

Concept Paper for a Pilot project: Financial inclusion of Refugee business-owners in Denmark

1. Context

Denmark has one of the lowest rates of inequality in the world and very few people are considered poor but it is experiencing a similar growth in inequalities as the rest of OECD countries¹. To tackle this issue and ensure redistribution to its most fragile citizen, the country uses a wide range of tools and programs, but recent research documents increasing poverty among foreign-born families receiving minimal social support.² Lack of access to financial services can represent a major impediment to income opportunities and economic welfare of individuals, particularly for the poor and vulnerable, and those engaged in the informal economy.³

Affordable access to financial services can help refugees and other under-privileged families cope with negative shocks, reduce exposure to risk, and stimulate economic activity at community levels.⁴ The idea of empowering underprivileged people through entrepreneurship is gaining traction in several municipalities and initiatives have shown success. Amongst others, the municipalities of Copenhagen, Århus, Køge, and Helsingør have set up specific programs offering entrepreneurship courses and coaching to foreign-born residents and vulnerable Danes. Dansk Flygtningehjælp has also launched the project Mind Your Own Business for young men from under-privileged neighborhoods.

Economic empowerment is supported by several organizations offering incubator-like support through counsel and training, yet **currently no formal financial inclusion (microfinance) services exist in Denmark to support small foreign-born business owners, let alone refugees.**

Andelskassen Oikos has experienced that refugees operating a business have difficulties accessing basic corporate banking products and services, let alone obtaining finance, in order to develop their small business. As a response, the bank has begun providing basic banking services to some of them and is now interested in expanding its support.

2. Rationale

Andelskassen Oikos, together with **Oikosfonden** and **Dansk Forum for Mikrofinans** have agreed to come together to study, pilot test, and implement a more inclusive microfinance service targeting business-owners and entrepreneurs in Denmark who do not have access to traditional banking services. This partnership aims to pioneer the introduction of formal inclusive microfinance to the Danish market.

Andelskassen Oikos will act as the **financial service provider (FSP)** with Oikosfonden as a **guarantee provider** for the credit initially provided. Dansk Forum for Mikrofinans will act as a **facilitator** for the project, offering the extensive knowledge of its network of members, which includes financial inclusion specialist Lene M.P. Hansen.⁵

3. Project Goals and Objectives

A pilot project of 18 months will be conducted with the goal to validate the business case for financially including refugees in Denmark. During the pilot project, a feasibility study will be

¹ <https://www.oecd.org/denmark/Inequality-in-Denmark-through-the-looking-glass.pdf>

² Institut for Menneskerettigheder: Familier paa Integrationsydelse, October, 2018.

³ UNCTAD: Access to Financial Services as a Driver for the Post-2015 Development Agenda, UNCTAD Policy Brief no. 35, September 2015.

⁴ http://www.cgap.org/sites/default/files/Forum-The-Role-of-Financial-Services-in-Humanitarian-Crises_1.pdf

⁵ The author of e.g. the UNHCR-funded "Serving Refugee Populations – the Next Financial Inclusion Frontier. Guidelines for Financial Service Providers," March 2017. <https://sptf.info/images/Guidelines-for-FSPs-on-serving-refugee-populations-March2017.pdf>

conducted to analyze the demand profile, the legal and regulatory environment, and the supply-side capacity of Oikos Andelskasse. The feasibility study will provide recommendations for a 12-month pilot phase, during which Andelskassen Oikos will gradually expand its existing financial services to refugees, offering savings and credit products as per demand.

Targeted clients for the pilot phase will be refugee business owners and entrepreneurs already operating small viable businesses with clearly defined business goals that require financing to grow.

4. Project Strategy

This pilot project will be conducted in three phases, pending successful fundraising:

- **Conduct a 3-month market research and a feasibility study:** a study of the market segment of refugees in Denmark, including their situation, barriers for access, and demand for financial services. The study will include a review of past or current initiatives supporting the non-financial needs of the target segment. In particular, the study will address and provide recommendations on the following issues:
 - › The policy, legislative and regulatory environment for support to refugees in Denmark, including the compatibility of the administration of social benefits and the 'Know Your Customer' (KYC) requirements of the Danish FSA to determine constraints for financially including entrepreneur refugees;
 - › The socio-economic profile of refugees in Denmark, their current access to and use of (informal and formal) financial services, and their demand profiles as bank customers;
 - › The current supply of financial and non-financial services (NFS) for refugees starting or managing a small company, as this relates specifically to potential products on offer by Andelskassen Oikos and other banks, and potential partnerships with organisations offering NFS.
- **Adjust current supply to match the demand profiles identified (3 months):** based on the recommendations of the feasibility study, the project will work with Andelskassen Oikos and potential NFS partners to adjust and expand existing services to include refugees. This will include marketing and information dissemination; contacting, screening and segmenting potential refugee clients; and adjusting eligibility, appraisal and approval procedures to ensure better inclusion. It is expected that the focus will be on business accounts, savings and credit products.
- **Conduct a 12-month pilot test** of the adjusted products and services identified as in demand, resulting in a small number of successfully financed refugee business owners in Sjælland, and the monitoring and reporting on uptake, progress and results.

5. Expected Results

This project pioneers the introduction of formal inclusive financial services for low-income customers (microfinance) in Denmark, informed by the decades of experience by project partners working in the Global South, as well as learnings from refugee microfinance elsewhere in Europe and the world.⁶

Pending the results of the feasibility study it is expected that at least 25 refugee entrepreneurs will access new financial services through Andelskassen Oikos during the pilot phase. Ongoing monitoring will document progress, results and lessons learned to enable Andelskassen Oikos, and potentially other FSPs, engage in upscaling financial services to refugee clients in Denmark based on a documented business case.

⁶ See e.g. L. Hansen: Finance for Refugees - The state of play, August 2018.

http://www.inclusivefinanceplatform.nl/documents/Documents/npm%20report_finance-for-refugees_the%20state%20of%20play.pdf

6. Organizational background

Andelskassen Oikos is a cooperative credit union headquartered in Copenhagen. It was created in 1994 with the vision to help the world's poor through financial support to micro-enterprises. The bank offers financial services to private retail customers as well as to small companies and associations. At the end of 2017, the bank had a total of 1,702 clients, 918 of whom were shareholders. Its capital reached DKK 8.5 million and it registered a net profit of DKK 75,000. To date, it has opened a few business accounts for refugees.

Oikosfonden was created as an association in 2009 by the General assembly of Andelskassen Oikos with the purpose to invest in projects fighting poverty in the world. The organization was transformed into a foundation in 2012. In 2017, the fund supported 11 projects in Africa and South America with a total amount of almost DKK 300,000.

Dansk Forum for Mikrofinans (DMF) an umbrella organisation of Danish NGOs, private companies, and financial institutions working with microfinance in developing countries. The Forum was founded in 2009 and has 54 member organisations. The objective of the Forum is to facilitate capacity building of the actors within the Danish microfinance sector as well as advocacy and information dissemination to the general public about microfinance.

An experienced project manager has been identified to manage and conduct the feasibility study and lead the project implementation⁷. She will be supported by a project steering committee comprising management staff of Andelskassen Oikos and DMF.

7. Estimated budget

The total project budget for the pilot phase is estimated at DKK 916,560, broken down as per Table 1.

Market and Feasibility study	Interviews with stakeholders, potential partners, refugees, and policy makers	DKK 131,360
Supply-side adjustments	Adjusting policies and procedures, developing marketing materials and partnerships for NFS	DKK 202,960
Pilot project	Information dissemination, client feedback interviews, business appraisals, progress monitoring and documentation.	DKK 582,240
Total estimated budget		DKK 916,560

The actual capital for on-lending to refugees will be provided by Andelskassen Oikos, initially underwritten by a DKK 250,000 guarantee from Oikosfonden.

To date, a total of DKK 70,000 has been raised for the feasibility study (DKK 40,000 by Oikosfonden and DKK 30,000 by Andelskassen Oikos).

During the supply-side adjustment phase and the pilot project, Andelskassen Oikos will allocate one project manager part time to the project and cover for the corresponding staff cost. This self-contribution will amount to DKK 58,800.

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⁷ See Project Managers Resume in Annex 1