



# Zoom microfinance

## MICROFINANCE EXPERIENCES IN CONFLICT ZONES

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## Introduction

In this issue of Zoom microfinance SOS Faim has chosen to deal with the experiences of its active partners in the micro-finance field who have operated or currently operate in conflict zones. The issues tackled here are related to the characteristics of demand and supply of savings and credits in such a particular context. There will be a section devoted to monitoring mechanisms implemented by the microfinance institution (MFI) in order to adapt to the changing needs of the clients during and after the conflict.

For about 15 years SOS Faim has been supporting MFIs in Africa and Latin America. Some of these MFIs had to face armed conflicts in their territory at some point of time during their presence in the zone. Apart from the disastrous consequences that such conflicts cause in human terms, they have led to the destruction of the physical and social capital and have also altered the functioning of banking and microfinance institutions. The experiences of the latter effect will be the object of the following analysis.

## Description of three institutions affected by a conflict

### DECSI in Ethiopia

In June 1999 war was declared between Ethiopia and Eritrea concerning the bordering region of Badme. Founded in 1993 DECSI (Dedebit Credit and Savings Institution) is a network of 9 agencies and 96 sub-agencies located in Tigre, in the North of Ethiopia. Currently, DECSI has more than 170.000 clients. During the conflict, five agencies located near the border were totally destroyed while two of them were partially destroyed. The amount of damages has been estimated to more than 20 million Birr (about 2 million euros).

### CAPPED in Congo Brazzaville

Since the 1992 elections that brought Pascal Lissouba to power, Congo Brazzaville has witnessed a decade of civil wars. Particularly the 1993 and 1999 wars have directly affected the microfinance aspect of the NGO Forum of Young Enterprises of Congo (Forum des Jeunes Entreprises du Congo, FJEC): the CAPPED (Participation Fund for the promotion of Enterprises and their development). The CAPPED started in 1989 and has today 6000 clients between two agencies, one in Brazzaville and another one in Pointe Noire.

### The PAIDEK in DRC

In Kivu, Democratic Republic of Congo (DRC), unfortunately, the implementation of a transitional government has not guaranteed peace in the whole territory. The Programme for Economic Development Aid in Kivu (PAIDEK) started its activities in May 1996. Before the beginning of the war (October 1996), 26 credits had been granted to groups for a total amount of 50 960 USD. The war from

October 1996 to April 1997 has affected the programme badly in several ways. The looting and destruction of goods have diminished or extinguished the stocks and the working capital of borrowers. At the same time, a part of the population, particularly in South Kivu, fled towards Tanzania.

The PAIDEK has been badly affected<sup>(1)</sup> in July 1998 during the second war, the so-called "liberation" war directed by the RCD<sup>(2)</sup>, creating a situation of a de facto split between the West and the East of Congo. After this war, the population entered a period of insecurity and permanent instability that has lasted until today. Despite this situation the population gets organized and tries to open small shops in order to ensure their living.

The lack of capital is an obstacle to this development and although we can currently see some signs of recovery of banking activities, these institutions do not address at all PAIDEK'S target, which is the poor but economically active population.

Apart from the banking system and informal financing systems (family, tontines, creditors), there are credit programmes managed (often badly) by various aid organizations. Only some specialized institutions such as PAIDEK offer today financial services to micro entrepreneurs.

Currently PAIDEK has eight agencies located in the provinces of Northern Kivu (Beni, Butembo, Goma) and of South Kivu (Bukavu, Idjwi, Kadutu, Kavumu, Uvira). The headquarters are located in Bukavu, the capital of South Kivu. The granted credits in dollars have a maximum period of 6 months with monthly reimbursements and an interest rate of 3% per month calculated from the capital still outstanding.

1 All agencies were closed during 4 months

2 Rassemblement Congolais pour la Démocratie (Congolese Association for Democracy)

PAIDEK is therefore subject to a strong demand of credits but also to important risks that only few financial institutions seem to be ready to take.

Contrary to two other MFIs, PAIDEK does currently not operate in a post-conflict area but is nevertheless still affected by the problems that exist in the region.

### Reference points: the Wilson study

In books and publications you can easily read about MFI experiences in post-conflict zones. However, there are not many articles about the functioning of such a type of institution during conflicts.

The Springfield Centre for Business in Development carried out a study in 2001 directed by Mr Tamsin WILSON in four countries affected by armed conflicts (Angola, Cambodia, Mozambique and Rwanda)<sup>(3)</sup>. The aim was to improve the functioning of microfinance programmes in post-conflicts zones. They have tried to answer three questions:

- ▶ What environmental conditions have had the strongest impact on microfinance?
- ▶ What mechanisms have implemented poor families in order to manage their financial situation during and after the conflict?
- ▶ What type of microfinance products are requested in post-conflict regions?

Obviously, the consequences of armed conflict vary from one context to the other. An inner-city type of conflict like a civil war will not have the same influence on the environment as a cross-border conflict.

3 Go to the following address to access the study: <http://www.postconflictmicrofinance.org>

4 Conclusions based on the observations on the territory and obtained thanks to the information gathered in the 4 visited countries

### Environmental conditions and their impact on microfinance

The WILSON study (2001) highlights a number of consequences that a conflict has on the environment (macro economic, political, infrastructures) and their repercussions on microfinance.

The conclusions of this analysis<sup>(4)</sup> are very interesting:

- ▶ The MFIs advance and grow despite the lack of a ruling framework;
- ▶ Security is essential in order to ensure the existence of semi-formal microfinance;
- ▶ The microfinance market has a better opportunity to develop during the relief phase;
- ▶ Many aspects of emergency operations have a negative impact on the provision of microfinance services. In fact, the massive arrival of donations in the market perturbs the activity of loans and has dreadful consequences for the reimbursement of credits that had been granted to the population who benefited from the emergency aid;
- ▶ The fact that some clients have been displaced or have disappeared makes the reimbursement of credits very difficult if not impossible;
- ▶ The political situation affects the microfinance development. In fact, the insecurity related to the uncertainty regarding the reappearance of a conflict makes all planning ineffective and results in a lesser demand of microfinance products;
- ▶ Half or totally demonetized economies prefer to replace their financial capital with physical capital (housing, cattle...) for security purposes;
- ▶ At the macro economic level several phenomena have been stated, like a slower growth, inflation and lack of trust in the national currency, which is replaced by a strong foreign currency.

These effects have an influence on the development of small and middle-sized microfinance institutions:

- There is an alignment between growth and demand of services in microfinance, in other words, the end of a conflict means more resources assigned to the production of goods and services and, as a consequence, this would lead to an increasing demand of microfinance products.
- Hyper inflation makes micro-credit and saving impossible except for very short-term loans.
- High taxes of the private formal sector encourage these companies to shift to the informal sector

### Changes in the supply and demand of credits and savings

As for changes in the microfinance supply after the conflict, the study emphasizes that the creditor and the borrower know each other. Loans are normally of a small amount of money, at a short-term and without guarantees. The level of interest rate has a tendency to diminish in accordance with the level of closeness with the client.

As for the credit demand, we can see that the victims of the conflict are reluctant to borrow<sup>(5)</sup>. In fact, one of the adaptation mechanisms they implement is trying to avoid the dependency/liability links towards a formal or semi-formal structure. This is even more so in as much as there is a free external financial aid. If there is a borrowing, it will take place in front of a creditor. The creditor shows interesting characteristics: flexibility, easy access and he normally authorizes individual loans contrary to the practice of

the collateral security of most MFI<sup>(6)</sup>. As far as savings are concerned, we can see a will to constitute reserves. However, families are faced with the following dilemma: the accumulation of cash at home implies the risk of theft or loss, whereas placing the cash in a MFI inspires mistrust. Often, the regain of trust in MFI goes hand in hand with the end of a conflict and the growing security feeling.

### Consequences of the conflict for the three MFI analysed

SOS Faim has sent a questionnaire to the three MFI partners in order to know the consequences of conflict upon their activities of granting credits and collecting savings. Their conclusions are put in perspective with the findings of the WILSON study (2001).

#### Daily work

##### ► Effect of emergency aid

Subsidies granted by humanitarian organizations have had dreadful consequences for PAIDEK clients who were seeking aid and who were opposed to any kind of reimbursement reasoning. For CAPPED, the presence of emergency aid is reflected in a great amount of non-reimbursed credits granted during the war period in 1999 (22 non reimbursed credits for a total amount of 2680 EUR)

##### ► Displaced or disappeared clients

For PAIDEK, the displacement or disappearance of clients represents an obstacle to the recuperation of credits. The Mboko and Baraka agencies, in the Fizi territory had several problems of this kind since most of their clients fled to Tanzania with the granted funds. These two agencies are currently closed.

In order to meet the needs of displaced clients, DECSI has shown a great level of flexibility.

5 In some cases, clients request small consumption or investment credits

6 This is not the case in all post-conflict zones. Sometimes we can see the so-called "Fukuyama" phenomenon i.e. the will to rebuild social links getting associated with collateral security groups

However, for non-displaced clients, DECSI has not modified the rules in force before the conflict.

► **Consequences of the political situation on the credit demand**

The insecurity generated by the political situation does not encourage clients to become indebted. According to PAIDEK this is mostly the case in the rural areas. However, the demand is very high in highly populated areas after the exodus. PAIDEK mentions two types of profile: those who are reluctant to borrow due to a lack of investing opportunities or because they have enough resources to survive, and those who are very poor and decide to get into debt in spite of having no guarantee that they will be able to reimburse. For the later, survival is the decisive aspect.

For CAPPED, there is a high demand of microfinance products for survival needs. Therefore, clients tend to address creditors in order to get a consumption credit.

► **The work of the credit agents**

The profession of credit agent in a conflict environment is not an easy task. In fact, it is not unusual that a credit agent is contacted in order to “do a favour” in kind (bag of beans, phone card...) or a financial favour to the head of a rebel faction. It can also happen that the agent must leave the agency immediately taking with him/her the safe contents. These situations must be managed with serenity and diplomacy. However, they might give way to psychological after-effects.

**The credit demand**

Contrary to the tendency observed in the Wilson study, DECSI and PAIDEK have experienced a strong credit demand during the conflict period. This important demand came to PAIDEK having made no publicity at all. The information was

transmitted from “mouth to ear”.

However, CAPPED has experienced a weak demand between January and June 1999 (60 credits granted for a total volume of about 8600 EUR). The population was reluctant to ask for a credit due to the uncertainty of the socio-political situation. The reluctance of the population to ask for a loan is the reflection of the fear they had to lose once again their trading capital. The creditor will wait for the right time to claim what they owe him whereas the microfinance structure will have to make do with the deadlines and will make pressure all the time so as to improve the reimbursement rate.

The 3 MFIs agree in the fact that the granted amounts are low and the granting period had a maximum limit of 12 months. The delays in reimbursement have forced the institutions to grant credits of a lower amount than they were requested for.

The table below shows the difference between the demand and the average loan granted by PAIDEK

	Urban area	Rural area
Average demanded (in USD)	800 USD	500 USD
Average granted (in USD)	350 USD	150 USD
	i.e. 43% of the total average demanded	i.e. 30% of the total average demanded

We can see that the average amount granted in the urban area exceeds 40% in comparison with the average amount requested. However, the percentage is 30% in the rural area. This difference can be explained because the campaign is less secured than in the city and agrarian activities will be more directly affected by the conflict than the commercial activities (destruction of harvests by the fighting parties, problems with the provision of inputs, yielding of harvested products...). Very few organizations wish to continue granting credits to agrarian producers

although these are requesting them. Often they stay in their land in order to cultivate them and have a guarantee of survival. This observation is underlined in a synthesis report recently published by D. Lessafre<sup>(7)</sup>.

As for the rejection to proceed with the collateral security, DECSI has managed the situation by telling the clients and the staff that the conditions for the granting of loans had not changed. CAPPED has felt mistrust regarding this principle that is translated in the record of many more individual and family requests.

At PAIDEK, the monitoring of the clients' changing needs is guaranteed by a proximity follow up, by reinforced contacts organized between the headquarters and the agencies in order to anticipate any change in the context.

### The credit supply

The 3 MFIs analysed were born in a peace context but their development was slowed down by the irruption of armed conflicts. PAIDEK and CAPPED had had to close their agencies during some months. Despite these interruptions, these institutions still operate in their respective region.

The lack of a text providing rules for microfinance in DRC has not prevented the functioning of PAIDEK. The recent publication of an instruction from the Central Bank of Congo regarding the MFIs offers from now on a legal framework for the MFIs that have not constituted themselves in credit saving cooperatives.

In Congo Brazzaville, CAPPED has also operated outside a ruling framework for microfinance during a few years. Only in January 2002 the Monetary Union of Central Africa has published a regulation

regarding the operating and controlling conditions of the microfinance activities.

In order to solve the reimbursement problems, the MFIs questioned have set out very similar mechanisms, like:

- ▶ The rescheduling of loans,
- ▶ The suppression of reimbursement of interests,
- ▶ The granting of new credits (before integral reimbursement of the previous one)

At PAIDEK, one solution put in practice is the negotiation with the members of the collateral security group or with the family of the delayed client. CAPPED has tried another mechanism which is granting credits only to 2 of the 5 members of the family at the first instance. After the reimbursement of 2 terms, the request of the remaining members was taken into account.

According to a recent judgment, as it happens, none Congolese law authorised the arrest of a client who did not pay. Naturally, this gap makes MFIs vulnerable.

During the conflict, CAPPED decided to grant credits only to people who had lost all or most of their trading funds during the 1997 war. Therefore CAPPED's supply of micro financial products was limited to this type of clients.

### Saving

The WILSON study emphasizes the fact that during a conflict period, we can observe the financial capital being replaced by physical capital. This observation has been confirmed before MFI partners.

An illustrative example from Brazzaville is the case of a young producer of biscuits who, after a reimbursement that took place without much difficulty, despite the



<sup>7</sup> Synthesis report of the working group "La sécurisation du crédit aux exploitations agricoles dans les pays en développement", Dominique LESAFFRE (2002-2003), Inter-Réseaux

bad socio-political situation, was very proud to show the CAPPED his new house. The house had been built using up all of his working capital. Despite the risk of losing everything in a looting experience, deflexion or in a potential insolvency of microfinance structures keeping his money, he preferred to inject everything in this house and therefore request another loan.

In Kivu there are not many possibilities of placing your money and in most MFIs remuneration is not possible. After having contacted PAIDEK clients, we have noted that they prefer to have equipment, products or materials rather than accumulating the money at home.

In Kivu, the population seems to have lost confidence in the institutions and they prefer to keep their money at home (sometimes as jewellery) so that they do not have to worry and recover it in case they want to flee. This excessive hoarding has heavy consequences on the currency circulation.

## Conclusions

What conclusions can be drawn from the analysis of the MFI experiences in conflict zones?

- ▶ On the one hand, we cannot deny that these initiatives respond to the needs expressed by the affected populations. Not only does credit demand exist, but it is also growing and every time more beneficiaries are closer to their MFI and, leaving aside exceptional situations, they do not try to take advantage of the circumstances in order to escape from their obligations.
- ▶ On the other hand, the working contexts of MFIs in conflict zones imply that working methodologies are adapted to the specific situations.

Several adaptation axes have been identified:

- The credit agents, who are faced with extreme situations, profit from a specific training that allows them to respond to those situations;
- The set of conditions of beneficiaries is reinforced so that the reimbursement requirements are guaranteed, however, there are other humanitarian interventions that are granted without any condition;
- The short-term trading credits are favoured in comparison with the long-term credits;
- The reimbursing conditions are adjusted according to the client's situations in order to take into account the impact of the context in his or her reimbursing capabilities (these adjustments are normally related to the duration of renewal of the credits, the applied rates...).

- ▶ Finally, two reflections emerge from the analysed experiences:
  - The significant growth of demand and the diversification of its kind makes necessary to define new reference criteria that still have to be identified;
  - What synergies could be developed with the other intervening actors on the domain of conflict and particularly with those who work in emergency situations? They act within the logic of donation, which prevents the accountability of the populations that could potentially get involved with the heavy burden of reimbursement.

### SOS Faim and microfinance

SOS Faim has been working for many years in the field of microfinance and gives its support to the activities of its partners working in this sector in Africa and Latin America.

Among them: Kajo-Jiginew in Mali; DECSI and SFPI in Ethiopia; Edpyme Proempresa, Edpymes Confianza, MIDE and Fondesurco in Peru; Sointral in Chili, FADES in Bolivia and CGMF in Cameroon.

Just like any other development tool, microfinance must be questioned as far as its objectives, modalities and implementation conditions are concerned. It is with this idea in mind that SOS Faim publishes, among others, "Zoom Microfinance". Eleven other issues have already examined initiatives taken in Africa and Latin America.

This issues as well as the present one can be downloaded in French, English and Spanish on the website of SOS Faim Belgium: [www.sosfaim.be](http://www.sosfaim.be).

### Other publications by SOS Faim

**Crédit et développement rural en Amérique Latine** (in French and Spanish). FADES-SOS FAIM, éditions Action pour le développement, 1995.

**Pour de nouvelles approches de l'aide au développement. Quels outils financiers pour une coopération équitable?** SOS FAIM-COTA, actes du colloque, 1994.

Edition spéciale Défis-Sud, **Le financement alternatif**, October 1996.

Edition spéciale Défis-Sud, **La microfinance lutte-t-elle contre la pauvreté?**, October 2000 - Index available on [www.sosfaim.be/Défis-Sud](http://www.sosfaim.be/Défis-Sud)

**La réglementation de la microfinance en Éthiopie**, Nicole Hogger, communication during the SOS Faim seminar in La Paz, October 2001.

**ONG Financieras: Fondos Financieros Privados: la experiencia boliviana.** Hugo Rivas Guerra, Rafael E. Rojas L. Edición SOS Faim, 2002.

We should also mention here an audiovisual documentary on the experience of Kajo-Jiginew, "The attics of money" by Jean-Michel Rodrigo, Mecanos Production, 2001. Copy available at SOS Faim Belgium by paying dispatching costs.

If you want to contribute to the debate launched by SOS Faim on microfinance, please do not hesitate to send us your comments and questions by mail or e-mail.

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