

Refugee Solutions – The Clearing House

This proposal has been designed by RTpay.org to answer a number of urgent needs:

- The increase in refugees needing help from UNHCR is overwhelming its financial capacity.
- Millions of other Severe Hardship Survivors (SHS) are being created through conflict, climate change and economic disaster in the developing world.
- Anti-immigrant reactions are becoming widespread due to lack of adequate sociological, linguistic and occupational training of arriving SHS.
- Over-restriction of terrorist financing regulations has discontinued or made too expensive family person-to-person funds transfers in many parts of the world.
- Effective funding is significantly reduced by foreign exchange transactions at sub-optimal rates.
- Many funds are misappropriated or left in abeyance due to poor registration procedures.

We believe that by providing efficient and secure funding solutions, additional funds can be generated at a level at least equivalent to that which UNHCR currently has to provide. Making it easier for families to provide a direct, secure and reliable financial linkage with relatives who are still in danger or suffering deprivation, together with targeted assistance by churches, NGOs and other groups, will greatly relieve the burden on both the UNHCR and the SHS themselves.

This proposal is designed particularly to address the needs created by the current mass exodus from Syria and its impact on the surrounding states and on those states in which the refugees hope to make their eventual home. Many of those escaping war zones do so without identification papers; the situation in Syria is particularly acute in this regard due to the dangers presented by the various extreme regimes operating the area.

Lack of documentation and identity creates significant obstacles for families to be able to connect and to send support funds, not least because of the extreme diligence of the financial authorities in demanding high levels of KYC (Know Your Customer) compliance from any MTO (Money Transfer Operator) or bank. In effect, the only available route for funds to such refugees is often through the illegal Hawala networks.

To address this critical issue, we need to consider how to overcome two fundamental problems:

1. The identification and registration of all refugees, by a trusted entity, across multiple areas and territories.
2. A cost-effective, simple, and rapid method for funds to be transferred from major donor countries such as USA and the UK to the individual who has been registered.

The UNHCR is the most appropriate and capable body to manage the registration process, as it currently does in Jordan, Lebanon and Iraq. The unique iris scanning system being employed by UNHCR (and lately by WFP) in Jordan is providing a 100% reliable financial settlement model in partnership with local banks and *IrisGuard*, the established leader in this technology.

Our proposal focuses on the second requirement - the collection and secure transmission of funds collected in stable countries to individual refugees. A domestic clearing house of funds collected in the sending country can be converted to local currency and distributed to registered individuals through a secure and efficient electronic system. Furthermore, this service could be offered at cost points significantly lower than those offered by either existing MTO's or illegal Hawala networks.

The clearing house structure

The preferred option is for the UN and/ or international aid organizations to take full ownership of the clearing house in each remitting country – we have used the USA as an example below, but the same principle applies to any other country where sufficient fund transfers originate.

In the same way as individual donors currently make gifts to UNHCR (as well as many other charities and organizations), the 'targeted donation' can be made in favor of a particular family member or identified individual. The secure registration of the refugee, including name, location, and assigned PIN (personal identification number), can be included in the transmission of funds from the donor in USA, for reliable and cost-effective payment to the individual by the banks and agents in the recipient country, either through a cash payout or preferably through electronic credit which provides direct access to necessary goods and services.

Domestic payments are far less costly for transmission; for example an ACH inter-bank payment can cost a few cents, while an international wire transfer will cost between \$30 and \$75 to send. Similarly, if the sender wants to transfer electronically by use of a credit or debit card, there is the likelihood of a foreign exchange conversion rate of between 2% and 7% being applied, as against zero for a USD transfer.

Many senders may be non-banked or under-banked, which may limit their options to paying cash in to a local agent. If this agent is connected to a commercial MTO, there is likely to be a fee of around 2%, even for a domestic transfer – as against the much larger cost (including foreign exchange fee) of around 5% to 10% on international payments.

By replacing multiple small individual international payments with mainly domestic payments to amalgamate and consolidate into larger sums, significant savings can be made on the cost of both transfer and currency exchange.

While using agents would add additional expense, it does have the significant advantage of providing simple access to an existing nationwide network at very short notice. There could be

some cost-saving opportunities if collection were undertaken by what would be agents of UNHCR and/or international aid organizations, rather than the MTO. These could include:

1. Special arrangements with banks who wish to support aid organizations by providing ACH facilities for any sender of cash at their branches that is destined for the clearing house.
2. Similar facilities with retail chains who wish to assist.
3. Where small stores in the diaspora act as agents for MTOs, they could become direct agents for the UN as well, at reduced cost.
4. SVC (Stored Value Card) providers, including the major card brands, could enable free uploads onto designated UNHCR or aid organizations' cards held by non-banked remitters.
5. Churches and similar religious organizations could assist in collection facilities for their congregations, whether the funds were for refugees or for their own support projects.
6. Employers who have workers with connections in other countries needing assistance can act as a simple funnel of funds, direct from the payroll to the domestic clearing account. This can operate in the same way as any other charitable donation or investment being applied to the wages of a worker, on a one-off or a regular basis. (See note below about tax implications as to whether this would be from gross or net wages.)

UNHCR's role as collection agent

As discussed, a major problem for the flow of remittances to refugees is the lack of sufficient identity evidence to satisfy the accepted KYC regulations, with most banks and MTOs too risk-averse to facilitate such transfers. This can be resolved by UNHCR - the agency which is already assessing and issuing the registration of the refugees - acting as the recipient of the funds in USA.

As well as ensuring that the correct individual receives access to the transferred funds, there is also a requirement to impose limits on the amounts that are sent in any one transaction, or over a period of time, and to the number of connected individuals to whom funds can be sent. This can be achieved by implementing a simple software function that can be applied in conjunction with FATF guidelines and any additional restrictions that may be required by local regulations.

The inward flow of funds to UNHCR in USA will all be in US dollars, and will therefore be transferred at the lowest transfer costs – as a domestic transaction. The management of the foreign exchange conversion to the various currencies of the refugee countries is a critical

component of the overarching system, and must be designed to maximize the value of the converted amount received by each individual refugee.

In many cases, agencies fail to gain the best available rates by simply accepting the default rate proposed by the central bank of the receiving country, or that of a single commercial bank in that country. Given that the role of the UNHCR is to optimize the assistance provided to refugees - and also that any savings may help in lowering the additional benefits needed to be paid by the UN - there is much benefit to be gained by exercising a policy of achieving the best possible price from any legal reverse flow transactions that are available in the market.

As many refugees are moving from one country to another, the longer the funds are held in the original currency - USD in this case - the better, to avoid the application of dual conversions.

Another factor which must be taken into account is the high rate of devaluations taking pace in the world markets in recent years; staying in the strong currencies can provide an additional value compared to conversion to a weakening currency too early.

The process of merging and decoupling of 'targeted donations' - i.e. those to a specific family member - from general donations to UN projects adds a potential added value for the treatment of remittances under the clearing house control. As noted above, there may be the possibility of the remitter being able to gain a tax advantage on donations. Any such relief would be limited to, at a maximum, the FATF limits for person-to-person transactions, so this would not run the risk of being seen as a device for large-scale transfers for tax avoidance purposes.

The settlement process

The fund transfer from the clearing house in USA to its similar banking facilities in the destination countries would be actively managed in terms of routing and timing in order to maximize the amount available for the refugees.

The actual accounting process in the receiving bank would be into separate escrow accounts for different aspects of the UN and aid organizations' operations, to prevent any co-mingling of funds. In practice, the amount transferred out of the US account will be less than the accrued amount in order to optimize the rates.

When the UNHCR-registered refugee has the funds assigned to his or her account, verified by means of a biometric security system such as the recommended iris scanning solution, they will then be able to access cash via any ATM connected to the system. They may also be able to access funds directly at retail outlets which are iris scanner-enabled, in conjunction with the WFP facilities currently under development.

On a broader scale, in the same way as MTO agents may be used for the collection of cash funds in USA, larger agents can become iris scan- enabled to settle out to refugees across the world. This becomes a particularly important benefit in Europe and the Middle East where refugees may cross many borders on journeys to final destinations.

It is unlikely that all the banks in countries like Austria, Hungary and Denmark will install iris scanners on their ATMs, at least until a high volume of users can be guaranteed. The lower cost of providing scanners for MTO agents make this a simpler operation, albeit they will require a fee for providing this service.

A neat solution is to establish a network of designated agents acting as pay-out points, in the same manner as the network of paying-in points in the remitting country. If arrangements can be made with banks, stores, and MTO agents to act directly as UN and aid organization agents for settlements, an early and effective system can be achieved.

Widening the target market

The description of SHS (Severe Hardship Survivors) can include those outside the specific remit of the UNHCR to include anyone who is in hardship. In the recent *Civil Registry Consolidation Through Digital Identity Management* report from SIA, we see: “In 2014, among the 1.2 billion extreme poor in the developing world, only 345 million were covered by social safety nets programs (World Bank). With no accurate system with reliable identity information to select and reach beneficiaries, this gap cannot be closed. It is the reason why a number of developing countries have decided to implement electronic identity programs – mostly biometric – to achieve solid development outputs for service delivery.”

The system of settling remittances to refugees can become more successful by widening the registration to include all SHS in each of the recipient countries to include other recipients who would not ordinarily be due for any UNHCR assistance.

Similarly, countries such as India and Turkey, where the governments have instigated reliable biometric registration systems, could be included in the collection process through clearing houses in the remitting nations.

This is not just a case of helping the SHS in as many parts of the world as possible, but also actively increases the efficiency of the overall system and therefore optimizes the value of settlements to the registered refugees. The more flow of funds that can be developed, the lower the cost per transfer that will apply.

Building the registration platform

A separate report will shortly be available on how the registration of refugees can be enhanced and incentivized by the education and training program currently being developed by RTpay's team of expert educators. In short, it involves combining sociological training (particularly regarding the difference between standards in the west and the east on sociological and societal expectations), language training, and creating a work experience model. The incentive program provides short-term encouragement for all those in camps, as well as starting the training process for more structured work.

Summary

There is much to discuss and plan in such a wide-ranging proposal. What we do not have is time; every day the problems of mistreatment of refugees across Europe seems to increase. This proposal is designed to use as many currently available building blocks as possible, to bring about a rapid deployment.

Developing secure identification products for the unbanked, including the 60 million refugees and IDPs around the world

Many of the most needy refugees and IDPs are escaping from violent areas of conflict, often where the carrying of passports or ID papers could be extremely risky. This means they can arrive at camps with little way of identifying themselves; and given the fact that the camps are often limited to supporting particular refugees from one or more countries, those escaping from other countries will attempt to mislead the authorities as to their true origin.

Organizations such as the UNHCR have to make difficult decisions as to the applicants and whether they can remain in the camps. These decisions are always difficult; just because someone is an economic migrant, does that mean they are less needy?

What is an important additional factor is how to make that choice only once; it should not be down to a lottery at each camp or government facility as to whether one person gets through the test.

The development of biometric identification solutions has brought about ways in which we can have a secure, non-paper ID that can be read by appropriate authorities as to the status of the immigrant. In particular, the iris recognition system used by UNHCR in Jordan is capable of being extended onto many other countries, both as an overall ID but also as a way to secure payments.

Paying benefits, as well as remittances, can either be done via cards or, as generally preferred by the most needy, through iris-recognition at ATMs and POS devices at supermarkets. RTpay works with the best service providers to help develop this system in as many places as possible.

RTpay does not hold any client funds or act in the transaction flow at any stage. It solely assists clients on the optimal management of their own funds. It may introduce suitable financial service providers as part of its advice.

Please contact RTpay at info@rtpay.org to arrange to speak to one of our professional consultants.