Microfinance in the Wake of Conflict:

Challenges and Opportunities

Widening the circle, moving ahead

MICROENTERPRISE BEST PRACTICES

Development Alternatives, Inc., 7250 Woodmont Avenue, Suite 200, Bethesda, MD 20814 USA

A USAID-funded project, implemented by DEVELOPMENT ALTERNATIVES, INC. in collaboration with ACCION International, Foundation for International Community Assistance, Harvard Institute for International Development, International Management and Communications Corporation, Ohio State University Rural Finance Program, Opportunity International, and the Small Enterprise Education and Promotion Network

Microfinance in the Wake of Conflict:
Challenges and Opportunities

by

Karen Doyle
The SEEP Network

July 1998

This work was supported by the U.S. Agency for International Development, Global Bureau, Economic Growth Section, Microenterprise Development Office, through funding to the Microenterprise Best Practices (MBP) Project, contract number PCE-C-00-96-90004-00.

ACKNOWLEDGMENTS

The author wishes to recognize the invaluable contributions of the microfinance and disaster response professionals who enthusiastically shared their time, thoughts and insights. The headquarters staffs of key practitioner organizations, particularly World Relief, CARE, Mercy Corps International, Women's World Banking, World Vision, and Catholic Relief Services, devoted considerable time fielding questions, hosting site visits, explaining financial and program reports, and reflecting on goals and strategies.

Special thanks also go to the individuals who participated in the study from afar. These are the pioneers who work with exceptional commitment and courage in the wake of conflict each day: Sarah Forster, Doug Pearce, Paul and Southeary Luchtenberg, Michele Gaudrault, Bill Massaquoi, John Munga, Patrick McAllister, In Channy, Liz McGuinness, Myriam Khoury, Ali Kabirigi, Adam Ogora, Festo Kavish, Kirkpatrick Day, Pam Eser, Pisey Phal, Johannes Borger, Judith Kanakuze, David Osterwind, and others who provided timely and thoughtful responses.

I also extend my sincere appreciation to the several donor representatives whose broad-based, informed perspectives and encouragement were essential to the research: Alain Soulard, Kathryn Funk, Marian Pratt, Henry Jackelen, Susan Gibson, Betty Bigombe, and Jennifer Dean. The paper benefited greatly from the thorough review and excellent suggestions of Joan Parker of DAI and Annica Jansen of USAID. The insight and assistance of Robin Young and Matt Buzby of DAI, Mike Goldberg of CGAP, Geetha Nagarajan and Rennie Maguire were vital.

Finally, my deepest gratitude goes to Elaine Edgcomb of The SEEP Network, without whose expert direction and counsel this paper could not have been written. Elaine conceived and authored *Microenterprise Development and Social Safety Nets*, the concept paper that formed the basis for this review. As manager of our work, she provided magnificent conceptual guidance and a wealth of analytical insights and technical expertise that strengthened the research at every stage. Elaine's ability to challenge and inspire others with kindness and grace is unique, and it is an honor to know and work with her.

TABLE OF CONTENTS

Page

EXECUTIVE SUMMARY vii

INTRODUCTION 1

LEARNING OBJECTIVES 1
RESEARCH METHODOLOGY 2

CONFRONTING CONFLICT: A NECESSARY CHALLENGE FOR DEVELOPMENT 5

ENVIRONMENTAL CONDITIONS AND MICROFINANCE PROGRAMS IN POST-CONFLICT SETTINGS 7

ESSENTIAL PRECONDITIONS 7
- Low Intensity of Conflict 8
- Reopening of Markets 8
- Long-Term Displacement 9

PREFERRED CONDITIONS 9
- Bare-Bones, Functioning Commercial Banking System 9
- Absence of Hyperinflation 10
- Relatively Dense Population 10
- Enabling Legislation for Microfinance Institutions 10
- Skilled, Educated Workforce 11
- Social Capital 11
- Trust in the Local Currency and Financial Institutions 11

THE MARKET FOR FINANCIAL SERVICES IN POST-CONFLICT SETTINGS 13

NEED FOR BROAD-BASED TARGETING 13
SPECIAL POPULATIONS IN SERVICE AREA 14
- Inhabitants 14
- Returnees 16
- Internally Displaced Persons 17
- Refugees 18
- Demobilized Soldiers 20

ADDITIONAL IMPORTANT CONSIDERATIONS 21
- Rural versus Urban 22
- Women versus Men 22

DEMAND FOR MICROFINANCE 23
Credit 23
Savings Services 24
Nonfinancial Services 25

PROGRAM CHARACTERISTICS 27

GOALS 27
Goals of Implementers 27
Goals as a Function of Institutional Type 29
Relief and Political Development Goals 30
STRATEGIES 32
Adaptations to Original Strategies 32
Strategies in Response to Specific Conflict Conditions 34
Responses to Intermittent Disaster and Crises 35
Examples of Program Responses and Client Reception 35
OPERATIONS 43
Security-related Risks 43
Precautions Taken in Reviewed Programs 44
Operational Responses to Deficient Bank Systems and Hyperinflation 45
FINANCING 45
Sources of Funding 45
Sustainability 46
Institutional Development 50

CONCLUSIONS 53

NEXT STEPS 54

BIBLIOGRAPHY 57

ANNEX:
SELECTED COUNTRIES AND MICROFINANCE PROGRAMS A-1

LIST OF TABLES

Table		Page
1	Microfinance and Microenterprise Development Services in Post-Conflict Settings	15
2	Rural Credit Program and Urban Credit Program of the Albanian Development Fund	39
3	Operational Self-Sufficiency Trends	48
A-1	Characteristics of Four Conflict-Affected Environments	A-4
A-2	Five Bosnian Microfinance Programs	A-6
A-3	Five Cambodian Microfinance Programs	A-12
A-4	Three Rwandan Microfinance Programs	A-18
A-5	World Relief and CARE Programs	A-21

EXECUTIVE SUMMARY

This paper provides a snapshot of the rapidly evolving practice of microfinance and microenterprise development in post-conflict situations. Microfinance practitioners around the world, schooled in microfinance best practices in more normal development settings, are applying and modifying this knowledge in contexts that vary tremendously — by levels of violence and disruption, numbers of people displaced, quality of community relationships, and macroeconomic context. Under incredibly severe conditions, they have forged strategies and operational criteria that permit credit to be delivered — and repaid — and thus to jump-start economic development processes for the most disadvantaged.

Most significantly, microfinance is being viewed as a tool that can serve multiple goals. Predominantly, it remains an economic development strategy that focuses on rebuilding and restarting local economies by providing needed financial services for enterprise creation. But there is also consideration of its use as a relief and survival strategy in the immediate wake of disaster, and as a tool for peace and reconciliation. In most instances, these latter goals remain secondary emphases within programs that work hard to maintain their focus on business imperatives.

The paper documents the surprisingly few preconditions these programs consider essential to initiate a microenterprise development program. These include a reasonable amount of security or stability of access; the reemergence of some market activity; and a certain assurance that, when refugees or internally displaced persons are the focus, they will remain in place long enough for programs to make and recover loans (18 months is the common benchmark). In addition to these criteria are a set of preferable conditions that greatly facilitate implementation but that programs have done without in the short term. These include a functioning banking system, the absence of hyperinflation, a certain level of population density (desired for both scale and security reasons), social capital, a skilled workforce, and a favorable policy environment.

To the extent that preferable conditions do not exist, program managers have developed strategies to operate in spite of difficult circumstances, believing that their commitment to serve the needy in crisis situations does not allow them to wait for more favorable times. As a result, programs endure cumbersome operational procedures during the first few years and face ongoing challenges to institutional development. The impetus, then, is to get programs going quickly, with great flexibility, yet with a clear effort to develop the infrastructure needed for long-term program development.

As with any microfinance program, practitioners working in a post-conflict environment must understand the potential market, the clients who need serving, and the services to provide. The most likely candidates for microfinance services appear to be inhabitants (those that remained in place during the crisis) and returnees, both of whom tend to have at least some assets and an incentive to stay where they are if they can earn a living. Internally displaced persons and refugees pose greater challenges, although experience working with both populations exists. The critical factors appear to be the relative stability of their tenure in their present location, and the extent to which government regulations forbid or curtail economic support to refugees. Of highest risk are demobilized soldiers and excombatants; as a result, microfinance experience with these groups is limited. There is little consensus yet on whether or — if the answer is yes—how best to integrate these two groups into microenterprise development programs, although it seems certain that additional counseling and training inputs must be part of any package of support.

The demand post-crisis clients place on programs fluctuates, with demand being dampened, not unexpectedly, immediately after the termination of hostilities or a resurgence of violence. Although it is difficult to determine levels of demand a priori, in most instances there is evidence that demand usually reaches very high levels during periods of reconstruction, and is responsive to the stimulus of credit availability. Often the greatest hindrance to program growth is not demand but a lack of loan capital to meet that demand.

Post-conflict strategies mirror normal microfinance strategies in many respects, but there are some key differences. In post-conflict situations, strategies — and the programs to carry out these strategies — tend to be implemented more flexibly to respond to changing circumstances. Focus is greater on mechanisms to build trust among clients who have suffered from years of terror and violence. Programs may offer lower interest rates or grace periods in the initial stages and ratchet up as normalcy returns; they often de-emphasize savings for security, inflationary, or legislative reasons. Programs also are designed to be responsive to specific conditions of conflict: dual operations may be initiated where populations remain divided by enmity, and programs may integrate or build off of basic needs activities initiated during an emergency response. This meshing of relief and economic strategies may occur intermittently as crises re-occur. Programs and clients have found methods to accept and integrate both of these, without confusing the ground rules of either.

Operational modifications include establishing policies and procedures to ensure staff security, to address inadequacies in banking systems, and to survive hyperinflation. In most cases programs assume significant risks to personnel and financial viability in the belief that the potential for impact more than outweighs the difficulties. Of course, this implies a longer-term view of the period required for sustainability than is normally considered in microfinance. Progress toward sustainability depends not only on the usual financial factors, but also on the development of local institutions that can assume the management of these programs. In many instances institutional development is a significant focus of program activity for external implementing agencies. Given the loss of skilled people as an aftermath of conflict, organizational management, structures, and systems often need to be built from scratch.

Finally, microfinance and microenterprise development programs successfully operate in policy environments where regulations are often not in place, or where they are unfavorable to best practice. There are few governments that understand the implications of interest rate ceilings or of regulations on the informal sector. Implementing institutions have found that the fluidity of the situation allows them an advocacy role that ultimately may result in more favorable legislation further down the road. The advantage of access — and the potential for great influence — is offset by the amount of time that such advocacy requires. For many programs this puts great strain on scarce staff resources. Yet most practitioners are aware of the lasting significance that their programs — and educational efforts based on them — can have in establishing a positive environment for microfinance.

What is the potential for microfinance programs in post-conflict settings? It is difficult to answer this question with the body of information currently available. Most of the programs reviewed for this study are relatively young; even the longer-term programs in Cambodia are only six years old. The numbers of clients reached in many instances are also relatively small, although the largest and oldest programs in Cambodia now reach 20,000–40,000 clients. In addition, because this study is based largely on interviews with practitioners currently associated with program design and day-to-day operations, capturing program evolution has been difficult.

Of great value to the field would be a longitudinal and comparative documentation of programs in several post-conflict contexts to detail client characteristics, design considerations, methodologies, operations, and client and institutional outcomes as they emerge over time. Such documentation would not only demonstrate *what* level of results can be achieved in terms of outreach, scale, sustainability, and impact, but also *how* these results are achieved. Capturing change over time in programs would provide a set of practical lessons for other practitioners and donors interested in exploring this tool.

The potential for microfinance and microenterprise development programs in the dire circumstances that result from conflict appears extraordinarily high, as evidenced by the section on examples of program responses and client reception. Matching the potential with solid programming is a challenge that many are trying to meet on the ground. Learner-centered, field-based inquiry that supports efforts to create best practice would be an enormous contribution.

Elaine Edgcomb

INTRODUCTION

Former U.S. Secretary of Defense William Perry, speaking at The Aspen Institute in 1995, used a line from Voltaire's *Candide*, "The only thing worth doing is to live in peace and cultivate our gardens," to illustrate the importance of proactive, carefully considered interventions in today's complex conflict environments.[1] To act hastily or unwisely, Perry argued, could create unintended, potentially severe repercussions. To do nothing or to retreat could result in prolonged human suffering and the need for more extensive, costly, and difficult involvement down the road.

Microfinance professionals familiar with conflict-affected environments understand the dual imperative of being both careful and proactive. With continued peace and stability, the environments in which they operate are fertile ground for the steady development of successful microfinance institutions. Nonetheless, the possibility exists, however remote in most areas, that violence, destruction, or chaos may overwhelm institutional and program development.

Given the unavoidable risks, what compels an increasing number of donor and practitioner organizations to initiate and continue microfinance activities after a man-made disaster? In part, it is the opportunity to deliver products and services during a period when demand is high and no other options exist. For some, it is the belief that microfinance presents a better, longer-term, and more invigorating option for client populations than does continued humanitarian assistance. The chance to support economic activity and employment creation after months or years of stagnation and to impede spiraling poverty and further marginalization of the poor are also major motivating factors. Finally, the ability of microfinance providers to influence future policies governing microenterprise and small business development is an important incentive to work in these countries undergoing rapid, sweeping changes.

Underlying all of these considerations are the individuals who live in post-conflict environments. Resolved to move beyond the conflict and begin to rebuild their lives, they affirm that being held accountable for a loan and empowered to invest represent a powerful return to normality. Like Candide, many victims of man-made disasters feel that the most important thing is to "live in peace and cultivate our gardens." Where and when this sentiment exists, microfinance can be and is an effective vehicle for improving clients' economic well-being.

LEARNING OBJECTIVES

The objectives for this review were to:

- Understand how microfinance services have been used to mitigate the economic effects of complex, man-made disasters, particularly during the post-conflict period;

- Identify and synthesize lessons — learned from program implementers regarding the design, products, and performance of these programs;

[1] William J. Perry, "Managing Conflict in the Post-Cold War Era," in *Managing Conflict in the Post-Cold War World: The Role of Intervention*, a Report of The Aspen Institute Conference held August 2-6, 1995, Aspen, Colorado, 1996.

- Derive implications and challenges for microfinance implementers working in the context of complex, man-made disasters; and

- Determine when microfinance is the appropriate instrument to improve the economic well-being of populations in these post-disaster environments: When is it the appropriate approach? What are the conditions and specific modifications practitioners must make so the programs achieve the intended results?

This paper is an initial effort to illuminate each of the learning objectives above. It is too soon, however, to make definitive conclusions about best practice in delivering microfinance services after a man-made disaster. One reason is that practitioners need time to explore the potential to deliver services beyond credit. Figuring out how to disburse and collect on loans while planning for sustainability in these difficult operating environments has been no easy task. As a result, this paper is most concerned with documenting lessons learned — about delivering credit and, to a lesser extent, about savings mobilization.

The potential to offer small housing loans is in the discussion stages, but no experience exists in this kind of loan among programs reviewed. As suggested in the last section of this paper, a deeper analysis guided by the learning objectives listed above is needed. On-site investigation of programs as they mature and experiment with other kinds of microfinance products and services will enhance greatly our ability to implement and evaluate them. In the meantime, we offer preliminary findings — to be confirmed, clarified, or disputed in future evaluations — to stimulate learning about the long-term demand for microfinance in the post-conflict environment.

RESEARCH METHODOLOGY

The research is based for the most part on the experience of 16 programs in four countries: Bosnia -Herzegovina, Cambodia, Rwanda, and Mozambique. For Bosnia-Herzegovina, programs reviewed are the Microenterprise Bank of Bosnia-Herzegovina, World Vision, Mercy Corps Europe, Bospo, and CARE. In Cambodia, the Association of Cambodia Local Economic Development Agencies (ACLEDA), Catholic Relief Services, World Relief, Seilaniti, and UNICEF/Ministry of Women's Affairs responded to our inquiry. Catholic Relief Services, World Relief, and Duterimbere (a microfinance organization) are reviewed in Rwanda. For Mozambique, programs are World Relief, CRESC (CARE), and FISH (CARE). Basic information on these programs as well as brief descriptions of the conflict appear in the Annex. In addition to data from programs in the four focus countries, we used comments and information from practitioners in other conflict-affected areas to support our identification of themes relevant to the general context of man-made disasters. These countries include Angola, Tajikistan, Albania, Uganda, and Sierra Leone.

Researchers collected information through phone calls and site visits to headquarter offices of U.S.-based practitioner agencies and donors, and through e-mail and facsimile inquiries to field staff working in (primarily four) countries. Some in-person interviews with field staff were conducted during a site visit to one of the countries and during field staff visits to the United States.

This is a new area of examination in international development. There is little in the literature that addresses directly the implications and challenges for microfinance development programs in conflict-affected areas. A substantial body of literature focuses on the conditions and causes of conflict and broad-based reconciliation and rehabilitation interventions. However, reports about microfinance development discuss programs without linking them to the environment of conflict in which they operate. As a result, the researchers relied primarily on interviews with practitioners and informed observers, asking them to consider the connections between the post-conflict environment and microfinance services. The literature is used as a valuable tool for confirming recurring themes identified in interviews and for contextualizing findings.

The research for this paper was conducted concurrently with research on microfinance development in natural disasters. Later efforts will attempt to identify and synthesize overarching lessons from both papers, augmenting current thinking about appropriate responses to natural and man-made disasters.

CONFRONTING CONFLICT: A NECESSARY CHALLENGE FOR DEVELOPMENT

The breakdown of the Cold War and of the existing global geopolitical order prompted a wave of intrastate and interstate conflict that has continued since the early 1980s. According to the World Bank more than 50 countries experienced conflict in the last 15–20 years. Fifteen of the world's 20 poorest countries have undergone widespread conflict since 1980. Thirty of the world's low-income countries are dealing with past or current displacement of at least 10 percent of their population. Africa, where the impact of conflict proliferation is most severe, has seen 6 percent of its population displaced during the last decade.[1] Across the world, 70 million people have been displaced in the last ten years.[2]

Cross-border conflict, civil war, as well as ethnic, religious, and cultural strife in emerging states have far-reaching impacts on societies. These include increased birth rates, malnutrition, and incidence of communicable disease, particularly among the displaced. Traditional patterns of social organization and behavior dissolve. Capacities for self-sufficiency diminish when dependency sets in because no options for productive employment are available. Significant losses in human resources occur caused by war casualties and injuries, lapses in formal education, and the flight of educated and skilled to other countries. Moreover, the physical and financial costs of conflict are enormous. Transportation, energy, water, and financial systems are damaged or destroyed. Houses, farms, schools, and hospitals are also affected, attesting to the significant targeting of civilian areas that occurs during civil conflict.[3]

The intersection of conflict and poverty is undeniable. Poverty, or at least the processes by which people see themselves subjugated to poverty, contributes to conflict. Conversely, conflict intensifies poverty as evidenced by negative GDP growth in conflict-affected countries and the fact that the poor are the most vulnerable to effects of man-made disasters such as loss of assets, savings, property, livelihoods, education, and health. Some contend that security is a prerequisite to development; others state that poverty and deprivation are often both the deliberate creation and unintended consequence of civil wars.[4]

Given these realities, learning how to facilitate effective development processes in environments coping with the impacts of war and unrest is a critical issue. Bilateral and multilateral organizations concerned primarily with development are realizing that they must employ a hands-on approach and get involved in situations traditionally left to emergency and disaster response units. The World Bank's Post-Conflict Unit advocates early involvement in the reconstruction process to improve project analysis and increase the odds for sustainable development.[5] At the earliest stages, this means preparing Watching

---

[1]World Bank, *A Framework for World Bank Involvement in Post-Conflict Reconstruction*, Washington, D.C., 1997.

[2]Steven Holtzman, *Post-Conflict Reconstruction*, Work in Progress Paper, Social Policy and Resettlement Division, World Bank, Washington, D.C., 1995.

[3]Ibid.

[4]Sam G. Amoo, *The Challenge of Ethnicity and Conflicts in Africa: The Need for a New Paradigm*, Emergency Response Division, UNDP, New York, 1997.

[5]Telephone interview with Betty Bigombe, social scientist assigned to the newly created post-conflict unit of the World Bank, December 12, 1997.

Briefs for countries the World Bank has not yet entered, like Somalia, or funding de-mining and relief programs in, for example, Bosnia.

The United Nations Development Programme (UNDP) has been exploring this as a critical concern for several years and emphasizes that organizational leadership is constantly looking for new ways to work in post-conflict environments.[6] Practitioners working on both ends of the relief-to-development continuum calculate the real and opportunity costs of delaying development until a country has emerged fully from reconstruction are far too high. Development donors bear these costs when later confronted with widespread and entrenched poverty. However, the costs are born most cruelly by the world's poor, who cope with the far-reaching impacts of conflict and are left more vulnerable to subsequent disasters.

[6]Personal interview with Henry Jackelen and Susan Gibson, Deputy Director and MicroStart Programme Manager for UNDP's Special Unit for Microfinance, December 9, 1997.

ENVIRONMENTAL CONDITIONS AND MICROFINANCE PROGRAMS IN POST-CONFLICT SETTINGS

In keeping with the evolution of the microfinance development field worldwide, the vast majority of programs operating in conflict-affected areas are designed to be tools for economic development at the household and community levels. Program managers and donors focus primarily on rebuilding and restarting local economies through enterprise and employment creation, or increasing economic self-sufficiency by providing needed financial services to vulnerable but economically active individuals and households.

A recent trend has emerged for emergency relief and political development professionals to turn to microfinance development as a tool to meet either survival or reconciliation objectives. Although interest in and consideration of such potential strategies is increasing, there is a lack of on-the-ground experience at this time. Therefore, the body of this review discusses microfinance in terms of its economic development objectives. The growing interest in exploring its potential as a relief and survival tool or as a political development tool is highlighted in the section on goals and objectives.

Practitioners assess two sets of conditions in launching microfinance initiatives — those considered *essential* to initiate microfinance as an economic development program; and those considered *preferable* but not essential to start such a program. It is important to stress that even in the direst circumstances, programs start up and continue to operate with surprisingly little political and financial infrastructure. This is particularly true for poverty lending, group lending, and community banking. Some programs manage to operate in the absence of a functioning banking system and during times of renewed political upheaval and instability. They do so typically by exacting high transaction costs on borrowers. Aware of common expectations for institutional and financial sustainability in more normal development settings, program managers in post-crisis settings incorporate long-term sustainability into program design. Nevertheless, in some of the most challenging environments, ability to operate in the short term overrides concerns about future sustainability.

This short-term view influences many assessments of whether or not to start a program in a post-conflict environment. Given the rapid changes that occur after conflict subsides, practitioners anticipate operating conditions will improve as countries recover from conflict. In other words, as stability returns and a basic infrastructure emerges, institutional development can and does occur. Staff and supportive donors are willing to accept the inherent risks of these environments. They contend the benefits provided to potential clients through microenterprise development services, as well as the opportunity to take advantage of vast demand, justify program implementation at this stage.

ESSENTIAL PRECONDITIONS

Following are the minimum preconditions that practitioners state must be in place to institute microfinance activities in a conflict-affected area. Preconditions are more stringent when loans are larger and when instability revives basic security concerns.

Low Intensity of Conflict

Also defined as reasonable security and stability or a certain amount of stability of access, the absence of extensive, ongoing, or full-out conflict or chaos is essential for program start-up. Absence of conflict is not a requirement. Several programs have operated microfinance programs during wartime but they choose their service areas by an assessment of whether there is sufficient security to permit some level of economic activity and recruiting of new clients. Staff security is an increasingly important issue for programs from the outset. For instance, when Catholic Relief Services (CRS) was designing a credit strategy for Rwanda, expatriates were being killed in the zones under consideration. As a result, CRS is now looking at city-based programs in Rwanda where staff are less at risk.

Programs have had to make significant adjustments in their day-to-day operations and some methodological adjustments to continue operations in areas where conflict persists or has recurred. Nonetheless, several agencies for which relief response is a primary focus and institutional mission (such as CRS, World Relief, CARE, and Mercy Corps International) emphasize that they do not refuse programming in countries experiencing periodic insecurity and resurgence of conflict. Practitioners contend that these are the countries where microfinance development plays a vital and early role in jump-starting the transition to long-term development. Several individuals echo the sentiment of CRS that you need to be willing to lose everything. Others acknowledge that there is a 10 percent chance that program assets will be destroyed. The 90 percent chance of success investing in areas of critical need and representing high demand, however, makes the risks worth taking.

Other organizations with strictly microfinance — rather than relief and development — missions also demonstrate that they are willing to operate in conflict-affected areas. When Women's World Banking (WWB) signed its affiliate agreement with Duterimbere in Rwanda, the country was presumably on its way to recovery. After watching the complete upheaval of its affiliate's program during the 1994 genocide, WWB renewed its commitment to working in the country. WWB helped Duterimbere raise funds and rebuild its program, which resulted in expanded outreach and better performance by the Rwandan affiliate. WWB attributes the improvement to the greater commitment of both officers and clients, both now realizing the critical importance of keeping the organization and its portfolio strong. WWB has since initiated affiliate agreements in other post-conflict environments.

The International Finance Corporation capitalized a microfinance bank in Bosnia-Herzegovina last year, based in part on the experience of a similar bank in Albania. The Albania bank, the Foundation for Enterprise Finance and Development, is considered a model of success despite its lending operations being interrupted for months during civil strife provoked by tumbled pyramid schemes. And ACLEDA in Cambodia launched an immediate expansion of its client base after several weeks of instability provoked by the July 1997 coup d'état.

Reopening of Markets

If there is a single, determining factor across organizations and contexts that signals the possibility of initiating microfinance activities, it is the reappearance of open-air markets. World Relief Africa notes that they wait for a return of about 30–40 percent of the microentrepreneurs previously doing business. Others also look to the return of at least some (less than 30 percent) of the small business owners. In general, program designers search for a resumption of basic economic activity as a reflection of return to normality for potential clients and as an indicator of demand.

Long-Term Displacement

Many potential target areas include a significant number of internally displaced persons (IDPs) or refugees. To provide microfinance services to clients in areas affected by dislocation, practitioners state that the displacement should be expected to last 18 months or longer. When there is an expectation that the displacement period will be of some length, there is less chance for disruption of the program by population movements. Moreover, the refugees and IDPs themselves seem more prepared to initiate and sustain economic activities. A year and a half also allows time for a program to disburse and collect on at least one loan cycle and judge whether to make new loans. A short-term displacement would not necessarily preclude all microfinance development initiatives, particularly by agencies experienced in disaster contexts. But the goals shift from economic development to emergency response, and strategies may change from credit to pre-credit, as discussed below. Moreover, the provision of services to IDPs and refugees depends on other factors, such as whether a host government allows employment promotion programs for refugees.

PREFERRED CONDITIONS

Because practitioners are willing to start microenterprise development programs under very difficult circumstances, most conditions are considered as preferable. However, to continue beyond the emergency response and reconstruction phases and evolve into a sustainable microfinance program, the following conditions must eventually appear or alternative solutions found.[7] In some cases, the field has already invented new methodologies to deal with the absence of these preferred conditions. For example, when social capital is lacking, community banks use first-level loan guarantees to build trust over time. But solving the problem of human capital flight after conflict is proving far more challenging and has serious implications for institutional sustainability. Certain preferred conditions greatly facilitate implementation, especially in the longer term, but programs have operated successfully without them in the short term, as discussed in later sections on strategies and operations.

Bare-Bones, Functioning Commercial Banking System

Although programs manage to operate in the absence of a banking system, they do so at increased administrative costs and at greater risks to staff and clients. For example, to counteract the risks of holding cash, some programs must arrange loan repayments on the same day as disbursement or payment for program expenses. At a minimum, program efficiency gains are considerable when banks are only in the capital or urban areas, and even more so when branches are in trading centers. This enables programs to disburse and protect program capital and operating funds through the banking system rather than becoming the banks themselves.

---

[7]The phrase "emergency response and reconstruction phases" refers to two stages identified in the relief-to-development continuum The continuum is a conceptual framework often used to describe the relationship of aid initiatives in the context of disasters and in other situations of great instability. It places development strategies within a larger framework of assistance efforts that overlap. Rather than representing discrete activities, disaster mitigation, relief, reconstruction, and development are modes of intervention that blend over time, and that need to be implemented in mutually supportive ways. For more information on the relief-to-development continuum, please see Mary B. Anderson and P .J. Woodrow, *Rising from the Ashes: Development Strategies in Times of Disaster*, 1989.

Absence of Hyperinflation

Like the precondition of a skeletal banking infrastructure, an environment free of hyperinflation eliminates excessive administrative burdens on programs. When hyperinflation is in force, practitioners must analyze and adapt every financial transaction between the program and its borrowers and savers to protect savings and loan funds from losing their value. If programs are dollarized, clients must be able to spend and repay in dollars or exchange local currency for dollars. In cases where dollarization is impossible because of donor requirements or monetary policies, programs have resorted to using an in-kind currency, or converting cash to a commodity as quickly as possible. Working against hyperinflation means less time to make and monitor loans and fewer opportunities for mobilizing deposits.

Relatively Dense Population

Like microfinance development in normal settings, the more dispersed an area's population, the more difficult program implementation. The risks to promoters traveling in dangerous areas, or through areas where they may be targeted as members of an opposing ethnic or tribal group, make population density not only an issue of scale but one of safety as well. For instance, CARE Uganda operates veterans' reintegration programs in the West Nile region. Local CARE staff explain that some areas have too few potential clients to justify the security risks staff take in implementing the program. In Rwanda, where traditionally people have avoided forming community clusters, geographic dispersion coupled with safety concerns has led village banking practitioners to design programs centered around the markets rather than based on geographic communities.

Enabling Legislation for Microfinance Institutions

In many post-conflict environments, governing legislation for microfinance service providers — much less *enabling* legislation — does not exist. Often new banking and nongovernmental organization (NGO) laws are in process, giving microfinance developers a window to prove the value of their services before prohibitive laws are drafted. The willingness of microfinance organizations to start up soon after a man-made disaster can create a reservoir of good will with government officials, and encourage the ultimate creation of a policy environment supportive of microfinance institutions and microentrepreneurs.

In the short term, however, the legislative environment requires cutting through red tape, guessing which laws will be enforced, and trying to plan without knowing how programs will operate in the future. The absence of enabling legislation creates problems for clients and staff, particularly in countries where a new or existing government is transitioning from a centrally planned economy. Missing or cumbersome legislation impedes staff from taking formal action on defaults or seizing tangible and intangible assets, while clients may have difficulty confirming and registering land ownership. And in many post-conflict countries, only commercial banks are permitted to take deposits. As one practitioner from CARE explains, this contributes to the unfortunate emphasis on credit over savings for these kinds of programs, despite the need for microfinance clients to have a secure place to save.

Skilled, Educated Workforce

In some countries devastated by war the human resources base of entire generations has been eradicated. People with higher education and skills have left or have been killed through violence or disease. The lack of qualified people to staff microfinance programs and guide institutional development is a significant and common problem in these environments. Finding hard-working, committed front-line staff is not an issue — many programs attribute their ability to recover from disaster recurrence to the high standards of their promoters. Organizations cite problems at the middle and top management levels. For organizations trying to build a permanent microfinance institution, the costs of recruitment, training, and retention of skilled middle managers and visionary, capable leadership can be prohibitive.

Social Capital

Social capital (traditional social mechanisms that facilitate mutual obligations, contracts, and transactions) facilitates program implementation in numerous ways. The breakdown of these mechanisms has serious implications for demand, scale, training needs, and operational efficiency. If a program can tap into trust mechanisms that are still functioning well or that people carry in their recent memory, the need to try to rebuild or create new foundations of social capital is removed. If not, time spent forming strong solidarity groups and training community banks is increased. Some programs are experimenting with adaptations to overcome the breakdown of trust; others have opted to offer individual loans instead of, or in addition to, group schemes.

Trust in the Local Currency and Financial Institutions

It is easier to do outreach if potential customers live in an area now or lived in an area once characterized by financial and monetary stability. Such experience is typically absent in post-conflict environments, where often the currency has changed and the banking system has collapsed. As a result practitioners encounter initial resistance from clients who have a fundamental mistrust in financial institutions. Fortunately, most programs overcome resistance by establishing credibility with local community representatives and by demonstrating results early in the program.

THE MARKET FOR FINANCIAL SERVICES IN POST-CONFLICT SETTINGS

Fundamental differences exist between the client market in a post-conflict situation and that in a normal developing context. First, more people in the post-conflict society are poor — a man-made disaster, such as a major conflict, makes the poor even poorer and drops most of the middle class down. Second, more people turn to self-employment and to the informal sector — some for the first time and some only until the formal sector is rebuilt. Also, more people are mobile — there may be a large percentage of the population displaced or moving voluntarily.

A final difference caused by the post-conflict environment is the difficulty in determining the extent of demand for microfinance services. Unfortunately, the multiple and often intractable barriers the clients face necessitate a pro-active approach by external agents to jump-start capacities and opportunities for livelihoods. This notion of jump-starting is distinctive to these environments because demand for microfinance services, especially among special client groups, may be latent during early reconstruction stages. It seems to take a few practitioners and borrowers willing to show results before the true level of demand is revealed.

This section describes the different populations created as a direct result of war or civil strife, and thus the potential clients of microfinance services. These populations usually include inhabitants and returnees, refugees, IDPs, and demobilized soldiers. Some of the most common traits of these groups are discussed, as are issues in serving women versus men and rural versus urban areas.

NEED FOR BROAD-BASED TARGETING

Practitioners recommend that it is more effective and less risky to open a program to a mixed clientele rather than to target it to certain groups. A program's clientele might include members of the groups mentioned above and other war-affected individuals — for example, landmine survivors, war widows, or rape victims. The unique constraints of these groups can be kept in mind when designing loan and savings products. In the end, however, program services should appeal to a broad range of people in conflict-affected communities to avoid creating tension or bad will toward program clients. Donors trying to facilitate return to conflicted areas are realizing the logic of targeting communities as a whole, evidenced by recent policy changes of the U.N. High Commission for Refugees (UNHCR), a no-targeting policy adopted by donors in Liberia, and a similar policy likely to be adopted in Sierra Leone.

As occurs in normal development settings, avoidance of client targeting seems also to help programs attain or maintain a financial services perspective rather than being forced to try to meet the varied needs of a particular disadvantaged group. Bospo, for example, made a conscious decision to become a microfinance specialist organization rather than continuing an array of services to a narrow target group.[8] Streamlining institutional focus and operations while keeping outreach broad is especially important in the first few years after a man-made disaster. The additional security-related costs of operating in a post-conflict situation leave little room for operational inefficiencies.

Assessing the risks and demand among these complex populations is a tricky endeavor. The table on the following page lists issues to consider in program design, followed by a more detailed look at the circumstances of war-affected individuals and how these might affect their participation in microfinance programs.

SPECIAL POPULATIONS IN SERVICE AREA

Inhabitants

Inhabitants are defined as the individuals who remained in their home communities throughout most or all of the conflict. They are included here as a special client group because of the interdependence between inhabitants and returnees, IDPs, and demobilized soldiers. In communities receiving excombatants or returnees, inhabitants can represent a strong, positive force for easing reintegration, community rebuilding, and reconciliation. They may have the most solid stake in the community's success, so programs are generally better off including inhabitants in service delivery rather than limiting services to groups in more urgent need.

Typically, inhabitants:

- May still possess some productive assets, depending on the level of destruction in an area;
- May be the only ones with a solid claim to their land;
- May resent entitlements to returning populations if they are ineligible;
- Are usually eager to find a way to stop receiving direct assistance and see a return to normality in their communities; and
- May be cut off from former sources of income because of new boundary lines, destruction of infrastructure or places of employment, insecurity or land mines in surrounding areas, or the loss of a former income earner.

---

[8] Bospo, a local microfinance service provider in Bosnia-Herzegovina, was created in 1994 as a humanitarian, community-based organization providing psychological counseling to refugee and displaced women in Eastern Bosnia. It is in the process of becoming an affiliate in the global Women's World Banking network. See Annex for additional information on the current activities of Bospo.

TABLE 1
MICROFINANCE AND MICROENTERPRISE DEVELOPMENT SERVICES IN POST-CONFLICT SETTINGS

Special Population	Types of Services Typically in Demand	Issues for Risk Assessment
Inhabitants	–Short-term microcredit that will lead to long-term, larger loans. –Secure, legally protected deposit services. –Housing repair loans. –Asset repair loans. –Agriculture credit. –Individual lending.	Best risk, especially if previous experience with self-employment or credit, collateral ownership, and remittances.
Returnees	–Savings services (to protect remittances or savings gained while in third country). –Housing repair or construction loans. –Legal services (for land ownership and business registration issues). –Microcredit that will lead to long-term, fixed asset loans. –Individual lending if remittances or recouped assets serve as collateral.	Also lower risk, if political and cultural situation is such that they can easily integrate back into home communities, and they have remittances coming in from family members or were granted funds to return.
IDPs	–Working capital. –Mobile programs offering microfinance services that can follow IDPs to areas of origin. –Village banking or group lending if separated from assets or collateral source. –Concessional grants/"pre-credit." –Credit for subsistence agriculture production.	Risk depends on IDP and host community expectations of IDPs returning to original area or settling and integrating into host economic life. Program may be able to design a follow-on strategy if IDPs relocate
Refugees	–Working capital for enterprises within living area or camps or if permitted to engage in host community economic life. –Village banking or group lending to serve as collateral. –Concessional grants/"pre-credit." –Credit for subsistence agriculture production	Same as above with less likelihood of obtaining permission to participate in host community economic activity and less likelihood that programs can follow refugees across country borders.
Demobilized Soldiers	–Individual lending. –Employment training, apprenticeships, assistance identifying business activity. –Reintegration assistance, short-term counseling. –Protected savings for pensions, entitlement monies.	High risk for loans, especially if no prior civilian employment experience and expectation of entitlement from microfinance program. Consider political implications of serving this group. Possible to accept deposits to secure pensions?

Of the special war-affected populations, inhabitants are the group that is presumably the closest to clients in normal settings. They are most likely to have some assets as well as the inclination or incentives to remain where they are — as long as they feel secure and can envision a way to earn a livelihood. Most agencies starting microenterprise development activities in a post-conflict country will start in communities made up of a majority of these more stable households. Inhabitants typically are eager to seize the economic opportunities that arise after a conflict subsides. As such, they may be the first to request larger loans at longer terms. Yet, they also comprehend the need to demonstrate a viable business idea as well as ability and willingness to repay.

Returnees

These are former refugees or IDPs who may be returning to their original homes or to a new area within their home country. Some returnees have come back on their own, under voluntary repatriation, as many Mozambican refugees did in 1994. Others are reluctantly repatriated because camps are broken up or contract-housing solutions have expired. The successful reintegration of returnees is important to UNHCR and receiving countries to prevent a backflow of refugees over their borders. A sustainable reintegration is often critical to meeting larger political objectives of a peace agreement. As a result, more emphasis is being placed on programs that ease returnees' first year of return.

Typically, returnees:

- Have usually received some incentive to return, including food to last until first harvest, seeds and tools, a partially rebuilt house or construction materials, or a cash grant;
- May have claims on land or property, and have probably lost their assets;
- May be returning to an area where everyone had left and basic systems have been destroyed;
- May return with savings from wages earned in another country or may be receiving remittances from relatives; and
- Are sometimes not offered jobs in the areas to which they have returned, because of resentment or the fact that they are "minority returns" — they belong to a targeted ethnic or religious group.

Like inhabitants, returnees are prime candidates for microfinance services. In some cases, however, targeting returnees can be highly political. A prime example is in Brcko, a trading center in the former Yugoslavia. Brcko is currently under international receivership because Croatia, Republika Srpska, and the Muslim-Croat Federation of Bosnia-Herzegovina all want control of the strategic town. The international community is attempting to lay the foundations for a re-creation of Brcko's past multiethnic traditions by negotiating minority returns with local Serb authorities.

The World Bank's Local Initiatives Project, implemented through the Republika Srpska Employment and Training Foundation, is working with CARE to launch a microfinance program in Brcko. Program implementers will need to have a keen understanding of the political implications of lending to the various groups, while retaining an apolitical outlook and image. Nonetheless, microfinance is considered one of the most promising economic and political development tools at this stage. One official, tasked with overseeing the restoration of Brcko, explains why he heartily supports income generation and microfinance development activities:

> Economic survival and personal safety and security are the questions of the greatest interest to the returning families; and that's the same whether they are Muslim, Croat or Serb . . . . The economy has to be re-invented, and it won't happen very well, or very soon, from the top down.[9]

Microenterprise development services can fill a critical gap along the relief-development continuum for communities accepting large numbers of returnees. As in Mozambique, these areas are usually sites for Quick Impact Projects (QIPs). UNHCR funds QIPs up to $70,000, for a few weeks to several months, in an effort to inject immediate support for rehabilitation and development activities. One function of QIPs is to promote the complementarity and smooth interface between short-term humanitarian assistance and longer-term development programmes.[10]

UNHCR acknowledges that QIPs are largely inadequate to sustain meaningful livelihood solutions for returnees. Income generation-focused QIPs provide grants or inputs to start an enterprise but provide no continuing means for individuals to sustain what they have begun. By marketing the availability of credit and terms through QIPs and other income generation projects, microfinance programs leverage prior investments and allow potential clients to plan for debt management. A concern of practitioners who are new to post-conflict settings is that clients receiving grants will treat loans similarly. In practice, this has not been a problem for any of the institutions serving mixed client groups.

Finally, returnees, along with ex-combatants, may represent the greatest demand for savings services since they often receive remittances from family members or have brought savings back with them. Some returnees may have received a monetary inducement to return to their home country or community.

Internally Displaced Persons

IDPs are people who fled their homes but remained within their country of origin. IDPs may enjoy advantages over refugees because they are apt to share culture and language with people in their host communities. They are more likely to be living with friends or relatives. Unlike refugees, they may not face the very difficult constraint of being prohibited from engaging in enterprise- or employment-creation programs by a reluctant host government. These are broad generalizations, however; it is possible that IDPs are isolated from the local host economy if it is dominated by former adversaries who resent the IDP group.

Typically:

- IDPs may have claims on land or property, but are often unable to gain access to it;
- IDPs may have the opportunity to earn income during displacement; therefore, it should not automatically be assumed that IDPs have no savings or assets; and

---

[9]Record of a conversation between Alvin Gonzaga, UNHCR Chief of Party in Brcko, Republika Srpska, and Dr. Landrum Bolling, Director-at-Large for Mercy Corps International, September 1997.

[10]UNHCR, *Policy and Methodological Framework for Quick Impact Projects (QIPs) as a Means for Facilitating Durable Solutions Through Integration*, 1997.

- IDPs' ability to secure employment in the temporary living area depends on how the existing residents receive them. If isolated from economic activity, their current conditions will resemble those of refugees.

IDPs can be and have been integrated into credit and savings programs. Bospo in Bosnia is an example. In Liberia, World Relief reported that out of a total of 571 clients, many "report that they have been able to leave the displacement camps as a result of income earned in their new businesses."[11] In Mozambique, some IDPs moved only 10–25 kilometers away from their original homes and were able to join community banks during the years they were displaced. In general, loans tend to be short term to mitigate risk to the program. IDPs who are ethnic minorities or who live in collective centers or camps far from markets face difficulties similar to those of refugees. These individuals have limited market opportunities and therefore are seen as high risks for microfinance.

Refugees

The original, official definition of a refugee is one who, owing to well-founded fear of being persecuted for reasons of race, religion, nationality, or political opinion, is outside the country of his nationality and is unable, or — owing to such fear or for reasons other than personal convenience — is unwilling to avail himself of the protection of that country.[12] The 1969 convention of the Organization of African Unity expanded the definition to include people fleeing their country as a result of external aggression, occupation, foreign domination, or events seriously disturbing public order in either part or the whole of his country of origin or nationality.

Many refugees remain outside of their countries for years, and their situations are unpredictable and potentially fluid. Large refugee populations have significant impacts — both negative and positive — on host countries and communities. Depending on their size and the duration of their stay outside their own country, refugees may create competition with local citizens for scarce natural and social resources; cause steep increases in demand for and price of local property and in local markets (sometimes to the detriment of poorer microentrepreneurs); stimulate local economic activity and introduce new technologies; cause significant damage to the host environment due to massive, immediate demand; increase the supply of cheap labor; and divert local administrative resources away from development efforts to humanitarian concerns.

Typically, refugee populations:

- Live outside of their country of origin, having crossed an international border;
- May be in camps, collective centers, or contract housing, or living with family or friends;
- Are separated from or have lost everything they owned;
- May be permitted to grow crops on a small plot of land within temporary housing;

[11] World Relief Corporation, Matching Grant, Fourth Annual Report for October 1, 1996–September 30, 1997, p. 21.

[12] United Nations General Assembly resolution 428 (V), para. 6.

- Will likely be repatriated or remain in the existing situation as opposed to being resettled or locally integrated;

- Are generally willing to go to great lengths to be able to work, even for very low wages;

- Can accept changes to previous economic and social barriers to enterprise development, creating opportunities to forge new economic linkages — for example, women as primary income earners or entry into new economic sectors;

- May have skills unique to the host economic environment;

- May be geographically, culturally, or socially isolated and unable to join the host community; and

- Depend on black-market, informal sector, and distributed items for trading.

Practitioners specifically design small, short-term programs to support refugee enterprises. In large refugee camps in Africa, the practitioners are amazed at the spontaneous enterprises that arise without organized credit services. However, it has been reported by some observers that many of the refugees' activities are illegitimate. Refugees cannot compete economically with those able to obtain reasonably priced credit; as a result, many tend to rely on the drug and alcohol trade.[13] Two limitations in attempting to replicate spontaneous action for legitimate businesses are that there is always the chance that such microfinance programs can collapse when camps break up or are disrupted, and regulations imposed by host countries may prohibit refugees from participating in the host economy.

Some relief and development professionals have tried to work within regulations to provide services to refugees. The government of the Côte d'Ivoire has a policy that Liberian refugees cannot hold jobs, making self-employment a sole option. Yet, even this is difficult — if refugees want to cultivate agriculture, for instance, they need to rent land. If they want to sell in the market, they must have access to sufficient funds to pay the premiums often charged for market stalls. A microcredit program can provide a way to overcome some of these financial barriers, thereby opening the door to what otherwise would be closed opportunities. Obtaining government and donor approval for programs presents another challenge. World Relief proposed to offer community banking to the Liberian refugee community, promising to follow clients back home upon their return. The proposal was not approved and World Relief has not started the program.

Ivars Gutmanis, an economist who has been analyzing potential models for economic development with IDPs and refugees, suggests microfinance practitioners take the following steps:

- Realize that many of these situations are not temporary;

- Look at the criteria in each situation and choose possible economic activities that can integrate IDPs and refugees gradually, in a nonthreatening way, by asking a series of questions: will refugees or IDPs upset the existing economic linkages if they were to enter immediately? Do refugees or IDPs have something new to offer the host community, such as special skills or knowledge? Can they leapfrog over existing linkages to access new markets, perhaps in another geographic area? And where are the weaknesses in current linkages? For example, what can be produced locally that is brought in from elsewhere.?

---

[13]Telephone interview with Sue Lautze of Tufts University and consultant to Office of Foreign Disaster Assistance, November 1997.

- Look at the refugees and IDPs and determine the microfinance products and nonfinancial services that they need. They may be traumatized, may not have land or capital, may be coping with changed family structures — recent widows or men who have had to leave their families behind, or may be hesitant or unable to interact economically in the host community because of ethnic, religious, or political differences; and
- Try to convince donors and host government officials that it is more cost-effective to pay for a long-term economic development program than to simply maintain a refugee population.[15]

Offering a strategy outside of traditional microfinance, the organization called Trickle Up works successfully with both refugees and IDPs. One representative notes that providing concessional grants is "a great way to link relief to development in the relief-to-development continuum," and emphasizes that "microfinance is a truly effective tool to promote self-reliance among refugees and IDPs" who comprise many of its clients in its programs in Sierra Leone, Liberia, and Democratic Republic of Congo. Offering small, concessional grants through indigenous NGOs and with United Nations support, the organization does not report government regulations as a prohibitive factor. Over the last six years, Trickle Up has found that its methodology of providing seed capital in two tranches, along with business training, works particularly well with this population. Its focus on enterprise sustainability, rather than financial sustainability, leaves local partners freer to work with these individuals through times of upheaval and instability.[16]

Demobilized Soldiers

After a conflict has officially ended, a key task for facilitating stability is disarming and demobilizing military forces. Peace agreements usually discuss the numbers of soldiers to be demobilized and the kind of reintegration support veterans can expect. Finding an alternative means of livelihood is a primary concern for this group, some of who may never have worked in the civilian sector. In some countries, such as Liberia and Angola, many excombatants are still teenagers, having been recruited as junior soldiers during childhood. These individuals typically need education, mentoring, and counseling rather than simply access to economic opportunity.

Typically, demobilized soldiers:

- Are similar to the poor in most ways. They tend to be functionally illiterate, in poor health, possess low skill levels, are coping with a disintegrated social network, and have few assets;[17]
- May have difficulty operating outside of a military, hierarchical structure;
- May have become addicted to drugs or alcohol while in service, as the observed practice of some forces is to provide substances to ease the commitment of brutal acts;
- Embody a more political, and hence riskier target population; and

---

[15]Notes from personal and telephone interviews with Ivars Gutmanis of HOBE Corporation, Washington, D.C., November and December 1997.

[16]Letter to Karen Doyle dated December 3, 1997 from Susan Romanski, Trickle Up Program Officer for Africa.

[17]Nat J. Colletta, M. Kostner, and I. Wiederhofer, *The Transition from War to Peace in Sub-Saharan Africa*, World Bank, Washington, D.C., 1996.

- Usually are receiving veterans' payments and have access to reintegration training programs.

Most practitioners advise against designing a program tailored specifically for demobilized soldiers. They believe the political nature and entitlement mentality of this group, approached collectively, will undermine the core values of a microfinance institution. However, after undergoing an initial reintegration program, excombatants who are held to the same standards as any other client group are observed to react well. There also may be a higher demand for savings services among veterans seeking to protect the value of pensions.[18]

Targeted credit has been incorporated as a small part of Demobilization and Reintegration Programs (DRPs), but observations of DRP evaluators are that credit is costly and difficult to manage.[19] In Sub-Saharan Africa, for example, soldiers needed rudimentary business training and counseling to participate in microenterprise, and these interventions were viewed as too costly compared with alternative programs.[20] Nevertheless, a great deal of interest remains in identifying the best way to introduce microcredit as a follow-on to DRPs. Practitioners from Opportunities Industrialization Centers International (OICI) and Feed the Children express a particular interest, as well as representatives from the World Bank's post-conflict unit and the USAID's Office of Transition Initiatives.

CARE Uganda operates as an intermediary between veterans and financial service providers. Its Veterans Integration Through Extension of New Development Opportunities (VITENDO) Program is a one-time, two-year project designed to prepare excombatants for self-employment. VITENDO delivers five four-hour sessions that assist trainees in the selection, planning, and management of income generation activities. Project staff then direct graduates to other institutions in the region that can provide credit or technical assistance. The staff note that demand is greatest for microloans of $250. This seems to be a good way to effect the transition of veterans from free support services to financial services. A clear distinction between a program granted in recognition for military service and one provided in service to a customer is particularly important for this special population.

Examples of pre-credit interventions for excombatants are OICI's program in Liberia and (temporarily interrupted) program in Sierra Leone. These programs provide on-site rural development or vocational training and trauma counseling for excombatants for six months. OICI requires demobilized soldiers to have an identified piece of land as a prerequisite for participation. In return, OICI provides grants to purchase agricultural inputs, as well as training and support services. Donors in Liberia have introduced a country strategy that prohibits targeting of certain populations; OICI's programs will serve a mix of former combatants and rural people. OICI is exploring how to incorporate microcredit into its training and counseling services. To do so, the organization has tripled the size of its microfinance unit and has stated that it will focus on post-conflict environments as a primary strategic objective.

ADDITIONAL IMPORTANT CONSIDERATIONS

At least two other factors play a role in determining the market for microfinance and microenterprise development services: whether to focus on rural or urban environments, and difference in serving male or female clients.

---

[18] Comments of ex-combatant clients of Mercy Corps Europe during personal interviews, Doboj Istok, Bosnia-Herzegovina, October 1997.

[19] Colletta et al., ibid.

[20] Ibid.

Rural versus Urban

Practitioners observe several advantages and disadvantages to operating in either a rural or an urban post-conflict environment. Rural programs may suffer if expansion areas are inaccessible because of unrepaired infrastructure damaged in conflict. With greater population density, urban programs enjoy lower transaction costs and are the first to see a return of the banking infrastructure. And in sparsely populated rural areas, achieving breadth of outreach is difficult — even where clusters of potential clients reside, the lack of roads, bridges and telephone lines can hinder program implementation. Last, the safety of rural-based staff, who must travel through insecure territory with bags of money, is a concern. (Special security concerns also exist in urban locales, because of looting or gangs.)

Despite its drawbacks, the rural operating environment possesses several advantages. Rural programs tend to experience far fewer problems in client turnover, whereas urban operators are challenged by the absence of a coherent social fabric. Some practitioners observe that it is easier to create client ownership of rural programs, which aids in the sustainability of programs.[21] Moreover, donors and government officials may support a rural focus believing that rural programs help to lessen the rapid, urban migration pulls that occur after war. Finally, in most post-conflict countries, there is a tremendous demand for rebuilding the rural agriculture sector. Microfinance can fill an important niche within larger rural development strategies.

Women versus Men

In a post-conflict environment, there is a demand for microfinance services from men and women alike, because of failed banking systems and high unemployment. Practitioners observe that men tend to request larger loan amounts than women. Nevertheless, most programs designed for economic development purposes serve women. This is because agencies operating in normal, as well as post-conflict, contexts employ women-focused methodologies. Additionally, the high number of new heads of households who are women (in Rwanda and Cambodia, for example) motivates programs to serve this vulnerable group. Programs also cite the following reasons for directing services toward women:

- Female-headed households are said to be far less resistant to disaster than male-headed households — a primary reason programs market services especially to women;

- Implementers serving women assert that women represent a safer, much less political client group;

- Practitioners believe that, as in normal settings, women repay at a greater rate and use the loans for family improvements to a greater extent; and

- Programs may target women in order to empower them as peacemakers in a war-torn society. One example is UNHCR's Rwandan and Bosnian Women's Initiatives.

[21] An interesting example is found in comparing the World Bank's rural and urban microfinance programs in Albania, described in a later section on responses to crises.

DEMAND FOR MICROFINANCE

In looking at demand for microfinance programs, three areas have to be examined: (1) credit, (2) savings services, and (3) nonfinancial services.

Credit

Assessing the demand for credit is the first predictor practitioners use to determine when a microfinance program can be introduced. Demand is dampened immediately after the termination of hostilities or a resurgence of violence. Practitioners observe a war syndrome in potential clients' psyche during this time: people will and do state when they are reluctant to take on debt. How long it takes for the war syndrome to fade and for a critical mass to request credit services depends on an array of contextual factors. These include the circumstances surrounding the conflict, the state of the economy prior to strife, and the amount of funds available for reconstruction. Practitioners believe it impractical to estimate a time frame for certain thresholds of demand since conflict-affected environments vary so greatly. In Angola, for instance, observers state that:

> For all the resourcefulness that people must have drawn on in order to survive those years [the final two years of the war], the period immediately after was characterized by passivity and inertia. Confidence and motivation were low; trust in others negligible…Following the destruction of war, the informal sector was the first to recover. This happened long before any formal sector programmes to support the enhancement of livelihoods could be effective.[22]

It seems valuable to initiate a program before demand is at its height. The disbursement of a few loans in communities can jolt other residents out of an emergency mentality and stimulate them to assist in reconstruction. This was a common observation across countries. By making credit available when demand is emerging, implementers hope microfinance investments will generate self-sufficiency and employment options, decrease the likelihood of long-term dependency, and help prevent permanent marginalization of distressed populations.

Once the immediate shock of the conflict begins to subside, interviewed practitioners attest to an increasingly high demand for credit. Many note that demand is tremendous during the full reconstruction phase, because of reconstruction needs and limited formal employment options. The greatest hindrance to programs is not marketing the program but a lack of loan capital. Practitioners in Rwanda, Tajikistan, and Bosnia emphasize this while an assessment of the rural credit market in Cambodia points to lack of loan capital as one constraint in meeting demand: "Rather than a lack of demand, the constraint is both funding, and the limited absorptive capacity of many NGOs."[23]

Distinguishing between a general demand for cash as compared with a demand specifically for credit is difficult. However, anecdotal evidence suggests that clients value access to microfinance services over a handout, even immediately after a crisis. In Rwanda, when Duterimbere offered pregenocide clients an unconditional

---

[22] Karen Gray and Mark Allison,"Microenterprise in a Post-Emergency Environment," Small Enterprise Development, Vol. 8, No. 4, pp. 34–40, December 1997.

[23] Dr. Hendrik Prins, "Rural Credit Review: Cambodia," Final Report for the Asian Development Bank, December 1996, p. 23.

reimbursement of their savings, the women turned the offer down and requested a loan instead. In Liberia, World Relief clients were offered access to their savings after businesses were destroyed during the Easter Crisis. Like Duterimbere's members, the World Relief clients chose to use the savings as collateral for loans. While this anecdotal evidence demonstrates, in these cases, clients preferred repeat loans to unconditional savings withdrawal, the true demonstration of an effective demand for credit would be the repayment of these loans and subsequent demand for credit. Moreover, it is important to note that the World Relief clients, although having deposited savings in the program, were most likely net borrowers, and therefore may have made a rational choice of leaving savings in the program while securing a second, larger loan, regardless of their intention to repay.

Savings Services

In contrast to credit demand, the author did not find a striking consensus on the demand for savings services. Some practitioners believe that people in conflict-affected areas actually are *more* inclined to save rather than to invest. However, they note that current laws prohibit nonbank, microfinance service providers in many of these contexts from accepting deposits. Legislative constraints notwithstanding, a few practitioners observe that program managers are preoccupied with the seemingly more urgent demand for credit and, therefore, are not prepared to experiment with different savings products.

When savings *is* incorporated into program strategies, it is also difficult to judge the level of real demand. Most deposit-taking is compulsory, carries risks (when used as a guarantee for one's own or others' loans), and offers little or no interest. In Cambodia, where several surveys uncovered a high demand for savings services if offered at a reasonable rate of return, current savings schemes are described as expensive to maintain because of complex administration and an extensive need for social intermediation.[24] World Relief in Cambodia sees its average savings per community bank member increase for the first two or three loan cycles (as mandated to obtain higher loan amounts). In the third or fourth cycle, savings then drops to zero and loans to the minimum eligible amount. One hypothesis, put forth by a program evaluation team, is that once loans reach a certain size, clients are unwilling to risk their savings on the repayment of other members. Instead, they use it to pay off their own loan. In this case, customers treat savings more as a security deposit rather than as a savings account. Another theory is that client enterprises only become so large, eliminating the need for higher loans available (and savings required) at the later cycles.

The level of economic activity is also a factor in how great is the demand for savings. In Tajikistan, Angola, and Mozambique, practitioners report that the potential to mobilize cash deposits on a significant scale is limited by the fact that clients and their customers are extremely cash-poor. As of last summer, none of Save the Children clients in Tajikistan had used the program's voluntary savings option — most of the women find it hard enough delivering the deposit required to gain access to credit. World Relief in Mozambique lowered the proportion of savings needed to obtain a loan in an effort to increase its average loan sizes. So far the adaptation is having the desired effect. Managers of a program in Malange, Angola, chose to eliminate forced savings initially, to avoid screening out poor individuals who the program sought to serve.[25]

In any case, it is necessary to look more in-depth into the dynamics between savings and credit before drawing conclusions about demand for savings after a man-made disaster. Preliminary indications are that, as the practice of microfinance in post-conflict settings evolves, deposit mobilization will become an important

[24] Ibid.

[25] Gray and Mark, ibid., p. 37.

component of the mix of products and services. What form savings mobilization should take and at what point on the relief-to-development continuum deposits should be solicited remains an uncertainty.

Nonfinancial Services

Although few practitioners assess demand for the full range of business development services before deciding to launch programs, an increasing number are incorporating nonfinancial services into existing financial services programs. They do this in response to formal and informal client survey results, as well as observations of the business environment in which clients operate. CARE's Bosnia-Herzegovina program is one example. CARE plans to create a national Nonfinancial Services Provider called "MikroBizNiz." The institution will offer technical assistance and training, on a demand-driven basis, along with trade promotion services designed to address the lack of dynamic markets and trade links in present-day Bosnia.[26] OICI follows a business development services model in its programs targeting excombatants in Liberia and Sierra Leone. Presumably, nonfinancial services are in demand because many individuals take up self-employment out of necessity, having never worked outside of the formal employment sector. As they attempt to grow their enterprises, their need for nonfinancial services increases. As several program designers acknowledge, clients soon realize that qualifying for a loan does not prepare them for the challenging, post-conflict business environment.

[26]As stated in CARE. "Business Development Services in a Post-Emergency Situation: CARE's Strategy and Experience in Bosnia," SEAD Office, Banja Luka, January 1998.

PROGRAM CHARACTERISTICS

In this section we examine the goals, strategies, operations, financing, and sustainability of the programs reviewed.

GOALS

The broad range of goals for microfinance in post-conflict areas reveals both the potential for innovation within this subfield as well as its undefined and undeveloped nature. First, this section discusses how microfinance implementers describe their goals. It then touches on the collaboration and tensions between implementers and other relief and development professionals, who are exploring how microfinance activities contribute to their own goals.

Goals of Implementers

The *primary* or first-order goals for implementers are economic. For those practitioners coming in relatively soon after conflict has subsided, immediate objectives are ones of economic survival. Mainly, programs hope to enable people to make sufficient daily profit to feed themselves and their families while repaying their loans. At this juncture, the international community is looking for ways to assist households to prepare for, or to respond to, the termination of direct assistance. Another critical objective stressed at this stage is stimulating people's thinking about how they might earn a living in what, for them, is a changed world. Offering business and market development training is one strategy programs use to address this objective.

As a country enjoys continued, relative stability over a period of several months or years, implementers shift immediate goals away from survival concerns to strengthening the economic base of households and communities. Providing services that facilitate sustained economic security and that enable clients to handle economic and social upheaval in the wake of conflict is the most common guiding objective. It is at this point when programs may be flooded with demand for credit, as individuals try to take advantage of opportunities created by the flurry of reconstruction, the dearth of goods and services, and the flow of international aid money. A few practitioners noted that post-conflict areas are where they are most able to maintain sustained outreach to significant numbers of the poor. A central reason, in addition to high demand, seems to be the dedication and aggressive commitment of local staff promoters. This is a theme cited by international agency staff working in diverse settings, including Tajikistan, Cambodia, and Rwanda.

Medium- and long-term goals relate to developing a local microfinance institution and contributing to an enabling environment for microentrepreneurs and small-business owners. Development of microfinance institutions takes on different forms, just as in normal contexts, so specific goals vary according to who are the implementers and funder(s). Influencing an enabling environment may not have been planned, but the opportunity and need for implementers to sway policies at this critical crossroads in a country's development can be irresistible.

Secondary goals relate to social and political development and are viewed as highly complementary to primary economic goals. In the course of their work practitioners become increasingly concerned with noneconomic issues that inhibit program performance or impact. Examples are the specter of renewed violence, human rights abuses, or lingering effects of trauma on clients (for examples, see Box 1 below). As a result, most programs consider incorporating a strategy to address such issues. This may become an integral part of the microfinance program or a completely separate initiative. Not all of those who consider addressing secondary goals have done so. Some have not had the time or funding to offer supplementary training or to test hypotheses, for example. Others deem it more urgent to focus on institutional development.

Box 1
Expansion of Project Goals

Save the Children in Tajikistan is considering using lending and savings groups to transmit health and women's rights advocacy education. A basic understanding of women's human rights and legal recourse is important due to the large number of new, female-headed households. After recent violence in the program area shut down markets for a week, clients also told promoters they wanted to use their groups to learn about peace.

World Relief Cambodia already has adapted its health education curricula to include components on human rights. The motive for this adaptation is the high incidence of child kidnaping for prostitution and wife-beating that occurs in program communities. The staff see the training as a complement to business success because it correlates to self-confidence of the business owner. One could say that viewing herself as a person is a prerequisite for viewing herself as a businessperson. The first human rights session was canceled, however, because of the coup that took place this past summer.

World Relief Rwanda is in the process of obtaining supplementary funding for reconciliation curricula that will be integrated into community bank meetings. A local NGO in Bosnia, Bospo, plans to continue to offer psychosocial counseling as a separate service to its clientele, of whom 70 percent are IDPs.

No practitioner thought it wise to place a priority on secondary goals over economic ones, and accompanying standards of creditworthiness. For instance, CARE/Bosnia will consider locating suboffices in strategic communities in answer to requests to promote the return of IDPs and refugees to their original areas. The program director also notes that more individual loans will be offered in return areas, because they are better suited to returnee circumstances. The ethnic make-up of credit staff is also considered. This is the extent to which CARE will incorporate a political angle into its design, however, to ensure that business plan viability is understood as the sole criterion for loan approval. Speaking about the same context, Mercy Corps International's Chief Operating Officer explains the relation between its civil society and conflict management goals with its economic development objectives:

> We let the economics drive the political reconciliation although there is an emphasis on incorporating long-term reconciliation goals into the design of a program. In one case, we chose three, contiguous communities to expand our microfinance program. This was once a multi-ethnic, interdependent area and now, as a result of war, are three separate communities each of different ethnic minorities. We plan to start with small, individual loans designed to improve personal income. Some of the microbusinesses will graduate to larger enterprises that, in order to qualify for greater amounts of capital, will have to service the entire area. The communities will need to figure out how to support one dairy, one butchery, etc. and we hope to coordinate with other lending entities to facilitate this natural community planning. As a separate initiative, our Civil Society team will be available to hold community problem-solving workshops, as we have done in other areas of the country.

Goals as a Function of Institutional Type

The formulation of goals and objectives is linked to the nature and type of the implementing organization. Organizations with missions having both humanitarian and economic development aspects are generally willing to test microfinance development in difficult, risky areas. These agencies, and the clients they serve, view microfinance development activities as preferable to continued dependency on food aid (Box 2). As one practitioner from World Relief stated:

> Economic revival is critical to rebuilding these countries. If we do not contribute to advancing economic opportunity for the long-term, we'll just be back delivering humanitarian aid over and over again. The greatest disadvantage is that you are not going to reach 100,000 people on Day One. But you can help 10,000 in a better way over a sustained period. In addition, the ripple economic and psychological effects of business creation are enormous.

Once there is firm ground on which to stake development goals, a multisector agency strives for the same long-term goals in post-conflict areas it would in more typical development settings — for example, in women's economic and social empowerment, or laying foundations for civil society.

Organizations focused solely on development are not as prevalent in post-conflict environments, although increasing numbers are considering post-conflict programs as a way to reach the poor or underserved. The Bosnia Microfinance Bank is doing just that—capitalizing on a sizable gap in service to small and micro entrepreneurs to achieve its profit-making goal. UNDP MicroStart is focusing its initial investments primarily, but *not* exclusively, on countries that already have an enabling environment for microfinance institutions. They point to a recent approval of Croatia and consideration of Sierra Leone, as evidence of the office's keen interest in learning more about how to develop microfinance programs in post-conflict environments.

Box 2
Programs and Agency Culture

World Relief and CRS work in emergency situations; it has been a natural progression of the agencies' country strategies to try to replace direct aid with self-help interventions. The microfinance team assesses whether it is possible to start a program and if it is appropriate given the needs of the country. For instance, after working on a repatriation project on the Thai-Cambodia border, CRS started a health and resettlement project within the country in 1991. Since the agency planned to remain active in Cambodia for at least 5–10 years—a critical, self-imposed hurdle for the microfinance development team to initiate activities—it responded to the needs of its current beneficiaries and started a village banking program. World Relief's decision to implement microfinance in Cambodia was made after staff researched the potential for vocational training. They concluded it was not a feasible strategy given the country's devastated economy. The market for trainees was very small, reflecting a need for individuals to create their own jobs.

Locally managed organizations, at least those that have had a close affiliation with a microfinance donor or partner, seem to be the most prone to express goals in terms of traditional microfinance best-practice objectives. This is, in part, a reflection of the success of capacity-building activities between the organizations and their international partners. It may also reflect that, for local leadership and staff, the post-conflict environment *is* their normal developing environment. As such, they do not have the luxury of experimenting with higher-order objectives but must progress toward long-term sustainability goals as a matter of survival. Seilaniti, a spin-off from CARE in Cambodia, is striving to achieve financial sustainability by the end of 1998. The organization notes how difficult this is within the cultural context of Cambodia and frames all of their goals in terms of sustainability. Exceptions among local organizations are those that were created for reasons other than microfinance development, and are just beginning the transition to a microfinance institution orientation.

Relief and Political Development Goals

As the international community tackles the dilemma of how to mitigate problems associated with conflict, experiments linking microfinance to conflict mitigation and prevention goals will become more prevalent. Current thinking indicates that this will happen all along the relief-to-development continuum. Organizations concerned with emergency response, the protection of refugees, or demobilization are as eager to explore the potential for microfinance strategies to advance their objectives as are organizations tasked with laying foundations for a democratic society.

Some organizations use microfinance to mitigate disaster effects. Sue Lautze, a social scientist experienced in innovative disaster-response strategies, suggests using microfinance development as one of an array of survival and economic development tools in pre- and post-conflict situations. She points out that "the foundations for long-term economic development are being defined throughout and through the conflict — through the purging of bureaucracies and the redistribution of resources and power. Do we want to be part of that process or do we want to wait and see what the conflict hands us?[26] She points to the corporate private sector as an agent of change that gets involved early on after conflict because of the opportunity to shape country policies, and to influence people and leaders.

Agencies also use microfinance to facilitate reconciliation and conflict resolution. Civil society development professionals propose using microfinance programs as a vehicle to increase grass-roots, cross-ethnic cooperation. They see the influence of producers and suppliers as powerful forces that create common ground between opposing communities. A member of World Vision's staff postulates that loans one step above the micro level — of at least $10,000 — have potential for facilitating broad, cross-ethnic interaction and trading. The Office of Transition Initiatives carried out an ambitious democracy-building project in Haiti focusing on excombatants and community rehabilitation. Microcredit was one of many project components. The success of the Haiti initiative has led Office representatives to consider other ways microfinance can be incorporated in similar efforts.[27] The World Bank's new post-conflict center regards microbusiness development as a potential tool for political as well as economic reconstruction, but acknowledges that more thinking needs to be done before testing programs on the ground.[28]

When asked about these issues, microfinance development practitioners are cautious. For instance, the thought of engineering solidarity groups around reconciliation goals is considered going too far. A

---

[26]Ibid.

[27]Presentation given by Joanna Mendelsohn of the Office of Transition Initiatives at the U.S. Institute for Peace ICREST training, Washington, D.C., June 1997.

[28]Telephone interview with Betty Bigombe, Social Scientist in the Post-Conflict Unit, World Bank, November 1997.

World Relief program designer states that the most he would strive for is heterogeneity within a program comprised of homogeneous community banks. In some cases, he thinks it may be possible to encourage polyethnic community banks with monoethnic solidarity groups. Field staff contend that it is not necessary to force reconciliation. In several contexts, this occurs naturally. A growing body of anecdotal evidence supports this general observation.

In Rwanda, the mere fact of bringing the community bank members together for meetings has positive effects for future cooperation. Effects are seen in members' families and neighbors as well as the World Relief clients themselves, albeit to a lesser extent. The group dynamics are fascinating: Hutus and Tutsis attend the first meeting of the community bank and sit absolutely divided. Although they probably know one another from the market, they do not speak. A gradual, nonthreatening process takes place as people learn more about the management of the community bank. Then the real test for people occurs when they need to sign as collateral for all other members in the bank. At this point they may question how comfortable they feel guaranteeing a Hutu's or Tutsi's loan, but everyone signs. After the first cycle and within the first year, the tribal distinctions fade. The women of different ethnic backgrounds sit side by side. They want each other to thrive because the success of each individual means the success of the community bank.[29] Women's World Banking representatives describe a similar level of cross-ethnic cooperation between Rwandan women in Duterimbere. Given a political climate that allows it, Muslim borrowers living in front-line communities in Bosnia express a consistent willingness to cooperate with Serbs across the interentity boundary line if doing so would improve their enterprises. The above examples may reflect a significant outcome, especially for solidarity-based programs. However, the research did not uncover a systematic documentation or analysis of such outcomes. As a result, it is premature to ascertain the conditions that need to be in place for them to occur.

In testing possible mitigation and political development interventions, the challenge remains for microfinance practitioners, and colleagues from other disciplines, to understand the extent to which goals are symbiotic and to know when collaboration is realistic and feasible. Agreement on what objectives take priority seems the first, critical step. Currently, different units of the same organization experience tensions when, as one practitioner illustrates, well-intentioned colleagues try to place even more baggage on what is already a completely full table. In other words, resolving conflict, reaching the poorest clientele possible, *and* ensuring a financially self-sufficient institution is perhaps one expectation too many. At the same time, many implementers underscore the necessity of addressing fundamental societal issues and view the practical process and tangible benefits associated with microfinance as an appropriate vehicle. Reconciling how larger societal goals fit in with current standards for cost recovery will be an evolving process for the field.

STRATEGIES

Three themes have been identified for program strategies used in post-conflict environments:

- Program implementers initiate programs with similar strategies as in normal developing settings, but do so with a willingness to be highly flexible. The majority of modifications made

[29]Comments by David Van Vuuren during a personal interview at World Relief Headquarters, November 1997.

subsequent to program start-up relate to low trust levels, the lack of physical collateral or assets, and the need to address major barriers through additional training;

- Some strategies are in direct response to the specific circumstances of the conflict and its aftermath and would not be appropriate in a normal context; and

- Despite initial misgivings, implementers witness positive results incorporating discrete, predefined emergency relief measures into credit and savings programs, in response to intermittent disasters.

Adaptations to Original Strategies

Because of the urgency of delivering services and showing rapid, on-the-ground results in a complex emergency, an organization may begin a program immediately after conducting a rapid market assessment rather than completing comprehensive feasibility studies and pilot projects. As a result agencies often start by implementing their traditional methodology and then adapt it to fit the fluid situation. For instance, some programs that normally adhere to either group or individual lending may include both to reach a range of clients. This may be a function of the great demand and lower level of competition (for clients) that characterizes this phase on the relief-to-development continuum. It also may make sense for an agency to offer comprehensive service in one geographic area, thereby incurring fewer security risks, rather than replicating one methodology throughout the larger region. Flexibility and rapid response is the modus operandi for development staff working in these areas — organizations experienced in such environments have learned that successful programs and agencies change with the uncertain environment.

In countries depleted of social capital after years of terror and violence, a prerequisite to success is incorporating mechanisms to build trust among clients. Specific modifications that practitioners have found necessary include the following:

- Established village banking methods are transformed into a hybrid village bank or solidarity group model. Requiring 30 people to guarantee each others' loans can present a major deterrent to program participation if individuals have been conditioned against trusting anyone. This is most evident in Cambodia, where the Khmer Rouge's forced cooperatives and sinister tactics wreaked havoc with trust levels. In response to suppressed demand, World Relief allowed bank members to form solidarity groups of five or six that serve as the first level of guarantee. If a client is delinquent, it is the solidarity group members who are responsible for making the payment, rather than the entire bank membership. World Relief's strategy resulted in a surge in membership. Other microfinance implementers, both within Cambodia and in other conflict-affected environments, have adapted it;

- Lending groups may be smaller in keeping with the same logic as above. Plavi Most, a local NGO in Bosnia, tried working with groups of five and found this too difficult. After changing group size to three borrowers, program implementation has been easier and portfolio quality has improved. Save the Children Tajikistan is having trouble with its groups of 15–20 women for reasons of mistrust, but has resisted lowering group size because of pressures to achieve sustainability in a short time; and

- Some programs target rural communities where trust levels are almost always higher. Others offer stepped, individual lending and ask for soft collateral or one-to-two solid personal guarantees instead of asking clients to recruit associates into a group. Displaced persons, for instance, may have a particularly hard time finding people with whom they have more than a mere acquaintance. The notion of building a good credit history and retaining future access to large amounts of credit seems particularly relevant in post-conflict environments where there are so few options for household survival.

Other methodological adaptations practitioners attribute to operating in a conflict setting include:

- In some cases, interest rates start out at a level appropriate to early stages of reconstruction and are adjusted upward quickly as the economy picks up;

- One program allowed an interest-only grace period for its first loans as a concession to potential borrowers. The first clients would not realize a profit from their productive enterprise loans during the first few months and had no savings or assets with which to make the first payments. The grace period was dropped in the second year of the program because potential clients were better off;

- Several programs do not mobilize deposits in post-conflict areas, representing a significant diversion from organizations' usual practice. Exposure to violence, theft, and other crimes is cited as one of the primary reasons. The absence of a legislative umbrella for savings accumulation is also a factor. In Tajikistan, Save the Children does mobilize savings at this time, but is considering dropping its savings requirement because of the lack of a banking system. Additionally, as previously mentioned, clients find it very hard coming up with extra cash to save. Most agencies state an intention to collect savings as soon as contextual factors are more favorable;

- Adding new methodologies or loan products is fairly common. Organizations that have never included agriculture loans in programs consider adding them to meet the huge demand for financing agricultural rehabilitation. A side benefit to these loans is longer loan terms and less frequent repayments. Thus, the fewer times program staff handle cash, the less security risks they must take. Duterimbere, in Rwanda, added solidarity group lending after the 1994 genocide to respond to the sudden increase in widows within its client portfolio. Now 80 percent of Duterimbere clients are widows and 70 percent of its loans are disbursed to solidarity groups.

- In post-conflict situations, human resources are often at an all-time low. One effect is that it can be next to impossible to find a strong, existing local partner. Instead, agencies create and train a partner. Although this strategy can take more time and investment, it can be a blessing if prewar organizations are associated with a former regime, or with a certain ethnic or political group. The problem agencies face is in donor requirements that require finding a local NGO already in existence. This expectation prevents implementers from being able to start microfinance development in most post-conflict countries.

- As discussed in the previous section, programs tend to offer more training in post-conflict environments than they might in other contexts. Training designed to help participants identify, assess and select a viable self-employment activity is the most common form offered. Physical and mental health education is promoted as well. Last, political and social development training, which includes human rights awareness, community problem-solving, reconciliation, and conflict resolution, is considered important.

Strategies in Response to Specific Conflict Conditions

In recognition of political realities, programs adapt structures and staffing to permit operation in the short term. For example, CARE/Bosnia's strategy is to establish two national microfinance institutions with branches and satellite offices that can serve the divided country as it is today. If eventual reconciliation between the Serbian and Muslim/Croat entities occurs, the two institutions will be merged into one and the need to hire ethnically-appropriate loan officers will diminish. Other programs in Bosnia are faced with the same difficulties — for example, having to open up suboffices because clients of different ethnic groups do not feel comfortable traveling to the same central location. In one instance, a program's branch structure will be triplicated to ensure equal access in a region inhabited by each ethnic group. In Tajikistan, the ethnicity of staff also arises as an issue. In other countries, such as Cambodia, managers of women-focused programs have hired more men than they normally would for security reasons.

A common strategy is to initiate microfinance in areas where institutions already have a presence. Providing basic needs prior to delivering financial services confers instant credibility to a new program rather than, as one might assume, sending mixed messages to clients. As long as agencies clearly state the difference between a microfinance program and emergency response initiatives, the good will generated by having been present during the survival phase has a positive effect. According to interviewed practitioners, it affords staff a marked advantage in program marketing and qualifies them to steer the program away from possible political manipulation by local representatives.

The ability to weigh security risks and learn the environment first-hand is proving valuable to Feed the Children, which is considering starting a credit program for women in Angola. Its child development and nutritional education activities are preparing the organization to implement microcredit in a high-risk area when and if staff deem it feasible. Mercy Corps International also indicates the benefits of prior involvement in war-devastated communities. Its three-pronged community reconstruction strategy reflects an approach taken increasingly in response to conflict. The strategy entails an organizational investment in three areas: infrastructure and basic needs provision, livelihood opportunities, and peaceful coexistence. Having technical teams and engagement in all three domains enables MCI to understand and act along the relief and development continuum as a country slides back and advances forward.

Responses to Intermittent Disaster and Crises

Practitioners' stories of how institutions handle major interruptions, such as an outbreak of violence, population migration, or a natural disaster, contain some of the most informative and valuable lessons for future post-conflict programs. One finding is that implementers blend relief assistance into existing credit and savings programs without tarnishing the program's image as a lender. For example, in responding to this summer's coup in Cambodia, practitioners decided to take two measures. First, they decided to immediately sell food items to clients at reduced prices. Clients had the option of either eating or reselling the food. Second, they opted to make "capital recovery loans" of $40 rather than reschedule payments, as had been done previously in response to a flood. The program added these new loans to existing debt and insisted that regular payments continue. This opportunity to jump-start the rebuilding process, as well as generate good will and loyalty from clients, was seen as more important than insisting old loans be paid before receiving the recovery loans.[30] Other findings indicate that a major population movement does not automatically translate into loan loss and that, even in dire circumstances, clients demonstrate a willingness to repay.

Despite some positive outcomes, programs do not emerge from intermittent disasters unscathed. For instance, the Cambodian program, referenced above, has an overall recovery rate of 99 percent, but 40 percent of the current portfolio was at risk in October 1997. In the cases reviewed for this inquiry, it seemed to take programs about a year to get a lending portfolio back on track to sustainability. Recovery happened after staff collected as many loans as possible, once the emergency had receded. Depending on the circumstances, some loans are declared unrecoverable and written off. In most cases, however, front-line program staff display extraordinary commitment to maintaining portfolio quality while clients express a desire to remain in good standing to maintain their access to credit and savings services. In addition, the opportunity costs incurred while programs and clients recuperate from disasters deserve mention, as does lost investments in physical assets.

Examples of Program Responses and Client Reception

Below are several accounts of crises, program responses, and how clients received both.

Liberia's Easter Crisis

In May 1996 violence swept into Monrovia, Liberia's capital city. During the sudden and unexpected Easter Crisis, 10,000 people were killed and many more forced to leave. Most businesses were destroyed, offices and stores looted, and expatriates immediately evacuated. World Relief had been operating a community banking program at the time, overseeing 19 banks of 556 clients. In a few days the program lost all computer records, equipment, and most hard copy files. National staff continued to operate during the evacuation — even during an unpaid, four-month period. The Liberian project director never left the country. He and the staff were in contact with community members throughout the subsequent year, during which time no new loans were disbursed. Some banks continued to meet throughout the crisis, with bank presidents and treasurers collecting repayments as usual. When the World Relief local staff revisited these banks for the first time, the bank officers turned in the repayments, explaining that members had been concerned about defaulting and jeopardizing their continued access to credit.

Because each of the original banks had some members flee the country, World Relief waited to see who would return before reactivating the program. The first few months following the international community's return were spent locating old clients and training potential new members. As of December 1997, 21 banks were functioning, of which nine were reorganized, original banks. These members had either paid off their loans before disbanding or repaid them when working together again. The local staff insisted that the program not forgive loans. In the worst cases loans were restructured or refinanced. They also wrote off a few loans provided to people who were killed or fled. In hardest-hit areas, staff found only five or so of 30 original members. Although members were permitted to obtain access to their savings, if they were in good standing, clients chose to keep savings in the banks as collateral for future loans.

[30]Personal interviews with Paul and Sotheary Luchtenberg, World Relief Cambodia, Annapolis, MD and Wheaton, IL, October and November 1997.

In terms of clients' situations, members had two goals: first, to get food to eat and, second, to rebuild their businesses. World Relief raised $12,000 from private sources to donate rice to 250 of its Monrovia clients. Depending on the extent to which each individual was affected by the violence, s/he received either one or two bags of rice. The potential profit from selling all of the rice was $75. Most people kept some to eat and sold the rest to repay their loans and rebuild. Two months later, the program was again disbursing new loans.

Concerned that a blanket distribution might affect repayments over the long term, staff watched anxiously for signs of an entitlement mentality. But clients readily understood the program was designed to serve as a short-term emergency measure. According to the regional director, the donation turned out to be a worthwhile investment, positively impacting client loyalty and new member recruitment. Individuals in Monrovia saw that their neighbors who had supported the community bank had received help when they needed it. When residents observed that the banks truly had the people's interests at heart, the integrity of the community banks was established in the larger community.[31]

Factional Violence in Tajikistan

After years of continued, low-level fighting following a major civil war, Tajikistan's government and opposition forces signed a peace accord in June 1997. Unfortunately, the accord did not satisfy all factions and incidence of violence remains a fact of life. In August, a violent battle took place in Shatuz, a town close to the Afghan border and in the region where Save the Children had been operating a Group Guarantee Lending and Savings Program since June 1995. Some borrowers fled the country when the violence flared. The remaining borrowers were barred from doing business in the market by government troops. Thereafter, the bazaars were shut down and women forced to pick cotton (an annual occurrence for students and others in Uzbekistan and Tajikistan) so clients were unable to operate their businesses for about a month.

Expatriate staff were moved to the capital city, Dushanbe, as a security precaution and later evacuated after a different incidence of violence. Portfolio-at-risk went from less than 10 percent to 90 percent and the program shut down for a week. Promoters were being very aggressive in collecting loans. As a result, repayments had recovered significantly by October, but current, ambitious projections for financial and institutional sustainability will need to be revised. For groups that include people who fled, the planned strategy is to require remaining members to pay off their neighbors' loans.[32]

Rwandan Genocide and Exodus

In April 1994, the president of Rwanda was killed in a plane crash. This event unleashed a shocking wave of violence and murder. Millions of Rwandans became refugees and hundreds of thousands lost their lives. During the genocide, Duterimbere, a microfinance organization created by 30 women in 1987, lost its computers, equipment, deposits, and program funds. The majority of its 800 active members was no longer alive or had fled from Kigali. Women's World Banking staff in New York tried in vain to contact its affiliate for months. In September, WWB received a letter from staff members living in a refugee camp. The letter informed the New York colleagues that they were alive and went on to say:

---

[31]Account of World Relief's experience in Liberia as related by David Van Vuuren and David Larsen during personal interviews, November 1997.

[32]Interview with Liz McGuinness, Program Manager for Save the Children Tajikistan, October 1997.

> We are trying to relive the WWB spirit, because we live in poverty, having left our houses with empty hands, without any means of sustenance. But little by little, it is coming around, we have some small viable projects allowing us to feed our families daily, such as making donuts, preparing tea, sewing and mending, etc. If God lets us live, we will meet again in your reconstruction work for a better world.[33]

A few days later, WWB/New York heard that seven of the original 17 staff were working in Kigali, trying to rehabilitate their organization. Women visited the Duterimbere office where they received advice and counseling, a new practice that the organization continues today. By November Duterimbere had received 150 new requests for credit from both members and new clients.

A donation of $10,000 was designated to reimburse members' lost savings. However, when presented with the money, clients turned the grant down and asked that they receive a $150 loan instead. They explained it was more important to restart some kind of income generating activity in the short term and ensure that they could gain access to program services in the future. Duterimbere has recovered from the crisis, and demand for membership to the organization has increased. Since 1994 membership has risen from 600 to 2,500. Moreover, the organization has increased its involvement in advocacy for and training of women as peacemakers. According to WWB/New York, Duterimbere is a much stronger affiliate since its recovery.

Returning Home in Mozambique

Chaos and instability can affect programs; so too can the return of political stability. In December 1994 a World Relief community bank program had 1,163 members. In a span of 1 month, 40 percent of the program's clients decided it was safe to move back to Gaza province. Most of these individuals were IDPs from Gaza province now living in Chokwa. Fortunately, the community pressure mechanism kicked in—the IDPs repaid their loans before leaving the program. The on-time repayment rate dropped only to 96 percent from 100 percent. By March 1995 the program had 810 members, mostly natives residing in Chokwa. These clients collapsed their banks together and kept functioning. The Gaza returnees asked World Relief to follow them and help start new community banks there. World Relief Mozambique's staff considered this a great opportunity and obliged.[34]

Financial Crisis and Civil Unrest in Albania

The Foundation for Enterprise Finance and Development (FEFAD), an Albania microfinance bank, has made 450 loans since it opened its doors in January 1996. Loans range from DM 500 to 90,000, or approximately $300 to $60,000. The average loan is DM10,000. Tumbled pyramid schemes in March 1996 led to civil unrest and a period of intense fighting in Tirana. The bank closed its doors for two days and disbursements were stopped from March until May. Sixty to 75 percent of clients were unaffected by the fighting; the remaining 25–30 percent had stores or businesses that were looted or destroyed. Moreover, the exposed pyramid schemes increased a general mistrust of financial institutions.

Throughout the crisis bank staff encouraged clients to come to the bank and discuss how their businesses had been affected. Loan officers personally visited two-thirds of clients to collect on delinquent

---

[33]Letter written by Agnes Mujawinama, former Executive Director of Duterimbere, as it appears in "Renewed Hope in Rwanda," *What's New in Women's World Banking*, Vol. 3, No. 3, September 1995.

[34]Personal Interviews with David Van Vuuren and David Larsen, November 1997.

loans. Bank managers analyzed the entire portfolio to confirm that no clients had been involved with the pyramid schemes. The crisis resulted in nine months of interrupted operations when no new loans were made and only a portion of principal and interest revenues collected. Before March 1996, arrears were below 2 percent; they rose to 30 percent and are currently at 10 percent. This 10 percent represents people whose businesses were destroyed and a few borrowers who think they should not have to pay because of the upheaval. All loans still in arrears have been brought to court. According to an individual who helped the bank respond to the repayment crisis, the most important recovery strategy was staying in touch with as many clients as possible during the strife.

Today, the bank is making sure that new loans are of the same good quality as standards dictate. It is unclear whether the interruption will have significant implications for the bank's original profitability projections, because demand for financial services in the country has remained depressed since the upheaval. Fortunately, FEFAD enjoys a reputation for integrity and stability and has not been as adversely affected as other banks in Albania.[35]

Pre- and Post-Crisis Performance in Albania

Table 2 provides point-in-time data on two programs supported by the Albanian Development Fund. Comparable data for three periods — pre-crisis, height of crisis, and post-crisis — are given to discern how short-term performance and sustainability were affected. As evidenced in the table, the rural program fared much better during the crisis than the urban program. With this particular crisis, most of the civil unrest took place in the urban capital, although the entire country experienced diminished trust in financial institutions.

[35]As described by Alabert Winkler of Internationale Projekt Consult GmbH during a telephone interview, October 1997. IPC is providing ongoing technical assistance to FEFAD.

TABLE 2
RURAL CREDIT PROGRAM AND URBAN CREDIT PROGRAM OF THE ALBANIAN DEVELOPMENT FUND[1]

Item	World Bank/ Rural Program (pre-crisis) Data as of: 12/31/96	World Bank / Rural Program (height of crisis) Data as of: 6/30/97	World Bank/ Rural Program (post-crisis) Data as of: 12/31/97	World Bank/ Urban Program (pre-crisis) Data as of: 12/31/96	World Bank/ Urban Program (height of crisis) Data as of: 9/30/97	World Bank/Urban Program (post-crisis) Data as of: 12/31/97
Program Start Date	August 1992 (pre-pilot phase); April 1993 (pilot phase); August 1995 (full-scale phase)	same	same	February 1994 (pre-pilot phase); December 1995 (pilot phase)	same	same
Target Population	Small farmers and rural entrepreneurs in hilly and mountain areas	same	same	urban microentrepreneurs especially unemployed and social assistance recipients	same	same
Program Locations	47 communes (*comunas*) in 11 districts	52 communes in 11 districts	52 communes in 11 districts	7 cities	same	same
Types of Financial Products Offered	Microcredit for income-generating activities	same	same	microcredit for income-generating activities	same	same
Non-financial Services Offered	Training for village credit committees	same	same	none	same	same

[1] These data are self-reported by the institutions for the purpose of this study. The researcher did not adjust nor validate data.

TABLE 2 — continued

Item	World Bank/ Rural Program (pre-crisis) Data as of: 12/31/96	World Bank / Rural Program (height of crisis) Data as of: 6/30/97	World Bank/ Rural Program (post-crisis) Data as of: 12/31/97	World Bank/ Urban Program (pre-crisis) Data as of: 12/31/96	World Bank/ Urban Program (height of crisis) Data as of: 9/30/97	World Bank/Urban Program (post-crisis) Data as of: 12/31/97
Lending Methodology	Individual lending between ADF and borrowers, with assistance of village credit committees	same	same	individual, with some experimentation with solidarity loans	same	same
Average Loan Size / Term	41,322 leks (about US$400), 2.6 years	41,676 leks, 2.6 years	44,389 leks, 2.6 years	240,000 leks (about $2,400), 10.5 months	136,460 leks, 10.5 months	161,480 leks, 10.5 months
No. Clients (cum. and active)	active: 8,097	active: 10,593	active: 11,202	active: 494	not available	active: 726
No. Loans Made	8,996	10,593	13,092	606	916	1,203
Outstanding Loan Balance	243 million leks ($2.4 million)	272 million leks	313 million leks	96.5 million leks (about $960,000)	76.5 million leks	117 million leks
Portfolio-at-Risk	0	0.15%t	0.25%	7.4%	20.1 %	9.4%
Loan Loss	0	398,401 leks	272,052 leks	2,700,804 leks	3,952,692 leks	6,331,680 leks
No. Clients Depositing Savings /Average Savings per Saver	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

TABLE 2 — continued

Item	World Bank/ Rural Program (pre-crisis) Data as of: 12/31/96	World Bank / Rural Program (height of crisis) Data as of: 6/30/97	World Bank/ Rural Program (post-crisis) Data as of: 12/31/97	World Bank/ Urban Program (pre-crisis) Data as of: 12/31/96	World Bank/ Urban Program (height of crisis) Data as of: 9/30/97	World Bank/Urban Program (post-crisis) Data as of: 12/31/97
Institutional Status	Rural Credit Department is within the Albanian Development Fund, an autonomous Government foundation	same	same	Urban Credit Department is within the Albanian Development Fund, an autonomous Government foundation	same	same
No. Credit Officers/No. Total Staff	18 loan officers, 26 total staff	19 loan officers, 27 total staff	same	14 loan officers, 21 total staff	same	11 loan officers, 18 staff total
Donors/ Sources of Financing	IDA (World Bank), Italy Government, European Union, Swiss Government, IFAD	same	same	IDA (World Bank), Swiss Government	same	same
Percent Operational Self-Sufficiency (% of operating expenses covered by interest & fee income)	68%	70%	82%	100%	100%	100%
Year When Operational Self-Sufficiency Is Projected	2001	same	same	n.a.	n.a.	n.a.

TABLE 2 — continued

Comments (particularly strategies used and lessons-learned in recovering from crisis or from working in an insecure environment)	ADF's rural credit (village credit fund) program was tested and developed using a participatory approach that resulted in strong client commitment to and ownership of the microcredit program(village solidarity and local responsibility play a key role in maintaining high repayment. Although the 1997 crisis slowed the extension of the rural credit system, the Rural Credit Department continued its work in eleven districts despite the extremely difficult conditions. ADF's rural credit officers traveled to remote villages during periods of dangerous instability and unrest(sometimes risking their lives(to maintain the integrity of the rural credit system. Despite the chaos throughout the country, farmers repaid their loans(sometimes with great difficulty (because of the enormous work of credit officers and village credit committee members, and because farmers understood that the rural credit program was the basis for the future financial development of their village. During the crisis, all efforts were focused on maintaining loan repayment, and it was impossible to adjust the interest rate.	The Urban Credit Program was more impacted by the crisis than the rural program and experienced higher loan losses. No new loans were made during the height of the crisis, when loan officers focused on maintaining contact with borrowers and preserving loan repayment. Closure of banks in several districts created complications for repayment, resulting in rescheduling of nearly 100 loans. Some clients left Albania or had their businesses damaged or looted. Following the crisis, the demand for urban microcredit has increased dramatically

OPERATIONS

This section lists common operational adjustments implementers make to post-conflict programs. Safety and security are of greatest concern and necessitate the most drastic departures from typical microfinance operations. Increased security measures most often are incorporated into programs when staff or clients have become targets of violence or when a country's security situation disintegrates. Facing pressures to keep costs low and demonstrate aggressive outreach, program staff and leadership can be caught between the need to take every precaution to protect program assets and staff and the need to demonstrate that sustainable microfinance development is possible and cost-effective in a post-conflict environment. Just as with disaster mitigation, the more prepared and informed all parties are, the more they can moderate harmful, long-term impacts. Up-front planning and open discussion is necessary to integrate these measures into programs.

The absence of a banking system, or the existence of a dysfunctional one, has implications for day-to-day operations, as discussed below. Operations are also affected by the scarcity of highly educated individuals in post-conflict environments. This makes leadership and institutional development extremely challenging. A typical response is to create a local organization from among local staff. Practitioners in post-conflict settings report that they deliver more training and create more sophisticated incentive systems to encourage staff retention at middle and upper management levels. In trying to form a partnership with solid, existing organizations, international agencies have a difficult time identifying an organization that will accept a single-minded focus on sustainable financial services. There are generally so few strong, local organizations in a post-conflict environment that the ones that do exist are invited to engage in an array of programs.

Security-Related Risks

> A microfinance institution that lends in isolated communities which are marginalized or insecure often place loan officers and/or clients at risk. Relatively large amounts of cash need to be carried to the communities...transactions are designed to be open and transparent...alerting everyone in the vicinity as to when these transactions will take place. This leads to the threat of robbery and, in some cases, injury or murder.[36]

Programs have suffered human and material loss operating in insecure areas. A car bomb was thrown under a Save the Children Tajikistan promoters' vehicle while they were visiting borrowers in March 1997. CRS Cambodia credit staff have been followed carrying cash from loan repayments. CARE's Uganda program staff were ambushed in early 1996 and their offices robbed six months later. In October 1996 two World Relief Cambodia promoters were killed carrying $150 of community bank repayments. Other threats identified by practitioners include abduction, as has happened to nonmicrofinance agency staff; land mines; and extortion, looting, and armed conflict.

Precautions Taken in Reviewed Programs

[36]Ken Graber, "Microfinance Programs and Personal Security," World Relief Microfinance Development Technical Unit, Wheaton, IL, 1997.

The following lists precautions practitioners in post-conflict areas have initiated to increase security and safety.

- Agents use sturdier, more reliable vehicles, such as Land Cruisers, jeeps, or bigger motorcycles, when loans are disbursed;

- Managers reduce the frequency of disbursements and repayment to decrease the number of times credit officers and borrowers are vulnerable;

- Equipment and cash are spread throughout agency offices to minimize risk to program assets during times of instability;

- Directors bring the large amounts of cash needed for program administration and implementation, when no one, including staff, is aware of it. In one program, trips are made via U. S. Agency for International Development contract planes because road travel is too risky. Other programs also use air travel in lieu of road travel;

- Front-line staff are equipped with radios or the branch managers have radios and accompany promoters when collecting repayments;

- Programs have contingency plans leaving operations to local staff in the event of an expatriate evacuation;

- Loans are made in-kind or through transfers to avoid handling of cash;

- Management restricts times when staff can visit borrowers or promote the program. In Uganda, one program requires field visits to occur between 10 am and 5 pm;

- Promoters travel in pairs or in groups. In several Cambodian programs, four to six staff members will go to the field, scatter, and meet up again before returning to the central office. These agents are no longer required to wear uniforms and are allowed to take off NGO license plates if they feel doing so makes them less conspicuous;

- According to one manager, staff originally were supposed to visit designated homes on a certain day every two weeks. These visits were designed to be a big event — celebrating loan disbursal and emphasizing loan repayments. Now visits happen on random days so most people are unaware when promoters will be traveling to villages with large sums;

- Institutions open satellite offices to reduce travel time. Suboffices are equipped with safes in addition to the central office safe;

- Male promoters are added to the field staff;

- Directors emphasize the importance of maintaining a low profile. Programs do not advertise the presence of branch offices and, in one case, intentionally use a dilapidated storefront;

- Expatriate visits to clients' businesses and homes are kept to a minimum; and

- Monitoring is kept low-key. In the worst areas of Uganda and Tajikistan, for instance, monitoring becomes impossible for extended periods.

Operational Responses to Deficient Bank Systems and Hyperinflation

Programs devote considerable resources to protect the value of loan funds and savings when banks do not function and hyperinflation is present. Both situations often accompany post-conflict reconstruction. A common strategy is to use repayments or savings to pay for program expenses as soon as they are received. Also, savings services may not be offered in these countries. Some programs choose to wait until hyperinflation subsides or a commercial banking sector emerges. In general, implementers strive to keep as little cash on hand as possible. If banks are risky or if it takes days or weeks to withdraw cash from an account, the only alternatives are to keep cash in safes or to recycle it immediately back into the program.

In some cases, loans are disbursed in the form of commodities and repaid in cash. Some programs dollarize all financial transactions to avoid the administrative burden and local currency risk. However, dollarization is not always possible, given government or donor regulations. Finally, it is customary for suboffices to travel to a central office or to another country office to receive payroll and administrative funds.

In Cambodia, World Relief offered savings services to clients during hyperinflation by tracking the value of the Riel at the beginning and end of a loan cycle. World Relief paid clients the amount lost due to currency devaluation as a way to encourage savings during the early days of the program. Save the Children Tajikistan records the exchange rate on the first day of the month loans are made. This rate remains valid for clients throughout the life of the loan. Borrowers repay according to that exchange rate, so Save the Children incurs devaluation risks. Disbursements are made in local currency, usually on days when repayments are collected to minimize holding of Tajik rubles. For payroll, staff members put dollars and rubles in a taped-up cardboard box and drive it from Dushanbe.

CARE/Mozambique permitted clients to receive loans worth 10 times the amount they had saved because the country's inflation rate (55 percent annual) was so high in early 1996. In a normal setting the ratio would be five to one. World Relief has also employed similar strategies in Mozambique.

FINANCING

Discussed under this financing section are sources of funding for microfinance programs and sustainability issues.

Sources of Funding

Funding sources for program start-up include disaster response monies and funds from donors interested in stimulating the transition to development. Specific funding sources of reviewed programs are USAID (local Missions, Office of Private Voluntary Cooperation, Bureau of Humanitarian Response, and Global Bureau's Implementation Grant Program), United Nations High Commissioner for Refugees, U.S. Department of Agriculture, World Bank Social Investment Funds, European Union, European governments, nonprofit donors, and International Finance Corporation. In a few instances organizations plan to or used private funds to pilot an experimental program to test microfinance in unpredictable areas. By doing so the organizations hoped to attract stable funding to continue and expand services.

Implementers note that the more donors are able to broaden mandates to blur distinctions between relief and development, the more effectively they can work in post-conflict environments. Even in the most complex, politically confusing situations, the ability to plan for the long term while remaining flexible brings the best results. Planning is significantly enhanced when relief and development donors link and coordinate strategies. Donors who make an effort to understand and address the conditions prevailing at different points along the relief-to-development continuum facilitate proactive design and more appropriate implementation methods.

The dissimilar nature of funding mechanisms for relief versus development activities can create problems. Relief funds often must be spent within a certain period so timing may be unrealistic when such funds are used to bridge development initiatives. The extent to which relief funding mechanisms are malleable to seasonal cycles, for example, the better for the program. However, development funds do not always allow for the rapid infusion of funding when conflict recurs or disaster strikes. Development donors might provide an emergency response fund within microfinance programs to be tapped only in times of crisis. They also might encourage practitioners to consider insurance policies for clients that increase in value if conflict strikes or that can be cashed in after a certain period of stability.

Sustainability

Across reviewed country cases, implementers are resolute in their intention to maintain normal standards of program pricing, scale, and operational efficiency to the maximum extent possible. Pricing does not seem to be a problem. Almost all programs charge market interest rates, although practitioners note that a great deal of education is needed to justify nonsubsidized rates. This education is not for clients but for government officials, relief donors, and relief staff. Where programs have subsidized interest rates, as in Bosnia and Angola, it has been a short-term, interim adaptation to facilitate operations during the early stages of reconstruction. Clients respond well to subsequent increases in interest rates, especially when promoters explain that future interest rate increases are essential to the continuation of financial services. Given limited wage employment and fewer informal financing options, clients in post-conflict environments seem to value security of access over low-cost financing.

In Cambodia, where practitioners have been operating the longest, efforts to achieve scale are on track. For most of these programs, active clients are in the thousands. ACLEDA provides evidence that large-scale, post-conflict microfinance operations are possible. As of January 1998, ACLEDA reported 44,089 active clients, an increase in its active client portfolio by 21,000 since the July 1997 coup. ACLEDA president, In Channy, noted that most of ACLEDA's clients were not affected financially by the coup. He attributed the rapid expansion to increased demand from clients and the high commitment of staff to transform ACLEDA into a licensed microfinance institution.[37] Client turnover is a commonly cited problem. Population movements, political instability, high urban mobility, and economic shocks contribute to a much higher rate of turnover than that observed in normal developing contexts.

One of the motivations for conducting this review was to learn more about the standards to which programs should be held. We now understand that it is inappropriate, given fluid and complex operating environments, to attempt to categorize post-conflict programs without reference to the unique situations of the countries in question. Perhaps with field-level documentation and analysis over time, general standards can be developed.

Although we did not compare reviewed programs with one another, it is interesting to examine where programs are in their efforts to recover costs. The table below is presented with the caveat that the programs have unique goals and clientele, offer different products and services, are capitalized at dissimilar levels, benefit from

[37]Telephone conversation with In Channy of ACLEDA, March 2, 1998.

different levels of technical assistance, and operate in different economic and regulatory contexts. It is also useful to consider where each country falls today along the relief-to-development continuum. Some post-conflict programs progress more rapidly than programs in normal developing settings because of a high demand for microfinance services. This is seen in Bosnia and, to a lesser degree, Albania.

Other programs have scaled back original expectations for operational self-sufficiency because the extreme poverty within a given country has meant stagnating loan sizes. Tajikistan and Mozambique are examples. Although World Relief Cambodia was exceeding its numerical targets for client outreach at the time of its midterm evaluation, the organization made a conscious decision to pull back on its self-sufficiency goals. It did so in order to devote more time to building the human resources base of its local affiliate-in-formation, Cambodia Community Banking. Originally, “the basis for World Relief’s project design . . . [had been to form 90] separate and independent village banks that would become self-sufficient and operate independently.”[38] When it was realized that this was neither possible nor desirable in the Cambodia context, the organization shifted its emphasis to the creation of a national, self-financed institution. As a result, the program reports a longer track towards self-sufficiency than others described.

[38]World Relief Corporation, “World Relief Cambodia: Gateway Project,” USAID Final Evaluation Report, May 1997, p. 33.

TABLE 3
OPERATIONAL SELF-SUFFICIENCY TRENDS***

Program Name/ Country	Program Start Date	% Operational Self-Sufficiency as of Given Date	Year Operational Self-Sufficiency Reached or Projected	No. of Years to become Operationally Self-Sufficient
World Bank Urban Albania	December 1995 (pilot phase)	100% as of 12/96	1996	1 year
World Bank Rural Albania	April 1993 (pilot phase)	82% as of 12/97	2001	7 years
Microenterprise Bank of Bosnia-Herzegovina	November 1997	Not calculated. As of 12/97, Bank recorded a loss of $61,000	Operating Profit expected by March 1999	1.5 years to realize an operating profit
CARE Bosnia	September 1997	Not calculated at this stage of implementation.	2000	3 years
Mercy Corps/SEA Bosnia	April 1997	30% as of 12/97	2000	3.5 years
Bospo /WWB Bosnia	March 1996	42% as of 2/98	2005	8.5 years
BEF-World Vision Bosnia	February 1996	130% as of 2/98	1997	1.5 years
World Relief Mozambique	March 1994	40% as of 2/98	2000	6 years
CRESC-CARE Mozambique	January 1996	32.5% as of 12/97	Not projected. 75% operational self-sufficiency expected by 2000	Not projected.
CRS Rwanda	September 1997	Not calculated at this stage of implementation.	2003	6 years

---

[*] For the purposes of collecting comparable data from a range of programs and countries, we used a simple definition of operational self-sufficiency. The figures provided below and those that appear in the appendix tables refer to operational self-sufficiency as the percentage of operating expenses covered by income from interest and fees.

[**] These data are self-reported by the institutions for the purpose of this study. The researcher did not adjust nor validate data.

TABLE 3 — continued

Program Name/ Country	Program Start Date	% Operational Self-Sufficiency as of Given Date	Year Operational Self-Sufficiency Reached or Projected	No. of Years to become Operationally Self-Sufficient
World Relief Rwanda	June 1997	Not calculated at this stage of implementation.	2001	4.5 years
CRS Cambodia	December 1994	47% as of 2/98	1999	4.5 years
CCB World Relief Cambodia	October 1991	29% as of 2/98 (50% as of 11/97 before currency devaluation)	2002	11 years
ACLEDA Cambodia	January 1993	100% at present	1997	4 years

Achieving operational self-sufficiency is a key goal among all of the practitioners we interviewed. They emphasized that self-sufficiency is a reasonable and essential expectation of any program, although the time frame for this will depend on a range of factors, most of which are beyond the programs' control. For example, they believed it important to stress that some programs will not enjoy a steady advancement to sustainability. The renewal of conflict looms as a threat that can disrupt or, in an extreme case, close down a program. Moreover, meeting the current standards for operational efficiency is a serious challenge because of the high costs of minimizing security risks, operating without banks, and increased monitoring costs.

Practitioners strive for and understand the critical importance of self-financing. But they also underscore that a willingness to make self-sufficiency goals secondary, at times, is just as important. When countries remain in the early reconstruction stage longer than anticipated, or slide backward, practitioners want to ensure that the safety of customers and staff is not compromised by pressure to achieve performance standards. Once a program reaches a certain level of scale and resources, it can withstand setbacks and recover more quickly. Some implementers fear that the rapidity with which they are supposed to become self-financing results in weak institutional foundations. Moreover, field staff express concern that headquarters staff and donors do not allow for the uniqueness of the post-conflict environment when they make strategic plans and evaluate programs.

Two programs working in highly unstable situations have partnered with microfinance technical service providers to create systems and a plan for self-sufficiency. In both cases, upper management perceives intense pressure from donors to meet normal expectations. In both cases, the programs are in environments that have experienced violence of sufficient levels to warrant expatriate evacuations and to halt programming for a week or more. Consultants (from separate institutions) left behind prescriptions for reaching self-sufficiency that did not take into account conditions such as the effects of a recurrence of conflict on inflation, the monetary and time costs of security precautions, and that a surge in arrears after crisis means less time for making new loans. In both cases, field staff express frustration because, although the consultants acknowledged they are unfamiliar with the challenges of conflict-affected areas, their recommendations did not modify self-sufficiency projections accordingly.

Institutional Development

The greatest barrier programs encounter is in their attempts to complete institutional sustainability. As one practitioner, with experience in Rwanda, articulates: "Achieving the institutional development upon which we build the program is *the* challenge in a post-conflict situation."[39] Institutional development entails building an organization that is locally grounded and locally staffed, and driven at all levels by a vision that respects microfinance in economic development terms. Organizational structures and systems must be put into place to sustain the organization through internal and external transitions and crises. Most post-conflict countries, however, are characterized by a lack of experience with decentralized, private sector economic activity, and little or no recent history of strong civil sector organizations. In addition, capable middle managers and leaders are scarce, especially in Rwanda, Mozambique, and Cambodia, where the educated either left or were killed.

Developing new management capacity takes a considerable amount of time and investment and may not bear fruit. As a result, well-trained staff become highly marketable as the political and economic

[39]Written communication from Patrick McAllister of Catholic Relief Services, November 1997.

situation improves. Recruiting and developing boards of directors is especially difficult, particularly in contexts where the concept of a board is entirely new. Despite these difficulties it is common for an international organization to attempt to create a local organization, from scratch, simply because no suitable, available nongovernmental partners exist. The ones that do exist too often are overwhelmed with entreaties to implement programs or launch partnerships, and their missions become splintered.

A particular challenge of the post-conflict environment is experienced by organizations that attempt to evolve from a relief or social services agency to a microfinance service provider. Transitioning staff from a relief to microfinance mentality is so difficult that practitioners advise hiring new staff to initiate credit operations. One of the problems is that relief staffs are accustomed to large grants from donors who want the funds spent within a certain time period. The microfinance organization budgeting process, with its emphasis on efficiency and cost recovery, is obviously very different. Also, practitioners note that former relief staff have a hard time focusing solely on the microfinance vision, to the exclusion of the range of client needs.

Program managers will continue to struggle with the question of how to improve prospects for institutional sustainability. At present, it seems that time, persistence, and technical assistance — from partners that understand the effects of man-made disasters — are among the best tools practitioners will have at their disposal. Fortunately, as we learn more about operating these critically-needed and apparently highly valued programs, innovations and lessons from around the world are sure to further the impressive gains courageous, committed professionals have made and will continue to make.

CONCLUSIONS

This paper represents a snapshot of the rapidly evolving practice of microfinance and microenterprise development in post-conflict situations. Practitioners around the world, schooled in microfinance best practices in more normal development settings, are applying and modifying this knowledge in contexts that vary tremendously — by levels of violence and disruption, displacement of peoples, quality of community relationships, and macroeconomic contexts. Under incredibly severe conditions, they have forged strategies and operational criteria that permit credit to be delivered — and repaid — and thus to jump-start economic development processes for the most disadvantaged.

Most significantly, microfinance is being viewed as a tool that can serve multiple goals. Predominantly, it remains an economic development strategy that focuses on rebuilding and restarting local economies by providing needed financial services for enterprise creation. But there is also some consideration of its use as a relief and survival strategy in the immediate wake of disaster, and as a tool for peace and reconciliation. In most instances these latter goals remain secondary emphases within programs that work hard to maintain their focus on business imperatives.

The paper documents the surprisingly few preconditions these programs consider essential to initiate a microenterprise development program. These include a reasonable amount of security or stability of access; the reemergence of some market activity; and a certain assurance that, when refugees or IDPs are the focus, they will remain in place long enough for programs to make and recover loans (18 months is the common benchmark). In addition to these preconditions are a set of preferable conditions that greatly facilitate implementation but that programs have done without in the short term. These include a functioning banking system, the absence of hyperinflation, a certain level of population density (desired for both scale and security reasons), social capital, a skilled workforce, and a favorable policy environment.

To the extent that preferable conditions do not exist, program managers have developed strategies to operate in spite of difficult circumstances, believing that their commitment to serve the needy in crisis situations does not allow them to wait for more favorable times. As a result, programs endure cumbersome operational procedures during the first few years and face ongoing challenges for institutional development. The impetus, then, is to get programs going quickly, with great flexibility, yet with a clear effort to develop the infrastructure needed for long-term program development.

As with any microfinance program, practitioners working in a post-conflict environment must understand their potential market, the clients that need service, and the services to provide. The most likely candidates for microfinance services appear to be inhabitants (those that remained in place during the crisis) and returnees, both of whom tend to have at least some assets and an incentive to stay where they are if they can earn a living. IDPs and refugees pose greater challenges, although there is experience working with both populations. The critical factors appear to be the relative stability of their tenure in their present location, and the extent to which government regulations forbid or curtail economic support to refugees. Of highest risk are demobilized soldiers and excombatants; as a result, microfinance experience with these groups is limited. There is little consensus yet on whether and how these groups should be integrated into microenterprise development programs, although it seems certain that additional counseling and training inputs must be part of any package of support.

The demand these clients place on programs fluctuates, with demand being dampened, not unexpectedly, immediately after the termination of hostilities or a resurgence of violence. Although it is difficult to determine levels of demand a priori, in most instances, there is evidence that demand usually reaches very high levels during periods of reconstruction, and is responsive to the stimulus of credit availability. Often the greatest hindrance to program growth is not demand, but a lack of loan capital to meet that demand.

Post-conflict strategies mirror those of normal microfinance strategies in many respects, but there are some key differences. Strategies — and the programs designed to implement these strategies — tend to be more flexible to respond to changing circumstances; programs include greater focus on mechanisms to build trust among clients who have suffered from years of terror and violence; they may offer lower interest rates or grace periods in the initial stages and ratchet up as normalcy returns; and they often de-emphasize savings for security, inflationary, or legislative reasons. Programs also are designed to be responsive to specific conditions of conflict: dual operations may be initiated where populations remain divided by enmity, and programs may integrate or build off of basic needs activities initiated during an emergency response. This meshing of relief and economic strategies may occur intermittently as crises re-occur. Programs and clients appear to have found methods to accept and integrate both of these, without confusing the ground rules of either.

Operational modifications revolve around establishing policies and procedures to ensure staff security, to address inadequacies in banking systems, and to survive hyperinflation. In most cases programs assume significant risks to personnel and financial viability in the belief that the potential for impact more than outweighs the difficulties. Of course, this implies a longer-term view of sustainability than is normally considered in microfinance. Progress towards sustainability depends not only on the usual financial factors, but also on the development of local institutions that can assume the management of these programs. In many instances, institutional development is a significant focus of program activity for external implementing agencies. Given the loss of skilled people as an aftermath of conflict, organizational management, structures, and systems often need to be built from scratch.

Finally, microfinance and microenterprise development programs successfully operate in policy environments where regulations are often not in place, or where they are unfavorable to best practice. There are few governments that understand the field or implications of interest rate caps and other regulations on the informal sector. Implementing institutions have found that the fluidity of the situation allows them an advocacy role that ultimately may result in more favorable legislation further down the road. The advantage of access — and the potential for great influence — is offset by the amount of time that such advocacy requires. For many programs, this puts great strain on scarce staff resources. Yet most practitioners are aware of the lasting significance that their programs — and educational efforts based on them — can have in establishing a positive environment for microfinance.

NEXT STEPS

What is the potential for microfinance programs in post-conflict settings? It is difficult to answer this question with the body of information currently available. Most of the programs reviewed for this study are relatively new, and even the longer-term programs in Cambodia are only six years old. The numbers of clients reached in many instances are also still relatively small, although the largest, and oldest, programs in Cambodia now reach 10,000 to 20,000 clients. Additionally, because this study is based largely on interviews with practitioners currently associated with program design and day to day operations, capturing program effectiveness and efficiency has been difficult.

Of great value to the field would be a longitudinal and comparative documentation of programs in several post-conflict contexts, with a view to detailing client characteristics, design considerations, methodologies, operations, and client and institutional outcomes as they emerge over time. Such documentation would not only demonstrate *what* level of results can be achieved in terms of outreach, scale, sustainability, and impact, but also *how* these results are achieved. Capturing change over time in programs would provide a set of practical lessons for other practitioners and donors interested in exploring this tool.

To gain the greatest value, a case study process should be designed to examine a minimum of three institutions each in at least two diverse country settings where programs are beginning operations. The programs identified in Bosnia and Rwanda or Mozambique during this study process would make excellent candidates, although there are likely other countries that could offer valuable lessons. The critical point would be to support field-level inquiry now and also several years later. Interim documentation gathered from the study programs in between field visits could supplement the on-site research. The study would be further enriched by incorporating researcher, practitioner, and donor perspectives into the selection of study questions and into the analysis of data through a seminar process accompanying the research. Such a process of stakeholder-led inquiry involving those most committed to post-conflict programming would facilitate more accurate information, as well as more rapid dissemination of findings to those most likely to use them.[40]

The potential for microfinance and microenterprise development programs in the dire circumstances that result from conflict appears extraordinarily high. Matching the potential with solid programming is a challenge that many are trying to meet on the ground. Learner-centered, field-based inquiry that supports efforts to create best practice would be an enormous contribution.

[40] The Aspen Institute has used just such a process in documenting the microfinance experience in the United States. More information is available from the Institute's Self Employment Learning Project.

BIBLIOGRAPHY

Allen, Hugh. 1996. "Financial Services for Households (FISH): a Framework for Partnership and Programme Implementation." Trip Report. Angoshe, Mozambique: CARE International. June.

Amoo, Sam G. 1997. *The Challenge of Ethnicity and Conflicts in Africa: The Need for a New Paradigm.* New York: Emergency Response Division. United Nations Development Programme. January.

Anderson, Mary B. 1996. "Linking Relief and Development: A Manual to Aid in Programming Assistance to Break the Cycle of Disasters and Promote Sustainable Development." Cambridge, MA: Collaborative for Development Action, Inc. October.

_________. 1994. "Vulnerability to Disaster and Sustainable Development: A General Framework for Assessing Vulnerability." In Mohan Munasinghe and Caroline Clarke, eds. *Disaster Prevention For Sustainable Development*. Washington, D.C.: The International Bank for Reconstruction and Development. 1995.

Anderson, Mary B, and Woodrow, P. J. 1989. *Rising from the Ashes: Development Strategies in Times of Disaster.* Boulder, CO: Westview Press.

Bruton, F. Brinley. 1995. "Renewed Hope in Rwanda." *What's New in Women's World Banking.* Newsletter, Vol. 3, No. 3. New York: Women's World Banking. September.

Buckley, Graeme. 1997. "Microfinance in Africa: Is it Either the Problem or the Solution?" In *World Development*, Vol. 25, No. 7, 1081–1093. London: Elsevier Science Ltd.

Burke, Marshall, DeVries, Mike, and Korus, Uwe. 1996. "Refugees and the Environment: Learning from CARE's experience in Rwanda and Tanzania." Internal Report. Atlanta, GA: CARE

Cadrin, Marie. 1997. "Financial Services for Households (FISH) Project Implementation Report." Reports for Second and Third Quarters FY 97. Angoshe, Mozambique: CARE International.

CARE. 1998. "Business Development Services in a Post-Emergency Situation: CARE's Strategy and Experience in Bosnia." Banja Luka: SEAD Office, January.

Colletta, N. J., and Kostner M. 1997. "War-to-Peace Transition in Mozambique: The Provincial Reintegration Support Program." Findings Report No. 90. Washington, D.C.: International Bank for Reconstruction and Development. World Bank. July.

Colletta, N. J., Kostner, Markus, and Wiederhofer, Ingo. 1996. *The Transition from War-to-Peace in Sub-Saharan Africa*. Washington, D.C.: World Bank.

de Vletter, Fion. 1996. *Mozambique Mid-term Evaluation Report.* Appendix to World Relief Corporation USAID Matching Grant Annual Report. September.

Esman, Milton J. 1997. *Can Foreign Aid Moderate Ethnic Conflict?* Peaceworks No. 13. Washington, DC: United States Institute of Peace. March.

Forster, Sarah. 1996. "Bosnia and Herzegovina Local Initiatives Project: Questions and Answers." Sarajevo: World Bank, Resident Mission. November.

Foundation for Enterprise Finance and Development (FEFAD). 1997. *Annual Report 1996*. Tirana, Albania: Foundation for Enterprise Finance and Development.

Graber, Ken. 1997. "Microfinance Programs and Personal Security." Wheaton, IL: World Relief Corporation.

________. 1997, 1996. World Relief Corporation USAID Matching Grant Annual Report.

Gray, Harold. 1995. "Rural Micro Credit Review: Cambodia Australia Agricultural Extension Project." Working Paper. December.

Gray, Karen, and Allison, Mark. 1997. "Microenterprise in a Post-Emergency Environment." In *Small Enterprise Development*, Vol. 8, No. 4, 34–40. December.

Grosen, Paul, and Jackelen, Henry. 1997. "Initial Report." New York: Special Unit for Microfinance. United Nations Development Programme. August.

Gutmanis, Dr. Ivars. 1997. "Proposal to Integrate Displaced Person Populations in the Economic Development Programs." Work in Progress. Washington, D.C.: HOBE Corporation. October.

Hicks, Kristin M. 1996. "Disaster Mitigation: Concepts, Strategies and Recommendations for Future Action." Paper prepared for the CRS Technical Unit. Baltimore, MD: Catholic Relief Services. October.

Holtzman, Steven. 1995. *Post-Conflict Reconstruction*. Work in Progress Paper. Washington, D.C.: Social Policy and Resettlement Division. World Bank.

International Development Association. 1996. "Technical Annex Bosnia and Herzegovina Local Initiatives Project." Report No: T–7011–BIH.

Keys, Linda. 1996. "Liberia: A Country Briefing." Project Report. Wheaton, IL: World Relief Corporation. February.

_________. 1995. "Mozambique: A Country Briefing." Project Report. Wheaton, IL: World Relief Corporation. September.

Larsen, David. 1997. "Microcredit As A Disaster Response Tool: A Buyer's Guide." Conference Paper. Wheaton, IL: World Relief Corporation.

Lautze, Sue. 1996. *Lives Versus Livelihoods: How to Foster Self-Sufficiency and Productivity of Disaster Victims*. Occasional Paper Number One Prepared for the Office of U.S. Foreign Disaster Assistance. Napa, California. March.

Le Grand, Jean-François. 1997. "Savings and Credit for Micro-entrepreneurs in Manica and Sofala Provinces." Project Implementation Reports Nos. 4 & 5. Manica, Mozambique: CARE International.

Lucock, David A. 1997. "Draft Report on: Rural Credit in Cambodia." Draft Report on United Nations Development Programme project CMB/93/005. Bethesda, MD: Development Alternatives, Inc. March.

Management Systems International. 1996. "Evaluation of the Haiti Communal Governance Program." Report for the USAID Office of Transition Initiatives and International Organization for Migration. Washington, D.C.: Management Systems International. April.

Mar, Amara. 1997. "ACLEDA Credit Management Reports for April 1997." Phnom Penh, Cambodia: Association of Cambodia Local Economic Development Agencies (ACLEDA). April.

McAllister, Patrick. 1997. *CRS/Rwanda: Small Enterprise Development Program*. Concept Paper. Kigali: Catholic Relief Services.

Moser, Caroline O. N. 1996. *Confronting Crisis: A Comparative Study of Household Responses to Poverty and Vulnerability in Four Poor Urban Communities*. Environmentally Sustainable Development Studies and Monographs Series No. 8. Washington, D.C.: The International Bank for Reconstruction and Development.

Nelson, Harold D. 1984. *Mozambique: A Country Study*. Washington, D.C.: The American University. April.

Perry, William J. 1996. "Managing Conflict in the Post-Cold War Era," in *Managing Conflict in the Post-Cold War World: The Role of Intervention.* A Report of The Aspen Institute Conference held August 2–6, 1995, Aspen, Colorado.

Pesic, Vesna. 1996. *Serbian Nationalism and the Origins of the Yugoslav Crisis.* Peaceworks No. 8. Washington, D.C.: United States Institute of Peace. April.

Prins, Dr. Hendrik. 1996. "Rural Credit Review: Cambodia." Final Report for the Asian Development Bank. December.

Rogers, Drew, and Thys, Didier. 1994. "Food Security, Relief to Development, and Food Aid in the Greater Horn of Africa: A Review of CRS Programs in the East Africa Region." Baltimore, MD: Catholic Relief Services. March.

Romanski, Susan. 1997. Personal Letter. New York: Trickle Up Program. December 3.

Sharp, Bruce. 1997. "The Banyan Tree: Untangling Cambodian History." In Cambodia Internet Website.

Small Enterprise Education and Promotion (SEEP) Network. 1996. *Enterprise Development Assistance Programs of SEEP Member Agencies*. New York: SEEP Network.

United Nations High Commissioner for Refugees (UNHCR). 1997. *Refugees and Others of Concern to UNHCR: 1996 Statistical Overview*. Geneva: UNHCR Programme Coordination Section, Division of Operational Support.

________. 1997. *UNHCR Special Report: Refugee Integration—A New Start*. Geneva: UNHCR Public Information Section.

________. 1997. *Policy and Methodological Framework for Quick Impact Projects (QIPs) as a Means for Facilitating Durable Solutions Through Integration.*

________. 1997. "Social and Economic Impact of Large Populations on Host Developing Countries." Report of Executive Committee Standing Committee. Geneva: UNHCR. January.

________. 1996. "The Bosnian Women's Initiative." Internal Information Paper. September.

________. 1996 "The Rwandan Women's Initiative." Internal Information Paper. September.

________. 1996. "Evaluation of the Income Generation Project for Refugee Areas (IGPRA)." Programme and Technical Support Section Mission Report 96/28. Islamabad, Pakistan: UNHCR Programme and Technical Support Section.

________. 1994. "Repatriation: Back to Mozambique." Special Report. Geneva: UNHCR Public Information Section. September.

U.S. Agency for International Development (USAID). 1997. "Post-Conflict Transition." WIDWorks Information Bulletin. Washington, D.C.: USAID Office of Women in Development. June.

________. 1996. Office of U.S. Foreign Disaster Assistance Annual Report FY 1995. Washington D.C.: Office of U.S. Foreign Disaster Assistance (OFDA).

Vor der Bruegge, Ellen. 1995. World Relief/Cambodia Gateway Phase II Midterm Evaluation.

Waller, David. 1996. *Rwanda: Which Way Now?* An Oxfam Country Profile. Oxford, U.K.: Oxfam.

World Bank. 1997. "Bosnia and Herzegovina Local Initiatives Project: Pilot Phase Evaluation Report." Sarajevo: Resident Mission, Bosnia and Herzegovina. May.

World Bank. 1997. *A Framework For World Bank Involvement in Post-Conflict Reconstruction*.

World Relief Corporation. 1997. "World Relief Cambodia: Gateway Project." USAID Final Evaluation Report.

________. 1997. Matching Grant, Fourth Annual Report for October 1, 1996–September 30, 1997.

ANNEX

SELECTED COUNTRIES AND MICROFINANCE PROGRAMS

THE CONTEXT OF CONFLICT IN FOUR COUNTRIES

The research probed how conditions unique to conflict affect planning, implementation, and performance of microfinance programs. It was focused primarily on four countries — Bosnia, Mozambique, Rwanda, and Cambodia — to concentrate the scope of the investigation of programs. Representative of the range of geographic and contextual factors found in post-conflict settings, the four countries also provide a lens on the evolution of conflict over time (two of the countries are relatively recent conflict areas; the other two have a longer history of post-conflict activity.)[1] Some key characteristics are indicated in Table A-1, on the next page.

MICROFINANCE PROGRAMS

Within these four countries, a number of organizations have initiated microfinance programs. This section charts basic information about the programs and the history of conflict that affects them. The findings of the paper are drawn from the experiences of the programs that responded to requests for information or ones for which secondary data are available. The programs range in age, size, and institutional status.

Bosnia-Herzegovina

Prior to 1991, Bosnia-Herzegovina was part of Yugoslavia, a multinational state in which Croats and Serbs comprised the two largest national groups. Individuals from both groups lived within the republic of Bosnia-Herzegovina along with Bosnian Muslims, the third largest national group. Upon the dissolution of Yugoslavia, proposals for a new form of government were advanced and rejected after compromises could not be reached between Slovenia and Croatia on one side and Serbia and Montenegro on the other (Pesic 1996). Croatia declared its independence in June 1991; the Serbian Republic of Bosnia and Herzegovina and the Serbian Republic of Krajina declared independence in December 1991. Upon the Government of Bosnia-Herzegovina's declaration of independence in March 1992, the republic became embroiled in a brutal war between the three national groups.

---

[1]Although the title of the paper refers to *post*-conflict, we do not set requirements for meeting a standard of post-conflict—in other words, that countries have a formal peace agreement or have enjoyed a certain period of peace and stability. To exclude learning from countries that recently have fallen into or returned to a state of unrest, chaos, or conflict would undermine the intentions of the study, which are to offer the most realistic and practical discussion possible. Conflict countries as defined by The World Bank are those that have recently undergone or experienced widespread violence; where a main preoccupation of the state is involvement in armed warfare; where the state has collapsed; or where a significant part of the population is engaged in an armed struggle with the state and challenged its monopoly on the use of legitimate force...a country is also included if over 5 percent of its population is displaced by violent conflict, even if that conflict is over or dormant. (Holtzman, p. 2) Each of the four focus countries meet this definition, as do all the other environments we discuss with the exception of Albania, which experienced civil unrest due to financial markets upheaval in 1995 in its capital but is not classified as a conflict *country*. However, the experience of the Foundation for Enterprise Finance and Development, a microfinance bank in Tirana, in the wake of considerable upheaval and violence, is instructive. The paper also refers to man-made disasters and complex emergencies, which encompass more than conflict-affected environments, such as nuclear explosions. This review, however, is limited to man-made disasters and emergencies caused by conflict.

TABLE A-1
CHARACTERISTICS OF FOUR CONFLICT-AFFECTED ENVIRONMENTS**

	Bosnia	**Mozambique**	**Rwanda**	**Cambodia**
Geography	Eastern Europe	Southern Africa	Central Africa	South East Asia
Population (mid-1997)	3,600,000	18,355,000	7,738,000	11,164,000
Literacy Rate	Not available	40%	60.5%	35%
Infant Mortality Rate (1996 est.)	43.2 per 1000 live births	125.6 per 1000 live births	118.8 per 1000 live births	107.8 per 1000 live births
GDP per Capita (1995 est.)	$300	$700	$400	$660
Duration of Conflict	under 5 years	over 20 years	10-20 years	over 20 years
% Displaced	51%	35%	39%	7%
Landmine Estimates	4 million	1 million	less than 20,000	8 million
Economy Prior to Conflict	centrally planned	centrally planned	private, agrarian	private, agrarian
Status of Conflict	Ended November 1995; territorial disputes esp. over Sarajevo and Brcko/Posavina corridor create tensions (but no significant violence) and need for on-going external stabilization force.	Ended in 1992 with successful multi-party elections held in 1994. Return of 1.6 million refugees after 94 elections. Next elections scheduled for 1999.	Major wave of violence ended in September 1994 followed by return of 1 million refugees in summer 1995. Incidences of violence occur periodically, indicating potential for renewed conflict.	Constitutional monarchy established in September 1993 followed by relative stability until July 1997 coup. Next elections postponed until July 1998.

**Statistics from the Population Reference Bureau's *1997 World Data Sheet*, the *1996 CIA Factbook*, and Holtzman, 1995.

In 1994 the Muslims and Croats signed an agreement creating a joint Muslim/Croat Federation of Bosnia-Herzegovina. The war with the Bosnian Serbs continued until November 1995, when the signing of the Dayton Peace Agreement enabled a cease-fire. Dayton resulted in the creation of two entities within the intentionally recognized state of Bosnia-Herzegovina. The Federation (shared between Croats and Muslims) and the Serb Republic. The long-term vision of Dayton is to reintegrate the country. Approximately 250,000 of the 4.3 million citizens were killed and per capita income declined by 80 percent.

For Bosnia, programs reviewed in Table A-2 are a program initiated by World Vision during a pilot project of the World Bank; Mercy Corps Europe's program started during full-scale implementation of the same World Bank project; the microfinance development component of Bospo, a local NGO that has applied for affiliation with Women's World Banking; CARE's microfinance program recently started in the Republika Srpska; and a newly created microfinance bank capitalized in part by the International Finance Corporation.

TABLE A-2
FIVE BOSNIAN MICROFINANCE PROGRAMS[1]

Item	World Vision (as of 2/98)	Mercy Corps/SEA (as of 2/98)	Bospo (local/WWB) (as of 2/98)	CARE (as of 2/98)	Microfinance Bank of Bosnia- Herzegovina (as of 2/98)
Program Start Date	February 1996	April 1997	March 1996	September 1997	November 1997
Target Population	economically disadvantaged groups, including demobilized soldiers, women, refugees and Internally Displaced Persons	Rural microentrepre-neurs and small farmers in war-affected communities of North Bosnia-Herzegovina	low-income displaced and local women in Northeastern Bosnia-Herzegovina; average income of client is $36 per month	The poorer and more vulnerable of the economically active	no targeting of special groups; existing businesses or business people
Program Locations	Zenica, Tuzla, Sarajevo, Doboj (RS)	Doboj East, Gracanica, Srebrnik, Federation Brcko, Maglai, Tesanj, Breza	Tuzla-Podrinje Canton (Tuzla, Zivinice, Lukavac)	Regional office in Banja Luka and branch office in Brcko. Regional office to be opened in Sarajevo in mid-1998 with sub-offices in Vogosca and Lukavica.	Sarajevo; second branch planned for Sarajevo and third for Bijac
Types of Financial Products	Credit ranging from $1,000 – $17,000	Credit to individuals ranging from $0 - $6,250 for 5-12 months Larger loans (up to $30,000) available in Breza municipality	Credit to groups; primarily for working capital	Savings and credit services	Working capital, fixed asset financing and savings; no limits on loan sizes but typical range is $275 to over $17,000

[1] These data are self-reported by the institutions for the purpose of this study. The researcher did not adjust nor validate data.

TABLE A-2 — continued

Item	World Vision (as of 2/98)	Mercy Corps/SEA (as of 2/98)	Bospo (local/WWB) (as of 2/98)	CARE (as of 2/98)	Microfinance Bank of Bosnia- Herzegovina (as of 2/98)
Nonfinancial Services Offered	none	None	None linked directly to microfinance program	Training and Marketing Promotion services to be offered from mid-1998, on a semi-commercial basis	None
Lending Methodology	Individual lending methodology	Individual lending	Group lending; groups are 4-6 members; individual lending strategy suspended in October 1996	Individual and solidarity lending with plans to offer savings as environment permits	Retail lending: individual loans
Average Loan Size / Term	$4,570 for a 10 month average term @1.5% - 2% per month on a flat rate	$2,240 for an average term of 11 months @ 1.5% per month flat	$550 for 10 month average @15% interest per year calculated on a flat rate	Individual: $1,800-$9,000 @ 22% APR, 8 to 18 mos; Solidarity: DM $300 - $1,500 @ 28% APR, 4 to 7 mos.	$3455 @ 30% per year calculated on declining balance; majority of loans are for 7-12 mos; range is from 3-24 mos
No. Clients (cum. or active)	cumulative 580 active 482	194 cumulative and 190 active	Not provided	38	133 after first quarter of operation
No. Loans Made	over 580	201	620	10 Solidarity Group loans (in first two weeks of lending activities)	142 loans outstanding (as opposed to loans disbursed.) Projected loans outstanding by end of 1999: 1700 loans for total of $7 million.
Outstanding Loan Balance	$1,383,722	$330,487	Not provided	$26,111	$492,220

TABLE A-2 — continued

Item	World Vision (as of 2/98)	Mercy Corps/SEA (as of 2/98)	Bospo (local/WWB) (as of 2/98)	CARE (as of 2/98)	Microfinance Bank of Bosnia- Herzegovina (as of 2/98)
Portfolio-at-Risk	11%	1.2%	Individual--17% during pilot group lending today--0%	0%	0%
Loan Loss	3% of loans disbursed	0%	Not provided	0%	$0 Loan loss provision is 4% of outstanding loan balance
No. Clients Depositing Savings/ Average Savings per Saver	not applicable	4/7	None	None (savings services to commence in April 1998)	None — not expected to take savings until later 1998
Institutional Status	In the process of forming a local organization, the Bosnian Enterprise Fund (BEF)	International NGO implementing localization plan in 1998	Bosnia and Herzegovina NGO that has applied to become an affiliate of Women's World Banking	Plans to set up 2 national microfinance institutions (one in RS and one in Federation)	Institution has a banking license--met capitalization requirement and operates according to Ministry of Finance regulations
No. Credit Officers/No. Total Staff	10/ 14	2.5/ 4.5	3/ 5.5	7/ 16	1st 2 years: 5 loan officers and 5 admin. staff to increase to 24 loan officers and 15 admin staff by end of 1999

TABLE A-2 — continued

Item	World Vision (as of 2/98)	Mercy Corps/SEA (as of 2/98)	Bospo (local/WWB) (as of 2/98)	CARE (as of 2/98)	Microfinance Bank of Bosnia- Herzegovina (as of 2/98)
Donors/ Sources of Financing	World Bank (through LID, a local counterpart), UNHCR, governments of Finland and Sweden, and 8 WV support offices	World Bank; USDA	LID--World Bank	World Bank/LID, CARE-US, Dutch Government (to be confirmed)	Shareholders are IFC, EBRD, BH Banka, FMO of Netherlands and German technical assistance agency IPC.
Percent Operational Self-Sufficiency (% of operating expenses covered by interest & fee income)	130% after operating expenses, and 109% after operating expenses, interest expenses and loan losses (this excludes income and costs for the branches in Sarajevo and Doboj which are starting up in February and March 1998)	42.4%	42%	N/A - too early	Operating loss of $61,000 as of end of 1997. Operating profit of $300,000 projected March 1999
Year When Operational Self-Sufficiency Is Projected	Operational self-sufficiency was reached in June 1997	2000	2005	Year 3	1999

TABLE A-2 — continued

Item	World Vision (as of 2/98)	Mercy Corps/SEA (as of 2/98)	Bospo (local/WWB) (as of 2/98)	CARE (as of 2/98)	Microfinance Bank of Bosnia- Herzegovina (as of 2/98)
Comments	85% urban; 4-5 jobs created or sustained per business	Geographic location based on objective to service front-line communities receiving no other development assistance; balloon payment of 33% principal amount permitted	Banking law still in process; the law under which Bospo operates does not cover microfinance activities; Bospo (like other LID grantees) protected as partner of Government of Bosnia-Herzegovina and World Bank.	Sees financial sustainability as unaffected by environment being post-conflict. Main risks are related to: 1) Locational Instability of clients, 2) Clients being accustomed to humanitarian aid, 3) Uncertain and changing legal and regulatory environment (for clients and for MFI). Solidarity Group methodology is ideal for many displaced persons and refugees, and well suited to an economy in severe transition and recovery, although whether this is an appropriate methodology for BiH in 3 years time remains to be seen.	Strategy not based on Bosnia-Herzegovina as post-conflict; based on demand and goal to earn a profit. IFC had to fund repair of bank building because of physical destruction

Cambodia

Ten years after Cambodia gained independence from France in 1953, Norodom Sihanouk, then head of state, attempted to quell opposition by a small, but elite group of communists he referred to as Khmer Rouge. At the same time, the Vietnam-American conflict was emerging and the U.S. was requesting entree into Cambodia to strike at Vietcong fighting within the Cambodian border. General Lon Nol, a pro-American member of Sihanouk's government, overthrew Sihanouk in 1970. Sihanouk then joined forces with Khmer Rouge in an attempt to regain power. The Khmer Rouge instituted a strategy to create a collective, agrarian society with power concentrated in its small circle. Dissidents and educated Cambodians fled or were killed in a long, brutal reign of terror by the Khmer Rouge and its tenacious leader, Pol Pot. In 1993, King Sihanouk was reinstated to power under a constitutional monarchy. He named his son, Prince Ranariddh, and Hun Sen as co-prime ministers. Cambodia enjoyed relative stability until July 1997, when Hun Sen executed a successful coup throwing King Sihanouk and Prince Ranariddh out of power. National elections are scheduled for July 1998.

The programs in Cambodia that are reviewed in Table A-3 are ACLEDA, Catholic Relief Services, World Relief, CARE/Seilaniti, and UNICEF/Ministry of Women's Affairs.

TABLE A-3
FIVE CAMBODIAN MICROFINANCE PROGRAMS

Item	ACLEDA (as of 1/98)	Catholic Relief Services (as of 2/98)	World Relief (as of 2/98)	Seilaniti/ CARE (as of 2/98)	UNICEF (as of 3/98)
Program Start Date	January 1993	1994	October 1991	June 1993	--1985 w/ income generation grants; --1988 w/ interest-free loans; --1992 w/ credit and savings –1997 w/ revamped credit and savings scheme (Only last two programs reported on)
Target Population	Poor and disadvantaged persons in urban, suburban and rural areas; 98% women for microfinance and 67% women for small business services	Rural women engaged in microenterprise	Poor, economically active women who have care of child under 5 years old	85% poor women and 20% in urban, peri-urban and rural areas; 65% are farmers	Poor women
Program Locations	Siem Reap, Bantheay Mean Chey, Battambang, Pursat, Sihanoukville, Kampot, Takeo, Phnom Penh, Kampong Cham, Kampong Thom, Kampong Speu	Takeo, Battambang, Kandal, Svay Rieng	Phnom Penh, Kompong Cham, Kandal, Kompong Thom	Phnom Penh - Kandal, Pursat, Banteay Mean Chey	In 17 provinces of Cambodia
Types of Financial Products	Small business and microfinance credit; savings services	Credit and savings, loans from $30 to $300 maximum for last cycles	Credit and savings	Credit and savings	Cash loans; Grants of US$20 for very poor families

TABLE A-3 — continued

Item	ACLEDA (as of 1/98)	Catholic Relief Services (as of 2/98)	World Relief (as of 2/98)	Seilaniti/ CARE (as of 2/98)	UNICEF (as of 3/98)
Nonfinancial Services Offered	Business management training and business advising	Health education to some community banks depending on partners; Training in poverty lending and technical assistance to local and international NGOs	Basic business skills, health education	Groups guarantee	Skills training, Cow-bank
Lending Methodology	Individual and solidarity group lending	Village banking with 30-60 members per bank. Mandatory savings of $1-1.50 per month during loan cycles.	Community banking with health education	Solidarity lending in groups of approx. 5-10 under a village committee elected by villages (average 145 members). Loans separated into agriculture and nonagriculture.	Solidarity groups arranged by programs and government staff into village banks
Average Loan Size / Term	Micro: $86 @ 5% flat per month for 6-12 months; Small: $855 @22% annual flat for up to two years	$33 @ 5% flat per month with 2% retained by banks for internal fund/ 4-6 mos. Cycles	$39 / four month cycles (note: Average loan size figure stated in US$ is lower following recent currency devaluation.)	$43 as of 12/97 2-10 months	Max loan is US$60 for up to 11 months @ 4% per month, including 1% village compulsory savings
No. Clients (cum. or active)	44,089 active clients	5,153 active	8,114 active and 12,500 cumulative	5,971 cumulative as of 12/97	23,000 cumulative and 22,228 active as of 12/97

TABLE A-3 — continued

Item	ACLEDA (as of 1/98)	Catholic Relief Services (as of 2/98)	World Relief (as of 2/98)	Seilaniti/ CARE (as of 2/98)	UNICEF (as of 3/98)
No. Loans Made	90,625	10,887	36,038	6,676 during 1997. Cumulative loans made not provided.	40,590
Outstanding Loan Balance	$2,541,879 for micro and $4,303,766 for small	$193,030 as of 12/97	$162,744	$255,473 as of 12/97	$552,330
Portfolio-at-Risk	5.31% for microloans and 5.72% for small loans	0%	11% in 3/97 and 33% immediately following July 1997 coup	10%	16.9%
Loan Loss No. Clients Depositing Savings/ Average Savings per Saver	4.56% for micro and 4% for small 25,055 savers/$1.57 average savings per saver	$140 (percentage not provided) 5,153 / $12.46 (USD value of savings has depreciated as a result of devaluation)	2% 8,114 savers / $6.65	Not provided. 5,971 savers/ $5.35	$82,157 (percentage not provided) N/A
Institutional Status	Microfinance NGO in process of transformation to licensed microfinance institution	international NGO lending through 2 CRS branch offices and 3 local NGOs.	Cambodia Community Building, World Relief's affiliate is in process of localization and institutional development	Local affiliate SEILANITI is taking over the program which will be run a general assembly of employees an village committee representatives	A partnership between UNICEF and Government's Ministry for Women's Affairs
No. Credit Officers/No. Total Staff	98/314	22/33	47/78	14/27	1,223 total staff (central: 7, provincial: 34, district: 72, village: 1,110)

TABLE A-3 — continued

Item	ACLEDA (as of 1/98)	Catholic Relief Services (as of 2/98)	World Relief (as of 2/98)	Seilaniti/ CARE (as of 2/98)	UNICEF (as of 3/98)
Donors/ Sources of Financing	UNDP, USAID, UNFPA, ACRERE, PRASAC, ESCAP, GTZ, Shell Company, New Zealand and Dutch Governments, Caisse Française de Développement, KFW (German Development Bank)	McNight Fndn. And USAID	USAID, GTZ, World Relief and World Relief Canada	Caisse Française de Développement, AusAid	UNICEF (US National Committee, Australian National Committee, Caisse Française de Développement, French National Committee
Percentage Operational Self-Sufficiency (% of operating expenses covered by interest & fee income)	100%	47% overall Ranges from 14% for newest branch to 99% for older branches.	29% today; was 50% before recent “Asia Crisis” devaluation	60%	Unavailable
Year When Operational Self-Sufficiency Is Projected	Present	1999	2002	1998	2005

TABLE A-3 — continued

Item	ACLEDA (as of 1/98)	Catholic Relief Services (as of 2/98)	World Relief (as of 2/98)	Seilaniti/ CARE (as of 2/98)	UNICEF (as of 3/98)
Comments	Original methodology was village banking but changed to individual loans using solidarity group liability mechanism and substitute collateral --found to be more appropriate in Cambodia. The July 1997 coup did not affect ACLEDA's lending activity.	CRS is providing capacity-bldg. to multiple NGOs because of need for community-based orgs. in Cambodia; CRS plans to become an apex institution of 9 local NGOs in future.	Program originally projected to reach self-sufficiency by 2000. Staff are assessing how coup and devaluation will affect time frame. Two promoters were killed in a 1996 robbery.	Harvest failure and periodic outbreaks of unrest present greatest challenges.	It is unclear whether UNICEF will continue financing program, which until 1997, has not been financially sustainable. Previously, rescheduling of loans resulted in much lower effective interest rate. However, a recent decentralization of decision-making and management through the Community Action for Social Development Programme approach has improved credit operations. There has been no more rescheduling since mid-1997 in six provinces. Local credit agents are highly committed but problems of marketing in insecure, remote, sparsely populated areas is a factor.

Rwanda

Rwanda is inhabited by descendants of three tribal/ethnic groups: the *Batwa* hunter-gatherers who make up 1 percent of today's population, the clans of *Bahutu* cultivators who represent 90 percent of the population, and *Batutsi* tribes who, although representing a minority in the country, became dominant through military and economic strength (Waller 1996). Following German and Belgian rule, when Batutsi control of administrative functions was enforced to the exclusion of the Bahutu, the United Nations designated Rwanda as a Belgian Trustee Territory. A shift in policy resulted in Belgian support of Bahutus, who seized the opportunity to push through reforms that Batutsis resisted. The resistance turned violent. Between 1960 and 1962 the two sides fought, causing 120,000 Batutsis to flee to neighboring countries. In the 30 years to follow, chronic violence erupted between the factions. Then, in October 1990, Batutsi refugees living in Uganda attacked the Rwandan army initiating a guerrilla war that lasted three years.

On April 6, 1994, President Habyarimana, who had ascended to power in 1973, was killed in a plane crash. A plan for the systematic eradication of Tutsis was initiated, unleashing indiscriminate violence. Between April and August 800,000 people, both Hutus and Tutsis, were killed. That summer the army of the Tutsi-dominated Rwandese Patriotic Front (RPF) marched across the country. The advance prompted the flight of 2 million to Burundi, Uganda, Tanzania, and Zaire. On July 4, 1994 the RPF seized Kigali and formed a government of National Reconciliation (Waller 1996). A year later, approximately 1 million refugees returned to Rwanda creating a temporary interruption of reconstruction efforts and a return to humanitarian assistance for the returnees. Today, Rwanda struggles to remain on path toward reconstruction.

Programs in Rwanda are Duterimbere, an affiliate in the Women's World Banking network, Catholic Relief Services, and World Relief. The genocide of 1994 created upheaval in the Duterimbere and the original CRS programs. The return of 1 million refugees in 1996 delayed the CRS and World Relief program initiation as both agencies responded to the humanitarian crisis. The unique experience of Duterimbere, which continued its microfinance activities during this period, is described in the Strategies section of the body of the paper.

TABLE A-4
THREE RWANDAN MICROFINANCE PROGRAMS

Item	Duterimbere (as of 11/97)	Catholic Relief Services (as of 11/97)	World Relief (as of 2/98)
Program Start Date	May 1987	July 1996 w/ capacity-bldg and September 1997 w/ lending	June 1997
Target Population	poor women who are economically active; 95% in rural areas	urban and sub-urban poor market traders; predominately women	urban traders; mostly 90% women
Program Locations	HQ in Kigali with 11 regional offices	Gisenyi and Kigali	Kigali
Types of Financial Products Offered	Credit and savings	Credit and Savings	Credit and Savings
Types of Nonfinancial Services Offered	not provided	not provided	Basic business skills
Lending Methodology	solidarity groups of 5; loans for collective businesses up to 10 women; individual lending	villager banks of 30 members divided into 5 or 6 guarantee groups	community banking with banks of 30
Average Loan Size/ Term	$300-600 with mandatory savings of 5%-20% of loan	$50 maximum to each member @12% per year on 4 mos. cycles	$50 to individual/ 4 mos. cycles @ 4% per month. Savings of 10% of loan encouraged (Initial savings has been 32%/cycle)
No. Clients (cum. or active)	3000	Active: 30 clients	540 active clients
No. Loans Made	7000	loans to 4 groups	18 loans to banks
Outstanding Loan Balance	$320,000	$1,000 - $1,500	$18,000
Portfolio-at-Risk	10%	0%	0%
Loan Loss	5%	0%	0%

TABLE A-4 — continued

Item	Duterimbere (as of 11/97)	Catholic Relief Services (as of 11/97)	World Relief (as of 2/98)
No. Clients Depositing Savings/ Average Savings per Saver	not provided	not provided	100% / $16 (after one cycle)
Institutional Status	local NGO with a local board and staff; an affiliate in the Women's World Banking network	program is implemented through the development office of local NGO-registered diocese which is training a local association to take over program in 3 years	World Relief is implementing on its own with plans to turn program over to a to-be created partner
No. Credit Officers/No. Total Staff	14/30	½	4/5
Donors/ Sources of Financing	UNICEF, TROCAIRE, NOVIB, ICCO, Caritas Autriche	CRS	USAID PVC and World Relief
Percentage Operational Self-Sufficiency (% of operating expenses covered by interest & fee income)	unavailable	unavailable	Not calculated yet (too early in program implementation)
Year When Operational Self-Sufficiency is Projected	unavailable	2003	2001
Comments	Since 1994, membership has grown from 600 to 2500 members. Plan to establish 2 credit/savings cooperatives a year before 2002. New focus on women's responsibilities as peacemakers since 1994 genocide.	Before the war, CRS did some individual lending but now the great demand is for non-collateralized loans. Does not require savings but members are able to receive 2x the amount of their previous loan if they have saved. CRS unable to work in rural areas because of insecurity.	The major constraint as of October 1997 was lack of capital. World Relief had 38 banks trained and requesting loans but needs more start-up loan capital. Program was ready to start in November 1996 but major influx of returnees delayed start until 1997.

Mozambique

Mozambique was a Portuguese colony until 1975, when the Front for the Liberation of Mozambique (FRELIMO) came to power. FRELIMO formed a Marxist-Leninist government with assistance from the Soviet Union and vowed to remake society into a model of socialism for Africa. In response, the anti-Marxist Mozambican National Resistance (RENAMO) was formed and armed, aided first by Rhodesia and later South Africa. Between 1975 and 1983 FRELIMO succeeded in centralizing most sectors of the economy. Also during this period, 1.3 million Mozambicans were killed in the civil war that had erupted between FRELIMO and RENAMO. Since 90 percent of the 13.1 million Mozambicans depended on agriculture to live, FRELIMO's socialist experiment was turning into an appreciable failure (Nelson 1984).

In 1983 private retail shops and family farms again were encouraged. Unfortunately, the ongoing civil war thwarted development plans, making Mozambique one of the poorest countries in the world. The war officially ended on October 4, 1992 when the President and head of RENAMO signed a peace agreement in Rome. Destabilizing conflict continued until 1995 when multiparty elections, declared fair by both the government and the opposition, finally closed this chapter on Mozambique's civil strife. Nearly 25,000 arms and explosives were turned in for productive inputs, 100,000 soldiers demobilized, and a five-year economic development plan set out to guide the country's reconstruction.

In Mozambique, few microfinance development programs are operating. The primary microfinance operators in the country are World Relief and CARE. Other international organizations, such as GTZ and the Red Cross, implement grants-based, income-generation or training projects or programs that focus on food security and health. Mennonite Economic Development Associates is starting a microfinance program but characterized it as too new to be reviewed. World Vision's program is now transitioning from a subsidized agricultural inputs project to a sustainable, microfinance program. It will be interesting to track the progress of the MEDA and World Vision programs in the future. Table A-5 shows basic information on the World Relief and CARE programs.

TABLE A-5
WORLD RELIEF AND CARE PROGRAMS

Item	World Relief (as of 2/98)	CARE: FISH (as of 3/98)	CARE: CRESC (as of 3/98)
Program Start Date	March 1994	July 1996	January 1996
Target Population	the poorest of economically active; primarily women	urban, ambulant traders, marketplace vendors, fishermen and boat owners; 8% women	urban vendors, traders; 34% women
Program Locations	Chokwe District and Xai-Xai in Gaza Province	Angoshe, Nampula Province	Chimoio and Gondola in Manika Province
Types of Financial Products Offered	Credit and Savings	Credit	Credit
Nonfinancial Services Offered	Basic business skills and health education	None	None
Lending Methodology	Community banking	Solidarity lending to groups of 5 and association (village) banks of 15-25	Solidarity lending to groups of 5
Average Loan Size / Term	$62/ based on 4 month cycles at 16% per cycle. (Now interest rate is 20% per cycle, effective January 1998)	$80 is max. and average for individuals in association with 3 mos. term; $400 per solidarity group member with 6 mos. term	$125 for group / cycles of 3-5 mos.
No. Clients (cum. or active)	5,720 cumulative and 2,965 active	Active clients: 130 solidarity members and 65 association members as of 12/97	525 active clients as of 12/97
No. Loans Made	15,426	202 as of 9/97	1,438 as of 12/97
Outstanding Loan Balance	$95,000	$11,880 as of 12/97	$28,735 as of 12/97
Portfolio-at-Risk	On-time repayment rate as of 9/97: 97%	43%	1.13%

TABLE A-5 — continued

Item	World Relief (as of 2/98)	CARE: FISH (as of 3/98)	CARE: CRESC (as of 3/98)
Loan Loss	½ of 1%	0%	0%
No. Clients Depositing Savings/Average Savings Per Saver	100% / $22	N/A	N/A
Institutional Status	World Relief is implementing the project but will turn it over to a to-be-created partner	International NGO implementing due to difficulty of finding a local partner	CARE is planning to become a local institution with local board within 2 next years
No. Credit Officers/No. Total Staff	12/17+	4/6	5/8
Donors/ Sources of Financing	USAID PVC and World Relief	IDPPE--the Mozambican Fishing Institute with funding from IFAD	Austrian Government and CARE Austria
Percent Operational Self-Sufficiency (% of operating expenses covered by interest & fee income)	40%	Program reports it cannot provide a meaningful figure.	32.5%
Year When Operational Self-Sufficiency Is Projected	2000	Not anticipated. Experimental project likely to be phased out.	75% projected by year 2000.
Comments	Pioneered best practice microcredit in country; recovered after a major flood in target are and population movements; experiencing stagnation in average loan size largely due to poverty of area.	Low level of economic activity in Angoshe and have almost saturated market of fishermen.	The enabling environment is difficult so these are considered experimental programs; trying to work within regulatory window and influence positive policies for microfinance institutions.