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Refuge to Return: Operational Lessons for Serving Mobile Populations in Conflict-Affected Environments

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Abstract

Providing financial services to conflict-displaced populations presents numerous challenges. Refugees, internally displaced persons (IDPs) and returnees lack the basic assets, social bonds or predictable future that traditional microfinance methodologies rely on to mitigate risk, conduct client assessment and structure incentives. Nevertheless, by adapting sound microfinance practices to the displaced context, practitioners have begun to demonstrate that these populations can also be served effectively. In West Africa, American Refugee Committee (ARC) has successfully provided loans to Sierra Leonean refugees in Guinea and Liberia, and built the leading microfinance institution (MFI) in Sierra Leone to serve refugees upon their return. This *Refuge to Return (R2R)* approach provides specific lessons for serving mobile populations, while underlining the importance of applying and adapting sound microfinance practices in post-conflict environments.

Challenges to Serving Mobile Populations

Traditional microfinance products and strategies have proven inappropriate for mobile populations such as refugees, internally displaced persons and recent returnees. While these potential clients demand and can effectively use financial services to begin and expand small businesses in their area of refuge or immediately upon their return, they are highly vulnerable, unsuited to traditional mechanisms for conducting client assessment and ensuring repayment, and difficult to serve in a sustainable manner.

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"Poor people post conflict are bankable. However, they require innovative services with low overheads that are designed for their livelihood activities and the war-torn environments in which they must live.

Tamsin Wilson, Microfinance During and After Armed Conflict, 2001

Vulnerability: Displaced persons generally begin with few assets or community support mechanisms that can be used to supplement microfinance capital or to repay loans.

Ill-suited for repayment or assessment mechanisms: Displaced persons reside in newly created communities where societal ties are weak, impairing client assessment procedures that are usually based on a client's reputation or past business history. Moreover, the communities are temporary, lessening the effectiveness of incentives, such as long term access to loans or maintaining a good reputation.

Unsustainable: Since refugees and internally displaced persons are temporary residents, service provision is short term, reducing a microfinance institution's ability to cover start-up costs or to plan for this population for the long-term. Recent returnees are more feasible targets, though their frequent moves also challenge sustainability strategies.

While these characteristics exclude displaced populations from being served by traditional microfinance strategies, ARC's *Refuge to Return (R2R)* approach in West Africa has demonstrated that clients can be served effectively if products are adapted to their needs and they are included in a larger repatriation and reintegration strategy.

Refuge to Return (R2R)

The *Refuge to Return* approach is a long-term strategy to support displaced persons' microenterprises and build sustainable microfinance institutions. The idea is simple: in the country of refuge, ARC's microenterprise development (MED) program helps entrepreneurs to begin and expand microenterprises through loans, grants and training. Clients who complete the required training workshop, and subsequently borrow and fully repay their loans receive certificates with their name, loan information and a credit rating. Later, in the country of return, ARC establishes MFIs that serve the general (resident and internally displaced) population, but that provide preferential access to returnees with certificates.

The key innovation in this approach has been the long- term strategy and use of linkage mechanisms to enhance performance in both areas of refuge and return. In the camps, the knowledge that clients' credit histories will have an impact in the future has created an environment in which an adapted microlending program can succeed. In the country of return, a base of pre-qualified clients and trained staff has allowed ARC to implement a relatively standard microfinance program at an earlier date and in areas that are less stable than is typically recommended.

Adaptations to Serve Mobile Populations

R2R's success is based on adapting the MF product to the displaced context:

Greater Vulnerability - stepped approach that uses grants and training before loans.

Few community bonds - increase monitoring and mentoring to facilitate assessment and repayment.

Transient population – strengthen repayment incentives with certificate system and long term sustainability plan.

Suspending Sustainability

In West Africa, refugees have generally been restricted to camps that are often an hour from other population centers and on average remain in a camp for three years. Since creating a sustainable structure for this situation is neither cost-effective nor feasible, ARC does not focus on institution building or providing cost recovery services in refugee camps. Instead, ARC builds client capacity and instills credit discipline, investments that prepare clients to access sustainable microfinance programs upon their return. Later, in the country of return, where sustainable service provision is possible and appropriate, ARC builds MFIs that charge market rates of interest.

Using this strategy in 2001-2003, ARC[i] was able to serve over 4,600 Sierra Leonean refugee clients in Guinea with loans from start-up to close out, while maintaining an average arrears rate of less than 3.5% and loan losses of less than 3.0%. On the return side, with 30% of its initial loans going to former refugee clients, ARC established a microfinance program, *Finance Salone*, before peace was fully established and in regions of Sierra Lone where populations were not yet stable. Two and a half years later, *Finance Salone* is transforming into a for-profit MFI and serving more than 7,000 clients with a portfolio at risk rate (1 day or more past due) of less than 1.0%.

OPERATIONAL LESSONS - MICROFINANCE FOR REFUGEES AND IDPS

West Africa Program Overview

ARC's MED programs for camp-based refugees are based on a stepped approach that responds to their vulnerability, lack of credit history and need for particular incentive patterns. Initially, refugees are tested with small contingent grants that they can use to begin income generating activities. Refugees that invest both steps of the grant (two steps of US$10 each) in their business and reinvest the profits over the four month period become eligible for group loans (US$35 to be repaid over four months). Groups that complete the first loan are eligible for larger "advanced" loans (US$70 to be repaid over six months). Nominal interest of 1.0% is charged on loans in order to instill good credit principles and discipline. Throughout the program, business management training and mentoring are provided by ARC technical staff. With these services, refugees are able to begin and expand small businesses that serve the camp and surrounding populations, while ARC is able to build a strong client base and minimize risks.

Specific Strategies for Refugees and IDPs

To ensure program success, ARC employs a number of mechanisms and approaches specific to refugee populations:

<u>Stepped program:</u> Recognizing that refugees arrive with few assets and have little formal education and training, ARC uses a stepped approach, providing income generation funding options that increase in size and complexity commensurate with refugees' practical knowledge and skill levels.

<u>Focus on the economically active:</u> Rather than focusing on the most vulnerable populations, ARC targets assistance for the economically active. These clients, who already have started microenterprises, are part of susu groups (traditional rotating savings and credit associations or ROSCAs) and have some basic business skills, have a better chance of successfully managing a business and contributing to the improved livelihood of other family members.

<u>Monitor and mentor clients</u>: Considering the weaker community ties in refugee camp settings, program staff closely monitors guarantee groups and their businesses. In addition, to help refugees prosper in a competitive and limited market, staff members provide business management training and mentoring.

These services help groups and individuals to successfully manage their businesses and minimize repayment problems.

Use microfinance indicators: Unlike many refugee-focused programs, ARC uses standard microfinance performance reports that track arrears and portfolio at risk. These indicators provide information to management on program performance, as well as communicate to staff and clients that portfolio quality is important.

Transparency: As vulnerable populations, refugees are easy targets for exploitation by staff and others, who can "guarantee access to loans" in return for sexual or other demands. ARC works to avoid exploitation by clearly communicating policies, employing comprehensive monitoring systems and ensuring transparent loan approval and disbursement procedures.

Certificates and database: Clients who repay their loans successfully receive a certificate that includes their name, type of loan received and a credit rating. To ensure that the certificate serves as an incentive, but provides useful information for the receiving program, the rating is in the form of an "A, B or C", with A's assigned to individuals that have made all repayments on time and C's to those who eventually repay the loan after the due date. ARC maintains a searchable back-up database with all client information that can be used by receiving institutions to verify clients in their home country.

Brand program differently: ARC brands the program as "development" rather than relief-oriented and broadcasts this difference to clients and other agencies. As a result, the staff, clients and other agencies understand that loan repayment will be strictly enforced.

Retooling the Certificate

Initially, the certificate did not include details about on-time repayment or loan size, but simply noted that bearers had eventually repaid. As a result, ARC found that it was of limited usefulness for the receiving MFI. In response, ARC added letter credit ratings, loan sizes and loan numbers, information that enabled the receiving institution to better assess a client's credit history. Beyond improving the *return* side of R2R, implementation of the credit rating system halved arrears rates on the *refuge* side, since ratings gave clients a concrete incentive to repay on time.

OPERATIONAL LESSONS - MICROFINANCE FOR RETURNEES

West Africa Program Overview

In return countries, ARC has learned to implement microfinance programs in transitional/post-conflict situations by utilizing "sound practices," drawing upon national and expatriate staff from its refugee focused programs, and relying upon former clients for a strong base of initial clients. ARC begins by creating a microfinance program that initially provides loans itself, but which is designed to be spun off into a locally registered MFI as soon as is feasible. The department is organized along a decentralized branch structure and provides loans through a solidarity group lending methodology. Loans start small and increase over time with good repayment (US$75-$300; 7-10 month terms). Sustainable interest rates are charged and management focuses on effective and efficient service delivery.

Specific Strategies for Returnees

Although in many respects a standard best practice program, ARC employs Specific strategies that allows it to work earlier than in other post-conflict programs and to target populations that are not yet stable.

Use experienced staff: ARC has been able to begin programs quickly in Liberia and Sierra Leone by employing returned refugee staff from its refugee focused MED programs. The staff are supplemented by professional staff that can lead program design and adapt products to the challenging post-conflict environment.

Lend Directly: Local institutions in countries that have experienced long-term conflict generally have little capacity and are unsuitable to engage in ambitious microfinance programs that require long-term vision, developed systems and transparent operations. Rather than attempt to build these institutions' capacity through a microfinance program, ARC has found that it is more efficient to directly lend from a separate microfinance unit that is structured to be spun-off from the beginning.

Serve former clients: In areas where there is significant return of refugees, former clients are drawn upon to create a strong initial client base. In addition, former clients can help market and publicize the program, emphasizing the rigor with which loan repayment is enforced.

Adapt to vulnerability: Conflict-affected clients, whether residents or returnees, have fewer assets and greater burdens placed upon them (e.g. additional family; degraded infrastructure and markets). To adapt, ARC serves start-up businesses as a proportion of its portfolio (20%) and encourages clients to access other business development services and relief resources to improve their ability to use loans effectively. In addition, ARC recommends that groups organize bulk-buying and other support mechanisms among group members to ensure that capital is efficiently invested and that clients have access to support if they encounter problems.

Importance of Savings

ARC's microenterprise development programs use participation in savings groups as one criterion for selecting clients in refugee camps and require on-going savings for clients of its microfinance programs. Mobilizing savings directly however, has not been emphasized due to concerns over security and a desire to focus programming on lending. Nevertheless, recognizing the importance that savings can play, ARC is piloting a savings and literacy program for refugees in Guinea and plans to begin similar programs as part of its reintegration program in Sierra Leone.

CHALLENGES TO IMPLEMENTING AND REPLICATING REFUGE TO RETURN

Although the *Refuge to Return* model offers a strategy for providing appropriate and effective microenterprise development services to mobile populations, there are a number of challenges that must be taken into consideration before implementation.

Replication Challenges

Committing to work in both refugee camps and home country: The main challenge facing any implementation of this model is whether an organization in good faith can promise services both in a refuge and a return situation. While the typical start-up donors for this program (BPRM, UNHCR, UNDP) are generally present in both countries, their management and objectives can differ between country programs, making either component of the system difficult if not impossible to implement. ARC has addressed this issue by presenting R2R as a strategy and approaching donors on both sides of the border, however, timing and funding do not always converge to permit the smooth operation of activities.

Maintaining quality control amid competing donor expectations: Of equal difficulty is maintaining quality on either the refuge or return side of the strategy. Some relief donors and practitioners have little knowledge of the technical challenges involved in microfinance and often tie funding to unreasonable demands (working with local partners, integrating programs) or accept poor quality as success (e.g. 80% repayment has often been considered successful in relief settings). As a result, they can poison the well for best-practice oriented programs. ARC responds by promoting standards for microfinance interventions and educating donors and practitioners alike about methods for serving mobile and other post-conflict populations.

Shifting gears and recruiting effective staff: The internal challenges are often as daunting as the external when it comes to microfinance for refugees and other displaced persons. Relief agencies often do not have the experience or have difficulty adopting the outlook necessary to implement microfinance effectively. Even if the proper institutional experience is there, they may not be able to find qualified staff to work in post-conflict countries – individuals who not only have microfinance skills, but the ability to build an effective MFI in a transitional, fragile environment. In response, ARC has determined that it is better to delay with lending activities until the proper staffing is in place.

Replication Strategies

ARC believes that the R2R model is replicable in a number of conflict affected areas, including Liberia, the Democratic Republic of Congo, Afghanistan and Sudan in the near future. While ARC has developed a basic approach, this strategy can be improved through at least two means:

<u>Practitioner Coordination</u>: The R2R system has worked well in West Africa because ARC has sizable operations in the three war-affected countries, which gives refugees confidence that ARC will be present when they return. For future interventions, where ARC or the initial implementing agency may not have as strong of a regional presence, linkages between microfinance practitioners should be created so that refugees will have confidence that their credit history and certificates will be honored by other microfinance NGOs upon their return.

<u>Promoting Standards</u>: Microfinance in refugee and conflict situations is generally of poor quality, with a large number of relief-oriented programs that have neither the staff nor outlook to conduct effective programming. Promoting “sound practices” in relief situations among practitioners and donors should help to limit the number of microfinance interventions and improve the quality of those chosen to implement.

Conclusions

The *Refuge to Return* model is an innovative and practical trans-border response to restoring livelihoods of displaced persons within a war-affected region. *R2R* mitigates the constraints posed by serving mobile populations of refugees, IDPs and returnees by linking programs in a long-term, sustainable strategy and developing timely and appropriate financial products. Beyond providing specific lessons for serving mobile populations that can be replicated in a number of contexts, the *R2R* approach demonstrates that adapting services to local contexts is the key to serving hard-to-reach populations.

Endnotes

[1] ARC has been supported by the US State Department: Bureau of Population, Refugees and Migration, UNHCR and UNDP to implement its various MED programs.