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Financial Inclusion of Germany's Refugees: Current Situation and Road Ahead

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One of the most common misperceptions of the refugee populations is that they are highly transitory and not permanent. However, increasingly refugees find themselves in protracted situations in the host countries (spending more than five years) or in a legal limbo (long legal processes for establishing their refugee status or those who have a ban on deportation but no refugee status). In such situations, they often are economically engaged, formally or informally, to sustain themselves beyond the government benefits. For this reason, it is critical that access to affordable and safe financial services be included in the comprehensive solution for refugee integration. These financial tools reduce their vulnerability by helping them save, lowering reliance on informal channels, dealing with emergencies, and making investments to build their capacities.

This research paper aims to describe and analyse different aspects of the financial lives of refugees and asylum-seekers (collectively 'newcomers') in Germany. It maps out the current situation of access to financial services for the newcomers, their unique financial needs, and the challenges from demand as well as supply-side perspective. The findings of the research are based on a thorough review of existing literature, qualitative in-depth interviews with newcomers, and interviews with key informants from the financial sector and other stakeholders involved in refugee integration (NGOs, social workers, researchers, international organisations). While the focus of the

research is on financial strategies used by the newcomers, it recognises and looks at other spheres of integration—especially social and labour market—which heavily influences their financial choices. The other key focus of the research is to understand the behavioural factors and biases that influence their economic and financial choices.

There is no doubt that newcomers in Germany are better off than those in many other developing host countries (due to welfare benefits, ability to work, training support). However, they still face significant barriers to achieve their economic goals and contribute successfully to the economic development of the host country. One of these is the access to tools to improve their long-term financial resilience. This is currently limited to receiving cash assistance digitally through a bank account, while most of the other transactions (savings, remittances, payments) are cash-driven and informal. This is due to a lack of understanding of the benefits of digital transactions, and more importantly the need to maintain privacy of their financial lives, as they fear to lose their welfare benefits. In addition, the uncertainty about their future and declining confidence in being able to make it into the German labour market is resulting in ineffective economic and financial behaviour. The paper further explores these challenges attempting to bring in the refugees' perspectives and provides some initial recommendations to overcome the same.

Keywords: Refugee economies, refugee entrepreneurship, digitalisation, Germany



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1. Introduction

The current refugee situation has witnessed the highest level of displacement since World War II, with an estimated 68.5 million displaced by end of 2017. Of these, 25.4 million were registered refugees and 3.1 million were asylum-seekers and nearly 13.4 million refugees trapped in “protracted situations” (UNHCR, 2018). Within Europe, Germany is the largest single recipient of asylum-seekers with approximately 1.5 million first-time asylum applications received between 2014 and 2017 (BAMF, 2018). Germany has been an attractive destination for refugees, owing to its conducive political environment, economic situation, enabling integration policies, opportunities for education and skill development, access to labour market, and existence of strong migrant diaspora (Scholz, 2013).

Refugees (used interchangeably with ‘newcomers’) flee their home countries with variable asset—human, financial, social-networks—which affects their ability to rebuild lives in the host country. Apart from their social and cultural integration, another critical aspect is how quickly they are able to stabilize their economic lives and begin to earn a livelihood. However, integration into the labour market takes longer than expected, despite access to formal employment. In Germany, a representative survey of refugees in 2016 showed that among those respondents who fled in 2015, 2014, 2013 (or earlier), only 9%, 22%, and 31% respectively were employed (IAB, 2016). Moreover, similar to the experience of immigrants, the refugee newcomers’ livelihoods are also likely to be less stable, have

a lower resilience to cyclical fluctuations, and earn lower income compared to the host population (Beyer, 2016)¹. Other studies in OECD countries confirm the vulnerable nature of refugee employment (Degler & Liebig, 2017).

Until the time the newcomers are unemployed or enrolled in training, they depend on financial assistance from the government authorities. For instance, in June 2018, 180,000 refugees were registered as unemployed with the German employment agency (known as Jobcenters), and 401,000 were recorded as underemployed due to labour market measures or short-term disability (Bundesagentur für Arbeit, 2018). This increases pressure on local resources, and results in financial dependence and loss of dignity for the refugees. The income support received from the state is for subsistence only, and lower than an average German (see figure 1 for details) (Info Migrants, 2017).

In such situations, the newcomers are likely to be using multiple formal or informal ways to make ends meet and to sustain their financial needs beyond the government benefits received (Wilson & Krystalli, 2017). Therefore, it is critical that they have access to good quality financial tools and information, to help them build self-sufficiency in the short and long-run (e.g. through savings), to take advantage of economic opportunities (e.g. to start a business), and to mitigate financial risks (for themselves or family still living in fragile contexts).

2. Objectives of the Working Paper

This working paper intends to highlight the current situation of access to financial services for refugees in Germany, their financial needs, and the gaps in achieving financial inclusion. The findings and recommendations are based on – 1) **an extensive literature review** of the integration and financial sector policies and existing researches; 2) **a qualitative demand-side research** with 34 newcomers; 3) a

supply-side review through interviews with key informants. While the primary research analysis is still ongoing, the working paper aims to consolidate the initial results and findings of the literature review. It provides a sound basis **to initiate a policy dialogue among stakeholders on the need to include access to suitable financial services as part of a comprehensive package for refugee integration.**

1. The report shows that immigrants earn up to 20% less income than the host population.

3. Objectives and Methodology for the Primary Research

Despite the recent focus on the topic of integration of refugees, there are still gaps in understanding what mechanisms they have access to and use to regain financial footing as they integrate into the host economies (BMZ, 2017). It is also unknown, how they manage their financial lives outside of the aid received, bring together income from different sources, and cope up with financial risks. The current research aims to:

- Collect qualitative insights on strategies refugees use to manage day-to-day financial needs, overcome financial risks, and build lump sums of money to seek economic opportunities. An important aspect is to understand which behavioural factors affect their financial and economic decisions. To achieve this, in-depth interviews are used, complemented with cash flow analysis with half of the respondents over four months.
- Understand the policy environment for refugee

integration, the stakeholders and their experience of working with this segment, and challenges faced in financially including them, through 'key informant interviews'. They are also used to validate the findings of the demand-side research.

The interviews have been conducted in the cities of Bonn and Berlin. The city of Bonn is located in the state of North-Rhine Westfalen which has been allocated the highest number of asylum-seekers at 21% of all applications, as per the Königstein Quota² (BAMF, 2018). Berlin has the highest density of refugees per square kilometre, compared to any other city (Katz, Noring, & Garrelts, 2016), and is a hub for refugee integration projects. The sample consists majorly of Arabic speaking and Afghani newcomers. Due to limitations of time and resources, respondents from other countries of origin and rural regions could not be included.

4. Understanding the Context of Refugees in Germany

Asylum-seekers in Germany come from over ten countries, but the majority are from Syria, Afghanistan, Iraq, Albania (until 2016), Eritrea, and Iran. The top three nationalities account for 55% of the asylum applications. Amongst these countries, the highest rate of protection is for applicants from Syria and Eritrea, and the lowest for Afghanistan (almost 50% applications rejected). Applicants from Iraq and Iran receive positive decision for 60% to 70% of the applications. Most of the applications from "countries of safe origin" are rejected (BAMF, 2018), (EMN, 2016).

For 2016 and 2017, the majority of the asylum-seekers were under the age of 30 years (majority under 4 years and 18-30 years) and male (65.7% for 2016 and 60.5% for 2017). Between 2012 and 2017, close to 4,80,000 girls and women have sought refuge in Germany. Majority of them are young and live with their families. Amongst applicants

who receive protection, the share of those with subsidiary protection has increased from under 1% in 2015, to 22% and 16% in 2016 and 2017 respectively (BAMF, 2017) (BAMF, 2018), which means they receive residence permit for one year (extendable to two more years) (BAMF Subsidiary Protection, n.d.).

In terms of education, refugees from Afghanistan have the lowest attainment levels amongst the top five countries of origin, with less than 50% receiving secondary education or higher, and 27% with no formal schooling. Refugees from Syria and Iran have the highest educational attainment, especially in higher education (Rich, 2016). According to a 2016 survey, 73% of the 18 to 65-year-old respondents had prior work experience with 27% self-employed, 30% workers, 25% salaried employees, 13% salaried employees with management positions (IAB, 2016).

2. Germany has a quota system to distribute refugees and asylum-seekers among states. This system allocates a specific percentage of asylum applicants to each state, based on tax receipts and population.

5. Findings

5.1. National Strategies and Regulations for Financial Inclusion

The national strategies and regulations set by the financial regulators and policy-makers provide the critical foundation for financial inclusion. These regulations should be able to balance compliance with national and international principles of financial stability, while at the same time safeguard the principles of integrity and consumer protection. In doing so the financial regulators face numerous challenges, most importantly addressing the need to determine acceptable identification and risk management procedures for the asylum-seekers. The forcibly displaced often lack the necessary national

ID documents, marriage certificates, and educational certificates (AFI, 2017), in addition to lack of stable residence status and risk of relocation.

In order to address these complexities, it is imperative to forge partnerships with stakeholders beyond the financial sector – national identification authorities, authorities for refugee affairs, humanitarian agencies, NGOs, civil society, and the Anti-Money Laundering and Countering the Financing of Terrorism community at national, regional, and international levels.

Box 1. Important Acts under the German Law on Asylum

- ➔ *The right to asylum is a constitutional right* in Germany and granted to everyone who flees political persecution (BMJV, 1993).
- ➔ Immigration laws providing rules for admission and handling of refugee claims:
 - *Asylum Act* - details of the process and consequences

of granting/denying asylum

- *Residence Act* - rules concerning entry, stay, exit, employment of foreigners
- *Asylum-Seekers' Benefits Act* - nature and amount of benefits received by asylum applicants

Three important set of national regulations are worth noting:

- ➔ Guidelines for bank account opening: In Germany, the financial regulator BAFIN, the German Financial Supervisory Authority, mandated all banks to open accounts for asylum-seekers and refugees. The regulator played a pro-active role by issuing the regulation and providing clarity that the documents provided to refugees are acceptable to meet the Know-Your-Customer (KYC) requirements (BAFIN, 2018).
- ➔ Regulation for payment services: In the last 3 years, many Fintechs have entered the German market to make payment services more accessible. They are regulated by the Payment Services Supervision Act 2018 or "ZAG 2018" (BMJV, 2017). It implements the second EU payment services directive (PSD2) (European Union, 2015) and Electronic Money Directive 2 (EMD2), which came into effect in January 2018.

- ➔ Digitalisation and use of ICT for inclusive solutions: There has been increasing focus on digitalisation across various sectors in Germany. A 2017 survey of Germany's commercial companies, shows 'above-average' level of digitalization in the finance and insurance sector, placing it at the third place in industry ranking (BMW, 2017). This move towards digital economy is further strengthened by the landmark EU General Data Protection Regulation, which came into effect in 2018, and enhances consumer data protection (European Union, 2016). Further ICT-based solutions are being encouraged by the BAMF and European Commission to facilitate integration and improve inclusion of migrants (BAMF, 2017) (European Commission, 2017).

All these national policies and regulations provide a sound and safe space to enable the financial service providers (FSPs), to collaborate with different stakeholders to test innovative products, business models, and delivery mechanisms to economically empower refugees.

Figure 1. Documentation and Welfare Benefits Received at Different Stages of Asylum Process



Asylum seekers are entitled to asylum welfare for 15 months (under Asylum Seekers Benefits Act), after which they receive slightly higher social welfare benefits. When they are at reception centers, they receive pocket money amounting to 135€ per month in addition to food and accommodation. Once they move to the heims (shelters) or private accommodation, they receive 354€ per month. Asylum seekers who have been rejected but have a ban on deportation also receive the asylum seekers benefits.

For those who have been granted asylum or subsidiary

protection, the same rules apply that apply to Germans. Those who have jobs, depending on their pay, could be supported with subsidies for rent and health insurance. Those who are still seeking jobs, receive 408 euros per month, plus rent and health insurance (under the Unemployment Benefit II or "Hartz IV"). The rent depends on the city, for example, in Bonn it is a maximum of 487€/month plus heating expenses for a single person, and in Berlin, this is 365€/month. This leaves many refugees with a net income of less than 60% of the average German income (917€ and 1530€ for a single person household).

5.2. Economic Participation

One of the biggest indicators of successful integration of refugees is their ability to participate in the host country's economy. Employment not only influence the refugees' economic situation, but also helps create day-to-day structures, improve social engagement, and enhance language skills (Lehrian, 2016).

Germany has made a number of policy initiatives to improve labour market participation since late 2014 when the flow of asylum-seekers increased. One of the key changes has been the granting of labour market access for asylum-seekers who have good prospects to obtain asylum, and early access to integration course. However, there are

still challenges resulting in slow speed to labour market integration, mainly the lack of German language skills (especially vocational language training), legal uncertainty, and recognition of qualifications. Given the diversity of the group, customized support is often needed, further slowing down the process.

Refugees are found to be highly motivated to be engaged in gainful employment, including even women who had lower labour market participation in their counties of origin (IAB, 2016). Apart from providing a sense of purpose and dignity, it is also an important criterion to obtain permanent residence permits.

5.3. Stakeholders in Achieving Financial Inclusion of Refugees Beyond Traditional Financial Sector

The integration of refugees, especially labour market integration, is a cross-cutting issue which requires coordination amongst a number of stakeholders. In Germany, the central (federal) and the state authorities are intensively involved in defining these policies and implementing them. At the local level, the municipalities are important actors in integration and have considerable discretion. The public employment agencies are tasked with the bulk of labour market integration tasks, and payout of social welfare benefits.

While the asylum-seekers are supported by the employment agency (Agentur für Arbeit), the refugees who have been accepted (including those with tolerated-status) are supported by the so-called 'jobcenters' (responsible to support long-term unemployed Germans). Thus, once an asylum-seeker receives the refugee status, they are transferred from the employment agency to the jobcenters (BMAS, 2018). The jobcenter also provides financial support for training and to start a business (even approves business plans).

Table 1. Stakeholders in Refugee Integration and Financial Inclusion

Stakeholder	Sub-Categories
Government	<ul style="list-style-type: none"> ➔ Federal Government, Federal States, Municipalities ➔ Federal Office for Migration and Refugees, under Ministry of Interior ➔ Federal Employment Agency, under Ministry of Labour and Social Affairs <ul style="list-style-type: none"> • Local Employment Agencies • Jobcentres • Integration Points ➔ Federal Education Assistance Act (BaFög) provides grants and loans to students ➔ Supporting institutions - Adult education Centers and Language schools, Youth Welfare Office, Consumer Protection Offices, Debt Counselling Centers
Humanitarian, Civil Society	<ul style="list-style-type: none"> ➔ Donors, NGOs, volunteers ➔ Diaspora Organisations
Financial (Bundesbank, 2015)	<ul style="list-style-type: none"> ➔ Supervisors – National Central Bank (Bundesbank), Federal Financial Services Supervisory Authority (BAFIN), European Central Bank ➔ Private and Commercial Banks, Public Banks – Savings Banks (Sparkasse) and Federal State Banks (Landesbanken), Local and Central Cooperative Banks ➔ Building and Loan Associations ➔ Promotional Banks (e.g. KfW Banking Group, Investitionsbank Berlin) ➔ Fintechs, Payment Service Providers ➔ International Money Transfer Organisations (IMTOs) ➔ Crowdfunding Platforms ➔ Microfinance Institutions
Private Sector, Business Associations	<ul style="list-style-type: none"> ➔ Start-ups (IT-based) ➔ Business Incubators ➔ Chambers of Commerce, German Employers Association, German Savings Bank Association

5.3.1. Bank Account

Financial services in Germany are a well-developed, mature market. Traditionally dominated by regional and local banks, products and services are delivered on a regional level. There are three "pillars" of banks: private-owned commercial banks; state-owned savings banks (Sparkasse)

and regional banks (Landesbanken); and cooperative banks (Volksbank). Private-owned commercial banks conduct their business nationwide, while savings and cooperative banks tend to act on a regional level. The savings banks (Sparkasse) play a key role in offering banking services to

the population outside large cities, with a savings bank in every administrative region of Germany.

All banks are mandated to open accounts for the newcomers. While no aggregate data is available, primary interviews show that the majority of the accounts are opened by the public sector banks Sparkasse and Volksbank. The reasons are a high concentration and outreach of these banks, including in rural areas, and their pro-active support to ease administrative burden on the government authorities to distribute the welfare benefits.

In selected cities, the bank opened special branches staffed with employees trained on KYC verification and language support (translators, brochures in several languages, videos in Arabic). Berliner Sparkasse, for instance, opened 35,000 accounts through their special branch, but recently closed

it since the number of new arrivals has drastically reduced³. Refugees can open a Giro Bank account, which is a normal current account allowing them to pay bills, receive/send funds, and withdraw cash. There is no facility to overdraw on these accounts and the charges are same as any other current account customer.

Apart from this, it is important to consider the growing fintech space in Germany. As of 2017, there were seven e-money institutions (BAFIN, 2017) and 57 payment Institutions licensed under "ZAG 2018". As of June 2017, there are approximately 300 fintechs in Germany (EY, 2017). Three new private digital-only banks have also recently gained a banking license: solarisBank AG, Fidor Bank AG, and N26. While currently none of them focuses on refugees as a segment, they have the potential to improve access to finance services for refugees in future

Box 2. Pre-Paid Smart Cards for Refugees in Finland

In December 2015, MONI, a Finnish Fintech, upon request from the Finnish Immigration Service, started offering prepaid MasterCard and mobile-based payment accounts for refugees to disburse the welfare benefits (MONI, 2015).

Based on an interview with MONI, it is known that in addition to paying/receiving money, cardholders can also apply for credit through their mobile phone, from friends

or financial companies. The company has opened 22,000 accounts, of which 3000-3500 are active. A sign of success as per MONI is the increasing balances in these accounts. In 2017, the accounts received more salary than welfare benefits. MONI also offers its services in Germany and other EU countries, however, there is no special program for refugees.

5.3.2. Remittances

The formal remittance market in Germany includes banks, traditional IMTOs (e.g. Western Union, MoneyGram), and more recently fintech IMTOs offering online and app-based services. The IMTOs are mostly licensed elsewhere in the European Union passporting their services. Germany also has a growing fintech sector focused on domestic and EU market. The new digital banks have also entered into partnerships to expand their cross-border services, e.g. N26 with the IMTO TransferWise and Fidor Bank looking to expand operations in Asia, Africa and the Middle East.

Some key findings of the secondary and primary research:

➔ Access to remittances for refugees, especially asylum-seekers, is hindered by a lack of clarity in the KYC requirements under the new Money Laundering Act of 2017 (BMJV, 2017). While documents issued to refugees are acceptable, an explanatory note cautions that these documents might be based on the foreigners' own statements and must be checked by the IMTOs. Moreover, the documents issued to those under

the asylum process (Proof of Arrival) and those with temporary ban on deportation are not accepted. Thus, it is observed that IMTOs often implement stricter ID requirements (only passport or national identification) than what is stipulated (World Bank, 2018).

➔ Based on an unpublished primary study commissioned by GIZ to understand the Germany-Jordan remittance corridor and interviews conducted for the current study, it is found that the international remittances market continues to be dominated by traditional IMTOs, such as Western Union, and cash-to-cash services.

➔ Based on these two studies, it is also understood that a number of informal or 'black market' channels exist and have the largest market share. The main reasons for their prevalence are lower 'perceived' cost, convenience of sending/receiving, and trust and privacy of these channels (Wilson & Krystalli, 2017).

3. Based on interview with Berliner Sparkasse

4. Through 'circle of trust' feature on the mobile-app, where account holder can request a loan from a friend. Loans from FSPs are available only after receiving residency status.

As part of the secondary research, a comparison was made between the cost and time required to send money through various formal channels to main countries of interest for the respondents (Afghanistan, Syria, Turkey, Jordan, Lebanon, Iraq). It was found that for a transfer of €150 on average (€140 for Turkey), the newer digital IMTOs

are much cheaper than other networks, but offer limited agent networks. Cash to cash or card (used online) to cash are the fastest and the most convenient given the limited availability of bank account on the recipients' end. Source - for Turkey (World Bank, n.d.), for rest of the countries (BMZ, n.d.):

5.3.3. Access to Finance and Refugee Entrepreneurship

Access to affordable credit to smoothen consumption, overcome financial emergencies, and leverage economic opportunities, such as to start a business is a key tool to financial self-reliance. Humanitarian organisations, including UNHCR, recognize the role of microfinance, and micro-credit in particular, to address the challenges of labour market integration of refugees in long-term displacement (Azorbo, 2011). Supporting entrepreneurs and self-employed, including through microfinance is also recognized as a priority in Europe 2020 strategy (European Commission, 2018).

As mentioned earlier, a substantial percentage of the refugees arriving in Germany between 2013 and 2016, as per the IAB survey were self-employed in their home countries. This is likely to be higher for refugees from the Arab countries, which have a long history of entrepreneurship and trading (Building Markets, 2016). Though not all of them would prefer to start their own businesses in Europe, there are some who are more suited for entrepreneurship (Betts, 2017). In general, migrants are twice as inclined to found new enterprises as natives (Liebig, 2007), but face higher barriers, due to bureaucratic hurdles and lack of access to sufficient credit. Only 0.2% of those who received financial support for starting business in August 2016 were refugees (Degler & Liebig, 2017).

Some of the formal sources of credit available for refugee entrepreneurs are as follows:

➔ **Financial support from Jobcenters:** Unemployed persons registered with the jobcenters who take up self-employment could receive a bridging allowance (for at least 150 days) to secure their income after the business start-up (BMWl, 2017). Some promotional loans also exist under different programmes of the federal and state governments and European Union for start-ups and SMEs, but are not necessarily available for refugees (BMWl, n.d.).

➔ **Micro-credit:** There have been some pilot programmes to offer micro-credit loans to refugee entrepreneurs. One such pilot is from the InvestitionsBank Berlin, which extended its micro-credit programme to refugees offering loans of up to €25,000 (IBB, 2017). However, so far only two loans have been made since October 2017 (based on interview with IBB). This is because of the quality of business plans and a restriction on the loan tenure to three years (versus the usual six years) based on the refugee's visa duration.

➔ **Crowdfunding:** In 2015, €114 million was raised through reward-based crowdfunding, peer-to-peer consumer and business lending, and equity-based crowdfunding. The first law providing legal framework for equity-based crowdfunding was introduced in 2015 (Für Gründer, 2015). Several crowd-funding campaigns have been launched to fund enterprises and projects supporting refugees or started by refugees (Wenzlaff, 2015), e.g. the "Refugees Welcome" project by StartNext. However, the exact number of refugee entrepreneurs funded is not available.

Since 2015, there has been an emergence of business incubators mentoring refugee entrepreneurs. These institutions provide business-planning support to refugees, but, have no link to financing. There is also emergence of European-level projects such as the European Migrant Entrepreneurship Network with its microfinance community of practice and the Migrant Acceleration for Growth Network.

Apart from this, refugee students (including those with 'tolerated' status) studying at university, receive a monthly allowance of €735 from Bafög, which is half subsidy and half interest-free loan.

5.4. Demand-Side Perspectives: Financial Needs in Different Integration Phases

Majority of the respondents for the study arrived in Germany in 2015 and 2016. While during the early phases of arrival and initial displacement, the focus is more on securing necessities such as food, shelter, clothing, medical care and language training, as they progress through the integration journey, the need for financial self-sufficiency becomes more prominent. Nonetheless, even during the initial phases there is a need to have access to basic payment account, safe storage of cash, and money transfer services.

Before diving into the financial needs, it is critical to understand the goals and aspirations of the newcomers as they integrate.

➤ For refugees, this is influenced by family configuration, economic situation of their family, gender, and age. They aspire to:

- Lead a 'normal life', which implies having their

own house, staying with family, and having stable employment that provides them financial independence.

- Acquire language skills and undertake labour market integration measures at the earliest.
 - Support their families (still in country of origin or transit) financially, and/or receive clarity on family reunification.
 - Provide good education and future for their children (in case of single mothers and families).
- For asylum-seekers, in case they have appealed against the negative asylum decision, their goals are solely dependent on the final decision of the application. The uncertain legal status limits their opportunities for integration.

Table 2: Mapping Financial Stress Points and Needs at Different Phases of Displacement

Phase	Financial Stress Points	Financial Needs
Journey and Arrival	<ul style="list-style-type: none"> ➔ High cost of journeys (according to the IAB survey, between 2013 to 2016, average cost of fleeing was €7100, in 37% instances financed through family, friends, loans) ➔ Inability to receive/send money safely 	<ul style="list-style-type: none"> ➔ Financial support for basic expenses, to repay loans
Initial Displacement and Asylum Application	<ul style="list-style-type: none"> ➔ Understand use of bank account/cards ➔ Supporting family still in fragile contexts, repaying loans ➔ Not able to make enough savings, limited coping mechanisms ➔ Understand complex contracts for mobile phone, internet ➔ High transport costs 	<ul style="list-style-type: none"> ➔ Savings ➔ Remittances ➔ Financial education (bank account, financial management, contracts, financial risks/frauds) ➔ Small loans for consumption smoothing
Stable/ Protracted Displacement Negative Asylum Decision / Tolerated Status	<ul style="list-style-type: none"> ➔ Not able to make enough savings, limited coping mechanisms ➔ Limited understanding of complex welfare payment system, fear of surveillance of financial transactions ➔ High transport costs ➔ Supporting family in fragile contexts, repaying loan ➔ Wrongly entering into expensive contracts ➔ Pay for lawyers, medical expenses 	<ul style="list-style-type: none"> ➔ Savings ➔ Remittances ➔ Financial education (bank account, financial management, contracts, financial risks and frauds) ➔ Small loans for consumption smoothing
Positive Asylum Decision	<ul style="list-style-type: none"> ➔ Understand complex rent contracts, insurances ➔ Low/unstable income ➔ Lack of access to credit for consumption smoothing or business start-up ➔ Dependence on jobcenter money, limited financial coping mechanisms ➔ Supporting family in fragile contexts, repaying loans ➔ Limited understanding of complex welfare payment system (especially for self-employment), fear of surveillance ➔ Difficult to gather lump sums for big expenses (phone, laptop, car, driver's license, family reunification) 	<ul style="list-style-type: none"> ➔ Savings ➔ Remittances ➔ Financial education (bank account, financial management, contracts, financial risks/frauds, economic system, credit scores, unemployment benefits) ➔ Small loans for consumption smoothing ➔ Business and personal loans (some demand shariah-compliant)
Permanence	<ul style="list-style-type: none"> ➔ Not able to access credit for business ➔ Difficult to gather lump sums for big expenses (phone, laptop, car, driver's license, family reunification) ➔ Supporting family in fragile contexts, repaying loans 	<ul style="list-style-type: none"> ➔ Savings and investments ➔ Remittances ➔ Business and personal loans
Return and Resettlement	<ul style="list-style-type: none"> ➔ Inability to build savings and assets for long-term security ➔ Inability to transfer assets and financial history ➔ Difficult to sell/transfer income generating activity 	<ul style="list-style-type: none"> ➔ Transferrable savings, pension schemes, financial and credit history ➔ Trans-national credit for rebuilding in home country (housing, education, self-employment)

5.5. From Cash Transfers to Financial Inclusion: Key Barriers and Challenges

One of the key findings of the demand-side interviews is the reliance on cash-based channels for conducting financial transactions such as savings, money transfer, payments, and cross-border remittances. The accounts are primarily used to receive cash assistance from the authorities and withdrawal. This restricts their ability to access safe and secure financial tools, and the opportunity to build a financial history.

The key barriers and challenges faced on the demand and the supply-side are as follows:

- **Lack of understanding of and trust in the financial system and fear of losing cash assistance:** Due to limited or no previous experience of financial services, most respondents have low understanding of the benefits of the formal financial sector. They also prefer cash-based transactions to maintain privacy, as they fear surveillance of their bank accounts. While part of this fear is reasonable (as they need to submit bank statements at the time of calculation of benefits), part of this is perceived, due to lack of understanding of the complex social welfare system. This dismissal of digital channels is also observed in other researches (Wilson & Krystalli, 2017).
- **Uncertainty about future resulting in short-term 'tunneling':** There is high uncertainty about future, related to the residence status, family reunification, ability to integrate into labour market, and lengthy process to reach full income potential. Their mental cognitive abilities are burdened by the overwhelming feelings of insecurity, anxiousness, depression, fear, and low self-confidence. These barriers and the urgency to regain financial independence results in poor economic decision making (e.g. taking up low-paying jobs, or use informal ways of earning and managing money)
- **Limited coping mechanisms, 'reactionary' money management, and low self-confidence:** In case of a financial shortfall or emergency, all respondents reported that they would rely on support from their social networks (also with limited resources) when such a problem arises. They face low level of confidence in handling an unplanned or emergency expense and are not able to plan for planned or unplanned expenses. E.g. some of the respondents reported borrowing money from friends when they did not receive the cash assistance from jobcenter for one to two months.

Figure 2. Enablers and Barriers to Achieve Economic Goals and Aspirations of Refugees



- **Limited support for entrepreneurship finance and self-employment:** While incubation support in terms of business planning and mentoring is available to some of the refugee entrepreneurs, access to start-up capital and finance is still restricted. The respondents who are self-employed or want to start their businesses, reported challenges in fulfilling the requirements to obtain jobcenter's approval. They also reported lack of understanding of the complex social welfare systems applicable for self-employed persons. Due to the lack of financial history and the limited residence permit (maximum three years), the FSPs are not able to extend to credit to them.
- **Lack of understanding of needs and potential of different segments:** Refugees and asylum-seekers constitute a diverse, heterogeneous group where different factors affect their economic needs and outcomes – such as level of protection, gender, age, family configuration, skills and education, and stage of integration. Specific groups such as youth, single women, and those with lower formal education face specific financial demands and challenges. Moreover, different segments might have different employment choices and economic potential. For instance, Syrians with successful history of running business and strong social networks are more likely to start successful businesses.

6. Initial Policy Recommendations

6.1. Improving Financial Capability and Consumer Protection

Some of the barriers on the demand-side (especially the first three) described in the previous section require the need to improve the refugees' understanding of the German banking system in general, specific banking products and its usage, pricing and customer protection measures, and improving their capability and 'self-confidence' to better manage their financial resources. The following are recommendations to achieve this:

- **Integration and language courses** could provide an overview of the financial sector and practical tips for better financial management. This could include the benefit of formal financial services, opening and using bank accounts, using ATMs, credit bureaus, fraudulent credit card services, insurances, managing expenses, saving money. The BAMF could include this in the guidelines on course content, while the content from existing programmes such as the 'Geld und Haushalt' initiative of the German Savings Bank Association could be adapted to newcomers' context i.e. past experience and language.
- **Pro-active communication to address the concerns and questions of refugees about calculation of cash-assistance** will be crucial to regain their trust. Instead of them seeking information from jobcenters or social workers, pro-active dissemination will ensure that there is minimal mis-communication. This should address concerns such as – the maximum amount of savings allowed in bank accounts for those who are under unemployment benefits, legitimacy of sending/receiving funds in the accounts, impact on benefits in case of self-employment or part-time jobs, and so on.
- **Improve knowledge about the benefits of using digital modes of transactions**, especially, as the German banks move towards more digital delivery channels. During the

interview with Berliner Sparkasse, the bank reported its focus on digital on-boarding and phased scaling down of physical branches. While they are running workshops for its regular customers at the branches, specific workshops focused on refugees addressing their questions and concerns will be critical to ensure they are included.

- **One-to-one financial coaching based on financial capability approach**, in addition to general financial education could be made available to those in need. As noted earlier, the economic and financial contexts of this segment vary greatly and hence customized advice to better understand the right coping mechanisms available for them will be helpful. The International Rescue Committee runs a similar programme for its resettled refugees in the USA (IRC, 2017).
- **Improved data protection measures and communication about the same** should be undertaken to ensure that the refugees' right to privacy of financial transactions is protected. More importantly, they should be aware of the extent and the manners in which their financial transactions data will be utilised so that their 'fear of surveillance' is based on real rather than perceived risks.

While implementing the above, due attention must be given to the special needs of vulnerable refugee groups, notably women and youth (including unaccompanied minors). Women tend to have lower education, lower participation in integration courses, and more likely to be engaged in part-time or marginal employment (Worbs & Baraulina, 2017). Youth and unaccompanied minors, have limited past experience of handling financial decisions. Lastly, it is important to ensure that these interventions are made early, and on a continued and more frequent basis throughout the integration journey.

6.2. Enable FSPs and Fintechs to Develop New Products and Demonstrate Success

The small scale and high-risk nature of this segment and lack of regulatory clarity often results in FSPs shying away from offering appropriate services for refugees. As a result of this de-risking, not only is the integration potential of refugees under-achieved, it also encourages a parallel informal economy. A better strategy will be to begin with conservative risk mitigation measures and adapt them based on the experience.

- ➔ **Examine the use of regulatory 'sandboxes' to pilot innovative products** as demonstration cases. A regulatory sandbox is a framework set up by a financial sector regulator to allow small-scale, live testing of innovations by private firms in a controlled environment under the regulator's supervision (Jenik & Lauer, 2017).
- ➔ **Further segmentation of this group to identify their needs.** The simple classification based on demographic characteristics might not be sufficient in this case. A suitable classification could be into stable, developing or vulnerable households depending on their current economic situation (Making Cents International, 2017).

It might also be required for banks to adjust their information systems to identify this new client segment, track and analyse their financial behaviour, and develop interventions.

- ➔ **Clarification on KYC requirements for cross-border remittances to ensure standardization** across all IMTOs. It should also be ensured that the front line staff of all the FSPs are updated of the new regulations and are trained to serve the refugees.
- ➔ **Promote use of technology to develop suitable trans-national products** in case the newcomers return to their home country or are resettled in a third country. These include transferrable savings, pensions, credit/financial histories, and provide long-term incentive to use formal financial services. E.g. BanQu is piloting a block chain based portable 'digital locker' for refugees in Jordan to store verified business, financial, and education data (SANAD, 2018).

6.3. Improve Access to Finance for Refugee Entrepreneurs

A risk-based approach could be taken, wherein a review of the risk management measures should allow for mitigation strategies to be based on 'probable' and not 'perceived' risk of default (SPTF, UNHCR, 2017). The following recommendations could be considered:

- ➔ **Credit-risk assessment through use of alternative data and credit-scoring mechanisms** based on character assessment, performance in integration courses, and references from refugee associations, community leaders and business incubators. Indicators which exhibit permanence (e.g children in school, housing contract, employment of family members), and the emerging practice of alternative data sources (social media history, mobile phone usage) could be considered.
- ➔ **Alternative mechanisms for credit guarantee such as group or non-cash guarantees could be effective** given the importance of strong social networks for refugees (Wilson & Krystalli, 2017). In case of small credit needs (e.g. up to €2500), joint liability groups of refugee or mixed (with Germans) populations could be used. This is being piloted in other countries such as in Jordan by Al Majouma (mixed groups) and in Kenya by Equity Bank (refugee only groups). Non-cash guarantee from references, where in case of non-repayment the guarantor is barred from accessing credit, could be

effective by creating moral obligation and peer pressure to repay (SPTF, UNHCR, 2017).

- ➔ **FSPs could start with smaller loans to test waters and allow refugees to demonstrate their entrepreneurial and repayment capacities.** The new or young enterprises could be initially offered smaller loans for shorter terms and frequent repayment plans. This will allow the refugees to test their business idea, develop credit histories, limit the FSP's risk, and allow for 'demonstration' cases. A Belgian MFI is currently offering a similar product where they provide three categories of loans depending on the stage of business idea – test credit, start credit, and grow credit (MicroStart, 2018). They have also combined their loan products for refugees with compulsory savings to further reduce risk.
- ➔ **Track the performance of existing 'demonstration' pilots for refugee credit.** It will be critical to track and analyse the repayment performance of the ongoing refugee credit pilots for future advocacy. Based on experience of other providers in France, Belgium, Italy, Lebanon, Jordan, and Kenya, the credit risk of refugees is estimated to be the same as host population (SPTF, UNHCR, 2017). This is also demonstrated by KIVA's experience of lending to Syrian refugees in six countries (KIVA, 2018).



➤ **Leverage existing EU microfinance support mechanisms for credit guarantee** such as the Employment and Social Innovation programme to reduce the risks for FSPs offering credit. In 2016, UNHCR and Swedish Development Agency also announced a new credit guarantee facility of USD 15 million to support refugees and host communities in developing countries (UNHCR, 2017). A newly announced EU-Dutch government risk-sharing facility is also aimed to support under-served

entrepreneurs in developing countries. One of the critical questions that remains unanswered is the identification of suitable FSPs that might be fit to serve the credit needs of refugees. While the bigger banks are interested in scale, the local employment agencies might not be suitable for such innovative product development. The newly emerging fintechs could be possible partners for traditional German banks.

6.4. Stakeholder Coordination and Leverage Social Networks of Refugees

The following recommendations could be considered to involve the existing stakeholders and tap into the refugees' networks:

➤ **Direct engagement of FSPs to better understand the needs and challenges of the newcomers is critical.** UNHCR has been promoting this through workshops and facilitating preliminary financial needs assessments. Their experience shows that direct engagement with refugees changed the perception of the FSPs making them more willing to extend their services (Pistelli, 2018).

➤ **Collaborate with other stakeholders directly supporting newcomers** such as business incubators, NGOs, social workers. The newcomers are dependent on and trust these front line stakeholders for critical information.

Therefore, they could be involved in financial education, dissemination of information, and credit appraisal (especially business incubators).

➤ **Building bridges between the newcomers and the migrant diaspora organisations** for information sharing and possibly for enterprise financing (through equity-based partnership models or loan guarantees). Several international organisations have mapped out diaspora organisations in Germany. Their involvement in supporting refugees differs across countries, e.g. a few Syrian diaspora organisations have been actively involved in integration of Syrian refugees (Ragab, Rahmeier, & Siegel, 2017). Support to Syrian refugee entrepreneurs could be further encouraged through business networks such as the Syrian International Business Association.

7. Conclusion and Further Areas of Research

There is clear evidence that in context of protracted displacement, tools to manage financial situation can help refugees reduce vulnerability, improve livelihoods, and ensure better integration and financial self-sufficiency in the long-term. Therefore, a comprehensive solution to improve long-term resilience of refugees demands involvement of the financial sector in addition to the traditional integration stakeholders.

However, this needs to move beyond disbursement of cash assistance to meaningful financial inclusion by offering suitable products that enable them to save, mitigate risks, build businesses, and conduct trans-national transactions.

To achieve this, the financial sector stakeholders need to understand the context and needs of refugees. It will be also crucial to address the behavioural constraints that influence their financial decisions and build their capacities so that they gain 'self-confidence'.

While this research attempts to address some of the key questions, more research is required to further understand the financial needs of this heterogeneous group, including research on- market segmentation, informal sources of credit, needs of unaccompanied minors and youth, and needs of asylum-seekers from other countries of origin especially Africa.



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