micro NOTES
Issue 1

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

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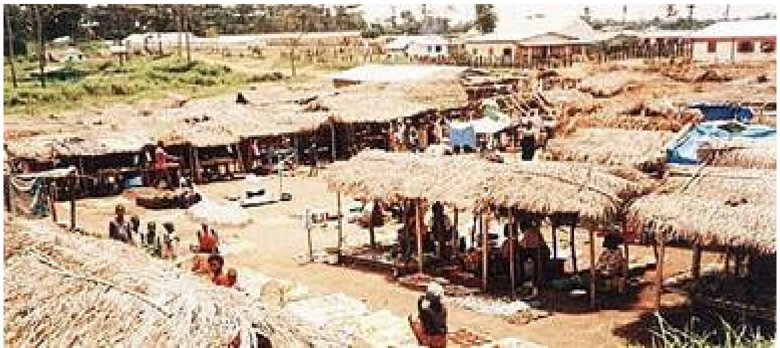
Executive Summary

"For microfinance programs to become part of the permanent institutional fabric of an emerging post-conflict economy, loan recovery must be a key goal from the outset. This is hard to do with mobile populations, who may at any time literally walk away from their loans. Thus, many practitioners have concluded that it's usually best to work with relatively stable populations."
- Dave Larson – MBP Microfinance Following Conflict, Brief No. 4, 2002.

Population stability is considered an essential precondition for implementing successful microfinance programs in post-conflict areas. This sensible rule is derived from early forays into microfinance that attempted, and largely failed, to serve refugees, internally displaced persons (IDPs) and returnee populations. Nonetheless, practitioners have continued to experiment with the provision of microfinance to these mobile populations. In the West African countries of Guinea, Liberia and Sierra Leone, American Refugee Committee, International (ARC) has developed an effective approach, *Refuge to Return (R2R)*, which links financial services to refugees in their country of refuge with those in their country of return through a transferable credit history methodology. By providing the necessary incentives for repayment and applying sound microfinance practices, 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 them upon their return. While offering general lessons for service provision to mobile populations, this approach also provides a comprehensive refugee/IDP assistance model that can improve livelihoods, cement transitional periods and promote the durable returns of refugees and IDPs.

Serving Mobile Populations – Opportunities and Challenges

The number of refugees and internally displaced persons worldwide has increased dramatically over the past three decades, rising from 2.3 million in 1970 to over 35 million in 2003.[i] These large scale popula-



Laine Refugee Camp Market – Guinea

tion movements reflect both the increasing frequency and nature of conflict globally, as war between nations and respect for non-combatants have been replaced by civil conflict within nations and the deliberate targeting of civilian populations.[ii] While residing in camps and temporary shelters either internally or abroad, displaced persons' livelihood options are limited by restrictions on land use and the scarce supply of formal employment opportunities. Similarly, upon return, displaced persons' livelihood strategies may also be constrained until they are fully reintegrated into the community and regain access to land or other common resources. Beginning micro businesses is one income-replacement strategy for these populations; however, the initial flight or insecurity of return generally depletes any accumulated assets, making this option difficult to implement without access to capital.

In this context, there is an opportunity for microfinance and broader microenterprise development services to help displaced populations to increase their economic security. Appropriate microfinance services can provide the capital for the displaced to begin and expand micro businesses that generate income while in refuge and practical experience for their return. At the same time, while residing in camps, refugees and IDPs are a receptive audience for business management training which can serve them in the camp and after their repatriation.

However, there are a number of challenges to serving this population effectively with a standard microfinance program:

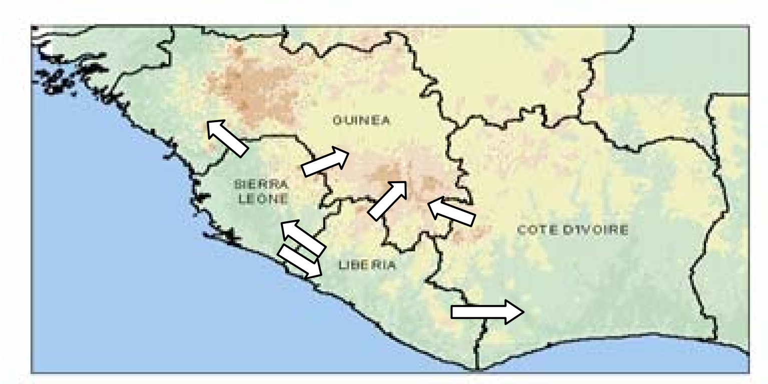
- Client assessment is difficult without community references or business history
- Group guarantees are less effective due to weak community ties
- Long term access to loans in the area of displacement or maintaining a good reputation are less effective incentives with transient populations
- The displaced represent a highly vulnerable population
- Displaced populations often reside in remote or insecure areas that are difficult to reach with sustainable services
- Repayment is more difficult in a relief environment where grants and an entitlement mentality exist.

Practitioners have responded to these difficulties with two rules of thumb:

1. For displaced populations, lending should not occur until the camp is well established and targeted clients are expected to remain for six months or one loan cycle.
2. For returning populations, lending should not begin until the population is stable, a condition that may not be fulfilled for

An Early Foray into Refugee Lending

International Rescue Committee's Small Economic Activities Development Program (SEAD) in Cote d'Ivoire provided loans to Liberian refugee and Ivoirian entrepreneurs between 1996-2000. Initial results were good, proving that refugees can respond to an appropriate lending methodology. However, insufficient technical staff, poor monitoring and inadequate repayment incentives once repatriation began led to large scale default. Towards the program's end, over US$73,000 was in default of a portfolio that at one point was valued at US$400,000.



Refugee Flows in the Mano River Basin

12-24 months following cessation of hostilities.[iii]

While prudent counsel, this directive to "wait" has prevented microfinance services from reaching a marginalized population that desperately needs them. R2R offers the opportunity to shorten the waiting period and improve the effectiveness of services.

Refuge to Return (R2R) – A model for serving mobile populations

1. Context – Conflict and Displacement in the Mano River Basin

Conflict and large-scale population movements have plagued the Mano River Basin countries of Guinea, Ivory Coast, Liberia and Sierra Leone since 1989.

Endemic poverty, illicit trades (e.g. diamonds for arms) and failed governance have fueled armed conflict, while porous borders have facilitated the movement of rebel groups and refugees between the four countries. Liberia and Sierra Leone have experienced the longest and most damaging conflicts, but Guinea and Ivory Coast have not been immune. Guinea suffered from cross border fighting in 2000 and Ivory Coast has been engaged in a civil war since late 2002. These conflicts have led to some of the largest population movements in recent history, creating at least 500,000 refugees and three million internally displacedpersons.

2. Refuge to Return – ARC's Microfinance Response

ARC's microenteprise development (MED) programming aims to help refugees, IDPs and other war-affected populations generate income by starting and expanding micro businesses.[iv] Since beginning operations in 1996 in Guinea, ARC has implemented two distinct program types:

- Small grants, loans and business training *to camp-based refugee entrepreneurs* in Guinea, Sierra Leone and Liberia;
- Loans *to returnees, IDPs and host population entrepreneurs* through microfinance institutions in the post-conflict countries of Sierra Leone and Liberia.

While these two MED program types are distinct and implemented by different country programs, they have been linked by an evolving strategy for building microenterprises called Refuge to Return (R2R). The idea is simple: in the country of refuge, ARC's 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 loan receive certificates with their name, loan information and a credit rating. Later, in the country of return, ARC establishes microfinance institutions that serve the general (resident, returnee and IDP) population, but that provide preferential access to returnees with certificates.

The key innovation of R2R has been the longer term strategy and use of linkages between programs to enhance performance in both areas of refuge and return. In the camps, the knowledge that their credit history will have an impact in the future has created an environment where 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 normally recommended.

It is important to note that R2R takes a strategic approach to subsidies. The refuge side of the equation is highly subsidized: to reach vulnerable clients and prepare them for future programs, the program provides a combination of preparatory grant and training services along with microloans. However, the return side is structured similar to most microfinance programs, with up-front subsidies, but a focus on becoming profitable within 3-5 years. This approach takes into account that certain populations may not be reached initially with traditional microfinance services, but requires a step-up to effectively access sustainable products. It also indicates that a comprehensive program of services, some subsidized and some sustainable, can be an effective means to serve vulnerable or marginalized populations.

3. Results and Keys to R2R Success

Between 2001-2003, ARC implemented a R2R approach for Sierra Leoneans in Guinea and Sierra Leone. In Guinea, ARC/ Guinea was able to serve over 4,600 Sierra Leonean refugee clients 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%. 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 Leone where populations were not yet stable. Two and a half years later, *Finance Salone* is transforming into a for-profit company and serving over 7,000 clients with a portfolio at risk rate (one day) of less than 1%.

R2R has been successful in Guinea and Sierra Leone because it has responded effectively to the constraints posed by mobile populations with a longer term strategy (Table 1).

Lessons Learned and Replication

Replication offers the opportunity to improve the economic security of displaced populations in other similar conflict affected areas including Liberia, Congo, Afghanistan and Sudan. However, before venturing into new *R2R* efforts, practitioners and donors should ensure they can meet basic microfinance standards and consider three means to improve the strategy:

1. <u>Get the basics right</u>: Working in post-conflict environments presents many challenges, including securing good staff, reacting to rapidly changing situations and serving vulnerable populations. Any new program should ensure that it can meet the demands of a normal best practice program in this environment before attempting to serve more challenging mobile populations. ARC learned early in Liberia that, without getting the basics right, the *R2R* model could not succeed.

2. <u>Coordinate practitioners</u>: The *R2R* system has worked well in West Africa because ARC has sizable operations in the three war-affected countries to give 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 programs upon their return.

3. <u>Promote good practices</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.

The *R2R* model is an innovative and practical trans-border response to restoring livelihoods of displaced persons within a war-affected region. Replication, when based on sound practices and combined with increased coordination, offers the opportunity to effectively facilitate economic development during the initial transition phase and serve as a long-term tool for reconstruction and development.

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[i] US Committee for Refugees*, World Refugee Survey 2003.*
[ii] The relationship between displacement and conflict depends, of course, on a variety of factors that differ from country to country. But globally Donald Horowitz has found that for every violent death, 100 people flee. See his *The Deadly Ethnic Riot* (Berkeley: University of California Press, 2001), pp. 10-11.
[iii] Rules of thumb are reported in Larson, Dave, *Following Conflict Brief #4*, 2002; and in Nagarajan, Geetha, *ILO/UNHCR Technical Workshop: Microfinance in Post-conflict Situations - Towards Guiding Principles*, 1999.
[iv] ARC has been supported by the US State Department: Bureau of Population, Refugees and Migration, UNHCR and UNDP to implement its various MED programs

Table 1: Overcoming Microfinance Constraints for Refugees and Returnees

Constraints to Serving Mobile Populations	R2R Responses in Refugee Camps	R2R Responses in Return Situations
Client assessment difficult without community references	➢ Lengthen assessment period ➢ Test with small grants	➢ Use certificate to supplement assessment of potential groups
Group guarantee ineffective due to weak community ties	➢ Use smaller guarantee groups and more stringent selection criteria	➢ Use more stringent selection criteria when assessing group ties
Traditional incentives less effective	➢ Certificate provides incentive for future access in return community ➢ Build and apply community structures in camps (e.g., market committees) to provide incentive for repayment	➢ Stress importance of reputation to community reintegration ➢ Be prepared to halt lending in communities with poor repayment and put onus on defaulters
Highly vulnerable population	➢ Provide business training and mentoring with loan ➢ Employ redundant monitoring systems to avoid exploitation and graft	➢ Use certificates to help select clients with experience ➢ Encourage clients to access additional business training
Difficult to develop sustainable structures	➢ Consider sustainability over long-term (i.e. post-return)	➢ Focus on sustainability from beginning
Relief environment	➢ Brand program as a “development” program with link to future benefits ➢ Hire/train staff to apply different standards to lending program	➢ Brand services as permanent that will exist following end of grants ➢ Hire professional staff