TOWARDS INCLUSIVE FINANCIAL SERVICES, FINANCIAL CAPABILITY AND FINANCIAL HEALTH FOR ALL

A Policy Framework for the Financial Inclusion of Forcibly Displaced Persons (FDPs)

FRAMEWORK

CONTENTS

ACKNOWLEDGMENTS

This policy framework was developed by AFI members through a fully member-driven process in accordance with AFI's mandate as an independent, member-owned institution. This product provides policy guidance based on its implementation across the AFI network together with the impacts to financial inclusion.
AFI members have full ownership of this report, which also serves as a public good for the global financial inclusion community.
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EXECUTIVE SUMMARY

There is a growing policy imperative to ensure that the financial inclusion of Forcibly Displaced Persons (FDPs) is responsible, sustainable, and meaningful. This can be achieved through ensuring financial health among FDPs, which goes beyond access to and usage of quality formal financial services during flight and in displacement.

FDPs are financially healthy when they can meet their daily consumption needs, but also comfortably manage their debt, recover from financial setbacks, and make investments in opportunities, such as health, education, business, and better housing.[1] Within their unique context, FDPs should also be able to extend their planning horizons and contemplate a financial future. Enhancing the financial health of FDPs will enable them to improve their livelihoods, live with dignity, and contribute to the economic growth of their host community and host country. It can further empower them to voluntarily return home or resettle to a third country.

To have a positive impact on FDPs and their host communities, financial inclusion measures must be anchored in enabling policies and regulations within an overall inclusive, non-discriminatory policy framework that works towards financial health for all and without leaving FDPs behind. Since 2017, AFI has worked with its member institutions to raise awareness, provide policy recommendations, and devise national policies and regulations to financially include FDPs as part of a more enabling policy and regulatory environment that is driven by cross-sectoral multi-stakeholder collaboration. As a next step in this process, this AFI Policy Framework for the Financial Inclusion of FDPs is intended to further guide member institutions and other financial policymakers and regulators on effective policy and regulatory interventions to advance FDP financial inclusion within their own jurisdictions. It builds on the policy guidance provided in the 2017 AFI Special Report on Financial Inclusion of Forcibly Displaced Persons: Perspectives of Financial Regulators; 2017 Global Partnership for Financial Inclusion (GPFI) Policy Paper on Financial Inclusion of FDPs; 2018 UN Global Compact on Refugees; 2019 Roadmap to the Sustainable and Responsible Financial Inclusion of FDPs; 2020 AFI Guideline Note on Integrating FDPs into National Financial Inclusion Strategies; and the Global Refugee Forum's process of calling for and monitoring pledges.

There is no 'one size fits all' approach as local and national contexts dictate the implementation of policy stances and opportunities for more inclusive financial guidelines and regulations.

This policy framework presents four pillars consisting of policy and regulatory focus areas, so that financial policymakers and regulators in different contexts can find their own unique starting points and review suggested implementation guidance to further advance a fully inclusive financial system that promotes financial health for FDPs. Under each pillar, a set of typically encountered challenges is discussed with relevant examples presented to illustrate ways to move forward - even in difficult contexts.

Special report:
Financial Inclusion of FDPs: Perspectives of Financial Regulators.

> View here

Guideline Note:
Integrating FDPs into National Financial Inclusion Strategies.

> View here

1 International Rescue Committee and Tufts University. 2021. Finance in Displacement: Joint Lessons Report. Available at: https://www.rescue.org/sites/default/files/document/6473/findfinalreportv3greenred.pdf

1. INITIAL POLICY CONSIDERATIONS FOR THE FINANCIAL INCLUSION OF FDPs

Facilitating financial inclusion of the forcibly displaced is one aspect of the joint humanitarian and development drive to ‘leave no one behind’, underpinned by the Sustainable Development Goals (SDGs) (2015), and the more recent Global Compacts on Refugees (2018) and Safe, Orderly and Regular Migration (2019).

For financial policymakers and regulators, navigating a complex, often polarized, and typically underfunded environment to develop and implement policies that advance FDP financial inclusion and contribute to their financial health can be challenging. Properly disaggregated financial inclusion data on which to base policies is very limited and generated by stakeholders outside the financial sector who all have different mandates, priorities, and protocols. The internal focus on fiscal challenges and financial stability may not allow much attention to improve financial inclusion for FDPs, especially now, as economies navigate the fallouts from the COVID-19 pandemic and work towards recovery . The appreciation of specific contexts, however, cannot be underestimated, and should inform policy options for the financial inclusion, financial capability and financial health of the forcibly displaced. This section discusses the initial policy considerations for the financial inclusion of FDPs, as a preface to the AFI Policy Framework for the Financial Inclusion of FDPs.

MARKET SCOPE – WHO TO FINANCIALLY INCLUDE?

Forced displacement is part of a broader mobility trend. Migration (see Table 1) is predicted to increase with political instability and conflict, natural disasters, and climate change – but also with development and social transformation, as increasing incomes, education and access to information and networks increase people’s capabilities and aspirations to migrate.[1]

TABLE 1: POTENTIAL MARKET OVERVIEW

INTERNAL MIGRANTS (RURAL-URBAN)	Est. 702 million
INTERNATIONAL MIGRANTS	281 million (4% of world pop.)
WHO ARE MIGRATING FOR WORK	60%
- are of working age	73%
- are women	48%
WHO ARE FORCIBLY DISPLACED*	12.4% (35 million)
- are of working age	55%
- are women	50%
- are protractedly displaced	46% (16 million)
INTERNALLY DISPLACED IN THEIR OWN COUNTRY**	55 million
- are of working age	59%

* https://www.unhcr.org/refugee-statistics/ This includes 3.9 million “Venezuelans displaced abroad”, who are not registered as refugees or asylum seekers, but reflect a new category of “Persons of Concern” to UNHCR, indicative of the increasingly blurred lines between categories.

** https://www.internal-displacement.org/global-report/grid2021/

Source: IOM Migration Data Portal, UNHCR Refugee Statistics, World Bank KNOMAD

83% Of the sub-segment of FDPs who have crossed an international border as asylum seekers or refugees, 83 percent are hosted in low- and middle-income countries, and

72% 72 percent reside in a neighboring country to their own.[2]

Refugees are an acknowledged population group with an independent legal personality internationally recognized by at least the 145 states which are party to the 1951 Convention relating to the Status of Refugees and its 1967 Protocol.[3] Refugees share their plight and many socioeconomic features stemming from the loss and trauma of flight with the much larger segment of an estimated 55 million internally displaced persons (IDPs), who have been displaced within their countries by violence or natural disasters.[4] No international universal treaties apply specifically to IDPs, who still, in principle, benefit from the legal protection and citizen rights of their state,[5] however, the Guiding Principles on Internal Displacement seek to outline the protections available to them.[6]

Forced displacement has many causes, and many countries experience a combination of risks that drive displacement. Fragility, poor governance, corruption, poverty, and inequality can exacerbate other more acute threats, such as conflict, violence, and climate change, and contribute to socioeconomic tensions that lead to conflict. Too often, however, these risks are treated in isolation without a careful examination of their interconnections, for instance, only a minority of countries worldwide have specifically addressed displacement risks in disaster management laws and climate change adaptation strategies.[7]

While this policy framework addresses FDPs specifically, there is value in appreciating the global challenge of differentiating between and addressing all categories of migrants in mainstream policies and regulations. Populations on the move are not homogeneous, people have multiple reasons for moving, and categories overlap. Mixed migration is defined as “complex population movements including refugees, asylum-seekers, economic migrants and other migrants”.[8] Today’s IDPs may become tomorrow’s refugees, and returning migrants and refugees may become IDPs if a lack of safety, security and opportunities for (re-) integration persists.[9] Rather than spending resources on attempting to classify and target specific sub-segments, financial policymakers and regulators should instead focus on overall inclusiveness and non-discrimination in policies aimed at all people residing in their jurisdictions.

FOUNDATIONAL RIGHTS AND LEGALITY - WHEN TO FINANCIALLY INCLUDE FDPS?

While formal financial inclusion can contribute to better economic outcomes for FDPs, it is not necessarily the first step. Before demanding financial services from financial service providers (FSPs), FDPs typically need to first secure an income. In a recent demand-side financial inclusion survey of FDPs in Rwanda, one of the leading factors that FDPs cited as the reason for not gaining access to formal financial services was a lack of income or collateral.[10] To secure an income legally, FDPs need to be able to exercise fundamental economic rights such as the right to move freely, to work, and to own assets and operate businesses in their host areas.[11] The foundational rights to legal economic participation extended to FDPs, and the implementation and enforcement of such rights is paramount to the success of any financial inclusion effort (See Box 1).

BOX 1: STATE OF PLAY ON INCLUSION

A survey was conducted in mid-2021 by UNHCR to monitor the progress on commitments to the Global Refugee Compact.

64% Of the 11.2 million refugees covered by the survey, eight million had full (64%) or partial (7%) access to free movement rights, the latter typically enforced by exit permits required for camp residents, while more than three million FDPs (29%) had no freedom of movement.

Similarly, 8.4 million refugees lived in jurisdictions with laws that provided either full (52%) or partial (23%) access to decent work, including wage-earning and self-employment. According to UNHCR’s Global Livelihoods Survey from 2021, however, only 38% of refugees had unrestricted access in practice to formal employment. By mid-2021, at least seven countries required refugees to obtain a work permit before entering the labor market. In the 18 countries surveyed, refugees were explicitly allowed to start their own businesses in law, although de facto practical barriers remained.

Source: https://www.unhcr.org/global-compact-refugees-indicator-report/wp-content/uploads/sites/143/2021/11/ 2021GCR-Indicator-Report_spread _web.pdf

If FDPs do not have access to a legal and accepted proof of identity and residency; the ability to move about freely and safely; and legal permission to work and own assets and businesses, financial services can do little to build their financial capability and financial health.[12] If specific conditions for FDPs are imposed, e.g. for permits, licenses and other documentation, these should be affordable, and clarified in guidance to both FDPs and employers, FSPs and other institutions implementing the regulations. If acceptable documentation is hard to obtain, FDPs have little choice but to bribe officials, purchase fake documents, or borrow documents or accounts from hosts at a high cost, the latter particularly common for FDPs trying to access formal financial services.[13]

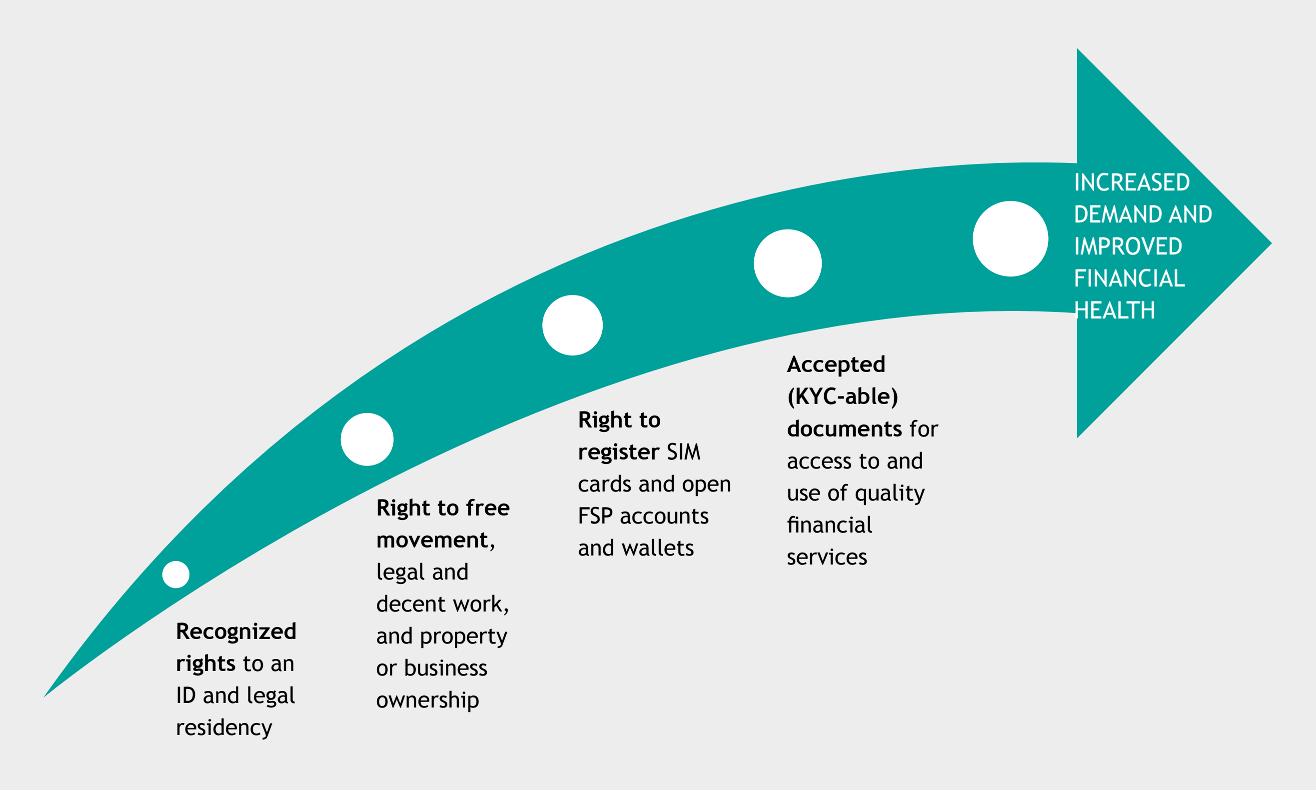
Conversely, financial inclusion, financial capability and financial health among FDPs can be augmented when governments give them similar rights and access to recognized documentation and economic opportunities as afforded to citizens. When FDPs can access formal sector businesses and jobs, they can also contribute fiscal resources to the state through taxation and contributions to health insurance and pension schemes.[14] Inclusive migration, refugee and displacement policies can directly support broader economic development strategies to reduce informality, build more dynamic formal labor markets, and promote cashless societies, while enabling financial sector policies and regulations can directly advance the financial health of all residents. Legal residency, decent livelihoods and improved financial health, in turn, generate the demand for more formal financial services, as illustrated in Figure 1.

Increasingly, countries from Ecuador to Ethiopia have made important strides in this direction as a means to achieve inclusive development in line with the SDGs.[15]

31% By mid-2021, 31 percent of the total GRF pledges were made towards GCR Objective 2 to enhance FDP self-reliance through education, jobs and livelihoods.[16]

National poverty reduction strategies and National Financial Inclusion Strategies (NFIS) and similar overarching policy frameworks can set the tone for a non-discriminatory and inclusive society by defining the end goal as improved financial health

FIGURE 1: STEPS TO IMPROVED FINANCIAL HEALTH



for all, including what some states refer to as ‘newcomers’, as opposed to citizens only. Specifically acknowledging and targeting the forcibly displaced in such policy frameworks helps to make these sub-segments more visible to all key stakeholders (see Box 2).[17] Even without reliable data, financial policymakers and regulators can ensure that policy frameworks appreciate the presence of FDPs and also undocumented FDPs, and provide attainable policy options to enable their contribution to the labor market and minimize illegality, exploitation, and abuse.[18]

BOX 2: BUILDING INCLUSIVE NATIONAL POLICIES

Through the GRF IGAD Support Platform for the Horn of Africa, the legally binding 2019 Kampala Declaration on jobs, livelihoods, and self-reliance has been translated into national policies and plans of action, with specific budgetary and other resource allocations, which integrate FDPs into national planning frameworks.

Source: https://www.unhcr.org/global-compact-refugees -indicator-report/ wpcontent/uploads/sites/143/2021/11/ 2021_GCR-Indicator-Report_spread_web.pdf

BALANCING RISKS AND BENEFITS - HOW TO EFFECTIVELY FINANCIALLY INCLUDE FDPS?

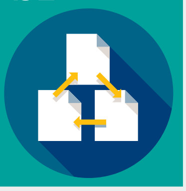
FDP financial inclusion is often curtailed by concerns related to the increased risk that undocumented or cross-border FDPs, especially from regimes under sanction, may pose to the integrity of financial systems, and to perceived unfair competitive impacts on domestic labor markets. However, it is restrictive government policies which inhibit access to legal identification, residence and work that carries risks of expanding the informal cash-based economy, which can be exploited for illicit purposes. The risks associated with exclusion can impact the financial system integrity. It is, therefore, also in the interest of financial sector regulators to secure foundational economic rights and financial inclusion for all residents.

Financial integrity measures to safeguard against money laundering (ML) terrorist financing, (TF) and proliferation financing (PF) can promote sustainable development and stimulate inclusive growth by reducing financial crime, corruption, and the size of the informal financial sector. But these safeguards need to be developed in such a way that they do not unintendedly, negatively affect financial inclusion. Across many jurisdictions worldwide, aligning the dual policy objectives of financial inclusion and financial integrity remains a challenge.[19] However, these two objectives are neither conflicting nor competing, when financial exclusion risk is considered. Policymakers and regulators can help to ensure that these objectives become more complementary by clarifying the risks and sharing the compliance burden with FSPs in their jurisdictions. This policy framework is intended to support financial policymakers and regulators to engage in the active pursuit of financial and economic inclusion of FDPs, as part of their strategies towards increased financial health for all.

2. A POLICY FRAMEWORK FOR THE FINANCIAL INCLUSION OF FDPs

In any jurisdiction, policy development and implementation for the complex and multi-faceted area of financial inclusion for FDPs require the prioritization of some policy actions over others. This policy framework presents a selection of opportunities, challenges, and concerns usually encountered along the way but does not claim to be exhaustive. The framework is structured with key policy considerations on the continuum from initially promoting FDP financial inclusion, to providing them with access to formal financial services, to enhancing their usage of such services, and finally to enabling financial health for FDPs and their host communities.

PILLAR 1 PROMOTING THE CASE



FOCUS: Evidence and collaboration

- Mapping, data collection
- Building buy-in
- Coordinating and capacity
- Frameworks (NFIS)

PILLAR 2 PROVIDING ACCESS

FOCUS: Rights and barrier-breaking

- Legal ID and residency
- KYC, CDD and AML/CTF
- Pilots, products, sandboxes

PILLAR 3 ENHANCING USAGE

FOCUS: Outcomes and benefits

- Incentivizing transition to formal finance
- Infrastructure development for DFS
- Consumer data privacy and protection
- Fintech ad open data regimes
- Consumer awareness and capacity-building

PILLAR 4 ENSURING SUSTAINABILITY

FOCUS: Integration and measurable impact

- From FDPs to FBRs to all
- Resilience, Financial health
- Cross-border products
- Regional standardization

THE FOUR PILLAR STRUCTURE is used to help financial policymakers and regulators identify where they are on the continuum and focus on the considerations particularly pertinent to each step of their journey. However, the unique context of each jurisdiction may require a focus on considerations grouped under other pillars of the framework, and it is important to recognize that there is no ‘right’ or prescriptive way of using this framework.

PILLAR I: PROMOTING THE CASE

Data Collection and Multi-Stakeholder Collaboration

The first concerns for financial policymakers and regulators starting out on the journey to advance financial inclusion for FDPs often center on the availability or lack of data and evidence to argue the business case, balancing the benefits with potential risks to the integrity of the financial system, and creating evidence-based policies that will be truly helpful to FDPs. Without understanding the extent of migration and displacement within their territories, it is difficult for financial policymakers and regulators to develop effective financial inclusion policies, regulations, and initiatives for FDPs. It is, therefore, helpful to establish collaborative partnerships with different authorities and stakeholders who hold such data.

FDPs are comprised of heterogenous population sub-segments, differing by duration of stay, migration path or aspiration, and in particular, by the social and economic opportunities afforded to them in host communities. Neither the ‘reason for arrival’ nor the nationality of cross-border FDPs are helpful indicators of their prospects as potential new FSP customers. By economic participation and risk profile, however, regulators are likely to find strong similarities between segments of FDPs and nationals in the same socio-economic echelons. Globally, the majority of FDPs are internally displaced and may be economically and financially excluded due to their flight, but as citizens, they share general socioeconomic traits with their non-displaced hosts. Most cross-border FDPs have arrived from a neighboring country and often share many cultural attributes with nationals at similar socioeconomic levels - or FDPs have been in the host country for so long that they (and their descendants) have fully assimilated.

While some data on regularized migrants and registered refugees and asylum seekers exist, it is often limited and retained in separate databases managed by different authorities, which are rarely published or shared. This is partly due to efforts to properly protect FDP data. Most available data are in the form of assessments, diagnostics and programs and are heavily fragmented between FDP nationalities,[20] sectors, agencies and across the humanitarian, development, peace, and disaster spectrum, which makes it hard to consolidate.[21] Irregular migrants and unregistered refugees are typically not in any data registry and may avoid contact with authorities. For this reason alone, reliable financial inclusion data on FDPs of irregular status rarely exists,[22] and estimates are often inaccurate, outdated or misrepresented for political expediency. Importantly, FDPs are not explicitly included in the Global Findex database and are rarely mentioned in financial inclusion data frameworks at the country level, which increases their invisibility.

Efforts are ongoing globally to improve data availability. Governments are encouraged to ensure more systematic inclusion of FDPs in nationwide surveys and censuses, as this facilitates the design, implementation, and monitoring of the effectiveness of responses to migration and displacement at both national and local levels.[23] An increasing number of jurisdictions are adding a migration status data point to national censuses or poverty assessments, but a majority still do not include foreign-born residents (FBRs) or their descendants in such surveys.[24]

The World Bank Group and UNHCR established the Joint Data Center on Forced Displacement, which aims to support national statistical offices and other stakeholders to include the forcibly displaced in surveys and data analysis.[25] UNHCR and the Joint Internal Displacement Profiling Service (JIPS) have worked within the Expert Group on Refugee and IDP Statistics (EGRIS) to develop a common set of indicators to measure FDPs’ inclusion in host communities using the SDG Indicators framework. The indicators were included in the International Recommendations on Refugee Statistics (IRRS), published by EGRIS in 2018. In 2019, EGRIS identified three key policy areas, including “livelihoods and economic self-reliance” and “civil, political and legal rights”, and mapped 12 indicators to track progress within these areas.

28% A baseline study in 2020 revealed that of 57 public datasets available for 26 countries, 16 did not include FDPs by design, and in no studies was a comparison between FDPs and nationals performed.[26]

Data compilation to inform inclusive policies remains a work in progress. Financial policymakers and regulators can encourage their national statistical offices to integrate migration and refugee indicators into all their major national surveys. Ideally the approach to have joint data centres such as that of the World Bank and UNHCR Joint Data Centre can be replicated at the national level, where data is highly fragmented.

As a starting step, it is helpful to collect and analyze financial inclusion data on FDPs to clarify:

- Who is an FDP in your jurisdiction?
- Who is most affected by forced displacement and how (data disaggregated by age, sex, geographic location, duration of displacement, etc.)?
- The financial inclusion needs and financial capabilities of FDPs and their host communities (demand-side data);
- The financial services and products that are being offered to FDPs (supply-side data);
- The policy and regulatory barriers that impede their financial inclusion; and crucially,
- The potential costs of barriers, restrictions, or policy inaction.

In the face of ageing societies, current and future skills shortages, and labor market needs in some jurisdictions, missing the opportunity to realize the potential of FDPs can be a considerable waste of resources.[27] More concretely, restrictions on legal access to work and even the issuance of short-term and expensive residence and work permits to FDPs can have negative impacts on labor market integration, as both employers and FSPs will want legal certainty before investing in vocational training or credit provision.[28]

A good understanding of the financial strategies and challenges that advance or undermine the financial health of FDPs will enable policymakers, donors and humanitarian organizations to develop policies that better match their realities within an overall inclusive, non-discriminatory framework of promoting financial health for all.[29] Financial policymakers and regulators are uniquely positioned to contribute data to the understanding of demand for and usage of financial services among different segments of FDPs, to develop the business case for different financial products, and to improve evidence on the impact of financial services on the livelihoods of both FDPs and their host communities and their contribution to overall economic development and financial health for all.[30] For instance they can provide data that can be leveraged to incentivize FSPs to set up agents in refugee camps, or to offer microloans to FDPs who have demonstrated high rates of loan repayments.

CONDUCTING DATA COLLECTION AND ANALYSIS

Two sets of data are helpful at this initial stage:

(1) demand-side, supply-side and policy, and regulatory data to inform a diagnostic study on the level of FDP financial inclusion (see Box 3), and

(2) a mapping of the main stakeholders to convene in order to review the 'state of play' and set a course for policy development and implementation going forward.

BOX 3: COLLABORATIVE DATA COLLECTION - FINSCOPE

To assess the level of financial inclusion in Zambia, the Bank of Zambia, in collaboration with other financial sector stakeholders, conducted the fourth national FinScope Survey in 2020, using the methodology developed by FinMark Trust. The 2020 survey was the first to be managed and conducted by a local project team, coordinated by the Bank of Zambia, and convened a broad group of stakeholders.

The Financial Sector Deepening Zambia, Rural Finance Expansion Program, the German Sparkassenstiftung, the Zambian Ministry of Finance, and UNCDF helped finance and participated in the study, while the Zambia Statistics Agency and FinMark Trust provided technical expertise to ensure that the Survey was undertaken in accordance with good international practices. Other regulators, including the Pensions and Insurance Authority and the Securities and Exchange Commission, as well as the Bankers Association of Zambia and the Association of Microfinance Institutions of Zambia also participated in the study.

The survey was designed to produce more detailed provincial estimates of financial inclusion as baselines for provincial development plans.

Source: FinScope Zambia 2020 Survey Report. Summary at: https://www.boz.zm/finscope_2020_survey_topline_findings.pdf

In some jurisdictions, FDPs are already included in national censuses and household, labor market, and population surveys. Even if such datasets may not always be up to date, and often omit 'irregular' FDPs, they provide a starting point for the diagnostic study. Data collection can be done by financial policymakers and regulators themselves in collaboration with line ministries and the national statistics office, or it can be outsourced to a consulting firm based on a clear Terms of Reference. In some markets, FSPs, or – more typically – their funders and investors or broader economic development stakeholders can also provide resources for data collection. Financial policymakers and regulators can leverage any available financial or economic inclusion data on FDPs from the national statistics office, line ministries in charge of migration, or UNHCR and IOM.

In jurisdictions hosting large numbers of FDPs, data compilations and analyses are often available from UNHCR or IOM, their government counterpart or "Implementing Partners" who are normally represented by local or national, specialized non-governmental organizations (NGOs). While these datasets usually provide an accurate overview of all registered FDPs, disaggregated by location, sex, and age, they are often presented by nationality group (UNHCR refugee 'situation'), and focus on vulnerabilities among FDPs. In some jurisdictions, FDPs of certain nationalities are not registered or surveyed by the refugee management authorities or UNHCR at all.

ADDITIONAL CONSIDERATIONS:

- To create a financial inclusion business case for FDPs, it is useful to compile available data on FDPs of all nationalities, including their location (camp versus self-settled, rural versus urban and by district or province); legal status (refugee, asylum seeker, IDP, and if indicated, other migrant groups); economic participation rate, and type of livelihood. This is in addition to data disaggregated by age, sex, and duration of displacement.
- It is worth considering the segment of FDPs who may be residents in the jurisdiction, with visas and residency permits other than humanitarian refugee and asylum seeker identification or certificates, though they typically present a more capable socioeconomic profile – and often exhibit a higher demand for financial services but are perhaps not the most vulnerable or marginalized.

Therefore, data from ministries of home affairs (visas, residency permits); labor (work permits); and investment promotion agencies (business and investment permits and licenses) should complement the data compilation. Municipalities and other local authorities, as well as chambers of commerce and other business associations, may also have relevant data. In addition, ministries, or agencies with the mandate to oversee IDPs are obviously relevant in certain jurisdictions, while data from foreign embassies (numbers of foreign domestic and other workers) can also complement the data compilation. As mentioned in the previous chapter, in all markets, there is a segment of 'irregular' and unregistered FDPs, which are unlikely to be captured. Financial policymakers and regulators are encouraged to compile data on all FDPs in their jurisdiction to get a comprehensive understanding of the different population sub-segments, and their likely overlap. This can avoid developing policies that target specific sub-segments at the expense of others. It is recommended to widely publish and share such initial market scoping studies to avoid duplication of efforts. From a policy and regulatory perspective, an agile "learn as we go" approach can be adopted. And while this is the ideal scenario, it is not absolutely necessary to know exactly how many migrants and FDPs are in the country in order to develop inclusive policies.

CONVENING STAKEHOLDERS TO CREATE BUY-IN, INCREASE SHARED OWNERSHIP AND ENHANCE COORDINATION

Ensuring policy and regulatory consistency requires a well-coordinated 'whole-of-government' approach to review the diverse array of legal, policy and regulatory frameworks related to legal status and identification, work and business permits, movement control, as well as access to legal support and grievance processes, in addition to those of the financial sector.[31] There are many barriers to effective inter-agency or cross-government coordination, including limited buy-in and reluctance to engage or sustain interactions, differing mandates and confidentiality concerns around sharing knowledge and data, lack of data or different data storage formats, as well as a lack of pre-established structures and mechanisms for coordination, which makes it hard to develop instruments or formal arrangements to collaborate.[32]

Some financial policymakers and regulators will already have conducted an initial market scoping analysis and recognized FDPs as a marginalized group within national policy frameworks, such as Comprehensive Refugee Response Frameworks, National Financial Inclusion or Financial Education Strategies, IDP protection strategies, and even ML/TF/PF or national and sectoral risk assessments (NRAs). In other jurisdictions, however, authorities may not have had the mandate to share even de-identified data among themselves, or with international data systems held by, for example, UNHCR or IOM, and have no formal structures within which to collaborate.

The results of the diagnostic study can be presented, discussed, and validated at an inaugural meeting of key stakeholders also identified during the data collection and compilation.

In addition to the types of stakeholders mentioned previously, regulators will typically have data available on (licensed) FSPs and others (NBFIs, mobile network operators (MNOs), Fintechs and community-based financial institutions (CBFIs), among which the small, independent remittance providers serving FDP communities are especially relevant. Aid coordination agencies will be able to contribute data from support agencies (financial sector development programs, projects, funders and investors) that could also be convened for an initial dialogue. Finally, FDP-led business, trade and community associations, IGOs and NGOs, and civil society organizations serving FDPs should be identified and included in the initial dialogue and data compilation, not only to increase the accuracy of the data, but also because the voice of the FDPs themselves is crucial to identify the most pertinent pain points and barriers related to financial inclusion. As evidence from Australia has demonstrated, the voice of FDPs and migrants is important also for the regulator to better understand and balance financial system integrity and ML/TF/PF risk and prevent the unnecessary de-risking of FDPs.[33]

While the net should be spread wide when convening multi-stakeholders to a consultative meeting, the agenda should be focused around five core questions to allow for inputs and discussion:

- the common goal,
- the financial inclusion needs of FDPs,
- existing financial services and products offered by FSPs to FDPs,
- policy and regulatory barriers,
- and the plan of action.

Setting the stage with a discussion on the business case and end goals can help frame the meeting discussion and enable an open or frank exchange of information.[34]

In this context, it is common to run into the challenges of fragmented mandates, political sensitivities, and security agendas, as well as data disclosure restrictions and a reluctance to engage by stakeholders who are not used to collaborating across defined areas of responsibilities. Equally, various national policy frameworks already in place may conflict, requiring harmonization, or a stronger and more unified implementation. Resource limitations are common too, both in terms of staff time, technical expertise, and the funding of initiatives.

Financial policymakers and regulators can clarify their policy intent to their stakeholders by:

- Publishing a simple statement or policy guidance to financial sector stakeholders underlining that the regulator subscribes to a principle of ‘financial inclusion for all’ (as opposed to ‘citizens’);
- Designating a strong, national ‘champion’ to map stakeholder interests and note all concerns, while sequencing the work on each issue to start with the lowest hanging fruit;
- Signing formalized MOUs and data sharing agreements among stakeholders to help overcome any fragmentation of data and differing mandates; and
- Incorporating the assistance of international partners in global ‘compacts’ and IFIs to bear to resource the process and provide technical input, including the World Bank Group through the IDA19/20 Window for Host Communities and Refugees (WHR)[35] and the IDA18 Refugee Sub-Window (RSW);[36] partners of the Global PROSPECT partnership;[37] and the three support platforms to reinforce regional refugee responses under the UNHCR Global Compact for Refugees (GCR).[38] Technical input can also be solicited from INGOs, NGOs, and private sector partners working in jurisdictions, for instance the African Amahoro Coalition,[39] the Tent Foundation;[40] the Refugee Investment Network,[41] or from the Internal Displacement Monitoring Centre (IDMC).[42] See more resources in Annex 1.

The FDP voice is important in the development and implementation of financial inclusion policies which target them. For FDPs and their host communities to be heard as consumers, they must both be enabled to provide their input and feedback to the financial inclusion policymaking process. Consumer associations can be upskilled to better engage FDPs and host communities, towards translating their voiced concerns into policy messages for financial policymakers and regulators.[43]

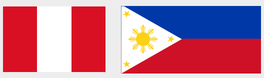
BOX 4: INTERACTING WITH CONSUMERS

Since 2010, Peru's Consumer Protection Code has designated the National Institute for Defense of Competition and Protection of Intellectual Property (Indecopi) as the principal authority for consumer protection. Indecopi shares enforcement authority with the Superintendency of Banking, Insurance, and Pensions (SBS).

The Code outlines ways for regulators and customers to interact, with a registry of 80 NGO consumer associations in addition to promoting roundtables where stakeholders can engage with regulators. NGOs can raise complaints and request limited co-funding from the government to cover expenses from court cases. Indecopi engages in public media campaigns, and enables consumers to make claims, or complaints about potentially abusive practices. As of June 2020, Indecopi had received 10,280 consumer reports about FSPs regarding loan rescheduling. Indecopi audited 184 FSPs, issued alerts to 14 providers and met with the five most frequently reported providers. The SBS, however, does not yet have a formal structure through which to engage with user councils.

The Bangko Sentral ng Pilipinas (BSP) launched a chatbot that enables consumers to file complaints directly to the regulator, using SMS or Facebook Messenger. The consumer association, Laban Konsyumer, also collects consumer complaints and shares them with the central bank.

Source: https://www.cgap.org/blog/how-peru-elevating-collective-consumer-voice and https://www.bworldonline.com/banking-finance/2020/07/27/307593/bsp-launches-chatbot-for-customer-concerns/



Smaller meetings with and visits to FDP households and businesses are highly recommended, where appropriate. The National Bank of Rwanda and Central Bank of Jordan have accompanied data collection missions in refugee camps to better understand the contexts FDPs are living in. The personal meeting remains one of the most effective ways to transform preconceived ideas and academic opinions into corroborated evidence to inform financial inclusion policies and regulations that can be truly effective. Similarly, peer-learning events involving FSPs and regulators from jurisdictions where the financial inclusion of FDPs is more advanced are also highly recommended.

As the structured process evolves, it is recommended to keep track of results and core 'sticking points' to compile a position or concept paper that can be presented to higher-level political forums and authorities. The more stakeholders that sign on to the position paper and the action plan, the greater the chance that a 'coalition' will form to facilitate broader political buy-in for the financial inclusion of FDPs.

PILLAR II: PROVIDING ACCESS

Provision of Quality Formal Financial Services to FDPs

At this stage, the aim is to improve FDP access to mainstream formal financial services through a policy and regulatory framework that provides clear guidance to FSPs. The framework should permit the use of alternative forms of acceptable FDP identification documents to satisfy Know-Your-Customer (KYC) requirements, and describe the required tiered or simplified customer identification and verification elements of the CDD processes based on a proportionate, risk-based approach, that balances proof of identity requirements with risks associated with money laundering, terrorist financing and proliferation financing.[44] Additional incentivizing of FSPs to expand their services to FDPs can be considered, preferably as an expansion of existing facilities (e.g. credit lines or on-lending facilities for MSMEs) to cover FDPs, and the need to address any demand-side capacity or skills gaps that may need mention in order to ensure inclusive access also by FDPs (e.g. to existing financial education programs).

Having identified the stakeholders necessary for advancing FDP financial inclusion and completed a first diagnostic study, financial policymakers and regulators can now identify the financial access pain points faced by FDPs. It is worth ensuring that concurrent work is undertaken to ease any restrictions to foundational rights to a legal ID, residency, and economic participation, as access to finance without rights to work or self-employment is unlikely to drive up financial inclusion. It is not within the purview of central banks and other financial policymakers and regulators to directly facilitate FDPs' rights to free movement, residency, and decent work but they do have the convening power needed to engage the relevant government counterparts.

Access barriers that fall squarely within the mandate of financial sector regulators include eligibility issues, such as the validity of ID documentation for opening accounts and related requirements, like registering SIM cards; the inclusiveness of the CDD requirements and ML/TF/PF risk mitigation measures; and the actual standardized and uniform implementation of such regulations across the financial system.

ENSURING ACCESS TO A VALID, ACCEPTED AND KYC-COMPLIANT ID

The lack of a legal identity among FDPs prevents access to rights and basic services like education, health, employment, or social protection programs - and this becomes a significant barrier to their financial inclusion.[45] The starting point for better access to finance for FDPs is thus the registration, issuance and acceptance of the validity of legal identity documents. Not all FDPs possess an acceptable ID. This issue is not unique to FDPs, and worldwide, an estimated one billion people do not have an official proof of their identity.[46] However, two barriers are specific to forced displacement:

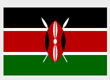
> Foundational ID documents may have been lost during flight or in the destruction of civil registration offices and records in countries or areas of origin; and

> Foundational ID documents can often only be obtained in the country or area of origin, and especially cross-border FDPs can typically not return because of safety and security concerns, lack of resources or fear of jeopardizing their legal stay in a host country.

BOX 5: EXAMPLES OF ID DOCUMENT GUIDANCE

Kenya's 2019 Refugee Bill grants refugees and asylum seekers the right to "contribute to the economic and social development of Kenya by facilitating access to and the issuing of required documentation" (Art. 28(4)). Ethiopia's 2019 Proclamation 1110 on Refugees goes further in clearly providing for the sufficiency of the official refugee identification document to access banking and financial services including opening a bank account (Art. 33) and accessing telecommunication services (Art. 34). The State Bank of Nigeria recently issued a memo mandating FSPs to accept machine-readable travel documents and refugee identification cards issued by government ministries as acceptable IDs meeting KYC requirements to open a financial account.

Source: http://www.parliament.go.ke/sites/default/files/ 2019-08/Refugees%20Bill%2C%202019_compressed.pdf; https://data2.unhcr.org/en/documents/details/68964 and https://www.cbn.gov.ng/Out/2021/CCD/Letter%20to%20Banks%20on%20Acceptance%20of%20Refugee%20ID%20Card%20(002).pdf



'Whole of government' efforts are required to address the problem of undocumented FDPs and nationals. Financial policymakers and regulators can often help

FSPs to serve more FDPs by clarifying the policy intent of financial inclusion. What is particularly helpful, is policy guidance to FSPs that recognizes and clarifies the types of alternative IDs that are accepted and their validity for verification in the existing CDD regimes (see Box 5).

As the lack of acceptable IDs remains one of the biggest barriers to financial inclusion for FDPs, it is in the interest of financial policymakers and regulators to contribute to resolving this foundational problem. However, it should be of equal interest to a range of other policymakers, authorities and government agencies involved in the management of identification and migration. Better access to IDs for everyone can also promote the use of cashless transactions, strengthen the effectiveness of government-to-person (G2P) social transfers as well as humanitarian aid delivery, reduce fraud and duplication, and decrease the extent of politically sensitive ‘irregular’ migration. The World Bank Identity for Development (ID4D) Initiative supports universally accessible foundational ID systems, population registries and civil registries that are inclusive and serve as authoritative sources of core identity data as the basis for easier and increasingly digital access to services, including formal finance.[47]

BOX 6: ID AND RESIDENCY - REQUIREMENTS CAN STILL BE HARD TO MEET

Colombia has a national legal framework for refugees and IDPs. In 2017, the country created a special residency permit for Venezuelans, and in 2019, adopted a legal provision granting Colombian nationality to the children of Venezuelans born in Colombia, without requiring proof of a permanent domicile. In early 2021, Colombia announced a plan to implement and grant temporary protected status to Venezuelans in the country, which will allow them to remain there for 10 years.

Mexico avails a “Clave Única de Registro de Población (CURP)” to each person living in Mexico, including FDPs, and holders of temporary and permanent resident cards. The CURP is a unique social security number with lifelong validity and is issued at no cost. However, new banking regulations in Mexico require foreign nationals to present a valid passport, their CURP, and a temporary or permanent residency card or a humanitarian visa in order to open a bank account. A Mexican phone number and email address is also required.

Source: https://mexlaw.com/getting-curp-number-foreigners-residency-mexico/ and AFI: Synthesis Report: Financial Inclusion of Forcibly Displaced Persons, Draft of June 22, 2021 (forthcoming.)

Some countries that provide proof of official and widely recognized foundational national ID and civil registration systems, allow FDPs to register in these ID systems on arrival. Other systems are limited to citizens only, and some countries do not have effective ID systems at all.[48] Many jurisdictions also have a variety of functional ID systems that provide identification, authentication, and authorization for specific services, but the requirements may be difficult to meet for some FDPs (see Box 6).

Although rarely deliberately discriminatory, financial inclusion policies and regulations often focus on the citizenry of the jurisdiction, and sometimes exclude cross-border FDPs. More commonly, policies and regulations are formulated in general terms and do not explicitly mention marginalized groups and their rights to access formal finance.

60%

This, in turn, causes FSPs to assume illegibility. In 2021, 20 of 33 countries surveyed by AFI issued official government IDs to FDPs, but only eight countries had specific laws, regulations or policies addressing the validity of such IDs for KYC verification and other CDD procedures.[49]

If an effective national ID registry does not exist or cannot accommodate FDPs, regulators can authorize the use of alternative, complementary IDs which are not necessarily ‘government backed’, but considered reliable.[50] The issuance of proof of legal identity to cross-border FDPs, for example, can be administered by an internationally recognized and mandated authority (e.g. UNHCR or IOM).[51] As per FAFT Guidance, ‘trusted referees’[52] can be approached to certify the identity of FDPs, who may not be able to produce traditional identity evidence.[53] Alternative ID and residency verification systems, including references and confirmations from local authorities or other trusted referees, can often be extended to encamped FDPs, as parallel registration systems exist within camp management structures. The same applies to self-settled (urban or rural) registered FDPs, and the competent government agency or UNHCR can provide verification, residence confirmation, and sometimes even digital IDs.

Mobile phones are a crucial livelihood technology for most FDPs and any barriers to their use, such as documentation requirements or suspension of SIM cards, can have significant consequences.

In the 157 countries that have implemented mandatory prepaid SIM registration policies, it is necessary to present an acceptable ID to access mobile services in one's own name. Without such an ID, FDPs and other marginalized groups will register, using SIM cards (mobile subscriptions) in someone else's name. This means that they will not be fully in control of how they use and pay for their mobile service and will not be able to access mobile wallets.[54] With political will, practical solutions to such access barriers can often be found (see Box 7).

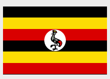
BOX 7: ENABLING FDPS IN UGANDA TO REGISTER SIMS

A valid cellphone number in the name of the customer is a KYC requirement in Uganda. Until mid-2019, however, the refugee ID card issued by the Office of the Prime Minister (OPM) was the only accepted ID available for refugees to activate a SIM card, but receiving one could take months.

Many refugees applied workarounds, like registering multiple SIMs on one ID card, buying SIM cards on the black market, or registering a SIM in the name of a Ugandan friend. Wanting to crack down on this perceived 'fraud', the Uganda Communications Commission (UCC) initially stopped MNOs from issuing SIM cards on the basis of refugee ID cards altogether in 2019.

With advocacy support from GSMA and UNHCR, a revised UCC directive was issued to MNOs in August 2019 stating that SIM cards could be issued to refugees holding a valid OPM refugee ID, but - in its absence - an OPM-issued attestation letter was also formally recognized by the UCC as a valid form of ID for the purpose of SIM registration. This enabled FDPs to register SIMs in their own names, even while waiting for their refugee IDs.

Source: https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2020/03/ Uganda_Case_Study_Web_Spreads.pdf



Digital identity solutions can be particularly relevant to FDPs seeking access to formal finance. Unlike paper-based IDs, a digital ID can be verified remotely over digital channels, often at a lower cost to both the customer and verifying FSP or regulator. Digital IDs are unique; established with individual consent to data capture, storage, and usage; and can be authenticated and verified to a high degree of assurance through biometrics, passwords, QR codes, or smart devices with embedded identity information.[55]

However, traceability can be a concern. Cross-border FDPs may prefer paper documents over something that leaves a digital trail, especially if there is a perceived risk the data will reach the authorities of their country of origin.[56]

To overcome legal documentation gaps and facilitate FDPs' access to a legal ID, financial policymakers and regulators can advocate for:

> Reviews and decisions on the validity of foundational ID documents that FDPs may have, including national ID cards from third countries, including IDs that should be accepted by virtue of the state's membership in regional economic communities (e.g. EU, ECOWAS, EAC, SADC, COMESA, etc.); driver's licenses; expired passports; family books; as well as any (biometric) ID cards issued to FDPs by the government; UNHCR (refugee and asylum seeker certificates); or other authorities (e.g. residency cards for special-status FDPs, like Palestinians, displaced Venezuelans, former refugees in markets where the refugee status cessation clause has been invoked, and stateless people, among others);[57]

> Acceleration and simplification of the issuance of FDP ID documentation based on (selected) foundational IDs, without discriminating on the basis of nationality;

- If not already established, considering the introduction or expansion of an existing unique, legal, interoperable, digital ID system to include FDPs (and other foreign-born residents) with an 'identity first' focus that collects minimal information for the creation of an identity, which meets the desired levels of assurance for a reliable, independent source of FSP customer identification;

- Supporting such a Digital ID Framework by adopting a national identity creation law and policies, rules and regulations addressing the risks associated with the use of a digital ID, including (cybersecurity concerns, data protection and operational risks);[58]

> Integration of identification and civil registration services with other public services provided, for example, enabling the registration of undocumented FDPs (and nationals) at basic health and education service points;[59] and

> Issuance of functional 'residency' cards for cross-border FDPs, based on their registration and legal ID, if there are policy requirements of specific residency documentation for foreigners in the jurisdiction.

To directly facilitate access to formal finance for FDPs, financial sector regulators should prioritize clear communications to FSPs on all the types of IDs and documentation of legal residency that have been accepted as valid for verification and authentication in the existing CDD regime:

- Provide clear guidance to FSPs, listing and explicitly permitting the use of (selected) alternative ID documents for FDP customer access to financial services (bank accounts and products, microfinance services, SIM cards and mobile money accounts and wallets[60]) and for verification in the existing CDD regime;[61]
- Provide guidance to FSPs on how to practically verify the identity of FDP customers (KYC), whether through contacting third party databases or through a KYC utility, keeping in mind that a centralized, electronic database accessible for FSPs to query IDs of FDP customers is likely the most cost-effective option;
- If digital ID systems are in use, ensure that the issued digital IDs are accepted as legal and valid, and that CDD based on verification of digital copies of all ID documents, including the alternative, is permitted. Ensuring digital signatures on loan contracts and the use of data consent forms can further help with access to digital financial services in addition to lowering transaction costs for FDPs;
- Enrolment in formal finance can be digital, physical or a combination, but if digital ID systems are used, binding, credentialing, authentication, and portability must be digital.[62] If such identity verification models are new in the jurisdiction, it is worth considering regulatory exceptions for FSPs to onboard FDPs.[63]

REVIEWING REGULATIONS ON ADDITIONAL ACCESS REQUIREMENTS

Reading existing policies and regulations with an 'FDP lens' can often identify other core pain points of a legal nature related to access to formal finance. A good litmus test is to ask if the requirements as formulated in the regulations would be "reasonably attainable for an FDP (IDP, migrant or asylum seeker) woman"? If not, review the basis on which the text was formulated, and consider revising or amending it in updated guidance to FSPs to facilitate access by all residents:

- Look for the legal definitions in laws and regulations of 'customer', 'guarantor', or providers of other surety to (licensed) FSPs and the entities, including micro, small, and medium-sized enterprises that FSPs with different licenses (including microfinance institutions, insurance companies and other NBFIs) are able (or required) to serve, especially with credit. These definitions are often included in foundational legislation from years ago and may not have been updated or refined to work in an inclusive financial system;
- Review any regulatory requirements on acceptable collateral for credit for (some) FSPs. Consider the basis for, to give one example, a requirement for "registered land or property" and include moveable assets or delegate responsibility and risk management to the FSPs by not specifying acceptable collateral or by allowing unsecured lending. This will also facilitate the potential financial inclusion of many nationals and IDPs, who may have (access to) communal land, but either do not own it or have the documents to prove ownership; and
- Review the regulatory requirements for address verification.[64] Is proof of residence required for CDD and if so, is the acceptable documentation attainable for FDPs (use the litmus test)? Delegating the responsibility for any verification of address to FSPs by adding "or similar", to the requirements is perfectly acceptable. Digital solutions are also emerging: The launch of MPost in a collaboration between Kenya's postal services and Safaricom has turned every mobile phone into a formal postal address, enabling members of the public to gain access to letter and parcel services no matter where they are in the country.[65] Regulators could build on such a system to permit mobile address documentation for FSP customers, if proof of address is required.

CLARIFYING THE RISK

The FATF's risk-based approach (RBA) to anti-money laundering, countering the financing of terrorism and countering the financing of proliferation of weapons of mass destruction (AML/CFT/CPF) is meant to replace a "one size fits all" response to risk, and enable regulators to tailor their AML/CFT/CPF regime to their specific national risk context, including by allowing FSPs to apply simplified CDD measures to those customers and products that are assessed to present a lower risk. Risk is a function of three factors: threat, vulnerability, and consequence, and it is instructive to review risk from the differing perspectives of the main stakeholders: the customer, provider, and regulator, as illustrated in Table 2.

The systemic reach of regulators broadens the responsibility for risk mitigation, but also the ability to control threats through the minimization of vulnerabilities and consequences. The threat to FDPs as potential customers, however, is personal, the vulnerabilities multi-faceted and largely outside of their own control, and the consequences dire. Threats, vulnerabilities, and consequences are relative, and the ability to influence vulnerabilities and mitigate the consequences are highly asymmetrical.

Compelling excluded customers to use cash and informal financial systems may not only undermine economic development and financial inclusion goals, but also increases the use of unregulated channels, that are more vulnerable to misuse.[67] In some countries, for instance, Zambia, the regulator distinguishes and measures both 'formal inclusion' of people being served by regulated FSPs and 'informal inclusion' of people served by informal providers, which increases the visibility of the demand for finance among population segments who are not accessing formal FSPs.[68]

TABLE 2: AN ILLUSTRATION OF A HOLISTIC RISK ASSESSMENT[66]

	THREAT	VULNERABILITY	CONSEQUENCE
FATF DEFINITIONS	**A person or group of people, object, or activity with the potential to cause harm**	**Things that can be exploited by or facilitate the threat**	**The impact (harm) or effect that the threat may cause**
REGULATORS/SYSTEM AS CONTROLLER	… to the state, society, or the economy (e.g. criminals, terrorist groups and their facilitators, their funds, and future ML or TF activities, and international compliance ratings and grey or blacklisting.	… such as weaknesses in regulatory AML/CFT/CPF systems or controls or features of a country (e.g. large informal sectors, undocumented residents, public debt, fiscal crisis), sector, and financial products and services that may attract threats.	… to the financial system, FSPs, the economy, specific population groups, the business environment or reputation of the financial sector.
FSPs AS SUPPLIERS	… to compliance ratings, licensing renewals, businesses (profit) and reputations.	… such as weaknesses in governance, management, internal controls, low quality or rogue agents and staff, ability to perform CDD, NPLs, customer flight or run on banks, public complaints, etc.	… to the FSP (business continuation, profit, and growth) and its staff and investors.
FDPs AS (PROSPECTIVE) CUSTOMERS	… to personal security, safety and freedom, short-term basic needs fulfilment, as well as decent livelihoods or survival, and future prospects.	… such as lack of or weak IDs, residence and professional qualifications and skills documentation, restrictions on free movement, exclusion from the (formal) labor market or economy, leaks of traceable data, limited language skills, lack of information, networks and HLP assets, stigma or discrimination, etc.	… to survival, mental and physical well-being, healing from trauma, livelihoods and decent living standards, and future opportunities for the FDP and their dependents.

IMPLEMENTING A RISK-BASED TIERED CDD REGIME THAT ALSO WORKS FOR FDPS

Risk-based AML/CFT/CPF measures, particularly in relation to CDD, should enable the more efficient use of resources, and facilitate the inclusion of marginalized groups.[69] However, establishing or adjusting a risk-based CDD regime which balances the financial integrity and inclusion objectives and effectively mitigates ML/TF/PF risks, is extremely complex, politically, economically and in terms of institutional decision-making. The relationships among ML/TF/PF risks, AML/CFT/CPF measures, financial exclusion, and informal economies are resource-intensive to research, and therefore, not always fully analyzed or understood.[70] Regulators sometimes lack the training, experience, and self-confidence to apply a risk-based approach, especially in countries which are still transitioning from a rules-based to a risk-based approach and face high financial exclusion rates and large informal markets, and instead stick to stringent general requirements covering all financial customers.

A simplified or tiered customer identification and verification process as part of the CDD regime allows for more flexibility in the verification of the identity of customers deemed to be of lower risk, but if risk is not appropriately assessed, regulations are not likely to apply the flexibilities of exemptions or simplifications.

57% In a recent review of 107 jurisdictions, 57 percent did not use any exemptions.[71]

A lack of proper legal protection for supervisors can aggravate the risk-aversity[72] - not unlike the conservative interpretation of national regulations among the FSPs they supervise, which can result in de-risking of perceived high-risk customers, like FDPs.[73]

NRAs are an essential starting point for understanding and balancing the risks and benefits of financial inclusion. Focusing the risk assessment on financial health may help clarify the risks of financial exclusion and promote a more inclusive approach that also applies to FDPs. A risk-based, tiered CDD regime is helpful when it prioritizes integrity and the ability of customers to regularly update their user data, and facilitates processes and procedures for the sharing of minimal (only necessary) information during CDD based on consent. The level of KYC measures required, whether simplified, basic, or enhanced due diligence, should be based on the customer's risk - and therein lies the complexity, as disproportionate KYC requirements for FDPs will compromise the accomplishment of the financial inclusion objective.[74]

For obvious reasons, many countries classified as high-risk in terms of ML/TF/PF are also countries of origin for many FDPs, but the level of risk should not be generalized across FDP populations. Grouping 'foreigners', or FDPs as one category in terms of ML/TF/PF risks, will not be particularly helpful. Likewise, there is no reason to develop a parallel risk categorization for customers of foreign origin. But FDP risk assessments can be particularly complex, such as when cross-border FDPs arrive from or settle within conflict zones where genuine terrorist financing risks are at play. Further, FDPs may be politically exposed persons (PEPs), therefore they can be checked against commercial and other databases in addition to sanctions lists during risk assessments. Context-specific risk assessments are critical, and evidence and data are needed to develop a comprehensive and inclusive risk regime for customers, products, and market sectors in each jurisdiction.

SHARING THE COMPLIANCE BURDEN WITH FSPS

In most markets, the onus of CDD compliance is on licensed FSPs, and the costs and difficulties of verifying FDPs can result in their financial exclusion (see Box 8). ML/TF/PF risks are in essence public in nature, unlike the credit and reputational risks that individual FSPs may assess to be high. For this reason, regulators and supervisors should help FSPs to more accurately assess these complex risks, especially for FDPs.[75]

Many FSPs tend to perceive financial inclusion products and services for low-income individuals and small non-bank financial institutions (NBFIs) as high-cost, low-profit and with limited potential. Factors that reduce the appetite of FSPs to serve a deeper or broader market segment include high AML/CFT/CPF compliance costs; stringent, opaque, or inconsistent regulatory requirements for different sectors; and the lack of clear guidance from regulators about the application of CDD exemptions.[76] CDD and other compliance requirements can cause significant expense and disruption for some FSPs, or increase reputational risk concerns.[77] The nationality of customers cannot in itself determine risk, but FSPs may resort to stereotypical, generalized risk categories, such as nationality or country of origin when addressing FDPs.

BOX 8: KYC VERIFICATION CAN BE A CHALLENGE

In Germany, a bank account is required to sign a contract, a lease, and to receive a salary from most employers. FDPs can open basic 'Sparkasse' (Postbank) bank accounts, but because of their limited functions, and because they are monitored by the department issuing social security payments, they are not as widely used as expected. Firstly, most German banks accept (only) a passport as ID for foreigners – whereas Fintechs have been able to verify alternative documents. However, once licensed, KYC regulations require FSPs to use the 'Postbank' to verify a client's ID. Postbank cannot process passports from a number of blacklisted countries, including Syria, Afghanistan, and Pakistan, from where many refugees have fled. Due to this procedure, the German government misses out on tax revenue, and has seen increasing incidences of unregulated FSPs channeling money internationally.

The Netherlands, on the other hand, made use of the provision of the EU's AML/CFT regulations, which allows asylum seekers and refugees to use their host country ID as identification if they do not have a passport, and FSPs can onboard and KYC refugees accordingly.

Source: https://newsandviews.vilcap.com/reports/ breaking-down-barriers-fintech-refugees

To avoid such measures, regulators can share the compliance burden with FSPs and help determine which evidence and indicators may best identify sub-segments that are 'lower-risk' within a market sector that may, due to displacement, be classified as 'high risk'.[78] Supervisors can also help FSPs better manage compliance by issuing guidance to FSPs requiring them to manage ML/TF/PF risk without unnecessarily exiting client relationships,[79] and by providing operational clarification on the processes of authenticating FDP customers:

> Policies to share the responsibility to mitigate the risk of crime between regulators and FSPs, while bringing down the compliance cost for FSPs that serve higher-risk customers should be considered;
> Regulators can initiate or co-fund research and analysis, for example, on remittance corridors, geographic areas, or market sectors that FDPs are active in, to help determine 'lower risk' customers, activity, and products;
> Public-private collaborative forums between regulators, FSPs and CBFIs that serve FDPs, like small remittance providers, can help to clarify and differentiate potential ML/TF/PF risks, and balance these risks with the goals of financial inclusion and financial health;[80]
> Formal recognition of a basic right for all residents to a formal payment account, as done within the EU and Canada, can act as a disincentive for FSPs to financially exclude FDPs, but the practical implementation of such directives does not always resolve access barriers for FDPs;[81]
> Regulators may instead consider incentivizing good compliance and financial inclusion, if high fines for compliance errors appear to lead FSPs to be over-compliant and financially exclude FDP customers.[82]

More explicit and clearer regulatory intent makes it easier for FSPs to explore new client segments of FDPs.

> Review the AML/CFT/CPF regulations for restrictions on FSPs serving FDPs, who otherwise would be considered lower risk. Regulations should not prohibit FSPs from serving an FDP from a 'high-risk' country, even if international transfers to or from such a country may be prohibited (over a certain threshold);
> Clarify to FSPs the risk mitigation process associated with serving FDPs from countries that are under international sanctions or 'high-risk countries' as per the Basel AML Index;+
> Consider the language of regulations and thresholds on requirements for CDD in addition to ID verification, including any requirements for FSPs to record or query prospective borrowers in a credit registry, and ensure that the mandate or license of the credit registry or bureau also allows it to register FDPs.

FSPs might seek to manage ML risk by transaction value, and if there is evidence of ML concerns in the FDP population, the products they access, or in specific remittance corridors, regulations can add a requirement for FSPs to introduce reasonable amount ceilings for transfers and loans. However, TF risk and the more recent compliance requirements of "dual use goods" are even more complex for FSPs to assess, and do not necessarily relate to transaction value. TF risk can be mitigated by dialogue with customers and the informal remittance providers that serve FDP communities. For example, regular, small-value transfers to the same individual, even in a 'high risk' country, are unlikely to carry TF risk, but may in fact be crucial for the financial health of the FDP's family left behind. Informal CBFIs and exchange housing that process remittances of this nature will often know the relationship between remittance senders and receivers, and have a history of the transfers, which can help in the assessment of TF risk.[84]

Determining 'lower risk' does not mean no risk, and the general labeling by FSPs of FDPs as 'high risk' should at least be qualified by sensible rationales and based on some form of evidence. Starting with the largest FSPs in their markets, supervisors can:

- Establish criteria for what they consider to be a well performed FSP risk assessment, providing standards for the methodology in terms of robustness, rigor and a sufficient level of facts and evidence;
- Critically review the elements that have been factored into any FSP's financial exclusion of FDPs to ensure that the underlying risk assessment is sufficiently evidence-based.
- Determine if the reasons provided by an FSP to financially exclude FDPs are sufficiently fact-based. If the risk assessments of FSPs are unable to determine lower risk among FDPs, consider how to assist with a more granular risk determination rather than accepting a proposed risk categorization;
- Encourage collaborative CDD among private and public FSPs to further share the compliance burden, including of risk assessments; and
- Encourage or require de-identified risk assessments to be shared among FSPs for peer-review and learning.

Through research and peer-learning with the most capable FSPs, it is likely that a more contextual AML/CFT/CPF regime for FDPs in the jurisdiction emerges, which will enable smaller FSPs to serve FDPs with products commensurate to the risk they pose to the system. A helpline to the regulator for FDPs and other customers who may have been unfairly rejected or financially excluded, and a public process for ensuring action on such complaints, would also be helpful.[85]

Biometric-based national ID systems, that support digital customer identification and verification, can lower AML/CFT/CPF compliance costs for customers and FSPs alike (see Box 9). Certain AML/CFT CPF requirements could be temporarily simplified to incentivize online and mobile money transfers.[86]

BOX 9: SHARING THE COMPLIANCE BURDEN

The authority responsible for the Aadhaar ID system in India has made an "eKYC" service available to facilitate customer identification. With customer consent and a fingerprint scan, an FSP can access Aadhaar data to verify the client's identity. When the identity of a prospective client is verified, the account opening form is automatically populated with the client's Aadhaar-registered biographical data. Critically important is the fact that the authority vouches for the data. This means the FSPs can rely on the results, limiting their obligations for two steps in FATF's CDD requirements (identification of customers and identity verification) by simply checking the Aadhaar database.

Source: https://www.cgap.org/blog/series/beyond-kyc-utilities

DEVELOPMENTS IN REGULATORY TECHNOLOGY

The financial system is purpose-built to help absorb economic shocks, at both the central bank level (liquidity facilities, etc.) and the level of individual FSPs, through their equity capital, provisioning, and liquidity reserves. During the COVID-19 pandemic, regulators in many countries deployed and used such mechanisms to increase the capacity of FSPs to safely extend relief to their borrowers. Allowing FSPs to offer moratoria, extended repayment plans, restructurings without loan reclassifications, and forgiveness of portions of loan interest or even principal are forms of relief that benefit customers directly.[87]

While widely implemented for FSP borrowers in many jurisdictions,[88] access restrictions for FDPs also extended to COVID-19 pandemic relief. The stimulus packages that were implemented by host governments did not benefit many FDPs – not always because the relief was restricted to 'citizens'. More frequently, government schemes attempted to attain a "two-in-one" benefit of the relief packages, by only targeting licensed or registered MSMEs, or by requiring benefiting MSMEs to become licensed irrespective of their size. In Ghana, like in most other developing economies, most micro and small FDP and migrant-owned businesses are informal, and therefore, did not qualify for the relief, recovery nor stimulus packages provided.[89] Some jurisdictions sought to ensure that clients in pandemic-related moratoria or rescheduling were not penalized in credit reporting, but in some markets, the codes used by FSPs to report, and by credit bureaus to categorize, moratoria or other forbearance were not sufficiently disaggregated for clients to escape a downgrading of their credit score.[90]

> Weighing the benefit and cost of inclusion against the risk and cost of further exclusion could make a case for including FDP customers in temporary moratoria on debt servicing in countries of origin (including loans taken out to pay for migration costs) and business rent and salary payments in host countries;[91]
> Likewise, government credit facilities provided via FSPs at a subsidized cost to help MSMEs grow and recover from the pandemic and keep staff employed, could be extended to also benefit FDP-owned businesses to ensure that all of society can get back on their feet after the economic shock.

EXTENDING THE REVIEW FROM POLICIES TO PRACTICES

A first step is to ensure that policy and regulatory texts are revised and guidance is issued to facilitate access by FDPs to formal finance, but the work does not stop there. The regulator should also monitor the actual implementation of the regulations in the financial sector to streamline administrative processes. Examples of areas that may require additional monitoring include the following:

> Regulations may prescribe the inclusive recording of all borrowers (over a certain credit limit) in a credit registry, also to promote the building of credit histories for micro-clients, and the regulations may require alternative IDs to be accepted by the credit registry or bureau, but do the forms used by FSPs for this process include fields for registering alternative IDs? Egypt's credit bureau, I-Score, is currently working to fix a glitch which prevents FSPs from uploading customers without a national ID. Often, it is the small gaps in the administrative processes that cause FDPs to be rejected by FSPs or give up in the process of accessing a loan;
> Regulations may guide FSPs to perform simplified CDD on FDP customers for low-value transactions, but can FDPs who need larger loans reasonably meet the requirements for enhanced CCD? While the requirements and standards do not need to be specific to FDPs, they should be non-discriminatory, enabling FDPs that otherwise qualify for FSP services to meet the requirements and access the financial services they need, at par with nationals (use the litmus test);
> Even with clear regulatory support for the financial inclusion of FDPs, FSPs will often be reluctant to engage, either due to a perceived high credit risk related to transiency, flight risk, or the lack of contract enforceability; reputational risk (or reactions from existing customers) in markets where the inclusion of FDPs is politically sensitive; and the perceived lack of FDP bankability, poverty, and excessive cost of onboarding, etc.[92] The majority of such concerns stem from a lack of familiarity with the new customer segment. Significant economies of scale and avoidance of duplication of efforts can be achieved by making available market diagnostic data to all interested FSPs, and by facilitating the personal meetings of FSP staff and managers with FDPs, as demonstrated by the successful and competitive Refugee Design Sprints hosted by Financial Systems Deepening Africa in Rwanda and Uganda.[93]

Financial policymakers and regulators can collaborate with other authorities through dialogue forums to ensure that administrative processes implemented elsewhere in the economic sphere follow the intent of laws and regulations adopted to enhance financial inclusion. If there are concerns or regulatory access constraints that need time to be addressed with other stakeholders, consider allowing interested FSPs and other providers (MNOs, payment service providers, and Fintechs) to pilot access projects in regulatory sandboxes or with time-specific waivers of regulations against a requirement to report back on results. Such reports can be shared for peer-learning purposes among FSPs, as well as with development and humanitarian stakeholders working to improve FDP livelihoods and resilience through dialogue forums. Clearly, such information-sharing frameworks need to reflect privacy and data protection principles for customers, and the collaboration forums should serve to lower compliance costs for FSPs,[94] incentivizing them to facilitate access by FDPs and other marginalized groups to appropriate formal financial services.

PILLAR III: ENHANCING USAGE

Effective Usage of Relevant Financial Services

At this stage, the goal is to move beyond access to finance and address any barriers to the sustained and increasingly diversified usage of affordable and high-quality formal financial services by FDPs.[95] The extent to which any consumer will use regulated financial services is determined first and foremost by the relevance of the products to their desired financial outcomes, but also by how fair and transparent the products, processes and providers are perceived to treat consumers, and their level of knowledge, skills and attitudes, including trust. These aspects are particularly important for FDPs, since they are, by nature of being displaced, more likely to be exposed to risks and may have even deeper privacy concerns than the average citizen.[96]

In this regard, private sector engagement is critical, particularly in creating compelling products for FDPs such as a group savings accounts and in providing consumer-centric financial education to enhance usage among FDPs.

Digital financial services (DFS) have become more important given the experience of COVID-19 and have the potential to address some of the structural and practical usage barriers to FDPs' financial inclusion.[97] FDPs increasingly use mobile phones to perform financial transactions and manage personal finances, and mobile wallets have become an important distribution channel. Across Sub-Saharan Africa, advanced and innovative e-wallet services, including M-Pesa, lead financial services ecosystems, but 'drop-off' in usage (dormancy) over time and the persistently high financial exclusion rates suggest that hurdles remain.[98]

ENSURING RELEVANCE TO PROMOTE USAGE ON THE DEMAND-SIDE

Even in markets where access to formal finance has been facilitated, many FDPs tend to prefer meeting their needs for finance from informal sources, which are familiar, low-cost, recognized within their communities and typically delivered person-to-person. While the overall policy goals of 'cashless societies' have many merits, it is a big ask for FDPs and other financially excluded populations to transition from informal to formal finance and then to DFS, especially in markets where cash remains king and informal finance remains plentiful.

Payment products, such as pre-paid cards or wallets with limited functions and low transaction ceilings, distributed to FDPs as humanitarian cash assistance from an INGO or NGO, or via a contracted FSP, are lower risk and require lower levels of KYC verification under most national laws. Despite the oft-cited hope that such cash-based assistance is a steppingstone to formal financial inclusion, however, this transition has proved neither automatic nor guaranteed. DFS such as mobile money, can be more accessible for FDPs than standard bank accounts, but if FDPs are only permitted a restricted form of access, or if FDPs are being offered products that are not yet well established among nationals, access does not necessarily lead to increased usage, as Jordan has experienced (see Box 10).

BOX 10: FDPS NEED RELEVANT MAINSTREAM SERVICES

Do not expect widespread adoption by FDPs if financial service provision, such as remittances via mobile wallets, are only in an experimental stage with a host population. FDPs are not isolated but interact with members of the host population and observe the financial products used by their hosts. This, to a large extent, explains the low uptake of the limited-function mobile wallet-based payment product introduced for Syrian refugees in Jordan.

In addition, many refugees in Jordan do not have a 'finance' problem as much as they have an 'income' problem and paying bills or transferring money digitally is much less relevant than accessing additional income. Marketing and training in DFS options that promote livelihoods in e-commerce, the gig economy, and other online marketplaces, digital (crowd) fundraising, remittances, and labeled m-wallets with sub-accounts for specific savings goals are likely to generate more interest than cashless payments. Unlike Syrian refugees, who can open mobile wallets with a special Service Card issued by the Ministry of Interior, all other cross-border FDPs are required to have a valid passport – which continues to be an insurmountable barrier for many.

Source: https://www.rescue.org/sites/default/files/document/6473/findfinalreportv3 greenred.pdf and https://sites.tufts.edu/journeysproject/mobile-money-jordan/

To promote usage, the outcomes that FDPs seek to achieve must be front and center in the design of any financial inclusion effort to ensure relevance.[99]

Like any customer, FDPs in the lower economic echelons of society are highly price sensitive and value convenience, transparency, and customer service. As such, in markets where access to formal finance has been facilitated by inclusive policies, demand-driven usage of regulated finance may be enhanced if licensed FSPs can offer products and delivery systems that compete favorably with payday lenders or private loan sharks. For savings, small credit, remittances, and transfer services, many FDPs use informal or semi-formal CBFIs, including savings groups and cooperatives, village banks and independent exchange houses among many others. While these organizations provide excellent platforms for the provision of financial literacy and education, the amount of savings pooled often does not meet the demand for financing of the businesses of members in full. Digitizing and linking such CBFIs to formal FSP accounts will lower the risk of cash being lost or destroyed in savings boxes, and can provide potential entry points for other financial services, including formal credit, but the expansion by FSP service offerings from savings to credit products, has been slow.[100]

90%

In most of the 90 percent of global markets where postal operators offer financial services, these services are provided to everyone regardless of income and nationality, and usually through a much larger branch network than other FSPs can maintain.

Postal operators can, therefore, be relevant partners of FSPs as well as governments to improve usage of transfers and other financial services by FDPs.[101]

FDPs in protracted displacement who have access to foundational economic rights[102] will demand a successive range of safe, regulated, affordable financial services, including full-function and increasingly digital payment products, savings, international remittances, credit, and insurance products.[103] There has not been a market to date with a need for 'specialized' products for FDPs. On the contrary, FSPs should expand their existing, mainstream products and services to FDPs on the same terms and conditions as afforded to nationals. However, the processes, documentation (accepted ID documents, etc.) and procedures for onboarding and appraising FDPs might require adjustments for FSPs to be fully 'FDP-ready'.[104] The same is true for government-led social protection schemes and financial sector credit facilities, as discussed above.

BOX 11: ZAKA VERIFIES IDS IN RWANDA

Zaka Group's mobile app and software development kit provides verifiable digital credentials that users can connect with mobile financial and other services. FSPs can use the dashboard to remotely verify and onboard customers. Zaka is working with UNDP and the Turkish Ministry of Foreign Affairs to provide refugees in Turkey with verifiable digital ID credentials. It has also partnered with Airtel and private and public sector partners in Rwanda to rollout a voice biometrics solution for remote customer verification, which can be used by banks, telcos, and healthcare providers. The Digital ID Alliance ID2020 certified Zaka Group as a digital solution for user empowerment in 2020, along with the decentralized cloud platform **Gravity Digital ID API** which powers a similar secure wallet controlled by users to enable the creation and sharing of private and trusted digital identities.

Source: https://www.biometricupdate.com/202006/

Properly disaggregated data on FDP populations (see Pillar I) will determine the scope for 'credit-ready' customers by location. Not everyone can benefit from formal credit, and FSPs must be wary of over-indebting new customers, but the demand for credit, especially among FDPs in protracted displacement, who have jobs or – more often – operate businesses, is often larger than expected. With access to appropriate credit, FDP households and businesses can graduate from a "survivelihood" stage to a more resilient stage, generating decent income.[105] In addition to the lack of ID (See Pillar II), a lack of credit history can be a usage barrier for FDPs, and may increase the price of credit to an unaffordable level. Mobile apps and platforms such as Gravity and Zaka, currently used for refugees in Turkey and Rwanda, is a promising step towards resolving both of these issues (see Box 11). Data from the pioneering FSPs who serve FDPs show that FDP customers may require more staff time to onboard and appraise due to a mutual lack of familiarity and sometimes language barriers, but once approved as borrowers, FDPs have generally performed as well or better than national clients in terms of repayment, even during COVID-19.[106]

ENHANCING FINANCIAL INFRASTRUCTURE TO PROMOTE DFS USAGE

Overall development and resilience of the national financial infrastructure influences the usage of services by the entire population, especially by rural, remote residents. The outreach and footprint of physical infrastructure including bank branches, ATMs, agent networks, and the reach and reliability of mobile and internet connectivity networks determines the use case for both customers and providers, as does intangible financial infrastructure such as payment systems to support the interoperable and digital transfers that FDPs are likely to rely on during and after displacement.[107]

BOX 12: RBI SANDBOX FOR OFFLINE DFS IN INDIA

The eRupaya near-field communication (NFC)-based prepaid card and PoS was tested in a sandbox in 2021. Focused on merchant and offline digital payments in remote locations, it processes payments through NFC without the need for internet connectivity. In August 2021, the Government of India launched the resulting E-RUPI product on its Unified Payments Interface (UPI) platform. So far, 14 banks (October 2021) send prepaid UPI vouchers to the phones of recipients via SMS or QR codes, enabling instant, person-specific and purpose-specific payments, without requiring recipients to share personal information, have a bank account, or a card, smartphone, or internet banking access. e-RUPI is a promising solution for overcoming the lack of telecom penetration, continuous migration of individuals, and low levels of DFS adoption amongst marginalized people in rural areas of India.

Source: https://www.livemint.com/money/personal-finance/6-innovative-payments-solutions-to-look-forward-to-11609862026761.html and https://www.ey.com/ en_in/consulting/e-rupi-an-innovation-to-accelerate-financial-inclusion-in-india

The infrastructure to support reliable operations needs to be in place for DFS and mobile banking to be relevant and useful to FDP customers. Mobile and electronic connectivity needs to be available for mobile phones and POS devices to function dependably in the areas where FDPs and their hosts reside, including in refugee camps or settlements. "Offline" payment systems which are not tied to bank accounts can increase usage by FDPs (see Box 12). However, in markets where cash remains the primary mode of value exchange, outreach via banking agent networks is required for cash-in cash-out services, and agents must be available, trained, and enabled with adequate liquidity and functioning POS devices for customers to transition from cash to formal DFS.[108] An interoperable and secure payment infrastructure, ideally functioning across all digital channels, regions and borders,[109] can support increased usage (as well as ID and account portability), which is important for many population segments, and for FDPs in particular.[110]

ENSURING DATA PROTECTION AND DATA PRIVACY FOR FDPS AS CONSUMERS

Effective consumer protection are a basic regulatory enabler of financial inclusion and must be applied in the context of FDPs as they are for citizens. Traditional consumer protections focus on market conduct, transparency of costs, terms and conditions, and the other important principles enshrined in the Universal Customer Protection Principles.± In addition to adhering to these general principles, the practices of individual FSPs should be especially attuned to issues of shared languages, illiteracy, and lack of familiarity with host country business norms and practices, when serving FDPs. Responsive complaint mechanisms can build trust in the products and providers, especially among newly onboarded customers. In addition to consumer protection regulations increasingly being adopted around the world, FSP investors have signed a joint statement calling on FSPs to join the Client Protection Pathway, encouraging FSPs to prioritize client protection,± while AFI recently published additional guidelines on consumer protections during and after the COVID-19 pandemic.[113]

Financial policymakers and regulators can also adopt rules to ensure clear and timely disclosures by standardizing total-cost metrics for digital products and services, requiring pricing information to be provided before transactions are undertaken, and adapting disclosures for mobile phones. For example, in 2016, the Competition Authority of Kenya issued rules requiring providers to disclose all applicable charges for mobile money services before consumers complete a transaction.[114] In addition, regulatory frameworks for market conduct are imperative, especially for new providers, such as non-bank Fintechs. Regulations should include rules to address provider liability and customer recourse in cases of fraud, theft, cyberattacks and technical and customer error,[115] and deposit insurance should be extended to digital cash in mobile wallets.[116]

As financial services and ID systems become more digitalized, FDP consumer protections, especially with regards to privacy and data, also becomes increasingly important. With rapid, disruptive innovation comes data protection risks. Like all data capture systems, digital ID systems carry risks to the privacy and protection of the individual, which must be addressed through communication and demonstration of the 'high assurance' protections that user control should provide.[117] Many FDPs have understandable additional concerns about privacy protections, especially if there is a risk that personal data may find its way to authorities or actors in their areas of origin, from whom they have fled. Internationally recognized standards and legal frameworks on data protection exist,[118] with specific recommendations on cross-border FDP statistics from UNHCR and on IDP statistics from EGRIS.[119]

In markets with large segments of vulnerable FDP populations that are offered DFS, it is important for regulators to assess whether the existing data protection regulatory framework and laws are comprehensive and sufficiently robust for safe onboarding, verification, and data sharing in the FDP context. At a minimum, the personally identifiable data of a customer required for registration and account opening, including CDD data, must explicitly require customer consent. For FDPs, regulators should consider if customer consent by linguistically challenged or illiterate customers may merit a data protection framework that goes beyond consent to one that establishes a fiduciary relationship between providers and customers. Trust and confidence increase if consumers are better able to fully control who has access to their data.[120]

INCORPORATING ALTERNATIVE DATA IN OPEN DATA REGIMES IN FDP CONTEXTS

Several countries with developing economies are looking at open banking regimes known from many developed economies to support financial inclusion. However, open banking regimes premised on access to bank account data are not primary drivers of financial inclusion. They present opportunities for alternative data to increase usage of financial services. Open data is the exchange of consumer data between and among private sector institutions, including FSPs and NBFIs such as mobile money issuers, utility providers, and telecoms, on the basis of customer consent.[121]

If open data regimes are implemented, customer data sharing allows individual customers to benefit from personalized offers and other assistance. This, in turn, increases the risk to privacy and personal data misuse. Systems must be carefully designed with built-in privacy provisions such as data minimization and proportionality, robust governance, and effective complaints handling. Regulators might need to update laws and regulations on data protection and privacy that specify the rights of data subjects to erasure, informed consent, and portability, and the obligations of the organizations that collect and store data.[122]

Regulatory sandboxes and working groups to analyze innovations, conduct consumer education, and provide risk management certification are great ways to enable regulators to use data analytics to understand, monitor and develop codes of conduct to regulate the fast-developing DFS and fintech markets.[123]

Many FDPs have very thin or no digital financial data trails. To support FDP financial inclusion directly, data sharing regimes must extend beyond FSP accounts to include data from other sectors. Non-bank types of digital data, like social media and web search activity, airtime use, e-commerce, or location data, can help bolster such data trails, including for alternative credit scoring to promote more responsible credit as well as shared CDD, for all consumers. However, many of the emerging open data solutions being developed by Fintechs are predicated on smartphone access. In low-penetration markets, it makes sense to focus on technology which only uses data at the back end, and does not require smartphone technology, such as automatic savings sweeping, smart loan repayments, and decentralized CDD (see Box 14).

The use of 'alternative data' by Fintechs to perform innovative credit scoring which could improve usage and access to more products by FDPs might require policymaking to ensure data safety and consumer protection. Such policy regimes can be voluntary or mandated by regulations, but even voluntary regimes usually have mandatory rules for the entities that decide to join. The main holders of non-banking types of digital data are usually not under the jurisdiction of the financial sector regulator. Financial sector regulators, therefore, need to collaborate with counterparts in other domains to determine if and how a cross-sector open data regime can be established. The cross-regulatory mandates of Open data regimes make design more complex, but it is worth thinking long-term to ensure that any open data regime will remain fit for financial inclusion purposes in the long-term. Brazil, Mexico, and Indonesia explicitly aim for financial inclusion in their emerging open banking regimes, and the United Kingdom and Australia have identified vulnerable populations as specific target groups. Australia's consumer data right (CDR) is expanding to the energy and telecoms sectors and the United Kingdom has recently introduced a Smart Data regime that will extend data sharing to energy, pensions, telecoms, and other utilities.[124]

BOX 13: REMITLY'S PASSBOOK FOR MIGRANTS

Established in 2011, Remitly has partnered with Sunrise Banks to introduce Passbook as a digital banking solution that eliminates fees and other common barriers to opening a bank account and introduces new cross-border money transfer benefits for migrants in the US. Passbook enables new customers to be verified digitally based on ID documents common to migrants in the US such as an ITIN, passport, and other foreign government-issued IDs like the Matricula Consular ID available to Mexican migrants. A US Social Security number is not required to sign up, and the Passbook attracts no monthly fees, has no minimum balance and no overdraft fees, and has access to surcharge-free ATMs. Passbook accountholders can access special pricing when using Remitly to send money internationally.

Source: https://www.passbook.app/

Cross-border remittances were one of the earliest use cases of blockchain technology, which significantly lowered transaction costs and increased speeds. Most governments across Africa, however, have been apprehensive in their uptake of blockchain technology.[125] Digital remittance use is growing as more FDPs gain access to digital wallets, and is an important part of the cross-border payments roadmap launched in 2019.[126] Good progress has been made in digitizing remittance initiation and transfer, enabling remittances to be sent with more speed and transparency, and at lower transaction costs (see Box 13). However, the majority of remittances are still received in cash, which adds costs to both senders and receivers, as the cost of cash collection is built into the business model.[127] Mobile money, used both to fund and disburse the transactions, is now the least costly of comparable distribution instruments,[128] but at the end of 2020, remittance fees still averaged 6.5 percent, with Sub-Saharan Africa continuing to have the highest average cost, at 8.2 percent.[129] Part of this cost is taxes and fees to governments, so affordable costing of mobile phone usage should be an area of regulatory interest.

Many regulators are encouraging digital inclusion to enable more recipients to use DFS but there are considerable AML/CFT/CPF compliance hurdles in moving money globally and bringing innovations to market. Based on the 2007 "General principles for international remittance services,"[130] policymakers and regulators can support partnerships with and among payment service providers, including small, independent remittance providers, and payment networks to encourage competition with open data under updated global technical standards.[131] The Universal Postal Union's PosTransfer payment trails and standards enable postal operators to compete with banks and other remittance providers and allows for cheaper and faster settlements between postal operators.[132]

Connecting the postal network to international remittance systems could be an economically sensible approach for regulators in some jurisdictions.[133]

PROMOTING CONSUMER AWARENESS AND CAPACITY-BUILDING AMONG FDPS

Reluctance to use financial services, even if accessible, is something that has been observed among some sub-segments on the demand-side. FDPs may self-exclude due to lack of awareness of available services, perceived ineligibility, religious beliefs or mistrust, fear of loss of humanitarian aid, or the perceived lack of a need for formal financial services, especially in markets where cash dominates. However, in many markets, mobile phone penetration among FDPs and nationals is similar, and the COVID-19 pandemic has increased the awareness and usage of contactless services across the board and heightened demand for DFS among FDPs.

Including FDPs in national digital, financial literacy and education strategies and projects is helpful, especially for forcibly displaced women and youth. Expanding the targeting of such policies and initiatives to existing informal CBFIs serving FDPs, especially where formal financial inclusion has not been an option, provides a cost-effective path of entry for educational efforts, if provided in relevant languages. Ensuring that providers of financial literacy, and even more importantly business development services for FDPs, are appropriately qualified is a pain point that financial sector regulators could assist in resolving through collaborations with relevant business and education sector stakeholders.

Demand-side awareness raising and capacity building is often a welcome non-financial service (NFS) to accompany digital and financial inclusion for FDPs and has been offered for decades by humanitarian and development actors alike. Historically, much of the NFS provision to FDPs has been offered by grant-funded humanitarian INGOs and NGOs, not all of whom subscribe to a market systems development approach, nor have the expertise necessary to monitor and ensure outcomes in terms of access to markets, self-employment or employability. More recently, the private sector and financial service providers, such as banks, can also play an important role in providing consumer-centric financial education to FDPs. Customer-centric design based on actual and disaggregated demand among FDPs is crucial to avoid the NFS being presented (to funders and regulators) as a financial inclusion outcome on its own. In many markets, FDPs have been 'trained' for employability, job creation and income generation, but have seen little of either, which has led to distinct 'training fatigue'. In-depth demand research with a strong market-led approach should take place as part of the design of any NFS intervention to ensure that promises of improved livelihoods are actually fulfillable.

83%

A recent assessment revealed that 83 percent of AFI members have implemented financial education programs, but one third of members had no distinct monitoring and evaluation (M&E) frameworks to measure or document their effectiveness.[134]

Financial education and capability-building efforts can assist FDPs to create healthier habits and avoid costly errors in decisions. National financial education strategies that address FDPs and incorporate a financial health perspective should aim for financially capable FDPs who have healthy financial habits and make good financial decisions. But traditional financial education programming focused on the simple transfer of information about financial products and assuming better choices may not be effective. Rather, capacity building on how to assess, compare, decide on and use effectively available products, including behavioral economics, can better improve financial decisions, which are often complex, require trade-offs and uncertainties, and involve both aspirations and fears.[135] This is true for most unbanked population segments, and except in environments with language barriers or exceptionally low social cohesion between FDPs and host communities, there is little reason to develop capacity building programs specifically for FDPs. The joint learning environment with non-displaced nationals may instead build social and business ties that can be leveraged later.[136]

Standalone financial education efforts may improve financial decision-making but will not enable better usage of formal financial products, unless directly linked. To ensure the smooth interaction between NFS and financial inclusion, FSPs should be encouraged to work closely with NFS providers, if they are not directly providing NFS themselves. This includes the provision of information on available services and how FDPs can access them at meetings and through marketing materials provided as documents or digitally and translated into relevant languages.[137] The business case for delivering NFS sustainably, however, is still emerging. Encouraging FSPs to onboard customers during NFS interactions and track the customer journey through initial NFS, payment transactions, over savings to credit and insurance would provide FSPs with a better measure of total customer costs and options for cross-subsidization of NFS. But there may still be a case for grant financing of NFS as a public good in markets with large unbanked population segments.[138] While financial education can be introduced in the educational system for nationals, FDPs are often not able to fully access standard education.

PILLAR IV: ENSURING SUSTAINABILITY

Creating Measurable Impact

At this stage of the journey, access, and usage by FDPs have been facilitated, and a combination of positive incentives and accountability measures can be applied to enhance political will and shift the policymaking intent from financial inclusion to a goal of financial health of all. The focus of the work shifts to measuring the progress and benefits of financial inclusion and setting targets for the new goal.

AN EVOLVING POLICY AGENDA

A more explicit recognition of financial health as a goal, accompanied by the measurement of gaps in the financial health of the entire population – especially the newly included – can help policymakers set a financial health agenda that is focused on positive outcomes for individuals, households, and small businesses. Financial sector policies that promote financial health are obvious: support savings, curb predatory lending, reduce exposure to risk or provide risk mitigations, and assist people in building long-term assets.

> **Payments:** Cheap, effective payment products are essential for day-to-day financial health, especially for government safety net programs and humanitarian responses that help smooth and bolster incomes for people with lower incomes. Digital payments (mobile money) can increase the ability of FDPs to use their social networks to manage shocks;

> **Savings:** As a cornerstone for at least two elements of financial health – resilience and long-term goals – savings products should be safe, available, and easy to use by FDPs;

> **Credit:** Access to credit can support resilience and long-term goals, but too much debt is one cause of poor financial health, providing an important justification for consumer protection regulations that cover FDPs;

> **Insurance** reduces the financial consequences of specific types of shocks, contributing to resilience. While access to insurance remains low worldwide, expanding micro-insurance products to FDPs is especially important for improving their financial health; and

> **Investments and pensions** are critical for FDPs to attain long-term goals and confidence in a financial future.[139]

With a goal of financial health for all, the overall policy and regulatory environment and governance systems can shift away from refugee rights under international legal instruments to a focus on measuring and improving the financial well-being of all who reside within a jurisdiction. Policy interventions and adjustments should focus on areas where needed (where there is a lack of evidence on outcomes), whether to ensure FDPs have a secured legal status and are known to authorities for the purposes of security, stability, and management of service delivery; to make progress towards poverty reduction and development; or to level the playing field for economic participation by all to build resilience and financially healthy lives.

One way to signal this commitment and align many players is to incorporate financial health into national financial inclusion and financial education strategies; While policies can target the distinct needs of FDPs, it is even more important that they be designed and implemented in a non-discriminatory manner, across all policy dimensions and political concerns of government.

STRENGTHENING COLLABORATIONS AND BUILDING CAPACITY

Institutional frameworks and an efficient government-led coordination system should be put in place or strengthened not so much to "manage a refugee or IDP situation" as to ensure sensible policy development, consistency and coordination across government and with external parties, including the private sector and FDPs.[140] These coordination structures are crucial to ensure a joined-up approach by all relevant actors and to strengthen the ongoing dialogue to compile data for the measurement of progress, identification of needs for further policy adjustments, and to advance solutions for increased financial health. Such dialogue forums and partnerships also allow for a "sharing of the workload" and can ensure that financial health-promoting products and institutions with financial inclusion business models are given enough space to grow and propose additional regulatory and supervisory efforts that may result in better outcomes for all.[141] Further, collaboration is needed with stakeholders outside the financial sector, including those offering community-based interventions such as mentorships for local businesses. This would be helpful in ensuring the sustainability of the financial health and inclusion of FDPs.

The main financial sector regulator(s) would be well-placed to 'champion' and lead a coordination forum established for the financial inclusion aspects of financial health – and play a supportive advocacy role in forums or for stakeholders working on adjusting policies and monitoring financial health in the population. However, trying to regulate the fast-moving digital financial system is already hard enough. Considerable efforts are being made to ensure that FDPs are digitally literate – but the rapid growth of technology-driven financial services has also heightened the need to develop new skills, build capacities, and create an organizational culture that embraces innovation both in FSPs and within regulatory authorities. Regulators can take a phased approach and use application programming interfaces (APIs) to access and operate within existing structures and legacy systems, while staff are being retrained or retooled. Regulators can also empower and promote in-house "intrapreneurs", including user experience designers, and data and AI scientists, who recognize the emerging needs of customers and can design solutions that offer value-added services. FSPs and regulators need to develop new human resource strategies to incentivize, train and retain employees interested in taking up the challenge of innovation. All employees should have access to channel ideas into dedicated in-house innovation teams.

FOCUSING ON THE DIGITAL FUTURE: ENHANCE DATA SHARING AND PORTABILITY

Better financial health outcomes can be facilitated by allowing digital identification, enabling e-KYC, and adopting collaborative CDD models.[141] Open banking and open data systems can support financial resilience as Fintechs, utility companies, telecoms, account information service providers and payment initiation service providers are increasingly able to access and use financial customer data to create new products better suited to FDPs. This, in turn, can increase competition, lower prices and increase product diversity, and may also serve as incentives for FSPs with new business models to serve FDPs which they previously considered unprofitable. To protect FDPs as consumers in these innovative data sharing systems, key elements such as technical standards for data sharing, liability, dispute resolution, and the cost of data calls need to be clearly articulated either in regulations or by a governance entity with the commensurate resources.

Data portability is not required for data sharing, but it gives consumers the right to port the data they wish instead of solely agreeing to requests initiated by providers, and can help regulators expand data sharing.[143] In addition to using cross-border payments and remittance services while on the move and in countries of displacements, many FDPs exploit market niches, such as language skills and knowledge of a specific country of origin, to develop business opportunities and self-employment in the gig economy, in brokering and cross-border trade.[144] This makes cross-border portability of financial products of special interest to FDPs (see Box 14).

BOX 14: A FREE, PORTABLE CROSS-BORDER WALLET

Leaf Global Fintech launched the "Leaf Wallet" in February 2021. Originally designed for refugees but relevant for small cross-border traders as well, the Leaf Wallet is a digital wallet that allows users to store, move and exchange money in multiple currencies across borders, sending and receiving remittances, cash-in and cash-out (so far in Kenya, Rwanda and Uganda) through mobile money and can be used on both smartphones and basic phones with no internet. Wallet to wallet transfers on Leaf are free, and there are no fees to register, store money, buy airtime, exchange currencies, or transact between two Leaf accounts. Cashing out from the Leaf Wallet to mobile money costs 2% of the value. So far, four languages are supported over USSD: English, French, Kinyarwanda, and Kiswahili.

Source: https://leafglobalfintech.com/leaf/leaf-for-migrants/

Enabling regulatory environments for portable financial inclusion solutions, including mobile wallets, that can be effective regardless of whether FDPs integrate, resettle, or voluntarily repatriate is of real value to them and can promote their financial health.[145] Country-level regulations often limit the ability of FSPs to share information, a problem that becomes vastly more challenging in the cross-border context. With different license requirements around the globe that need to be navigated, FSPs must spend large amounts of time and money to navigate the different policies and requirements. Cross-sector coordination among regulators can also be difficult at the best of times, and with a large number of implicated regulators in the design of cross-border data portability regulations, challenges are multiplied, and implementation delays are likely, if resources are scarce and priorities diverge.[146] A separate regional governing body may be required, and here, institutions like the BCEAO for West Africa have a potential role to play. National regulators can use regulatory sandboxes or other innovation windows to further develop options in a controlled environment.[147]

Initial regulatory complexities have been identified for cross-border financial services, to include KYC requirements, suspicious activity report (SAR) thresholds, office of foreign asset control (OFAC) screenings, and other AML/CFT/CPF requirements. But there is an increasing policy focus on decreasing the frictions currently inherent to cross-border money movements. Many public sectors are currently examining and addressing these various frictions as part of the multi-year cross-border roadmap being managed by the Financial Stability Board to improve "regulatory, supervisory, and oversight frameworks" - mostly from a risk perspective. The "cutting edge" of the financial inclusion agenda currently focuses on efforts to reduce the identified frictions by harmonizing and aligning rules. These efforts would clearly benefit the financial inclusion of FDPs even during their journeys. Initiatives that can promote the overall, sustainable inclusion of all include:

- Allowing the use of alternative data for credit reporting and enabling responsible cross-border (regional) data exchanges to improve the consistency and comparability of data;[148]
- Increased consistency and streamlining of licensing requirements to help FSPs and Fintechs operate across multiple countries, regulatory regimes, and currencies to better serve customers who move and transfer money, goods, services, and assets across borders;
- Development of comprehensive, integrated, cross-border payment solutions for migration and trade flows, e-commerce, and remittances;[149]
- Collaboration among regional peers and international bodies to formulate transnational frameworks for cross-border interoperability and harmonized levels of assurance of banking and digital ID regimes;[150] and
- Development of consistent, regional if not global AML/CFT compliance frameworks to improve the efficiency and transparency of cross-border financial products.[151]

MEASURING PROGRESS AND IMPACTS

Progress cannot be tracked without measurements. Standard measures of financial inclusion, such as bank account access or usage, fall short of capturing the essence of financial health. These measures cannot capture whether financial services are contributing to personal or household financial well-being, nor do they shed light on people's ability to manage their financial obligations or have confidence in their financial future. Similarly, measures of employment status or income tend to skim over the difficulty many people have in managing high costs of living, income variability, financial shocks, or debt.

Most financial health measurement efforts include a short module of key questions that reveal the financial health "temperature" of segments of society. Short module surveys can provide baselines, benchmarks and insights on correlations and impacts on financial health among segments, for example, by sex, ID or employment status, income levels, location, and use of financial services; early warning of rising debt burdens, possibly before FSP portfolio quality deteriorates; preparedness of consumers to meet financial shocks; and changes in sentiment regarding financial well-being and confidence in the future – all important indicators for regulators looking to monitor financial inclusion impact and compile data for future inclusive financial integrity, as recommended by AFI.[152] If compiled at regular intervals, financial health measurements can become an important complement to existing market monitoring tools, giving supervisors a picture of the current state of consumers' financial situations, and can confirm the results of policy decisions, or indicate where further policy adjustments are needed.[153]

There is as yet no single, widely accepted method or set of indicators for measuring financial health. The metrics are still variable and need to be adapted to specific country contexts, especially to environments where general incomes are so precarious that only a small proportion of the population is likely to achieve secure financial health.[154] However, Kenya is one lower-middle-income country that has begun exploring financial health through its FinAccess studies,[155] and further guidance for regulators is available on how to collect financial health data.[156] The resilience questions incorporated in both the Global Findex[157] and the OECD/INFE survey on financial education[158] could be used as building blocks for a global financial health assessment module. Interested regulators could start by contacting policymakers in Brazil, Colombia, Kenya, or Mexico, who have already begun to measure financial health. Regulators can also tap into the growing global financial health community through initiatives such as UNCDF's Centre for Financial Health in Singapore, CAF's support for measurement of financial health and its incorporation into national financial inclusion and financial education strategies in Latin America, UNEP's guidance for financial institutions on financial inclusion and health, and the Financial Health Networks' work with private companies to build financial health into their operations.[159]

The progress and impact of policy actions taken towards achieving the overall goal of financial health for all should be periodically monitored and evaluated. Combined with surveys, the dialogue forums established could be used to identify new pain points and promote improvements in the country frameworks and processes needed to achieve inclusive financial health for all.[160] Financial policymakers and regulators can also engage local community groups to better assess policy impacts and keep track of the evolving financial needs of FDPs.

3. CONCLUSION AND THE POLICY FRAMEWORK IN SUMMARY

An inclusive financial system that enables equal access and usage of appropriate financial services for all, including FDPs, can assist the economic recovery and development of nations, if foundational socioeconomic and legal rights are granted.

Financial inclusion for all is often an accepted aim – but the policy and regulatory adjustments required to ensure that FDPs have equal access to high-quality, affordable financial products which they can use and benefit from are far from simple to implement. Successful financial inclusion for FDPs is influenced by the complexities of migration and refugee policies and internal displacement politics in the wider society. A focus on the broader goal of financial health for all, including FDPs, can help overcome these challenges.

The financial health of FDPs and their descendants and hosts hinges on their ability to exercise fundamental economic rights. When FDPs can generate resources to pay for their journeys, and effectively procure legal identities and permission to stay, work and open and own businesses and other assets in displacement, they can enhance their livelihoods, self-reliance and resilience and contribute more to the communities that host them in displacement. Decent livelihoods improve financial health, and this, in turn, generates demand for more and better formal financial services.

In seeking to meet this demand for financial services (such as payments, savings, credit, and insurance) by increasingly regulated FSPs, both FDPs and FSPs will benefit from national policy frameworks which recognize that the benefit of increased financial inclusion for all likely outweighs any risks to the integrity of the financial system. In the journey towards full financial inclusion and improved financial health for all, financial policymakers and regulators can identify their position in the proposed four pillar policy framework to improve how they focus on addressing the main policy implementation challenges being faced.

PILLAR I

When starting out to promote the case for increased FDP financial inclusion:

- **Convene a broad group of stakeholders**, including FDP representatives, to discuss the current status of financial inclusion and the way forward;
- **Compile data and analyses** on all FDPs in the jurisdiction to get a comprehensive understanding of the different population segments, and their likely overlap. Publish and share such initial market scoping studies widely to avoid duplication of efforts, and encourage peer-learning across sectors and in the market;
- **Summarize the results** in a position or concept paper with an action plan, signed by all stakeholders that can be presented to higher-level political forums and authorities; and
- **Specifically recognize FDPs** in NFIS, NFSE and other policy frameworks to increase their visibility to stakeholders.

PILLAR II

Ensuring the mechanics of access to formal finance adequately accommodates FDPs:

- **Identify, prioritize, and sequence** the main pain points for access by FDPs to economic participation and financial services and assign responsible actors to find solutions, convening regularly to coordinate efforts and track progress;
- **Review and authorize** the use of alternative, complementary IDs (and residence documents), including digital copies, as KYC-able for FSPs, MNOs and PSPs to serve FDPs;
- **Consider using Community Based Financial Institutions** for linkages to FSPs, since this will be critical in formalizing FDPs who are excluded due to a lack of IDs, proper collateral or residential addresses. This approach does not require all the members in the group to have all necessary KYC documentation to access financial services;
- **Provide guidance** to FSPs on how to practically authenticate FDP customers in the CDD regime, for example, through collaborative CDD or an e-KYC utility;
- **Review, adjust and publish** guidance to FSPs on definitions of borrowers (individuals and businesses) and guarantors, as well as requirements for proof of address and collateral to enable access by FDPs;

> **Set standards** for and review the quality of AML/CFT risk assessments by FSPs, starting with the largest players, to minimize FDP financial exclusion and to develop a contextual ML/TF risk regime for FDPs;

> **Consider access** by FDPs to public sector crisis mitigation measures and credit facilities; and

> **Monitor the actual implementation of revised regulations** to streamline administrative processes, for instance, access by FDPs to credit bureaus, and enhanced CDD.

PILLAR III

When the uptake and usage is not commensurate with the regulatory facilitation of access, consider that:

> **Formal financial products**, providers and delivery mechanisms must be relevant to the financial outcomes FDPs seek to achieve;

> **The footprint of physical financial infrastructure** (including power, ICT, and agent networks) must be within reach of FDP populations, and digital payment systems must be reliable, affordable, and ideally interoperable, or complemented by offline alternatives;

> **FSP-internal processes**, criteria and procedures for onboarding and appraising customers might require adjustments for FSPs to be fully ‘FDP-ready’;

> **Open data systems**, if mainstreamed and well-regulated to protect consumers, can improve usage by FDPs with thin financial data trails;

> **FDPs may need more awareness** about available products and their conditions, as well as customer-centric and market-led financial education and capacity building to facilitate their transition to formal FSPs.

PILLAR IV

When access is authorized and usage is increasing, it is time to focus on financial health for all, including FDPs:

> **The policy agenda can shift away** from FDP inclusion to non-discriminating policies advancing financial health for all, through a combination of positive incentives and accountability measures;

> **Stronger coordination structures** can ensure a joined-up approach and better data for the measurement of progress, identification of areas requiring further policy adjustments, and to advance solutions;

> **To regulate** the increasingly complex and digital financial system, FSPs and regulators also need new skills, capacity building and an organizational culture that embraces innovation;

> **Integration and consolidation** of data systems, collaborative CDD regimes and e-KYC platforms, open banking and data systems are likely to be the focus of policy framework adjustments, with portability of data and effective cross-border financial services as the next regulatory challenge; and

> **Better measures and monitoring** will be needed to track the progress and impact of the policy actions taken. For this, better data and new stakeholders will need to be convened (back to Pillar I).

ANNEX 1: FURTHER RESOURCES AND GUIDANCE – A NON-EXHAUSTIVE LIST

A growing community of development investors, donors and funders are supporting more inclusive, progressive, and sustainable policies of countries with large populations of migrants, although the focus has remained mostly on refugee-hosting countries, while collaboration across the humanitarian-development nexus and with all relevant government and market actors remains a work in progress. Some progress has been noted on the Grand Bargain commitments of 2016, but many of them – including on the better use of multi-year and flexible funding and channeling a greater proportion of funding to local actors – remain unfulfilled.[161] The process of monitoring the pledges to the Global Compact on Refugees through the Global Refugee Forums, taking place next in 2023 is a step forward, but still risks addressing only a minority of people on the move. If the Compacts on Migration and Refugees could be combined to seek political and financial support to improve the financial health of all residents, everywhere, the current division, silos and fragmented collaboration gaps might be better overcome. Nevertheless, there is a commitment from a number of international actors that can support national – and increasingly cross-border groups of national - regulators in addressing the complex issues faced in moving towards improved financial health for all, some of which include:

- The World Bank Group (WBG) has scaled up its efforts to support refugees and refugee-hosting communities, in particular through the USD2 billion IDA18 Sub-window for Refugees and Host Communities (RSW) and the USD2.2 billion IDA19 Window for Host Communities and Refugees (WHR).[162]
- The Global Compact on Refugees' Asylum Capacity Support Group (ACSG) aims to help states strengthen any aspect of their national asylum/refugee status determination (RSD) systems, including their fairness, efficiency, adaptability, and integrity. Since its launch at the first GRF, the ACSG mechanism has been operationalized and, to date, pilot projects have been launched or announced, mainly, through state-to-state matching. In the ACSG portal, states and other stakeholders can find information and examples of good practices from different regions;[163]
  - At the first GRF in December 2019, three support platforms were launched: the platform for the Solutions Strategy for Afghan Refugees (SSAR) supporting Afghanistan, Iran, and Pakistan; a platform to support the efforts of the Marco Integral Regional para la Protección y Soluciones (MIRPS) countries (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Panama), and the Intergovernmental Authority on Development (IGAD) Support Platform, which builds upon the pre-existing Nairobi Process and supports Djibouti, Ethiopia, Kenya, Uganda, Somalia, South Sudan, and Sudan. Since their launch, the platforms have been consolidated as mechanisms to promote a coordinated regional response, gathering all relevant stakeholders. At their core, the support platforms are state-led groupings of governments and other key actors that place refugees and their hosts at the center, with donors and other key supporters rallying around them to enhance shared learning and build an evidence base to inform future platforms;[164]
- The Global Academic Interdisciplinary Network, which emerged from the GCR, brings together academics, policymakers, practitioners, and other experts on the issues;[165]
- The International Network on Conflict and Fragility (INCAF) submitted a Common Position on Comprehensive Solutions to Refugee Situations, which is based on the OECD policy paper on Financing for Refugee Situations, which outlines best practice principles on how financing can promote solutions;
- The Global Cities Fund for Inclusive Pandemic Response aims to respond to the unmet needs of cities supporting migrants, refugees and IDPs as part of the cities' COVID-19 response, particularly in light of shrinking local government budgets;[166]
- ATLAS is expanding its reach, replacing the MIX market as a platform for investors and regulators to obtain and compare validated data on Financial Service Providers' pricing, client protection, social and financial performance ratings, etc.[167]
- The Global PROSPECTS Partnership, a joint endeavor of the Netherlands, the World Bank Group, UNHCR, UNICEF and ILO, aims to "shift the paradigm from a humanitarian to a development approach in responding to forced displacement crises";
- The EU launched a forced displacement and development policy framework on "Lives in Dignity - from Aid-dependence to Self-reliance" in 2016,[168] to work with host governments and local actors to support the gradual socioeconomic inclusion of refugees and IDPs. Since then, however, most EU

funding has been channeled through humanitarian organizations for basic needs;[169]

- The UN Disaster and Resilience Response (DRR) has developed the "Words into Action" (WiA) series of documents to offer specific advice to implement the Sendai Framework,[170] available online in several languages. The "Reducing Disaster Risk, Supporting Resilience and Protecting Disaster Displaced People—Implementation of the Words into Action Guide on Disaster Displacement" project supports interested governments in using the WiA on Disaster Displacement for policy revision;[171]
- For data and evidence, UNHCR and IOM are the main data repositories for basic demographic and some socioeconomic data on cross-border FDPs. The UN Statistical Commission (UNSC) established the Expert Group on Refugee and Internally Displaced Persons Statistics (EGRIS) to develop International Recommendations on Refugee Statistics (IRRS) that were endorsed in 2018, providing for the first time, globally endorsed concrete guidance and standards for humanitarian and development actors on how to improve the overall quality and availability of official statistics on refugees, asylum seekers, and related populations. EGRIS is currently investing in building capacities of national statistical offices for the implementation of the IRRS and the International Recommendations on IDP Statistics (IRIS), providing an important platform for coordinating capacity building for states. EGRIS is advocating for the integration of forced displacement into National Strategies for the Development of Statistics (NSDS), investment in national statistical capacities, increased funding for the forced displacement data area, and increased multi-stakeholder partnerships and coordination with national institutions on the importance of evidence and statistics for effective policymaking and program development;[172]
- The Internal Displacement Monitoring Centre (IDMC), the Joint IDP Profiling Service (JIPS), and IOM's Displacement Tracking Matrix seeks to track and compile data on IDP populations. The recently formed World Bank-UNHCR Joint Data Center and OCHA play a crucial role in developing new and better data, and analyzing it for use by policymakers and FSPs alike, as supported by UNHCR's internal ProGress and PRIMES databases, and a number of INGOs, including NRC, REACH, and many others;[173]
- Migrant Nations is a new collaboration of UN agencies, led by UNDP, and involving refugee hosting nations and private organizations in securing sustained livelihood opportunities by leveraging digitally enabled tools that will support job opportunities even in a changing world of work for displaced people;[174]
- Pulling together private sector resources, research and innovations for solutions, the Tent Foundation,[175] the Refugee Investment Network ` and regional coalitions, such as the Amahoro Coalition for Africa,[177] supports workable solutions for refugees. The start-up investment firm Amplio Ventures has committed to work towards investing up to USD100 million by 2030 in refugee-led and staffed companies worldwide, focusing in particular on technology companies in the US willing to engage refugees as remote workers;[178]
- To capitalize on FSPs willing to serve FDPs, Kiva Capital Management announced the successful final closing of the Kiva Refugee Investment Fund, LLC, a USD32.5 million facility to scale lending to fragile communities by investing in partnership with microfinance partners across the Middle East, Africa, and Latin America.[179] Kiva is seeking to increase its fund to USD100 million by 2024;
- In the private equity space, several other social impact and investment fund managers have also developed specific funds for FSPs and other providers wanting to invest in FDPs. The Displaced Communities Fund (DCF), an upcoming USD50 million private equity strategy by Developing World Markets for which Innovest Advisory is the dedicated impact advisor, will seek to invest in financial institutions and businesses that serve displaced people. The fund intends to make equity investments to improve financial services for refugees in Uganda, Kenya, Ethiopia, Nigeria, Jordan, Pakistan, and Colombia. Notably, the fund will tie managers' compensation to the achievement of impact goals;[180]
- The Development Impact Bond for Syrian Refugees, backed by the IKEA Foundation, is another innovative approach where private funders will be repaid with a return that is conditional on partner NGOs achieving development targets for refugee training and business start-ups in Lebanon and Jordan.[181] In 2018, Business Fights Poverty launched the Business and Refugees Challenge with Innovest Advisory to identify ways to mobilize business action for refugees;[182] and
- The 2019 World Economic Forum (WEF)'s "Humanitarian and Resilience Investing (HRI) Initiative" aims at catalyzing the flow of private return-seeking capital to investment opportunities that enhance resilience in fragile contexts, including investing on the 'community-side' of public-private collaboration.[183]

ANNEX 2: ACRONYMS AND ABBREVIATIONS

AFI	Alliance for Financial Inclusion
AML	Anti- Money Laundering
API	Application Programming Interfaces
ATM	Automated Teller Machine
CAF	Development Bank of Latin America (and its Laboratory on Financial Inclusion (LIF))
CBFI	Community-based Financial Institution
CDD	Customer Due Diligence
CFT	Countering Financing of Terrorism
CPF	Countering the Financing of Proliferation of Weapons of Mass Destruction
DFS	Digital Financial Services
EGRIS	Expert Group on Refugee and IDP Statistics
EU	European Union
FATF	Financial Action Task Force
FBR	Foreign-born Resident
FDP	Forcibly Displaced Person
FSP	Financial Service Provider
GCR	Global Compact on Refugees
GPFI	Global Partnership for Financial Inclusion
GRF	Global Refugee Forum
HLP	Housing, Land and Property
ICT	Information Communication Technology
ID	Identity
IDP	Internally Displaced Person
I/NGO	International/Non-Governmental Organization
IOM	International Organization for Migration
KYC	Know your customer (customer identification and verification), part of CDD
MNO	Mobile Network Operator
MSME	Micro- Small and Medium-sized Enterprise
NBFI	Non-bank Financial Institution
NFIS	National Financial Inclusion Strategy
NFS	Non-Financial Services
NRA	National Risk Assessment
OECD/INFE	The Organisation for Economic Co-operation & Development's International Network on Financial Education
PSP	Payment Service Provider
SAR	Suspicious Activity Report
SDG	Sustainable Development Goal(s)
SIM	Subscriber Identification Module
TOR	Terms of Reference
UN	United Nations
UNDRR	United Nations Office for Disaster Risk Reduction
UNHCR	United Nations High Commissioner for Refugees

ANNEX 3: END NOTES

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