

Credit-based livelihood interventions in a Zambian refugee camp

by Jane Travis

Establishing community credit facilities has become an important developmental tool for building livelihood strategies. In the refugee camps where the British NGO Christian Outreach Relief and Development (CORD) has worked, programmes have provided credit in the form of cash, agricultural inputs or livestock.

Zambia has been a generous host to Angolan refugees. The arrival of the first 4,000 Angolan refugees in Zambia in 1996 led to the establishment of two refugee settlements, Mayukwayukwa in Western Province and Lwatembo in North Western Province. Both were designed as agricultural settlements where each refugee household was allocated 2.5 hectares of land. Until the arrival of a new influx of refugees fleeing renewed fighting in 2000, Mayukwayukwa's population had remained largely stable for several decades. Prior to the signing of the Angolan peace agreement in 2002 the population reached 26,000. Some have now begun to repatriate.

Challenges to sustainable livelihoods in Mayukwayukwa settlement

The economy of Mayukwayukwa is based on agricultural production on the land allocated to the refugees. The staple crops are maize and cassava. Declining soil fertility and shortages of fertiliser as result of Zambia's agricultural liberalisation have reduced yields. Refugees have also been affected by the uncertainties of repatriation. Told in the 1990s they might soon be returning to Angola, many stopped planting and some sold off assets such as livestock. When the repatriations did not take place they were left in a much weaker economic position.

Agricultural production by recently arrived refugees has been even more limited. For the first two years they are entitled to food rations but they work hard to add to their income. When they are not working their own plots, many find piecework in Zambian villages, often paid in food. This is the main source of additional income and there are limited opportunities for other work.

Though refugees wishing to leave the camp are required to get permission, many risk arrest by leaving without authorisation. Many refugees have tried to stay outside the official sites and settle in rural areas. Whilst a small number of (mostly educated) refugees have been given permission to stay in urban areas, many more stay illegally. There are estimated to be over 100,000 self-settled refugees in Zambia who have never registered with the authorities. Currently there are no legal mechanisms for them to acquire legal citizenship.

Credit-based interventions

Three types of credit-based intervention have been implemented in Mayukwayukwa settlement: fertilisers and seeds, oxen loans and live-

stock apprenticeship schemes, and cash credit. This paper examines lessons learned from this last type.

In early 2003 the Mayukwayukwa community appointed a loan committee – comprising three women and three men – to be responsible for all decision making. CORD and the committee signed an agreement stating that funds belong to the committee on condition of full transparency of receipts and disbursements. Funds collected are rotated within Mayukwayukwa refugee settlement and do not return to CORD. The only funds not rotated are 50% of the interest collected on the loans; this is given to the committee as an incentive.

The credit model is based on standard solidarity group lending principles to encourage group dynamics. The groups consist of 20 members with half the group receiving a loan. Upon



successful repayment by the first half of the group, the second half will receive their loans. It is assumed that the first half will then apply pressure on the second half to repay in order to enable the first group to access a second, slightly larger loan. The phased rotation of funds within the group is expected to continue until the individual entrepreneurs are in a position to manage a sustainable business.

Each individual must submit a business plan and application form to be assessed by the committee. Upon approval, the first ten members of the group receive a loan. At least half of each group must be women. The first loan is equivalent to US\$50, subsequently increasing to \$100, \$150 and \$200. The loan period is three months with repayments every two weeks after an initial grace period of one month. The interest rate is 3% per month, giving an interest charge of 9% on the full loan amount over the three months.

Individuals with existing businesses and innovative business ideas are encouraged to apply. Businesses are mainly in the form of buying and selling fish or foodstuffs such as cassava in the local markets. Other business ideas have included establishing small cafes, carpentry groups and bakery stalls.



Among the challenges facing the Mayukwayukwa scheme are:

- The low overall repayment rates – to date, about 35%, compared with Nangweshi (where CORD is working) where repayment rates are 95%.
- Most of those who were participants in the scheme and who have returned to Angola left without full repayment.
- The repatriation process opened up by the declaration of peace in Angola in 2002 has made it difficult to obtain repayment as refugees want to conserve resources before going home.
- Limited access to markets – permits are required to leave the camp, the nearest town is a two-hour drive and lack of public transport makes getting goods to market prohibitively expensive. A refugee truck managed by the community partially alleviates this problem but the nearest rural town also has limited purchasing power.
- Collateral is not available: had collateral or savings been required to access loans most of the target group would have been excluded.
- Controversy regarding provision of the incentive – CORD and the committee finally agreed on a performance-related financial incentive to motivate the committee to collect repayments: this runs the risk, however, of encouraging the committee to pressurise individuals and groups to pay.
- Business development: while CORD provided training in establishing a small business and loan applicants submitted business plans, the post-loan follow up focused more heavily on repayment rather than business development; it is beneficial to appoint someone purely to provide business advice and development.
- Financial reporting by the loan committee: the committee struggled to reconcile the cash collected and did not always manage to reconcile loanees' pass books to loan accounts; CORD took an active role in reviewing and providing support for financial reporting but needed to balance the need for close monitoring with the desire to empower the committee.

- The short loan period dictated by the imminent possibility of repatriation: the fact that loans were initially given for three months with five subsequent fortnightly repayments encouraged short-term commercial enterprises rather than long-term productive ones.

Conclusion

The scheme has been a success in so far as many refugees have gained practical experience of entrepreneurship and had an opportunity to become self-reliant. Groups that combined funds and worked together to set up a business have reaped the highest returns. All beneficiaries received training in 'start your own business' and have produced business plans. The microfinance scheme is being linked to CORD's vocational training programme so that upon graduation the skills obtained can be put to use. Measuring ultimate impact will depend on evaluating whether skills are used in Angola in years to come.

The scheme has been a success in so far as many refugees have gained practical experience of entrepreneurship

Poor access to markets poses a major constraint for achieving full benefits from microcredit activities. In Zambia, the actual and potential contribution of Angolan refugees to the Zambian agricultural sector and to improving food security is recognised. Despite this, however, restrictions on access to markets, trade and financial capital are still being enforced.

We have come to realise that we can no longer be blind to the macro influences of policy, institutions and processes which affect refugee livelihoods. The challenge for humanitarian agencies engaged in microcredit provision is to discover how we can most usefully engage with national and international policy makers to create an enabling environment for sustainable livelihoods.

Jane Travis (jtravis@cord.org.uk) is a Programme Officer of CORD (www.cord.org.uk). She compiled this article with CORD colleagues from Zambia and Tanzania and with material from Oliver Bakewell, independent consultant.