

Access to finance for energy in displacement settings



November 2021

Published by

giz Deutsche Gesellschaft
für Internationale
Zusammenarbeit (GIZ) GmbH

As a federally owned enterprise, GIZ supports the German Government in achieving its objectives in the field of international cooperation for sustainable development.

Published by:

Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH

Registered offices
Bonn and Eschborn, Germany

Friedrich-Ebert-Allee 32 + 36
53113 Bonn, Germany
T +49 228 44 60-0
F +49 228 44 60-17 66

E info@giz.de
I www.giz.de/en

Project description:

Energy Solutions for Displacement Settings (ESDS) is a component of the Global Programme "Support to UNHCR in the implementation of the Global Compact on Refugees in the Humanitarian-Development-Peace Nexus" (SUN), which is commissioned by BMZ and implemented by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. ESDS supports UNHCR in addressing the lack of a sustainable energy supply in refugee hosting areas through global advisory services and the implementation of technical measures in displacement settings in Uganda, Kenya and Ethiopia.

Author/Responsible/Editor, etc.:

Lukas Wellen, Team Leader (Microfinanza Srl)
Marco Pasini, Financial Expert (Microfinanza Srl)
Guglielmo Mazzà, Environmental Expert (Microfinanza Srl)
Megan Taeuber, Energy Advisor (GIZ)

Photo credits/sources:

© GIZ/Naziru Musungu

Maps:

The maps printed here are intended only for information purposes and in no way constitute recognition under international law of boundaries and territories. GIZ accepts no responsibility for these maps being entirely up to date, correct or complete. All liability for any damage, direct or indirect, resulting from their use is excluded.

On behalf of
German Federal Ministry for Economic Cooperation and Development (BMZ)
Referat 221
10963 Berlin, Germany

Bonn, 2021

microfinanza

Content

Executive summary	1
List of used abbreviations	6
List of figures	8
List of Tables	8
1. Introduction	9
1.1 Background	9
1.2 Research objectives	11
1.3 Analytical Framework	12
1.4 Research set-up and limitations	13
2. Finance and energy markets in displacement settings.....	14
2.1 Displacement framework and humanitarian actors	14
2.2 Energy demand	16
2.3 Market structure.....	17
2.4 Financial Service Providers.....	18
2.5 Energy Service Providers.....	19
3. Taking stock of the Humanitarian Finance market	20
3.1 Regulation reform to enhance access to finance	20
3.2 Cash and Voucher Assistance	21
3.3 Non-cash assistance.....	24
3.4 Market-based finance	25
3.5 Community-based finance	29
3.6 Financial capacity building	30
4. Regulatory issues	32
4.1 Key Regulations for financial services for energy in displacement settings	32
4.2 Regulations for Financial Service Providers	33
4.3 Quality standards for energy and financial services	35
4.4 Digital finance regulations	36
5. Country briefs	37
5.1 Uganda	37
5.2 Ethiopia	39
5.3 Kenya.....	43
6. Conclusions	46
6.1 Prioritization.....	46
6.2 Critical features and success factors of payment systems	46
6.3 Market approach	48
7. Recommendations	49

7.1	General recommendations	49
7.2	Uganda – West Nile.....	50
7.3	Kenya – Kalobei and Kakuma	51
7.4	Ethiopia - Gambella.....	51
8.	Annexes.....	53
8.1	Annex I – Glossary.....	53
8.2	Annex II – Humanitarian Finance Matrix	59
8.3	Annex III – From Humanitarian to Market Based Finance.....	59

Executive summary

Refugees and host communities living in contexts of forced displacement need energy to cook, to charge mobile phones and other devices, to have light in their homes, for economic activities, and many other purposes. However, their access to energy is often limited due to logistical barriers and a lack of financial resources to buy energy technologies and services.

Humanitarian actors cater for the basic needs of displaced people. Nevertheless, there is not yet a clear practice to ensure that refugees have access to the energy they need in displacement settings. The **ESDS project**, run by GIZ, aims to address this gap in the context of the West Nile region in Uganda, the Kakuma and Kalobei settlements in Kenya, and the Gambella region in Ethiopia.

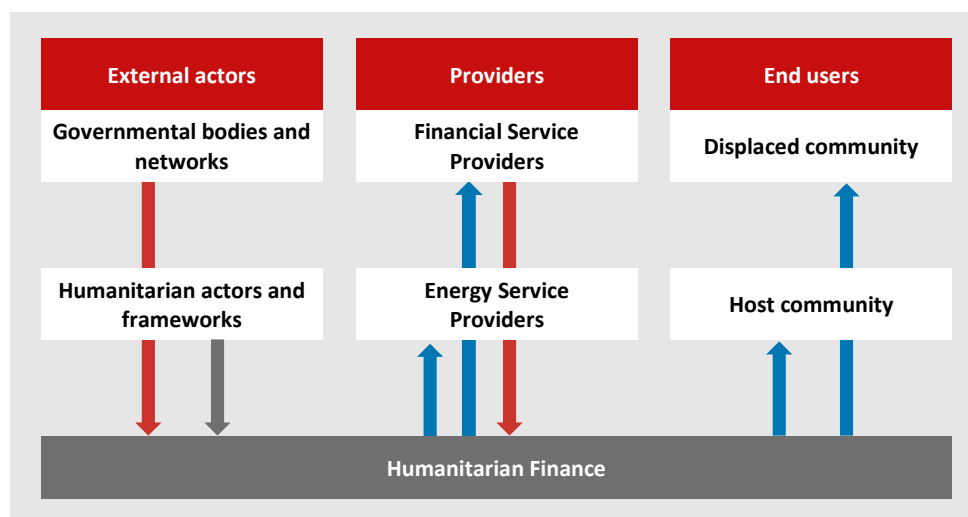
Humanitarian finance schemes

This report focuses on how humanitarian finance schemes support access to energy and influence finance and energy markets, as well as how these can be enhanced in the context of the three target countries. The market system of financial and energy services includes:

- A demand side. These are the end users: refugees and host community have a demand for energy services and financial services;
- A supply side. These are Financial Service Providers (FSPs) such as banks and MFIs, and the Energy Service Providers (ESPs) that handle the actual energy sources, services and technologies, as well as related financial services.
- External actors. These are humanitarian actors and governments who contribute to creating an enabling environment through specific interventions to support the end users as well as FSPs and ESPs.

Figure – Humanitarian finance market interactions.

Legend: → Influences, implements, provides resources to; ↗ Provides assistance to; ↘ Provides resources to.



The study has identified five main strategies that humanitarian actors can adopt to provide access to finance for energy in displacement settings:

1. **Regulatory reform and easier access to financial services.** The regulatory framework is a fundamental enabler of the market system. Access to a valid ID, which is accepted by FSPs, is a key condition that should be promoted by the humanitarian sector. Other key issues are regulations

on freedom of movement and work, and the management of financial and mobile communication markets.

2. **Cash and voucher assistance.** Cash assistance can foster market development in cases where there is a functioning market in the vicinity. In contexts where this is not the case, in-kind assistance is necessary. Voucher systems are a form of financial support which is restricted to a specific product or service. Cash assistance can be provided through partnerships with FSPs. These offer a variety of services, ranging from simple cash transactions to savings and loans, among others. The different mechanisms to provide cash assistance, whether physical, digital, or per mobile money, also affect market development. Digital financial services are widely implemented for security and effectiveness reasons. However, access to networks, power, SIM cards and mobile money accounts can be a barrier.
3. **Market-based finance.** Humanitarian actors can play an important role in de-risking the investment of FSPs and ESPs servicing refugees to encourage market development. In the case of FSPs, one aspect involves sharing the investment to encourage FSPs to provide their services in displacement settings: opening branches, creating mobile agencies and hiring (refugee) staff. This also includes financial capacity building for potential clients. Another aspect refers to sharing risks, for instance providing guarantee funds. In the case of ESPs, humanitarian interventions can help reduce the cost for the final client, or facilitate the provision of instalment payments by pre-purchasing products, guaranteeing payments, etc. There are very few examples of tripartite partnerships between humanitarian actors working with ESPs to deliver the technologies or services and FSPs providing a tailored financial product, which is a model that should be encouraged.
4. **Community-based finance.** Savings and loans groups have a good multiplying effect, according to extensive experience. Humanitarian actors provide funding, technical assistance, mentoring and other forms of support. FSPs can count on the financial experience and mutual guarantee of group members to reduce the cost and risk to serve new clients. Groups may also leverage the adoption of energy products and services.
5. **Financial capacity building.** Financial capacity building is a key success factor of financial inclusion programs. The humanitarian actor plays a role in either funding or delivering this service.

Pre-conditions and state of the art in the ESDS target countries

An assessment framework has been developed to guide the design and implementation of humanitarian finance interventions to foster energy access. A comparative analysis is presented for the target countries focusing on three key aspects:

- **Regulatory pre-conditions:** Identification procedures of displaced people; right to move and work within and outside settlements; ability to register a SIM card and to access financial services; compliance with national Know Your Customer (KYC) policies to access financial services; access to digital financial services (e.g. mobile payments and digital payments).
- **Operational pre-conditions:** Structure of local markets for products and services; financial services and products provided within and outside displacement settings; penetration of mobile payments systems; existing partnerships between humanitarian actors and FSPs; interoperability of mobile, digital and physical payment systems.

- **Humanitarian finance state of the art:** Experiences and business cases of interventions previously implemented by humanitarian actors, possibly in partnership with ESPs and FSPs.

The findings listed below can guide the decision on which strategy can be effective and feasible in the context of the ESDS project.

Table - Pre-conditions and state of the art in the ESDS target countries.

Legend: ■ Favorable, ■ Partially favorable, ■ Less favorable environment

	Uganda	Ethiopia	Kenya
Regulatory pre-conditions			
Identification	Rapid UN biometric registration; Refugee ID (with OPM validation) and National ID provided	Refugee identification through ARRA/UNHCR Card; National ID provided	National + refugee/alien ID provided
Right to move and work	Free movement and right to work	Right granted formally, limitations faced; Open access for nationals only	Right granted with restrictions
SIM card registration	Possible with valid ID; Refugee ID limits access	Access with refugee ID	Access with refugee/alien ID; Proxy access is common
Access to financial services	Access to all financial services (KYC compliance required)	Access to all financial services (KYC compliance required)	Access to all financial services (KYC compliance required); Limits due to KRA employment PIN
KYC	Compliance required National ID, alien/refugee ID, passport	Compliance required with available ID verification	Compliance required with refugee ID
Access to digital fin. services	Access to mobile money / banking	Access limited due to ID or complex registration	Access limited (with alien ID)
Operational pre-conditions			
Market structure	Structured markets in West Nile region. High cash circulation; High reliance on assistance.	Market is assistance-driven and limited in Gambella; Low cash circulation.	Structured markets High cash circulation; Threats of closure hindering investment
Financial services provisioning	Interaction between FSPs/humanitarian actors; FSPs actively provide services in settlements.	Limited interaction between FSPs and humanitarian actors; FSPs providing services in selected areas.	Structured FSPs market; Limited outreach due to perceived risk.
Energy services provisioning	ESPs (retailers) available and active Cash-assistance increasing access	In-kind assistance still predominant; Lack of ESPs within settlements; Low diversification	Partial access to energy; Presence of ESPs
Mobile money penetration	High market penetration; Connectivity remains barrier	Low market penetration in settlements; Rapidly improving market	Structured digital financial services offer; Default exposure results in black-list
Inter-operability	Not yet guaranteed; Few examples of financial	Not yet guaranteed	Strong relations between FSPs/humanitarian actors;

	agreements between FSPs and humanitarian actors		Positive environment to build interoperability
Humanitarian finance state of the art			
Regulation reform and easier access to fin. services	Need for coordination to align humanitarian finance interventions	Advocacy efforts required; Need for coordination with FSPs / government to develop access to financial services.	Structured advocacy; Efforts needed to harmonize access to SIM cards and DFS.
Cash and Voucher Assistance	Strong collaboration with FSPs; Cash assistance not always inter-operable. In-kind for specific needs.	Low collaboration with FSPs; Cash assistance mostly not interoperable. In-kind distribution largely adopted.	Strong collaboration with FSPs; CVA driving market diversification.
Market-based finance	High FSPs penetration; Several de-risking interventions (F/ESPs); Lack of liquidity hinders FSPs more than the need for guarantees	Low FSPs and ESPs penetration; Few de-risking interventions tested.	High FSPs penetration; Market-based interventions tested; Guarantee funds overrated due to limited default rates of refugees.
Community-based finance	High interaction with VSLAs/SACCOs; Services provided + FSPs involved.	Tested interaction with VSLAs/SACCOs; Services provided + FSPs involved.	High interaction with VSLAs/SACCOs; Digital fin. services widespread for groups.
Financial capacity building	Proven to be a success factor through humanitarian interventions.	Not widely present.	Attention towards financial capacity building is increasing.

Critical features and recommendations

Several critical features and success factors of humanitarian finance interventions have been identified. These lead to the following recommendations for the implementation of the ESDS project.

Prioritization. There is an issue of prioritization of energy needs in humanitarian response. Humanitarian actors play an important advocacy role towards governmental authorities to develop and deploy conducive regulatory conditions. Advocacy is needed for a wider introduction of energy as a basic need in the standard assessment tools that are used to determine expenditure baskets by humanitarian actors. However, these should be aware that there is not one energy solution that fits all. Fostering full financial inclusion of refugees, meaning access to and the ability to choose among different energy services, can ensure the necessary flexibility for refugees to meet their specific needs.

Interoperability. Interoperability can make the difference between a simple service delivery and financial inclusion. Humanitarian actors partnering with financial institutions in order to deliver cash support should go beyond simple transaction services, and foster access to other services, such as savings and loans (in short, access to all the services a standard bank account would provide).

Financial capacity building. Financial capacity building is a key driver for financial inclusion, and humanitarian actors should keep on mainstreaming this approach in all interventions, integrating access to finance and energy.

Community-based finance. Savings and Loans Groups are community-based organizations often targeted by humanitarian interventions through effective approaches. They favor cooperation between refugees and host communities. Moreover, they multiply outreach and impact to increase access to energy. Humanitarian actors should foster their engagement. Technical assistance and building track-records can improve effectiveness and access to financial services.

Digitalization. Digitalization can reduce operational costs, improve security and enhance interoperability. It should therefore be part of longer-term intervention strategies. Digital and financial capacity building can protect clients from the risk of over-indebtedness as it is easier to gain full insight in a prospective borrower's financial situation. Humanitarian actors should partner up or negotiate with Mobile Network Operators (MNOs) and other service providers.

Market-based interventions. Finally, in order to foster market development, humanitarian actors should consider the market from the point of view of market operators, especially FSPs. This means that humanitarian finance interventions should aim to create the conditions for refugees to be attractive clients, and support the penetration strategy of private sector operators. Effective cash support, conducive regulations on employment, business and freedom of movement influence refugees' purchasing power for financial and energy products. Interventions can focus on different stages of the approach of private sector operators.

- A thorough market study should be made available to private sector operators to support their approach in displacement settings.
- Humanitarian actors can play a significant role to support the initial investment of FSPs (and ESPs) accessing displacement settings.
- Humanitarian actors can also reduce financial risks in the long run through guarantee funds and collateral activities.

Interventions should take into account that, if they achieve full financial inclusion, refugees are not riskier than other people. This report paves the way for further analysis of some specific strategy options, and for a thorough integration of these findings with more market-based research.

List of used abbreviations

ARRA	Administration for Refugees and Returnee Affairs
CVA	Cash and Voucher Assistance
CRRF	Comprehensive Refugee Response Framework
DFS	Digital Financial Services
ESDS	Energy Solutions for Displacement Settings
ESP	Energy Service Provider
FAO	Food and Agriculture Organisation
FSP	Financial Service Provider
GCAMF	Grameen Crédit Agricole Microfinance Foundation
GCR	Global Compact for Refugees
ICRC	International Red Cross Committee
ID	Identification Document
IGA	Income Generating Activity
KRA	Kenya Revenue Authority
KII	Key Informant Interview
KYC	Know Your Customer
MFI	Micro Finance Institution
MNO	Mobile Network Operator
(N)FS	(Non-) Financial Services
NGO	Non-Governmental Organization
NIIS	National Intelligence and Security Services
OPM	Office of the Prime Minister
PAYG	Pay-As-You-Go

PoC	Population/People of Concern. The term refers to the population in the displacement setting that is reached by Humanitarian Actors. For practical reasons, it is also referred to as the Refugee Population or Refugees without any linkage with legal definitions of the refugee status.
RAS	Refugee Affairs Secretariat
RLO	Refugee Led Organizations
SACCO	Savings and Credit Cooperative
SHS	Solar Home Systems
SIDA	Swedish International Development Agency
TA	Technical Assistance
UNHCR	United Nation’s High Commissioner for Refugees
VSLA	Village Savings and Loan Association
WFP	World Food Program

List of figures

Figure 1: Essential Needs Framework, WFP	9
Figure 2: Income assistance typologies	13
Figure 3 - Simplified Market structure for Access to Finance for Energy	17
Figure 4: Humanitarian Finance Market Interactions.....	18
Figure 5: Example of increase of clients through operational improvements	69

List of Tables

Table 1: Proposed categorization of humanitarian finance interventions	10
Table 2: Challenges in the energy finance market.....	12
Table 3: Simplified segmentation of settling phases and market integration.....	15
Table 4: Relevant actors in humanitarian finance	15
Table 5: Payment-based categorization of energy needs and purchasing models	16
Table 6: Categorization of Financial Service Providers	18
Table 7: Potential scoring for a typical VSLA.....	19
Table 8: Potential market deficiencies for ESPs.....	19
Table 9: Approaches to foster energy uptake and financial inclusion.....	20
Table 10: Personal data protection priorities of UNHCR and FSPs.....	21
Table 11: Cash and Voucher Assistance categorization.....	22
Table 12: Non-cash assistance categorization	25
Table 13: Market-based finance categorization	26
Table 14: Key regulations for FSPs' operations.....	33
Table 15: KYC- and ID-related issues for refugee identification	34

1. Introduction

1.1 Background

The United Nation’s High Commissioner for Refugees (UNHCR) commits to guarantee protection and coverage of the essential needs of people in displacement settings. Its aim is to safeguard the rights and well-being of people who have been forced to flee. Humanitarian actors, including NGOs and UN agencies, work to ensure that displaced people meet their essential needs. These include food, health, shelter, education, water and sanitation. They are assessed by humanitarian actors in order to define how to deliver necessary in kind or cash support. The mainstream tool is the Essential Needs Assessment, a procedure adopted by most of humanitarian actors and standardized by the WFP. Within this process, access to finance is considered one of the key enablers in order to let people meet their essential needs. Access to energy is critical for cooking and for any activity needing electricity (from lighting to charging phones or running machines). However, it is not categorized explicitly as a basic need or enabler in the framework (although it could be considered as part of “access to basic services)¹, as shown in Figure1.

Figure 1: Essential Needs Framework, WFP



This report assesses access to finance for energy in displacement settings. The focus of the study is to understand how humanitarian actors can promote financial inclusion as well as access to energy simultaneously.

The research aims at understanding the contexts of Uganda, Kenya and Ethiopia, and to take stock of experiences in displacement settings globally. The report focuses on how interventions by humanitarian agencies impact the energy finance market, and on the regulations in place for that market. The study provides a general overview of the main market obstacles for energy finance in displacement settings, assessing the potential of this market niche often secluded due to the perceived uncertainty of humanitarian frameworks.

Humanitarian finance

The subject of this study is on what is defined as *humanitarian finance*, meaning the range of financial mechanisms and payment systems that directly originate and are implemented by humanitarian actors. This definition is introduced for the benefit of this study, to differentiate such interventions from *market finance*. The latter refers to financial mechanisms and payment systems adopted by private

¹ World Food Programme, *Essential Needs Assessment - Guidance Note*. WFP, 2020

(energy) market players to reach out to clients in displacement settings. A parallel study covers this issue².

Humanitarian finance is divided in five main intervention types, **Table 1**, each affecting the market differently (see Annex I – Glossary):

Table 1: Proposed categorization of humanitarian finance interventions

1. Regulation reform and easier access to financial services	Financial inclusion promotion; removal of Know Your Customer (KYC) barriers; coordination with local governments, regulating organizations, humanitarian actors, Financial Service Providers (FSPs), technology providers and Mobile Network Operators (MNOs).
2. Cash and voucher assistance	Direct provision of cash or non-cash equivalents given to individuals, households or targeted community recipients.
3. Market based finance	Access to finance; credit provision; collateral coverage; flexible payment systems (e.g. Pay As You Go); eased access to finance (e.g. instalment management, grace periods); value chain support; support to Financial Service Providers (e.g. liquidity funds, guarantee funds)
4. Community-based finance	Establishment and support to Community Purchasing Groups; establishment and support to community-based formal/informal Saving and Credit Associations (SACCOs).
5. Financial capacity building	Financial education; entrepreneurship support and coaching; specific training on energy access and usage; training on energy technologies, health, environmental impact.

Main issues

It is estimated that displaced people spend up to 25% of their income on energy, of which up to 90% is used for cooking³. However, energy needs are not often covered by cash or in-kind support by humanitarian actors¹, although the day-to-day importance of energy is clear. Moreover, UNHCR and governments are not in the position to provide proper infrastructure in places where the electricity grid is often absent. Settlements and refugee camps are designed to provide temporary shelter for refugees and, even if some of them last for decades, it is not politically viable to provide hard infrastructure.

It is thus necessary to find ways to support refugees to meet their energy needs. Market-based solutions involving the private financial and service sector are interesting options. However, several barriers still limit this opportunity. Key obstacles to improve access to energy in a market-led way are the limited financial means and the restricted access to financial services for refugees.

² The “End-user finance” study is run in parallel by Practical Action Consulting within the framework of the GIZ ESDS project. The focus is to take stock of market-based finance and payment systems which are offered by energy or financial services providers that can be used to improve access to energy products and services in remote rural areas. In particular, the study shall examine to what extent these systems can be transferred to contexts of forced displacement in the three ESDS target countries.

³ *Prices, Products and Priorities. Meeting Refugees’ Energy Needs in Burkina Faso and Kenya*. Practical Action, 2018.

Refugees often cannot open accounts to save and transfer money, take out loans or use mobile money. Their uncertain legal status and their lack of identification documents present a significant barrier for refugees to access finance. Moreover, Know-Your-Customer (KYC) requirements are usually not tailored to refugees. Furthermore, lack of collateral and credit history often prevent them from accessing financial services. Finally, low levels of financial literacy also tend to lead to a lack of trust in financial institutions. Women in refugee communities are particularly at risk of being financially excluded⁴.

1.2 Research objectives

Intervention goal

The Energy Solutions for Displacement Settings (ESDS) project component works on improving energy access for households, micro-enterprises and community institutions in humanitarian settings through market-based approaches. ESDS is one of three project components⁵ of the program “Support to UNHCR in the Implementation of the Global Compact on Refugees in the Humanitarian-Development-Peace Nexus” (SUN), which fosters UNHCR’s facilitator role for the GCR on the Nexus.

The goal of this assignment is to identify humanitarian finance schemes (through Financial Service providers or other agencies) that ESDS can build in order to improve access to energy for the selected People of Concern (PoC). Such finance should allow refugees and hosts to access energy, e.g. by buying improved cook-stoves or small Solar Home Systems (SHS). Some of these products have upfront costs, while others involve regular small payments (for instance to buy cooking fuels), or diverse leasing schemes such as Pay-As-You-Go (PAYG). Usefully, energy efficient devices can help save costs and time while also leading to health benefits and allowing activities after dark. Energy solutions can also be used for income-generating activities.

Humanitarian actors play a key role in supporting displaced people, including through financial support. With this involvement, they can play a role in the orientation and stimulation of finance and energy markets towards a better outreach to displaced people. The current report explores inputs on how to handle this role, for which it is considered that there are no straightforward answers.

This research explores how to increase the sustainability of humanitarian finance interventions and leverage them to strengthen the energy market structure in displacement settings. In line with this set-up, the research objectives are to:

1. Take stock of and evaluate existing finance and payment systems provided by humanitarian actors and partners (financial institutions, government agents, mobile money providers) in displacement settings.
2. Assess the regulatory framework for access to finance and payment systems in displacement settings and develop recommendations for advocacy.

⁴ Further data collection and context-based data analysis is recommended for this last issue.

⁵ The three components are: 1. Implementation of the Nexus in selected displacement settings; 2. Implementation of the Nexus in the sector of sustainable energy; 3. Capacity Development of the UNHCR division DRS and national structures to implement CRRF. This specific initiative supporting UNHCR’s facilitator role in the Nexus is part of the large initiative of German Ministry for cooperation (BMZ) called “Tackling the Root Causes of Displacement,(Re-)integrating Refugees”.

3. Recommend operational approaches for the Energy Solutions for Displacement Settings project component.

1.3 Analytical Framework

The role of the consultants is to assess to what extent and how humanitarian actors can support a market-based approach, or influence market development, to foster access to finance for energy services by displaced people.

Challenges

The refugee energy finance market has several key challenges. The result is often a non-existent or underdeveloped market. This report includes a description of such main market development obstacles, summarized in **Table 2**.

Table 2: Challenges in the energy finance market

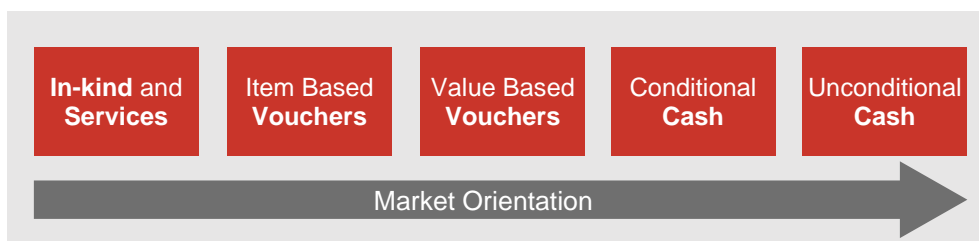
Issue	Description	Affects
Financial suppliers market perception	FSPs frequently lack a good understanding of refugee needs and how to serve them, or simply lack trust in this market segment.	Supply
Client market perception	Many refugees don't know what services they could use or lack trust in financial institutions.	Demand
Legal issues	KYC requirements complicate opening bank and mobile money accounts. Other legal issues affecting financial inclusion are rules about operating in camps/settlements and restrictions on freedom of movement, establishing businesses and work for refugees.	Demand & Supply
Operational issues and distribution channels	Finance and energy service providers lack access to refugees. This would require establishing branches or agents in camps, and preferably also having mobile money agents in the vicinity.	Supply
Technology issues	Reliable access to the internet or mobile money networks is required to perform financial transactions remotely, including PAYG-enabled energy devices.	Demand & Supply
Access to finance for financial institutions	Several FSPs lack access to finance for on-lending. It is market constraint. Covid-19 has exacerbated this issue because governments have to borrow more on the local money market, due to savings withdrawals and because there is less international funding available.	Supply
Energy devices	One outcome of earlier research indicates that energy devices can be of poor quality, for instance when cheap hand-outs were provided. Trust among potential clients in energy devices can therefore be low.	Demand

Income assistance

Several humanitarian agencies and FSPs work to improve access to finance in displacement settings. UNHCR is consistently moving towards cash-based assistance in all contexts where this is possible, rather than in-kind assistance or vouchers. This change helps recipients to participate in the cash

economy⁶. Humanitarian agencies and FSPs are collaborating on providing transaction services⁷. Key to the success of such initiatives is the regulatory framework. In particular this pertains to refugees' access to ID forms that allow them to open bank and mobile payment accounts, but also the possibility to move freely and pursue economic activities. The ability of external actors to enter and work in the settlements is also extremely important. The overview presented in Figure 2 explains the market orientation of different types of assistance.

Figure 2: Income assistance typologies



1.4 Research set-up and limitations

The research for this report was conducted through a desktop review of previous studies and 31 key informant interviews (see Annex 4 for an overview). The consultancy uses a field-level, practical perspective and is tailored to GIZ practitioners as well as their project partners. Designing and implementing complex interventions such as improving access to energy finance for refugees takes time and not all can be done simultaneously. This report therefore concentrates on the main issues and feasible options. Finally, the work is context-oriented and focuses on the situation in Uganda, Kenya and Ethiopia. However, the used framework at this stage is general to displacement settings in Sub-Saharan Africa and elsewhere.

It is noted that the study covers a broad field in a limited amount of time. Moreover, the study was performed during the COVID-19 pandemic, precluding field travel. Therefore, information gathering focused on a literature review and online interviews with selected stakeholders. The results of the work are a broad overview. It is recommended to perform additional research if more detail would be needed, with a focus on the most promising intervention options.

The consultants want to thank all involved for their openness and help in building this report.

⁶ Trend confirmed by several Key Informant Interviews with UNHCR and WFP officials.

⁷ Section 3.2 provides more detail on how the partnership between humanitarian agencies and FSP can, or cannot, lead to actual financial inclusion depending on the interoperability of transaction services with other financial services that are, or aren't, available for the refugee

2. Finance and energy markets in displacement settings

For the purpose of the ESDS project, the possibility either to develop a market approach or to influence market development with humanitarian finance interventions is extremely important. This is considered a success and sustainability factor in the long term.

Financial services are a key market driver to match the demand for energy services and the offer of these services at affordable conditions. For the purpose of this study, access to financial services for energy by private FSPs is considered a proxy indicator for market development. If refugees have access to financial services, this means that they have cash resources and the capacity to perform financial transactions. They are interesting clients for private FSPs, and these have the capacity to reach out to them and the host community. Moreover, if these services are used to cope with energy needs, this is an indicator that there is sufficient supply of those services in the displacement setting, and at affordable conditions.

Therefore, this research looks at refugees and host community members as (potential) consumers of energy products and financial services. Like with any market segment, refugees' and hosts' backgrounds should be taken into account when providing products and services.

This section focuses on the perspective of refugees, particularly on their demand for energy and energy finance. The section first examines a broad displacement setting market framework, followed by market segmentation and refugee repayment capacity. Host communities are excluded in this part of the analysis as they do not benefit from the same humanitarian finance schemes.

Although outside a pure humanitarian intervention context, understanding market demand and supply helps focusing on the actual consultancy goals: what type of finance & payment systems and regulations are useful to rollout energy finance in refugee areas. This section, therefore, adopts the point of view of a Financial Service Provider. This contextualization is functional to, later, identify how and to what extent humanitarian finance can influence financial energy market.

2.1 Displacement framework and humanitarian actors

Private sector operators (ESPs and FSPs) use market research to determine whether or not to enter a market segment, such as energy finance in displacement setting. The straightforward market segmentation below focuses on how long someone has been a refugee, if they settle and if they are economically active, **Table 3**. Simplified, these are key aspects from the perspective of finance providers. Other aspects such as refugees' age, skill set, earning capacity and displacement reasons could also be included.

Another issue is that the description does not apply to all people alike, for instance some long-term refugees might still be in the humanitarian relief phase. A final remark is that refugees within the same area are different, obviously. This relates to issues such as cultural differences, settlement phase and their economic and social background:

Table 3: Simplified segmentation of settling phases and market integration in displacement

Period /Phase	Likelihood of settlement	Market integration
Initial arrival (0-2 years): Humanitarian relief	Low	Low
Mid-term (2-5 years): Settlement	Mid	Low-mid
Long-term (> 5 years): Development	High	Mid

Another way to describe the energy finance market for refugees focuses on the main actors, **Table 4**. More detail is provided in the follow-up sections:

Table 4: Relevant actors in humanitarian finance

Actor	Background
Refugees	Refugees are considered to be a specific client group in this research, with a (latent) demand for energy and energy finance.
Settlements	Settlements have a social fabric. (Informal) settlement leaders/RLOs may need to approve certain activities or influence how Energy Service Providers (ESPs) are considered by refugees.
Refugee Led Organizations (RLOs)	
UNHCR	UNHCR, UN Agencies and NGOs play an important role in setting-up and managing camps. They also provide income/in-kind assistance and other services (trainings, counselling, policy advice). Their interventions may hamper with market-led solutions, for instance when providing energy solutions for free.
NGOs	
Modern ESPs	Modern Energy Service Providers sell energy devices to refugees and the host community. They preferably have a presence in the camps/settlements and also sell services/repairs. ESPs may need finance for their business.
Traditional ESPs	Traditional ESPs, such as sellers of firewood and charcoal or artisanal cook stoves, could be negatively affected by modern ESPs. This could hamper with the acceptance of more efficient energy solutions.
Informal FSPs	Many refugees are members of informal FSPs, such as Village Savings & Loan Associations (VSLAs). As their members usually have limited means, loans are normally small and for a short term based on best practices of VSLA. They are therefore less useful for long-term energy finance. Mixed VSLAs involving refugees and host community also exist.
Formal FSPs	Although a few formal FSPs started operating in refugee settlements, many refugees lack access to formal finance. This can change when refugees receive cash-based assistance. Formal FSPs can be important to provide larger energy finance loans.
Mobile payment providers/ network operators	Mobile payment providers could be useful to pay for energy (PAYG-approaches) and to handle cash contributions to refugees. Both types of transactions require presence (connectivity) and mobile payment booths (for cash-in/cash-out) around the camps/settlements
Regulators/ government actors	A relevant regulatory issue pertains to ID requirements to open bank/mobile money accounts. Another issue relates to rules about operating in camps and if refugees are allowed to move around, set-up businesses and have jobs. Further relevant regulatory issues are how loans in arrears are to be booked and operational rules for FSPs.

2.2 Energy demand

With the market segmentation as described above in mind, a related issue pertains to what the financial services are needed for. Although outside the primary focus of the current consultancy, it is deemed useful to have insight in what energy finance is needed for, as it influences possible interventions.

The following overview indicates several energy technologies and sources adopted in displacement settings. A differentiation is made between options that require upfront investments and that are based on periodic payments (see Annex I – Glossary for a more comprehensive analysis of technologies and sources). A full market research would include also an overview of typical energy devices and purchasing models, as presented in **Table 5**.

Table 5: Payment-based categorization of energy needs and purchasing models

Payment timeframe	Type of expenses	Purchasing models
Upfront investment based (technologies)	<ul style="list-style-type: none"> - Passive technologies⁸ - Cooking/heating systems - Electricity production products - Biogas production systems 	<ul style="list-style-type: none"> • Cash&Carry (simple 100% upfront payment) • Traditional leasing (payment due over time, possibly including partial upfront investment) • PAYGO (as traditional leasing, including service interruption in case of payment delay) • Third Party Financing (purchase from an ESP in partnership with an FSP providing a financial service)
Periodic payment based (consumables)	<ul style="list-style-type: none"> - [Sustainable] fuels/combustibles - Basic electric products⁹ - Electricity supply 	<ul style="list-style-type: none"> • Cash&Carry; • Consumption based pricing (payment depending on usage of rented equipment, e.g. for generators) • Energy as a service (payment proportional to consumption, e.g. electricity bill, regular provisioning of fuel)

With the above options in mind, the demand for energy finance could be estimated by an FSP or ESP wanting to enter the market.

Put in simple terms, the combined amount of upfront and operational expenses is the maximum demand for energy finance. This amount will be lower when clients have savings and when their income

⁸ E.g. Solar cooking; Natural lighting; Passive cooling

⁹ E.g. Batteries; Improvised lighting sources

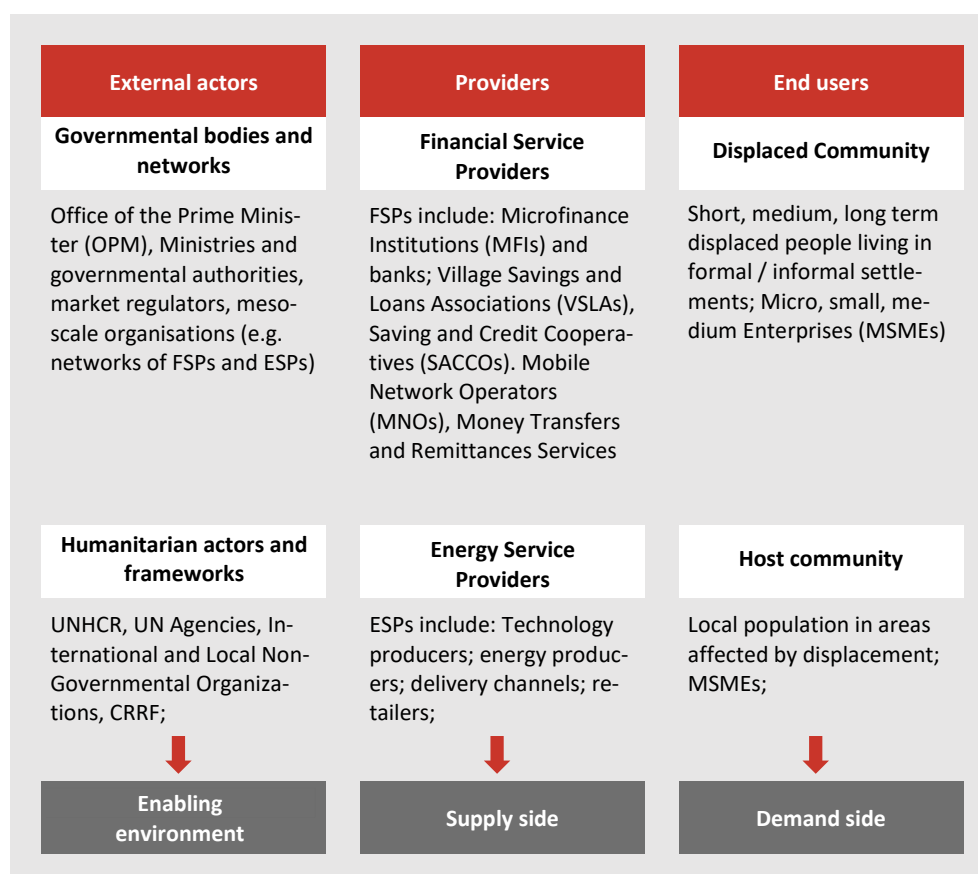
surplus pays for the operational expenses FSPs and ESPs approaching the market would include such a granular demand analysis in the market research.

2.3 Market structure

Figure 4 describes in a simplified way how humanitarian interventions can interact with other market players to foster access to finance and energy in displacement settings. The hypothesized market structure is presented to evaluate how Humanitarian Finance can interact with the different actors, and how it can impact each market segment.

Energy needs are covered by **Energy Service Providers**, offering energy technologies, sources as well as services. **Financial Service Providers** play a key role in the market. They make resources available to end-users to purchase the technology or services they need. They also finance ESPs for the investments and running costs they face to provide their services in displacement settings. Access to financial services is thus critical for both the demand and supply of energy services.

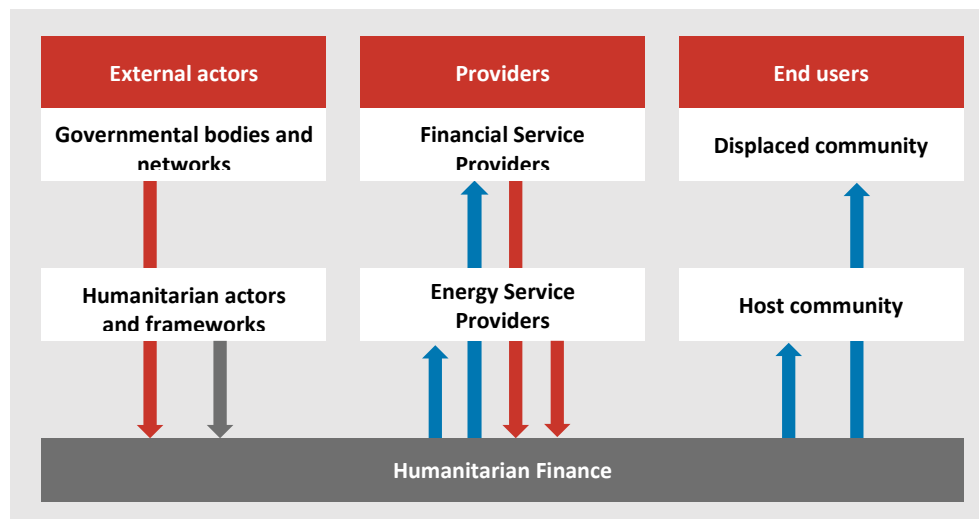
Figure 3 - Simplified Market structure for Access to Finance for Energy in Displacement



As presented in Figure 4, humanitarian actors represent the injector of humanitarian finance, with added contributions from governmental bodies and service providers (red arrows). Providers can, in fact, contribute to the implementation of humanitarian finance interventions through financial, technological or other resources.

Targets of humanitarian finance can be end users directly, or service providers (blue arrows). The latter can receive different forms of support to ensure the autonomous delivery of services towards the end users.

Figure 4: Humanitarian Finance Market Interactions. Legend: → Influences, implements, provides resources to; → Provides assistance to; → Provides resources to.



2.4 Financial Service Providers

To clarify how humanitarian interventions can stimulate the financial and energy service markets, it is useful to focus on how to stimulate Financial Service Providers (FSPs) to engage in energy finance for refugees. It is considered important to have a broad market overview (**Table 6**) before formulating recommendations. Although a more granular overview could be made, for the current analysis the following main generic types of FSPs are presented:

Table 6: Categorization of Financial Service Providers

Type of FSP	Services	Credit amount	Presence in camps	Process
Non-regulated FSPs, including RLO-organizations	Limited	Low	<u>Likely</u>	<u>Limited</u>
Regulated FSPs (e.g. MFIs)	Mid	<u>Low-mid</u>	<u>Possible</u>	Mid
Banks	<u>Advanced</u>	<u>Mid-high</u>	Less likely	Strict

Non-regulated FSPs are closest to the refugee finance market, also because they can be light on procedures. However, they often lack liquidity and therefore can offer only small credits. This limits their capacity to be a source of funding. Banks, on the other hand, offer a full-service approach and usually have sufficient funding available. However, they are less likely to be based close to refugees and more likely to have strict procedures. Regulated FSPs seem to cover a useful middle ground. To select FSPs for stimulation of refugee (energy) finance, a brief assessment of potential partners per area should take place. It is useful to focus on their interest and capacity to serve the refugee market. The tool below is presented including the score for a typical VSLA by way of example in **Table 7**.

Table 7: Potential scoring for a typical VSLA providing services to the refugee market. (-) Negative; (=) Mid; (+) Positive scoring.

Issue	(-)	(=)	(+)
Interest in the market			X
Internal capacity	X	X	
Financial capacity	X		
Suitable products for clients	X	X	
Physical proximity to clients			X

An interesting option is to combine the strengths of different FSP types. An RLO could for instance be the first client contact and provide limited services. When refugee clients have additional financial needs, the RLO could act as an agent for an MFI or bank for a fee. Another option is that RLOs borrow from MFIs or banks to increase their on-lending capacity towards their members.

2.5 Energy Service Providers

An overview of the supply of energy (technologies and sources) completes the picture of the market for energy finance. Such suppliers include NGOs/RLOs and local retailers. The market of energy suppliers faces two key challenges which are presented below in **Table 8**.

Table 8: Potential market deficiencies for ESPs

Issue	Possible challenges for suppliers	Result for consumer
<i>Type of offered products</i>	<ul style="list-style-type: none"> • High minimum procurement requirements for client-oriented suppliers • No access to demanded devices/services for clients 	<ul style="list-style-type: none"> • No access to demanded devices/services
<i>Payment type</i>	<ul style="list-style-type: none"> • Unfavorable payment terms for client-oriented suppliers • Lack of access to finance by suppliers 	<ul style="list-style-type: none"> • Unfavorable payment terms • Lack of access to finance

Possible solutions to handle market deficiencies include:

- Inform suppliers of typical demands for energy devices/services (part of the recommended market research);
- Provide finance to suppliers, so that they can stock-up;
- Use suppliers as agents for FSPs

3. Taking stock of the Humanitarian Finance market

How refugees receive support makes a difference. The payment systems adopted by UN agencies vary and influence the market environment. The key development is the move by UNHCR and other UN agencies towards cash hand-outs, rather than providing in-kind assistance or vouchers. The World Food Program, WFP, is the agency primarily involved in delivering cash assistance. This cash-based assistance helps develop markets in refugee settlement areas, while also ensuring fairly efficient assistance to refugees, better targeting their preferences and enhancing their dignity.

For this study, we categorized the main ways to provide financial assistance to refugees as adopted by UN agencies. The categorization takes into account the potential effects of such assistance on the energy finance market, according to the market structure presented in paragraph 2.3. The types of financial assistance and payment systems are also clarified in the glossary (see Annex 1). The main tendency that arises from this preliminary assessment is that interventions that are relevant for the purpose of this study tend to either target fostering energy uptake or financial inclusion more generally through the following methods: **Table 9**:

Table 9: Approaches to foster energy uptake and financial inclusion

Fostering energy uptake	Interventions target ESPs to enhance their market presence (subsidizing prices, financing or supporting logistics, etc.) or provide financial services on their behalf. In-kind support for PoC is also ensured, providing technologies, energy sources or services.
Fostering financial inclusion	Interventions involve FSPs to provide cash assistance, or target PoC in broader financial literacy and inclusion programs. Humanitarian actors partner with FSPs to perform their transactions to the targeted PoC, mainly to deliver and monitor Cash and Voucher Assistance.

There is very limited evidence of existing programs being able to combine the two approaches of fostering energy access and financial inclusion, even though these interventions could strengthen each other.

The following sections describe the main financial mechanisms that can be adopted by humanitarian agencies to foster PoC's access to finance for energy. A detailed list of humanitarian finance interventions is presented in Annex 2. The proposed list, presented in the form of a matrix, is not exhaustive of all possible payment systems that can be adopted by a humanitarian actor. However, it provides the main trends and tools that are used, as well as some examples of their implementation.

3.1 Regulation reform to enhance access to finance

UN agencies interact and negotiate with the national government to create the best possible conditions for refugees and the host communities¹⁰. A priority of UNHCR regarding access to finance is making sure that refugees are provided with an identification document that allows access to necessary services, including finance. Handling logistics is challenging for this task, because of the needs to quickly process sometimes irregular and massive inflows of people in remote areas. A further barrier to the use of data is the sharing of data: **Table 10**:

¹⁰ The Global Compact on Refugees provides the framework for the conditions that governments and UNHCR shall ensure for refugees.

Table 10: Personal data protection priorities of UNHCR and FSPs

The protection mandate of UNHCR	Personal data of refugees, especially those fleeing from conflict areas or from possible persecution, have to be managed with much care and be protected to ensure the refugees' safety. An issue is that UN agencies cannot share refugee data with financial institutions, which hinders key risk management procedures by FSPs.
KYC requirements for Financial Institutions	Financial institutions have to comply with anti-money laundering practices that require thorough client identification and verification of the origin of money. Refugees or their agents are not always able or willing to share such information. Moreover, the more a financial institution knows about clients and their transactions, the better it can provide other services, such as loans.

The research evidenced several options to overcome these barriers:

- Issue IDs to refugees. The ideal situation is when UNHCR and the national government reach an agreement to ensure that refugees have a valid ID, with comparable validity to resident IDs. This is for instance the case in Uganda.
- Accepting other forms of identification to open bank accounts or mobile wallets. Often refugees are not given a national ID but receive a registration document when they arrive in a settlement. Even when the national government issues IDs to refugees, the implementation proves complicated and refugees can spend significant time before receiving these IDs. A useful role of humanitarian agencies is to negotiate with the market regulators/financial authorities to ensure that this registration document is accepted by financial institutions to open accounts and complies with KYC requirements. Examples exist both on recognizing the validity of the refugee registration documents and on accepting the ID of the country of origin, or the expired passport as valid ID¹¹ (although not many refugees have such documents). UNHCR plays a key role via its (biometric) identification processes, to ensure the reliability of its IDs and, therefore, its acceptance to access financial services.
- Relaxed regulations for SIM cards. This is a by-product of the activity described above. If it is impossible to change ID requirements to open bank accounts, relaxed requirements may be possible to have access to SIM cards. This is important when access to a SIM card also gives access to mobile money services.

3.2 Cash and Voucher Assistance

Cash and Voucher Assistance (CVA) is the preferred strategy used by humanitarian actors to provide assistance to refugees. Cash and non-cash (in-kind/voucher/services) assistance are presented in separate sections, as their use of payment systems is significantly different.

The humanitarian sector is moving towards cash-based assistance because of the benefits in terms of flexibility, cost effectiveness, capacity to meet the need of the recipients, and their dignity and empowerment. However, cash-based assistance is not always possible as several conditions must be met in order to make it feasible:

¹¹ Examples of these options have been registered in Latin America rather than Africa or Middle East contexts

- Availability of a market at reachable distance and with affordable prices for goods and services that meet the needs that the cash assistance is meant to provide.
- Operational capacity of the humanitarian actor either to deliver cash directly, or via partner FSPs.
- Monetization of the target people, meaning that they have sufficient financial literacy to use cash.
- Community acceptance of the cash-based intervention both by the target group and the host community, and a minimum of security conditions to deliver cash and to access markets¹².

Cash support can be unconditional or conditional, depending on whether it is provided upon a condition (for instance cash is only disbursed to a PoC upon completion of a training) or not; restricted or unrestricted, depending on whether it is delivered to all the target population or only to some groups (for instance women or vulnerable groups); multi-purpose or sector-specific, depending on whether the support is given for any kind of purchase, or to some specific expenditure (for instance for food, shelter, education, energy)¹³. This leads to the following types of cash support, **Table 11**:

Table 11: Cash and Voucher Assistance categorization

<p>Conditional/ unconditional Cash Grants (one off)</p>	<p>This is a <u>grant</u> delivered to the target group once at a specific moment of the humanitarian response. This can be a multi-purpose grant, to generally recover from an emergency, or sector specific, to enhance some specific activity such as entrepreneurship or asset building.</p> <p>Even though specific grants for energy assets could be an interesting strategy to facilitate the adoption of energy technologies, no specific examples of this have been identified at this stage of the research.</p>
<p>Conditional/ unconditional Cash assistance (periodic)</p>	<p>This <u>assistance is delivered regularly</u>. It can be only cash, or combined with in-kind distribution (such as food or firewood). This is the most common support provided by UN agencies, usually through WFP, in displacement settings.</p> <p>The approach is used both early right after arrival in camps and during protracted displacement situations.</p>
<p>Cash for work/training</p>	<p>Cash for work/training are the most common types of <u>conditional cash support</u> implemented by humanitarian actors. Both types can be directly related to energy. Cash for work can for instance be used for the construction of renewable energy infrastructure for refugees.</p> <p>Cash for training can be used to promote good practices and enhance demand for renewable energy technology and services. However, no specific examples have been identified at this stage of the research.</p>

To provide periodic cash assistance (but also grants and cash for work) to refugees, humanitarian agencies tend to partner with financial service providers to enhance transaction security and foster financial inclusion of the refugees. These partners can be formal FSPs (banks, MFIs), Telecommunication Companies (especially Mobile Network Operators providing mobile wallets) and remittance or international transaction service providers. By way of background, in 2020 about 55% of cash

¹² ICRC, *Cash in emergencies toolkit*, <https://rcmcash.org/>

¹³ Cash Learning Partnership, *Glossary of terminology for Cash and voucher Assistance*, 2016

assistance delivered by WFP was physical, while 36% was delivered through debit or ATM cards and 9% through mobile money accounts¹⁴.

BOX 1: Coordinating cash assistance to build market-based services¹⁵

The Uganda Cash Consortium (UCC) is led by the Danish Refugee Council (DRC) and implemented together with the Lutheran World Federation and the Uganda Red Cross Society. The consortium leads the disbursement of multi-purpose cash assistance basing on the bi-monthly assessed Minimum Expenditure Basket (MEB). The calculation has included an energy component considering 1.1 kg of firewood person/day and 1,250 UGX per household per week for lighting, resulting in 8% of the MEB dedicated to energy consumption. Main objective of the UCC is to deliver CVA through digital means, easing the process. The main barrier to this approach was the temporary restriction of SIM Cards due to KYC. UNHCR is leading the support to ensure identification. UCC is working on the design of a Common Cash Delivery Platform to guarantee:

- Equal fees by FSPs and MNOs towards organizations implementing CVA;
- Promotion of digitalization and access to mobile money / digital payments;
- Transparency in delivery mechanisms and minimization of overlapping CVA.

Partnerships

Banks are the main financial service providers to handle cash support. The main issue lays on who the account holder is. Furthermore, in terms of financial inclusion, attention should be paid to what financial services are actually available for the refugees. The main issue is if they can only cash-out the received assistance, or if they can perform a broader range of financial services:

- Humanitarian agent as account holder: the most common practice is that WFP/UN opens an account and deposits liquidity. Afterwards, the agency provides electronic wallets or debit cards to the supported recipients. This is the easiest way from an operational FSP point of view, because the issue of identification of the users is under the full responsibility of the UN agency. In this case the recipient does not have a direct relationship with the financial institution, nor can any other transaction be performed.
- Client as account holder: there are several examples of banks issuing debit cards to refugees. Cash support is channelled through these cards, and the client can also make use of other transactions or functions (such as savings). When POS technology is available, the client can also directly pay merchants that have a POS-device with the card.

The situation is different when the humanitarian agent partners with a Mobile Network Operator for cash transactions. The main issue is that the operator, in principle, always needs to verify the identification of its SIM-card users. What is useful is that, in this case, refugees can also use the mobile wallet to store value and handle mobile money. In practice, refugees seem to focus on cashing out transactions, after they receive their inflow from a humanitarian agency. It is noted that transaction costs may be an issue for refugees when handling mobile money.

¹⁴ The figure was mentioned by stakeholders during Key Informant Interviews

¹⁵ Data collected through stakeholders' interviews. **Confidential information, not to be disclosed.**

BOX 2: Fostering digital financial inclusion through e-cash based CVA

WFP, in partnership with Oxfam, is providing cash assistance through PostBank in West Nile region. The FSP previously had clients in displacement settings. PostBank receives a validated list of beneficiaries of cash support identified through biometric systems. Refugees are given a pre-paid card (Union Pay) where they receive cash transfers from WFP, and which they can also use for a comprehensive list of services other than transfer, such as saving. International transfers (including remittances) are available. Refugees can cash in and cash out at the branches in the closest village, or through mobile van agencies. Commissions are regulated through an internal agreement between donor and FSP. No loan services have been associated to these accounts, and lacking collaterals represent a significant barrier. Creating movable assets registers has not been effective. Transactions and refugees cash flows are recorded. Credit history transferability is mainly hindered by data protection concerns.

Technology

Digitalization of transactions offers many opportunities. It can enhance transaction security and privacy. It can also be more cost effective. Digitalization simplifies building a verifiable transaction record that can help obtain credits for refugees that lack collateral or other ways to prove their repayment capacity. However, digital transactions require several conditions:

- Availability of ATMs/POS/mobile money kiosks that are sufficiently liquid for cash in/out transactions.
- Possibility to use digital money:
 - Network of retailers that accept digital payments and have a device to perform transactions.
 - Availability of SIM card and mobile money accounts for refugees to use the technology
- Access to technology, feature phone for refugees.
- Access to energy to power the devices.
- Digital literacy of refugees, to use the necessary applications.
- Sufficiently stable network.

3.3 Non-cash assistance

The research evidenced three main non-cash alternatives to direct cash assistance. There is strong evidence that in-kind distribution is in certain circumstances (for instance when refugees need immediate access to necessities, or when markets are lacking, or when cash transports are unsuitable) the only option to ensure that the target population has access to certain inputs. For food, the rationale is to ensure that the household has at least access to a minimum food intake per household member. For energy, in-kind distribution can be a way to overcome the non-availability or accessibility of technologies on a market. It is also still widely used for providing fuels, e.g. firewood for cooking, **Table 12**.

Table 12: Non-cash assistance categorization

In-kind distribution	Even though the trend moves away from in-kind assistance, it will continue to be an important way to respond to crises (especially during the early stages of displacement).
Vouchers	This is a sector specific approach used by donors that want to orient financial support to some specific expenditure. Vouchers can be useful when an immature market would not make the necessary product available at affordable prices.
Service delivery	Direct provision of (energy) services or assistance/maintenance

Distribution of a certain product or service to a limited number of households could stimulate demand among a broader group of refugees. For energy technologies, in-kind distribution can be a way to overcome the non-availability of the technology on a market. It is also still widely used for cooking fuel (firewood)¹⁶. It is noted that in-kind assistance can destroy markets when it competes with local traders who are not involved in supplying the goods. Secondly, it is noted that several interventions provided cheap and faulty energy devices to refugees for free. Their low-quality diminished trust in energy devices.

Vouchers can play a similar role as direct distribution of certain goods to stimulate markets for specific energy devices. It would be efficient to link vouchers to the refugee identification technology adopted by UNCHR, which has experience of using biometric identification/iris scan technology directly at the supplier level. Such technologies could help avoiding identification issues for the person presenting the voucher. More innovative options test the use of block chain to generate electronic tokens that can be used to purchase items (the owner of the tokens can redeem them at a supplier that handles such tokens and has access to an internet-based platform to administrate the transactions). So far this approach still seems difficult to implement effectively and the use of such tokens is therefore still limited. A main issue is that both the seller and buyer need solid access to the internet.

Service Delivery is when assistance is provided as a subsidized/fully covered service, including recharging, maintenance, replacement, and safe disposal.

3.4 Market-based finance

Market-based financing are by our definition financial interventions by humanitarian actors that stimulate private sector operators to provide services to refugees. The aim of these interventions is to remove barriers that make serving refugees unattractive for market-based operators. A main issue is to reduce the investment risk that the FSP or ESP face in entering a market that they perceive as risky. The research evidenced the following main potential intervention areas, **Table 13**:

¹⁶ *Cooking Energy in Refugee Camps – Challenges and Opportunities*, Energypedia, updated on September 2020, https://energypedia.info/wiki/Cooking_Energy_in_Refugee_Camps-_Challenges_and_Opportunities

Table 13: Market-based finance categorization

De-risking for Financial Service Providers	<p>Potential interventions can include the following:</p> <ul style="list-style-type: none"> • Providing funds to FSPs to serve refugees • Partial guarantee to cover potential losses
De-risking for Energy Service Providers	<p>Partnership with ESPs where the humanitarian actors bear part of the costs or implement part of the tasks to serve the customer. This reduces the risks and cost for the client and the ESP.</p>
Value chain support	<p>There are interventions that create a value chain of energy and financial service providers combined, to serve the final client. Research is being undertaken to collect evidence of successful value chain interventions.</p>

Annex III – From Humanitarian to Market Based Finance provides an in-depth description of the **market approach to foster financial inclusion of refugees**. The availability of funds and the possibility to cover potential losses are main tools to motivate FSPs to serve a new client segment that is perceived as risky or non-profitable. Liquidity and guarantees can be used to target specific (energy) products and specific client segments (the parts of the refugee market that has the capacity to handle financial services). Examples included in the research regard the adoption of these strategies to foster outreach to refugees.

A main difference between the two is how they generate leverage. Providing liquidity is more straightforward, but has no multiplier: X of liquidity can provide the same X of portfolio at the FSP. Guarantee funds focus on loans in arrears and can generate a multiplier effect: covering X% of losses can generate 1/X% portfolio. A 25% portfolio cover could for instance lead to a portfolio increase of four times the guaranteed amount (1/0.25). It is noted that providing liquidity is useful if FSPs want to grow but lack the means to do so. Using guarantees could be useful when the FSP has the means to grow but is reluctant to do so.

However, there are some barriers that prevent FSPs to serve refugees, even before a specific liquidity or risk assessment:

- Knowledge of refugees and host communities. This is key to enhance mutual trust between the FSP and the potential client, to reduce perceived risk and to define the market penetration strategy.
- Proximity of services. This is a major constraint for financial inclusion for displacement settings, as serving isolated areas can be costly for FSPs, while it is fundamental for clients (especially if digital uptake is low).
- Financial capacity building (such as financial literacy trainings). They are a key component to ensure the quality of financial services, both from the point of view of the client and of the FSP.

BOX 3: Humanitarian actors and MFIs partnering in Somali Region¹⁷

In Somali Region, several humanitarian actors managed to partner with local FSPs to deliver services to refugees. For instance, thanks to a partnership with UNHCR and IKEA Foundation, some MFIs such as Somali MFI and Dedebit started to serve refugees clients, offering savings, transaction and, in some case, loan services. Funding and parallel project activities de-risked the intervention of FSPs.

A starting investment is necessary to overcome all these aspects. In some cases (see box.3), funding for FSPs is combined with technical assistance to them in the field of handling the refugee market. This type of broader intervention is more complex but is considered to have more chances to lead to increased outreach.

A useful result of this intervention is that FSPs perceived that with the right approach refugees are not necessarily higher risk clients than members of their host communities. The key is to have a proper financial inclusion process, including proper market knowledge, solid financial capacity building and adapted financial services. It appears that delinquency data for refugees are the same, if not even better, than host community clients¹⁸.

BOX 4¹⁹: Developing Financial and Non-Financial services for Refugees¹¹

The partnership established by Grameen Crédit Agricole Microfinance Foundation (GCAMF), together with the FSPs BRAC, UGAFODE and VisionFund (the financial provider of World Vision) led to the expansion of their outreach towards West Nile's settlements, Uganda, thanks to subsidized NFSs, guaranteed through the support granted by the Swedish International Development Agency, and a loan towards FSPs by GCAMF. The market study clarified the right approach to adopt by the FSP, and especially provided them with information on "who the clients are". The grant allowed the opening of branches, the purchase of equipment and the initial hire of staff. The loan allowed the expansion of the portfolio, with no particular need for guarantees. The portfolio at risk of refugee clients was the same, if not lower, than other clients. However, some FSPs matched this support with other donors, including the provision of a guarantee fund. Coordination with UNHCR eased KYC procedures, though access was hindered due to lacking OPMs' IDs. Financial Services provided include lending through VSLAs, group loans, individual loans. Savings services have been provided only by legally authorized FSPs, proving a high saving capacity in West Nile region. Loans are generally not meant for consumption though often used for it.

Such interventions are a clear area where humanitarian actors can provide specific inputs (a grant by SIDA in the mentioned example) to influence the market.

Research showed several types of **partnerships between humanitarian actors and ESPs** to reduce the risk for ESPs or the cost of energy devices for the clients:

- The NGO subsidizes the price of energy devices for refugees.

¹⁷ *FINANCIAL SERVICES MARKET ASSESSMENT. Dollo Ado and Bokolmayo Refugee Camps Somali Regional State Ethiopia. UNHCR and IKEA Foundation, 2020.*

¹⁸ This finding can be confirmed by several MFIs/programmes, such as Ugafode and Vision Fund in Uganda (2020-2021), MFW-Microfinance for Women in Jordan (2017-2018). 2018 Impact Report on World Refugee Fund issues by KIVA crowdfunding platform stated that "Loans to refugees and IDPs have a repayment rate on Kiva of 96.6%, versus 96.8% for all non-refugee loans during the same period"

¹⁹ *FINANCIAL SERVICES MARKET ASSESSMENT Dollo Ado and Bokolmayo Refugee Camps Somali Regional State Ethiopia, UNHCR and IKEA Foundation, June 2020 – to be further checked*

- The NGO provides a guarantee to ESPs, which allows refugees to pay for the technology in instalments (the guarantee is invoked when clients stop paying).
- The NGO buys energy devices in bulk and sells them to the refugees in instalments. Hence, the NGO takes over all the risk and operational burden of the financial service. ESPs could act as agents for the NGO.

In these cases, the NGO takes over part of the market risk that the ESP would normally take. A limitation of this model is that financial services are provided either by NGOs or ESPs that do not provide financial services as a core business. This limits their capacity to offer these services effectively and cost-efficiently. The set-up is therefore rarely sustainable and therefore often short-lived. Moreover, NGOs and ESPs often lack the necessary license to provide financial services. In some cases, this issue was overcome by providing services only to refugees, in the protected environment of the settlement, excluding the host community. While this option is effective to involve private sector in a short time, even in a context with limited market system, it is not sustainable in the longer run.

Pay-as-you-go mechanisms are another way to solve the issue of the upfront investment for renewable energy technologies, which is often a major obstacle for low-income people in displacement settings. These mechanisms have not been deeply analyzed in this context because they are normally used for larger devices, such as Solar Home Systems. Such systems fall beyond the basic energy needs that are the core of this study. However, the frequent opinion recorded in KIIs is that very limited sustainable business cases can be found of PayG systems. These appear to generate profits only if subsidized at a certain stage of the process. Otherwise, the system is either too expensive for the client or not profitable for the supplier.

Furthermore, we found limited evidence of **tripartite partnerships** between humanitarian actors, Financial Service Providers and Energy Service Providers. In an ideal situation the roles could for instance be:

- The humanitarian actor provides key services to reduce risk and cost of private sector providers, such as demand creation, client identification and pre-scouting client eligibility.
- The ESP provides the energy service or technology at market cost, and links user to FSPs to pay for the devices in instalments.
- The FSP provides financial services, adopting its risk management and market strategies to the specificities of the refugee market.

Such tripartite partnerships appear to be rare because of the divergent roles and goals that have to be combined. In short, humanitarian actors want to deliver social results, ESPs want to sell services/devices, and FSPs need to follow procedures and keep their risk low. Previous experience by the consultants shows that access to accurate information for all participants is key for this approach, because it allows for reliable market studies that are necessary to determine the conditions and product use/costs for the stakeholders (FSP, ESP and clients)²⁰. Hence, it is recommended to experiment with such tripartite agreements to develop markets sustainably.

²⁰ Microfinanza tested a tool in the framework of an ACP project between 2012 and 2014, to calculate the benefit of each stakeholder in the tripartite partnership mentioned here. The Reduction Expense Energy Product Delivery Model REEP-Demo © tool. Examples mentioned here and in the annexed matrix from other field experiences, gathered via KIIs

BOX 5: Accessing Markets in displacement settings through ESPs^{11,21,22}

The AMPERE project in Uganda, funded by Netherlands Enterprise Agency under the Access to Modern Energy partnership with the Dutch Coalition for Humanitarian Innovation, sought to test, prove and build evidence for quality, affordable and reliable market-driven energy access solutions in humanitarian response programming. AMPERE was implemented by a consortium led by Mercy Corps Netherlands. The pilot aimed to bridge the gap between demand and supply of quality, affordable energy services and equipment at the household, small business and institutional level. The approach adopted by the lead organization in several initiatives grounded on retailing and providing leasing services purely through ESPs. Funding has been allocated to de-risk the investment in the new market environment through a guarantee scheme⁴.

Other value chain interventions focus on supporting providers with finance or technical assistance to sell lighting or cooking technology, or fuel such as briquettes in displacement settings. The goal of such interventions is to kick-start a certain market. However, none of these examples provided a concrete business case that could easily be used elsewhere.

3.5 Community-based finance

In addition to humanitarian and market-based finance, community-based finance is relevant for refugees. Savings Groups, in their wide variety and diversity, are a well-known practice in most displacement settings. They can be independent or initiated by NGOs, they have a great multiplier potential to provide services to people with of low-income, and are often also a means of cooperation between refugees and the host communities. Interventions to support and involve savings groups are diverse. Two trends emerged during the assessment:

Outreach: Several financial institutions, such as Vision Fund in Uganda and Al Majmoua in Lebanon, provide services to savings groups to reach out to refugee communities. Using a group guarantee instead of collateral is a long-standing strategy of the microfinance sector to overcome the lack of physical collateral of clients. This approach is also used in displacement settings.

Digitalization: There are promising experiences (especially in Rwanda) of programs fostering the digitalization of services for savings groups. The approach has similar barriers as for normal clients in terms of access to technology and network as well as digital literacy. However, these barriers can be reduced when only one person in a group of refugees has the necessary technology and competencies. There are also examples (especially in Ethiopia) of host community members that help refugee savings group with access to technology. Further investigation is required.

The great advantage of digitalizing savings groups is to create a transaction history that can be the basis for a graduation process of the group members towards advanced financial services by FSPs (such as larger loans). It is worth mentioning that initial technical assistance for these savings groups is important to ensure that they have sufficient bookkeeping skills.

²¹ *Humanitarian Energy: Energy for micro-enterprises in displacement settings*. EnDev, 2020

²² *PAYING FOR DARKNESS, Strengthening Solar Markets for Refugees in Uganda*. Mastercard Center for Inclusive Growth and Mercy Corps, 2019

BOX 6: Rooting market development on community-led financial groups^{4,23}

Inclusive Digital Economies Action in Ethiopia: Refugee Response in line with the UNCDF global strategy of Leaving No-One Behind in the Digital Area and the Country Refugee Response Framework, UNCDF is kicking off the 'Inclusive Digital Economy Action in Ethiopia' (IDEA) with a refugee response initiative. The 'last mile' finance model is meant to unlock public and private resources through a market development approach rooted on fostering financial inclusion. The program supports savings-led financial services to cooperatives that have both refugee and host community members and/or benefit both communities alike with their products and services, are gender inclusive and investment oriented. Beneficiaries are part of savings groups (e.g. VSLAs, equb, ayuto, hagbad, others), and/or belong to cooperatives that have both refugee and host community members and benefit both communities alike with their products and services in and around Melkadida (Somali region) and Shire (Tigray region). Groups and cooperatives are gender inclusive and investment oriented (nonmobile). The program aims to enable the provision of products and services that should have a positive impact on nutrition, localized production, poverty alleviation, social cohesion, aid dependency. This and previous initiatives have provided positive results in terms of formalization of savings groups and cohesion. However, the presence of humanitarian actors in a financial intervention hindered the repayment attitude of clients⁴

3.6 Financial capacity building

Financial capacity building does not directly involve the disbursement of finance. Examples are financial education, business orientation, agriculture extension services, coaching and renewable energy trainings. Such financial capacity building can be both cross cutting or a specific stand-alone intervention. It is considered that combining financial services provision through FSPs and financial capacity building through humanitarian actors, FSPs or ESPs strengthens interventions. For this study, we consider two main intervention areas:

Financial literacy (and financial education²⁴) is to empower people in understanding their financial situation and needs and to help them choose the most appropriate services to cover those needs. Financial literacy training can be linked to Income Generating Activities, in which case it also includes basic business finance skills. Evidence indicates that financial literacy training improves financial inclusion processes, even in displacement contexts where there is no access to formal financial services, people have limited resources and limitations on the right to move and work.

In such areas financial literacy training can enhance savings and informal financial services. Savings can then be used to purchase energy technology and services. Finally, having experience with informal finance helps in using formal services.

Awareness raising on energy plays an important role in creating awareness of and demand for energy services and technologies. As an example, the problem of "*cultural habit*" is often cited as one of the main barriers for the introduction of new practices or technologies that limit the use of biomass for

²³ *Inclusive Digital Economies Action in Ethiopia: Refugee Response*. UNCDF, 2020.

²⁴ Financial Literacy refers to the competence to understand financial tools and their implications. definition of financial education developed by the OECD in 2005 and endorsed by G20 leaders in 2012 is used in a majority of countries to refer to: "*the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.*" (OECD, 2005a).

cooking. Hence, behavioral change is important when introducing more efficient technologies and practices.

4. Regulatory issues

Regulations are important for (energy) finance as they influence: What refugees are allowed to do; How settlements and camps function; How FSPs operate.

4.1 Key Regulations for financial services for energy in displacement settings

One reason why refugees' rights are limited is often driven by competition over scarce natural resources. Other reason can be a fear that refugee camps may become permanent and the perceived increase in insecurity. For the benefit of the ESDS intervention, we present five main regulatory issues that concern the economic options of refugees (see also paragraphs 4.3-4.4 for additional background):

1. The right of settlement and own land/buildings:
 - a. The right of settlement allows refugees to plan for the longer-term, including investing in their economic future and in (energy) assets
 - b. The right to own land/buildings strengthens this long-term view and allows refugees to acquire solid assets, which can be used as collateral for loans
2. The right to work and move in and out of refugee settlements/camps:
 - a. This is a key condition to create an actual market for financial and energy services. The right to work is an important factor in giving refugees access to enough resources to pay for services (and therefore be an interesting client for suppliers). The right to move is a key factor for physical work/goods markets to function. This last aspect includes the right to exit from settlements, but also the right of external actors to enter them.
 - b. Adopting cash-based rather than in-kind support by humanitarian actors aims to create a market economy in and around the settlements. The right of movement is necessary to make this market work properly and make it interesting for the private sector.
3. Access to valid ID documents and compliance with KYC policies:
 - a. KYC regulations are critical for FSPs to be able to handle refugees; the main experiences on ID and their acceptance by FSPs are presented in paragraph 3.1 and in the matrix.
4. Definition of quality standards for financial and energy products and the capacity to monitor:
 - a. Client protection
 - b. Quality standards
5. Possibility for Mobile Network Operators and Energy Service Providers to offer financial services:
 - a. For MNOs, the issue is whether they can provide mobile wallets directly to clients or if this has to be channeled via other FSPs
 - b. For ESPs the issue relates to the option to use PAYG-schemes, which is essentially a loan to a user of an energy device. We found that for instance NGOs provide such services on behalf of ESPs without a license to provide financial services (this appears to be allowed by the financial authorities as they operate inside the closed environment of refugee settlements).

Political will and political context are key aspects to handle these main issues. A simple option would be to give all refugees full rights to engage in the economy. Politically and practically that is often not feasible, although Uganda has been able to build quite a conducive environment for refugees (whereas countries such as Tanzania have placed a ban on any economic activity by refugees).

It is clear that any market-based assistance by humanitarian organizations depends on the capacity of refugees to move around and work in different settings. Where movement in and out of the camps is forbidden, some form of in-camp cash economy can still be developed through financial support.

4.2 Regulations for Financial Service Providers

Several regulations exist and influence how FSPs operate. Such regulations are intended to stabilize the finance market, even while they could also be seen as cumbersome. However, without proper regulations, borrowers, savers and investees are likely worse off. The following issues are deemed relevant to provide financial services to refugees (recommendations are provided after **Table 14**).

Table 14: Key regulations for FSPs' operations

Regulation	Issue
KYC	Potential clients have to be identified before they can open an account at an FSP or for mobile payments. This is an issue for refugees that lack identification documents.
The service process	Regulated FSPs need approval from the financial authorities for their processes. This is usually a light touch control based on the FSP's manuals. Field controls are rare, although more frequent at larger institutions. More processes can increase operational costs, which unregulated FSPs such as VSLAs do not have. Consequently, low volume, low value transactions are less attractive for FSPs. Such limited volume is likely for refugee-related finance.
Provisioning	Provisioning is done when it is less likely that a client repays a loan. Provisioning blocks capital, which means that the FSP can lend less. As capital is leveraged with external finance, the amount that can be lent to customers is also leveraged ²⁵ . The issue is that uncollateralized loans need to be provisioned for earlier if they are in arrears, which makes them less attractive for FSPs.

The key issue in the context of refugee finance are KYC-regulations. It is clearly important that financial service providers need to establish the identity of clients. Failing that would complicate loan recovery and it would be difficult to avoid blacklisted people. The issues regarding KYC-regulations for refugees are described below, including straightforward recommendations that are based on expert experiences in the field. In summary, the recommended intervention is to set-up regular campaigns to clarify identification rules to refugees and FSPs and to increase the capacity of government agents to produce actual IDs, **Table 15**:

²⁵ For instance, an FSP has 10 in capital and can leverage 10 times that amount for its credit portfolio. Simplified this means that it can build a portfolio of 110 (10+100). If the FSP has to provision 1 for weak loans, it can build a portfolio of only 99 (9+90). Hence, a provisioning of 1 decreases an FSPs market capacity by 11 (110-99).

Table 15: KYC- and ID-related issues for refugee identification

Issue	Implication
Type of ID that can be used by refugees	Regulations should clarify what types of refugee IDs are legal and to what extent service suppliers must accept them
Access to such IDs	Once there is clarity on the ID requirements, a second issue is the capacity to deliver ID documents to refugees. The issuers should have the capacity to provide a large number of ID cards in a short period.
Knowledge by refugees of ID-use and how to obtain IDs	Not only must there be a sufficient supply of ID documents, but refugees also need to be informed about their use, such as the possibility to handle cash-based transfers and access to other financial services. Refugees are granted confidentiality on their identity by UN agencies, when there can be problems if their identity is available to officials from the country of origin.
Acceptance by FSPs of refugee IDs	<p>An issue is that FSPs do not always accept officially recognized refugee IDs. This can be because their own procedures require additional documents, or because they don't know the official regulations.</p> <p>A solution is to inform FSPs about the regulations. Straightforward would be to do so through the financial authorities (through a directive or explanatory note). Another approach is to organize brief seminars on refugee finance for FSPs, including the issue of identification. It is advised to include field staff that operate in refugee settlement areas for such seminars. Besides, it would be useful to combine such seminars with the results of a market research on refugee finance to increase the local knowledge of the finance needs in settlement areas.</p>

Recommendation regarding provisioning

Although current provisioning rules decrease the attractiveness to provide loans to refugees that lack collateral, no specific recommendations are made regarding these rules as they are considered to help FSPs be prudent with their means. Secondly, it is unlikely that the financial authorities will relax their regulations in order to advance access to finance for a specific client group, as this change could weaken the credit portfolios of the FSPs under their supervision.

A general issue, however, is how strictly FSPs interpret provisioning rules. Although no specific assessment has been made during the current consultancy, previous research by the consultants in the area indicates that FSPs usually demand a large collateral surplus when they provide loans:

- **Uganda:** for a loan of 1, often collateral worth 2.5 - 5 is needed;
- **Kenya:** for a loan of 1, often collateral worth 2 - 4 is needed;
- **Ethiopia:** for a loan of 1, often collateral worth 2 – 5 needed.

This means that refugees (and other clients) can only borrow small sums, even if they have assets that are accepted as collateral by FSPs. An intervention could be to discuss such collateral demands with FSPs. It would be useful to do so when working on internal processes/KYC-requirements of FSPs (see previous section). Another option is that organizations such as GIZ and UNHCR provide guarantees to FSPs to enhance refugee finance. The guarantee would replace (part of) the collateral needed for a loan (see also §4.3). This would increase the borrowing options of clients that lack collateral.

4.3 Quality standards for energy and financial services

The functioning of the market for energy services/technology is directly influenced by the quality standards and monitoring by supervisory bodies:

- It can create confidence in the product. For instance, low quality solar products are one of the reasons for insufficient uptake in rural areas.
- It creates trust between clients and producers and therefore decreases transaction time and costs.
- It paves the way to finance energy devices.

The latter component was confirmed during interviews that regarded the Clean-Start program, which was implemented by UNCDF in Asia and Africa²⁶. One of the main benefits of that project for financial institutions is the possibility to finance sustainable energy devices. Such credits are more likely to be repaid than when faulty devices would be funded.

In terms of financial service provision, one key quality aspect is the capacity to monitor how **client protection** policies are respected by FSPs. Such policies have been set-up by the Social Performance Task Force (SPTF). Interviews evidenced that even when refugees have free access to the FSPs in the market, there is a huge imbalance of power and information that puts them in a fragile situation. KILs showed that UNHCR has launched programs to monitor potential abuse on this area.

BOX 7: Defining energy standards for market penetration²⁷

Cleanstart (<https://www.uncdf.org/cleanstart>) is a multi-country initiative from UNCDF, involving Uganda and Ethiopia, aiming to create a sustainable financial market for renewable energy solutions. The initiative targets the financial and energy market, with no action to facilitate the inclusion of refugees. Nevertheless, examples of business models for access to finance for energy have been tested in the countries. Even more relevant, this helped create quality standards for renewable energy solutions. These standards create trust in the technologies, increasing uptake from users and capacity of FSPs to provide finance for these assets. Cleanstart facilitated market integration of financial and renewable energy sector in Ethiopia, with some FSPs such as Wasasa and Busana Gonofaa starting to provide products for the adoption of renewable energy technology.

²⁶ Cleanstart. UNCDF. www.uncdf.org/cleanstart

²⁷ "Cleanstart mid-term evaluation report" made in 2017 by Microfinanza Srl, and interview to former FINCA Uganda staff, being FINCA one of the target financial service providers of Cleanstart programme

4.4 Digital finance regulations

Another key regulatory aspect is the possibility to perform financial services by non-licensed financial service providers. For the purpose of providing financial services for energy to refugees, DFS regulators set:

- Whether an MNO can provide digital financial services and mobile wallets independently, or must partner with an FSP;
- Whether ESPs are entitled to offer digital financial services (not only transaction, but also installment payment with an interest rate) independently or must partner with an FSP;
- What additional conditions, to those necessary to get a SIM card, a person must comply to have access to a mobile money account.

Different actors are involved in setting these conditions. In the case of Kenya, which is a good example for other countries, access to SIM card is regulated by the Communication Authority, while mobile money service provision is regulated by the Central Bank of Kenya. One regulator uses the communication market lens; the other uses the financial market lens. On top of that, the Ministry of Interior influences this regulation too, from its security lens. The PAYG-market and similar payment systems adopted by ESPs depend on the possibility to perform such financial services, unless they partner with licensed FSPs.

A case in point is Tanzania, where several companies entered the market and proposed PAYG-services (with support from institutional donors) at very diverse conditions. The 2018 Microfinance Act has regulated the market, clarifying that energy companies providing financial services have to comply with the same requirements in terms of transparency, client protection, financial provision and KYC as financial service providers, according to their financial tier. This act limited the number of financial service providers in the market, but also created more transparency and stability.

The same holds true for NGOs that provide financial services to de-risk energy providers servicing refugees. They often provide financial services in an informal or semi-formal way, in any case outside the regulations of the financial authorities. Such operations seem to be tolerated, as long as they focus on underserved areas, such as refugee settlement areas. However, as a result the scope of such interventions is usually limited to the timeframe of the project, with no possibility of long-term sustainability. Nevertheless, such interventions can be useful and could help refugees graduate towards market-based finance.

5. Country briefs

5.1 Uganda

Uganda is one of the most inclusive contexts for refugees globally. Strong political support and close cooperation with UN agencies and humanitarian stakeholders make it a good context to experiment and innovate strategies to cope with the inflow of displaced people. An enabling regulatory framework and the existence of several active stakeholders in this sector are the consequences of this favorable context.

Regulatory pre-conditions for humanitarian finance (regulations and political context)

From a regulatory point of view, refugees reaching Uganda have access to most of the key fundamental rights. The 2006 Refugee Act, 2010 Refugee Regulations guarantee relative freedom of movement, equal access to basic services. The country is committed to the CRRF. Since 2015, Refugees are included in the National Development Plans (NDP II and III, 2020/21-2024/25) that promote socio-economic development in refugee hosting areas through the Settlement Transformation Agenda. Key regulatory features are:

- **Identification.** Refugees are quickly identified by UN agencies with biometric technology and provided registration documents. These are accepted for most key services, including financial ones. In any case, in the long run refugees can have access to a proper ID.
- **Right to move and work.** Living conditions in settlements are relatively good in terms of access to basic services: apart from shelter, primary health care and education, each refugee household receives a small plot of land to settle and grow its crops. Refugees can freely move nationally, are entitled to exit the settlement and, potentially, settle elsewhere. However, since the above-mentioned services are limited to those refugees staying in the settlement, many tend to remain for long periods²⁸. Refugees can be hired as employees by Ugandan companies and can run a business.
- **SIM Card registration.** After a period of limitation due to security concerns by the government, access to SIM cards and communication services is also possible for refugees. They can, thus, have access to mobile payment services provided by MNOs. The recent directive by Uganda Communications Commission and the OPM rules that MNOs can accept UNHCR's Attestation for SIM registration. However, this directive has been temporarily suspended²⁹, hindering access to financial services due to KYC policies and foundational credentials needs.
- **Access to financial services.** There is access to financial services: refugees can open different types of accounts, usually even with only the OPM registration document, and can receive a loan.
- **KYC.** Supervised by the Bank of Uganda, KYC compliance is mandatory. Among other requirements (see the Anti-Money Laundering Regulations, 2015) individuals must produce a national ID card, alien/refugee ID card or passport to open a bank account. In the absence of these, an attestation letter and reference letter from OPM is sometimes accepted. Refugees may be required to

²⁸ There are many other reasons that prevent refugees from settling out of the settlements they reach when they arrive. They include the potential idea to get back to the home country, the difficulty to move as a household rather than as individual, the knowledge of the local language, or the social network they that they created in the settlement, or that was pre-existent their arrival and helping them to cope with several needs. However, the possibility to benefit from humanitarian assistance is probably the main reason. This is reported in literature and was assessed by Microfinanza Srl in the "Refugee market assessment" conducted in 2018 for Grameen Crédit Agricole Microfinance Foundation, SIDA, UNHCR.

²⁹ *Refugees' digital financial services. Needs Assessment of drivers, barriers, and solutions for use of digital financial services by refugees in Kenya and Uganda, 2020.* DCA Actalliance, Smart Communities Coalition, MicroSave Consulting.

provide additional documentation, such as a letter from the local council or settlement commandant, since FSPs are unable to query the UNHCR Refugee Information Management System (RIMS) to verify IDs.

- **Access to digital financial services.** Following the passage of Registration of Persons Act, 2015, and the issuance of several directives in 2017 by the UCC, a Uganda national ID number, Uganda national ID card, alien/refugee card or valid passport is required both to register a SIM and open a mobile money account.

Operational pre-conditions (market, infrastructure and stakeholders)

In operational terms, the context is prone to experiment new strategies to financially include refugees and to deploy market approaches for access to energy. A key aspect is that there is an economy, also a cash economy (though limited), within the settlements and between refugees and host population. These favorable conditions are critical for private sector operators in order to consider refugees as potentially interesting clients. Several market stakeholders already work with refugees.

- **Market structure.** The freedom to move and work, associated with shared services (health and education), and a certain cultural proximity make interaction between host community and refugees easier in West Nile. Access to cash support and/or work through humanitarian agencies enforced cash circulation in the settlement, facilitating the possibility to run businesses in the displacement setting and outside. While these interventions allowed cash circulation, the establishment of economic markets is still hindered by the dependency culture instilled through humanitarian interventions³⁰.
- **Financial services provisioning.** FSPs have already tested strategies and products to reach out to refugees and the host community. The potentially wide customer base is an incentive. There is interaction between WFP and banks: refugees have debit cards. Savings groups exist in the settlements and can be registered at local county offices.
- **Energy services provisioning.** Energy service providers actively reach out to refugees. There are several NGOs supporting the energy sector, and a wide range of energy sources and technologies are adopted. Humanitarian assistance is shifting from in-kind provisioning to cash-based interventions, key enabling factor to develop an energy market.
- **Mobile Money penetration.** Mobile banking is available, at individual and community level, with services for groups and particularly VSLAs too. Connectivity remains a significant barrier when reaching last-mile areas.
- **Interoperability.** This is generally a pretty complicated issue. However, examples of partnerships do exist where refugees can cash in and out their own money in the debit card where they receive cash support. This is a base to investigate on further functionality of these partnerships³¹.

The above mentioned favorable regulatory framework paved the way to the intervention of several **humanitarian actors, adopting wide variety of payment systems to deliver their aid.**

- **Regulation reform and easier access to financial services.** Advocacy efforts played a significant role in Uganda. Access to IDs and their acceptance is good. Logistics can still slow down the process possibly hindering structured humanitarian programs. There is a **need for coordination**

³⁰ REFUGEE MARKETS BRIEF. *The power of markets to support refugee economic opportunities in West Nile, Uganda.* Mercy Corps, 2017.

³¹ The services that Post Bank offers in West Nile to refugees receiving support through debit card provide an example

among stakeholders to align humanitarian finance interventions. A positive example is set by the Uganda Cash Consortium.

- **Cash and Voucher Assistance.** Cash assistance is widely delivered in **partnership with banks** (Centenary Bank, Post Bank, Equity Bank), with the possibility to open full working accounts for refugees. Digital payments are widely used, as well as experimentation with debit cards. There is room for better interoperability of services, especially to make this access to bank accounts functional for further financial services such as loans. In-kind distribution of cooking fuel is adopted when necessary. Cooperation between humanitarian actors on the definition of a coordinated Minimum Expenditure Basket calculation is needed.
- **Market based finance.** Several market based intervention pushed for **FSPs' penetration in refugee areas**. These include grant support to cover initial investment to serve refugees (SIDA), liquidity (Grameen Foundation), guarantee funds (FSDA). Portfolio at risk of refugees is not significantly different from host community, not suggesting the need to forecast different default rates. Initiatives to **de-risk ESPs** in order to let them sell devices in refugee camps have been conducted by NGOs (e.g. by Mercy Corps).
- **Community-based finance.** Savings and Credit Groups are widely present in Refugee Settlements. Some MFIs offer specific products for them, working with well-established groups. Some FSPs (e.g. Opportunity International) prefer to create new groups rather than to work with existing ones. No specific experience on digitalization has been recorded, though transactions are mainly made via mobile banking.
- **Financial Capacity Building.** Finally, financial capacity building has been clearly identified as a success factor in financial inclusion interventions.

5.2 Ethiopia

Ethiopia is both a country of origin, destination and transit for large forced migration flows, including refugees. This complex framework, together with the recent political conflict, creates a more complicated context for any action and experimentation, even if the country adopted a conducive policy for the inclusion of refugees.

Regulatory conditions (regulations and political context)

- **Identification.** The Administration for Refugees and Returnee Affairs (ARRA), under the National Intelligence and Security Services (NISS), is the primary government agency responsible for the management of refugees and returnees. The agency works in tandem with international bodies, including UNHCR. These persons of concern will hold a UNHCR proof of registration (a family-level document), and in some cases those over the age of 14 years old will have received a refugee ID card jointly issued by the ARRA and UNHCR. ARRA takes the lead role and is responsible for the printing, issuing, reprinting, and authentication of refugee ID cards. UNHCR is responsible for the referral of eligible refugees. The card has a validity of three years and contains biographical information and a photograph, with a plan to include biometrics from 2021.
- **Right to move and work.** Proclamation No.1110/2019, which focuses on durable solutions through the local integration of refugees, recognizes the rights of refugees to move freely and to obtain work permits and work, the right to access primary education, legally register births and marriages. As part of a secondary directive to facilitate work permit, the GoE has introduced 'Directive to Determine the Procedures for Refugees Right to Work, No. 02/2019'. This outlines

how to implement allowing refugees to participate in any work. Secondary legislations and directives need to be issued to support this implementation³². The Government continues to formally advance its 'Out of Camp' policy under the Comprehensive Refugee Response Framework (CRRF) which seeks to provide work permits to refugees, increase their enrolment in schools, provide access to irrigable land, facilitate local integration, earmark jobs in industrial parks for refugees and provide access to documentation to facilitate access to essential social services.

- **SIM Card registration.** Only refugees and asylum seekers who have been issued an ARRA/UNHCR ID card can legally register a SIM card. Advocacy is ongoing to encourage EthioTelecom to continue to accept the ID card for the purpose of legally obtaining a SIM. In practice, however, informal workarounds are common, and refugees find ways of accessing mobile connectivity. As required by law (Proclamation No. 761/2012) identification of SIM card holders is overseen by the Ministry of Communication and Information Technology. It is executed by the state monopoly telecommunications provider, EthioTelecom, through the restrictive IMEI registration program known as the national Equipment Identity Registration System (EIRS)³³.
- **Access to financial services.** Access to financial services, such as banking, is allowed under the Refugee Proclamation of 2019. Access is eased for those who receive monthly allowances through the Commercial Bank of Ethiopia, mostly in urban contexts.
- **KYC.** Overseen by the National Bank of Ethiopia, the country's key regulations driving KYC requirements are the Prevention and Suppression of Money Laundering and the Financing of Terrorism Proclamation No. 657/2009 and Customer Due Diligence of Banks Directives No. SBB/46/2010. The latter outlines the Customer Identification and Due Diligence requirements, including verification of the customer's identity based on "as much as possible reliable, independent source documents, data or information"³³.
- **Access to digital financial services.** The telecom and financial sector is highly regulated in Ethiopia. This can limit the flexibility to accommodate some circumstances such as displacement setting, even if a liberalization process is ongoing. Opening a mobile money account in Ethiopia is a multi-step process. Prospective clients must first obtain an EthioTelecom SIM. Clients then apply for their account with the bank or MFI that offers mobile money services. This process requires presentation of a second copy of a national ID document and a photo. These processes dissuade clients with a casual interest in the service, or who lack required documentation³³. In 2020, Ethiopia's Central Bank allowed locally-owned non-financial institutions to start offering mobile money services as it seeks to boost non-cash payments in the country³⁴.

Operational conditions (market and stakeholders)

- **Market structure.** The market in Gambella is pretty limited and mostly humanitarian led. Political and historical challenges, on top of geographical isolation, contribute to this limited market development³⁵. In-kind assistance is still significant, and UNHCR is working on the combination of cash and in-kind assistance based on the contextual appropriateness³⁶. Given the limited range of livelihood opportunities, refugees are highly dependent on their monthly food rations

³² *Analysis of Regulations and Rules. Energy Solutions For Displacement Settings (ESDS) in Gambella, Ethiopia: Analysis of Regional Regulations, Stakeholders and Energy Assessment Gaps. GIZ and Dertos Trading and Consultancy PLC.*

³³ *Displaced and Disconnected. Country Reports. Ethiopia.* UNHCR Innovation Service and GSMA.

³⁴ *Ethiopia Opens Up Mobile Money Services to Local Non-Financial Firms.* Reuters, 2020.

³⁵ Inflow of refugees is influencing the ethnical composition of the region. A large number of refugees have Nuer ethnical background, which are, together with Anuak, one of the two main ethnic groups in the region, having a certain equilibrium in power sharing. Fear to modify this equilibrium is a source of tension.

³⁶ *Ethiopia Country Factsheet.* UNHCR, February 2021

and some non-food items³⁷. Low money circulation and limited purchasing power hinders market attractiveness for both FSPs and ESPs.

- **Financial services provisioning.** The financial market is limited in Gambella, but some banks and one microfinance institution exist. There are MFIs serving refugees in the country, even if in other regions.
- **Energy services provisioning.** The supply of energy sources and technologies is limited. In Gambella region, in-kind assistance is still predominant. Leasing services and access to technology are far behind in Gambella region compared to other refugee hosting areas, reached by ESPs. Energy sources diversification is still low, though prominent initiatives are being implemented other regions including SHS provision and Ethanol supply chain development³⁸.

BOX 8: Establishing community-owned fuel provisioning cooperatives³⁸.

The Ethiopian NGO Gaia Association, through the US-based Project Gaia and funding from UNHCR, has fine-tuned and scaled up its ethanol distribution program for over 13 years in three refugee camps in Jijiga. It has supplied more than 8,000 households (100 per cent of residents) with clean-burning ethanol stoves and sustainably sourced fuel to meet their cooking energy needs. Through a donor-driven model, UNHCR covered the full cost of in-kind provision of all stoves and fuel for these families up until March 2018. In 2014, Gaia Association also began operations in Assosa, serving Sudanese refugees with ethanol stoves and fuel, later adding carbonized beehive briquettes used in larger, locally produced stoves that satisfy the additional needs of Sudanese cooking styles. Gaia Association has been managing a full-service ethanol supply chain and distribution system in the camps. This includes facilitating the purchase, loading, transportation, unloading, storage and distribution of fuel, as well as teaching safety awareness and distributing and maintaining stoves. Now, with grant funding from Grand Challenges Canada, the Clean Cooking Alliance and UNHCR, Gaia Association is moving to a more commercial model, transferring its skills and knowledge to three local business cooperatives owned and managed by a mix of refugees and host-community members.

- **Mobile Money penetration.** The MNO market is improving in the country, with different players and most banks either having their mobile banking system or partnering up with a MNO. There are 10 operational mobile money services in Ethiopia – the four most prominent services are: M-BIRR (provided by six MFIs), HelloCash (provided by three banks and one MFI), CBE Birr (provided by the state-owned Commercial Bank of Ethiopia) and Amole Mobile Money (provided by Dashen Bank S.C.)³⁹. Refugee inclusion is still low.
- **Interoperability.** With a limited digital sector and an insufficient market structure, interoperability is still not a reality in Gambella region.

³⁷ *Context and Conflict Analysis for Gambella, Ethiopia*. WINS Global Consult GmbH, 2020.

³⁸ *Cooking in displacement Settings. Engaging the private sector in non-wood-based fuel supply*. Moving Energy Initiative, 2020.

³⁹ *Humanitarian cash and voucher assistance programmes in Ethiopia: Context analysis and capability assessment of the mobile money ecosystem*. GSMA, 2021.

BOX 9: Cash Working Group exploring mobile cash-based assistance⁴⁰.

According to data collected by the Ethiopia Cash Working Group between 2017 and 2019, there have been over 30 cash-based interventions in Ethiopia that have reached around 2.2 million recipients. This number rises to 10.8 million when the nearly eight million clients annually in the Rural Productive Safety Net Project (RPSNP) and 604,000 clients from the Urban Productive Safety Net Project who receive either direct support through unconditional cash payments or cash for labor contribution in public works, are considered. Between April and July 2020, 22% of the assistance was delivered through electronic vouchers, 16% through FSPs, 13% through mobile payments. Several governmental, development and humanitarian agencies have tested and deployed mobile money for cash transfer programming in Ethiopia. Examples include: The PSNP, which deploys mobile money in 146 woredas (districts) across five regions; A variety of small pilots by the Collaborative Cash Delivery network members, such as Mercy Corps, the World Food Program, and the USAID-funded Joint Emergency Operation for Food Assistance in Ethiopia.

In Ethiopia, particularly in Gambella region, the above-mentioned market and operational conditions make it more difficult to test and implement innovative payment systems that go beyond cash and voucher assistance.

- **Regulation reform and easier access to financial services.** As mentioned, the regulation for refugees is very conducive, at least in theory. Low **application** of the right to have ID, to move and to run a business can hinder the design and implementation of any market-based option. The ongoing regulation process of the mobile network market is also a key process for the possibility to use digital payments to reach the most isolated people, refugees among them. Advocacy and coordination efforts are needed to harmonize aid interventions, and to evolve them together with the changing regulatory framework.
- **Cash and voucher assistance.** There are operational partnerships between humanitarian actors and some commercial banks such as Commercial Bank of Ethiopia (in Gambella) and Oromya International Bank, however with very **limited level of interoperability with other services than transfer**. Large national programs, such as PNSP⁴¹, already widely use mobile wallets to digitally deliver cash aid to beneficiaries. In-kind distribution of energy devices, especially biomass for fuel, is an aid delivery practice commonly adopted in settlements.
- **Market-based interventions.** There is a **gap in the supply of energy** services and devices by ESPs in Ethiopia, and isolated areas as refugee settlements are even more touched. Some market-based interventions, particularly on financial inclusion, were implemented in Somali Region. For instance, the FSP Somali Microfinance has received support to deliver financial services to refugees (through funding by IKEA Foundation). De-risking⁴⁰ of ESPs and FSPs to increase energy access (through technical assistance and guarantee funds) has been experienced outside refugee settlements.
- **Community-based interventions.** Several market-based attempts adopted **Savings Groups** as an entry point. Savings Groups are widely present in Refugee settlements. Specific programs targeting SG have been implemented by UNCDF, mostly in Somali and Tigray region. Where there is sufficient cultural proximity between refugees and host communities. Partnerships with

⁴⁰ Ethiopia Cash Transfer Programming Snapshot. OCHA, 2020

⁴¹ Productive Safety Net Programme, launched in 2005 by the government and involving several donors, including the World Bank

MNOs and FSPs allowed to make some services (bank account, SIM card, etc.) available to groups.

5.3 Kenya

Kenya has a long history of refugee response and, combined with the fact that Nairobi hosts many humanitarians' regional HQ, there is a plethora of stakeholders with the capacity to experiment new strategies. Refugees are under the responsibility of the Refugee Affairs Secretariat (RAS) and UNHCR. The current political climate is less favorable to refugees following the recent announcement of the closure of the Kakuma and Dadaab camps.

Regulatory conditions (regulations and political context)

- **Identification.** In 2017, RAS fully assumed Responsibility for reception, registration, documentation, refugee status determination (RSD), and refugee management, with UNHCR's active support. RAS and UNHCR grant refugee status through individual interviews and prima facie group determination. The Refugees Act stipulates that upon status determination, refugees should be provided with a 'Refugee ID Card,' which takes the form of either a UNHCR Mandated Refugee Certificate (MRC) that is valid for two years, or the RAS-issued Alien Refugee Certificate (ARC), valid for five years^{42,43}. Fragmentation of offices issuing IDs is a significant exclusion factor²⁹.
- **Right to move and work.** Kenya's legal framework allows open access to employment with a valid refugee ID. The Kenyan 2006 Refugee Act allows exemptions for specific groups to live outside designated camp areas, including in protection and medical cases⁴⁴.
- **SIM Card registration.** SIM registration is regulated by Kenya Information and Communications (Registration of SIM-Cards) Regulations, 2015. The policy is overseen by the Communications Authority of Kenya. ID requirements differ based on one's nationality. For foreign nationals, an original and valid passport or original Alien card is required^{43,45}. The expiration of Alien IDs is a significant cause of increased number of refugees excluded from SIM Card ownership²⁹. In 2018 the Communications Authority of Kenya conducted a 'forensic audit' of SIM registration across different mobile network operators, which led to the deactivation of hundreds of thousands of incorrectly registered SIM cards. In this context, only displaced persons who hold an official Alien ID card are able to legally register a SIM. This credential was previously issued to refugees but has been replaced by a specific Refugee ID, which currently is not stated as an acceptable credential for SIM card registration. Those lacking the required ID often obtain SIMs through proxies such as Kenyan friends and neighbors. It has been reported that some people still use the UNHCR Mandate Refugee Certificate, which remains widely recognized by institutions despite no longer having legal validity⁴³.
- **Access to financial services.** Refugees are entitled to open a bank account in Kenya; however, in practice many face challenges due to varying bank/financial institution policies and practices, including requiring applicants to provide a work permit and/or Kenya Revenue Authority (KRA) PIN. This is sometimes resolved by UNHCR approaching these institutions to clarify the legal requirements. At least one financial institution (Equity Bank) has created special procedures for refugees to be able to access financial services in Kakuma⁴³.

⁴² *Understanding the Socioeconomic Conditions of Refugees in Kenya. Volume B: Kakuma Camp.* World Bank, 2021

⁴³ *Displaced and Disconnected. Country Reports. Kenya.* UNHCR Innovation Service and GSMA

⁴⁴ *Integrated Context and Human Rights Analysis for Kenya,* GIZ.

⁴⁵ *Mobile-enabled energy for humanitarian contexts.* GSMA 2019.

- **KYC.** Supervised by the Central Bank of Kenya, the key regulation driving KYC requirements is The Proceeds of Crime and Anti-Money Laundering Act 2009, last revised in 2014. This sets out the obligations to verify customer ID requiring “an official record reasonably capable of establishing the true identity of the applicant”. Compliance with these rules is enforced by the Financial Reporting Centre. The Kenyan Government-issued refugee ID card should be sufficient for refugees to access financial services.
- **Access to digital financial services.** The Central Bank of Kenya has issued guidance for mobile money: E-money Regulation, 2013, which states that “issuers shall put in place systems to maintain accurate and complete records of [...] the identity of e-money holders”. Safaricom’s M-PESA KYC procedure lists the Alien ID card as an acceptable proof of identity, yet the Refugee ID card currently issued to refugees is not valid⁴³.

Operational conditions (market and stakeholders)

- **Market structure.** The long-term establishment of settlements, despite their isolation, and the relatively conducive legal framework led to the establishment of structured markets, with cash circulation within and outside camps. Investments are hindered by the apparent intentions of the Government of Kenya to shut down operations and relocate refugees within selected large-scale settlements.
- **Financial services provisioning.** The financial environment is well structured, with FSPs reaching out to settlement areas. Services are therefore available. Service providers, particularly MFIs, still face difficulties in accessing camps due to perceived risks, as confirmed through KIIs.
- **Energy services provisioning.** There is a low level of energy access in most camps, which contributes to poverty and hampers relief and development efforts⁴⁶. Transitioning from traditional fuel sources to more sustainable options is spreading, and technology providers are reaching out to camps providing diverse energy solutions and payment models⁴⁷. Therefore, the presence of ESPs can be harnessed for the development of partnerships.
- **Mobile Money penetration.** Digital financial services are widespread in the country, and they are a good resource for financial inclusion in isolated areas, such as the settlements. Service providers are diversified and well known. Transactional costs remain a barrier. Exposure to default has been significantly high through the most-commonly adopted operator M-PESA, with several clients black-listed due to negative balances on their mobile wallets. Penetration is therefore not a guarantee to safe access to digital payments.
- **Interoperability.** With humanitarian actors often delivering assistance through formal service providers (see UNHCR through Bambachakula Bank in Kenya), interoperability can be built. Efforts must be placed on ensuring proper access to mobile/financial accounts and into cooperating with MNOs and FSPs to monitor the implementation of access points and to advocate for accessible service fees.

The wide **number of humanitarian actors working in Kenya has tested and used many payment systems to deliver aid.** Though threats to close Dadaab and Kakuma camps is a matter of uncertainty, Kakuma and Kalobei appear to be closer and more stable to market stakeholders.

⁴⁶ Prices, Products and Priorities. Meeting Refugees’ Energy Needs in Burkina Faso and Kenya. Moving Energy Initiative, 2018.

⁴⁷ Innovative Financing for Humanitarian Energy Interventions. Moving Energy Initiative, 2019.

- **Regulation reform and easier access to financial services.** Access to ID is possible, but the length of the process to have access to the documentation is a serious constraint to access to financial services. A significant need is the harmonization process for access to SIM cards and DFS, requiring coordination of the Communication Authority, the Central Bank, and the Ministry of Interior.
- **Cash and voucher assistance.** There are partnerships between humanitarian actors and banks such as Equity Bank to provide cash assistance associated with personal bank accounts. A waiver on KYC requirements for services inside Kakuma camp eased this process. Its removal is hindering access to financial services, but other commercial banks, such as KCB, can offer savings services to refugees. This proves easier in refugee camps rather than in Nairobi. In Kakuma several projects have been tested to diversify and introduce new cookstoves in the settlement, both involving in-kind delivery and market mobilization.
- **Market-based interventions.** Refugees have access to markets, especially to energy supply chains and mobile money services. MFIs are eased to offer loans within refugee settlements rather than outside due to more flexible assessment procedures. Humanitarian actors (e.g. UN-HCR with FSDA) have supported the spread of marketed financial services. Partnering with KCB has been fundamental to provide savings account to refugees, where MFIs can deposit the loan and manage reimbursements. IFC's Challenge Fund for Kakuma is an opportunity for further initiatives in this direction.
- **Community based interventions. Savings Groups** are widely present in Refugee Settlements. MFIs reaching out to the settlements are used to group lending. Digital Financial Services are widely available.

6. Conclusions

Access to good financial services and to safe and affordable energy services in displacement settings are rarely handled as an interlinked issue in humanitarian response. However, there are several separate initiatives that facilitate financial inclusion and access to energy services in displacement settings. No specific best practice, to be replicated as much as possible, has been identified by the consultant.

The findings in this section try to put evidence on the main components and roles that the humanitarian actors can have in fostering access to finance for energy in displacement settings. The following section proposes recommended actions that humanitarian actors can take to address the main energy finance issues, in view of the ESDS framework in the three countries.

6.1 Prioritization

Access to energy encompasses a broad range of issues. It spans from access to energy for cooking (devices, fuel) to broader access to electricity (technology, grid, power devices). Another differentiation relates to the involved amounts and the periodicity. Additionally, refugees live in different circumstances and some camps/settlements are more economically developed than others. Such differences make it difficult to have one solution that is fitting all. Moreover, part of these energy needs can be covered by market players, while, for some needs or in some humanitarian contexts, relief assistance is the only option. Therefore, it is recommended to conduct market research in each displacement setting to determine specific priorities. This will help to define the main needs, helping FSPs and ESPs understand how to approach each environment.

The first finding of the research considers the cross-cutting issue of prioritizing access to energy when defining humanitarian policy responses. This would help ensuring that different humanitarian interventions actually target access to energy. As mentioned in chapter 1, it is currently not universally addressed with the standard basic humanitarian response tools that are used to handle refugee inflows. Interestingly, access to energy is mentioned in general strategic and policy documents, as a relevant livelihood and environmental protection aspect. Agencies are even equipping themselves with dedicated staff for energy policies. However, it seems that this capacity is not yet common practice in the cash and in-kind support given to refugees. The WFP guide for Essential Needs Assessment, for instance, does not mention access to energy as a basic need, or as an enabler of humanitarian relief.

Therefore, energy needs are rarely included in the Minimum Expenditure Basket that determines cash interventions. Only few actors include energy among their tools to determine basic expenditure needs.

6.2 Critical features and success factors of payment systems

Nevertheless, there are many initiatives run by humanitarian agencies that address the issues of access to finance and access to energy. The research identified some critical success factors:

Interoperability

Interoperability in this context means the capacity of different services to handle the same instrument. Unfortunately, the partnership between humanitarian agencies and financial institutions to provide cash support to refugees often lacks this interoperability. The issue is that such partnerships often do

not create a relationship between refugees and financial institutions. Hence, the cash transfer does not result in the financial inclusion of the individual. The reason is that the transaction between the humanitarian agency and the recipient of the support is the only service that this beneficiary can perform with that financial institution. The standard procedure by humanitarian agencies is to deliver cash support via debit cards, with the agency opening one account at a bank, while beneficiaries of the cash transfers only withdraw money with a debit card. The beneficiary cannot cash in/out other money, use the card as a wallet, use other services or build a credit history. Initiatives that let the recipient use other financial services than a debit card are promising examples to foster financial inclusion through cash support.

Financial capacity building

The quality of financial education, business orientation and other services that are provided on top of pure financial services is considered another key factor of financial/energy inclusion programs. From the point of view of the beneficiary, financial capacity building is often necessary to capitalize access to financial resources. Assistance for Income Generating Activities is particularly important for refugees who begin working in new sectors or become entrepreneurs themselves.

From the point of view of FSPs, clients having access to financial capacity building are preferred to diminish risks. This is especially important when there is no collateral available and when standard client assessments on operational quality, reputation and credit history are complex or not feasible.

Regarding access to energy, capacity building provision is recommended. Training must combine energy issues such as sustainable techniques, technologies and sources with (energy) saving practices and financial access to energy in displacement settings. This is considered an effective way to orient refugees towards energy solutions.

Savings groups and group lending

A third issue pertains to providing services to community-based financial groups to overcome the need of collaterals, which is a standard microfinance practice. De-risking FSPs through trusted groups proves to be effective, also in displacement settings. Several groups and forms of financial collaboration exist in refugee settlements in the three countries, both independent and initiated by NGOs. They prove to be an entry point to financial services for refugees and a quick solution for their savings or lending needs. An important constraint, however, is that only limited transactions are made.

FSPs effectively adopted savings groups as a strategy to enter the market of refugees. The main driver for success is the maturity of the group. Groups that have completed several loan cycles before using the financial services of an FSP appear to be more effective. A key regulatory enabling condition is the ability to register savings groups at local administrative offices. This allows them to have a legal status, with structured roles and responsibilities among its members, and the possibility to be a counterpart of an FSP and to borrow from them.

Savings groups can be mixed, involving refugees and host community members. This can be a solution to several problems, such as access to local knowledge, SIM cards, bank accounts or even farming land. Regarding access to energy, savings groups have been adopted in several contexts by non-cash assistance initiatives, for instance distributing basic energy technologies.

Digitalization

Refugee settlements are often located in isolated areas, hard to reach for both ESPs and FSPs. The ability to offer financial services digitally reduces operational costs and increases the accessibility of these services, as well as, in many cases, their security. Several humanitarian agencies provide cash support through digital transactions. Even if mobile phone technology is widely available, refugees can have difficulties accessing phone/data networks, or even SIM cards or energy to power their phones. Moreover, transferring digital money into cash can be difficult in refugee settlements if there is a lack of payment booths, while there is still a preference for cash among refugees. Moreover, transactions come at a cost which is generally substantial for refugees. As digitalization of transactions is often the most straightforward way to provide financial services in displacement settings, coping with the mentioned barriers is a key success factor of access to energy finance initiatives. Digital transactions also allow the introduction of different payment models for access to energy, e.g. PAYG lending.

Data protection remains a key concern when promoting digitalization. Data validation and transfer must ensure both privacy and safety for refugees. Appropriate technology must be deployed to implement KYC, identification, data management systems and interoperability between different actors, including public and private ones. Blockchain experimentations are leading the way to foster safe data processing and transmission and are being deployed both for internal operations within humanitarian organizations and for implementing response initiatives. Further research and experimentation is needed, and coordination between implementing actors is fundamental.

6.3 Market approach

The research shows two key factors to be considered when working on a sustainable market for energy finance:

- **Attractive clients.** A key component of a market approach is that the private sector operator has to consider refugees as potentially attractive clients. Even if the number of refugees is high, they are only attractive clients if they have sufficient purchasing power. To this end, cash assistance to refugees is a necessary component to stimulate a cash economy. However, sustainable economies in settlements need refugees to have the right to work and engage in entrepreneurial activities. Thriving economies will motivate FSPs and ESPs to serve the refugee market.
- **De-risking the investment.** Private sector operators can be stimulated to enter new (refugee) markets. No examples have been found of FSPs/ESP investing privately in this market segment. A key barrier to financial and energy services, before product development or affordability of practices, is often the simple accessibility of services in isolated camps/settlements. Bringing digital services to the refugees or establishing points of sale in or close to the settlements requires human and physical resources. These can be partially covered by humanitarian actors. Humanitarian organizations can also fund or deliver financial capacity building, to prepare clients for accessing formal financial services. With such market development costs covered, it is easier for FSPs/ESP to enter the refugee market with their own capital resources.
Guarantee schemes represent another de-risking strategy. They can be useful to entice FSPs/ESP to enter the market. They would be less sustainable in this respect if they cover a high share of the risk and if they are in place for many years.

7. Recommendations

The following list of recommendations for the ESDS project is based on the research made for this report. Recommendations are first presented in general terms, and then detailed per country.

7.1 General recommendations

Advocate for access to energy among the basic needs in humanitarian interventions. Multilateral humanitarian agencies such as GIZ or UN organizations should advocate for a revision of standard refugee needs assessment procedures, to include energy needs in the Minimum Expenditure Basket.

- *The ESDS project should play a role in the adoption of energy as a basic need in the assessment tools, by capitalizing on energy working groups that UNHCR has recently introduced, and by prioritizing GIZ fund allocation to humanitarian actors that already made this adjustment in their procedures.*

Foster full financial inclusion of refugees. The humanitarian sector is moving towards the provision of cash assistance to refugees, favoring the transfer of financial resources rather in-kind support. This helps to foster money circulation and self-empowerment of beneficiaries. Rather than creating specific financial instruments for the adoption of energy services, it is recommended to stimulate access to financial services more broadly (savings, credit and non-financial services). The financial inclusion of refugees, combined with the market presence of ESPs, translates into real access. This would ensure providing refugees with diverse payment models to purchase energy technologies, sources, services, guaranteeing the ability to meet their demand. Such a set-up is more flexible for refugees, and is deemed important as energy needs vary among refugees in terms of timing, costs and solutions.

- *ESDS should include a financial inclusion component, which focuses on full empowerment of refugees having access to financial services. This means not only access to services, but capacity to use of services, and freedom to decide. UNHCR plays a role in enforcing the regulatory and operational conditions (access to ID, freedom to move, etc.) that enable this process. GIZ could promote and fund projects that include this broad result of financial inclusion.*

Enforce interoperability of financial services. Partnering with banks, FSPs, MNOs or other digital/financial service providers to deliver cash support to refugees does not necessarily mean financial inclusion for the recipients. The ability for the beneficiary to access other services than simple cash-out should be a priority in the set-up between humanitarian actors and the involved FSPs. For instance, a broad access to financial services allows refugees to store money, transact, receive remittances and build a credit history. Instances of interoperability exist in Uganda and can be used as an example.

- *ESDS should make sure that partnerships with FSPs that deliver cash support under this project include the ability to open a full savings account for refugees and pave the way for the delivery of other financial services such as loans. UNHCR plays a role in identification of beneficiaries (biometrics, etc.). GIZ can provide incentives to FSPs which ensure this interoperability.*

Financial capacity building must be a key component in financial inclusion interventions. These interventions represent a key success factor for the recipient of the financial service, a protection against misuse of funds and over-indebtedness, a risk reduction component for the FSP, and a way to channel resources towards efficient energy technologies and practices.

- *Financial education and business orientation services must be adopted in any financial inclusion intervention supported by GIZ under the ESDS project. Education on renewable energy technologies, on energy savings practices and good practices for cooking play a key role in demand creation for better energy services.*

Capitalize on Savings Groups. Community-based financial groups are key to kick-start affordable low-risk financial services. These groups also represent a great outreach opportunity. Savings and credit groups such as VSLAs can also be an important multiplier for the uptake of energy products, sources or services. There is a widespread competence among NGOs and other humanitarian actors on the establishment and improvement of savings groups. Microfinance operators are also well equipped to provide group lending as an entry strategy for new markets. Better accounting in groups, also thanks to digitalization, can improve their capacity to mobilize funds from FSPs. Finally, savings groups are often well known and accepted by refugees.

- *ESDS should capitalize on existing Savings Groups for financial inclusion but also access to energy technology and training. GIZ selects FSPs that already serve focus groups, including projects fostering digitalization of these services. UNHCR plays a role of facilitator within the settlements.*

Consider the market from the point of view of private sector operators. Without their interest, it is difficult to develop long-term energy finance markets. It is therefore important to ensure that refugees are attractive clients for FSPs/ESPs. This entails that interventions address the main barriers preventing matching of supply and demand. In practical terms, this means for instance:

- Perform market research at the area level before starting an intervention. Such research helps private sector operators understand market needs and the involved risks. Annex III – From Humanitarian to Market Based Finance provides guidance on how to run the exercise for a micro-finance service provider.
- Share the initial investment in human resources, infrastructure (physical or digital) and financial capacity building that is needed by private market partners.
- Provide risk reduction instruments such as guarantee funds or credit lines to stimulate intervention sustainability.

Regarding the specific situation of the three countries involved in ESDS program, the following recommendations are made.

- *Financial and Technical Assistance support provided by ESDS project and/or GIZ funding should focus to be a partner in the investment with the FSP and share the risk: grants and TA can cover part of the investment to ensure proximity of services to refugees, while FSPs should be ready to use their own capital to provide loans. Guarantee or liquidity funds can be useful but should not be the main strategy to foster FSP market involvement, as repayment rates of the refugees proved to be the same as other clients in most of the contexts.*

7.2 Uganda – West Nile

The country offers the necessary conditions for a market-oriented approach. It already involves private sector operators, both from the financial and energy sector. Banks (Post Bank, Centenary Bank, Opportunity Bank and other) and MFIs (such as Vision Fund, Ugafode and BRAC) already serve

refugees. There is therefore the possibility to capitalize on existing interventions to improve the interoperability of humanitarian services and to reinforce the link with Energy Service Providers that are able to work in the settlements. While financial capacity building is a key strategy, there is the possibility to test partnerships with financial and energy service providers to make services available and accessible in displacement settings.

There are, indeed, examples of de-risking interventions for ESPs. Humanitarian organizations have provided financial services on behalf of ESPs, for instance proposing leasing payment models linked to cash assistance initiatives. Promoters of such interventions counted on the protected context of the refugee settlements. This proved to be an effective strategy to let the ESP start serving refugees.

Building on these experiences, in future, interventions should aim at linking financial and energy sector, so that financial services are to be provided by accredited FSPs only, according to Ugandan regulations. A wider number of potential clients, namely the host community, could then have access to these services.

7.3 Kenya – Kalobei and Kakuma

In Kenya, as in Uganda, there is the possibility of involving private sector operators in the refugee settlements. The widespread presence of humanitarian agencies, together with a banking sector already reaching out to refugee hosting regions, are solid enabling conditions to stimulate energy finance. The well-developed digital finance sector is clearly an asset, multiplied by the well-developed mobile payment sector. A barrier, however, is the existence of restrictions to access IDs and SIM cards for refugees. Therefore, interoperability in partnership between humanitarian actors and FSPs should be a priority.

Specifically, regarding the large settlement area of Kakuma and Kalobei, it should be reckoned that even the number of people living there might not be enough to justify the entrance of many energy (finance) providers. This especially concerns the energy technology supply sector, which needs to reach economies of scale before being able to provide affordable products and services. Interventions should therefore consider limiting their outreach to a great variety of ESPs, while identifying selected subsidized products to stimulate market development.

7.4 Ethiopia - Gambella

In Ethiopia the microfinance and mobile money service market is less developed than in the other two countries. Both services are reasonably available in Gambella region. The regulatory framework is paving the way for effective access to IDs and the right to move and work for refugees. However, the implementation of these policies is delayed and also bound to the accomplishment by local officials. Although not much data is available, local experts were doubtful if the microfinance operators have the capacity to serve a wide refugee population. In other regions the gap between the market possibilities and the actual has remained wide, as seen in Somali Region.

Regarding the banking sector, partnerships with humanitarian operators to deliver cash support should be reinforced, rather than providing vouchers or assistance in kind. This form of assistance appears to be still common in Ethiopia. Furthermore, the consultants recommend focusing on financial inclusion programs that stimulate the use of savings groups. This is preferably done by reinforcing partnership with financial actors. Such a set-up helps to stimulate financial inclusion among refugees. A final recommendation is to support existing ESPs to reach out to the refugee market. As the market

appears to be underdeveloped, this step will require humanitarian actors to provide technical assistance to ESPs (market research, guarantees, maybe even subsidies).

8. Annexes

8.1 Annex I – Glossary

Introduction

The **GIZ Energy Solutions for Displacement Settings (ESDS)** project works on improving energy access (cooking energy and off-grid solar) for households, micro-enterprises and social institutions through market-based approaches in contexts of forced displacement in Ethiopia, Uganda and Kenya.

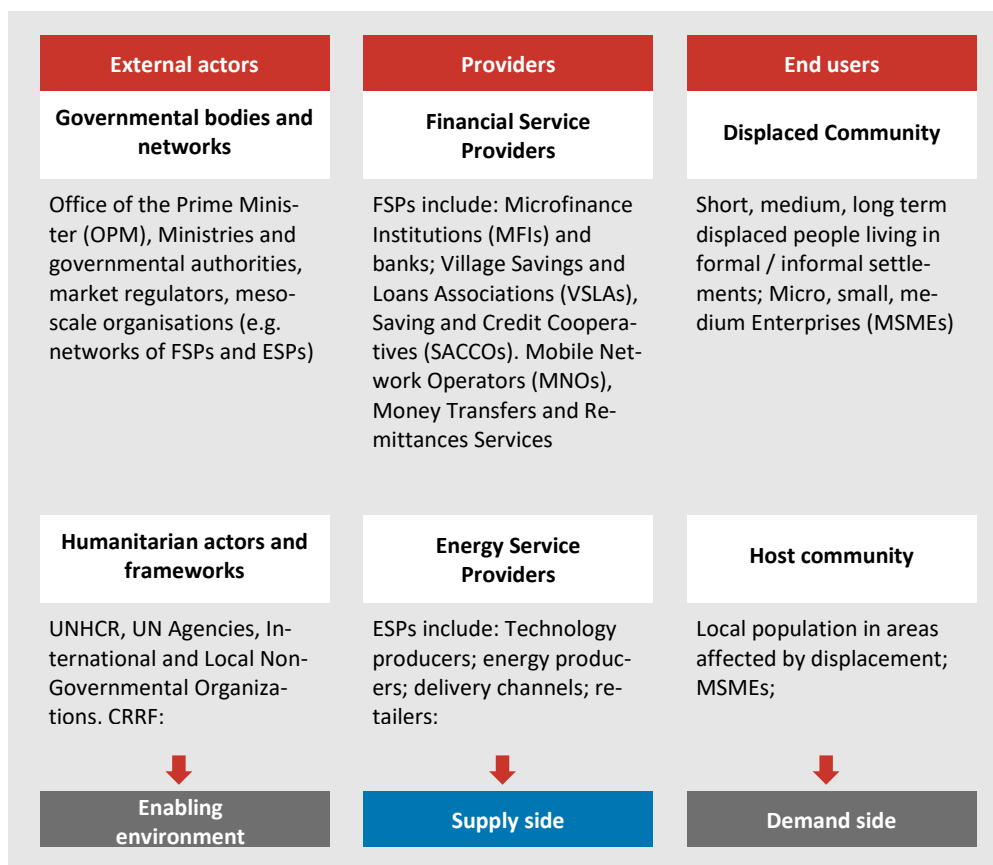
The focus of the **humanitarian finance study** is to take stock of ongoing initiatives to improve financial inclusion in displacement settings that are driven by humanitarian agencies and NGOs, in particular cash-based interventions. The aim is to explore how the ESDS project can harness these schemes to improve energy access for refugees and host communities and support the development of local markets for energy products/services. The study will also examine the regulatory conditions on access to finance for refugees in the ESDS project settings.

The focus of the **end-user finance study** is to take stock of market-based finance and payment systems which are offered by energy and financial services providers that can be used to improve access to energy products and services in remote rural areas. In particular, the study shall examine to what extent these systems can be transferred to contexts of forced displacement. This analysis will build on country-specific assessments that were conducted in each of the three ESDS intervention countries. As an additional deliverable, the consultants will develop concepts for tailored payment or finance systems, which will be piloted in the ESDS project settings.

The document hereby presented was produced to support the conduct and harmonization of the humanitarian finance study. The operational glossary is an attempt to define a working ground in terms of definitions and initial hypothesis.

Market structure

The presented market structure identifies the relevant actors concerning access to finance for energy in displacement settings, including the enabling environment, the supply side and the demand side:

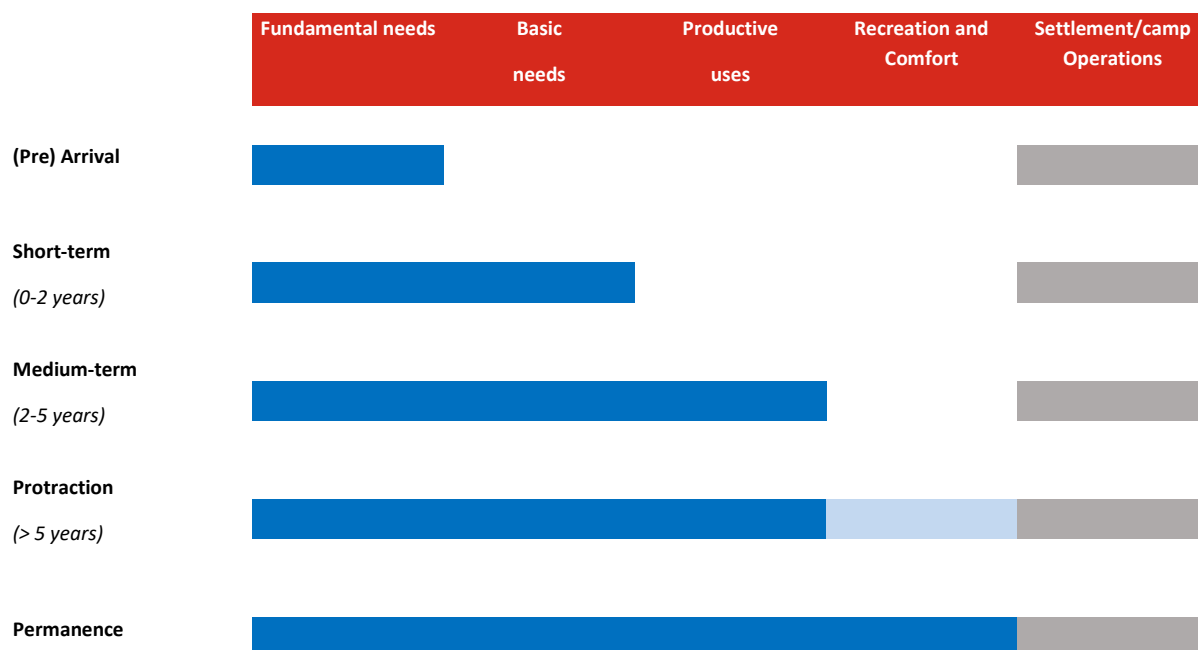


Energy needs

Energy needs are classified according to the developing stage of a displaced person. Their needs evolve, starting with the occurrence of a humanitarian crisis till the protraction of the displacement situation.

Evolving need	Description
Fundamental Needs	Energy usage for survival during the onset of an emergency
Basic needs	Basic electricity services: phone charging, domestic lighting, cooking, heating/cooling
Productive uses	Businesses operations, productive processes
Recreation and comfort	Community lighting, recreational use, household comfort, food storage
Settlement/camp operations	Energy for service provision, energy for camp management

The evolution of energy needs over time varies depending on factors. These include socio-economic background of the displaced population, socio-economic background of the displacement setting, environmental factors and funding availability.



The dark blue lines represent the growing needs over time. Grey lines represent the constant input needed for the intervention of humanitarian actors within the displacement setting. In the case of protraction, energy for recreation and comfort is also accounted. It is a marginal priority in the initial protraction of a humanitarian crisis (light blue line). Recreation and comfort become an effective priority when displacement becomes permanent and should therefore be considered in the design of long-term humanitarian interventions.

Energy products and services

Energy products and services are distinguished according to their function. **Technology** includes tools and solutions for energy production and usage. **Consumables** include energy sources, such as electricity or other forms. Consumables can also be provided through services, such as access to a mini electricity grid. Technology can require up-front payments, unless Pay-As-You-Go systems are used. Consumables are generally obtained through periodic payments:

Upfront investment based (technologies)	Passive technologies (e.g. solar cooking; natural lighting; passive cooling)
	Cooking/heating systems (e.g. three stones systems; mud-stoves; improved fixed stoves; improved movable stoves; gas stoves; diesel stoves; ethanol stoves;)
	Micro-electricity production products (e.g. solar lanterns; pico solar-systems)
	Meso-electricity production products (e.g. solar home systems; micro wind turbines (horizontal / vertical axis)
	Micro-biogas production systems (micro-scale anaerobic reactors)
	Meso-biogas production systems (e.g. meso-scale anaerobic reactors; centralized anaerobic digesters; biogas backpacks)

Periodic payment based (consumables)	[Sustainable] fuels / combustibles (e.g. briquettes; biomass/wood; charcoal; petrol; diesel; gas tanks / LPG; ethanol)
	Basic electric products (e.g. batteries; improvised lighting sources)
	Electricity supply (e.g. supply through charging kiosks; solar kiosks; micro-grid connection/access to PAYG)

Humanitarian Finance

Interventions by humanitarian actors in humanitarian finance include:

- **Reformed regulation and eased access to financial services:** financial inclusion promotion; removal of Know Your Customer barriers; coordination with local governments, regulating organizations, humanitarian actors, FSPs, technology providers and Mobile Network Operators.
- **Cash and Voucher Assistance:** provision of cash transfers or vouchers given to individuals, household or community representatives;
- **Market based financing:** access to finance enhancement; credit provision; collateral coverage; flexible payment systems (e.g. Pay As You Go); eased access to finance (e.g. instalment management and payments, grace periods); value chain support; support to Financial Service Providers (e.g. liquidity funds, guarantee funds);
- **Community based financing:** support provision to and establishment of Community Purchasing Groups; support provision to and establishment of community based formal or informal Saving and Credit Associations.
- **Non-Financial Services:** financial literacy (financial alphabetization, family budgeting, savings generation, financial planning, access to finance, risk and debt management, other); entrepreneurship support and coaching; specific training on renewable energy options; training on energy use and reduction.

Cash & Voucher Assistance

Cash & Voucher Assistance (CVA) refers to all programmes where **cash transfers or vouchers for goods or services are directly provided to recipients**. In the context of humanitarian assistance, the term is used to refer to the provision of cash transfers or vouchers given to individuals, household or community recipients; not to governments or other state actors. This excludes remittances and microfinance (although FSPs and MNOs may be used for the actual delivery). A categorization is presented in the following table. Accordingly, Cash & Voucher Assistance are mainly categorized as:

- Cash assistance
- Non-cash assistance

LEVEL Assessment, analysis, decision making, implementation level	INTERSECTORAL Describes a process, approach, response, programme, etc. which involves multiple (i.e. more than one) sectors (e.g. food security, shelter, protection, nutrition, education, etc.).	SECTOR SPECIFIC This refers to an intervention designed to achieve sector-specific objectives.
	USAGE Purpose of the CVA	MULTI-PURPOSE Multi-purpose CVA correspond to the amount of money required to address, fully or partially, multiple needs, with the assistance value calculated accordingly. Transfer values are often indexed to expenditure gaps based on a Minimum Expenditure Basket (MEB), or other monetized calculation of the amount required to cover basic needs. Multi-purpose CVA is unrestricted in terms of use as it can be spent as the recipient chooses.
TARGET Recipients of the CVA	UNRESTRICTED When they are implemented towards unrestricted groups of people of concern within the displacement setting (individuals, households or communities).	RESTRICTED When they are implemented towards selected people of concern within the displacement settings (e.g. for households with over 3 members below 14 years old)
	CONDITIONALITY Prerequisite activities or obligations that recipients must fulfil	UNCONDITIONAL Unconditional CVA is provided without the recipient having to do anything in order to receive the assistance, other than meet the intervention’s targeting criteria (see “target”).
TIMEFRAME	ONE-OFF CVA provided to the recipient once.	PERIODIC CVA regularly provided over a specific period, season.
	MODALITY Form of the CVA	CASH ASSISTANCE The provision of assistance in the form of money – either physical currency or e-cash – to recipients.

DELIVERY MECHANISM Means of CVA		a set quantity or value of goods or services.
	<ul style="list-style-type: none"> • PHYSICAL CASH: Payment made directly to recipients in hand in physical currency (notes and coins). • E-CASH: Any electronic substitute for the direct transfer of physical currency that provides full, unrestricted flexibility for purchases. It may be stored, spent, and/or received through a mobile phone, prepaid ATM/debit card or other electronic transfer system (tokens). 	<ul style="list-style-type: none"> • PHYSICAL VOUCHER: A paper, ticket, object physically given to recipients. • E-VOUCHER: A card or code that is electronically redeemed at a participating vendor. E-vouchers can represent monetary or commodity value and are stored and redeemed using a range of electronic devices (e.g. mobile phone, smart card, POS device).

Effects on gender policies

Effect	Description
Gender insensitive	There is no recognition of underlying and hidden causes of inequalities between women and men. No inequalities are identified, and no systematic action is undergone to change them.
Gender sensitive	There is recognition of underlying and hidden causes of inequalities between women and men. Differences are felt as undesirable and unjustifiable and there is an understanding of problems resulting from inequity and discrimination, but no systematic action is undergone to change them.
Gender responsive	There is recognition of underlying and hidden causes of inequalities between women and men. At this stage, development interventions systematically incorporate or address specific gender needs of men and women.
Gender transformative	The transformation of unequal gender relations is perceived as central to positive development outcomes. It aims to move beyond individual self-improvement among women and men towards transforming harmful gender roles, norms and relations that serve to reinforce gendered inequalities.

8.2 Annex II – Humanitarian Finance Matrix

Provided as a separate document.

8.3 Annex III – From Humanitarian to Market Based Finance

This annex regards an overview how Financial Service Providers analyze energy finance markets opportunities. With the aim to be complementary to the study that is taking place simultaneously, the consultants considered it useful to attach this overview to the analysis by way of background. Obviously, if energy finance markets are not deemed interesting by private actors, interventions are needed to address their issues in order to develop the market.

Market approach

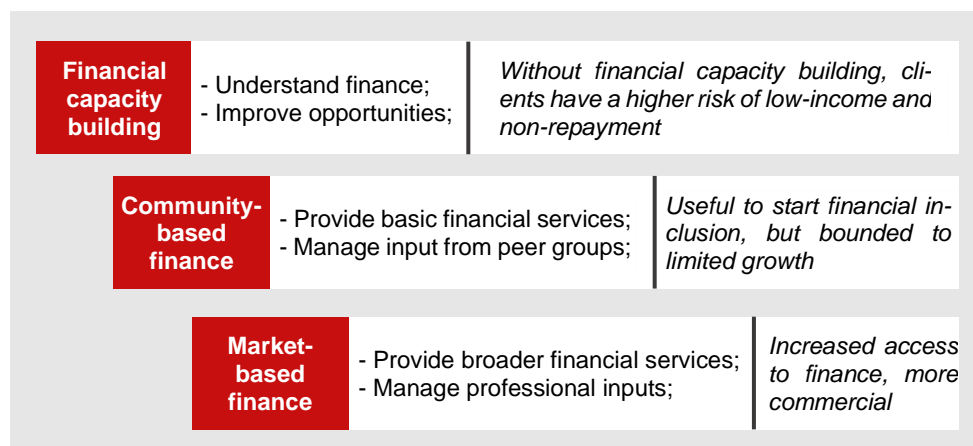
The starting point is to verify to what extent humanitarian interventions can foster a sustainable market development of financial energy services in displacement settings. A market performs well when there is a demand for the services, when suppliers can offer the services affordably and when clients and suppliers have access to the financial services that they need.

The focus of this annex is on the conditions that facilitate a functioning financial market. In such markets financial institutions profitably serve refugees with the affordable services they need. The background of this focus is that if FSPs manage to provide energy finance in displacement settings sustainably, this can be considered a proxy that there is a long-term demand for such services. It also indicates that there is capacity by service and technology suppliers to serve this market. Insights in the combination of the two elements are to help humanitarian interventions to foster a market approach.

This annex re-organizes part of the information presented in the research in order to propose a framework for a financial market approach. In the **financial inclusion sphere** three main areas are discerned, each is described in more detail afterwards. It is recommended that refugees start with financial capacity building if they have a low financial literacy level, followed by community-based finance (if they have limited finance and lending experience), before starting with market-based finance:

- Financial capacity building;
- Community based finance;
- Market based finance.

Figure 1: Finance graduation model



Financial capacity building

An important aspect of financial inclusion is that recipients know the risks and advantages of financial services. Without that knowledge there is a higher risk of falling in debt traps and perennial poverty. Financial education helps people understand financial risks, get better insight in their in/outflows and how to build savings. VSLAs often provide such financial capacity building. Evidence indicates that financial education is a key success factor when starting to serve less-advanced refugee clients.

A second issue in the field of financial capacity building is that people know *how* to use finance and *how* to develop economic opportunities. Without this knowledge and attitude having access to finance may actually not help recipients in the long-term. It is therefore recommended to combine financial education with entrepreneurship tutoring & coaching and vocational trainings. One could also include an overview of energy options, their costs over time and how much can be saved by using different energy sources. This will help increase refugees' understanding of the use of energy finance.

Unfortunately, research indicates that providing financial capacity building requires considerable input from experts and that outreach is limited. The issue is that financial capacity building needs much one-on-one contact. Such interventions are therefore hardly sustainable, unless beneficiaries would pay a high contribution. A second issue is that results of financial capacity building are difficult to assess, also because it often takes time before a beneficiary uses the acquired knowledge. Usefully, humanitarian agents have a broader view and do not have to focus on cost recovery and short-term impacts.

Community based finance

Community based finance regards for instance VSLAs and Savings and Credit Cooperatives. Humanitarian organizations helped setting-up many VSLAs for refugees, and other have been built up spontaneously⁴⁸. For the current consultancy no impact assessment has been done to estimate the use of community-based finance. However, available literature and reports from KIIs show that refugees value them. A useful intervention would therefore be to promote their use in camps where community-based finance schemes are less well known.

An advantage of community-based finance is that they help refugees increase their financial experience, that they can learn from their peer group and that they can build savings. Moreover, community-based finance groups can be deployed to introduce subjects such as energy finance to the refugee target group. Some groups also purchase items in bulk, to save costs. For energy finance, a VSLA could for instance negotiate a better price with a trader when several of their members want to buy a certain energy saving device. Finally, Savings Groups are often a way refugee and host community have to interact and cooperate. An issue, however, is that these schemes usually provide only low amounts of credit for shorter periods and that they only provide basic services. Another limitation is that being a member of a community-based finance group can take time (for instance a one hour meeting every week, plus travel) and that members have to provide information about their financial situation to their peer group (for instance how much they can save every week, or if they need a rapid credit). Both are not considered main constraints, but are often mentioned during general financial inclusion market researches. The mentioned disadvantages are usually a limited issue during the initial stages of group-based lending approaches, but become more relevant once clients have gone through

⁴⁸ Evidence on the diffusion of such schemes exists, further research should assess the number of refugees adopting these in Uganda, Kenya and Ethiopia.

several lending-cycles. It would therefore be useful if clients have the option to move to market based finance, where more individual finance approaches are used (see below).

Market based finance

Market based finance is different from community-based approaches in the depth and width of the offered services (different types of savings, credit and transfers). Market based finance ranges from small MFIs to large banks. They have to follow certain rules as they are regulated by the financial authorities. Relevant regulations for the market are:

- Know Your Customer: main issue
- A service process: less recognized issue. Although operations are only partly regulated by the financial authorities, they become important when there are issues. Such (implicit) regulations increase operational costs compared to non-regulated FSPs (even while they are to improve process clarity and decrease operational weaknesses).
- Provisioning: less recognized issue, regards when an FSP has to set aside reserves if clients are in arrears. Such provisioning hampers an FSP's capacity to provide loans.
- Attracting savings: unregulated FSPs are in principle not allowed to handle savings. However, many do so in disguise (by calling it a collateral account, or they sell shares in a group pot). In reality financial authorities often do not focus on activities of VSLAs.

Another part of the market focuses on handling payments, of which mobile money is the key example. The set-up is well known. Clients basically have to open an account (for which KYC-regulations apply) and then deposit cash at a payment booth, which transfers it to the client's mobile money account for a fee. The client can then transfer the money to other mobile money accounts, or take it out at a later stage in cash again. PAYG-systems use mobile payments and some FSPs allow digital loan repayments. Even organizations such as UNHCR use payment systems to provide refugees with finance.

Market description

Refugee market segmentation

Market segmentation is an important aspect in the market-led view of energy finance. Simplified, from the point of view of FSPs, a market is interesting if:

- There are many potential clients that want to use a broad range of services (loans, savings, transfers);
- They have the means to pay-back loans;
- They are low risk;
- They are easily accessible at low costs.

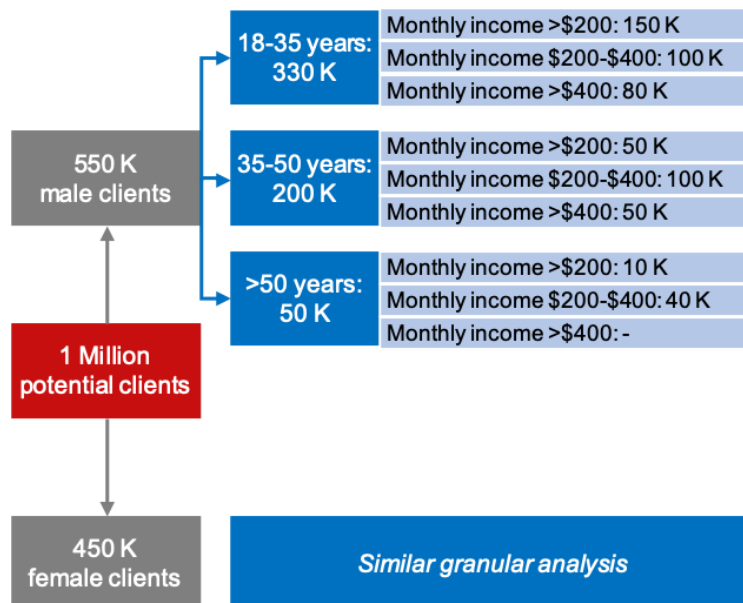
Based on reports and interviews, FSPs seem to consider refugees as a less interesting market. Although there are many displaced persons, FSPs assume that they have limited means to pay back loans, that they are high risk and that they are difficult to reach. However, market segmentation could show that certain parts of the refugee market may actually have a good outreach potential for Financial Service Providers.

It is recommended to use market segmentation when performing market research, to take into account different types of clients. Such set-up allows FSPs to assess what clients to focus on, how to

reach them and what services are needed. It is noted that a market segmentation made by an FSP follows a different logic than the beneficiary segmentation made by a humanitarian actor (which may focus more on vulnerability).

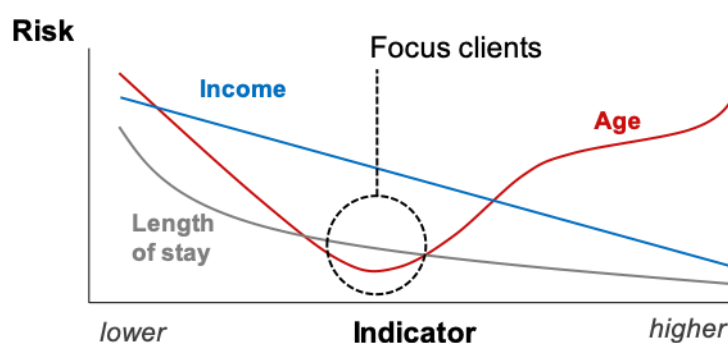
The chart below shows an example granular market segmentation. Additional client detail could for instance regard income regularity or risk indicators. Such detailed market research helps FSPs decide on which market segments to concentrate and what services to offer. A focus on low-income groups with irregular incomes, for instance, will necessitate offering savings products and low-value loans with flexible repayment plans, whereas higher income clients with stable income flows could be served with standard higher value loans. In the example below an FSP wants to serve only female-clients that have an income of at least €400 per month; this means that it would focus on 100k clients (in green) out of the 1m potential clients:

Figure 2: Example of granular market research



A different way of looking at market segmentation is to compare certain client characteristics with non-repayment risk. A credit algorithm could assess client risk if sufficient client data were available (including incidences of non-repayment). As that kind of granular data is not likely to be available, risk could also be estimated. The following example indicates such risks. An FSP that wants to minimize its risk would focus on clients that are middle-income/age/length of stay:

Figure 3: Client risk indicators



Finally, it is useful to combine the market research for loans, savings and payments. A combined research helps FSPs define the full reach of client needs. By offering that full range, risk for FSPs can diminish:

- By offering saving facilities, clients have to borrow less to buy a certain energy device (or can buy a better device with the same credit);
- By offering payment services, clients have access to PAYG-based energy systems, which diminishes their upfront investments. (Mobile) payment systems also simplify loan repayments and therefore diminish the risk of arrears.

Market size estimation

Estimated potential maximum market size

A full market research is needed to assess the actual market opportunity. Such research is not part of the current consultancy. However, the following simplified set-up provides an overview of how an FSP may look at the refugee finance market. The first step regards a general overview, to assess the potential market size:

Market assessment step 1a: general overview	Uganda	Kenya	Ethiopia
Main original refugee nationalities	South Sudan, DRC,	Somalia, South Sudan, DRC,	South Sudan, Somalia, Eritrea,
Number of refugees ⁴⁹	1.4m	0.5m	0.8m
Share in camps	-	84%	-
Share of adults	-	-	-
Share long-term (>2 years)	-	-	-
Potential market size	-	-	-
Remarks	-	-	-

⁴⁹ Excluding Internally Displaced People

The resulting potential market size is calculated by subtracting from the total number of refugees those people that are not located in camps (as they are outside the refugee structures and probably resemble normal clients), non-adults and less settled refugees (as it is unclear where they will stay in the coming period). The results indicate the potential maximum market size per country.

However, as FSP usually reach clients through branches, it is more practical to estimate where potential clients are located. This helps in assessing if a particular FSP could serve a certain area through its branch network. The overview below regards three example refugee hosting regions:

Market assessment step 1b: regional overview	Uganda, West Nile	Kenya, Turkana Turkana County	Ethiopia, Gambella
Number of refugees	-	-	-
Share of adults	-	-	-
Share long-term (>2 years)	-	-	-
Potential market size	-	-	-

Estimated actual market size (taking into account demand and repayment capacity)

The second step to estimate the market size regards actual demand and repayment capacity. To get these figures, a market research should be performed among the potential clientele. For a country-wide research it is estimated that in total 150 interviews will suffice, for instance divided over three areas. The market size could be refined, for instance by dividing the clientele in different types of groups (see §1.4 for an example):

Market assessment: step 2: regional overview demand and repayment capacity	Uganda West Nile	Kenya Ka-kuma	Ethiopia Gambella
Potential market size	-	-	-
Actual demand	X%	X%	X%
Actual repayment capacity	X%	X%	X%
Actual market size	-	-	-

Paying for financial services

A latent demand for energy devices does not have to result in actual purchases or demand for energy finance. That also depends on a client's repayment capacity. As that is outside the current consultancy, no repayment capacity analysis has been performed for typical refugee clients. However, to get insight in what loan size and type could be provided to refugees sustainably, it is recommended to include a repayment capacity analysis in the market research. The results of that research influence what interventions are useful (low repayment capacities, for instance, requires focusing on financing the cheapest energy devices). The following straightforward set-up is recommended for such loan repayment

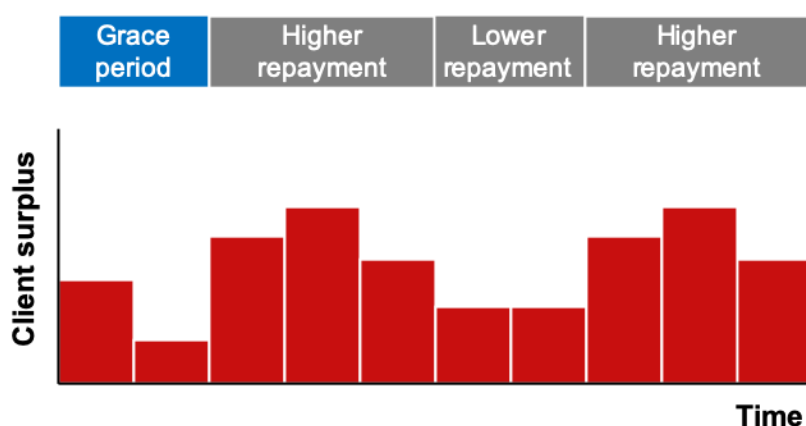
capacity analysis. To make the loan repayment capacity analysis more meaningful, it is recommended to perform it for several main market segments:

Loan repayment capacity analysis						
Month	1	2	3	4	5	6
Income						
Grant	€-	€-	€-	€-	€-	€-
Work	€-	€-	€-	€-	€-	€-
Transfer	€-	€-	€-	€-	€-	€-
Business	€-	€-	€-	€-	€-	€-
Work	€-	€-	€-	€-	€-	€-
Costs						
Food	€-	€-	€-	€-	€-	€-
Utilities	€-	€-	€-	€-	€-	€-
Education	€-	€-	€-	€-	€-	€-
Items	€-	€-	€-	€-	€-	€-
Other	€-	€-	€-	€-	€-	€-
Surplus						
Per month	€-	€-	€-	€-	€-	€-
6 month surplus						€-
Buffer (example 50%)						€-
Client repayment capacity						€-
Interest and fees						€-
Actual offered loan amount						€-

Obviously, loans can only be repaid if clients have a regular surplus. Taking into account income fluctuations and sudden needs, it is recommended to use a buffer to calculate the client repayment capacity. FSPs often use a buffer of 30-50%. In the example case the six-month surplus of a typical client is for instance €500. With a 50% buffer, the client repayment capacity is €250. Hence, that is what can be repaid for the example six-month energy loan. However, also loan fees and interest have to be paid, for instance 20% for the example loan. Taking also this figure into account, the actual offered loan amount would be €200.

A second use of a detailed loan repayment capacity analysis is that it gives insight if grace periods are needed, or flexible repayment plans. The overview below depicts the issue:

Figure 4: Example of flexible repayment plan



Combining the approaches described in the previous sections results in an estimated market size. Although no such market attractiveness analysis has been performed, the following set-up describes how a typical FSP will assess the option to provide energy finance to refugees. It makes no financial sense for them if the number of potential clients and the volume of transactions would be too low. Albeit to a lesser extent, this also applies to social FSPs, as operational costs have to be covered to be sustainable. The overview includes estimated figures by way of example:

Market size for credit	Uganda		Kenya		Ethiopia	
	%	Size	%	Size	%	Size
Number of refugees	-	-	-	-	-	-
Adults (aged 18-60)	X%	-	X%	-	X%	-
Interested in energy finance	X%	-	X%	-	X%	-
Expected conversion rate	X%	-	X%	-	X%	-
Average credit	-	€-	-	€-	-	€-
Share of FSP ⁵⁰	X%	€-	X%	€-	[*] %	€-
Expected portfolio size	-	€-	-	€-	-	€-

The market attractiveness analysis gives an indication of the actual market for energy finance for refugees per country per FSP. It is advised to make the estimate per main refugee area as FSPs usually assess market opportunities per catchment area. Secondly, it is recommended to use the same set-up to assess the market attractiveness for:

- Energy traders/installers/service providers
- Saving products to pay for energy

⁵⁰ A standard approach is to use an FSP's current market share in an area. A more conservative approach is to lower that percentage, especially if energy finance for refugees is a new market.

- Energy related payments

Attracting FSPs

Not only must a market be sufficiently large to attract FSPs, also other elements should be suitable for them before they can serve a certain market. By their very nature FSPs are usually not very nimble. Reasons are that they have to follow certain regulations that they work with large amounts, that they handle money from savers and investees and that they have to process a large number of transactions. The overview below describes main issues regarding attracting FSPs to a certain market and several intervention options. Ideally, no external intervention would be needed to address market issues. However, in perceived weaker markets such as refugee finance external interventions can help develop demand and supply:

Issue	Regards	Intervention options
Client related		
Access to clients	How easy is it to reach clients, is it possible to set-up an agent or branch in a refugee area.	Organize information and connection meetings between FSPs and RLOs/NGOs/VSLAs/agents or directly with potential. FSPs may also need help to build refugee client adapted marketing. Such activities can help build trust.
Interest clients in (energy) finance	Regards both knowledge of energy finance and the interest to apply for it	
Client conversion rate	What share of interested clients are eligible for services, and what share of those clients actually take-up these services.	An approach to improve the conversion rate is to provide trainings on financial literacy and business skills first. This will increase their attractiveness for FSPs. Another issue regards product suitability (for which market research is key). Another element is the client-orientation of FSPs (for which client-focus training for field staff are useful) and the smoothness of the procedure.
	Low client conversion rates could be specifically for certain client groups, such as female or traumatized clients, which require special attention.	Introduce gender/refugee adapted approaches (trained staff, broader opening times, adapted type of service). An approach could be to have financial buddies at NGOs, that helps people to connect to FSPs (although this can be a time intensive intervention).
Broaden the product range	Only offering energy finance to the refugee population decreases the potential outreach for FSPs and therefore increases the operational costs per client, as fixed costs have to be covered by a limited number of clients. By broadening the product base, the average operational costs per client diminish. This makes the total refugee market more attractive. A broad product range could include for instance EduFinance and AgriFinance for refugees.	
Economic prospects of clients	Indicates if there is a longer-term opportunity to provide financial services to refugees. Long-term prospects of clients improve when there is a functioning market, but also when there are economic development programs	Make an overview of development projects in refugee areas and share with FSPs (such partnerships also help the interventions)..

	in place (such as Value Chain Development interventions, Vocational Training centers, infrastructure projects).	
Operations related		
Access to operational budget	FSPs may not want to use budget to expand to refugee areas. Apart from set-up costs, FSPs need to take into account operational costs such as salaries, utilities and marketing. It is noted that costs for deploying agents are usually lower than setting-up a full branch.	FSPs could be given a subsidy to set-up operations, for instance for the initial marketing or staff training costs. There is a risk that FSPs stops operations once the subsidy is finished. This risk is lower when the market is attractive and when only part of the costs are covered externally.
Access to (mobile) communication means	Regards access to clients and the ability to perform mobile transactions	Provide an overview of mobile network coverage to FSPs, stimulate mobile agents to cover refugee areas (for instance by covering initial costs or a minimum turnover)
Finance and risk related		
Access to collateral	An issue is that refugees often lack collateral, which weakens their chances to get loans. A related issue is that loans have to be written-off if they are in arrears for a certain period, unless they are covered by collateral or guarantees.	Have an external partner provide cash collateral (usually in the form of a guarantee facility). This could cover for instance the first 25% of non-repaid loans. Such option would lead to a 4-times leverage of the portfolio generated by the guarantee fund.
Decrease potential write-off costs		
Access to funding	Several FSPs lack access to funding, which means that their own lending capacities are limited. This situation has been aggravated during Covid, as fewer existing clients repay their loans, more people withdraw their savings and because the government borrows more on the local finance market.	Provide (affordable) funding to FSPs that lend to refugees. This intervention requires the capacity to analyze the payback capacity of FSPs, which is a specialized skill. An option is therefore to collaborate with existing funders, for instance by guaranteeing their placements at FSPs that finance refugees.

Operational costs and benefits

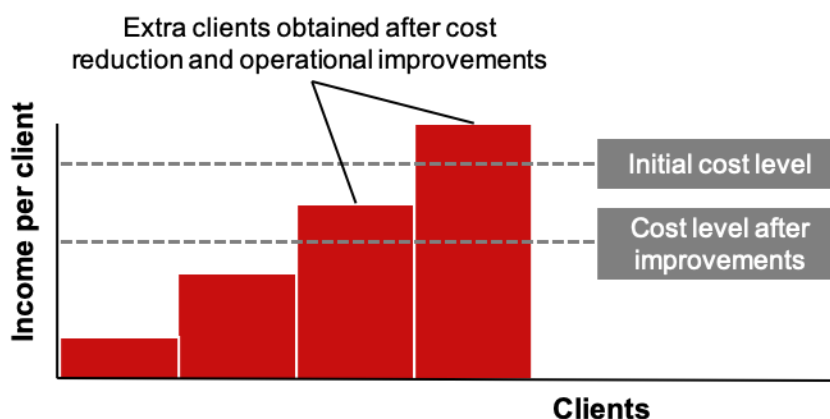
Operational costs compared to expected benefits are an important determinant for FSPs to decide where to operate. It is difficult to assess such costs and benefits, even if an FSP would use a sophisticated cost/benefit-allocation model (as part of these flows have to be attributed arbitrarily). Rather than estimating these flows per transaction or market segment, FSPs could also use a general allocation by allocating overall costs and benefits to the different outstanding portfolios. The table below regards the main expenses for FSPs to serve a market, including an example overview that compares flows with the outstanding portfolio. Markets are attractive as long as the expected benefits are larger than these costs:

Element	As a share of a portfolio
Operational costs (salaries, marketing, office)	10%
Funding costs (own funding costs)	10%
Write-offs (non-repaying clients)	5%
Overhead	5%
Other	5%
Total	35%

Regulating and improving internal processes

No recommendations are made so far for the overall regulatory framework for FSPs in the focus countries; that would require full insights of the different regulations and their background. However, inefficient processes at FSPs clearly increase operational costs. As a result, inefficient processes decrease the attractiveness of low volume, low value transactions, which presumably describe important parts of the refugee finance market. One indirect way to increase the attractiveness of refugee finance is therefore to help FSPs straighten their procedures and automate their process steps. This will decrease their operational costs and expand the type of clients they can serve.

Figure 5: Example of increase of clients through operational improvements



A direct approach to straighten processes for refugee finance would be to set-up refugee finance units at FSPs (similar as is done for agri-finance and other specific client groups). Such set-up also allows interested partners such as GIZ and UNHCR to pay for reaching certain results, like reaching an agreed disbursement volume. Even development impacts bonds could be used for that. Examples of straightened processes include client identification (see above) and loan approval automation.

Building Sustainable Financial products

This section is provided by way of background. A main issue is that even if adapted regulations would unblock refugee finance there might still be no actual financing for refugees taking place due to a lack of suitable financial products. As with all market segments, services should be adapted to the needs of the clientele. Following the standard 5P product characteristic model used in many economic

analyses, energy finance products can be described as followings. For each characteristic also some specifics of the refugee market are included:

Characteristic	Credit	Saving	Transfer
1. Product	Temporary access to extra liquidity (short term loans); or access to funding that can be used for longer term use	Short and long-term safe storage of money, help reaching a savings target, earn interest, show a surplus history (useful when a loan is needed)	Handle payments, build a financial history (which can be used to access loans)
<i>Refugees need</i>	<i>Flexible repayment rates</i>	<i>Easy withdrawals</i>	<i>Transfer options near camps</i>
2. Price⁵¹	Interest and fees	Transaction fees, while clients can receive interest on savings	Fees
<i>Refugees need</i>	<i>Low costs</i>	<i>No withdrawal fees</i>	<i>Low costs (also for small transfers)</i>
3. Place	Products are often obtained through branches, but increasingly also agents are used, as well as mobile branches with vans. Online/phone-based transfers are becoming normal for affordable financial activities		
<i>Refugees need</i>	Access should be near or in the camps, mobile phone access can be less accessible in camps		
4. Promotion	How clients are reached, used language, explanation		
<i>Refugees need</i>	<i>Understanding of their needs and situation. Low price and trust are important. Language usage should be adapted per refugee group. An effective approach is to enroll refugees themselves as loan agents.</i>		
5. Personnel	How clients are treated, used language, service level, time available		
<i>Refugees need</i>	<i>Have patience with the sometimes less (financial) literate persons, understand that some clients may be traumatized. Refugee agents are an option also from this point of view, if employment regulations allow them to work</i>		

⁵¹ A broader definition includes costs to obtain the service, such as transport costs and time involved



Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH

Registered offices
Bonn and Eschborn

Friedrich-Ebert-Allee 32 + 36
53113 Bonn, Germany
T +49 228 44 60-0
F +49 228 44 60-17 66

Dag-Hammarskjöld-Weg 1 - 5
65760 Eschborn, Germany
T +49 61 96 79-0
F +49 61 96 79-11 15

E info@giz.de
I www.giz.de

On behalf of



Federal Ministry
for Economic Cooperation
and Development