



# WORLDWIDE FOUNDATION *for* CREDIT UNIONS

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## Kurdistan Refugee Credit Union Initiative

Credit unions are savings-based member-owned financial cooperatives. They are community-based institutions which pool local savings and reinvest in loans back into the community. Geo-political crises have their impact at the community level and credit unions often help provide solutions at the community level.

Within the core mission of credit unions —to serve the underserved — we traveled to Kurdistan, Northern Iraq, with Global Counterpoint, LLC, to explore a credit union approach for serving displaced persons and refugees.



Our objectives were to help refugees in the camps find a way to build assets, to re-engage in a productive economy by moving from relief dependency to self-sufficiency and to build a more secure future through graduation or repatriation.

We are also determined to find a way through credit unions to empower young women who have escaped ISIS slavery to regain their dignity and engage in economic productive activities.

### The Challenge:

The United Nations Refugee Agency reports 65.7 million people have been forced from home by conflict and persecution as of the end of 2014, half of whom are under the age of 18.

World Council has long worked to extend financial services from existing credit unions to internally displaced and immigrant populations. We have assisted already existing credit unions to adapt their methodologies and financial products to the needs of internally displaced persons (IDPs) in Colombia, Afghanistan, Rwanda and Ukraine. Today, we are increasingly asked if credit unions can extend services to populations in refugee camps.

While we have worked with many poor communities in the past, the uncertainty of the future of refugees makes the sustainability of a financial service strategy in refugee camps difficult. Refugees have usually lost previous assets and have limited resources for savings. Refugees face few opportunities for productive revenue generation and lack an economic or social safety net to back them up. They are often in transit and once relocated, refugees would be difficult to collect loan repayments from.

What is different today is we see:

- Refugees have much longer tenure in camps, averaging up to 17 years. Most in the Kurdistan camps have been there for five years. Many have now signed a renewal of their tent space for another four years.
- Camps are large and can reach scale or, aggregated together, can reach scale.
- Refugee camps develop their own local economies of basic commodities and services.

- New digital and payment systems allow local identity, payment and financial transactions to grow with the individual and extend after the refugee returns or settles in a new home.

## Refugee Context

In Kurdistan, the economy is largely petroleum- or agriculture-based. Prevalent economic activity is wheat production and sheep herding. Apples and grapes are produced, but not processed to make juice. Kurdistan products face difficulty competing with lower cost, better quality goods from Turkey and Iran. Many people work in the public sector for pension benefits even though public salaries tend to be lower than the private sector.

Estimates put two- to two-and-a-half million refugees in Kurdistan. The bulk are internally displaced persons from within Iraq from the Islamic State violence dating from as late as 2014 to present. At the end of 2017, there were an estimated 250-thousand Syrian refugees in Iraq. Of these, 97% were in the Kurdistan region with 37% living in camps and 63% of refugees living in the host communities outside of camps. (UNHCR BRP Regional Refugee and Resilience Plan 2017-2018, Information Kit Syrian Refugees – Iraq, Humanitarian Inter-Agency Achievements. No 17 May 2018)

The Kurdistan Regional Government (KRG) provides large areas of tent camps for displaced persons with the expectation that these are temporary arrangements. Internally displaced persons and refugees are registered and given a tent allotment subsequent to security clearance from security services. Permanent structures are discouraged.

Camp residents receive food assistance in the form of cash-based transfers per person and some World Food Organization food packages. The most common types of non-monetary assistance received are food, fuel and water. Camps provide safe water through water trucking and water networks. Camp sanitation facilities provide dislodging of waste water, garbage collection and cleaning of drainage open channels.

There are elementary schools for children in the camps. Family financial constraints to cover transportation, uniforms, books and stationary lead to the drop out of most secondary-level students. The lack of education for refugees in camps threatens economic instability and social tension in the longer term.

## “Refugee accounts”

*It was August 2-3, 2014, that ISIS came to the village of Kocho. ISIS called all residents of the village to the school. They went to all the homes and rounded up the old and infirmed. They told everyone to put their phones, money and watches in baskets. They told the women to go to their homes and bring any gold or valuables to turn over, and if the ISIS fighters found anything withheld, they would execute them. ISIS told all that they had to convert to Islam. The Christians and Yazidis argued that they should not have to abandon their faiths. ISIS put the women and girls on the second floor of the schoolhouse and separated the men into smaller groups. The women saw the men loaded into a truck and driven to a ditch. The women heard shots and saw bullets hitting dust, but they did not see the men themselves falling.*

*“He” was in the sixth group of men taken for execution. His son on one side of him was shot. “He” was shot four times. As they lay suffering on the ground, his son asked his father for water, but he had no water to give him. The ISIS fighters walked among the bodies executing survivors. One of the fighters shot his son in the head. The same soldier was about to shoot him when a plane flew in close and the ISIS fighters fled to cover. He took that opportunity to crawl away and hide in a ditch. The ISIS fighters returned and began to burn the bodies. He saw his cousins burned alive. The ISIS fighters dug a pit, pushed the bodies in and covered over the pit. He hid for days. He packed dirt into his wounds and tied his torn clothing over his wounds to stop the bleeding.*



*The older women were shot. Mothers were beheaded. The younger girls were put in trucks and driven off to holding pens in Mosul where they were given as sex slaves to ISIS fighters.*

*After he found his way to help and recovered from his wounds, he began working to recover the girls who were taken by ISIS. He had friends in Syria who got him information on where girls were held. He assisted allied forces in rescuing girls. When some girls were released or escaped, they stayed with Syrian families until he could get them out of the country. He raised funds to pay for the ransom and rescue of 208 girls and returned them to Kurdistan. There were an estimated 3,600 kidnapped girls. There are now an estimated 1,000. Many were killed by ISIS or by bombing. Some committed suicide. He had six daughters. One daughter is still held and he does not know where she is or if she is still alive. At times he is contacted by ISIS agents who taunt him about his missing daughter.*

## “Refugee accounts”

“He” had a trucking business in the Sinjar valley. When ISIS came, they loaded his family into the trucks and they took his sons and daughters. He showed us the photos of his lost family. He continues trying to find his family and to get his family back. He raised contributions from others and borrowed to pay the ransom to get two of his daughters back. His daughter looked older beyond her time. There were still scars on her face where they had beat her. She had been chained around the neck and raped multiple times a day while held as a slave.



One of his daughters went to Germany, but once there, saw her captor on the street and, frightened, returned to the camp. He continues trying to recover his daughter still in captivity. We listened as he played a phone recording of a caller from Syria demanding that he send money for his daughter but offering no proof of life. “I lost my sisters, my daughters, my sons,” he whispered.

Three weeks later he sent us a phone video of his family’s joyful reunion with two of his rescued daughters.

Today the KRG reports a shortage of continuing government resources to support the camps. Disputes between Baghdad and Erbil have reduced the sharing of Iraq petroleum revenue with the KRG. The booming Kurdistan economy of 2014 and 2015 allowed the KRG to welcome and provide relief to refugees. But the war with ISIS and strains with the Baghdad central government created an economic recession in Kurdistan. UN reports indicate over-stretched demands on camp capacity and decreasing resources to support the camps. (UNHCR - REACH Multi-Sector Needs Assessment of Syrian Refugees Residing in Camps. March 2015 )

United Nations reports call for the transition of camp support from emergency aid to sustainable income solutions, long term employment opportunities, job creation and small business development, so refugees can find employment and become self-reliant. Some refugees have employment outside the camps and commute to work. The most common type of primary work reported is agricultural wage labor. With the large number of internally displaced persons after 2014, increased competition for jobs has made accessing employment more difficult.

We met with several families whose fathers and sons were executed by ISIS and whose wives, sisters and daughters were kidnapped and abused as sexual slaves. One recently-returned woman who escaped from slavery by a family in Baghdad had been told by that family that if she left she would be killed. She fears to leave the camp.

Their sense of powerlessness, shame and abandonment was overwhelming. Many had been beaten and disfigured; they looked old and worn beyond their years. Girls that return are often disturbed from seeing their mothers and grandmothers killed and from suffering beatings and rape in captivity. We were told that many who were rescued or ransomed just sat in their tents in depression and isolation. In the camps there are few jobs or educational opportunities for the girls. Many are not active and see no opportunity for the future.

Jeremy began providing self-defense training to the girls in the camps. We visited some of the girls in their training. As they practiced their moves and pounded the pads, they smiled and laughed. They were not hitting lightly. It was ferocious. They looked over their shoulders to their female role model and to us to see if we were paying attention. We clapped and gave them the thumbs up.

They regain a sense of self-confidence and dignity. Families in the camps asked for training for all their girls now. Wid-

owed women and mothers participate in the training.

Our translator told us one of the girls said to another, "I can be happy now." Another told us, "I wish I had this before. When I was captured we were 50 girls and it was only two ISIS who took us prisoner. If they did that now, we would not allow them to take us."

We planned how to continue the training and expand it to more camps. We talked with the rescued women and girls about the next step; how they can start an economic activity to begin generating income to support themselves and their family

A job or providing for your own livelihood is difficult at best. Camps do have an internal economy with shops, restaurants and small businesses run by the residents, but these are few. Refugees and IDPs request additional support to establish small businesses or income generating activities. Many residents report a need for capital to finance businesses.

After being in the camps for four years, many refugees demonstrate aid dependency, spending what savings they brought with them and taking on debt from family and friends for domestic consumption rather than purchasing long term assets. Households save very little. A significant portion of households in refugee camps report being in debt. Lack of income heightens dependence on services provided by the Kurdish government, United Nations and charity organizations. Few households in the camp have economic security. (UNHCR - REACH Multi-Sector Needs Assessment of Syrian Refugees Residing in Camps. March 2015 )



## "Refugee accounts"

*"She" lived in Kocho in the Sinjar valley. She has four children. ISIS executed her husband, separated her from her children, enslaved her and abused her. She escaped and found her way back to her children in the camps, but all of the rest of her family were dead. Embarrassed and frightened, but strong and determined to protect her children, she was one of the most intent and the fastest learner in the self-defense classes. "Can you do something to support her?" we were asked.*

*Jeremy's mom had sent some money with him and told him "do someone some good." We asked about buying a sewing machine so she could sew and earn money. Many women in the camp already do that. What about a beauty shop? Others are doing that too. Over our morning coffee we puzzled how to empower her with an asset to earn an income to feed her children instead of a hand-out that will be gone tomorrow. Over our coffee? We bought two coffee presses, nine coffee mugs and several bags of coffee and tea. The community would not accept a new woman opening a restaurant to the public. But this is for the women.*

*"The men like to sit in the street and drink their chai," she smiled.*

*"This is for the women to gather in your tent to talk and drink tea," the trainer explained. "It is a business; not for free," we added.*

*She began the conversation with her eyes downcast and sad. She finished the conversation laughing and tapping the floor with her shoe.*



## Strategy

There is no legislative framework or history of credit unions in Iraq or Kurdistan. In Kurdistan, there are two large state banks and a small number of small private sector banks. The Banks tend to do dollar purchases and large building project finance. There is little consumer or small business lending by the banks. Establishment of a credit union requires license by the Central Bank of Baghdad.

Our strategy would be to introduce village savings and loan associations (VSLAs) as an initial step for refugees to develop capital to self-fuel their businesses. VSLAs are informal groups in which members pool a contribution each month and take turns each month using the pool for their productive activity. The VSLAs work only with members of the group and do not take savings deposits from the wider public. Whereas traditionally in a VSLA, each member has a turn to simply take the month's pool and use it, the VSLAs in the camps would have the members repay the loan to the pool.

Worldwide Foundation would provide training and oversight for the VSLAs. Training would provide implementation principles, methodology, policies, charter, governance roles and financial records. The program will report to the state governor and camp administration. Financial transaction and balance records would be kept digitally and would be stored on a single server for all VSLAs. With growth, this may lead to opening a modest front office in the camps for the VSLAs to meet.

## Challenges

**Repayment:** In the camps, the prevalence of grants and free services makes the provision of credit services risky. It needs to be clear that these are loans to be repaid. Recipients need to commit to repayment and the VSLA needs to enforce collection. The VSLA must be branded differently from other relief programs, educating members why loans must be repaid.

**Trust:** The conflict of the past has created distrust between groups within communities and with the government. There is a distrust of banks as many have lost their savings when deposited in banks.

In the absence of trust, a repayment ethos needs to be built through increasing access and incentives. Initial loans are small and successful repayment qualifies the borrower for a slightly larger loan. Loan terms are kept short. Those who pay back their loans receive a certificate which documents their credit history and entitles them to increasing preferential access to credit. Cosigners or guarantors are required; those who have employment or assets may serve as guarantors for others.

Camps are organized by ethnic group, religious group or geographic origin. These then become common bonds. VSLA groups are kept small. The VSLAs emphasize community ownership and member control. The VSLAs are one of the few things owned and operated by the camp residents, and, as such, is designed to build both trust and pride. VSLAs set up their own Board committee to screen and monitor borrowers. The VSLAs build trust with local self-determination and cooperation with community leaders now working in the local camps.

**Wider Economic Integration:** For those who look to finance for productive activities, finance may not be enough. Success may require additional support such as market development and business training. We do not yet have resources to address this activity, so it remains a medium-term strategy.

For the poorest or most vulnerable, it may require granting an asset which the refugee family may then use to generate income before being a credit-worthy subject. In doing so, any program must make clear the distinction between grants; which are given on a set of criteria and purpose, and loans; which must be paid back.

**Transitory Nature:** The Government of Iraq, Government of Kurdistan and the United Nations all indicate the expectation that refugees' status is temporary and will return to their origins. If VSLAs focus on refugees, the refugees will eventually leave and the VSLAs may face repayment and sustainability difficulties. Resettlement remains the only durable solution for most refugees. What happens if the refugees leave the camps and return to resettlement?

With small loans, guarantors and short terms, the VSLAs are an initial step to build trust now. The VSLAs will use people's cell phones as part of their identity and record of transaction. When refugees return to their homes in Sinjar valley or Mosul, they will take their cell phones with them. If the VSLAs are successful while in the camps, refugees may take the model, once digitized, with them. A longer-term goal is to establish services in the Sinjar or other regions of origin. Resources are limited, so we start small in camps first, while we develop and test the model. Security and stability in the homeland areas will need to be established before expanding to those geographic areas.

**Scale:** If credit unions are introduced, camp credit unions will always have limited scale. A more sustainable, long-term approach is to introduce credit unions in the host communities which will provide service to the host community and include operations in the camps. This may avoid frictions between camps and host community, and help build stronger

community and economic linkages. This will require registration and licenses from the Central Bank in Baghdad, and will be a longer term goal. While undergoing this process, we can start with VSLAs in the camps — with the camp administration and the governor's office support.

## Implementation Plan

### Worldwide Foundation and Global Counterpoint will:

- 1. Build Base for VSLAs in the Refugee Camps of Duhok:**
  - i. Document VSLA model charter, governance, policies, savings and loan products, record keeping, operations,
  - ii. Continuing community support through the girls' self-defense training,
  - iii. Recruit and select camps promoter and trainer,
  - iv. Train promoter and trainer in credit union model and VSLA operations,
  - v. Identify, engage and train VSLA camp leaders in the cooperative model.
- 2. Build Government Support for Credit Union and VSLA operations in Kurdistan:**
  - i. Invite Governor of Duhok to study US credit union model,
  - ii. Register Worldwide Foundation representation office with Kurdistan Regional Government,
  - iii. Provide training on VSLA and credit union model to governor staff and camp administration staff,
  - iv. Acquire required documentations and permissions to support VSLAs in camps.
- 3. Initiate Pilot VSLAs in the camps:**
  - i. Establish project implementation plan, annual targets,
  - ii. Train initial VSLA Board and volunteers,
  - iii. Train community members,
  - iv. Initiate operations.
- 4. Begin Dialogue with Central Bank Baghdad:**
  - i. Identify clear regulatory framework,
  - ii. Initiate credit union license request.
- 5. Digitize VSLA operations:**
  - i. Map WOCCU Digital Rural Banking Officer model to VSLA operations,
  - ii. Program secure software in local language for VSLA operations to cell phone,
  - iii. Establish back office server,
  - iv. Locate representation office, server support backup.