This document is part of the Microenterprise Best Practices (MBP) Project's series of Technical Briefs on post-conflict microfinance, available at www.mip.org. The series discusses whether and how to use microfinance in post-conflict settings. The first seven briefs are designed primarily for microfinance practitioners. The final brief (#8) is designed for relief organizations considering microfinance for the first time. While experienced microfinance organizations are unlikely to find new information here, they may share this brief with non-microfinance organizations experimenting in this technical area.

- *Brief #1: Microfinance Following Conflict: Introduction to Technical Briefs*
- *Brief #2: Developing a Post-Conflict Microfinance Industry: The Case of Cambodia*
- *Brief #3: Developing Post-Conflict Microfinance Institutions: The Cases of Liberia and Kosovo*
- *Brief #4: Environmental Preconditions for Successful Post-Conflict Microfinance*
- *Brief #5: Searching for Differences: Microfinance Following Conflict vs. Other Environments*
- *Brief #6: Security Issues for Microfinance Following Conflict*
- *Brief #7: Microfinance for Special Groups: Refugees, Demobilized Soldiers, and Other Populations*
- *Brief #8: Frequently Asked Questions on Basic Microfinance Concepts*

Microfinance for Special Groups: Refugees, Demobilized Soldiers, and Other Populations

The practice of post-conflict microfinance for special groups is continuously evolving based on on-going experiments and recent successes or failures. This brief is divided into three subsections, each focusing on the lessons learned for the particular group. These lessons are generalizations—and exceptions are inevitable. Moreover, it is hoped that future microfinance programs may find better ways to respond to the needs of these populations in the future, even if it renders this Brief irrelevant.

REFUGEES[1]

By definition, refugee populations live outside of their country of origin. They often arrive with little or nothing, and may be organized into camps, collective centers, or live with family or friends. They may or may not be able to grow crops or work legally in their host country. They often compete with local populations for property, natural resources, and social resources. They also create economic markets—both on the supply and demand side. Refugees may live outside of their country of origin for years.

In large refugee camps in Africa, practitioners are amazed at the spontaneous enterprises (often illegitimate or illegal) that arise without credit services. Microfinance programs seek to foster legitimate business activities, most of which rely on linkages between refugee and local markets. They face risks of restrictive regulations imposed by the host country, or the possibility of sudden collapse if camps break up or are disrupted. For these

[1] This section is drawn from Karen Doyle's "Microfinance in the Wake of Conflict: Challenges and Opportunities," Microenterprise Best Practices (MBP) Paper, July 1998 (www.mip.org).

reasons, refugee-focused programs have often remained small and short-term in nature, despite the long-term reality that many refugees face.

Before embarking on a microfinance program in refugee camps, practitioners are encouraged to take several steps:

1. Investigate the current political situation to learn whether refugees are likely to be repatriated within the next 12 months. If repatriation is on the horizon, microfinance—which supports economic investments—requires careful consideration.

2. Ensure that there are activities that can integrate refugees gradually and in a non-threatening way into the local markets. Investigate existing markets, economic linkages, and refugees' specific skills or knowledge. For example, investigate whether opportunities exist where imported goods can be replaced with refugee-made products in local markets.

3. Ask refugees what sort of financial services or non-financial services they most need now, then build a program around the existing situation. For example, refugees can identify economic activities or services already emerging within camps which credit or training could enhance, or may reveal that refugees need access to safe savings mechanisms.

4. Instill confidence in the permanence of the microfinance services as long as refugees are in their current location to ensure repayment, and implement the program with a longer-term vision.

Overall, microfinance programs are likely to be most useful to provide working capital for enterprises within the living areas, or if allowed by the host government, for subsistence agriculture production.

DEMOBILIZED SOLDIERS[2]

The objective of programs aimed at demobilization and reintegration of soldiers is to quickly assure some stable income-generating options (and reduce idleness) for precisely those soldiers who have failed to find a reintegration solution of their own. In other words, these programs are designed to assist those who have failed. On the other hand, the objectives of a microfinance credit program is to identify potentially successful entrepreneurs and avoid those who show no ability for self-employment or productive work. Simply stated, demobilization and microfinance programs are pursuing contradictory objectives. As one observer wrote, "The last place on earth that I would go to look for possible entrepreneurial spirit is in an army, much less once the best officers and soldiers enter the permanent army after the conflict ends."

[2] This section is paraphrased from discussions with Max Halty, Program Manager, Programme Nationale de Reinsertion des Ex-Combattantas et de Ramassage D'Armes, International Organization for Migration, February 2001.

The primary objective of the demobilization program is consolidation of the peace process, with economic development as a secondary benefit. To achieve this primary goal, the program must keep demobilized soldiers busy, and with some resources in their pockets, for twelve to eighteen months after the cease fire, during which time security forces are strengthened, elections are held, and so on. Credit—particularly if the odds of failure are high—is unlikely to achieve this goal. Other mechanisms—such as education or job-placement programs, complemented with grants—may prove more successful.

Sometimes donors insist on using microfinance with demobilized soldier, often because of pressure to find a “sustainable solution” for this population. In such cases, a “second best” solution may be to partner the demobilization program with a skilled microfinance institution (MFI) rather than initiate a targeted credit “project.” As Doyle reports, “ex-combatants who are held to the same standards as any other client group are observed to react well.”[3] However, if the MFI believes strongly that the demobilized soldiers are likely to show very high arrears or defaults, the MFI may choose to separately track these loans or even create a separate credit window so that they do not “pollute” the quality of the overall portfolio or destabilize an emerging microfinance market. Alternatively, they may offer the soldiers different products, perhaps focusing on savings services that protect severance payments or pensions that they receive.

For a short case study on this topic, CGAP’s Focus Note 20 describes a demobilization program in Congo/Brazzaville in which microfinance was initially proposed then modified into a job-training and placement program (www.cgap.org).

OTHER SPECIAL POPULATIONS: INTERNALLY DISPLACED AND RETURNEES[4]

Two other special populations deserve mention: those who are displaced but remain within their country of origin, and those that have returned after displacement to rebuild homes in a set location. Both of these groups are discussed briefly below.

Internally displaced persons (IDPs) may have claims on land or property, but be unable to gain access to it. Because they are in their own country, they may face fewer cultural or legal barriers to work, with the exception of IDPs from minority groups, who may resemble refugees in terms of their inability to access market opportunities or integrate into the local population. In general, IDPs can—and have been—successfully integrated into microfinance programs. In World Relief’s Bosnia program, microcredit allowed many IDPs living in displacement camps to move their families out of the camps. In general, loans terms tend to be relatively short for the IDP population to reflect the higher likelihood of exit out of the area.

Returnees are former refugees or IDPs who have returned to their original home or settled permanently in a new area within their home country. As part of an incentive package to return home, returnees may have received cash or in-kind grants to enable them to access seeds or tools, or build homes. They may return with money earned in

[3] Doyle, op.cit.

[4] As in the section on refugees above, this section draws from Doyle’s 1998 paper, “Microfinance in the Wake of Conflict: Challenges and Opportunities.”

another country, or may receive remittances. Economic survival is likely to be their top priority. Like those who were able to stay in their own homes throughout the conflict, returnees are prime candidates for microfinance services—both credit and savings—and will provide the engine for re-inventing the local economy. Financial services for returnees may include savings services, housing loans, or microcredit for those who already have commenced income-earning activities.

CONCLUSION

This brief highlights the fluidity of contexts and populations in post-conflict settings, and the need for careful thought and flexibility on the part of microfinance program designers. Different population groups entail different risk levels that MFIs bear. In some cases—most particularly the case of demobilized soldiers—this brief highlights that microfinance may sometimes be the wrong intervention for achieving post-conflict objectives.