



Investing in Solutions:

A Practical Guide for the Use of Microfinance
in UNHCR operations

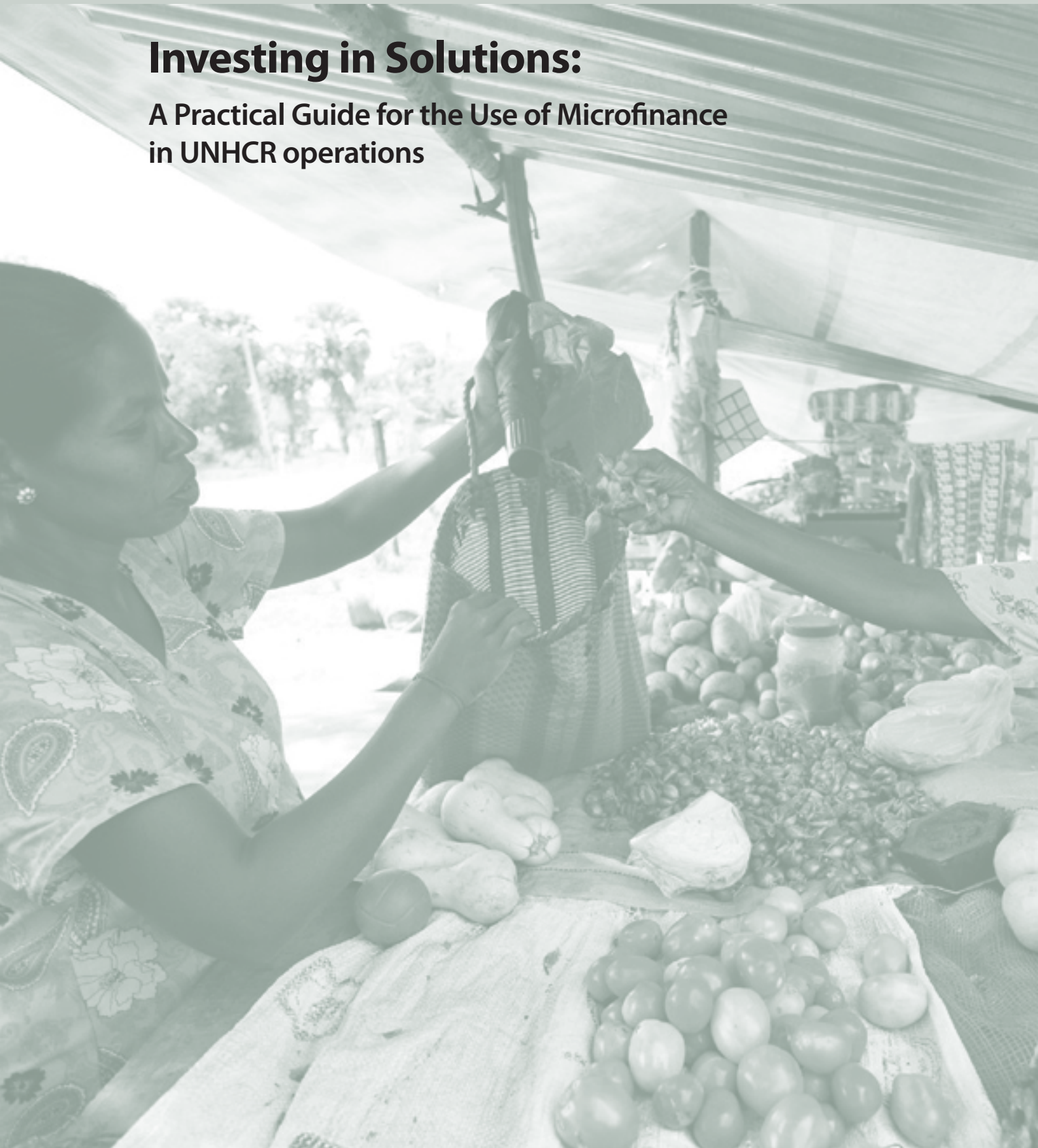


International Labour Organization



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UNHCR
The UN Refugee Agency

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The practical guide draws extensively on the Introduction to Microfinance in Conflict-Affected Communities (2002) and Lessons Learned from UNHCR's Experiences with Microfinance (June 2010), as well as evolving practices in the field of microfinance. The revised structure and focus of the guide is the product of a two-day Microfinance review workshop held in Geneva in October 2010. During this workshop twelve senior ILO and UNHCR staff members responsible for microfinance programming came together to discuss how the evolving field of microfinance should continue to fit into UNHCR's broader livelihoods strategy. The resulting document is an effort to provide practical programme modalities that help field staff better support sustainable microfinance, as part of UNHCR's broader protection strategies and comprehensive solutions.

COORDINATING ORGANIZATIONS

The ILO Social Finance Programme (SFP), based at ILO headquarters in Geneva, is the ILO focal point for all social finance related issues. SFP's activities are targeted both internally to the ILO staff (mainly by providing technical advice, support and capacity development) and externally, to relevant stakeholders including governments, employers and workers organizations, central banks and microfinance institutions (mainly providing technical assistance, policy advice and capacity development). The objectives of the Social Finance Programme are to enhance the capacity of policymakers, social partners, private sector organisations, financial institutions, to develop and implement policies and activities that improve the access to finance for social justice. Through its cooperation with UNHCR, the ILO Social Finance Programme has been moving into the area of relief-based operations initiated during immediate post-conflict situations.

The Livelihoods Unit is housed in the Operational Solutions and Transition Section (OSTS) under the Division of Programme Support and management (DPSM) at UNHCR headquarters in Geneva. OSTS supports the UNHCR mandate to protect refugees by providing timely and quality operational services to field operations, by being responsive to expressed needs and engaged in global issues and processes. UNHCR sees the creation of durable solutions for refugees as important for consolidating peace and preventing the recurrence of displacement. Socio-economic empowerment recasts refugees as agents of their own long-term development. Refugees who have socio-economic interaction with local communities are more likely to become self-reliant, and to rebuild their own societies sustainably when they return, integrate locally or resettle to a third country. UNHCR believes that catalysing development assistance to refugee-hosting and returnee- receiving areas will foster a long-term enabling environment for both refugees and returnees and their hosting communities. UNHCR works with development actors and host governments to promote the socio-economic rights of refugees.

The UNHCR and ILO partnership designs tools and interventions for refugees, returnees and hosting populations from a combined humanitarian and development perspective.

Burundi / Refugees from Democratic Republic of the Congo (DRC) / A refugee association from the small town of Uvira grows rice and tomatoes under a UNHCR-funded project. Gatumba, Bujumbura rural province. / UNHCR / A. Kirchhof / June 2009



INTRODUCTION

AUDIENCE AND PURPOSE OF THE PRACTICAL GUIDE

The reduction of dependency through economic empowerment and the promotion of self-reliance are at the heart of UNHCR's core mandate to protect and promote durable solutions for Persons of Concern¹ (PoC). Typically, this involves a variety of short and long-term interventions and therefore is central to an integrated livelihoods approach. Under certain conditions, microfinance, if well planned, is one of the tools that can contribute to the enhancement of the capacity of PoC, particularly women who represent 70% of microfinance clientele worldwide, to generate income and improve their standards of living. *However, microfinance is not a panacea for all the socio-economic problems facing PoC and therefore should be considered carefully, and in partnership with development actors, when assessing its potential use.* It is a specialized field that contributes to longer-term development goals.

The practical guide has been developed for potential managers and implementers of livelihood programmes (programme staff, field staff, protection officers, senior managers, etc.) considering the use of microfinance as part of a broader livelihoods strategy. The policy framework is specifically addressed to UNHCR decision-makers.

The practical guide builds upon the UNHCR/ILO *Introduction to Microfinance in Conflict-Affected Communities (2002)* and *Lessons Learned from UNHCR's Experiences with Microfinance (June 2010)*, as well as evolving practices in the field of microfinance. It aims to update and replace the guidance provided in *Chapter 4 of the UNHCR Programming Manual*.² The guide is meant to provide practical information and tools to assess the appropriateness of microfinance in a conflict-affected community; and if relevant, to help design sustainable microfinance interventions that will help UNHCR to meet its protection objectives. The guide provides concrete tools to help design, monitor and evaluate sustainable microfinance projects, including sample templates, formats, and checklists.

The roll-out of the practical guide will be supported by a **training programme** on livelihoods programming, which will include a microfinance component. The training

1 Persons of Concern to UNHCR are refugees, returnees, stateless and the internally displaced.

2 Chapter 4 of the UNHCR Programming Manual is undergoing revision in 2011. The new version will refer to these guidelines.

modules will be developed in partnership with the ILO and its Social Finance specialists, and delivered through regional training events and e-learning offered to UNHCR staff and selected partners.

A note on terminology

This practical guide focuses on refugees and asylum seekers, but in some contexts will be relevant to returnees, internally displaced, and stateless persons. In this document the term refugee is used predominantly for ease of reading.

WHAT IS MICROFINANCE?

Microfinance is the provision of financial services such as savings, credit, cash transfers and micro insurance to economically active poor and low-income people. These services are generally meant to support productive purposes and are characterized by:

- **A focus on the entrepreneurial poor** – provision of services to low-income clients, women and men, with the capacity to generate a livelihood but lacking access to financial services.
- **Client-appropriate lending** – simple and convenient access to small, short-term and repeat loans, with the use of collateral substitutes (e.g. group guarantees or compulsory savings) to motivate repayment. Informal appraisal of borrowers often based on character references and simple cash flow analysis rather than lengthy application procedures.
- **Secure Voluntary Savings** – services that facilitate small deposits, convenient collections, and ready access to funds – either independently or with another institution.

Microfinance is

Business Loans

Housing Loans

Savings

Micro Insurance

Transfers and
Remittances

POLICY FRAMEWORK FOR MICROFINANCE IN UNHCR OPERATIONS

Meeting UNHCR's Protection Objectives

Financial capital contributes to household production and consumption, and is an important livelihood building block. Its availability influences people's choices and their ability to improve their livelihood strategies (by investing in their own skills training for example, or deciding to expand a business, or to reduce food insecurity, or to live in safe and decent accommodation). Financial capital is also unique among other livelihood assets in that it can be converted into other types of capital, for instance into equipment, land, or into new skills and knowledge. An important objective of livelihood support strategies should be to facilitate and promote access to financial services.

UNHCR recognizes that access to financial capital is an important element of the durable solutions needed to promote self-reliance, coexistence, and dignity of the displaced through economic empowerment. In addition, UNHCR recognizes the role of microfinance in enhancing financial capital for men and women that lack access to mainstream financial services. As such, UNHCR seeks to develop a more standard approach to its microfinance programming **as part of a comprehensive livelihood-support strategy** that conforms to international standards of practice, while taking into account the country context and capacity of local populations to use and benefit from microfinance interventions. UNHCR's approach to livelihood programming, and the place of microfinance within a broader livelihood-support strategy are presented in the following chapter.

Guiding Principles

UNHCR has adopted the following policy guidelines, based on the principle that microfinance needs a long-term commitment to ensure sustainability. These guidelines conform to the common standards agreed to in the Sphere Handbook³ and the Minimum Standards for Economic Recovery After Crisis promoted by the Small Enterprise Education and Promotion (SEEP) Network working group.⁴ **Detailed guidance on how to apply the following guiding principles is provided in subsequent sections of this guide.**

3 Sphere Handbook (2011 edition), "What Is Sphere?" 5. "Sphere is three things: a handbook [Humanitarian Charter and Minimum Standards in Disaster Response], a broad process of collaboration, and an expression of commitment to quality and accountability" (ibid.). The project has developed several tools, but the key one is the Sphere Handbook.

4 SEEP Network, Minimum Economic Recovery Standards. Second Edition, 2010.

Market Oriented Programming

- Where UNHCR has identified a need to protect and strengthen the livelihoods of its Persons of Concern, it will undertake a livelihood assessment to determine the demand for livelihood-support interventions, including microfinance. This assessment will involve a microfinance expert or Livelihoods Officer. While the results of a UNHCR Participatory Assessment (PA) might identify the need for livelihood support and a broad need for cash, the PA itself does not provide sufficient information to identify the supply and demand for credit and the ability of borrowers to repay a loan. For this, a dedicated assessment is required.⁵
- Where the essential environmental conditions do not exist to support microfinance programming, UNHCR may engage in other types of activities that ***promote self-reliance and the generation of income***, thus preparing the ground for future microfinance activities.
- Preparatory programmes promoting self-reliance will aim at empowering people, rebuilding skills, instilling confidence and establishing a minimal financial base. They will also strengthen traditional community-based financial services already used by and known to the population of concern. They should build a solid foundation to attract professional microfinance institutions in the future and avoid operating as a handout type of programme that could distort the market for sustainable microfinance activities.
- Even where conditions may be appropriate for refugees, returnees and IDPs, they may not necessarily apply to stateless persons. The eligibility criteria of the local Microfinance Institutions (MFI), the regulatory context, the displacement scenario and the national context will determine whether it is possible for stateless persons to access financial services.

5 Elements of livelihood and microfinance assessment will be incorporated into revisions of the PA methodology to the extent possible.

Coordination and Effectiveness

- UNHCR will seek to act as a facilitator and catalyst wherever possible, encouraging development organisations to invest in the host areas and their communities and to include all population groups in their programme. When appropriate, UNHCR will advocate for the inclusion of its people of concern (PoC) in existing national microfinance schemes.
- UNHCR will pursue partnerships with development donors and UN agencies early on to ensure advocacy and adequate funding for the project until sustainability is achieved. *UNHCR should be clear about its **short-term involvement and investment**, and should ensure that a strategy for **long-term sustainability** is clearly spelled out.* Specific benchmarks should be defined in the achievement of this long-term strategy. Simple evaluations and client satisfaction surveys will be part of the implementation strategy.
- Together with development partners, UNHCR will seek to explore innovative ways to encourage and support contributions of seed money for pilot initiatives to develop financial services for returnees, refugees and other people of concern. UNHCR, donors and partners will pay special attention to the capacity building of local MFIs identified as potential or established service providers in this sector to work with Persons of Concern. UNHCR and donors will encourage the development of benchmarks and minimum requirements to be met by microfinance institutions (MFI) in order to obtain funding.

Staff Competencies

- UNHCR will invest in strengthening staff understanding of the design and implementation of microfinance programmes, so that they can be effective agents for supporting these programme areas. If necessary, investments will be made in technical training of UNHCR Livelihoods staff to effectively plan and backstop country level microfinance projects.
- To ensure quality design of microfinance projects and their monitoring mechanism, UNHCR Field Operations will consult with technical expertise in Headquarters or in the Regions as available, and as necessary will engage experts from the ILO, and/or hire expert consultants.

Do No Harm

- A clear distinction will be made between the provision of financial services and humanitarian assistance. Micro-grants for business purposes should only be used in exceptional cases. They should not be given where a cash economy is prevalent and where Persons of Concern are potential clients for microfinance (see section Alternative Forms of Assistance - p30).
- UNHCR will not directly deliver microfinance/microcredit services for people of concern, but will play a central role in the planning, financing and monitoring of the projects implemented by an appropriate microfinance partner (MFI).
- Credit services should not be considered for refugees for whom resettlement or voluntary repatriation are imminent. Facilitating refugees' access to other financial services such as savings and money transfers can still be considered in such situations. In exceptional circumstances however, a refugee that has obtained a loan through a UNHCR sponsored project and that is selected for resettlement, or for whom an imminent voluntary return is foreseen, should not be prevented from leaving the country. In such a situation, and if the refugee client was unable to repay a loan in due time, UNHCR would negotiate with the MFI to re-schedule the loan repayment, and find a solution.
- UNHCR will only support microfinance projects that are implemented through partners with a proven record and expertise in microfinance, who base their operations on a socio-economic and financial analysis, and who have long-term sustainability as one of their key goals. Partner staff should have the appropriate profile to undertake a microfinance project. Exceptions will be carefully considered for MFIs who demonstrate the potential to develop the requisite skills and have the commitment to bring in expertise to further build their own capacity for such activities.
- Where proven expertise in microfinance and microcredit is not available, UNHCR **will not embark** on financing microfinance interventions.

Well Defined Targeting and Intervention Strategy

- When the minimum environmental conditions do exist for a microfinance project, *funding may be provided at two levels:*
 - 1. Support to institutional and operational expenses.** MFIs who have not worked with PoC will likely need some initial support to adapt their products and procedures to meet this new client group. Grants to cover capacity building activities as well as additional operating expenses incurred from this new line of business will be important for establishing strong microfinance projects that will continue to work with the population of concern after the project's life span. Support can take the form of funding for a market assessment, new product development, pilot testing, branch expansion, etc. This is done through a normal UNHCR partnership agreement and will follow the usual rules and regulations for implementation, accountability and narrative/financial reporting.
 - 2. Contribution to the loan capital.** Support to an MFI's loan capital for the expansion of services to the target population can also be given as a conditional grant, and on the basis of sound microfinance practices, including a clear work plan and performance targets aimed at providing sustainable service. The project loan funds will be transferred to partner MFIs immediately, and a "Transfer of Ownership" agreement will be signed (see Tools section). This process may be undertaken and completed in one step or in different instalments after successful completion of project performance targets.
- Sustainability strategies for a microfinance project should be built into the design from the start. UNHCR will identify ways to build the capacity of the local microfinance institution using the expertise of a competent partner.

SUSTAINABLE LIVELIHOODS

UNHCR'S STRATEGY

Self-reliance is the ability of an individual, a household or a community to meet essential needs and to enjoy social and economic rights in a sustainable manner and with dignity. Through its livelihoods programmes, UNHCR encourages men and women to protect and strengthen their livelihood skills and options. By becoming self-reliant, refugee and displaced persons lead active and productive lives and are able to weave strong social, economic and cultural ties with their host communities, rebuild hope and prepare the future.

UNHCR recognizes refugees as resourceful, active partners who play a fundamental role in their own protection and in the search for durable solutions. Accordingly, UNHCR's **livelihoods programmes** aim to protect the skills and productive assets that people carry with them, to recover those that may have been lost, and to build the capacities and broaden the opportunities that people need in a new environment. Assets might include individual skills and work experience (human capital); land and working animals (natural capital); savings, rents and remittances (financial capital); equipment (physical capital); and formal support groups and informal networks (social capital).⁶

The overall goal of livelihood-support strategies in a displacement context is to enable women and men to become self-reliant, by protecting and strengthening their livelihood skills and options and by *influencing the local environment*. This can be achieved through project activities that meet several objectives. Some have a direct and immediate effect, and others, a longer-term indirect effect on people's livelihood options. Livelihoods objectives and corresponding activities can be classified into three interconnected groups as follows:

6 Department for International Development (1999), Sustainable Livelihoods Guidance Sheet.

Objectives of Livelihood Programming:⁷

1. **Livelihood provisioning** interventions have a *direct and immediate* effect on people's socio-economic wellbeing, aiming to reduce vulnerability. Their objective is to:
 - ✓ **Meet basic needs** by providing in-kind goods such as food aid or cash, and to
 - ✓ **Minimize expenditure** by providing basic services and goods free of charge or subsidized via cash or vouchers.

2. **Livelihood protection** interventions have a *direct* and short to medium-term effect on people's socio-economic wellbeing, aiming to help people increase or diversify their sources of income, and prevent negative coping strategies. Their objective is to:
 - ✓ Help people **recover or protect their livelihood assets** (e.g. subsidized production support, cash or vouchers for work, community contracting, conditional grants for micro-business development, developing savings schemes), and
 - ✓ Help people **adapt to new environments** (e.g. local language training, life-skills, documentation, legal and employment counselling);
 - ✓ Medium-term objectives are to **build or improve people's livelihood assets and strategies** (e.g. targeted vocational and technical skills training for service delivery, agricultural production, construction work, or crafts; entrepreneurship training, and providing access to microfinance).

3. **Livelihood promotion** interventions have an *indirect* and medium to long-term effect on people's socio-economic wellbeing, aiming to facilitate access to the labour market and create an enabling environment for livelihoods in the host/return area. Their objective is to:
 - ✓ **Improve people's access** to key institutions, markets and services (e.g. building capacity and investing in training institutions, in production infrastructure, in financial services, in trade cooperatives and community based organizations), and to information (services, entitlements and rights); and to
 - ✓ **Promote favourable policies** (e.g. to promote the right and access to work).

A sound livelihood-support strategy will seek to combine provisioning, protection, and promotion activities with short, medium, and longer-term objectives that are mutually reinforcing.

⁷ Adapted from DfID (1999), and from Jaspars, S. and O'Callaghan, S. (2010). Challenging Choices: Protection and Livelihoods in Conflict. Briefing paper – Humanitarian Policy Practice Group Policy Briefs 40, June 2010. p. 27.

Efforts to protect and promote the livelihoods of refugee and displaced populations are ongoing in over 76 UNHCR operations, across all regions, and in a variety of settings, i.e. in camp and rural settlements and in a growing number of urban centres.⁸ The following core principles underlie UNHCR's approach to livelihood programming in all operational settings:

- Refugee and displaced persons, whatever their origins, never form a homogenous group. They carry with them a wide range of social and economic capacities, as well as vulnerabilities. Livelihood interventions must be informed by **detailed assessments of socio-economic groups**, and then tailored to fit the specific capacities, needs and interests of households and individuals of each group. Age, gender and diversity mainstreaming reach their full meaning in livelihood programming: the capacities, economic contributions and gender roles of individuals within households are identified and interventions are designed to strengthen the specific skills of men, women, and youth and facilitate their access to decent work opportunities.
- Wherever they go, people usually strive to use their assets and capacities to build their own livelihoods and generate income. UNHCR's role is to help create or ensure access to decent livelihood opportunities and prevent having to resort to harmful or risky livelihood options. To do so, UNHCR needs to **support livelihood interventions with strong advocacy** aimed at securing for displaced people the right to work and the right to obtain the necessary permits, and have access to key services, such as banking, employment and business assistance.
- Economic interventions are complex and call for various partners from the private and the public sectors. Financial institutions, business training and development services, formal technical and vocational training institutes, employers unions and local traders and enterprises are essential partners in quality livelihood programming. UNHCR has a critical and challenging role in **engaging these diverse stakeholders** in displacement and protection issues, and in facilitating or obtaining access for displaced communities to existing facilities.
- Meaningful livelihood interventions require **multi-year strategic plans, with carefully sequenced and targeted interventions**, in keeping with changes in people's attitudes to working, investing and hiring. They must also be flexible enough to cope with changes in the market and in local policies, and build on and contribute to local development plans. In refugee situations, livelihood interventions must help refugees in preparing for durable solutions, wherever those may be.

8 2012 Focus data.

- Their effective design and implementation requires **specialized skills**, which UNHCR needs to build within its workforce, to gain through new public and private sector partnerships, and to import through arrangements with specialized organizations.

THE ROLE OF MICROFINANCE WITHIN A LIVELIHOOD STRATEGY

In the context of a comprehensive livelihood-support strategy in a UNHCR operation, microfinance can help protect and build the financial capital of individuals or households, to expand their livelihood opportunities and support their socio-economic wellbeing.

- In the short-term, direct support to financial capital (giving out cash grants) should remain a temporary measure that is conditional on people's willingness and ability to build their livelihood assets and access work opportunities.
- In the medium to long-term, microfinance projects aim to facilitate and promote sustainable access to services provided by microfinance institutions (savings, credits, transfers, micro-insurance).

Potential Benefits

Microfinance has the potential to be a powerful tool for supporting livelihoods among refugee populations, if and when the minimum conditions exist (see next chapter). Through the provision of much needed financing for livelihood activities, microfinance can lead to increases in household income and build economic self-reliance. While increased earnings are by no means automatic, reliable sources of credit provide a basis for planning and expanding business activities, which can help refugees better manage their cash flows. In addition, access to a variety of financial products such as savings schemes, loans for learning/training, insurance and remittances can help reduce risk of the target population by helping them diversify their income sources to meet basic needs and cope with economic shocks. Access to finance has the potential to help refugees and their host communities:

- **Build assets.** Through land purchase, home construction or improvement, purchase of animals and other productive capital.
- **Create or expand businesses.** Refugee entrepreneurs have the potential to graduate out of relief assistance and become part of the formal economy.

- **Create employment opportunities for others.** Enhancing the standards of living for themselves, their families and their host communities through the creation of both temporary and permanent jobs.
- **Increase disposable income.** Resulting in increased expenditures on school fees, and healthcare, as well as improved housing quality, purchase of household assets and consumption goods.
- **Reduce vulnerability.** Helping households transition from survival mode to a state that allows for future planning; hence the importance of careful assessment and targeting, to prevent badly-designed microfinance interventions to be the cause of increased vulnerability due to indebtedness.
- **Promote women's empowerment.** Through greater mobility and control over resources, increased participation in household decision-making and increased self-esteem and business skills. The vast majority of microfinance clients worldwide are women.
- **Build Basic Financial skills.** Through interactions with MFIs, refugees begin acquiring skills in book keeping and business management which boost self-confidence and help build a credit culture and repayment discipline.
- **Increase economic contribution to the host community.** To help refugees transition from a dependency on traditional relief assistance to actually adding value in the local economy through the establishment of businesses (e.g. workshops, food stalls, clothing, mechanics, etc.) that increase the availability of services in the community, and through their own increased consumption of local goods and services from their augmented purchasing power.
- **Contribute to human rights, peaceful coexistence and durable solutions.** Through greater access to services and self-reliance, refugees will be better placed to contribute to their community's social and economic life and to develop at par with the local population, thus promoting their dignity and helping them to live in harmony with the local population. Refugees who lead productive lives are more likely to become self-reliant and to adapt successfully to new market conditions when they return, resettle to a third country, or integrate locally.

Challenges for UNHCR and lessons learnt

Lack of basic security, host government policies that prevent refugees from accessing financial institutions, and limited expertise of traditional relief partners have combined to limit the role and the impact of microfinance in UNHCR operations. As a humanitarian organization, UNHCR's relief-based approach to microfinance has historically been very different from development agencies that are more business oriented and guided by principles of "inclusive finance". Within UNHCR field operations this has often resulted in unsustainable microfinance programming that does not conform to international standards of best practice. Much of this has to do with the fact that UNHCR staff is often required to design interventions in a very short time frame with little planning beyond meeting immediate needs of the target population.

Even when projects are well thought out, they are often implemented by traditional humanitarian service providers without microfinance expertise - NGOs, charitable organizations, religious organizations, etc. - who are known by beneficiaries as conduits for humanitarian assistance. This makes it particularly difficult for target populations to differentiate between a cost-recovery loan project (where full repayment of a loan is expected) and grant-based assistance.

Finally, UNHCR's focus on the most vulnerable has often been at odds with industry consensus that microfinance is best suited for the *economically active poor* – i.e. those who possess the skills to transform this credit into increased revenue for themselves and their family. Proposing credit to individuals that do not have the ability to repay is as good as offering debt, which is more likely to hurt extremely poor people than to help them.


As UNHCR re-examines its approach to microfinance as part of an integrated livelihoods strategy, it will be critical to clearly differentiate at the outset between the provision of sustainable microfinance and the short-term administration of cash transfer interventions aimed at meeting immediate consumption needs among targeted refugees. This will require a consideration of the different levels of capacity and economic activity within the refugee/displaced population, in order to identify different "wealth groups" and define interventions that target each according to specific needs and capacities.⁹

As this guide indicates, UNHCR can facilitate and promote access by building the capacity of microfinance institutions to deliver suitable products to refugees, and by advocating for refugee's right to financial services, on a par with the local host population. With its

⁹ Further guidance about strategic planning for livelihoods is available in: Urban Livelihoods: Operational Guidelines, OSTs, United Nations High Commissioner for Refugees, 2011.

partners, UNHCR can help to prepare refugees to qualify for financial services through individual capacity building (financial literacy, entrepreneurship training) and through other livelihood protection measures that help build and diversify income. Such preparation measures will also help to protect refugees from the risk of debt.

Selecting the right target group (clients) and **selecting the right microfinance institutions** (partners) are critical aspects of microfinance interventions that are described in the next sections.

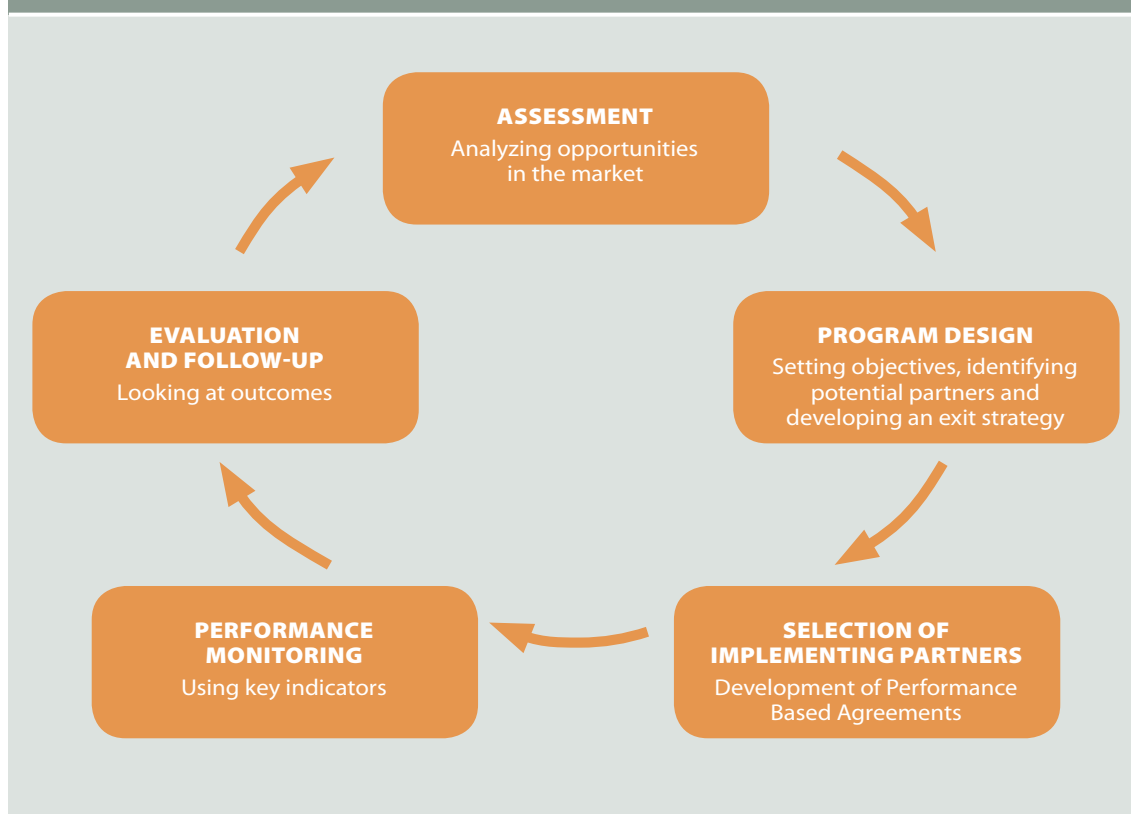


Mozambique / Maratane Refugee Camp / UNHCR has initiated a programme to improve self-sufficiency of refugees, including providing chickens to refugees to improve incomes. The scheme operates like a micro-finance scheme, with the beneficiaries repaying the investment, which is then extended to new beneficiaries. / UNHCR / J. Redden / 29 November 2006

ASSESSMENT PROCESS

The assessment process is the starting point of the project cycle, and is essential to define whether and how a potential microfinance intervention will take shape. The *first step* of the process is to determine *whether essential conditions for microfinance are present*. If a field operation has already conducted a comprehensive livelihood assessment, it is likely this question will already have been answered;¹⁰ and if indeed the livelihood assessment has established that the conditions *are present* for a microfinance intervention, then a *specific market assessment should be undertaken*, to determine the *demand* for, and the *supply* of microfinance services. If a comprehensive livelihood assessment has not taken place, then it is strongly recommended to undertake such an assessment before designing any microfinance intervention.

FIGURE 1: UNHCR'S PROJECT CYCLE



¹⁰ Detailed guidance for livelihood assessment and strategic planning is available in the Livelihood Guidelines, UNHCR, 2011.

WHEN IS MICROFINANCE AN APPROPRIATE TOOL?

A core aspect of microfinance is ***client-appropriate lending***. This means that lending decisions are based on an assessment of a person's creditworthiness, through a careful observation of his or her personal traits, rather than on any formal documentation or a person's ability to commit collateral. Such personal traits can include:

- Relevant expertise;
- Level of entrepreneurship;
- Knowledge of the market;
- Ability to handle a crisis.

Microfinance providers frequently use collateral substitutes that rely on social pressure, such as solidarity group loans or individual guarantees, to help ensure repayment by applicants that lack valuable assets. Client-appropriate lending requires full confidence between the lending institution and the applicant, and in the case of group loans requires adequate local social cohesion, to support these arrangements.

Repatriation, resettlement and onward migration characteristic of many refugee situations create instability, which makes the provision of financial services highly problematic. Restrictions on movement, poor infrastructure and transportation, and a general confusion between relief and development assistance can lead to poor or non-existent repayment. Lack of trust among the refugee or displaced population can mean that social pressure is inadequate as a collateral substitute, since people have lost the social networks or trust that they had prior to being displaced. Safety issues for refugees and for microfinance providers in crisis environments further complicate the situation and present major challenges to sustainable microfinance.

Therefore, it is critical when assessing the use of microfinance as a tool for rehabilitation and recovery that certain essential conditions exist.

*Essential conditions for microfinance***❑ Relative Political Stability**

- Reasonable degree of security and safety – clients must be able to earn and use money with some assurance that they can do so safely and without the threat of harassment.
- Basic rule of law and a functioning legal system to allow for the enforcement of contracts by microfinance providers in the case of client default or non-payment.
- Ability of microfinance clients to carry out their business activities in a profitable manner – access to local markets, existence of repayment discipline and basic entrepreneurial skills.

❑ A Cash Economy

- Local market economies based on cash transactions. Market economies based mostly on barter will not be appropriate for microfinance.

❑ Relative Population Stability

- Foreseeable geographical stability for a minimum of 12 to 18 months to allow for a repayment culture to strengthen, to develop repeat loans, and to ensure higher repayment rates.

❑ Economic activity and the demand for microfinance

- Opportunities exist for refugees to integrate into the local market in a non-threatening way.
- Informal savings, lending and borrowing is already taking place between refugee and host populations and within refugee populations.
- Refugees are already operating microenterprises without formal credit services.

❑ Existence of Specialized Microfinance Institutions (MFIs)

- There are microfinance institutions in the area willing to partner with UNHCR for the sustainable delivery of microfinance services, either in their existing area of operation or through expansion into new areas.

Note on Implementing Partners

Microfinance projects **should not** be implemented by humanitarian organizations, particularly those that are known to the population for administering grant-based relief assistance.

Note on Targeting

Microcredit **should not** be targeted at the most vulnerable (as identified through a livelihood assessment) who are in need of cash transfers to meet their basic needs.

UNDERTAKING A MARKET ASSESSMENT: WHEN, WHO AND HOW?

If it has been determined that the conditions exist for a microfinance intervention, then a specific market assessment will also be critical to ensure that the intervention is designed to meet the needs of local population and is sustainable. The assessment should include a comprehensive mapping of the needs and resources, and an analysis of the technical, economic and financial viability of the potential microfinance project. The assessment process will stimulate proper consultation and coordination with relevant local community representatives, institutional service providers, government agencies and private sector actors. *See the Tools Section for **Market Assessment Guidelines**.*


Whether part of a comprehensive livelihoods assessment or done afterwards as a stand-alone microfinance market study, the market assessment should be led by a microfinance expert or a Livelihoods Officer who has a clear understanding of how markets work and can support the field operation with the design stage if needed. The assessment report should be shared with key industry stakeholders (donors, government agencies and potential partners) to build a sense of joint responsibility and ownership.

Mapping the Policy Environment

Government policies concerning the rights and treatments of refugees will determine if and when refugees can work, whether they can enter into legal contracts and how they can own property. In addition, the legal regulatory framework in a country will dictate the types of institutions that can provide microfinance, the services they can offer and will

affect whether an MFI can cover the costs of their operations through sustainable interest rate policies. The assessment should clearly detail:

- ☐ Legal rights and restrictions of refugees (on movement, work, etc.);
- ☐ Security problems and accessibility affecting refugees;
- ☐ National policies and/or strategies concerning the rights of refugees;
- ☐ Local population's and authorities' attitudes towards the refugees;
- ☐ Existence and/or ability of MFIs to provide microfinance services, including credit in areas of operations – restrictions if any on camp settings;
- ☐ Restrictions if any on interest rates;
- ☐ Existence of any microfinance legislation – enabling or prohibitive;
- ☐ Requirements for accessing microfinance (identity cards, registrations, or other documentation, etc.).



Colombia / idps / Cucuta / An increasing deteriorated security situation on all regions near the border with Venezuela is affecting more and more the population and led more than 15'000 of them to seek refuge in the neighbouring country (a quantity which doubled up since 2006). Idp boys take out a washing machine which they rent to others for washing clothes. Their small business gave their family a new dignity and helps sustaining themselves. The device could be bought thanks to UNHCR's microcredit funds. / UNHCR / Boris Heger / June 2010

Identifying the Target Market

The target market refers to the *potential participants* for a microfinance scheme amongst the refugee population. A thorough assessment of the conflict affected community and the impact of the crisis on poverty levels will be critical in determining the effectiveness of microfinance as a field response. It will be important to look beyond the types of economic activities present in the community by assessing how market forces have been affected by population influxes or conflict and what intra household dynamics exist that have the potential to negatively affect the impact of the microfinance intervention.

The assessment should clearly define:

- ❑ **Target Population** – Urban vs. rural setting, population density, mobility issues, foreseen solutions, etc.;
- ❑ **Household Profile** – Number of members, productive members, income earners, gender roles;
- ❑ **Socio-economic Profile** – Household assets, skills, livelihood strategies, access to resources and markets, income and expenditure;
- ❑ **Wealth Ranking** – Three to four groups are identified based on the above (typically these are: the most vulnerable; the economically active poor; and the “better off”), and the proportion of households in each category is estimated;
- ❑ **Previous experience with grants programmes** – Dependency mentality vs. a credit culture or history of savings?

Refugee Profile

The typical refugee profile does not differ significantly from that of a standard microfinance client. Both usually work in the informal sector, often do not own assets and generally lack identity papers as well as general access to formal financial institutions.

In some cases, refugees can be better equipped than the average microfinance client, as they may have professional qualifications, access to remittances from abroad and have professional experience in their home countries before their initial displacement.

See Tools Section for **Market Assessment Guidelines** to be undertaken as part of the livelihoods assessment.

Estimating Demand

There is no universally agreed-upon formula for estimating demand for microfinance in a given market context. Most demand estimates are based on the aggregate number of poor households, adjusted for those who would actually seek microfinance and who at the same time would qualify for a loan based on their existing capacity¹¹.

This same approach can be used to get a rough estimate for demand in refugee and host communities. The results of the household *“wealth ranking”* exercise will indicate which households are more likely to seek and to qualify for a loan. Most households are likely to seek a loan. However, only the “better off” and some of the “economically active poor” are likely to qualify, at least in the initial stages of a longer-term microfinance project. Given that refugees often lack a credit history in their host country, and that MFIs might perceive them as a “riskier” client group, it is recommended that the “better off” and “economically active poor” be considered for microfinance activities rather than the most vulnerable households. The latter will require some preparatory activities before they can be considered for loans (see section on non-financial services).

Should we support the less vulnerable?

Supporting households with existing capacity, i.e. the “better off” and the “economically active poor”, is an important aspect of UNHCR’s livelihood approach. Indeed, without adequate support, these households are likely to lose their assets during the displacement period, and fall into poverty. In most situations, the refugee “better-off” are still considerably poorer than the local middle-income households. However, qualified refugees and entrepreneurs have the ability to demonstrate the benefits of economic integration within the local population and host country, by providing goods and services and creating employment locally. This positive impact is of great value to UNHCR’s role in advocating for the right to work for all refugees, and can motivate donors and UNHCR partners to invest in livelihoods programming in the longer-term. For poorer households, “graduation approaches” are recommended (see the section on non-financial services and graduation programmes specifically).

¹¹ A common formula used by the World Bank to assess demand estimates is (i) # of poor or low income people below the poverty line; (ii) divided by average household size; (iii) reduced by 45%-50% to reflect the number of people in this group who would actually seek a loan; and (iv) reduced again by 25% to reflect those potential borrowers who would actually qualify for microcredit. CGAP Brief, Are We Overestimating Demand for Microloans? April 2008.

Once this target market is identified, a simple household survey can be undertaken with household members from selected wealth groups, to better quantify the type of services needed. Issues to be considered when estimating demand:

- ❑ What are the particular financing needs and constraints of women and men in the community?
- ❑ What is the demand for the range of financial services: credit, savings, leasing, money transfers, micro insurance, etc.?
- ❑ What types of economic activities are visible in the market and what are the potentials?
- ❑ What are the current sources of funding for local businesses?

Support to Market Research in a Returnee Situation

In Afghanistan, UNHCR supported a survey of microfinance clients to determine the extent to which refugee returnees have access to microfinance services. It was carried out by two experienced microfinance NGOs in four of the country's major cities. The results showed very high rates of returnees among the sampled clients (over 50%) the majority of whom were women. Loans covered a wide variety of sectors and were mostly supporting microenterprises and trading. The information has been widely marketed to demonstrate the success of microfinance in supporting refugee reintegration and the national strategy of mainstreaming returnee needs into national programmes.).

Estimating Supply

When assessing the current supply of microfinance it is important to document the providers of microfinance, formal and informal, and also the degree to which they are serving refugee populations, if at all. Given the perceived risk of working with refugees, it is likely that most MFIs have not considered this population in their marketing efforts. Issues to be considered when assessing supply:

- ☐ How many and what types of formal institutions provide microfinance in the market, e.g. multi-service NGOs, specialized MFIs, non-bank financial institutions, and microfinance banks? (see chapter 5 for detailed descriptions)
- ☐ What is their total portfolio: number of clients served, average loan size, total outstanding loans?
- ☐ Where are these MFIs located and where do they operate geographically?
- ☐ What types of methodologies do they use - group, individual, compulsory savings, voluntary savings?
- ☐ What are their delivery channels - directly to clients, via bank branches, use of mobile lending units?
- ☐ What is the range of products and services they provide - credit, savings, transfers, remittances, and insurance?
- ☐ What terms do they offer to clients - repayment schedules, interest rates, grace periods?
- ☐ Do they currently lend to refugees?
- ☐ What are the concerns or perceived constraints to working with conflict affected populations?
- ☐ What support would be needed for existing MFIs to enter into this market?

Interagency Cooperation to Estimate Supply of Microfinance and Define Livelihood Interventions

An area-based approach was applied by UNHCR Eastern Sudan in partnership with UNDP to assess the microfinance panorama in two states (Kassala and Gedaref) where large numbers of refugees, IDPs, rural and urban poor have very limited access to financial services. The two agencies, together with the Central Bank of Sudan, commissioned a market mapping and a SWOT (Strengths Weaknesses, Opportunities and Threats) 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 is part of a broader strategy for livelihood support and local integration, which UNHCR has defined, and is presently implementing in close collaboration with development partners.

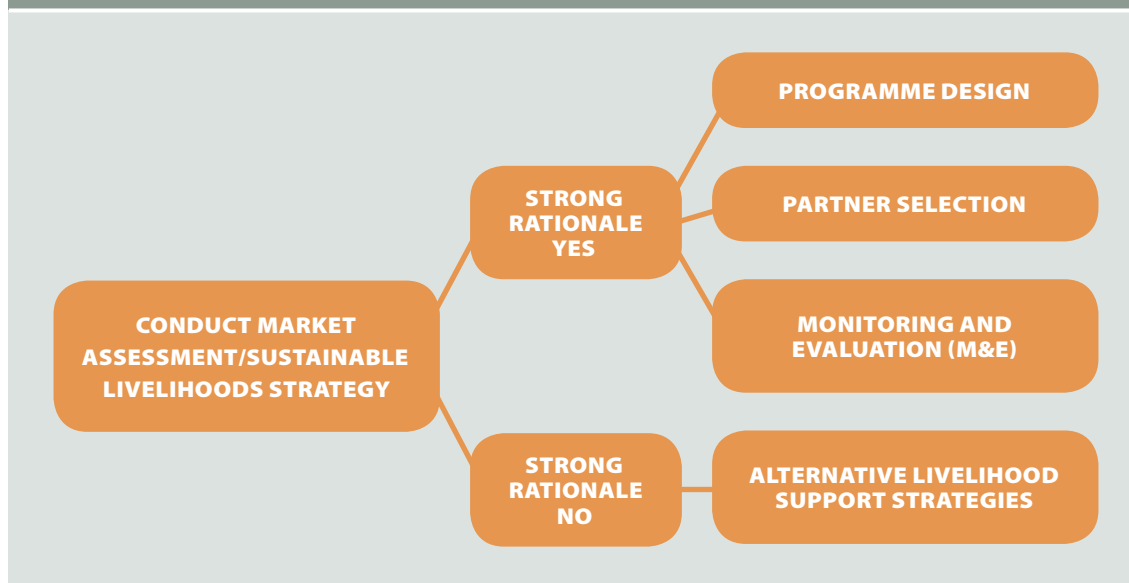


Hyderabad, Pakistan: Clients of National Rural Support Programme microfinance institution, and beneficiaries of a newly modified microinsurance product targeting families with an expectantly high incidence of child labour, developed within the framework of the ILO action research project: Microfinance for Decent Work / ILO, NRSP/ January 2009

ANALYSIS AND SOLUTION

The market assessment will provide UNHCR project managers with detailed information on the key opportunities and challenges in the market and any gaps where a UNHCR-supported microfinance intervention could add value. It should also provide a good picture of the key stakeholders in the market and opportunities for potential collaboration. The decision tree below charts the assessment process and outcome.

FIGURE 2: PROGRAMMING DECISION TREE



Alternative Forms of Assistance – Non-Financial Services

If it is determined that a clear rationale for the use of microfinance among the population of concern **does not** exist, for example in ongoing crisis situations, or that the main bottleneck to sustainable livelihoods is not in fact microfinance but rather other needed supportive services, alternative livelihood support interventions should be pursued that would be more relevant to, and have greater impact on refugees.

In this situation, UNHCR will promote non-financial livelihood interventions through specialized agencies that can help refugees start up income generating activities and **prepare** refugees to qualify for microfinance support in the future. Preparatory interventions include:

- ❑ **Cash grants** - are designed to provide households with a one-time infusion of capital to help stabilize incomes, or to help recapitalize businesses in a post-crisis recovery setting. As such cash grants can be targeted to a broader population group than to the



Burundi / The UN refugee agency's introduction last August of cash grants for Burundian returnees appears to have both encouraged more people to go back home and eased their reintegration. Here, a returnee receives the first instalment of her cash grant at a transit centre in Burundi. / UNHCR / A. Kirchhof / 2007

most vulnerable, unlike cash assistance (see below). Cash grant projects require clear eligibility criteria and strict procedures for disbursement that **clearly distinguish them from microcredit interventions, so as not to negatively influence the market for sustainable microfinance initiatives in the future**. Cash grants are also given on a one-off basis in the context of repatriation, to cover household expenditures when relocating.

Basic Guidelines for Cash Grant Schemes

- ❑ Do not implement simultaneously with credit / loan schemes for the same target group, unless cash grants are provided as part of a sequenced programme, where access to loans is conditional on an agreed-upon use of the cash grant e.g. to start-up a business which will then make a recipient eligible for a loan. In all circumstances, recipients must understand the difference between grants and loans provided by microcredit schemes.
 - ❑ Use as a short-term assistance strategy (six months to a year), aiming to phase out as livelihood assets and opportunities build up.
 - ❑ Provide clear information to beneficiaries about the purpose of the grant, its non-revolving nature and limited timeframe.
 - ❑ Do not implement through the same channels that may be used for microfinance, to avoid confusion that could undermine the existing credit culture.
 - ❑ Target the very poor who have a potential to engage effectively in small businesses or income generation in future, but are prevented from doing so in the prevailing economic environment.
 - ❑ Wherever possible the grant should be linked to complementary non-financial interventions, such as skill development or business training, hygiene, HIV/AIDS and reproductive health programs.
 - ❑ Make awards in a transparent manner, involving local communities and government representatives wherever possible in the decision-making process. Grant schemes that are handed over to a community should be put in place with sufficient financial controls (e.g. training and monitoring for transparent bookkeeping, etc.).
-
- ❑ **Cash assistance** – differs from cash grants, in that it is provided on a longer-term basis to targeted individuals and households in the most vulnerable categories. In refugee or IDP situations, cash assistance provides a social safety net to the most vulnerable individuals/households, when their status does not allow them to access national safety net schemes, and/or where the right to work or to gain formal income is limited (e.g. Jordan and Syria for Iraqi refugees), or when such schemes are non-existent or have been interrupted as a result of a crisis as in IDP situations.

- ❑ **Entrepreneurship / business training** – market analysis, decision making, cash flow management to help refugees adapt their business practices to a new environment;
- ❑ **Vocational and technical skills training** – aimed at bringing skills up to recognized standards of the host country. This is more relevant to protracted situations where refugees are able to integrate into the local economy;
- ❑ **Financial Education and debt management** – helps raise awareness about how to save, manage expenditures, borrow wisely and manage the financial risk that comes with borrowing. This includes understanding interest rates, fees, repayment schedules, etc;
- ❑ **Cash for work, or job placement** – short to medium-term labour schemes that provide immediate income streams and help build assets among the population of concern;



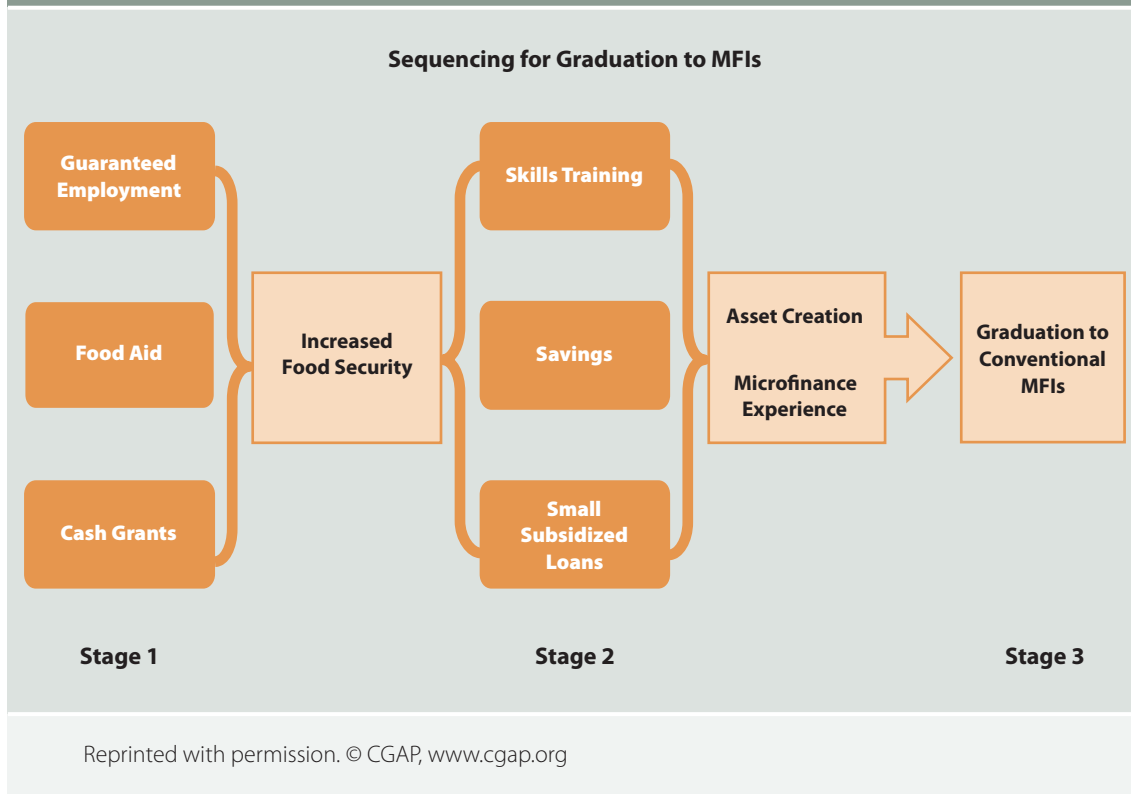
Syria / An elderly Iraqi refugee receives cash assistance at the distribution centre in Douma as part of UNHCR's winterization handout. / UNHCR / December 2010

- ❑ **Productive asset provisioning** – support to small holders associations and inputs for economic activities (tools for agriculture or fishery, seed banks, processing equipment, etc.);
- ❑ **Lifting of legal constraints** – ongoing advocacy for documentation, recognition of qualifications, access to arable land, access to work;
- ❑ **Capacity building of local institutions** – investing in local service providers (agricultural extension offices; farming / fisheries / trade cooperatives; business incubator and development services; local training institutions; etc).

Special Note on Graduation Programmes

Increasingly, donor and government agencies are exploring ways to incorporate vulnerable populations into conventional microfinance programmes through a phased approach to livelihoods support. **Graduation Programmes** use a combination of interventions that focus on linking recipients of (grant-based) social safety-net schemes to mainstream microfinance programmes, through gradual and targeted capacity building measures. This approach is based on the premise that, by helping the most destitute save, build assets and acquire basic financial literacy skills they can eventually gain the resources necessary to engage in economic activities that can benefit from access to microfinance. Through the appropriate sequencing of grants for immediate consumption needs, these programmes provide skills and business training, savings services and at times small, subsidized “training” loans to help prepare these individuals for running a micro business. Once these individuals have proven their capacity to manage this phased support, they are “graduated” to conventional microfinance programmes. However, it is important to note that a critical element to the success these programmes has been the use of specialized, professional agencies that are distinguished from conventional microfinance providers.

FIGURE 3: GRADUATION PROGRAMMES



Checklist for Assessment Process

The checklist below provides key considerations for the analysis and decision making process. If it is determined that a UNHCR microfinance intervention meets the following parameters, and as such can be justified as part of a livelihoods strategy, then the next step will be to move to the design phase.

- ☐ Sufficient demand exists among the refugee population for microfinance services that is not currently being met by existing service providers.
- ☐ The target population has adequate repayment capacity to productively use and thus benefit from microfinance.
- ☐ A UNHCR intervention would complement and not duplicate other donor efforts on the ground.
- ☐ Professional MFIs are operating in the sector that would be willing to work with the population of concern according to international standards of best practice.
- ☐ UNHCR's intervention can be leveraged to create ongoing access for entrepreneurial refugees to local microfinance services.

A Collective Approach to Defining Appropriate Interventions

In 2008, UNHCR, UNDP and the Serbian Statistical Office jointly undertook the IDP Living Standard Measurement Survey, which identified support to housing as the major need among the IDP population. Many IDP families had either started building their own houses or had bought old houses in need of rehabilitation; however, due to insufficient financial means were unable to finalise these projects.

In response to this clearly defined market gap, UNHCR developed a project to increase access to housing finance for the IDPs, mainly from Kosovo, still living in collective centres or renting accommodations of very poor standards. UNHCR's implementing partners are the local microfinance organisations MicroFinS and Micro Development Fund (MDF).



India / Rural cooperative sustained by the ILO gathering women from Kesavarayampatti village (Madras). Each month, members of the cooperative share the profits of their work. / ILO / Crozet M. / March 2002

PROJECT DESIGN

Microfinance interventions should be designed on the basis of the needs and opportunities identified in the market, and an appraisal of UNHCR's internal capacity to effectively fill this gap in partnership with local microfinance providers.

STRATEGIC FRAMEWORK FOR MICROFINANCE INTERVENTIONS

In the framework of a comprehensive livelihood-support strategy for refugees, the **strategic objective** of microfinance interventions is to **help expand access to financial services** for the targeted population in the host or return area, as part of a durable solution beyond UNHCR's direct engagement.

As such UNHCR's financial resources should be invested in projects that help bring refugees into the mainstream microfinance market rather than in one-off credit components with limited life spans. These interventions should be replicable and scaleable, with a longer-term perspective. A microfinance intervention can take two forms:

- a) Indirect UNHCR support to the sector through advocacy and networking activities, **and/or;**
- b) Direct financial support to a microfinance institution to provide financial services to the population of concern. In this case, UNHCR's financial support can take three forms:
 - It can contribute to the MFI's loan capital;
 - It can contribute towards the MFI's capacity, outside of the loan capital;
 - It can contribute towards both of the above.

The following table provides some examples of how microfinance can be used to meet a range of development and protection objectives.

TABLE 1: SAMPLE PROJECT PLANNING TABLE

Current Situation	Development & Protection Objectives	Expected Outputs	Activity
Protracted refugee situation where the population has access to local markets, entrepreneurial opportunities and business development services	To promote self employment	Increased access to the full range of financial services available in the market for economically-active refugees	Support the MFI to expand credit services to reach target population, by adding to the MFI's loan capital
Camp refugee setting where the population is economically active but women lack equal access to resources and opportunities for livelihoods	To promote the socio-economic independence of women entrepreneurs and female heads of households	Increased number of female refugees who can successfully negotiate microfinance services	Networking with local service providers of basic financial literacy and skills training
Early stage post conflict where the population is stable but few opportunities exist for local integration or programs that nurture skill development	To promote the creation of assets	Microfinance products designed specifically to meet the needs of the target population are available	Provide MFI with Technical Assistance for market research/ product design – i.e. housing loans, specialized savings product Facilitate linkages with local training / education programmes

SELECTING THE APPROPRIATE DELIVERY MODALITY

The exact form of UNHCR's intervention will depend on the providers of microfinance in the market and the existing bottlenecks for the target population in accessing these services. Whatever the exact modality, a common element should be a strong local microfinance provider who, with the proper support, has the interest in and capacity to provide sustainable access to financial services to the target population.

a) Advocacy and Networking

In markets with a robust microfinance industry, where there are strong MFIs with access to capital and technical assistance, the main bottleneck to access is more likely to be perceptual than financial. Lack of understanding regarding the ability of refugees to affectively utilize and repay loans, as well as misperceptions as to the risks associated with lending to these populations may prevent refugees from accessing local financial services.

In such cases, UNHCR can play an important advocacy role to help open up access:

- ❑ In some instances this may take the form of financing market studies to help MFIs better understand the characteristics of refugee populations and their businesses, their repayment capacity and financing needs (e.g. the market survey undertaken in Afghanistan).
- ❑ In other situations, it may mean helping refugees to meet the established lending criteria, by delivering basic skills training and financial literacy services, and documentation. Financial education is extremely important to ensure that individuals benefit from access to finance and avoid the risk of over indebtedness that can result from uninformed borrowing. Education on topics such as budgeting, savings, credit management and negotiation skills can equip clients to better evaluate their financing options and to make more informed decisions on important financial matters.
- ❑ Another effective entry point when resources are limited includes working with local/national microfinance associations to promote research and development around lending to refugee populations.
- ❑ In all cases, it is useful to share with MFIs the result of livelihood assessments that show different levels of capacity and need in the refugee population.

Promoting Existing Structures

In Gambia, UNHCR cooperates with The National Association of Cooperative Credit Unions of The Gambia (NACCUG). As the umbrella organization for the credit unions in the Gambia, NACCUG has an extensive nation-wide membership, and its financial services include savings mobilization and loans. The project implemented with NACCUG is aimed at facilitating Liberian and Sierra Leonean refugees access to microfinance services and providing capacity building trainings on income generation activities. The objective is to enhance the targeted refugees' livelihoods and their prospects for local integration. Through sensitization, the target population is encouraged to register with the credit unions, which gives them access to financial services such as savings mobilisation and credit. Training on financial education and entrepreneurship provides the refugees with enhanced skills that help them pursue entrepreneurial activities.

Inclusion Of Asylum Seekers And Refugees Into Existing Government Programmes

UNHCR's microcredit project in Venezuela seeks to promote income generation and local integration of refugees and asylum seekers in the border areas. It does this in cooperation with two implementing partner. The first IP, Banco del Pueblo Soberano (BPS) a public lending institution, provides microcredit for income generating purposes to refugees, asylum seekers and Venezuelan host communities. The second implementing partner, FUNDESTA, works as an advocate for the people of concern to encourage their access to microfinance services. Through the joint action of the 2 IPs, this project has been successful in incorporating asylum seekers and refugees into a government programme that provide financial services for micro-enterprise creation. In addition, asylum seekers and refugees have been able to open bank accounts, make additional financial transactions, and obtain temporary bank identification, access to notaries and other bank benefits. Beneficiaries of these loans have increased their revenues, created employment opportunities in their communities and have consolidated their ties within the local community. Furthermore, the capacity of the targeted population has been strengthened with the help of workshops and business training, linkages with local production networks and community involvement.

It is noteworthy that UNHCR does not provide a financial contribution in its agreement with the BPS. Instead, BPS provides all financial resources directly. In the case of FUNDESTA, the financial contribution is provided on a cost-sharing basis between UNHCR and FUNDESTA.

b) Direct Funding of Microfinance Institutions

In less mature or less stable markets more typical of conflict-affected communities, there may be specialized microfinance providers that lack the capital or expertise to expand beyond their current clients to include "riskier" clients. In this case UNHCR's intervention could take the form of direct financial support aimed at enticing MFIs to work with the population of concern, so that they can become more familiar with their financing needs and repayment capacity. As outlined above, UNHCR financial support can

- contribute towards the MFI's loan capital;
- or towards the MFI's implementation capacity, other than its loan capital;
- or it can support both of the above.

An MFI that receives a grant from UNHCR to use as loan capital is referred to as a **Fund Managing Agency**

UNHCR contributes towards an MFI's loan capital by transferring the ownership of a Capital Grant.

This specific modality is tailored for UNHCR-funded microfinance projects. It enables UNHCR to transfer (or hand-over) the ownership of a grant, which will be used by the Fund Managing Agency to extend its services to PoC (using the grant as loan capital, and through subsequent lending operations as a Revolving Fund. It can also be partly or fully used to develop new financial products (see below). An agreement has been designed for this specific purpose, jointly with UNHCR's programming and Legal Advisory Services: The *Transfer of Ownership Agreement* allows UNHCR to finance the loan capital of a partner MFI over a period of 4 years. The transfer of ownership modality means that UNHCR's grant can be retained by the MFI over from year to year, and does not have to be closed and returned to UNHCR at the end of the financial year. The modality for disbursing and monitoring this grant is established in the *Transfer of Ownership Agreement*, to be signed by UNHCR and the selected partner (Section 8, Tools). After the 4 year period the grant can remain the property of the Fund Managing Agency as per the article 7.1 of the Agreement. *A standard sub-agreement should be used alongside the Transfer of Ownership Agreement*, to frame the overall collaboration between UNHCR and the selected partner.

UNHCR contributes towards the MFI's implementation and outreach capacity.

This applies when an MFI has an interest in working with the targeted population but lacks the skills or expertise, or even physical infrastructure to move into this new market. UNHCR funds can help MFIs expand services to conflict affected communities (e.g. building retail capacity, establishing new branches, hire or train loan monitors to learn how to liaise with refugee clients, develop materials to train refugee clients in financial literacy, ...). Support should be focused on strengthening the delivery capacity of these service providers through the provision of training and consultancy services aimed at improving overall professional standards. In this case, *a standard sub-agreement format can be used on its own for this modality.*

UNHCR funds can simultaneously boost both the MFI's loan capital and its implementation capacity, in which case both sets of Agreements should be used.

Whatever it's immediate objective, UNHCR's financial contribution should support the MFI's existing business plan and should not cause the MFI to deviate from its core objectives. Ideally, a UNHCR grant will be given **on a cost-sharing basis**, with the MFI matching funding with its own capital as an expression of long-term institutional commitment.

Typical financial services to be supported by UNHCR include:

- **Savings programmes** – to help stabilize household assets;
- **Credit products** – to foster business activities, most of which rely on linkages between refugee and local markets; or to enable access to housing or education;
- **Remittances** – to transfer money from or to families in a home / third country;
- **Micro Insurance** – to support access to health.
- In some cases, UNHCR's financial support can be used to develop new financial products designed to meet the specific needs of the target population, *if significantly different from those of existing clients*.

Promoting Local Settlement with Housing Loans

The vulnerable IDP (internally displaced person) population in Serbia is exposed to a number of protection risks. IDPs are not able to fully enjoy citizen rights especially around housing and employment, and lack access to civil documents. The IDP Living Standard Measurement Survey done in 2008, in co-operation with the Serbian Statistical Office, UNDP and UNHCR, established that housing support was the main need of the IDP population. Many IDP families had either started building their own houses or bought old houses in need of rehabilitation. However, due to lack of financial means these families were unable to finalise the building or rehabilitation process. The objective of the housing loans is therefore to help secure physical assets (housing) for IDPs that still live in collective centres or in rented accommodation of very poor standards.

In order to be eligible for a loan, IDPs have to meet a number of criteria. These relate mainly to their status, property situation, and collateral. MicroFinS and MDF loan officers interview each applicant and after the issuance of the loan, a loan officer verifies that the use of the loan is in accordance with the stated purpose. The project has led to an immediate improvement of the living conditions of the IDP families, who now enjoy an enhanced feeling of security and belonging.

Helping to Remove Perceived Risks Among MFIs

UNHCR Jordan entered into a project agreement with MicroFund for Women (MFW), a well known Jordanian MFI, to facilitate access to and use of loans to Iraqi and national female refugees. The project was meant to address MFW's reluctance to serve this population, whose mobility and weak social ties were perceived to present a greater risk than the usual MFW clientele. The two parties agreed to define the target population as Iraqi women with significant ties to Jordan: long term stay, official asylum seeker status, marriage with a Jordanian national, and to provide preparatory support such as information sessions and business training to help better manage their business and future credit obligations.

One of the underlying goals of this project was to build the MFI's capacity to assess and mitigate the risk of working with refugee populations, without the need for a guarantee fund, so that access to financial services would continue to be available for refugees beyond the life span of the project. In order to ensure buy in and ownership by the MFI, UNHCR support to MFW was limited to financial contributions toward the costs of the new lending window, the costs of an awareness raising campaign among the refugee population about benefits of access to financial services, and the delivery of business training. The loan capital, however, came entirely from MFW.

RESPONSIBLE DISENGAGEMENT

It is critical that UNHCR supported microfinance projects include an exit strategy, if there is no clear rationale for scaling up or expanding the initiative upon completion of the initial project time frame.

The modality commonly used for UNHCR-supported microfinance project is the Transfer of Ownership Agreement, between UNHCR and a selected Fund Managing Agency (see Transfer of Ownership Agreement in annex). Establishing clear targets within the agreement (see target table under article 4), and agreeing on how the partner will report on targets (see proposed format for reporting on targets under article 5) will help to create proper incentives to ensure that objectives are being met during the life of the project, or create opportunities to disengage in case objectives are not being met. Payments to implementing partners will then be based on their performance.

If the targets have been met during the project period, in particular if the repayment rate for

refugees is no different to that of national clients, then the microfinance institution (Fund Managing Agency) will have a clear incentive to continue to deliver financial services to refugees beyond the time-frame of an agreement with UNHCR. In this sense, the project will have met its sustainability objective.

Working Towards a Sustainable and Inclusive Microfinance Intervention

In Costa Rica, UNHCR has been working with a microfinance institution APRODE and an NGO ACAI, to facilitate access to microfinance services for refugees, migrants and host country nationals as a viable and sustainable source of income generation. It is estimated that at least 10% of the refugees and people of concern served by UNHCR Costa Rica participate in this project. According to the latest study of program impact, on average 2.2 jobs were created per loan disbursed. Additional strategies to facilitate sustainability of the project have included capacity building of the partners via trainings and workshops.

UNHCR has progressively reduced its investment while the MFI at the same time has increasingly assumed more financial responsibilities and liabilities and continues to include refugees and people of concern to UNHCR in their active portfolios.

GLOBAL TECHNICAL STANDARDS

Whichever form the final project takes (indirect or direct UNHCR support) the project should follow **global technical standards** as defined in the Minimum Standards for Economic Recovery After Crisis (SEEP, 2010). In collaboration with the SPHERE campaign, consensus has been reached across organizations working with crisis-affected populations on what standards are needed to increase the likelihood of successful economic recovery programming in the field. In the domain of Financial Services, UNHCR project design should adhere to the following:¹²

12 Details in the Minimum Standards for Economic Recovery after Crisis (SEEP, 2010), p. 60-70.

Financial Services Standards

1. **Demand for Financial Services** – Financial services are initiated or reinstated only after client demand and institutional capacity are present and verified.
2. **Institutional Capacity to Deliver Appropriate Financial Services** – Financial service interventions are based on the capacity of the financial service provider.
3. **Good Financial Service Practice** – Financial service providers adhere to good, internationally accepted financial service practices.
4. **Client Protection** – Financial service providers adhere to accepted norms for client protection.
5. **Institutional Crisis Panning** - Financial service providers have policies in place to protect the organization and its clients from effects caused by crisis.

Checklist for Project Design

- ☐ Key challenges to the delivery of microfinance to refugee populations have been identified and a clear rationale for UNHCR's engagement made, i.e. how UNHCR's intervention will help open up access to finance to the targeted population.
- ☐ Other donor activities that support the microfinance sector have been taken into account.
- ☐ Existing projects that can serve UNHCR's target population have been considered.
- ☐ Capable service providers exist that are willing to partner with UNHCR.
- ☐ Expectations for the situation at the end of the project have been clearly defined, as has any ongoing responsibility of potential partner to continue servicing the targeted community upon completion of the project.
- ☐ Provisions have been made for local capacity building activities at the MFI level based on the needs assessment.
- ☐ Global technical standards are understood and built into the project design.

SELECTION OF FUND MANAGEMENT AGENCY

Selecting a partner who shares UNHCR's objectives and has the capacity to implement the vision is critical to the success of a microfinance intervention. There are generally a range of specialized financial service providers operating in any given market.

TABLE 2: MICROFINANCE SUPPLIERS

Types Microfinance Suppliers	Key Considerations
Commercial Bank	Adverse to serving low income clients in general and may be resistant to working with "riskier" refugee populations
Specialized Microfinance Bank	Able to offer a full range of services to the target population, i.e. savings, credit, insurance, etc. but may be less interested in focusing on niche clients
Non-Bank Financial Institution	Able to offer a wide range of products, but still are restricted from offering savings accounts
Microfinance NGO	Products usually limited to credit, but may be more likely to work with refugees whose profiles are closer to that of their core clients
Financial Cooperatives and Credit Unions	Internal capacity frequently low, particularly in the areas of governance and reporting systems and may require capacity building measures

In order to ensure the right match, an institutional appraisal of the organization should be undertaken. ***See the Tools Section for MFI Assessment Guidelines.***

KEY SELECTION CRITERIA

On top of UNHCR's own criteria for selecting partners, an additional set of criteria, dedicated to microfinance providers is as follows.

- ❑ **Potential for Outreach.** The MFI has a clear vision and long-term strategy for providing sustainable microfinance services and increasing the number of clients currently without access. An indication of this includes:
 - Strong leadership;
 - Well defined target markets;
 - Presence of realistic business plan;
 - Comprehensive reporting and monitoring mechanisms;
 - Expressed willingness to serve refugee populations.

- ❑ **Good Governance.** The MFI has a clear legal form, adequate governance structure and competent management team to carry out these activities. This includes:
 - An active and qualified board;
 - A system for board succession and tenure;
 - Dedicated, trained and well motivated staff;
 - Well-defined management structure and organizational set-up.

- ❑ **Sound Financial Management.** The MFI has adequate accounting and internal controls in place to ensure proper management of capital grants:
 - Adequate data collection and financial management systems;
 - Effective client monitoring system;
 - Accurately generated financial reports;
 - Clearly documented internal controls for all credit procedures.

- ❑ **Social Performance.** The MFI has clearly defined social goals and a strategy for achieving them, as evidenced by:
 - Products and services that align with its social goals;
 - Clientele that reflects those most in need of microfinance.

- ❑ **Prospects for Financial Sustainability.** The MFI has a good reputation in the market and has either achieved or is reaching full levels of operational sustainability. This can be demonstrated by:
 - Cost recovery interest rates;
 - High loan recovery rates;
 - Efficient cost structure;
 - High levels of staff productivity;
 - High client retention rates.

PERFORMANCE BASED AGREEMENTS (PBAS)

Once UNHCR has decided to directly fund a microfinance project and a partner has been selected, a performance-based agreement should be developed that both supports the MFI's business plan and ensures the achievement of UNHCR's livelihoods objectives.

In cases where UNHCR invests in the loan capital of a selected MFI, a **Transfer of Ownership Agreement** will be used (See Tools Section for the template). The agreement should establish **minimum thresholds for performance monitoring tied to the disbursement of UNHCR funds**, as per example provided in the template. In addition, a standard sub-agreement will preferably be used to specify the agreed-upon work plan with detailed activities and any capacity-building investment made towards the MFI that may not be captured in the Transfer of Ownership Agreement, as well as clear reporting requirements.

In cases where UNHCR funds are to be used to build the institution's capacity without contributing to the loan capital, then a standard sub-agreement can be used on its own.

The sub-agreement should also be performance-based, and include an agreed-upon work plan with detailed activities, a timeframe for delivery, and clear reporting requirements.

Indicators should be limited and relevant to track the financial and social performance of the MFI. In addition, non-quantitative indicators can be used to measure other objectives of the funding, such as integration of the target population into the MFI's mainstream microfinance portfolio. At a minimum, PBAs should include indicators on core areas of the MFI's operations, as presented in table 3.

- ❑ A first set of indicators for **outreach** and **portfolio quality** should be tracked both for the overall clientele base of the MFI and for the target population in order to monitor the achievement of the project's goals. The MFI should provide this information to UNHCR on a quarterly basis. This information can be reported in Focus against equivalent performance indicators listed below.¹³
- ❑ The second set of indicators on **financial sustainability** and **efficiency** should be monitored for the MFI as a whole, as they provide information about the overall health of the service provider, and not only for project activities. The MFI should also provide this information to UNHCR on a quarterly basis.

¹³ As of 2012 these performance indicators will be available in Focus, against the output "Access to Financial Services Facilitated", under the Livelihoods and Self-Reliance objective.

TABLE 3: MINIMUM QUANTITATIVE INDICATORS

Suggested Minimum Quantitative Indicators to be included in the PBA	Equivalent Performance Indicators
<p>Outreach</p> <ul style="list-style-type: none"> ▪ Number of active clients or accounts (by gender) ▪ Average outstanding balance per client as % of gross national income (GNI) per capita 	<ul style="list-style-type: none"> ▪ # of PoC receiving loans through UNHCR partners (active clients in current year) ▪ # of PoC receiving other financial services through UNHCR partners (in current year) ▪ Total # of clients (nationals and PoC) of the partner institution for all financial services ▪ Average loan taken by a PoC / GNI per capita ▪ Average loan taken by a client (nationals and PoC) of the MFI / GNI per capita
<p>Portfolio Quality</p> <ul style="list-style-type: none"> ▪ Non Performing Loans ▪ Repayment rate 	<ul style="list-style-type: none"> ▪ % of money loaned to and repaid by PoC clients (repayment rate) ▪ % of money loaned to and repaid by national clients
<p>Financial Sustainability</p> <ul style="list-style-type: none"> ▪ For <i>unsubsidized institutions</i>: return on assets (ROA) or return on equity (ROE) ▪ For <i>subsidized institutions</i>: adjusted return on assets (AROA) or financial self-sufficiency (FSS) 	N/A
<p>Efficiency</p> <ul style="list-style-type: none"> ▪ Operating expense ratio; or ▪ Cost per client 	N/A
Sources: CGAP Performance Based Agreements: A Technical Guide	

SETTING TARGETS & IDENTIFYING NON-COMPLIANCE MEASURES

When defining the agreement, UNHCR field staff should work with the partner MFI to develop realistic targets based on the MFI's own business plan, past performance and relevant benchmarks for the sector. Once these targets have been identified, minimum thresholds should be agreed upon that must be reached to ensure basic compliance of the agreement. Measures for non-compliance with activities and targets that are within the control of the MFI, in the case of wilful neglect or abuse, should be clearly spelled out in the standard sub-agreement. These include cessation of payments and recall of funding. They should be clearly articulated in the **Transfer of Ownership Agreement** signed between UNHCR and the MFI.

TABLE 4: SAMPLE TARGET TABLE

Indicator	Year 1 of Project	
	Target	Minimum Threshold
Number of Refugees	1,000	750
% Women Refugees	90%	75%
Non-Performing Loans	<5%	<10%
ROA/AROA	5%	-5%
Operating Expense Ratio	15%	20%

Checklist for Selecting a Fund Managing Agency

- ☐ The implementing partner is a specialized microfinance provider who meets minimum selection criteria.
- ☐ Work plans have been developed that contain clear activities, timelines and expected benchmarks for delivery.
- ☐ Performance based agreements have been developed based on cost sharing principles with a select number of indicators to measure financial and social performance.
- ☐ Baseline measurements have been taken on key indicators.
- ☐ Disbursement of UNHCR funds is tied to the achievement of performance targets.
- ☐ There are specific provisions in the agreement to stop, modify or in cases of abuse recall funding in the event that key targets are not achieved.

PERFORMANCE MONITORING

Monitoring is an essential part of any sound management practice. It is a tool for reporting, analyzing data, facilitating decision-making and, if necessary, re-orienting key objectives. Specifically monitoring helps to:

- ☐ Ensure that the programme is meeting its objectives;
- ☐ Compare results over time;
- ☐ Identify weaknesses in the programme;
- ☐ Make corrective measures where needed;
- ☐ Detect fraud and mismanagement;
- ☐ Ensure compliance with the conditions of the contract;
- ☐ Re-allocate fund to programmes where better results can be achieved.

REPORTING AND FOLLOW-UP

The Fund Managing Agency will be required to submit a financial and social performance report to the UNHCR Field Office on a quarterly basis, to allow for timely analysis of actual against planned achievements. In addition, a brief narrative should be provided highlighting progress achieved, challenges faces, lessons learned, and any corrective actions or resources needed.

The Fund Managing Agency should explain any major deviations from the performance targets in the narrative report. If deviations are due to external factors beyond the MFI's immediate control corrective measures to be taken should be noted. Suspension of funding should be considered where necessary.

KEY INDICATORS FOR MONITORING AND REPORTING

The success of a microfinance programme is ultimately the impact it has on the livelihoods of poor people. This impact happens over time and can only be achieved by building sustainable microfinance institutions that can provide permanent access to finance. Guidance on how to use the information provided by a partner MFI, to measure its portfolio quality, sustainability and efficiency is provided below.

Financial Performance Monitoring

TABLE 5: FINANCIAL PERFORMANCE MEASUREMENTS

Components	Indicators	Measurement
Breadth of Outreach	<i>Is the programme meeting a broad segment of the target population?</i>	
	<ul style="list-style-type: none"> Number of active clients 	<ul style="list-style-type: none"> Number of clients or accounts that are active at a given point in time
Depth of Outreach	<i>Is the programme reaching poor refugees?</i>	
	<ul style="list-style-type: none"> Average outstanding balance per client or account 	<ul style="list-style-type: none"> Average outstanding loans or savings balance per client / GNI per capita
Portfolio Quality	<i>Is the MFI maintaining a quality loan portfolio?</i>	
	<ul style="list-style-type: none"> Non-Performing Loans (30 days past due) 	<ul style="list-style-type: none"> Outstanding principal balance of all loans past due more than 30 days / Gross Loan Portfolio
Financial Sustainability	<i>Is the MFI moving towards full cost recovery?</i>	
	<ul style="list-style-type: none"> Return on Assets (ROA) Return on Equity (ROE) Financial Self-Sufficiency (FSS) Adjusted return on Assets (AROA) 	<ul style="list-style-type: none"> After Tax profits /starting (or period average) assets After Tax profits /starting (or period average) equity Business revenue (excluding grants and extraordinary items) / cost of funds + subsidy + inflation adjustments Accounting profit/loss (excluding grants) – cost of funds + subsidy + inflation adjustments / Period-average total assets
Efficiency	<i>Is the MFI efficient in its delivery of services?</i>	
	<ul style="list-style-type: none"> Operating Expense Ratio (OER) Cost per Client 	<ul style="list-style-type: none"> Personnel and administrative expense / Period-average gross loan portfolio Personnel and administrative expense / Period-average number of active clients (or loans)

Source: CGAP, Measuring Results of Microfinance Institutions and SEEP, Microfinance Financial Reporting Standard (MFRS).

Analysis of the ratios collected will allow field staff to assess the sustainability and efficiency of the intervention as well as how well it is achieving UNHCR's programming objectives. There are no set values for these ratios. Rather they should be seen in relation to one another over time and with performance benchmarks for like institutions.¹⁴ Frequent trend analysis can help identify problems early on to allow for corrective measures before they fundamentally threaten the MFI or the programme.

Outreach and Depth

Information on the **number of refugees** served and the **average loan size** relative to GNI per capita will provide important data for determining how well the project is meeting its direct objectives. Average loan sizes have long been used as a proxy for the poverty level of clients and as a general rule should be no more than 30% of GNP per capita. Growth should be measured against realistic targets agreed upon during the project design phase.

Portfolio Quality

An MFI's loan portfolio is its biggest asset. As such its quality will directly affect its short and long term ability to carry out its operations sustainably, which is critical to ensure ongoing access to finance for PoC. **The Non-Performing Loan (NPL)** ratio measures the current risk to the portfolio in a given time due to non-repayment. The norm for this ratio is less than 5% (as per consensus within the MF industry at large). Factors that may affect portfolio quality can include unsustainable rapid growth, client over-indebtedness, internal strife, etc.

Financial Sustainability

Financial sustainability is important to any MFI whether it is a non-profit organization or a for-profit company, as it will affect its ability to support its ongoing operations. The **Financial Self Sufficiency (FSS)** ratio reflects the MFI's ability to cover its cost with earned revenue. An institution that has an FSS of 100% is able to cover all of its costs, including the cost of capital, without any external grants.

Measuring an MFI's **Return on Assets (ROA)** ratio will tell you how much profit an MFI earned for every dollar of its assets, its portfolio, cash in bank, equipment, etc. An MFI that is breaking even will have a ROA of zero. An MFI that is able to earn enough revenue,

¹⁴ The Mix Market is an important source of industry data on the global microfinance industry where benchmarking data can be found on a range of institutional types at varying stages of development. For more information visit www.mixmarket.org.

excluding grants and donations, to cover its costs will have a positive ROA. Typically, startup or rapidly growing institutions should have a low profitability ratio because they are building up their capital base.

The **Return on Equity (ROE)** ratio measures how effectively a company's management uses investors' money. If the MFI has no debt and is funding its operations through grants or shareholder equity the ROA and ROE will be the same. However, if the MFI is using loans to grow the ROE should be bigger than the ROA.

Efficiency

Efficiency of an MFI is important to ensure that clients are getting the best value for their money. For the service provider this involves minimizing costs relative to the volume of activities. The **Cost per Active Client** ratio reflects the average cost of servicing each client. The exact amount will vary based on the country, region and the type of product being provided and like all performance measures should be assessed against appropriate industry benchmarks. Overall, a declining trend in this ratio demonstrates improved efficiency.

Social Performance Monitoring

There has been a movement over the last five years to look beyond client outreach and financial performance as the only indicators of success and to begin looking at other indicators to assess the development impact of microfinance programmes. Consensus is developing around 22 social performance measurements intended to assess whether the MFI has clearly stated social objectives and whether it has the systems in place to meet these social goals. The most commonly accepted indicators are presented below. These are not intended to be a minimum list of indicators, but rather a ***menu of potential areas that can be monitored for assessing the social aspects of any microfinance intervention.***

TABLE 6: SOCIAL PERFORMANCE MEASUREMENTS

Components	Indicators	Measurement
Intent	<i>Does the MFI have a stated commitment to its social mission, its target market and development objectives?</i>	
	<ul style="list-style-type: none"> ▪ Mission and Social Goals ▪ Governance 	<ul style="list-style-type: none"> ▪ Explicit Social Mission ▪ Target Market ▪ Development Objectives
Strategies and Systems	<i>How effectively is the MFI meeting its social goals for its clients?</i>	
	<ul style="list-style-type: none"> ▪ Range of Products and Services ▪ Training on Social Performance ▪ Staff Performance Appraisal and Incentives ▪ Market Research on Clients ▪ Measuring Client Retention ▪ Poverty Assessment 	<ul style="list-style-type: none"> ▪ Credit, savings, leasing, etc. ▪ Staff trained to achieve social mission ▪ Staff incentives tied to social performance goals ▪ Up to date Market Research ▪ Client exit rates ▪ Use of poverty measurement tools to track poverty of clients
Policies and Compliance	<i>How concerned is the MFI with client rights and fair treatment?</i>	
	<ul style="list-style-type: none"> ▪ Social Responsibility to Clients ▪ Transparency on Cost of Services to Clients ▪ Social Responsibility to Staff ▪ Social Responsibility to Community ▪ Social Responsibility to Environment 	<ul style="list-style-type: none"> ▪ Adherence to minimum standards for client protection ▪ Publicly disclosed interest rates ▪ A human resource policy that promotes staff retention ▪ Policy of Social Responsibility to the Community ▪ Policy of Environmental Responsibility for its operations
Achievement of Social Objectives	<i>How committed is the MFI to serving the more marginalized members of society?</i>	
	<ul style="list-style-type: none"> ▪ Geographic Outreach ▪ Women Outreach ▪ Client Outreach ▪ Employment ▪ Children in School ▪ Poor and very poor clients at entry ▪ Clients in Poverty after 3/5 years ▪ Clients out of Poverty after 3/5 years 	<ul style="list-style-type: none"> ▪ Urban, rural and peri-urban areas ▪ % of Women Clients ▪ # of total clients ▪ # of jobs created ▪ School attendance ▪ Client poverty assessment ▪ Measurements of clients' poverty status on entry ▪ Measurements of clients' poverty status upon exit

Source: Mix Social Performance

Additional trends relevant to UNHCR programming objectives

Two additional performance indicators are of interest specifically for UNHCR, which are available in Focus, under the output “Access to Financial Services Facilitated”:

- ☐ # PoC participating in community-based group savings / loans / insurance schemes.
This performance indicator aims to show the extent to which PoC have access to and use non-formal financial services.
- ☐ # PoC clients in national microfinance institutions or banks.
This performance indicator aims to show the extent to which PoC have access to formal financial providers, with or without UNHCR direct assistance.

In addition, a new impact indicator is available in Focus, to demonstrate both the impact of UNHCR’s efforts to enhance PoC access to financial services, and the openness of the host country to having PoC access local and national financial services:

- ☐ % PoC using banking services (e.g. savings, loans, transfers – in banks or microfinance institutions).

Checklist for Monitoring and Reporting

- ☐ Indicators are results based and focus on the financial and social performance of the partner MFI, rather than project activities.
- ☐ Indicators help evaluate the achievement of targets set out in agreements.
- ☐ Indicators are easily collected and analyzed by project staff on a regular basis.
- ☐ The results of trend analysis are communicated to the MFI and used to take corrective measures when needed.

EVALUATION AND AUDITS

FORMAL EVALUATIONS

Ratio analysis should be integrated into the final project evaluation to ensure the most systematic and objective assessment possible. In addition, the results achieved should be assessed relative to lessons from programme design, implementation and management arrangements and effectiveness of partnerships, and should reflect the strategic justification for the future role of UNHCR in the microfinance sector. The results of the evaluation should be used to make necessary adjustments at the project level, to inform institutional policy and practice at the global level, and to feed into global and regional level workshops.

GUIDELINES FOR EXTERNAL AUDITS

All UNHCR implementing partners are required to undergo an external review of their financial statements, records, transactions, and operations to ensure accountability for the use of funds. This requires regular audits that conform to UNHCR's operational guidelines.

Few external auditors have direct experience with microfinance and understand how MFI portfolio risks and management techniques differ from those of conventional banks. An audit of the financial statements of an MFI, without assessing the health of its loan portfolio, will give an incomplete picture of its financial viability. Therefore it is important to ensure that a portfolio review is included as part of the audit terms of reference.

If the implementing partner is a multi-service NGO that provides non-financial services such as training, marketing, health or other community development services in addition to financing, the microfinance operations should be segregated out from the other services, to give an accurate picture of the microfinance performance. This will require a separate presentation of the microfinance operations by the auditor, in the form of a note to the financial statements along with a segregated income statement. Wherever possible, multi-year financial statements should be presented for current and prior years to allow for trend analysis.

In addition to the basic parameters of the audit noted above, it will be important that the auditor provides basic information to allow for the full assessment of the portfolio. Such information, in the notes section of the audit, should include:

- **Loan loss provisions and write-offs** – what is the MFI’s provisioning policy? Is it appropriate given the local conditions? Has the MFI experienced significant write offs that would indicate a problem with client repayments not reflected in the non-performing loans calculation?
- **Interest accrual** – does the MFI record interest on loans before it is actually received, which could overstate its revenue?
- **Donated revenue** – does the MFI record donations as operating income thereby overstating its earned revenue?
- **Liabilities** – what are the terms of the MFI’s debt funding? To what extent is the MFI being subsidized by below market interest rates?
- **Client satisfaction** – at what frequency do clients take repeat loans?

For more detailed information on auditing of MFIs, including sample TORs, accounting and auditing standards, and illustrative audit reports, see CGAP’s ***Handbook on External Audits of Microfinance Institutions***.¹⁵

Checklist for Evaluation and Follow Up

- ☐ Narrative and social and financial reports are monitored on a regular basis.
- ☐ Performance is reviewed and analyzed against agreed upon targets and benchmarks in line with industry standards.
- ☐ Ongoing implementation adjustments are made based on information from monitoring.
- ☐ Annual audits are performed of implementing partners according to industry standards.
- ☐ Internal and external evaluations are undertaken.
- ☐ Lessons learned are reviewed and adjustments made to programming accordingly, and fed into organization policy and global lessons learnt.

15 CGAP. External Audits of Microfinance Institutions: A Handbook, Technical Series No. 3 December 1998.

TOOLS

MARKET ASSESSMENT GUIDELINES

Identifying an Appropriate Microfinance Intervention

Is the legal and regulatory environment conducive?

Review national poverty assessments and development strategy documents, and meet with key industry stakeholders to assess trends, government policies and laws that may affect the provision of services to refugee populations. Key stakeholders include:

- Government departments and related authorities, including central banks;
 - Donor agencies;
 - Financial institutions, including other microfinance relief agencies;
 - The ILO – whether through their regional expert teams or national staff;
 - Credit rating agencies;
 - UN Security Officers.
-
- What is the current situation of the target population: size, location, status, e.g. urban, camp based, internally displaced, refugees, post conflict, protracted, etc.?
 - What are the current employment opportunities for PoCs (e.g. formal, informal, self employment, wage based)?
 - What is the level of unemployment of the target population?
 - Are there any laws prohibiting refugees and/or stateless persons from participating in local lending schemes?
 - Are there particular health and or safety concerns that could affect the use of financial services among the target population?

Is there adequate demand for microfinance?

Use individual interviews and focus group discussions to identify the target population's specific financing needs. This will ideally be done in the context of a broader livelihood assessment which will identify different socio-economic or "wealth" groups within the refugee population. Questions should focus on assessing economic strategies used within households to interact with the broader market system in their current situation, as well as before they were displaced (this will indicate their former capacity and credit history).

Before the conflict/displacement:

- What did you do to earn money?
- For how many years did you work in this activity?
- Were you able to do this work all year round?
- Did you also work at something else? If so, what?
- Was anyone else helping you in your business? Who? How many?
- Were you employing anyone? How many employees?
- Did you ever borrow money for your economic activity? From whom?
- How much did you borrow and for how long?
- How did you have to repay? Monthly? Weekly? Daily?
- What percentage interest did you pay?
- If you made money from your economic activity, how did you use and/or invest it?
- Did you participate in RoSCAs (Rotating Savings and Credit Associations or groups)? In credit unions?

During current displacement:

- What do you do to earn money?
- What are your expenses?
- Think of events in your life when you need lump sums of cash, what are these expenses for?
- Do you have expenses related to emergencies? What are they?

- Have you tried borrowing money? Why? Why not?
- If you could borrow money, would you?
- If yes, from whom?
- How much would you borrow?
- How much time would you need to repay the loan?
- How much would you be willing to pay each month?

Once the different socio-economic or “wealth” groups within the population of concern have been identified, a demand calculation should be made based on the population size, average household members, and the number of family members that are income-earners for each of the identified wealth groups.

- What types of economic activities are being undertaken and how do they differ between men and women from different wealth groups?
- Do some households have sufficient cash flow to repay potential loans? And do these households belong to similar wealth groups i.e. the “economically active poor”, and/or the “better off”?
- Do these individuals/household members have sufficient skills and resources to manage credit productively? If not, which additional skills are needed?
- What types of services that are most needed among the target population (e.g. savings, credit, insurance, remittances, etc.)?

Gender Sensitive Inquiry

It is critical when assessing potential demand to try and get an understanding of how the economic, social, legal and cultural environment might affect women’s access to and use of microfinance services.

- What are the cultural perceptions regarding women’s roles in economic and financial spheres?
- What are the greatest needs in terms of self-employment or enterprise development and financing requirements for women?
- Do women possess legal rights to jointly own household assets such as farm equipment and livestock, etc.?
- Are there any requirements that restrict women’s access to formal financial services? For example: Do women need the consent or guarantee of male family members in order to get a loan?
- Are there cultural and/or legal barriers to women’s participation in microfinance activities?
- What are the biggest obstacles to women benefiting from traditional microfinance initiatives?

- Is there sufficient population density (numbers of population in a given area) and geographical stability to allow for effective delivery of financial services?

Current Suppliers of Microfinance

Review standard performance data available directly from MFIs or through national or regional level networks to get an indication of the number and relative scale of the major microfinance suppliers in the market, as well as trends in their performance.

- Who are the biggest providers of microfinance in the country?
- Do they serve mainly urban or rural clients?
- Does their client base reflect a poverty focus?
- What percentage of their clients are women?
- What percentage of their clients are refugees?

The above questions will assist in identifying a core group of specialized providers of financing in the market (MFIs, banks, NGOs, Credit Unions) that could be suitable to deliver UNHCR's intervention. Further interviews with these providers will give a clear picture of who their clients are and what products are available to them. (Detailed questions aiming to assess the MFI's by means of key selection criteria are provided in the MFI assessment guidelines tool).

- What are the general financial products that they provide (e.g. consumer loans, microenterprise loans, housing loans, savings products, insurance and money transfer services)?
- How well do they match with expressed demand among the target population? What are the gaps and opportunities?

MFI ASSESSMENT GUIDELINES

Qualitative Criteria For A Potential Fund Managing Agency

Potential for Outreach

Short interviews with key reference persons in the community will help assess the reputation of the MFI. Direct meetings with MFI management will give an indication of the leadership quality and his or her view of serving the population of concern. Review the organization's business plan and vision to get an idea of the long-term strategy of the service provider.

- Does the MFI have a well-defined strategy and clear activities for achieving its goals?
- Are sustainability and outreach well incorporated?
- Does the MFI's approach fit the local context? Is it culturally sensitive?
- Are the objectives in line with improving the lives of the Conflict-Affected Communities' clientele?
- Are the objectives in line with UNHCR's objectives?
- Does the MFI focus on the economically active poor and those who have the capacity to be economically active?

Good Governance

Look into the names of the governing board provided in the application. Check with some informants to see if they are reputable persons. Look into the organizational chart provided of the MFI.

- Does the organization have strong leadership?
- Does it have a well-defined management structure and organizational set-up?
- Is the governing board free of political bias? Look for names of political figures.
- What are the roles and responsibilities of the governing board? Are they clearly laid out?
- How often does the Board meet? Infrequent meetings can be a signal of weak governance.
- Is the board effective in monitoring the executive director? They should be able to hire and fire the managing director according to his/her performance.

- Has the board (or the manager, in case the board does not exist) taken strategic decisions, or does it lack leadership?

Sound Financial Management

- Look for roles and responsibilities of the executive director or managing director. They should be clearly laid out.
- Is there a key person in charge of management and hence accountable for the operations?
- Is there a management and accounting information systems in place? It need not be computerized, however, there should be a consistent process to record the information to provide requested data on a regular basis.
- Does the institution undergo an annual audit?

Social Performance

- How well does the MFI's products meet the market demand? Are they designed specifically for poorer clients in mind?
- Does the MFI have a code of conduct or ethics?
- Does the MFI adhere to accepted norms of client protection? These include clearly disclosed product pricing and terms (i.e. interest rates, fees, etc.), respect of client privacy, client complaint mechanisms, reasonable debt collection mechanisms that avoid any form of coercion or abusive.
- Does it have client protection statement or policy? If so, is it enforced?

Prospects for Financial Sustainability

Review the MFI's key profitability ratios – Return on Assets or Adjusted Return on Assets (ROA or AROA).

- Does the MFI have the financial resources to serve its clients today as well as in the future? Is it performing at an appropriate level given its age and level of development?

Review the MFI's portfolio performance by assessing its Non-Performing Loan Ratio (NPL).

- What is the quality of the MFI's loan portfolio – its main asset?
- Does it meet industry benchmarks for performance?
- Have there been any major changes in this ratio that would indicate a problem?

Review the MFI's efficiency ratios – Operating Expense or Cost Per Client. Compare these ratios to industry benchmark for similar size institutions in the country or region.

Checklist for An External Audit

Qualitative Criteria For Acceptable Audits

- Wherever possible, draw on implementing partners existing audit reports to provide information on the project's performance.
- Ensure that external audits conform to International Standards on Auditing (ISAs) or the country's auditing standards.
- Ensure that the external audit includes a portfolio review in addition to a review of the financial statements and involves auditors visiting representative numbers of branches each year to validate the portfolio quality.
- For multi-service MFI's, request segmented reporting for the microfinance project, if not already provided.
- Ensure that there is a feedback loop in place to take any corrective measures necessary.

Transfer of Ownership Agreement

This Agreement is to be used only when UNHCR and an MFI have agreed that UNHCR will make a financial contribution (in the form of a Grant) towards the MFI's loan capital (Revolving Fund). All other financial or in-kind contributions from UNHCR towards the MFI will be established via a standard sub-agreement, as per UNHCR programming rules and regulations.

STANDARD FORMAT FOR AN AGREEMENT ON THE TRANSFER OF A GRANT ¹⁶

—
*AGREEMENT
BETWEEN*

THE OFFICE OF THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES
(Hereinafter referred to as "UNHCR")

and

the _____
(hereinafter referred to as "the Fund Managing Agency")

(both hereinafter referred to as "the Parties")

WHEREAS this Agreement on the Hand-over of a Grant pertaining to UNHCR Capital Funds, (hereinafter referred to as "this Agreement,") governs the Transfer of Ownership of the Capital Fund (hereinafter referred to as the "Grant") to.....hereinafter referred to as "The Fund Managing Agency";

WHEREAS the Grant is used as a Revolving Fund¹⁷ for lending operations between the Fund Managing Agency and the economic entities (enterprises, institutions, individuals or groups of individuals), aimed at primarily creating economic opportunities for *refugees*;

¹⁶ In certain instances, once the Agreement on Hand Over has been signed by both parties, some form of ratification by or notification to a particular government department may be required. This procedure may be necessary to ensure that there is a legal basis for the Agreement. Further reference is made to UNHCR Manual Chapter 4 Appendix 11.

¹⁷ See definitions section.

returnees / IDPs /and local populations [delete what is not applicable] (hereinafter referred to as “Beneficiaries”);

WHEREAS the recipient¹⁸ of the Grant, has proved its competencies while implementing microfinance in contribution to livelihood creation, and will continue these activities with the aim of providing a sustainable financial service to as many low-income people as possible, in particular the Beneficiaries;

WHEREAS, and according to its mandate, UNHCR has an interest in the sustainability of the programme, thus facilitating the development and strengthening the capacity building of local groups or institutions when such groups constitute viable institutions;

WHEREAS UNHCR, after consultation with other potential co-funders of the project, has decided to hand-over to the Fund Managing Agency the Grant specified in this Agreement;

IT IS HEREBY AGREED BY THE PARTIES:

Art. 1 DURATION

This Agreement shall become effective from the date of signature by both Parties and shall remain in force for four (4) years thereafter or until the date that the Fund Managing Agency has transferred the Grant to another competent organisation as stipulated in Art. 6.02.

Art. 2 VALUE OF THE GRANT

- This Agreement forms an integral part of the sub project commencing onand ending on, with an agreed total value in local currency of:

The UNHCR contribution to the Fund Managing Agency’s Revolving Fund will represent an amount ofin local currency (with applied exchange rate of).

- The disbursement of the UNHCR contribution will be done in one or (preferably) several instalments and subject to the availability of funds available to UNHCR. UNHCR contributions will be conditional to the performance of the Fund Managing

18 The recipient being the Fund Managing Agency

Agency against the minimum thresholds set in Art. 4 of this Agreement. The amount and disbursement schedule of UNHCR contributions for the Revolving Fund will be attached and part of this Agreement.

Art. 3 RESPONSIBILITIES OF THE FUND MANAGING AGENCY

- 3.01 The Fund Managing Agency shall operate the Revolving Fund based on sound micro-finance practices aimed at maintaining the value of and protecting it against inflation and devaluation. To that end, the Fund Managing Agency will charge interest rate, use collaterals or group guarantees, organise the repayment of loans, and ensure that the use of the Revolving Fund allows for the sustainability of the financial services under a sound financial plan.
- 3.02 The Fund Managing Agency will meet all related recurring operating, employee and servicing costs, without affecting the value of the Revolving Fund. The Fund Managing Agency shall therefore make provisions for the payment of interests by the Beneficiaries to meet any immediate costs of maintaining and increasing the value of the assets and all future recurrent costs. Therefore the Fund Managing Agency will not charge any overhead to UNHCR on the value of the Grant.
- 3.03 The Fund Managing Agency shall use the Grant to sustain activities favouring the Beneficiaries, in continuation of the projects for which the Grant was acquired or in associated activities in the project area. In all cases, the Grant shall be used for strictly socio-economic developmental endeavours only.
- 3.04 Failure by the Fund Managing Agency to comply with targets set out in Art. 5 shall result in the termination of UNHCR instalments towards the Revolving Fund. UNHCR shall have the right to terminate the Agreement immediately upon notice to the Fund Managing Agency without any liability for termination charges or any other liability of any kind.
- 3.05 The Fund Managing Agency shall maintain records of the Revolving Fund. Such records will state the date of acquisition, project under which they were originally acquired and the purposes for which they are currently being used, original value, current location or area/zone of operation.
- 3.06 In cases of payment defaults by the Beneficiaries of the project, the Fund Managing Agency will be responsible to take all necessary actions, including referral to the arbitration court, if all other attempts have failed.

- 3.07 The Fund Managing Agency will comply with all applicable laws and regulations existing in the country, and assumes all liabilities or obligations imposed by the laws or regulations with respect to its performance under this Agreement.

Art. 4 PERFORMANCE TABLE [fill in as applicable]

[This table provides an example of the minimum thresholds of performance against targets, agreed between UNHCR and the Fund Managing Agency that should be reached to ensure basic compliance of the Fund Managing Agency with the agreement.]

TABLE 4: SAMPLE TARGET TABLE		
Indicator	Year 1 of Project	
	Target	Minimum Threshold
Number of Refugees	1,000	750
% Women Refugees	90%	75%
Non-Performing Loans ³⁰	<5%	<10%
ROA/AROA	5%	-5%
Operating Expense Ratio	15%	20%

If justified and agreed between UNHCR and the Fund Managing Agency, amendments to the performance targets will be made at the start of each subsequent year of the project, and will be attached and part of this Agreement.

Art. 5 REPORTING

- 5.01 The Fund Managing Agency will provide UNHCR with a narrative and financial report on the status of the programme every three months from the effective date of this agreement and for the duration of the project period.
- 5.02 The report shall include information on the institutional development, the Beneficiaries and the financial indicators. If applicable, the format of the report should be standardised, to the extent possible, with reporting format requested by other co-funders of the project. The established targets shall be reported on as follows:

Indicator	Baseline	Performance Target	Actual	Minimum Threshold	Explanation
Number of Refugees	0	1,000		750	
% Women Refugees	0	90%		75%	
Non-Performing Loans ³⁰	0	<5%		<10%	
ROA/AROA	-10%	5%		-5%	
Operating Expense Ratio	15%	15%		20%	

- 5.03 During the period defined under Art. 1, UNHCR will keep a monitoring role. The Fund Managing Agency will ensure that UNHCR has access, on request, to all financial documents related to the utilisation of the Revolving Fund, if required, and will facilitate UNHCR's visit of project sites. Should there be a need to conduct audit or inspection, co-operation will be provided by the Fund Managing Agency.

Art. 6 HAND-OVER or CLOSURE BY THE FUND MANAGING AGENCY

- 6.01 By the end of the project period established under Art. 1, and subject to the performance of the Fund Managing Agency, the conditions for the Transfer of Ownership set out under this Agreement will be lifted, under the understanding that the Fund Managing Agency continues to use the funds for the same purpose as applied to this Agreement.

UNHCR shall transfer to the Fund Managing Agency UNHCR's entire right of ownership and use of the Revolving Fund. This will, when applicable, include funds which are still in the form of payments due from the loans provided to the Beneficiaries according to the list attached to this Agreement. The total amount of the Revolving Fund that is transferred for ownership is equal to..... (equivalent to USD with the applied exchange rate of).

- 6.02 If the Fund Managing Agency has to or decides to close the programme prior to reaching the project's sustainability or prior to reaching the term of this Agreement as stated in Art. 1, without transferring it to another organisation, it will, in consultation with other co-funders, return the balance of the remaining UNHCR given assets (accounts, receivables, outstanding loans) to UNHCR.
- 6.03 After a minimum of 2 years preferably, the Fund Managing Agency, in consultation with UNHCR and other co-funders of the project when applicable, can decide to hand-over the project to another competent organisation/ association with the necessary expertise. In such case, UNHCR shall receive a notification, at least 60 days in advance, of the proposed effective date of hand-over. The Fund Managing Agency will then turn over the Grant and the reporting responsibilities to this new organisation provided the new organisation has prior agreed in writing to sign an Agreement with UNHCR, stating that it takes over rights and responsibilities of the Fund Managing Agency under this Agreement, with any necessary adjustments if necessary.

Art. 7 PRIVILEGES AND IMMUNITIES

Nothing in this Agreement shall be deemed a waiver, expressed or implied, of any privileges or immunities enjoyed by UNHCR.

Art. 8 ARBITRATION

Any dispute, controversy or claim arising between the Parties out of, or in relation to, this Agreement, or any breach, termination or invalidity thereof, shall be, unless settled amicably through negotiations, submitted to arbitration in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law. The place of arbitration shall be Geneva. Any award rendered pursuant to this article shall be accepted as a final adjudication by the Parties to which they hereby agree to be bound.

Art. 9 GENERAL PROVISIONS

- UNHCR shall not be liable for any costs, direct or indirect, or for any levies, duties or taxes that may arise from or in connection with the use and management of the Revolving Fund.
- UNHCR shall not be liable to indemnify any third party in respect of any claim, debt, damage or demand rising out of the implementation of this Agreement.
- This Agreement has no effect on those provisions of the Sub-Project Agreement [enter code/s]..... not related to the loan funds.

SIGNED IN _____ ORIGINALS BY THE DULY AUTHORIZED SIGNATORIES ON BEHALF
OF THE FOLLOWING PARTIES:

FOR UNHCR

Signature: _____

Name: _____

Title: _____

Place: _____

Date: _____

FOR THE FUND MANAGING AGENCY

Signature: _____

Name: _____

Title: _____

Place: _____

Date: _____

ANNEXES

GLOSSARY OF TERMS

Active clients:	Active savers (or depositors) and / or borrowers of a microfinance institution.
Active loan portfolio:	The total amount loaned out less the total amount of repaid loans; i.e., all money that is on the street, or owed to the institution in the form of loans at a certain point in time. It can also be defined as an outstanding principal balance of all of the MFI's outstanding loans (including current, delinquent and restructured loans, but not loans that have been written off). It does not include the amount of interest receivable.
Arrears:	The amount of loan principal (or principal plus interest) that has become due and has not been received by the microfinance institution.
Assessment:	Assessments include instrumental appraisals, rating exercises, and other activities that may determine how well an institution performs financially, operationally, and managerially. It may also be used to determine the demand for microfinance, identifying potential clients, implementers and partners.
Balance sheet:	Financial Statement that presents a summary of an institution's financial position at a given point in time. The balance sheet is a stock statement, which is a snapshot of the MFI at a moment in time. The statement reflects what the MFI owns, what is owed to it (assets such as cash, investments, loan portfolio, or fixed assets), what it owes others (liabilities - such as loans from banks, accounts payable), and the difference between the two (equity or net assets). The balance sheet shows the net worth of an institution at that moment.

Benchmarking:	Peer group benchmarking puts performance measurements in context by comparing an institution (e.g., an MFI) with similar institutions based on a common factor, such as region, size or methodology. A benchmark can also refer to the standard against which all similar institutions are compared.
Capacity building:	The financial, personnel and institutional development of an organisation, local authority or local entity.
Cash assistance:	Monetary payments provided on a medium- to long-term basis to targeted individuals or households in the most vulnerable categories, usually when the right to work or to gain formal income is limited, or when they are chronically unable to cover their basic needs.
Cash grants:	A one-off monetary payment made to allow individuals to recapitalize their business, or start a business, or stabilize incomes, or acquire housing. Cash grants are also given in the context of repatriation. Cash grants require clear eligibility criteria and disbursement procedures.
Collateral:	Assets pledged to secure the repayment of a loan. Traditionally, these include property, land, machinery and other fixed assets. Alternative forms of collateral include group guarantees, compulsory savings, nominal (household) assets and personal guarantors.
Collateral substitutes:	Non-tangible or non-traditional assets that will reassure lenders that a loan will be repaid. Examples include group guarantees, jewelry or assets of high personal value to the borrower.
Compulsory savings:	Savings that an MFI's clients are required to maintain as a condition of an existing or future loan. Obligatory savings may be either held by the MFI as a deposit, or be held outside the MFI. In the latter case, the MFI facilitates savings accounts for its clients.
Cost per Client:	Total personnel and administrative expenses/ average number of loans in a set period.

Credit union:	A non-profit, common-bond cooperative financial institution, usually saving-based, owned and run by its members. Members pool their funds to make loans to one another. The volunteer board that runs each credit union is elected by the members. Most credit unions are organised to serve people in a particular community, group or groups of employees, or members of an organisation or association. Members may deposit money with the organisation, or borrow from it, or both.
Creditworthiness:	Ability and willingness to repay debt, as demonstrated by the financial background of a person, his or her business performance and personal credit history, in the present and the past. Sometimes determined by an external analysis of the business.
Default:	This occurs when a borrower cannot or will not repay his/her loan and the MFI no longer expects to receive repayment, (although it keeps trying).
Delinquency:	Failure to make loan payments in time.
Depth of outreach:	The poverty level of clients reached by a microfinance institution.
Disbursement:	The actual transfer of financial resources. The disbursement of a microloan reflects the transfer of the loan amount from the lending institution to the borrower.
Effective interest rate:	Interest rate that includes the effects of interest, fees, commissions, calculation method and other loan requirements (e.g. forced savings) on the total cost of the loan. It is always expressed as declining balance interest calculation - either monthly or annual, includes the effects of compounding and represents the financial costs to the borrower.
Employment:	A broad term that includes all types of work in the formal and informal sector, including casual, waged, self and partial employment.

Enterprise development services:	Non-financial services for micro-entrepreneurs, including business training, marketing and technology services, skills development, and sub-sector analysis.
Evaluation:	A systematic analysis and review, normally by an outside consultant, of the impact, effectiveness, efficiency and relevance of operational activities when compared to the organisation's objectives or the durable solution envisaged.
Financial cooperatives:	Member-owned financial institutions that have no external shareholders, with each member having the right to one vote in the organisation. Members may deposit money with the cooperative or borrow from it, or both.
Financial self-sufficiency (FSS):	Total operating revenues divided by financial expenses, loan losses and total administrative costs, adjusted for low-interest loans and inflation. In a microfinance context, an institution is financially self-sufficient when it has enough revenue to pay for all administrative costs, loan losses, losses and commercial borrowings. The purpose of most of these adjustments is to model how well the MFI could cover its costs if its operations were unsubsidized and it were funding its expansion with commercial-cost liabilities.
Fixed assets:	Long-lived property of a micro entrepreneur or firm that is used in that business' production (i.e., a sewing machine is a fixed asset for a micro-entrepreneur who makes clothing). Fixed-asset lending is a type of microfinance product that disburses loans for the purpose of purchasing these fixed assets, which aid in production volume and income.
Formal financial institutions:	Financial institutions that are subject to not only general laws and regulations but also to specific banking regulation and supervision.
Grant:	Any amount of money that is given, usually to fulfil a specific purpose or need, with no expectation of return.

Implementing Partner:	Specialized microfinance provider responsible for managing a microfinance programme.
Individuals with Specific Needs	Individuals who are dependent on others' assistance for their basic daily survival activities. Their dependence is due to causes such as age (infants, unaccompanied minors or elderly persons alone), physical condition (disability, chronic sickness, bedridden, severe malnutrition, pregnancy), psychological condition or severe social or cultural conditions with no access to income generation.
Governance:	Process by which a board of directors, through management, guides an institution in fulfilling its corporate mission and protects its assets.
Impact assessment:	Process to identify whether a programme has had the desired outcome. The assessment determines to what extent the desired changes can be attributed to the programme's activities.
Income statement:	The income statement is also known as the profit and loss statement. It is a flow statement that summarizes all financial activity during a stated period of time, usually a month, quarter or year. It displays all revenues and expenses for a stated period of time. The bottom line of an income statement is the net income (or net profit or surplus) for the period.
Institutional viability:	Achieving self-sufficiency of the implementing agency by ensuring that it is led, governed and staffed by dedicated and qualified people. It includes aspects of financial self-sufficiency, operational and financial systems and procedures, human resource, management and leadership, asset quality, governance.
Interest:	The charge for borrowing money. The amount a borrower pays in addition to the principal of a loan to compensate the lender for the use of the money.
Interest rate:	The expression of interest as a percentage of the principal.

Job placement centres:	Places which link people searching for work with employers seeking to recruit staff.
Loan products:	Types of loans with particular sets of terms and conditions, and often for a particular use. Within the field of microfinance, loan products include working capital loans, fixed-asset (investment) lending and home improvement loans. Microfinance institutions often distinguish between individual and group lending programmes, because these are targeted at different client groups.
Localisation:	A hand-over process whereby a microfinance institution is independently registered under local laws, and the management of the programme transferred to local staff members.
Market rate of interest:	Interest rates that are charged for the similar loan products by other (usually commercial) providers of financial services in the market.
Microcredit:	A part of the field of microfinance, microcredit is the provision of credit services to low-income entrepreneurs. Microcredit can also refer to the actual microloan.
Microenterprise:	A small-scale business, usually, but not necessarily, in the informal sector. Micro-enterprises often employ less than 5 people and can be based out of the home. Micro-enterprise is often the sole source of family income but can also act as a supplement to other forms of income. Examples of micro-enterprises include small retail kiosks, sewing workshops, carpentry shops, market stalls, and farms.
Microentrepreneur:	Owner/ proprietor of a microenterprise.
Microfinance:	The provision of financial services to people with low incomes. Microfinance is broader than micro-credit, encompassing services such as micro-savings, micro-insurance, payment and remittance transfer services.

Microfinance institution (MFI):	An organisation that offers microfinance services. Many MFIs are non-governmental organisations committed to assisting some sector of the low income population, however, MFIs can be registered in different legal and organisational forms - such as banks, credit unions, finance companies and financial cooperatives.
Microinsurance	The protection of low-income people against specific perils in exchange for regular monetary payments (premiums) proportionate to the likelihood and cost of the risk involved. As with all insurance, risk pooling under microinsurance attempts to allow many individuals or groups to pool risks and redistribute the costs of the risky events within the pool.
Microloan:	A loan imparted by a microfinance institution to a microentrepreneur, to be used in the development of the borrower's small business. Microloans are used for working capital in the purchase of raw materials and goods for the microenterprise, as capital for construction, or in the purchase of fixed assets that aid in production, among other things.
Microsavings	Deposit services that allow people to store small amounts of money for future use, often without minimum balance requirements. Savings accounts allow households to save small amounts of money to meet unexpected expenses and plan for future investments such as education and old age.
Monitoring:	Ongoing review to ensure that inputs, work schedules and agreed actions are proceeding according to plans and budgetary requirements.
Non-Performing Loans:	A loan that is in default or close to being in default.
Operational income, expense, profit or loss:	Income stemming from an institution's core business as opposed to non-operational items, such as donations, that are not produced by the business activity and that may not recur. Operational income is also commonly called Operating revenue.

Operating Expense Ratio:	A measure of what it costs to service a loan compared to the income that it brings in.
Operational self-sufficiency (OSS):	This measures how well an MFI can cover its costs through operating revenues. In addition to operating expenses, it is recommended that financial expenses and loan loss provision expenses be included in this calculation, as they are a normal (and significant) operating cost. If the resulting figure is greater than 100, the organisation under evaluation is considered to be operationally self-sufficient. In microfinance, operationally sustainable institutions are able to cover administrative costs with client revenues.
Outreach:	Breadth or scale of outreach refers to the number of clients reached by a microfinance programme. Depth of outreach refers to the poverty level of its clientele.
Outstanding Balance:	Amount remaining to be paid. An outstanding loan is a loan that has been disbursed but neither paid in full nor written off. Outstanding portfolio is the unpaid principal balance of all loans owed to the lender.
Portfolio outstanding:	Measurement of the total outstanding balance of loans with payments past due (not late payments or payments not yet due) - divided by the total outstanding portfolio. A more rigorous manner of assessing portfolio quality than arrears rate, portfolio past due/delinquent portfolio.
Rapid appraisal:	A type of quick assessment using focus groups (8-15 members) to determine roughly the characteristics of clients and their potential use of microfinance services.
Regulation and supervision:	The creation and enforcement of a set of rules and standards for financial institutions, including MFIs. These rules are usually set by a country's central bank or superintendency of banks, or by other banking agencies with the purpose to protect the rights of depositors and integrity of the country's financial systems.
Remittances	The transfer of money by a foreign worker located outside abroad to relatives in his or her home country.

Repayment capacity:	The ability to pay back a loan.
Repayment rate:	The historic rate of loan recovery, measuring the amount of payments received compared to the amount due.
Return on Assets:	An indicator of how profitable an MFI is relative to its total assets. Gives an idea as to how efficient management is at using its assets to generate earnings.
Return on Equity:	The amount of net income returned as a percentage of shareholders equity. Measures an MFI's profitability by revealing how much profit it generates with the money shareholders have invested.
Revolving fund:	A credit fund that is renewed as its money is lent, where loans are repaid so that new loans can be made with the same fund. Theoretically, the fund retains a balance at all times.
Rotating savings and credit associations (ROSCAs):	Informal financial service suppliers. Members of these associations contribute a previously agreed sum of money into a fund (commonly referred to as the pot) at every meeting. This pooled amount is awarded randomly to one member at each meeting based on some previously agreed methodology. After every member has received their due share of the fund, the cycle starts again.
Self-reliance:	The ability of an individual, a household or a community to meet its essential needs and to enjoy social and economic rights in a sustainable manner and with dignity.
Semiformal institutions:	Institutions that are formal in the sense that they are registered entities subject to all relevant general laws, including commercial law, but informal insofar as they are, with few exceptions, not subject to bank regulation and supervision.
Small enterprises:	Enterprises that employ between 6 and 50 people.

Social capital:	The assets of community cohesiveness viewed as part of the development process. Social capital refers to institutions, relationships and norms that shape the quality and quantity of a society's social interactions.
Social Performance:	The effective translation of an institution's social mission into practice in line with accepted social values that relate to serving larger numbers of poor and excluded people; improving the quality and appropriateness of financial services; creating benefits for clients; and improving social responsibility of an MFI.
Supply:	The quantity of a resource, good or service that lenders or businesses are willing to produce and sell during a specific time period.
Sustainability:	An organisation's ability to cover costs. There are varying degrees of sustainability, ranging from not sustainable to financially sustainable (see Financial Self-Sufficiency and Operational Self-Sufficiency).
Targeting:	Focusing exclusively on specific types of clients or activities.
Trend analysis:	The comparison of performance indicators over time.
Village banking:	A non-formal lending methodology in which clients - typically women - form groups of approximately 10-30 individuals that are autonomously responsible for leadership, bylaws, bookkeeping, fund management and loan supervision. The group pools funds to use for business loans, savings, and mutual support, and members cross-guarantee individual loans.
Working capital:	The difference between current assets and current liabilities, excluding short-term debt.
Write-off:	The elimination of an un-collectable loan amount from the loan portfolio in the balance sheet.

RESOURCE LIST

GUIDELINES/MANUALS

- Livelihood Programming in UNHCR Operations: Operational Guidelines, OSTs, United Nations High Commissioner for Refugees, 2011.
- Assessing and Managing Social Performance in Microfinance, IFAD, 2006.
- Building Livelihoods: A Field Manual for Practitioners in Humanitarian Settings. Women's Refugee Commission (WRC), 2009.
- Minimum Economic Recovery Standards, Second Edition. The SEEP Network. November 2010.
- Partnership: An Operations Management Handbook for UNHCR's Partners. United Nations High Commissioner for Refugees, 2003.

WEBSITES

- Consultative Group to Assist the Poor (CGAP) <http://www.cgap.org>
- Microfinance Gateway <http://www.microfinancegateway.org>
- The Mix Market <http://www.mixmarket.org>
- The SEEP Network <http://www.seepnetwork.org>

OTHER MICROFINANCE TOOLS

- External Audit of Microfinance Institutions: A Handbook. CGAP Technical Tool No. 3. Washington, D.C.: CGAP, 1998, www.cgap.org
- http://www.ilo.org/public/libdoc/ilo/2002/102B09_320_engl.pdf
- The FRAME Tool: Framework for Reporting, Analysis, Monitoring, and Evaluation. SEEP, November 2008. <http://www.seepnetwork.org/Pages/Frame.aspx>
- Measuring Results of Microfinance Institutions: Minimum Indicators that Donors and Investors Should Track, A Technical Guide, CGAP, June 2009, www.cgap.org

- Performance-Based Agreements: Incorporating Performance-Based Elements into Standard Loan and Grant Agreements: A Technical Guide. CGAP, 2010.www.cgap.org
- Pocket Guide to the Microfinance Reporting Standards Measuring Financial Performance of Microfinance Institutions, The SEEP Network, October 2010. http://www.seepnetwork.org/PDFfiles/SEEP_MFRS_Pocket_Guide_ENG_FINAL_web.pdf

