Microfinance in Post-Conflict Situations: Towards Guiding Principles for Action

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Introduction

1. Risk has been an inherent part of financial transactions. Mechanisms exist for financial institutions to deal with idiosyncratic risks. The frontier of finance is now pushed to incorporate systemic risks due to unstable conditions such as post-conflict situations and this is an evolving field.

2. There may not be an ideal and clear end to conflicts. Sporadic eruption of violence is common at least for the first five years after the peace accord. For this paper, a post-conflict situation may prevail after a peace agreement is reached or to be reached, when reasonable level of safety for the majority of the population returns, and when major demand for relief services is declining. Return of a government may not be essential to entail a post-conflict situation at initial stages.

3. There exists a view that reconstruction of damaged infrastructure and facilitating good governance are of paramount importance during the first two years of a post-conflict country while intervention into financial markets may be appropriate between the third and fifth year after the conflict has ended (Haughton, 1998). While creation of financial infrastructure in terms of regulatory capacity and increased transparency could be attempted at a later date, it may be essential to create/build mechanisms that provide financial services such as microfinance soon after the immediate post-conflict stage.

4. It is still debatable if microfinance is the best form of intervention to enhance welfare in post-conflict situations. Nevertheless, microfinance is now advocated in the wake of conflicts in an anticipation to jump-start the crippled economy. Microenterprises survive during conflicts and thrive after the conflicts since self-employment is especially important for income generation in post-conflict situations. The microentrepreneurs generally lack adequate resources to expand their businesses and access to normal sources of finance may seldom be available. Therefore, provision of microfinance by external agents may become important. It is nonetheless important to not lose sight of the fact that microfinance is only one tool amongst others that contribute towards economic development in post-conflict situations. Microfinance neither can end conflicts nor can become a primary vehicle for peace building.

5. The earliest known experimentation with microfinance in a post-conflict less developed country can be traced back to the early 1970s with the initiation of Bangladesh Rural Advancement Committee (BRAC) in Bangladesh. Since then, learning by adapting/adopting financial practices used during normal times has been attempted in developing technologies suitable for post-conflict situations. Several lessons have emerged through experiments with microfinance in post-conflict situations and consensus has been reached on few issues but many unanswered questions remain. Although it is early to formulate best practices, synthesizing the microfinance experiences in post-conflict situations for lessons can help

move the field towards developing broad guiding principles applicable to systemic crisis situations.

6. This paper is an initial attempt to develop a framework for implementing microfinance activities in post-conflict situations, given the pre and post-conflict environment. The decisions of stakeholders are guided by their understanding of the situation that shape their objectives and strategies in terms of timing, funding, coordination efforts, design, operational aspects and performance. The decisions can be condensed into seven broad issues for learning lessons and formulating guidelines.
   (a) When to intervene with microfinance in a post-conflict situation?
   (b) Who to use with what objectives to implement microfinance activities in post-conflict situations?
   (c) Who to include as clientele?
   (d) How to intervene with design and provision of appropriate products and services?
   (e) How to create successful financial institutions in post-conflict countries?
   (f) What innovations are in place for financial intermediation in post-conflict countries?
   (g) When to exit?

   The above seven issues are directly relevant to donors and governments. The issues of how to intervene with design and operational aspects and when to exit from the present form and upgrade the activity are directly relevant to the microfinance organizations (MFOs) and other forms of microfinance mechanisms such as revolving loan funds (RLFs) at field level. The issues of when to intervene with investments and how to intervene – as depositors/share holders/owners – are applicable to private investors. This is a work in progress. Through a follow-up process/next steps (national workshops/action plan), the guiding principles are expected to be revised, and tested and turned into more practical and operations guidelines.

7. The paper first outlines a conceptual framework to identify key decision issues that need to be addressed by the stakeholders to facilitate financial intermediation through microfinance in post-conflict situations. The framework would help condense the issues into major areas to derive lessons and formulate guidelines. The emerging lessons on the seven major areas outlined above are then summarized. The paper concludes with a broad set of guidelines for the stakeholders. The framework needs to be considered as a starting point to further explore into the frontier through creative initiatives to suit various country situations.

I. Planning for Action: Key Components and Issues

8. The key components for decision/planning process by stakeholders for initiating microfinance activities in conflict affected areas is outlined in Fig.1. The stakeholders include the government, bilateral and multilateral donors, international and national NGOs, financial institutions, and, to limited extent, the private investors and clients. Private investors and clients become important stakeholders after some stability returns to the area that may resemble close to a normal developing country.

9. For this paper, policy-level stakeholders comprise the donors and the government while field-level stakeholders are comprised of NGOs, INGOs and financial institutions. The key components of decision/planning process by the stakeholders include the following: Understanding the situation and helping that knowledge/information to aid in formation of objectives, strategies and paradigms that later affect the timing, funding, goals of stakeholders, coordination among stakeholders, and design and implementation of programs. All these eventually reflect in the performance of microfinance operations.

A. Understanding the situation

10. It is important to understand the types of conflicts, connectors such as markets and informal arrangements, local capacities and clientele to examine the environment that conflicts have created at macro,meso and micro levels. The environment can constrain the financial production function and hence the financial products and performance. Understanding the situation would help answer the queries including should we intervene and when to intervene? where to create new institutions (and what type to create), where to effectively rehabilitate/adapt/adopt existing institutions/arrangements? what are the challenges and opportunities involved in providing financial services in post-conflict countries?

i. Types of conflicts, connectors, capacity, and clientele

11. Today's conflicts are long, highly destructive and the impact on civilians is the greatest: they increase the vulnerability of the population and weaken local capacities; besides a heavy toll on lives, conflicts also destroy the physical, human, financial and social capital, and reverse economic progress achieved thus far. It takes about ten years for a post-conflict country to return to the level of economic and human development conditions that existed before the conflicts (Haughton, 1998).

12. There are several factors that cause conflicts and these causes may reflect the pre-existing conditions of a conflict affected society. The causes include the imbalance of opportunities

within societies, the lack of effective and legitimate government, or the absence of mechanisms for peaceful conciliation of differing interests within society at the local, regional and national level. These causes may stand-alone or be intertwined (Collier, 1999; OECD, 1997). Ethnic strives and conflicts in a polarized society lead to long and recurrent fights leading to heavy damages to lives, assets, infrastructure and institutions (Collier, 1999; Smilie, 1998). Ethic fractionalization plays a major role in civil wars (Elbadawi, 1999). Higher risk of wars are obtained in ethnically polarized societies rather than in ethnically more homogeneous or more diverse societies (Collier, 1998; Collier and Hoeffer, 1998). It is shown that homogenous and diverse societies with high human development indicators tend to emerge from conflicts with less damage to institutions compared to polarized societies, countries with non-functioning government and less developed economies.

13. The length of conflicts matters. Conflicts can be long, short but recurring, or short, but one-time event. The level of damage to institutions, formal and informal, vary by the length of conflicts. A country emerging from a long conflict may suffer from extensive damage to the institutions and may require rebuilding/reconstruction of damaged institutions and/or creating new institutions. Short and recurrent conflicts may require protection and proofing of institutions through restructuring, and preparedness of the institutions. Short and one-time conflicts may only need protection of existing institutions (damage control).

14. Conflict is a dynamic process. There are four but indistinct phases of conflicts (OECD, 1997): (i) situations of submerged conflicts, (ii) situations of rising conflicts, (iii) open and voilent conflicts, and (iv) fragile transitional, post-conflict situation. The factor that distinguishes the transitional stage from others is the existence of some sort of peace accord or expectation of a peace accord. The transitional stage is still characterized by insecurity, uncertainty and repeated cycles of voilence before settling down. Theoretically, the stage may include an immediate post-conflict stage and a later stage that lies in between the normal situation and the immediate post-conflict stage. It is not possible to establish an exact time line to delineate these fragile stages since they are location specific.

15. While early warning systems and careful analysis of information may protect financial institutions in situations of submerged conflicts, constant monitoring and prevention of damages to both institutions and clients may be essential in situations of rising conflicts. The best approach at the time of open and voilent conflicts may be to do no harm and only provide relief measures combined with development objectives. The most crucial is the transitional stage that set in after a long conflict. The post-conflict stage may require reconstruction and rebuilding of institutions aimed at alleviating the structural conditions that may have caused the conflicts. The issues that are worth examining include the following: what type of intervention is effective in terms of financial markets? how to protect, proof and prepare financial institutions? how to create/nurture financial institutions and what type to create/nurture? The institutions may be formal or informal.

16. Conflicts affect the pre-conflict clientele and potential clientele in post-conflict situations. Whereas some clients (potential and actual) may have benefited from conflicts, several may have lost their capital during conflicts. Clients may also acquire new skills during their stay at the refugee camps and while surviving through the conflicts. Several clients incline to reestablish their lives and get back to normalcy. Conflicts impact the type of economic activities that the clients pursue after the conflicts and their demand for financial services.

17. At the post-conflict transition stage, participation by inhabitants, returnees, refugees, internally displaced and demobilized soldiers may be important since their integration would significantly help in the transition. The decision on the type of clientele to serve needs to be guided by analyzing the following: what is the effect of conflict on the actual and potential clients? to what extent can microfinance help in integration of returnees, refugees and displaced populations, demobilized soldiers, and widows? should integration be sought through finance? Can microfinance efficiently serve these specialized populations? How to target the specialized populations with minimum targeting errors? When to include the specialized population into a microfinance program and what products and services suit them?

18. The conditions that existed prior to the conflict are initial conditions that influence the types of institutions (to function as connectors) that can be created and restructured in a post-conflict situation. Well developed countries that retained some form of economic activity through the conflict may require a different type of intervention from less developed country with very little infrastructure that got damaged by the conflicts (Parker, 1999). It is imperative to understand the effect of conflicts on the connectors.

19. Given that the majority of today's conflicts are long and cause heavy displacement and damage to institutions, the post-conflict stage will be the primary focus of our discussion.

ii. Conditions for intervention with microfinance in post-conflict situations

20. Several macro, micro and meso factors influence starting of microfinance activities in countries emerging from conflicts. The absolutely minimal conditions required for starting financial services and conditions that can enable it (but not necessary in the short-run) are outlined in fig.2. (adapted from Doyle, 1998; Nagarajan, 1997).

21. The minimal conditions include the following: Low intensity of conflict, reasonable safety for the clients and microfinance providers, ample donor funds, re-emergence of markets, presence of NGOs willing to experiment with financial intermediation, returnees and refugees settling down, and minimal social capital. These conditions may guide interventions through microfinance after the immediate post-conflict situation.

22. The facilitating conditions may not be required at the start but may be essential for building institutions capable of providing sustainable financial services. These factors may not affect financial intermediation in the short run since MFOs can find ways to work around them. These may include the following:
    - at the macro level: Working government, donor funds directed with long-term goals, coordinated developmental efforts, absence of hyper-inflation and other disasters, return to use of currency than barter,
    - at the meso level: Bare-bone, functioning central and commercial banks, reasonably efficient support institutions (legal, supervision, property rights, information), availability of microfinance expertise in post-conflict situations, returning trust in institutions, enabling legislation to foster microfinance, and
    - at micro level: A settled population, latent demand for financial services, restoration of social capital, re-emergence of informal and formal arrangements, and availability of skilled/educated local labor force. These conditions are similar to a normal less developed country.

23. The minimal and facilitating conditions may not be sufficient for stabilizing financial markets in post-conflict situations. The sufficient conditions are indeed similar to that of normal countries with efficient financial markets. It may include a competitive industry composed of institutions with good governance, non-repressive financial sector policies, commercialization of the industry, and entry of private investors.

B. Objectives, strategies and paradigms

24. Understanding the situation may help formulate the objective(s), and strategy and paradigm to follow by the policy-level stakeholders.

i. Objectives

25. The final objective of all stakeholders may converge on sustainable economic development and peace. The intermediate objectives, however, may range from conflict resolution and provision of relief, poverty eradication and/or increasing food security, increasing incomes through employment creation, and institution building and infrastructure development. The stakeholders may pursue a combination of these objectives or just one of them.

26. Donor objectives are often externally determined and seldom get updated to suit the dynamic nature of the conflicts. The objectives formulated at the immediate post-conflict stage often set the stage for donor activities in the next three to five years. The static objectives of the donors may due in part be to their inability to make quick assessments due to security reasons and an urgency to intervene (Kooi and Shutte, 1999).

ii. Strategies

27. In order to achieve the objectives and plan the intervention in immediate post-conflict situation and after that, three main strategies can be followed: (i) relief only, (ii) relief to development continuum strategy; building specialized (mutually exclusive) institutions for every stage (relief, rehabilitation, reconstruction, and development stages), and (iii) linking relief with development and doing no harm to local capacities.[1] Linking relief to development strategy has been gaining momentum among the donors and practitioners although the continuum approach is still widely used with modifications (see World Bank, 1997).

ii. Paradigms

28. In addition, there are the old and new paradigms of development finance. The old paradigm refers to the directed credit approach while the new paradigm refers to the market oriented financial market approach. The features of the paradigms are outlined in table 1 (Adams, 1998).

[1] In early 1990s, UNDP proposed a relief to development continuum to promote development in post-conflict countries (UNDP, 1994). The strategy was based on the experiences with natural disasters in Africa. Relief was considered as a short-term measure while development was regarded as a long-term strategy to encourage permanent change. The stages were considered as mutually exclusive. This strategy was later abandoned by UNDP (Duffield, 1999a). Recent school of thought advocates linking of relief with development or made complementary. Relief is expected at least not to contradict measures to strengthen local institutions and initiatives/capacities (Buchanan-Smith and Maxwell, 1994). The do no harm strategy, developed based on experiences in post-conflict areas, targets those who are victims of the conflict. It ignores to support the parties who are interested in continuing the conflicts. The approach advocates for behavioral changes among the weakest and the poorest by better understanding the local conditions and by imparting responsibility among the locals to be accountable for their actions (Anderson, 1999).

Table 1: Primary Features of the Old and New Paradigms

Features	Directed Credit Paradigm (old)	Financial Market Paradigm (new)
Problem definition	Overcome market imperfections	Lower risks and transaction costs
Role of financial markets	Promote new technology Stimulate production Implement state plans Help the poor	Intermediate resources more efficiently
View of users	Borrowers as beneficiaries selected by targeting	Borrowers and depositors as clients choosing products
Subsidies	Large subsidies through interest rates and loan default.	Few subsidies, Create independent institutions
Sources of funds	Governments and donors	Mostly voluntary deposits
Associated information systems	Designed for donors	Designed for management
Sustainability	Largely ignored	A major concern
Evaluations	Credit impact on beneficiaries	Performance of financial institutions

Source: Adapted from Adams (1998).

The above paradigms may suit normal countries while a country immediately after the end of a conflict may not be able to follow either one of them. In general interventions in post-conflict situations follow a mixture of the two paradigms. More reliance on the old paradigm in post-conflict countries compared to normal countries can be expected due to short-term vision of the donors and governments to quickly increase outreach.

C. Decision components for policy-level stakeholders[2]

29. For this paper, policy-level stakeholders include donors and the government. Planning and programming procedures involve several decisions for the policy-level stakeholders. These include the following: (i) timing for intervention and exit, (ii) funding strategy in terms of who to fund, how to fund, how long to fund, (iii) setting short and long run goals such as depth and width of outreach, sustainability, productivity, targeted clientele, *a*nd (iv) stakeholder coordination.

[2] These apply to all stakeholders since the field-level stakeholders also need to decide on timing to provide services, ways to finance the clients and ways to coordinate with other intermediaries. But for this paper, we assume that these are more important for policy-level stakeholders.

30. Timely responses to changing phases of conflict and environment is important. Adequate funds and timely fulfillment of pledges by donors are critical. One of the key elements that helped financial intermediation in Bangladesh and Cambodia was the steady fulfillment of aid pledges on time contributing to stabilization and institution building (Duffield, 1999; Smilie, 1998). Heavy flow of donor funds also represent an opportunity to create MFOs. Donors are generally receptive to financing projects that provide technical assistance and loans to reinsert the affected populations so further conflicts can be avoided. The goals may include the time required for reaching a given level of outreach and sustainability by serving a given set of clients.

31. There is a need for coordinated, coherent and integrated response among the stakeholders. Coordination may not confine all the actors in the field to a single mold but it should be to add value to financial intermediation. It may encourage experimentation with new methods, information exchanges, regular consultations and joint needs assessments so that duplication of efforts can be avoided and returns from use the scarce resources can be maximized. Coordination can also facilitate establishing some base line standards to avoid negative externalities. The donors may grapple with issues such as when to start coordinating; who to coordinate with; and what is the minimal level of coordination needed?

D. Decision components for field-level stakeholders

32. Field-level stakeholders include NGOs, INGOs and financial institutions. Given the decisions of the donors as to timing of intervention, funding methods and goals, the issues of prime importance for field-level stakeholders are the design and implementation of financial programs that facilitate financial intermediation. Design and implementation can affect decisions made by policy-level stakeholders if the donors and government schedule their intervention time and funding based on the completion of design and implementation plans or on designs that are field tested. Generally, design and implementation in selection, screening, monitoring and enforcement can be considered as functions of policy-level stakeholders.

33. It is Important to know why the program works rather than just how it works for learning lessons. The dynamics behind the success/failure of a program need to be examined. Designing and implementing programs may require examining adaptability/adoptability of the design and operational aspects under normal situations, mechanisms that can internalize the operational aspects into the design so bad implementation will not affect good designs, and the matching of products and services with the right type of clientele.

34. Specifically, the following issues need to be analyzed: What design features in terms of products (loans, savings, insurance, grants and remittances), services (financial and non-financial), and governance structure can be effective in post-conflict situations to achieve

objectives given the timing, funding and goals of the policy-level stakeholders? What terms and conditions for contracts are suitable? When can deposit services be provided? What operational features important in post-conflict situation (group formation, staff and fund safety, staff morale, to avoid dependency syndrome, market assessment, collection procedures, enforcement procedures, deposit mobilization,etc.,)

E. Performance

35. The design and implementation have implications in terms of performance. Performance evaluation is important for donors and INGOs to assess their exit time, and for modification of programs/projects by the MFOs or other microfinance mechanisms. Evaluations can also lead to best practices in financial intermediation in post-conflict countries

36. Evaluating microfinance programs is not an easy task; measurement problems due to attribution and lack of counter-factual evidence may lead to spurious results even in a normal country. The issues such as the following may be important to discuss: how to measure the performance in post-conflict situations? what criteria to use as performance yardsticks - outreach (depth, width and type of clientele) and/or sustainability or others? are benchmarks distinct to post-conflict situations and should they be distinct? If so, what are they? who to evaluate? and how to use the evaluation results?.

37. The discussion above sets the conceptual framework in terms of issues to be analyzed by stakeholders to make their decisions. The next section, using the above framework as a base, summarizes the broad emerging lessons on the topic.

II. Emerging Lessons

38. Microfinance in post-conflict countries is an evolving field. It is still early to formulate best practices. The following is a summary of the several emerging lessons from the experiences in developing financial institutions in a post-conflict environment. This section is a distillation of the existing literature for broad lessons rather than an inventory of available practices in post-conflict situations (See Doyle, 1998 and Nagarajan, 1997 for several microfinance practices in post-conflict countries).

39. The discussion here, based on the conceptual framework outlined above, is condensed into seven broad areas to draw lessons:
    (a) When to intervene with microfinance in a post-conflict situation?
    (b) Who to use with what objectives to implement microfinance activities in post-conflict situations?
    (c) Who to include as clientele?
    (d) How to intervene with design and provision of appropriate products and services?
    (e) How to create successful financial institutions in post-conflict countries?
    (f) What innovations are in place for financial intermediation in post-conflict countries?
    (g) When to exit?

40. *The most important lessons emerging from several experiments with microfinance in post-conflict situations are the following:*
    - *Microentreprenuers are highly resilient and become very active at the post-conflict stage creating a market for microfinancial services.*
    - *It is possible to implement successful microfinance programs in post-conflict countries with reasonable stability: Development of sustainable microfinance institutions serving the vulnerable population such as war affected is possible with good timing and efficient designs. (Timing matters and devil is in the design).*
    - *The conditions required to start microfinance programs after the immediate post-conflict situation are few.*
    - *Pre and post-conflict environment matters in deciding the type of intervention.*
    - *After the immediate post-conflict stage, a conflict-affected with few recurrent conflicts country is like a normal country, only with war memories. Therefore, building of sustainable financial institutions require facilitating conditions similar to any normal developing country.*
    - *Best practices apply and work in post-conflict situations with reasonable stability after the immediate post-conflict stage. There are several lessons from normal developing countries that apply to post-conflict countries.*
    - *Like in normal countries, microfinanace in only one of the tools available for economic development in post-conflict countries.*

- *There is no "one size fits all methodology" for implementing microfinance programs in post-conflict situations but broad guiding principles can be developed and adapted to suit the situations.*

41. Lessons emerging on specific issues are outlined below. These are to be treated as preliminary lessons that are subject to change as more experiments are conducted, carefully analyzed and results are disseminated.

A. When to intervene?

42. *There is no magic clock or calender to indicate the right timing for intervention*. It is more of an art than a science to determine the right time for intervention. However, certain indicators may signal the time for intervention.

43. *Starting microfinance immediately after the conflict has subsided is found to be disastrous. Grants may be better tools at this stage than microcredit*. It is observed that conflict affected people prefer loans over grants to restore their self-esteem only after the immediate post-conflict stage (Tsilikounas, 1999). Nonetheless, relief measures followed by huge grants after the immediate post-conflict stage were observed to create an entitlement mentality among the conflict affected population in Uganda and result in huge losses to the institutions [3](Beijuka, 1999).

44. *Several programs started during immediate post-conflict stage to provide grants and interest free loans tend to develop a dependency syndrome*. Evidence from Uganda, Ethiopia, El Salvador and Nicaragua shows that donor grants and concessionary credits provided at the emergency stage were not repaid since they were considered as a reward for the suffering during the conflicts. It is however shown that relief grants that are small and provided at irregular intervals for a very short period tend to create little dependency syndrome but instead a demand and appreciation for a reliable loan facility.[4]

45. *Immediate post-conflict stage may not be an ideal time to start microfinance activities but is suited for initiating efforts for capacity building to actively provide financial services once the minimal conditions are met.*

46. *The facilitating conditions to nurture/develop microfinance organizations that can promote economic growth and employment is unlikely to be present in countries newly emerging from armed conflicts. But the conditions to start/initiate microfinance are few and exist after the immediate post-conflict stage.* The conditions include the following: reasonable safety, less

[3] See Beijuka (1999) for the experiences of ACORD and of some MFOs that started operation by making grants in the Loweru triangle during 1986-1990 period when the situation was still very unsettled.
[4] It is not clear if the results would change if effects of recurrent conflicts are factored into the analysis.

mobility of the population, emergence of opportunities for economic activities, minimal trust, and presence of ample donor funds and enthusiastic field level implementors. Selected programs in Bosnia, Cambodia and Mozambique that started after the immediate post-conflict stage are prime examples. The programs started small with heavy external involvement to serve the war affected in settled areas and with flexible designs. Several of the programs are now sustainable.

47. *A functioning government may not be essential to initiate programs after the immediate post-conflict stage. Linkages with government can be limited to luring it not to suppress microfinance initiatives can be productive (Schutte, 1999).*

B. Who to use with what objectives as implementing agencies? How to fund them?

48. *It is efficient for donors to implement microfinance programs through agencies that are already active in the country providing relief services. However, training of the staff and realigning the mind set of staff to financial market approach is essential. An INGO* that functioned in Bosnia as a humanitarian agency during the conflict and immediately after the conflict ended, initiated a microcredit program in March 1996. Interest free loans were provided primarily to the refugees. It soon revised the strategy to make loans with interest to a mixed population due to two reasons: (i) interest free loans were considered as disguised grants from a humanitarian agency and therefore need not be repaid; and (ii) there was a heavy migration. Many refugees from Srebrenica moved to Tuzla. As a result, the INGO clients and refugees who were moved to other towns did not repay their loans in full. The experience indicates the image that a humanitarian agency has to change when starting to engage in financial activities. Furthermore, the staff were less oriented towards business like approach essential for provision of financial services since they were trained in provision of social services (Goronja, 1999).

49. *Creation of MFOs is common and appear to be effective [5]. Mechanisms such as revolving funds and apex organizations have been ineffective until now*. Creation of apex and revolving funds have been very expensive, unsustainable without subsidies and have been less successful in their outreach. Such mechanisms implemented in the current format may not be suitable for a developing country, whether conflict-affected or not.

50. *It is important to fully utilize local capacity for building institutions. Assessment on the availability of local capacity to manage institutions before involving external agents to operate the programs is crucial. The quality of local capacity may differ by the pre and post-conflict environment.* Heavy involvement by foreign consultants was necessary in Mozambique since the local capacity to develop and manage microfinance programs was

[5] See Beijuka, 1999

low before conflicts and at the initial stages of post-conflict era (Larson, 1999; Vletter, 1999) [6]. In contrast, while foreign consultants were required in Bosnia for designing programs, they were considered as intrusive in management of microfinance programs. Local capacity existed to effectively manage programs in the pre-conflict and post-conflict years (Goronja, 1999).

51. *Implementation through effective coordination among the policy-level stakeholders is crucial to arrive at an agreement in the approaches followed in providing financial services. Coordination is important among donors, between donors and government, and between donors and local/traditional organizations*. *Several initiatives in post-conflict countries suffer from uncoordinated activities.* Some may question the use of coordination among policy-level stakeholders if microfinance is not directed towards politically sensitive clientele such as demobilized soldiers (Vletter, 1999). The argument may stem from the current futile coordination efforts leading to delays and stiffling innovative approaches. Coordinated efforts among policy-level stakeholders are nonetheless paramount for successful development of financial institutions since they avoid unhealthy competition that undermines the market and waste of resources through duplication of efforts. The success of some of the programs in El Salvador can be attributed in part to the improved coordination among several donor agencies and local organizations. Coordination should not, however, curtail the freedom of the coordinating agents from experimenting with different microfinance approaches to better serve their clientele.

52. *Coordination among field-level stakeholders is very important to avoid duplication of efforts and to effectively use their comparative advantages.* Lessons on the value of coordination among MFOs can be learnt from Bosnia: On the one hand, in Breza, a small town in central Bosnia and Herzegovina - there are three MFOs operating in a town with population of 20,000. The market was too small for three MFOs thus resulting in duplication of efforts and multiple loans to same clients from different MFOs leading to high delinquencies. On the other hand, in the northwestern region of Tuzla canton, there are several MFOs providing microcredit - MC SEA, BOSPO, World Vision, LOK and IRC. They regularly hold coordination meetings where they exchange client lists, plans for geographic expansion and share their experiences from the field. They invite to these meetings representatives from those NGOs that issue grants as well. This helps them with better use of resources and with screening the applicants (Goronja, 1999).

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[6] World Relief prefers to work through national partners, and does so whenever possible. However, in the case of Mozambique,there were no national partners to work with during the early post-conflict years. The human resource base of the country was decimated by war. As a result, World Relief had to make an exception to their preference of working with national partners, and have had instead to create new MFOs, starting by running the programs as branch offices of World Relief. This may not apply to all countries - one could start with national partners in cases where there exists local capacity (Larson, 1999).

C. Who to serve as clientele?

53. *In general, microfinance is easier to promote among returnees and internally displaced populations compared to refugees and demobilized soldiers* (Tsilikounas, 1999).

54. *Provision of microfinance in newly created refugee camps is to be strictly avoided* (Elzoghbi, 1999). The immediate demand for financial services by the refugees in new camps may include remittance services and safe places for depositing the funds they carried with them. Demand for microcredit may be secondary since several host countries do not permit enterprise activities by the refugees (Nelson, 1999).

55. *Microfinance to refugees residing in camps can be successfully implemented if the refugees are allowed to stay in the camps for a minimum of six months, are provided with reasonable security and are permitted to engage in income generation activities* (Pearse, 1999)[7]. The experience with refugee camps by SEAD in Cote d'Ivoire for Liberian refugees shows that microcredit services can be provided to refugees who have resided in camps for over six months and plan to return back to Liberia (Alles, 1999). Lessons learnt include the following:
    - Provide small, short-term loans (loan sizes can increase over repeated cycles) since the cash requirements of refugees are generally low.
    - Loans made to savings and credit clubs are ideal if clubs can be formed by members who may repatriate to the same location in the country of their origin. It may be important for the clubs to be composed of both poor and non-poor, male and female members to avoid risks due to covariance in incomes.
    - Savings first approach works with refugees and they value the services provided by the MFOs and demand that they follow them when they return back to Liberia.
    - Break up of clubs due to absconding members and low repayment caused by entitlement mentality are unavoidable and require strict penalties to impose discipline.

    The experience of International Catholic Migration Commission (ICMC) with Bosnian refugees also confirms the above lessons (Elzoghbi, 1999). CARE has provided solidarity group loans for trade activities for Bosnian refugees and has maintained a one day portfolio at risk of about 0.3% (Pearse, 1999). There are some instances in Thailand and Pakistan where microcredit has been extended to residents of the area where the refugees are settling in to create more employment for the refugees but the results have been mixed in terms of performance (Gallagher, 1999).

56. *The experiences with microcredit to demobilized soldiers has shown that there exist better intervention mechanisms than microcredit for such populations* (Beijuka, 1999; Colleta,

[7] There is evidence to show that there are several situations where refugees tend to stay in a camp for over three years before returning back to the country of origin and several refugees settle down permanently in the host localities.

1999; Vletter, 1999). Microcredit made to demobilized soldiers in Uganda and Mozambique was considered as a compensation for their participation in the war and therefore need not be repaid. The loans were successful however as disguised payments to buy peace and deactivate the soldiers. Nonetheless, a minimalist approach of providing only microcredit was not effective since the soldiers invariably lacked business and farming skills necessary to generate incomes to pay back the loans. The cost of providing microcredit far exceeded the benefits from it and undermined the financial market development (Nagarajan, 1997).

D. How to design and operate microfinance programs: Products and services?

57. *There is negative externality due to ill-designed microfinance programs thus undermining the financial markets. A*n international NGO in Bosnia, started its operation immediately after the peace accord was signed. Individual loans were made without interest and clear repayment plan. Collusion among borrowers occurred resulting in high delinquency and heavy losses to the MFO. The INGO failed to motivate its borrowers from the start that loans need to be repaid. Interest free loans sent a signal that these are disguised grants. The consequences of the failure of the program had a significant spill over effect. There were very few MFOs that entered the location to offer financial services for fear of losses. The people in due course lost their confidence on microfinance providers since they perceived closure of INGO as lack of interest of all MFOs to operate in their region (Goronja, 1999).

58. *Market assessments are integral part of MFOs to help develop products and services that match demand with supply.* The examples of ACLEDA and Calpia show that programs that started with simple financial technologies designed through preliminary market analysis and discussion with local community leaders can grow and attain sustainability. Conducting regular market surveys were helpful in tailoring their products to meet the demand, expand outreach and reach sustainability. These programs were designed to meet the demand rather than lead the market with supply of microfinance.

59. *Deposit services may not be essential at the beginning of a program to build a financially sustainable organization but the methodology works in post-conflict situations. The savings during the early phases of post-conflict may however involve compulsory deposits to instill discipline to save, to offer a safe place for cash, to function as collateral for the clients and develop capacity of MFOs to mobilize and account for local deposits.* The early experiences of financially sustainable programs involved credit first approach with a compulsory savings component. Later, as the MFOs gained experience and prudential regulations were established in the country, deposits financed a substantial portion of their loan portfolio. However, the savings first approach appear to be successful as seen in the case of SEAD, a MFO serving Liberain refugees in Ivory Coast (Alles, 1999).

60. *Village banking successfully used in normal developing countries may not be effective in post-conflict countries until they reach a stage where local capacity is fairly developed and reconciliation among the community members is possible.* The problems faced by the village banks in their expansion in Cambodia show that trust and confidence essential for group-based technologies take time to develop/restore in post-conflict countries (Webster and Tucker, 1996). ACLEDA in Cambodia suspended its village banking operations due to lack of demand. In December 1998, UNHCR funded NGO called National Support Unit (NSU) initiated a village banking program in Brcko where Bosnian Serbs and Bosnian Moslems are attempting settle together. NSU was previously active in Brcko to rebuild destroyed infrastructure. The village banking methodology has to be dropped in favor of solidarity group methodology since it was not possible to get Serbs and Moslems to manage funds together and guarantee each other in a large group. Village banks operated by FINCA in Uganda and World Relief in Mozambique are successful since they were formed after return of reasonable safety and trust among the community members (Beijuka, 1999; Vletter, 1999).

61. *Small solidarity groups voluntarily formed by clients have been successful once reasonable trust returns to the community*. Small solidarity groups voluntarily formed to access loans from NSU in Brcko, Bosnia have been prompt in their repayment. The MFO has now been invited to initiate such groups in other parts of Bosnia where Serbs and Bosniacs are beginning to live together again (Goronja, 1999). Women for Women in Bosnia started working with women in Sarajevo in 1993, providing its' members with small but steady monthly grants. In 1997, a microcredit program for women was initiated in a village 20 kilometers outside of Sarajevo to returnees who fled their homes during the war. Women for Women issued small loans using a solidarity group methodology. Group formation was difficult due to lack of trust among the community members and hatred between refugees and inhabitants. Extra efforts were made by program staff to build trust among women through initiating conversations during the meetings when loan repayments were collected. Eventually, the groups became cohesive and stable and recorded full on-time repayment.

62. *Successful programs that provide group loans in post-conflict situations modify group loan products observed in Bangladesh and Bolivia to suit their local conditions.* UMU in Uganda started in 1997 in Loweru triangle to provide loans to returnees. The group loan product is modified so that regular meetings of members is not required. Each month, a representative from each group attends the meetings at the branch. The borrowers directly repay the MFO by bringing in their installments to the branch office. On-time recovery rate is reported to be 100%. The modification has helped cut borrower=s time spent on group meetings and has proved that group setting is not a must to ensure good repayments (Beijuka, 1999).

63. *It may be effective and easier to use solidarity groups than village banking in many post-conflict countries at least until the late stages of transition.* Village banks require members to possess abilities to operate funds and maintain records, and good information among

members even though the group is large. These are difficult requirements to fulfill in a country newly emerging from conflicts until reconciliation occurs. But, small solidarity groups voluntarily formed by members can reduce the problems due to trust and information; furthermore, if the groups are formed among trusted but mixed type members the problems due to covariance in incomes can also be reduced

64. *Individual loan products are demanded and effective with clients employed in small and medium enterprises rather than microenterprises. Individual loans can also be effectively made to graduated microfinance clients.* Experiences from Mozambique and Cambodia show that individual loans can be made at later stages of the transition that resembles a normal developing country. They need to be collateral based.

65. T*raining and technical assistance programs cross-subsidized by financial programs may increase costs of the operation with no consequential improvement in effectiveness of the financial services.* Evidence from programs such as Calpia in El Salvador and ACLEDA in Cambodia shows that programs that provide exclusive financial services are as effective as programs that provide loans and compulsory credit-related training. Financial programs combining only minimum non-financial services with financial services are more likely to attain self-sufficiency than programs that provide an integrated assistance package to micro and small entrepreneurs.

66. *If training programs are offered by MFOs providing financial services, they should be demand-driven and preferably provided separately from financial services.* In Ethiopia, training in tailoring by a MFO financed by GTZ was less successful since the market was already saturated with tailors while training in construction was in high demand (Colletta, et al., May 1996). Training provided free of cost along with loans in El Salvador was less effective in increasing loan repayment since loans were considered as payment for the participation in the training programs (Blum, 1996).

E. How to create successful MFOs?

67. *Successful MFOs have achieved both outreach and financial sustainability through steady increase in their portfolio, careful pricing of their products, and by offering products and services demanded by the clients through effective use of resources. .*

68. *Flexibility in design matters: Institutions that have achieved financial self-sufficiency were launched with flexible designs at small levels after the immediate post-conflict stage and later expanded.* Examples of ACLEDA and GRET in Cambodia, and CALPIA in El Salvador show that these programs started small after the immediate post-conflict situation and are now expanding with new products and services to more clients thanks to consistent donor support to build equity capital and capacity, and for covering the majority of operating costs

at initial stages. They are flexible programs that tend to learn by doing

69. *Flexibility in design should not undermine the credibility of the organization.* ACLEDA in Cambodia has modified its technology during its seven years of existence to suit the demand. The modifications have been generally in terms of financial technology that matches the local situation and demand rather than that compromises the basic principles of best practices such as charging interest high enough to cover costs, services tied to demand, and strict monitoring and enforcement of contracts.

70. *Developing financially sustainable institutions in post-conflict countries is possible but may take more efforts compared to normal developing countries.* Currently, there are a few programs in Cambodia and El Salvador that have reached financial self-sufficiency. It is to be noted that sustainability was possible after about seven years since the launching of the program, only a little longer than that observed among best practices in normal developing countries. There are only a few programs identified as sustainable even in normal developing countries. The programs required heavy donor involvement in capacity building for up to six years.

71. *Safety of MFO staff matters and appropriate staff incentives are essential to motivate staff to work in such risky locations*. MFOs have deviced several operational methods to ensure safety of their staff. (See Doyle, 1998 for more details). Parity in the systems for procedures and resources available to expatriate and local partner staff in terms of safety and stress management is important to improve staff morale.

F. Innovations

72. *Collateral-based lending technologies generally used in normal developing countries may not be suitable for post-conflict countries at their early stages of transition. Collateral substitutes are available and effective.* Physical assets that can be used as collateral are depleted or destroyed in countries emerging from conflicts. Therefore, financial intermediaries need to develop innovative lending technologies based on collateral substitutes. Use of local religious leaders and support groups such as veterans' associations to guarantee loans have been used with some success in Uganda (Colletta, June 1996). Calpia in El Salvador has effectively used business plans and character references to substitute for collateral (Gonzalez-Vega, 1995). Receipts issued for return of firearms are used in Uganda to verify the ex-combatant status of the applicants for loans under the ex-combatant targeted credit program (Colletta, June 1996) and receipts issued for land taxes are used by ACLEDA in Cambodia to verify the property titles of loan applicants (Webster and Tucker, 1996).

G. When to Exit?

73. *Donor grants without a clear exit option for subsidizing MFO operating costs are likely to be less effective in developing viable financial institutions.* Coverage of all the operating costs may be difficult at the very initial stages of a financial institution and therefore may require some donor subsidization. Donor commitments to subsidize some of the initial operating costs of their MFO affiliates may be made with a well specified exit option. But donors should not subsidize loan losses and donors may encourage their MFO affiliates to fully cover their operating costs and loan losses. Donor assistance with such characteristics appears to be successful in developing potentially viable financial institutions as seen in the case of ACLEDA, Cambodia.

74. *Donor grants are essential at the start of the program after the immediate post-conflict stage for capitalization of the portfolio and building capacity*. *However, donor grants need to be eventually phased out*. Donors may phase out soon after the MFO establishes a market, alternative sources of capital are available and normalcy returns to the country to build responsible MFOs that can become sustainable. Clear exit strategies built into the intervention mechanism helped ACLEDA to develop capacity and prepare for an independent operation from the start.

75. *Donors need to mentor local staff and may exit running the day to day operations once the local staff is equipped with adequate skills to operate the program.* The experience of World Relief in Mozambique stands proof to this (Larson, 1999).

76. *Trasformation of MFOs into full fledged microfinance banks is possible if they operate a sustainable program in a country that has a favorable environment for microfinance activities*. The experience of ACLEDA in Cambodia shows that transformation however is effective only after normalcy returns and facilitating factors for financial intermediation are in place.

77. *Remittance services are seldom provided by MFOs although they are demanded by the clientele*. In Somalia, itinerant traders who are mobile through out the region were linked up with banks to provide selected financial services to the war affected population. The traders could also provide an option for MFOs to render remittance services for their clients if these traders are helped to set-up bank accounts in the region of their operation (Johnson, 1999).

78. *Participatory approach has been used to distinguish eligibility for grants and loans in a war affected community*. It has been a challenge for financial institutions that provide both grants to screen grant and loan applicants. The involvement of the local community to determine the eligibility of grant beneficiaries and loanees helped avoid creating new frictions among the community members regarding free access to resources. Furthermore,

it reduced formation of a dependency syndrome.

III. Guiding Principles

79. A common blue print to help build financial markets in post-conflict situations is neither possible nor is required. A broad framework with guiding principles nonetheless is essential to direct the initiatives on financial intermediation in post-conflict situations. The specific details need to be location specific, however.

80. The Guidelines here addresses the following issues:
    - (a) When to intervene with microfinance in a post-conflict situation?
    - (b) Who to use with what objectives to implement microfinance activities in post-conflict situations?
    - (c) Who to include as clientele?
    - (d) How to intervene with design and provision of appropriate products and services?
    - (e) How to create successful financial institutions in post-conflict countries?
    - (f) What innovations are in place for financial intermediation in post-conflict countries?
    - (g) When to exit?

These guidelines are only a starting point and are limited in their capacity to help with specific details in all situations.

81. Clear understanding of the situation is the foremost guiding principle for the donors.
    - Understand limitations of microfinance and effectiveness of donor interventions through microfinance in the wake of conflicts.
    - Understand the causes of conflicts.
    - Post-conflict country may prefer not to revert back to the pre-conflict stage since the prior environment would have triggered the conflict. Therefore, goals for post-conflict country to become normal need to be different from the pre-conflict stage. This requires examination of alternative scenarios for the country rather than the pre-conflict stage.
    - Not all post-conflict situations are alike. Situations prior and during conflicts matter and need to be considered as initial conditions that feed into the type of interventions after the conflicts.

82. The foremost guiding principle for MFOs: Be pro-active with donors and be innovative.

83. The guidelines for field-level stakeholders need to be developed through coordinated efforts of all implementors in a given post-conflict country. The discussion here pertains to only a broad set of principles that can be applied in any post-conflict country.

A. When to intervene?

84. Intervention into financial markets may be necessary when damage to institutions is vast creating a vacuum in the financial landscape of the country and disrupting financial intermediation.

85. During the immediate post-conflict stage, donor intervention may involve minimal financial assistance. Grants may be better option than credit.

86. The programs during immediate post-conflict stage may use simple delivery systems through decentralized institutions which build on existing social capital and local organizations. They should not create a donor dependency syndrome and undermine financial markets.

87. Wherever possible, local capacity needs to be utilized to create mechanisms to provide financial services.

88. Intervention with microfinance may be effected once there is a peace accord, reasonable safety for majority of the population, less mobility of the population, minimal trust, emergence of markets, and presence of ample donor funds and enthusiastic field-level implementors.

89. Once a government is formed, lobbying with it to gain legitimacy for microfinance activities and engaging it in interest rate dialogue are useful interventions for donors.

90. Facilitating an enabling environment for operating sound microfinance activities through lobbying with the government for less intervention in financial markets, and developing financial infrastructure though encouraging development of a strong regulatory and supervisory mechanism are also appropriate intervention points for donors.

91. MFOs need to self regulate themselves and donors can help them device a code of conduct to improve accountability and transparency in the late stages of transition into normalcy.

B. Who to use with what objectives for implementing microfinace? How to fund them?

92. Developing financial markets is a slow, costly and uncertain undertaking even in a normal country. Limited resources should be judiciously spent so that the efforts lead to development and peace. This involves partnership with several agents.

93. It is cost effective to use established agents than create new organizations to provide microfinance after the immediate post-conflict situation.

94. International NGOs with good track record in other post-conflict countries can be invited to implement programs until local capacity is built. In case of good local capacity, it is preferable to use existing resources with minimal external assistance that complements the local resources. The donors may need to assess the situation for local capacity

95. Implementing partners need not be necessarily financial agents but should have capacity and an aptitude to provide financial services without undermining the financial principles. A clear mission and vision to provide financial services should be present.

96. It may be appropriate to consider grass root organizations and indigenous institutions in some cases to finance the activities if they do not undermine the financial markets.

97. Microfinance organizations are the types that get funded by the donors. A revolving loan fund that can be used for providing loans to certain types of clientele could be an alternative option. In some places it may be difficult to identify a MFO to work with or conditions may not be right to start one. The revolving fund may not evolve into a sustainable MFO but can present a way to donors to avoid tainting microfinance with special programs offering loans at below market rates (Jansen, 1999). The revolving fund must indeed revolve more than once to make it effective. The revolving fund may not undermine the financial markets through bad credit policies.

98. Coordination among donors is essential. Sharing of information among policy-level stakeholders regarding the socio-political-economic factors may be important to decide on right type of intervention at the right time and thus avoid duplication and waste of resources. Donors need to build in time and funds for such coordination efforts.

99. Coordination among microfinance donors may be effective in the areas of training and capacity building, monitoring aggregate indicators of the microfinance industry, to maintain quality of standards in services. It may not be necessary in actual regulation of the MFOs.

100. In funding implementing agencies, donors may need to be speed up normal administrative procedures to disburse funds rapidly on timely fashion. Mechanisms need to be developed for rapid delivery of funds to shorten the transition into normalcy. Delays in transition may lead to further conflicts.

101. Appropriate uses of funds from donors to MFOs should be based on their current performance and future projections.

102. Loans can be made on a concessionary basis to startup MFOs to help them build their equity base but insistence on their raising capital from local sources including the public and local banks is necessary. Donors should avoid undermining local savings mobilization efforts through their cheap loans to both start-up and established MFOs.

103. Donors need to be careful not to burden new MFOs with foreign exchange risks through loans made in hard currencies.

104. Financial institutions may try to achieve the twin objectives of outreach and sustainability. Sustainability ensures outreach of tomorrow.

C. Who to include as clientele?

105. Programs may strive for inclusion, cohesion and participation of eligible members of the community rather than for strict targeting of a particular clientele. For example, both survivors and refugees need to be included to avoid further conflicts due to rationing of scarce resources.

106. Initiating microfinance in newly settled refugee camps should be strictly avoided.

D. How to design and implement microfinance: Products and services?

107. Financial products that are demanded and ensure economies of scope and scale need to be considered right from the inception of the financial program.

108. Market assessments are essential to identify demand and design appropriate products and services.

109. Financial programs may have to terminate in-kind loans in seeds and tools with an assumption that all war affected would return back to rural areas and engage in agriculture. Fuzzy property rights constrain agriculture activities in many post-conflict

countries due to lost records and dead land record officials.

110. Clear demarcation of grants from credit should be present.

111. Lending activities may be less targeted and carried out at non-subsidized interest rates to cover costs, wherever possible.

112. Deposit mobilization from the public for on-lending purposes by MFOs may not be attempted until the country has stabilized peace and has established regulatory guidelines for non-bank intermediaries.

113. Choice between solidarity groups and village banks to be demand based and situation specific.

E. How to create successful MFOs?

114. Attempts may be made to develop institutions in a small way with as much local initiatives and participation as possible and later graduate it to higher levels. Local economic development has proven to be most effective in conflict-affected countries for economic, social and political considerations.

115. Clear vision and mission should be present.

116. Relief type institutions turned MFOs should strive hard to change their image of a humanitarian agency to become a credible financial service provider.

117. Best practices are possible in post-conflict countries and should be the goal for MFOs to achieve.

118. Program flexibility and learning by doing is important but should not undermine the credibility of the operation through ad-hoc and frequent changes that do not conform to demand.

119. MFOs should be accountable for their activities and transparent in operations. This may require developing effective accounting information and management information systems.

120. Frequent self-evaluation based on transparent and rigorous criteria should be an integral part of the program.

121. Coordination among MFOs is considered useful in terms of sharing lists of clients and lobbying with government for creating an enabling environment.

122. Safety of staff and efforts to improve staff morale are important.

F. What innovations to provide microfinance?

123. It may be difficult and may not be cost effective to evaluate young programs operating in an immediate post-conflict stage. An indication of growth, real interest rates, good recovery, good governance and aptitude to become sustainable may suffice for programs operating at very early stages of post-conflict. Mechanisms need to be built into the design to allow tracking these indicators.

124. Evaluation of programs in a conflict affected country after three to four years of reasonable stability may follow the same set of rules applicable to a normal country. Benchmarks need to be established to compare the performance of the MFOs. The benchmarks initiated by the Microbanking standards project can be useful tools.

125. Coordination among relief type institutions and MFOs may be essential. Relief type institutions that have already been in the field could provide information on the level of economic activity in different parts of the country, places where populations are settling down and also can play a marketing role by helping some of their beneficiaries to transcend into MFO clientele.

126. Coordination between MFOs and other institutions may also be essential to provide wider services to their clients. If the MFOs in post-conflict situations offer only credit due to regulations, there may be unmet demand for savings, remittances and insurance. The demand may be met by MFOs coordinating their activities with providers of services such as insurance and remittances.

G. When to exit

127. Evaluation of the programs is essential to decide on the exit time for donors.

128. Donor grants may be essential for capacity building of start-up MFOs after the minimal conditions prevail. Countries with very low level local capacity may require donor involvement for a longer time than countries that were endowed with reasonable local capacity during pre and post conflict stage. But, donor grants need to be phased out once reasonable conditions for market based intermediation prevail.

129. Appropriate uses of donor subsidy/grants to MFOs may include institutional development at all stages of the institution's life.

130. Micro-finance institutions are site-specific and their design is often influenced by the local culture. Therefore, donor assistance may be required in developing local capacity and micro-finance intermediaries that reflect local culture. This may involve more donor time, money and efforts compared to normal countries. Therefore, donor support for capacity building through developing the capacity of national project teams may probably be justified for a longer time compared to normal developing countries.

131. Donor grants may be essential for initial capitalization to build an equity base that can be used to generate investment income, build loan portfolios and leverage funds from local banks of MFOs. But continued capitalization may create a donor dependency syndrome and may reduce NGO efforts to mobilize local resources.

132. Several countries prohibit MFOs from mobilizing deposits from the public due to a lack of deposit insurance and weak prudential regulations. Donors may help develop a favourable environment for micro-finance services including deposit services by the MFOs through drafting of regulatory and supervisory guidelines for the deposit-taking MFOs. Furthermore, donors may encourage the MFOs to leverage funds from local banks. Once such conditions prevail, donors may exit the scene.

133. It may also be essential to convert programs into institutions or organizations before exit so that there will be sustained flow of services after the donors leave.

IV. Hurdles for Microfinance in Post-Conflict Countries

134. Much has been learnt on microfinance activities in post-conflict countries but lot remains to be studied to develop a robust framework for post-conflict countries. Best and worst practices, especially from conflict-affected countries are seldom examined carefully before they are replicated/adapted in other post-conflict countries. While less was known at the start of this decade in terms of best practices, we now are endowed with reasonable knowledge that can be used to advance the field. The major hurdle points in examining and developing microfinance in post-conflict countries may include the following:

- There is a need for a common lexicon to identify the different clusters of situations created by underlying "capital" (social, political, economic, human, institutions) of the pre and post-conflict environment that distinguishes one post-conflict country from another. Emerging lessons would be more enlightening if patterns can be realized by grouping them by protypes. This may require in-depth studies of carefully selected institutions and countries on some distinct criteria.
- It has been difficult for donors to locate good MFOs to link up with and channel their funds after the immediate post-conflict stage due to lack of comprehensive and rapid methods to evaluate the potential of an existing agency to provide financial services.
- NGOs are good in group formation but lack banking skills. However, often they are the only agents available in a country emerging from conflicts that are willing to take the risk of doing microfinance at that stage of the country. There is need for significant training and change of mindset for these NGOs to provide microfinance in an efficient way.
- Less is known on the informal arrangements in post-conflict situations that may offer valuable insights for developing mechanisms that can suit local conditions. For example, information on informal arrangements such as pawning, money-lending and remittance and safe keeping services provided on informal basis in refugee camps and in areas where returnees and refugees are settling down is rare.
- Commercial banks are emerging to provide microfinance in some post-conflict countries and stand-alone microfinance banks are also established (such as in Kosovo and Bosnia) after the immediate post-conflict stage. Less is studied on their performance to draw lessons.
- Donors rarely specify exit strategies at the start and seldom revise their procedures to suit the dynamic situation.
- Little efforts are made to restore investor confidence. Patient, continued and committed efforts by donors and stable governments are necessary conditions for restoring investor confidence, trust and confidence of the public in the society and institutions.
- Land disputes remain unsettled due to lost records and death of office holders of community lands. Returning population find such fuzzy property rights confusing and hence return to agricultural activities gets delayed.

- No specific legislation is in place to regulate and supervise MFOs.

The current state of the art is less adequate to guide us through all post-conflict situations. With well intentioned and focused efforts, the above constraints can be addressed through careful interventions and a robust code of conduct may soon emerge to guide microfinance activities in post-conflict countries.

Fig. 1

Decision/Planning Process by Stakeholders in Post-Conflict Situations: Key Components

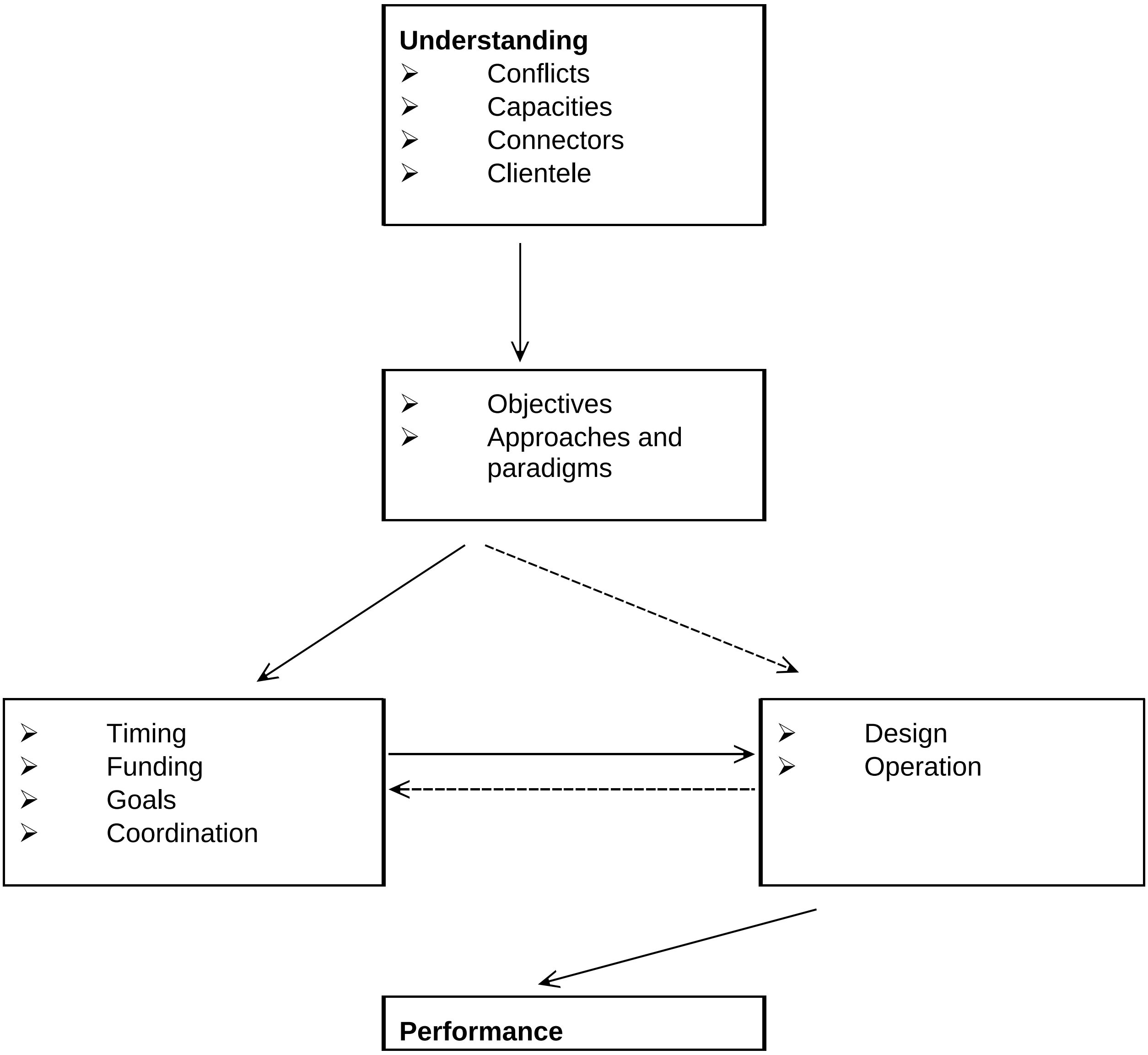

FIG. 2.

Conditions for Financial Intermediation in Post-Conflict Situations*

Minimal Conditions to Start		
Macro	*Meso*	*Micro*
• Low-intensity of conflicts and reasonable safety • Ample donor funds	• Re-emerging markets • Presence of NGOs willing to experiment	• Population settling down • Minimal safety • Minimal social capital

TO START

FINANCIAL INTERMEDIATION

TO FACILITATE

Conditions to facilitate		
Macro	*Meso*	*Micro*
• Working government • Donor funds directed with long-term goals • Coordinated developmental efforts • Absence of hyper inflation and other disasters • Return to use of currency	• Bare-bone, functioning central and commercial banks. • Support institutions developing (legal, supervision, property rights, information) • Microfinance expertise in conflict situations • Returning Trust in institutions • Enabling legislation	• Settled population • Latent demand for financial services • Social capital being restored • Re-emergence of informal and formal arrangements • Skilled/educated local labor force

* Adaptation of Doyle (1998) and Nagarajan (1997).

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