

## Chapter 6

# Using Mudarabah for Micro–Enterprises of Refugees

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### ABSTRACT

*This chapter examines the prospects and challenges of using the Mudharabah (profit-sharing partnership) instrument to extend microfinancing to refugees in microenterprise support programs. According to the literature, many Muslim refugees voluntarily exclude themselves from microfinance programs due to the element of interest that is strictly prohibited in Islam. Mudarabah as a Shari’ah-compliant mode of finance represents one potential instrument that complies with the religious teachings of Muslim refugees and could assist in the financial inclusion of many of them. Despite the inherent risks of Mudarabah such as moral hazard and adverse selection, some successful stories are remarkably encouraging. This chapter is proposing a model for a microenterprise support program based on Mudarabah. The chapter concludes that Mudarabah is a viable mode of finance provided that best practices in implementing Mudarabah as well as microfinance programmes are well adopted and observed.*

### INTRODUCTION

The last few years have witnessed an unprecedented rise in the number of refugees worldwide. In 2010, approximately 200,000 new refugees were registered by the UNHCR (UNHCR, 2012). In 2017 the number of newly registered refugees reached 2.7 million, more than thirteen times higher than it was in 2010 (UNHCR, 2018). The UNHCR report (2019) affirms that by the end of 2018 the total number of forcibly displaced populations worldwide had hit a new record high of 70.8 million including around 20.4 million refugees. Since 2012, the overall number of refugees under the UNHCR’s mandate has nearly doubled (UNHCR, 2019).

An examination of this large number of refugees reveals that most refugees have no chance of returning home soon. Millions of people spend many years in exile. They become stuck in camps or temporary settlements and found themselves trapped in a long-lasting state of limbo known as “protracted situations”.

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This term refers to situations where 25,000 or more refugees of the same nationality have been in exile for five years or longer in a given asylum country. By the end of 2018, it is estimated that approximately 15.9 million refugees are considered in protracted situations. 5.8 million were in a situation lasting 20 years or more. These refugees are hosted by 27 countries, representing 32 protracted situations. In 2018 nine additional situations become protracted, and none of the previous protracted situations were resolved in the same year (UNHCR, 2019).

To address the crisis of refugees in protracted situations, three solutions have been proposed by UNHCR as durable solutions. These include voluntary repatriation, local integration in the host country of first asylum and, finally, resettlement in a third country (UNHCR, 2006). Although repatriation would be a preferable solution, for many refugees it seems impossible due to ongoing conflict in the country of origin or due to the loss of homes, livelihood and basic services (UNHCR, 2012).

As for integration in host countries, many countries have resisted this solution for various political, economic and social considerations, to the extent that some commentators have called this solution as a “forgotten solution” or “non-solution” that may have been used in the past but is rarely put into practice nowadays (Jacobsen, 2001).

The third durable solution proposed by the international community has been ‘resettlement of refugees in a third country’. This solution has been ineffective for a number of reasons including the high costs of processing, transporting and integrating refugees (UNHCR, 2008). Additionally, the limited number of resettlement places offered by third countries can by no means solve the plight of millions of refugees in protracted situations. For instance, in 2018, UNHCR estimated that out of 1.4 million refugees who needed resettling globally, only 81,300 places were provided by 29 resettlement states (UNHCR, 2019).

Against this background, durable solutions proposed by UNHCR remain a dream for the majority of refugees (Slaughter and Crisp, 2009). UNHCR has acknowledged that “securing sustainable durable solutions is a long-term undertaking that exceeds the mandate and resources of UNHCR” (UNHCR, 2004a).

As a result, the issue of economic engagement of refugees has recently gained great importance. In fact, investing in the refugees’ potential and supporting their microenterprises (MEs) and business activities were recognized long ago as an effective approach for improving refugees’ livelihood and enhancing their socio-economic situations. The Handbook of Self-Reliance of UNHCR 2005 affirms in the Annex 1.13.8 the need to promote micro and small enterprise for refugees (UNHCR, 2005).

On the one hand, economic engagement of refugees originally developed as a result of the realization at UNHCR and other humanitarian organizations that the three aforesaid durable solutions are ineffective, insufficient and impractical. On the other hand, economic engagement is promoted due to the multiple socio-economic advantages of the economic engagement of refugees. As highlighted above and as illustrated in Table 1, such advantages are appreciated not only by refugees but also by all other stakeholders involved in refugee crises, namely humanitarian agencies, donors and host countries.

This chapter is an additional effort in the field of refugee economic engagement and empowerment. It particularly focuses on microenterprises (MEs) and microfinance programs for refugees. It attempts to achieve the following objectives:

- a) To highlight the state of the art in refugee microenterprises, in particular, the various challenges that face refugees in developing microenterprises and that face NGOs in supporting refugees’ microenterprises.
- b) To underscore the prospects and challenges of microfinance programs for refugees;

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