Access to Microcredit Opportunities for Returned Migrants during and beyond IOM Support

A Study on Microcredit in the AVRR Context

65 YEARS
International Organization for Migration

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

IOM is committed to the principle that humane and orderly migration benefits migrants and society. As an intergovernmental body, IOM acts with its partners in the international community to: assist in meeting the operational challenges of migration; advance understanding of migration issues; encourage social and economic development through migration; and uphold the human dignity and well-being of migrants.

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This publication has been produced with the financial support of the Swiss State Secretariat for Migration (SEM).

43_16

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Acknowledgements

IOM Bern wishes to acknowledge the support of the Swiss State Secretariat for Migration (SEM) for making this publication possible.

IOM Bern would also like to thank the focal points of IOM Teheran, IOM Ulaanbaatar, IOM Lagos, IOM Dakar and IOM Colombo who completed the questionnaires and interviewed the partner institutions while providing their inputs to improve the document.

The editorial team wishes to thank Angela Schweizer and Franziska Burgener for their support with the completion of the study and all the colleagues from IOM Bern who provided their support and input.

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Abbreviations

ACEP	Alliance de Crédit et d'Epargne pour la Production
AVRR	Assisted Voluntary Return and Reintegration
BOC	Bank of Ceylon
BOI	Bank of Industry
BCEAO	Central Bank of West African States
CHF	Swiss Franc
CFA	West African Franc
CMS	Crédit Mutuel du Sénégal
CNCAS	Caisse Nationale de Crédit Agricole du Sénégal
CRIB	Credit Information Bureau
DS	Development Solutions
GBF	Growing Businesses Foundation
GDP	Gross Domestic Product
GTZ	German Technical Cooperation Agency
IRR	Iranian Rial
KYC	Know Your Customer
LAPO	Lift above Poverty Organization
LKR	Sri Lanka Rupee
LOLC	Lanka Orix Leasing Company
MBSL	Merchant Bank of Sri Lanka
MFB	Microfinance Bank
MFI	Microfinance Institution
MIFA	Microfinance Initiative for Asia
MNT	Mongolian Togrog
NBFI	Non-Bank Financial Institution
NGN	Nigerian Naira
NGO	Non-Governmental Organization
PAMECAS	Partenariat pour la Mobilisation de l'Epargne et le Crédit au Sénégal
PAMP	Poverty Alleviation Microfinance Project
PB	People's Bank
RAS	Reintegration Assistance from Switzerland
RIF	Return Information Fund
SBS	Samurdhi Bank Societies
SCC	Savings and Credit Cooperative
SEAP	Self-Reliance Economic Advancement Programme
SEM	State Secretariat for Migration
TCC	Thrift and Credit Cooperative Societies
TFC	The Finance Company PLC
UNDP	United Nations Development Programme
USD	United States Dollar
VFM	Vision Fund Mongolia

1. Introduction

The International Organization for Migration (IOM) is an intergovernmental organization operating worldwide in the field of migration. Its headquarters are in Geneva. IOM's work is concerned with all aspects of migration (research, counselling, technical cooperation, emergencies, project and programme implementation). As the organization's representation to the Swiss government, IOM Bern is the contact and coordination office in Switzerland for national and international questions related to migration.

The main purpose of IOM Bern is to support the Swiss State Secretariat for Migration (SEM) at all levels of voluntary return assistance and with specific migration-related projects in countries of origin. Various assisted voluntary return and reintegration (AVRR) programmes, financed by the SEM and administered by IOM, provide reintegration support for migrants residing under the asylum law in Switzerland who opt to return voluntarily to their country of origin. The object of this financial assistance upon return is to facilitate the reintegration process of the returned migrants by giving them the means to undertake a personal project, mainly in the areas of business, accommodation, medical support, or vocational training.

The majority of returned migrants assisted by IOM Bern opt for business start-up packages, as microbusinesses address returnees' immediate need to have an income-generating activity. IOM assists them in the development of a business plan and monitors the use of their reintegration grant. In some instances, IOM also links up returned migrants with the wider business environment surrounding their projects (such as with business training for returnees in Nigeria). Often, returnees use their reintegration grant as their major or only start-up source for business, but most among them also need additional means in order to successfully implement their business.

A systematic monitoring conducted by IOM Bern in 2012 and 2013 showed that 65 per cent of the interviewed returnees had invested additional financial resources into their project (Amez-Droz/Hollinger, 2013:15). Concurrently, problems encountered with businesses were in 28 per cent of the cases due to a lack of additional funds for expansion (Amez-Droz/Hollinger, 2013:17). A similar situation was reported from an evaluation of the UK-funded AVRR programme for Afghanistan. In 2008 and 2009, interviews with returnees showed that only 64 per cent of businesses remained operational once the initial investments were depleted. Respondents highlighted the lack of financial backing and liquidity as the main obstacles to a successful business (Altai Consulting, 2009:28). Due to not having sufficient savings or property to rely on (as these were often used to support their emigration) and faced with a limited time frame to receive assistance, those business owners needed to return a near-immediate profit in order to be able to sustain their activity.

In reaction to the above-mentioned evaluations' findings, the present study aims to explore possibilities of financial support to returnees' businesses beyond those offered by IOM assistance. Microcredit, conceptualized as a means for starting and developing small businesses and alleviate poverty, emerges as an interesting option in this context. Advantageously, microfinance institutions (MFI) frequently offer services such as trainings or mentoring that could support returnees beyond the reintegration services provided by IOM.

On the one hand, microfinance funds have recently become sought-after investment objects as they are profitable and perceived as ethically correct and sustainable assets (Peters, 2015). On the other hand, microcredits have a number of known and widely discussed problems, which make them a contentious means for development. One of the most salient problems is the high interest rates, the risk of which appears to inhibit many potential clients. At the same time migrants seem to experience particular difficulties in accessing microcredits, as they have neither a stable life nor collateral to offer the creditor. Hence, a better understanding of the current conditions of returnees' access to microcredit in the countries of return is needed.

The purpose of this study is to gather information about specific opportunities and challenges for returnees who wish to apply for a microcredit in five target countries: The Islamic Republic of Iran, Mongolia, the Federal Republic of Nigeria, the Republic of Senegal and the Democratic Socialist Republic of Sri Lanka. These countries were chosen because of: (a) their high number of voluntary returns under AVRR programmes from Switzerland; (b) their high relevance to Switzerland, which aims to promote voluntary returns to these countries; or (c) reported difficulties to start a solid business with the granted amount.

The study is based on a desk review (by IOM Bern) and interviews with selected microfinance service providers in the countries of return (by IOM missions in the five target countries). For each country, two to seven microfinance institutions were interviewed, and a more detailed interview was conducted with two to three among each of those countries. The study for each country will (a) quantitatively and qualitatively evaluate the availability of microcredit services; (b) identify various service providers including their protocols and access conditions; and (c) identify gaps by comparing services available to non-migrant populations and to returnees, respectively.

As a first step, these findings will be essential in informing IOM and other stakeholders about the availability of microcredit opportunities and their accessibility to returnees in the five target countries. The question of whether microcredit can be promoted as complement or even as an alternative to an IOM reintegration grant is of essential interest in this context. As a second step, the findings will allow the formulation of recommendations on improving microcredit/credit opportunities for returnees.

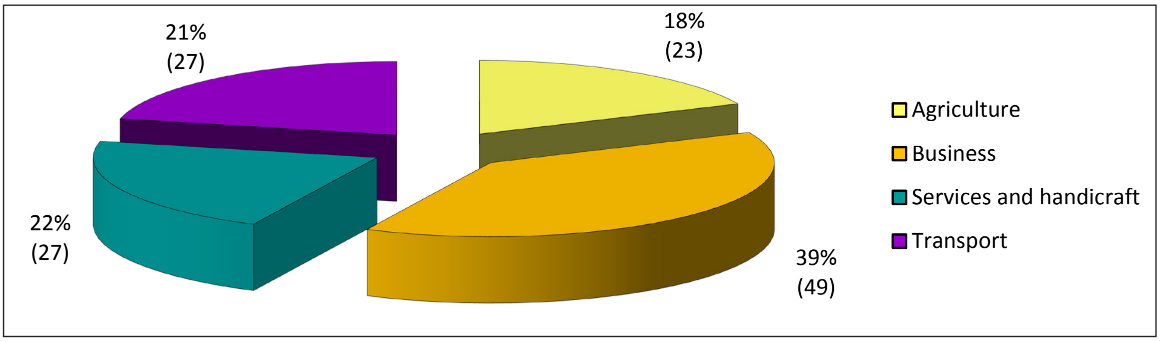
2. Background

In 2014, 1,053 persons returned in the framework of an AVRR programme from Switzerland to their country of origin (IOM Bern, 2015a:3). With 749 returnees, Reintegration Assistance from Switzerland (RAS) was the most important programme. (IOM Bern, 2015a:5). RAS is effective in all five target countries: the Islamic Republic of Iran, Mongolia, Nigeria, Senegal and Sri Lanka. Nigeria has in addition a special country programme with different benefits.

Participants in the RAS programme receive either CHF 1,000 in cash and CHF 3,000 (CHF 5,000 for hardship cases) under the form of a grant to carry out a reintegration project for asylum-seekers who stayed more than 3 months in Switzerland; or CHF 500 in cash and CHF 3,000 as reintegration grant for asylum-seekers who stayed less than 3 months in Switzerland.

Participants in the Nigeria country programme receive USD 1,000 in cash and USD 6,000 in kind for a reintegration project. All returnees to Nigeria further have the possibility to participate in a business or vocational training where they can learn about business ideas, marketing and sales techniques, record-keeping, legal issues and managing cash flows.

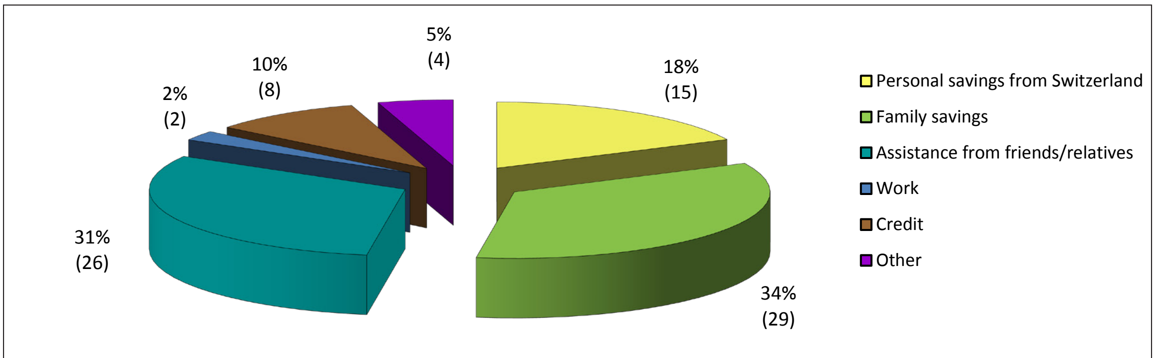
Figure 1. Types of business-related reintegration projects



Source: Amez-Droz/Hollinger, 2013:13.

Between October 2012 and October 2013, IOM Bern conducted a systematic monitoring of all migrants that returned with the RAS programme. The results showed that 84 per cent of the contacted returnees used their reintegration grant to start a business:[1] 39 per cent of them started a commercial venture, 22 per cent chose services or handicraft, 21 per cent realized transportation businesses, and 18 per cent engaged themselves in agriculture. 75 per cent of the returnees chose to start their own business, 18 per cent invested their grant into a family business, and 7 per cent partnered with someone (Amez-Droz/Hollinger, 2013:14–15).

Figure 2. Other sources of financing for reintegration projects



Source: Amez-Droz/Hollinger, 2013:14.

[1] The rest of the interviewed returnees used their reintegration grants as follows: 11 per cent for housing, 3 per cent for medical support, 2 per cent for education (Amez-Droz/Hollinger, 2013:12).

Nine months after their return, 56 per cent of the beneficiaries declared themselves satisfied with their current living situation and 89 per cent stated that the reintegration grant was of great use to them (Amez-Droz/Hollinger, 2013:9–10). Forty-six per cent of the interviewed returnees reported that they earned a stable income with their business and 38 per cent had increased their income since the start (Amez-Droz/Hollinger, 2013:16).

Nonetheless, the evaluation showed that in most cases the reintegration grant was insufficient to start a business: 65 per cent of returnees had invested additional funds into their project (Amez-Droz, 2013:15). A majority of the interviewed returnees planned to expand their project in the future (Amez-Droz/Hollinger, 2013:12) but concurrently 28 per cent of the returnees who stated they had problems with their businesses also stated that they wished to expand but did not have sufficient financial resources to do so (Amez-Droz/Hollinger, 2013:17).

Despite the need for additional funds, only about 10 per cent of the interviewed returnees had obtained a formal bank loan. Most of the additional means originated from informal sources of financing such as family (34%) and friends (31%) (Amez-Droz/Hollinger, 2013:15). The present study aims to find out if one of the reasons for the high use of informal lending is due to the lack of access to microcredits.

3. Country Profiles

In the following chapters, we present the information concerning the microfinance situation in each of the five target countries. A basic fact sheet with the most direct and relevant information is provided at the beginning of each chapter. Following the fact sheet, an overview of the financial market is shown, containing details on the microcredit situation, the type of microfinance institutions and their geographical outreach. A more detailed description of some of the surveyed institutions follows. Each chapter is completed with examples illustrating the costs of microcredit and a country-specific conclusion.

The information available on microcredit opportunities varies considerably between the five target countries. It depends on how well microcredits are established in a certain country, how much literature is available, and on the accessibility of interview partners to IOM colleagues in the countries of return. The structure of the chapters is thus the same, with the level of detail of the contents differing for each country.

The information provided about the microfinance institutions under study is presented according to the best knowledge of the authors. The study is designed to give a general picture of the situation. As the market develops and several institutions offer different kinds of credit schemes, conditions and offers might diverge from the facts presented here. To access the latest up-to-date information about specific credit schemes, please contact the corresponding microfinance institutions. Their contact information is provided in every chapter's initial fact sheet.

3.1. ISLAMIC REPUBLIC OF IRAN

3.1.1. Fact Sheet

		Bank Keshavarzi (Agriculture Bank)	Melli Bank (BMI)	Saderat Bank	Tejarat Bank	Mellat Bank
INSTITUTION	**Address**	No 247, Patrice Lumumba St. Jalal-al-Ahmad Exp. Way, Tehran	Bank Melli Iran Central Depts., Ferdowsi Ave., Tehran	Level 22, Sepehr Building, between Bahar and Shahid Mofateh St., Somayeh St., Tehran	No 19, 21th St., Argentina Sq., Tehran	276 Taleghani Ave., Tehran
	Website	www.bki.ir/en/	www.bmi.ir/En/default.aspx	www.bsi.ir/en/Pages/HomePage.aspx	http://tejaratbank.ir/web_directory/1428-Home.html	http://n.bankmellat.ir/default.aspx
	Contact	+98 21 81301 +98 21 882870 info@bki.ir	+98 21 64140 pr@bmi.ir	+98 21 88836275 +98 21 88828478 info@bsi.ir	+98 21 88100315 info@tejaratbank.ir	+98 21 82961
	Type of institution	Bank	Bank	Bank	Bank	Bank
CREDIT	**Amount available**	IRR 10 million–150 million (CHF 330–4,950)				
	Duration	1–5 years				
	Interest rate	4–6% per year				
	Collateral	For every tranche of IRR 50 million				
	Deposit	No				
	Own capital	Yes – depending on credit amount and business plan				
	Guarantor	Yes – for every tranche of IRR 50 million				
	Other requirements	1. Bank account 2. Iranian citizenship 3. Age: 18–50 4. No employee insurance 5. No microcredit before				

		Bank Keshavarzi (Agriculture Bank)	Melli Bank (BMI)	Saderat Bank	Tejarat Bank	Mellat Bank
APPLICATION	**Documents needed**	1. Personal ID 2. Criminal record 3. Business plan 4. Educational / vocational training certificate 5. Application for / or business registration 6. Invoice / pro-forma for tools and equipment to start the business				
	Steps to be taken	Submit documents either at the bank or online at: www.mashaghelkhanegi.ir/moteghazi/Mostaghel.aspx (code needed, will be given at a bank counter)				
	Application length	3–6 months				
	Fees	None				
FEATURES	**Services**	Consultation				
	Attitude towards returnees	-	Neutral – every Iranian citizen can apply	-	Neutral – every Iranian citizen can apply	-

3.1.2. Country and Financial Market Overview

In terms of economy and population, the Islamic Republic of Iran is one of the most important countries in the Middle East and North Africa region. The Islamic Republic of Iran has about 80 million inhabitants and a very young population, as approximately 60 per cent of the people are under the age of 30. About 70 per cent of the population live in urban areas (World Bank, 2015a). The GDP per capita (USD 7,217 in 2012 according to UN Data, 2015a) in the Islamic Republic of Iran has grown significantly in the past 30 years and the country has made considerable progress in human development (UNDP, 2015). Nonetheless, the country faces significant challenges in its labour market: unofficial sources estimate the unemployment rate to be around 20 per cent or more among women and young people and it is estimated that some 150,000 persons with a tertiary education leave the country every year. In 2010, the World Bank estimated that less than 1 per cent of the population were living below the poverty line of USD 1.25 per day, but that a large proportion of the people were living close to it (World Bank, 2015a).

Besides a large oil and gas industry, the economy of the Islamic Republic of Iran is characterized by small-scale agriculture and small service businesses. In 2003, 85 per cent of the registered enterprises were individual and informal enterprises. Almost 80 per cent of the registered enterprises had only up to two workers (Bakhtiari, 2009:105). The Iranian State continues to play a key role in the economy, especially in manufacturing and financial services. The financial sector is dominated by public banks. This is due to historical reasons: After the Iranian revolution in 1979, all banks were nationalized and the Government took control of the financial sector. Economic liberalization only occurred in the following decades: In 1996, the first private non-bank financial institutions (NBFI) started operating and in 2000, a new banking law allowed the establishment of private banks (Seibel, 2004:6).

Iranian banking laws follow the rules for Islamic banking. One of the main features of Islamic banking is the prohibition on paying and receiving interest. Islamic financial institutions have therefore developed specific financial products in line with those regulations.[2] In literature, so-called Qard Hasan contracts are mainly mentioned in connection with microcredits. Qard Hasan contracts are interest-free loans, originally based on the Quranic principle of charity. Although interest-free, banks are allowed to charge a service fee to cover the administrative and transaction costs of such loans (Bakhtiari, 2009:101).

Only a small part of the Iranian population uses microcredits. Instead of microcredits, many Iranians use informal lending if they need money. Informal lending has a long tradition in the Islamic Republic of Iran, from small-scale short-term loans among relatives and friends to loans from non-bank institutions as so called Qard Hasan funds (Seibel, 2004:7–8). Qard Hasan funds

[2] For an overview over different kinds of financial contracts, see for example Bakhtiari (2009:100).

can be established in various forms: in the traditional form as informal funds among community members (a group of individuals comes together and they make regular cyclical contributions which are given as a lump sum to alternating members of the group) or as formal Qard Hasan funds funded by public institutions as for example mosques. Such funds are usually financed by charity donations or by the savings of their members. They have to be registered as NGOs and are allowed to demand an annual fee for their services (Bakhtiari, 2009:101–102).

Qard Hasan funds are widely spread in the Islamic Republic of Iran: in 2008, about 7,000 formal Qard Hasan funds existed. Their number grew significantly in the past 40 years and the amount of informal funds is expected to be much higher (Bakhtiari, 2009:102). As mentioned above, Qard Hasan loans should be interest-free, but this does not always seem to be case: Annual interest rates of up to 22 per cent are reported (Seibel, 2004:8).

Due to the restricted banking sector, good market opportunities exist for informal financial intermediaries. As a result, some Qard Hasan funds have extended their activities and developed into NBFI that demand relatively high charges for their services. One of the largest such NBFI in the Islamic Republic of Iran is the Bonyad Credit Institution, with an extensive branch network and a very active deposit and lending business. Another one is the Imam Khomeini Emdad Foundation, which helps the poor with loans and grants for income-generating activities and the poorest with charity (Seibel, 2004:7–9).

3.1.3. Institution Description

As mentioned above, the State has a far-reaching influence over the Iranian banking sector. This includes the regulation of microcredits: the Iranian Central Bank determines the conditions for granting microcredits and selects the institutions that may offer them. At the time of the interviews, the following institutions were eligible to offer microcredits:

Table 1. Overview of microcredit providers in the Islamic Republic of Iran

Government owned	Private owned
Keshavarzi Bank	Mellat Bank
Maskan Bank	Refah e Kargaran
Melli Bank	Saderat Bank
Post Bank	Tejarat Bank
Sepah Bank	-

Among them, Melli Bank and Saderat Bank are the biggest. In 2001, it was estimated that Melli and Saderat Bank had each a share of about 20 per cent of all the bank units in the country. Keshavarzi Bank was estimated to have a share of about 10 per cent (Seibel, 2004:6).

As the general conditions for microcredits are determined by the Central Bank, all banks and official financial institutions basically offer the same conditions. But as each institution can define additional requirements, a candidate for a microcredit should speak directly to a branch to know whether he or she is eligible or not. The procedures and guidelines for checking an application are considered internal and none of the interviewed financial institutions was willing to share them.

Basically, every Iranian citizen between the age of 18 and 50 years who is not covered by employee insurance and who has never had a microcredit previously can apply for a microcredit. No minimal duration of residence is required and all the interviewed banks declared that they would not make a difference between returnees and non-migrants. All interviewed banks require that the applicant opens a bank account at one of their branches. Depending on the credit amount and on the business plan, a candidate is asked to invest a certain amount of own capital into his or her business. Group credits are available for cooperatives. A microcredit is given only once in a lifetime and cannot be renewed.

Microcredits are available from the amounts of IRR 10 million (CHF 330)[3] up to IRR 150 million (CHF 4,950). A collateral in the value of 100 to 150 per cent is required for every tranche of IRR 50 million (CHF 1,650). For microcredits below IRR 50 million (CHF 1,650) usually no collateral is needed: two guarantors and a bank account are enough. The normal duration of a microcredit is one to five years with a service fee of 4 to 6 per cent per year.

A returnee who wants to apply for a microcredit needs to present himself or herself at the local bank branch. There, he or she can submit the required documents or can receive a code to apply online (www.mashaghelkhanegi.ir/moteghazi/Mostaghel.aspx, same website for all banks). The following documents must be submitted: Personal ID card, criminal record, business plan, educational/vocational training certificates, application for/or business registration, invoice or pro-forma for tools and equipment. Thereafter, the bank performs a credit check, which takes usually three to six months. A short overview of three banks and their microcredit programmes is given in the following paragraphs.

Melli Bank

Melli Bank was founded in 1928 as the Islamic Republic of Iran's first commercial bank. Until 1950, when the Iranian Central Bank (Bank Markazi) was founded, Melli Bank performed central bank functions such as issuing bank notes and supervising the country's banking system. Today, Melli Bank operates 3,300 agencies across the country and is one of the biggest banks in the Islamic Republic of Iran (Melli Bank, 2011).

Melli Bank has about 300,000 customers with microcredits. Its microcredits are available to men and women who have an academic degree or a certificate of vocational training. Special target groups are poor women and part-time students. Most of Melli Bank's microcredit clients use the money to start a commercial activity or a business. Melli bank prefers businesses in the agricultural and industrial sectors. The use of the microcredits is monitored by experts who visit the client's businesses. The main reason for refusing an application for a microcredit is the lack of required documents.

Tejarat Bank

Tejarat Bank has 2,000 branches all over the country and is one of Iran's biggest privately owned banks. It was founded in 1887 in England under the name of The East Modern Bank. In 1888, it got a banking licence for the Islamic Republic of Iran and was assigned to Bank Shahanshahi. It was replaced by Bank Bazargani in 1952. In execution of the Bank Nationalizing Act that was approved in 1979, Bank Bazargani was merged with different other commercial banks to Tejarat Bank (Tejarat Bank, 2015).

Tejarat Bank has currently about 20,000 customers with microcredits. Its microcredits are available to men and women, especially targeting women who are head of a household. Most of Tejarat Bank's microcredits are used for businesses, the bank prefers them to be in the agricultural sector. The use of the microcredit is monitored by annual reports of the beneficiaries. The main reasons for refusing a microcredit are the lack of required documents and the age of the applicant.

Keshavarzi Bank (Agriculture Bank)

Keshavarzi Bank was formed from two agricultural banks that were merged as a consequence of the Bank Nationalizing Act in 1979. Its goal is to provide funds for business activities in the agricultural sector. In the beginning, it was entirely government-funded and started offering banking services only in the 1990s in order to become self-financing. It now has 1,200 branches nationwide, almost 500 of them are in rural areas (Bank Keshavarzi, 2015a).

Keshavarzi Bank declares social responsibility and (rural) development as important elements of its philosophy. As a consequence, it offers special credit schemes for socially disadvantaged populations. Their website mentions credit schemes for households headed by women, rural girls, newly released prisoners, university graduates, green projects and rural development (Bank Keshavarzi, 2015b).

[3] Exchange rate used: IRR 100,000 = CHF 3.30.

General remarks

Experience shows that the application for a microcredit involves long and bureaucratic processes in the Islamic Republic of Iran and at the time of the interviews it seemed to be difficult for micro-entrepreneurs to get a positive response at all. On the condition that a returnee has a good guarantor or an active bank account, a normal loan could be an alternative. To get a normal loan, a returnee has to open a bank account. After 6 to 12 months, he or she can ask for a credit of maximum of 50 per cent of the deposit. As alternative to banks, a returnee might also ask NBFIs or Qard Hasan funds for a microcredit. But it is not advised, as some of them demand very high service fees.

So far, no IOM returnee in the Islamic Republic of Iran has shown interest to apply for a microcredit or for a loan. But IOM Teheran would be willing to offer assistance during the application process.

3.1.4. Examples

Credit Sum	IRR 50,000,000 (CHF 1,650)	
Interest rate	5% p.a.	5% p.a.
Duration	1 year	3 years
Total amount owed	IRR 51,364,489 (CHF 1,695)	IRR 53,947,615 (CHF 1,780)
Monthly payment	IRR 4,280,374 (CHF 141)	IRR 1,498,545 (CHF 49)

Credit Sum	IRR 120,000,000 (CHF 3,960)	
Interest rate	5% p.a.	5% p.a.
Duration	3 years	5 years
Total amount owed	IRR 129,474,280 (CHF 4,273)	IRR 135,872,880 (CHF 4,484)
Monthly payment	IRR 3,596,510 (CHF 119)	IRR 2,264,550 (CHF 75)

3.1.5. Conclusion

In the Islamic Republic of Iran, only a small percentage of the population uses microcredits. The microcredit market is regulated by the State and at the time of the interviews, 14 banks were licensed to provide microcredits. The accessibility conditions are defined by the State, although every individual bank branch has the right to add additional eligibility criteria. The possession of an academic degree or a vocational certificate and the availability of collateral for any credit above IRR 50 million (CHF 1,650) are systematically requested. Microcredits for individuals are prevalent. Many microcredit schemes focus on vulnerable groups such as women who are head of a household and businesses in agriculture. Persons aged 50 or more cannot apply for a microcredit.

Collateral requirements are high, since the collateral must cover 100 per cent or more of the credit sum. Exceptions are microcredits of under IRR 50 million (CHF 1,650) where the collateral can be replaced by two guarantors. Service fees are moderate with 4 to 6 per cent per year. As much as is known, microcredit providers offer counselling but no training or credit insurance.

The application procedure for a microcredit is long (three to six months) and bureaucratic. For micro-entrepreneurs it seems to be difficult to get a positive response at all. But as different branches of the same financial institution may apply different criteria in granting credits, an individual might try to apply at different branches in order to increase his or her chances. As an alternative to banks, a returnee might ask NBFIs or Qard Hasan funds for a microcredit. But the advice is against doing so, as some of them demand very high service fees.

Considering the high collateral requirements and the bureaucratic application procedure, it seems to be challenging for returnees to get a microcredit in the Islamic Republic of Iran. On the condition that a returnee has a good guarantor or an active bank account, a normal loan could be a viable alternative to a microcredit. None of the interviewed banks considered returnees to be a special group and therefore did not have any comments on them.

3.2. MONGOLIA

3.2.1. Fact Sheet

		Development Solutions	Vision Fund Mongolia	Khan Bank	XacBank
INSTITUTION	**Address**	No. 19, Building 32, Peace Ave. 3rd Khoroo, Bayanzurkh District, Ulaanbaatar	Peace Tower, 7th Floor, 3rf Khoroo, Chengeltei District, Ulaanbaatar	Seoul Street 25, PO BOX 192, 14250 Ulaanbaatar	XacBank HQ Bldg, Ulaanbaatar 14200, Post Branch 20A, PO Box 72
	Website	www.dsmongolia.org	www.visionfundmongolia.org	www.khanbank.com/en/1	www.xacbank.mn/
	Contact	+976 7722 4007 +976 7722 4008 batorshikh@dsmongolia.org	+976 7012 9771 savoeung_chann@wvi.org	+976 11 332333	+976 11 318185 info@xacbank.mn
	Type of institution	NGO	Non-bank financial institution	Bank	Bank
CREDIT	**Amount available**	Average is MNT 8 mio (CHF 3,888)	MNT 50,000–20 mio (CHF 24–9,720) for individuals, Max. MNT 2 mio (CHF 972) for groups	MNT 50,000–15 mio (CHF 24–7,290)	Up to MNT 30 mio (CHF 14,580)
	Duration	3 years	24 months (average is 8–12 months)	Up to 24 months	3 to 36 months
	Interest rate	2.3–2.5% per month (27.6–30% annually)	2.6% per month (31.2% annually)	1.8–2.5% per month (21.6–30% annually)	1.6–2.5% per month (19.2–30% annually)
	Collateral	Collateral of approx. 30%	Individuals: Yes Groups: No	Yes. Loan guarantee fund available that covers max. 60% of the loan	Yes. Loan guarantee fund available that covers max. 60% of the loan
	Deposit	No	Yes – 10%	-	-
	Own capital	Yes – approx. 30%	Yes	-	-
	Guarantor	No, just reference (next of kin)	Individuals: Yes Groups: No	-	-
	Other requirements	3 months minimum residence	-	-	Business active for more than 3 months
APPLICATION	**Documents needed**	1. ID Card 2. Application Form	1. ID Card 2. Residence certificate 3. Business license 4. Bank statement 5. Credit history 6. Business income and expenditure	1. ID Card 2. Passport photo 3. Business license 4. Documentation of income and collateral 5. Reference of outstanding debt	1. Client application form 2. 1 photo 3. ID Card 4. Copies of ownership certificates 5. Business license 6. Record book 7. Register of inventories 8. Receipt of tax payment 9. Residence certificate
	Steps to be taken	Complete training programme	1. Meet with Loan Officer to assess business 2. Wait for approval from Credit	-	-
	Application length	2 months	3–5days	-	-
	Fees	None	Administration fee: 0.1%	Application fee: MNT 5,000, Commission: 1% or MNT 1.5 mio	Application fee: MNT 1,000–5,000, Commission: 0.5–1%

		Development Solutions	Vision Fund Mongolia	Khan Bank	XacBank
FEATURES	Services	Extensive support and counselling	Business training	-	-
	Attitude towards returnees	Positive, have experience with returnees	Rather positive, would like to check possibilities with IOM	-	-

3.2.2. Country and Financial Market Overview

In 2011, Mongolia had an estimated population of 2.8 million. About 70 per cent of the population lived in cities, with 1.2 million persons living in the capital Ulaanbaatar. With a population density of less than two persons per square kilometre, Mongolia is one of the most sparsely populated countries in the world (UN Data, 2015b).

Mongolia had a GDP per capita of USD 3,673 in 2012 (UN Data, 2015b). Its economy is centred on agriculture and mining, with about 60 per cent of its GDP being generated in Ulaanbaatar (MIFA, 2009:2). Mongolia's average annual GDP growth has been significant in the past years (Hansen/ Lkhagvasuren, 2014:1). Due to the strong economic growth, the unemployment rate has been sinking and in January 2014, only 33,236 persons were officially registered as unemployed (NSO, 2014). This corresponds to an unemployment rate of 1.2 per cent. Nonetheless, as recently as in 2012, 29.8 per cent of the Mongolian population were living below poverty line (Lkhagvajav, 2012:4).

In 2008, about 80 per cent of the active businesses registered in Mongolia were very small enterprises with less than 10 employees. Nearly 9 per cent had 10 to 19 employees, and about 10 per cent had 20 to 49 employees. Small and medium enterprises employed about 30 per cent of the working force and accounted for about 40 per cent of the GDP. A 51.2 per cent of small and medium enterprises were active in the wholesale, retail, and household goods sectors, 15.6 per cent offered rental, business advisory or financial services, and 14.3 per cent worked in manufacturing and construction. Larger enterprises exist mainly in urban areas such as Ulaanbaatar, Darkhan, and Erdenet (MIFA, 2009:7).

Following a severe economic crisis in the mid-1990s,[4] the Government of Mongolia, the United Nations Development Programme (UNDP), the Asian Development Bank (ADB) and different NGOs established programmes to promote microcredit services in Mongolia. In the following years, hundreds of non-bank financial institutions (NBFI) and savings and credit cooperatives (SCC) evolved, and a national microcredit regulatory framework was developed (UNDP, 2011; IMF, 2008:28ff). After the conclusion of UNDP's Mongolian microcredit programme in 2001, some of the new NBFIs merged to XacBank, one of Mongolia's biggest commercial banks today (UNDP, 2011). The microcredit market in Mongolia experienced rapid growth in the early 2000s (MIFA, 2009:18).

Nearly every financial institution in Mongolia provides a significant percentage of its services to low-income clients. But few market themselves as microfinance institutions or include poverty or specific microfinance-tailored products into their strategic goals (MIFA, 2009:19). While it was estimated in 2009 that a large portion of the population (79% of households) had access to financing services, the Microfinance Initiative for Asia (MIFA) mentioned in its study that financial institutions still ought to adapt their services specifically to the needs of the rural poor. MIFA mentioned as examples non-collateralized loans, micro-leasing, and mortgage lending (MIFA, 2009:12). In Mongolia, microcredits are traditionally provided as individual loans that are collateralized (MIFA, 2009:21).[5] For 2008, MIFA reported the following figures:

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[4] In 1998, 36 per cent of the Mongolian population and 70 per cent of the herdsmen were living below poverty line. Access to financial services was very limited: 91 per cent of the loans in the banking sector concentrated on the capital Ulaanbaatar. Only 1 per cent of the Mongolian population and 0.5 per cent of the businesses in the informal sector (that comprised a considerable 72 per cent of the total workforce in 1999) had access to loans from commercial banks. Most microcredits were offered by individuals or in pawnshops. (Lkhagvajav, 2012:4–5).

[5] Attanasio et al. explain the preference for individual loans with the Mongolian tradition for nomadic lifestyle that impeded building up social capital outside family structures (2012:7).

Table 2. Analysis of financial institution borrowers in Mongolia in 2008 (own table referring to MIFA, 2009:21)

Average length of loan	7.8 months
Percentage of borrowers below poverty line	7.6%
Average loan outstanding	USD 1,055
Percentage of loans backed by immovable property collateral	80%

Mongolia's microcredit market is highly centralized: In 2009, it was estimated that three banks (the Mongol Post Bank, Khan Bank and XacBank) covered about 70 per cent of the existing market for microcredits and lending for small and medium enterprises (SME). They were dominant both in terms of the number and volume of outstanding loans. In terms of depth of outreach, the two NBFIs Vision Fund and TransCapital dominated the market (MIFA, 2009:19).

In 2012, 14 commercial banks were active in Mongolia (Lkhagvajav, 2012:10). Although they dominate the financial sector in terms of volume,[6] they are largely outnumbered by NBFIs and SCCs: In 2013, 263 NBFIs (219 among them offering loan services) ran their activities in Mongolia. While 232 of them (88%) were based in Ulaanbaatar, the remaining 31 (12%) were running their activities in rural areas (FRC, 2014:45). In the same year, a total of 141 SCCs offered savings and credit services to their members. SCCs' activities are more focused on rural areas than those of commercial banks and NBFIs: Only 57 (40%) of all SCCs were operating in Ulaanbaatar but 84 (60%) in local areas (FRC, 2014:50).[7]

Besides banks, NBFIs and SCCs, NGOs and government projects also provide microcredit services in Mongolia. But with the exception of the Microfinance Development Fund (MDF), they do not have a noteworthy significance (MIFA, 2009:18–19). Informal financial arrangements are still widespread, especially in rural areas (MIFA, 2009:24).

The major challenges for offering microcredit services, especially in rural areas, are the low population density and the huge distances. The monitoring of microcredits as well as offering supporting services like counselling or financial literacy trainings is difficult. Attanasio et al. (2012:8) exemplify these problems in their study about a group lending experiment with XacBank.

The average distance from a village to the nearest province centre – small towns where XacBank's branches and loan officers are based—is 116 kilometres. Because the distance between a village and the nearest paved road is on average 170 kilometres, travel between villages, and between villages and province centres, is time consuming and costly.

3.2.3. Institution Description

Microcredits are widespread in Mongolia and a huge number of banks, NBFIs, SCCs, and NGOs provide microfinancial services. Most institutions offer various kinds of microcredits; interest rates, prerequisites, and payment conditions may vary considerably. The following brief presentation of some institutions and their microcredit programmes illustrate their variety and give an overview over their most important features.

Development Solutions

Development Solutions (DS) is an Ulanbaatar-based NGO founded in 2008. It offers a wide range of services to micro-entrepreneurs such as: business development, business and vocational trainings, consultancies, sales linkage, financing, and legal services; with the overall goal of promoting business development in Mongolia and strengthening small and medium-sized enterprises. It has partnerships with a number of national and international partners, among them the Swiss Agency for Development and Cooperation (SADC) (DS, 2014a). DS is mainly active in urban areas, but

[6] In 2007, commercial banks held 67 per cent of the total assets of Mongolia's financial sector (MIFA, 2009:28).
[7] In comparison: In 2007, 82 per cent of the total assets of Mongolia's financial sector were located in Ulaanbaatar (MIFA, 2009:28).

has networks with local advisers for rural areas. At the time of the interview, it had only a small number of active borrowers (nine persons).

DS offers microcredits for individuals with a duration of three years and an interest rate of 2.3–2.5 per cent per month. The average loan sum is MNT 8 million (CHF 3,888).[8] Applicants have to open a bank account and need own capital and collateral of a value of approximately 30 per cent of the requested loan. DS runs a credit check on every potential customer via XacBank.

DS offers an extensive support to its clients: In order to get their credit approved, they have to complete a training programme that includes loan education, basic accounting, financial statement, household bookkeeping, sales planning, business marketing, and business plan training. While the credit is active, borrowers are coached by a mentor (local volunteer).

DS's activities focus on microenterprises on one hand and on women, young, and vulnerable people on the other hand. Most clients are aged between 18 and 35 years. They use their credits to build workshops, for housing, and for increasing their business capital. The credits are monitored through the bank which makes the payments and through the mentor who regularly contacts the client. Approximately 40 per cent of the clients apply for a second credit. Before banking services in Mongolia improved, many customers applied for several credits in a row. Applications are mainly refused for two reasons: The applicants have committed financial-related crimes in the past or they are unwilling to participate in the prerequisite trainings or in the mentoring programme.

DS sees returnees as a part of their target group. Together with Caritas Mongolia, they have already worked with returnees from Belgium and helped them to start-up businesses (DS, 2014b). The experience was positive: DS declares that returnees are very good to work with since they have learned to be independent and to deal with the free market abroad. DS does not think it would make sense to create a special programme for returnees since they fit very well into DS's existing programmes. If returnees contact DS at the start of their project, DS can assist them with writing a business plan and other services.

Vision Fund Mongolia

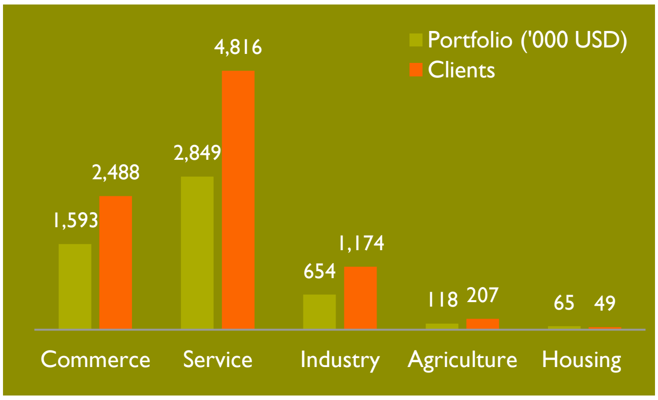
Vision Fund Mongolia (VFM) is a non-bank financial institution (NBFI) that was established in 2004. It aims to assist economically active poor people by providing access to capital and capacity building. VFM's network Vision Fund International is a subsidiary of the NGO World Vision (WV, 2015). VFM operates four offices in Ulaanbaatar and six in other locations where World Vision Mongolia operates Area Development Programs (Darkhan, Erdenet, Nalayh, Selenge, Khentil, Zuunkharaa). It has about 8,700 clients – 60 per cent of them live in Ulaanbaatar and 34 per cent in rural areas. 66 per cent of the clients are women (VFM, 2015:2). VFM's clients are between 18 and 60 years old, but most of them are 20 to 30 years old.

VFM offers solidarity group loans for the very poor that do not have to be collateralized (65 % of clientele) and individual business loans for poor and non-poor but vulnerable persons. For individuals a maximum of MNT 20 million are available, for group credits the amount is MNT 2 million. The maximum credit duration is 24 months, while most microcredits are repaid between 8 and 12 months. The interest rate is fixed at 2.6 per cent per month. Potential individual borrowers need to have a bank account where a minimum of 10 per cent of the credit sum is placed. A guarantor is also usually required. Before approving a request for a microcredit, VFM runs a credit check through the client's bank and assesses the planned business. Borrowers need to have some own capital and a regular income, the amounts are determined on a case by case analysis.

The average size of the first loan is MNT 1.2 million (CHF 583). The vast majority (90%) of VFM's clients use their microcredits for business purposes, with over 50 per cent being active in service businesses and commerce. The most popular are beauty salons, restaurants and meat production.

8 Exchange rate used: MNT 100,000 = CHF 48.60.

Figure 3. VFM's microcredit clients and portfolio by sector



Source: VFM, 2014:3.

Credits are monitored by loan officers who do a follow-up with the client, by ad-hoc visits at the business place, and by the audit department that controls the use of the credit. VFM refuses applications when the business idea is not viable and when the client has open debts from other loans – VFM refers to its client protection principle that wants to prevent people from going into over-indebtedness.

The credit scheme allows applying for several credits in a row and the amount of money that can be borrowed increases with every credit (VFM, 2015:2). About 70 per cent of the clients use this option in order to expand their business. In collaboration with World Vision and other partners, VFM offers financial literacy education and special loans for housing and green houses.

VFM would like to work with returnees under the condition that they are committed to stay in Mongolia. The difficulty of accessing a returnee's credit history might be an obstacle for VFM. For returnees, starter loans, that are usually designed as group loans (minimum two persons), would mainly be available. VFM therefore suggests that returnees apply together with a family member. From VFM's point of view, it makes most sense to apply for a microcredit if the returnee has a reintegration grant. VFM would be interested to discuss the possibility of creating special group loans for returnees with IOM.

XacBank

XacBank was established in 2001, by merging two NBFIs that were originally founded by USAID and UNDP. XacBank presents itself as the leading provider of development finance in Mongolia. Its principal fields of activity are microfinance for the lower-income population and lending to small and medium enterprises. XacBank has 67 branches in all regions of the country. In 2013, it had more than 80,000 active borrowers with an average loan balance of USD 7,923 (Mixmarket, 2015). Credits can last up to 36 months and have a monthly interest rate of 1.6–2.5 per cent.

XacBank offers a wide range of different microcredit schemes. Not all of them seem to be viable for poor or very poor populations. But XacBank has also collaborations with different NGOs and international development organizations. They offer joint microfinance programmes for rural areas, vulnerable persons, start-ups, organic farming, and enterprise development (XacBank, 2015:54–56).

General remarks

For business owners who lack the necessary collateral to obtain a bank loan, the public Credit Guarantee Fund might present a solution as it can guarantee for up to 60 per cent of a loan. The borrower has to pay a service fee of MNT 10,000 (CHF 5) for the application and a commission of 1 to 3 per cent of the covered sum.[9]

[9] For details and conditions refer to www.lgf.mn/index.php?view=content&type=content&id=152#page=page-1 or www.xacbank.mn/en/497/business-banking/loans/credit-guarantee-fund or www.khanbank.com/en/774.

3.2.4. Examples

Credit Sum	MNT 2,000,000 (CHF 972)	
Interest rate	2.5% p.m.	2.5% p.m.
Duration	12 months	24 months
Total amount owed	MNT 2,339,688 (CHF 1,137)	MNT 2,683,824 (CHF 1,304)
Monthly payment	MNT 194,974 (CHF 95)	MNT 111,826 (CHF 54)

Credit Sum	MNT 8,000,000 (CHF 3,888)	
Interest rate	2.5% p.m.	2.5% p.m.
Duration	24 months	36 months
Total amount owed	MNT 10,735,272 (CHF 5'217)	MNT 12,226,068 (CHF 5,942)
Monthly payment	MNT 447,303 (CHF 217)	MNT 339,613 (CHF 165)

3.2.5. Conclusion

Microcredits are well established in Mongolia and interested persons have – at least in urban areas –a wide choice of available microfinance providers. The microcredit market is large and diversified. Numerous banks, non-bank financial institutions, savings and credit cooperatives, and NGOs offer different products. Most providers are active in the Ulaan Baatar area.

The accessibility criteria vary from institution to institution, and depend on the type of MFI (pro-poor, profit-orientated, bank, cooperative, NGO). Individual loans are prevalent. All the investigated credit schemes for individuals require own capital and/or property that can be collateralized. Only Vision Fund offers group credits that do not have to be collateralized. With some MFIs, the collateral can be partly replaced by a loan guarantee or a guarantor. People with existing debts seem to be an issue in Mongolia, so it is important to have proof of a good credit history. Interest rates of all interviewed microfinance providers were high, with the NGOs tending to be even more expensive than the banks. The application time varies considerably, from some days to several months. Some MFIs offer additional services as financial literacy trainings, business trainings, and counselling. As far as is known, no credit insurances are available.

As many institutions do not target very poor people but rather low-income and middle class households and established enterprises, returnees have to seek a provider that complies with their financial capabilities. For start-ups, it is possible to contact organizations that are specialized in business development, for example Development Solutions. Taking into consideration the high interest rates, a microcredit can be a significant financial burden and returnees should only apply if they are sure that they will be able to effect the monthly payments.

Both interviewed NGOs, Development Solutions and Vision Fund Mongolia, state that they would be interested to work with returnees. While DS has already gained experience with returnees and affirms that they are good to work with, VFM has some reservations concerning the feasibility of a credit check for returnees. DS estimates that it can integrate returnees into their existing programme. VFM would be interested to look at possibilities for collaboration with IOM.

3.3. NIGERIA

3.3.1. Fact Sheet

		AB Nigeria MFB	BOI Microfinance Bank	LAPO Microfinance Bank	MicroCred Nigéria	Self-Reliance Economic Advancement Programme (SEAP)
INSTITUTION	**Address**	28, Akintoye Shogunie Street (Opposite No. 2, John Olugbo Street), Ikeja, Lagos	23 Marina Street, Lagos Island, Lagos	18, Dawson Road, P.M.B. 1729, Benin City, Edo State	Microcred Nigéria, 17 Mogadishu Layout, Opp. Mangal Plaza Main Gate, Kaduna	No 1, SEAP House, Western Reservoir, Olorunsogo, Ilorin
	Website	www.ab-mfbnigeria.com	www.boinigeria.com	www.lapo-nigeria.org/	www.microcred.ng/en/	www.seapmicrofinance.org
	Contact	+234 1 2122387 +234 1 2122386	+234 1 2706501 aokofu@boinigeria.com	+234 52 882169 +234 1 7359754 communications@lapo-nigeria.org	+234 809 9904908 contactnigeria@microcred.org	+234 803 3465859 seapilorin@yahoo.com
	Type of institution	Bank	Bank	Bank	Bank	NGO
CREDIT	**Amount available**	-	-	Min. NGN 30,000 (CHF 150)	NGN 20,000–500,000 (CHF 100–2,500)	Min. NGN 30,000 (CHF 150)
	Duration	6–36 months	3–12 months	Individual: 12 months Group: 6–8 months	4–6 months	40 weeks
	Interest rate	2.5–5.5% per month (30–66% annually)	4% per month (48% annually)	26.4% per year	5–6% per month (60–72% annually)	9–15% per year
	Collateral	Land, vehicle, machinery, goods, etc.	No	No	-	No
	Deposit	No	No	Min. NGN 1,000	No	NGN 1,300
	Own capital	-	No	No	-	Yes - savings
	Guarantor	Yes	1 guarantor, preferably with employment	2 guarantors	2 guarantors	1 external guarantor and 3 guarantors within credit group
	Other requirements	1. Expertise 2. Established business	Fixed place of business	1. Bank account with LAPO 2. In business for at least 1 year 3. No support for transportation businesses	Business operational for min. 1 year	1. Bank account 2. 2–3 years of residence 3. 2–4 weeks customer relationship

		AB Nigeria MFB	BOI Microfinance Bank	LAPO Microfinance Bank	MicroCred Nigéria	Self-Reliance Economic Advancement Programme (SEAP)
APPLICATION	**Documents needed**	1. Business plan 2. Flexible documentation requirements and collateral arrangements	1. ID card 2. 2 photos 3. Utility bill 4. Guarantor: 1 photo, utility bill, ID card	1. National ID 2. Utility bills 3. Loan application letter 4. Duly completed application form 5. 4 recent passport-size photographs	1. ID card 2. Passport photograph 3. Utility bills for business and house 4. Bank statements 5. Purchase invoices 6. Sales records 7. Proof of investment 8. Business registration 9. Evidence of tax payment 10. Proof of collateral	1. Business plan 2. ID card 3. Business registration 4. Loan form 5. Picture of the business
	Steps to be taken	-	-	Open a bank account with LAPO	1. Visit MicroCred branch 2. Open account 3. Fill-up application 4. Comply documents 5. Officer visits at business and house place 6. Loan approval	1. Obtain loan form and fill it in 2. Register to a group and attend group meetings
	Application length	-	-	Depends on the availability of documents	-	24h – 1 week
	Fees	-	None	-	-	10–20% of the loan sum
FEATURES	**Services**	-	-	Pre-loan training, financial advice, business insurance	-	Weekly meetings with counselling and trainings, loan insurance
	Attitude towards returnees	-	Would welcome a meeting with IOM	Rather negative	-	Rather negative as regular customers, but established a special loan scheme for returnees with IOM

3.3.2. Country and Financial Market Overview

Nigeria has a population of about 173 million persons. It is the most populous country on the African continent and accounts for almost half of West Africa's population (World Bank, 2015b). About half of Nigeria's population lives in urban areas, Lagos is the largest city with 21 million inhabitants (Nations Online, 2014). Nigeria had a gross domestic product per capita of USD 1,555 in 2012 (UN Data, 2015c).

Nigeria is the biggest exporter of oil in Africa. Oil constitutes for almost 90 per cent of the exports and about 75 per cent of Nigeria's consolidated budgetary revenues. During the past decade, Nigeria has registered strong economic growth averaging 6.5 per cent per year. Inflationary pressures have eased, with the year-on-year inflation staying under 10 per cent since January 2013. Nonetheless, consumer prices have more than quadrupled since 2000 (UN Data, 2015c; Worldbank, 2015c).

The share of people living below USD 1.25 per day has declined from 32.7 per cent in 2010 to 30.4 per cent in 2015. Growth has been an important driver of poverty reduction. Due to rapid population growth close to 3 per cent, the actual number of poor may continue to increase however (World Bank, 2015c). Nigeria has a young population with an average life expectancy of only 52 years for both women and men (UN Data, 2015c).

Despite positive developments in the last years, Nigeria still faces considerable socioeconomic challenges. Social tensions, widespread corruption, and poor infrastructure especially in rural areas are important issues to deal with. One of the major economic problems is the lack of jobs and unemployment, particularly for youth. In 2004, industry employed only about one million persons compared to 18.5 million persons who were unemployed (28% of the available work force) (Mejeha/Nwachukwu, 2008:9). Another problem is the concentration of economic growth in urban areas. The major growth area has been in Lagos state, bringing millions out of poverty in recent years. In rural parts of Nigeria and especially in the North, poverty and underdevelopment remain important issues: while poverty rates in the southern regions range between 23 per cent (Southeast) and 43 per cent (Southwest), they are as high as 70 per cent in the Northern regions (Mejeha/Nwachukwu, 2008:7). In the Northeast, the conflict with Boko Haram has destroyed major parts of the infrastructure and millions of displaced persons are in need of humanitarian assistance (World Bank, 2015c).

Nearly 90 per cent of all businesses in Nigeria are microbusinesses and the majority of the working population earns their living through them (Mejeha/Nwachukwu, 2008:3). About 60 per cent of the total population and 90 per cent of the rural population work in agriculture and related areas (Mobouogwu, 2013:2). The Government of Nigeria and development organizations promote self-employment as an important means to reduce poverty and to develop the country (Osotimehin et al., 2012:174ff). Therefore, different programmes which support the development of small businesses have been created, as for example the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN).

One of the major obstacles for the successful implementation of a small business is the lack of access to sufficient financial resources. Osotimehin et al. report a number of about 80 per cent of all small and medium enterprises which are stifled by poor financing and associated problems (2012:176). The vast majority of micro-entrepreneurs in Nigeria still access financial services exclusively through informal and semi-informal sources such as self-help groups, savings and credit associations (locally referred to as Esusu, Etoto or Adashi), and moneylenders. These forms of microfinance are culturally rooted and exist in all parts of the country. The Consultative Group to Assist the Poor (CGAP) reported in 2009 that less than 10 per cent of micro, small, and medium enterprises had access to formal bank loans (Babajide, 2011:218). In 2012, Diamond Bank estimated that 64 per cent of the population were unbanked and had never accessed any services or products provided by an official financial institution (Women's World Banking, 2014:5).

The Government of Nigeria started its first programmes to promote financial inclusion of the poor in the 1970s. In the 1990s, so-called community banks were licensed. They were conceived as self-sustaining and community-owned financial institutions with the aim of providing the residential population with simple services such as small deposits and microcredits (Kama/Adigun, 2013: 19–20). In 2005, the Government launched a National Microfinance Policy[10] that provides a legal framework for microfinance banks (MFB). Most community banks were thereupon converted to MFBs. In 2011, a new legal framework for non-interest financial institutions was adopted which allows MFBs to also offer Islamic banking products (Kama/Adigun, 2013:21–22).

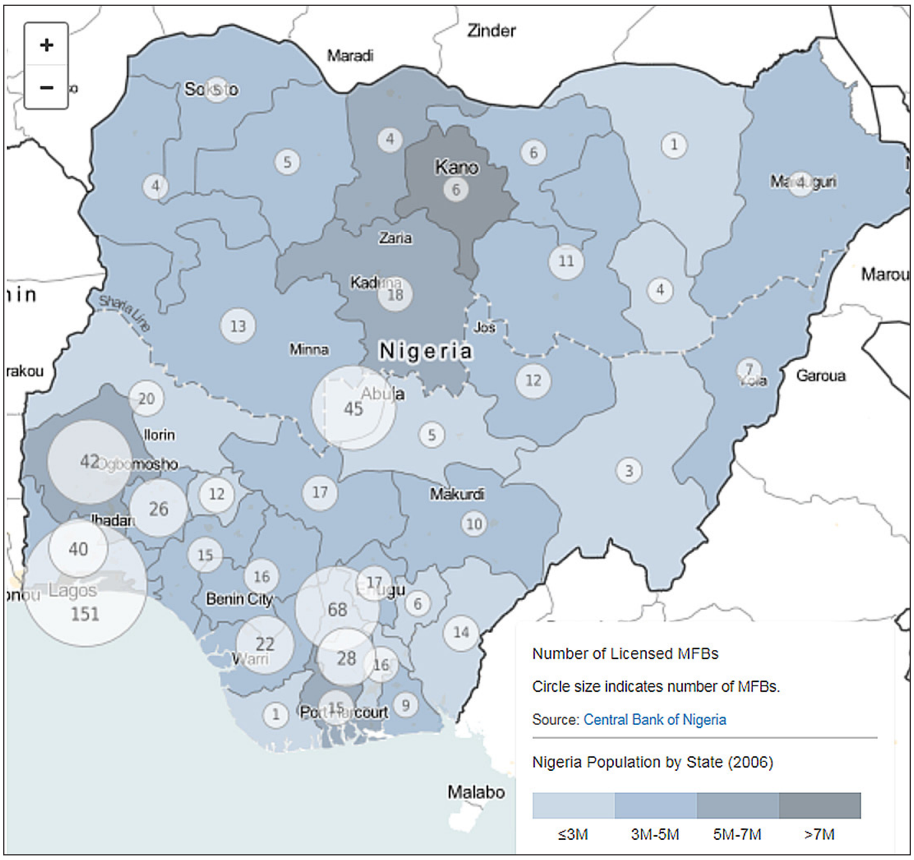
The National Microfinance Policy identifies three categories of MFB (Microfinanza Rating, 2014:1): Unit (the microfinance bank is authorized to operate in one location with a minimum capital requirement of 20 million Naira (USD 128,866), the bank is not allowed to open branches), State (the MFB is authorized to operate in a single state with multiple branches, the minimum capital requirement is 100 million Naira (USD 644,330)), and National (the MFB is authorized to operate

[10] Available from www.cenbank.org/Out/publications/guidelines/DFD/2006/MICROFINANCE%20POLICY.pdf.

in more than one state. The minimum capital requirement is 2 billion Naira (USD 12.8 million)). In March 2014, around 800 MFBs were officially licensed and supervised by the Central Bank of Nigeria.[11] Most of them belonged to the Unit category (755 MFBs), followed by 74 state MFBs and 5 national MFBs. Further, 21 commercial banks and a number of semi-formal and informal NGOs, cooperatives, and credit associations were active in the microfinance sector (Microfinanza Rating, 2014:1–2).

While there are good market opportunities for MFIs in Nigeria, the working conditions are challenging. Operational costs are high and so are interest rates. Since interest rates are not regulated and demand is high, some MFB charge exorbitant prices for their services (Microfinanza Rating, 2014:1–2). It was reported that MFIs charge interest rates of 32–48 per cent, while banks charge 19.5–21.6 per cent. Moneylenders in the informal sector can charge 100 per cent or even more (Osotimehin et al., 2012:6). The most important microfinance institutions are concentrated in urban areas the Southern and Eastern part of the country, while poor populations in the North lack access to microfinance (Osotimehin et al., 2012:7).

Figure 4. Distribution of licensed MFBs and population by state in Nigeria



Source: Gaul, 2011.

3.3.3. Institution Description

Microfinance banks are the most important providers of microcredit in Nigeria. In the following section, three of them as well as one microfinance NGO shall be portrayed.

LAPO Microfinance Bank

Lift above Poverty Organization (LAPO) was established 1987 in Delta State as pro-poor NGO. In 2004, it started to offer microcredits, and since 2012, it operates as a National Microfinance Bank (LAPO, 2015a). With over 1.5 million borrowers, LAPO is one of Nigeria's largest microfinance providers. It has 370 branches in all states except Borno, Gombe, Adamawa, Bauchi, Jigawa, Plateau, Sokoto, and Yobe.

[11] Complete list available from www.cbn.gov.ng/Supervision/finstitutions.asp#Micro.

LAPO offers individual credits as well as group credits. Group credits (six to eight months) are shorter than individual credits (12 months) and have to be paid back weekly, whereas individuals have to pay back monthly. The annual interest rate is 26.4 per cent and usually a grace period (two weeks to one month) is offered before the repayment of the loan begins (LAPO, 2015b).

A client's business must have been active for at least one year before he or she can apply for a microcredit. A business must meet certain cash-flow requirements and LAPO conducts a Know Your Customer (KYC) check to prevent financial fraud, money laundering, or terrorist financing. No collateral is required since the microcredit is secured by two guarantors and a deposit of minimum NGN 1,000 (CHF 5)[12] on a LAPO bank account. LAPO offers a pre-loan training for new customers and financial advice. Clients can request insurance for their business at the cost of 0.5 per cent of the loan sum.

The huge majority of LAPO's borrowers are poor but economically active women (about 87%) who use their loans for business, housing, and consumption. LAPO finances all kinds of businesses except transportation. The credits are monitored by regular visits. LAPO would accept returnees as customers if they had an existing legal business and meet the general requirements. But it expressed concerns about "questionable character traits" of migrants and the possibility that they could divert funds.

Self-Reliance Economic Advancement Programme

Self-Reliance Economic Advancement Programme (SEAP) is an NGO that was founded in 1998 with the goal of improving the socioeconomic situation of the poor (SEAP, 2015). It has currently about 380,000 borrowers and operates 251 branches in the states of Oyo, Ogun, Osun, Lagos, Ondo, Ekiti, Kano, Kaduna, Katsina, Zamfara, Bayelsa, Rivers, Anambra, Edo, Benue, Abuja, Kogi, Kwara, and Niger. For the future, SEAP plans to expand its activities to other states.

SEAP offers individual credits as well as group credits. The duration of a loan and interest rates depend on the type of the loan. Compared to the other interviewed MFIs, SEAP offers low interest rates with only 9 to 15 per cent annually. Before approving a microcredit, SEAP carries out a check on the applicant's business (location, years of activity, sales, customers) and a KYC check to prevent financial fraud, money laundering, or terrorist financing. While no collateral is required, borrowers subscribe to a credit group, provide own capital (savings), and name one external guarantor (for example husband/wife who has a business) as well as three guarantors within the credit group. Borrowers must have a bank account and pay a deposit of NGN 1,300 (CHF 7). Additionally, an opening fee of 10–20 per cent is charged. Repayment and additional savings are made during weekly group meetings. The savings commitment ends with the loan cycle. Besides microcredits (about 80% of its activities), SEAP also offers loan insurances, trainings, health services, and natural disaster relief services. During the weekly meetings of the credit group, counselling and trainings are offered. SEAP organizes an annual meeting with all customers in every state.

The huge majority of SEAP's borrowers are women (about 90%) who use their loans for business expansion, housing, agriculture, and for school fees of their children. The main target groups are artisans, market vendors, farmers, and producers. SEAP offers microcredits to both women and men, but prefers women as they are considered to be more trustworthy. Long-term customers benefit from better interest rates and can be nominated for grants and awards. The main reasons for refusing an application for a microcredit are: double registration, the suggestion of an unrealistic guarantor, or if an unreasonably large amount is asked for a start-up.

Returnees are potential clients for SEAP, but they are not encouraged to apply as SEAP sees various problems with them. Mainly the lack of a strong business, the lack of professional skills, and the "psychological imbalance" of returnees were mentioned in the interview. If a returnee wants to apply for a microcredit with SEAP, he or she must have an existing business, a high level of commitment, good professional skills, and a strong and capable guarantor. A formal obstacle

[12] Exchange rate used: NGN 100'000 = CHF 500.

for returnees is the required minimum duration of residence of two to three years. Despite its basically critical attitude towards migrants, SEAP is currently implementing a special microcredit scheme for returnees with IOM in Lagos (more information in the “general remarks” section below).

AB Nigeria Microfinance Bank

AB Nigeria Microfinance Bank is owned by various international development banks (AB Nigeria Microfinance Bank, 2015a). It was founded in 2008 and operates 14 agencies in Lagos state.

AB Nigeria Microfinance Bank offers various credit schemes to individuals as well as to small and medium enterprises. Credits have a duration of 6 to 36 months. Interest rates vary from 2.5 per cent to 5.5 per cent per month, some of them are at declining balance.[13] Applicants have to present a guarantor and collateral. Prior to approval, lending staff visits the business site and examines the structure of the business, the financial situation, and the expertise of the applicant. Required documentation and collateral arrangements are flexible and depend on the size of the credit – household goods, business equipment, goods in stock, vehicles, property or other possessions are accepted as collaterals. Long-standing clients with an “impeccable repayment record” qualify for interest discounts and profit from faster loan processing (AB Nigeria Microfinance Bank, 2015b). AB Nigeria Microfinance Bank did not make any statements about offering microcredits to returnees.

BOI Microfinance Bank

BOI Microfinance Bank is a subsidiary of the Bank of Industry (BOI) that is one of Nigeria’s largest development financing institutions. BOI Microfinance Bank was founded in 2001 and operates seven agencies in the following states: Lagos, Abuja, Enugu, Ondo, Delta, Bauchi, and Kaduna.

Individual credits as well as group credits are being offered. The duration of a microcredit ranges from 3 to 12 months, with an interest rate of 4 per cent per month at a reducing balance.[14] While no collateral or own capital are required, the applicant has to present a guarantor – preferably someone who is employed. BOI Microfinance Bank carries out a check on the applicant’s business (location, years of activity, sales and customers) and a KYC check to prevent financial fraud, money-laundering, or terrorist financing. It targets economically active poor, both men and women with all kinds of businesses. Repayment is weekly and monthly, the credit is monitored by visitation. Most rejected applications occur because they do not meet the requirements after the assessment. BOI Microfinance Bank requires no minimal residence duration and it would welcome an initiating meeting with IOM to discuss about microcredits for returnees.

General remarks

The IOM Bern Monitoring Report 2015 for Nigeria showed that 247 of the interviewed returnees (74.4%) had invested additional funds into their businesses but that only three of them had used a bank loan or a microcredit as source of funding (IOM Bern, 2015b:23). As access to formal financial services is difficult in Nigeria, the additional funding originated mostly from friends, family members, and most probably also from moneylenders in the informal sector. The pressure to use such informal funding can cause unwanted dependency towards others and indebtedness as moneylenders ask for very high interest rates in Nigeria.

Based on these findings, IOM initiated a pilot phase for a microcredit component in the Swiss AVRR country programme for Nigeria. The goal was to provide additional financial support to returnees and counselling beyond IOM reintegration assistance.

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[13] Interest at declining balance: The borrower pays only interest on the loan amount that he or she still owes. This has the effect that the interest paid is getting lower with every installment (www.mftransparency.org, n.d.:1).

[14] Cf. previous footnote.

To learn about returnees' needs regarding a microcredit scheme, IOM Lagos conducted first step interviews during business training workshops. Returnees mentioned the following reasons why they had not successfully accessed a bank credit on their own:

- Lengthy and tiresome application process with little or no assistance from the bank staff that is difficult due to the beneficiaries' limited level of education;
- Challenge in providing collateral and/or an acceptable guarantor to the bank;
- Concerns about being unable to pay back the credit in case of economic/personal hardship situation.

Subsequently, the microcredit component was established in the form of a revolving loan fund[15] together with a partner NGO, the Growing Businesses Foundation (GBF), and with SEAP as the implementing partner. Loan lending policies and guidelines for the revolving loan fund were developed by GBF and IOM and approved by SEAP. The microcredit scheme works as follows:

IOM selects interested and eligible returnees across several locations in Lagos, where the pilot of the scheme is taking place. IOM forwards a list with eligible applicants to SEAP and SEAP visits each applicant for verification and business review before taking the final credit decision. Loans can be obtained for working capital and for the purchase of machinery and equipment related to the business. It should not be used for routine maintenance such as the general upkeep of a building for example.

The first loan cannot exceed NGN 350,000 (CHF 1,750) and has to be repaid within six months. After the first repayment, returnees can apply for a second loan of maximum NGN 700,000 (CHF 3,500) and a third loan of maximum NGN 1,000,000 (CHF 5,000) that have each to be repaid within one year. If returnees wish to apply for another loan after that, they should do so within the regular microcredit schemes of SEAP or with other MFIs.

SEAP loan officers visit borrowers regularly to ensure the proper use of the loan funds, to evaluate the development of the businesses, and to provide on-site support where needed. Whenever possible, the loans are not disbursed in cash but in kind and SEAP makes the payments directly to the returnees' suppliers. Returnees are basically eligible to participate in the IOM microcredit scheme if they meet the following criteria:

- Being a participant of the Swiss AVRR programme for Nigeria and having received the total grant;
- Having attended any of the IOM organized entrepreneurial training courses;
- Having an existing and viable private business that is classified as industrial, commercial, service or retail;
- Being of good character (reliable and trustworthy), being willing to sign the terms and to accept the repayment schedule;
- Having a dedicated business account;
- Not being in default with any previous loan;
- The business should operate from a business place and not from home, be environmentally and socially responsible and must be registered with the Corporate Affairs Commission (CAC).

Returnees can apply for both group and individual credits. The lending terms are established on a case-by-case basis, but every returnee must name two guarantors and make savings during the repayment phase (the amount of savings required depends on the credit amount). SEAP asks for a registration fee of NGN 1,300 (CHF 6.50) as well as a processing and documentation fee of 1 per cent of the credit sum that must be paid before the credit is disbursed.

[15] A revolving loan fund is a self-replenishing pool of money. As borrowers pay back their loans, the payments can be used to issue new loans (CDFA, n.d.).

So far, several returnees have shown interest in the IOM microcredit scheme but many of them were not eligible as their businesses were located outside Lagos. To date, IOM has forwarded the names of twelve eligible returnees to SEAP and eight of them have been accepted as potential clients. Among them, five have already successfully applied for a microcredit, the others are yet to provide guarantors.

3.3.4. Examples

Credit Sum	NGN 50,000 (CHF 250)	
Interest rate	2.5% p.m.	2.5% p.m.
Duration	6 months	12 months
Total amount owed	NGN 54,468 (CHF 272)	NGN 58,488 (CHF 292)
Monthly payment	NGN 9,078 (CHF 45)	NGN 4,874 (CHF 24)

Credit Sum	NGN 200'000 (CHF 1'000)	
Interest rate	5% p.m.	5% p.m.
Duration	6 months	12 months
Total amount owed	NGN 236,418 (CHF 1,182)	NGN 270,780 (CHF 1,354)
Monthly payment	NGN 39,403 (CHF 197)	NGN 22,565 (CHF 113)

Credit Sum	NGN 350,000 (CHF 1,750)	NGN 1,000,000 (CHF 5,000)
Interest rate	10% p.a.	10% p.a.
Duration	6 months	12 months
Total amount owed	NGN 367,500 (CHF 1'838)	NGN 1,100,000 (CHF 5,500)
Monthly payment	NGN 30,625 (CHF 153)	NGN 91,667 (CHF 458)

3.3.5. Conclusion

In Nigeria, a large demand for microcredit exists. While supply in the North is scarce, numerous state-licensed microfinance banks provide a broad range of services in the Southern parts of the country. Nonetheless, large parts of the population are unbanked and access to financing seems to be a major problem, especially for micro-entrepreneurs. The reason is that applicants often cannot comply with the credit institutions' requirements.

Most MFBs want their applicants to have a well-functioning business that has been active for at least one year. Expertise of the owner, cash-flow, and development potential will be carefully checked. While usually no collateral is required, one or two guarantors with a stable income must be named. Sometimes, applicants are also asked to deposit a certain amount on a bank account as guarantee. Both credits for groups and for individuals are available. Credits are monitored through visits and during weekly or monthly group meetings. Most interviewed institutions offer trainings and counselling to their customers, two of them offer business and credit insurances. Since the microcredit business is considered risky and since operational costs are high, interest rates range from high to very high, with the NGO SEAP offering lower rates than the interviewed microfinance banks. In Nigeria, a grace period of up to two months can be granted before the repayment of the credit begins. It is common to offer better lending conditions to long-term customers with a good payment record. Women are often preferred as customers as they are considered to be more trustworthy than men.

The interviewed microfinance institutions expressed reservations towards returnees as they are considered to be "psychologically imbalanced", "less skilled", and likely "to divert funds". Additionally, most providers require either a minimum duration of residence or a business activity of at least one year. In an already challenging market situation, it has to be expected that it will become even more difficult for a returnee to get a microcredit than for a non-migrant. The high interest rates are a financial risk for the borrower. Returnees themselves express reservations against microcredits: they fear they might be unable to pay their debts and feel uncomfortable applying on their own as they lack experience with bureaucratic processes.

Through the pilot project of a revolving microcredit fund, IOM provides returnees who have a viable business project with the opportunity to obtain a loan off of the open market. The scheme increases returnees' chances to access microcredit and the comparatively low interest rate reduces the financial risk involved for them. Through IOM's involvement in the selection process, administrative hurdles are lower. After successfully having repaid a loan within the IOM scheme, a returnee will most probably have better access to microcredit in the open market.

3.4. SENEGAL

3.4.1. Fact Sheet

		Alliance de Crédit et d'Épargne pour la Production (ACEP)	Partenariat pour la Mobilisation de l'Epargne et le Crédit au Sénégal (PAMECAS)	Crédit Mutuel du Sénégal (CMS)	MicroCred Sénégal	Caisse Nationale de Crédit Agricole du Sénégal (CNCAS)
INSTITUTION	Address	Sicap Amitié 1 N° 3077 Av. Bourguiba x Bld Dial DIOP BP: 5817 Dakar Sénégal	SICAP BAOBAB N° 565 (Sur l'avenue Bourguiba), BP: 15 354 Dakar Fann	Point E (PE-17), Rue de Fatick, BP: 28052 Dakar-Medina	Pont E, Rue de Kaolack X Saint-Louis BP: 13710 Dakar	31,33 Rue A.A. NDOYE X Colbert - Place de l'Indépendance Dakar - BP: 3890
	Website	www.acepsenegal.com	www.pamecas.sn	www.cms.sn/crbst_3.html	www.microcred.sn	www.cncas.sn
	Contact	+221 33 869 75 50 +221 33 869 75 65 souleymane.sarr@acepsenegal.com	+221 33 859 44 80 / +221 77 450 39 16 nsdiaw@pamecas.sn	+221 33 869 48 49 pmdiop@cms.sn	+221 33 896 84 20/36 +221 77 828 19 90 csano@microcred.org	+221 33 839 36 36 +221 33 839 36 75 +221 33 822 60 65 marie.diop@cncas.sn
	Type of institution	Credit union	Credit union	Credit union	Non-bank financial institution	Non-bank financial institution
CREDIT	Amount available	CFA 25,000–300 mio (CHF 42–498,300)	CFA 25,000–50 mio (CHF 42–83,050)	CFA 25,000–some hundred mio	CFA 100,000–100 mio (CHF 166–166,100)	Varies
	Duration	12–13 months for small credits, 36 months for SME	Varies according to the amount requested	Varies according to the amount requested, 12 months for small credits, up to 66 months for large credits	12 months for working capital loans ("fonds de roulement"), more than 24 months for investment credits	Up to 7 years, maybe 10 years on special circumstances
	Interest rate	10–11% per year	1.5% per month (18% annually)	12% for small credits (CFA 25,000–50,000) 8–9% for partnership conventions	1–1.7% per month (12–20.4% annually)	maximum 14% per year
	Collateral	Pledge of a vehicle or home furnishings or jewellery	Yes	For some amounts a guarantee in form of a caution or mortgage is required	Varies according to the amount, mortgage for large credits (CFA 60 mio)	For some credits
	Deposit	10% of the amount	CFA 10,000	-	-	CFA 100,000
	Own capital	10%	15–25%	5–10%	-	20%
	Guarantor	Yes – in the form of an activity with guarantee	No	Yes	No	No
	Other requirements	1. Bank account with ACEP 2. Regular income	1. Bank account with PAMECAS 2. Regular income 3. Credit should be part of the IOM project	1. Bank account with CMS 2. Minimal duration of customer relationship of 1 month 3. No start-up 4. Regular income	1. Bank account with MicroCred 2. Regular income 3. Min. 6 months of business activity	1. Bank account with CNCAS 2. Regular income

		Alliance de Crédit et d'Épargne pour la Production (ACEP)	Partenariat pour la Mobilisation de l'Epargne et le Crédit au Sénégal (PAMECAS)	Crédit Mutuel du Sénégal (CMS)	MicroCred Sénégal	Caisse Nationale de Crédit Agricole du Sénégal (CNCAS)
APPLICATION	**Documents needed**	1. Recent bill 2. Sales draft 3. Purchase invoice 4. Business plan 5. Copy of collateral	1. ID card 2. Photo 3. Ninéa (company identification number) 4. Other proof of activities for high credits 5. Business plan 6. Copy of collateral	1. ID card 2. Extract of trade register 3. Sales draft 4. Purchase invoice if trader 5. Ownership title of the collateral	1. Proof of activity 2. Rent receipts 3. Purchase invoice 4. Sales records 5. MicroCred form 6. Extract of trade 7. Ninéa (company identification number) 8. Carte commerçante	1. Request 2. ID card 3. Proof of residence 4. Ninéa (company identification number) 5. Salary slip 6. Employment contract 7. Business plan
	Steps to be taken	1. Open account 2. Present the project 3. Wait for the decision	1. Open account 2. Request meeting with credit manager	1. Open account 2. Request to the president of the board of direction 3. Applicant will be informed on the decision by phone	1. Open account 2. Apply for credit and wait for decision	1. Open account 2. Establish a Credit file 3. Define monthly minimum and annual maximum
	Application length	15 days–1 month	2–3 weeks	1 week–1 month	7–10 days	48h
	Fees	CFA 10,000	CFA 10,000	CFA 15,000	CFA 15,500 (for opening bank account)	None
FEATURES	**Services**	Whole life insurance	Financial education, continuous support, whole life insurance	Counselling, whole life insurance	Counselling and financial literacy education, credit insurance (incl.)	Insurance
	Attitude towards returnees	Negative	Positive – if a returnee benefits from support by IOM even better	Positive – have experience with returnees	-	Have experience with returnees, but risk considered to be elevated

3.4.2. Country and Financial Market Overview

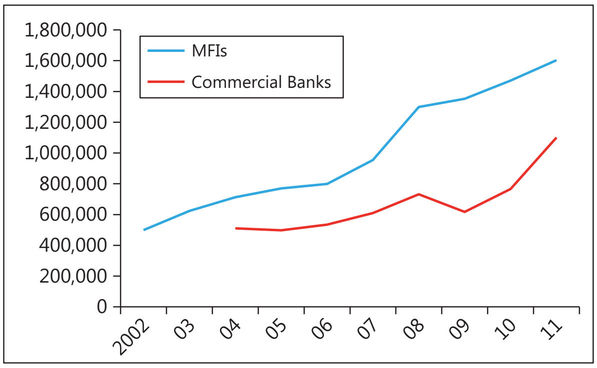
Senegal had an estimated population of about 14.3 million in 2013, about half of which lives in rural areas (World Bank, 2015d). From 1995 to 2005, Senegal registered an annual GDP growth of 4.5 per cent leading to a decline of poverty from 68 to 48 per cent (Kireyev, 2014). The GDP per capita in Senegal was at USD 1,017 in 2012 (World Bank, 2015e).

Due to poor business climate, a bank crisis, poor infrastructure, low efficiency of public investment, and unproductive subsidies, the annual growth rate lowered since 2006. Additionally, Senegal was hit by a series of external shocks, such as a huge increase in prices of food and fuel, droughts and floods. More recently, the spill over of the Ebola outbreak in Guinea amplified Senegal's difficult economic situation (Kireyev, 2014).

The Senegalese unemployment rate remained more or less stable at around 10 per cent within the last decade (World Bank, 2015f). In 2001, 46 per cent of the employed population worked in the agriculture sector, 36 per cent were employed in the services sector and 12 per cent in industry. Whereas the percentage of Senegalese employed in services and industry remained more or less stable, in agriculture a decrease from 46 per cent to 34 per cent was observed from 2001 to 2006 (World Bank, 2015g).

At the end of the 1980s, Senegal was struggling through a severe bank crisis. In order to support the banking sector, some important structural reforms took place, enabling the emergence of the first microfinance savings and credit structures in Senegal (Le Portail de la Microfinance au Sénégal, 2010). One of the main reforms was the initiative of the Central Bank of West African States (BCEAO) to establish a legal framework for microfinance institutions. With the financial support of the Canadian International Development Agency (CIDA) and the Canadian "Société Développement International Desjardins", the Member States of the BCEAO adopted the so called Law in 1993, providing a legal and regulatory framework for microfinance institutions (Kane, 2013:46; BCEAO, 2012). From 1993 to 2003, further legal foundations regulating microfinance institutions were adopted and the microfinance sector expanded (Le Portail de la Microfinance au Sénégal, 2010).

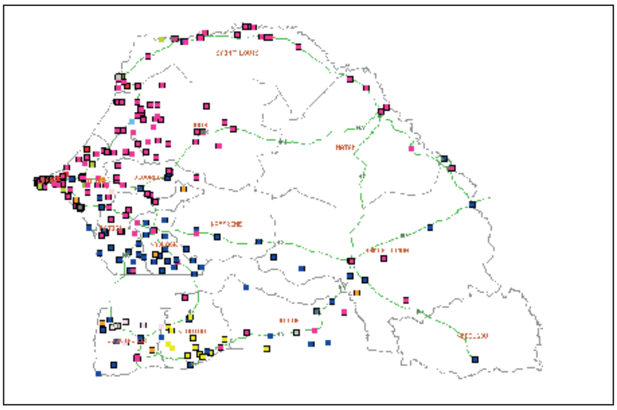
Figure 5. Development of accounts of MFIs and banks in Senegal 2002–2011



Source: Imam/Kolerus, 2013:9.

The International Monetary Fund estimated in 2013 that 234 microfinance institutions were operational in Senegal. Although the financial system was dominated by the banking sector, only 7 per cent of the population owned a bank account (Imam/Kolerus, 2013:1). But microfinance institutions, focusing on basic services such as saving accounts and microcredits, enabled an increase in the number of people with access to financial services. According to the International Monetary Fund, around 20 per cent of the Senegalese population had access to credit in 2013 (ibid.:v). The number of microfinance accounts rose significantly from about 500,000 accounts in 2002 to 1,600,000 accounts in 2011 (ibid.:9).

Figure 6. Distribution of MFIs in Senegal



Source: Imam/Kolerus, 2013:9.
Notes: Squares represent one or more branches.
Networks of microfinance institutions are indicated by the same color.

Microfinance institutions have become real competitors to banks: In 2012, the asset holdings of the largest microfinance institution in Senegal were equal to the assets of the seventh largest bank (ibid.: 8). Banks have thus been pushed to diversify their activities, offering cheaper services to the middle class, students, and young professionals (ibid.:3).

MFIs benefit from a series of advantages compared to banks in Senegal, such as tax exemptions or public funding. They are, among others, also eligible for governmental funding after five years of active operations (Howard, 2013:12). Public funding of the Senegalese State for the microfinance sector has significantly increased in recent years, having approximately tripled from 2005 to 2011 (Imam/Kolerus, 2013:9). A regulatory reform in 2008/09 with the objective of reorganizing the supervisory responsibilities – larger institutions being supervised by the banking commission, and smaller institutions supervised by the Ministry of Finance – has led to the closure of 118 entities. The reconstruction has resulted in the emergence of 18 larger institutions, which today make up 90 per cent of the entire microfinance market in Senegal. One institution – Crédit Mutuel du Sénégal (CMS) –has a market share of 46 per cent to 60 per cent, depending on the data source.[16]

Although the percentage of the Senegalese population having access to financial services has increased, MFIs are highly concentrated in the Dakar area. Pursuant to the National Committee of Coordination of Microfinance Activities of the Senegalese Ministry of Women, Family and Children, 27 per cent of the microfinance services points were located in Dakar, 16.5 per cent in Thiès, 9.7 per cent in Louga, 8.16 per cent in Saint-Louis, and 8.22 per cent in Ziguinchor. On the contrary, Kédougou (0.6% of the services points), Kaffrine (1.81%), Sedhiou (3.17%), and Matam (3.63%) were the least covered regions (CNC, 2015: 4). Compared to the population living in those rural areas, service points were proportionally few.

3.4.3. Institution Description

A wide diversity of microfinance institutions exists in Senegal and the microfinance industry is considered to be dynamic, profitable and growing (Howard, 2013:12). Microfinance institutions in Senegal can generally be divided into three institutional types (Howard, 2013:13): (a) savings and credit cooperatives, among them credit mutuals or credit unions. They are usually membership-based and the majority of the funding is received from its members. A less formalized form of membership-based microfinance institutions are (b) credit associations. They do not have full legal status under the PARMEC law. The last type are (c) semi-formal institutions such as financial NGOs. They have outside funding which is used for granting microloans.

Credit unions dominate the supply of loans (Howard, 2013:14). This is inter alia also due to the fact that the two largest microfinance institutions in Senegal, CMS and Partenariat pour Mobilisation de l'Epargne et le Crédit au Sénégal (PAMECAS) are credit unions. In the following, an overview over some MFIs active in Senegal will be provided.

CMS – Crédit Mutuel du Sénégal

The Crédit Mutuel du Sénégal was launched in Kaolack in 1988 by the Government of Senegal and a catholic charity. It was originally dedicated to provide agriculture credits and savings, but now offers a wide range of financial services throughout Senegal, including money transfer and micro-insurance (Howard, 2013:18). Depending on the source, it has a market share of 46 to 60 per cent. It operates about 210 service points and 5 mobile units offer financial services also in remote areas (CMS, 2015).

Both group and individual credits, are available. An applicant needs to become a member and open a CMS bank account. The opening fee is fixed at CFA 15,000 (CHF 25)[17]: CFA 10,000 (CHF 17) member fee, CFA 3,000 (CHF 5) liability contribution, CFA 2,000 (CHF 3) minimal deposit. Small credits are given for 12 months, for large credits a duration of up to 5.5 years is possible. Large credits are often given in combination with a partnership agreement. Interest rates are 12 per cent per year for small credits and 8 to 9 per cent per year for partnership agreements.

An applicant will be visited at home and at his or her business place. He or she needs to have a regular income and CMS will analyse the volume of sales and account activities of the business. For this reason, start-ups are not accepted. CMS asks for a deposit of 5 to 10 per cent of the credit sum that will be blocked until the credit is completely repaid. Collateral, a mortgage guarantee, and/ or a security guarantee and a guarantor are required as well. A minimum customer relationship of one month is mandatory. Counselling is offered during the examination of the application. In exceptional cases, a financial literacy training can be agreed. Repayment is monthly, bimonthly or

16 Imam/Kolerus estimated CMS' market share to be 60 per cent (2013:5), whereas the National Coordination Committee of Microfinance Activities calculated that CMS' market share of the total assets of Microfinance institutions was only 46 per cent (CNC, 2015:4).

17 Exchange rate used: CFA 100,000 = CHF 166.10.

quarterly. Special payment conditions exist for meat production (repayment after 6 to 7 months) and seasonal activities (repayment after 8 months). Despite above-mentioned measures of precaution, CMS reports regularly experiencing problems with the repayment of credits.

CMS declares that it has a few returnees as clients. It has a newly established partnership with the "Fonds d'appui des sénégalais de l'extérieur", seeking to support Senegalese who returned from Central African Republic with CFA 400,000 per migrant (CHF 664). The Senegalese State acts as guarantor for these clients. Furthermore, CMS mentioned that it used to have a partnership with IOM regarding returnees originally from Casamance.

PAMECAS - Partenariat pour la Mobilisation de l'Epargne et le Crédit au Sénégal

PAMECAS was founded in 1994 in Dakar. The project originated from an agreement between the Senegalese Government and the Canadian Agency for International Development which financially supported the programme. In 1998, it became the "Union des Mutuelles du Partenariat pour la mobilisation de l'Epargne et le Crédit au Sénégal" and became financially autonomous in 2004. However, it continues to receive external funding from the United Nations Capital Development Fund (UNCDF) (Howard, 2013:17; PAMECAS, 2015a)., PAMECAS operates 94 agencies all over the country, however only in bigger cities. In order to ensure access also for populations residing in rural areas, PAMECAS has a "guichet mobile", a mobile office (PAMECAS, 2015b).

Credits are given to individuals and groups, mostly for business purposes. Currently, PAMECAS serves 84,505 individual clients (56.7% thereof are women), as well as 5,664 groups of women, and enterprises. It is necessary to be a member of PAMECAS and to open a bank account to obtain a loan, but no minimal customer relationship is required. Although PAMECAS considers guarantees to be necessary, no collateral is required because this might hinder the development of the business which is prioritized over collateral. The applicant should invest some own capital since PAMECAS thinks that this strengthens the motivation. Employees with a regular income can get a long-term credit (up to 60 months) without own capital.

PAMECAS analyses the residence history of a potential client by visiting his or her domicile. During an interview, the needs of the client are analysed. The results can be used to elaborate a business plan in a next step. Credit is only given if the borrower is permanently living in Senegal. To demonstrate the repayment capacity, a regular income is favourable. The duration of a loan and payment conditions are flexible. The use of the credit is monitored by the responsible credit agent. The most important reasons for refusing a credit are a weak business compared to the asked amount, lack of credibility, and too many liabilities with other financial institutions.

Apart from credit and saving services, PAMECAS offers its clients other financial and non-financial services such as money transfer, transfer of the salary, health insurance/health service, life insurance, financial trainings, client accompaniment in order to better manage the credit, and other counselling services (PAMECAS, 2015b). Together with the NGO ADA, PAMECAS has developed a migrant remittance-boosting project. The objective of the project is to offer transfers from Senegalese citizens in Italy to Senegal at a moderate price, as well as associated savings and credit products in which the transferred money can be invested. The project was launched in 2009 for Senegalese living in Italy. Due to this success, PAMECAS is currently expanding its project to Spain-Senegal, Gabon-Senegal and USA-Senegal partnerships (ADA, 2015).

Since the institution is already experienced in working with migrants, it showed interest in serving returnees. PAMECAS does not see any particular hindrance in accepting them as clients, although a recommendation by IOM could facilitate the application process. PAMECAS mentioned that it would be interested in collaborating with IOM in the field of return migration.

ACEP - Alliance de Crédit et d'Epargne pour la Production

The « Alliance de Crédit et d'Epargne pour la Production» (ACEP) is a savings and credit cooperative. It operates in Senegal since 1993. External funding mainly originates from commercial banks, which support ACEP since its foundation. In 2014, ACEP had about 36,000 active borrowers, 35,500 of whom had microcredits. By number of clients, ACEP is the third largest microfinance institution in Senegal (CNC, 2015:4). It operates 105 service points in major cities all over the country.

ACEP offers different savings and credit services. Both individual and group credits are available. In order to benefit from them, the following criteria must be met: being member of ACEP, having a checking account, operating an income-generating activity (and being able to prove it), having personal or real guarantees, and being less than 60 years old (ACEP, 2015a). ACEP asks for collateral such as jewellery, garnishment of vehicles or houses, or the promise to mortgage land or housing. A credit agent will assess the financial capability of an applicant. He will decide if own capital is required and elaborate a business plan. About 10 per cent of the credit sum needs to be deposited at the bank until the credit is fully paid back. The repayment frequency can be cyclical or seasonal, depending on the client's field of activity. The use of the microcredit is monitored by on-site visits. The most important reasons for refusing a credit are the lack of a professional activity or a viable guarantee, the lack of a residence address, and difficulties in localizing the client.

According to ACEP, preferences for certain business types do not exist, but in order to obtain a credit it is mandatory to either be the owner of a company or to be employed. Therefore, ACEP doesn't support start-ups and refuses seasonal workers. ACEP has approximately as many male as female clients. The areas of activity of ACEP's clients vary from art handicraft, services, carpentry, fishing, agriculture, poultry farming, and vegetable growing to trade. Eighty per cent of the credits are given to very small enterprises (ACEP, 2015b). ACEP also offers other services such as life insurance and money transfer.

Migrants are not a target group for ACEP. ACEP mentioned that it is not interested in offering special services to them, as migrants entail a high risk. Migrants are considered to be vulnerable and pursuant to ACEP, it is necessary for them to first obtain special assistance and trainings, before integrating into the microfinance market.

CNCAS - Caisse Nationale de Crédit Agricole du Sénégal

After Senegal attained independence in 1960, the Senegalese State established a system which was supposed to regulate financing in rural areas and to guarantee the financing of the governmental agriculture programme. However, the system was very complex and the large number of intermediaries between the banks and the producers entailed a high risk of non-repayment of credits. Due to a very poor harvest in 1980/81, halving the farmers' income, many of them were unable to pay back their loans. As a consequence, a reform took place, with the objective of installing simplified structures. The reform resulted in the establishment of the "Caisse Nationale de Crédit Agricole du Sénégal" (CNCAS) in 1984 (CNCAS, 2015a). CNCAS is organized as a limited company and operates about 30 agencies throughout Senegal.

For employees with a regular income, the application procedure for a consumer credit is quick. For business credits, the credit check is more complicated. Legal papers and record books will be examined and an observation period of up to 6 months can be required. A borrower has to invest own capital in the value of 20 per cent of the requested credit sum. While CNCAS doesn't systematically require collateral, it asks for a guarantee depending on the risk. No minimal duration of customer relationship and residence is required. The use of the microcredit is monitored by on-site visits. Repayment conditions depend on the type of business, it can happen that payments are only due once a year. CNCAS does not provide counselling nor financial training. The most important reasons for refusing a credit are the lack of business profitability, the applicant's lack of experience, and the lack of a viable guarantee.

Roughly 60 per cent of CNCAS' clients work in the primary sector of economy, and 40 per cent use their credit for investment.[18] CNCAS tries to avoid fishing and transport activities, whereas trading, agriculture, handcraft, and restauration activities are considered to be more secure. Both individual and group credits are available. According to the chief of the agency in Dakar, women are preferred as clients. When clients had a good experience with their first loan, they often apply for a new one. Under some circumstances, long-term customers can receive better lending conditions.

CNCAS does not only provide classic savings and credit services but also life insurance, savings account insurance, and money transfers. CNCAS has a special diaspora programme ("Plateforme d'Appui au Secteur Privé et la Valorisation de la Diaspora Sénégalaise en Italie", PLASEPRI) that aims at facilitating access to credit for small and medium-sized enterprises established in Italy by Senegalese migrants (CNCAS, 2015b).

Some returned migrants receive credits from CNCAS, but CNCAS indicates that returnees seem to be "out of touch" with the realities in Senegal and that there is an elevated risk of non-repayment of the loan. Higher guarantees are therefore required. As returnees are seen to be "difficult clients", the chief of the agency in Dakar emphasizes that each case has to be analysed individually.

MicroCred Sénégal

MicroCred Sénégal is part of the MicroCred Group which was founded in 2005 through the initiative of a private person, Arnaud Ventura, and different partners. It originates from the finance sector and describes itself as an "investment company that invests in and manages responsible institutions and provides them with the technical assistance they need to become leaders in their respective countries." (Microcred Group, 2015) The institution in Senegal was legally registered in January 2007 and nowadays operates 32 agencies in Dakar, Thiès, Mbour, Saint-Louis, Kaolack, Touba, Ziguinchor, Kolda, and Tambacounda.

After the failure of an experiment with group credits in 2009, MicroCred gives credits only to individuals. The loan duration varies between 12 months for working capital credits and 24 months for investment loans. Requirements for own capital, collateral (for instance car or land), and regular income are defined after the assessment of an application. For large credits (CFA 60 million and more), a mortgage guarantee is necessary. A business must have been active for at least 6 months before the application, and the applicant must be the owner of the business. No minimal duration of residence or customer relationship is required. MicroCred does not assist with the elaboration of a business plan, but it offers counselling and financial literacy education. Repayment is monthly, with a grace period of two months. MicroCred Sénégal offers microcredits, loans for small and medium-sized enterprises, savings accounts, micro-insurance, and money transfer.

General remarks

Returnees to Senegal are usually not interested in microcredits as they either do not know about it or do not want to use it. IOM Dakar does currently not actively provide information about microcredit opportunities but it is planned to offer such information in the future.

[18] No specified information on the purpose of the investment was indicated by CNCAS.

3.4.4. Examples

Credit Sum	CFA 100,000 (CHF 166)	
Interest rate	1.5% p.m.	1.5% p.m.
Duration	12 months	24 months
Total amount owed	CFA 110,016 (CHF 183)	CFA 119,808 (CHF 199)
Monthly payment	CFA 9,168 (CHF 15)	CFA 4,992 (CHF 8)

Credit Sum	CFA 1,000,000 (CHF 1,661)	
Interest rate	3% p.m.	3% p.m.
Duration	12 months	36 months
Total amount owed	CFA 1,205,544 (CHF 2,002)	CFA 1,648,944 (CHF 2,739)
Monthly payment	CFA 100,462 (CHF 167)	CFA 45,804 (CHF 76)

3.4.5. Conclusion

Senegal has a growing and dynamic microcredit market. But MFIs are mainly concentrated in Dakar and other urban areas, and rural areas are only partly covered by mobile banking units. Only about 20 per cent of the population have access to microcredits.

Most MFIs in Senegal are credit and savings cooperatives. Borrowers must therefore be or become a member, open a bank account, and make a minimal deposit. The amount of the deposit and the costs of the member fee vary substantially. In order to receive a microcredit, all interviewed MFIs require the investment of own capital. Some ask for collateral, others explicitly do not. A guarantor is not always required. Interest rates, fees, and repayment conditions vary considerably, but it is possible to find MFIs with reasonable payment conditions. For seasonal activities as agriculture or cattle breeding it is possible that repayment starts only after some months. Some MFIs prefer women, certain sectors, or do not give credits to start-ups. All institutions mentioned that a regular income is crucial in order to receive a credit. Further criteria were reliability and having a promising project. Both credits for groups and individuals are available. Most MFIs offer some form of counselling, training, and/or insurance. The credits are monitored through visits and evaluations, and a regular contact is generally seen to be supportive for the borrower.

Microfinance institutions in Senegal are familiar with the subject of migration and some of them offer migration-specific services, such as for remittances. On the other hand, many of the interviewed MFIs expressed doubts about the reliability of returnees and were therefore reluctant to offer microcredits to them. Migrants are often considered to be risky clients. ACEP explains that returnees are in need of assistance, training in entrepreneurship, and other financial subventions before they might be eligible for a credit. CNACS mentions that they indeed have some returnees as clients, but that migrants are a little bit out of touch with the realities in Senegal. CNACS fears that returnees will not stay in the country for the payback, thus migrants are not considered to be an interesting group of clients. On the contrary, PAMECAS is interested in serving returnees and mentions existing projects with migrants. Furthermore, the interviewed person declares that the possibility to receive a loan from PAMECAS would increase if a migrant was proposed by IOM. PAMECAS would be interested in a partnership with IOM on counselling about microfinance services. CMS collaborated with IOM on returnees before and currently has a project with the Senegalese State for migrants returning from Central African Republic.

3.5. SRI LANKA

3.5.1. Fact Sheet

		Bank of Ceylon	Lanka Orix Leasing Company (LOLC)	Merchant Bank of Sri Lanka	Nation Lanka Finance PLC	People's Bank (PB)	HNB Grameen Finance	The Finance Company PLC
INSTITUTION	**Address**	Bank of Ceylon 1, BOC Square, Bank of Ceylon Mawatha, Colombo.01, Sri Lanka	100/1, Sri Jeyawardenepura Mawatha, Rajagiriya Sri Lanka	BOC Merchant Tower, No. 28, St. Michael's Road, Colombo 03	55 1/1, Iceland Building, Galle Road, Colombo 03	Head Office, No. 75, Sri Chittampalam A. Gardiner Mw, Colombo 02	No. 168, HNB Grameen Building, Nawala Road, Nugegoda	No. 55, Lauries Place, R.A. De mel mawatha, Colombo 03
	Website	www.boc.lk	www.lankaorix.com	www.mbslbank.com	www.nlfplc.com	www.peoplesbanl.lk	www.hnbgrameen.lk/	www.thefinance.lk
	Contact	+94 11 2446790-811 boc@boc.lk	+94 21 5670880 +94 777813254 lofin@lankaorix.com	+94 24 2226108 +94 77 3621302 mbslbank@mbslbanl.com	+94 11 4760800 +94 21 4924290 info@ceylincofinance.lk	+94 112 481481 info@peoplesbank.lk	+94 21 2223758 microcredit@ primegrameen.lk	+94 11 2580210 +94 11 2597613 +94 24 2224690 makibens@the finance.lk
	Type of institution	Bank	Non-bank financial institution	Bank	Non-bank financial institution	Bank	Non-bank financial institution	Non-bank financial institution
CREDIT	**Amount available**	LKR 10,000 – 1 mio (CHF 69–6,873)	LKR 25,000–150,000 (CHF 172–1,031)	LKR 30,000–50,000 (CHF 206–344)	LKR 30,000–35,000 (CHF 206–241)	LKR 10,000 - 100,000 (CHF 69–687)	LKR 40,000–300,000 (CHF 275–2,062)	LKR 50,000 – 3 mio (CHF 344–20,619)
	Duration	Can be negotiated, e.g. 2, 3 or 5 years	12–36 months	24 months	1 year	2–3 years	1–2 years	1–7 years (based on the loan category)
	Interest rate	14% per year	1.7% per month (20.4% annually)	16% per year	24–26% per year	13% per year	29% per year	1.9% per month (22.8% annually)
	Collateral	Sometimes, if the repayment capacity is expected to be weak	No	Varies	Varies	Yes	No	-
	Deposit	New clients might transmit their salary (if employed) to the bank as a security	No	No	No	500 LKR	No	No
	Own capital	Sometimes 20–30% of the amount	20–30% of the amount	No	20–30% of the amount	Sometimes 20–30% of the amount	Not necessarily	Not necessarily
	Guarantor	2 guarantors	Individuals: 2 guarantors Groups: other members of the group	2 guarantors within the group	No external guarantors, a group member has 2 guarantors in the group itself	Yes	One member of the group is guarantor of another members of the group	2 guarantors
	Other requirements	1. Regular income 2. Bank account with BOC	1. Regular income 2. Better if there is minimal duration of customer relationship of 2-3 months	1. Regular income 2. Bank account 3. Minimum of 2 weeks of customer relationship	1. Credits only for groups available: Min. 3 members, max. 6 members 2. Minimum of 3 weeks of customer relationship	1. Account with PB 2. Minimum of 1 month of customer relationship	1. Only group credits 2. Regular income of 15,000 LKR by each member of the group 3. Minimum of 3 weeks of customer relationship	1. Regular income 2. Account with The Finance Company PLC

		Bank of Ceylon	Lanka Orix Leasing Company (LOLC)	Merchant Bank of Sri Lanka	Nation Lanka Finance PLC	People's Bank (PB)	HNB Grameen Finance	The Finance Company PLC
APPLICATION	**Documents needed**	1. Identity card 2. Business registration 3. Certificates of professional qualifications 4. Letter of appointment and recent salary slips (if employed) 5. Certification of Grama Niladhari (Government representative of the area) as proof of residence 6. Marriage certificate (if husband and wife are applying) 7. Documents proofing additional income	1. Identity card 2. Business registration 3. Certificates of professional qualifications 4. Letter of appointment and recent salary slips (of past 3 month if employed) 5. Certification of Grama Niladhari (Government representative of the area) as proof of residence 6. Marriage certificate (if husband and wife are applying) 7. Documents proofing additional income 8. Business plan	1. Copy of Identity card or driver license 2. Copy of bank passbook or current account's monthly statement 3. Utility bill or certification of Grama Niladhari (Government representative of the area) or family card as proof of residence	1. Identity card 2. Business registration 3. Certificates of professional qualifications 4. Letter of appointment and recent salary slips (if employed) 5. Certification of Grama Niladhari (Government representative of the area) as proof of residence 6. Marriage certificate (if husband and wife are applying) 7. Documents proofing additional income 8. Business plan	1. Customer request letter 2. Income expenses report 3. Documents to prove how long the client has been in business 4. Business plan	1. Identity card 2. Business registration 3. Certificates of professional qualifications 4. Letter of appointment and recent salary slips (if employed) 5. Certification of Grama Niladhari (Government representative of the area) as proof of residence 6. Marriage certificate (if husband and wife are applying) 7. Documents proofing additional income	1. Copy of national identity card 2. Proof of address 3. Statement of salary for the last three months 4. Letter of employment 5. Other supporting documents as business registration for a business loan, vehicle registration book for a car loan 6. Business plan
	Steps to be taken	1. Business/repayment plan 2. Prepare all other documents 3. Apply	1. Business plan/ repayment plan	1. Develop a business plan 2. Hand-in documents	1. Business plan/ repayment plan	1. Proof of healthy repayment capacity 2. Payable guarantors have to be found	1. Business plan/ repayment plan 2. Prepare all other documents	1. Prepare a business plan, staff can assist 2. Prepare a sound repayment plan
	Application length	1 week	1 week	7 working days	1–2 weeks	2–3 days	3–4 weeks	5 working days
	Fees	LKR 5,000	None	LKR 1,000	-	4,700 LKR	-	-
FEATURES	**Services**	Training programmes, insurance possible	Counselling, Insurance	-	Training programmes, Insurance	Counselling, business training, insurance possible	Business counselling, Motivation programmes	Insurance
	Attitude towards returnees	Neutral – same conditions for migrants and non-migrants	-	-	-	-	Neutral – same conditions for migrants and non-migrants	-

3.5.2. Country and Financial Market Overview

In 2014, Sri Lanka had an estimated population of 20.6 million., Its economic growth was among the fastest in South Asia in recent years (World Bank, 2015h), and the GDP per capita increased from USD 272.9 in 1980 to USD 2,816 in 2012 (World Bank, 2015e). The GDP per capita has thus been multiplied by more than one hundred in 30 years. Growth has been pro-poor for most of the last decade. Moreover, Sri Lanka is focusing on long-term and structural development, and has surpassed most of the UN Millennium Development Goals (World Bank, 2015h). However, according to the annual report of the Central Bank of Sri Lanka, in 2008 still 41.6 per cent of the population lived on less than USD two per day (Atapattu, 2009:5).

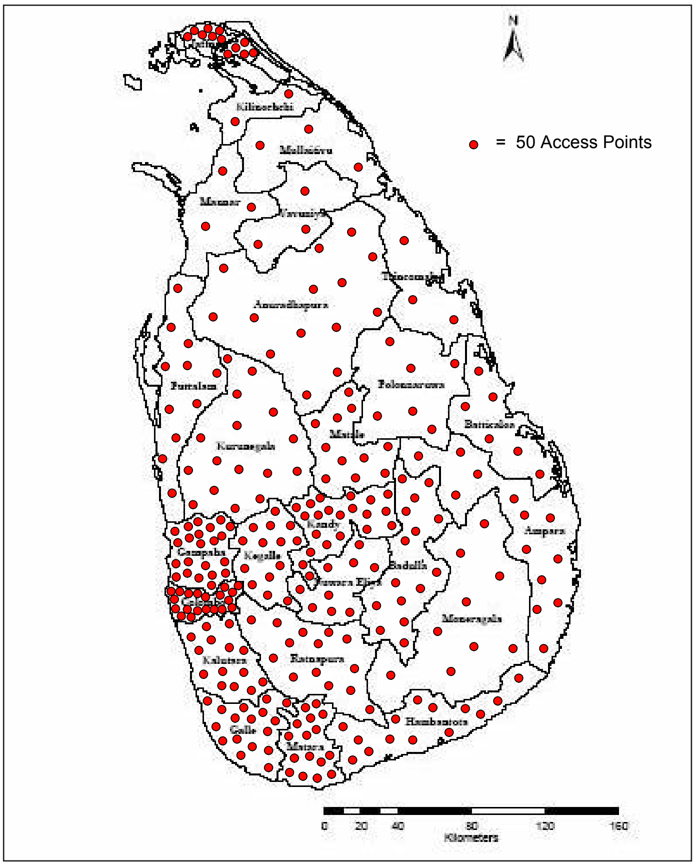
The sectors of services and agriculture dominate the Sri Lankan economy: around 40 per cent of the employed population in Sri Lanka work in each of these two sectors. Employment in industry is declining: in 2005, 26 per cent of the employed population were working in the industry compared to 18 per cent in 2012 (World Bank, 2015f). The World Bank estimates that due to Sri Lanka's structural economic transformation, employment in primary agriculture will likely decline, "as other sectors of higher productivity absorb rural surplus labour". Unemployment is low with only 4.4 per cent, but youth is most affected: 76 per cent of the unemployed were younger than 29 years in 2011 (World Bank, 2015h).

Over 30 years of internal conflict together with poverty have resulted in large emigration flows especially from the Northern and Eastern parts of the country. Some important improvements such as the development of the country's infrastructure, access to the health system as well as to banks and financial institutions in rural areas have taken place (Amez-Droz/Hollinger, 2013:26). Nevertheless, the situation remains difficult particularly in the Northern provinces where there is still a lack of basic infrastructures and inadequacy of essential services (Morlok/Meier, 2013:24). The increase in the cost of living is a further challenge (Amez-Droz/Hollinger, 2013:26).

The German Technical Cooperation (GTZ) stated in 2008 that more than 80 per cent of the Sri Lankan households had access to financial services. Microfinance was hugely prevalent as over 80 per cent of the households had total borrowings below LKR 100,000 (CHF 687)[19] (Fernando/Modoran, 2008:v). In Sri Lanka, the microfinance movement started as early as 1906 with the establishment of Thrift and Credit Cooperative Societies (TCC) under the British Colonial administration. It was reactivated in the last four decades when access to financial services for lower income groups was given more importance. With the entrance of various new institutions and the re-positioning of existing ones, the microfinance industry in Sri Lanka has become one of the most diversified in the region (ibid.:1). The following categories of institutions serve this sector: Regional Development Banks and other licensed specialized banks, Cooperative Rural Banks and other cooperatives, TCC/Sanasa societies, Samurdhi Bank Societies (SBS), NGO-MFIs and other financial institutions including commercial banks and registered finance companies, some of which offer microfinance services (Fernando, 2009:14). The number of microfinance outlets stated in the country varies among different studies but can be estimated at around 10,000. By all means, there is an agreement on the broad coverage of microfinance supply in all regions except for the North (Jaffna excluded) and East (Fernando/Modoran, 2008:1). With the implementation of several initiatives, the Sri Lankan Government plays a key role in the delivery of microfinance services (Fernando, 2009:12). Over 70 per cent of the Sri Lankan population access financial services through State banks (Fernando, 2009:19). SBS, which originates from a Government-run development programme and targets essentially very low-income households, provides around 25 per cent of the households with financial services (Fernando/Modoran, 2008:9).

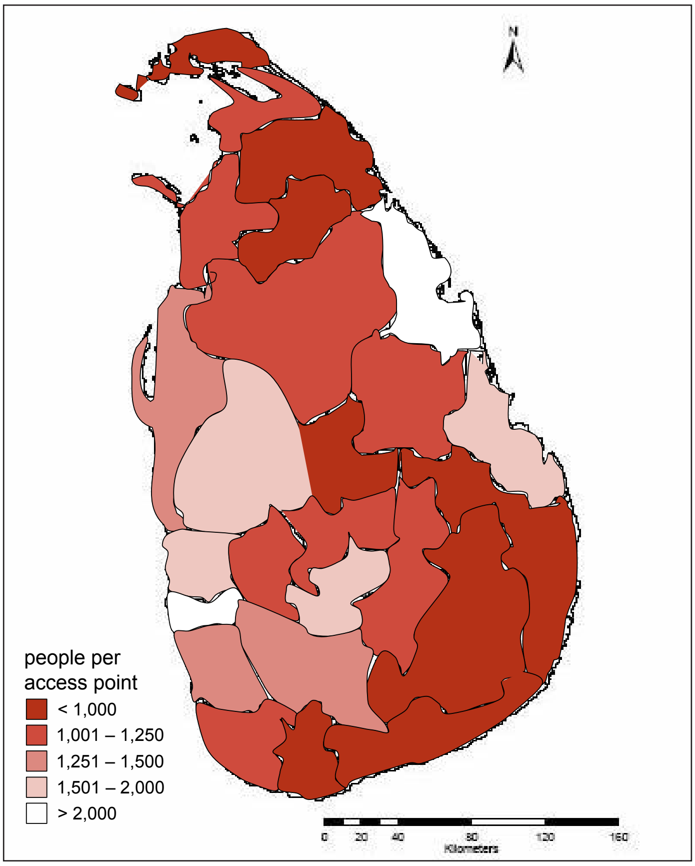
[19] Exchange rate used: LKR 100,000 = CHF 687.30.

Figure 7. Microfinance access points in Sri Lanka



Source: Duflos et al., 2006:34.

Figure 8. Population per point of microfinance service in Sri Lanka



Source: Duflos et al., 2006:35.

Besides formal microfinance institutions, informal credit sources play an important role in the Sri Lankan finance market. Their use is not as widespread as generally believed, as only 18.3 per cent of households indicate having used such sources. While family, friends and neighbours account for the large part of this informal credit, money lenders provide 26.4 per cent of these loans. They are mainly used to meet emergency needs and in this context the short processing time and the absence of collateral requirements are loan conditions that are highly appreciated (Fernando, 2009:20). Collateral requirements, excessive documentation, rigid terms and conditions and long processing periods are named as key barriers that households face in accessing formal institutions for credit (Fernando/Modoran, 2008:39). As a result, there is still an unmet demand for credit despite the high outreach of the microfinance industry in Sri Lanka (Fernando/Modoran, 2008:vi).

3.5.3. Institution Description

The Sri Lankan financial market is largely a microfinance market. While many different financial institutions are active in it, it is dominated by commercial banks. Among them, State-owned banks are the largest providers of credit and savings.

People's Bank

The People's Bank is a State-owned commercial bank that was established in 1961 (People's Bank, 2015). Together with the Bank of Ceylon, it is one of the largest commercial banks in Sri Lanka. It operates 720 branches all over the island.

People's Bank offers loans to individuals and groups with amounts between LKR 10,000 and 100,000 (CHF 69–687), at an annual interest rate of 13 per cent, and with a duration of two to three years. If the client has a good repayment capacity, the bank doesn't hesitate to release the full credit. Otherwise, and this is normally the case, it can be released in stages or amounts of only up to 70 to 80 per cent of the requested amount. People's Bank recommends group credits as they provide more security for the repayment.

In order to check an applicant's repayment capacity, an inquiry at the Credit Information Bureau (CRIB) will be conducted to learn about an applicant's pending loans, pending payments, and existing debts. It is favourable if an applicant has additional income which can be used for repayment or if an applicant possesses assets such as for example a building which can be mortgaged. The People's Bank requires collateral and a guarantor. The possession of a viable business plan is crucial.

In order to receive a credit, the beneficiary needs to open an account at People's Bank. The bank stated that this allows the client to make the monthly repayments, and it also enables the bank to monitor the progress of the business. A minimum deposit of LKR 500 (CHF 3) is requested and this amount needs to be maintained when running the business. Moreover, the bank requires a minimum duration of customer relationship of one month, and sometimes asks for a proof of residence (utility bills) in order to guarantee that the person is living in Sri Lanka. The People's Bank furthermore charges LKR 4,700 (CHF 32), which serves as a deposit for opening an account. Besides microcredits, the People's Bank offers various financial and non-financial services and products such as saving accounts, fixed deposits, social service programmes in the fields of health and sport, and business training. The institution has moreover a particularly large pawning portfolio (Fernando, 2009:8).

Bank of Ceylon

The Bank of Ceylon (BOC) was founded in 1939 as the first State-owned commercial bank (BOC, 2015). It is, together with the People's Bank, one of Sri Lanka's largest commercial banks (Fernando, 2009:8). BOC operates 618 branches all over Sri Lanka.

BOC offers loans to individuals and groups. But individual loans are given under special conditions only, for example when a manager recommends a client. BOC prefers to give group credits as they are considered to be less risky for both bank and borrower. If a member of a group falls ill for instance, the others can continue the payments. The sick member will not get over-indebted and the business might be saved.

Loans in the category of small-scale businesses range from LKR 10,000 to 1,000,000 (CHF 69 to 6,873 CHF). The credit duration can be negotiated, the bank suggests two to five years. The annual interest rate is fixed at 14 per cent. Before obtaining a credit, the bank runs a credit check on a potential client at the CRIB to learn about pending loans, pending payments, and existing debts.[20] In order to receive a credit, it is necessary to establish a bank account at BOC. If a new client applies for a loan, proof or repayment capacity is essential, and usually only 70 to 80 per cent of the requested amount will be provided. Loans for start-up businesses are furthermore often released at stages in order to enhance repayment. A fee of LKR 5,000 (CHF 34) is requested for the opening of an account and the verification of documents.

BOC always requires a guarantor but collateral is only required if repayment capacity is expected to be weak. Collateral requirements are flexible if a person tries to start a business. If the applicant is employed, the salary can be transferred to the bank account and serve as security. Sometimes, the educational background of the applicant is verified in order to ensure that he or she can find an employment if the planned business fails. It is important that the applicant has a good business plan in order to evaluate his or her repayment capacity. The history of how someone has handled his or her bank account in the past can also be an important indicator in the credit check. Clients can ask bank officers for counselling at any stage of the credit process. Staff tries to provide innovative ideas and share experiences with the clients. BOC offers business trainings to both clients and non-clients.

The credit is monitored by visits at the business premises and via the transactions on the bank account. Some customers re-apply for new a credit and long-term customers are offered different conditions. The most important reasons for refusing an application for a microcredit are: deficient business plans and insufficient additional income to repay the loan in case of failure.

Besides credits, BOC also offers other financial and non-financial services such as savings accounts, fixed deposits, pawning, social service programmes, sponsoring social activities, and health programmes. BOC cooperates with an insurance company which offers credit insurance.

Regarding the target group, the bank mentioned that people over 55 years are normally not encouraged to apply for a loan as this could entail risks for the bank and the client. The microcredits provided are mostly used for businesses, but also with regard to the type of business no preference has been stated. BOC has no interest in offering special services to returnees as they are considered to fit into the normal credit schemes.

Lanka Orix Leasing Company

Established in 1956, the Lanka Orix Leasing Company (LOLC) is a financial institution operating as company. LOLC is composed of different groups and companies, all of which offer specific financial and non-financial services and products (LOLC, 2015). LOLC has branches in all districts of Sri Lanka.

LOLC provides loans to individuals, but prefers lending to groups, as it considers group loans to be safer for both the bank and the client. Microcredits of LKR 25,000 to 150,000 (CHF 172 to 1,031) are available at a monthly interest rate of 1.7 per cent for a period of 12 to 36 months. A credit check through the CRIB is undertaken to learn about a client's pending loans, pending payments, and existing debts. LOLC provides only 70 to 80 per cent of the required amount. The borrower must invest own capital as LOLC wants the client to contribute to the project him- or herself. An applicant needs to prove that he or she has a regular income that allows him or her to repay the

[20] The CRIB was founded by the Central Bank of Sri Lanka and the Ministry of Finance as a response to the Sri Lankan debt crisis in the 1980s, and is now a public-private partnership. Apart from the Central Bank holding the majority of equity, all licensed commercial banks, specialized banks, finance companies, leasing companies, and few other institutions are currently shareholders of CRIB. Among other functions, it collects and provides credit information to lending institutions (CRIB, 2012).

credit. If someone does not have a satisfactory repayment capacity, LOLC will make an agreement about the mortgage of an asset. But as microcredits cover only very small amounts, LOLC tries to avoid dealing with assets and instead to find an uncomplicated and flexible solution for the client. Individuals need to present two guarantors, whereas for group credits two guarantors will be named within the group.

Although it is not compulsory to open an account at LOLC, the company sometimes asks the client to open an account, for instance when it is considered to be helpful to the customer to execute monthly payments. LOLC states that it expects the applicant to have already dealt with LOLC for at least two to three months before a credit can be issued. Although this is not a mandatory requirement, it can have a positive impact on the decision to grant a loan or not. A sound business plan is crucial as it will be used to evaluate the applicant's repayment capacity. It is favourable if a person has good professional qualifications as this will help to find an employment if the planned business fails. Moreover, no requirement on the previous duration of residence in Sri Lanka exists. It is, however, necessary to be currently living in Sri Lanka and a proof of residence is required. For this purpose either a current utility bill or a certification of residence that can be obtained from the regional representative (Grama Niladhari) can be handed in. LOLC doesn't charge any fees for a credit application. A small part of the monthly repayments serves as insurance premium on the loan.

Apart from microcredits, LOLC also offers savings accounts, fixed deposits, leasing facilities for higher purchasers, pawing, and certain community service programmes. Furthermore, LOLC provides Islamic financing services.[21]

Merchant Bank of Sri Lanka

The Merchant Bank of Sri Lanka (MBSL) is a financial institution operating 21 branches island wide. It was incorporated in 1982. The State-owned Bank of Ceylon holds a strategic stake of 72 per cent in it (MBSL, 2011a).

The bank provides microcredits for small and medium-sized enterprises and offers loans to individuals and groups. In order to extend its services, MBSL collaborates with Agro Development Finance Services Private Ltd (ADFSL), aiming at bringing financial facilities closer to more rural areas of Sri Lanka through the network of ADFSL. Therefore, MBSL introduced the Siyath Saviya programme, which is supposed to increase the living standards of people in the rural areas by providing microcredits in the industries of vegetable, tea, coconut and fruit cultivation, horticulture, fishery, pottery, and retail (MBSL, 2011b).

Merchant Bank's microcredits range from LKR 30,000 to 50,000 (CHF 206 to 344), have a duration of 24 months, and an annual interest rate of 16 per cent. A regular income is the basis upon which the bank decides on granting a credit or not. A collateral or deposit is usually not required. It is also not required for an applicant to have own capital. In order to obtain a loan, it is however necessary to have some kind of bank account, as this helps the bank to check on salaries and other income. The bank suggests naming two guarantors within a borrowing group as this is the easiest way for the bank to recover missing payments. A business plan will be used to assess the credit request, and a credit check through the CRIB is undertaken to know about pending payments, pending credits, and existing debts of an applicant.

There are no requirements on the minimum duration of residence, however, proof of permanent residence in Sri Lanka through a certification from the "Grama Niladhari" (village officer) or a family card is necessary. The bank charges LKR 250 (CHF 1.70) for the CRIB check and LRK 750 (CHF 5) for the document check.

Apart from its credit options, MBSL also provides savings accounts, hire purchases, leasing facilities, and conducts a community service programme. No insurance on the credit is available.

[21] According to UN Data, 9.7 per cent of the Sri Lankan population were de jure Muslims in 2012 (UN Data, 2015d).

Nation Lanka Finance PLC

Nation Lanka Finance PLC is a public quoted company and has 19 branches throughout Sri Lanka. It has been incorporated in 1987 and is regulated by the Central Bank of Sri Lanka (Nation Lanka Finance PLC, 2013). Nation Lanka Finance PLC only offers group loans (3 to 6 borrowers) with amounts between LKR 30,000 and 35,000 (CHF 206 to 241). The duration of such a credit is one year with an annual interest rate of 24 to 26 per cent. The company wants the client to invest own capital and grants only 70 to 80 per cent of the requested credit amount. It runs a credit check via the CRIB.

It is considered advantageous if a client has additional income which can cover the monthly repayment. It is favourable if an applicant can provide collateral but Nation Lanka Finance PLC tries not to use collaterals for microcredits as amounts are very small and they try to find other solutions with clients that cannot pay, such as for example an extension of the repayment period. External guarantors are not necessary because only group credits are offered. A bank account is not necessary but can be useful for organizing the payments. It is favourable if a person has good professional qualifications as this will help to find an employment if the planned business fails.

Apart from the proof of residence obtained from the Grama Niladhari (village officer), Nation Lanka Finance also asks for a business plan. If the client cannot provide such a plan, the institution helps to elaborate one. A small amount of the repayment serves as insurance premium on the loan. Nation Lanka Finance PLC provides, in addition to microcredits, leasing facilities for higher purchases, savings accounts, fixed deposits, business training programmes, and community service programmes.

HNB Grameen Finance

HNB Grameen Finance (former Prime Grameen Micro Finance Limited)[22] was established in 2000 and focuses on microfinance services for women in rural areas. The Grameen Bank, founded by Nobel Peace Prize laureate Muhammad Yunus, serves as its model. HNB Grameen Finance operates 48 branches in Sri Lanka (HNB Grameen Finance, 2015).

HNB Grameen Finance usually only offers microcredits to groups, because such loans are considered to be less risky. Individual loans are provided under special conditions however, for example if the bank manager recommends a client based on his banking history. The available loans range from LKR 40,000 to 300,000 (CHF 275 to 2,062). They have a duration of 1 to 2 years and an annual interest rate of 29 per cent. Most of the loans are used for opening or expanding small and medium-sized businesses.

In order to check an applicant's repayment capacity, an inquiry at the CRIB will be conducted to learn about an applicant's pending loans, pending payments, and existing debts. Own capital, external guarantors, or deposits are generally not necessary. However, a minimum income of LKR 15,000 (CHF 103) is normally expected by each member of the credit group, but this is not an obligation. Collateral might be requested if the repayment capacity is not satisfactory. The amount provided by HNB Grameen Finance depends on the repayment capacity and the business plan. The business plan should be sound and include ideas about what to do if the main plan does not work. If a group member has an existing business, the income and stability of the business will be analysed. It is favourable if a person has good professional qualifications as this will help to find an employment if the planned business fails.

A bank account is not required but certification from the Grama Niladhari (village officer) on the duration of residence. Moreover, a minimum customer relationship duration of three weeks is mandatory.

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22 In July 2015, Prime Grameen Micro Finance Limited was rebranded to HNB Grameen Finance. Some the information provided in this study was obtained while the company still operated under its former name.

HNB Grameen Finance offers not only microcredits, but also saving accounts, fixed deposits, leasing, insurance facilities (no insurance on microcredits though), business counselling, linkage services with other business parties, and sometimes it conducts motivation programmes for its clients.

Pursuant to HNB Grameen Finance, there are no special groups that are preferred to receive a loan, as well as no special business types. HNB Grameen Finance mentions they are flexible when people aged over 50 or 55 apply for a loan. However, the institution declares that if a big loan is provided, the client is expected to have assets to mortgage. HNB Grameen Finance explains that the main reason for refusing a client is a poor business plan and that in these cases the institute is at disposal to elaborate a better plan.

HNB Grameen Finance states that it does not offer special programmes or policies for returnees, but that it conducts some awareness programmes on small and medium-scale trades, in which returnees could also participate. These projects are not regularly implemented and are sometimes also financed by the World Bank. The programme contains the elaboration of a business plan, information on how to do a market survey for the relevant project, finding a proper location, necessary investments at early stages, business registration procedures, involvement of labour, marketing, account-keeping, competitors, expansion of the business, and any other details that would be useful to run a business.[23]

The Finance Company PLC

The Finance Company PLC (TFC) was established in 1940 and is registered as a licensed finance company since 1979 (TFC, 2015a). It has fixed deposit bases of over 20.8 billion LKR and a network of 43 branches all over Sri Lanka. Over 36 per cent of its capital is owned by the State or other Sri Lankan lending institutions (TFC, 2015b).

The financial institution offers credits for individuals and groups in the range from LKR 50,000 to 3 million (CHF 344 to 20,619). Microcredits run between one and seven years depending on the loan category, and have a monthly interest rate of 1.9 per cent. In order to check an applicant's repayment capacity, an inquiry at the CRIB will be conducted to learn about an applicant's pending loans, pending payments, and existing debts. If TFC is satisfied with a client's repayment capacity, the whole amount requested will be provided and no own capital or deposit is required. TFC does not request collateral but it is mandatory to name two guarantors. It is favourable if an applicant has additional regular incomes.

Moreover, it is necessary to own a bank account at TFC to allow the bank to monitor salaries and other sources of income. The institution doesn't have any requirements on the minimum duration of customer relationship or on the minimum duration of residence, though the existence of a permanent address in Sri Lanka must be proven through utility bills or a certification by the "Grama Niladhari" (village officer). A business plan is required if a loan is used for business purpose, but if the person is not able to establish one, TFC will help to prepare it. TFC offers a loan insurance and recommends it.

Apart from microcredits, TFC also offers saving accounts, fixed deposits leasing and hire purchase, pawning, and housing loans. TFC has a special programme for remittances called Rataviru (TFC, 2015c).

General remarks

For persons who have a very low income level and no guarantors, a programme called "Poverty Alleviation Microfinance Project (PAMP)" exists. The Central Bank funds it through State and private banks. PAMP offers group credits that are ideal for three to five persons that will vouch for each other. The credit limit is LKR 50,000 to 250,000 (CHF 344 to 1,718). The annual interest rate is

[23] Institutions offering such awareness programmes are listed in the section "General remarks". Usually, their services have to be paid for. But if a client has access to these services through an awareness programme, they are free of charge.

9 per cent with a duration of three to five years. If a returnee wants to apply for this programme, the reintegration grant could be used as asset. The members of the group can start a business together, can each start a business on their own, or just serve as guarantor for another person.

In Sri Lanka, microfinance providers generally offer free business trainings for their clients. If no such training is available, micro-entrepreneurs can contact one of the following institutions that provide support for business development against payment:

- Competency-based Economies through Formation of Enterprise (a programme by GTZ)
- Chamber of Commerce
- Industrial Development Board
- Export Development Board
- Vocational Industrial Authorities
- Provincial Industrial Department
- Sri Lanka Food Processing Association
- The Industrial Service Bureau

3.5.4. Examples

Three persons who returned to Sri Lanka and who successfully applied for a microcredit were interviewed about their experiences. All three returnees had obtained or were in the application process for a microcredit at the State-owned Bank of Ceylon. The Bank of Ceylon offers microcredits for a duration of two to five years with an annual interest rate of 14 per cent.

The first person returned from Indonesia and received a reintegration grant of USD 1,000 on the part of IOM. The Bank of Ceylon provided the returnee with a loan of LKR 200,000 (CHF 1,375) that was used to establish a poultry farm. The credit has to be paid back in the course of three years. With an annual interest rate of 14 per cent and repayment period of three years, the person needs to pay back LKR 6,333 (CHF 43) per month, leading to a total repayment over three years of LKR 228,000 (CHF 1,567). The returnee indicates that he or she pays it back without any problem. Moreover, the returnee states that the loan is useful and that after completion of repayment, he or she might apply for another loan.

The second person returned from Mali and received a reintegration grant of USD 3,300. This returnee obtained a microcredit from the Bank of Ceylon over an amount of LKR 300,000 (CHF 2,062) in order to open a computer shop. No information on the duration of the loan is available, but considering an annual interest rate of 14 per cent and a repayment period of three years, the amount which needs to be paid monthly is LKR 9,500 (CHF 65) and the owed amount totals after three years for LKR 342,000 (CHF 2,350). The returnee considers the credit to be useful. He indicates that competition is high as a lot of computer shops exist in his area. Nonetheless, he is confident that somehow the loan will be paid back. If the situation requires it, the returnee might apply for a second microcredit at a later date.

Finally, a third returnee from Hong Kong, China who received an IOM reintegration grant of USD 1,000 mentioned to be currently applying for a microcredit at the Bank of Ceylon. The microcredit accounts for LKR 200,000 (CHF 1,375) and is supposed to be used for a spices packing and distribution business. Considering that the bank provides this loan over a duration of 2 years with an interest rate of 14 per cent, the returnee needs to repay LKR 9,500 (CHF 65) per month, leading to a total amount of LKR 228,000 (CHF 1,567).

3.5.5. Conclusion

Sri Lanka has a large and well-established microfinance market. Supply is good in all regions except the North (Jaffna excluded) and the East. More than 80 per cent of the population have already profited from a loan. State-run microfinance institutions are prevalent. Group lending is more common than individual loans and preferred by most of the interviewed institutions.

The most important features to get a microcredit are a sound business plan and a regular income. Collateral is usually only required for large credit sums or when an MFI has doubts about the repayment capacity of the client. Most MFIs declare that they try to avoid collateral for microcredits as only small sums are involved. Usually two guarantors are necessary for an individual loan, whereas no external guarantor is demanded for group loans, since other members of the group serve as guarantors. Some of the interviewed institutions do not pay the credit sum at once but in tranches. It is common that an MFI releases only 70 to 80 per cent of the requested sum and that the borrower has to cover the balance with own capital. A bank account is required for the majority of the financial institutions, some of them ask for a small deposit. Fees and mandatory deposits are generally rather low. Interest rates vary considerably, but it is possible to find MFIs with reasonable repayment conditions.

All MFIs run a credit check through the CRIB to learn about an applicant's pending loans, pending payments, and existing debts. Most interviewed institutions stress that it is favourable to have an additional income from a source that is different from the planned business as this can serve as security. A further plus is when a person has good professional qualifications as this will help to find an employment if the planned business fails. A proof of current residence is always required but no minimum duration of residence. A minimal duration of customer relationship is usually not mandatory but it can be supportive. Many of the interviewed institutions offer loan insurances and free business trainings for their clients. Paid business trainings are offered by various other institutions. For persons with a very low income level, there is a State-financed programme called "Poverty Alleviation Microfinance Project" (PAMP).

None of the interviewed institutions expressed a special interest in working with returnees nor objections against them. Returnees are seen as normal customers. IOM Colombo was the only interviewed mission which stated having experience with microcredits for returnees. It was therefore possible to interview three migrants who had applied for a microcredit with the Bank of Ceylon. The microcredits were all still pending (application and repayment phase). One returnee was very positive and stated that repayment was possible without problems. A second returnee declared that he experienced hard competition in his field of activity but that so far he had managed to make the payments. The third returnee was still in the application phase and was hoping to boost his starting capital with the microcredit.

4. Findings

The goal of this study is to examine the access conditions to microcredits for migrants returning under an IOM AVRR programme to five target countries. In this chapter, first the findings for the different countries will be summarized and compared. Secondly, migration-specific challenges with regard to microcredits will be summarized and an assessment focussing specifically on the situation of returnees who wish to apply for a microcredit shall be conducted.

4.1. COUNTRY COMPARISON

Outreach

The microcredit situation is very different in all five portrayed countries. Mongolia and Sri Lanka both have large and well-established microcredit markets to which large parts – about 80 per cent – of the population have access. In Nigeria and Senegal, the markets are growing and dynamic, but only about 35 per cent (Nigeria) and 20 per cent (Senegal) of the population have access to them. Informal lending is (still) prevalent. For the Islamic Republic of Iran, percentages are missing, but it is reported that only small parts of the population use microcredits. Normal banking as well as informal lending appear to be more important.

Prevalent type of microfinance institution

In the Islamic Republic of Iran and Sri Lanka, banks – to a large extent State-owned – dominate the microcredit market. In Senegal, savings and credit cooperatives are prevalent. They are often financially supported through the State or international development projects. In Nigeria, most microfinance institutions are licensed as microfinance banks (MFBs). They can be subsidiaries of commercial banks, State banks, development organizations, or companies from the private sector. In Mongolia, MFIs exist in many different organizational forms. Banks dominate the market in terms of volume, whereas non-bank financial institutions dominate in the depth of outreach.

Prevalent type of microcredit and lending conditions

In Sri Lanka, group credits are prevalent while in Mongolia and the Islamic Republic of Iran mainly microcredits for individuals are being offered. In Senegal and Nigeria, both individual and group credits are available. Requirements for collateral and own capital as well as the lending conditions vary considerably among the examined countries. In the Islamic Republic of Iran and Mongolia, MFIs collateralize loans while in Senegal the contribution of own capital seems to be an important aspect. In Nigeria, MFIs stress the importance of a capable guarantor and an existing business. In Sri Lanka, a regular income and a viable business plan seem to be the principal lending criterion for many MFIs.

Requirements and documentation

In all countries, a regular income, a viable business or business plan, and the documentation of a good credit history were mentioned as crucial for individuals wishing to apply for a credit. Most interviewed MFIs stated that it is a condition to open a bank account in order to make the payments and to monitor the credit. Good professional qualifications, own capital, an asset that can be collateralized, a pre-existing business, and a previous customer relationship were mentioned as a plus also from institutions that do not systematically require it. A personal ID card, a proof of residence, a business plan for a start-up or a record book for an existing business, documentation about own capital and collateral, and the ID card of a potential guarantor are the basic documentation which is requested in all examined countries.

Interest rates and costs of a microcredit

The lowest interest rates are available in the Islamic Republic of Iran – they are fixed at 4 to 6 per cent per year. In Senegal too, comparatively cheap microcredits are available with several MFIs offering annual interest rates of around 5 to 15 per cent. In Sri Lanka, the lowest interest rates offered are 10 to 15 per cent per year, while a borrower in Mongolia has to pay at least 20 per cent of annual interest. In Nigeria, interest rates start from 9 per cent and can go up to 72 per cent per year.

The effective costs of a microcredit depend not only on the interest rates but also on the requested fees. These vary considerably among institutions, even within the same country. It seems to be quite common to ask for fees in Senegal and in Mongolia. In the Islamic Republic of Iran on the other hand, the application for a microcredit is generally for free.

Services offered

Many interviewed microcredit providers offer at least counselling and advice to their clients. Some provide in addition financial literacy and business trainings, mentoring, group meetings, and help with the elaboration of the business plan. While in Nigeria, Senegal and Sri Lanka, loan and life insurances are frequently available or even part of the microcredit schemes, this seems to be less the case in the Islamic Republic of Iran and Mongolia.

Accessibility

In all researched countries, the supply of microcredits is better in urban and economically important areas than in rural and less developed regions. Other factors that influence the accessibility of microcredits are: MFIs' preferences for certain groups such as for example women; the systematic exclusion of certain groups such as for example elderly people; requirements for own capital, income, and collateral that can exclude very poor populations; bureaucratic processes and a lack of understanding that hinder people with low financial literacy to apply for a microcredit; some MFIs' aversion against "risky" clients such as for example migrants, persons with start-up businesses or existing debts; and the costs of a microcredit which are generally higher than for a normal bank loan. The importance of each of these hindering factors varies from country to country. They influence the accessibility of microcredits for returnees along with the migration-specific challenges which will be discussed in the following chapter.

4.2. MICROCREDITS FOR RETURNEES

During the research for this study, MFIs mentioned different concerns in connection with returnees as clients. On one hand, many of them expressed negative attitudes towards returned migrants: They described migrants as being less reliable, less trustworthy, and less skilled than non-migrants. On the other hand, migrants were also seen to be in a vulnerable situation upon return as they have to make a new beginning. Only one MFI positively recognized that migrants bring valuable experiences from their time abroad.

Migrants face specific challenges upon return to their home country. Examples which can be mentioned include the re-adaptation to local realities, the re-establishment of a social network, the reintegration into the labour market, or the repayment of potentially pre-existing debts (Fonseca et al., 2015: 13ff). All these factors can negatively influence their capability of accessing a microcredit. Additionally, formal requirements (such as a minimum residence duration) as well as practical problems (as a gap in the credit history due to the time spent abroad) can represent migration-specific hurdles when applying for microcredit. Considering both the prevalent critical view of MFIs towards returned migrants as well as the challenging return situation, it can be concluded that returnees generally face higher obstacles than non-migrants when applying for a microcredit. The importance of return-specific obstacles varies from country to country however.

In the Islamic Republic of Iran, accessing a microcredit seems to be challenging in general, but migrants are not systematically discriminated against when compared to the non-migrant population. The same is true for Sri Lanka as returnees are not considered a distinct customer group by MFIs. Because of a well-established microcredit market with comparatively low accessibility hurdles, access to microcredits should thus generally be possible in Sri Lanka. Also Mongolia has a well-established microcredit market. Problems might originate from MFIs' mixed opinions about returnees and the high interest rates that represent a financial risk. In Senegal, some MFIs express prejudice against returnees since they are perceived to be "risky clients" while other MFIs consider them as interesting clients, especially if they are supported by IOM. Access should thus be possible but it has to be considered that the Senegalese microcredit market is still developing and reaches only about 20 per cent of the total population. In Nigeria, the difficult market situation as well as MFIs' prejudice against migrants seem to make it difficult for a returnee to apply for a microcredit.

Even in countries where access to microcredits is given for returnees, the personal situation upon return has to be taken into consideration: Not every returnee is able and/or willing to handle the responsibility associated with a microcredit. In interviews, Nigerian returnees expressed for example negative attitudes against microcredits because they felt overstrained with the application process and feared that they might face problems with repayment. Such concerns must be taken seriously as the failure of repaying a credit may have serious consequences for a returnee. Therefore, microcredit cannot be recommended as a general solution for returnees who are in need of financial means, but only in specific cases (for more details see the chapter "Recommendations for Pre-Return Counselling").

Based on several interviews, providers of microfinance services tended to agree that it would be most consistent for returnees already benefiting from reintegration assistance to apply for a microcredit loan. If such a returnee wishes to apply for a microcredit, it is important that he or she has a clear idea about what to do with it and how he or she wants to repay it. Microcredit can be used at different stages of the business start-up process. In the following paragraphs three potential situations are described:

As supplement

A returnee applies for microcredit before the start of the business in order to dispose of a more significant initial capital. The credit will probably cover a large amount of money (in Sri Lanka, two of the interviewed returnees have microcredits which are higher than the reintegration grant) and the repayment period will be rather long (in the examples from Sri Lanka about two to three years). The advantage is that comprehensive support for the start-up phase is available. Depending on the country, IOM might be able to coordinate counselling with the microfinance provider and additional services (such as trainings and mentoring) might be offered by the microfinance institution. Challenges: The returnee might not be able to comply with the lending requirements yet (collateral, stable income, running business). Both the returnee and the MFI cannot know whether the start-up will be successful and whether the returnee will earn a stable income allowing him or her to pay back the credit. This constitutes an elevated risk.

As working capital

A returnee has funded a business with the reintegration grant and all the instalments have been disbursed (such as in the example from Afghanistan, cited in the introduction). The returnee applies for a microcredit because he or she needs cash to bridge a short period of time, for example because he or she wants to buy a supply of goods and does not have enough cash. This will probably be a comparatively low credit amount and the repayment period will be shorter. Advantage: If the business is running well, the returnee will be able to prove that he or she is a capable borrower. As the amount is quite low, he or she has a good chance to receive the credit. Counselling and/or offered trainings might provide new ideas and help to optimize the management of the business. The risk is low if the returnee receives good counselling. Challenge:

If the reason for the shortage of liquidity is that the business is not profitable or struggling, the credit might aggravate the situation. Good counselling is thus important.

As additional investment

A returnee has funded a business with the reintegration grant and all instalments have been disbursed. The returnee applies for a microcredit because he or she wants to expand the business and needs additional funds to invest. The credit will probably imply a large amount of money and the repayment period will be rather long. Advantage: if the business is running well, the returnee will be able to prove that he or she is a capable borrower. Counselling and/or available trainings might give new ideas and help to optimize the management of the business. The risk is low if the returnee receives good counselling. Challenge: if a larger amount is needed, it is possible that collateral requirements are high.

At which point it makes sense to apply for a microcredit and for which amount depends on the returnee's plans and the available microcredit schemes and services. Suited MFIs as well as – depending on the country – IOM missions will be able to provide counselling concerning this. Since interest rates for microcredits are comparatively high and as it is reported that, for example in Sri Lanka, many borrowers are not well informed about the effective costs of a microcredit (Fernando, 2009:18), good counselling is important. Furthermore, mentoring and continuous support during the repayment phase is essential especially for returnees with low financial literacy.

5. Conclusion

With the present study, IOM Bern wanted to explore the availability of microcredit as an additional source of financing for reintegration projects. Therefore, the accessibility of microcredits to returnees was examined in five target countries: the Islamic Republic of Iran, Mongolia, Nigeria, Senegal and Sri Lanka.

In a first step, the situation of national microcredit markets was analysed considering that the general availability of microcredits and their accessibility also influences returnees' chances to be part of a microcredit scheme. The analysis shows that the market conditions as well as lending criteria differ considerably in all five countries and the general accessibility of microcredits therefore varies. While access to microcredit in Mongolia, Senegal, and Sri Lanka generally seems to be easier, access in the Islamic Republic of Iran and Nigeria seems to be more difficult.

In a second step, migration-specific challenges for applicants for a microcredit were identified. The findings show that returnees generally face more difficulties in accessing microcredits than non-migrant populations of the examined countries. On one hand, this is because migrants are subject to negative attitudes and perceived to be less capable and less trustworthy than non-migrants. On the other hand, migrants find themselves in a challenging situation upon return and it is difficult for them to comply with the lending conditions. In the Islamic Republic of Iran and Sri Lanka, returnees seem not to be targets of negative attitudes, while in Nigeria, almost every interviewed MFI expressed concerns regarding returnees as clients. In Mongolia and Senegal, MFIs had mixed attitudes towards returnees.

The findings indicate that returnees face more difficulties in accessing microcredits than the non-migrant populations in the five examined countries. Furthermore, interviews with Nigerian returnees show that migrants themselves are reluctant towards microcredits as they feel overstrained with the application process and fear that they might face problems with repayment. While the RAS Monitoring Report 2013 does not indicate how many returnees have (unsuccessfully) applied for a microcredit, the above-mentioned reluctance might explain at least partially why so few of the interviewed returnees used a microcredit to complete their reintegration grant, despite the fact that many of them would have needed funds to further develop their businesses. At the same time, feedbacks from Sri Lankan returnees show that returnees can apply successfully for a microcredit with the support of IOM and that it can be of good use to them if the general market conditions are favourable.

Following this study, IOM Bern considers microcredits as an option that is worth considering for returnees who want to complement their reintegration grant. But due to the problems discussed above, microcredit cannot be seen as a general solution for returnees who are in need of financial means, and seems to be a realistic option only in single cases.

Several of the interviewed MFIs suggested having further talks with IOM to explore microcredit opportunities for returnees in detail and to evaluate possibilities for cooperation. If IOM could offer specific support, it might be possible to make microcredit available to more returnees as the example of the revolving microcredit fund Nigeria shows. But for doing this, additional clarifications and funding would be necessary. In the following chapter, recommendations for strengthening IOM support for microcredits will be given.

6. Recommendations

In this last chapter, recommendations for the Swiss State Secretariat for Migration (SEM), IOM and return counsellors in Switzerland will be formulated. These recommendations rest upon the above-mentioned finding that microcredit is an option worth considering for returnees while at the same time only being a realistic option for single cases. On the one hand, the recommendations aim to serve as suggestions on how to include the concept of microcredit into future AVRR programme work. On the other hand, the recommendations aim to serve as a guideline on how to include information about microcredits into pre-departure counselling.

6.1. RECOMMENDATIONS FOR SEM AND IOM

From the findings of this study, the following recommendations for SEM and IOM can be derived:

Microcredit is not advisable for every returnee

The accessibility of microcredits for returnees depends on the general situation in the country of return as well as on the personal situation of a returnee. Limited availability of microcredits, restrictive lending criteria, and migration-specific challenges may impede access to microcredits. Furthermore, not every returnee is able and/or willing to handle the responsibility of a microcredit. Therefore, microcredit cannot be recommended as a general solution for returnees who are in need of financial means, but only in single cases. For these specific cases, support should be made available through IOM and SEM.

IOM support is crucial

On the one hand, multiple MFIs state that returnees are a risky clientele and that returnees supported by IOM have increased chances to access their microcredit schemes. On the other hand, returnees themselves declare feeling overstrained with the application process and the lending requirements. If eligible returnees are to receive access to microcredit, IOM has a crucial role to play in facilitating contacts with microcredit providers as well as in assessing the returnees' weaknesses and in counselling and supporting them accordingly during the application phase.

The reintegration grant is a central element

Several MFIs state that the reintegration grant would be an important criterion for them to accept returnees as clients, in fact most lending institutions require the applicant to have co-funding for the proposed venture. Therefore, microcredit clearly cannot be seen as alternative, but only as complement to a reintegration grant.

In the microcredit context, a reintegration grant is the key to two issues: On the one hand, it can serve as starting capital for a business. After some time, the business provides a returnee with a regular income and the facilities, equipment or stock might be collateralized. On the other hand, the grant can also be used as deposit or as "own capital" that is invested in complement to the microcredit. Therefore, to increase returnees' chances of accessing microcredits, in-kind reintegration assistance – with a clear monetary value – should continue to be offered.

Ensure the availability of necessary resources

Including microcredit support into IOM's AVRR work requires additional amounts of time and effort. It has therefore to be clarified if and to what extent IOM missions in the countries of origin can provide such support with their existing resources and what additional resources would be needed. It has further to be clarified what services can be delivered within the usual framework of arrival counselling and for what services an extra service fee would be required. An open question is for example if and how IOM can support a returnee after the last disbursement of the reintegration grant as the case is officially seen to be closed at that point.

Reach out for suitable microcredit providers

In order to provide effective counselling and support to returnees who are interested in microcredit, IOM missions in the countries of return must reach out for suitable MFIs and discuss with them the possibility of giving credit to returnees in detail. Several MFIs interviewed for this study suggested to start talks with IOM. In the course of these talks, precise lending conditions, the impact of the reintegration grant, the role of IOM as facilitator in the application process, and the effective chances of returnees getting a microcredit must be clarified. IOM would be willing to do this outreach if additional financing was available.

Evaluate possibilities for engagement

In countries with high accessibility hurdles to microcredit, IOM should evaluate the possibility of offering a microcredit component within the framework of an AVRR programme or of establishing a partnership with a local microfinance provider. An evaluation of the IOM microcredit revolving fund in Nigeria might provide information that could serve as a basis for further considerations. As some microcredit programmes are funded through development organizations and spin-offs of private sector enterprises, it might be interesting to look for partnerships – not only in the countries of return but also in Switzerland. More information about projects, for example the experience in Senegal where the State acts as guarantor for returned migrants, has to be gathered. IOM would be willing to do further clarifications if additional financing was available.

6.2. RECOMMENDATIONS FOR PRE-DEPARTURE COUNSELLING

As mentioned above, microcredit can currently just be seen as an option for individual returnees. Therefore, return counsellors should raise the topic of microcredit only if they think that it might be a real option for a returnee. The following points should be taken into consideration for counselling:

- Make sure that the returnee understands the concept of microcredit: How does it work and what is the goal? What are possible challenges and risks? State clearly that a microcredit is not part of the reintegration grant, but an additional option.
- Clarify the purpose of the microcredit: What should the credit be used for? At what stage of the business start-up process should the application be made? What approximate amount would be needed?
- Gather information about the returnee's capabilities: Does he or she have experience with banking? Does he or she have experience with business management and bookkeeping?
- Get information about the returnee's financial capacities: Is collateral and/or own capital available? Does he or she know possible guarantors or co-borrowers for a group credit?
- Try to identify a microfinance provider with suitable lending conditions, possibly with the help of IOM in the country of return (RIF request).[24] Important characteristics of a microfinance provider might be a positive attitude towards migrants, the availability of counselling and training, and the willingness to give credit to start-ups.
- Clarify to which extent IOM in the country of return can support a microcredit application.

When counselling on microcredits, the country-specific situation as well as the personal situation of the returnee should be taken into consideration. Possible challenges must be discussed and the returnee should transparently be informed about the risks of a microcredit. A RIF request and telephone conversations with relatives or friends in the country of return might help to obtain a realistic image of the situation. It is also possible to visit the website of a microfinance provider to get up-to-date information. An interest calculator might be helpful to get a first idea about the costs of a microcredit; many microfinance providers offer such a tool on their websites. The tables at the beginning of each country chapter were developed for counselling and can serve as information base as well. However, one must be aware that above mentioned sources of

[24] The Return Information Fund (RIF) is an ongoing project of IOM Bern. Its purpose is to provide return relevant information to return counsellors in Switzerland through the IOM network.

information can never replace first-hand and on-site information. The definitive lending modalities can only be dealt with after return.

Only if all of the initially listed questions can be answered consistently, a returnee can be considered an eligible candidate for a microcredit. Nonetheless, the returnee must be informed that before departure only a preliminary discussion can take place and that there is no guarantee that he or she will indeed be accepted as borrower by a microfinance provider in his country.

If an eligible returnee plans to apply for a microcredit, it will be important to inform SEM and IOM about it. Thereby, it can be ensured that the microcredit will be taken into account for the implementation of the reintegration project and that the returnee gets IOM support for the credit application process if possible and needed.

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