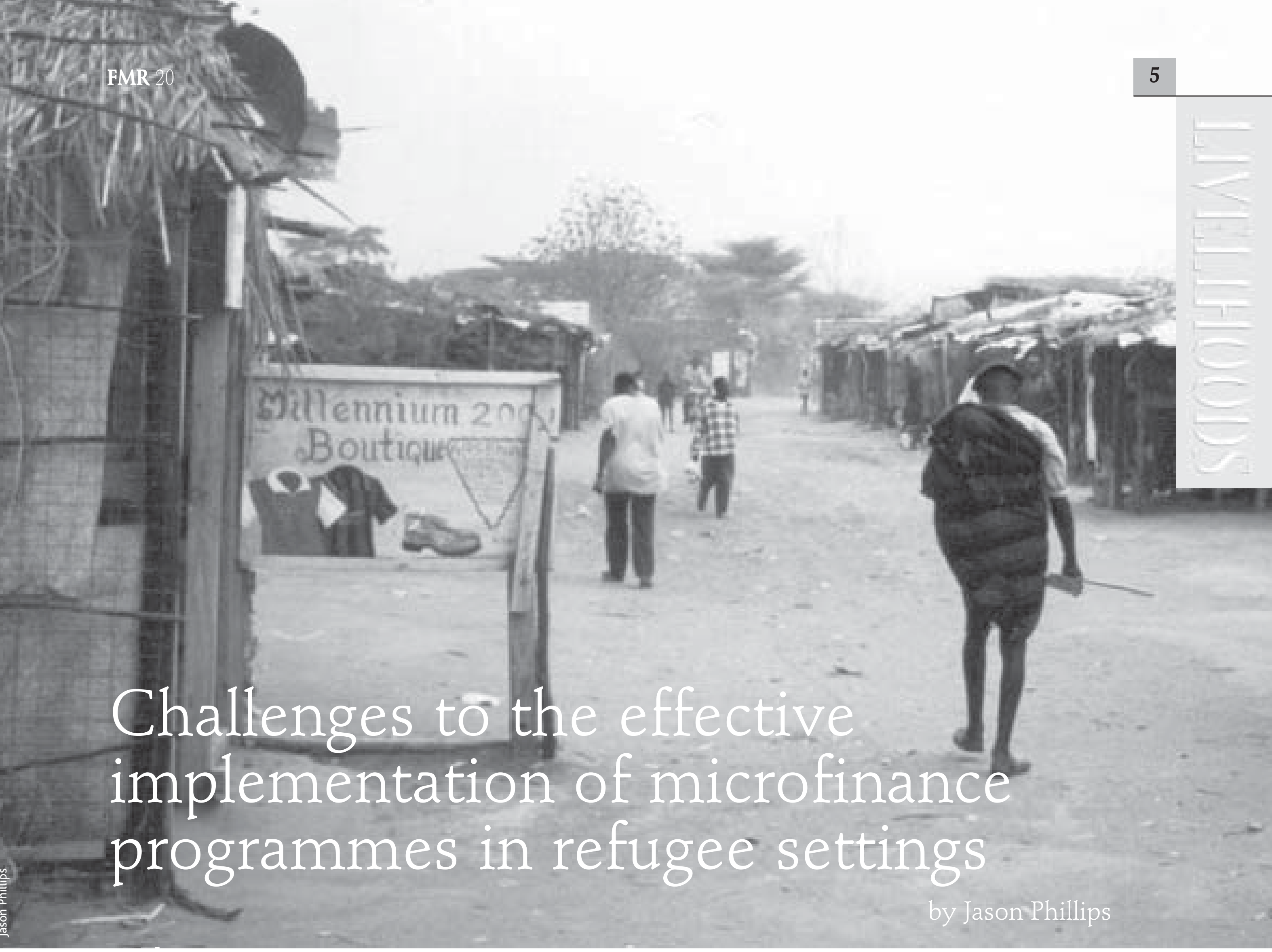

Challenges to the effective implementation of microfinance programmes in refugee settings

by Jason Phillips

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Kakuma market

The closure of a microfinance initiative in Kakuma refugee camp in Kenya highlights constraints facing such programmes and lessons to be learned.

How can microfinance programmes contribute to the livelihood strategies of refugees? There are some important lessons to be learned from the programme carried out by the International Rescue Committee (IRC) in Kakuma refugee camp, Kenya, from 1992 to 2003. The numerous obstacles encountered eventually led to a decision to end the programme. The experience highlights the need to recognise that certain minimum conditions are required for the successful implementation of microfinance programmes in refugee settings.

Kakuma refugee camp was set up in 1992 in the far northwestern tip of Turkana District, Kenya. It is home to approximately 88,000 refugees from nine different countries and over 40 ethnic groups, the vast majority from southern Sudan. Camp residents remain almost completely dependent on international assistance to meet basic needs. Although the camp has existed for more than a decade, in most sectors of service delivery minimum international standards developed for emergencies (e.g. SPHERE[1]) consistently fail to be achieved. Though Kakuma is classified by UNHCR as a care and maintenance operation, in many respects it may be seen as an exemplar of a protracted refugee setting.[2]

IRC has been working in Kakuma since the camp opened. IRC has implemented a variety of livelihood-related programmes under the heading of Self-Reliance Programmes. These included – until the end of 2003 – adult education, community-based rehabilitation and economic skills development. While aiming to improve income-generation opportunities, they were all linked to the achievement of core health objectives such as the reduction of malnutrition and mortality.

In 1992, in response to refugee demand for credit services and programmes supporting entrepreneurship, IRC initiated its first microfinance project (Micro-Enterprise Development Programme, MEDP). Between 1992 and 2001, this developed into a comprehensive project consisting of four discrete, but closely linked, sub-sectors:

1. **Micro-lending:** IRC managed a small revolving fund disbursing loans to individuals and groups of entrepreneurs. Loans averaged 10,000 Kenyan Shillings (Ksh) ($133), and bore an interest rate of 24% per annum. Loans were secured through the deposit of cash into an IRC-managed savings account, although vulnerable groups without cash collateral were eligible to use community trust as a guarantee. From 1997 to 2001, 1,193 loans totalling 9,940,120 Ksh ($132,535) were disbursed.

2. **Savings:** IRC managed an interest-bearing savings account for refugee depositors. In addition to acting as the custodian of collateral for participants in the micro-lending programme, the account was open to refugee depositors who had businesses in the camp but were not current loan holders. In response to reductions in donor funding for the micro-lending project, savings were mobilised as lending capital. In 2000, at its peak, the balance on deposit exceeded 4,500,000 Ksh ($60,000).

3. **Business Skills Training:** Training consisting of four modules (orientation to business practices; management of business activities; book and record keeping; and accounting and costing) was provided for participants in the micro-lending project and for other refugee entrepreneurs wanting to improve their business capacity. Between 1996 and 2001, 3,184 persons completed at least one of the modules.

4. **Business Outreach:** A network of community-based business development officers was established to support loan clients, assist in loan recovery and identify potential new clients.

By the end of 2002, however, a series of audits and programme reviews highlighted serious shortcomings in IRC's microfinance programme in Kakuma and by December 2003 all microfinance elements (apart from a small sanitation project) had been closed down.

The constraints encountered were both internal and external.

Why did IRC's attempts to stimulate economic development and income generation not succeed? The constraints encountered were both internal and external. The internal constraints derived from programmatic and organisational capacities, structures and decisions. The external constraints arose from the operating environment over which IRC had limited or no influence.

Internal constraints

The first internal constraint was IRC's **lack of organisational capacity and expertise.** A prerequisite for implementation of a microfinance programme should be the presence of an organisation with proven skills and expertise in the field which is not providing social welfare services. However, IRC's key mandate – and area of expertise – in Kakuma was health programming. IRC established its MEDP programme in response to refugee demand and an initial gap in support for entrepreneurs but it was of secondary importance to IRC's principal objective of improving the health of the refugee population. In 2001, for example, the MEDP absorbed less than 5% of IRC's total budget in Kenya. It was difficult for senior managers to devote the time necessary to active supervision of this sector when other programmes were of higher – 'life-saving' – priority. With the exception of the Programme Manager hired to supervise the project, none of the senior managers in IRC Kenya had microenterprise training. This lack of capacity was mirrored at the global level. IRC engaged one technical expert and one staff person, each on a part-time basis, to provide support to all countries where microfinance programmes were being implemented. Regular microfinance training conferences were held but there were only limited opportunities for sustained technical support.

The most evident gap in organisational capacity, however, came not on the programme side but on the financial side. Successful MEDPs require adequately trained and highly competent financial, as well as programme, managers, and there must be good collaboration between finance and programme departments. Revolving funds' management, accounting and financial

Signing a loan agreement

Jason Phillips

reporting (according to internationally established standards such as the Small Enterprise Education and Promotion (SEEP) Network[3]) require different skill sets than those typically found among accountants and controllers accustomed to fund accounting and donor grant management systems. Breakdowns in communication between MEDP staff in Kakuma and finance staff in Nairobi, coupled with a lack of expertise and, in some cases, lack of interest in learning on the part of financial managers, led to chronic financial reporting problems. At times discrepancies in reports required reconciliation of as many as four parallel sets of 'books'.

A second set of internal difficulties arose around **operationalising and achieving 'sustainability'**. One of the biggest challenges to implementing an effective programme in Kakuma was a lack of clarity over what 'sustainability' should and could mean. In an effort to follow best practices, all IRC microfinance programmes worldwide – Kakuma's included – completed regular SEEP financial ratio reports and tracked programme performance against the two key ratios of operational and financial self-sufficiency.[4] In neither measure was the IRC Kakuma MEDP ever capable of demonstrating success. As of the end of the 2000 financial year, for example, operational and financial self-sufficiency stood at a meagre 13.5% and 13.4% respectively. From 1997 to 2001, the loan repayment rate only averaged 80%.

It was also not clear exactly how 'sustainability' in a refugee camp context like Kakuma should be conceptualised. IRC was implementing microfinance programmes in a multiplicity of settings worldwide, including among IDPs, returnees, refugees in camps and settlements and refugee/IDP-hosting local communities. Each programme was required to report on sustainability according to the SEEP definitions above. Yet sustainability as an objective of a microfinance programme can take many forms. In some countries, like the Balkans or Caucasus, achievement of sustainability was defined as the building of a local, independent microfinance institution that could continue operations in the absence of IRC. Such a model, however, was completely unrealistic in Kakuma, given low refugee capacities, high client mobility and the refusal of the Kenyan authorities to permit or recognise a refugee-run microfinance institution. Handing over any form of ongoing microfinance concern to the refugee community was impossible, given the constraints to refugee capital accumulation and savings mechanisms and diverse, often conflicting, refugee community leadership and accountability structures.

A final internal challenge to effective MEDP implementation in Kakuma was **difficulty in reaching the programme's intended beneficiaries** and, when reached, **questionable positive impact.** IRC's programmes sought to reach the poorest of the poor and the most vulnerable members of the refugee, and refugee-hosting, community, including female-headed households and the disabled. This beneficiary focus, however, often conflicted with the programme's financial objectives, which, for example, sought to minimise loan delinquency/default and generate savings for loan capital. The savings project, for example, became dominated by the wealthiest members of the refugee community. At the end of November 2000 the single largest saver accounted for 13.5% of all deposits. Of greater concern, however, were the results of an impact survey conducted in December 2002 among revolving grant clients. Not only did most grant recipients experience no sustainable, medium-term improvement in their household income but one-third of businesses surveyed were found to be in worse financial condition than before the intervention began. In addition, some members of groups that had received grants had had to sell household assets in order to meet revolving grant repayment requirements. For those households, at least, it could be argued that the intervention had actually reduced, rather than improved, their livelihood security.

External constraints

Restrictive governmental policies and practices were a key factor inhibiting the implementation of an effective microfinance programme in Kakuma. According to one analyst, "there is a need to link the question of livelihoods with the issue of rights and protection… [M]any of the world's refugees are unable to establish and maintain independent livelihoods because they cannot exercise the rights to which they are entitled under international human rights and international law."[5] This is certainly the case in Kenya, where refugees have very limited freedom of movement, have extreme difficulty getting permission to work legally, have no access to land for agricultural production, are not permitted by the local community in Kakuma to possess livestock and cannot access the local banking (credit and savings) sector. A thriving, localised market has built up around the international refugee aid economy in Kakuma,[6] benefiting both refugee and local Turkana alike, but this market is severely constrained for refugee entrepreneurs by the factors above. Refugee business owners, for example, require the permission of UNHCR and the local Government of Kenya District Officer to travel outside the camp to procure goods. Lacking universally recognised and respected identification documents, refugees are subject to harassment by police, preventing the efficient movement of supplies to the camp marketplace.

The camp itself is located in one of the most marginalised and inhospitable areas of Kenya, an area known for high degrees of communal, intercommunal and sexual violence. Tense relations between the refugee and host communities, exacerbated by competition over scarce resources and local perceptions of neglect by the national and international authorities, have led to the targeting of refugee businesses and households by bandits. In the absence of strong police and judicial systems, acts of robbery and violence perpetrated against refugees go unpunished. All of these factors, in turn, act as limits to development of a stronger refugee marketplace.

The limited scope of the refugee market was also a barrier to success. Constraints placed on refugee access to, and ownership of, land and livestock and limited opportunities for wage-earning employment have created a highly competitive market with little diversification. Most refugee businesses are concentrated in the petty trading and service sectors, such as retail shops, restaurants and bars, vegetable/meat/fish sellers, and tailors. There is little production capacity, either because the basic capital investment required is too great for most refugees, or because already manufactured goods (such as second-hand clothing) are readily available at prices lower than one could make them in Kakuma.

Finally, there has historically been a **lack of coordination among refugee-assistance agencies** in Kakuma, limiting the effectiveness and appropriateness of IRC's microfinance interventions. Of the 11 UN and NGO agencies working in Kakuma, at least five (including IRC) have had income-generation programmes of one form or another running concurrently. It was not until 2003 that UNHCR identified a lead implementing partner for income-generating activities in

Each programme and agency had a different approach

Kakuma and took an active role in inter-agency coordination. Each programme and agency had a different approach to economic stimulation, some providing grants, others loans, others vocational training linked to employment. Even among the loan programmes, conditions such as interest rates and repayment terms differed. This proliferation of approaches had several effects. Refugees were able to access multiple credit facilities simultaneously, thereby increasing their indebtedness and undermining their ability to meet repayment schedules for all creditors. The difference between a loan and a grant, or other forms of material assistance provided in-kind for free, was also blurred. It was difficult to foster a culture of debt repayment under these circumstances. By 2003 it had become clear that a) IRC's interventions were adding to the complexities of an already confused marketplace; b) other agencies were now focusing attention on the underlying beneficiary needs to which IRC initially responded; and c) other agencies, in fact, might have greater expertise and capacity to address those needs.

Microfinance best practice in refugee settings

This brief review highlights several lessons to be learned:

- Implementation of successful microfinance programmes requires qualified staff with technical expertise plus an organisational commitment to invest the resources necessary to provide that expertise, at all levels of the organisation.

- Microfinance needs to be understood as a financial, as well as programmatic, intervention. Structures of collaboration need to be developed and maintained between field programme staff and headquarters finance staff to assure quality reporting and monitoring.

- Microfinance programme impact needs to be creatively evaluated. The potential for adverse outcomes, inimical to goals of improved refugee livelihood security, should be recognised.

- Concepts such as 'sustainability' and 'self-sufficiency', so commonly used as measures of success, need to be critically examined. New definitions may be necessary, as may the realisation that there may be insurmountable limits to achieving either one.

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1. See www.sphereproject.org

2. For a discussion of what defines a protracted refugee situation see J Crisp, 'No Solutions in Sight: the Problem of Protracted Refugee Situations in Africa', UNHCR EPAU, New Issues in Refugee Research, Jan 2003. Online at: www.unhcr.ch/epau

3. See www.seepnetwork.org

4. Operational self-sufficiency is achieved when internally-generated income (from interest and fees) is equal to or greater than the expenses of operating a credit programme. Financial self-sufficiency is achieved when internally-generated income covers direct operating and financial costs and is sufficient to maintain the real value of the credit portfolio.

5. Crisp J 'UNHCR, refugee livelihoods and self-reliance: a brief history', EPAU background documents, 22 October 2003, available online at www.unhcr.ch/epau

6. Phillips J ''Hell' never looked so good', Report from the Field, *Humanitarian Affairs Review*, Winter 2002, pp.40-43. www.humanitarian-review.org/upload/pdf/PhillipsEnglishFinal.pdf