INTERNATIONAL RESCUE COMMITTEE

RE:BUiLD

Boosting Livelihoods

Unlocking Financial Inclusion for Refugees through A Loan Guarantee Fund

Insights from Re:BUiLD Program and Equity Bank Kenya

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Introduction

The Re:BUiLD program – Refugees in East Africa: Boosting Urban Innovations for Livelihoods Development – is a 5-year initiative (funded by the IKEA Foundation) which has been drawing evidence from livelihoods solutions for urban refugees and host communities in Nairobi (Kenya) and Kampala (Uganda). A core pillar of Re:BUiLD in Kenya is **financial inclusion**, recognizing that access to credit and savings is vital for refugees' self-reliance and business development. As part of its multi-faceted approach, Re:BUiLD has been supporting initiatives to increase urban refugees' access to formal financial services and mitigate income volatility through a holistic approach. However, refugees in Kenya face significant barriers to accessing formal financial services that include lack of documentation and collateral, strict know-your-customer (KYC) requirements and limited refugee-tailored products. To bridge this gap and enhance access, the International Rescue Committee (IRC) with support from Open Capital conducted an in depth assessment of the urban refugee lending landscape to identify opportunities to catalyze formal lending and designed a ***Loan Guarantee Fund (LGF)*** model with Equity Bank Kenya under the Re:BUiLD program.

This learning brief examines the implementation of the LGF model; a non-bank financial instrument that provides credit guarantees to mitigate the risk of default and non-repayment while also covering the risk of clients who do not have the collateral required by the bank.

Background and Rationale

Kenya hosts a large refugee population – **over 850,000** refugees and asylum-seekers according to UNHCR – with approximately **13% (114,000+) living in urban areas** like Nairobi. These urban refugees, along with vulnerable host community members, are the target group for the Re:BUiLD program. Over the 5-year period (2021-2025), the program has supported over 10,221individuals with livelihoods support to achieve sustainable self-reliance. A critical component of self-reliance is **financial inclusion**, enabling refugees to access formal savings, invest in businesses, and withstand economic shocks. In Kenya's refugee context, however, according to Insights from the IRC, formal financial access has historically been very limited. Refugees often lack identification documents traditionally recognized by financial service providers, collateral requirements, credit history in addition to restrictive policies (such as encampment and strict KYC regulations) that make it difficult to open bank accounts or borrow from banks. Further high interest rates and limited understanding of lending products limit access to these services. On the supply side, many Financial Service Providers (FSPs) have a poor understanding of refugee clients' needs and perceive refugees as high-risk, transient customers. This has resulted in a dearth of affordable credit and tailored financial products for refugees in Kenya's urban areas.

The Re:BUiLD program recognized that new approaches were needed to overcome these barriers and prove refugees' bankability. The program's financial inclusion strategy centered on two complementary interventions: (1) Formation and training of **Urban Savings and Loan Associations (USLAs)** – community-based savings groups to enhance member financial literacy and build a a savings culture among refugees – and (2) pilot a **Loan Guarantee Fund (LGF)** in partnership with Equity bank to facilitate refugees' access to formal credit. The rationale for the LGF model was to **de-risk lending to refugees** by sharing the initial default risk with the bank, thereby incentivizing the bank to extend loans to a clientele it would otherwise consider too risky. The pilot demonstrated that when financial institutions are actively engaged and refugees are supported to overcome structural barriers, they can indeed be viable, creditworthy clients and the importance of the enabling environment and facilitative support in unlocking refugee bankability and self-reliance. This aligns with a broader push in Kenya to integrate refugees into the national economy – especially pertinent as the government explores alternatives to camps and promotes refugee self-reliance in urban areas. By piloting a risk-sharing facility with Equity Bank, Re: BUiLD sought to showcase an **innovative finance model** that could unlock capital for refugee entrepreneurs, bolster their businesses, and generate evidence to influence policy and financial sector practices in favor of refugee inclusion.

LGF – Bridging the Gap

At the design stage, IRC and its technical partner -Open Capital identified several critical **gaps and barriers** preventing refugee entrepreneurs from accessing formal financial services in Kenya. The LGF model was tailored to address these challenges:

- **Lack of documentation and credit history:** Many refugees do not possess standard IDs, business registration, or credit records, making it hard to meet banks' requirements and credit scoring criteria. This also ties into lack of collateral – refugees typically have no land or formal assets to pledge for loans.

- **Stringent KYC and regulatory barriers:** Strict Know Your Customer (KYC) rules and inconsistent refugee documentation policies mean FSPs are often unwilling or unable to onboard refugees as clients. Complex group registration processes for refugee savings groups further delay or prevent them from linking with banks.

- **Limited understanding by FSPs:** Financial institutions historically have little experience with refugee customers and may hold misconceptions about their risk profile and financial needs. For example, banks may fear refugees will abruptly relocate or default, eroding confidence in lending to them.

- **Low financial literacy among refugees:** On the demand side, many refugees lack exposure to formal banking and may be unfamiliar with credit products. This can result in low uptake of available services or misuse of loans if not addressed through training.

- **Inadequate financial products for refugees:** Prior to the Re: BUiLD program, few tailored products existed for low-income refugee entrepreneurs. Conventional microloans often had requirements or terms (e.g. high collateral, short repayment periods) ill-suited to refugees' realities. There was a gap in Sharia-compliant financing for Muslim refugees and in insurance or flexible loan features to mitigate risks like displacement or disaster.

By acknowledging these gaps, a market assessment, landscape analysis and stakeholder consultations to gain insights into the supply side and demand side dynamics/challenges were carried out through the technical support of Open Capital. Many factors were considered in designing the LGF - the pilot was designed not just as a financing mechanism, but as a holistic intervention combining capacity building (for both the bank staff and refugee borrowers) and product innovation. The goal was to reduce risk on both sides: give the financial service provider greater confidence through a guarantee and training, while preparing refugee clients to successfully navigate formal lending. The LGF therefore sought to bridge the trust and information gap between refugees and banks, address structural barriers (documentation, KYC, collateral substitutes), and ultimately to demonstrate that with the right support, refugees can safely be brought into the formal financial system.

Methodology: USLAs and First-Loss Guarantee Partnership

Urban Savings and Loan Associations (USLAs) – building the foundation: Re:BUiLD leveraged the traditional savings-group model (commonly known as Village Savings and Loan Associations, adapted to urban settings) as a springboard to formal financial inclusion. By the time of the LGF pilot, **133 USLAs** had been formed in Nairobi under Re:BUiLD, comprising **2,059 members** (1,672 refugees and 387 host, 1348 female, 707 male, 4 others). These groups met regularly to contribute savings, draw small internal loans, and undergo training in group governance, record-keeping, and entrepreneurship. Cumulatively, the USLAs mobilized **KES 12.79 million** (≈€85,300) in savings and issued **KES 4.83 million** (≈€32,230) in internal loans among members – a testament to the financial acumen and credit discipline that refugees can develop in a supportive group setting. USLA members also received **financial literacy and business training** facilitated by the IRC, preparing them to interact with formal financial services. Importantly, these groups created a pipeline of "investment-ready" clients with organized records and a savings track record. **Only members of established USLAs were eligible** to participate in the LGF pilot, ensuring that borrowers had basic financial training and peer support. The USLA also served as a form of social collateral; although loans under the pilot were individual, the group context fostered accountability and mutual guarantee at a community level.

First-loss guarantee partnership with Equity Bank: Building on this base, IRC entered a partnership with Equity Bank Kenya, one of the country's leading banks, to pilot a Loan Guarantee Fund model. Re:BUiLD would identify and pre-screen eligible refugee and host clients from the USLAs, provide financial literacy support, and capitalize a guarantee fund, while Equity Bank would conduct its own due diligence on borrowers, disburse and manage the loans, and monitor repayments. The LGF was structured as a first-loss cash collateral held at Equity Bank. IRC deposited KES 2,300,000 (2.3 million Kenyan shillings) – approximately €16,660 – into a designated account as the guarantee pool. This fund would cover the first tier of loan defaults (up to that amount) in case any borrowers failed to repay, thereby shielding the bank from initial losses. In practice, if a refugee borrower went 90+ days past due on a loan (PAR>90), Equity Bank could recover the defaulted amount from the IRC's guarantee account, upon verification and approval by the IRC. This risk-sharing mechanism significantly lowered the bank's credit risk, encouraging it to lend to a population segment it had little experience with.

Photo Credit: November 10, 2023, Nairobi, Kenya. Members of the Tujijenge Mulenge USLA group make weekly contributions to their savings kitty, through the group accountant. (PHOTO: Edgar Otieno for the IRC).

Pilot scope and process: The pilot launched in Nairobi in mid-2023 and was originally planned for an 18-month period targeting at least 100 clients (with a minimum of 60% refugees). In practice, the pilot was extended to 24 months to allow for multiple lending cycles, and by its conclusion, 297 clients (183F, 114M, 252R, 45H) had been onboarded from 17 USLAs – nearly triple the initial target. Each participant opened an individual bank account with Equity (if they didn't have one) and could apply for small microenterprise loans in cycles, starting with modest amounts (often in the range of KES 10,000–50,000, i.e. ~$90–450) and progressively larger in subsequent cycles based on repayment performance. Equity Bank maintained its standard loan appraisal process (including credit interviews and group vetting) but adapted it to accommodate refugees, for instance by accepting refugee ID documents (Alien ID or refugee attestations) and group guarantors in lieu of conventional collateral.

Throughout the pilot, **capacity building** was a key methodological component. Equity Bank, through its Corporate Social Responsibility arm -Equity Group Foundation, co-delivered **eight financial literacy sessions** to the participating refugees and group members. These sessions – covering topics like budgeting, loan management, and savings – helped ensure that clients understood the loan terms and could manage credit responsibly. The involvement of **Equity's own trainers** was strategic as it not only empowered clients with knowledge but also sensitized bank staff to the context of refugee livelihoods. IRC provided ongoing technical support and monitoring, tracking indicators such as the number of loans disbursed, repayment rates, and challenges faced. This close partnership and iterative problem-solving (for example, addressing documentation issues case-by-case) were integral to the pilot's methodology. The LGF model architecture combined **community-based finance (USLAs)** with a **formal banking partnership**, underpinned by a first-loss guarantee and continuous training, to create a pathway for refugee inclusion into the formal financial sector.

Key Achievements and Outcomes

The pilot with Equity Bank Kenya demonstrated significant positive outcomes, validating the LGF approach. Key achievements from the 2-year pilot include:

- **Client outreach and inclusion:** **297 clients** were successfully onboarded (far exceeding the initial 100-client target), drawn from 17 different USLA groups. Notably, **85%** of these borrowers were refugees (the rest from host communities) and **62% were women**, reflecting strong outreach to the intended marginalized populations. Each client opened an individual **Equity Bank account**, contributing to a total of **1,287 new bank accounts** created, which indicates a broader inclusion impact beyond credit access.

- **Loan capital disbursed:** A total of **KES 4,268,500** (185%) in loans was disbursed over multiple lending cycles to refugee and host entrepreneurs (equivalent to about €28,812). This means that the guarantee fund of KES 2.3M (approximately €16,660) facilitated nearly double its amount in loans, a leverage effect demonstrating efficient use of de-risking capital. Loans were typically used to start or expand micro-businesses in sectors such as retail kiosks, tailoring, and services, according to program records.

- **Savings mobilized:** Pilot participants collectively mobilized **KES 1,743,435 in savings** during the program (~€11,768). This figure includes both savings accumulated within their USLAs and new deposits into their Equity Bank accounts. The continued emphasis on savings (alongside borrowing) helped clients build financial buffers and foster a savings culture in the formal banking system.

- **High repayment performance:** The loan repayment rate reached 97% from a set target of 90%, an exceptionally high rate that attests to the creditworthiness and commitment of the refugee clients. Such a low default rate meant that drawdowns on the guarantee fund were minimal at only € 475, a critical outcome showing that with proper support, refugees repay nearly on par with or better than typical microfinance portfolios. This strong performance helped dispel the myth that lending to refugees is inherently too risky.

Photo Credit: May 20, 2025, Nairobi, Kenya. Peter Ndagara, the Program Manager – Social Protection from Equity Group Foundation takes ReBUiLD USLA clients through a Financial Literacy training in Pangani, IRC through Re:BUiLD worked with Equity Bank to help refugee clients in USLA groups access credit through the bank backed by their savings. (PHOTO: Edgar Otieno for the IRC).

- **Business growth and income generation:** By the end of the pilot, 135 businesses were started with over **98% of the supported businesses still operational**, and many clients had taken multiple loan cycles to progressively grow their enterprises. On average, an individual LGF client accessed €275, with the highest being **€1,500 in cumulative loans** over the pilot (through sequential cycles), which is more than three times the size of one-off business grants given by the program.

- **Proof of concept for stakeholders:** The LGF pilot served its purpose as proof of concept. Equity Bank gained first-hand experience serving urban refugee clients and, by the end of pilot, was **increasingly open to continuing and even scaling up this refugee-inclusive portfolio**, given the high repayment and new customer acquisition. Within four months beyond the LGF agreement 29 clients have accessed loans worth €8,689 from Equity bank. In fact, the pilot's success has generated interest from other financiers – for instance, discussions were held with development finance institutions on expanding the guarantee facility.

- **Strengthened social cohesion:** The partnership also **strengthened social cohesion** (refugees and host community members participated together in groups and trainings) and **built confidence** among financial institutions that refugees can be a viable market segment.

Lessons Learned

The pilot yielded rich lessons for designing and implementing financial inclusion programs for refugees. These insights span **financial product design, client capabilities, partnership dynamics, and operational challenges**, and can inform future initiatives:

Refugees are bankable clients: Perhaps the most important lesson is that given the opportunity and right support, **refugees can be reliable borrowers**. The pilot's 97% repayment rate speaks for itself! Refugee entrepreneurs proved that they would invest loans productively and honor their obligations, debunking the myth that refugees always present an insurmountable default risk.

Sustainable financing outperforms one-off support: Linking refugees to sustainable, revolving credit has far greater impact than once off grants. In this pilot, individual refugees were able to access up to €1,500 cumulatively across multiple loan cycles, compared to roughly €460 per person under a previous one-off seed grant program. As a result, over 98% of LGF-supported businesses remained operational and grew, whereas short-term grants often failed to catalyze lasting growth. The availability of repeat loans meant entrepreneurs could invest in stages – for example, first stocking basic inventory, then later purchasing equipment – leading to more sustained livelihoods.

Private-sector-led training is more effective: Partnering with a financial institution to deliver financial literacy training proved highly effective. Equity Bank's trainers brought real-world banking expertise and credibility, which resonated with clients. Refugee participants valued learning directly from bank officials, which demystified formal banking and built trust. This also allowed the bank to better understand clients' knowledge gaps.

Tailored financial products are needed: The pilot underscored that a one-size-fits-all microfinance product is not ideal. Refugee clients have diverse needs and constraints that require adaptation of financial products. For example, Muslim refugees showed interest in Sharia-compliant financing (which avoids interest), something future programs should consider offering. Additionally, there is a need for products to be insurance-backed or flexible in the face of shocks – e.g. loan insurance or emergency deferral options for clients hit by illnesses, natural disasters, or relocation. During the pilot, some clients faced shocks like fire in the marketplace; an insurance element could protect both client and lender in such cases. The program also found that linking loans with transactional accounts/mobile money was useful, as clients could conveniently receive and repay loans using digital channels. However, this was more applicable to host clients since refugee documentation remains a challenge for mobile money registration.

Continuous savings strengthen resilience: Refugees in the USLAs traditionally did an annual "share-out" (payout of group savings), which often left them with little capital immediately after. The lesson learned is that **encouraging continuous savings** in formal accounts can greatly improve financial stability. By opening Equity Bank savings accounts, clients could keep accumulating funds rather than liquidating all savings periodically. This not only provides a safety net for the individual but also cements the relationship with the bank (savings history can improve creditworthiness for future loans).

Streamlined registration and KYC processes are essential: On the operational side, one challenge encountered was the **lengthy and inconsistent process of registering refugee groups** and fulfilling documentation (KYC) requirements for members. Government procedures to register community groups took many months in some cases, delaying their ability to open group bank accounts or qualify for the pilot. Similarly, obtaining the necessary IDs or refugee documents for each member was time-consuming. This bureaucratic red tape limited how fast new groups could be linked to the bank.

Flexible loan terms support success: The pilot found that introducing **flexibility in loan terms** improved client outcomes. For instance, Equity Bank offered a flexible repayment period depending on client's business capacity ranging from weekly to monthly instalments. Clients were also allowed to prepay instalments when able to. As a result, clients were better able to repay on time without strangling their business cash flow.

Key Recommendations for Stakeholders

Building on the above lessons, the following recommendations are offered to various stakeholders – **financial institutions, policymakers, and development actors** – to further refugee financial inclusion and replicate/adapt the LGF model:

1. **Financial Service Providers (FSPs):** Expand access to financial products tailored for refugees—such as micro-loans, Sharia-compliant options, and savings accounts—by adjusting onboarding requirements (e.g., accepting refugee IDs). Leverage risk-sharing tools like Loan Guarantee Funds to reduce perceived risks and invest in staff training and outreach to engage this untapped market.

2. **Policymakers and Regulators:** Foster a supportive regulatory environment by simplifying group registration processes and adopting inclusive KYC policies that recognize refugee documentation. Provide banks with guidance on regulatory compliance and incentivize institutions that support refugee financial inclusion. Align national policies with the Global Compact on Refugees to promote refugee economic participation.

3. **Development Actors (NGOs, Donors, Foundations):** Play a facilitative and catalytic role by mobilizing guarantee funds, enabling private-sector training delivery, and building evidence on refugee financial inclusion. Support scale-up of proven models and integrate financial inclusion into broader humanitarian and development programs. Promote cross-sector collaboration for more sustainable and systemic impact.

Call to Action

The implementation of the Loan Guarantee Fund model under IRC's Re:BUiLD program offers compelling evidence that refugees are viable customers for financial institutions. With targeted support and innovative financing mechanisms, refugee entrepreneurs in Nairobi were able to grow their businesses, repay loans, and contribute to the local economy, while integrating into formal financial systems. This marks a transformative shift from viewing refugees solely as aid recipients to recognizing them as empowered economic actors. The success of the LGF pilot demonstrates a scalable model for moving from humanitarian aid toward sustainable development through inclusive finance.

The task now is to **translate these learnings into broader action**. Policymakers, financial institutions, and development partners are urged to take up the call: invest in and replicate risk-sharing partnerships that open financial access for refugees; enact and enforce policies that remove discriminatory barriers; and support refugees with the tools and training to succeed as entrepreneurs. The evidence is clear – approaches like Re:BUiLD' s LGF can unlock potential at the base of the pyramid, benefiting not only refugees but also host communities and the national economy.

Act NOW: It is time to **scale up refugee financial inclusion initiatives**. Banks and microfinance institutions should step forward to pilot refugee-inclusive products, leveraging blended finance (guarantee funds or concessional capital) to manage risk. Government agencies should integrate financial inclusion targets into refugee assistance plans and ensure refugees have the legal right to work, move, and do business, which underpins their creditworthiness. Donors and international organizations should fund the expansion of successful models and facilitate knowledge-sharing across countries. By working together, these actors can build on the Re:BUiLD LGF model's success and **ensure that refugees, wherever they reside, have the opportunity to access credit, build livelihoods, and thrive**. The momentum is growing – we must act now to propel these efforts from pilot to policy, and from small-scale success to systemic change, unlocking financial inclusion for refugees at scale.

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In partnership with the IKEA Foundation, Re:BUiLD brings together the International Rescue Committee (IRC), the Center for Global Development (CGD), Open Capital (OCA), Kampala Capital City Authority (KCCA) and Nairobi City County Government (NCCG). Re:BUiLD is committed to generate and share evidence for innovative, sustainable livelihood solutions that can be adopted to support refugees and host residents in other cities in East Africa and beyond.

The opinions expressed in this brief belong to the authors and do not necessarily reflect those of Re:BUiLD's funding entities and partners.

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