Microcredit - an ‘oxygen infusion for a better life’

Since 1998 the Norwegian Refugee Council has taken a lead role in providing microcredit to enable IDPs in Azerbaijan to stand on their own feet.

Azerbaijan is home to 575,000 IDPs who left Nagorny Karabakh and surrounding districts in the early 1990s. According to the UN and World Bank, 70% live below the income poverty line (US$24 per person per month). Azerbaijan’s new oil and gas wealth has not removed the need for creating viable livelihoods for a population with no immediate prospects of return to Armenian-held Nagorny Karabakh.

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
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.

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.

1. See www.sphereproject.org
Building transparency is vital in a country where corruption is rampant.

Mehman Mammadov is typical of those who have created a new life from a modest initial loan from NRC. In 1999 he took out an initial $300 loan which helped him to subsequently expand the turnover of his food business, to open a grocery and to hire three assistants. He has recently established a bakery and with an $800 loan bought an oven and was able to employ six more people. Today he supplies baked goods to 20 bakery shops in and around Baku and provides for his family of seven. In common with other Normicro clients, around half of his profits are invested in the business and the rest used to raise the living standards of his dependants. By local standards his family now has a good income. Mehman would like another larger loan to further expand his business.

Loan schemes targeted at both urban and rural IDPs have succeeded because Normico has:

- worked to build trust and transparency and to enable a credit culture
- established credibility in the community before issuing collateral-free loans
- held meetings with community elders and leaders to make sure loan terms and conditions are known to all potential borrowers
- regularly communicated with clients and ensured Normico staff make follow-up visits

Challenges to microcredit programmes in Azerbaijan

The legal framework is not conducive to microcredit. The tax authorities see microcredit programmes as profitable activities and seek to apply complicated tax rules. They tax the income from interest on loans on the same basis as they do with any other large-scale business activity - regardless of the fact that the nominal ‘profit’ is not taken out but is ploughed back to increase the loan capital available for further distribution to vulnerable families. If the heavy tax burden is not reduced, interest rates on loans will have to remain high and only the bigger organisations with a large capital will be able to survive in the long run.

Building transparency is vital in a country where corruption is rampant. In a male-dominated society like Azerbaijan, most of the IDP loan takers are men but a fairly large number of loans are given to families where both the husband and the wife are equally responsible for the loan and the development of the business. NRC, FINCA and Oxfam are among the agencies looking for better strategies to provide women with equal opportunities for business development and to avert the risk that loans targeted at women are actually used by men. Skills training initiatives for women could raise the percentage of loans given to women.

Vocational training is a major challenge for those clients who have been economically inactive for many years and lost their previous skills. Many left rural areas and their skills are not relevant for urban labour markets. It is thus hardly surprising that most credit clients are engaged in urban trade rather than productive activities. Microcredit providers must do more to boost the service sector in Azerbaijan and to develop synergy between credit, vocational training and business skills development.

Entrenched positions may make the Nagorny Karabakh conflict seem insoluble. For the foreseeable future large-scale return is not feasible. Livelihood strategy support must be part of durable solutions for IDPs in Azerbaijan, whether they integrate or eventually return home. Although some have voiced the opinion that making life in urban areas too comfortable for IDPs risks hampering return, the Norwegian Refugee Council believes that strengthening their ability to take charge of their own lives will empower IDPs whatever the future holds.

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For extensive information on IDPs in Azerbaijan, see the Global IFP Project’s database at: www.ifpproject.org/sites/ifpinfo/countries/Azerbaijan

1. Comment made at a recent meeting of microfinance institutions in Azerbaijan.