



Smart Communities

Using digital technology to create sustainable refugee economies



Nancy Farese on behalf of Refuge Point and UNHCR



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Executive Summary

The size and longevity of many refugee camps across the world are indicative of the permanent rather than transient nature of displaced populations. With more than 65 million people currently displaced from their homes due to political conflict and natural disaster, there is a growing need to find better ways for refugees to achieve self-sufficiency and serve as economic engines in their host countries. However, the financial infrastructure in these communities, particularly in banking, payments and remittances, remains inadequate. With no end in sight to mass displacement, the current approach is neither sustainable nor reflective of our responsibility to these communities.

This report combines the strategic and data-driven research expertise of Mastercard and Western Union to detail the current state of refugee settlement economies and set out a plan to improve financial service delivery.

Key findings include:

- Qualitative research conducted at two of Kenya's most high-profile settlements uncovered the complexity of financial needs and identified three resident segments: Impoverished new arrivals with limited access to funds; Intermediate residents who have been in the camps for some time and thus have a small network and social support; and Economically active residents who participate in trade within and outside the camp.
- Refugees and locals interact with a diverse set of stakeholders for their daily needs. Despite limited formal options, refugees lead complex financial lives, taking advantage of tools and services that allow them to progress.
- A newly announced digital infrastructure model – focused on mobile money, digital vouchers and card-based solutions – will promote the self-reliance of refugees and host communities. It will serve as a scalable blueprint for underserved populations to access formal financial services, encouraging the growth of an integrated and sustainable local economy.

Growing Crisis; Static Solutions

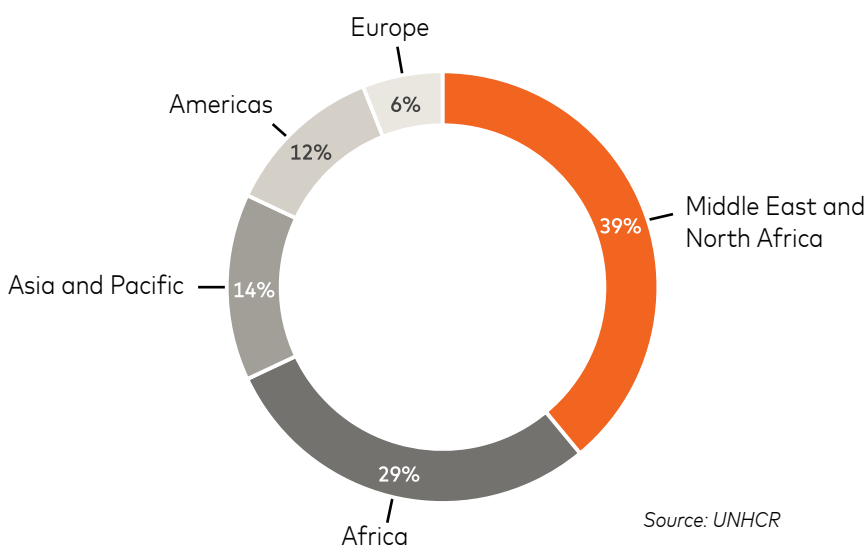
Most of the world sees the refugee crisis on an occasional basis. A social media post about Syrian children fleeing a civil war. A quick TV image of capsized boats in the Mediterranean. But people closer to the front lines know that the current, unprecedented displacement of populations from the Middle East, Africa and South Asia is much more than a temporary or transient issue. One of the most persistent signs of the permanent nature of the crisis can be seen in refugee camps.

Many refugee camps share more in common with major cities than they do with temporary shelters. Established in 1992 with a current population of 164,000-plus, Kakuma refugee camp in northwestern Kenya would be the seventh largest city in the country. As the world's wealthier cities install technology and mine data to more efficiently manage operations and advance inclusive growth, the size and diversity of refugee communities begs the question: why not here? However, the infrastructure, and particularly the banking, payments and remittances systems, in these settlements remains inadequate. This is also true of host communities in which they reside. With no end in sight to mass displacement caused by conflict and natural disaster, the current approach is neither sustainable nor reflective of our responsibility to these communities.

Digital technology can start to advance refugee camp economic systems in a way that grows communities. Implementing a digital, scalable infrastructure that fits the reality of displaced people and their host communities is the logical economic solution for all stakeholders in this crisis. Mastercard and Western Union have created a replicable model for this digital infrastructure that can facilitate non-payment transactions, delivery and use of cash aid, income, and local expenditures. It will leverage products and services from a variety of private sector firms and encourage participation from local technology players. For local governments, the design seeks to build an infrastructure that contributes to long-term growth. Donor governments, United Nations agencies, and non-governmental organizations (NGOs) can utilize this same infrastructure to enable greater effectiveness in service delivery.

Although the research and examples in this paper will focus on Kenya, the flexibility of the model allows it to be deployed to other countries with high concentrations of refugees such as Uganda, Rwanda, Ethiopia, Burundi, and Pakistan.

Where the world's displaced people are being hosted



The Current State of Camp Economics

In order to develop a model, Mastercard researched the on-the-ground realities of economic life within Kakuma and Kalobeyei, a new settlement a short distance from the legacy camp. Kalobeyei was established in 2015 to improve the socio-economic conditions of refugees and host communities through an integrated approach. Mastercard and its partner BFA conducted a qualitative market research study in both camps. Kakuma camp has a population of more than 160,000 registered refugees and asylum-seekers, while Kalobeyei remains relatively small. The study revealed a complex stakeholder mapping and an emphasis on increasing cash-based initiatives. This was supported through in-depth interviews and focus group discussions, which explored everyday needs including: remittances, banking, employment, education and healthcare.

The research identified three segments within the camps that could inform the digital payments infrastructure;

- **Impoverished new arrivals:** Have few resources and have access to small amounts of remittances, either received at the camp or sent to family who remain in their home country. They are either unbanked or have limited banking infrastructure in their home country.
- **Intermediate group:** Have been in the camps for some time and thus have a small network and social support. They have some money in circulation.
- **Economically active:** Have friends and family who have emigrated and are sending remittances. They are part of the active economy of trade within and outside the camp.

The research found that the longer a person stays in the camp, the higher the likelihood that they will move from impoverished to economically active. To better understand how a digital infrastructure could improve upon the status quo, we traced the process a refugee and host community member used to access various services.

When a refugee family arrives to Kakuma or Kalobeyei, they are issued a Manifest document by the Government of Kenya and United Nations High Commissioner for Refugees (UNHCR) for the entire household. Refugees over 18 may be eligible for an Alien ID card, attained after a screening period of three months. Most locals (the majority being from Kenya's Turkana district) have been issued a National ID. The Manifest document permits a refugee to open a bank account, but options are limited. For example, in Kakuma town there is one bank branch (Equity Bank), four Equity Bank agents, and one Kenya Commercial Bank (KCB) agent. In Kalobeyei town, there are three Equity Bank agents. For the community, Equity Bank holds 15,000 refugee and 25,000 local accounts.



Remittances form a major source of income into the camp; frequency of remittances depends on requests from refugees, but the mode is determined by the sender

Remittance Lifecycle Within the Camps



01

- Most refugees that contributed to market research have smart phones, bought from local merchants through installment plans
- They communicate with friends and family through WhatsApp, Viber, Facebook and request money through these channels

02

- Refugees that have recently migrated to Kalobeyi tend to receive remittances mainly from their home countries
- In Kakuma, social networks of refugees enable them to request and receive remittances from countries where friends or relatives have migrated to (UK, USA, Canada, Australia)

03

- Senders decide on the mode of sending money, depending on options available and closest to them; they pay all fees
- Refugees from Somalia use hawala agents and those from South Sudan prefer Western Union*
- Remittance frequency varies between two to four months and value between \$50 and \$200

04

- The recipient receives transaction information from the sender through text, call or WhatsApp messages
- One Western Union agent is located within Kakuma Town; no Western Union agent at Kalobeyi (costing approximately \$6 for a round trip)
- An Alien ID card or Manifest document is required to withdraw money

05

- Refugees withdraw remittances and save in cash or on mobile money accounts
- They use remittances for food, clothing and education
- Some also buy business assets, eg: sewing machines or solar chargers

Services, (such as healthcare), or goods (firewood, for example) are provided free of charge to refugees by various agencies that are coordinated by UNHCR. In other situations, refugees are responsible for payment. For example, children can go to school, but the family must pay for uniforms and books. It becomes vital to access convenient, easy-to-use financial services. Foreign and domestic remittances, received via Western Union or hawalas, are a major source of income. Kakuma town has one Western Union agent plus pickup at the Equity Bank branch, and over a dozen different hawala agents. Senders decide on the channel of remittance, but often rely upon refugees' recommendations. Some refugee communities believe that hawalas provide fairer rates, but, in the case of South Sudanese, the research shows that they prefer Western Union.

The current system assumes a single technology can solve all problems. Yet, research shows that low income populations have complex financial lives¹. In fact, the aspirations and desires of those in Kakuma and Kalobeyei are no different than higher-income segments². Just as higher-income segments use several tools to access goods and services, the proposed Mastercard-Western Union model for digital infrastructure incorporates multiple form factors. The model streamlines payments, transactions, and local expenditures for locals and refugees, allowing for more equitable delivery of services. Most importantly, it builds a flexible structure that can be expanded to incorporate new technologies and entrants to the market – all of which should be encouraged for the growth of the community.



¹ <http://www.portfoliosofthepoor.com/>; <http://www.pooreconomics.com/>

² <http://the-institute-ny.com/Supporting%20Materials/SAMPLE%20ARTICLES/OKA.pdf>

Market research provided an understanding of refugee and host community needs; each interacts with a diverse set of organizations for their daily needs



The Life of a Refugee

A close look at how displaced people live in Kenya's two biggest refugee camps

Banking



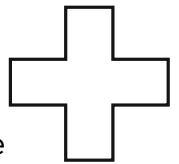
- Equity Bank holds 15,000 refugee accounts in their Kakuma branch
- Approximately 90% are **held by refugees employed by agencies**; the remainder are opened by merchants to support business needs

Remittance



- Remittances are **received through Western Union and hawala agents**; a Western Union agent is located in Kakuma town, close to the camp
- Converting remittances to local currency is often confusing, as exchange rates vary, and agents that handle conversions to U.S. dollars are hard to find

Health



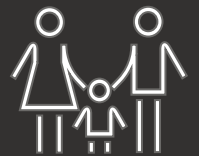
- International Rescue Committee (IRC) offers **free healthcare** in Kakuma and Kenya Red Cross operates a clinic in Kalobeyei
- IRC is implementing systems to manage patient records, currently carried out manually

Education



- Parents do not pay fees for the schools in the camps; however some respondents prefer to pay for private schools outside of the camp for better quality education
- Within the camps parents **incur costs for uniforms and books**

Livelihoods



- There are **>500 merchants in Kakuma**. Merchants require a country permit to operate (manually written with payments collected in cash)
- Merchants use cash, credit or M-Pesa to pay suppliers (based on distance from Kakuma)

Creating A Digital Future

The proposed digital infrastructure takes strengths from both Mastercard and Western Union and applies them in the refugee settlement context. It aligns the various needs of the ecosystem with tools that can deliver services efficiently and effectively. For instance, the distribution of certain essential items like soap and food is now tracked through a paper-based system. Using the Mastercard Aid Network (a digital voucher platform) refugees and host community members can use a chip card loaded with points to redeem the items they want from a merchant. Also designed to work offline, the system keeps a record of every transaction, so implementing agencies can much more easily monitor programs.

Instead of providing unrestricted cash transfers, which can put refugees or host community members at risk, a card-based (debit or prepaid) or mobile wallet (Equity Bank's Equitel or Safaricom's M-Pesa) funds transfer gives people a safe place to store money. Depending on the agency providing the assistance and the intended use of the funds, different accounts can be opened to allow for easier accounting.

Kakuma has over 500 merchants. The majority of them already use mobile money to manage their businesses. The model helps outline other services, like extending credit to customers, which would benefit from a migration to digital.

Remittances, sent through a money transfer organization or hawala, are often picked up in cash. A service like Western Union, however, offers remittances to be sent directly into an M-Pesa wallet. By taking advantage of a tool already in the hands of receivers and then encouraging use of digital funds in the ecosystem, refugees and host community members can encourage savings.

The Mastercard and Western Union digital payments and transaction ecosystem empowers recipients through a streamlined payments and disbursements process, facilitating access to additional services.

- It lays the groundwork for a set of multipurpose transactional tools that refugees and residents can access, which are optimized for functionality in low infrastructure areas
- It gives residents greater control over their livelihoods, well-being, and dignity, while providing agencies access to data that informs community planning and development
- The digital platform advancing the critical goals of social cohesion and economic linkages across the settlement environment
- The adoption of digital payments acts as an entry point to the formal financial system and can be extended to incorporate a wider set of use cases

At its core, the model for digital infrastructure addresses the need for technology to enable the growth of marginalized communities. In the case of a de facto city like Kakuma, its vibrant economic life has actually left many local Kenyans behind. Mobilizing data, payments and transactions in a "smart" way to advance equitable service delivery leads to better outcomes for all.



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Next Steps

By delving into the needs of the refugees, host communities, and the stakeholders that serve them, Mastercard and Western Union can better solve for their problems. While Kakuma is a legacy camp in which technology can enable improvements to current operations, Kalobeyei was established in 2015 with a different aim. The UNHCR and the Ministry of Interior and Coordination of National Government of Kenya developed it to look beyond the temporary and overcrowded situation that defined other camps. Kalobeyei was designed to be "a settlement that would promote the self-reliance of refugees and host communities by providing them with better livelihood opportunities and enhanced service delivery."³ Mastercard and Western Union wish to work with its partners to make the digital infrastructure a reality, and respect that initial mission.

³ <http://www.unhcr.org/ke/kalobeyei-settlement>

For more details, please contact us at international_development@mastercard.com



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