



Statelessness and Microfinance

Can Microfinance Improve the Living Conditions of the Stateless?

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Abstract

This paper studies how microfinance can operate in stateless communities and whether it can have a positive long-term impact on such a clientele. First, the principles of microfinance are presented and linked to the needs of the stateless. Then a project realised in Bhutanese refugee camps is described as a good practice example and its relevance for other stateless groups is discussed. It is concluded that microfinance programmes may need specific forms tailored for various cases but that these projects would very likely be feasible and can be expected to bring positive, long-term effects.

Keywords

statelessness – microfinance – poverty alleviation – Bidoon – Roma – Bhutanese refugees

1 Introduction

Microfinance has long been heralded as a means through which the poor can grow themselves out of poverty. It generally does not include any formal identification procedure or enforceable contract so, at first glance, it could be a perfect option for the stateless. The present study aims to analyse this initial assumption in detail. This is done by first identifying the general features of microfinance for the stateless and then dealing with particular cases where

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such projects have been, or could be, put in operation. An example of a successful microfinance project in Nepal is presented to illustrate the limitations and advantages of microfinance for the stateless. Similar programmes for two other stateless groups, European Roma and Kuwaiti Bidoon, are then sketched out and theoretically discussed. Finally, the potential effect of these projects and their role in the political struggle of the stateless are considered.

2 What is Microfinance?

Unlike humanitarian aid, microfinance requires the participants to repay the funds provided along with any accruing interest. From this perspective, it supports those in the community who have clear ideas on how to productively utilise funds to build their enterprise or bridge temporary gaps in their income. In essence it is traditional finance but on a *micro* or small scale. The poor are often denied access to traditional banking due to their lack of formal collateral or due to the small size of the sums involved. Microfinance utilises alternative forms of collateral and monitoring to counteract these poverty-specific problems and reduce the administrative costs.

Microfinance substitutes traditional material collateral for one consisting of human relationships, trust and social position. It also introduces individual dynamic incentives, conditioning access to higher credits on good performance at repaying the initial loans. Furthermore, individual loans are sometimes linked to each other to create interdependence among borrowers. All these factors comprise an alternative collateral that makes defaulting costly for debtors and serves as an incentive to repay the funds, just as a material collateral would.

Since social relations play an important role in the alternative collateral, their strengthening is encouraged by the design of microcredit. Customers are organised in groups that are first trained together and then continue to meet regularly as they obtain, invest, and repay their loans. Microfinance Institutions (MFI) take advantage of information no bank could ever dream of having - that only neighbours or members of small close communities can have about each other. This serves to screen out any undesirable borrowers. Moreover, the risk of careless or deliberate default is reduced by the presence of social sanctions within the community. Another feature that reduces hazardous behaviour is borrowing predominantly for women, who have been shown to be more conservative investors. These factors greatly reduce the cost of screening and monitoring which traditional banks must engage in to assess the creditworthiness of any potential client. Further cost reductions are enabled by delegating part of the responsibilities to group leaders. This, together with high repayment

rates, allows MFI's to offer financial services at fair conditions, even to the poorest.¹

3 Relevance for the Stateless

The alternative collateral that forms the basis for microfinance may provide a means for stateless communities to gain access to the financial sector. Exclusion from formal employment, a lack of identification, and little to no collateral means that many stateless are unable to set up a bank account or borrow funds.² Instead, the only credit available is from informal loan sharks who are unregulated and charge extortionate rates. One time liquidity shortages can then develop into crippling long term liabilities. Moreover, without access to financial services, the stateless are restricted in their ability to invest and grow. Since microfinance does not require traditional collateral and depends on the principle of group dynamics the stateless status of a community should not, and in some instances has not, prevented stateless groups from gaining access to credit.

Microfinance cannot resolve the issue of statelessness, but could serve to mitigate some of its consequences. Furthermore, weekly meetings and the election of leaders within the community could foster socialisation among the stateless communities and act as a forum for individuals to share their experiences.

Microfinance empowers communities and enables them to establish their own businesses. With access to credit, individuals can adopt a long term perspective and build up their own future as small entrepreneurs rather than rely on an uncertain informal job. The empowerment and education of stateless individuals, through microfinance, would not have purely monetary benefits but could aid the entire community in their advocacy for greater rights.

The feasibility of any microfinance programme depends on a number of criteria. The UN practical guide for the use of microfinance in UNHCR operations identifies the essential conditions for microfinance.³ These conditions are briefly outlined below.

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- 1 For further information on microfinance see B Armendariz & J Morduch, 'The Economics of Microfinance' (2nd edn, MIT 2010) or MS Robinson 'The Microfinance Revolution: Sustainable Finance for the Poor' (World Bank 2001).
 - 2 K Southwick & M Lynch, 'Nationality Rights for All: A Progress Report and Global Survey on Statelessness' (2009) Refugees International.
 - 3 UNHCR, 'Investing in Solutions: A Practical Guide for the Use of Microfinance in UNHCR Operations' (UNHCR 2011) 22.

- *Relative Political Stability*: clients must be able to earn an income without the constant threat of harassment.
- *Cash Economy*: market exchanges must be based on cash rather than barter. A barter system would make repayments to the lending institution more difficult.
- *Relative Population Stability*: the group in question must be expected to remain in the same locale for the foreseeable future (12-18 months) in order to ensure repayment.
- *Economic Activity & Demand for Microfinance*: informal lending and savings is already taking place and the group in question is already operating some small microenterprises.

4 Functional Example: Bhutanese Refugee Camps

A number of stateless communities would appear to match these criteria and some of them already have access to microfinance. One particularly successful example of an MFI targeting a stateless community is the Bhutanese Refugee Women Forum (BRFW).

The Bhutanese in Nepal are the descendants of Nepalese emigrants to Bhutan. In the late 1980's and early 1990's the Bhutanese government began to pursue more restrictive policies with regard to the Nepalese inhabiting Southern parts of the country. This resulted in a large proportion of the Nepalese in Bhutan no longer being considered citizens of the country they resided in. Ultimately many were forced to flee and currently 38,100 dwell in refugee camps in Nepal.⁴ They are not considered citizens by any state.

The BRWF, with the aid of the UNHCR and the Lutheran World Federation, seek to improve the lives of the camp inhabitants. These activities encompass 4 key areas; self-reliance, vocational training, social awareness building, and loan provision. The Loan programme is, of course, the key area of interest for this paper, however, it is worth noting how the other activities of the BRWF all contribute to the human capital available in the camp.⁵ Human capital is vital to the success of any MFI as they rely on the success of participant's businesses and participants are often entrusted with a great deal of autonomy in terms of the running of certain meetings.

Centres are established consisting of 30 participants. From this pool of 30 individuals 6 groups of 5 are formed. Training concerning the management of a small business is provided to all participants. Group members are

4 Nini Gurung 'Refugee Resettlement Referral from Nepal Reaches Six-figure Mark' 26 April 2013 <<http://www.unhcr.org/517a77df9.html>> accessed 24 October 2013.

5 Further details of these activities can be found at the websites of BRWF <<http://www.brwf.org/>>

encouraged to support one another and, in the case one group member is unable to pay, the entire group is denied access to further funds. Exceptions are made in extreme circumstances but in general the groups are encouraged to provide financial aid to struggling members.⁶

The programme was initially focused solely on women, however, recently the remit has been extended to include males. It is also worth noting that the programme includes near-by communities up to 5 km outside the camps. Nepal is one of the poorest countries in the world and the exclusion of local Nepalese settlements could have created tension. As it is, relations between the camps and the locals are quite amicable.⁷

Despite the precarious nature of its clientele, the BRWF has been remarkably successful, boasting repayment rates of over 91% throughout its operation. Examples of successful enterprises are barbershops, snack stands, and handi-craft production. The high repayment rate is particularly surprising given that the programme focuses on the most impoverished households. In order to participate in the programme, households must meet certain eligibility criteria, which limits access to more well-off households. Single-headed families, children-headed families, the elderly, those who suffer from chronic illness, and large families are all examples of households which meet the eligibility criteria.⁸

5 Other Prospective Contexts: Stateless Roma and the Bidoon

For the most part, the conditions in Nepal are highly suited to the application of a microfinance programme. However, the potential for microfinance to help alleviate the poverty induced by statelessness can be applied to a number of other cases.

For example, European Roma could benefit from microfinance. In Serbia, the country with the largest stateless Roma population in Europe, they cannot be formally employed nor are they eligible for social support. Their options are thus reduced to seasonal or informal jobs, collecting scrap materials, or living off social assistance of those members of their families who are eligible for it.⁹ These limitations result in prevailing poverty. 75% of Serbian stateless cannot

6 Interview with Mr. Nar Bahadur Subedi of the BRWF (19 August 2013).

7 Ibid.

8 Ibid.

9 Interview with Ms. Milijana Trifković of Praxis, a Serbian NGO focused on human rights (30 July 2013).

afford alimentation and basic hygienic needs, 80% of them have no money for any other expenses; moreover, 54% inhabit illegal settlements.¹⁰

The application of a microfinance programme in a more developed country provides a number of obstacles. The bureaucracy involved in establishing a formal enterprise often requires official documentation and identification which forces stateless participants outside the formal economy. Furthermore, due to the higher capital requirements in Serbia compared to poorer countries, loans would have to be significantly larger. The Kiútprogram in Hungary targeted non-stateless Roma and found that the increased bureaucracy and competition in the market resulted in a loss of 30% of invested capital in the initial periods of the programme.¹¹ Moreover, the necessary focus on the informal economy poses the problem of how feasible it is to establish a MFI that would finance businesses circumventing the legal and tax system of the country.

The Bidoon in Kuwait are another stateless community who may benefit from access to microfinance.¹² The conditions faced by the Bidoon pose a number of challenges to the operation of any such programme. The majority of the population of Kuwait ‘treat Bidoon as a lower grade of human being’.¹³ Discrimination is widespread and harassment is commonplace. Unemployment is prevalent among the Bidoon community. Street vendors selling vegetables informally are often arrested and fined. Even when the Bidoon find formal employment in the private sector they are unprotected by employment laws. Therefore, they are frequently abused by business owners; forced to work long hours for low pay. On occasion, the Bidoon are able to establish their own formal enterprises, however the business must be registered under the name of a Kuwaiti citizen. This leaves the Bidoon open to abuse.¹⁴

The constraints placed on the entrepreneurial activities of the Bidoon pose a number of challenges to the implementation of a microfinance programme.

10 G Pudar ‘Persons at Risk of Statelessness in Serbia’ (UNHCR 2011).

11 ‘Social Microcredit, Self-Employment and Roma Inclusion: A Way Out - Lessons of the Kiútprogram, an Inclusive Social Microcredit Project’ (Kiútprogram 2012). <<http://www.kiutprogram.hu/index.php/en/documents-f>> accessed 24 October 2013.

12 For more detailed information on the Bidoon see Sebastian Kohn ‘Stateless in Kuwait: Who are the Bidoon?’ 24 March 2011 <<http://www.opensocietyfoundations.org/voices/stateless-kuwait-who-are-bidoon>> accessed 24 October 2013 or Dana Affleck ‘Being ‘Without’: Who Are the Bidoon of Kuwait?’ 9 July 2012 <<http://rightnow.org.au/topics/asylum-seekers/being-%E2%80%9Cwithout%E2%80%9D-%E2%80%93-who-are-the-bidoon-of-kuwait/>> accessed 24 October 2013.

13 Interview with a member of the Bidoon community, who wishes to remain anonymous (14 August 2013).

14 Ibid.

If a Bidoon establishes an informal business they are subject to harassment while if they establish a formal enterprise using a Kuwaiti sponsor they risk the national appropriating the profits. A potential solution to this conundrum can be found in Islamic microfinance.

Since the Bidoon are unable to own any part of an enterprise, the microfinance institution would retain legal ownership. From a legal perspective the client would appear as an employee of the lending institution. For many of the potential enterprises the expected profits may be quite modest and the requirement to persistently share profits with the lending organisation may deter possible clients. In order to overcome this problem the repayments could follow the principle of *Murabaha*. This principle sets out a cost plus repayment structure. The microfinance institution purchases the goods required by the entrepreneur, and the repayments cover this initial cost plus a mark-up which will serve to cover the lender's costs and margins.¹⁵

The use of a legal loophole raises the question of how politically feasible it would be to establish such a microfinance programme. However, the Roma and Bidoon are only two extreme examples. For many stateless communities in less developed countries, microfinance is very feasible and often already in practice. There is some evidence suggesting that the Nubians in Kenya, the Hill Tribes in Thailand, and the stateless in the Ivory Coast all already have a degree of access to microfinance programmes.

6 A Promising Means of Development

The idea that world stateless communities could benefit from microfinance is very intuitive. At first glance, informal financial services promoting regular savings and small investments seem to perfectly fit their needs. The lack of documentation itself is of minor concern for the operation of microfinance. The unenforceability of the debts due to a lack of traditional capital is overcome by the creation of alternative capital. A much greater challenge is a significant gap (in terms of economic development and bureaucratic level) between the stateless and the majority population, which is present particularly in the cases of European Roma and Kuwaiti Bidoon. This is a challenge for two reasons; i) it would be necessary to establish a programme which would in some way circumvent the law or promote the informal economy and ii)

15 H Ahmed, 'Financing micro enterprises: an analytical study of Islamic microfinance institutions' (2002) 9(2) *Islamic Economic Studies* 27.

it is very difficult for the poor to access the market designed for the rich due to high costs.

It appears that microfinance, while clearly not being a panacea, can play an important role in the improvement of the living conditions of the stateless. Their economic empowerment can also lead to better awareness of their cause, more education and less isolation with respect to the majority. Finally, this process could eventually lead to more political self-confidence and engagement, which is on the other hand unthinkable in case of desolate people who struggle to survive.

This whole process of positive evolution, initiated by microfinance, might only be a wishful theory. In any case, however, microfinance can be expected to bring alleviation of poverty like it has in many different contexts all over the world. This development goal is parallel to that of resolving the issue legally because it will remain even when the stateless are eventually granted citizenship. We therefore conclude that it is desirable to start making steps in this direction and support microfinance programmes for those stateless groups who have not been able to access it yet.