

Assessing the Needs of Refugees for Financial and Non-Financial Services – Uganda

Executive Summary

Introduction. The Swedish International Development Cooperation Agency (Sida) and United Nations High Commissioner for Refugees (UNHCR) have developed a *joint program to facilitate access to credit for income generating activities and consumption for the refugee population and their host communities in Jordan and Uganda*. The two agencies selected the Grameen Crédit Agricole Foundation (GCAF) as a partner for the initiative and, as a first step, commissioned a country assessment in Jordan and Uganda in order to assess refugees' demand for and access to financial and non-financial services as well as the challenges and opportunities they face. This report presents the findings from the demand assessment in Uganda.

Methodology. The assessment is primarily based on original data collection through direct consultations with refugees as well as financial service providers (FSPs) and other relevant stakeholders. In particular, it involved *interviews and focus group discussions with a total of 111 refugees* (47% women and including refugees mostly from South Sudan and the Democratic Republic of Congo, but also from Burundi, Eritrea, Rwanda, and Somalia) in the capital Kampala (12%), the Bidibidi settlement in the Yumbe district in the West Nile sub-region (50%), and the Nakivale settlement in the Isingiro district in the South-West sub-region (38%) as well as interviews with 20 stakeholder entities. The assessment also relies on the review of secondary sources. Since direct consultations only involved a limited number of refugees, the data and information collected are not meant to provide statistically significant results. Furthermore, due to the lack of comprehensive socio-economic data for the whole refugee population, it was not possible to randomly select a representative sample. Consequently, *findings from the direct consultations with refugees within the scope of the assessment cannot be translated onto the whole refugee population*.

Contextual Framework. Uganda (population of around 44 million) is experiencing positive and slightly increasing growth rates and has managed to reduce its poverty level significantly even if around one-fifth of the population is still estimated to live under the national poverty line. The *backbone of the economy is the agricultural sector*, which engages four-fifths of the working population (primarily smallholder farmers). The predominant agricultural production systems include annual cropping and cattle schemes (mainly in the North, including the West Nile) and the coffee-banana systems (mainly in the South and South-West). *Access to productive land varies significantly* across the different regions and population groups depending primarily on the prevalent land tenure system. The country's rapidly growing population is putting increasing pressure on land resources and the allocation of land to refugees becoming more difficult.

With almost *1.5 million registered refugees*, Uganda is the third largest hosting country in the world (and the largest in Africa) in absolute terms. The *great majority* (almost three-quarters) *are South Sudanese*, who are followed by Congolese from the Democratic Republic of Congo (DRC) as well as a more limited number of Burundians, Somalis, and Rwandans. *Two-thirds of the refugee population* (primarily from South Sudan) *are hosted in the West Nile and Acholi sub-regions in Northern Uganda*, while the remaining share resides in the South-West (17%), Mid-West (8%), and Kampala (7%). *Most refugees live within a total of rural 30*

settlements, while self-settled refugees primarily reside in Kampala. Finally, with 60% children and 3% elderly refugees, **37% of the population are of working age**.

Uganda has a long history of hosting refugees from neighboring countries and is recognized for having **one of the most liberal and progressive refugee policy and legislative frameworks in the world**. The framework (mainly the 2006 Refugees Act and the 2010 Refugees Regulations) generally promotes a self-resilience and development-oriented approach to refugee assistance, providing refugees with the freedom of movement as well as with the right to engage in formal and informal employment opportunities and business activities and to own moveable assets and lease/rent immovable property. Refugees also have the right to use (albeit not own) land; in fact, within settlements, refugees are allotted either government or community owned land. The framework supports the integration of refugees in host communities and refugee matters in national, regional and local development plans. Based on the national framework and existing coordination mechanisms, in 2017, the Government of Uganda adopted the **Comprehensive Refugee Response Framework**, a multi stakeholder mechanism led by the Office of the Prime Minister and facilitated by UNHCR that seeks to bridge emergency and development assistance.

In recent years, Uganda records a **general improvement in the level of financial inclusion**, with three-fifths of adults having an account in 2017. The growth in the use of mobile money accounts is particularly strong. Financial access has generally improved also for the lower income and rural population as well as for women. However, the share of those saving with as well as borrowing from a financial institution has declined. The Uganda has a fairly large and competitive microfinance sectors, with some **70 microfinance institutions** (MFIs) and **1,900 savings and credit cooperatives** (SACCOs). There is a growing interest in the refugee market segment on part of the formal financial sector, even if initiatives to reach out and actually include them are yet in the initial stages. Furthermore, while the National Financial Inclusion Strategy does not specifically target (or mention) refugees, residents in rural areas - where the majority of refugees live - are among the priority groups. Finally, **from a regulatory point of view, financial institutions can determine what types of ID to accept or not accept**. Actual know-your-customer (KYC) requirements of individual FSPs hence depend on the perceived risk of prospective clients (including refugees).

Key Findings - Human Capital. The **South Sudanese make out the greater part of the refugee population and most live in a phase of initial displacement** having been in Uganda (namely the West Nile) for less than two years. While some refugees from DRC have also arrived more recently, **most Congolese as well as refugees from other countries of origin** (notably Burundi, Eritrea, Rwanda, and Somalia) have been in the country (namely in the South-West and Kampala) for several years and hence **live in a situation of stable/protracted displacement**. Most interviewed refugees, almost all (97%) of working age, live in relatively large households and with an average of 7 dependents. The **level of economic/financial independency is high** (also for women). Most refugees have a **relatively modest educational background**. While a very small share (5%) of interviewees has completed post-secondary levels of education and would qualify for more skilled professions and employment, 45% have only completed primary school and 8% have not attended school at all.

Key Findings - Social Capital. While interviewed refugees most commonly socialize with and rely on fellow refugees (who, in Nakivale and Kampala, also include refugees of other nationalities than their own), half also regularly interacts with and seeks support from Ugandans. Interactions through structured savings groups and village and savings and loans associations (VSLAs) are also common (45%), especially for women. **Social bonds are generally important for the livelihood strategies of most refugee households**, both within and beyond settlements. Concrete support from international and Ugandan agencies and non-governmental organizations (NGOs) is also relevant for some respondents (particularly in Bidibidi). Within such a context,

agencies/NGOs (as well as aid disbursements) **can function as a powerful bridge between refugees and formal financial actors/channels** and hence play a key role in paving the way for initiatives targeting the formal financial inclusion of refugees.

Relations with Ugandans are generally positive even if the access and use of land can be a source of conflict (especially in the West Nile). Informal and semi-formal groups can, however, play an important role in managing land-related disagreements. While **language can be a barrier to interaction for refugees in the South-West** (especially those from francophone countries), most South Sudanese refugees in the West Nile speak the same languages (as well as share a common transborder history) with their host communities. Finally, at the national level, the **generally conducive and welcoming regulatory environment supports the creation of positive relations** between the refugee and the host communities.

Key Findings - Professional Capital. Given the conducive regulatory framework allowing refugees to work as well as move around without restrictions, **refugees are able to exploit their professional capital and current employment and self-employment levels are quite high** (also among women and especially in Nakivale). In fact, only 18% of respondents do not work or have their own business. Those who work are **primarily engaged in their own business activities** (72%), even if usually of limited dimensions as a complement to subsistence farming and assistance. Self-employment is particularly high in Nakivale (86%) and slightly higher for women (76%). Salaried employment is rare and usually limited to cash-for-work opportunities provided by NGOs. The **most common area of activity is trading** (40%), **followed by agriculture** (32%). These were also the primary areas of engagement in the countries of origin. Even if **most refugees within the settlements engage in subsistence farming**, only some are able to engage in agriculture as a business activity (i.e. if they are able to access land beyond their allotted plots). Farming (and livestock breeding) is also usually combined with other economic activities.

Key Findings - Economic/Financial Capital. In line with the professional engagement on part of most interviewed refugees, **self-employment is the most common source of income**. Farming and livestock breeding also represent a revenue source for one-fifth of respondent households. Even if all refugees living in settlements receive in-kind food rations, **only a limited number of household (mostly in Bidibidi) rely on cash assistance**. Nevertheless, the **average monthly household income of UGX 100,000 (~USD 26) is very low**, especially when considering that most households are relatively large. Overall, monthly earnings in Nakivale, a more mature and diversified economy, are more than double the amounts grossed by households in Bidibidi.

Even if income levels are very low, the capacity to save is very high (also among women), with three-quarters of respondents saving some money on a regular, mostly weekly, basis. Regular savings have allowed a good number of households to accumulate at least modest sums of money. Some households also have other types of assets in Uganda, mostly moveable assets such as livestock and enterprise equipment. Although most refugees in the settlements are allocated plots on which they build at least temporary housing, they do not own these structures or the land. Finally, while two-fifths of households report current debts (more so in Nakivale than in Bidibidi), **levels of current indebtedness are** (except in a couple of cases) **manageable**, with an average debt of UGX 540,000 (~USD 142) and debt over monthly income ratio of 4.1.

Key Findings - Future Aspirations, Challenges and Opportunities. **Only a very small portion** (3%) of interviewed refugees **has concrete plans to resettle abroad** (i.e. they have started the official resettlement process, mostly towards joining family members or other relatives abroad). In fact, the majority of refugees in the South-West are long-term settlers with no intention to go back or settle elsewhere. **Requested and actual resettlements are very rare also at the national level.** **Future aspirations** on part of interviewed refugees **are primarily related to gaining economic independency, mainly through the setting up their own**

businesses (also women and especially in Nakivale). In fact, almost four-fifths of respondents have plans or ideas to start (or develop) their own business activity and a good share of those with a plan has already taken some measures to achieve their goals; mainly by having saved some money, but also by having undergone training. While one-quarter plans to save more money in order to achieve their goals, **half are in need of credit in order to realize their business objectives**.

In fact, the **lack of business credit is emphasized as the primary obstacle** refugees face when seeking to engage in employment or business activities. Frustration over limited or insufficient funds are particularly vocal in Nakivale. Other important challenges include transportation (with concerns regarding distances, accessibility and costs), lack of markets (for isolated settlements), and certain regulatory restrictions (such as ID and administrative requirements and the recognition of competences and skills). **With specific regard to agriculture, the primary issue is access to land** (especially in the West Nile).

Notwithstanding these challenges, consulted refugees manifest a remarkable spirit of entrepreneurship and 'appetite' for business. Entrepreneurially oriented refugees identify a number of areas with potential business opportunities. These include primarily activities related to agri-business (mostly in Bidibidi) and general trade (especially in Nakivale). With specific regard to the agri-business activities, drivers of development include land availability (namely in the South-West), cash crops (both within and beyond settlement markets) and food processing.

Key Findings - Access to Financial and Non-Financial Services. With **rather limited access to formal financial services** (and more limited than in their countries of origin), interviewed refugees **frequently rely on informal and semi-formal sources**. Most depend on savings groups and VSLAs (the presence of which is widespread throughout the country) for both savings (65%) and credit (52%), but also friends and neighbors for credit (54%). The **intense informal and semi-formal financial practices point to a situation of actual need**. Furthermore, individual and peer group bonds represent the backbone of refugees' financial networks and these practices play a role in consolidating and shaping social connections within communities (which is the core of many informal, and semi-formal, economies worldwide).

However, the **amounts of credit available from informal and semi-formal sources are generally considered as insufficient to meet their needs**. Furthermore, the few existing formal options are either not able to meet demand or are far away. In addition to challenges with regard to physical access (i.e. distances and logistics), refugees also find it hard to cope with collateral (as they cannot own land) and ID requirements. Refugee respondents are **mostly geared towards business loans**, ranging from UGX 1 million (~USD 260) to UGX 5 million (~USD 1,300). There is a **general preference for individual loans**, with a modest interest in group loans (especially in Nakivale), even if some consulted refugees are used to pool resources in groups in order to access funds and other support (such as agricultural inputs). While the concept of fair pricing is not always clear, respondents are **willing (as well as used) to pay interest**. Apart from business credit, interviewed refugees also call for formal savings and money transfer services. Finally, **mobile wallet accounts are well known and appreciated** by a good share of respondents (also for savings). Such accounts could hence play an important role in the financial inclusion of refugees in Uganda. The **parallel provision of non-financial services** – primarily business management training as well as support to reinforce existing savings group and VSLA structures - are also considered important for an effective and sustainable financial inclusion. In particular, financial education initiatives should target the strengthening of financial capabilities – intended as capacity to set strategies for facing financial needs – of a person (or group/association).

Summary Conclusions. There is a **widespread demand for financial services** on part of refugees from different countries of origin and hence represent a **potential market for FSPs, especially microfinance actors**. Consulted refugees have a **strong entrepreneurial spirit and 'appetite for business'**, being actively

engaged in various types of occupations and sectors. They rely on a conducive regulatory framework, large and well-structured settlement economies (with older settlements like Nakivale being more mature and diversified than new settlements like Bidibidi), as well as an important social capital (including both fellow refugees, also of other nationalities, and Ugandans). The **relationship between the economic realities of refugee settlements/communities and main market stakeholders can be an important driver for the economic viability of the activities** of refugees, especially with regard to agri-business.

Currently, however, **access to formal financial services is limited, primarily due to physical inaccessibility**. FSPs are usually far from where refugees live and relatively hard to reach. Consequently, **most refugees intensively rely on semi-formal and informal services, pointing to a situation of actual need**. The use of savings groups and VSLAs is widespread and these groups and associations can serve as an important 'point of entry'. The availability of funds from informal sources is limited and the call for formal business loans is great. While the practice of borrowing is common, **levels of current debts are relatively manageable** for consulted households. Despite generally very low levels of income, **three-quarters of respondents regularly save some money**. Even if only a limited number of interviewed refugees are supported as households (or in their business) endeavors by **international and Ugandan agencies and NGOs**, these agencies/NGOs **could play an important role in bridging refugee access to formal financial actors/channels**. Finally, while relations with host communities are generally positive (despite some conflicts over access to land), tensions could arise from targeted refugee interventions that risk exacerbating a sense of competitiveness between refugees and low-income Ugandans (who lack access to many of the same services as refugees). Consequently, **FSPs should not create exclusive 'refugee' products, but rather seek to increase their physical accessibility and adapt already existing product features, methodologies, and processes**.

Recommendations. A sound approach to the financial inclusion of refugees should seek to support the connection with and the coordination among the different actors and initiatives involved within the three economic spheres or dimensions of the financial inclusion 'value chain'; namely: (i) the endogenous economy; (ii) the assistance/handout (non-market or redistributive) economy; and (iii) the exogenous (market) economy. The **adoption of a holistic and coordinated approach** is crucial in order to meet the complex set of livelihoods needs of refugees (and low-income Ugandans) - and hence pave the way for the building of assets and economic autonomy - through the **provision of a set of different and complementary financial and non-financial services**. While **'credit-ready' refugees** (namely those with an already existing profitable business activity) **should be given immediate attention by FSPs, those who are not should be supported with savings measures** (also through already existing savings groups and VSLAs) and also with access to other services such as remittances. The building of savings should be **complemented by the provision of non-financial services, especially financial education and business management support**, which is crucial for promoting a solid savings and financial culture, improving financial capabilities, supporting business profitability, and gaining client trust. Within this framework, **humanitarian and development agencies and international and national NGOs have an essential role to play** (especially during the preparatory phase) in assisting FSPs in identifying, reaching out to, training, and accompanying potential clients. I.e. the assistance/handout (non-market or redistributive) economy can serve as an effective link between the endogenous economy (at the refugee/community level) and the exogenous economy (at the market level).

To these ends, the Consultant proposes the promotion of a holistic framework **involving a multitude of actors at various levels**, including not only FSPs at the micro level, but also support structures at the meso level, policy and regulatory bodies at the macro/national level, and donor agencies and organizations at the global level. The Comprehensive Refugee Response Framework could serve as an important platform in this regard. In particular, the Consultant recommends the adoption of a **step-by-step process of promoting**

proximity through various delivery channels, provision of support services (for both refugees and FSPs and other market level stakeholders), **and innovation and development of financial services**. This involves support to savings experiences that already exist through savings groups and VSLAs as well as provision of financial education and business support program promoted by international and national agencies and NGOs within assistance/handout (non-market or redistributive) economy - possibly with the support also of informal social intermediaries (such as savings groups / VSLAs and community leaders) within the endogenous economy – and market systems support. These efforts require a parallel process of improving the proximity of service delivery on part of FSPs (either by physical branches or through mobile money accounts and services).

The **involvement of actors at various levels would – alongside the provision of technical assistance to FSPs and other market system support - effectively serve as a risk sharing mechanism towards encouraging the engagement of FSPs**. On part of the FSPs, serving refugees should not, and need not, involve the development of specific ‘refugee’ products. In order to prevent potential sources of conflicts with host communities, but also to ensure economies of scale by enlarging the potential market, it is rather advisable to, apart from improving proximity of services, **focus on adapting existing product features, methodologies, and processes** (such as eligibility criteria and KYC procedures as well as assessment criteria for credit clients), **and ensuring a solid link between financial and non-financial services**. It is generally also recommended to adopt a prudential approach of **progression from group to individual lending**. The proposed holistic framework should ideally also include **advocacy initiatives** (through the CRRF) to support intended efforts within the financial sector.