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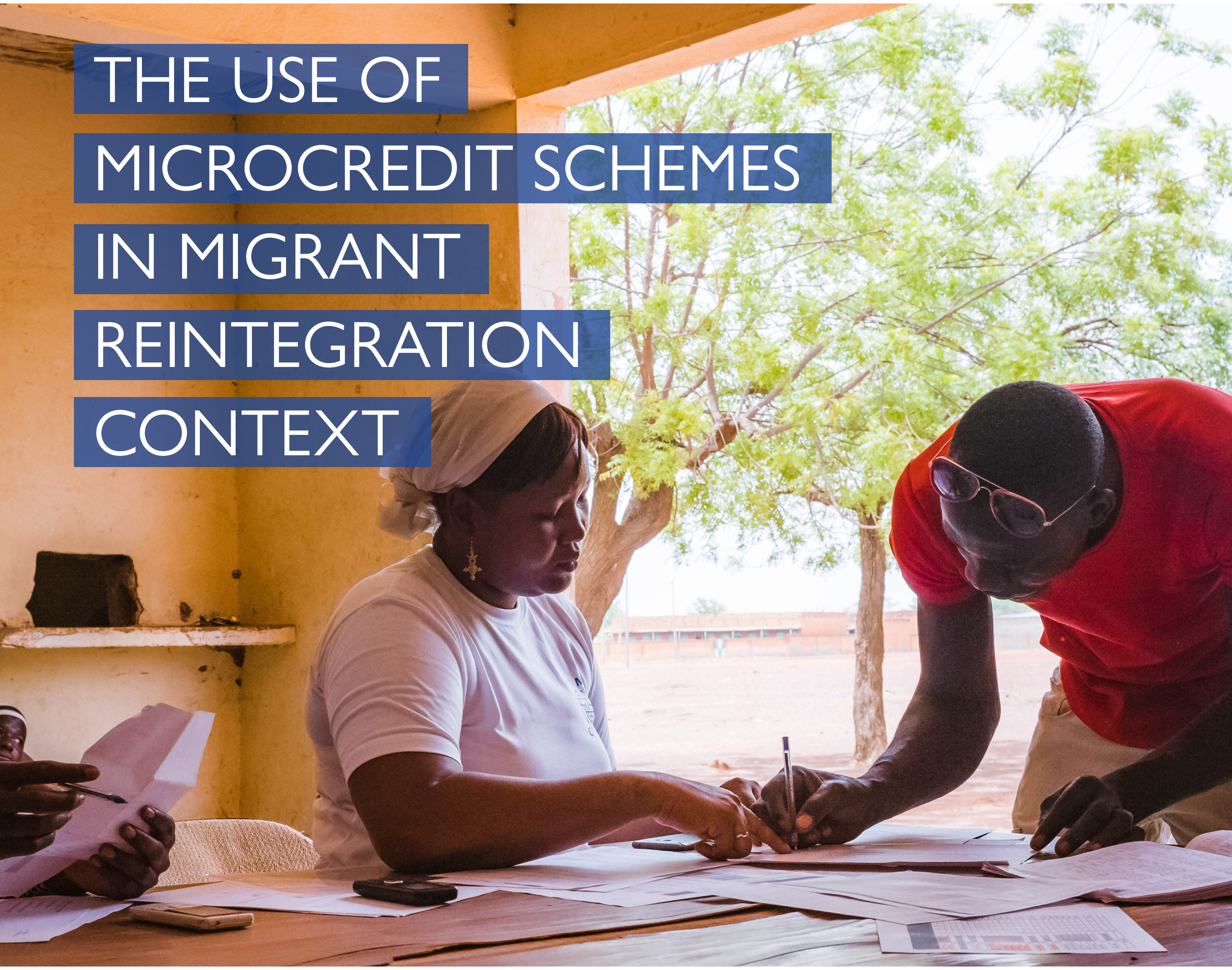
THE USE OF MICROCREDIT SCHEMES IN MIGRANT REINTEGRATION CONTEXT



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1. INTRODUCTION

Microfinance, and more specifically microcredit, is regularly mentioned by reintegration practitioners and experts when discussing avenues to strengthen the sustainability of migrants' reintegration. Yet, very few migrant reintegration programmes have included microcredit schemes as a form of or as a complement to reintegration assistance.

Microcredit appears to have significant advantages that could be leveraged to improve reintegration sustainability, and that plead for its inclusion in reintegration programming. By increasing the resources available to returnees and allowing them to access capital even in situations where they cannot meet the requirements set by traditional banks to access loans, microcredit seems particularly suitable to returning migrants. However, it is also increasingly criticized for some of its downsides, including its high interest rates. Moreover, a credit is a form of debt. As returnees are often indebted, or in any case often face difficult economic situations upon return, taking a credit means going further into indebtedness, with a concrete risk for the beneficiary to remain trapped in a debt cycle.

Used with caution, microcredit seems to constitute an interesting complement to reintegration grants to strengthen promising businesses. But at the same time, one can wonder whether it would not increase returnees' vulnerability.

This *Knowledge Paper* aims at providing leads to reintegration practitioners considering including a microcredit component in their programme, and 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). 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?

Building upon case studies and interviews with reintegration practitioners and microfinance experts, this paper draws a number of conclusions and recommendations, including the key ones that follow.

Key conclusions and recommendations

1. Microcredit can constitute a relevant and powerful tool in the reintegration assistance toolbox.
2. Microcredit should not replace reintegration grants and other forms of reintegration support, but should rather be envisaged in complementarity with them.
3. Microcredit is not always an adequate instrument and it cannot be recommended as a general solution for returnees. Microcredit is not adapted to all kinds of reintegration plans, and it is not adapted to all individuals. 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.
4. Microcredit support 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) and close mentoring and monitoring.
5. If available and accessible, alternative sources of funding that are more advantageous to returnees (e.g. savings, friends andrelatives, business partners, bank loans) should be envisaged.

6. Microcredit is more likely to improve reintegration sustainability if it is directed towards economic support. It is usually particularly useful 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).
7. 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.
8. Reintegration organizations can support returnees accessing microcredit schemes by engaging with and supporting MFIs, including by: sensitizing MFIs on returnees as a potential target group and using their data to provide a realistic picture of the returnee caseload and deconstruct wrong assumptions in their regard; helping MFIs adapting their procedures, requirements and services to returnees; conducting market assessment, envisaging technological solutions and/or providing logistical support to reach areas not covered by the MFIs' services; or establishing revolving or loan guarantee funds.
9. Reintegration organizations can also help returnees accessing microcredit schemes by providing relevant support to returnees, including to address some of the requirements set by the MFI, to improve their business management capacities or to apply for a loan.
10. The reintegration organizations' sound expertise in the field of return and reintegration and their privileged relation with returnees can be leveraged to link returning migrants with MFIs (and other financial services providers).

2. MICROFINANCE, MICROCREDIT AND MIGRANT REINTEGRATION

2.1 The concepts of microfinance and microcredit

2.1.1 What is microfinance?

There are numerous **definitions** of microfinance.[1] To synthesize them, 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 because of their weak economic profile.

Microfinance **targets** people excluded from the traditional banking system, mainly because they do not have a fixed income and cannot provide financial guarantees, or because traditional banking systems are not in place or operational in the area. It thus facilitates access to financial services for a large proportion of people. According to the Grameen Foundation, the **goal** of microfinance is to ultimately allow impoverished people to become self-sufficient.[2]

A **microfinance institution** is an organization that provides microfinance services to customers who have difficulties to access the traditional financial sector. They can be formal institutions (rural banks, development banks, savings and credit cooperatives), semi-formal institutions (non-governmental organizations (NGOs)) or belong to the informal sector (local lenders, self-help groups).

Some MFIs are **for-profit** and others **non-profit**. For-profit MFIs tend to focus on financial services and do not necessarily place the borrowers' interest first. Non-profit MFIs are more focused on their social mission and often place their borrowers' economic and social development as a top priority. They usually provide a range of services beyond those strictly financial. While microfinance was originally mainly non-profit and driven by social goals, there has been a proliferation of for-profit MFIs (including microfinance departments of large international banks) that seek solid returns for investors.

The **services** offered by MFIs usually include microcredit, but often also include savings schemes, microinsurance, money transfer service, and specialized advices and/or business support. While these additional services are important and certainly worth looking into, this paper focuses on the microcredit aspect of microfinance, namely on the provision of small loans to beneficiaries.

2.1.2 The main constituting elements of microcredit and the lending process

Microcredit is the credit component of microfinance. It refers to a credit scheme targeting people who are usually excluded from traditional financial services.[3]

As the microfinance industry expanded, microcredit has evolved to adjust to a variety of needs and contexts. Although detailing the different **types of microcredit** is not directly relevant in the framework of this paper, it is useful to clarify that when one speaks about microcredit, it can embrace different situations. Grameen Bank proposes a classification of microcredit[4] (many other classifications can be envisaged) including: traditional informal microcredit (e.g. moneylender's credit, pawn shops, loan

[1] See for instance: Etimos Foundation, Return, Reintegration and Microfinance: Microfinance as a Tool for the Socio-Economic Reinsertion of Migrants in their Countries of Origin, published by IOM, 2015; ILO, ILO Policy Statement: Microfinance for Decent Work, Governing Body, 294th Session, 2005.

[2] Grameen Foundation, Glossary of Terms (accessed on 12 October 2020).

[3] Microcredit, which is further detailed below, should not be confused with microgrants. Microgrants are small sums of money distributed to individuals in various forms (cash transfers, vouchers, in-kind). Unlike microcredit, they do not require the beneficiary to repay the credited amount.

[4] Grameen Bank, What is Microcredit? (accessed on 15 October 2020).

from friends and relatives, consumer credit in informal market); microcredit based on traditional informal groups (e.g. *tontine*, *su su*, Rotating Savings and Credit Association (ROSCA)[5]); activity-based microcredit through conventional or specialised banks (e.g. agricultural, livestock, fisheries or manufacturing credit); rural credit through specialised banks; cooperative microcredit (e.g. cooperative credit, credit union, savings and loan associations, savings banks); consumer microcredit; bank-NGO partnership based microcredit; Grameen type microcredit; other types of NGO microcredit; other types of non-NGO non-collateralized[6] microcredit.

Some of the **key elements inherent to microcredit** are:

Loan: the loan is the amount lent, or the capital that is made available by the MFI to the beneficiary. It is usually rather small, but several loans (usually of increasing values) can be granted over time to 'reliable clients' (i.e. individuals repaying previous loans on time).

Lending type: loans can be granted either to individuals or to groups. They can theoretically be used for a variety of expenditures, including for consumption, housing, or business. Since in the framework of migrant reintegration it is strongly recommended to use microcredit for business-related purpose (see recommendations below), this paper will focus on this aspect.

Target groups and exclusion criteria: microfinance institutions can target specific groups or implement specific programmes for certain groups. For instance, many MFIs focus on empowering women, considered as more reliable and as having a bigger impact on a household's economic situation. Some groups might also be excluded from a MFI's services, for instance the elderly.

Lending conditions and requirements: to enable people excluded from the traditional banking system accessing financial services, microfinance institutions have more flexible conditions to grant loans as compared to traditional banks; this is their distinctive aspect. MFIs still have conditions and requirements in terms of collaterals (e.g. house, land, goods), guarantors (individuals guaranteeing the repayment), own capital contribution, regular income and/or personal financial history, but the standards are lower, or more accessible to people with a low income. Guarantees are usually required for individual beneficiaries, especially if the loan is intended to support the set-up of an activity (already running businesses may not need guarantees as a stable income represents a guarantee per se). Microcredits requested by a group usually do not require any guarantee since each member of the group is responsible – also on behalf of the others – to return the loan ("joint responsibility"). Other requirements may include a minimum duration of operation of the business, a minimum duration of residence in the country and similars.

Interest rate and amortization schedule: the interest rate is the price to be paid for the loan. It can be calculated as a flat rate or declining balance.[7] The amortization schedule consists of the schedule of the repayment of the capital as well as of the interest rate. It can take place on a weekly basis, on a monthly basis, or at any other frequency agreed upon. The periodic reimbursement can either regard the capital and the interest, or only the interest rate while the capital is repaid at the end of the period.

Each microfinance institution proposes **specific parameters** for each of the above elements. Some MFIs provide very small credits, while other can provide loans worth tens of thousands of dollars. Some MFIs have specialized in small- and medium-sized enterprises, with higher loans. The interest rate can vary from a few per cent to 80 per cent or more on an annual basis. Some MFIs require strong guarantees while others are very flexible in this regard. Such variations depend on the type of institution, the region and country it operates in, the market environment and so on.

[5] "A ROSCA is a group of individuals who make regular, financial contributions for the creation of a fund. The group meets regularly. At every meeting the group allocates the fund to one member of the group at a time. The allocation of funds takes place on the basis of a prearranged principle." (Susan Thieme, Savings and Credit Associations and Remittances: The case of Far West Nepalese Labour Migrants in Delhi, India, Social Finance Programme Working paper No. 39, ILO, 2003). Tontines and su su are traditional forms of ROSCAs, typical from certain regions.

[6] Collaterals are assets pledged to secure the repayment of a loan.

[7] Flat: the interest rate is calculated every month on the share capital initially granted. It is an easier method, especially used in the rural areas. Declining balance: the interest in every period is calculated according to the residual balance. This is a more complex method if compared to the flat one, used especially in urban areas. (Source: Etimos Foundation, Return, Reintegration and Microfinance, 2015).

The **process** leading to the payment of a microloan also varies from an institution to another. Generally, the process to grant the loan only takes a few days, although the overall process can be longer if the MFI provides training, support to develop a business plan and so forth. Individuals or groups interested in taking a loan have to apply for a loan to an MFI. When the loan is meant to be invested in a business,[8] the MFI assesses the application, usually through an interview with the applicant (often during a visit to the business location) and the collection of all relevant information about the individual/group and about the business: it reviews the business plan, assesses the needs of the individual/group or business and discusses the guarantee if required. After an analysis of the business and of its prospects, the MFI and the beneficiary agree on the conditions of the loan, including its amount, the interest rate and repayment schedule. A contract is signed and the microcredit tailored to the beneficiary and to the project's requirements is paid. The MFI usually monitors the project and provides advices if needed.

2.1.3 The microcredit debate

An intense debate has taken place around microcredit. It has been widely praised for helping lifting people out of poverty, but more and more voices have raised against it. This paper does not detail this debate (many studies, reports and opinions advocating for or against microcredit have been published and are easily accessible online), but given its relevance to better frame the opportunities and threats linked to microcredit, the main arguments of its supporters and opponents are briefly presented.

SUPPORTERS

According to its supporters, microcredit gives its clients, who typically cannot open a commercial bank account, access to cash. It prevents borrowers from having to seek for loans through informal channels, such as loan sharks with huge interest rates. More generally, microcredit supporters argue that it constitutes a relevant tool to stop chronic poverty, increase entrepreneurship and diminish unemployment, especially for the low-income population in areas with limited economic opportunities. They underline the social impact of microcredit. Advocates also claim that microloans borrowers achieve excellent repayment records – far higher than for traditional loans – thanks to its business model (including the support provided by MFIs to borrowers).

OPPONENTS

An increasing number of people and institutions argue that microcredit can actually increase levels of poverty among low-income populations. Among the factors supporting this view are the high interest rates and the risk of unsustainable debt accumulation. The main criticism concerns the so-called "predatory lending", or the fact that some financial institutions exploit the beneficiaries, actually making money off them. In addition, various reports underline that microcredit is unable to reach the poorest of the poor (since they are unable to repay even very small loans). Finally, several studies claim that microcredits are often used to pay for daily expenses (consumption), rather than to invest in businesses. As the credit is not used productively, it does not have any impact on people's lives and the debt reimbursement is at risk.

[8] When the microcredit does not target a business but is intended to cover other needs such as education, health or consumption, the process mostly focuses on the repayment capacities of the applicant.

This brief list of arguments in favour or against microcredit highlights important aspects one should pay attention to and suggests the pitfalls to avoid. To overcome this debate, it is important to consider that the microfinance environment is not monolithic. There are many types of institutions and varying local contexts. Whether or not microfinance, and microcredit in particular, is successful in alleviating poverty worldwide, there is ample evidence of success at individual level. Taking the above into account, microcredit appears as a relevant tool that, if used carefully, could complement the assistance toolbox for returning migrants under reintegration programmes.

2.2 Using microcredit in the context of migrant reintegration

2.2.1 Returnees' profiles and needs

Returnees' characteristics

While they do not constitute a monolithic group, **returning migrants usually assisted under reintegration programmes often share specific characteristics** that may plead for, plead against, or hinder their access to microcredit schemes.

Absence from the country of origin: they have been away from their country and community of origin for some time and might be disconnected from the local context and have lost (part of) their social support networks.

Return context: while the return context may have evolved during their journey and stay abroad, returnees still return to the place where their initial migratory project originated. Even though many reasons can explain the choice to migrate, some of the factors that contributed to the person's decision to migrate are likely to have remained.

Social and psychosocial challenges: returning migrants – especially those returning empty-handed – often face isolation and hostile reactions related to their return. Adding to their sometimes difficult migration journeys and to the complex return decision they had to take, this situation can lead to psychosocial issues.

Precarious economic situation and indebtedness: returnees very often have to restart from scratch. They have spent their savings, sold their goods, and sometimes taken a loan, to pay for their migration journey. Upon return, many do not have any job or business to go back to. They have to provide for themselves and often for other family members, while they also have to pay off their debt. As a result, they very often need an immediate income. This constitutes a very common and major challenge in migrant reintegration, pushing many to envisage setting up businesses that will quickly generate an income.

Returnees' economic situation and financial needs

Monitoring and evaluation data centrally available and collected over the past few years by IOM in the framework of its voluntary return and reintegration programmes globally, provides unique insight into the most common financial needs of returnees. It suggests that 79 per cent of the returnees assisted by IOM use their reintegration assistance to set up micro-businesses. This figure rises to close to 100 per cent in some countries. However, a large number of returnees states that the assistance made available for setting up their business is insufficient to establish sustainable businesses. Therefore, many rely on additional funding: 40 per cent of the beneficiaries surveyed by IOM worldwide complement the assistance received under the programme with additional sources of funding.[9]

[9] Based on IOM's Reintegration Programme Monitoring survey. Only the nineteen countries where more than 40 surveys were conducted, have been considered: Bangladesh (60 surveys); Burkina Faso (210); Cameroon (481); Côte d'Ivoire (444); Ethiopia (41); The Gambia (494); Georgia (308); Ghana (213); Guinea (447); Guinea-Bissau (217); Malawi (62); Mali (338); Mozambique (117); Niger (475); Nigeria (1,296); Pakistan (68); Senegal (265); Sierra Leone (50); Tajikistan (80), for a total of 5,666 individuals considered.

While the sources of funding used cannot be determined precisely on the basis of the surveys, other studies provide some leads. A study focusing on migrants assisted by IOM in their voluntary return from Switzerland and reintegration in Nigeria found that 65 per cent of the returnees had invested additional funds into their project. Most of the additional means originated from informal sources of financing such as family (34%) and friends (31%), from personal savings (18%) and in only about 10 per cent of the cases from formal bank loans. A study on returnees' indebtedness (see further below), conducted among 505 migrants who returned to Guinea and were assisted in their reintegration in the framework of the EU-IOM Joint Initiative for Migrant Protection and Reintegration, reports that among the 23 per cent of returnees who became indebted after their return, 64 per cent borrowed the money from friends and 32 per cent from relatives.

Returnees often declare facing difficulties with their business due to lack of capital which prevents them from running their business smoothly or from expanding it. The survey on Nigerian returnees from Switzerland indicates that problems encountered with businesses were in 28 per cent of the cases due to a lack of additional funds for expansion. An evaluation of the United-Kingdom-funded AVRR programme for Afghanistan in 2008 and 2009 showed that only 64 per cent of businesses remained operational once the initial investments were depleted. Respondents highlighted the lack of financial backing and liquidity as the main obstacles to a successful business.

The returnees' level of indebtedness and the factors related to it shed interesting light on returnees' economic situation. A series of studies conducted by IOM in West Africa in 2020 looked into returnees' indebtedness in Burkina Faso, Côte d'Ivoire, The Gambia, Guinea, Mali and Senegal.[10] The studies found that a large portion of returnees was indebted upon return: they were 55 per cent of the respondents in The Gambia, 59 per cent in Guinea, 68 per cent in Mali, 72 per cent in Senegal, 77 per cent in Côte d'Ivoire, and 79 per cent in Burkina Faso. The majority of them became indebted with relation to their migration (either before the migration, in order to pay for it, or during the migratory journey), but between 22 per cent and 33 per cent borrowed money after their return (22% of the respondents in Côte d'Ivoire, 23% in Guinea, 24% in Senegal, 26% in Burkina Faso and 33% in Mali). Debt is an overwhelmingly informal phenomenon: the main lenders are friends and relatives in 83 per cent to 96 per cent of the cases, depending on the country, while financial institutions were used only extremely marginally (no one used financial institutions in The Gambia, 2% in Guinea). In most cases, the indebted returnees took a loan to fund their professional or personal project (between 44% in Senegal and 59% in Guinea) and to support their family (35% in Senegal, 26% in Guinea). Very few used the loan to pay off another debt (2% in Senegal, 3% in Guinea).

2.2.2 Benefits of microcredit to support migrant reintegration

Access to capital: many of the aspects presented above, such as the relative ease of access to capital and the relatively low level of requirements or guarantees, at least as compared to the traditional banking system, make microcredit particularly suitable to returning migrants, especially those lacking the social networks able to provide them with additional sources of funding. It represents an alternative to moneylenders in the informal sector, who usually have extremely high interest rates and do not provide any type of support beyond the loan. Microcredit is thus more accessible than the traditional banking system and more advantageous than informal lending.

Business sustainability and access to services: microcredit can be used for a variety of aspects. However, this paper recommends using it only for business-related purposes (see *Lessons learnt and recommendations* section). In such case, the availability of capital (and in some case the enhanced capacities gained through counselling, training and other forms of technical assistance) enables returnees setting up bigger businesses, or expanding them, and making them more sustainable. Improved incomes allow

[10] IOM, L'Endettement des Migrants de Retour et l'Impact sur la Réintégration Durable au Burkina Faso/ en Côte d'Ivoire/ en Guinée/ au Mali/ au Sénégal, October 2020; and IOM, Returned Migrants' Debts and their Impacts on Reintegration in The Gambia, October 2020. These reports are available on the website of IOM's Regional Office for West and Central Africa.

returnees affording key services such as health or education, thus improving their well-being and stability, as well as those of their relatives.

Potential impact on community: in some sectors (e.g. productive sectors), bigger businesses have the potential to create jobs, thus improving the conditions at local level, beyond the returnees.

Returnees' increased ownership of reintegration process: returnees assisted under reintegration programmes can have the impression they are entitled to assistance and might end up thinking the reintegration organization should cover all their needs. This over-reliance on assistance might prevent returnees from taking control over their reintegration. Microcredit requires commitment and ownership of their projects by returnees who are given the responsibility to repay the loan. This can constitute a shift in returnees' attitude towards their reintegration process: they are not "entitled to", but have to "make it happen".

Socialization: through its very nature, group lending can foster socialization. By bringing people together – be they all returnees or a mix of returnees and people from the community of return – microcredit groups provide a social venue for returnees where they can benefit from the support of their peers (in case of group of returnees), or where they can mix with the local population, contributing to their socialization, to a better knowledge of each other, and to a better acceptance of returnees within the community. In contexts where women are tied to their homes, group meetings may constitute an important element of socialization and psychosocial well-being.

2.2.3 Challenges in the use of microcredit in the context of reintegration

Despite the strong arguments presented above, there are numerous potential barriers to including microcredit in reintegration programmes.

Many MFIs discourage or do not grant microloans to start-up businesses: most of the time, businesses have to be active since at least one year and generate a stable income in order for their owners to be able to apply for microcredit. This de facto bars returnees from accessing such services, at least in the short to midterm following their return. In the absence of a business record and of a stable income, the MFI can still consider granting a loan, but with more stringent conditions, such as high guarantees or collaterals. As returnees are often somehow disconnected from their local community upon return, this may also prove particularly challenging.

Lack of trust towards returnees: there may be a lack of trust of MFIs (so as of the local population) towards returnees. In many countries, returning migrants are considered as unreliable. They can be perceived as less stable psychologically, and some MFIs fear that returnees might decide to re-migrate overnight, interrupting the repayment of the loan. More objectively, several characteristics of returnees (as presented above) question the repayment capacities of this target group.

Incompatible requirements: the microcredit application process requires IDs or other official documents, which can pose problems to returnees, especially in some countries with weak civil registry systems. Many MFIs also require a minimum duration of residence in the country (e.g. minimum one or two year of uninterrupted residence), or the home or land deed of the applicants.

Risk of indebtedness: returnees' precarious economic situation and, for many of them, indebtedness, require extreme caution when considering proposing a microcredit. For indebted returnees, it would result in a second type of debt, adding to the original debt.

Returnees' own concerns: on their side, returnees themselves might not feel comfortable with microcredit. Some do not want to take a loan at all, so as not to be (even more) indebted. Others consider the process as too bureaucratic and do not feel at ease with the paperwork.

3. CASE STUDIES: 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. Based on an internal survey conducted by IOM in February 2020, it appears that only a few projects managed by IOM in the field of reintegration have provided concrete support to facilitate returnees' access to microcredit. These experiences have remained quite limited in terms of number of beneficiaries and countries involved, and limited monitoring data is available on the outcomes of the provision of microcredit to the beneficiaries. Some of these experiences are presented below.

A desk review conducted in the context of this paper did not allow identifying any experience from other reintegration organizations in this regard. It found that various microfinance institutions have provided credit to returnees as part of their usual programmes (thus not linked to any specific reintegration programmes), but it has not been possible to receive any relevant data from these institutions.

3.1 Business support in Nigeria for migrants returning from Switzerland[11]

Between 2005 and 2016, IOM implemented the *Assisted Voluntary Return and Reintegration Assistance Program from Switzerland to Nigeria*. Several beneficiaries indicated a need for further assistance beyond IOM's reintegration grant (higher amounts, continuity over time). Monitoring data showed that more than 74 per cent of returnees complemented the reintegration grant received by IOM with other sources of funding. Less than 1 per cent autonomously used (micro)credit as additional sources of funding, while the vast majority relied on friends, family members, and moneylenders in the informal sector. The latter likely charged very high interest rate, thereby potentially causing indebtedness instead of helping returnees. IOM thus decided to (a) conduct a study on the relevance of and opportunities linked to microcredit in different countries, including Nigeria,[12] and to (b) pilot a microcredit component within its AVRR to Nigeria project.

The pilot microcredit component was established in partnership with the microfinance institution Self Reliance Economic Advancement Programme (SEAP). IOM selected SEAP to handle the granted revolving fund of a value of USD 22,000, aimed at facilitating returnees' access to microcredit off the market and at ensuring privileged lending conditions (such as a negotiated interest rate of 15%). Targeting business-related needs (e.g. equipment, working capital), the microcredit component was available to returnees who started a business, registered it with the Corporate Affairs Commission, went through an entrepreneurship training, and already received the full reintegration grant.

IOM informed returnees about this opportunity during counselling sessions. Those interested and with a business assessed by IOM as viable, were selected and referred by IOM to the MFI or were invited to information sessions where they could meet a representative of the MFI and directly apply for a loan. The MFI successively registered the cases interested, assessed their businesses and decided on the granting of the microcredit in an autonomous manner. The MFI had sole responsibility for deciding on whether to grant a loan or not, as well as for managing the microcredit relationship.

If selected, returnees could access a first loan of up to NGN 350,000 (approximately EUR 775), to be repaid within the agreed timeframe (approximately six months). Upon payment of the loan, SEAP continued supporting the borrowers through regular visits and specialised business advices. Following the successful repayment of the loan, returnees were able to access additional cycles of credit at the conditions facilitated by IOM, for a maximum of four loans and NGN 1,000,000 (approximately

[11] Based on IOM, Access to Microcredit Opportunities for Returned Migrants During and Beyond IOM Support: A Study on Microcredit in the AVRR Context, 2016, and on an interview with Sonja Kyburz, the IOM staff in charge of the project in Switzerland.

[12] See study referred to in the footnote above (IOM, Access to Microcredit Opportunities for Returned Migrants, 2016).

EUR 2,220). Afterwards, returnees could continue applying for other loans, but within the regular credit schemes of the partner (or of other MFIs).

IOM's partnership with SEAP allowed agreeing on a preferential interest rate (15%) for returnees referred by IOM. To receive the loan, beneficiaries had to identify two guarantors and pay a registration fee of NGN 1,300 (approximately EUR 3) as well as a processing and documentation fee of 1 per cent of the credit sum. The payment methods and repayment schedule were established on a case-by-case basis, according to the returnees' possibilities, the type of business and so on. SEAP also proposed microinsurances to its beneficiaries (at additional cost).

The pilot phase was considered a success, and the microcredit component has been extended to date in a separate project.[13] The successful implementation of the pilot phase allowed decreasing the interest rate from 15 per cent to 10 per cent, largely below the market conditions. In 2019, the microcredit scheme was also opened to migrants in situation of vulnerability returning from transit countries in the Sahel and North Africa (Libya, Mali, Niger).

Since it was piloted in 2016, thirteen returnees (over a total of 86 migrants who returned to Nigeria from Switzerland during the same period) have been supported through this microcredit scheme. Eleven have successfully reimbursed their loan, with some having benefited from four loan cycles. Repayment usually happened smoothly. On a few occasions, the MFI reached out to IOM due to issues with repayments and IOM acted as an intermediary, discussing with the returnee about possible solutions.[14] Only one beneficiary did not reimburse the loan, as he became unreachable shortly after receiving it.

A monitoring exercise focusing on the microcredit component of the project was carried out as of 2018 on a yearly basis. The seven beneficiaries interviewed in 2018 informed that the decision to take a loan was related to the low interest rate offered to them, coupled with the desire to increase their capital. Beneficiaries used the loans to diversify the offer of products in their shops or to set up new businesses in addition to their original one in order to diversify their sources of income. They confirmed that their income increased after receiving the loan, which enabled all of them to support their immediate family members. Three beneficiaries interviewed had employees who were paid monthly salaries (NGN 15,000 to NGN 18,000 – approximately EUR 33 to EUR 40). All respondents acknowledged the positive impact of the loan on their business. They particularly appreciated the loan conditions (low interest rate and flexibility of repayment methods and schedules) and the good cooperation with the MFI interlocutors (especially their guidance and understanding). Although the beneficiaries would have appreciated higher loan amounts, some indicated that they were already struggling with repayment of the current loans. According to SEAP, at least two of the beneficiaries had reached the requirements and capacity to approach other financial institutions (at market conditions).

Despite encouraging results, it is noteworthy that only a large minority of the migrants returning to Nigeria accessed the microcredit scheme. While many appear as interested initially, the explanations provided on the functioning and on the terms of the loan very often discourage returnees. Many others are not interested because, in their view, the amount lent is too small: they immediately want a larger amount to set up bigger businesses, not seeing the need to start small (which is a requirement for the MFI to gain confidence in a beneficiary and in its capacities to repay the loan).

3.2 REMPLOY III

Managed by IOM in the period 2014–2015, *REMPLOY III* is an assisted voluntary return and reintegration project that supported migrants in Italy returning to and setting up microbusiness in their countries of origin. It targeted migrant workers who lost their job due to economic crisis of the early 2010s. Previous phases of the *REMPLOY* project had shown that some returnees

[13] Facilitating Sustainable Reintegration of Voluntary Returnees through Business Support in Nigeria.

[14] The microcredit contract is signed directly between the MFI and the returnee, and IOM is not liable whatsoever for the reimbursement. However, thanks to the relation of trust it established with both parties, IOM may intervene to act as an (informal) intermediary in the microcredit relation.

had notable entrepreneurial abilities and ambitions, but that their potential was limited by the amount of the reintegration grant available.

To address this, a microcredit component was piloted under the third phase of the project. In coordination with Etimos Foundation, an Italy-based foundation promoting sustainable business and financial inclusion with a large network of partners in many countries, it targeted a limited number of returnees who were supported in accessing microcredit schemes through partnership with local MFIs in seven selected countries of origin (the Plurinational State of Bolivia, Ecuador, Ghana, Morocco, Peru, Senegal and Tunisia).

In Italy, the beneficiaries were supported by a specialized partner (*Associazione Formazione Professionale Patronato San Vincenzo*) in the development of their business plans. These plans were shared before return with the partner MFIs in the selected countries of origin (CoO), that reviewed the plans and provided an initial assessment on the relevance and opportunity to support them with a microcredit. Upon return, the returnees were assisted in setting up their businesses using IOM's reintegration grant, and those whose business plans had been pre-selected, also received individual support to manage their businesses and improve their business plans, and eventually receive a microcredit.

Fifty-six migrants were assisted through *REMPLOY III*, and 25 of them were pre-selected to benefit from the microcredit component of the project (4 in the Plurinational State of Bolivia, 4 in Ecuador, 1 in Ghana, 4 in Morocco, 8 in Peru, 4 in Senegal). Unfortunately, due to time constraints the microcredit support could not be monitored or evaluated, and no evidence could be gathered on its outcomes.

The toolkit Return, Reintegration and Microfinance: Microfinance as a tool for the Socio-Economic Reinsertion of Migrants in their Countries of Origin providing useful information on microcredit was also developed in the framework of the project.[15]

3.3 Bangladesh: Sustainable Reintegration and Improved Migration Governance - Prottasha[16]

In Bangladesh, IOM and BRAC[17] implement the *Sustainable Reintegration and Improved Migration Governance (Prottasha)* project (2017–2021). Funded by the European Union and led by Ministry of Expatriate Welfare and Overseas Employment of the Government of Bangladesh, the project targets irregular migrants returning to Bangladesh from the European Union as well as from transit countries (Libya, Tunisia and Turkey). Reintegration assistance is provided at district level through Reintegration Services Centres managed by BRAC. Returnees receive counselling, are assisted in the development of tailored reintegration plans, and receive reintegration assistance consisting of direct assistance or referral to adequate programmes and services, including to microcredit programmes. The project assisted nearly 1,400 returnees between April 2017 and September 2020.

As of end of September 2020, 43 returnees were referred to microfinance institutions, and six eventually received a loan. Data was provided on three microcredit beneficiaries: two invested in small shops, and one on the finishing of a house for rental purpose. All three were doing well financially after they got the loan: they were able to cover their daily expenses and to repay the monthly instalments. There was no evidence that they managed to employ staff thanks to the loan or that they had any impact at local level beyond their own economic stability.

[15] Eight different toolkits have been produced: one for each country of origin targeted, as well as one including all countries. An English version is available only for Ghana, which the above link corresponds to. Toolkits related to the other CoOs are available in French (e.g. for Morocco) and Spanish (e.g. for Peru) as appropriate. A toolkit in Italian compiles information on all CoOs. All toolkits contain the same information, apart from the final part that focuses on specific countries.

[16] Based on exchanges and interview with BRAC (Golam Mahfuzur Rahman, Md. Rakib Ahsan Khan, Nur-E-Shafa Ankhi) and IOM (Farzana Shahnaz) in Bangladesh.

[17] BRAC is a Bangladesh NGO that provides a broad range of services in the areas of human rights, education, health, crisis management and economic development through social enterprise, social investment, advocacy, micro credit and micro savings services. BRAC operates in a dozen developing countries in Asia and Africa, with their main operations being in Bangladesh.

The number of returnees who were referred to microcredit programmes (43), and even more of those who actually benefited from microcredit schemes (6), constitutes a very small fraction of all returnees supported by *Prottasha* (respectively 3% and 0.4% of the total returnee caseload). According to BRAC and IOM, this is mainly explained by the fact that (a) returnees usually do not meet the criteria and conditions requested by MFIs (mainly regarding ID documents, land or property deeds and collaterals) and that (b) returnees are most often not interested due to the high interest rates (including because many, especially those returning from Europe, are already heavily indebted).

Most returnees assisted under *Prottasha* (irregular migrants from Europe and transit countries, usually returning empty-handed) are de facto excluded from any type of formal financial services. They are often not able to access commercial bank loans, their family and community usually refuse to lend them (more) money (they often already participated financially to the migration journey and see returnees as failures) and even MFIs are usually hardly accessible due to their conditions and lack of trust in returnees' capacity to repay the loan. People who migrated regularly can benefit from financial products specifically designed for returnees by the *Probashi Kallyan* Bank (Expatriates' Welfare Bank), but irregular migrants (who are not registered in the Government of Bangladesh's database of expatriate workers and cannot produce regular visas or other legal travel documents) cannot access these services.

IOM and BRAC have tried to facilitate returnees' access to (micro)credit, for instance by helping returnees getting ID cards or opening bank accounts. However, this proved insufficient as even when these requirements were addressed, they still could not provide the guarantees or collaterals required. IOM and BRAC have also started advocating for financial institutions (mainly commercial banks and the Expatriates' Welfare Bank that propose less disadvantageous lending conditions than MFIs') to loosen their conditions and reduce their interest rates, but no breakthrough has been registered yet.

IOM is exploring alternatives to ensure financial inclusion of returnees. Some government technical training programmes provide skills training and complement them with small loans that can help expanding businesses and creating a credit history. Some employment or agricultural banks also provide small loans. IOM is negotiating the establishment of referral mechanisms with them.

In the context of Bangladesh, microcredit appears to work relatively well when it regards small amounts (up to EUR 500) borrowed by people living in poverty. On the contrary, it does not seem to fit the need of most returning migrants, who invested a lot in the migration journey and have higher expectations upon return. Returnees also appear less likely to be willing to 'start small' and increase the amount of the loans progressively: they usually immediately want to set up larger business to be able to earn a good income and reimburse their previous debts. Commercial banks are more in line with their needs, so this is where most efforts are being made to facilitate returnees' financial inclusion.

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4. TAKING STOCK AND LOOKING AHEAD

The experiences presented above, desk review of a range of reports and studies on microcredit and its use in different contexts, and complementary consultations with a few microfinance experts and practitioners, allow drawing some conclusions and recommendations on the use of microcredit in the context of migrant reintegration.

4.1 Conclusions

While many returnees setting up businesses upon return seek additional sources of funding to develop their business and improve their economic stability, they usually rely on their social networks to access capital. Those with limited social networks often rely on informal lending systems. Returnees usually face more obstacles than non-migrants to access microcredit and are often themselves not interested in microcredit for various reasons.

The reintegration organization can play an important role in facilitating returnees' access to microcredit, sometimes with preferential conditions, thereby contributing to extend the effects of the initial reintegration support beyond the programme's reintegration assistance value and period.

The below table presents a brief SWOT analysis of the use of microcredit in the context of reintegration. Lessons learned and recommendations related to the use of microcredit schemes within reintegration programmes are presented in the next section.

STRENGTHS	WEAKNESSES
Microcredit is a source of capital that can be used for business strengthening or expansion; Microcredit is more accessible for returnees than traditional banks loans; Microcredit can be adapted to a wide range of contexts, needs and profiles; Through microcredit, returnees are empowered and have increased ownership of their reintegration process; Microcredit can empower women and other groups who often have limited access to capital Group lending can foster socialization and thus contribute to improve the psychosocial reintegration of beneficiaries.	A loan is a form of debt; Microcredits usually have a high interest rate; Conditions and requirements set by MFIs remain challenging for returnees; Microcredit is suited only for certain types of projects and needs; Microcredit is not suited to respond to immediate needs in the early stages of the reintegration process; MFIs are not always present/accessible in remote areas.
OPPORTUNITIES	**THREATS**
Microcredit can represent a significant complement to the reintegration grant, strongly contributing to the sustainability of reintegration; MFIs often provide support beyond microcredit (e.g. training, business support, microinsurance) that is very relevant in the framework of reintegration and positively complements the reintegration programme's efforts;	Risk of repayment default and debt accumulation for returnees; Predatory attitude of some MFIs; Negative attitude of some MFIs staff towards returnees might hinder inclusion of returnees in microcredit schemes;

OPPORTUNITIES	THREATS
Once in the system, beneficiaries have the possibility to access several loans and keep expanding their activities; Microcredit can be used to develop activities that can create employment opportunities or address local needs; Credit to community-based projects can contribute to local development; Reintegration organisations and MFIs can cooperate to target returnees in a focused way; MFIs with a social vision may share the values and objectives of the reintegration programme (e.g. support marginalized or disadvantaged groups, beneficiary empowerment), which can facilitate cooperation or partnership; As many MFIs are supported by development donors, synergies can be established at the design stage of a reintegration programme.	Returnees lacking financial literacy might not understand properly the risks and opportunities of microcredit; If not closely monitored, risk of transfer of the credit (i.e. from investment in a microbusiness to coverage of other costs such as education or household consumption) by some returnees.

4.2 Lessons learnt and recommendations: using microcredit in reintegration programmes

Based on the experiences presented above and on interviews with practitioners and experts in the fields of microfinance and reintegration, some recommendations on the use of microcredit in the context of migrant reintegration could be drawn.

It should be noted that most of the below recommendations are not only valid for MFIs, but more largely for all financial service providers. When conditions (regulations, procedures, requirements, etc.) allow, traditional banks may constitute a more interesting options than MFIs, since they usually have lower interest rates. That being said, in many contexts MFIs are more predisposed to consider offering loans to returnees, especially when they have a clear social mission and in light of their greater experience in working with marginalized groups.

It should also be noted that the boxes included in the below section have the purpose to illustrate the recommendations with examples of activities that have been implemented by various actors in various contexts. No assessment of their outcomes or effectiveness was done in the framework of this Paper, their only aim is to provide concrete examples to facilitate the understanding and give ideas of what has already been done and is possible in view of future programmes.

4.2.1 Including microcredit in the reintegration assistance toolbox

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.

Microcredit is not adapted to all kinds of reintegration plans. It should focus on business support (see further) and should respond to a specific need: the need to access additional capital that is not otherwise accessible. A **robust needs assessment**

should thus be made before proposing microcredit, and other (more advantageous – or less disadvantageous) sources of funding should be envisaged (savings, friends and relatives, business partners, bank loans, etc.).[18]

Moreover, **microcredit is not adapted to all individuals**. Not all migrants have an entrepreneur mindset, but microcredit support should only be proposed to returnees who have such a mindset and whose plans are robust and require additional capital that is not available through other channels. A successful business requires a good idea, good managerial (and if relevant technical) capacities, and - if these conditions are fulfilled – adequate funds. Additional capital is not pertinent in the absence of a good idea and of adequate skills. **All possible safeguards should be applied to make sure that microcredit schemes do not trap returnees into a debt cycle**. Pros and cons of microcredit should carefully be assessed against alternatives.

Microcredit should not replace other forms of reintegration support. Microcredit should not be implemented as a stand-alone intervention, but rather come on top of other forms of support usually provided (through grants or direct assistance) by reintegration organizations (mainly material assistance to set-up a business), as a means to strengthen them and make them more sustainable. Upon return, migrants willing to establish microbusinesses usually need a robust support – provided through a **reintegration grant – to lay the foundation of their reintegration**. As their reintegration process evolves and they become less vulnerable, returnees can become increasingly able to manage a loan.

Complementary support activities should be conducted to maximize the positive effects of the loan and make sure it will be repaid. Returnees should be accompanied (by the MFI, the reintegration organization or other partners) at different levels and according to their needs to ensure the credit will benefit them: they should be supported in the development of a robust business plan, be trained on business management, including on accounting, saving and investing, and then be closely monitored and supported in the management of their business in the first months after receiving the credit (see further below for more details on complementary forms of support).

REMPLOY III

The *REMPLOY III* project was dedicated to migrant workers willing to return to their CoOs and with a strong entrepreneurship mindset. In Italy, they participated in a business set up and business management training course and were supported by a specialized organization to establish robust business plans. The business plans that were most promising and required additional capital beyond the reintegration grant offered under the project and the resources the returnees could expect to gather from friends and relatives, were shared with partner MFIs in their CoOs. After return and setup of their business using IOM's reintegration grant, those returnees benefited from a supplementary support to improve their business plan in accordance with the local market and access microcredit to strengthen or expand their businesses.

Source: Cédric Dekeyser, REMPLOY III Reintegration Focal Point

Other components of microfinance such as microinsurance or microsavings schemes can be envisaged as a complement or instead of microcredit.

[18] See also further below a dedicated recommendation on alternative sources of funding.

4.2.2 Tailoring microcredit for returnees

Microcredit is more likely to improve reintegration sustainability if it is directed towards economic reintegration. Indeed, the objective of such support should be to strengthen and/or expand a business, thereby improving economic self-sufficiency. Microcredit targeting basic needs such as health, housing, education, or consumption, risks indebting returnees without creating the conditions for the reimbursement of the debt. Likewise, microcredit should not be used to pay off a previous debt. This general recommendation should be considered flexibly, and microcredit opportunities should primarily be assessed against returnees' needs and repayment capacity.

Microcredit should generally not be proposed at early stages of the reintegration process. Microcredit is particularly useful to **consolidate and/or expand promising activities**, allowing them making a qualitative leap. While a microcredit received quickly after return may help returnees setting up bigger businesses, the risk for them not to be able to repay the loan and to remain trapped into a debt cycle is real. Focusing on businesses that are promising and have a potential for growth, allows mitigating these risks. Accessing microcredit at later stage is also easier, since if the business is promising or successful, the returnee can demonstrate a regular income, collateralize assets of the business, and may have some savings on a bank account (potentially at the MFI) – all important conditions to obtain a loan. Exceptions can be considered: in some cases, microcredit makes sense early in the project, for instance for the set-up of innovative businesses that require substantial seed capital but have significant potential in terms of profit or employment, or of businesses with significant added value and/or well inserted in local value chains (e.g. food transformation). In such exceptional circumstances, the reintegration grant could be used as a deposit in order to be eligible for a loan of a higher value.

Community-based microcredit can be envisaged, whereby a loan is provided to a community to implement, strengthen, or expand a community project. Similarly, returnees' cooperatives or other forms of collective projects could also be encouraged to apply for a group loan, considering the relative flexibility of the loan requirements for groups. In both cases, the reintegration organization and/or the MFI should implement activities aimed at **consolidating group cohesion and interindividual trust** in order to avoid trust erosion and, as a consequence, loan default (and failure of the reintegration project).

Committing to contract a microcredit should be based on an informed decision. Adequate counselling is key in the decision of the returnee to apply or not for microcredit. Returnees must be well informed about the opportunities and risks related to microcredit, as well as about the lending conditions to be expected (based on the mapping/assessment conducted (see further), on the microfinance market in the area, and/or on specific parameters established under the reintegration programme), including the interests to be paid. **Microcredit should not be presented as a kind of assistance provided under the reintegration programme, but rather as an additional opportunity** that returnees may seize. Returnees are responsible for the use and repayment of the loan and of its interests. Counselling should also focus on **managing returnees' expectations in the short term**: the first loan is usually of a limited amount, which can grow over time as the MFI gains trust in the returnee and his or her repayment capacity. Experience shows that many returning migrants want to 'start big' and have the ambition to quickly generate a good income, but the reintegration organization should make it clear that microcredit does not work this way and might not be an adequate tool for them: they must be willing to start with small loans and increase their value progressively.

4.2.3 Identifying, engaging and fostering partnerships with microfinance institutions

The microcredit component of a reintegration programme should be implemented by existing, solid microfinance institutions. Reintegration organizations should not directly implement microcredit schemes unless they have the adequate financial expertise. It is **essential to clearly distinguish** between the reintegration organization providing reintegration assistance through grants (i.e. goods, services or cash given to returnees that must not be repaid) and the MFI implementing the microcredit component (i.e. capital that is lent and has to be paid back after a certain period) in order to avoid confusion by beneficiaries who could otherwise tend to think that they can avoid repaying the loan. Reintegration organizations can however be involved at different levels, as described further below.

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 implementation. Such mapping or assessment should inform about the most common types of microfinance institutions (e.g. cooperatives, banks, NGOs) and their locations (including if mainly urban, rural, or both), the services they provide (e.g. microcredit, microinsurance, training, counselling), the prevalent lending types and conditions (e.g. group or individual lending, interest rate and fee, requirements for collateral, own capital, guarantors, stable income), the target groups and exclusion criteria, other requirements (e.g. minimum residence period, minimum operating period of the business, ID, land deed, bank account), and the application process. Assessments should also look at the barriers potentially preventing returnees from accessing credit and microcredit schemes.

Mapping and assessment to identify support or referral opportunities

Mapping and assessment can focus on financial services or have a wider scope, covering the services (including financial services) and services providers (including financial services providers) related to reintegration assistance in a specific country or region.

Examples of what reintegration-related mapping or assessment should include in term of financial services and providers can be found in the study conducted by IOM in Switzerland (2016): Access to Microcredit Opportunities for Returned Migrants During and Beyond IOM Support: A Study on Microcredit in the AVRR Context.

Mapping to support the microfinance sector

An area-based approach was applied by UNHCR in eastern Sudan in partnership with UNDP to assess the microfinance panorama in two states where large numbers of refugees, internally displaced persons, rural and urban poors had very limited access to financial services. The two agencies, together with the Central Bank of Sudan, commissioned a market mapping and a SWOT analysis of the microfinance sector. The study aimed to define the nature and components of future support of UNHCR and UNDP to strengthen the provision of microfinance in eastern Sudan. This initiative was part of a broader strategy for livelihood support and local integration.

Source: UNHCR, Investing in Solutions: A Practical Guide for the Use of Microfinance in UNHCR Operations, 2011

MFIs to partner with must be selected through a rigorous due diligence process. An increasing proportion of MFIs place profitability over other goals, and examples abound of microfinance institutions damaging communities due to the provision of credits without any robust support process. The institutions' main target groups and sectors of activities, processes, requirements, interest rate, results, as well as their annual reports, including their beneficiaries' successful reimbursement rate, should be thoroughly examined and analysed.

Particular attention should be placed on their **social mission and social impact**, as well as on their financial health.[19] MFIs that have a **positive attitude towards returnees** and provide a **holistic support**, considering not only the provision of a microloan but also the support to develop or improve business plans, the provision of financial literacy and business management training, and/ or regular follow-ups on the returnees' businesses, should be given preference. Possibly, partnerships should be established with institutions that already cooperated successfully with development partners (such as United Nations agencies, international or local partner NGOs, authorities).

Before entering into partnership, the reintegration organization and suitable MFIs should discuss the terms of a potential cooperation. **Conditions of access** to microcredit for returnees should be clearly defined. **Different types of cooperation** can be envisaged, with varying degrees of involvement of the reintegration organization, as described further below.

4.2.4 The involvement of reintegration organizations in microcredit schemes for returnees

Reintegration organizations can be involved in different ways in the microcredit component of a reintegration programme. They have a key role to play in facilitating returnees' access to microcredit by engaging with and supporting MFIs, and by supporting returnees. They can also be involved more directly in the credit schemes.

- *Facilitate returnees' access to microcredit by engaging with and supporting microfinance institutions*

Reintegration organizations can play an important role in sensitizing MFIs on returnees as a potential target group for microcredit. Many MFIs are not interested in extending their services to returnees. This can be due to national regulations, which make the process difficult (e.g. issue of ID), but it is also often driven by a lack of awareness or by assumptions on who returnees are, how they behave, and what their potential is. Using their experience and dataset, reintegration organizations can **inform MFIs** about the market opportunity represented by returnees (e.g. number of returnees in the country or in a specific region and their needs for financial services) and about their profiles (including their location, skills, types of business, business' profitability or sustainability based on recent monitoring data, etc.). Reintegration organizations like IOM have data about tens of thousands of returnees that can be used to sensitize MFIs and **deconstruct wrong assumptions** on returning migrants (for instance that returnees are not reliable, do not have the skills to manage businesses, or that they are a highly moving population with a significant risk of re-migration) that may prevent MFIs to consider them as a target group.

Deconstructing wrong assumptions on refugees to promote their financial inclusion

In view of promoting awareness on refugees as a market segment and of encouraging lasting linkages between refugee populations and the financial sector, in 2016 UNHCR partnered with the Social Performance Task Force to develop guidelines for financial service providers interested in serving refugees. The guidelines offer an overview of why refugee populations are financially excluded and suggest ways for financial service providers (FSPs) to successfully reach and serve this untapped financial market segment.

Source: Micol Pistelli, UNHCR, Removing Barriers to Expand Access to Finance for Refugees, March 2017

[19] Reintegration organizations usually do not have the expertise nor the tools to perform a financial, economic and social assessment of potential partners; the due diligence process can be entrusted to specialized organizations.

Reintegration organizations can help MFIs 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 (still making sure they are in line with national regulations) to facilitate the possibility for returnees to access the services. For instance, **alternative identification means** beyond a national ID card can be envisaged. The MFIs' **forms or questionnaires** can also be adapted to better know and fit this target group. Based upon an in-depth analysis of data on returnees and on their reintegration process, **guarantees and collaterals** requirements can be adapted. In the same vein, the **amount** of the loans and the **repayment duration and schedule**, can be adjusted to better meet the needs of returnees and increase the chance of success. Likewise, existing **microcredit products can be adapted** based on the reintegration organization's experience and data, to better meet the needs of returnees.

Adapting guarantees or collaterals requirements to target group

Microfinance institutions that have developed successful agricultural loan portfolios use more flexible collateral requirements for agricultural loans than for their other lending. They use a combination of personal guarantors and pledges on household and enterprise assets (including titled land and animals), rather than relying on land and property titles. Uganda's Centenary Rural Development Bank, for example, accepts livestock, personal guarantors, land without titles, household items, and business equipment as loan collateral. *Caja los Andes* in the Plurinational State of Bolivia takes pledged assets, but measures their value to the borrower rather than the recovery value to the bank. In rural areas, loans for less than USD 7,500 can be collateralized with farm or household assets and unregistered land titles can be deposited with the bank as collateral for up to half of the value of a loan.

Source: CGAP, Managing Risks and Designing Products for Agricultural Microfinance: Features of an Emerging Model, Occasional Paper No. 11, August 2005

Adapting credit products to target group: microcredit to farmers in the Dominican Republic

Seeing a market opportunity in underserved rural areas, *Banco ADOPEM*, a Dominican MFI, started lending to agricultural smallholders in 2009. However, it found that the original design of the microcredit product greatly limited its ability to reach a large number of smallholder farmers: given the cyclical nature of agricultural work, many small farmers did not have the diversified income flows necessary to make fixed monthly payments. Based on this observation, it adapted its credit product and management information system accordingly to accommodate flexible payment terms. Interest payments must still be made monthly, but principal payments are programmed according to the payment preferences and capacity of the individual farmer. Beyond offering a flexible loan product adapted to the agricultural cycle and payment capacity of the client, *ADOPEM* has invested in a thorough understanding of the market and the characteristics of the target population in order to design an appropriate product, which led to the success of this initiative. Since introducing this flexibility into the credit product, the agricultural portfolio has grown more quickly and is the bank's fastest-growing product.

Source: International Finance Corporation, Access to Finance for Smallholder Farmers, Learning from the Experiences of Microfinance Institutions in Latin America, 2014

Adapting products and legal requirements: extending microcredit to Syrian refugees in Lebanon

When hundreds of thousands of Syrian refugees settled in Lebanon in 2012, the Lebanese MFI *Al Majmoua* envisaged extending its services to this group. However, *Al Majmoua* noted widespread negative attitudes in this regard from some of its staff as well as from its clients. Its clients felt threatened by Syrian refugees undercutting and competing for jobs and livelihoods, and its staff considered that refugees were a high-risk group for microcredit.

Al Majmoua considered that there was no need to develop specific products for refugees and that designing specific products could actually create tensions with the local population. However, paying attention to the concerns expressed by staff and clients, the MFI decided to start with group loans only, targeting mixed groups of self-selected Lebanese and Syrian women, to reduce both the perceived competitive tensions and perceived flight risk among refugees. The MFI also focused on businesses which did not compete significantly with Lebanese microenterprises, and value chains where refugees had an advantage (a captive market, inherent demand), such as in ethnic foods and handicrafts.

Lebanese regulations regarding microcredit beneficiaries constituted an obstacle, but *Al Majmoua* managed to loosen the requirement that clients must be legal residents and accepted ID cards (Lebanese or Syrian), residency/work permits, or the UNHCR refugee registration card as identity documentation for borrowers, which significantly facilitated access by refugees to credit.

Source: Social Performance Task Force, Serving Refugee Populations in Lebanon: Lessons Learned from a New Frontier - A Case Study of Al Majmoua in Lebanon

Reintegration organizations can further support MFIs to extend their services to returnees by supporting MFIs to conduct market assessments and providing them with logistical support to reach the returnees' communities, especially when they are remote. They can also assess together if and which **technological solutions** could help further reach and support returnees, ensure a more adapted support and leverage their potential, or decrease the cost of serving returnees. Reintegration organizations can also help **linking MFIs with local actors and programmes** supporting returnees and that can constitute a complement to the microcredit component.

The use of fintech in microfinance

Tienda Pago: Mobile wallets for small stores in Peru – In Peru, small stores often face a lack of access to short-term credit to pay suppliers up front in cash to buy inventory. Fintech company *Tienda Pago* addresses this challenge. It provides quick short-term working capital for small stores to purchase inventory from distributors using a mobile-based platform. They collaborate with fast-moving consumer goods distributors, such as Nestle and Coca-Cola. *Tienda Pago* lends small stores a credit line which allows them to buy inventory from agreed distributors. They provide a line of credit in a mobile wallet accessible using a mobile phone. Stores use this to pay the truck drivers instead of cash. The typical term of a loan is 1–2 weeks. The stores pay off the loan quickly and more credit is available. By creating a closed loop (stores can only buy inventory from distributors and cannot use the credit for anything else), the risks are minimised. The average loan provided by *Tienda Pago* is less than USD 400. 75 per cent of their clients had no formal access to finance before and 74 per cent are women. Through this system, small stores who had no access to credit, can develop a formal credit history and improve their income.

Source: Triodos, Fintech, A Game Changer for Financial Inclusion, April 2019

Mobile systems – Simple mobile payment systems reduce the costs and barriers to reach remote areas, reduce the risks of carrying cash for borrowers as well as for financial agents, and reduce the time spent by borrowers to visit financial institutions' offices, among other advantages. The MFI *FINCA*, in partnership with The MasterCard Foundation, has used mobile payment systems to enable its customers in the United Republic of Tanzania, in Zambia, and in Malawi to make their loan payments or deposit savings into their accounts directly from their e-wallets.

Source: FINCA, Boosting Financial Inclusion through Innovative Channels, February 2015

Alternative credit scoring system – Almost 60 per cent of Guatemalans are financially excluded and do not have an account at a formal financial institution. To improve lending to people who do not have any credit history or credit score, *FINCA* partnered with Entrepreneurial Finance Lab (EFL), an innovative credit scoring company using psychometric and behavioural data. Through this alternative credit scoring system, *FINCA* will be able to reach additional people in need. Overall, EFL has scored over 1 million individuals in more than 20 countries, leading the over 30 financial institutions it partners with (including *FINCA*), to lend over USD 1.5 billion.

Source: FINCA, How EFL and FINCA Drive Financial Inclusion Through Innovative Credit Scoring, October 2017

Going further, **reintegration organizations can help MFIs reducing the financial risk of assisting returnees, through the establishment of a dedicated revolving fund** (or of a loan guarantee fund).

Creation of a revolving fund

Nigeria – Under its AVRR project from Switzerland to Nigeria, IOM granted an MFI (SEAP) with a revolving fund of a value of USD 22,000, aimed at facilitating returnees' access to microcredit off the market and at ensuring privileged lending conditions. This arrangement first and foremost encouraged the MFI to extend its services to returnees and allowed IOM negotiating an advantageous interest rate. Between 2017 and 2020, it allowed providing loans to twelve returnees.

Source: IOM, Access to Microcredit Opportunities for Returned Migrants During and Beyond IOM Support, 2016; project reports and interview with IOM project staff

The Micro Enterprise Development project in Armenia – Between 1997 and 2018, IOM implemented the Micro Enterprise Development (MED) project aimed at empowering local vulnerable population, returning migrants and their families in Armenia. IOM provided beneficiaries with business training and business support and facilitated access to additional financial resources for enterprise development.

Beneficiaries were supported developing business plans that were then reviewed by a loan selection committee comprising of two voters, one from IOM and one from a partner commercial bank.[20] Upon approval, microloans were allocated to implement the approved business plans. The loans were disbursed and managed by the partner banks, but they were made available to the banks from a revolving fund accumulated by IOM in Armenia through various donors' funding since the start of the MED project in 1997.

Between 1997 and November 2015, over 9,900 loans, amounting to more than USD 8.5 million were extended under the project. It supported 3,547 businesses and served 5,212 direct beneficiaries, including loan recipients and persons employed.

Source: MED project documents

Creation of a guarantee fund

UNHCR and the Swedish International Development Cooperation Agency (SIDA) have developed since 2016 a "partial credit guarantee facility" to facilitate access to financing for FSPs in developing countries willing to provide loans to refugees and host populations. The facility aims to encourage and incentivise FSPs to lend to refugees, who they might otherwise consider too risky, and to develop products and services tailored to refugees' specific needs without compromising FSPs' risk management standards. SIDA takes the role of the guarantor up to a value of USD 15 million, partially covering the risk of loan defaults.

Source: Sophia Swithern, Innovative Financing for Refugee Situations, Background Paper, Development Initiatives, July 2019

[20] IOM partnered with the VTB Armenia Bank and the Anelik Bank. None of them had previously provided targeted support to migrants or returnees in terms of sustaining their economic livelihoods and capitalizing on the skills and knowledge that they had generated through migration.

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 (e.g. business start-up, business expansion, unexpected needs such as health issues) as well as the risks linked to each. Reintegration organizations can develop **guidelines** jointly with MFIs on the types of assistance to prioritize, the potential complementary support to be delivered (either by the MFI, by the reintegration organization or by other actors) such as training in financial literacy, business management, or technical training courses.

- *Supporting returnees accessing microcredit schemes*

Reintegration organizations can also facilitate returnees' access to microcredit by providing relevant support to returnees, including by **addressing some of the requirements** of the MFIs (for instance by opening a bank account at the MFI for the beneficiary, by supporting returnees getting ID documents or by documenting returnees' credit history, available assets that can be collateralized, etc.). Reintegration organizations can help documenting returnees' participation in reintegration support activities (such as business development support) and putting a value on the reintegration grants offered so that they may be used as collaterals.

Opening bank accounts for beneficiaries to facilitate future services

In 2008, the International Committee of the Red Cross (ICRC) launched a programme in Pakistan-administered Kashmir to support people with disabilities becoming economically active. The intervention included training, business coaching and the provision of a productive grant. To ensure that people with disabilities had access to the necessary funds to support their entrepreneurial goals in the long term, the grant was used to link beneficiaries with MFIs. Upon the provision of the grant, the ICRC opened an account for each beneficiary in an MFI. The beneficiaries were then encouraged to save regularly and progressively up to 25 per cent of the value of the grant in the MFI account over the period of a year. As an additional incentive, the ICRC committed to provide a financial top-up to beneficiaries who managed to save the full amount.

Source: ICRC, Micro-economic Initiatives Handbook, 2009 [21]

[21] This programme is presented in Chapter 5.1. Beyond this, reading of the Chapters 5.1 and Chapter 8 of this Handbook is recommended.

If the MFI itself does not offer the following services, the reintegration organization can further support returnees by offering (directly or through partners) financial literacy, business set-up and **business management training**, supporting them in the development of a **business plan**, or more directly by assisting them with the **application process**. Reintegration organizations can also support returnees to **apply collectively** for group loans.

- *Direct involvement of reintegration organizations*

Reintegration organizations' sound expertise in the field of return and reintegration and profound knowledge of the target group constitute significant added value that can be leveraged. The returnees' profile and needs assessment, and network analysis, as well as the assessment of reintegration projects they carry out, can **help MFIs selecting beneficiaries by providing a better understanding of which returnees or reintegration plans can be adequate for microcredit support**. Such support diminishes the risks, and thus the cost, of providing microcredit to returnees.

Reintegration organizations can also identify and **promote some criteria** to identify projects to be prioritized for microcredit, for instance projects creating jobs or in line with local development plans.

Reintegration organizations' involvement can be perceived as an added value by both the MFI and the returnees thanks to the **trust relationship** usually established between returnees and the reintegration organizations. MFIs may feel more confident to serve returnees if they know these beneficiaries are supported by a reintegration organization that may also act as an intermediary or mediator in case of issues with the repayment of the loan (not meaning the reintegration organization is responsible for it).

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 role of the reintegration organization must be carefully envisaged, considering the reintegration programme duration (long-term perspectives are needed to implement such schemes), the organization's expertise, and the risks of poor repayment (the organization must put in place safeguards and be able to face a loss). The importance underlined above of the distinction between the assistance that is given through reintegration grants, and the microcredit scheme that requires repayment, should also be kept in mind.

Table 1. Options available for reintegration organizations to support access to microcredit.

IS THE MFI PRESENT AND ACCESSIBLE IN COMMUNITYOF RETURN?

NO

RECOMMENDED ACTIONS

- Support MFIs in increasing their geographical reach (if keen to support returnees)
- Fully cover the costs of an MFI to provide microcredit schemes to returnees (thus acting as a king of specialized service provider)
- Envisage alternatives to microcredit

YES

IS MFI KEEN TO SUPPORT RETURNEES?

YES

RECOMMENDED ACTIONS

- Clarify lending conditions and requirements
- Train MFI on returnees' needs and profiles
- Conduct or support MFI to conduct a market assessment
- Discuss potential adjustments required (in terms of procedures, forms, products, etc.)
- Establish a referral mechanism
- Include microcredit opportunities in counselling sessions with returnees

NO

WHAT IS THE REASON?

RECOMMENDED ACTIONS

Returnees perceived as **financially non-profitable**

- Conduct (or support MFI to conduct) a market assessment
- Provide reliable data on returnees' caseload (profiles, financial needs, business outcomes, *etc.*)
- Envisage options to reduce costs for the MFI (*e.g.* logistical support, remote/mobile modality, *etc.*)

Returnees perceived as **unreliable (stigma and assumptions)**

- Provide reliable data on returnees' caseload
- Envisage options to reduce risks for the MFI (*e.g.* establish a revolving fund)
- Envisage microcredit for communities or collective projects
- Share positive experiences/case studies
- Raise awareness on return and reintegration, and leverage MFI's social mission
- Potentially promote intermediary role of the reintegration organization

Issues related to **regulations and requirements**

- Support returnees obtaining IDs/advocate for acceptability of alternative identification means
- Support returnees opening a bank account
- Support returnees documenting credit history, available assets to be collateralized, participation in reintegration programme, *etc.*
- Envisage with the MFI a softening of the requirements to apply for a loan

Inadequacy of returnees' **profiles and plans**

- Provide financial literacy/business management training to returnees
- Support returnees developing robust business plans and provide business coaching
- Support MFI adapting its product, requirements or procedures
- Support MFI identifying relevant business plans/beneficiaries, based on experience and programme priorities

Lack of interest on returnees' side

- Develop key messages to be shared with returnees during counselling sessions (and potentially develop case studies to be shared with them)
- Support returnees in the loan application process
- Negotiate reduction of the interest rate with the MFI (including by providing guarantees or establishing a revolving fund
- Establish a soft loan scheme

4.2.5 Going further

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**, taking into consideration the above recommendations. Pilots should contribute to **develop adequate tools** and **include a robust monitoring component** to collect evidence on the benefits and limitations of this approach. **A specific attention should be paid on the efficiency of such interventions**: the burden in terms of time and resources required to foster partnerships with MFIs, set up microcredit schemes for returnees, and oversee the partner MFIs' activities, should be balanced with the outcomes expected, including in terms of number of beneficiaries assisted.

Research on the use of microcredit – and more broadly microfinance – in the context of migrant reintegration should be boosted, including taking into account future pilot interventions. Research could help better understanding the outcomes and impact of the microloans on the returnees' reintegration sustainability (as well as on their community), including by comparing the reintegration sustainability of returnees who accessed microcredit with the one of returnees who did not access such schemes in the same return context. Case studies should also be produced and disseminated.

To mobilize capital, alternatives to loans from relatives or from financial institutions (including MFIs) exist and can be leveraged. For instance, linking returnees' projects to potential **business partners or micro-investors** allows multiplying the initial capital of a business without requiring the payment of interests. Grouping beneficiaries in collective projects, that are bigger and potentially more sustainable, can also attract interest of **social impact investors** – including potentially from the diaspora - that do not only lend money, but support the business and share the risks. To this end, reintegration programmes can seek synergies with social impact investors.[22] **Joint ventures with the private sector** can also be envisaged, especially for larger collective or community-based projects. To attract potential investors, business analysis examining the potential and the risks linked to business, should be conducted. This should be performed by specialized organizations. In addition, to maximize the income of cooperatives and other larger businesses established by returnees, reintegration organizations (themselves or through specialized partners) can **invest in the development of value chains or in the improvement of supply chains, access to market, or storage capacities**, among others. Finally, capital can be mobilized through crowdfunding and similar loan platforms such as Kiva or Lendwithcare, whereby individuals all over the world can lend money to individuals or groups to implement their projects.

Other financial schemes based upon solidarity and peer support could be looked into. In particular, **savings groups** can constitute a relevant alternative to the services offered by microfinance institutions, especially in remote rural areas that are hardly covered by MFIs. Offering savings and loans opportunities to their members, savings groups are usually simpler, less costly and easier to access than microcredit schemes. Moreover, they are self-managed by their members, thus requiring very limited involvement and investment of the facilitating organization (that can be the reintegration organization or a specialized partner). Returnees may already be familiar with informal savings and lending schemes since similar systems – including ROSCAs such as *su su*, *tontine* and others – are in place in many countries. Based upon community networks, savings groups do not require ID documents nor collaterals, making them particularly relevant to returnees in some contexts. In addition, these groups usually engender social cohesion and solidarity, thanks to their very nature. There are several downsides linked to this kind of groups, though: the amounts available are usually limited and may not meet the returnees' ambitions, and they may not come timely.[23] Reintegration organizations can relatively easily facilitate the establishment of savings groups composed of returnees.

[22] "Impact investments are investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return." (Global Impact Investing Network, What is impact investing?, accessed on 28 October 2020). "Social impact investors in developing countries include foundations, high net-worth individuals, early-stage venture funds, private equity funds, development finance institutions and other institutional investors." (OECD, Development Co-operation Report 2016, Chapter 5 – Investing for Social Impact in Developing Countries, 2016).

[23] Relevant information on savings groups can be found in the following reports: SEEP, Savings groups: What are they?, 2010; SEEP, Savings Groups for Refugees: 10 Tips for Development and Humanitarian Actors, 2019.

or, preferably, of a mix of returnees and members of the local community, by mobilizing, training, and supervising them. More generally, the reintegration organization could envisage **supporting communities of return establishing financial support groups** that can "facilitate the reintegration of returnees, provide an additional safety net for non-migrants and returnees and foster the creation of social ties. Financial support groups should be created with the objective of enhancing the productive use of the local communities' and returning migrants' capacity of savings, access to credit and use of remittances."[24] This approach recognizes that reintegration does not only concern returnees, but also their communities and environment of return.

Recommended readings

The following resources provide useful, in-depth information related to the use of microcredit in migrant reintegration and other relevant contexts:

Etimos Foundation, Return, Reintegration and Microfinance: Microfinance as a Tool for the Socio-Economic Reinsertion of Migrants in their Countries of Origin, published by IOM, 2015.

ICRC, Micro-economic Initiatives Handbook, 2009 (especially Chapters 5.1 and Chapter 8, and Guidance Sheet No. 7).

IOM, Access to Microcredit Opportunities for Returned Migrants During and Beyond IOM Support: A Study on Microcredit in the AVRR Context, 2016.

Micol Pistelli, UNHCR, Removing Barriers to Expand Access to Finance for Refugees, FinDev Blog, 2017.

[24] Examples of how local financial support group can provide financial support to its members are available in IOM, Reintegration Handbook - Practical guidance on the design, implementation and monitoring of reintegration assistance, 2019 (Section 3.3.3 *Community financial support activities*, pp 119–120).

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.

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