

Microcredit and other loan programs in protracted refugee situations: Lessons from the Alchemy Project

Karen Jacobsen. April 2004

This is a working document, intended for practitioners. Discussion and comments are encouraged, and these will be incorporated and new drafts posted.

I. Introduction

The problem of how to support refugees in protracted situations, as humanitarian assistance declines, continues to challenge aid agencies. Increasingly, agencies recognize the need to support refugees' own efforts to pursue livelihoods, but there are few livelihoods resources available. Aid agencies have experimented with interventions such as income generating programs, but these are often the first programs to be cut, and in general they are not well resourced, understood or evaluated. Microcredit and other types of loan programs have not been widely attempted, because refugees and IDPs are considered too geographically unstable – repatriation, resettlement or further displacement would prevent the repayment of loans. However, as increasing numbers of refugees and IDPs remain 'stuck' in protracted situations, both in camps and amongst the local population, their enforced immobility creates possibilities for using credit-based interventions to support their livelihoods. In protracted situations, programs that resemble those used in development settings, such as microcredit, could be more appropriate than traditional relief-based ones. However, there are important differences when refugees and IDPS are the target of the intervention.

This paper is a compilation of best practices and lessons learned from the Alchemy Project, an experimental project aimed at supporting displaced people's livelihoods by providing access to a variety of forms of credit. The paper emerged from the Alchemy Workshop held in Maputo, Mozambique, in February, 2004, which included background papers, two days of discussion and subsequent email follow-up. This document is practitioner-oriented, intended for aid agencies seeking to implement credit-based programs in refugee and IDP settings.



By “credit-based” or “loan programs”, we mean interventions that seek to support the livelihoods of displaced people through loans rather than grants. Loans can be made to groups (as revolving funds), or to individuals. Loans can be monetary, such as microcredit, or in-kind, in the form of equipment (bicycles, sewing machines, henhouses, fishing gear, agricultural inputs), or livestock. In-kind loans, where re-payment takes the form of either money or livestock offspring, can enable people who are not ‘ready’ for a microcredit loan, to jumpstart their livelihoods. Whatever the form of the loan program, the idea is that the livelihoods of displaced people can and should be supported in ways that are in keeping with their dignity as economic actors, and not as recipients of charity.

It is important to make a distinction between microcredit and other loan programs. Over the past ten years, microcredit practitioners have been developing program standards in order to have a common language and to improve program quality. In-kind programs are not included in this nomenclature because they are intended for different purposes, used for different types of clients, and their units are not comparable (how do you compare disbursing 6 chickens to 6 dollars?). When it comes to refugees, the distinction between microcredit and other kinds of loans is equally as important. Microcredit programs used in refugee contexts have had some positive results, although their impact on the livelihoods of refugees has yet to be fully assessed. Importantly, many relief organizations have realized that they should not attempt microcredit if they cannot meet recognized standards. In-kind loans and repayments should be used where monetary loans are not appropriate, and these should not be referred to as microcredit because this confuses clients, donors and practitioners.

The fields of microfinance and poverty reduction have created a substantial body of knowledge and best practices about implementing and assessing microcredit and other loan programs (see Bibliography). The rest of this paper draws on these lessons and applies them in displacement contexts. These contexts vary because refugees live in different circumstances: some in camps, some self-settled amongst local population in rural areas, and others in urban areas. Camps can be in remote and isolated regions, near the border and confronting serious security problems, or they can be close to towns, in relatively security, and with access to humanitarian assistance and economic opportunities in the town. Self-settled refugees, who live outside camps, can be in remote rural areas primarily engaged in farming, or in metropolitan areas pursuing a range of informal sector activities. Their living situation will have implications for the kinds of programs that are possible for them.

The main problems confronting loan programs in refugee situations are:

- the problem of repatriation, resettlement and onward migration, which creates instability and problems with repayment
- isolated camps, restrictions on movement which creates market access problems: and transportation constraints

II. Best Practices regarding microcredit and in-kind loan programs

This section identifies a set of best practices that are commonly known to practitioners both of microcredit and other types of loan programs and applies them to refugee situations. Most of the lessons are derived from the basic principle that **the loan program should be appropriate for the target community, the market and local social conditions.** When these circumstances are understood, client-responsive services and a variety of programs can be developed. Making loans to refugees will always involve special risks and problems. Loan programs should anticipate these risks in program design, and adapt to them where possible. Agencies should use a variety of loan programs, depending on their own experience and the refugees' location (camp, urban or rural setting) and experience. However, it is essential that best practices be incorporated into refugee program design and implementation, and program management. Lessons of particular importance include:

Microcredit is not for everyone;

- Make loan size and type appropriate for clients, markets and community;
- Do not accept low repayment rates;
- Include training, monitoring and evaluation in program design
- In developing and implementing programs, it is important that donors be educated from the beginning about appropriate loan programs for different refugee situations.

1. Microcredit is not for everyone.

An enterprise supported with microcredit requires that the entrepreneur holds onto assets and adds some value to make a profit. Microcredit should only be used for appropriate candidates, and should not be directed at those who still have basic unmet needs and require direct assistance. So-called 'vulnerables' are seldom the most appropriate candidates, and their presence in a program can both undermine the program and increase the client's vulnerability by exposing them to debt. Although should be used for consumption loans only under circumstances of maximum familiarity with the clientele, and in general microcredit program will fail if loan are used for food or medical needs, or funeral or wedding costs.

Microcredit and Refugees

Microcredit should be provided only to stable, economically active refugees who have demonstrated their own initiative in starting a business, or who have operational businesses needing additional capital. Good candidates for microcredit might also be refugees with prior microcredit experience, or experience with formal credit institutions, like banks. Their experience can be drawn on to contribute to a strong credit culture in the displaced community.

Microcredit is not appropriate for all refugees, and nor is it a program that all refugee agencies are capable of implementing successfully. Unqualified agencies that try to provide microcredit to refugees and then fail, can create problems for the refugees and undermine other more qualified agencies' programs. They will also discredit the idea of using microcredit for refugees, leading to reduced funding.

'Bad' practices by unqualified agencies trying to do microcredit include:

- Accepting poor repayment rates.
- Doing nothing about absconders or defaulters.
- Charging inappropriate or unsustainable interest rates.
- Calling a grant a loan.
- Allowing loans to be used for consumption purposes.
- Targeting microcredit at vulnerable populations.

There are often contradictions between the target group that an NGO is mandated to support in a refugee camp context, and whether that group can be supported with credit. Donors and UNHCR often require that assistance programs are targeted at the most 'vulnerable' in the refugee population,¹ and credit schemes are often criticized for not reaching the most needy. Donors should understand that not all refugees are appropriate for microcredit, especially those who still have basic unmet needs and require relief assistance.

¹ The meaning of "vulnerable" is open to much debate, but UNHCR includes in this category: minority groups, children (persons below the age of 18), women, and more specifically, "older persons, the disabled, women in late pregnancy, severely malnourished or those in severe psychological distress". See *Handbook for Emergencies*, 2nd Edition, 1999. p.101.

2. Use livestock and in-kind loans to support those not ready for microcredit.

Refugees who are not appropriate candidates for microcredit can best be helped with traditional relief, or less onerous in-kind loans or small livestock programs. These kinds of programs can be more easily managed in the confined area of camps, where information regarding stocks (death, disposal, births etc) can be monitored. The setting must be suitable for the choice of animal (e.g. chickens are often too delicate for hot camps, or there may not be enough space for grazing or browsing), and local vets should be consulted and the requirement of husbandry skills should be considered.

In-kind loan programs have less demanding repayment requirements, and can be more easily managed by a relief agency. Livestock and in-kind loans can support a variety of people, including new arrivals or so-called “vulnerables”, including child-headed households, and the disabled.

Livestock. The provision of small stocks (goats, sheep, chickens, ducks) either for breeding or trading purposes can help launch livelihoods and are good starter programs. Small stocks require low capital to purchase, reproduce fast (goats, for example, produce an average of 1.8 kids per birth) and are marketable in a short time (kids and lambs are marketable five months after birth; chickens can be even cheaper and faster). Small stocks can be distributed to communities on credit – repayment being either in cash or in the form of offspring.

BUT, in providing small stocks, it is crucial that:

- Clients have some experience in raising livestock either as pastoralists, agro-pastoralists or farmers;
- The setting must be suitable for the animals (e.g. chickens are often too delicate for hot camps, or there may not be enough space for grazing or browsing). Consult local vets.
- There must be enough space for grazing or browsing -- this may not be the case in cramped camps.
- There must be a ready market for the finished stocks close by.

In the right circumstances, small stocks can help build collateral, rebuild livelihoods, and increase household food security. (Children’s protein requirements can be met with goat milk, for example.) Successful completion of an in-kind loan program, can prepare the client for participation in a microcredit program. However, such a project should support displaced people with training and extension services, and it is crucial a feasibility study is done first.

When are in-kind loans better than money?

Compared with microcredit or monetary loans, **in-kind** and livestock loans can be more easily managed by relief agencies. Existing ROSCAs can be supported by relief agencies, but the refugee community should retain ownership and management of them.

Some situations where in-kind or livestock loans are likely to be better options:

- In situations where refugees are not 'ready' or appropriate candidates for microcredit.
- Where security problems make the presence of cash a risk, or where there are no savings or safe storage places to keep cash
- Where agencies lack the capacity to manage the complexities of monetary loans. The possibility of having a MFI manage a monetary loan program is always an option, but this decision should be left to the MFI.

In refugee settings, it is best to be conservative about using microcredit, and to wait until the agency is familiar with the displaced community, and is working productively with refugee organizations, groups and leaders. With familiarity, it is possible to be more confident about the degree of risk inherent in refugee communities, such as the possibility of repatriation. Familiarity will also give implementing agencies more confidence about being flexible about loan requirements such as collateral. Until the situation is 'right' for microcredit, other kinds credit-base interventions are possible, depending on the refugees' skills, available resources and the market.

For **new arrivals**, interventions should be relatively low risk until the refugee's basic needs are met, his or her creditworthiness determined, and the likelihood of further movement established. Programs for new arrivals might include a 'starter' grant, or in-kind loans for activities such as horticulture or animal husbandry. Transportation to markets, and agricultural and veterinary extension services should be provided or at least made available at affordable prices.

3. Good Program Design.

Before designing and implementing a credit program, NGOs should do a market study, identifying market constraints and possibilities for clients, as well as risks. Credit programs work best when clients and agencies have some understanding of local market conditions, including local social and security constraints, and market demand and prices. Clients must also be able to reach markets, both in nearby towns and in more distant cities. Agencies should be aware of the risks and irregularities associated with refugees and build these into program design and

loan methodologies. The following are some best practices and associated refugee problems needing to be addressed.

Best practice #1: Good **loan appraisal** or well designed **group loan methodology** will prevent problems arising from repossession, and is a first step in identifying clients who might eventually be unable to make repayments. Collateral and repayment requirements must be strict, but realistic.

In refugee situations, various loan conditions, including legal documentation and collateral are missing or compromised, but this need not necessarily doom the loan if appropriate alternatives can be identified.

Refugees and asylum seekers might not have **legal documentation** that allows them to remain in the country for periods long enough to complete the loan cycle. For example, in Mozambique, asylum seekers had documents permitting them to stay in country for only two months at a time, so FCC was taking on considerable risk in offering four to six month loans. It might be possible to waive documentation requirements once the implementing agency is familiar with the community, and has the cooperation of key members and leaders who can help detect loan risks.

Refugees sometime lack proper **identification** and cannot cash checks or open bank accounts so monetary loan disbursement mechanisms may require adaptation. Agencies will need to find ways to **work with cash** for both loan disbursement and repayment. In unstable environments, there could be **security implications** when large amounts of cash are carried around, so precautions must be taken.

Ideally **collateral** would be given before a loan, to increase repayment commitment, but many refugees have little physical collateral to offer, and this requirement can mean many refugees are unable to obtain loans. On the other hand, agencies that have tried to make loans without collateral, have recovered none of those loans. **Alternative forms of collateral** can be identified. Where refugees have access to farmland, collateral can take the form of vegetables raised by the refugees and then assessed for its market value. Such collateral, however, is very risky as crops may be lost to weather, disease or poor farming practices.² Such collateral would be most successful if it could be done jointly with an agricultural program providing expertise to the farmers, and a buyer to reduce the costs of seizing and selling the crops. Where no collateral is possible, **loan terms** can be adjusted. For new refugee clients, depending on the

² Since refugees are farming on unfamiliar land, disease is much more common due to inexperience.

business cycle, frequent loan repayments can strengthen the relationship between the loan officer and the refugee client, and help the loan officer understand the refugee's goals and plans. Some businesses with quick turnover allow for weekly payments, others bi-weekly or monthly. At the beginning, the shortest possible period is recommendable.

Best practice #2: Loan size should be appropriate for the client's enterprise. If loans are too small, the needs of the microenterprise can't be met, and the business will be undercapitalized and then fail.

In refugee situations, it is important that loan amounts are appropriately sized to meet the special marketing needs of refugees. Transportation costs should be included in program budgets and in clients' business plans and loan amounts. Although transportation subsidies can help, there is a risk that they become co-opted by rich traders. In Nyaragusu, (Tanzania) the loan was not enough to allow travel to Kasulu and Kigoma to buy goods. Appropriate loan size applies to in-kind loans as well as microcredit. In Nampula camp, refugees who were part of the chicken breeding scheme had too few chickens and could not keep up with demand by restaurateurs in Nampula, so their chicken business floundered. Loans amounts are limited by program funds, and it is difficult to increase individual loans while at the same time reaching a large enough number of people. Increasing the loan amount will require reducing the number of clients. On the other hand, it makes sense to improve the viability of businesses with large enough loans. This kind of trade-off is one that could be discussed at the camp level, or the decision must be taken at the NGO level.

Caveat: If an MFI has the capacity to offer larger loans, and the demand is great enough, it may be a valuable service, but MFIs should be aware that large individual loans are more complex and demand greater capacity to manage than group loans.

Best practice #3: Interest rates and repayment frequency should be based on institutional cost assessment, inflation, market rates, risk and client capacity. Interest is the way in which a program is made sustainable by creating additional income beyond repayments that cover administrative costs.

In Islamic areas, where interest cannot be charged (because it is haram), service charges on the loan can be imposed instead. Service charges have also been used in lieu of interest in other settings.

In refugee situations, setting appropriate interest rates can be difficult. While refugees are a high credit risk, and accordingly the charge on the loan should be higher than for non-refugees, high interest rates also increase the burden on refugees, when rates for local people are lower.

Some experts have suggested that since refugee programs are not meant to be sustainable, charging nominal interest can be a way to create a good credit culture.

Best practice #4: Provide a **mix of services**, including help with marketing, and pre- and post-loan business development **training**. Both microcredit and in-kind loan recipients can benefit from other financial services, such as flexible **savings** or **money transfer services**, which could help build the financial base needed to start an enterprise.

For refugees with no in-country business experience, **marketing** assistance can help businesses. Refugees often cannot access markets and cash economies, either because they live in isolated and remote border areas, or because the government's policy requires refugees to stay in camps or restricts freedom of movement. (In some cases, refugees are only allowed to travel to specific markets on specific days or they need to obtain a permit from the Refugee Officer to leave the camp, and this process can be burdensome and time-consuming.) Remoteness and isolation of camps increases transportation costs and difficulties both for refugee entrepreneurs themselves and for getting their goods to markets. While street markets in or just outside the camp can encourage trade between the camp and local people, if most of the local population are poor or subsistence farmers, there will be low demand.

To address these problems, NGOs can do the following:

Support camp economies and provide assistance with marketing. NGOs and UNHCR can purchase items for use in the camp, such as wooden furniture, soap, or food produced by the refugees, from refugees rather than from external markets. When movement outside of camps is permitted, other market possibilities beyond the immediate vicinity can be researched. Alternative outlets for selling produce can be found. If it is possible to connect with trading organizations, such as Tradecraft or 10,000 Villages, they can take hand made crafts and other goods overseas to sell. In Johannesburg, art and clothing made by refugees were marketed through the Touch of Africa cooperative.

Best practice #5: Training of individuals, loan groups and loan committee before loan disbursement is highly valued by group members, and increases the success of programs. This training should be in business, accounting, leadership, and marketing. Training packages like Start Your Business can help improve business plans. Once loans are disbursed, there should be follow-up training related to business development. Workshops can be used to challenge and brainstorm business ideas, provide business advice, review business plans and encourage innovation. **Job placement and vocational training** will help refugees hone their skills and marketability in their new environment.

4. Group lending

The existence of organized groups in the community is an asset in loan programs because:

- They create strong pressures to repay, as receiving a loan depends on repayment by other group members. Using their networks, groups can track down absconders, so this risk is reduced.
- Groups can join together to combine funds to meet the high initial outlay required to setup larger businesses.
- Groups are self-monitoring and members support each other. They can ensure that those who will not be able to repay don't join in the first place, or the group will carry a member not able to pay in a bad month until she is able to regain lost ground.

Where there are existing group structures in the community, it is easier to set up rotating credit programs. For example, the Likilimba system (or 'likelemba' as it is known in Kinshasa), familiar to those from the DRC, is a rotating system of borrowing money from a group. Each member puts a fixed amount every month and gets the whole lot by turns. Such schemes can be supported or adapted for an NGO-based loan program.

Group micro-schemes tend to be composed of women, partly because women are targeted and partly because men consider the loan amounts too small for business purposes. Many believe that credit programs for women are more likely to succeed, because men are bigger credit risks – more likely to abscond or misuse funds. However, gender imbalance can lead to problems if men perceive that they are being discriminated against, and that women are benefiting more. Agencies report being pressured by men to increase loan amounts, and to extend programs to men. Women also report pressure from their husbands to use the loan for other purposes than it was intended, or not to repay the loan.³

Group structures in refugee communities.

Group loan schemes only work in environments of trust. Group lending is inappropriate if clients are unwilling or unable to take responsibility for each other's debts. Before introducing a group scheme, it is important to analyze the community carefully in order to avoid creating or

³ In some countries (like Swaziland), the microfinance institution requires that women possess a legal document called "husband's authority to borrow", which is signed by the husband. This eliminates any confidentiality in dealing with the women, and can lead husbands to view themselves as having authority over the woman for the loan (since without his contribution she would not be able to receive a loan). In one reported case in Swaziland, the man took the whole amount from his wife and used it to pay "lobola" (dowry) for another wife. Of course the first wife could not repay the loan after this.

exacerbating conflicts where communities are fragile. In both camps and urban areas, the refugee community is often weakly bound together and fragmented. There tends to be lack of trust and little willingness to enter into groups for loan and business purposes. In these situations, it is preferable to work with individuals, and put in place other safeguards to reduce the risk of absconding and non-payment.

In situations where refugees are organized, and groups have been established, they can be incorporated into loan programs. When repatriation looms, strong group organization can enable loan repayment.⁴

In some camps, traditional rotating credit schemes familiar from the home country are re-started by the refugees themselves, these groups can supported with loan programs. It is best to work with existing groups – they should not have formed just for the purpose of a loan.

In cases where community-based loan committees are appointed to run loan schemes, careful management and accountability controls should be in place. Refugee leaders can encourage repayment, resolve conflict and disagreements, and work with NGOs to develop effective and workable programs. However, it is important that the leaders are seen as legitimate by the refugee community. In camps, leaders can exert pressure on borrowers to repay on time. However, if leaders have too much power, this can lead to other problems in the camp, including excessive coercion to repay.

5. Program management.

Best practices:

Ensure good internal controls, including effective and transparent **cash management** systems and **reporting mechanisms**, both on the part of the NGO and where community-based loan committees -- the group of people that approve loans – are in place.

In refugee communities, particularly camps, where there is strong pressure for refugee participation, **refugee loan committees** often approve loans or manage programs, and it is important that controls are in place. Agencies should work closely with the loan committee to

⁴ It is intriguing to contrast the different group experiences in Nangweshi camp and Mayukwayukwa settlement in western Zambia. As described by CORD, in Mayukwayukwa, nearly half of the refugees spontaneously repatriated to Angola, many without full repayment of their loans, and this had a knock on effect as people saw how others 'got away with it'. By contrast in Nangweshi, where there was strong group control, there were only a few cases of spontaneous repatriation – and they first repaid their loans. The two camp populations were different in origin (Nangweshi was a camp of former Unita supporters), and community pride and group pressure differed in each camp. See Alchemy Workshop Report 2004.

ensure transparency and smooth functioning. Someone with finance or accounting background should be regularly reconciling and preparing financial reports. When handling money, loan committees should be accountable to the agency, and the agency must check that money is being handled transparently and appropriately. This is not encroaching but encourages appropriate structures and responsibility. When schemes are working well this gives an opportunity for the committee to take pride in their scheme and show the details behind the success. Loan committees should also be monitored for gender equity. In many cases, loan committees are dominated by men, even though more women are loan recipients.

In-kind loan programs can face problems managing large **program assets** like trucks. A truck adds value in that it can address transportation problems, but the issue of who owns it, how it is maintained, what charges should be levied for its use, and so forth need to be worked out ahead of time, and the costs incorporated into the program.

Formal (written) loan agreements that women clients take home to show their husbands, can help manage loan process.

Once appropriate repayment rates have been established, it is important not to accept **low repayment rates**. This promotes a weak credit culture that penalizes honest clients (they paid, but the person who doesn't gets off without a problem). A weak credit culture also has negative repercussions on microcredit programs in the country of return. If an organization is unable to obtain 90% repayment (less than 10% average arrears at worst), it should not do microcredit. Instead, use in-kind loan programs.

For **evaluation and impact assessment** purposes, all programs should have in place a base-line interview (to be conducted with each loan recipient), and adequate monitoring mechanisms. Data should be recorded and stored in a format accessible to external evaluators. Microcredit programs should adopt standard reporting for microfinance – this will better indicate when they are having problems and provide a comparable measure of performance against standard microcredit programs.

II. Special Program Challenges in Refugee Situations

1. Repatriation, resettlement or onward migration

In protracted situations, while refugees seem to be 'stuck', many are planning or hoping to leave – either to return home, or to move on to other more promising places. In addition, refugees are sometime forcibly or unexpectedly relocated, as a result of forces beyond their control (such as changes in government policy, attacks, camp relocation). The sudden departure

of refugees is one of the biggest headaches for credit programs because it means loans are not repaid, rotating loan funds are lost, and the loan program's credibility is compromised. As the likelihood of repatriation increases, there is pressure to obtain livelihood resources, since returnees expect minimal assistance and little in the way of resources when they first return. With the camp focused on repatriation and short term priorities it can be difficult to get refugees to think about long term business strategies. Spontaneous repatriation is a problem for loan programs, and it is difficult to build this risk into a program.

All parties involved with the refugees, including the host government, refugee leaders, resettlement organizations, UNHCR must build an understanding about how repatriation or resettlement will be managed into the loan program. When UNHCR initiates voluntary repatriation or resettlement, agencies can plan repayment schedules accordingly. Part of the conditions of resettlement could be that the refugees must have first cleared all outstanding debts with the loan program. Some lending programs have invited a representative of UNHCR to sit on the credit committee and provide any needed information about the potential resettlement or repatriation of each applicant to help inform lending decisions.

It might be necessary to **make loan periods shorter** to reduce repatriation risk. In general, loan cycles should be shorter than in non-refugee situations. A repayment period of 3 months preceded by a grace period of 1 month has worked in some cases. The downside of short cycles is that it encourages short term business such as buying and selling with no long-term sustainable options.

Loan officers should perform **frequent monitoring** visits - at least twice per month. Refugees are a flight risk, no matter how large their businesses, and it is necessary to monitor for indications that the client may be planning to leave. Such indicators include selling of assets or significant decrease in stock kept on hand.

Refugees can be engaged to work out a compromise solution, such as the possibility of **cross-border programs**. It may be unrealistic to expect that the same scheme can be continued across the border, since refugees often come from all over the country of origin and will spread out again when they return. However, in West Africa, ARC has developed the Refuge to Return (R2R) approach, which links financial services to refugees in their country of refuge with those in their country of return through a transferable credit history methodology. By applying sound microfinance practices and providing the necessary incentives for repayment, ARC has successfully provided loans to Sierra Leonean refugees in Guinea and Liberia, and built a leading microfinance institution (MFI) in Sierra Leone to serve them upon their return.

2. Difficulties with the host community, including local hostility, blocked economic opportunities, and police harassment

Refugees who travel long distances to urban markets might initially experience problems relating to lack of familiarity with local market conditions (demand and prices). Refugees can also encounter local crime, police harassment and other security problems. In some cases, including urban areas like Johannesburg, the local population has resisted refugees' presence in the marketplace, and they have created problems ranging from refusal to buy goods and services from refugees to reporting their presence to the police. Although refugees are often quick to grasp the local market conditions, and in some cases, outdo the local entrepreneurs, and even come to control local markets (as in Boane and other urban areas in Mozambique), it is helpful to provide marketing assistance. NGOs can provide assistance with marketing by way of workshops, and presentations by (friendly) local entrepreneurs.

Most importantly, NGOs and UNHCR should be involved in lobbying the government for the protection, recognition and access to markets on behalf of the refugees. With persistent lobbying for access to markets and a stop to police harassment, there are cases of refugees' economic situation improving. For example, in Maputo, police frequently confiscated products being sold by the refugees on the streets. With persistent lobbying from World Relief, this practice subsided, and refugees now 'only' have to contend with demand for bribes by the police.

3. De-linking loan programs from traditional relief programs

Working with refugees, UNHCR and other donors often entails the problem of managing a **grant mentality**. Agencies like ARC, CORD, and World Relief, who are UNHCR's implementing partners, are required to follow UNHCR's guidelines and mandate, and to work with its agency staff at the field level. These requirements can clash with or undermine the goals of a credit program for the following reasons:

UNHCR's beliefs about refugees ..

UNHCR field staff often have particular mindsets about what kind of approach is best used with refugees. These mindsets can range from outright prejudices about the refugees' trustworthiness and willingness to work, to the paternalistic view that all assistance programs are or should be for vulnerable people, and that the refugees should be treated as such. UNHCR's guidelines state that the goals of Community Services are to 'restore the refugees' humanity and dignity, to enable them to take decisions, to restore a sense of security, to create

a sense of belonging and to rebuild a self-generating community”.⁵ But these guidelines are rarely understood or internalized by UNHCR Field officers, and many still regard Community Service as assistance programmes for “vulnerable people”.

.. and Refugees’ beliefs about UNHCR

Refugees understand that UNHCR is there to take care of them, by dispensing free assistance to which the refugees are entitled according to international refugee law, and according to the wishes of those who have donated food, money and other items. Many refugees have a sophisticated understanding of refugee law, UNHCR’s mandate, and the meaning of humanitarian assistance. Agencies that try to implement credit-based programs with

UNHCR, run up against this awareness on the part of refugees, who claim that they have ‘right’ to loan funds originating from UNHCR, and do not need to pay them back.

Given the existence of this grant mentality, it is best not to associate microcredit programs with UNHCR or relief organizations that have traditionally handed out grants. The grant mentality will be deeply associated with these agencies, and it is difficult for an agency to switch from grant and hand-out mode to loan mode.

Microcredit programs should never be attempted by untrained relief agencies. The skills (and mindset) needed to manage and administer microcredit programs are rarely found in traditional relief programs. Separate agencies, de-linked from relief, should manage and dispense loans to refugees. World Relief Mozambique, for example, separated the microcredit program from their regular refugee programs, and placed it under the microfinance institution, FCC, which specialized in credit services and brought microfinance expertise. Other organizations, such as ARC, have created separate departments within the refugee agency.

If the conditions for a microcredit program exist in a camp or urban setting, relief programs should seek ways to bring in a microfinance organization. If none will come, use other forms of loans, such rotating savings and credit (ROSCAs), but microcredit should not be attempted. Past experience has shown that when relief agencies not trained in microcredit attempt it, programs are more likely to fail, and will create further problems down the road should microcredit organizations enter the scene.

⁵ UNHCR (1996) *Refugee Emergencies: A community based approach*. Community Service Guidelines Volume 1. Geneva: UNHCR, p. 13

Although the separation of other kinds of loan programs from relief agencies should also be a goal, in order to escape grant mentality obstacles, it is not always possible. In many field situations, program officers are responsible for both loan programs and traditional relief programs, and it may be difficult to explain that one program requires repayment, or provides monetary loans, and the other does not. In such cases, it helps to explain to refugees that different donors require different conditions for each program. When programs are carefully explained to refugee populations, and their cooperation and understanding is sought from the beginning, everyone – refugees and NGOs alike--is more likely to work together to make the program work.

Should loan committees be given incentives?

There is some debate about whether loan committees add value, given that they need training, and incentives to ensure that the committee feels valued, and can support families etc. Incentives can be a contentious issue. Various incentive options include committees being given access to loans, or performance related incentives, in which the committee receives some proportion of the amount collected from the interest of the loans. While this motivates the committee to collect funds and also to declare the funds collected, it also creates the risk of the committee exerting undue pressure to recover funds. Another problem occurs when loan committees try to get kick-backs for “assuring” loan approval. Providing incentives to loan committees is not essential, but could be a useful strategy if carefully monitored.

How to manage repayment in the absence of collateral and group pressure?

In certain situations, refugees may lack any form of collateral, and other ways to ensure repayment, such as group pressure, are absent. Under these circumstances, some agencies have provided microcredit using controversial repayment strategies. These include working with the government so that refugees who did not repay their loans were not permitted to renew their documents. Another is working with UNHCR to withhold ration cards to force refugees to make payments.

Some argue that the use of "coercive" repayment strategies or other such negative incentives are ineffective and unwise. For one thing, they depend on government officials implementing it, which is by no means a sure thing. Nor is it wise to use UNHCR to help enforce repayment (e.g. by withholding ration cards), as this reinforces the unhealthy link between UNHCR and the loan program.

It can also be argued that such an approach is problematic from an ethical point – denying documents and ration cards to refugees is a violation of their rights. Overly strong pressure to

repay – whether from a group or the agency-- can have negative or even dangerous consequences. There have been cases where refugees, desperate to repay in order to stay in the program, have engaged in prostitution, or have used loan sharks to borrow loan installments.

However, agencies using such strategies counter that there is no evidence that they hurt refugees, and in some cases, it is the refugees themselves who suggest such approaches. For example, in Maputo, before FCC took over and started to require physical collateral, the refugees suggested to World Relief (then implementing the program) that to ensure the continuation of the microcredit programs, documents should be denied to nonpayers.

Host Government Advocacy

Credit programs and refugee livelihoods are supported when governments allow refugees to work outside of camps, and disabled when there are government restrictions on refugee movement. In some cases, governments impose different requirements and restrictions on different refugee nationalities. The biggest challenge remains for NGOs and UNHCR to advocate on behalf of economic freedom for refugees, and the protection of their rights to pursue a livelihood, as set out in the 1951 Refugee Convention. How NGOs can engage donors and host governments to this end is a continuing challenge, and one that will require NGOs and refugees to work together.

Enabling the displaced to access the formal sector.

Agencies can also help displaced people move out of poverty by creating or smoothing the passage from the informal sector into the formal sector. One example is when agencies help with re-certification or licensing procedures for professional or skilled clients. One of the benefits of participating in microcredit programs is that refugees can establish solid credit histories, which can then be used to gain access to the saving or credit resources offered by banks and microfinance institutions. Many traditional microfinance institutions do not lend to refugees because they are high risk clients. In South Africa, the Nations Trust, a local microfinance institution in Cape Town, agreed to lend to a few refugee clients, after lobbying by refugee advocates, but the experiment failed as most of the refugee clients simply disappeared. Care should be taken when working with mainstream institutions, that future opportunities for refugees are not spoiled by inappropriate promotion of refugees before they have proved their creditworthiness.

In Conclusion

Before designing and implementing credit-based interventions, it is important to understand both what the refugee community brings, by way of traditional credit systems, group and leadership structures, skills, rural/urban experience and so forth, and what the refugees encounter by way of government policies, the host community, security problems and so on. In protracted situations, these attributes evolve and change over time, and programs should be dynamic so as to keep up with new opportunities and obstacles.

Livelihood interventions, including credit-based programs, are most effective when they are flexible and designed with specific refugee characteristics in mind, but they should build on best practices that already exist for credit interventions.

The economic contribution of refugee entrepreneurs can be a potential win-win situation for both host countries and refugee communities. Their economic contributions can be maximized by agencies advocating for their rights to work and freedom of movement.

We invite further discussion and comments from agencies and individuals seeking to support refugee livelihoods with credit-based interventions.

Ends