

UNCHR-SPTF Webinar Series on Financial Inclusion of Refugees
Session 2: Financial Inclusion of Refugees and Migrants in Italy
(11 May 2017)

In 2017, the Social Performance Task Force (SPTF) collaborated with the United Nations High Commissioner for Refugees (UNHCR) to offer a webinar series on financial inclusion of refugees.

Speakers:

1. Andrea Limone, CEO of PerMicro
2. Edoardo Scalco, Project Manager of Microfinanza

Legal status of foreigners in Italy:

- Refugee: Someone who has been forced to flee his/her country. Has permission to stay in Italy 5 years, and may obtain citizenship after that.
- Holder of subsidiary protection: Person who does not have the requirements to be recognized as a refugee, but for whom protection has been granted to stay in Italy because of risks in his/her country. Permission to stay given for 2-5 years. Not considered for citizenship.
- Migrant: Any other person from a country outside of the EU. May stay as long as s/he has a job (permission for 2 years at a time, renewable). Has access to any financial service.

Overview of Microfinanza work related to financial inclusion of refugees:

Microfinanza has studied demand for financial services by refugees, and then ran a pilot program to provide training and support for start-ups of micro-businesses run by refugees, and ultimately provided seed capital to 14 different start-up businesses. Microfinanza wanted to answer the question, “Can refugees be microfinance clients, accomplishing independent entrepreneurial projects?” Microfinanza found that refugees are a heterogeneous group, but in general they have very strong demand for financial services. When refugees get proper support, they reveal high economic potential, especially those with strong skills and higher education, and especially those who are not in the first phase of flight but have been in their host country for a certain amount of time. Nonetheless, refugees often face challenges of unfamiliarity with the local language and culture and limited support networks in the host community. This is because when they escape, they often must leave immediately, meaning without time to build a long-term plan.

Assessment of refugees’ ability to benefit from microfinance:

Microfinanza learned that it is relevant to assess a refugee’s personal resources (cultural capital, professional and economic capital, social capital, and financial education level/capacity for money management), as well as his/her existing financial resources. It is also important to understand what aspirations the refugee has and what project(s) s(he) proposes to do. These projects can be not just businesses, also related to jobs, housing, and other areas. Microfinanza surveyed about 200 refugees, the majority of whom had been in Italy for at least two years, and found four main groups of refugees: 1) proactive and autonomous (high resources and high aspirations); 2) disoriented (high personal resources but no/unclear aspirations); 3) pre-active (clear goals, but low resources); and 4) vulnerable (low resources and unclear aspirations). The

clear opportunity for microfinance is to help the pre-active and the disoriented groups. Microfinanza invited a group of refugees that it had profiled in these groups into a pilot training program, and about a third of them completed the extensive training program. Using its own training materials, called the *StarToolKit*®, Microfinanza provided training on entrepreneurship, financial education, how to translate a business idea into a business model/plan, and personalized training. Microfinanza recognizes that offering non-financial services have a cost, but considers this compared with the cost of providing welfare services to persons who are not able to be self-reliant. A state may spend about 20,000 EUR per year per person on a welfare recipient in a European country, whereas Microfinanza spent about 3000 EUR per person to provide non-financial services to refugees in its pilot program.

Lessons learned by Microfinanza:

- Financial inclusion is about more than just giving loans. Refugees require targeted non-financial support for microcredit to be effective.
- Strategic partnerships are key (e.g. language courses, housing services), as these provide holistic support to refugees and can reduce or share risk among the partners.
- One-on-one tutoring is effective. Incorporate this into support provided to refugees.
- Start with financial education. Help the refugee document and analyse his/her own household finances. If s/he cannot understand and monitor this, how could s/he run a business?
- Sometimes migrants/refugees think they can open a shop in Europe the way they could in Africa or Asia, with very few steps, though the reality is that it is complicated to open a formal business in Europe.
- Go beyond loans. Injection of seed capital can be an alternative to loans. Consider offering savings products. Remittances are very important and may be the only formal financial channel that refugees use at first, but they can lead to increased ability to save.
- Microfinance can be the right answer, but only under certain conditions. Sometimes a no is better than a yes, to avoid fostering over-indebtedness.
- Take into consideration the transnational mobility of refugees. They do have a higher mobility than Italians. Can we facilitate continued access to financial services for them even if they are forced to move again?

Overview of PerMicro:

PerMicro is a financial intermediary, supervised by the bank of Italy. It has a diverse group of shareholders, some of which are funds in countries outside of Italy. It has 14 branches in 11 different regions in Italy. PerMicro offers microcredit to finance businesses and to help families cope with personal needs (e.g., education, home). The personal microcredit loans come with mentoring before and after disbursement of the loan. PerMicro uses a network of 70 professional mentors.

PerMicro lending to migrants:

Mr. Limone notes that many wealthier families in Europe trust and rely on migrants in a variety of ways: as caregivers for aging family members, as nannies for small children, and as house cleaners. It is a paradox and an injustice that Italian families trust migrants with everything they value most, yet Italian banks do not lend to migrants for personal credit. PerMicro wants to give opportunities to migrants, who are unjustly excluded from the traditional banking system. Thus

far, PerMicro has made business loans to support approximately 2400 enterprises, 44% of which were owned by migrants. For personal credit to families, PerMicro has made almost 13,000 microcredit loans to date, 92% of which were to migrants.

Lessons learned by PerMicro:

- Certain migrant communities are very good clients. PerMicro migrant loan portfolio is less risky than the portfolio of loans to Italian nationals.
- There are different communities within each refugee group. It is therefore not accurate to speak about financial needs of people from Pakistan or Ukraine. Very different behaviors exist within a group of migrants from the same country.
- The age of the client is very important. In general, it is easier for younger migrants to go back to the country they left. But migrants that are not as young and that are rooted in Italy, for example who have children in the school system in Italy, have decided to stay in Italy. They have strong roots in the country and are very good clients.
- A migrant is very different from a refugee. Migrants have a precise project in mind for their life and that is joined with an economic situation, either a job or an active search for a job. Refugees, in many cases, arrive in Italy because of the necessity to escape from a war, from poverty, but are not as ready to start a microenterprise and do not understand Italian.

Questions and Answers:

- *Q: What advice do you have for a microfinance institution on how to conduct a segmentation analysis of a refugee population to understand which segments of that population might be good clients and what their various needs are? Are surveys too expensive?* A: A questionnaire is a practical tool. The questionnaire is the entry point between the microfinance institution (MFI) and the potential client. The questionnaire should gather information on the refugee's personal capital and aspirations. It is up to the MFI to define the specific questions it will ask.
- *Q: Microfinanza financed a small group of start-ups of microenterprises run by refugees. What were the successes and failures of those start-ups?* A: Microfinanza launched 14 enterprises. Half were owned by refugees from the Middle East and half were owned by refugees from Africa. Five of the 14 stopped, for many different reasons, even though they were five very successful enterprises. Here are explanations for three: i) a Yemenese refugee started a repairing business, repairing bicycles in the summer and skis in the winter. He began receiving death threats from other persons in Yemen now living in Italy. These were from the same group of people who had been threatening him in Yemen - the diaspora had followed him to Italy. They tried to poison him and he had to close his enterprise and leave Italy; ii) An Iranian woman ran a shoe shop. She had to stop to move to Canada to help her daughter living there, who had become very ill; iii) A man from Mali started an African supermarket in Italy and he had a money transfer service in his store. He received a fine of more than 10,000 EUR because his service transferred money from Italy to Russia during a period when there were sanctions. It was customer who did the transfer but the store owner had to pay the fine. With the help of Microfinanza and some other partners, he was able to pay the fine, but still he was discouraged and closed his business.

- Q: *In PerMicro, what is the average loan size for a business credit and for a personal credit?* A. The average size of microcredit for a family is 5000 EUR. This is the same average for an Italian or a migrant person. In a business loan, the average loan size is 18,000 EUR among Italian clients, and 14,000 EUR on average for the migrant client. This is because migrants tend to ask for less money than Italian business loan clients. The maximum amount allowed for a business credit loan in PerMicro is 25,000 EUR. Edoardo notes that in the Microfinanza project, the average size of seed capital provided to refugees in Italy was 15,000 EUR. But, the number is totally different in different countries and contexts. For example, in a refugee camp in a developing country, 1,500 EUR would be enough to start a microenterprise.
- Q: *What is the PAR of PerMicro's loan portfolio to migrants?* A: This information is not publicly available.

SPTF and UNHCR welcome your input. To ask questions or share feedback, please contact info@sptf.info.