Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Agency for Development and Cooperation SDC

ied | e+i | fsd
inclusive economic development
employment + income
financial sector development

Guidance Sheet

Financial Inclusion of Migrants

Financial Inclusion of Migrants[1]

This guidance sheet is part of a series of tools developed to support SDC staff and partners in designing and implementing projects targeting the promotion of financial inclusion. This specific guidance sheet introduces the concept and key aspects of the financial inclusion of migrants (FIM). It provides guidance on the design, implementation, monitoring and evaluation of SDC project interventions improving FIM.

Key issues

1. Unmet needs
There is a lack of availability of specific products for migrants. Migrants, refugees, and asylum seekers face unique challenges which require special considerations that take into account their residential status and socio-economic vulnerabilities. Organisations such as the UNHCR, UNCDF, IFC, WB and others acknowledge the importance of the right products and the role that private financial service providers can play in closing such a development gap. (ECDPM, 2022)

2. Migrant women are less likely to be financially included
Migrant domestic workers make up about 11.5 million of all the world's migrants. 8.5 million of these are women who are mostly paid in cash. The actual number of migrant domestic workers may be even higher, and a large share of them continue to be denied access to several essential services, including financial ones. (ECDPM, 2022)

3. Costs of sending remittances:
The costs of sending remittances remain far above the SDG target of 3 %, and even higher in the Global South compared to the Global North. Regional inequalities in the costs of sending remittances are indicative of deep-rooted existing development inequalities, and in turn create new ones.

1. What do we mean by the "financial inclusion of migrants"?

FIM is the process of addressing financial constraints that migrants and forcibly displaced persons face in order to improve their access to and use of affordable and adequate financial products and services. This ranges from traditional financial services and products (credit, savings, etc.) to more complex financial services (insurance, pension, etc.), as well as digital financial services (mobile money, payment services, remittances etc.). Migrants face a multitude of obstacles in accessing financial services that in most cases are not proportional to the risks they pose to the financial system.

FIM aims to rebuild economic livelihoods by providing options and making it easier to take informed financial decisions, to save and spend responsibly, to transfer funds safely and to manage the challenges of migration.

2. Why is the financial inclusion of migrants important?

The United Nations estimates that there were around 281 million international migrants (people living outside their country of origin) in 2020, which equates to 3.6 % of the global population (World Migration Report 2022). Refugees accounted for 12 % of all international migrants, up from 9.5 % in 2000, indicating that forced displacement is increasing faster than "voluntary" migration. While international migration poses challenges both in countries of origin and countries of destination, it also offers opportunities as a positive force for sustainable development through remittances, investments, and the transfer of know-how.

Remittances are a key driver for poverty alleviation in low- and middle-income countries, with transaction levels often exceeding those of official development assistance (ODA), foreign direct investment or national export earnings (Migration and Development Brief, 2021). Many families in countries of origin rely on remittances to pay school fees and access health care. Remittances are often an entry point for migrants to access and use additional financial services and products.

1 The guidance sheet is complementary to the exploratory paper "Financial Inclusion of Migrants" that was published by the SDC in January 2020. While the exploratory paper maps out projects, programmes and initiatives worldwide which aim to provide an insight into FIM and forcibly displaced persons, this document provides practical guidance on a market systems development approach to implementing such projects.

The financial inclusion of women migrants is a particular catalyst for change. Enabling women migrants to save and invest gives them a greater say in household decision-making and can promote their societal, economic and political empowerment in their home communities. The SDC has become increasingly aware of the importance of ensuring that migrants and forcibly displaced persons – and women in particular – have effective means for accessing and managing their finances.

2.1 Financial and non-financial needs of migrants

The financial needs of migrants differ according to their stage in the migration cycle (the process that migrants go through from leaving their location of origin to establishing themselves in the new destination). They also differ from the needs of people who have not moved within a country or abroad. This is why it is important to take a particular look at migrants and forcibly displaced persons to ensure the "Leave No One Behind" principle of the 2030 Agenda is applied.

To meet migrants' financial needs throughout the migration cycle, a whole set of financial and non-financial services should be available in home, transit and destination countries. The following table, which is explained in more detail in the SDC exploratory paper, provides an overview of financial and non-financial services needed by migrants and refugees, differentiated based on their migration status and migration plans. There are five distinct stages of the migration cycle: pre-departure, journey / transit, arrival, integration in the country of destination and return to / reintegration in the country of origin.

Migration phase Main concerns of migrating persons and families	Key financial and related non-financial needs (Demand Profile)
Phase 1: Pre-departure Focus on information about destination country, choice of route and transport means, language and professional skills, pre-departure programme, administrative steps (health certificates, work certificate)	Financial planning, information about remittance transfer services, gather money for the trip **Financial services** migration loan, savings account **Non-financial services** information about financial services in host country and money transfer options
Phase 2: Journey / transit Focus on safety during transfer and having enough money for journey	Survival cash to finance unexpected costs during the journey Communication with those left behind
Phase 3: Arrival Focus on immediate basic needs for protection, shelter, food, medical services, and communications technology to reconnect with family	Survival cash for housing, food, medical services, repay debt incurred during trip Orientation with regard to work, housing, schooling
Phase 4a: Initial settlement Focus on access to housing, education, learning the language, finding a job, starting a business	**Financial services:** savings, remittance transfer to family; consumer credit for furniture, appliances, school fees, business equipment; health insurance **Non-financial services:** market information and access, financial literacy, job placement, vocational training, business training, life skills, social interaction with host community
Phase 4b: Stable / long-term settlement Focus on making an increasingly good living	**Financial services:** savings products, consumer credit, mortgage / home improvement loans, business loans, transactional accounts for cross-border payments and remittances, health insurance, life insurance **Non-financial services:** financial literacy, job placement, vocational training or business training, linkage to markets/value chains, social/business interactions with host community, mentorship
Phase 4c: Permanence/integration Focus on resembling host population to ensure the best life possible for self and family	If integration is the goal, **financial service** demands become more sophisticated and resemble those of hosts: savings, pension plans, credit for business and housing, health and life insurance, transnational services (e.g., lines of credit, remittances, insurance for family in country of origin)
Phase 5: Return and reintegration Focus on housing, education, job	Savings for journey, transferable credit history (certificate), transferable pension schemes and deferred annuities **Financial services:** remittance transfer, business loans, savings, insurance **Non-financial services:** job placement, skills matching and recognition, financial literacy

Table 1 Indicative financial and non-financial needs of migrants throughout the migration cycle. Source: compiled by authors based on SPTF (2017), Bisong & Knoll (2019) – SDC unpublished, IFAD & World Bank (2015)

3. How to plan and implement projects targeting financial inclusion of migrants[2]

3.1 FIM within a market systems development approach

The SDC uses the market systems development (MSD) approach when planning a project, ensuring the development of inclusive, self-sustaining market systems including financial inclusion in partner economies. The main underlying objective of this approach is to support partner countries in gradually becoming less dependent on ODA. The focus of this approach is therefore to identify the root causes constraining poverty alleviation in order to tackle these in a locally calibrated and sustainable manner throughout and beyond the project cycle.

The results chain (see Figure 2) shows how FIM programmes can be embedded into an MSD approach. It also highlights the overall impact of FIM on improving the economic livelihood of the target group. When taking an MSD approach to FIM, it is crucial to understand the status quo and the systemic constraints that cause low FIM in the target country.

3.2 Understanding obstacles to FIM

Obtaining a comprehensive picture of the root causes of and constraints on FIM in a given market system will allow the development of targeted interventions with lasting systemic impact. The illustration below (Figure 1) provides an overview of the four main categories of constraints faced by the different actors within the financial system and offers a structured framework for analysis thereof (CGAP, 2015).

In comparison to the challenges of financial inclusion in general, FIM presents additional and complex constraints that make risk-averse financial institutions less likely to cater to this clientele. Demand-side constraints include the opaque economic and legal status of migrants with restricted access to capital and guarantees, the lack of officially recognised identity documents and low financial literacy. In particular, the lack of personal identification and registration documentation makes it very difficult for migrants to pass the strict "know your customer" (KYC) rules of regulated commercial banks. The interoperability of financial systems and mobile financial services poses a structural challenge that mitigates the effectiveness and affordability of cash transfer services.

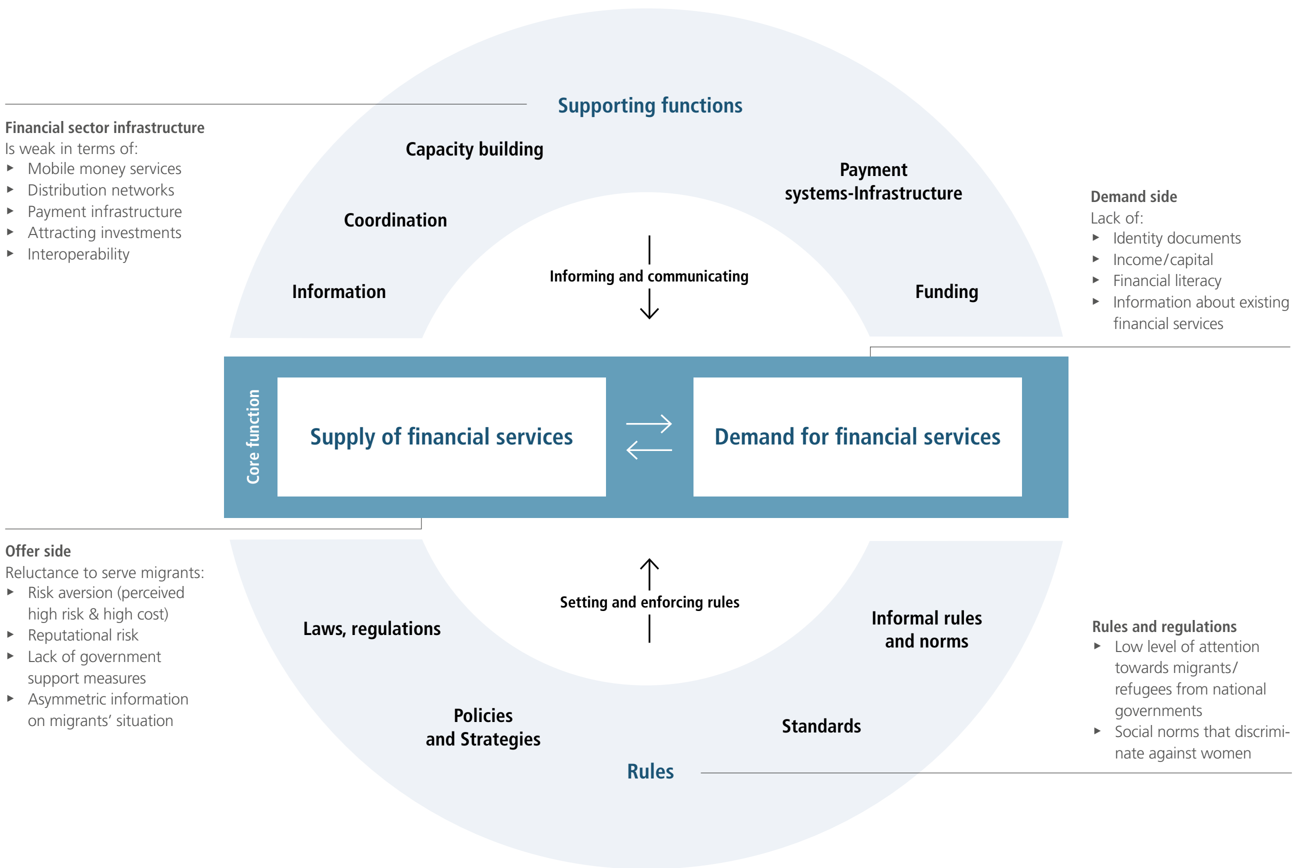

Figure 1 Overview of key constraints in the financial services system for migrants. Source: own illustrations based on CGAP (2015)

2 The guidance is built on good practices accumulated throughout the implementation of a range of projects both by the SDC and by international organisations seeking to improve FIM.

Within the constraint analysis, it is important to use sex-disaggregated data. Compared to male migrants, women migrants tend to face more discrimination and additional challenges in accessing financial services: gender bias, lower pay, childcare, restriction of movement, higher probability of being illiterate and not having formal ID documents (SDC, 2020).

3.3 Intervention design

Based on the results of the constraint analysis and a clear understanding of the functions and interests of key market players, a tailored intervention can be designed and determined in detailed action plans.

As obstacles to FIM are usually manifold and complex, interventions may specialise in one area or cover all four main intervention areas: demand-side, supply-side, supporting/systemic functions, and rules and regulation (Figure 2). Strategic partnerships with a range of development actors (private sector, government agencies, standard-setting bodies, development agencies etc.) should be assessed and pursued ensuring the use of local resources and know-how for an effective MSD approach. FIM is often linked with two countries (country of origin and country of destination), requiring financial institutions to have access to both countries and to have the appropriate licences, etc. For more information on intervention approaches refer to the ECDPM Report (2022).

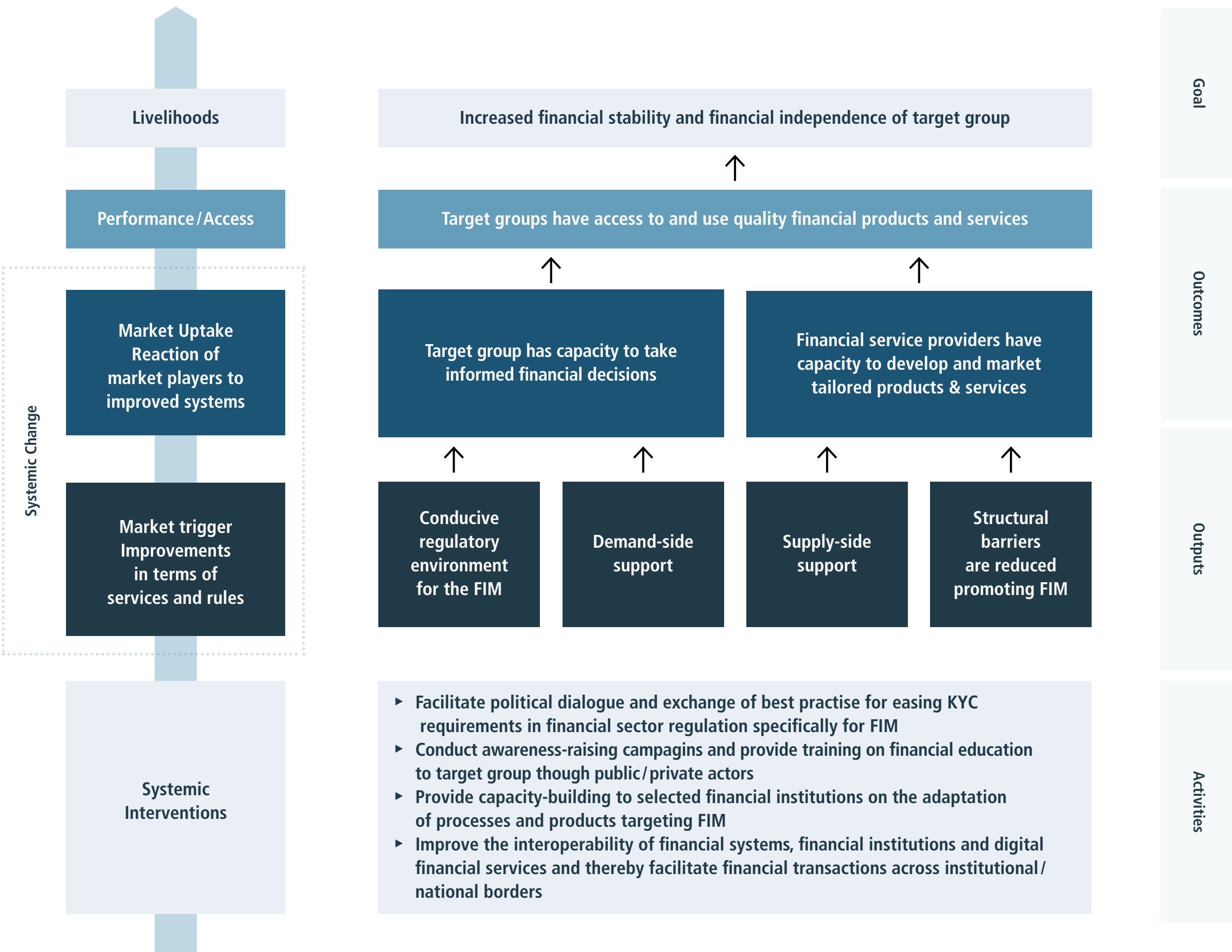

Figure 2 MSD approach for FIM (simplified)

4. Monitoring and evaluation (M&E)

The SDC's best practice experience in M&E[3] proves the power of building focussed results frameworks and indicator plans to track the intervention's performance with full transparency from data collection to reporting.

- Develop results chain with suitable indicators during the project planning phase in order to describe the project through causality links with an explicit focus on FIM.

- Determine sex-disaggregated result indicator baselines and target values to enable realistic planning and analyses (output, outcome and impact indicators).

- Remember: outputs achieved are important in monitoring and assessing project performance but should not be considered in isolation (e.g. number of migrants/forcibly displaced persons who received financial literacy training) as systemic changes take place at the level of outcomes (e.g. percentage of migrants having a stable cash flow).

- Monitor progress through milestones with data collected during implementation.

3 SDC Guidance on Results Indicators

ied | e+i | fsd

References

ECDPM, Ahairwe and Bisong (2022): Supporting financial inclusion of migrants: actors, approaches and avenues to overcome challenges (ECDPM)

International Organization for Migration (IOM) (2021): World Migration Report 2022

World Bank (2021): COVID-19 Crisis Through a Migration Lens, Migration and Development Brief 35

SDC, Boukhali and Gardiol (2020): Financial Inclusion of Migrants, Exploration Paper

United Nations (2020): International Migration 2020 Highlights

OECD (2019): Financial Literacy Needs of Migrants and their Families in the Commonwealth of Independent States (CIS)

Editor Swiss Agency for Development and Cooperation SDC, 3003 Bern

Authors Main author
Georgia Reidiess, Consultant Financial Inclusion and SME Finance,
GFA Consulting Group GmbH

Co-author
Siham Boukhali, Financial Inclusion Adviser, Helvetas Swiss Intercooperation

Commissioned by
Philippe Sas, Senior Policy Advisor, SDC Inclusive Economic Development

Overseen by
Sandra Boulos, Programme Manager and Muriel Gschwend, Senior Policy Advisor,
SDC Global Programme Migration and Forced Displacement

Design sags GmbH

Cover photograph @ Jérémy Stenuit on Unsplash

This publication can be downloaded from the Shareweb of the SDC's
Employment and Income Network https://www.shareweb.ch/site/EI