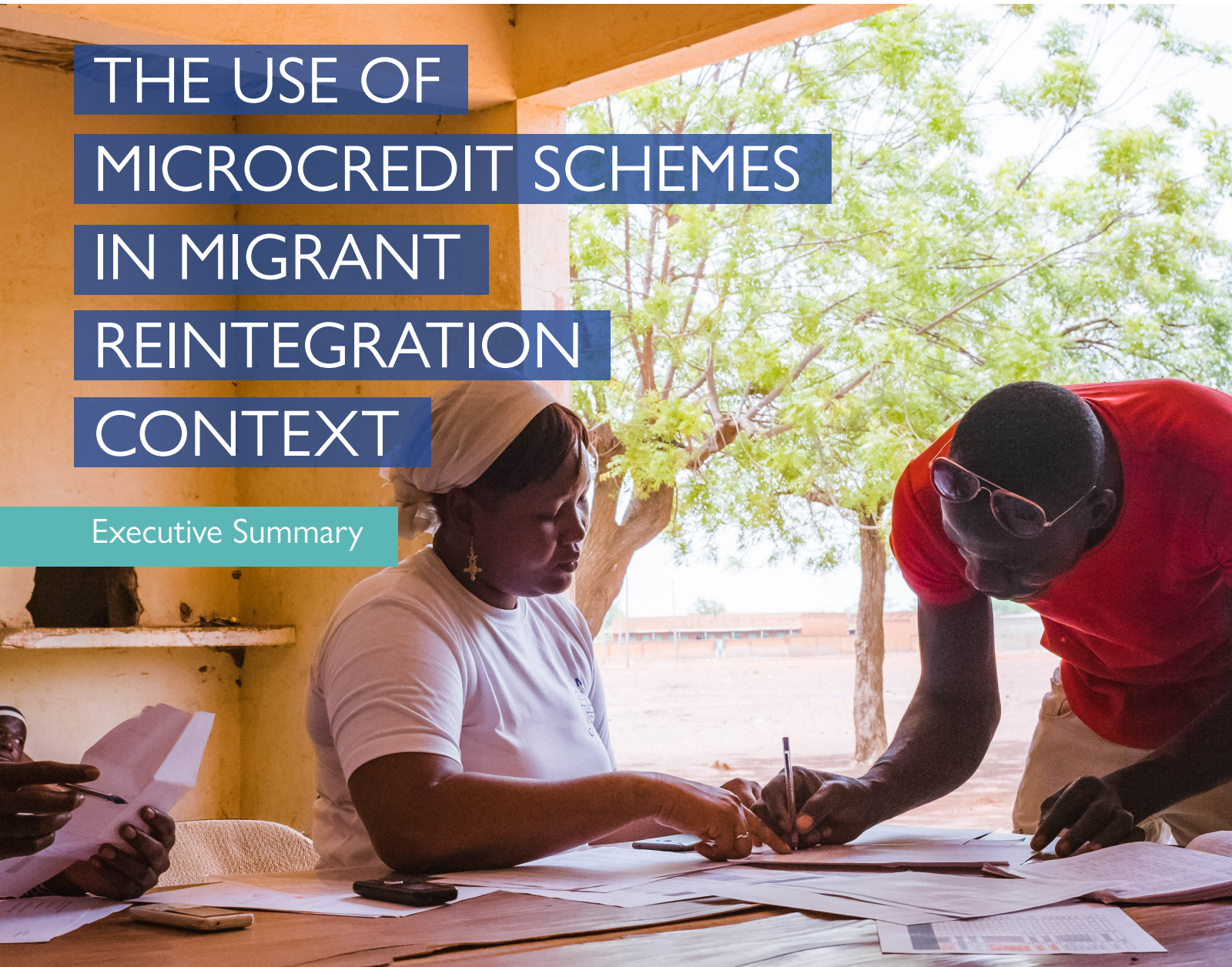


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# THE USE OF MICROCREDIT SCHEMES IN MIGRANT REINTEGRATION CONTEXT

Executive Summary





## EXECUTIVE SUMMARY

Microfinance, and more specifically microcredit, appears to have significant advantages that could be leveraged to improve reintegration sustainability. As such, it is regularly mentioned by practitioners and experts in the field of returning migrants' reintegration when discussing avenues to strengthen the sustainability of reintegration. Yet, very few migrant reintegration programmes have included microcredit schemes as a form of or as a complement to reintegration assistance.

The EU-IOM Knowledge Management Hub produced a *Knowledge Paper* on the use of microcredit schemes in migrant reintegration context to inform and support reintegration practitioners considering including a microcredit component in their programme. It more generally targets any individual involved in migrant reintegration (including at policy and programme design levels) and in microfinance (including microfinance institutions' staff considering targeting returnees). Building upon case studies and interviews with reintegration practitioners and microfinance experts, it seeks to analyse how microcredit could be used in the context of migrant reintegration programmes and to address the following questions: Does microcredit constitute a valid alternative or complement to reintegration grants usually provided in the framework of reintegration programmes? If so, in which contexts or under which conditions can it be envisaged? What are the key considerations to take into account when designing and implementing interventions linking microcredit to migrant reintegration? And what can reintegration organizations do to facilitate returning migrants' access to microcredit, if relevant?

### Microfinance and microcredit

Microfinance can be understood as a broad category of financial services (including microcredit, microinsurance, microsavings and funds transfer services) and non-financial services (technical assistance, training and mentoring) directed to people who typically cannot access the traditional financial institutions.

Microcredit refers to a credit scheme targeting people who are excluded from the traditional banking system. It usually consists of small loans provided by microfinance institutions (MFIs) to either individuals or groups. The lending conditions are more flexible as compared to traditional banks, since MFIs are less strict in terms of collaterals (e.g. house, land, goods), guarantors (individuals guaranteeing the repayment), own capital contribution, regular income and/or the personal financial history. Therefore, proponents of microcredits stress advantages, such as that it gives access to cash for clients who are usually excluded from financial services and prevents borrowers from having to seek for loans through informal channels, such as loan sharks with huge interest rates. They see microcredit as a tool to stop chronic poverty, increase entrepreneurship and diminish unemployment among individuals and in communities that are being serviced. Opponents of microcredit, on the other hand, claim that it can actually increase levels of poverty among low-income populations because of high interest rates or borrowers facing debt accumulation. Moreover, there is a risk that credits are not used for productive investments but for consumption.

### Microcredit and migrant reintegration

Returning migrants assisted under reintegration programmes often share specific characteristics that may plead for, plead against, or hinder their access to microcredit schemes. Returnees might be disconnected from their countries of origin (CoO), which often results in a loss of (a part of) their social support networks, in addition to encountering psychosocial challenges, such as isolation and hostile relations related to their return. Returnees also often face economic difficulties which are potentially exacerbated by existing debts.



Monitoring and evaluation data collected by IOM shows that 79 per cent of returnees assisted by IOM use reintegration assistance to set up microbusinesses. A large number of returnees states that the reintegration assistance is insufficient to establish sustainable businesses and that they are lacking capital to run their business smoothly or expanding it. Those who managed to gather additional funding mostly relied on friends and relatives. Research also indicates that a large portion of returnees is indebted upon return, with the large majority of loans originating from friends and relatives, too.

Microcredit has the potential to give returnees access to capital and thus allows them to strengthen or expand their businesses. A boost for income-generating activities enables them to afford key services and consequently to improve their and their relatives' overall well-being and stability. Using microcredit in the context of reintegration also increases returnees' ownership of their reintegration process. Finally, microcredit can create contact points between returnees and the local population when microloans are granted to mixed groups. Eventually, this can increase the returnees' acceptance in the communities to which they are returning.

Yet, a number of obstacles remain for returnees to access microfinance services, such as the requirements set by MFIs (including in terms of income stability, of ID documents, or of minimum duration of residence in the CoO) or their negative attitude towards returnees. Moreover, given that a microloan constitutes a debt, it is of critical importance to manage the microcredit schemes carefully in order to avoid worsening the economic conditions of returnees.

### Experiences in linking returnees to microcredit schemes

In the field of migrant reintegration, very few projects seem to have included a microcredit component beyond simple referrals to MFIs. A few interesting projects that have piloted the use of microcredits as a form of support to returnee reintegration, are presented, although evidence on their outcomes is limited.

IOM's *Assisted Voluntary Return and Reintegration Assistance Program from Switzerland to Nigeria* project offered advantageous credit conditions through the establishment of a revolving fund that allowed beneficiaries to expand their businesses. Although only a limited number of returnees participated in the microcredit scheme, the project provided some encouraging results, as most of the beneficiaries were able to repay their loans and some of them benefitted from several loan cycles.

IOM's *REMPLOY III* project envisaged dedicated support by MFIs in several CoOs for migrants returning from Italy. Those with the most promising business plans were supported by MFIs to strengthen their business plans and eventually apply for a loan. While this project was promising, a lack of monitoring data prevents from drawing conclusions on its effectiveness.

The *Prottasha* project, which is being implemented in Bangladesh by IOM in partnership with BRAC, refers interested returnees to MFIs. The few returnees who were referred to MFIs and actually received a loan reported promising results regarding their individual economic situation and their ability to pay back the microloans. At the same time, challenges related to the status of returnees remain, such as the exclusion from traditional financial services but also the reluctance of MFIs to include returnees in their programmes. IOM and BRAC seek to facilitate returnees' access to capital by advocating with finance institutions, supporting returnees in meeting the requirements for receiving loans, and exploring alternative ways to encourage returnees' financial inclusion.

### Lessons learnt and recommendations

These experiences, as well as interviews with reintegration practitioners and microfinance experts, allowed drawing some lessons and recommendations that are presented succinctly below.



### *Including microcredit in the reintegration assistance toolbox*

Microcredit is not adapted to all kinds of reintegration plans. It should focus on business support and only be proposed to returnees who have an entrepreneurial mindset and whose plans are robust and require additional capital that is not available through other channels. It should not replace reintegration grants and other forms of reintegration support, but should rather be envisaged in complementarity with them on the basis of a robust needs assessment. In order to harness its potential, microcredit should be linked to in-depth counselling (returnees must be well informed about the opportunities and risks related to microcredit), business support (including training in financial literacy and business management, support to develop business plans, etc.) and close mentoring and monitoring. Those complementary support activities should be conducted to maximize the positive effects of the loan and make sure it will be repaid. If available and accessible, alternative sources of funding that are more advantageous to returnees (e.g. savings, friends and relatives, business partners, bank loans) should be envisaged. The priority should be to apply all possible safeguards to make sure that microcredit schemes do not trap returnees in a debt cycle.

### *Tailoring microcredit for returnees*

Microcredit is more likely to improve reintegration sustainability if it is directed towards economic reintegration. It is particularly beneficial for the consolidation and/or the expansion of promising activities rather than for the set-up of businesses at early stages of the reintegration process. In this context, adequate counselling is key for allowing returnees to make an informed decision on whether to apply or not for microcredit. Furthermore, community-based microcredit can be envisaged, whereby a loan is provided to a community to implement, strengthen, or expand a community project. Such programmes, and especially group loans granted to returnees' cooperatives, can contribute to the consolidation of group cohesion and interindividual trust. It is also possible to grant loans to mixed groups composed of both non-returnees and returnees in order to increase the latter's acceptance in the communities to which they return.

### *Identifying, engaging and fostering partnerships with microfinance institutions*

Microfinance (and more largely financial services) should be considered within the mapping and assessments carried out during the design stage or at the onset of reintegration programmes. The microcredit component of a reintegration programme should be implemented by existing, solid microfinance institutions that should be selected following a rigorous due diligence process. MFIs that have a positive attitude towards returnees and provide a holistic support, considering not only the provision of a microloan but also business management training and other types of support, should be given preference. Generally, reintegration organizations should not directly implement microcredit schemes and should clearly communicate to its beneficiaries the distinction between the reintegration assistance provided through grants (i.e. goods, services or cash given to returnees that must not be repaid) and the microcredit support (i.e. capital that is lent and has to be paid back after a certain period) so as to avoid any confusion.

### *Involving reintegration organizations in microcredit schemes for returnees*

Reintegration organizations can play an important role as facilitators for returnees to access microloans by engaging with and supporting MFIs. They can sensitize MFIs on returnees as a potential target group and help them adapting their procedures, requirements and services to returnees. Ideally, specific programmes for returnees should not be designed, but some of the requirements to access a loan can be softened and/or the MFIs' internal procedures can be reviewed. Reintegration organizations can further support MFIs to extend their services to returnees by assisting them in carrying out market assessments as well as providing them with logistical support to reach the returnees' communities, especially when they are remote. Once MFIs are ready to start supporting returnees, reintegration organizations can provide more in-depth training on returnees' profiles and specific needs. They can help MFIs better understanding the reintegration process and the evolution of their financial needs



during each phase of this process. In certain cases, the reintegration organization can go even further and help MFIs reducing the financial risk of assisting returnees through the establishment of a dedicated revolving fund (or of a loan guarantee fund).

At the same time, reintegration organizations can facilitate returnees' access to microcredit by providing relevant support to them. This can be done by addressing some of the requirements of MFIs, such as the need to have a bank account or to obtain specific identification documents. Moreover, reintegration organizations can provide support to returnees in financial literacy, business set-up and business management training as well as in the development of a business plan, or more directly by assisting them with the application process. Where appropriate, reintegration organizations can support returnees to apply collectively for group loans.

Thanks to their sound expertise in the field of return and reintegration, their profound knowledge of the target group and their privileged and trust-based relationship with returnees, the involvement of reintegration organizations can be perceived as an added value by both the MFI and the returnees. This can be leveraged to link returning migrants with MFIs (and other financial services providers). In specific cases, reintegration organizations can envisage matching the gap between the reintegration grants and microcredit, by establishing a kind of soft microcredit programme, whereby loans are provided to returnees without any interest rate. However, any more active role of the reintegration organization in the process of granting microcredits must be carefully envisaged.

## Conclusions

Microcredit can constitute a relevant and powerful complement to reintegration assistance, but it is not always an adequate instrument and it cannot be recommended as a general solution for returnees. It is critical to assess the relevance of proposing microcredit as a form of reintegration support to make sure that it does not harm returnees. The additional debt burden it puts on returnees, which might contribute to trapping them in a debt cycle, should receive special consideration. On the other hand, microcredit has the potential to be a useful tool that allows returnees to strengthen and/or expand their business activities and thus increasing their and their relatives' economic stability and well-being.

There is potential to look further into ways of mobilizing capital to support returnees' business activities other than loans from relatives or financial institutions (including MFIs). Beneficiaries can be grouped into collective projects that have the potential to attract diverse partners, such as social impact investors or the private sector. Moreover, other financial schemes based upon solidarity and peer support, such as savings groups, could be assessed in relation to reintegration support and reintegration organizations could envisage supporting communities of return in the establishment of financial support groups. This way, it is possible for returnees to avoid some of the strict requirements for receiving loans from traditional banks or MFIs, such as to provide ID documents or collaterals. Such financial schemes can engender social cohesion and solidarity, though the amounts available are usually limited and may not meet the returnees' ambitions.

As the experiences related to the use of microcredit schemes in the context of migrant reintegration have remained very limited, there is a need to further pilot this approach in the framework of reintegration projects. Moreover, research on the use of microcredit – and more broadly microfinance – in the context of migrant reintegration should be boosted. Only a solid evidence base will allow for a differentiated and effective inclusion of microfinance components in reintegration programming.

*More detailed information and recommendations related to the use of microcredit in migrant reintegration context are available in the full version of the Knowledge Paper, available at [this link](#).*



## Rationale of the Sustainable Reintegration Knowledge Papers Series

This report is part of a series of *Knowledge Papers* focusing on aspects of migrant reintegration that have been largely under-researched, not implemented to their full potential, or that have consistently been identified in reintegration programmes' evaluations as programmes gaps or opportunities. The *Knowledge Papers* series complements other knowledge products developed by the EU-IOM Knowledge Management Hub (KMH), such as *Good, promising and innovative practices factsheets*, the *Knowledge Bites* series and the research studies under the KMH's Research Fund. The *Knowledge Papers* aim to take stock of the state of the art in various areas related to reintegration assistance and programmes, and to propose leads for future reintegration programmes implemented by governments, international organizations and non-governmental organizations worldwide.

## Knowledge Management Hub

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