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The Financial Inclusion Strategies for Forcibly Displaced People

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ABSTRACT

Forcibly displaced persons are an issue that many countries are grappling with in the 21st century. People leave their countries for a variety of reasons; some flee because of war or a hostile environment. These people end up settling in other countries that are perceived to be at peace, or those who flee because of harsh economic conditions go to places where they perceive economic growth compared to where they came from. In this context, it is important for all countries to adopt inclusive policies if financial inclusion is to be achieved. This study examines the strategies that financial institutions should adopt to achieve financial inclusion. Forcibly displaced people face financial challenges and limited access to formal financial services. The study used a systematic literature review to identify some of the factors that contribute to the inadequate financial inclusion of refugees, including their financial instability and the tendency for remittances to be primarily associated with the informal financial sector. The relationship between refugee remittances and financial inclusion remains unclear, highlighting the need for further research in this area. The study also recommended areas for improvement to ensure that everyone in the country is financially included.

Gli sfollamenti forzati sono un problema che molti paesi stanno affrontando nel 21° secolo. Le persone lasciano i loro paesi per una serie di motivi; Alcuni fuggono a causa della guerra o di un ambiente ostile. Queste persone finiscono per stabilirsi in altri paesi percepiti come in pace; oppure, coloro che fuggono a causa delle dure condizioni economiche vanno in luoghi in cui percepiscono la crescita economica rispetto a quelli da cui provengono. In questo contesto, è importante che tutti i paesi adottino politiche inclusive se si vuole raggiungere l'inclusione finanziaria. Questo studio esamina le strategie che le istituzioni finanziarie dovrebbero adottare per raggiungere l'inclusione finanziaria. Gli sfollati forzati affrontano sfide finanziarie, con un accesso limitato ai servizi finanziari formali. Lo studio ha utilizzato una revisione sistematica della letteratura per identificare alcuni dei fattori che contribuiscono all'inadeguata inclusione finanziaria dei rifugiati, tra cui la loro instabilità finanziaria e la tendenza delle rimesse ad essere principalmente associate al settore finanziario informale. La relazione tra le rimesse dei rifugiati e l'inclusione finanziaria rimane poco chiara, evidenziando la necessità di ulteriori ricerche in questo settore. Lo studio ha anche raccomandato le aree di miglioramento per garantire che tutti, nel paese, siano inclusi finanziariamente.

Keywords: Financial inclusion, forcibly displaced people, remittances, regulations, laws

1 – Introduction

Most countries are trying to find strategies for financial inclusion. It is important to look at whether there are facilities and incentives that allow everyone to be financially included. In doing so, it is normal to forget those who are considered to be outside the mainstream, such as refugees or displaced persons. This challenge has been observed in different parts of the world, and Zambia, as a landlocked country, has hosted various displaced populations since independence. The country shares borders with Malawi, Mozambique, Zimbabwe, Tanzania, Angola and the Democratic Republic of Congo. Zambia has been able to host displaced people because of the peaceful nature of its southern region. Some of its neighbours have been involved in on-again, off-again wars and conflicts, resulting in high numbers of refugees in Zambia. In this regard, the country needs to create an enabling environment for the financial inclusion of the displaced people. This can only be achieved through policies and laws that help the financial sector to develop products specifically for refugees without compromising the security of the nation.

1.2 – *Problem Statement*

Forcibly displaced people often face financial exclusion in the countries where they seek refuge, mainly due to issues related to their legal status. It is noted that instability in various countries has resulted in significant numbers of displaced people settling elsewhere. It is therefore important to examine the strategies that governments and financial institutions should adopt to achieve financial inclusion. In addition, formal financial institutions may be reluctant to provide comprehensive services such as loans or credit cards to refugees who lack collateral and legal identification.

2 – Research Methodology

This study used a systematic review of the literature to understand financial inclusion strategies for forcibly displaced people in Zambia. Many studies have used a systematic review as it has proven to be one of the best ways to conduct research and uncover in-depth insights (see Yangailo & Mpundu, 2023; Tarí, 2011; Yangailo & Qutieshat, 2022; Manatos *et al*., 2017; Kigozi *et al*., 2019; Yangailo & Kaunda, 2021). Research design and methodology usually provide a plan and legitimacy to maintain focus, allow for a smooth research study process, and a streamlined method (approach) to the investigation (Mohajan, 2018). Without this relevant element, a research paper appears disorganised and unable to provide efficient scientific evidence. In this study, the keywords include financial inclusion, forcibly displaced persons, remittances, regulations and laws from the research study topic. The databases used for the review were Semantic Scholar and Google Scholar. In order to obtain the most recent and relevant academic articles, the search was limited to the period between 2000 and 2023.

Due to a lack of relevant literature in the focus area, additional secondary data was also collected from the World Bank's Microdata Library website. The World Bank data sample is considered to be comprehensive as it includes studies from all over the world. However, it is important not to overlook certain factors when researching this topic, such as the destination countries chosen by refugees for resettlement.

3 – Literature review

The United Nations High Commissioner for Refugees defines refugees under the 1951 Refugee Convention as people who have been forced to leave their country because of persecution, war or violence. At the 2017 G20 Summit, G20 leaders committed to expanding financial inclusion and addressing global challenges in this area. Wilson and Krystalli (2017) note the trend of expanding the World Bank's financial inclusion framework, which originally focused on bank accounts, to include digital financial services.

The World Bank has conducted extensive research on forcibly displaced people, resulting in policy recommendations to promote financial inclusion for migrants. As a result, many countries have begun to develop policies and strategies to facilitate their financial inclusion. Several humanitarian actors in the area of forced migration have made "financial inclusion" their "cause du jour". Through a variety of programmes, public development actors play an important role in promoting the financial inclusion of migrants (Ahairwe & Bisong, 2022). The United Nations High Commissioner for Refugees (UNHCR) 2018 Global Compact on Refugees advocates for financial inclusion as a means to promote 'self-reliance', which it defines as the social and economic capacity of an individual, household or community to meet basic needs in a sustainable and dignified manner (UNHCR, 2005).

One of the most common misconceptions about refugee communities is that they are temporary and not permanent. However, an increasing number of refugees are stuck in protracted situations in host countries (spending more than five years) or in legal limbo (undergoing extensive legal processes to establish their refugee status, or those with a deportation ban but no refugee status). In these cases, individuals are often economically active, either formally or informally, to supplement government benefits (Dhawan, 2018). As a result, it is essential that holistic solutions for refugee integration include access to affordable and secure financial services. These financial tools enable people to save, minimise their reliance on informal channels, cope with emergencies and make investments to improve their skills (Dhawan, 2018).

Financial inclusion should ensure universal access to basic financial services that are affordable and tailored to individual needs. Demirguc-Kunt, Klapper and Singer (2017) agree, defining financial inclusion as the availability and efficient use of financial products by all. Recently, the issue has attracted the attention of policymakers and stakeholders in the financial sector.

Remittances play a crucial role in financial inclusion and in a country's economy. Anzoategui *et al*. (2014) argue that remittances increase the likelihood that households will have deposit accounts, but not loans. Moreover, remittances can serve as a substitute for loans. Lindley (2009) emphasises the importance of remittances in the context of forced displacement, with refugees' remittance activities resulting from population movements.

While Stark and Bloom (1985) and Vargas-Silva (2017) discuss remittances and migration as part of a long-term household strategy, they argue that this strategy is not without its shortcomings. Vargas-Silva (2017) argues that remittances involving refugees have not received sufficient attention, although recent research has begun to address this gap and contribute to the financial inclusion of migrants.

The financial inclusion of migrants and remittance flows are inextricably linked. When migrants are financially integrated, they can send more remittances to their home countries in a safer, easier and more convenient way (Ahairwe & Bisong, 2022).

Aga and Peria (2014) suggested that remittances support financial inclusion in two ways: by increasing participants' exposure to financial services, and by increasing awareness of these services. Ambrosius and Cuecuecha (2016) argue that remittances can also provide households with surplus cash, stimulating demand for savings instruments and access to additional financial services such as insurance and credit. From a banking perspective, remittances can improve borrowers' creditworthiness, as noted by Bugamelli and Paternò (2009) and Buch and Kuckulenz (2010), by reducing default risk and providing additional insurance to lenders. Ambrosius and Cuecuecha (2016) further argue that consistent remittance receipts contribute to the development of a financial history for recipients, which may benefit their loan application process.

Access to financial services for asylum seekers and refugees is hampered by know-your-customer financial restrictions implemented as part of efforts to combat money laundering and terrorist financing (Batsaikhan *et al*., 2019). Difficulties in identifying asylum seekers and refugees complicate the urgent need to establish modest bank accounts, a crucial step towards integration.

It is difficult for refugees to access financial services from financial institutions as most of them are entrepreneurs who do not want to stay in refugee camps designated for refugees by the government and UNHCR. They choose to stay in urban areas without legal residency permits. In this context, they continue to do business and keep money in their homes or use the black market to transfer money to and from other family members and friends.

Financial inclusion increases with refugees' trust in financial institutions and decreases with refugees' close friends from the same ethnic group (Hagstrom & Pereira, 2021). In many parameters, country of origin, religious affiliation and religiosity are important indicators. Financial inclusion is often seen as an important tool that development organisations can use to mitigate the devastating effects of humanitarian crises on refugees. Financial inclusion would provide both refugees and citizens of host countries with a wide range of financial products, such as savings, remittances, loans and insurance, which are critical for disadvantaged populations seeking to mitigate shocks, acquire assets and support local economic development (Megersa, 2021). Changes in the distribution of humanitarian aid are paving the way for greater financial inclusion.

4 – Discussion

Some regions, despite hosting significant numbers of refugees, face financial challenges that require tailored financial inclusion strategies. For example, in developing countries, where infrastructure such as internet access and road networks may be limited, the approach to promoting financial inclusion may differ from that in more developed countries.

The findings suggest that, at a commercial level, it is possible to expand the range of services that are relevant to and accessible by refugees. Financial institutions face challenges in ensuring the acceptability of financial products to refugees from different cultural and religious backgrounds. In addition, public policy initiatives aimed at promoting inclusiveness should provide a framework for equitable service providers to address the needs of individuals from all faiths and cultures. If cultural and religious differences are the main drivers of financial exclusion, achieving social inclusion becomes an elusive goal.

Non-formal institutions are emerging to meet the financial needs of refugees, but they may inadvertently promote exclusionary social ties. The study also highlights the critical role of technology in promoting financial inclusion. For example, remittances are often sent through informal financial intermediaries rather than traditional banking institutions, highlighting the importance of technology in facilitating these transactions.

Technology has been evolving for centuries; it was observed during the Covid-19 pandemic that face-to-face interactions were reduced and therefore most financial transactions moved to the technology platform. In order to access the technological modes, one needs internet connectivity and other devices such as smartphones. The challenge for the forcibly displaced is that they may not be registered for mobile transactions and can't have internet accounts due to their legal status. This study has provided valuable insights into the factors affecting the financial inclusion of forcibly displaced people, as well as the strategies and policies that governments and financial institutions need to implement to address these challenges. The findings underscore the importance of understanding the specific needs and circumstances of refugees, which may differ significantly from those of the general population. As refugees often face legal, cultural and infrastructural barriers to financial inclusion, it is crucial to develop tailored approaches that take these factors into account.

A key aspect to consider when promoting financial inclusion for refugees is the accessibility and appropriateness of financial products and services. Financial institutions need to be sensitive to the cultural and religious backgrounds of refugees, as well as the legal and regulatory constraints they may face. Collaboration between governments, financial institutions and non-governmental organisations can help fill gaps in the existing financial ecosystem and create innovative solutions that address the specific needs of refugees. For example, the development of digital financial services could provide a more inclusive and convenient way for refugees to access financial products, particularly in areas with limited infrastructure.

Another essential element in promoting financial inclusion for refugees is the role of public policy. Governments need to create a supportive regulatory environment that encourages financial institutions to provide inclusive services to refugees. This can be achieved by developing targeted policies, removing legal barriers, and providing incentives for financial institutions to invest in innovative financial solutions for refugees. In addition, governments should work to foster partnerships between public and private sector stakeholders to create a holistic approach to addressing the financial needs of refugees. Finally, the study highlights the importance of ongoing research and data collection to inform policy and strategy development. As the global refugee crisis continues to evolve, it is essential to monitor and evaluate the effectiveness of financial inclusion initiatives and adapt them as necessary. By integrating lessons learned from previous research and current practice, stakeholders can develop more effective and sustainable strategies to improve the financial well-being of forcibly displaced people, ultimately promoting social inclusion and resilience in their new communities.

5 – Conclusion

This study has identified some factors that contribute to the inadequacy of financial inclusion for refugees, including their financial instability and the tendency for remittances to be primarily associated with the informal financial sector. The relationship between refugee remittances and financial inclusion remains unclear, highlighting the need for further research in this area.

By conducting research on this topic, policymakers can develop strategies for countries to maximise their financial inclusion efforts. The findings will also contribute to the existing body of knowledge and inform future research, ultimately leading to better support and opportunities for refugees.

5.1 – *Recommendations*

To improve financial inclusion for refugees, it is recommended to develop a wider range of services with attractive tariffs. In addition, ensuring proper documentation for refugees, such as identity cards and traceable residences, is crucial for monitoring financial transactions and preventing money laundering.

Strengthened financial regulations and clear policies are needed to protect the financial system and promote the responsible integration of refugees. Governments should work with financial institutions to develop and implement these regulations.

Another key recommendation is for governments to invest in improving infrastructure, particularly in terms of internet access and technology. The financial sector relies heavily on modern technology, and financial institutions need to keep up to date to remain competitive and inclusive.

5.2 – *Study limitations*

This study is important for financial institutions, countries and refugees as it aims to promote social balance and support for those in difficult situations. However, there are some limitations that should be acknowledged. Firstly, future research should expand the scope of the study to include refugees in different regions, which would contribute to a more comprehensive understanding of the issue. In addition, increasing the sample size would strengthen the findings, as the current study was limited in this regard.

The role of evolving technology in facilitating remittances for refugees is another area that warrants further research. Understanding how technological advances can improve financial inclusion for forcibly displaced people, and how they adapt to these changes, is crucial for policy development.

In terms of theoretical underpinning, more literature sources should be explored to provide a broader perspective on the issue. Future research should also consider incorporating additional models and methods to improve the accuracy of the study's findings.

Practical implications require the involvement of various stakeholders, including macro and micro institutions, non-governmental organisations (NGOs), refugee charities and policy makers. These stakeholders should engage in joint discussions and policy development to improve refugees' access to remittances and promote their financial inclusion.

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