

“The appropriateness and effectiveness of micro-finance as a livelihoods intervention for refugees”

By Deborah Foy, Opportunity International United Kingdom (OIUK)¹

***Summary:** Opportunity International (OI) is a global microfinance network whose mission is to provide opportunities for people living in chronic poverty to transform their lives. OI’s strategy is to create jobs and stimulate small businesses, thereby strengthening poor communities. OI’s method is to work with 40 local partner organisations in Africa, Asia, Latin America and Eastern Europe to provide small business loans, savings, insurance products, training and advice.*

Refugees represent an ever-increasing proportion of the network’s 450,000 clients – from poor Nicaraguans attempting to meet their basic needs in the slums of Costa Rica, to those who have been violently uprooted from their homes in war-torn Colombia, to poor communities struggling to survive in the after-math of recent conflicts in East Timor. Finding ways to successfully understand and confront the specific problems facing this group of the disadvantaged poor is therefore one of OI’s key concerns.

Deborah Foy, representing OI’s programme team in the UK, shares her thoughts on the use of microfinance as a livelihood intervention strategy for a special group of refugees, internally displaced people. Following a brief discussion of some of the key issues involved, the work of the OI Network in Colombia is introduced as a case study. It is here that two OI partner organisations, AGAPE in Barranquilla and OLC in Bogotá, are appropriately and effectively developing ways to meet the diverse needs of the internally displaced.

Refugees, by definition, live outside their country of origin. They often arrive with little in the way of resources and are usually forced to compete with local populations and host communities for both natural and social resources. In this sense, internally displaced persons (IDPs) closely resemble refugees – for while they may have legal claims to land or property, conditions often prevent them gaining access to these resources. As a result, they settle in the poorest neighbourhoods, usually squatter settlements with basic living conditions and poor public services. All face the challenge of building a new life with little support, few resources and extremely limited access to market opportunities.

One of the world’s largest IDP populations is found in Colombia. Home to more than 2 million displaced people, and with this number escalating rapidly, the country is second in scale only to Sudan. Moreover, while Colombia’s history has long been marred by violence, the situation now threatens the very existence of the country. Guerrilla and paramilitary groups continue to vie for economic and political control through armed conflict, extortion, murder and kidnapping. Hundreds of thousands of people are forced to abandon their homes and livelihood under threats from one group or another. In 2002 alone, over 412,000 people were displaced, up 20% compared to 2001. An astonishing 73% of these were women and children.

¹ The comments presented are the author’s own.

Many of the IDPs flee from the rural areas to large urban centres such as Bogotá and Barranquilla, searching for help from governmental institutions to meet their necessities of food, housing and work. Displacement is also increasingly taking place within cities, often as a secondary movement. Few IDPs have plans to return to villages caught up in the conflict. The logical decision for them is to stay and carve out a living in the city rather than risk the violence that is so prevalent in their former home. This situation places a heavy burden on the major urban areas, already stressed from one of the worst economic crises in the country's history.

The Red de Solidaridad and other relief organisations are dedicated to receiving the displaced people in their new communities and providing them with funding for emergency housing, nutrition, health and education needs. Nonetheless, these services are limited and, in the case of nutrition and housing, may only last for three months. The real concern is how to meet the needs of IDPs after the subsidy runs out.

What are most pressing livelihood needs of IDPs in Colombia?

The livelihood needs of IDPs in Colombia are acute, since they arrive in urban areas with little more than the clothes on their back, have nowhere to live, face little economic opportunity and lack access to public goods and social services. Whilst they have a dire need to overcome missed opportunities for employment, adaptation to their new environment is complicated by minimal levels of education, skills and training, in addition to an alien socio-cultural system, all of which act to block the achievement of self-sufficiency. Earning a sustainable income in an urban environment (one experiencing record unemployment rates) is therefore often an incredibly difficult task. Other challenges include the following:

- Over half of the displaced have no formal education, and of the remaining half about 75% have had only some primary schooling.
- There are very limited capacity-building or vocational training opportunities available to adult IDPs in Colombia.
- IDPs are often denied a variety of rights that can affect their livelihood opportunities, including the loss of property rights and entitlements and the denial of travel permits and identity documents.
- Whilst IDPs have to build a new social identity in an unknown and hostile urban environment, a lack of solidarity (due to mutual suspicions) prevents integration.
- 80% of IDPs are farmers whose skills are not transferable in urban contexts.
- The majority of IDPs have lost their sense of community, income and status (all of which tend to derive from land).
- Most IDPs initially believe their situation is temporary, that they are going to return, and thus do not participate in community activities of any kind.
- IDPs are particularly vulnerable 3 months after their flight, when they are officially no longer entitled to government benefits.

Often self-employment is the only survival option open to IDPs, and the majority attempt to support themselves and their families through providing services or selling goods in the informal sector. However, they face innumerable barriers in terms of lack of access to financial and technical assistance. Without collateral, with little or no physical or monetary assets, most IDPs resort to selling on the streets in the 'ambulancia' trade. Not

surprisingly, the ‘micro-businesses’ they run tend to operate on the margins of society and produce very poor returns.

Of perhaps paramount concern today is a recently introduced Colombian law that makes it illegal for vendors to sell in the streets of Bogotá and Soacha (a poor municipality that has become one of the largest receptor communities in the country). The hugely detrimental impact this law is having on the livelihood strategies of poor IDP households cannot be underestimated.

Finally, displacement tends to alter family and household structures and change gender roles. As a result, displaced women are forced to assume additional burdens and are exposed to additional risks. Yet there is to date no comprehensive policy on displaced women. Rather, their specific needs remain unaddressed - that they lack appropriate skills, experience difficulties in developing new coping mechanisms, lack documentation (placing restrictions on movement) and have significantly less access to outside support structures than settled families.

What strategy has Opportunity International adopted to meet these needs?

Opportunity International works through two local partner organisations in Colombia, both of which are developing ways to appropriately and effectively use microfinance as a livelihood intervention for IDPs. AGAPE (Asociación General de Apoyo a la Pequeña Empresa) was established in 1977 and serves an increasing number of IDPs along the north Atlantic coastline. OLC (Oportunidad LatinoAmérica Colombia) is based in Bogotá, and has recently opened a branch office in Villavicencio to expand outreach to more displaced communities across the country. Together, the two organisations are providing loans, savings facilities, training and business evaluation services to almost 20,000 of Colombia’s poor to start and expand small businesses.

AGAPE and OLC provide an interesting case study to show how microfinance can be used to successfully combat the poverty and dependence of IDP communities, to restore their dignity and to integrate them into the local population. Over the years, the organisations have become increasingly experienced in catering for the specific needs of displaced populations and have together developed a strategy for significantly increasing their impact on IDPs in the future (both through their own operations and by building capacity in microfinance organisations throughout Colombia).

AGAPE and OLC work with three distinct methodologies: Trust Banks, a group-lending programme for groups of 20 to 30 people, Solidarity Groups of five to ten people (also called Senior Trust Banks) and an Individual lending programme. They have found that the former is particularly appropriate to the situation of IDPs as it allows them to integrate into the community and to make a living. It is described in more detail below.

- The Trust Bank methodology

The Trust Bank methodology is specifically designed for people living in the type of communities that are receiving the largest percentage of internally displaced persons. The profile of these communities is the 0, 1 and 2 stratas of the large, urban areas of Colombia. Stratum 0 represents the poorest communities, without any access to public services such as water, sewage, electricity, and education. Those classified as strata 1 and 2 are still considered very poor, with few or marginal public services. All are below the

poverty line, which is at level 3. (Currently, 84% of OLC's clients fall into strata 0 and 1). Trust Banks also specifically target women, which is especially significant given that around 50% of IDPs are women heads-of-households.

The Trust Bank methodology is a form of group-lending that combines financial services with social interventions such as health awareness and self-governance. On the one hand, this integrated development approach gives poor individuals with little or no physical or monetary assets access to a small line of credit to expand a small, subsistence business. On the other, Trust Banks offer holistic client transformation by combining efficient delivery of financial services with training, leadership development and development of business and social networks. Rather than fostering a "hand out" mentality, it teaches the poor to help themselves, empowering them to be agents of change in their lives and those of their family and community.

At weekly Trust Bank meetings, the members make their loan repayments and receive small business training. They also discuss issues relevant to their businesses and personal lives. This results in a variety of benefits to individual clients, including opportunities for literacy training, HIV/AIDS education, women's rights training, and other activities. The members support one another by sharing their challenges and successes as they work together to find solutions to their problems. Communities also benefit. In some cases, Trust Bank members work together to solve dangerous and demeaning community problems such as lack of sanitation and neighbourhood violence.

Operating in an unstable environment, where the displaced populations lack suitable skills and information, OLC and AGAPE are challenged to operate beyond microfinance only. As such, the two organisations have found that Trust Banks are a particularly successful approach to meeting the livelihood needs of IDPs. As well as using innovative training to equip IDPs to earn a living in an unknown and hostile urban environment, a particularly significant benefit of the methodology is the development of relationships through weekly meetings. When an IDP arrives in his or her new community, many times he or she is not connected to anyone else in the neighbourhood. The Trust Bank programme allows the IDP to meet new people and begin to establish new relationships. Moreover, by incorporating IDPs into Trust Banks with non-IDP residents of the same neighbourhood, IDPs can also gain access to a social network already established in the community.

Other innovative ways that OLC and AGAPE are successfully meeting the livelihood needs of the displaced include the following:

- As an integral component of their approach, both OI partners are working with existing organisations that are providing emergency assistance to the IDPs, to be able to introduce them to the credit and training services both organisations offer.
- OLC and AGAPE are equipping Loan Officers to serve as liaisons between the client and social services groups (such as government agencies, schools and healthcare organisations); and to educate clients on their rights as displaced persons and about human rights.
- Training modules being developed include psychological and social components that will give loan officers greater understanding and insight into working with displaced persons, as well as helping them manage their own emotional process as they work with people who have experienced great loss and trauma.

- Loan officers are being trained in informing IDP clients about social services offered by local organisations and in connecting them with psychologists and counsellors.
- For IDPs with growing businesses and higher capital needs, OLC and AGAPE have introduced Senior Trust Banks and individual loan products for clients to “graduate” from the Trust Banks. This is a new approach that shows promise for supporting IDP’s personal and enterprise development and meeting their differing training and credit needs.

Having recognised that the livelihood strategies of IDPs are particularly affected by a severe lack of business locations and pressing childcare needs, OLC is also developing strategic alliances with NGOs who have expertise in these areas. OLC staff members are working with Viva International, a network specialising in training organisations to work with at-risk children, to develop a replicable model of sustainable child-care options for OLC clients in Soacha. This model is being targeted to benefit IDP households.

OLC is also developing a partnership with Habitat for Humanity International (HfHI), a non-profit housing organisation for the poor that has helped to build more than 125,000 houses worldwide. OLC and HfHI are working together in Colombia to ensure greater and more equitable access to land and shelter-related services, particularly for women and IDPs, leading to social, economic and political empowerment. A new, sustainable housing product is being designed that will enable the poor to purchase small plots of land, secure tenancy, learn construction skills, finance incremental home improvements, construct basic core units, and remodel homes for business purposes. This product will increase residential and household stability, with shelter acting as a valuable asset and its remodelling increasing earning capacity (and thus productivity and quality of life). It will be especially appropriate for women clients and IDPs who run home-based businesses but lack the space to expand.

For more information, please contact Deborah Foy at Opportunity International UK at dfoy@opportunity.org.uk or visit the website at www.opportunity.org.uk

Alternatively, contact OLC and AGAPE directly:

Fernando Alvira, Executive Director of OLC: dirademcol@etb.net.co
Jorge Pacheco, Executive Director of AGAPE: agape@col3.telecom.com.co