



Microfinance in Post Conflict and Post Disaster Situations

On the afternoon of Thursday, April 9, **Professor Ndioro Ndiaye**, President of the Alliance for Migration, Leadership and Development (AMLD) in Senegal, chaired the workshop on “Microfinance in Post Conflict and Post Disaster Situations.” This workshop offered unique insights into a number of microfinance initiatives that were implemented in response to crisis situations in Africa, Asia and the Middle East. The panel of expert practitioners which included **Emily Guegbeh Peal**, CEO of the Foundation for Women in Liberia; **Reverend Tambwe wa Tambwe Musangelu**, Executive Director of Diku Dilenga in the DR Congo; **Najibullah Samim**, CEO of the Microfinance Agency for Development and Rehabilitation of Afghan Communities (MADRAC) in Afghanistan; and **Alex Pollock**, Director of Microfinance Department for the United Nations Relief and Works Agency (UNRWA), in the occupied Palestinian territory, have been instrumental in leading on the ground programs that address the needs of the poor who are struggling to maintain stability in times of crisis.

The local knowledge and expertise of the highly-skilled practitioners on this panel enables them to design programs that have the flexibility to adapt and respond to the unpredictable nature of economics and social pressures that arise in conflict zones or crisis situations. Flexibility, responsiveness, collaboration, trust, training, analysis, government support and rule of law were all key themes that the panelists touched on in their remarks. And of particular importance in crisis situations is keeping abreast of borrower repayment trends and working closely with borrowers to maintain repayment as consistently as possible.

Professor Ndioro Ndiaye, President of the Alliance for Migration, Leadership and Development (AMLD) in Senegal, launched this important panel discussion with the following thoughts: “I would like just to say that we must continue to support microfinance loans that facilitate job creation and improve the quality of life in post-conflict and post-disaster locations where repayment is most uncertain. ... Microcredit can be successful in ongoing post-conflict situations as can be seen in the case of Casamance in Southern Senegal where Kagamene, the microcredit institution with 7,000 active members, promotes independence and self-sufficiency of women by increasing jobs and enabling small businesses. Kagamene trains women to manufacture artisan soaps and to process cashews, oil, cereal, fruits and vegetables. Their financial independence and entrepreneurial activities promote peace as they create an incentive for rebel combatants to return to their family. Loans stimulate personal saving which translates into increased access to education and health care, it also provides the opportunities for displaced persons to think about their roots and to rebuild their lives. Microfinance is most effective when it contributes to the eradication of global poverty by reaching the underserved population in post-conflict or post-disasters regions.”

To set the framework for the panel discussion, Professor Ndiaye posed three questions: “The first one is, ‘How do microcredit loans and projects impact the

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5:15AM – 6:45 PM

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Panel:

Chair: Professor Ndioro Ndiaye, President, Alliance for Migration, Leadership and Development (AMLD), Senegal

Ms. Emily Guegbeh Peal, CEO, Foundation for Women, Liberia

Mr. Tambwe wa Tambwe Musangelu, Executive Director, Diku Dilenga, DR Congo

Mr. Najibullah Samim, CEO, Microfinance Agency for Development and Rehabilitation of Afghan Communities (MADRAC), Afghanistan

Mr. Alex Pollock, Director of Microfinance Department, United Nations Relief and Works Agency (UNRWA), occupied Palestinian territory

quality of life in post-conflict and post-disaster locations?’ The second one is, ‘How can we continue to support microfinance loans in post-conflict and post-disaster locations, where repayment is most uncertain?’ And the last one is, ‘... what environmental conditions have the greatest impact on microfinance in post-conflict or post-disaster settings?’

The first panelist was **Emily Guegbeh Peal**, CEO of the Foundation for Women in Liberia, who explained, “We started the Foundation in 2007, [and] right now we have 1,000 clients. We are operating in eight provinces and we have 3,000 more [clients] waiting, so we call it the microcredit movement of Liberia. Microcredit is very important in post-conflict areas, because it helps to reduce the stress that ... the poor people face ... [where there is no] infrastructure, no water, no light. It also helps ... [bring] people together--people that have been fighting. ... It helps with education [and] it helps with health. It also helps to get people to ... see how they can [re]build their lives and build a better future for their children. And ... it allows people to start re-building trust in their communities.”

“[I told] one of our most successful clients ... [that] I was coming to the Summit,” Ms. Peal shared, “and I wanted her to tell me how she felt about what we are doing in Liberia. She said that she started with a total loan of US\$100 dollars. ‘With US \$200 dollars I started a business, and I took a second loan of US \$300 dollars and I bought a new photocopy machine and I took it near the University of Liberia. Now I am going to be rich because I have started on my journey and nothing will stop me’.”

“Inspiring people by making the most of their inherent potential, is a starting ... [place] for payment or repayment. For example, at the Foundation of Women Liberia, the women have a sense of belonging because they have become the central managers ... the chiefs ... the officers, and they run our centers. So there is no problem of repayment when they learn that the center is for ... [them]. Our focus is returning lost dignity to women beaten down by the circumstances of war. The loans are secondary to this means. They just want people that they can talk to and people they can listen to. We remind them of their inner strength and intelligence, that many forget they had. We know that we are changing their lives and we ask them to say, ‘Can I?’ The answers that we get are, ‘I can’.”

The second speaker on the panel was **Najibullah Samim**, CEO of the Microfinance Agency for Development and Rehabilitation of Afghan Communities (MADRAC) in Afghanistan, who shared some of the groundbreaking work that his organization is undertaking in this highly challenging environment. “As a result of three decades [of] war, about 1.5 million Afghans died and about 1 million were disabled. About 5 million Afghans were relocated to live in other countries, mainly to India and Pakistan. Infrastructure is seriously damaged or destroyed. Development ... [projects] were almost stopped, and women did not have access to education and work, mainly during the Taliban regime.”

“So let me give you a brief overview of microfinance in Afghanistan,” Mr. Samim offered. “[In] 2002, ... microfinance [was introduced] as part of the developing world, serving a combined total of roughly 12,000 poor Afghans. Then, from 2003 to 2006 ... Afghanistan’s Ministry of Rehabilitation and Development, together with CGAP/World Bank created MISFA [the Microfinance Investment Support Facility for Afghanistan] ... [which] was transformed into a non-profit limited liability

company. Then ... between 2008 and 2009, the number of MFI partners grew from 4 to 16 MFIs--national and international--and [all] MFIs were registered ... with the government of Afghanistan as not-for-profit organizations. ... [These] 16 MFIs ... have covered 27 out of 34 provinces of Afghanistan fully. There are 309 branches serving more than 402,000 active clients, and a gross portfolio of US\$108 million. Sixty percent of the clients are women, and the total number of staff employed by the sector is more than 4,000.”

“[According to a recent survey we conducted], 80% of the [micro]loans were spent or used for the business start-ups or expansion, 16% were for operating capital and 4% were for health, education, food and housing. And according to this survey, for every borrower, 1.5 job opportunities were created, 64% of female clients and 74% of male clients generated employment for themselves and 55% of all clients generated employment for others. So microfinance turned out to be a very good job creation opportunity for the poor Afghans,” he recounted.

“We cannot say that [Afghanistan] is a post-war country, [as it] is still an ‘in-conflict’ country,” Mr. Samim continued. “So, in order to assure [microloan] repayment, the government was involved from the beginning, at the policy level as well as at the ground level. ... Local community elders were also involved in the operation in order to give their support in case MFIs faced any problems practicing group guarantees. The majority of the MFIs were following solidarity group lending in order to have some sort of guarantee [while providing] demand driven products. ... Afghanistan is a Muslim country, and sometimes the sector faces difficulties and challenges regarding ... loans [that charge interest,] so [some of] the MFIs developed Sharia-compliant loans in ... [response] to this kind of resistance. Respecting cultural values ... like female staff for the female clients, flexible services and products and special operational securities measures because we are still in war and conflict in there ... all assures repayment in the country.”

The workshop continued with comments from **Alex Pollock**, Director of Microfinance Department for the United Nations Relief and Works Agency (UNRWA) in the occupied Palestinian territory, who provided an overview of the local context for microfinance in the West Bank of Gaza and Palestine. “In the West Bank, where the Palestinian Authority is in control ... [recently there has been] quite a rapid rise in outreach so that has been going very well. We are fully profitable there; we have profits of US \$1 million in the West Bank and US \$35,000 in Gaza. So in the West Bank, our operational self-sufficiency is at 148% and in Gaza it is 97%. [However,] because of the crisis we have quite a lot of excess capital, so what we ... [did] was expand operations into Jordan and Syria, and ... [during] this crisis period ... [we have been able to] make income that could sustain jobs and operations in Gaza, even when our lending had gone down significantly.”

Mr. Pollock took a slightly different approach to the core questions posed by Professor Ndiaye. He asked, “What do conflict situations do to microfinance organizations and crisis? One of the first things we faced was the failure of law and order, right? There was a big flaw in contract law ... [and] really all microfinance loan agreements [are based] in contract law. Very soon there was an absence of enforcement, the courts and the police stopped or became compromised. Because of the failure of law and order ... [there was a rise] in traditional crime and violence and crime dispute resolution. That actually led to the rise of bad clients who engaged in

extortion and black marketeering. At the same time was the development ... of a credit squeeze and the start of an embargo. Businesses became unsustainable; 95% of industrial enterprises were closed. The informal sector was also affected and Gaza, which has a large informal sector, saw a retreat of women micro-entrepreneurs from the marketplace.”

“The formal economy essentially collapsed and the informal economy quickly followed it,” he outlined. “What actually happened was the development of a humanitarian crisis where they had unemployment levels of 60%, poverty levels of 80% [and] 50% ... in deep poverty, [those are people who] didn’t have the resources to feed and clothe their families. Then food aid became prevalent because there was no access to food from the outside, [and] the agricultural sector [went into] crisis because much of the farmland along the borders had been destroyed. So what that meant for the [microfinance] programs [was] the failure of trust and responsibility. Client collateral guarantees failed [and] we wrote off 2,000 loans worth US \$2 million. [Our] default rate rose dramatically, the PAR [portfolio at risk] increased to 35%, and we had large write-offs of over US \$2 million. At the same time, because of the write-offs, our own cash flows were shrinking ... and we faced a capital crisis because we didn’t have funds.”

“You have to continue analyzing market changes, new situations,” Mr. Pollock advised, “new markets [are] emerging, old markets are dying. After the war in 2008-2009 we had massive destruction of properties, so what actually happened is [that] you have lots of people scavenging for building materials, for pipes and for metal. So [there is] a whole number of new businesses based on scavenging that we are now financing. There has also been a return of women to small animal husbandry because there were no fresh foods available in the marketplace; so women are growing rabbits, chickens, pigeons and other things to cope with the emergency. We had to change the structure of [our] products, because the microenterprise sector was really in crisis. We moved to giving loans to people on fixed incomes ... consumer lending, home improvement, and various other types of instruments. And the main thing, we reduced our PAR during this period from a high of 35% to our current rate of 2%, and we are taking a loss of US\$30,000.”

“I think the single most important environmental condition for us,” he explained, “[so that] we can operate profitably and effectively in conflict, is to re-establish equitable contract law and enforcement through legitimate legal authorities. This is really the only instrument that can create the conditions for improved credit discipline that will enable the loan book to expand and let all the clients re-enter the credit system and [bring] more clients into ... the system. Again, in the context of a deep crisis like this, you can’t really do very much with the poor because they are getting access to humanitarian aid, so there is not much of an economy to operate within. Until the political and economic conditions that cause enterprise bankruptcy ... [improve, and] poverty, unemployment and humanitarian crises [are] addressed, then credit will continue to be squeezed, despite the best efforts of the MFIs to break through these barriers. Unfortunately, the specificity of such situations most often requires the concerted financial and political power of the international community, combined with moral forces of civil society to leverage domestic compromises, to bring about changes, to introduce treaties, and get them all and most state actors together again.”

Following are a few key comments from the Q&A session:

Question: “I would be curious to see how you can manage ... a smooth transition ... with beneficiaries, who are used to receiving international aid distributions for quite a long time, and [then] impose microcredit as a sustainable solution, and convince them that they have to repay the loan while they are still receiving international aid for free.”

Answer from Mr. Samim: “In Afghanistan, the perception of the people--because of the last almost 20 years--[is that] NGOs are giving everything for free. So it was a difficult job for the microfinance sector to convince them that microcredit is not something [free], it is not an aid or grant given to you. So, it was a challenge for the microfinance sector, and it needs [to build] good awareness among the communities, to say that, ‘okay, someday the grants will end’. The MFIs need to focus on sustainability and to get the administrative fees ... [through] interest from the client. So it was a challenge, but finally the government and also the MFIs, they worked a lot on that, so this was a transition we faced.”

Question: “I know that many microfinance institutions, even in regions that are not bedevilled by conflict feel reluctant to lend to start-ups, and in your presentation you showed us that you are able to disburse over 80% of [MADRAC’s] portfolio to start-ups. Would you please share with us your experience with [assessing the risks] associated with start-ups.”

Answer from Mr. Samim: “After 2001 and 2003, many of the refugees coming from Pakistan or Iran to Afghanistan ... were looking to start new businesses, [and many internally displaced refugees] ... wanted to expand their current business. What the MFIs did was to analyze ... whether they [the clients] had the right skills and the right experience to start a new business. After a thorough analysis ... they were provided [with] loans. ... [Those returnees or outsiders that did not meet the criteria to apply for a loan were provided with vocational training by NGOs.] After they ... [received] the certificate for vocational training, those clients were introduced to microfinance institutions ... [to] provide a loan ... to start a business”



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