Microfinance and refugees

by Dominik Bartsch

Over the past decade or so, microfinance has assumed an increasingly important role in the drive towards the economic and social empowerment of refugees.

Microcredit and savings schemes are operated in a number of refugee situations, ranging from camp-based local integration programmes to interventions for urban refugees and support to returning refugees in the context of reintegration and rehabilitation programmes.

However, only limited analysis is available on the effectiveness of microfinance as a tool in promoting refugee livelihoods. Short of answering this question empirically, the following four pointers contain lessons learned from field operations and offer a glimpse of some of the underlying difficulties in operating microfinance interventions effectively in the refugee context.

- Microfinance rests on the notion of group solidarity to replace what in commercial banking would be a material form of surety. While such solidarity is in strong evidence in cohesive rural communities (such as the Bengali village women served by the microfinance pioneer, the Grameen Bank) it is the least developed amongst refugee caseloads comprising multiple nationalities and diverse ethnic backgrounds. Solidarity as a social glue, after all, is closely linked to residency or geographical belonging and that is precisely the weak part in any refugee's life. One may even conclude that the trauma of displacement acts as an outright deterrent to the concepts of solidarity and community. Much as some long-standing refugee settlements, especially in Africa, may resemble homogenous communities, they usually have not brought about the type of cohesion conducive to mutual monitoring and, perhaps more importantly, the imposition of social sanctions against defaulters. This problem is all the more prevalent amongst multi-ethnic urban refugee caseloads that tend to be very mobile, even across borders (*vide* irregular movements in Southern Africa).

- Microfinance has evolved into a discipline in its own right, much more closely related to banking than to relief. Without the necessary technical experience in 'banking for the poor', only scant attention will be paid to key financial benchmarks. A repayment rate of 50% may thus be considered quite acceptable by a generalist project administrator although best practice would demand much higher rates of around 95% and indeed complete sustainability within a couple of years to cover all administrative costs. Although UNHCR does not implement microfinance programmes directly but engages implementing partners to administer them, these interventions are still considered to be part and parcel of an overall relief programme. This perception is shared by refugee beneficiaries who look upon UNHCR as the purveyor of discretionary assistance and would therefore find it difficult to accept hard and fast repayment rules, far less be able to comply with them. Faced with this moral hazard, UNHCR and its partners may quickly relent when, for instance, negotiating interest rates below market rates. No surprise, then, that such loans appear to mutate into grants over time – which begs the question why the intervention was not designed as grant aid in the first place.

- The underlying contradiction between banking and relief also extends to the selection of beneficiaries. The clients who are most likely to benefit from microfinance are those already endowed with business acumen and, often enough, sufficient resources to sustain themselves. By contrast, the ones who are most likely to fail with their ventures and default on their payments are precisely those whom UNHCR would want to help the most: vulnerable cases such as widows or single mothers. This clash of business versus charity is probably irreconcilable in the refugee context and it often produces a veritable mismatch between intended and actual beneficiaries.

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- Microfinance is but one element in the facilitation of refugee self reliance and the promotion of sustainable livelihoods. To be successful, it needs to be supported by other targeted interventions such as business training and, most importantly, an enabling environment. Government restrictions on refugee mobility, for instance, directly impact on market access for refugee products and may therefore constitute a much bigger obstacle than the cost of financing. Indeed, any one of the numerous regulatory requirements (such as work permits and business licences) can very easily nullify the prospects for what otherwise may have been a sound business proposition. For microfinance to achieve its true potential in the refugee context, it needs to be embedded in a thorough understanding of what constitutes the most viable avenue for self reliance. In practice, however, it is all too often pursued as a 'quick fix' to jumpstart refugee livelihoods.

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The views expressed here are those of the author and do not necessarily reflect those of UNHCR. This article was first conceived in 2002 and UNHCR has since that time developed a comprehensive microfinance policy.