



**MICROFINANCE
IN CONFLICT AFFECTED
COUNTRIES (CACs)**

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Presentation Outline

- Why is MF important in CACs?
- When is MF the right tool?
- Some basic best practice principles learned from past experience in CACs.
- How is MF different in CACs versus “normal” development contexts?
- General experience with MF in CACs.
- Donor experiences.
- Common questions.
- Recent experiences in Iraq and Afghanistan.

Why Microfinance in a CAC?

- Jobs are often scarce.
- Legal climate often confusing.
- Banks often not operating.
- High unemployment, especially among the young.
- Government and social safety nets normally disrupted.

Why Microfinance in CAC?

- Microfinance is one tool that can be implemented under these conditions.
- It is actually a sector which has often *PROSPERED* due to limited regulation, high unemployment and limited formal banking alternatives.
- So in many ways MF is an ideal intervention in a CAC context.

But beware.....

- It is not the solution to everything.
- Not everyone is an entrepreneur.
- The market for certain activities does have a saturation point.
- Often in CACs, MF itself is insufficient. Depending on the context, you may also need other types of assistance for specific sectors, improve education or skills of potential clients, etc.

When is MF the right tool?

- Basic essential conditions for MF must be met. These are:
 - Relative political stability.
 - Relative population stability.
 - Economic activity.
 - Cash economy.

When is MF the right tool?

- Some preferred conditions are also nice, but not necessary:
 - Banks operating.
 - Macroeconomic stability.
 - Social capital
 - Legal and regulatory conditions that are favorable.

MF is NOT appropriate for?

- Very specific or limited market segments (demobilized soldiers, widows, orphans, extremely vulnerable, etc.)
- The market segment has to be large enough to ensure sustainability.
- No direct correlation between status of a particular person (ie widow) and entrepreneurial skills.

Best Practices in CACs.

- Focus on stable population – ensure that target clients will not be moving in the near term. Very mixed experience using MF in refugee camp context. Might work if long-term displacement (Palestinian refugees, Afghans in Iran, etc.). Experiences much better with returnees.
- Focus on institution building, not “project”.
- Need to overcompensate for staff skills (lots of training needed, often may need expatriate presence), security (extra precautions), higher costs (plan for longer time to achieve sustainability, may need to charge higher rates), etc.

How is MF different in CAC vs. “normal” development context?


- Lots of relief (grant) programming that can “pollute” the environment.
- More pressures by certain groups – demobilized soldiers, government trying to gain legitimacy, etc.
- More money flowing by all types of donors.
- Generally more NGOs around.
- Often have refugee, IDP and returnee situation to deal with.

General Experience in CACs?

- Up until around 10 years ago, most MF programming in CACs was quite negative.
- Started to see successful programs emerging -- some places in Africa, the Balkans --using best practice principles but adapting to CAC context.


Who have been the donors in CACs for MF?

- USAID has not been an active donor immediately after a conflict in MF. Generally waits several years before getting involved. For example, now involved in the sector in BiH. Got involved in Kosovo with a bank. Experiment in Afghanistan through a rural program called RAMP.
- Most active donors on the funding side have been: World Bank, UN agencies (UNHCR & ILO), BPRM, bilateral donors (DFID, CIDA, SIDA, Japanese, etc). EBRD & IFC in Microenterprise Banks.



Common Question: Can MF be used to bring different factions together?

- No substantive evidence on this yet. We actually need to document experience and do research on this issue. Only theory now.
- Depends on the circumstances of the conflict and the circumstances of the peace.



Common Question: Can you use group-lending after a conflict?

- Depends on the situation.
- Often the answer is “yes” but this has more to do with the market niche served than a clear yes to all segments of the population.
- Positive experience with group lending in many countries (S. Leone, Kosovo, BiH, Afghanistan, etc.).
- Often depends on the capacity of the MFI, its vision, and target market.



Common Question: Should we focus on Micro enterprises or SMEs?

- It is not an either or question. Can do both.
- These are 2 completely different social, economic and political constituencies.
- Micro – often women, poor or very poor, not legally registered, etc.
- SMEs – often men, medium to high income, legally registered.
- SMEs need more legal and regulatory conditions in place so may be a more appropriate focus after some time elapses after a conflict.

Common question: Are banks better than NGOs?

- Depends.
- Question 1: what is your target market segment?
- Question 2: what is the legal situation in the country?
- Question 3: who's in the government, what kind of involvement / regulation is acceptable?
- Question 4: how quickly do you want to start?

Recent experience: Afghanistan context

- Very poor.
- Lots of IDPs and returning refugees.
- Extremely poor infrastructure.
- Drought in parts of the country.
- Extremely poor education levels.
- Very conservative culture.
- Many existing NGO programs doing integrated programming involving bad practice MF.
- No banking sector.
- Prevalence of informal financial intermediaries, often wealthiest and most prominent individuals in a community.

Recent experience: Afghanistan

- CGAP/World Bank and ILO largest players in the MF sector.
- WB established multi-donor Apex facility called MISFA. USAID in 2004 has agreed to fund \$5 million in this facility but only for agriculture related lending.
- Facility funding 6 NGO programs including BRAC, Mercy Corps, CHF, FINCA, AREA and Women for Women.
- ILO set up capacity building facility which supports 5 NGOs: Madera, Acted, IAM, DACAAR, Parwaz.

Recent experience: Afghanistan

- Seen major improvements in sector within a very short timeframe.
- BRAC, for example, has 25,000 borrowers / savers in 1 year.
- All MISFA funded NGOs are structured using best practice principles with an aim to be sustainable within reasonable time.
- Pressure among worst practice NGOs to transform operations.
- Pressure on donors to STOP funding worst practice NGOs.

Recent experience: Afghanistan

- Aga Khan Development Network is setting up a MF bank similar to their bank in Pakistan and Tajikistan.
- Slower to take off due to legal and regulatory issues.
- AKDP also has NGO program currently operational which will transfer clients to bank when established.

Recent experience: Iraq context

- No MF prior to war.
- Banking sector state dominated, poor lending and operational practices.
- Security differs depending on region of the country.
- Population relatively stable.
- Generally conservative culture (less so in the north).
- Generally good infrastructure (particularly north), but widespread poverty and dependence on food subsidies.

Recent experience: Iraq

- USAID not active in sector.
- USAID is active in banking sector reform.
- CPA funding 2 NGO programs and working directly with some private banks.
- CHF - \$10 million grant to do MF in southern region from CPA.
- ACDI/VOCA - \$6 million grant to do MF in northern region from CPA.

Recent experience: Iraq

- Situation is obviously precarious for MF programs.
- Both NGOs have started operations and CHF moving quite rapidly. Recent issues with security. May have stopped operations.
- While needs are great and demand is very high, funding is not well thought out or structured – very short term focus which is NOT how MF should be considered.
- Better to have more players in the sector, and to also build up local institutions.
- Need to focus heavily on capacity of NGOs, banks or any other long-term financial institution. Very little in-country skills for this.