This document is part of the Microenterprise Best Practices (MBP) Project's series of Technical Briefs on post-conflict microfinance, available at www.mip.org. The series discusses whether and how to use microfinance in post-conflict settings. The first seven briefs are designed primarily for microfinance practitioners. The final brief (#8) is designed for relief organizations considering microfinance for the first time. While experienced microfinance organizations are unlikely to find new information here, they may share this brief with non-microfinance organizations experimenting in this technical area.

- *Brief #1: Microfinance Following Conflict: Introduction to Technical Briefs*
- *Brief #2: Developing a Post-Conflict Microfinance Industry: The Case of Cambodia*
- *Brief #3: Developing Post-Conflict Microfinance Institutions: The Cases of Liberia and Kosovo*
- *Brief #4: Environmental Preconditions for Successful Post-Conflict Microfinance*
- *Brief #5: Searching for Differences: Microfinance Following Conflict vs. Other Environments*
- *Brief #6: Security Issues for Microfinance Following Conflict*
- *Brief #7: Microfinance for Special Groups: Refugees, Demobilized Soldiers, and Other Populations*
- *Brief #8: Frequently Asked Questions on Basic Microfinance Concepts*

Developing Post-Conflict Microfinance Institutions: The Experiences of Liberia and Kosovo

Brief #2 provided a macro-level view of the development of a post-conflict microfinance industry. Below, Brief #3 takes a micro view—looking at the experiences of two microfinance institutions (MFIs) operating in a post-conflict environment. One case—from Liberia—describes the experience of an MFI operating in one of Africa's poorest countries. The other case—from Kosovo—describes a very young yet nearly self-sufficient MFI in the conflict-ridden but more prosperous Balkans. Despite the very brief coverage, these cases illustrate at least two lessons. First, the significant contrast between their experiences illustrates the wide variability in financial sustainability prospects in post-conflict environments. Second, both cases illustrate how MFIs follow basic principles and sound practices of microfinance regardless of the environment, with operational adaptations where appropriate.

LIBERIA

The Local Enterprise Assistance Program (LEAP) of the Association of Evangelicals of Liberia was started in 1994. Initiated while fighting was raging in much of Liberia, LEAP initially limited its operations to the relatively secure area of Monrovia, the capital city. Only after a relative degree of peace was achieved did LEAP start expanding to other parts of the country.

In 1996, intense fighting broke out again in the countryside, then in Monrovia. Every

NGO in the city was looted and LEAP suspended operations for nearly nine months. After relaunching itself in 1997, LEAP regained most of its 1996 portfolio.

LEAP uses the village banking model for all entering clients, and graduates some clients to solidarity groups as their businesses mature. By mid-2001 LEAP was serving more than 5,000 clients, with an average loan size of $87, and nearly all (99 percent) clients women. In mid-2001, LEAP covered roughly half of its operating costs. Its operational self-sufficiency rate reached a high of 72 percent in 1999 but subsequently dipped down during a time of relatively rapid growth.[1]

In addition to the obvious insecurity of operating in a conflict-affected environment, the LEAP experience illustrates two important challenges in post-conflict microfinance. The first relates to funding challenges. The second relates to creating a client mentality in the midst of an environment dominated by relief operations, and often by extreme uncertainty.

Funding Difficulties. Over the past seven years, a major challenge to LEAP's operations and expansion has been raising sufficient funds to grow to a scale (roughly 10,000 clients) that it believes is required for optimum financial performance. LEAP's challenges in funding mirror those facing MFIs in other post-conflict situations. Traditional microfinance donors—who understand the operational and funding requirements of microfinance—find the environment too unstable for development-oriented programming. Relief-oriented donors, on the other hand, see development work such as microfinance as outside of their relief-oriented mandate. Funding needs for microfinance have thus fallen between the cracks. When relief funds became available to LEAP, other problems emerged. Short funding cycles of relief funds did not match the longer-term commitments needed for development of a financial services institution. At times, relief donors needed to "dump" funds near the end of a year and gave LEAP only a few months in which to spend the funds, a task not normally faced by MFIs in non-conflict settings.

Funding Microfinance While Thinking of Relief

LEAP has found it difficult to help donors, government officials, and others to understand microfinance standards and how markedly they differ from those of traditional relief activities. Early on, one donor decried what he saw as "administrative waste" in a LEAP proposal that requested that 60 percent of donated funds would go towards operational costs and 40 percent to loan funds. Such ratios are common with young MFIs and reflect the costs that go into delivering and servicing credit and savings services. However, this relief-experienced donor compared these ratios to food aid operations in which it is relatively easy for an organization to spend $1 on operations for every $10 worth of food delivered. He didn't see the enormous operational, and hence cost, differences between delivering (and recovering) credit on one hand, and delivering food on the other.

Overcoming Clients' "Handout" Mentality. "We're immersed in a sea of handouts, with little or nothing expected of beneficiaries," said LEAP's Executive Director Bill Massaquoi. "So, in the beginning our clients expected our money to be another one-time handout. It took awhile and a lot of educational work on our part, but in time they

[1] During such growth periods, costs increase as new branches open but commensurate income increases lag.

understood that they receive far more value from continued access to financial services." An incident from the instability of 1996-1997 illustrates the significant progress LEAP made in establishing a client mentality. After a LEAP loan officer fled the country during the instability, the pastor of a church connected to one of the loan officer's groups took responsibility for leading the weekly meetings and collecting payments. The pastor stored the money in his own home until LEAP recommenced operations in 1997. At that time, the pastor brought the money to LEAP's office and repaid the entire loan. Since the largest bank note in Liberia at the time was worth only 10 U.S. cents, he had to hire a taxi to transport the two large bags of cash.

KOSOVO

Besëlidhja/Zavet Microfinance ("Besëlidhja") started in 2000. Its name uses Albanian and Serbian words which convey the meaning of "trust and cooperation," with a strong connotation of "honor and pride." Besëlidhja serves both Albanian and Serbian communities, seeking to help them rebuild Kosovo.

In mid-2001 after only one year of operations Besëlidhja was covering 82 percent of its operational costs through earned income. It was serving nearly 900 clients with an outstanding loan portfolio of $536,000 and enjoying an on-time repayment rate above 98 percent. It was on a pace to be able to cover more than 100 percent of its operating costs during the last quarter of 2001.

Like LEAP, Besëlidhja was started with the assistance of an international NGO, World Relief. Besëlidhja followed the core principles and practices of microfinance. Based on the context, it made the following product choices:

- **Loan Sizes.** Given the relatively high level of microenterprises and of the economy in Kosovo, Besëlidhja's average loan size has been just under $1,000. This average is significantly higher than that of MFIs in many other parts of the world.

- **Group Sizes.** It was felt that large groups sizes of 30 or so, as in village banking, would be inappropriate due to the more individualistic nature of Kosovars, who strongly opposed the idea of being part of larger groups. Therefore, Besëlidhja chose initially to use solidarity groups with four to five members. However, after using this structure for most of its first year Besëlidhja made further adjustments. Group members frequently demonstrated concerns about entrusting their monthly payments to another group member for payment. In response, the institution switched most clients to individual loans, while maintaining an element of mutual guarantees, in that each individual must find two co-signers

Early in its existence Besëlidhja joined together with other MFIs to create Kosovo Credit Information Service (KCIS), a credit bureau. MFI members share their clients' loan repayment records with others through KCIS to motivate repayment and to avoid "double dipping"—clients borrowing from more than one MFI. Clients know about KCIS and want to keep their credit history clean, which serves as an alternative to group guarantees to ensure full, on-time repayment.

Funding was also a challenge in Kosovo, but for very different reasons than in Liberia. Operational funds were available, given the significant donor commitment to getting the Kosovo economy back on its feet. Finding sufficient loan funds was a greater challenge: operating a program with relatively large loan sizes required far higher initial capital investments. Besëlidhja's loan fund alone at the end of one year is higher than what some MFIs elsewhere need for their total funding for several years.

COMPARING LIBERIA AND KOSOVO

LEAP and Besëlidhja have both struggled hard to create permanent institutions, offering appropriate products that respond to client needs, and requiring high levels of client discipline. Liberia shows a tougher environment for microfinance: a poorer human capital base from which to draw staff, a weaker credit mentality among clients, poorer infrastructure and a smaller economic base, and a period of renewed violence. All of these constraints combined to slow the speed of financial sustainability. In Kosovo, higher human resource, infrastructure, and economic base, combined with lower costs per-dollar lent, meant that Besëlidhja had a far easier time in achieving standard financial sustainability targets seen outside post-conflict environments. It is useful to note that, with 5,000 clients in seven years, LEAP covers only 50 percent of its operating costs, while Besëlidhja covers 82 percent of its costs with only 900 clients in one year.

The key lesson here for donors and other MFIs is that working in the most difficult environments, just like reaching the poorest segments of non-conflict environments, will have a higher cost structure and will lead to slower achievement of full financial sustainability.

A second lesson—for donors and practitioners alike—is that standard microfinance methods and practices (ranging from village banking, to solidarity group lending, to individual loans) are relevant and desirable to clients in post-conflict environments. Moreover even in the most difficult environments, clients can live up to the disciplinary expectations of full, on-time repayment.

Third, while not described in detail above, both LEAP and Besëlidhja staff spent a great deal of time educating government officials, relief donors, media, and others about the basic principles and practices of microfinance. A common questions in both environments was, "why charge interest?" As the first MFI in Liberia, LEAP staff took the lead in explaining these basic principles at all levels. MFIs in other post-conflict environments report spending significant periods of time in similar educational efforts—particularly aimed at relief-based organizations entering "microfinance" without knowledge of basic principles and practices.