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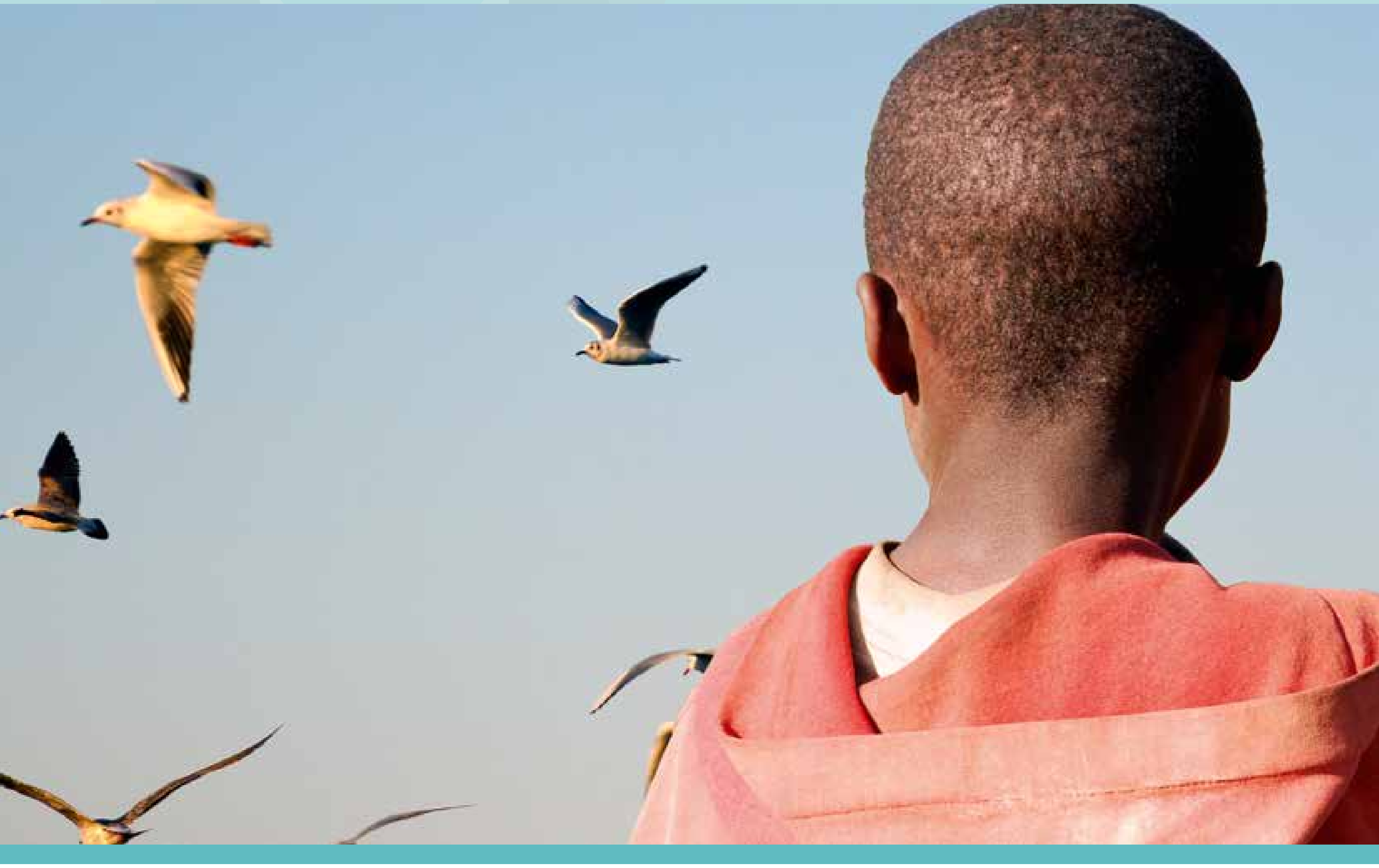

GPFI POLICY PAPER

FINANCIAL INCLUSION OF FORCIBLY DISPLACED PERSONS

PRIORITIES FOR G20 ACTION

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CONTENT

ACRONYMS

AFI	Alliance for Financial Inclusion
AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
BMGF	Bill and Melinda Gates Foundation
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (German Federal Ministry for Economic Cooperation and Development)
CDD	Customer Due Diligence
DLT	Distributed Ledger Technology
FATF	Financial Action Task Force
FDP	Forcibly Displaced Person
FIAP	Financial Inclusion Action Plan
FSP	Financial Service Provider
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
GPFI	Global Partnership for Financial Inclusion
IDP	Internally Displaced Persons
IFAD	International Fund for Agricultural Development
KYC	Know Your Customer
LLRD	Linking Relief, Rehabilitation and Development
PoS	Point-of-Service
SDG	Sustainable Development Goal
SSB	Standard-Setting Body
UNHCR	United Nations High Commission for Refugees
WEF	World Economic Forum
WFP	World Food Programme

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FOREWORD

The G20 is committed to the goals of **financial inclusion** as a **key enabler** to achieving sustainable development as envisioned in the ***2030 Agenda for Sustainable Development***. This commitment is reflected by the increased recognition of the crucial role financial inclusion can play in "bolstering sustainable, balanced, inclusive economic growth at the macro level and promoting economic and social inclusion at the household and enterprise level, especially among financially excluded and underserved populations".[1]

In the face of the acute global displacement crisis, the plight of **forcibly displaced persons (FDPs)** has been considered and analyzed from many different perspectives. While the G20 has made a substantial contribution to financial inclusion, FDPs have so far not been considered as **a particularly vulnerable group** within the work of the G20 Global Partnership for Financial Inclusion (GPFI). Indeed, while relevant evidence and practical experiences regarding the financial inclusion of crisis-affected populations is limited but growing, discussion of forcibly displaced groups within GPFI is scant compared to discussions surrounding migration and remittances.

Against this background, we - as German G20 Presidency in 2017 - put this topic high on the agenda with the objective of providing FDPs on the one hand, and their host communities on the other, with **better access to a broad range of adequate financial services**. In order to promote consistent dialogue at global and national levels, to advise the creation of **conducive regulatory framework conditions,** and to support the development of **integrated and responsible approaches** for the financial inclusion of FDPs, this **GPFI Policy Paper** more specifically aims to:

- firmly place the urgent and complex challenge of financial exclusion of FDPs at the center of the international debate,
- foster a broad dialogue within and across sectors,
- facilitate peer-to-peer learning and constructive exchange, and
- encourage political will and policy leadership.

The Policy Paper is the result of an ongoing stakeholder dialogue and research effort launched under our German G20 Presidency, involving G20 and non-G20 countries, humanitarian and development organizations, private and financial sector actors, as well as NGOs and academia.[2] In essence, it describes the potential of financial inclusion allowing FDPs to live up their (economic) potential and thereby contribute to host societies. It **summarizes common challenges** related to the financial inclusion of the vulnerable and very heterogeneous target group of FDPs in different contexts and stages of displacement. It calls on all stakeholders to engage in the implementation of the identified **priority action areas toward enabling their financial inclusion** (see chapter 'PRIORITY AREAS FOR G20 ACTION AND BEYOND'):

1. DIALOGUE AND COOPERATION: improve coordination and collaboration through global dialogue and strategic partnerships within and among sectors.

1 GPFI (2017a): *G20 Financial Inclusion Action Plan 2017*, page 6.

2 See Annex 2.

2. DATA AND EVIDENCE: strengthen the case for financial inclusion of FDPs by closing the knowledge and evidence gaps through data generation and targeted research.

3. INCLUSIVE POLICY FRAMEWORKS: embed FDP-inclusive policies and practices in existing financial inclusion efforts, esp. as regards the regulatory environment, infrastructure and digital financial inclusion, and encourage that financial inclusion approaches are reflected in FDP-related policies and practices – while continuing to address the needs and demands of the local population and FDPs alike.

This initiative builds on the work of the G20 GPFI and of the G20 Development Working Group, especially in the areas of remittances, proportionate standard-setting, financial inclusion and especially digital financial inclusion.[3] The Policy Paper furthermore complements the **Special Report** on **Financial Inclusion of Forcibly Displaced Persons: Perspectives of Financial Regulators** which was prepared in parallel by the Alliance for Financial Inclusion (AFI). This paper is meant to inform financial regulators, supervisors and policymakers from G20 and non-G20 countries, humanitarian and development agencies, global financial sector standard-setting bodies (SSBs), NGOs, private sector partners, including both established industry players and new fintech innovators, and academia of the opportunities and challenges of financial inclusion of FDPs.

The GPFI aims to ensure the engagement of all relevant stakeholders in addressing the issue and calls on the expertise and continuous support of its G20 and non-G20 countries as well as Implementing Partners to join forces in addressing this urgent challenge, thereby contributing to the objectives of the Addis Ababa Action Agenda, the Agenda 2030[4], and the Comprehensive Refugee Response Framework of the UN.[5] **The G20 requested us, the GPFI, to draw a Roadmap "for sustainable and responsible financial inclusion of FDPs by 2018"** building on the identified common challenges and priority action areas outlined and synthesized in this GPFI Policy Paper in order to translate them into practical action.

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2017 G20 Presidency
Federal Ministry for Economic Cooperation
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3 See, inter alia, GPFI (2017a): G20 Financial Inclusion Action Plan; GPFI (2016a): *High-Level Principles for Digital Financial Inclusion*; GPFI (2016b): *Global Standard-Setting Bodies and Financial Inclusion: The Evolving Landscape*; GPFI (2015): *Report on the G20 Survey on De-Risking Activities in the Remittance Market*.

4 Six of the 17 Sustainable Development Goals explicitly address financial inclusion. For further information see: United Nations (UN) (2015): *Transforming our World: The 2030 Agenda for Sustainable Development*.

5 One of the pillars of the UNHCR (2016): *Comprehensive Refugee Response Framework* is on resilience and self-reliance.

"WE SUPPORT THE WORK OF THE GFPI TO ADVANCE FINANCIAL INCLUSION FOR PARTICULARY UNDERSERVED AND VULNERABLE SEGMENTS OF SOCIETY [...]. WE LOOK FORWARD TO THE GPFI POLICY PAPER TO BE FINALIZED IN 2017 AND ASK THE GPFI TO DEVELOP A ROADMAP FOR SUSTAINABLE AND RESPONSIBLE FINANCIAL INCLUSION OF FORCIBLY DISPLACED PERSONS BY 2018."

G20 Hamburg Action Plan

INTRODUCTION – The Case for Making Financial Inclusion of Forcibly Displaced Persons a Priority

Forced displacement in its various forms is a critical and rapidly evolving global development issue. The number of individuals who were uprooted from their homes by conflict and persecution more than doubled from 2010 to 2015, and by the end of 2016 amounted to 65.6 million people worldwide (see Box 1).[6] Thus, **more people than ever are affected by forced displacement**. And new crises keep emerging: according to the United Nations High Commission for Refugees (UNHCR), 22% of refugees were newly displaced in 2014-15. Developing countries bear a large burden in this context. With respect to refugees alone, approximately 84% live in developing countries.[7] At least half of all refugees today have been displaced for more than ten years without any lasting solution in sight.[8] These numbers are trending upwards and show no signs of abating.

Forced displacement has turned into an **acute crisis of global proportions** that affects developing and industrial nations, with some countries being strongly affected. The protection of FDPs and the socio-economic perspectives of both FDPs and their host communities is not only the responsibility of host states and perhaps neighboring countries, it is the collective responsibility of the international community. Moreover, the increasingly protracted nature of displacement can no longer be viewed solely or even primarily as a humanitarian issue alone. It is a development challenge to which we must all rise and which requires a significant joint effort.

The **GPFI and its members** - G20 and non-G20 countries as well as the GPFI Implementing Partners - have a critical role to play at home and abroad – as countries hosting FDPs, as donors of humanitarian and development aid, as policy makers and global standard setters, and as partners – in providing and facilitating not only the immediate humanitarian relief and support, but also in **leveraging opportunities to help FDPs and their host communities to build self-sufficiency and boost individual, household and community resilience.** Indeed, it has become increasingly clear that if we want to mitigate the social and economic strain caused by the global forced displacement crisis, this vulnerable and diverse population has to be enabled to **contribute productively** to, ideally, regulated economies and markets and, at a minimum, to **develop socio-economic and sustainable livelihoods.**

How can we achieve this? **Financial inclusion may be a particularly powerful part of the answer**.[9] Options to safely store money, to build-up (small) savings or send and receive money transfers, and to carry out everyday life transactions are vital for FDPs. Access to a broad set of safe and affordable financial services – payments, savings, credit and insurance – can enable forcibly displaced populations to master difficult situations and to manage (economic) shocks associated with displacement, to effectively deploy their skills

6 UNHCR (2017): *Global Trends: Forced Displacement in 2016*.

7 ibid.

8 UNHCR estimates that the average duration of a 'displacement situation' for refugee populations of 25,000 or more from one country was 17 years. See UNHCR (2014): *World at War – Global Trends Forced Displacement in 2014* and http://www.unhcr.org/en-us/statistics/unhcrstats/576408cd7/unhcr-global-trends.

9 Financial services have been proven to enable many social and development goals and are considered an important enabler to achievement of the Sustainable Development Goals (SDGs). See Klapper, El-Zoghbi, and Hess (2016): *Achieving the Sustainable Development Goals: The Role of Financial Inclusion*.

BOX 1: FORCIBLY DISPLACED PERSONS – A DEFINITION

Forced displacement is, in line with the UNHCR definition, the forced movement of people from their locality or environment and occupational activities **due to conflict, persecution, violence, or human rights violations.** Of the 65.6 million individuals living as forcibly displaced persons by the end of 2016. 40.3 million were internally displaced; 17.2 million were recognized refugees under the mandate of UNHCR and 5.3 million were Palestinian refugees under UNRWA mandate; and 2.8 million had the status of being an asylum seeker (UNHCR, 2017). During 2016, 10.3 million people were newly displaced, including 3.4 million refugees and 6.9 million internally displaced persons (IDPs) (ibid).

Refugees include individuals recognized under the 1951 Geneva Refugee Convention and the 1967 protocol, which relates to all people who had to flee their country due to "a well-founded fear of persecution because of his/her race, religion, nationality, membership in a particular social group, or political opinion" (UNHCR, 1967).

Asylum seekers are individuals who moved across borders in search of protection and who have sought a refugee status, but whose claims have not yet been determined (UNHCR, 2017, p. 56). Asylum seekers can become refugees if the local immigration or refugee authority deems them as fitting the international definition of refugee. The definition of asylum seeker may vary from country to country, depending on the laws of each country.

Internally displaced people (IDPs) are defined as persons or groups of persons who have been forced to flee or to leave their homes or places of habitual residence, in particular as a result of or in order to avoid the effects of armed conflict, situations of generalized violence, violations of human rights, and who have not crossed a border (UN OCHA, 2004). The definition of IDPs in this paper, in line with the UNHCR statistics, thus only includes conflict-generated IDPs (UNHCR, 2017, p. 56).

Displacement for reasons of natural disasters or related to climate change and responses to such situations can, under certain circumstances, yield pertinent insights and guidance for addressing forced displacement. Such examples will be drawn on where relevant.

and competencies and to rebuild their livelihoods, all of which can help to mitigate stress and trauma of forced displacement.[10] As a result, financial access allows FDPs to contribute to the economic development of the host community or country. Robust and appropriate financial access can also boost stability and resilience, not just of FDP populations, but also of the markets and local communities in which they live, as well as other populations such as regular migrants.[11] Hence, there are strong links between financial inclusion and economic, development and empowerment outcomes.

10 Financial services can boost FDP self-reliance through new and expanded livelihoods, see e.g. Khouri (2017): *The Graduation Approach: The Key to Sustainable Livelihoods for Refugees in Countries of First Asylum?*.

11 This is true regardless of their level of financial capability prior to displacement, whether completely unbanked or fully-banked. The nature and context of displacement can vary widely, yet the need for financial services to enable self-reliance and long-term resilience is constant across populations and demographics.

At the same time, the **financial inclusion of FDPs** provides a **unique opportunity of linking relief, rehabilitation and development (LRRD) efforts.** By enabling and encouraging financial access that is inclusive of FDPs, development actors can foster synergies between measures to achieve humanitarian (crisis relief and recovery) and development objectives (sustainable social and economic empowerment and growth) and facilitate the transition from crisis to post-crisis situations. Financial inclusion of FDPs implicates both humanitarian response and development priorities. Improving response while providing lasting financial inclusion can make aid more effective and enhance individual and market resilience. By embedding this approach in a longer-term vision and developing conducive (legal) framework conditions, national governments play a crucial role and can broker relevant partnerships.

The time is ripe for such catalytic support. Financial inclusion is already a strategic priority of the G20, though FDPs have yet to be formally designated as a vulnerable population segment to be served and included. By acknowledging financial inclusion of FDPs as a priority development issue, the G20 can help promote enabling policy and regulatory environments that provide fair, safe and sustainable access to the financial services FDPs and their host communities urgently require. The humanitarian sector is also beginning to understand the role financial inclusion can play in more efficiently and effectively supporting the growing FDP segment under its mandate, and to link current cash-based approaches to longer term financial inclusion and socioeconomic development goals.

Advancements in digital payments technologies therefore might have great potential for serving FDPs and promoting their financial inclusion more rapidly, on a larger scale, and at a lower cost, e.g. in providing cash-based assistance via digital payments infrastructure for relief and recovery efforts via the humanitarian community. New digital technologies can render financial services **safer and more secure, transparent, and cost-effective for the FDPs** – as well as for NGOs and governments in their service provision.[12] Digital technologies might also support more trustworthy and efficient identification and authentication mechanisms for FDPs to enter into the financial system. As such, digital technology potentially offers a strong tool to transition from providing immediate relief to creating enduring financial identities, tools, and capacities that build resilience over time.

Through the efforts of the GPFI, the G20 has an important role to play in helping ensure that very diverse and growing FDP segments gain safe and responsible access to financial services. Doing so can simultaneously bridge the humanitarian-development divide in unprecedented ways. This Policy Paper outlines a possible way forward. It highlights common challenges and complexities that in many cases and contexts constrain the financial inclusion of FDPs, and of their host communities. It then synthesizes the identified priority areas for action that GPFI members agreed upon to help remove obstacles, fill knowledge gaps, and open up opportunities for realizing the effective financial inclusion of FDPs.

12 By facilitating wider financial inclusion, such mechanisms can also benefit host communities and other vulnerable population segments.

BOX 2: IDPS AND REFUGEES – HETEROGENEOUS GROUPS, AT DIFFERENT STAGES OF DISPLACEMENT, IN VARIOUS CONTEXTS

FDPs are a very heterogeneous group of individuals that often defy our preconceived stereotypes and assumptions. Anyone can be affected by forced displacement, regardless of their political and cultural context, socio-economic background, or geographical location. Their human and social capital affects their capability and need to access financial services. Their financial needs further depend on the phase and length of displacement – the longer FDPs are displaced, the greater the similarity their needs for financial services is to the needs of their host communities.

It is important to stress that FPDs include refugees, asylum seekers, and IDPs. "Crossing border" is the most obvious differentiating factor between them. While IDPs stay within the boundaries of their country, refugees and asylum seekers cross one or more borders. This difference has an impact on the individual rights, access to services and the socio-economic life (e.g. labour market, social security etc.) which, in general, are more restricted for refugees and asylum seekers.

Cultural differences between FDPs and hosting communities may present a further challenge for FDP's financial inclusion. The existing cultural diversity within countries and the cultural relations across borders in some contexts, however, do not allow for a general statement on who is severely affected by this challenge.

Despite the heterogeneity, all **FDPs face a number of common challenges in accessing and using appropriate financial services**, independent of contextual factors. These common challenges, further **outlined in the following chapter**, and the strong similarities in the nature of their (financial) needs and wishes, **makes it useful to look at them as one group here.**

The Annex 1 provides further information on the "Financial Lives of FDPs".

ENABLING FINANCIAL INCLUSION OF FDPs – Common Challenges

In order to create an enabling environment conducive to sustainable and scalable financial inclusion of FDPs, and the communities in which they live, it is important to identify the programmatic, policy and political complexities that may present challenges to achieving financial inclusion in this context. Invariably, determining the most effective policy and programmatic approaches will differ depending on the context, such as geographic location, political and regulatory framework conditions, FDP's background and characteristics, and their periods of displacement.[13] While more evidence is certainly needed, existing data and practical experience already attest to some elements being essential independent of contextual factors. These include (1) supportive policy and regulatory frameworks; (2) adequate physical and financial sector infrastructure; (3) sufficient consumer empowerment and protection; (4) strong engagement and interest of financial service providers, and (5) appropriate collaboration and alignment of actors and organizations across sectors.

In many contexts, however, the foundations for sustainable financial inclusion are not fully present and need to be developed further. This section outlines common challenges with regard to the five essential elements, while highlighting recent or emerging policy, regulatory, and programmatic approaches to address these.[14]

13 See Box 2, Annex 1, and IFAD (2017): *Sending Money Home: Contributing to the SDGs, One Family at a Time*.

14 This section also highlights anecdotes from AFI (2017): *Financial Inclusion of Forcibly Displaced Persons: Perspectives of Financial Regulators*.

1. LACK OF CONDUCIVE POLICY AND REGULATORY FRAMEWORK CONDITIONS

Policy and regulatory frameworks may generally challenge the achievement of the financial inclusion of FDPs because most do not recognize the special circumstances and legal status of FDPs and do not stipulate specific measures to address them. The lack of consideration of specific FDP circumstances and related policy consequences applies at the level of both overarching policy frameworks and of specific technical regulations.

- With respect to broader policy frameworks, FDPs are rarely considered as an explicit target group in **national policies promoting socioeconomic development and resilience**. Particularly refugees are generally absent from **financial inclusion policies or strategies,** where these exist.

- The rules and regulations pertaining to **FDP's socioeconomic participation in host communities** (including the right to work, freedom of movement, legal identity, and ability to participate in the financial system) may also have a bearing on the provision of financial products to and usage by FDPs, this particularly applies to refugees.

Local policies, regulations and legal frameworks may in some instances impede access to financial services for FDPs. For example, **FDPs often may lack the means to establish legal identity** in order to satisfy customer due diligence (CDD) requirements for accessing regulated financial services. Local prohibitions on who may access financial services also can hinder financial inclusion of certain FDPs.[15]

- National financial institutions and service providers need to **comply with international Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) standards**. This requires appropriate CDD, including customer identification and verification, understanding, and as appropriate on a risk basis, obtaining information on the nature and purpose of the customer relationship, conducting due diligence on the business relationship, and monitoring financial transactions to identify and report suspicious ones.[16] Given that FDPs in some cases lack the means to prove their legal identity, the costs associated with compliance in such scenarios can be prohibitive and discouraging.

- Humanitarian agencies, such as the World Food Programme (WFP) and the UNHCR, have developed and use specific identification methods in crises contexts. FDPs are, for instance, often extensively interviewed and can be issued registration cards. Such **humanitarian identification methods** are, however, **largely not accepted for CDD purposes.**

Emerging approaches may offer practical, risk-based solutions to address policy and regulatory constraints:

15 BMGF (2017): *Digital Financial Services in Humanitarian Response: Four Priorities for Improving Payments*. And: AFI (2017): *Financial Inclusion of Forcibly Displaced Persons: Perspectives of Financial Regulators*.

16 See FATF (2012-2017): *International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation*, Recommendation 10, page 12-13. CDD also requires identifying and verifying the beneficial owners of legal entity customers, an element of CDD that is not generally relevant to the FDP context.

- In reformulating national policies and strategies related to economic development and financial inclusion, **some countries have moved to give explicit recognition to FDPs** and have developed corresponding measures to address their special circumstances. Some have adopted tiered CDD requirements that allow for the (digital) transfer of small values in lower risk scenarios without requiring financial services providers to conduct full CDD.[17] For displaced communities specifically, it has been shown that risk-based CDD can speed up the delivery of and access to payments and other financial services.[18]

- **In the context of natural disasters**, e.g. earthquakes, typhoons, and flooding, Alliance for Financial Inclusion (AFI) members have demonstrated a range of situations where **regulatory relief measures, including simplified CDD19, were rapidly introduced to boost funds transfers**.[20] Lessons from these experiences could be used to inform broader efforts to create risk-based regulatory guidance for humanitarian crisis situations, including in the preparedness phase in anticipation of such sudden on-set emergencies.

- **Private sector actors are key innovators** and enablers in advancing the financial inclusion agenda.[21] Included in this trend are new approaches that use biometric information, alternative data[22] and distributed ledger technology (DLT) to facilitate the development of efficient and trustworthy (digital) identification.[23] At the GPFI/AFI High Level Forum in April 2017, it was agreed that exploring biometric identification and authentication, decentralized, DLT identification solutions, as well as alternative data-based solutions, in close collaboration with relevant government agencies could be important ways forward.

The following **examples of country-level action** aim to illustrate the emerging approaches outlined above, but are not meant as an exhaustive list of all efforts undertaken.

17 In the Philippines, a massive effort to re-identify and provide assistance to 4 million displaced persons led the Central Bank to temporarily reduce the required number of KYC identifiers from 7 to 3. In Haiti, the government enabled the establishment of a 'mini-wallet' – a simple mobile money account that restricts the total value that can be transferred monthly - that required only the accountholders name and date of birth. See GSMA (2017): *Landscape Report: Mobile Money, Humanitarian Cash Transfers and Displaced Populations*.

18 AML/CFT is an essential objective, but must be proportionate to risk. Regulatory requirements around CDD have been loosened in times of natural disaster crises, but regulations seem less comfortable doing so over prolonged crises in which financial services could play a more important role in building resiliency and establishing livelihoods.

19 'Regulatory relief measures' in response to disasters can allow 'temporarily reduced identifications requirements' consistent with the international AML/CFT standards only if the ID requirements and financial services are risked based. Simplified ID is tied to low-risk, low-value financial products.

20 AFI (2017): *Financial Inclusion of Forcibly Displaced Persons: Perspectives of Financial Regulators*.

21 The provision of biometric identity (namely Aadhaar) in India clearly demonstrates the role that the national government can play with regards to innovative approaches to financial inclusion and identification.

22 It covers inter alia: behavioural data, mobile phone data, IP addresses, geolocation, and credit information.

23 Many FDPs are fleeing specific political punishment as well as religious and ethnic persecution. They do not want to be traced and might fear digital identity as they believe they can be traced. Data protection is of primary importance and should be considered, designed and stress tested prior to introducing any digital identity schemes.

COUNTRY SPOTLIGHTS:

In the context of its commitment to the Maya Declaration, the **Central Bank of Jordan** highlighted financial inclusion of refugees as a priority in 2016.[24] Moreover, Jordan's regulation for mobile payments explicitly allows officially registered refugees to open a mobile wallet.

Bank of Tanzania has integrated FDPs into the National Financial Inclusion Strategy to ensure that they are visible. This is in consideration of the broad range of stakeholders involved in the design and implementation of the strategy, which provides unique opportunities to address FDPs financial needs easily. For easy client on-boarding, which includes lowering KYC requirements, Tanzania is issuing special NIDs (biometric identification) to FDPs. Furthermore, Bank of Tanzania has introduced merchant payments as part of initiatives to enhance DFS eco-systems in the camps.

In Egypt, similar to Jordan, the government decided to accept the UN refugee registration card as sufficient identity documentation to meet CDD requirements for financial service providers (FSPs).[25]

In September 2015, the **German financial supervisory authority, BaFin**, in consultation with the **German Ministry of Finance** allowed refugees to open a basic account even if they were not able to produce a document satisfying the passport and ID requirements in Germany.[26] By implementing a European Union directive (Payment Accounts Directive), the German Payment Accounts Act requires all financial institutions to establish a basic account for every consumer, including to those without a permanent residence, asylum seekers and tolerated refugees. The basic account allows them to perform essential operations, with adjustments exercised in determining the documents required for identification and verification, for example an official "proof of arrival" document, or the temporary residence permit, or the notice of toleration. In case of rejection every consumer can send a free request for a review to the financial supervisory authority, BaFin.

The **European Commission's Committee on Employment and Social Affairs** has recommended that FSPs supported by the European Progress Microfinance Facility (EPMF) should "view refugees and asylum seekers as a target group [for greater access]".

Government of India in 2016 granted certain facilities, including opening up of the Non Resident Ordinary Rupee Account, to a section of persons staying in India on a long term visa basis.

24 For further information see: http://www.afi-global.org/news/2016/11/central-bank-jordan-makes-bold-maya-commitment-financial-literacy-access-refugees

25 UNHCR, SPTF (2017): *Serving the Refugee Population: The Next Financial Inclusion Frontier*.

26 Such an account could be opened using documents which: carry the letterhead and the stamp of a German immigration authority; contain personal details such as name, place and date of birth, nationality and address; include a photograph; and have been signed by an official of the immigration authority. For further information see: https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Meldung/2015/meldung_150909_uebergangsregelung_legitimationsdokumente_en.html and https://www.bafin.de/DE/Verbraucher/Bank/Produkte/Basiskonto/basiskonto_node.html (only available in German)

BOX 3: KEY FINDINGS OF THE AFI REPORT (2017) ON 'FINANCIAL INCLUSION OF FORCIBLY DISPLACED PERSONS – PERSPECTIVES OF FINANCIAL REGULATORS'

The AFI report (2017) *'Financial Inclusion of Forcibly Displaced Persons: Perspectives of Financial Regulators'* identified **three specific areas were further research, dialogue, and action is required from a financial regulators' perspective**. These include, inter alia:

Identification – International standards stress the importance for 'reliable and independent' sources to provide identity. However, for many FDPs standard forms of identification may not be readily available. This will require financial institutions and their regulators to work together in order to determine appropriate systems to deal with such scenarios.

FDPs and Assessment of Risk – Global standard setting bodies (SSBs) anticipate FSPs to perform a risk assessment at the beginning of a customer relationship. This normally results in a categorization of risk, with criteria attached to each category to assess the risk of both customers and products. In situations involving cross border transactions and where there is little underlying customer information these individuals are often classified as high risk. Risk assessment is further complicated as for many FDPs their rights to work may be limited. As a result FDPs may become drawn into the grey economy and unable to document legitimate sources of income thus raising their risk profile.

Uncertainty in Applying Simplified Due Diligence to FDPs – Where the risks of money laundering and terrorist financing are determined to be lower, international standards offer some flexibility to conduct simplified CDD measures. However, most AFI members expressed uncertainty about the extent to which they could apply such measures in cases where there is minimal identification and/or when FDPs may send or receive remittances to and from their home country, especially if these countries are deemed to be of higher risk.

In recognition of the above, the AFI report identified **key areas for action which are reflected, referenced, and outlined in this GPFI Policy Paper** (see, in particular, the chapters 'ENABLING FINANCIAL INCLUSION OF FDPs – Common Challenges' and 'PRIORITY AREAS FOR G20 ACTION AND BEYOND'):

- cross government coordination and liaison;
- addressing the ID and CDD problem;
- utilisation of the National Risk Assessment process;
- linking FDPs with formal financial services;
- ensuring products are 'fit for purpose' in terms of customer needs and security considerations;
- enhanced used of technology to support broader compliance obligations; and
- the Role of AFI in supporting a platform for dialogue and peer learning.

2. INSUFFICIENT OR INADEQUATE (FINANCIAL) INFRASTRUCTURE

A **robust and resilient infrastructure** is critical for the financial inclusion of FDPs and to enhance preparedness in general. In reality, however, infrastructure is often underdeveloped or sometimes even non-existent, especially in crises contexts or conflict situations. This encompasses **physical infrastructure** such as bank branches, ATMs, agent networks, or physical telecommunication components that significantly determine the geographical reach of financial services, but also the **financial infrastructure** such as payment systems that are critical for money to reach target groups even in the most fragile and conflict-affected situations and that may operate physically or digitally:[27]

- As to the **physical infrastructure**, agent and merchant networks, ATMs and bank branches do not tend to extend to remote regions of the country as branches are not viable and/or agent and merchant management and conduct cannot be sufficiently supervised and overseen.[28] **Regions beyond the reach of financial infrastructure typically** include rural areas and refugee camps, but also low-income urban areas, **where many FDPs are located**, which limits the extent to which FDPs can be financially included.[29]

- With regard to the overall **financial infrastructure**, **fragmented, underdeveloped or even damaged payment systems, weak connectivity, and a lack of interoperability** all impede financial inclusion, including the ability to sustainably and responsibly extend financial services to FDPs. In addition, the portability of FDP's accounts and the ability to remain financially included through the FSPs in their country of origin is almost non-existent.

- In general, **humanitarian organizations** depend on the existing local payment systems infrastructure in order to distribute funds on short-notice. For this reason, some humanitarian organizations have, often in cooperation with FSPs, **developed localized closed-loop** or **customized (digital) solutions** to provide a rapid response in crises contexts and conflict situations. While they may provide some utility in the short term, by not connecting to existing payment services in general use, these short-term fixes are unlikely to support the development of an inclusive and growing financial ecosystem and thus are unlikely to be sustainable in the long-term.

Emerging approaches may yield some insights about how to go about developing robust and inclusive financial infrastructure to further the financial inclusion of FDPs:

- **Partnerships between humanitarian organizations and local FSPs** led to an expansion of ATMs and Point-of-Services (POS), particularly into rural areas and thus, led to a strengthening of the local financial system.

27 The IRC has developed an e-payment preparedness framework to assess the current state of e-payment readiness in crisis prone countries. They found that those countries where emergencies are the most likely are often the least well prepared to scale up e-payments due to poor infrastructure and regulatory systems. See: IRC (2016a): *Making Electronic Payments Work for Humanitarian Response*.

28 BMGF (2017): *Digital Financial Services in Humanitarian Response: Four Priorities for Improving Payments*.

29 Data from the Global Findex Database consistently show that usage of unregulated services is significantly higher among populations living in fragile and conflict-affected states. See: http://datatopics.worldbank.org/financialinclusion/

- Such approaches do nevertheless point in a promising direction in that humanitarian organizations have increasingly turned to digital financial services to deliver funds to affected populations in emergency contexts. **Digital payments**, whether via mobile phones, cards, or bank accounts, may offer a unique opportunity to promote financial inclusion in general, but also more specifically of FDPs, because they allow for **low-cost and easily and rapidly scalable access to financial services**, even in the more-difficult-to-access regions. When carefully and responsibly used under a risk-based approach and coupled with sufficient connectivity and open, interoperable systems, digital payments can provide a pathway to convenient, and sustainable, financial access. It is important to note that to date, such interoperable and open payment ecosystems are rare. As a result, digital payments are often used in closed-loop, one-off interventions that do not last beyond the humanitarian response period.

COUNTRY AND INSTITUTIONAL SPOTLIGHTS:

- **USAID**, recognizing the importance of promoting increased preparedness among humanitarian assistance providers, recently partnered with **Mercy Corps in Mali and Democratic Republic of the Congo**, and with **Catholic Relief Services in Somalia** on digital payment preparedness. Just as humanitarian assistance providers prepare in advance with in-kind resources, such as food, USAID and partners are exploring how to prepare in advance with legal agreements and other pre-requisites for quickly deploying financial solutions.

- **In Lebanon and Jordan**, humanitarian organizations supported the expansion of ATMs and POS to serve Syrian refugees, including ATMs and POS with iris scan recognition. These investments helped improve the payments system infrastructure benefitting both Syrian refugees and the previously financially excluded communities.[30]

- **In Uganda**, the **International Fund for Agricultural Development** (IFAD) partners with **PostBank Uganda** and **Posta Uganda** to scale up remittances and financial inclusion, and to provide financial literacy training. The project aims at leveraging Posta Uganda's broad network of rural post offices to expand access to financial services for the rural population and refugees and to increase the number of remittance recipients it serves by 50,000 by March 2019. In addition, it expects to provide remittance delivery services to 20,000 refugees.[31]

30 CGAP, World Bank Group (2017): *The Role of Financial Services in Humanitarian Crises*.

31 For further information see: https://www.ifad.org/en/newsroom/press_release/tags/p36/y2017/44287918.

3. LIMITED CONSUMER PROTECTION, AWARENESS, AND FINANCIAL LITERACY

In addition to the regulatory environment and the available infrastructure, the **knowledge, skills and attitudes of FDPs** are also important determinants of the extent to which they can be financially included.

- **FDPs need to be aware of their opportunity to access financial services**, how those services work, as well as of their rights and responsibilities related to financial access in the communities into which they are displaced.[32] This is a fundamental prerequisite for FDPs turning to regulated financial services and using them to their benefit. Particularly for refugees – and in contrast to local customers - additional hurdles arise that influence FDPs' ability to access financial services formally available to them, such as a lack of local knowledge about how to access services or the types of service available, language barriers, and an absence of usage by their social and support networks. Furthermore, concern over documentation, assumed and actual legal restrictions, and the perception of risk[33] tend to influence their financial choices and behaviours.[34] This holds especially true for specific sub-segments of this already vulnerable population, such as women, children and youth, the elderly, and people with disabilities.

- **Trust, reliability, positive user experiences** and a clear **understanding of rules, rights and recourse** are critically important to achieve uptake and usage of even the most basic financial services, and extends to more complex products and services.[35] If regulated financial products, services and channels are of poor quality, inconvenient, expensive or otherwise poorly-designed, FDPs will continue to rely on unregulated financial services. At customer level, financial capability (the combination of knowledge, understanding, skills and, most importantly, behaviour) of FDPs will have to be improved to become familiar with the (new) financial landscape and to understand the conditions of financial services (e.g. impact of interest payments) in order to make informed and sound financial decisions.[36]

- To ultimately inspire trust and encourage repeat usage, financial services must be provided in a responsible manner. This requires adequate **consumer protection frameworks** to guarantee the effective safeguarding of funds, appropriate and timely consumer recourse, effective product and pricing transparency, and appropriate privacy and data protection. These issues are particularly important for FDPs, since they are a highly vulnerable population with even deeper concerns about privacy and tracking than the average citizen.[37]

32 In this context, a holistic approach reaching FDPs with financial, social and livelihoods education, as well as financial inclusion initiatives, is likely to be most beneficially in facilitating FDP's longer-term resilience and development of livelihoods.

33 CGAP (2016): *Understanding How Consumer Risks in Digital Social Payments Can Erode Their Financial Inclusion Potential.*

34 Wilson, Krystalli (2017): *Financial Inclusion in Refugee Economies: An Essay*, page 5. As governments with stable populations struggle to standardize national identification schemes, governments with populations in flux struggle with additional burdens. For example, lack of permanent address impedes refugee's ability to apply for explicit identity documentation, and lack of legal identification impedes his/her ability to work, financially transact, survive and support his/her family.

35 For recent consumer-side research on consumer protection risks in digital social payments, refer to CGAP (2016): *Understanding How Consumer Risks in Digital Social Payments Can Erode Their Financial Inclusion Potential*.

36 Financial literacy measures could be included in local service provision and integration activities at the local level, e.g. combining entrepreneurship programs with financial literacy trainings. See: OECD (2016): *Responses to the Refugee Crisis – Financial Education and the Long-Term Integration of Refugees and Migrants*.

37 Besides the fear of being traced (see footnote 22), the issue of data protections also includes the fear of FDPs of being tracked and losing assistance. Hence, financial solutions offered should be seen as independent of the organizations providing aid and that transactions will not be disclosed to them.

COUNTRY SPOTLIGHTS

- The **World Food Programme (WFP)** card and mobile money based assistance program with FDPs in **Northern Kenya** instituted a multi-language call center and mystery shopping processes to monitor customer treatment and institute responsible finance practices that mitigate the risk of fraud and improve recipient financial literacy, trust and confidence.[38]

- Example from the natural disaster context: In **Haiti**, **WFP** uses a mobile money-approach for its funds transfer program. Consumer protection laws do not allow funds to be reclaimed once transferred into an individual's account. This gives more choice in use of funds. As a result, recipients in pilots engaged more deeply and positively with their mobile money accounts, adopting mobile money to make purchases and choosing to save funds in the mobile money account. This, coupled with tiered CDD for low-value accounts increased opportunities for recipients to access financial services and helped them to improve their finances.[39]

38 CGAP (2016): *Understanding How Consumer Risks in Digital Social Payments Can Erode Their Financial Inclusion Potential*.

39 Examples all from GSMA (2017): *Landscape Report: Mobile Money, Humanitarian Cash Transfers and Displaced Populations*.

4. INSUFFICIENT ENGAGEMENT OF FINANCIAL SERVICE PROVIDERS

Donors and humanitarian organizations often operate at the frontlines of leveraging opportunities to promote the sustainable financial inclusion of FDPs. Yet financial inclusion of FDPs is not something these actors can or should attempt to accomplish on their own.[40] Despite the long-term nature of displacement, humanitarian resources are rarely directed beyond immediate and short-term relief services. In order to provide FDPs with affordable, reliable and rapidly scalable financial services, the **active involvement, investment and innovative dynamism of financial service providers** is essential. Private sector actors are key innovators and enablers in advancing the financial inclusion agenda, including for FDPs, by striving to offer more sophisticated, yet practical financial products and services.[41] Included in this trend are:

- **mobile solutions** for cost-effective and rapid payment services,
- new approaches to **digital identity** using **biometrics** and **alternative data**,
- **Distributed Ledger Technology (DLT)** for lower costs of remittances, and
- advanced **algorithms** and alternative data to support innovative lending platforms.

However, even where will and resources exist, **financial service providers** in many markets **are wary of serving FDPs due to (perceived) high-risk and temporary nature of displacement, regulatory uncertainty, political sensitivities and other perceived risks** attached to serving these groups:

- In many contexts of forced displacement, the political, economic and social environment is characterized by **high complexity, political sensitivity and volatilities**. When compounded by regulatory uncertainties, FSPs often lack the incentives to serve FDPs, and may even fear to do so. As far as refugees are concerned, FSPs are even in some cases **legally not permitted to serve them**.[42]

- Misinformation or a **lack of information** as well as a **lack of direct contact** with FDPs, and particularly with refugees, can entrench the perception of this target group being **"high-risk" clients** that do not warrant the investments required to develop an appropriate service model and business case.[43] FSPs tend to assume that FDPs are much more mobile than they are, and also under estimate the financial capacities of the FDPs, some of whom are in reality quite competent and already economically active, or were in their home countries. Given the lack of information, however, the vast majority of financial service providers currently **do not consider FDPs a viable market opportunity** and therefore do not recognize the incentives to explore business models that would facilitate financial inclusion of FDPs.

- Due to a variety of fears and prejudices that can be reflected and even amplified in public policy and media,[44] **FSPs may face resistance in serving FDPs** from their own staff members and the general local population, so that serving them could create reputational risk.

40 The concept of financial inclusion is a market-based approach where customers are responsibly served by financial service providers operating in a concertedly sustainable manner.

41 GPFI (2017): *Documentation - GPFI/AFI High-Level Forum on Financial Inclusion of Forcibly Displaced Persons*.

42 Such legal barriers are not known with regard to IDPs.

43 SPTF (2017): *Serving Refugee Populations: The Next Financial Inclusion Frontier - Guidelines for Financial Service Providers*.

44 ibid.

- In many cases, FSPs' staff members and agents **do not understand their company's policies** and lack training in implementing them, especially when it comes to a population like FDPs that they are not certain they ought to be serving.

- The varying **financial inclusion demands, experiences, and needs** of the heterogeneous group of FDPs in their different displacement environments and phases as well as the underlying behavioural economic and cultural factors is presently **largely unexplored by financial service providers**.[45] On the one hand, developing a refugee-specific financial product will not be necessary in most cases, and could even be harmful, if nationals view preferential treatment being given to an FDP population. On the other hand, due to cultural and language barriers, as well as fears from both FDPs and the FSPs, and often physical barriers to access, FSPs will need better data on FDP's needs and preferences, than they typically currently have. This data will allow FSPs to **develop outreach, marketing, and delivery channels adapted to FDP's specific needs**.[46]

Recent years have shown an **increasing interest by new and traditional FSPs in the topic** and a number of relevant initiatives, cooperation and research activities.[47]

45 Note that, FSPs are actually increasingly skilled at offering a diverse set of financial products and services to national clients given similar types of discrepancies in skill and need. In various camps in Rwanda, UNHCR sensitizes remittance-receiving refugees that they should inform their relatives to use World Remit or other alternative remittance companies such as VugaPay or Wave. Those refugees already receive mobile money instead of in-kind food and have all been provided a mobile phone, which in turn enables them to receive mobile remittances.

46 Initial experiences indicate that business models which focus on both FDPs and host communities are economically most viable.

47 For example, Mastercard and Western Union announced a collaboration to explore the development of a digital model to improve and combine refugees' digital access to remittances, banking, education, healthcare and other basic needs. See also: http://www.cgap.org/blog/humanitarian-crises-understanding-demand-financial-services.

COUNTRY SPOTLIGHTS

- **In Lebanon**, the microfinance institution, **Al Majmoua**, delivers financial education trainings along with group and individual microloans to the refugee population. A market study was completed in 2017 to evaluate the potential for microfinance services for the displaced population in Lebanon. As of October 2017, the refugees segment counts 5,500 clients out of the 70,000 Al Majmoua clients base. Al Majmoua's experience in serving refugees in Lebanon shows that refugees can be as good clients as any entrepreneurial client from the host communities.[48] Al Majmoua shares its experience about financial inclusion of refugees with other microfinance institutions in the region.

- **In Jordan**, **Dinarak**, a third-party provider of mobile payments established by several individual investors and technology providers, partnered with **GIZ** to develop and pilot a national mobile money transfer service, tailored to the needs of refugees and low-income Jordanians.

- **Ericsson**, with support from the Level One Project of the **Bill and Melinda Gates Foundation**, developed a mobile wallet solution for use in emergency situations where financial infrastructure is lacking. The platform is designed to support humanitarian organizations and affected populations in the immediate aftermath of disaster or crises by enabling the distribution and use of digital funds by relief workers and impacted populations.

- The **IRC** used a return on investment model to estimate whether or not a business case exists for expanded coverage of digital financial services in crisis prone areas and found a business case to expand e-payment services in crisis prone areas. Doing so can provide a positive return, extend banking services to the most vulnerable and improve response capacity.[49]

- **Segovia** provides a platform which allows NGOs and businesses to collect and manage beneficiary and payment data and deliver payments in bulk in challenging environments to poor beneficiaries. This payments gateway and technology aims at improving the efficiency of aid by reducing diversion, transfer costs and inefficiencies of transfers to vulnerable groups, such as FDPs. **In Nigeria**, Segovia partners with **Save the Children** and a local telecommunications company, **Cellulant**, offering a cashless 'digital wallet' to provide funds to people displaced by conflict.[50]

48 SPTF (2015): *Serving Refugee Populations in Lebanon: Lessons Learned from a New Frontier – A Case Study of Al Majmoua in Lebanon*.

49 IRC (2016b): *Untapped Humanitarian Demand: A Business Case for Expanding Digital Financial Services*

50 Global Innovation Fund (2016): *Global Innovation Fund: Impact Report 2016*.

5. INSUFFICIENT COORDINATION AND ALIGNMENT BETWEEN NATIONAL GOVERNMENTS, HUMANITARIAN AND DEVELOPMENT COOPERATION AGENCIES, AND PRIVATE SECTOR ACTORS

To tackle the complex challenges surrounding the financial inclusion of FDPs and their host communities and to improve preparedness, **enhanced coordination and innovative partnerships** between national, sub-national and local governments[51], humanitarian and development agencies, and the private sector are likely to be indispensable.[52] In practice however, the approaches of the various actors differ in their orientation and practical implementation and thus are not easily combined. For instance, national governments fear social tensions and have to deal with scarce resources. Additionally, while the **priorities and policies of humanitarian organizations** often aim at alleviating the short-term needs and demands of FDPs, **development cooperation agencies** pursue longer-term stabilization and resilience of FDPs. It is even possible that activities of humanitarian organizations adversely impact opportunities to enable the financial inclusion of FDPs via **development cooperation**.

- **Humanitarian actors** have multiple considerations beyond financial inclusion when selecting a service provider to provide funds assistance. They **may lack the skills and necessary incentives** to leverage their funds assistance activities to promote financial inclusion of FDPs. By extension, **FSPs may also not have incentives** to partner with the humanitarian sector to support FDPs' financial inclusion. As a result, partner selection for funds provision in humanitarian response does not necessarily prioritize or place a high value on long term financial services access for affected populations and communities.[53]

- The **linkages between humanitarian agencies and development cooperation agencies** active in financial systems development are usually **not well developed and established**, hampering the better alignment of activities and programs in favor of financial inclusion of FPDs.

- **Exchange** of, or even **alignment** or **joint analysis**, **of data** is not current practice. WFP and UNHCR report collecting retinal and fingerprint biometrics and extensive socio-demographic data via several hours-worth of interviews. Other agencies collect data and maintain lists, but these are rarely shared, resulting in multiple processes and protocols for data collection, as well as little innovation in the use of that data, including identifying synergies in data collection and analysis to support financial inclusion, or enabling CDD compliant identification. While **privacy, data protection and informed consent** for sharing FDP personal information is **of utmost importance**, there may be missed opportunities here to improve financial inclusion.

51 Sub-national governments and local authorities are often largely engaged in service provision for FDPs and have good knowledge and understanding of their situation. Hence, including them in cooperation is crucial for effective programming. See: OECD/EC (forthcoming, 2018): A Territorial Approach to Migrant Integration - The Role of Local Authorities.

52 The UNHCR (2016) *Comprehensive Refugee Response Framework* is a global attempt to improve coordination and cooperation.

53 In Uganda, for example beneficiaries receiving humanitarian aid via mobile money transfers are required to withdraw the full value of their transfer within two weeks of receipt. This requirement to cash out and not carry a balance, coupled with low mobile device ownership rates, impedes the provision of further financial services. In Jordan, WFP recently started allowing carry forward of balances into the next month - though account inactivity for two months triggers deactivation and a refund of the balance to WFP.

Political will and leadership of national governments is critical to facilitate the coordination and alignment of the various actors. By setting priorities and embedding them in a longer-term vision and strategy, **national governments can broker relevant partnerships**. By learning from partner agencies' experiences and building on successful practices, national governments can enhance their own regulatory and legislative environment and improve the capacities of government agencies at all levels and overall preparedness.

As discussed above, the active **involvement, investment and innovative dynamism of private sector actors** is also indispensable to provide FDPs with affordable, reliable and rapidly scalable financial services (see 4. 'Insufficient engagement of financial service providers'). Where national governments already facilitate coordination and alignment of humanitarian and development cooperation agencies, they likely are also improving the incentives for the private sector to develop and offer market-based solutions for the financial inclusion of FDPs.[54]

Emerging approaches:

- Under the **German G20 Presidency**, the topic was set as one of four priorities of the **Global Partnership for Financial Inclusion (GPFI)**. The respective G20-Initiative firmly placed the topic at the centre of the international debate, and strengthened the dialogue between relevant actors. One of the milestones, the GPFI/AFI High-Level Forum, was the first of its kind and convened more than 70 participants from more than 20 countries, comprising representatives of a diverse range of stakeholders. Financial regulators, supervisors and policymakers from G20 and non-G20 countries, humanitarian and development agencies, private sector partners including both established industry players and new fintech innovators, and academics came together to discuss common challenges and potential solutions, and to prioritize areas where action is most urgently needed (see following chapter on 'PRIORITY AREAS FOR G20 ACTION AND BEYOND').

- The humanitarian sector is increasingly turning from in-kind to funds-based approaches. At the same time, digital payment solutions provide new opportunities to efficiently distribute payments. In 2016, against this background, a **strong collaboration between humanitarian and development agencies started** with a common vision through the creation of the **'Barcelona Principles'** for the Use of Digital Payments in Humanitarian Response and the **WEF Principles on Public-Private Cooperation in Humanitarian Payments**.[55] This global partnership and coordination effort continued in 2017, and aims at accelerating the humanitarian digital financial services action agenda.

54 The World Economic Forum (WEF) and UN OCHA led the 2016 Development Principles for Public-Private Cooperation in Humanitarian Response to provide new guidance for improved collaboration with the private sector in humanitarian contexts. World Economic Forum (2016): *Principles on Public-Private Cooperation in Humanitarian Payments*.

55 For further information, see ibid. and the USAID (2016): 'Barcelona Principles' for the use of digital payments in humanitarian response: https://static.globalinnovationexchange.org/s3fs-public/asset/document/Digital-Payments-Humanitarian-Principles_0.pdf?BvMH5s_7H6psd5btsC7ZIS3v8KBx4Xdj.

COUNTRY AND COORDINATION SPOTLIGHTS

- **UNHCR** is piloting financial inclusion and livelihoods graduation in its programming. **In Rwanda**, this focus has led to the integration of refugees into the country's national financial inclusion strategy.

- **In Lebanon and Jordan**, multilateral, government and humanitarian partners crafted Compacts establishing policy frameworks that explicitly aim to enable social stability and economic opportunity of FDPs. The compacts represent a concerted effort to create formal economic opportunities for both the host communities and the affected populations.

- After successfully partnering with the social safety net program in the **Philippines** to quickly and effectively coordinate distribution of assistance, the **WFP** has called for increased coordination with national governments and the development of more "shock-responsive social safety nets."

PRIORITY AREAS FOR G20 ACTION AND BEYOND

The G20 can play a critical role by acknowledging financial inclusion of FDPs as a priority development issue, in raising awareness and supporting the development of conducive policy and regulatory frameworks that create opportunities for sustainable and responsible financial access for FDPs globally, as well as for their host communities.[56] Towards this end, the GPFI is asked to coordinate and implement respective efforts. The GPFI and its members agreed[57] and call for joint action on the following three priority action areas to enhance financial inclusion of FDPs. These priority action areas reflect the discussions, inputs and findings from a consultative process led by the German G20 Presidency.[58] All efforts and approaches need to carefully consider and take into account the contexts and needs of host communities.

PRIORITY AREA ONE – DIALOGUE AND COOPERATION

IMPROVE COORDINATION AND COLLABORATION THROUGH GLOBAL DIALOGUE AND STRATEGIC PARTNERSHIPS WITHIN AND AMONG SECTORS

Consistent high-level dialogue at the global and national level is crucial for mobilizing policy leadership and political will to encourage the engagement of all relevant stakeholders in addressing the issue. Global dialogues need to involve both developed and developing countries that are recipients of FDPs to encourage peer-to-peer learning and constructive exchange.

Engage in a multi-stakeholder dialogue on a roadmap for responsible and sustainable financial inclusion of FDPs globally. Work collaboratively with representatives of G20 and non-G20 governments, United Nations Organizations, standard-setting bodies (SSBs), humanitarian and development organizations, regulators and supervisors, private sector, academia, other interested international organizations and stakeholders, and as appropriate, FDPs themselves. The GPFI is asked by the G20 to submit the roadmap by the time of the Leaders' Summit in 2018.

Promote a multi-stakeholder alliance to stimulate further debate, supporting the development and translation of the Roadmap into action and warranting special attention on FDPs as a relevant vulnerable group when promoting financial inclusion.

Support and facilitate knowledge sharing and peer-to-peer exchange across GPFI members as well as with other relevant actors on experiences, evidence, perspectives and priorities relating to how to enhance and deepen the potential for financial inclusion of FDPs and to overcome existing challenges to financial inclusion of FDPs, including through peer-to-peer exchange and learning coordinated by the Alliance for Financial Inclusion (AFI).

56 These developments will potentially benefit also other populations, like other types of migrants.

57 At the GPFI Plenary May 4, 2017 in Berlin.

58 This includes, inter alia, the discussions at the GPFI/AFI High-Level Forum in April 2017 in Berlin, the inputs of the Temporary Steering Committee of the GPFI on this topic, the feedback of the GPFI member countries and implementing partners and the findings of the report AFI (2017): Financial Inclusion of Forcibly Displaced Persons: Perspectives of Financial Regulators.

Enhance the dialogue with humanitarian actors in order to bridge humanitarian and financial inclusion approaches by enabling efficient emergency fund transfers and providing financial tools that foster resilience and open-up socio-economic perspectives for FDPs. Building better bridges from relief to resilience depends on improved coordination and alignment of interventions, strategies and resources.

Bring financial inclusion aspects into existing regional and international discussions and processes on forced displacement.

Call on the relevant SSBs and other stakeholders to inform the G20 and the GPFI about appropriate approaches and practices to financially include FDPs. Collaboration with global standard setters such as FATF and FATF-style regional bodies (FSRBs) holds great promise towards designing and implementing standards that take financial inclusion of FDPs into account.

PRIORITY AREA TWO – DATA AND EVIDENCE

STRENGTHEN THE CASE FOR FINANCIAL INCLUSION OF FDPS BY CLOSING THE KNOWLEDGE AND EVIDENCE GAPS THROUGH DATA GENERATION AND TARGETED RESEARCH

The need for a coherent financial inclusion response for FDPs requires an improved understanding of the nature and scale of the financial exclusion problem among FDPs, and a greater appreciation of how relevant actors can promote conducive framework conditions that enhance their financial inclusion.

Encourage all relevant actors to close persistent data and knowledge gaps at all levels by raising awareness and placing it at the center of the international debate. More evidence is required to guide donor, humanitarian, regulator and private sector policies and action in order to fully exploit the potential of financial inclusion of FDPs.

Improve the evidence-base of the role of financial inclusion in ensuring FDP's self-reliance, resilience, coping mechanisms, livelihood, socio-economic participation and empowerment, and (economic) development through the varying phases or contexts of displacement.

Identify and synthesize evidence on both challenges and promising and effective approaches in order to improve understanding of

- FDPs' needs, demand and usage of financial services as well as behavioral patterns and financial capabilities of FDPs, and the differences between and within the heterogeneous groups of refugees, IDPs, and asylum seekers;
- conducive regulatory frameworks, including those relating to international standards of AML/CFT and effective customer protection and responsible handling of financial services;
- appropriate financial services and distribution channels and potential new business models and digital technologies; and
- integrated approaches bridging the humanitarian, development, and financial integrity objectives and stakeholders.

PRIORITY AREA THREE – INCLUSIVE POLICY FRAMEWORKS

EMBED FDP-INCLUSIVE POLICIES AND PRACTICES IN EXISTING FINANCIAL INCLUSION EFFORTS, ESPECIALLY AS REGARDS THE REGULATORY ENVIRONMENT, INFRASTRUCTURE AND DIGITAL FINANCIAL INCLUSION, AND ENCOURAGE THAT FINANCIAL INCLUSION APPROACHES ARE REFLECTED IN FDP-RELATED POLICIES AND PRACTICES – WHILE CONTINUING TO ADDRESS THE NEEDS AND DEMANDS OF THE LOCAL POPULATION AND FDPS ALIKE.

The G20 has an important role in promoting financial inclusion of FDPs, including the examples below. Solutions need to be context-specific, since the circumstances of forced displacement and the financial needs of the forcibly displaced will vary from country to country and must be contextually analyzed in each case

Encourage and support national governments to embed FDP-inclusive policies and practices into existing financial inclusion strategies and efforts and decisions, and accordingly provide guidance to them for prioritizing clear regulatory standards, ways to provide legal identity, and investment in payment infrastructure preparedness. Partner with SSBs and the Alliance for Financial Inclusion (AFI) to advice on policy and related frameworks in order to integrate financial inclusion of FDPs in national financial inclusion strategies via peer-to-peer learning on best practices and innovation, while respecting national regulatory frameworks and the sovereign domain of national governments.

Support efforts to embed financial inclusion practices into existing FDP-related humanitarian and development efforts and investment decisions, such as (digital) payments preparedness efforts, funding facilities, digital ID innovations and harmonization of identity trust standards and interoperability. Encourage GPFI members and humanitarian partners to **adopt and apply to internationally agreed standards for the provision of digital payments in humanitarian response**[59] to guide their investment and policy alignment strategies.

Exploit the potential of digital technologies in order to address some of the main barriers preventing FDPs' access to adequate financial services, e.g. innovations in biometric identification, use of alternative data, and digital payments, while providing an enabling regulatory environment that addresses risks associated with new technological developments and players.

Leverage (digital) identification efforts in humanitarian responses as a basis, where appropriate, to develop trustworthy identity products and services that comply with international standards for customer identification/verification to support financial inclusion and efforts to build trustworthy and interoperable (digital) identity systems. Encourage GPFI members and humanitarian partners to **adopt and apply the World Bank Principles on identification for sustainable development**[60]**,** to guide their in-

59 For example, in early 2016 the Global Development Lab, USAID's Office of Food for Peace, and USAID's Office of U.S. Foreign Disaster Assistance convened donors, development practitioners, and humanitarian actors to develop the 'Barcelona Principles' for the use of digital payments in humanitarian response; see USAID (2016): *Principles for Digital Payments in Humanitarian Response*.

60 World Bank (2017b): *Principles on Identification for Sustainable Development: Toward the Digital Age*.

vestment and policy alignment strategies with respect to providing ways for FDPs to prove legal identity for financial access.[61]

Recognize the importance of tailored approaches to responsible finance and consumer protection – including financial education measures – that promote inclusiveness and empower FDPs. Ensure effective, fair, reliable, sustainable and durable quality of financial products and distribution channels. Consumer and data protection is particularly important since FDPs are a highly vulnerable population with more than average concerns.

Support FDP entrepreneurs and FDP-owned SMEs to improve financial self-reliance and to contribute to the economic and social development of their host communities. Identify measures to overcome the specific legal and financial obstacles they face, including the development of appropriate financing schemes and entrepreneurship trainings.

Identify and facilitate priority areas for investment in physical and financial infrastructure to promote responsible financial inclusion of FDPs.

Leverage (digital) payments in humanitarian response as a critical entry point for further financial inclusion, where appropriate, and support efforts to build inclusive and interoperable (digital) payment systems.

61 In the context that the existing national jurisdictional rules and regulations must be adhered to.

ANNEX 1 – FINANCIAL LIVES OF FORCIBLY DISPLACED PERSONS

This Policy Paper identified an urgent need for further data and evidence on the financial lives of FDPs. It is of utmost importance to better understand which financial services FDPs use, which they want, the challenges they face, as well as to analyze and understand the behavioral patterns impacting their financial decisions. Despite the existing lack of data and evidence, recent research and experiences provide initial insights on the financial lives of FDPs. The following the paper aims to present some of these initial findings and provide references to recent publications and research.

FDPs are a very heterogeneous group of individuals with specific financial needs.[62] Research demonstrates that people in a volatile and unpredictable external environment generally require financial management tools that allow them to smoothen consumption, address emergencies, and manage risks.[63] FDPs often face dramatic swings in their financial portfolios and new and expensive health challenges. Wildly fluctuating income and uncertain expenses affect budgets and financial portfolios.[64] This destabilizing impact is often magnified given their fragile situation.

In most cases, the FDPs are unable to transfer their possessions and assets when they flee, severely affecting their financial situation. Some are able to move with their savings (only in form of cash), but a significant part of this may be consumed during the transit (to pay smugglers, travel and emergency expenses). Due to lack of financial assets, they often struggle to respond to emergencies, build productive assets, and invest in health, education and business. Research findings suggest that they often use kinship networks to finance their journeys, to store savings, and to borrow to manage their basic needs and during emergencies.[65] For this reason, FDPs heavily depend on safe, timely, and cost efficient access to financial services to manage vulnerability and undertake basic livelihoods, e.g. to keep their funds in a safe place or to receive financial support from their family.

BOX 4: FACTORS THAT MAY AFFECT FDP'S NEED FOR FINANCIAL SERVICES

Some of the key factors that affects FDP's needs for financial services are listed below and elaborated in this section.

- Stage and length of displacement
- Right to work in host country
- Camp or non-camp based
- Demographic, social, economic situation
- Human capital (literacy, education, language)
- Social networks
- Past experience in using financial services

62 FDPs comprise IDPs, refugees and asylum seekers (see Box 1). While there is heterogeneity between these groups of people (e.g. crossing borders presents for refugees and asylum seekers a significant set of obstacles, experiences, and rights), heterogeneity exist as well within each of these groups.

63 CGAP, World Bank Group (2017): *The Role of Financial Services in Humanitarian Crises*.

64 Wilson and Krystalli (2017): *Financial Inclusion in Refugee Economies: An Essay*.

65 Ibid. For example, a 2016 survey of more than 4,500 Syrian refugee households in Lebanon revealed that 90 percent of households are indebted, with an average amount of $857 per household.

The FDP's need and capability to access financial services also depends on their human and social capital, and their past experiences. For instance, research in Kenya suggests that stronger self-sufficiency among some refugee communities can be attributed to their possession of social capital, in particular education, language skills, and economic network. The human and social capital may differ depending on their country of origin. For example, while many Syrians displaced by the ongoing civil war are highly educated and skilled, others from countries such as Somalia and Afghanistan generally have lower levels of income and education.

Opening and using a bank account also seems to partly depend on previous experience that FDPs had with financial services in their country of origin.[66] For example, for refugees coming from Syria, there is less of a cultural history of using the formal financial sector. Data from the World Bank's Global Financial Development Report 2014 on Financial Inclusion indicates that less than 20 percent of the pre-2011 population in Syria used the formal financial system.

Existing research and evidence further suggests that financial needs of FDPs are in many cases related to the phase and length of displacement – the longer FDPs are displaced, the greater is the similarity in their needs for financial services and the needs of their host communities. Following table provides first insights on the segmented financial needs by general displacement phase:

TABLE 1: SEGMENTED FINANCIAL NEEDS BY DISPLACEMENT PHASE

Phase	**Arrival / Transit**	**Early Displacement**	**Protracted Displacement**	**Permanence**
Time Period	1-3 months	3-12 months	1-3 years	> 3 years
Focus on…	…immediate, basic needs.	…housing, education, language, work, health.	…improving standard of living; re-building a life.	…building livelihoods and productive assets; a life resembling that of the host community.
Potential need for financial services	Cash aid for shelter, food, medical services, and to repay debt incurred during escape. In some cases, remittances.	Cash aid for basic needs, subsistence and urgent care. In some cases, savings and remittances. (Micro) consumer credit for furniture, appliances, school fees, business equipment.	Savings. Remittances (receiving and/or sending). (Micro) consumer credit, mortgage/ home improvement loans, business loans, and micro-insurance.	If integration is the goal: more sophisticated financial services which resemble those of hosts: savings, investments, payments, pension plans, credit, insurance, and transnational services (e.g. line of credit, remittances, insurance for family in country of origin). If return/resettlement is the goal: savings for journey, transferable credit history, transferable pension schemes, housing credit to rebuild, and deferred annuities.

Adapted from and based on figures and tables from GSMA (2017) and UNHCR, SPTF (2016).[67]

66 Ibid.

67 GSMA (2017): *Landscape Report: Mobile Money, Humanitarian Cash Transfers and Displaced Populations*; and UNHCR, SPTF (2016): Serving Refugee Population: The Next Financial Inclusion Frontier - Guidelines for Financial Service Providers. A ba-

The above table provides one way of segmenting the heterogeneous group of FDPs – based on the financial tasks they must perform to move, settle, survive, or return. Financial inclusion strategies could take into consideration these tasks and the environments in which they occur. It is also critical to remember that different refugees experience vulnerabilities differently based on these factors and they must consider age, gender, and class as they formulate strategies to manage money. It is, therefore, also important to take into consideration the needs of different vulnerable groups such as youth, unaccompanied minors, and women.

Other than lack of access to financial services due to regulatory constraints, FDP's engagement with the regulated financial sector maybe limited due to lack of knowledge and fear of surveillance. Therefore, any financial inclusion strategies must take into consideration such behavioral factors affecting FDP's choice of financial services.

ANNEX 2 – THE G20 INITIATIVE "FINANCIAL INCLUSION OF FORCIBLY DISPLACED PERSONS – A TIMELINE

Already in late 2016, the German G20 Presidency had decided to place a special emphasis on forced displacement and the possible role financial inclusion could play in alleviating the plight of FDPs. The process encompassed a number of steps, building momentum over time:

- In preparation of the initiative, a mapping exercise and workshop in December 2016 brought together GPFI implementing partners, humanitarian organizations and other relevant stakeholders active in this field.

- In January 2017, the GPFI endorsed the convening of a Temporary Steering Committee (TSC) on the Financial Inclusion of FDPs to provide technical support on the topic and guide the work of the GPFI, particularly the creation of the GPFI Policy Paper.

- FDPs were included as a new target group in the 2017 Financial Inclusion Action Plan (FIAP). Subgroups are asked to discuss how they can address the needs of FDPs in their future work.

- The draft GPFI Policy Paper and the AFI Special Report were presented and discussed at the GPFI/AFI High-Level Forum on Financial Inclusion of Forcibly Displaced Persons in Berlin on 26 April 2017 that was organized in the context of the GPFI's May meetings and resulted in the identification and prioritization of action areas for the GPFI to take forward.

- The GPFI agreed with the suggested prioritized action areas at the GPFI Plenary on 04 May 2017. These areas will thus guide further work and form the core of the GPFI Pol-

sic segmentation of key vulnerable groups affected by crisis (youth, women, unaccompanied minors) and their respective financial needs can be found in CGAP, World Bank Group (2017): *The Role of Financial Services in Humanitarian Crises*.

icy Paper on the Financial Inclusion of FDPs. The priority action areas include the objectives of:

- improving cooperation and coordination through dialogue and strategic partnerships within and across sectors,
- strengthening the case for financial inclusion of FDPs by closing the knowledge gap through data generation and targeted research, and
- embedding FDP-inclusive policies and practices in existing financial inclusion efforts, esp. as regards the regulatory environment, infrastructure and digital financial inclusion.

- As a key result, the initiative featured prominently at the G20 Summit on 7-8 July in Hamburg, where the G20 expressed their appreciation of GPFI's work and tasked the GPFI with developing a roadmap in 2018 for further and more concrete activities:

  "We support the work of the GPFI to advance financial inclusion for particularly underserved and vulnerable segments of society, including women, youth and forcibly displaced persons. We look forward to the GPFI Policy Paper to be finalized in 2017 and ask the GPFI to develop a roadmap for sustainable and responsible financial inclusion of forcibly displaced persons by 2018." [G20 Hamburg Action Plan]

- The intended measures and responsibilities will be therefore delineated in a Roadmap on the Financial Inclusion of FDPs to be developed under the Argentine G20 Presidency in 2018.

- The GPFI and the TSC will continue to stimulate further debate and support the translation of the results and findings into action, by e.g.
  - Continuing the work of the GPFI Temporary Steering Committee on "Financial Inclusion of Forcibly Displaced Persons" and working collaboratively with relevant United Nations Organizations, standard-setting bodies, other interested international organizations and stakeholders, to develop proposals for an international roadmap to enable responsible and sustainable financial inclusion of FDPs globally, to be submitted to the G20 by the time of the Leaders Summit in 2018,
  - integrating the needs of FDPs in the future work of each GPFI Subgroup,
  - working towards the inclusion of specific measures to address Financial Inclusion policy imperatives in international development agendas, such as the upcoming UN Compact on Refugees.

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