Importance of access to financial services

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When there is no clear end to displacement in sight, there is a great need to support both short- and long-term coping mechanisms which promote self-sufficiency.

Improved access to financial services may be an effective household coping strategy in situations where displacement has become protracted and where IDPs continue to suffer as a result of their marginalisation or where there is no imminent durable solution available – especially when combined with other basic services to support self-reliance.

Some IDPs in protracted displacement may be in camp settings or settlements, while others live dispersed in urban environments. Some may be legally permitted to work and provide for their families, attaining what may be perceived as a level of local integration, while others may be unable to work for a variety of reasons. The Internal Displacement Monitoring Centre (IDMC)[1] estimated that 11.3 million IDPs were living without any significant humanitarian assistance from their governments in 2007. And while each situation must be examined individually, there are many characteristics that are prevalent among IDPs and which, over time, exacerbate their instability and suffering:

- lack of access to livelihoods opportunities: this results from discrimination, lack of legal documents, geographical isolation or other reasons.
- loss of assets: many IDPs have few or no assets, while those who do generally see their assets depleted over time.
- exclusion from formal financial systems: the displaced, like many of the poor in the developing world, often have to rely on informal mechanisms such as moneylenders, group savings schemes, storing assets in insecure environments, or money carriers to meet their financial needs. These informal mechanisms may be expensive and/or risky.

Financial services

It is important to recognise that microfinance is no longer limited to credit services. Loans are not always appropriate assistance mechanisms for the very poor as indebting the destitute only worsens their situation. Microfinance has evolved into an effort to 'bank the unbanked', to bring those outside the formal financial sector into it by offering them specific services and products which serve their needs. Evidence shows that the poor benefit from access not only to micro-enterprise loans but also to a wide range of financial services, such as micro-loans, micro-savings, remittance and other money transfer services, and other specialised products such as micro-insurance or housing micro-finance loans.[2]

Particularly because IDPs in protracted situations are often fairly settled in their host environment, and because they do not face the immediate prospect of returning or resettling elsewhere, this population is especially suited to strategies which seek to increase economic self-sufficiency as a means to reduce vulnerability. Financial services can therefore be very appropriate. In addition, governments may throw up significant challenges to the provision of financial services to IDPs, based on the misconception that providing assistance means IDPs will never return. Promoting self-sufficiency may in fact facilitate return when the time comes, because IDPs will be better prepared economically for the transition. The focus should therefore be on protecting the rights of the displaced pending a solution which may later support their ability to return, recognising, however, that in some cases return may never be a viable option.

Financial services alone cannot stabilise a situation but when combined with other income generation or livelihoods programmes or when IDPs have some type of stable income, then the promotion of savings, the facilitation of cash transfers (remittance mechanisms), and access to appropriate credit and insurance products may be significant contributors to reduced risk and vulnerability for the protracted internally displaced.

Remittances and money transfer services: Many poor people in developing countries rely on remittances from family members who send funds through a number of channels. The displaced, like other migrants, both send and receive remittances, often relying on them for daily subsistence needs, health care, housing and education. Facilitating remittance transfer services through formal channels often means reduced fees and more secure delivery. Those without access to banks have to use alternative transfer services or informal money carriers who take a significant cut to deliver the funds; informal transfer mechanisms can also mean a risk of loss of the funds. Formal transfer services can also be used as a means to provide secure cash transfers from government or other relief programmes directly to beneficiaries.

Savings and deposit services: Many people who do not use formal banking services take risks by storing their family's assets in material goods or in insecure environments, such as by purchasing livestock or storing cash in the home. In addition to reducing the risks inherent in these insecure methods, offering savings and deposit services to the poor can help them to build assets, increase economic stability and, over time, build wealth: "Poor people can save and want to save, and when they do not save it is because of lack of opportunity rather than lack of capacity. During their lives

Bhutanese refugee women in Timai camp, eastern Nepal, participate in a microcredit scheme, which offers loans to start small businesses.

there are many occasions when they need sums of cash greater than they have to hand, and the only reliable way of getting hold of such sums is by finding some way to build them up from their savings."[3] Appropriate financial services for the poor, including protracted IDPs, should therefore promote savings as a means to build wealth and to make these lump sums available when needed in a safe, convenient, flexible and affordable way.

Micro-insurance: Poor IDPs and poor people generally are at greater risk than other groups and economic shocks affect them much more profoundly. They need insurance products which are low-cost and targeted to their needs. This may include life insurance or guarantees on micro-loans to protect them in case they cannot repay a loan, property insurance to protect the few assets they may have, or other specialised insurance products that reduce their vulnerability. Affordable mechanisms such as micro-insurance may enable them to weather economic and other life-cycle shocks and may help increase stability in the long run.

Micro-credit loans: While often touted as the solution to poverty, micro-credit should be offered judiciously and only to those with a real ability to re-pay their loans. While it is generally accepted that micro-credit loans may not be effective for displaced populations, this may be less true in cases of protracted displacement than in new displacement situations. This is because micro-credit programmes rely on populations who are not mobile and who are able to re-pay their loans. However, in cases of protracted displacement there may be those who over time have been able to gain some steady income and who do not plan to move in the foreseeable future. For people in situations of protracted displacement, micro-credit may be appropriate for those with a long history of income generation already, as is shown in UNRWA's experience with micro-credit and Palestinian refugees.[4] Micro-credit can also be very effective with populations who have graduated from grant assistance to loans with complementary technical assistance.

Recommendations

Access to financial services, when combined with other assistance and protection programmes, can have a significant impact on the economic stability and self-reliance that is needed so desperately among protracted IDP populations. It is necessary, however, to look beyond micro-credit and define the range of potentially appropriate financial services for protracted IDPs. This will allow donors, policymakers, governments, NGOs and other actors to better assess their needs and to tailor programmes to them. It is important to assess a household's remittance flows, cash and asset management, income, risks, spending needs, borrowing needs, repayment capacity and whatever formal or informal financial services are currently available to them.

With regards to micro-credit, there are several important principles learned from the micro-finance industry that must be upheld to ensure it is appropriate for this population. These include the need to:

- ensure protection for the borrower (especially with vulnerable populations like IDPs)
- maintain the integrity of the institution as a lending organisation and not as a charity, and separate the provision of relief aid from the provision of micro-finance as there will always be a natural conflict between these two objectives[5]
- maintain a high-quality portfolio, applying market interest rates and ensuring that micro-finance institutions become profitable
- include the vulnerable host population in any programmes for IDPs; as well as reducing tensions between the displaced and their neighbours this can also help develop the critical mass needed to make a microfinance operation profitable.

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