

Financial services in refugee hosting areas: Can they promote inclusion?

Lessons from the SHARPE project in Ethiopia

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Introduction

Digital financial inclusion is important to achieving the Sustainable Development Goals. Digital financial tools, such as mobile money, can, in principle, be used by anyone with a cell phone. There are several different ways that mobile money and services surrounding mobile money can help reduce poverty. For example, research demonstrates that mobile money helps increase remittances from labour migrants (e.g. Batista & Vicente, 2020; Lee et al., 2021). It also helps households to weather negative shocks to income (e.g. Jack & Suri, 2014; Batista & Vicente, 2020). In addition, it helps encourage investments whether on-farm or in self-employment activities (e.g. Islam, Muzi, & Rodriguez Mesa, 2018; Wieser et al., 2019).

An extension of this logic is that, in refugee hosting areas, digital financial inclusion through mobile money can potentially play a role in improving the economic inclusion of refugees. By building up a client base including refugees, recruiting agents convenient to refugee camps, and developing a merchant base that will accept mobile money for payments, mobile money providers can support refugees to develop income-earning opportunities and become more integrated into the local economy.

This motivation is guiding the Strengthening Host and Refugee Populations in Ethiopia (SHARPE) project, funded by the Foreign, Commonwealth, and Development Office (FCDO) of the United Kingdom. SHARPE is a market systems project, meaning that instead of directly implementing activities, it works with local partners including those in the private sector to attempt to meet project goals in ways that will last beyond the project. One aim of the SHARPE project is to help develop financial market systems to catalyse economic integration in three refugee-hosting areas, two in the Somali region (Jijiga and Dollo Ado) and one in the Gambella region (Gambella). The vehicle is a mobile money product called HelloCash,¹ which works with multiple financial institutions. The activity in the Somali region began in 2020 while the activity in the Gambella region only began in 2022; therefore, in this brief we focus on activity in the Somali region, where Shabelle Bank is implementing and promoting HelloCash.

¹ <https://hellocash.money>

Challenges in mobile money development

For a mobile money system to be “successful,” the system needs to be sustainable and profitable for everyone involved. Agents need to make money; merchants must see returns to taking payments in mobile money; the provider of the mobile money product (in this case, Shabelle Bank) needs to make money; and the convenience for customers must outweigh transaction fees that support those profits. If it becomes apparent that merchants and/or agents are not making money, they can drop out, causing problems for customers.

There are many conditions for success in building up a mobile money system in a refugee-hosting area. Some challenges in meeting these conditions become apparent immediately, while others become apparent while the process is ongoing. And, while some challenges are beyond the scope of a project like SHARPE to address (e.g. inadequate cell phone service), some can be solved in productive ways. Some of these challenges include the following:

- ▶ Just like physical cash, mobile money is more useful when large numbers of people use it. If the customer base is not active or not large enough, the value to each customer is low. To address challenges around the size of the customer base in refugee-hosting areas, SHARPE worked with Shabelle Bank to hire local “Know Your Customer” (KYC) officers who both help sign up new customers and answer questions about the service to promote use.
- ▶ For mobile money to be successful, people need to have ways to use it. With support from SHARPE, in targeted areas Shabelle Bank has worked to build up a network of merchants and *bajaj* (taxi) drivers who will accept HelloCash for payment (e.g. near refugee camps).²
- ▶ A network of mobile money agents helps the mobile money provider to switch cash into mobile money and vice versa. Customers will have more trust in the system if those agents are nearby, so they know they can turn their mobile money into cash when needed. Therefore, SHARPE again supported Shabelle Bank in building an agent network in targeted areas.
- ▶ When customers (including merchants) “cash out”, e.g. they go to an agent to turn their mobile money into cash, it is important for agents to have cash or be able to get cash quickly to pay those customers. A denser agent network (or the use of “super agents”, who can help replenish cash) can help facilitate cash outs and build trust in the system. This point underscores the need to build out the agent network, as discussed in the previous point.

Agents in refugee camps

A specific challenge worth describing in more detail relates to the placement of mobile money agents in refugee camps. Prior to SHARPE, there were no agents in refugee camps. Agents can only be registered if they meet several policy requirements. Businesses becoming mobile money agents must meet a minimum capital requirement of 6000 birr and be formally registered through both national and local procedures. The National Bank of Ethiopia requires that agents have a residence permit, a trade licence and a tax identification number. Trade licences are regulated by the *woreda* council, while refugees must obtain a tax identification number through the agency of Refugee and Resettlement Services (RRS). The process to formalize businesses was particularly burdensome for refugees, so, prior to this project, no potential agents had been able to register.

To meet this challenge, SHARPE has worked with both the RRS and United Nations High Commissioner for Refugees (UNHCR) to make it less cumbersome to register willing businesses in

² During SHARPE’s first year of implementation, Jijiga city was included as a target area.

refugee camps. By September 2022, 15 agents have had their documentation facilitated and now work as agents; another 17 are working through the documentation process. In all cases, with facilitation from SHARPE, UNHCR and RRS aided refugee business owners in ensuring the steps could be met to formalize their businesses and become HelloCash agents.



A HelloCash agent in Sheder refugee camp, August 2022. Picture by Getachew Amente, used with permission.

Some challenges cannot be directly addressed through improvements to the financial market system. For example, it is beyond the scope of either SHARPE or Shabelle Bank's mandate to address network challenges—the cell network must be taken as given, with hopes (and potentially lobbying) that it could increase in size and speed over time. Other challenges have a social dimension. For example, our interviews with refugees suggest they sometimes refrain from signing up for services that they perceive might make them ineligible for resettlement in OECD countries. While Shabelle Bank or SHARPE can try to provide information and assure refugees that mobile accounts require no further identification for enrolment, formal institutions may not be fully trusted on this topic. This concern can keep refugees from enrolling; assurance from their own community members may be more effective in this case.

Developing the mobile money in the Somali region: results

Enrolment patterns

The SHARPE approach of promoting HelloCash enrolment through Shabelle Bank seems to have been largely successful, if only measured by the number of HelloCash enrolees, merchants, *bajaj* drivers, and agents. According to administrative data, as of September 30, over 65,000 new customers, 1768 merchants, 458 *bajaj* drivers, and 261 agents had been signed up to use HelloCash. There are strong indications from both qualitative and quantitative data that HelloCash is positioned quite well in the Somali region. Although the quantitative data was collected in a sample designed to learn about HelloCash use, only a handful of non-HelloCash users use another service in Ethiopia (e-Birr, Sahay, CBEBirr). Qualitative evidence suggests that users perceive HelloCash to be easy to sign up for and that fees are relatively low.

However, the aggregate figures mask that it has been more difficult to sign up women and refugees. As of September 30th, 2022, only 26 percent of new enrollees are women overall, and about 18 percent of enrollees are refugees (see Figure 1). Women are slightly more likely to report that others can access their accounts (21 percent of women versus 15 percent of men).

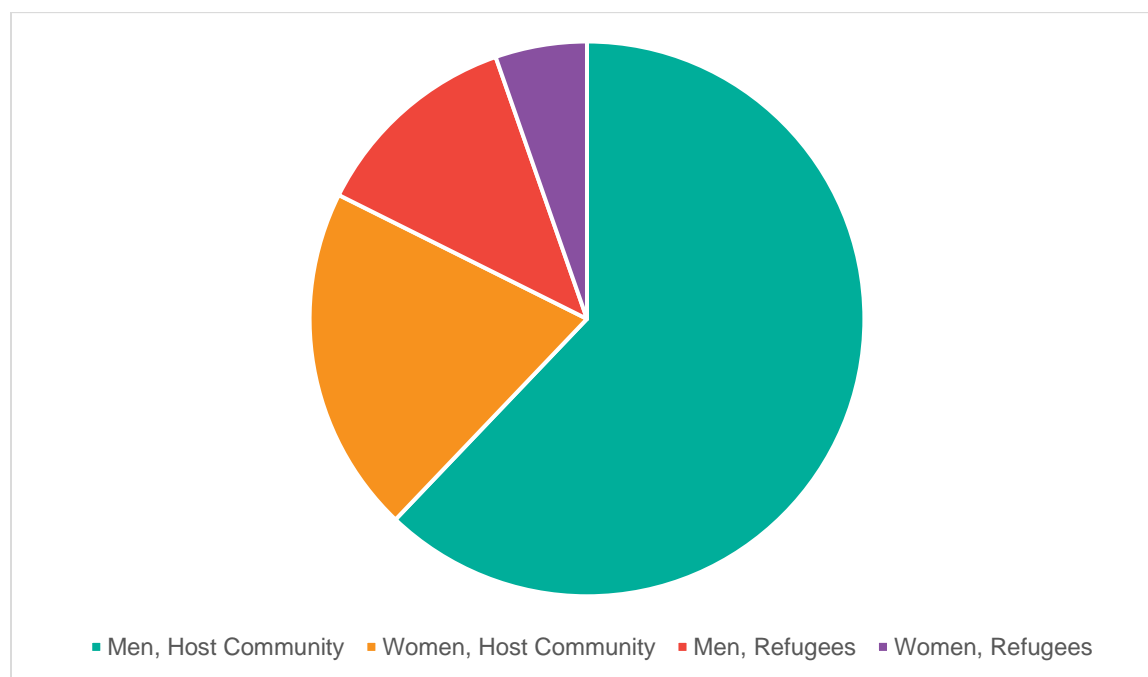


Figure 1: Composition of HelloCash Enrolment under SHARPE, by Gender and Refugee Status

Attempting to solve the challenge of including more women and refugees has become a stronger focus for SHARPE as it has evolved. One potential consideration is whether information and trust play particularly important roles for these subgroups, and if so, whether community members who are existing Hello Cash customers may be effective in overcoming concerns about enrolment. This rationale was the motivation for a pilot community referral system, designed collaboratively by International Food Policy Research Institute (IFPRI), SHARPE, Shabelle Bank, and Dadimos Development Consultants and running from August until October 2022. In September, new enrolment was up substantially over the previous few months, and the share of women hit 33 percent. Further data analysis is ongoing to understand how much of that increase can be attributed to the community referral system.



HelloCash agent in Kobe refugee camp, March 2022. Picture by Abdihamed Aden Mohamed, used with permission

Increased financial inclusion

As noted above, mobile money is a conduit to financial services—it is a safe place to save money and, in the Somali region, signing up for mobile money explicitly links customers with a bank. Perhaps not surprisingly, in the quantitative data collected for this project, the share of individuals with a HelloCash account who also have another financial account is higher (28%) than individuals without a HelloCash account (15%). Still, these figures suggest low levels of financial inclusion in the absence of mobile money and indicate that mobile money helps increase financial inclusion.

Developing social cohesion

There is some evidence that, at least among men in the host population, HelloCash use is correlated with more contact with refugees. Using quantitative data collected for the evaluation, we construct a simple social cohesion index recording how many of the following activities hosts have done with refugees (and vice-versa) : bought items from; sold items to; provided services to; purchased services from; and attended a religious or social gathering with the other. We report average findings below, by gender and HelloCash client status. Men in the host population who use HelloCash report doing more of these activities with refugees than non-HelloCash users; for other groups, we do not find large

differences in averages. As over half of the customer base added through SHARPE is among men in the host population, the increased interactions they report with refugees is at least weakly suggestive that the interventions have potentially been beneficial to developing social cohesion.

Qualitative research done as part of the impact evaluation is consistent with the data. For example, a shopkeeper in Jijiga region suggests:

“HelloCash is leading to more interactions between the host nationals and refugees. For instance, I purchase milk from refugees and they buy medicines from my pharmacy.”



Figure 2: Mean values for social cohesion index, by gender, refugee status, and location.
Source: SHARPE Impact Evaluation, 2022

Helpful policies to facilitate financial and social inclusion

The collaboration between SHARPE and Shabelle Bank is building financial inclusion in the Somali region, and there is a correlation between HelloCash use among the male host population and additional contact with the refugee population. That said, there are a few targeted ways that policies can help catalyse more use of mobile money, therefore increasing the depth of financial inclusion. First, if more services can be paid for using mobile money, including government services such as utilities, it can reduce transaction costs for paying for those services. Second, RRS can use the opportunity developed by SHARPE to formalize more businesses in refugee camps; by working with UNHCR, there is an opportunity to potentially create more mobile money agents and make mobile money more of a vehicle for financial and social inclusion. This approach is promising, as it creates synergies. If mobile money systems are vibrant enough, social transfers to refugees can be made through mobile money, which can greatly reduce transaction costs for World Food Programme (WFP) and UNHCR. Conversely, if social transfers are delivered to refugees through mobile money, there is greater motivation for refugees to participate in mobile money systems and gain other benefits from financial inclusion. Finally, adult literacy and numeracy targeted at refugee camps can potentially help women increase their use of cell phones in general and products like HelloCash that are dependent on them.

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