NEW ISSUES IN REFUGEE RESEARCH

Research Paper No. 199

Microfinance and refugees: lessons learned from UNHCR's experience

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January 2011

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Printed in UNHCR

These papers provide a means for UNHCR staff, consultants, interns and associates, as well as external researchers, to publish the preliminary results of their research on refugee-related issues. The papers do not represent the official views of UNHCR. They are also available online under ‘publications’ at <www.unhcr.org>.

ISSN 1020-7473

Introduction

Refugee situations are becoming increasingly protracted, with refugees trapped in a state of limbo, unable to access durable solutions and relying in part on external assistance in order to survive. Humanitarian agencies, including UNHCR, are struggling to find ways of promoting livelihoods and self-reliance in these circumstances.

Livelihood interventions such as microfinance present an attractive option to address these challenges since refugees in long-term displacement do not face an imminent prospect of return or resettlement. Microfinance – and microcredit in particular – provide for a more dignified way of assisting displaced populations as they do not promote a culture of handouts but instead with promise to alleviate poverty through income generation.

Microcredit activity can also be self-sustaining in financial terms, something that is particularly useful in long-term displacement situations in which donor funding is usually in decline. Microfinance in general fills an important gap as it makes available a range of financial services that are not normally present in displacement settings. Remittances and money transfers for example are important for refugees as they are a convenient way to send and receive money from family and friends.

Consequently, UNHCR is increasingly implementing livelihood interventions targeting refugees, returnees and IDPs (internally displaced persons). UNHCR seeks to support these populations' economic self-reliance with the help of livelihood programming which includes access to grants and loans, training and labour-based activities such as cash or food-for-work activities.

The rationale behind livelihood programming is that promotion of self-reliance is a way to accelerate the achievement of durable solutions and microfinance is an important part of UNHCR livelihood programming. The aim of microfinance is to make available financial services for micro entrepreneurs and low-income people who have the potential to become economically active.

Despite the fact that UNHCR has been involved with microfinance for two decades, there is little comprehensive information available on UNHCR's experiences in providing microfinance in refugee settings. These experiences have not yet been documented in a systematic manner. This review seeks to fill that gap and addresses the following questions: to what extent have microfinance programmes been employed in refugee situations and what forms have these programmes taken? And what have been the outcomes of these programmes and what lessons can be learned from UNHCR's experiences with microfinance programmes so far?

This research paper focuses in particular on the last 10 years, as it was in 2000 that UNHCR started to take serious steps to improve its microfinance activities. Its findings are based on UNHCR documents and evaluations as well as external reports and research papers produced by non-governmental organisations (NGOs) and academia. In addition to this, interviews were conducted with UNHCR staff with experiences of working in microfinance within UNHCR.

In order to get a better understanding of how UNHCR's microfinance programmes are designed, three case studies have been given particular attention: Costa Rica, Serbia and East Sudan. These programmes were chosen because they represent a good geographical spread and include long-term refugees with both urban and rural/camp-based profiles. Information was gathered from project documents, recent evaluations and interviews with staff working in the chosen countries.

Definition and origins of microfinance

According to a training manual by the ILO (International Labour Organisation) and the UNCHR[1], "microfinance is the provision of financial services in a sustainable way to micro-entrepreneurs or any people with low incomes who do not have access to commercial financial services. Put simply, microfinance is banking with the poor".

The origin of microfinance can be traced back to the 1950s when governments and donors provided subsidised agricultural credit to small and marginal farmers, with the goal of increasing productivity and income. In the 1970s, development aid shifted its focus from industrial development to small business development.

Before long, efforts by Muhammad Yunus in Bangladesh and by the Self-Employed Women's Association in India and Latin America to provide small loans to mainly rural women started a movement of micro enterprise development and credit. It proved viable as many loan recipients repaid the loans promptly and some ran successful enterprises.

In 1986, the Grameen Bank was created and the Grameen approach caught on. With the increase of the implementation of microcredit projects, experimentation performed mainly by practitioners in developing countries took place with regard to size of loans, provision of other services, and innovative ways of finding substitution for collateral and target clientele.

Different kinds of organisations were called upon to implement microcredit projects. All these experiments resulted in the emergence of microfinance institutions (MFIs), specialised financial institutions that provide financial services to the poor. With time, microcredit was taken more seriously by policy makers and other organisations.

By the 1990s, other financial services were added as it was realised that the poor needed more services beyond credit, and the idea of microfinance emerged. During this time, efforts to make microfinance more professional were initiated and a number of best practice approaches were developed.

The current trend in the microfinance industry an "inclusive finance approach", which aims to promote both access to financial services for all poor, not just the micro-entrepreneurs, and the integration of microfinance into the formal financial sector.

The UN designated 2005 "the year of microcredit" in recognition of the success that microcredits have had in the eradication of global poverty, woman empowerment and human and social development. This illustrates that microfinance has grown into an

1 UNHCR & ILO, "Introduction to microfinance in conflict-affected communities", Training manual, 2002, p. 1

accepted development idea with an established set of practices. Furthermore, many successful MFIs have demonstrated that providing financial services to poor people can be financially viable[2].

Since microfinance initiatives were first established, there has been a diversification of the microfinance movement and the philosophies of the different providers vary. MFIs also exist in various legal forms, including non-governmental organisations, credit unions, non-bank financial intermediaries and commercial banks. However, most have as a starting point the following goals: to use clients' character as the main collateral, to rationalise administrative costs to keep costs down, to provide positive incentives for repayment, to charge interest rates to cover costs and to emphasise the long-term sustainability[3] of the lending organisation.

Although there is general recognition of the financial success of the microfinance movement, its success needs to be put into perspective. Some researchers argue that repayment rates are not as high as have been claimed and that microfinance's contribution to the eradication of global poverty has in actual fact been limited.[4]

Furthermore, a large part of microfinance's growing popularity is the movement's framing of microcredit as a human right, as well as a means to empower women. It also offers an ethical way to make money. This has proven to be very appealing to donors and other organisations.

Microfinance in conflict situations has been practised since the 1970s, but many early attempts resulted in failure due to false assumptions about design and implementation in conflict environments. Efforts to cater to the credit needs of people in conflict situations have nevertheless continued, but there is still knowledge about the challenges and opportunities related to the demands and needs of potential clients in conflict-affected areas compared to in times of peace.

Critics have argued that the implementation of microfinance in conflict situations is prone to failure because instability makes a broad and sustainable programme difficult to establish. There is often a lack of confidence in conflict area economies due to weak government and poor security, resulting in low foreign and domestic investment.

Formal financial institutions are often dysfunctional and semi-formal financial institutions are mainly donor-assisted NGOs. There is frequently a lack of trust in society, few opportunities to engage in productive activities and a lack of assets that can be used as collateral.[5] Furthermore, there is typically a general disrespect for the rule of law and an uncertain, sometimes violent, political situation. Finally, there is a general focus on survival and on short-term planning.[6].

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[2] Dichter & Harper (Eds.), "What's wrong with microfinance?", 2007

[3] Financial sustainability is defined here the ability of a programme to cover its costs from its client payments without donor grants or subsidised loans.

[4] See e.g. Jain & Moore, "What makes microcredit programmes effective?", 2003, and Dichter & Harper (Eds.), "What's wrong with microfinance?", 2007

[5] Nagarajan, "Developing micro-finance institutions in conflict-affected countries: Emerging issues, first lessons learnt and challenges ahead", 1997

[6] Williams, "Post-conflict microfinance research summary", 2002

However, despite these risks, there is now enough empirical evidence from the field to substantiate that microfinance can be an effective tool in conflict environments and the outcome seems to depend on the design of the programme, the clientele targeted and the institutional models used.

Adapting microfinance to refugee situations

The extension of microcredit into conflict areas has led to the inclusion of refugees as within target populations. There is empirical evidence that suggests that under the right circumstances, microcredit has the potential to support the livelihood strategies of people in displacement settings.

Furthermore, protracted refugee situations are becoming more common. A common characteristic of protracted refugee situations is a progressive decline in international humanitarian aid, coupled with high economic insecurity since there is little employment or land (for farming or livestock) available to the refugees. In camps or settlements, refugees are also often faced with restrictions on their movement and possibilities to access education or employment.

Small enterprises such as petty trade and services are the main way for people to generate income in these circumstances. However, cash or credit is needed in order to be able to start up a business and besides friends and family, displaced populations have very limited access to credit as banks or microfinance institutions are normally not available to displaced populations.

In urban areas, many refugees are dependent on small businesses to make a living and although there are more banks and credit facilities than in camps, refugees do not normally have access to these services. Extended family or other networks soon become exhausted and some resort to informal money lenders with high interest rates and rough demands. Furthermore, savings opportunities are scant and people fear that their limited savings might be in danger and sending money to family members who are displaced in other countries is risky.

Nevertheless, there are those who argue that microfinance is not necessarily an appropriate intervention for displaced people. Finding an implementing partner with the necessary qualifications is crucial and not always easy since many for-profit microfinance institutions are reluctant to engage with displaced people. Relief agencies implementing loan programmes sometimes result in failures because they are not able to adopt the business-like approach needed for the successful implementation and sustainability of microfinance interventions.[7]

Furthermore, many microcredit interventions are based on the Grameen Bank model. This model advocates that microcredit interventions should not target the poorest of the poor, but rather should target the artisans and traders. These are people who are normally not the most vulnerable, but who have some business expertise and maybe even enough resources to sustain themselves.

[7] Jacobsen, "Microfinance in protracted refugee situations: Lessons from the Alchemy Project", 2004

The most vulnerable are not considered appropriate candidates for microcredit, as their inclusion can undermine the programme's sustainability and increase other participants' vulnerability by exposing them to debt. This approach is often at odds with the philosophy of humanitarian organisations which are mainly concerned with assisting the most vulnerable.[8]

Some practitioners and researchers also argue that credit is nevertheless a debt, and there is a need to remain aware of the different ways in which loans and debt can impact the lives of poor and vulnerable people. Circumstances beyond the control of the client can make repayment of loans exceedingly difficult (natural disaster, sickness, theft, drought etc., or a lack of knowledge or skill). As a result, lenders might have to rely on informal money lenders in order to be able to manage these risks and ensure repayment on time. This may be particularly true in displacement settings.

There are also a number of circumstances that make providing microfinance services for refugees particularly difficult compared to providing microfinance services to a non-displaced population. Displaced populations are often isolated from the host community and many times suffer from a lack of basic amenities. Another important factor is the potential onward mobility of refugee populations.

Although displaced populations, particularly in protracted refugee situations, frequently appear "stuck", many in the population still aspire to leave this setting – either to go home or to go somewhere else where there is more potential to access a secure livelihood. They are therefore reluctant to set up businesses in a temporary location. Furthermore, displaced populations are sometimes forcibly relocated.

The prospect of onward mobility poses the risk of non-repayment of the loans before departure. Moreover, displaced people are more likely to be deprived of legal, social and economic rights and are, therefore, more restricted in their possibilities to pursue a livelihood outside the camp or designated area. They might also encounter difficulties with the host communities, for example, hostility and other security problems. This creates market access problems and transportation constraints.

Additionally, the presence of relief agencies in long-term refugee situations often creates a culture of "free services", which can make implementation of a microfinance programme difficult as this might lead to people exploiting the system.[9] Finally, refugees normally have few assets; they generally have a lack of connections in the local community, little entrepreneurial experience and an unclear future.

All these circumstances constrain financial production and hence the performance of the microfinance programmes. As a result, displaced populations are often considered a high-risk investment, which has resulted in traditional microfinance institutions being more reluctant to engage with them.

These characteristics have also resulted in the failure of many microfinance programmes as these interventions have been started up too quickly, poorly planned

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[8] Jacobsen et al., "Using micro enterprise interventions to support the livelihoods of forcibly displaced people: The impact of a microcredit program in IDP camps in Lira, northern Uganda", 2006 & Field Exchange, "Microfinance in refugee situations, summary of published research", 2009

[9] Jacobsen, "Microfinance in protracted refugee situations: Lessons from the Alchemy Project", 2004

and with little impact on income and assets. They have subsequently collapsed due to confusion over grants and credits and have encountered repayment problems. Further, microcredit programmes in refugee camps are not always well understood, resourced or evaluated.

However, some interventions have been more successful with impacts on income and assets and the encouragement of sustainable microfinance institutions. Recent research on the impact of microfinance programmes on livelihood has shown that these kinds of interventions can be an appropriate intervention for refugees, in particular for refugees in protracted displacement, under certain conditions[10] and if the design of the programme takes into consideration the specificities of the refugee situation.

The Alchemy project[11] is one study that has attempted to explore whether microfinance is a viable approach in supporting the livelihoods of displaced people. This research indicates that under the right circumstances, there are three ways in which microfinance programmes can affect livelihoods: at the level of the household (increased economic security), at the level of the individual client (increased human and social capital), and the wider camp community (enhanced credit culture and stimulation of the market).[12]

Research into the difference between microfinance in times of conflict and peace[13] and on microfinance in protracted refugee situations[14] shows that the successful microfinance programmes in these situations require an adaptation of the terms, conditions, pricing, delivery channels etc. of the products offered and should be designed to reduce poverty, risk and vulnerability. Refugees also need a mix of services including emergency loans, grants, insurance and educational input.

Another source of information on ways to design microfinance programmes for refugees can be found in established best practice and guidelines developed by development actors engaging in microfinance interventions and specialists in microfinance interventions. The Consultative Group to Assist the Poorest (CGAP) was launched in 1995 by a group of donor agencies including the World Bank. The CGAP promotes standards and offers advisory services to governments, microfinance providers, donors and investors. There are also best practice donor guidelines[15] and additional principles for conflict-affected areas[16].

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[10] According to a training manual by ILO & UNCHR, 2002, "Introduction to microfinance in conflict-affected communities, p. 18: "there must be a certain degree of political stability; there must be a certain degree of demographic stability. (…) the client community must show sufficient economic activity and entrepreneurial spirit (…)a cash (non-barter) economy"

[11] Jacobsen, "Microfinance in protracted refugee situations: Lessons from the Alchemy Project", 2004

[12] Jacobsen et al., "Using microenterprise interventions to support the livelihoods of forcibly displaced people: The impact of a microcredit program in IDP camps in Lira, northern Uganda", 2006

[13] Wilson, "Microfinance during and after armed conflict: Lessons from Angola, Cambodia, Mozambique and Rwanda", 2002

[14] Jacobsen, "Microfinance in protracted refugee situations: Lessons from the Alchemy Project", 2004

[15] CGAP, "Microfinance consensus guidelines: Good practice guidelines for funders of microfinance" 2006, http://www.cgap.org/p/site/c/template.rc/1.9.2746/ Accessed 20 March, 2010

[16] Post-conflict microfinance project, "Towards good practice principles for microfinance in war-affected contexts", http://www.postconflictmicrofinance.org/TowardsPrinciples_27_05_04.pdf. Accessed 20 March, 2010.

The joint ILO-UNHCR Training manual "Introduction to Microfinance in Conflict-Affected Communities" (2002) as well as UNHCR's internal guidelines are other important sources of information for UNHCR staff in particular. Another useful reference document is a field manual produced by the Women's Refugee Commission, "Building Livelihoods" (2009) which includes a section on the strengths and shortcomings of microfinance interventions in displacement settings.

Microfinance and women in conflict

Refugee women – in common with the majority of women in the developing world -- often suffer from a lack of equal access to economic opportunity and credit. Indeed, conflict and displacement compound discrimination against women and their vulnerabilities. This often has to do with social, cultural and institutional factors. Socio-economic studies have demonstrated that microcredit programmes can increase women's economic opportunities, expand access to health care and education for themselves and their children and contribute to women's overall confidence and wellbeing. [17]

With the increase in protracted conflict having contributed to an increase in female-headed households, women responsible for providing for their families can benefit from an improved possibility to engage in economic opportunities. Exclusion of female refugees in economic activity reduces women's ability to raise their standard of living and results in women being forced to reduce their families' food consumption and overlook the health and education needs of the family.

Indeed, an increased access to microcredit can protect women from being exploited and contributes to the provision of financial and personal physical security in circumstances of long-term displacement. However, women's empowerment is not an automatic consequence of the provision of microfinance services. Women's ability to generate income with the help of microfinance programmes is seriously constrained by gender equalities. There are also a number of gender-related risks, for example:

- high demand for loans may actually be a sign of pressure to get access to loans for their husbands or in-laws.

- debt might lead to impoverishment and abandonment.

- the increased burden on women might increase their vulnerability and poverty.

- desperate women might go to great lengths to repay loans; prostitution or even loans from loan sharks.

As a result, although there are clearly potential benefits in providing access to microfinance for women, these risks underline the need to remember that using microfinance in order to promote female empowerment also requires the general implementation of basic rights for women.

[17] This section is based on Avery, "Microcredit extension in the wake of conflict: Rebuilding the lives and livelihoods of women and children affected by war", 2005 and Women's Refugee Commission, "Building Livelihoods", 2009

Defining success in microfinance

Since this research paper makes an attempt to identify some success or failure factors of microfinance programmes, it appears of importance to discuss what is understood by a successful or effective microfinance programme.

When studying the organisations in the field of microfinance, two kinds of organisational approaches can be identified: one that has a "pro-poor" approach and one that has a more "commercial", for profit approach. The "pro-poor" (mainly NGOs) approach focuses on providing financial services to the poorest of the poor and emphasises client quantity, i.e., reaching many vulnerable people rather than client quality (low risk clientele).

In this case, the goal of the lending programme is to have a social impact by providing financial opportunities to the targeted clientele. There is also a focus on social services. This approach requires that the microfinance institution receive continuous external funding in order for the programme to continue.

The more "commercial" approach focuses more on self-sufficiency and the importance of reducing dependency from external sources. This also requires a more market-oriented organisation and normally means that there will be fewer poorest-of-the-poor clients and instead more clients who will have less difficulty repaying their loans. There is also a third type of MFI, in which cooperatives are established.[18]

There now appears to be a preference for the more "commercial" approach, as this approach is seen as offering better prospects for the achievement of financial sustainability. The understanding of success from this perspective is based on the financial success of the programme (e.g. repayment rates) rather than on how it influences the economic security of the community.

In this context, the financial sustainability of the programme is crucial. This also entails a focus on institutional capacity, product development and appropriateness and scale of operations. One of the reasons for a focus on economic and financial aspects of microfinance is the difficulty of assessing the less tangible social and economical impacts of microfinance programmes.

It also needs to be pointed out that based on this more commercial perspective, "successful" microfinance institutions have been largely successful because of the organisations' ability to develop some hard-nosed commercial, organisational and sociological practices. These practices have been market-oriented and have been well adapted to the circumstances in which they operate. Jain and Moore (2003)[19], for example, argue that successful microcredit programmes are in essence successful businesses.

They have designed organisational structures and procedures that enable them to manage banking operations in difficult circumstances and they are providing financial services to match client needs. They have also decreased loss of funds by matching loan repayment schedules with borrowers' income and savings potential and by

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[18] Von Pischke, "Methodenstreit and sustainability in microfinance: Generalizations describing institutional frameworks", in Dichter & Harper (Eds.) "What's wrong with microfinance?", 2007
[19] Jain & Moore, "What makes microcredit programmes effective?", 2003

finding ways of obtaining good work performance from the staff involved. They are also keeping transaction costs low.

This comparison with businesses is useful as it provides a basic and clear way of understanding the reasons for success and failure and also highlights the need for adaptation of organisations and practices to local and changing circumstances.

There is now agreement in the microfinance industry that financial success is crucial for the overall success of microfinance institutions. The reasoning is that an MFI that can cover its costs can serve more clients. Financial performance outcomes are measured by loan portfolio quality, operating efficiency and profitability.

Yet, it is quite clear that these indicators do not provide a full picture when it comes to the performance of microfinance in terms of poverty reduction or empowerment. This provides limited information about key values and scant evidence about what is actually being achieved in the lives of the targeted population. Indeed, high repayment rates could even mask a build-up of informal debts.

The lack of information and understanding implies that there is a need for caution, especially for humanitarian or development organisations. There is a risk that this focus on the financial aspects means that MFIs may be neglecting the political and social impacts of microfinance. This is especially important considering the way in which UNHCR sees success in microfinance.

However, there is now renewed interest and demand for more social goals and action, in particular by donors and governments. This is based on the understanding that MFIs should be held more accountable for the achievement of social outcomes as well as their financial performance. This renewed interest in more social aspects of financial services can be described by the concept 'social performance' which seeks to shed some light on how microfinance improves the lives of poor people. A CERISE (Comité d'Echange, de Réflexion et d'Informations sur les Systèmes d'Epargne-crédit) Social Performance Indicators Initiative has also been developed which provides a tool for assessing the social performance of institutions by evaluating their intentions and actions.

Many microfinance institutions have both financial and social goals, but there is growing recognition that achieving social goals requires a deliberate and focused strategy by MFIs.[20] Also, the earlier described emerging concept of inclusive finance offers possibilities for a better targeting of all poor and low-income earners as its strategies focus on increasingly opening the financial services markets to poor and remote customers as well as increasing legitimacy and professionalism of the microfinance industry.

UNHCR and microfinance

UNHCR is seeking to support livelihoods interventions for refugees, returnees and IDPs in displacement settings. In 2008, livelihoods initiatives for displaced peoples

[20] More information on social performance can be found in Hashemi, "Beyond good intentions: Measuring social performance of microfinance institutions', CGAP, 2007

were implemented in over 70%[21] of UNHCR's operations worldwide. In UNHCR's Global Appeal 2010-2011, it is stated that the Office will work to improve access to livelihoods in protracted refugee situations and, as such, self-reliance and livelihoods are one of the seven global strategic priorities.

Furthermore, several ExCom conclusions[22] have acknowledged the importance of self-reliance as it is believed to enhance the sustainability of any of the durable solutions and relieves the burden on first countries of asylum. They are also considered to contribute to the realisation of the Agenda for Protection and the Millennium Development Goals.

Microfinance is defined by UNHCR's Handbook for Self-Reliance as:

> the provision of financial services in a sustainable way to micro-entrepreneurs and other individuals with low incomes, who do not have access to commercial financial services.

Livelihood is defined as:

> a combination of the resources used and the activities undertaken in order to live. Resources, or assets, comprise of individual skills (human capital), land (natural capital), savings (financial capital), equipment (physical capital), as well as formal support groups and informal networks (social capital)."[23]

Self-reliance, on the other hand, is defined:

> the social and economic ability of an individual, a household or a community to meet essential needs (including protection, food, water, shelter, personal safety, health and education) in a sustainable manner and with dignity – developing and strengthening livelihoods of persons of concern and reducing their vulnerability and long-term reliance on humanitarian assistance. [24]

UNHCR's livelihood interventions are considered a way to support the economic self-reliance of people of concern. Programme options include, *inter alia*, access to grants and loans; training packages to support businesses or the acquisition of skills; vocational training and sustainable use of resources. By increasing refugees' economic self-reliance, UNHCR seeks to promote durable solutions. Microfinance is one way of achieving this objective by increasing the capacity of refugees and hosting communities to generate income.

UNHCR started implementing microfinance projects in the 1990s in the Americas and the Balkans. In 1997, a manual for self-reliance was developed. However, it was not

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[21] UNHCR Operational Solutions and Transition Section (OSTS), "Project proposal, workshop on promotion of livelihoods interventions and increased access to microfinance", December 2008

[22] See e.g. Executive Committee, "Conclusion on reception of asylum-seekers in the context of individual asylum systems", no. 93, 2002

[23] UNHCR Handbook for self-reliance, 2005, p. 4 of the section "Glossary and abbreviations"

[24] UNHCR Handbook for self-reliance, 2005, p. 7 of the section "Glossary and abbreviations"

until 2000 that UNHCR started to show a real interest in the issue of refugee livelihood and self-reliance and made significant strides towards implementing microfinance activities in a more professional and comprehensive manner.

During this period, livelihood approaches started to become a more common notion when discussing refugee assistance. According to Crisp,[25] this development can be attributed to the fact that UNHCR started to take more interest in protracted refugee situations as there was an increasing understanding of the negative effects of these situations on refugees and host states.

The enhanced focus on livelihoods can therefore be partly understood as a response to the growing realisation that traditional care and maintenance approaches were of limited value – and even prolonged -- protracted refugee situations. It was also becoming clear that donor funding was in decline and that available humanitarian aid was not enough to help maintain minimum assistance standards.

In line with its renewed interest in livelihoods, in 2000, UNHCR and ILO began to collaborate, strengthening UNHCR's microfinance activities in the field. During this time, ILO seconded a microfinance specialist to UNHCR for one day a week. A microfinance policy was developed in 2001 and in 2002 a joint training manual *Introduction to Microfinance in Conflict-Affected Communities* was published.

Also, in 2002, microfinance guidelines (chapter 4 of UNHCR Manual) were established. In the following years, collaboration between ILO and UNHCR resulted in the development and implementation of training sessions and updated microfinance guidelines. In 2005, UNHCR *Guidelines on Initiating, Developing, Implementing and Evaluating Microfinance Programmes* were established.

The same year, the *Handbook for Self-Reliance* was developed which includes a section on microfinance. Since 2008, UNHCR's livelihood activities have been supported by two regional livelihood officers, one for the Americas and one ILO secondment for West Africa. There are also national livelihood officers in Yemen, Bangladesh, Chad and East Sudan. At the headquarters (HQ) in Geneva, a small team working on livelihoods is situated within the Operations Solutions and Transition Section (OSTS).

A review of available information shows that since 2000 UNHCR is implementing, or has implemented, microfinance programmes in around 45 percent of its country operations.

The extent of the microcredit programme varies in every operation, ranging from limited involvement in this area to more extensive involvement. Microfinance efforts are being implemented in a variety of settings: camp situations, rural settlements, and in a growing number of urban centres. UNHCR is currently dedicating most resources to microfinance in Africa followed by the Americas.

In the case of the Americas, there has been quite a remarkable increase considering that there were no UNHCR-supported microfinance projects on the continent in 2000.

[25] Crisp, "UNHCR, refugee livelihoods and self-reliance: a brief history", PDES background documents, 2003

This increase may be attributed to an increase in microfinance activities primarily targeting a large urban refugee population. Also, in 2000, Africa was allocated the majority of resources in terms of microfinance. Europe, on the other hand, has seen a decrease in allocated resources to microfinance projects over the last decade.

A review of expenditures shows that the global expenditures dedicated to microfinance and small business assistance amounted to 3.5 million USD in 2009.[26] In 2000, on the other hand, UNHCR invested 12 million USD in microfinance and income generation.[27] How much of this was specifically dedicated to microfinance is not clear.

UNHCR now seems to be in a new phase when it comes to its microfinance activities. A pilot microfinance training session took place last year and the process of revising the current guidelines and training has been initiated. The ILO will re-start the second arrangement of a microfinance specialist for one day a week for a certain time, depending on the available budget. Furthermore, in January 2010, UNHCR signed a memorandum of understanding with the Grameen Trust (an organisation set up by Muhammad Yunus, the founder of the Grameen Bank).

With the signing of this agreement, UNHCR hopes to improve the existing microfinance projects and expand microfinance activities to refugees in areas in which the Grameen Trust is already active, in particular in protracted refugee situations.

This phase of renewed activity could be attributed to the changing nature of displacement and the persistent nature of certain challenges; there are more and more persons of concern in urban areas and the issue of long-term displacement remains a challenge.

It also appears that UNHCR adheres to the current paradigm shift described earlier where the commercial approach of microfinance is gaining ground. This can be seen in the increasing UNHCR preference for using MFIs instead of NGOs for microfinance activities. This means that there is a shift from semi-formal microfinance institutions to more formal ones.

Previously, UNHCR’s dominant programme approach (as described in chapter 4 of UNHCR Manual) was the use of a so-called revolving loan fund, often with a development or relief organisation as an implementing partner. In essence, the procedure was to make an agreement with the implementing partner about a pool of funds from which loans are made for small business development projects.

A loan is made to one person or business at a time and, as repayments are made, funds become available for new loans to other businesses. In this way, the money revolves from one person or business to another. If repayment rates are high, ideally the programme can become sustainable. If not, a “topping up” of the fund will be needed if the activities are to continue.

UNHCR is now seeking to explore alternative ways of working in particular with MFIs. One approach under exploration is to make an agreement over a so-called

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[26] Expenditures against sector N22, N 24, 2009.

[27] UNHCR, “Final draft – Microfinance in conflict-affected communities: The way forward for UNHCR”, 2007

guarantee fund, which means that UNHCR encourages an MFI to take on refugees as clients and the MFI agrees to this under the condition that UNHCR commits itself to compensate the MFI for those refugees who fail to meet their repayment obligations. Another approach of encouraging MFIs to engage with refugees is to agree to provide capacity building or funding for a loan officer to the microfinance institution.

Success and failure factors

A review of UNHCR's experience in the area of microfinance shows that there are examples of microfinance being a useful livelihood tool in refugee settings. However, it appears that some microfinance initiatives during the last decade have been constrained by a number of factors that are quite specific to UNHCR as a humanitarian organisation and to refugee situations, as has been described in previous sections. This has resulted in some important lessons to be learned.

Importance of training, expertise and support

It appears that there is limited in-house expertise and capacity in UNHCR on issues related to microfinance. There are in actual fact few people within the organisation who have technical skills related to microfinance. This seems to be in contradiction to the apparent importance that UNHCR attaches to the concept of self-reliance and durable solutions.

Although this lack of in-house expertise has been addressed by establishing partnerships with organisations with relevant expertise, such as the ILO and the Grameen Trust, these partnerships cannot compensate for the lack of in-house expertise as UNHCR's microfinance programmes are ultimately initiated and managed by UNHCR staff.

Furthermore, the actual implementation of the microfinance activity is performed by implementing partners, with varying experiences and goals, who will also be in need of guidance in order to ensure the attainment of UNHCR's objectives.

As described earlier, there are guidelines and policy documents available for staff working with microfinance projects. However, the number of queries addressed to HQ and the misunderstandings that can be found in evaluations and accounted for in the conducted interviews related to basic microfinance best practice procedures point to the need for an enhanced skills set and support for staff who often have to juggle many policy priorities.

Evaluations show that in several circumstances, the available guidelines and best practice guidelines are not always followed and the chosen partners are not always the most appropriate ones. The current guidelines (now under revision) have also not been sufficient in addressing the queries of the field staff as the guidelines provided information only on implementing a revolving fund with an implementing partner.

Furthermore, there is little information on other types of partnership with MFIs, or other more informal types of Rotating Savings and Credit Associations (ROSCAs), or even on other types of microfinance services besides loans, such as savings.

This lack of expertise can be better understood against the backdrop of the limited training available since 2005. Even the training that has been available appears not to have been sufficient as it only reaches the few people who have participated in the training and does not really trickle down to the majority.

The lack of UNHCR skills in this area can also be better understood considering that UNHCR is a humanitarian organisation with a shorter, quick-fix perspective, while microfinance is a development approach with close ties to the business world. Few staff within the organisation have a profile or background suited for livelihood interventions.

Enhanced technical expertise in this area is likely to improve the conceptualisation, monitoring and implementation of these interventions. This would also ensure the continuity of the livelihood programmes as building sustainable financial services requires a long-term commitment.

Also, on the level of MFI, the issue of training and expertise is paramount for the successful delivery of the microfinance projects. This is especially crucial in areas, such as East Sudan, where there is a lack of specialised providers of microfinance services and those that exist are weak by international standards in terms of operational, financial, managerial and strategic management capabilities[28].

Similarly, training for the beneficiaries in areas of relevance for the business is crucial, especially if the target group is vulnerable and in need of enhanced skills training. Indeed, evaluations and assessments show that successful microfinance projects are often complemented by related non-financial services such as basic financial education or business training.

Not all MFIs offer non-financial services such as training. In these cases, one approach chosen in Costa Rica is to partner with an MFI and an NGO. The MFI APRODE (La Asociación de Profesionales en Desarrollo para la Promoción de Personas en Condición de Pobreza) provides the financial services while the NGO ACAI (Asociación de Consultores y Asesores Internacionales) provides for the non-financial services.

ACAI serves as the outreach organisation and is the first filter of loan candidates. The organisation also provides business management training for the targeted population. This illustrates the usefulness of having multiple partners, each of which focuses on its area of expertise.

Variety of microfinance services available

The available information on microfinance within UNHCR shows that its experiences in microfinance have so far mainly been limited to microcredits. Of the three countries studied in more detail, it is only in East Sudan that UNHCR supports a Rotating Savings and Credit Association. (ROSCAs are informal community-based financial arrangements composed of a group of savers that can provide credit to its members.)

[28] Hansen, "Microfinance consultancy to Eastern Sudan", 2009

Costa Rica and Serbia do not have a savings component in their microfinance programmes. This trend is also apparent when studying other UNHCR-sponsored activities globally: existing guidelines do not specifically provide guidance on savings.

Indeed, the microfinance industry as a whole has been focused on credit and few organisations have been able to develop a large business in deposit mobilisation. Instead, the available saving services are often designed as a way to collateralise loans and provide low-cost capital to the MFI. They are not designed to meet poor people's need for accessible savings mechanisms.[29]

Nevertheless, although there are a number of appropriate candidates for a loan amongst a displaced population, it is likely that many more are good candidates for savings services that are not conditional upon credit schemes. There are, however, significant challenges associated with savings mobilisation in conflict environments. The responsibility of safeguarding the life savings of vulnerable people cannot be understated.

There are constraints for the implementing organisation in terms of the increased complexity involved in ensuring physical and financial security of clients' savings in difficult, sometimes remote environments. There are also some legal barriers as savings mobilisation is often disallowed by law. There are also difficulties associated with making profit from many small deposits. However, the use of mobile phones and mobile banking could be a way to get around some of these difficulties and could also enable a greater outreach to more people living in isolated areas[30].

Despite the difficulties, there is gaining recognition of the importance of micro savings programmes for poor people[31]; saving is the only *sure* way of increasing the assets of a client. If MFIs had, over the last decades, focused on asset accumulation instead of credit or debt, the results for poor people globally would have been considerable. Savings also allow for the safe storage of income without the added pressure of taking a loan.

Further, economic history shows that savings, not credit, led to decreased vulnerability and small business expansion in the rich nations. A variety of service providers are now increasing product offerings and are improving their methodologies and services to include savings mobilisation. This points to the need for an enhanced exploration of savings, especially in long-term refugee situations in which mobility is limited and displaced people have proved their ability to repay loans and express their desire to save.

Micro insurance is another financial service that is part of microfinance that could help to contribute to durable solutions and that could benefit a large portion of the displaced population. In general it can be said that a more holistic approach to microfinance services on the part of UNHCR to include an exploration savings and insurance (e.g. health or agriculture/livestock insurance) could provide ways of enhancing livelihoods and protecting displaced populations.

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[29] The Economist, "Savings and the poor, a better mattress", 2010
[30] The Economist, "Savings and the poor, a better mattress", 2010
[31] Devaney, "Microsavings programs: Assessing demand and impact, a critical review of the literature", IRIS Center for "Assessing the impact of innovation grants in microfinance: planning phase", 2006

One possibility is to encourage MFIs to partner with insurance agencies, for example. A more holistic approach to microfinance would also allow for a more consistent use of a "stepped approach" where people might start with savings and then move on to other financial services such as credit and/or insurance when the time is right and in accordance with the refugees' needs.

Another area in which UNHCR has some experience, although not extensively, is that of the more systematic identification and support of ROSCAs. In many areas, this might be a difficult task. In some displacement settings, the lack of collective spirit may make ROSCAs difficult to establish. There are also instances in which these informal groupings are not well managed.

Nevertheless, in other circumstances, for example, when entire villages are displaced together, refugees themselves set up such rotating credit programmes. The support of these existing structures in some contexts might warrant further exploration as this would be a way to build and apply community structures in displacement situations at the same time as livelihoods are enhanced.

The balance between a relief and business mentality

One issue of utmost importance when delivering credit is the need for a clear distinction between grants and loans. This is established best practice in the microfinance industry and is also described in UNHCR's guidelines and policies. This is especially important for a humanitarian organisation that usually offers products and services free of charge to populations in need.

Confusion in this area is more likely to result in poor repayment rates and a destruction of the credit culture amongst the targeted population. In the long run, it might also mean that MFIs are less inclined to take on refugees as clients as they are perceived as having poor repayment habits.

Several evaluations point to examples of when UNHCR-sponsored microfinance initiatives have suffered from confusion between grants and loans with poor repayment rates as a result. In some instances, humanitarian aid and microcredit were provided by the same organisation.

This development can be partly explained by considering the fact that finding implementing partners with the right expertise and philosophy is not always easy. This also explains why UNHCR is now seeking to engage more with MFIs. Nevertheless, it is worth keeping in mind that UNHCR and relief or development organisations often speak different languages and have different objectives compared to MFIs.

UNHCR would like to target a specific segment of the population that is vulnerable, while the MFI wants to ensure the sustainability and quality of the loan portfolio of the programme by targeting low-risk clientele. This means that there is a need to ensure that UNHCR-sponsored microfinance activities do not only target low-risk clients at the expense of higher risk, vulnerable clients who could be longer term productive clients.

The current shift towards more formal MFIs is a sensible move; maintaining high repayment rates is important for the sustainability of the programme and for the general credit culture amongst the population. However, there is a need for caution in this process. There is a variety of different kinds of MFIs, but the focus of MFIs remains predominantly on institutional and financial sustainability.

Since UNHCR's ultimate objectives are more related to targeting and empowering a specific segment of the population, there is a risk that these two objectives might clash; or at the very least, that there is little understanding of each other's objectives. A simple example would be the way in which the two organisations see the target group, where UNHCR has more 'beneficiary' perspective and the MFI a more 'client' focus.

A focus on the financial aspects of microfinance might also result in the neglect of the political and social impacts of microfinance and a lack of understanding on the part of the MFI when it comes to conflict or refugee issues resulting in low refugee inclusion. An MFI that does not normally deal with refugee populations might need some technical guidance in this area in order to be able to cater for the needs of this population.

Although there is now an increasing demand for more "social performance" by microfinance institutions, as described earlier, it is important to keep in mind that the implementation of this idea is still in its early stages and varies among different countries and organisations. Nevertheless, this demand offers a prospect for a more effective translation of social goals into action that might provide enhanced products and services for displaced populations.

Realistic expectations about microfinance

Another important lesson is related to the expectations of microfinance being "the tool" for refugees to attain self-reliance in protracted refugee situations. Microfinance and in particular microcredit can lead to improved economic activity when it reaches the economically active people with the right business attitude. However, even if the right people are reached, the likelihood of a successful microfinance enterprise cannot be guaranteed.

To put this into perspective, the failure rate for new small businesses in America is 50 percent (i.e. 50 percent of new start-ups survive four years or more).[32] Certain things are out of the sphere of influence of the refugees and UNHCR. Hence, it seems unrealistic to think that micro enterprises will be more successful in countries suffering from poverty, conflict, natural disasters and which have minimal access to land.

Additionally, displaced populations often suffer from discrimination in host countries and low levels of education. Being able to make a living and to save also depends of the human rights environment in the country, the macroeconomic policies and the capacities of the refugee. In these circumstances, even a well-implemented

[32] Headd, "Redefining business success: Distinguishing between closure and failure", US Small Business Administration, 2002

microfinance initiative is unlikely to be sufficient to make refugees self-reliant in protracted refugee situations.

Furthermore, according Hulme (2007)[33], it is a myth that poor people always repay their loans because of their ability to exploit business opportunities. As discussed above, not all microcredits produce favourable results. Many of those targeted are often poor people working in low-return activities in saturated markets that are not well developed and in which environmental and economic shocks are common.

Circumstances outside of their control and bad decisions will result in a proportion of borrowers having difficulties repaying their loans. Overcoming these difficulties and the added stress of loan repayment can be very painful for the individual borrower considering the lack of social support. For a humanitarian organisation dealing with providing relief and protection, such impacts are counterproductive to the ultimate humanitarian aim.

Another false assumption, according to Dichter[34], is that there is a link between widespread access to credit for poor people and economic development, and that loans are used for business start-ups or expansions. Instead, Dichter argues that the economic history of rich nations shows that the earlier forms of microcredit never played a significant role in small business start-up or expansion and that the first efforts to democratise financial services were focused on savings.

Economic history also shows that when credit became available to the poor, it was entirely in relation to consumption. Self-financing (saving) or borrowing from a close social network, due to the high risk involved, has generally been the way in which business start-ups have been initiated.

Several interviewees have also remarked on the need for a more comprehensive understanding of the economic situation in displacement settings, including a market assessment with baseline data, and available informal or formal financial services in the displacement situation.

This would also allow for a better identification of the various livelihood interventions (for example grants, in-kind loans or skills training) besides credit that might be a more appropriate tool for certain segments of the population. This would also avoid the situation of a simple “rebranding” of care and maintenance programmes or a quick-fix perspective of microfinance interventions, something that, according to some interviewees, has been relatively commonplace.

According to the Alchemy project[35], microfinance programmes for refugees should not necessarily have to aim for operational or financial sustainability. All refugees are not likely to be able to meet stringent repayment conditions. This means that there is a greater likelihood that programmes for refugees will be in need of external support in order to continue.

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[33] Hulme, “Is micro debt good for poor people? A note on the dark side of microfinance”, in Dichter & Harper (Eds.) “What’s wrong with microfinance?”, 2007

[34] Dichter, “The chicken and the egg dilemma in microfinance: An historical analysis of the sequence of growth and credit in the economic development of the ‘north’” in Dichter & Harper (Eds.), “What’s wrong with microfinance?”, 2007

[35] Jacobsen, “Microfinance in protracted refugee situations: Lessons from the Alchemy Project”, 2004

This can be seen in the repayment rates in the case study programmes. In Costa Rica, repayment rates are relatively high at 86% and there are signs that the programme can attain sustainability soon. In East Sudan, the female ROSCA has a repayment rate of more than 90%, while loans related to agriculture and livestock are not faring as well: 53-60%.

In Serbia, the repayment rate is 89%. In this context, it should be pointed out that, in general, a repayment rate is considered good when it reaches at least 95%. It, therefore, seems to be a reasonable conclusion that it cannot be expected that UNHCR-sponsored microfinance programmes will become financially and operationally sustainable in a short period of time. A long-term commitment in terms of working capital and technical assistance is likely to be needed.

Effective screening process

One criterion raised in interviews and in existing literature is the need for microfinance programmes to have an effective selection process and criteria. This ensures that the right people are chosen for participation in the microcredit project. For the overall sustainability of the microcredit initiative, and for the long-term wellbeing of the loan taker, it seems crucial that the participant has the right entrepreneurial spirit and experience.

If the loan is not used in a productive or profitable way, and is instead used for consumption or the payment of past debts (which is likely if the credit scheme targets the wrong kind of person), there will be few tangible benefits for the borrower. This is likely to result in poor repayment rates which will jeopardise the sustainability of the programme as a whole.

Although client selection is important in all circumstances when it comes to microfinance, it appears to be even more so in conflict and refugee situations in which there are people who are very vulnerable and who have limited social networks or assets. It has also been reported that loans are sometimes disbursed to the wrong people for the loan reasons, for example because of pressure or because the loan applicant is vulnerable and in need of cash.

The importance of selection criteria can be illustrated in UNHCR-sponsored credit scheme in East Sudan, where it is reported that the selection criteria have a significant impact on success. The loan takers who have been the most successful are those who previously had business experience and a share of the market. This also ensured that the refugees were able to match the loans with their own capital.

It is, therefore, crucial to keep in mind that not all refugees can be engaged in microcredits. Some are too vulnerable and in need of aid; others do not possess the necessary skills or are not inclined towards entrepreneurial activity. Credit for business purposes does not need to be available to everyone because only a part of the population is likely to be suitable candidates for a loan.

Those not suitable for microcredit might be better off with other kinds of microfinance services such as savings or insurance, or other kinds of livelihood interventions such as grants or vocational training. Those refugees who *are* able to draw benefits from the credit will then be able to provide employment, goods and services to the rest of the community.

However, the microcredit scheme in Costa Rica shows that it is possible to strike a balance between targeting more established entrepreneurs and a high proportion of the population at risk, such as female heads of households. The success of this approach seems to hinge on appropriate training programmes and continuous ongoing assessment and monitoring.

It is interesting to note that women remain an important target group and represent more than half (56%) of the selected loan takers in UNHCR-supported microcredit programme in Costa Rica. This is similar in Serbia, where women represent 46% and in East Sudan where women amount to 44% of loans related to livestock and agriculture and 100% in the female ROSCA.

Monitoring impact

One factor that has been found to be of importance when implementing a microfinance programme is the ongoing monitoring of the programme. Although of importance in all stages of the process, experience from Serbia shows that this is particularly important during the early stages of the loan. In Serbia, project documents report that the implementing partner of UNHCR's microfinance project, MicroFinS, interviews each candidate interested in applying for a loan and field visits are performed to check application information and collateral documentation.

After the disbursement, a follow-up of the beneficiaries is also made. Future visits depend on the progress of the loan repayment. In Costa Rica, project documents report that UNHCR participates in ongoing monitoring through the attendance of monthly credit committee meetings and field monitoring meetings together with implementing partners ACAI and APRODE. In addition to this, financial and performance monitoring is carried out by UNHCR with the help of monthly financial and narrative reports.

The reason that monitoring is of utmost importance is that much of the success of microcredit lies in ensuring that the majority of borrowers do not delay loan repayment. Therefore, much effort has to be put into ensuring payment on time and collecting overdue payments. According to Jain and Moore (2003)[36], an important factor in ensuring repayment, especially in the absence of collateral, is the social and institutional pressure to pay that creates social and moral pressure on the borrowers.

When it comes to the more long-term monitoring, despite the apparent importance attached to livelihood interventions by UNHCR, there is a lack of comprehensive information on impact and programme modalities on a global level. Available evaluations and assessments made by UNHCR reveal some common themes.

First, there are few assessments or evaluations that focus exclusively on microfinance. Those that do exist focus heavily on the technical side of microfinance and the microfinance provider and its institutional characteristics. There is very little

[36] Jain & Moore, "What makes microcredit programmes effective?", 2003

information has been collected from the perspective of the beneficiary, or focusing on the longer term impacts of the microfinance interventions. There also seems to be a focus on microcredit, with very little evidence of the use of the other components of microfinance, such as saving and insurance.

Although there are accounts of the successes of some microcredit interventions, they are largely anecdotal[37] and do not really relate to the success parameters described in the training manual[38]. This information seems to largely come from project reports and does not show the real impact on the lives of the clients.

Nevertheless, available information points to a mixed bag of successes and failures. Some evaluations bring up the issue of, for example, poor repayment rates, limited land availability, legal difficulties, poorly designed products and weaknesses in implementing partners.

On the positive side, in other cases it is reported that the microcredit has enabled the loan takers to support families and expand businesses. Another reported positive impact is the strengthened position of women with positive spill over effects on better fed and dressed children.

A concrete example of positive impact can be found in UNHCR-sponsored microcredit programme in Costa Rica which has reported successes in terms of repayment rates and impact. An evaluation of the initiative in 2004 indicates that there were improvements of key socio-economic indicators. 80% of the loan recipients reported improvements of the loan recipients' businesses as well as improvements in their quality of life and household income after obtaining the loan.

Similarly, UNHCR livelihoods project in Serbia is reported to have helped generate income for the participants and helped them to increase their security and living standards.

However, on a global level, obtaining information on the results of the microfinance programme is challenging. This probably has to do with the fact that measuring microfinance is one of the most controversial issues related to the microfinance industry. This is largely due to the diversity of services provided to the community and the known methodological difficulties associated with such an assessment.

The impact/outcome of financial service delivery is not easy to assess and it is hard to predict the outcomes of microfinance interventions. Further it remains challenging to find out where to look for impact and on which level; at the level of the household (increased economic security), at the level of the individual client (increased human and social capital), and the wider camp community (enhanced credit culture and stimulation of the market).

Nevertheless, there is a clear need for a more robust analysis. This would help to evaluate whether microfinance is making the greatest impact and, if not, what measure can be taken. This could also help to stimulate more client-appropriate

[37] For example, "Success story", http://www.unhcr.org/cgi-bin/texis/vtx/search?page=search&docid=4ad7331d9&query=success%20story%20microfinance
[38] See "Introduction to microfinance in conflict-affected communities", Training manual by ILO & UNHCR, 2002, p. 4

products. Further, this would help to uncover any unintended consequences of the loan such as increased stress on female clients.

Indeed, a more robust assessment is particularly important considering the more long-term consequences of a poorly delivered microcredit programme; if UNHCR delivers a loan well, it will contribute to the client's financial transactions and the person's livelihood, but if the loan is delivered badly, a borrower's life can be severely affected. It is also worth keeping in mind that a poorly delivered microcredit programme has wider effects beyond the individual. It affects the credit culture of the population and its future prospects of engagement with MFIs on an equal footing as the locals.

Adapting to local circumstances

Adapting programmes to fit the local context has been identified as another important success factor. Several interviewees were of the opinion that it is best if the refugees are accepted as regular clients in formal MFIs instead of creating or supporting parallel structures. It is also believed that it is not preferable for UNHCR to negotiate separate agreements for the refugee population compared to the locals.

Microfinance is considered a more sustainable prospect if refugees are included as the regular clientele. It also sends the wrong signal to the refugees, locals and MFIs if more preferential or lax agreements are made for the refugee population.

There is also a need to consider the conditions in which the microfinance is intended to work. Access to markets is crucial as is the understanding of the existence of discrimination of the refugee population that might affect sales of products and services. There are also differences in operating microfinance projects in camp environments, remote settlements and in urban areas that need to be taken into consideration.

For example, working in remote, camp-based areas with depressed economic conditions such as East Sudan, requires market responsiveness and carefulness. Furthermore, remoter areas and camp-based populations are often mainly served by NGOs as in these areas MFIs are scarce. In urban areas targeted, like those in Costa Rica, there is a need to ensure that the micro business responds to the needs of the urban populations and those businesses do not only target saturated markets with very little return.

Similarly, livestock and agricultural credit projects, like the one implemented in East Sudan, face a higher risk due to issues related to uneven distribution of rain that affects both agriculture and livestock activities, which also needs to be taken into consideration when designing a microcredit programme. On the other hand in some circumstances the refugee population, like in the case in Costa Rica, has experience in loans and have a strong entrepreneurial spirit, which is useful to capitalise on.

In essence, it can be said that a microfinance programme is likely to be successful if it takes into consideration local conditions and needs, and designs creative products well adapted to these circumstances. Adaptation could take the form of different financial products, different loan terms and loan sizes.

It could also take the form of an interest rate that takes into consideration institutional cost, inflation, market rates, risk and client capacity. Related to this is the importance of understanding the market with the help of market surveys and which help in marketing high quality, appropriate goods and services. Without addressing these issues, and planning for them, the impact of loans will be limited.

Conclusion

This review has sought to find out more about UNHCR's involvement in microfinance. It has also sought to establish some lessons learned from the last 10 year of UNHCR's microfinance activity. Although there is evidence that microfinance can be a useful tool in long term displacement, there is need for a certain amount of caution and realism when it comes to the overall contribution of microfinance to displaced populations livelihoods.

Certain things are out of the sphere of influence of the refugees and UNHCR such as the general human rights environment, economic conditions, and discrimination in the host country, macroeconomic policies and the capacities of the refugee. In these circumstances, even a well-implemented microfinance initiative is unlikely to be sufficient to make the majority of refugees self-reliant in protracted refugee situations. However, microfinance remains one useful tool among others that can contribute to enhanced self-reliance amongst certain parts of the population.

The main lessons to be learned from UNHCR's experience so far are that the most successful microfinance programmes are implemented by organisations:

- with microfinance expertise;
- that does not confuse credit with grants;
- that offer a product adapted to the needs of the target population and the local circumstances; and,
- that ensures an appropriate selection of loan takers.

There are also emerging issues related to the balance between a relief and business mentality. For a humanitarian organisation like UNHCR a dual approach is required, incorporating both a commercial approach and at the same time reaching and empowering the more vulnerable.

Success therefore hinges on the ability of UNHCR to continue to expand the commercial side which includes targeting the already economically active, focusing on sustainability and at the same time seeking to support new financial products and programmes targeting and supporting the very poor and vulnerable.

It is also important to focus on reducing the risk and vulnerability of the target group with the help of different targeted financial and non financial services such as health, crop and livestock insurance, savings and business training as well as other income generating activities.

In this context it is crucial that there is monitoring of UNHCR's microfinance operations in both the short and long term. The issue of longer term monitoring warrants some more efforts given the importance of the ultimate aim of empowering refugees in complex humanitarian emergencies and chronically unstable environments.

In such circumstances microfinance programmes need a robust evaluation that goes beyond debt repayment and financial sustainability and instead highlights the contribution to the investment in human potential and its contribution to the community. In this context, relevant training and technical expertise of UNHCR staff and implementing partners is an important element for the successful implementation of the microfinance project.

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