile money or bank account.⁴⁸ However, the refugee population does not have timely access to formal identification.⁴⁹ This is especially limiting as FSPs require documentation of legal names and proof of address.⁵⁰ A data protection policy⁵¹ exists to take up and implement strong legal and regulatory frameworks for personal data protection.

The Rwandan government in 2017 granted refugees the right to work and be integrated into the national health and education systems.⁵² In 2018 the GoR, the National Identification Agency, the Rwanda Directorate General of Immigration and Emigration and UNHCR launched an initiative to provide verified refugees with national

refugee identification cards, which include biometrics, to facilitate access to public and private services, employment and increased freedom of movement.⁵³ This exercise is still ongoing at the time of writing.

“

[Equity Bank] is able to use [refugee registration] cards to open a cash transfer account, but they are opened in a restricted manner. The card cannot be validated nationally.”

Key Informant, Equity Bank

In some cases, refugees can access identification through the 2008 Rwandan Nationality Law which allows for the naturalization of refugees and asylum-seekers married to Rwandan nationals; and for all children born in Rwanda to refugees and asylum seekers after they reach adulthood.⁵⁴ UNHCR has, however, noted that in practice, the occurrence of naturalization is quite rare due to a lack of knowledge regarding the existence of this provision.

- 48 Npm Platform for Inclusive Finance. 2018. Finance for Refugees: the state of play. Available at: https://www.inclusivefinanceplatform.nl/wp-content/uploads/2019/04/npm-report_finance-for-refugees_the-state-of-play.pdf
- 49 GSMA. 2019. The digital lives of refugees: How displaced populations use mobile phones and what gets in the way. Available at: <https://www.gsma.com/mobilefordevelopment/blog/the-digital-lives-of-refugees-how-displaced-populations-use-mobile-phones-and-what-gets-in-the-way/>
- 50 National Bank of Rwanda. 2018. Article 16, Regulation No 2100/2018 - 00011[614] Of 12/12/2018 Of The National Bank Of Rwanda Governing Non Deposit Taking Lending Financial Institutions, Official Gazette n° 51 of 17/12/2018. Available at: http://www.afr.rw/IMG/pdf/regulation_no_2100_2018_-_00011_614_of_12_12_2018_of_the_national_bank_of_rwanda_governing_non_deposit_taking_lending_financial_institutions.pdf
- 51 UNHCR. 2015. Submission by the United Nations High Commissioner for Refugees. For the Office of the High Commissioner for Human Rights' Compilation Report Universal Periodic Review: 2nd Cycle, 23rd Session, The Republic of Rwanda. Available at: <https://www.refworld.org/docid/56371c604.html>
- 52 Government of Rwanda. 2014. Rwandan Law n° 13ter/2014 of 21/05/2014. Available at: <https://www.refworld.org/docid/53fb08cd4.html> See also, UNHCR, 2018. Rwanda Operational Update, available at <https://www.unhcr.org/rw/wp-content/uploads/sites/4/2019/01/November-2018-Operational-Update.pdf>
- 53 UNHCR. 2018. The Government of Rwanda and the UN Refugee Agency Launch Issuance of National Refugee Identification Cards in Kigali. Available at: <http://www.unhcr.org/rw/13587-the-government-of-rwanda-and-the-un-refugee-agency-launch-the-issuance-of-national-refugee-identification-cards-in-kigali.html>
- 54 Government of Rwanda. 2008. Organic Law N° 30/2008 of 25/07/2008 relating to Rwandan Nationality. Available at: <https://www.refworld.org/docid/4c569f4dc.html>

STAKEHOLDER MAP: THE REFUGEE FINANCIAL INCLUSION ECOSYSTEM IN RWANDA

Multi-stakeholder information sharing, coordination and collaboration are extremely crucial in efforts to advance financial inclusion for FDPs. In the Rwandan context, there is a plethora of stakeholders from the public, private and civil society sectors who are currently taking proactive measures to financially include refugees.

The GOR takes commendable policy action to work towards ensuring that refugees are protected and have access to economic opportunities. However, the stakeholders’ initiatives are not fully harmonized in order to maximize the wide range of actions in manner

that will be most impactful for refugee financial inclusion. In this section, we highlight the main stakeholders involved and explore the specific actions they are undertaking.

GOVERNMENT

It is well-known that the GoR plays a critical leadership role in ensuring that refugees who seek asylum in their country are protected and empowered economically. The GoR works closely with the UNHCR in various capacities including the registration of refugees and the creation of a protective environment for refugees in the country. Key roles performed by the Rwandan government include:

- > **Legal registration:** The GoR through the Ministry in charge of Emergency Management (MINEMA),⁵⁶ adopted a policy in 2015 of prima facie recognition.⁵⁷ This involves initial registration procedures at the border, and then more comprehensive registration upon relocating to the camp and urban areas.

56 MINEMA was formerly known as the Ministry of Disaster Management and Refugee Affairs (MIDIMAR).

57 UNHCR. 2019. Rwanda Country Refugee Response Plan 2019 - 2020. Available at: <https://reliefweb.int/sites/reliefweb.int/files/resources/69632.pdf>

FIGURE 4: REFUGEE FINANCIAL INCLUSION ECOSYSTEM



> **Profiling unregistered refugees:** Furthermore in 2014, MINEMA implemented a continuous registration exercise that recognized unregistered spouses, parents and children under derivative status. This enabled the affected individuals to be recognized as refugees in all the camps, which in turn enabled them to benefit from international protection.

> **Advocacy for the economic inclusion of refugees:** Despite refugees possessing registration cards, initially, banks were not accepting them to satisfy KYC requirements. The MINEMA intervened by providing approvals to specific requests from FSPs, to accept the refugee cards as proof-of-registration documents when conducting KYC and CDD.⁵⁸ There are however no official regulations from the MINEMA to clarify whether all formal FSPs are permitted to accept these proof-of-registration cards to access financial services. The MINEMA continuously advocates for and promotes the economic inclusion of refugees, as demonstrated by the in-country roll-out of the CRRF jointly with the UNHCR.

“

One of the barriers was just validation for refugees. Most financial institutions could not use their registration for refugees. They had to take it to the central bank who told the financial institutions that the registration certificate is good enough as an ID. So that is the reason they were basically not served...”

Key Informant, AFR

HUMANITARIAN AGENCIES

UNHCR acts as a facilitator and convener through reinforcing institutional capacity and fostering key partnerships with the GoR, private sector actors and other stakeholders. The aim is to create an inclusive market which targets both refugees and host communities. UNHCR and WFP run programs that provide cash transfers to refugees in order to facilitate their household needs. These cash transfer programs sign up refugees as regular bank clients and so food and non-food cash allowances can be directly deposited into a bank account attached to a debit multi-wallet MasterCard from Equity Bank.

DEVELOPMENT AGENCIES

Inkomoko is a business consulting firm that works together with MSMEs in Rwanda. Within the refugee community, it serves entrepreneurs in the camps and those in urban areas. It provides access to finance and development services such as business training and consultancy.

Access to Finance Rwanda (AFR) and Financial Sector Deepening Africa (FSD Africa) work together to advocate for the business opportunity that exists in serving the refugee community. They provide interested formal FSPs with incentives to offer financial services to refugees.

PRIVATE SECTOR

BANKS

Equity Bank’s key mission is to reach the population at the bottom of the economic pyramid through agency banking.⁵⁹ The role of the bank is to facilitate cash transfer programs for refugees. Through partnerships with humanitarian organizations such as UNHCR and WFP, the bank issues a card to household heads which enables them access to the money through Equity Agents within the camps. The card is treated as a household account, which is accessed with the head of the household’s refugee registration document.

“

WFP-UNHCR program [sends] cash to refugees. Money is loaded on a card and there [are] partnerships with banks like Equity Bank. ...the refugee can get access to financial services through the card. That card just accesses their grant from the UNHCR. In their mind it wasn’t really a bank account.”

Key Informant, AFR

“

Financial inclusion is represented at the household level and not at the individual level. This shows that it does not capture the majority who are below 18 years and those between 18-59 years.”

Key Informant, BNR

58 Bankable Frontiers Associates (BFA). 2018. Refugees and Their Money: The Business Case for Providing Financial Services to Refugees. Available at: <https://bfaglobal.com/wp-content/uploads/2020/01/Refugees-and-Their-Money-Assessing-the-Business-Case-for-Providing-Financial-Services-to-Refugees.pdf>

59 Duval, A. 2014. Increasing Financial Inclusion in East Africa: Equity Bank’s Agent-Driven Model. Available at: <https://www.unCDF.org/article/2193/increasing-financial-inclusion-in-east-africa-equity-banks-agent-driven-model>

MFIS

The Umutanguha Finance Company is an MFI that offers credit facilities, savings products and mobile banking services. It is a joint initiative - advanced by AFR, FSD Africa, MTN Rwanda and Umutanguha, that offers a savings and a loan product, both of which address the key financial needs of the refugee communities.

MOBILE MONEY AND REMITTANCE SERVICES

MTN Rwanda and Tigo are telecommunication network services which provide mobile financial services within the camps. MTN mobile money refugee users can access loans and savings products, as well as get access to e-health and e-learning platforms. Western Union offers remittance services for sending and receiving money within Rwanda and across its borders.

WAY FORWARD

Despite the barriers to refugee financial inclusion that were previously presented in this case study it is manifest that there is a strong drive and clear momentum on the part of the wide range of stakeholders, to enhance both access to and usage of quality formal financial services among refugees in the country.

Towards that end, this section presents key considerations for relevant stakeholders in moving forward based on the SWOT analysis provided in Figure 5.

FIGURE 5: SWOT ANALYSIS OF FINANCIAL INCLUSION OF FORCIBLY DISPLACED PERSONS**STRENGTHS**

- > Issuance of national ID to refugees: Recent exercise to register and offer refugees government issued IDs is ongoing.
- > Willingness to work: Refugees are actively taking part in financial literacy workshops, have the capacity to learn and are willing to take up job opportunities.
- > Stakeholder collaboration is strong: No duplication of efforts.
- > NFIS caters for all.

WEAKNESSES

- > Lack of self-reliance: Camp-based refugees are highly dependent on humanitarian funding which has been decreasing
- > Existence of unregistered asylum seekers: The process of registration is quite slow.
- > Proximity to financial institutions: Limited accessibility to financial services offered by FSPs due to the great distance and challenging terrain on the way to the camps.
- > Low uptake of formal financial products in rural areas: Most refugees prefer using informal financial products that have informal mechanisms.
- > Financial inclusion measurement: This is measured at the household - not individual - level, hence it is not representative of most of the population aged between 18-59 years.
- > No individualized financial inclusion of FDPs. This would otherwise provide a true picture of the financial inclusion of individual refugees rather than looking at the household level.

OPPORTUNITIES

- > Existing programs that address the digital and financial literacy among refugees.
- > Regulatory benefits for FSPs that provide services for refugees.
- > NFIS strategy to have 100% financial inclusion by 2024.

THREATS

- > Underfunding of humanitarian organizations: The humanitarian organizations are currently experiencing a decline in funding which has negative impacts on refugee income source.
- > Limited access to loan facilities.

KEY CONSIDERATIONS

NATIONAL STRATEGIES AND REGULATION

FORMULATE AND IMPLEMENT TARGETED INTERVENTIONS FOR FDPs, AND ENSURE CONTINUED ROBUST M&E OF NFIS IMPLEMENTATION

Financial inclusion stakeholders in Rwanda should continue to have accurate data to drive their NFIS implementation and make adjustments in policy as necessary. This includes further refinement in data collection and analysis to target refugees alongside or as part of the existing household - and MSME-level financial inclusion data. Such sex- and age-disaggregated data will provide in-depth information and high-quality evidence with regard to the financial inclusion of refugees in Rwanda. This will support policymakers in formulating targeted interventions for FDPs and including them in M&E frameworks to track implementation progress. This was similarly recommended in the FinScope Rwanda 2020 Report which stressed implementing interventions for the inclusion of vulnerable groups such as refugees and people living with disabilities.⁶⁰

LEVERAGE ALREADY EXISTING COORDINATION MECHANISMS

Financial inclusion stakeholders in Rwanda can continue to build on the strong coordination mechanisms currently in place for the NFIS, and expand coordination ties with key forced displacement stakeholders. This includes concerted action and data-sharing with the MINEMA, UNHCR and other NGOs and civil society organizations (CSOs) working in forced displacement.

INCLUDE THE VOICES OF REFUGEES

Financial inclusion stakeholders should continue to consult with and include refugees themselves in the implementation of the NFIS. Working directly with refugees and forced displacement stakeholders, such as the MINEMA, UNHCR, NGOs and CSOs, can reveal the types of financial products and services that are most needed or desired, and how to overcome barriers in their access and increase usage. This for instance, could involve leveraging remittances both to and from refugees living in forced displacement in Rwanda. Including refugee voices and their inputs into policy formulation and implementation will guarantee the legitimacy and impact of the NFIS. Where it can be meaningful and effective, refugee representatives should be included in coordination mechanisms.

IDENTIFICATION AND RELATED INTERNATIONAL STANDARDS ON AML/CFT

CONTINUE RISK-BASED MEASURES TO SIMPLIFY KYC AND CDD

While there is still strong overall drive to provide refugees with identification documents in Rwanda, financial inclusion stakeholders can consider the formulation and implementation of a risk-based, tiered KYC regime that has provisions for a lower-risk tier. This can enable the onboarding of refugees who have been confirmed as lower-risk through a national or sectoral risk assessment. This tier could be simplified by removing identification or proof of address requirements for the offering of low-balance accounts that are still subject to consistent monitoring.

FINANCIAL CONSUMER AND DATA PROTECTION, FINANCIAL LITERACY

IMPLEMENT DIGITAL FINANCIAL LITERACY INITIATIVES FOR REFUGEES

One of the pillars of the Rwandan NFIS is “responsible finances” which is focused on enhancing the financial capability of consumers towards increasing the usage of quality formal financial services.⁶¹ Refugees can be included in broader measures to increase financial capability such as through targeted digital financial literacy programs, aligned with any FDP financial inclusion targets established, as previously recommended in “National Strategies and Regulation.”

BRIDGING HUMANITARIAN AND DEVELOPMENT APPROACHES WITH DIGITIZED PAYMENTS

FACILITATE MOBILE AND FINTECH SOLUTIONS FOR REFUGEES

Challenges in providing services in remote camp settings were highlighted as one of the major difficulties in expanding financial access for many refugees. These geographical or access point constraints can be overcome with continued work on innovation, through the creation of enabling policy and regulatory environments for mobile money or even Fintech solutions. While physical banking infrastructure remains important, coordinating with the Rwandan Ministry of ICT and Innovation and the Rwanda Utilities Regulatory Authority (RURA), in addition to building on existing initiatives in the digital finance space⁶² should enable more refugees to be financially included.

60 Access to Finance Rwanda. 2020. FinScope Report: Financial Inclusion in Rwanda 2020. Available at: <https://www.statistics.gov.rw/publication/finscope-rwanda-2020>

61 Ibid.

62 For instance, the electronic platform initiatives outlined in AFR. Digital Financial Services in Rwanda - Leveraging technology for maximum use of financial services: FinScope Impact Assessment Note. 2016. Available at: <http://www.ruralfinanceandinvestment.org/node/2829>

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CASE STUDY TWO: MAURITANIA



INTRODUCTION

Often regarded as a source of migrants and as a transit country on migration routes from Sub-Saharan Africa northwards, the Islamic Republic of Mauritania is also host to tens of thousands of refugees living in a situation of protracted forced displacement.⁶³

Mostly from Mali, they are clustered in a remote region where high levels of poverty and food insecurity reduce their prospects for self-reliance and sustainable local integration. Not unlike their rural Mauritanian hosts, refugees in Mauritania lack access to formal financial services for a multitude of reasons, including a general lack of funds, inadequate infrastructure, a lack of incentives to access services from the regulated financial system, and an absence of financial services which adequately take into account their particular needs and financial situation.

Part of the reason for this is that the financial system in Mauritania remains comparatively underdeveloped although the government is taking very impressive actions to transform the financial sector, including through leveraging technological innovations and building the necessary infrastructure for them. Financial and banking products and services in Mauritania are modest due to the nature of its society, which is reliant on cash and the informal sector for most financial and commercial transactions.

Banque Centrale de Mauritanie (BCM), the Mauritanian central bank, is setting out to formulate an NFIS in close consultation with and endorsed by all stakeholders in the Mauritanian financial inclusion ecosystem. It would lay out the actions necessary to improve financial inclusion of different target groups within five years of its launch. The vision of this future national strategy covers the supply- and regulatory-side through strengthening the policy, legal, and regulatory framework; developing interoperable payment infrastructures; and encouraging innovation. The demand-side is covered through improving access, enhancing consumer protection, and increasing financial literacy.

In a preliminary strategic concept note preceding the NFIS, the BCM and national stakeholders already identified segments of the population that are unserved and underserved. These groups are made up of those living in rural and peri-urban areas, youth, women, merchants of livestock, persons with disabilities, informal workers and micro, small and medium enterprises (MSMEs), as well as displaced persons.⁶⁴

63 According to UNHCR, there are 2,500 urban refugees and asylum-seekers and more than 57,000 refugees in and around Mbera camp. UNHCR (2019). Mauritania - Operational Update. Available at: <https://data2.unhcr.org/en/documents/details/70004>

64 In Mauritania, national stakeholders find the term “displaced persons” more appropriate to the local context than “forcibly displaced persons” does. The former term is therefore used throughout the Mauritania case study.

FORCED DISPLACEMENT IN MAURITANIA

Mauritania is most often considered a transit country for refugees and migrants on their way to North Africa and Europe. This impacts policy vis-à-vis the refugee population, as the focus lies less on integration than on transit flows and perceived threats including human smuggling and human trafficking.⁶⁵

But Mauritania is also a country faced with protracted displacement. According to UNHCR, the country hosts some 60,000 refugees in and around M'bera camp in the remote South-Eastern region of Bassikounou and up to 4,200 refugees and asylum seekers in the cities of Nouakchott and Nouadhibou.

Urban refugees in Mauritania have developed resilience and livelihood strategies that are similar to their host communities, who are represented by vulnerable Mauritians who also live in these urban areas.⁶⁶ Refugees residing in urban areas largely work in the informal sector mainly in the fishing and construction sectors, and predominantly have daily jobs but without any contracts. This is also the case for refugees who work in the formal education or service industries. These workers were among the first to be affected by the government lockdown implemented during the peak of the COVID-19 pandemic in the country.⁶⁷

Many of the refugees fled Mali in the early 1990s to escape rebel attacks in Timbuktu, and indeed Malian refugees represent a majority of the refugee population. Other countries of origin are the Central African Republic (CAR), Cote d'Ivoire, and Syria.⁶⁸



Figure 1: Arriving in M'bera Camp. Photo credit: Charles Bambara, Oxfam

M'bera camp is remotely located with the closest town, Bassikounou, approximately 18 kilometres away. It experiences high levels of poverty and food insecurity, which continue to be exacerbated by successive years of drought, poor infrastructure and limited geographical accessibility. The area lacks public infrastructure, and the first paved road was only recently constructed. What was once designed as a temporary refugee camp has since become the fourth largest town in Mauritania. In the region where M'bera is located, UNHCR estimates that more than 60 percent of the total population - including both refugee and host communities - is under the age of 30, and refugee and host households spend 60 percent of their income on food.⁶⁹

The majority of M'bera's refugee inhabitants are pastoralists who lived nomadic or semi-nomadic lifestyles in Mali. The children in this community constitute close to six out of 10 inhabitants M'bera Camp.⁷⁰ A 2017 socio-economic profiling exercise⁷¹ found high levels of poverty in M'bera. Nearly half the working-age M'bera residents were found to have no sources of livelihoods. Men raise livestock or earn small amounts of income through daily labor in the camp, whereas women tend to perform household tasks. The two main strategies for coping with this lack are reducing food consumption and borrowing cash to purchase food. Most households interviewed at the time reported having had to borrow in order to meet their daily needs.⁷²

With little or no opportunity for socio-economic integration into the local labor market, protracted camp-based refugees in Mauritania survive mainly on humanitarian aid. Assistance focuses on food aid, water and hygiene, protection, and providing education to children.

65 Maastricht University Maastricht Graduate School of Governance (MGSoG). October 2017. Mauritania Migration Profile: Study on Migration Routes in West and Central Africa. Available at: <https://www.merit.unu.edu/publications/uploads/1518182884.pdf>

66 UNHCR Mauritania. 2020. COVID-19 - Cash for Social Protection for Refugees in Mauritania. Available at: <https://reporting.unhcr.org/sites/default/files/UNHCR%20Mauritania%20-%20COVID-19%20Cash%20for%20Social%20Protection%20for%20Refugees%20-%20May%202020.pdf>

67 Ibid.

68 UNHCR Mauritania. 2020. Mauritania Factsheet June 2020. Available at: <https://data2.unhcr.org/en/documents/details/77352>

69 UNHCR. 2020. Decentralized Evaluation of UNHCR's Livelihoods Programme in Mauritania (2017-2019). Available at: <https://www.unhcr.org/5e99cce47.pdf>

70 Pinna, M. 22 February 2019. Mauritania: a 360° view from the Mbera refugee camp. Euronews. Available at: <https://www.euronews.com/2019/02/22/mauritania-a-360-view-from-the-mbera-refugee-camp>

71 Conducted by UNHCR and WFP in collaboration with Action contre La Faim (ACF) Spain and the Government of Mauritania Commissioner's Office for Food Security (CSA).

72 UNHCR. 2020. Decentralized Evaluation of UNHCR's Livelihoods Programme in Mauritania (2017-2019). Available at: <https://www.unhcr.org/5e99cce47.pdf>

MAURITANIA'S FINANCIAL INCLUSION LANDSCAPE

Financial and banking products and services in Mauritania remain comparatively modest due to the nature of the society, which is reliant on cash and the informal sector for most financial and commercial transactions.

According to the 2017 Global Findex, approximately one person in four has an account at a financial institution. Remittance flows which are crucial to the displaced population, are 66 percent outbound and 72 percent inbound. Received remittances are typically cashed out. Anecdotal evidence points to savings being kept at places such as grocery shops to mitigate the risk of theft in communal dwellings.⁷³

Few formal credit providers operate in Mauritania and most bank branches, ATMs and other financial infrastructure is confined to the capital Nouakchott.⁷⁴ Mauritania's financial sector consists of the BCM and 18 commercial banks, six of which are subsidiaries of foreign banks. Mauritania's 2018 Mutual Evaluation Report (MER) which was led by the Middle East and North Africa Financial Action Task Force FATF (MENAFATF),⁷⁵ notes that the Mauritanian banking sector has an estimated capital of MRO 31 billion (equivalent to USD380 million at the time of reporting).

21%

The number of bank accounts does not exceed 400,000, with less than 21 percent of the adult population owning one. This figure is lower compared to those in neighbouring countries Algeria, Mali and Senegal.

Mauritania has one Deposit and Development Fund, 27 money exchange offices, the Mauritania Post Company MAURIPOST, and 16 insurance companies.⁷⁶ The banking industry is dominated by a few large firms, which concentrate almost exclusively on serving specific commercial and industrial groups. Prospective borrowers who do not belong to these groups face considerable difficulty in accessing formal financial services. There are two specialized financial institutions for farming and fishing. One financial institution specializes in leasing with the aim of providing the financing products best suited to the needs of Mauritania's small business sector.

Alongside conventional commercial banks, Mauritania has a network of microfinance MFIs which help to finance small economic structures.⁷⁷ The activity of microfinance is still rather limited in terms of lending, and negligible in terms of reach. At the end of 2015, members of MFIs numbered 272,274, representing 13 percent of the adult population. MFIs accounted for about five percent of all loans and two percent of all deposits.⁷⁸

There were 20 registered MFIs at the end of 2015, including four networks federating 111 *caisses populaires*.⁷⁹ Most MFIs are small, and the country currently has only one large microfinance network, the Public Credit and Savings Fund Promotion Agency (*L'agence de Promotion des Caisses Populaires d'Épargne et de Crédit, PROCAPEC*). MFI loan maturities range from three months to two years, and rates for small businesses average at 16 percent. MFIs also provide savings accounts—though these are limited to very short-term non-remunerated deposits—and offer money transfers. Islamic financial products such as non-interest-bearing agreements (*Murabaha*) represented three quarters of PROCAPEC loans.⁸⁰

73 KII, UNHCR.

74 World Bank. 2019. Press release: Mauritania Needs Structural Reforms to Support Growth Driven by the Private Sector. Available at: <https://www.worldbank.org/en/news/press-release/2019/05/24/mauritania-needs-structural-reforms-to-support-growth-driven-by-the-private-sector>

75 The FATF-Style Regional Body (FSRB) for the Middle East and North Africa region.

76 MENAFATF. 2018. Anti-money laundering and counter-terrorist financing measures Islamic Republic of Mauritania Mutual Evaluation Report. Available at: <http://www.fatf-gafi.org/media/fatf/content/images/Mutual-Evaluation-Report-Mauritania-2018.pdf>

77 GSMA. 2019. The State of Mobile Internet Connectivity. Available at: <https://www.gsma.com/mobilefordevelopment/resources/the-state-of-mobile-internet-connectivity-report-2019/>

78 World Bank. 2016. Financial Access and Household Welfare Evidence from Mauritania. Available at: https://www.researchgate.net/publication/290433833_Financial_Access_and_Household_Welfare_evidence_from_Mauritania

79 A *caisse populaires* refers to a cooperative, member-owned financial institution that fulfils traditional banking roles, in addition to providing lending, insurance and investment services.

80 World Bank. 2016. Financial Access and Household Welfare Evidence from Mauritania. Available at: https://www.researchgate.net/publication/290433833_Financial_Access_and_Household_Welfare_evidence_from_Mauritania

81 UNHCR. 2020. Decentralized Evaluation of UNHCR's Livelihoods Programme in Mauritania (2017 - 2019). Available at: <https://www.unhcr.org/5e99c447.pdf>

Notably, Djikké which is national savings and credit cooperative has been working in collaboration with UNCHR Mauritania to improve financial services access for urban refugees.⁸¹

“

For very poor individuals, the banks' tariffs are prohibitive. They will thus rely on microfinance for loans, there are about 20 of those institutions. For simple money transfers, there are the “prestataires de transfert de fonds domestique.” Seven of those are authorized. They do not lend, and they charge approximately 5 percent, depending on the amount.

Key Informant Interview, BCM

Digitalization remains low. Only four percent of adults have a mobile money account, and three percent use the Internet to pay bills in 2017. According to the GSMA, the M-money services in Mauritania allowed for person-to-person (P2P) transfers, bill payments, other bulk payments, merchant payments, airtime top up and cash-in and cash-out, but not for government-to-person (G2P) payments and person-to-government transactions.⁸²

Mobicash - the only mobile money service in Mauritania, launched in 2015 by Mauritel, was only used by a small segment of the population and the project was put on hold in 2018 in the absence of appropriate legislation and a partner financial institution.

Finally, Mauritania's informal financial sector is extensive, but produces little reliable data. Informal finance is typically offered on simple terms and frequently involves family connections, tribal affiliations or other networks of social trust.

BARRIERS TO THE FINANCIAL INCLUSION OF DISPLACED PERSONS IN MAURITANIA

Access to regulated financial services in Mauritania remains limited overall, lagging behind comparable contexts. According to the 2017 Global Findex statistics, only 21 percent of adults in Mauritania had a bank account in 2017 with a gender gap of 11 percentage points, which is less than in neighboring Algeria (43 percent), Mali (35 percent) and Senegal (42 percent).

Only 19 percent of the adult population had an account at a formal financial institution. Similarly, the share of adults with savings held at a financial institution is low. Financial account ownership amounts to only 14 percent among women, 14 percent in rural areas, 11 percent among the poor and 12 percent among young adults.⁸³

The IMF notes in 2017 that “only half of the demand for a bank account and related financial services is satisfied in Mauritania.” There is little data on access to formal financial services among displaced persons residing in Mauritania.

“

How would we define financial inclusion in Mauritania? It is too early to tell! We will study access to finance, and then we will identify the gaps. The vision is for all people in Mauritania, no matter where they live, to be able to access affordable financial solutions.

Key Informant Interview, BCM

81 UNHCR. 2020. Decentralized Evaluation of UNHCR's Livelihoods Programme in Mauritania (2017 - 2019). Available at: <https://www.unhcr.org/5e99cce47.pdf>

82 GSMA. 2019. The State of Mobile Internet Connectivity. Available at: <https://www.gsma.com/mobilefordevelopment/resources/the-state-of-mobile-internet-connectivity-report-2019/>

83 IMF. 2019. Islamic Republic of Mauritania: Third Review Under the extended Credit Facility Arrangement. Available at: <https://www.imf.org/en/Publications/CR/Issues/2019/05/31/Islamic-Republic-of-Mauritania-Third-Review-Under-the-Extended-Credit-Facility-Arrangement-46953>

SUPPLY SIDE BARRIERS

Financial inclusion for all Mauritians, and displaced persons in particular, is constrained by supply-side factors such as an inadequate supply of bank accounts and services.⁸⁴ One clear obstacle is linked to the sparsely populated country's uniquely and extremely vast geography.

0.5%

Only 0.5 percent of the land in Mauritania is arable, and with a population of about four million people, the density of 3.9 inhabitants per km² makes it the fourth least densely-populated country in Africa.⁸⁵

Physical infrastructure, such as roads, telecommunications networks, power grids, bank branches, ATMs, and agents, tend to be clustered in the cities. The more decentralized postal banking network offers limited services.⁸⁶ Microfinance also remains highly concentrated geographically.

“

It is a vast territory inhabited by few people. The problem is connectivity, there is not a reliable network in many places (sic).

Key Informant Interview, ILO

According to World Bank data, the financial sector faces constraints related to very limited coordination and synergies between banks and MFIs, and the absence of a financial market able to mobilize long-term resources. Bank credit to the private sector is thus overwhelmingly short-term.⁸⁷ Lack of information about potential borrowers appears to be an impediment to access loans among SMEs and displaced individuals.

There is no framework yet for mobile money and no national strategy for the development of electronic payments (e-payments), despite the existence of GIMTEL Switch which is a national switch for cards. The latter is not currently well-positioned to ensure financial inclusion of those with modest means:

“

The development of mobile money - and e-money more broadly - is on hold, there is no framework to guide implementation (sic). It could be launched, but the know-your-customer regulations are not appropriate for the time being. The payment switch would need to be able to process many small payments... but right now it can only handle a small volume of large payments.

Key Informant Interview, UNCDF

For refugees, fear of their relocation and subsequent defaulting on loans seems to limit their access to credit offered by formal institutions, be they banks or - more frequently - microcredit schemes. The UNCHR has been working to improve financial services access for urban refugees through a partnership with a national savings and credit cooperative, Djikké. While the scope of this activity remains modest, the plan is to expand financial access of this type to camp-based refugees by opening a cash distributor in M'bera Camp, which, in the spirit of durable integrated solutions, might also benefit the local host community.

“

We suspect that refugees' [financial] needs are rather simple - most of them still live off a basic needs allowance. Ninety-five percent of them are illiterate, and as long as they are not economically integrated, no-one will lend to them. Banks have one objective only: profitability. But the truth is that we know very little about refugee finance. They spend and save like everyone else... but everything is cash-based.

Key Informant Interview, BCM

The displaced additionally do not have the social capital necessary to provide the guarantee often implicitly required by banks.

“

Our religion does not allow for usury. What is needed is a moral guaranty, by people who know the person. This could be a parent, for instance, present in the bank.

Key Informant Interview, ANAPEJ

84 Ibid.

85 World Bank. 2018. International Development Association, International Finance Corporation and Multilateral Investment Guarantee Agency - Country Partnership Framework for the Islamic Republic of Mauritania for the period FY18 - FY23. Available at: <https://openknowledge.worldbank.org/handle/10986/30049?locale-attribute=en>

86 MAURIPOST provides financial services such as current and savings accounts, money transfers inside and outside the country, in addition to the dispatch of jewelry, through some 30 post offices distributed across the country. It mainly covers remote areas. State employees and retirees represent the majority of account holders in MAURIPOST. MAURIPOST does not have non-Mauritanian customers, according to MENAFATF.

87 World Bank. 2016. Financial Access and Household Welfare Evidence from Mauritania. Available at: https://www.researchgate.net/publication/290433833_Financial_Access_and_Household_Welfare_evidence_from_Mauritania

REGULATORY BARRIERS

Lack of appropriate documentation can lead to formal financial institutions refusing to engage with the displaced. Refugees in Mauritania can legally open a bank account if they have been issued a National Identity Number and can provide proof of address.⁸⁸ Those who live in a camp will have a recorded address in the UNHCR's databases. Those based in urban settings are expected to provide their current address to UNHCR, though traditionally, this population has proven to be more mobile.⁸⁹ Those wishing to register a business need to pay a fee and present a national identification such as a visa or residence permit, along with proof of having a bank account and documentation of a Mauritanian address.

The UNHCR has worked with the Government of Mauritania (GoM) to jointly issue IDs to the Malian refugees of M'bera camp. Urban refugees face challenges obtaining National Identity Numbers, particularly for recent arrivals. In Nouakchott and Nouadhibou, UNHCR has been working with the Mauritanian National Agency for Civil Registration to secure identification cards for refugees as part of a shift away from defining refugees solely by their residence within a camp.

“

Financial inclusion is low for refugees because you need a National Identification Number to open a bank account. We are working on this with the authorities, we issue IDs in the camps. But so far only a small number of refugees have obtained it!

Key Informant Interview, UNHCR

“

We simply need an adequate system of verification. We are well equipped thanks to biometric information, we can trace funds (sic).

Key Informant Interview, BCM

At the same time, the MENAFATF notes that *“although the proportion of foreign residents living in Mauritania is low, and that this is reflected on economic activity and customers of FIs, it was found that banks lack the necessary identification and verification procedures in the case of foreign customers, given that a valid residency card is enough, especially given that competent Mauritanian authorities did not issue any specific instructions on CDD measures for foreign customers.”*⁹⁰

CDD measures remain simple and do not yet follow a risk-based approach (RBA) since no national risk assessment (NRA) nor a sectoral risk assessment have

been conducted. However, there is a highly robust national digital ID system that could be leveraged to implement the RBA in the country. The US Department of State has recommended that *“Mauritania should take steps to expand reporting and KYC requirements to additional financial and non-financial entities, as well as take steps to enforce compliance with existing mandatory reporting requirements.”*⁹¹

An IMF assessment echoes this message, noting that upgraded bank regulatory standards and stronger supervision are needed to improve banking sector soundness and banks' ability to expand credit and foster financial inclusion.⁹² While this does not yet appear to be a priority at the government level, as standards in this regard become stricter, it will be important to ensure that Mauritania's refugees do not suffer the consequences in terms of access to formal finance.

Finally, mobile money is still in its infancy in Mauritania, and no specific mobile money regulations were identified through the research. SIM registration is required by law and can be done upon presentation of a valid identification document with the subscriber's photo or an official document bearing the National Identity Number and the exact address at the time of subscription. Refugees can legally register a SIM card if they have been issued a National Identity Number, though informal workarounds for accessing SIMs are common. However, these unregistered SIM cards are often only valid for a few months and the risk is that the Mauritanian authorities suddenly decide to deactivate all unregistered SIMs. The GSMA Regulatory Index in Mauritania reflects some limitations in terms of authorization procedures, consumer protection, KYC and agent network with the last two factors scoring zero out of 100.⁹³

88 It may be worth highlighting that proof of address (PoA) requirements are not required by global AML/CFT standards, have been detrimental to financial inclusion in many countries, and that there are significant moves away from PoA requirements in a number of African jurisdictions.

89 One bank (La Poste) sometimes agrees to open bank accounts for foreigners who do not hold a National Identity Number, but who possess a valid passport.

90 MENAFATF. 2018. Anti-money laundering and counter-terrorist financing measures Islamic Republic of Mauritania Mutual Evaluation Report. Available at: <http://www.fatf-gafi.org/media/fatf/content/images/Mutual-Evaluation-Report-Mauritania-2018.pdf>

91 United States Department of State. 2015. International Narcotics Control Strategy Report (INCSR). Available at: <https://2009-2017.state.gov/j/inl/rls/nrcrpt/2015/#:~:text=The%202015%20International%20Narcotics%20Control,trade%20in%20Calendar%20Year%202014>

92 IMF. 2019. Islamic Republic of Mauritania: Third Review Under the extended Credit Facility Arrangement. Available at: <https://www.imf.org/en/Publications/CR/Issues/2019/05/31/Islamic-Republic-of-Mauritania-Third-Review-Under-the-Extended-Credit-Facility-Arrangement-46953>

93 GSMA. 2019. State of the Industry Report on Mobile Money. Available at: <https://www.gsma.com/mobilefordevelopment/resources/the-state-of-mobile-internet-connectivity-report-2019/>

DEMAND-SIDE BARRIERS

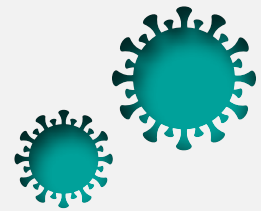
On the demand side, the principal obstacles to financial inclusion overall are a general lack of funds, the cost of financial services, and very limited available information and confidence in the banking system.

16.6%

The World Bank's Findex Database in 2017 shows that 16.6 percent of respondents in Mauritania without a bank account cite geographical isolation as the reason for not having a bank account, compared to 51.5 percent who simply cite a "lack of money" as the reason.

Relatedly, one respondent in four find formal accounts too expensive. The Database shows only one respondent in five states not needing a bank account, which points to demand being currently unmet. The "complexity of the process" is an additional impediment as identified by the Arab Monetary Fund (AMF) in 2017 and speaks to the importance of financial literacy and financial education programming.⁹⁴

THE IMPACT OF COVID-19 ON REFUGEE FINANCIAL INCLUSION IN MAURITANIA



The COVID-19 pandemic has had grave consequences in Mauritania, where a curfew was imposed, gatherings discouraged, schools closed, and international travel halted.

The densely populated M'bera camp lacks sufficient hygiene materials and possibilities to distance people, and international organizations have paused non-essential activities. While this undoubtedly has a highly negative impact on livelihoods, it has sped up the search for contactless financial solutions. UNHCR has expanded cash transfers via bank cards, quadrupling the number of households from 200 to 800, while the BCM has decided to accelerate mobile money development:

“

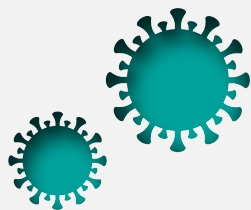
With Covid-19, we are forced to facilitate social distancing. This has revived the mobile money discussion, for which we are regulating anew.

Key informant interview, Mauritania Central Bank

In line with the objectives of the Global Compact on Refugees, the GoM has been working with UNHCR Mauritania and the World Bank to integrate refugees registered at M'bera Camp into the national social protection mechanisms through building on the current World Bank IDA-18 Sub-Refugee Window funding to Mauritania.

⁹⁴ Arab Monetary Fund. 2017. Financial inclusion Measurement in the Arab World. Available at: https://www.cgap.org/sites/default/files/Working-Paper-Financial-Inclusion-Measurement-in-the-Arab-World_1.pdf

UNHCR'S MAURITANIA'S RESPONSE



In response to the socioeconomic impact of COVID-19 on refugees living in the urban centres of Nouakchott and Nouadhibou,⁹⁵ UNHCR is deploying a new program called “Cash for Social Protection”.

UNHCR is deploying a new program called “Cash for Social Protection”. This is assistance for the refugees in support of the GoM’s efforts to provide assistance to the most vulnerable segments. The program has been designed based on telephone surveys with refugees to assess the socioeconomic impact of COVID-19 on refugee households, conducted by the UNHCR since the beginning of the confinement in Mauritania. This enabled the Cash for Social Protection program to be targeted. Refugee community mobilizers were instrumental in helping UNHCR get in touch with hard-to-reach and marginalized refugees.

As a result of this exercise, UNHCR was able to identify and prioritize 1,028 households (2,497 individuals). These refugees have no savings, no family or community solidarity mechanisms on which they can rely, and are facing risks of eviction as they cannot pay their rent. They are also unable to meet their most basic needs including water, food and hygiene products.

UNHCR additionally carried out an exercise to estimate the Minimum Expenditure Basket (MEB) for urban refugees in order to set the amount of the cash assistance. Refugees will receive MRU1,400 or USD40 per person per month, which is approximately 40 percent of the MEB, with a ceiling of six individuals for each household. Based on the reallocation of existing budgets, UNHCR Mauritania is able to make a one-off payment to the refugees, covering their needs for three months. In order to ensure accountability to affected populations (AAP),⁹⁶ the UNHCR is establishing a dedicated complaint mechanism through which refugees who have not been prioritized are able to appeal.

It is important to note that the assistance is time-bound and therefore does not necessarily guarantee long-term, sustainable financial inclusion. The cash assistance is additionally not all transferred digitally, which signals an opportunity to explore the government social transfer program defined in the next section, as a springboard for the digital financial inclusion of refugees.

OPPORTUNITIES: POLICY AND REGULATORY ENVIRONMENT FOR REFUGEE FINANCIAL INCLUSION IN MAURITANIA

Large-scale returns of Malian refugees in Mauritania are not expected given the enduring violence in their country of origin, and durable solutions are increasingly a focus of programming, with an eye to bridging the gap between refugees’ livelihoods back in Mali (livestock breeding, agriculture, and commerce) and what is feasible in Mauritania in terms of market opportunities, environment, agricultural potential and land rights.⁹⁷

The basis for durable solutions programming is in place. Mauritania’s Constitution, which was signed in 1991, recognizes that all foreigners who have legally entered the country have the same rights as local citizens. Refugees in Mauritania have freedom of movement and enjoy access to basic services such as health and education, but national legislation does not allow integration of foreign workers in the formal labour system.⁹⁸ The GoM is currently working towards adopting an asylum law.

“

The strategy is not a short-term fix but a long-term effort. We started in 2019, and the first goal was to strengthen financial stability. The broader strategy on financial inclusion is a national affair. Our roadmap is clear.

Key Informant Interview, Mauritania Central Bank

95 UNHCR Mauritania. 2020. COVID-19 - Cash for Social Protection for Refugees in Mauritania. Available at: <https://reporting.unhcr.org/sites/default/files/UNHCR%20Mauritania%20-%20COVID-19%20Cash%20for%20Social%20Protection%20for%20Refugees%20-%20May%202020.pdf>

96 Accountability to Affected Populations (AAP) is “an active commitment by humanitarian actors and organizations to use power responsibly by taking account of, giving account to and being held to account by the people they seek to assist.” <https://emergency.unhcr.org/entry/42554/accountability-to-affected-people-aap>

97 At the same time, as expressed by key informants to this study, from the Government’s point of view, a “care and maintenance” approach remains in place in the hopes that the refugees will return to Mali in the coming years.

98 United States Department of State. 2017. Country Reports on Human Rights Practices: Mauritania. Available at: <https://www.refworld.org/publisher,USDOS,,,5bcf1f93a,0.html>

NATIONAL REFUGEE POLICIES⁹⁹

Mauritania is party to the UN 1951 Refugee Convention and its 1967 Protocol. It is similarly party to the 1969 Convention Governing the Specific Aspects of Refugee Problems in Africa (the OAU Convention). In 2013, Mauritania signed the 2009 African Union Convention for the Protection and Assistance of Internally Displaced Persons in Africa, better known as the Kampala Convention, and the National Assembly ratified it in December 2014. Mauritania is not yet party to the 1954 Convention relating to the Status of Stateless Persons (the 1954 Convention) or to the 1961 Convention on the Reduction of Statelessness (the 1961 Convention).¹⁰⁰

Mauritania's State Decree 022 of 2005 regulates the domestic application of the norms contained in the 1951 Convention and the 1969 OAU Convention. A draft law providing the basis for a national asylum system was developed in 2010. Additionally, the Agence Nationale du Registre de la Population et des Titres Securisés (ANRPTS) had begun to biometrically register urban refugees since October 2014.¹⁰¹ This has enabled them to receive refugee cards and a national identification number.¹⁰² Refugee status in Mauritania can be obtained by applying to Mauritania's Ministry of the Interior, providing the applicant falls under the mandate of UNHCR, as established by the OAU Convention.

NATIONAL ECONOMIC AND FINANCIAL INCLUSION STRATEGIES

The 2013 National Social Protection Strategy (NSPS) centred around the fight against food insecurity, improving the access to health and education, provision of basic social services and social assistance programs. Improved social security and the promotion of access to employment formed an integral part of the goals of this strategy, but access to finance was not part of the target indicators at the time. Mauritania launched a **Financial Sector Development Strategy and Action Plan (2013-2017)**¹⁰³, which included broad targets on financial inclusion (target 2) *“for all stakeholders, especially SMEs, farmers and disadvantaged people, and women”*¹⁰⁴ and the development of financial literacy (target 5). The operational action plan included the objectives to increase banking services by upgrading commercial banks, developing Islamic products, ensuring better coverage and conducting awareness campaigns.

The government prepared and adopted its first National Microfinance Strategy (NMFS) in 2003. It largely referenced broader regional texts and at the time was

not based on an in-depth analysis of the sector, and proved modest in terms of targets.¹⁰⁵ The updated 2014 National Microfinance Strategy was designed to allow poor populations access to sustainable basic financial services, to coordinate the development of MFIs, to improve their management tools and their operational capacities, and to ensure control and supervision.

The Mauritania Growth and Shared Prosperity Strategy (SCAPP 2016-2030), adopted by the Council of Ministers in 2017, forms the most relevant legislative framework currently relevant to financial inclusion. Its implementation is led by the Ministère de l'Économie et des Finances (MEF) and it follows the Cadre Stratégique de Lutte contre la Pauvreté (CSLP, 2001-2015). It was developed through consultations and dialogue among the administration, elected officials, academia, civil society (including, for the first time, members of the diaspora), private sector, and development partners.

This vision is built around:

- > promoting strong, inclusive and sustainable growth;
- > developing human capital and access to basic social services; and
- > strengthening governance in all its dimensions.

99 UNHCR. 2015. Submission by the United Nations High Commissioner for Refugees for the Office of the High Commissioner for Human Rights Compilation Report - Universal Periodic Review: 2nd Cycle, 23rd Session: Mauritania. Available at: <https://www.refworld.org/docid/563861198.html>

100 UNHCR. 2015. Submission by the United Nations High Commissioner for Refugees for the Office of the High Commissioner for Human Rights Compilation Report - Universal Periodic Review: 2nd Cycle, 23rd Session: Mauritania. Available at: <https://www.refworld.org/docid/563861198.html>

101 UNHCR. 2015. Submission by the United Nations High Commissioner for Refugees for the Office of the High Commissioner for Human Rights Compilation Report - Universal Periodic Review: 2nd Cycle, 23rd Session: Mauritania. Available at: <https://www.refworld.org/docid/563861198.html>

102 UNHCR. 2015. Submission by the United Nations High Commissioner for Refugees for the Office of the High Commissioner for Human Rights Compilation Report - Universal Periodic Review: 2nd Cycle, 23rd Session: Mauritania. Available at: <https://www.refworld.org/docid/563861198.html>

103 World Bank. 2013. Islamic Republic of Mauritania: Financial Sector Development Strategy and Action Plan 2013 - 2017. Available at: <https://openknowledge.worldbank.org/handle/10986/16065>

104 Ibid.

105 African Development Fund. 2007. Islamic Republic of Mauritania: Project to Build the Capacities of Microfinance Operators (PRECAMF). Appraisal Report. Available at: https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Mauritania_-_Project_to_Build_the_Capacities_of_Microfinance_Operators_-_PRECAMF_-_Appraisal_Report.pdf

The SCAPP will be implemented through three five-year action plans, the first covering the period 2016-2020, with biannual sectoral evaluations and annual reviews. One of the objectives of the SCAPP is the promotion of a strong and inclusive financial sector. The main areas of intervention are:

- > economic development and job creation through the financing of the economy in general and SMEs and micro-enterprises in particular, and to promote the access of people living in peri-urban and rural areas, including women and young people with adapted financial services; and
- > investment, via strengthened banking supervision, an improved regulatory framework, improved financial inclusion and increased use of e-money and modern payment instruments as well as Islamic finance. At the same time, the Government commits to continue to combat money laundering and financial crime.

+30%

The stated goal of this strategy is to augment the bank intermediation rate to raise it from 25 percent to 50 percent, and to raise the financial inclusion rate from 10 percent to 40 percent.

Finally, the country is in the process of developing its first NFIS. Led by the BCM, the NFIS will be Mauritania's very first strategy that is dedicated specifically to advancing financial inclusion. The BCM and the MEF have begun coordinating closely in order to ensure coherence between the SCAPP and the NFIS, in addition to engaging with the Ministère de l'intérieur et de la Décentralisation (MIDEC) to garner expert advice on displaced persons. Moving forward, there is value in strengthening coordination including with international humanitarian and development partners who are implementing financial inclusion initiatives in the country.

“

Coordination could be improved between the different stakeholders. BCM, the World Bank, us, Oxfam... many activities are taking place, but there is little complementarity.

Key Informant Interview, ILO

THE GOVERNMENT SOCIAL TRANSFER PROGRAM¹⁰⁶

In 2013, the GoM launched the Stratégie Nationale de Protection Sociale (SNPS) which provides a comprehensive framework that defines all social protection instruments being deployed in the country, including social transfers targeted at the most vulnerable segments of the population. The MEF led the formulation of the SNPS and is in charge of its implementation through driving multi-stakeholder coordination.

The programs under the SNPS include the *Tekavoul*, which is the national social transfer program designed to assist the poorest households with cash transfers and social promotion interventions on a regular basis. The national shock-responsive social safety net program, *Elmaouna* has been implemented by the Food Security Commission (CSA) since 2017 to enable households to cope with shocks that affect their well-being, during “lean seasons”, particularly droughts.¹⁰⁷

Moving forward, there are plans to extend these programs so that they cover some of the refugee population especially those residing in the most fragile regions in the country near the border with Mali.¹⁰⁸

There is potential for such programs to be extended so that the cash transfers can lead to financial services which can enhance financial inclusion, such as savings products. However, feasibility studies and technical dialogue between relevant public and development and humanitarian sector stakeholders must first be conducted.¹⁰⁹

106 World Bank. 2017. Strategic Collaboration between World Bank Group and World Food Programme: Bridging Humanitarian Assistance and Social Protection Systems Mauritania Case Study. Available at: <http://documents1.worldbank.org/curated/en/241671517827262697/pdf/123144-WP-StrategiccollaborationsWFPWBMauritania-PUBLIC.pdf>

107 Alliance Sahel. Financing the rollout of the social registry and protecting the populations that are most vulnerable to shocks. Available at: <https://www.alliance-sahel.org/en/projects/support-project-for-the-rollout-of-the-social-registry-and-social-safety-net-program/>

108 World Bank. 10 March 2020. Press release: Mauritania to Improve its Social Safety Net System. Available at: <https://www.worldbank.org/en/news/press-release/2020/03/10/mauritania-to-improve-its-social-safety-net-system>

109 World Bank. 2017. Strategic Collaboration between World Bank Group and World Food Programme: Bridging Humanitarian Assistance and Social Protection Systems Mauritania Case Study. Available at: <http://documents1.worldbank.org/curated/en/241671517827262697/pdf/123144-WP-StrategiccollaborationsWFPWBMauritania-PUBLIC.pdf>

STAKEHOLDER MAP: THE FINANCIAL INCLUSION ECOSYSTEM FOR REFUGEE FINANCIAL INCLUSION IN MAURITANIA

In Mauritania, the ecosystem of stakeholders for the financial inclusion of displaced persons is still rather sparse. However, there seems to be no duplication of efforts and there is a strong willingness to enhance coordination. This presents an opportunity for sound complementarity moving forward, both in the formulation of policy and its implementation.

GOVERNMENT

The government stakeholder which plays a central role is the BCM. It has received broad national stakeholder endorsement to lead the formulation and implementation of the country’s NFIS. As the central bank, the BCM drives the implementation of policies related to the stability and development of the financial system in Mauritania. Furthermore, as previously underlined, the MEF is similarly invested in improving financial inclusion overall.

The MEF will work closely with the BCM to align the NFIS and the SCAPP. Finally, the MIDECE is the UNHCR’s closest Government counterpart and will support the NFIS process with an eye to including different target groups, including the displaced. The National Statistics Office will be involved in understanding the potential size of the market by carrying out a national demand-side survey that includes the voices of Malian refugees.

FIGURE 3: STAKEHOLDER MAP FOR FINANCIAL INCLUSION IN MAURITANIA



PRIVATE SECTOR

The Professional Association of the Banks of Mauritania (APBM) endeavors to drive financial innovation towards lowering transaction costs. It is complemented by the Association of Professional MFIs (APMF) and the Association of Microfinance Professionals (APROMI). The microfinance sector is dominated by the CAPEC network following the cessation of activities of the UNCACEM network in 2014¹¹⁰. Work on an updated national microfinance strategy is ongoing, focusing on efforts to strengthen sustainability and governance structures.

Djikké which is national savings and credit cooperative has been working in collaboration with UNCHR Mauritania to improve financial services access for urban refugees. This is through offering microloans and microcredit to refugees so that they can invest in income-generating activities. Djikké is taking steps to minimize challenges such as non-repayment of loans and is providing financial literacy training. However, the scope of this activity remains modest. Between 2017 and 2019, 128 refugees were assisted in accessing national microfinance institutions in cities.

128

Between 2017 and 2019, 128 refugees were assisted in accessing national microfinance institutions in cities.

HUMANITARIAN AGENCIES

In addition to providing cash distributions, UNHCR Mauritania is strongly involved in the documentation of displaced persons in collaboration with the GoM. The humanitarian agency is additionally working on understanding economic constraints faced by refugees, degrees of financial literacy, use of credit, savings, transfers, and so on, which is similar to the diagnoses of the state of refugee financial inclusion that would be undertaken by a financial regulatory institution. In this regard, UNCHR Mauritania is irrefutably a critical stakeholder for the financial inclusion of refugees in the country and the BCM is collaborating with the humanitarian agency to harmonize efforts.

DEVELOPMENT AGENCIES

Through their Africa Policy Accelerator project (APA), the United Nations Capital Development Fund (UNCDF) is working with BCM and other national stakeholders to create an enabling environment for digital transformation in Mauritania. This includes reaching Mauritanians who have traditionally been underserved by the financial system through DFS. The ILO is invested in strengthening financial education and building the

capacities of MFIs, while also adding learning based on their work with youth refugees who are granted a stipend and access to an MFI. Lessons can be exchanged and efforts should be harmonized with these international development actors in addition to those involved in cash transfer programming targeting refugees, including INGOs such as Lutheran World Federation (LWF), Action Contre La Faim (ACF), World Vision and the Red Cross Red Crescent (RCRC) Movement.

Finally, some national and local CSOs have fully integrated displaced persons as part of their programming. Such is the case of the AMDH and CGTM, which included the question of immigration within the union strategies aimed at formalizing labor relations. Migrant associations, local refugee representatives and structures such as the Association of Female Heads of Households (AFCH) will need to be included in any conversation regarding the financial inclusion of the displaced.

110 UNCACEM was lending to farmers and accounted for most of the credits in the sector.

WAY FORWARD

A SWOT analysis of the financial inclusion of FDPs in Mauritania paints a mixed picture. Refugees in Mauritania lack money to save, and mostly live in remote areas that are not served by FSPs. The banking coverage even for local populations is very modest, with FSPs, including MFIs, concentrated in the capital of Nouakchott. KYC regulations are still simple, and the lack of a risk-based, tiered KYC regime means that those lacking a government-issued ID will find difficulty in being onboarded. Mobile money which has made promising inroads in other African countries, is hampered by the absence of an appropriate legislative framework. There are promising initiatives such as microcredit, financial literacy training and social transfer programs for displaced persons but they remain small in scale.

At the same time, there has been impressive momentum in the last couple of years to improve financial policy and regulation including in the areas of mobile money, Fintech, Islamic Finance, and aligning AML/CFT with financial inclusion. There is clear indication that the stakeholders working on financial inclusion in Mauritania are complementary to each other, with the Government, the ILO, UNHCR, UNCDF and the World Bank each contributing their specific know-how in the spirit of collaboration and division of labour. Policy and regulation are transforming, albeit slowly, with progress on the provision of legal identification to the displaced in both camp and urban settings. The COVID-19 pandemic has added an element of urgency to the search for cashless solutions. In this regard, the formulation of the NFIS could not have come at a more appropriate time to pave the way for a coherent, collaborative and targeted approach to accelerating financial inclusion for displaced persons in Mauritania.

FIGURE 2: MAURITANIA'S STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) FOR THE FINANCIAL INCLUSION OF FORCIBLY DISPLACED PERSONS

STRENGTHS

- > Political willingness to reform financial regulations for increased inclusivity;
- > Momentum for durable solutions, relatively welcoming policy environment for FDPs;
- > Well-developed remittance systems;
- > Program builds upon existing FDP initiatives from Government and implementing partners;
- > BCM has been involved in successful financial sector transformative strategies in the past;
- > ID system in place, covering a significant share of the population, willingness to extend to the displaced in collaboration with the UNHCR; and
- > Strong multi-stakeholder willingness to enhance information sharing, collaboration, and coordination.

WEAKNESSES

- > Low levels of income and insufficient funds to drive formal finance uptake;
- > Limited infrastructure, both physical and virtual, inhibit expansion of FI. Concentration of FSPs in the capital;
- > Basic CDD processes;
- > Human and financial resource constraints hinder ability to capacitate all implementing partners;
- > Cultural view on gender often precludes women from accessing services, including FI;
- > Few solutions compatible with Islamic finance;
- > Lack of coordination between partners; and
- > Length of procedures, slow-moving pace of reform.

OPPORTUNITIES

- > Recent push in regulation, including on Islamic Finance;
- > Expanding mobile banking and e-money initiatives accelerated by the COVID-19 pandemic;
- > Not a crowded stakeholder landscape, which should facilitate coordination, cooperation and collaboration;
- > Increasing uptake of cash transfers in displacement programming; and
- > Partner IGOs and NGOs including UNHCR and others involved specifically in cash programming.

THREATS

- > Absence of a risk-based, tiered KYC regime to enable simplified CDD for confirmed lower-risk customers; and
- > Direct and spill-over ramifications from COVID-19, hampering FDPs' livelihood strategies and slowing momentum towards financial inclusion.

KEY CONSIDERATIONS

NATIONAL STRATEGIES AND REGULATION

COLLECT AGE AND GENDER DISAGGREGATED FINANCIAL INCLUSION DATA ON DISPLACED PERSONS TO INFORM EVIDENCE-BASED POLICYMAKING

There is currently a lack of appropriately disaggregated data and basic information on the financial inclusion rates of displaced persons in Mauritania. The gaps in understanding FDP access and usage rates must be filled in order for effective policymaking and programming. BCM understands that the design and monitoring of financial inclusion strategies depends on data, with high-quality evidence being key in driving financial inclusion efforts for FDPs. This data should not only revolve around knowledge, attitudes and practices in financial management, but also aspirations with regard to financial services, reservations FDPs might have when it comes to banking, and plans for potential onward or return movement, or local integration.

STRENGTHEN ENGAGEMENT, COORDINATION, AND COLLABORATION WITH “NEW” STAKEHOLDERS

It is necessary to strengthen the alignment between the financial inclusion agenda and the forced displacement response in the country. Financial inclusion stakeholders involved in NFIS formulation and implementation will benefit from learning more about the potential for enhancing financial inclusion through existing government and humanitarian agency strategies, action plans, and programs in response to forced displacement. This will allow for the exchange of expertise and experience towards achieving the common goal of enhancing the financial inclusion, economic empowerment, and self-reliance of refugees living in Mauritania.

National and local CSOs that have fully integrated displaced persons as part of their programming such as the AMDH and CGTM in addition to migrants’ associations, local refugee representatives and the AFCF need to be included in any conversation regarding the financial inclusion of the displaced.

National multi-stakeholder consultative workshops are a useful mechanism to strengthen engagement, coordination, and collaboration among and across stakeholder groups and ensure concerted action. This was demonstrated by the BCM-led national NFIS stakeholder workshops conducted in 2019, whereby forced displacement stakeholders were invited and consulted in the preliminary discussions on the NFIS.

These should be continued to ensure consistent and effective coordination. Furthermore, a working group dedicated to the financial inclusion of displaced persons and composed of relevant institutions and individuals would keep national stakeholders apprised of all pertinent activities. It would be helpful to agree on fixed timelines and set dates for periodic meetings or workshops to enhance accountability.

INCLUDE THE VOICES OF THE DISPLACED

Too often, policies and programs for displaced persons are made without their inputs. This not only undermines the legitimacy of the policies and programs, but also their effectiveness. The contributions of displaced persons can take the form of stakeholder consultations with local CSOs comprising FDPs, as well as institutions and organizations that work closely with them such as the MIDEAC, IGOs and NGOs. More creative avenues of engagement can be incorporated - participatory forums can include businesses run by displaced persons.

INVOLVE THE INFORMAL SECTOR

The informal financial sector remains the avenue for many Mauritians to access financial services, including credit and transfers. Including Mawala actors in financial inclusion thinking will enhance efforts to provide quality, affordable, transparent and sustainable financial services to displaced persons and the broader population.

CUSTOMER IDENTIFICATION AND RELATED INTERNATIONAL STANDARDS ON AML/CFT

INITIATE MEASURES TO DEVELOP A RISK-BASED, PROPORTIONATE REGIME FOR SIMPLIFIED KYC AND CDD

The NFIS should present clear guidance on providing formal financial services in compliance with international AML/CFT standards for displaced persons, if, for example, they are able to access SIM cards and mobile money with UNHCR and IOM identity documents. In the absence of a risk-based, tiered KYC regime, the authorities should work towards conducting a national AML/CFT risk assessment that includes considerations for displaced persons, and use the results to formulate a risk-based, tiered KYC regime. Once that is established, it would help to provide guidance to FSPs in the country where restrictions such as proof of identity and address can be relaxed (i.e. simplified customer due diligence). If not, it is likely that FSPs will not apply any simplified due diligence and therefore AML-CFT measures would still be an impediment to access, at least to some extent.

BRIDGING HUMANITARIAN RESPONSE AND DEVELOPMENT APPROACHES WITH DIGITIZED PAYMENTS

EXTEND SOCIAL TRANSFER PROGRAMS FOR REFUGEES TO ENHANCE FINANCIAL INCLUSION

Social transfer programs that have been targeted to refugees by the GoM in collaboration with development or humanitarian agencies (eg. World Bank, WFP), if sent directly to their own regulated financial accounts opened in their own name - including mobile wallets and bank accounts - can be harnessed to enhance financial inclusion. For instance, these accounts can be used to provide access to the formal financial services that refugees need to build economic opportunities such as savings, payments, remittances or even credit. However, feasibility studies and technical dialogue between relevant public and development and humanitarian sector stakeholders must first be conducted so that sustainable and responsible measures can be put in place. These can be undertaken as part of the NFIS formulation process for example during multi-stakeholder consultations.

ECONOMIC PARTICIPATION

STRENGTHEN THE CAPACITY OF MFIS

The NFIS should outline a strategy for MFI support, closely related to the updated national microfinance strategy of which the development is underway. MFIs are a potential ally in the financial inclusion of displaced persons, but their potential is limited by a lack of funds and capacity. Searching for partners in a project designed to improve access to finances and the financial literacy of aspiring young microentrepreneurs, the ILO struggled to find a microfinance institution which was financially sound and had the capacity to implement this type of programming. The type of services offered by MFIs were found to be inappropriate for young potential clients. Technical assistance is being designed by the ILO - other actors should contribute to the efforts of making MFIs a stronger presence in the Mauritanian stakeholder landscape, building capacity and offering financial investment.

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CASE STUDY THREE: AFGHANISTAN



INTRODUCTION

Afghanistan experiences large-scale population movements and forced displacement. Nearly one million people were on the move in 2019.¹¹¹ Many were forced to move due to insecurity and conflict (over 10,000 civilians were killed in 2019, the sixth year in a row that more than 10,000 Afghans lost their lives),¹¹² because of slow- and sudden-onset natural disasters, or forced to return to Afghanistan from abroad.

Millions more Afghans may be forced to leave their homes or be unable to return to their areas of origin in the coming years. The large majority of forcibly displaced Afghans are internally displaced persons (IDPs).^{113,114} This includes Afghans who have returned from a host country but cannot return to their areas of origin in Afghanistan, or “returnees.”¹¹⁵

International organizations such as the UNHCR and the Internal Displacement Monitoring Centre (IDMC) provide good data on FDPs in Afghanistan though their numbers may vary slightly, given the data landscape in the country is cited to be one of the world’s most challenging.¹¹⁶ This is because data collection and analysis is made difficult by the absence of any formal displacement camps, a volatile security situation, IDPs who are highly mobile, high political tensions, and a shrinking operational space for humanitarian stakeholders.¹¹⁷ The UNHCR data is generally provided by governments, based on their own definitions and methods of data collection while the IDMC data is sourced from the United Nations Office for the Coordination of Humanitarian Affairs (UNOCHA).

According to UNHCR, as of 2019, out of the 3,081,364 FDPs in Afghanistan, 2,553,390 are IDPs, 72,228 are refugees and 8,402 are returnees.¹¹⁸ The IDMC cites that by the end of 2019, there were 2,993,000 IDPs and 461,000 new displacements in that year alone, caused by conflict and violence.

While displaced, they are usually part of the large majority of Afghans - 85 percent - who lack access to formal financial services including a bank account.¹¹⁹ This means that along with this large majority, forcibly displaced Afghans often lack formal, fair and

sustainable means to save money, send or receive transfers such as remittances sent by family members, make non-cash or digital payments, gain access to credit and find appropriate insurance products.

To expand access to these financial services for all Afghans, Da Afghanistan Bank (DAB), Afghanistan’s central bank, finalized the country’s NFIS in September 2019. The NFIS guides financial inclusion efforts from 2020-2024. While there is not yet any explicit mention of FDPs or IDPs in the NFIS, attention is being paid to increasing their access to sustainable and responsible formal financial services. Furthermore, the national stakeholders consider the NFIS to be a dynamic document which can be adjusted as its implementation progresses. This includes the integration of new sections to address pressing, emerging financial inclusion challenges. This provides an opportunity for the DAB, MOF and national NFIS stakeholders to explicitly incorporate FDPs at a later stage.

111 United Nations Office for the Coordination of Humanitarian Affairs (OCHA). 2020. Afghanistan: Snapshot of Population Movements - January to December 2019 (As of 31 December 2019). Available at: <https://reliefweb.int/report/afghanistan/afghanistan-snapshot-population-movements-january-december-2019-31-december-2019>

112 UNAMA. 2020. Afghanistan: Protection of Civilians in Armed Conflict: 2019. Available at: <https://reliefweb.int/report/afghanistan/afghanistan-protection-civilians-armed-conflict-2019-february-2020>

113 The definition of an Internally Displaced Person (IDP) here is the same as in Afghanistan’s National IDP Policy, which reflects the UN Guiding Principles on Internal Displacement: “Any person or groups of persons who have been forced or obliged to flee or to leave their homes or places of habitual residence, in particular as a result of or in order to avoid the effects of armed conflict, situations of generalized violence, violations of human rights or natural or human-made disasters, and who have not crossed and internationally recognized State border.”

114 There are a comparatively small number of approximately 7,500 refugee families who were displaced from Pakistan and are now primarily living Afghanistan in the south-east region, primarily in Khost and Paktika. See UNHCR & GSMA, 2019. Displaced and Disconnected: Country Reports Afghanistan. Available at: <https://www.gsma.com/mobilefordevelopment/resources/displaced-and-disconnected> and NRC, 2019. No place to call home for Pakistani refugees. Available at: <https://www.unhcr.org/innovation/wp-content/uploads/2020/05/Country-Reports-WEB.pdf>

115 As per Afghanistan’s National IDP Policy, a returnee is a “returning refugees and migrants deported back to Afghanistan.” A returnee-IDP is defined as a returnee who is unable to return to their place of origin or habitual residence due to “insecurity resulting from armed conflict, generalized violence or violation of human rights, land mines or ERW [explosive remnants of war] contamination on their land, land disputes or tribal disputes.”

116 UNHCR Global Focus: UNHCR Operations Worldwide. Available at: <https://reporting.unhcr.org/node/4505?y=2019#year>

117 Ibid.

118 Ibid.

119 Da Afghanistan Bank (DAB). 2020. National Financial Inclusion Strategy (NFIS). Available at: <https://dab.gov.af/sites/default/files/2020-06/National%20Financial%20Inclusion%20Strategy%20for%20Afghanistanfinal.pdf>

FORCED DISPLACEMENT IN AFGHANISTAN

Afghanistan is a context in which the majority of the population has been forcibly displaced at some point in their lives. Since the uptick in violence in 2007 and 2008, a time period that encompassed the withdrawal of the majority of international military forces in 2014, the new government administration formation in 2015, and the formal (re-)designation as a country in conflict in 2017, forced displacement has been characterized by large-scale internal movement as well as millions of Afghans returning from abroad, predominantly from Pakistan and Iran.

2019 marked the sixth year of more than 10,000 civilian casualties in Afghanistan, demonstrating the intensity of the civil conflict.¹²⁰ Slow- and sudden-onset natural disasters, such as the 2018 drought and yearly flooding, often combine with insecurity as both a driver of displacement and as a barrier to return to areas of origin. Hundreds of thousands of Afghans flee their homes each year due to conflict, insecurity and natural disasters. Newly displaced Afghans join those who have been previously displaced, but remain unable to return to their homes in increasingly protracted displacement.

Nearly one million Afghans were on the move in the country in 2019, displaced by both man-made and natural crises, or pushed home from neighboring countries.¹²¹ More than 465,000 Afghans returned from neighbouring Iran or Pakistan in 2019, many of them forcibly. Over 22,000 were deported from Turkey. The distinction between voluntary return and a forced one is often blurred, with many Afghans returning from Iran and Pakistan pushed by deteriorating conditions, including persecution and harassment.¹²²

2.7M

Despite the high numbers of returns in recent years, there remain over 2.7 million registered Afghan refugees outside of the country, 90 percent of whom reside in Pakistan or Iran.¹²³

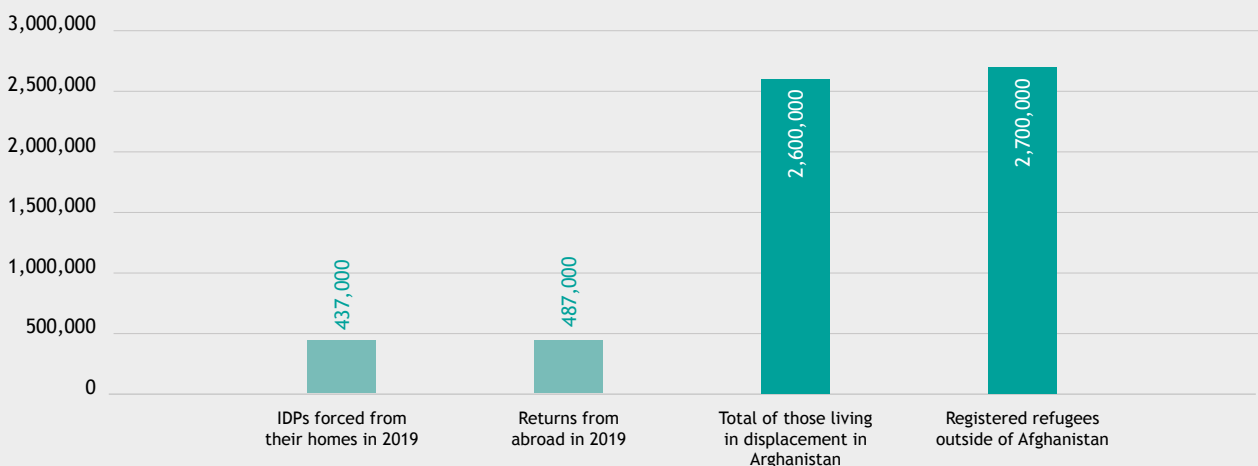
120 UNAMA. 2020. Afghanistan: Protection of Civilians in Armed Conflict: 2019. Available at: <https://reliefweb.int/report/afghanistan/afghanistan-protection-civilians-armed-conflict-2019-february-2020>

121 United Nations Office for the Coordination of Humanitarian Affairs (OCHA). 2020. Afghanistan: Snapshot of Population Movements - January to December 2019 (As of 31 December 2019). Available at: <https://reliefweb.int/report/afghanistan/afghanistan-snapshot-population-movements-january-december-2019-31-december-2019>

122 Danish Refugee Council (DRC). 2018. Protection for Forcibly Displaced Afghan Populations in Pakistan and Iran. Available at: <https://www.rsc.ox.ac.uk/publications/protection-for-forcibly-displaced-afghan-populations-in-pakistan-and-iran/@download/file>

123 UNHCR. 2020. Four decades and counting: An urgent need to rekindle hope for millions of Afghan refugees. Available at: <https://www.unhcr.org/en-my/news/briefing/2020/2/5e4272d64/four-decades-counting-urgent-need-rekindle-hope-millions-afghan-refugees.html>

FIGURE 1: AFGHAN DISPLACEMENT: SNAPSHOT 2019



Source: IDMC, UNHCR

Afghanistan enters yet another period of high uncertainty in 2020 and beyond, with fractures in government, the expected withdrawal of foreign military forces, and the potential for renewed violence between the government and armed opposition groups after this withdrawal, meaning that displacement levels and pressing needs are expected to remain high.

Within Afghanistan it is often the whole family who is displaced, and women and men more or less face forced displacement equally.¹²⁴ Families fleeing their homes or being forced to return is another reason for the displaced population not being as pronouncedly young as compared to other countries, although there is still a higher concentration of youth compared to the Afghan population as a whole.¹²⁵

Many forcibly displaced Afghans move to urban centres, including major cities such as Kabul, Herat, Jalalabad and Kandahar as well as smaller provincial capitals. These urban centres are considered comparatively more secure than the shifting frontlines of fighting in the rural areas. They also benefit from better infrastructure including financial infrastructure. This is a major distinction between the displaced and the wider Afghan population as a whole - 46.2 percent of the displaced live in urban areas. This is in contrast to the Afghan population as a whole, which is only 19.2 percent urban.¹²⁶ In these urban spaces, displaced people often live in protracted displacement within informal settlements.

Once settled, if only temporarily, displaced Afghans face extreme social exclusion and discrimination. They often lack access to essential services across all of Afghanistan and this is made more acute during crises as they are deprioritized. The major difficulty that returnees and IDPs usually face is finding work. These difficulties frequently lead to tension with host communities.¹²⁷ Within these intersections of social exclusion are dynamics that can prevent FDPs' access to formal financial services. These can include geographic factors, lack of finances, a social network, general and financial literacy levels, and a lack of knowledge of the opportunities available to them. Even though returnees are a cohort which under certain circumstances, may have acquired an ID and a certain level of education while abroad, they still struggle to reintegrate in a country that they have never, or have not in many years, set foot in. IDPs on the other hand, are disadvantaged in terms of levels of literacy and are often treated as "second-class citizens."¹²⁸ A joint Samuel Hall and NRC survey on *Tazkera*, the Afghan national identity document revealed that while

approximately 90 percent of Afghan men in the research areas had *Tazkera* ID and there were no major differences between displaced men and the wider population of males in Afghanistan, only 38 percent of Afghan women had an ID and this was even lower for displaced Afghan women.¹²⁹

21%

Only 21 percent of internally displaced Afghan women had *Tazkera* identity documents.¹³⁰



Figure 2. Samuel Hall / Preethi Nallu, 2016. An internally displaced family in an informal settlement in Kabul.

124 Islamic Republic of Afghanistan Central Statistics Organization. 2017. Afghanistan Living Conditions Survey (ALCS) 2017. Available at: <https://reliefweb.int/report/afghanistan/afghanistan-living-conditions-survey-2016-17>

125 Islamic Republic of Afghanistan Central Statistics Organization. 2017. Afghanistan Living Conditions Survey (ALCS) 2017. Available at: <https://reliefweb.int/report/afghanistan/afghanistan-living-conditions-survey-2016-17>

126 Ibid.

127 UNHCR. 2018. Returnee and Internally Displaced Persons Monitoring Report. Final Report. Available at: <https://data2.unhcr.org/en/documents/download/64059>

128 ADSP. 2018. Solutions to Afghan Displacement: a rapid review of the evidence. Available at: https://adsp.ngo/wp-content/uploads/2019/02/ADSP_Rapid_Review_of_Evidence_Dec2018.pdf

129 Samuel Hall & Norwegian Refugee Council (NRC). 2016. Access to *Tazkera* and other civil documentation in Afghanistan. Available at: https://www.nrc.no/globalassets/pdf/reports/af_civil-documentation-study_081116.pdf

130 Ibid.

AFGHANISTAN'S FINANCIAL INCLUSION LANDSCAPE

While there have been recent improvements, the overall financial inclusion rate in Afghanistan remains low. Only 15 percent of all Afghans have access to bank accounts and formal financial services. Of these few Afghans who have an account, an even lower number regularly use them - 34 percent of Afghan adults with an account did not make any transactions in the year prior to the Global Findex 2017.¹³¹

Access to bank accounts in Afghanistan is highly gendered - only seven percent of women have access to bank accounts compared to 23 percent of men.¹³² Afghanistan's mobile money penetration remains low at 0.91 percent, despite mobile networks covering 90 percent of the population.^{133,134} Other financial indicators in Afghanistan are comparatively at some of the lowest levels amongst neighbouring countries, low-income countries, and other countries experiencing conflict. The ratio of loans to deposits is 19.7 percent, domestic deposits to GDP 17.4 percent, and private credit to GDP 3.6 percent.¹³⁵

With very limited access to basic financial services such as formal savings accounts, more complex financial products such as credit and insurance also remain underdeveloped. For instance, insurance products such as health, vehicle and business insurance reach only a very small minority of Afghans - while there is no data for forcibly displaced persons' access to insurance specifically, hardly any would have insurance coverage.¹³⁶

Afghanistan's financial sector comprises commercial banks, MFIs, credit unions, foreign exchange dealers, money service providers, and small numbers of insurance companies and leasing companies. There are approximately a dozen larger, licensed commercial banks operating in the formal finance sector, represented by the Afghanistan Banks Association (ABA). At least four mobile money service providers are linked and active in the market.¹³⁷ Thousands of FSPs across Afghanistan are registered with DAB.¹³⁸ Afghanistan is a member of the Asia/Pacific Group on Money Laundering (APG) and has completed an NRA in 2019, the results of which informed the formulation of the country's NFIS.

Financial services are concentrated in urban areas, with lower presence in rural areas.¹³⁹

In the absence of formal financial services, the informal sector dominates. It is estimated to be at least as large as the formal sector - some estimates suggest that some 90 percent of Afghanistan's financial transactions run through hawala - the traditional value transfer system based on honor.¹⁴⁰ Hawala is used to receive remittances by private companies and various customers with low levels of literacy, and no bank accounts or ID. A hawaladar is "a person who acts as an agent in a hawala transaction."¹⁴¹ The Afghan diaspora has been using hawala extensively for remittances since the first waves of immigration, as most Afghan migrants in Iran and Pakistan did not have access to the banking system. Hawala brokers or hawaladars usually charge a commission of 1 - 2 percent of the transfer.

Rates are not fixed; rather, they depend on the amount transferred, but also the relationship with the customer. Since the money is transferred without any foreign exchange transactions, hawaladars do not have to adhere to the official exchange rates. No records of a transaction are kept, short-term records - often in the form of simple Skype, Viber or WhatsApp messages - are destroyed upon completion of the transaction. Hawaladars can give loans and enter into various types of investments.

While hawala performs important functions in finance in Afghanistan, its inherent qualities make it difficult to

131 World Bank. 2017. The Global Findex Database 2017. Available at: <https://globalfindex.worldbank.org/> and Da Afghanistan Bank (DAB). 2020. National Financial Inclusion Strategy (NFIS) 2020 - 2024. Available at: <https://dab.gov.af/sites/default/files/2020-06/National%20Financial%20Inclusion%20Strategy%20for%20Afghanistanfinal.pdf>

132 IMF. 2019. Afghanistan Country Report 2019.

133 Afghanistan Telecom Regulatory Authority (ATRA), 2019. Telecom Statistics, (4th Quarter, 2019). Available at: <http://atra.gov.af/en/page/telecom-statistics-2014>

134 World Bank. 2017. The Global Findex Database 2017. Available at: <https://globalfindex.worldbank.org/>

135 International Monetary Fund (IMF). 2019. Afghanistan Country Report No. 19/382. Available at: <https://www.imf.org/en/Publications/CR/Issues/2019/12/20/Islamic-Republic-of-Afghanistan-Staff-Report-for-the-2019-Article-IV-Consultation-and-the-48901>

136 For instance, the Afghan Global Insurance (AGI), one of the few insurance companies in Afghanistan, only covered 40,000 clients in 2017, which included foreign firms and aid agency staff. See Salahuddin, S., 2018. "Afghanistan's insurance industry struggles ... but terrorism claims are paid out." Arab News. September 29. Available at: <https://www.arabnews.com/node/1379801/world>

137 Key Informant Interview with DAB, 2020

138 DAB correspondence, 2020

139 Key Informant Interviews with DAB and financial service providers, 2020

140 US State Department. 2014. Countries/Jurisdictions of Primary Concern - Afghanistan. Available at: <https://2009-2017.state.gov/j/inl/rls/nrcrpt/2014/vol2/222474.htm>

141 Oxford University Press. 2020. OED Online. "hawaladar, n." Accessed 3 November 2020.

enforce network compliance with regulatory obligations. The use of hawala is thus discouraged by the authorities.

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Hawaladars make money because they hold a lot of liquidity at all times. Let's say I have AFN16,000142 and I want to transfer AFN20,000. The hawaladar will lend me the AFN4000 I need. Since making a profit on this is not allowed by Islam, he will then charge me a higher exchange rate. And that is how they make a profit.¹⁴²

Key Informant

Financial inclusion stakeholders in Afghanistan are navigating issues related to the meaning and impact of financial inclusion, with renewed emphasis on financial system strengthening, regulation and oversight, as well as consumer empowerment and protection to move beyond access and towards usage of quality formal financial services. The 2019 Afghanistan NFIS defines financial inclusion as:

“A state in which all adults and MSMEs have effective access to and regularly use a broad range of quality and affordable financial services including but not limited to account, payment, saving, and credit provided by formal financial institutions in a fair, transparent, and sustainable manner.”

This definition is closely aligned with definitions adopted by other countries. In Afghanistan, this vision can translate to an internally displaced family or an Afghan forced to return from a neighbouring country being able to access and use formal means to save money, affordably make and receive transfers such as family remittances, make e-payments securely and conveniently, and apply for appropriate credit for a potential business.

The NFIS was launched in September 2019 and aims to increase access to finance in critical areas of the economy, and promote formal financial services, including digital ones, for consumers and the private

sector. The displaced are not yet specifically mentioned among the groups this strategy is designed to benefit; however, the DAB, MOF, and national stakeholders intend to incorporate FDPs into the NFIS towards advancing their financial inclusion through policy change.

The core objectives specified in the NFIS are to:

- > **expand** and diversify access points and enhance both men's and women's access to formal financial services;
- > **enhance** MSMEs' access to finance provided by formal financial institutions;
- > **improve** the agriculture sector's access to finance;
- > **establish** a robust financial consumer empowerment and protection framework; and
- > **promote** access to digital financial services.

The overall target of the NFIS is for 27 percent of Afghan adults to own an account at a financial institution, including mobile money institutions, by 2024.¹⁴³ The NFIS was developed after the conclusion of the NRA which is considered to be a key step in developing policy and regulation for the financial inclusion of FDPs because it enables the adoption of an RBA and a risk-based, tiered KYC regime.¹⁴⁴ NRAs are an opportunity to determine the risks of money laundering and terrorist financing (ML/TF) in the country, which is particularly pertinent to Afghanistan where such risks are high. The NRA influences financial inclusion initiatives by shaping the regulatory environment for KYC and CDD.

The Afghanistan NRA, which was based on recommendations of the FATF and the NRA methodology of the IMF,¹⁴⁵ covered ML/TF risks in products, services and delivery channels as well as a sector-wide institutional risk assessment covering banks, MFIs, mobile money and mobile service providers. However no particular groups of people such as FDPs were assessed in terms of their ML/TF risk.¹⁴⁶



Figure 3 Billboard discouraging the illicit use of Hawala, Kabul

142 AFN refers to the Afghani, the currency of Afghanistan. At the time of writing, AFN16,000 was equivalent to USD208; AFN20,000 to USD260, and AFN4000 to USD52.

143 Modern Diplomacy. 2019. Afghanistan Launches Its National Financial Inclusion Strategy. Available at: <https://modern diplomacy.eu/2019/09/05/afghanistan-launches-its-national-financial-inclusion-strategy/>

144 Alliance for Financial Inclusion (AFI). 2017. Financial Inclusion of Forcibly Displaced Person: Perspectives of Financial Regulators. AFI Special Report. Available at: <https://www.afi-global.org/publications/2533/Financial-Inclusion-of-Forcibly-Displaced-Persons-Perspectives-of-Financial-Regulators>

145 International Monetary Fund (IMF). 2019. Afghanistan Country Report No. 19/382. Available at: <https://www.imf.org/en/Publications/CR/Issues/2019/12/20/Islamic-Republic-of-Afghanistan-Staff-Report-for-the-2019-Article-IV-Consultation-and-the-48901>

146 Key Informant Interview, DAB

BARRIERS TO FDP FINANCIAL INCLUSION IN AFGHANISTAN

Supply- and demand-side barriers have hindered the ability of Afghans' including FDPs, to access formal financial services. There also remains a lack of disaggregated data on different population groups' access to formal financial services, particularly FDPs which challenge efforts to properly target FDPs and integrate them into the NFIS.¹⁴⁷ Collecting and analyzing such data is envisioned to be a crucial first step for broader policy efforts to financially include FDPs in the country.

“

The limited number of access points, high cost of financial services, and inadequate financial services that do not meet the needs of low-income households explain [the] low rate of financial inclusion in Afghanistan. Moreover, obstacles posed by security concerns, religious and cultural beliefs, lack of trust in the financial sector, and low rates of financial literacy are also considered as major factors behind it.

Wahidullah Noshier (2020). "A pathway to financial inclusion in Afghanistan." World Bank

SUPPLY SIDE BARRIERS

There are a number of macro-challenges to financial inclusion in Afghanistan. The ongoing conflict, political instability and corruption mean major difficulties for financial inclusion initiatives, and their combination creates a high-risk business environment for financial institutions.¹⁴⁸ Insecurity and conflict impede the implementation of the NFIS, as well as the expansion of banks and financial technology (FinTech) companies. A major mobile money provider described security as the largest challenge in increasing access to their services, especially for FDPs. Even where they have service coverage and agent networks, issues with security make it difficult to expand services into rural villages.¹⁴⁹

Lack of sufficient access points to banking was another major reason, recognized by DAB, for not obtaining formal financial accounts. This was displayed in the 2017 Global Findex which demonstrated that 35 percent

of Afghans cited distance as a reason for not owning a bank account.¹⁵⁰ Afghanistan's geographies and infrastructure have created many difficult-to-access, remote and rural areas and communities. This includes large parts of the population living in territory not fully controlled by the Afghan central government. The access difficulties also combine with poor infrastructure, and result in remote areas having poor mobile network coverage.

Financial institutions face difficulties in extending services to more Afghans overall, and FDPs in particular. The costs of banking the unbanked is often viewed as prohibitive, and hence not profitable for institutions.¹⁵¹

“

I have transferred money abroad through different means in the past. I used agents like Western Union for transfers to my brother. The main problems involved with the use of such agents is that the fees are quite high. The amount is also fixed, so for example for a transfer of [USD]100 I might have to pay [USD]20-30, the same they would charge someone transferring ten times as much! So these agents are not really interested in those transferring just a small amount. And that is most of us!

Key Informant Interview, Afghan returnee

Microfinance and credit lenders struggle with a lack of collateral on the part of customers which is linked to issues in income and funds, discussed below. There is also a lack of information about creditworthiness of borrowers, raising the cost of access to credit. The potential that FDPs will move serves as another reason for microfinance and financial institutions' reluctance to extend credit.¹⁵² This is despite stated intention statistics which show that low numbers of FDPs express an intention to move. Nine percent of 2017 returnees, 9 percent of IDPs and only 3 percent of 2016 returnees reported a desire to leave their current location.¹⁵³ However, a combination of these three factors often means that formal financial institutions deem working with FDPs risky.¹⁵⁴

147 DAB KII

148 International Monetary Fund (IMF). 2019. Afghanistan Country Report No. 19/382. Available at: <https://www.imf.org/en/Publications/CR/Issues/2019/12/20/Islamic-Republic-of-Afghanistan-Staff-Report-for-the-2019-Article-IV-Consultation-and-the-48901>

149 Roshan KII

150 DAB KII; World Bank. 2017. The Global Findex Database 2017. Available at: https://globalfindex.worldbank.org/sites/globalfindex/files/2018-04/2017%20Findex%20full%20report_0.pdf

151 DAB KII

152 DAB KII

153 UNHCR. 2018. Returnee and Internally Displaced Persons Monitoring Report. Final Report. Available at: <https://data2.unhcr.org/en/documents/download/64059>

154 FMFB KII

REGULATORY BARRIERS

Afghanistan stakeholders contend with policy and regulatory specific challenges in increasing financial inclusion for FDPs. There is a lack of Sharia-compliant financial options, without strong development in Islamic banking mechanisms in the country. Afghanistan's regulatory environment is also hampered by overall weak contract laws. The effort to curtail money laundering and the financing of illicit activities has led to heightened scrutiny, and the need to develop relatively strict KYC regulations which are not easily complied with. The lack of a legislative framework and legal guidance is a barrier in the development of more complex financial sectors such as insurance.¹⁵⁵

“

As a conflict-affected country, Money Laundering and Terrorist Financing risks are the barriers that make a conducive regulatory condition difficult to adopt easily.

Key Informant Interview, Da Afghanistan Bank (DAB), Afghanistan

Islamic finance and the underdeveloped market for Sharia-compliant financial instruments is a major factor in financial inclusion in Afghanistan, where many Afghans hold interpretations of Islam that preclude fuller engagement with financial services. Many potential customer and market segments are reluctant to take traditional interest-based credit and loan products, as they perceive them to be against core precepts of their religion.¹⁵⁶ Islamic banking tripled in size between 2014 to 2018, but is inhibited by uneven profitability and limited options for investment.¹⁵⁷

DAB first introduced Islamic finance regulations in 2015, and continues to work in the legal and regulatory space covering Sharia-compliant Islamic finance products.¹⁵⁸ The majority of Islamic financing in Afghanistan comprises two types of Sharia-compliant structures: *Murabaha*, a cost-plus-profit arrangement, and *Ijarah*, a leasing-based contract.¹⁵⁹ However, the market for Sharia-compliant financial mechanisms is not strongly developed. There is a lack of suitable Islamic financing tools for different, often niche, market segments such as SMEs and rural agriculture.

DEMAND-SIDE BARRIERS

Only 2 percent of Afghans reported that they do not need a bank account at all, demonstrating the potential for increasing formal financial services, including for FDPs.

84%

The large majority of unbanked Afghans, at 84 percent, cite a lack of funds as the main reason for not having an account at a financial institution.

This lack of funds is amplified for FDPs for whom the most common source of income is unskilled labour.¹⁶⁰ Forcibly displaced Afghans often work in the informal economy, selling goods or labour which generates irregular and small amounts of income for subsistence. This may leave little scope for savings even in simplified transaction accounts, and for collateral that can be used to access credit and loans.

“

I am a daily labourer and I cannot save or store money. For instance, today I earned only 300AFN [USD4]. At the end of the day, I bought 2 ser [14 kilograms] of flour and I couldn't save even 1AFN.

Key Informant Interview, returnee

155 Wu Zeng et al. 2017. Assessing the feasibility of introducing health insurance in Afghanistan: a qualitative stakeholder analysis. BMC Health Services Research volume 17, Article number: 157. Available at: <https://bmchealthservres.biomedcentral.com/articles/10.1186/s12913-017-2081-y>

156 Finscope, KII with FMFB

157 Vizcaino, B. 2018. Islamic finance in Afghanistan growing, investment options limited - Report. Reuters. Available at: <https://www.reuters.com/article/islamic-finance-afghanistan-idUSL8N1Y80KM>

158 Da Afghanistan Bank (DAB). Islamic Banking Regulations. Available at: <https://dab.gov.af/index.php/islamic-banking-regulations>

159 Vizcaino, B. 2018. Islamic finance in Afghanistan growing, investment options limited - Report. Reuters. Available at: <https://www.reuters.com/article/islamic-finance-afghanistan-idUSL8N1Y80KM>

160 UNHCR. 2018. Returnee and Internally Displaced Persons Monitoring Report. Final Report. Available at: <https://data2.unhcr.org/en/documents/download/64059>

Afghans often have a general mistrust in financial institutions with 24 percent of Afghans citing a lack of trust as the reason for not using formal financial services.¹⁶¹ The high-profile scandal and collapse of Kabul Bank in 2011¹⁶² highlights the suspicion of financial services in Afghanistan by both FDPs and the wider populace alike. Furthermore, there remains mistrust of both insurance¹⁶³ and mobile money, and electronic banking more specifically.¹⁶⁴

In order for this to happen, reservations on the part of the broader population, and the forcibly displaced in particular, must be overcome. The scandal and collapse of the Kabul Bank in 2010 demonstrated some of the risks of formal finance in Afghanistan, and is a powerful touchstone in the Afghan imagination for widespread distrust in the financial system^{165,166}, more so than the fact that the dominant informal finance channels in Afghanistan also pose risks of exploitation for FDPs.¹⁶⁷

“

Between using the bank, Western Union or hawala, I would say hawala is the best way. I remember even when I was young my father would go from Iran to Kandahar to buy products old radios (sic) from Europe, and he used to transfer the money for his operations through hawala. Hawala has been used for many years and is trusted by everyone.

Key Informant Interview, returnee

DAB also noted that religious beliefs played a part in not taking credit from MFIs, again matching the 2017 Global Findex where 16 percent of Afghans pointed to religious reasons for not banking, due to the lack of Sharia-compliant financial instruments. This was echoed by FMFB, which notes that traditional community beliefs often depict conventional loans as haram or forbidden.¹⁶⁸

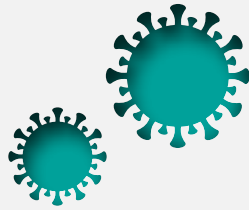
This are also low levels of financial and digital literacy in Afghanistan. Low financial literacy is linked to consumer empowerment and protection issues, where there are heightened risks of misuse of funds by financial agents.¹⁶⁹ This is not an issue specific to the displaced: only 35 percent of Afghans can read or write, with few Afghans having been afforded the opportunity to attend formal schooling.¹⁷⁰ There are no major discrepancies between literacy rates amongst forcibly displaced Afghans and the population as a whole.¹⁷¹

Documentation issues have been cited by financial inclusion stakeholders, including the lack of *tazkera/e-tazkera*, the Afghan national identification.¹⁷² Indeed, the Global 2017 Findex figures suggest that 24 percent of people cited a lack of documentation as a

primary barrier to accessing formal financial services.¹⁷³ Despite these issues, most households, whether returnee, IDP or the general population, have a male head of household who holds a *tazkera* – the figures are 90 percent in the general population, 92 percent among IDPs and 96 percent of returnee households.¹⁷⁴ This was confirmed by phone survey participants who noted that identity was not a major factor in their financial access.¹⁷⁵ However, *tazkera* access is highly gendered,¹⁷⁶ much like access to formal financial services. Many FDPs that are beneficiaries of INGO and local NGO programming are women, which brings up issues related to taking and providing photographs for identity and paperwork.¹⁷⁷

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- 161 World Bank. 2017. The Global Findex Database 2017. Available at: <https://globalfindex.worldbank.org/>
- 162 McLeod, Grant. 2016. Responding to Corruption and the Kabul Bank Collapse. United States Institute of Peace (USIP), Special Report 398, December. Available at: <https://www.usip.org/publications/2016/12/responding-corruption-and-kabul-bank-collapse>
- 163 Wu Zeng et al. 2017. Assessing the feasibility of introducing health insurance in Afghanistan: a qualitative stakeholder analysis. BMC Health Services Research volume 17, Article number: 157 (2017). Available at: <https://bmchealthservres.biomedcentral.com/articles/10.1186/s12913-017-2081-y>
- 164 Da Afghanistan Bank (DAB). 2020. National Financial Inclusion Strategy (NFIS) 2020 - 2024. Available at: <https://dab.gov.af/sites/default/files/2020-06/National%20Financial%20Inclusion%20Strategy%20for%20Afghanistanfinal.pdf> ; see also a problem encountered in Chemonics & USAID. 2017. Financial Access for Investing in the Development of Afghanistan (FAIDA). Final Report. Available at: https://www.chemonics.com/wp-content/uploads/2017/10/FAIDA_Final_Report_2-5-2017.pdf
- 165 McLeod, G. 2016. Responding to Corruption and the Kabul Bank Collapse. United States Institute of Peace (USIP), Special Report 398. Available at: <https://www.usip.org/publications/2016/12/responding-corruption-and-kabul-bank-collapse>
- 166 24 percent of surveyed Afghans cited lack of trust as a primary reason for not accessing formal financial services in the 2017 FinDex Survey.
- 167 United Nations News. 2018. Afghan children used as ‘collateral’ with even babies promised in marriage. 3 December 2018. Available at: <https://news.un.org/en/audio/2018/12/1027481>
- 168 FMFB KII
- 169 DAB KII
- 170 Islamic Republic of Afghanistan Central Statistics Organization. 2017. Afghanistan Living Conditions Survey (ALCS) 2017. Available at: <https://reliefweb.int/report/afghanistan/afghanistan-living-conditions-survey-2016-17>
- 171 Wieser, C., Yde-Jensen, T. & Tan, X. 2018. How are displaced Afghans faring? Available at: <https://blogs.worldbank.org/endpovertyinsouthasia/how-are-displaced-afghans-faring>
- 172 A DAB informant cited the lack of *Tazkera* ID as the most binding constraint when it came to financially including forcibly displaced persons. Documentation was also cited in a key informant interview with Roshan/m-paisa.
- 173 World Bank. 2017. The Global Findex Database 2017. Available at: https://globalfindex.worldbank.org/sites/globalfindex/files/2018-04/2017%20Findex%20full%20report_0.pdf
- 174 UNHCR. 2018. Returnee and Internally Displaced Persons Monitoring Report. Available at: <https://data2.unhcr.org/en/documents/download/64059>
- 175 Samuel Hall & Norwegian Refugee Council (NRC). 2016. Access to *Tazkera* and other civil documentation in Afghanistan. Available at: https://www.nrc.no/globalassets/pdf/reports/af_civil-documentation-study_081116.pdf
- 176 In a recent study for NRC, Samuel Hall found that 90 percent of interviewed men had a *Tazkera* while only 38 percent of women did. See Samuel Hall & Norwegian Refugee Council (NRC). 2016. Access to *Tazkera* and other civil documentation in Afghanistan. Available at: https://www.nrc.no/globalassets/pdf/reports/af_civil-documentation-study_081116.pdf
- 177 Roshan/m-paisa KII

THE IMPACT OF COVID-19 ON FDP FINANCIAL INCLUSION IN AFGHANISTAN



COVID-19 has widespread health and economic consequences. Alongside the health crisis, there are wider societal repercussions relating to loss of work, loss of income and food shortages.

The global pandemic has disrupted many initiatives in Afghanistan and is expected to severely hamper the implementation of planned financial inclusion activities and the NFIS in 2020 and beyond. Wider funding has been reallocated to address the health crisis, and coordinating concrete steps in financial inclusion remains difficult with restrictions on movement and programming.

The effects are also being felt amongst FDPs. An IDP in Nangarhar reported *“The working situation in Afghanistan is getting worse day by day. I have a rickshaw [passenger vehicle]. But now, due to COVID-19, I am at home and jobless.”*

Similarly, on the opposite side of the country in Herat, a man deported from Iran in 2016 stated that the usual form of ‘loans’ he received was in foodstuff from a local shopkeeper, which he would pay back at a later date. *“We have been in quarantine for 2-3 months because of COVID-19 - no-one has cash in their homes anymore.”*

OPPORTUNITIES FOR FDP FINANCIAL INCLUSION

NATIONAL POLICIES FOR FORCED DISPLACEMENT

In response to the large population movements, the Afghan government adopted the Afghanistan National Policy on IDPs in 2013, as “a national instrument safeguarding the rights of the displaced as citizens”.¹⁷⁸ Afghanistan also has a policy framework for returnees and IDPs, which was introduced in 2016 “to streamline and accelerate the government’s response to displacement”.¹⁷⁹ Building on the returnee and IDP policy framework is the 2019 Comprehensive Migration Policy (CMP).¹⁸⁰ The CMP outlines government policy plans on financial literacy, remittances, finance governance, and informal financial service providers.

NATIONAL ECONOMIC AND FINANCIAL INCLUSION POLICIES

Specifically regarding FDPs, DAB issued a circular and the Afghan government made further agreements in 2016 and 2017 to facilitate mobile wallet opening and SIM cards for forcibly displaced persons that have UNHCR or IOM return documents (the UNHCR Voluntary Return Form or IOM return certificate).¹⁸¹ As part of the measures to mitigate the economic impact of COVID-19, DAB is working with the UN, in particular UNHCR, to facilitate cash transfers through mobile wallets for the most vulnerable groups and forcibly displaced persons in Afghanistan who have lost their jobs because of the lockdown.¹⁸²

DAB has promoted mobile banking services with the number of digital platforms for payments, transfers and remittances increasing. DAB recently drafted a *Payment Institution Regulation*, for an enabling environment for further finance technology (Fintech) adoption in the banking sector.¹⁸³

178 Islamic Republic of Afghanistan. 2013. The National Policy of the Islamic Republic of Afghanistan on Internal Displacement. Available at: <https://www.humanitarianresponse.info/en/operations/afghanistan/document/afghanistan-national-policy-internally-displaced-persons>

179 Afghan Ministry of Refugee and Repatriation. 2016. Policy framework for returnees and IDPs. Available at: <http://www.unhcr.org/5a577a037.pdf>

180 Government of Islamic Republic of Afghanistan (GoIRA) Ministry of Refugee and Repatriation (MoRR). 2019. The Comprehensive Migration Policy for Afghanistan. Available at: <https://www.budapestprocess.org/resources/attachments?download=203:cmp-exec-sum-english-a4-20-pages-color>

181 DAB KII; UNHCR & GSMA. 2019. Displaced and Disconnected: Country Reports Afghanistan. Available at: <https://www.gsma.com/mobilefordevelopment/resources/displaced-and-disconnected/>

182 DAB KII

183 DAB KII

Linked to this, DAB has worked to improve the infrastructure for payments. These initiatives work towards expanding digital options considered key in providing finance for difficult-to-bank Afghans such as FDPs, expanding access to mobile money, digital wallets and e-payment systems. The Afghan government are also exploring further options for mobile salary payments (MSPs) for government workers.¹⁸⁴

On the regulatory side, DAB has changed regulations to lower the cost of lending and implemented credit guarantee schemes. DAB monitors the impact of its capital reserve requirements and interest rates on financial institutions. Furthermore, DAB has reviewed regulations on risk management, credit administration and MSME financing.¹⁸⁵ These regulatory initiatives are designed to strengthen financial institutions, lowering the cost of banking and therefore allowing financial institutions to extend their services to more Afghans, including forcibly displaced persons.

KYC REQUIREMENTS

DAB has plans to introduce a risk-based, tiered KYC regime for account opening. Currently, the core regulation for KYC/CDD is DAB's "AML/CFT Responsibilities and Preventative Measures Regulation". Specifically, in the regulation, Chapter 2: Customer Identification Requirements Article 7, and Annex II - Customer Identification Requirements for Customers outline the requirements for KYC/CDD in terms of information and documents.¹⁸⁶ For the lower risk category of mobile money transactions, a "simple customer ID" is the only requirement (governed by the "Electronic Money Institution's regulation"). Part of a simplified CDD process, the tiered KYC system will, it is hoped, make it easier for financial providers to facilitate small, low-risk accounts. DAB is planning to expand the credit information system, addressing concerns about the lack of information on creditworthiness of potential borrowers. This builds on current differentiated KYC mechanisms that are in feasibility or formulation phases, including between DAB and the First Microfinance Bank (FMFB) where low-income earners or those lacking documentation can present another ID card or a union/association verification.¹⁸⁷

Furthermore, the E-National Identification (E-NID or e-Tazkera) was activated in Afghanistan in late 2018. This initiative is also designed to facilitate e-KYC in Afghanistan as it will allow for more reliable identification and verification of customer. However, the E-NID database and the financial sector systems must be integrated to ensure customized access to ID systems for KYC purposes.¹⁸⁸

STAKEHOLDER MAP: THE FDP FINANCIAL INCLUSION ECOSYSTEM IN AFGHANISTAN

GOVERNMENT

The dedicated Financial Inclusion unit inside DAB was launched in 2016, and has started a number of initiatives to increase financial inclusion in Afghanistan.¹⁸⁹ In building a coordination structure to implement the NFIS, DAB has created multiple working groups comprising key stakeholders across the public and private sector. DAB and the DAB Financial Inclusion Department are the overall lead in the implementation of the NFIS. This implementation is guided by an inter-agency group comprising:

- > the NFIS Coordination Council
- > the Financial Inclusion Secretariat
- > the Technical Committee
- > various working groups (made up of relevant private and public stakeholders and development partners who will be involved in implementing the NFIS).

The NFIS Coordination Council is responsible for setting the overall policy and strategic direction of NFIS implementation.

178 Islamic Republic of Afghanistan. 2013. The National Policy of the Islamic Republic of Afghanistan on Internal Displacement. Available at: <https://www.humanitarianresponse.info/en/operations/afghanistan/document/afghanistan-national-policy-internally-displaced-persons>

179 Afghan Ministry of Refugee and Repatriation. 2016. Policy framework for returnees and IDPs. Available at: <http://www.unhcr.org/5a577a037.pdf>

180 Government of Islamic Republic of Afghanistan (GoIRA) Ministry of Refugee and Repatriation (MoRR). 2019. The Comprehensive Migration Policy for Afghanistan. Available at: <https://www.budapestprocess.org/resources/attachments?download=203:cmp-exec-sum-english-a4-20-pages-color>

181 DAB KII; UNHCR & GSMA. 2019. Displaced and Disconnected: Country Reports Afghanistan. Available at: <https://www.gsma.com/mobilefordevelopment/resources/displaced-and-disconnected/>

182 DAB KII

183 DAB KII

184 International Growth Centre. 2020. Government Mobile Salary Payments in Afghanistan. Available at: <https://www.theigc.org/project/government-mobile-salary-payments-in-afghanistan-2/>

185 International Monetary Fund (IMF). 2019. Afghanistan Country Report No. 19/382. Available at: <https://www.imf.org/en/Publications/CR/Issues/2019/12/20/Islamic-Republic-of-Afghanistan-Staff-Report-for-the-2019-Article-IV-Consultation-and-the-48901>

186 UNHCR & GSMA. 2019. Displaced and Disconnected: Country Reports Afghanistan. Available at: <https://www.gsma.com/mobilefordevelopment/resources/displaced-and-disconnected/>

187 FMFB KII

188 DAB KII

189 International Monetary Fund (IMF). 2019. Afghanistan Country Report No. 19/382. Available at: <https://www.imf.org/en/Publications/CR/Issues/2019/12/20/Islamic-Republic-of-Afghanistan-Staff-Report-for-the-2019-Article-IV-Consultation-and-the-48901>

“

Efforts have been made to identify a coordination structure that will bring together various stakeholders, help DAB implement the NFIS, and monitor NFIS implementation through an effective monitoring and evaluation framework.

Acting Director of DAB (2019)

Other DAB Financial Inclusion coordinating bodies include the NFIS Taskforce, led by DAB with the Ministry of Finance, the Afghanistan Banks Association (ABA), and the Microfinance Investment Support Facility for Afghanistan (MISFA) as member institutions.

DAB also established a National Committee for Financial Inclusion, which includes more than 20 stakeholders from government agencies, FSPs including mobile money providers, NGOs and IOs. The main purpose of creating this committee was to hold consultations on the NFIS and obtain stakeholders’ policy commitments.¹⁹⁰

There are a range of other government ministries and departments that are either directly involved in the NFIS, or have potential roles in financial inclusion and forced displacement. Notably for mobile money providers, the Ministry of Communications and Information Technology (MCIT) and the Afghanistan Telecom Regulatory Authority (ATRA) are involved in regulations and planning, alongside DAB.¹⁹¹ The CMP of 2019 outlines a cross-government effort in policymaking and response to migration and displacement. The CMP

covers multiple facets of financial inclusion, with plans that could potentially involve the major line ministry for forced displacement, which is the Ministry of Refugees and Repatriation (MoRR), as well as the Ministry of Women’s Affairs (MoWA) (for financial literacy programs involving women), the Ministry of Labor and Social Affairs (MoLSA), and the Ministry of Education (MoE).¹⁹²

In addition to the MoRR, at the national level there is the Displacement and Return Executive Committee (DiREC) which oversees national action plans for displacement response. The Citizens’ Charter National Priority Programme (CCNPP) is the major community development initiative, which also plays a role in displacement response.

HUMANITARIAN AGENCIES

There is a diverse array of national and international NGOs working in the forced displacement response. The UN operates the cluster system, and major INGOs such as the IOM, UNHCR, and the WFP work in emergency

190 Noshier, W. 2020. A pathway to financial inclusion in Afghanistan. World Bank Blog. Available at: <https://blogs.worldbank.org/endpovertyinsouthasia/pathway-financial-inclusion-afghanistan>

191 Roshan/m-Paisa KII

192 Government of Islamic Republic of Afghanistan (GoIRA) Ministry of Refugee and Repatriation (MoRR). 2019. The Comprehensive Migration Policy for Afghanistan. Available at: <https://www.budapestprocess.org/resources/attachments?download=203:cmp-exec-sum-english-a4-20-pages-color>

FIGURE 4: THE NFIS COORDINATION COUNCIL STAKEHOLDER MAP



response. These mechanisms could be leveraged to establish multi-stakeholder coordination, given that their databases, support and aid delivery channels could be used in increasing financial inclusion.¹⁹³ Of note for the financial inclusion for forcibly displaced persons, the Cash Voucher Working Group (CVWG) is an inter-cluster technical working group set up to coordinate the burgeoning cash transfer interventions. Currently, the CVWG is overseen by the Inter-Cluster Coordination Team (ICCT) and co-chaired by Danish Refugee Council (DRC) and WFP.¹⁹⁴

DEVELOPMENT AGENCIES

DAB and the financial sector are supported by international governance organizations and donors. The World Bank and International Monetary Fund (IMF) have implemented multiple development programs in Afghanistan with DAB, including a structural reform agenda that focuses on institution building, fiscal and financial reforms, and measures to combat corruption.¹⁹⁵ Other international stakeholders with a history of major programming in the financial sector are USAID and the Asia Development Bank (ADB), which have implemented financial sector development programs.

PRIVATE SECTOR

The private sector comprises commercial banks along with FinTech companies. The commercial banks are organized under the Afghanistan Banks Association (ABA), which are part of the NFIS Coordination Council. There is a diverse array of FinTechs working in digital finance and mobile money, and this notably includes the telecommunications industry. An example would be m-Paisa by Roshan (the Telecom Development Company Afghanistan).¹⁹⁶

193 DAB KII
 194 Humanitarian Response Info. 2020. Cash Voucher Working Group. Available at: <https://www.humanitarianresponse.info/en/operations/afghanistan/cash-voucher>
 195 Islamic Republic of Afghanistan Ministry of Finance. 2016. Self-Reliance through Mutual Accountability Framework: SMART Deliverables 2017/2018. Brussels Conference on Afghanistan. Available at: <http://policymof.gov.af/home/self-reliance-through-mutual-accountability-framework-smart-deliverables-20172018/>
 196 There are already existing programmes related to financial inclusion and displaced persons with an overlap of actors. For instance, KIIs with Roshan/m-Paisa included discussions on their programming with IOM, UNHCR and Save the Children for returnees and internally displaced persons; while the First Microfinance Bank (FMFB), part of the Aga Khan Agency for Microfinance (AKAM) are working with USAID on a “Afghan Returnee Loan” product currently in its pilot phase.

FIGURE 5: STAKEHOLDER MAP FOR FINANCIAL INCLUSION IN AFGHANISTAN



WAY FORWARD

An analysis of the strengths, weaknesses, opportunities and threats for the financial inclusion of FDPs in Afghanistan illustrates the multiple dynamics to be considered by national financial inclusion stakeholders. The lack of trust in financial institutions among broad segments of the Afghan population - including FDPs - shows the importance of implementing measures to enhance consumer protection and financial literacy. Similarly, further work on public education on Islamic banking and Sharia-compliant financial products will be imperative in overcoming reluctance in the use formal financial services by FDPs.

The challenge in women's access to formal financial services, including the gendered issue of access to identification documents faced by women FDPs requires continued attention from DAB and financial inclusion stakeholders to address the role of socio-cultural norms¹⁹⁷ and having gender at the heart of the NFIS implementation.¹⁹⁸

197 CGAP. 2017. Social norms change for women's financial inclusion. Available at: <https://www.cgap.org/research/publication/social-norms-change-womens-financial-inclusion>

198 Alliance for Financial Inclusion (AFI). 2017. Integrating gender and women's financial inclusion into national strategies. Available at: <https://www.afi-global.org/publications/2484/Guideline-Note-27-Integrating-Gender-and-Women-s-Financial-Inclusion-into-National-Strategies>

FIGURE 6. AFGHANISTAN'S STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) FOR THE FINANCIAL INCLUSION OF FDPs

STRENGTHS

- > Strong political acceptance and will from DAB and other government stakeholder on FI
- > Existing advocacy channels that can target multiple levels of beneficiaries at government down to individual level
- > Programme builds upon existing FDP initiatives from government and implementing partners

WEAKNESSES

- > Low levels of income and insufficient funds to drive formal finance uptake;
- > Expresses skepticism of financial institutions by FDPs and the broader population alike because of historical scandals (i.e. the Kabul Bank collapse)
- > Complex and fast-changing political environment with disputes in government and ongoing civil conflict
- > Issues of corruption in Afghanistan and in finances
- > Human and financial resource constraints hinder ability to capacitate all implementing partners
- > Inhibiting cultural view on gender often preclude women from accessing services, including FI

OPPORTUNITIES

- > Expanding mobile banking and e-money initiatives such as m-pasa
- > Expanding electronic and virtual initiatives including e-tazkera
- > Governance structures including Citizens' Charter that can link FDPs with FI initiatives at the local level
- > Large scale remittance flows from Afghan migrants in Iran, Pakistan and turkey
- > Increasing uptake of cash transfers in displacement programming
- > Partner IGOs and NGOs including NRC, Mercy Corps and ICRC that have previously worked with AFI
- > Potential to further develop Islamic banking and Sharia-specific financial services

THREATS

- > Ongoing and impending threats to governance at all levels, from national disputes to local level issues in security and governance
- > Lack and further loss of access for FI initiatives stemming from government
- > Economic insecurity, low spending on FI
- > Poor infrastructure, both physical and virtual inhibit expansion of FI
- > Potential financial constraints due to banking and financial flows involving Iran
- > Direct and spillover ramifications from COVID-19, hampering implementation of the NFIS

KEY CONSIDERATIONS

NATIONAL STRATEGIES AND REGULATION

LEVERAGE COORDINATION MECHANISMS TO ACCELERATE EFFORTS IN INCREASING THE FINANCIAL INCLUSION OF FDPs

Ideally, financial inclusion and forced displacement stakeholders should be engaged in coordination mechanisms that are designed to ensure FDPs' needs are met during implementation of the NFIS. There is strong potential for crossover and coordination between the financial inclusion agenda and the forced displacement response. The forced displacement response, which includes both major humanitarian and development programming, reaches millions of forcibly displaced Afghans each year and it can be helpful for financial inclusion stakeholders to align with these.

The first step can be an introductory multi-stakeholder consultative workshop on the financial inclusion of FDPs, bringing the broad array of stakeholders together to exchange information, data, strategies and plans. This workshop can subsequently lead to an agreement on future collaboration and ways to leverage existing coordination mechanisms towards ensuring sustained concerted action in implementing policy change to advance FDP financial inclusion.

COLLECT AGE AND GENDER DISAGGREGATED FINANCIAL INCLUSION DATA ON FDPs TO INTEGRATE THEM INTO THE NFIS

There is currently a lack of age and gender disaggregated data on the state of financial inclusion of FDPs in Afghanistan. The collection and analysis of such data will enable the formulation of FDP-targeted evidence-based policies and priority actions that can be integrated into the NFIS.

INCLUDE THE VOICES OF FDPs

Too often, policies and programs for FDPs are formulated or developed without their inputs. This not only undermines the legitimacy of the policies and programs, but also their effectiveness since they lack the perspectives of FDPs. These perspectives can be sought through stakeholder consultations with local CSOs comprising FDPs, as well as institutions and organizations that work closely with FDPs such as the MoRR, INGOs and NGOs who can conduct FGDs with FDPs.

INVOLVE THE INFORMAL SECTOR INCLUDING THE HAWALA

The informal sector in Afghanistan is dominant. The hawala remains the avenue for many Afghans including FDPs, to access financial services including credit and remittances. DAB already works with the informal sector in outreach, knowledge dissemination and in regulatory efforts. Involving hawala stakeholders in the NFIS implementation will enhance measures to provide quality, affordable, transparent and sustainable financial services to FDPs.

IDENTIFICATION AND RELATED INTERNATIONAL STANDARDS ON AML/CFT

CONTINUE MEASURES TO IMPLEMENT THE NATIONAL RISK-BASED, TIERED KYC FRAMEWORK

DAB worked with the UN, the telecommunications regulator and the financial services and telecommunications sector in making KYC allowances for FDPs to access SIM cards and mobile money with UNHCR and IOM identification documents. DAB should continue to implement the national tiered-KYC framework and communicate it to regulated entities so that there is regulatory clarity. This will be especially helpful to apply simplified CDD among confirmed lower-risk women FDPs to access lower-tier formal financial services. These KYC and CDD processes can leverage the progressive digital developments in Afghanistan, including e-Tazkera and mobile money.

BRIDGING HUMANITARIAN RESPONSE AND DEVELOPMENT APPROACHES WITH DIGITIZED PAYMENTS

There is plenty of scope for increased coordination between financial inclusion stakeholders and those institutions working with FDPs, such as the MoRR, UNHCR, IOM, NGOs and FDP organizations. Coordinating with forced displacement stakeholders should lead to gains in financial access, especially considering the cash transfer and other large-scale displacement-related programming occurring across Afghanistan. The mobile money and finance technology sector are also increasingly active in Afghanistan, with existing links between mobile money service providers and both the financial inclusion and displacement response agendas.¹⁹⁹ DAB is also pressing ahead with tiered-KYC regulatory reforms, intended to allow FDPs access to low-risk financial services.²⁰⁰

199 Key informant interview with Roshan/M-PAISA, 2020.

200 Key informant interview with DAB, 2020.

The displacement response increasingly involves cash transfer programming, including disbursing funds through mobile money networks directly to beneficiaries including women in both urban and rural areas. Coordination mechanisms such as Ministerial and INGO/NGO links, the UN cluster system and the Cash Voucher Working Group (outlined in the stakeholder map in Figure 6) can be sensitized to the recently launched NFIS. Likewise, financial inclusion actors involved in NFIS implementation mechanisms have the opportunity to learn more about the potential for enhancing financial inclusion through displacement response avenues. This marriage between the two agendas will find synergies between both interlinked areas.

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CONCLUSION AND KEY POLICY RECOMMENDATIONS

As central banks have begun to include FDPs in their financial inclusion policies and regulations, the three AFI member institutions featured in this document have demonstrated commendable leadership and empathy in striving to ensure full inclusion for all. It is our ambition to ensure that everyone counts, and no one is left behind.

Even the most invisible segments of our populations who are undocumented, whose financial inclusion data is not recorded and who are deprioritized in times of crisis cannot continue to be financially excluded.



This case study report provides a set of key policy recommendations that financial policymakers and regulators can use to advance the financial inclusion of FDPs within their jurisdictions:

CONDUCT A PROPER DIAGNOSTIC ON THE STATE OF FDP FINANCIAL INCLUSION TO INFORM EVIDENCE-BASED FINANCIAL INCLUSION POLICYMAKING

There is very limited data on the true state of FDP financial inclusion within jurisdictions which is caused by an absence of a diagnostic undertaken for the population. FDPs are either excluded from national demand-side and supply-side surveys or not yet afforded specific studies that can accurately inform evidence-based financial inclusion policymaking, such as for the formulation of National Financial Inclusion Strategies (NFIS) that target FDPs. The high-level barriers presented in each case study in this document are therefore very preliminary and must be followed-up with proper diagnostic studies.

STRENGTHEN MULTI-STAKEHOLDER COORDINATION UNDER THE LEADERSHIP OF THE CENTRAL BANK

Multi-stakeholder coordination can still be strengthened, including through leveraging existing coordination mechanisms, meeting more regularly, and sharing information with each other. It is imperative to mobilize transformative multi-stakeholder coordination and collaboration that can transcend their different mandates and galvanize their joint efforts sustainably, for the long term. Given that central banks usually receive broad national stakeholder endorsement to lead the formulation and implementation of their respective country's NFIS, they are appropriately placed to strengthen coordination among stakeholders who are addressing the financial inclusion of FDPs.

EXERCISE CAUTION IN NAVIGATING THE POLITICAL COMPLEXITIES OF FORCED DISPLACEMENT

It is imperative for national financial inclusion stakeholders, particularly the central bank, which is leading efforts to advance FDP financial inclusion, to exercise caution when engaging with multi-stakeholders who are not yet committed to the policy change as opposed to those who are, such as government agencies providing services to FDPs (e.g. ministries of interior, social affairs and migration). Forced displacement is made challenging by political complexities that are constantly changing and can have complicated effects on the political will to ensure the forcibly displaced can have equal opportunity to access formal finance and economic opportunities. There is value in consistently being aware of the political terrain dictating the willingness of key stakeholders to stay committed to the cause.

ADDRESS THE CHALLENGE OF FDP IDENTIFICATION AND COMPLIANCE WITH RELATED INTERNATIONAL STANDARDS ON ANTI-MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM (AML/CFT)

FDPs largely do not have the acceptable identification necessary to satisfy Know Your Customer (KYC) and Customer Due Diligence (CDD) requirements to gain access to formal financial services. Even where there is a risk-based, tiered KYC regime that may enable simplified CDD for the onboarding and verification of FDPs, there is limited regulatory clarity provided to formal financial service providers (FSPs) for them to be sufficiently confident to offer formal financial services to FDPs. In addition to providing such clarity through mechanisms such as directives, national financial policymakers and regulators can consider explicitly taking FDPs into account in national or sectoral risk assessments. The resulting data can be helpful in strengthening simplified CDD for confirmed lower-risk FDPs by removing identification or proof of address requirements, towards offering low-balance accounts that are still subject to consistent monitoring and that can enhance FDP financial inclusion.

ACRONYMS AND ABBREVIATIONS

AML/CFT	Anti-Money Laundering and Countering the Financing of Terrorism
BCM	Banque Centrale de Mauritanie
BNR	National Bank of Rwanda
CDD	Customer Due Diligence
CRRF	Comprehensive Refugee Response Framework
DAB	Da Afghanistan Bank
FATF	Financial Action Task Force
FDPs	Forcibly Displaced Persons
FSPs	Formal Financial Service Providers
GCR	Global Compact on Refugees
GoA	Government of Afghanistan
GoM	Government of Mauritania
GoR	Government of Rwanda
IDPs	Internally Displaced Persons
KYC	Know Your Customer
ML/TF	Money Laundering and Terrorist Financing
M&E	Monitoring and Evaluation
NFIS	National Financial Inclusion Strategy
NRA	National Risk Assessment
RBA	Risk-Based Approach
SDGs	Sustainable Development Goals
UNHCR	United Nations High Commissioner for Refugees

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