MICROFINANCE AND CONFLICT:

TOWARD A CONFLICT-SENSITIVE APPROACH

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Abstract

In a 1996 report, Geetha Nagarajan remarked that "studies on the consequences of conflicts on the development of financial markets and on issues concerning the design and implementation of financial programmes in post-conflict countries are very limited. In short, issues regarding the development of financial institutions in conflict-affected countries are emerging topics of interest on which there has been little research and even less published."[1] An increasing amount of research on how to do microfinance in post-armed conflict environments has occurred in the ensuing eight years, though little writing links this work to the broader discourse on the development-conflict nexus and the growing international momentum toward conflict-sensitive programming. Moreover, the predominant focus among microfinance researchers is on how conflict impacts microfinance; no writing seems to address how microfinance impacts conflict.

This thesis attempts to bridge this gap by proposing three ways in which the mobilization of microcredit could, in itself, dampen conflict tensions and reduce the potential for escalation toward open violence. These three mechanisms, termed "direct", "indirect", and "process" mitigation, evolved out of field research instigated at the request of a small credit union in rural Cameroon to examine the links between credit and conflict. These mechanisms, or typology, form the conceptual heart of this thesis.

[1] Nagarajan, Geetha. 1997. *Developing Microfinance Institutions in Conflict Affected Countries: Emerging Issues, First Lessons Learnt and Challenges Ahead.* Geneva: Enterprise and Cooperative Development Department, International Labour Organisation. Available at: http://oracle02.ilo.org:6060/public/english/employment/finance/papers/conflict.htm

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Chapter 1: General Background

Microfinance: a Tool of Development

Although it is not a new concept, the current popularity of microfinance has its origins in 1976 when economist Muhammad Yunus began lending small amounts of cash ("microcredit") to rural women in Bangladesh to start or expand their businesses. The recipients of these small loans repaid them promptly and ran successful enterprises; this in turn encouraged Yunus to formalize his lending program into what has become the now-famous Grameen Bank. Since 1976, Grameen has served 3.12 million borrowers and disbursed $4.18 billion in loans.[1]

Providing credit to those not otherwise served by formal financial services institutions caught on internationally, and the Grameen approach spread rapidly during the 1980s and 1990s, particularly in Indonesia and Latin America.[2] The target clientele for microfinance services include female heads of households, pensioners, displaced persons, retrenched workers, small farmers, and micro-entrepreneurs, each of whom falls into one of four poverty levels: destitute, extreme poor, moderate poor, and vulnerable non-poor.[3] Target clients tend to work in the informal—legally and politically unregulated—sector, largely in urban areas of developing countries but increasingly in rural areas and even in industrialized countries.

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[1] Muhammad Yunus, "Grameen Bank At a Glance," January 2004. Accessed 9 February 2004. Available from http://www.grameen-info.org/bank/GBGlance.htm

[2] Elisabeth Rhyne, *Mainstreaming Microfinance: How Lending to the Poor Began, Grew, and Came of Age in Bolivia* (Bloomfield, CT: Kumarian Press, 2001), 7.

[3] Each of these levels of poverty is not equally targeted by microfinance providers: "[o]f the more than 150 microfinance providers that report to the *MicroBanking Bulletin*, those lending to individuals tend to reach the moderate poor, with an average loan balance divided by GNP per capita of 91%." Consultative Group to Assist the Poor. "About Microfinance: Frequently Asked Questions." Accessed 7 February 2004. Available from http://www.cgap.org/about/faq02.html

With the geographic expansion of microfinance has come an explosion of organizations providing credit to the poor. Julie Paxton, author of a 1996 World Bank report that attempted to inventory microfinance providers worldwide, wrote that "compiling a universal list of institutions providing financial services to the poor in developing countries is a bit like counting granules of sand on a beach."[4] At the time Paxton was able to identify at least 1000 institutions each serving at least 1000 clients. Today, microfinance providers offer credit to some 20 million households worldwide.[5]

In the *Microfinance Handbook,* Joanna Ledgerwood classifies these providers as formal, semiformal, or informal.[6] Table 1.1 below, replicated from her book,[7] gives examples of each type. Formal institutions, observing the success of semiformal microfinance institutions, have started going down market to the moderately poor with their commercial services.[8] Semiformal institutions, the main drivers of the recent microfinance movement, often receive support from external donors. For example, the *Caisse Villageoise d'Epargne et de Credit* (CVEC), a credit union in rural Cameroon, receives technical and financial assistance from the German development agency *Gesellschaft fur Technische Zusammenarbeit* (GTZ). Informal providers are usually indigenous, local sources of credit that may charge anywhere from no interest to usurious

[4] Julie Paxton, *Sustainable Banking with the Poor: A Worldwide Inventory of Microfinance Institutions* (Washington, DC: World Bank, 1996), 1.
[5] Stuart, Guy (Associate Professor of Public Policy, Kennedy School of Government), discussion with author, 21 April 2004.
[6] Joanna Ledgerwood, *Microfinance Handbook: An Institutional and Financial Perspective*, (Washington, DC: The World Bank Publications, 2000), 97.
[7] Ibid.
[8] Consultative Group to Assist the Poor, "About Microfinance: Frequently Asked Questions." Accessed 7 February 2004. Available at http://www.cgap.org/about/faq02.html. See also Joanna Ledgerwood, *Microfinance Handbook: An Institutional and Financial Perspective* (Washington, DC: The World Bank Publications, 2000), 100.

rates for their loans. Informal providers rarely have international partners or donors, and likely make up the bulk of providers in the microcredit world.

Table 1.1: *Types of Financial Institutions*

Formal Institutions
Public development banks
Private development banks
Savings banks and postal savings banks
Commercial banks
Non-bank financial intermediaries
Semiformal Institutions
Credit unions
Multipurpose cooperatives
NGOs
(Some) self-help groups
Informal Providers
(Pure) moneylenders
Traders, landlords, and the like (as moneylenders)
(Most) self-help groups
Rotating savings and credit associations (work groups, multipurpose self-help groups)
Families and friends

The philosophies and goals driving the current microfinance movement and its providers vary widely, though most began with the following similar principles: using clients' character rather than collateral as the primary loan security, streamlining administrative processes to lower costs, responding rapidly to late payments, providing positive incentives for repayment, charging interest rates that approach or cover costs,

[12] Rhyne, 7.

and emphasizing the long-term sustainability of the lending organization.[12] They have since split into a few different strands, which Elisabeth Rhyne identifies as follows:[13]

1. **The Grameen Bank model.** This model focuses on group lending methodologies and women as the target clientele. Grameen has a strong ideology and aims to alleviate women's' poverty. Grameen serves the poorest of the poor and as such, sustainability is considered less important than poverty alleviation.

2. **Village Banking.** Developed by the U.S. NGO Finca, the village banking concept builds on the Grameen group lending methodology. Village banking lends to groups that have been organized into "banks" that lend to their members; this model also targets the poorest women.

3. **Bank Rakyat Indonesia (BRI) Model and Credit Unions.** BRI is a large state-owned bank with a network of village-based branches. It makes individual loans and savings products and was one of the first MFIs to turn a profit. BRI is the first successful model of savings mobilization; it is thus similar to more traditional credit unions, though the latter have not historically served the poor and they have tended to have poor management and thus a poor reputation in developing countries.

4. **Accion and IPC.** These organizations push the institutions they sponsor to become commercial and to participate in the financial systems of their countries. They aim for high quality financial services to previously excluded segments of the population. They do not engage in poverty-targeting as do the other models; instead they focus on providing products being demanded by various segments of the poor.

Within the cadre of organizations and non-governmental organizations (NGOs) who support, fund, or deliver microfinance services, several trends are evident. These include an increasing focus on savings mobilization, a broadening of acceptable loan use from solely income-generating purposes (e.g. microenterprises) to consumer purposes (e.g. education and health needs), a shifting of focus from credit provision to institutional sustainability and financial intermediation,[14] and the extension of the scale and depth of microfinance institutions (MFIs). In short, the financial systems approach is becoming

[13] Rhyne, 7-10.
[14] Ledgerwood, 93.

the dominant paradigm in the microfinance world—or at least seems to be absorbing the bulk of the ink being spilled in the movement.

Two observations about the range of microfinance providers, their approaches, and trends are in order. First, the goals and activities of these microfinance providers range from being almost explicitly political in nature, as in the Grameen model which focuses on empowering women, to using a financial systems approach in which the financial products and institutional health are of primary importance, as in the Accion and IPC models. This is interesting for two reasons. First, not all microfinance providers may view themselves as political creatures. Such a stance is problematic because providing access to financial resources involves inherently political decisions, such as which sub-sectors of society will be offered financial services and by extension which ones will not; who will staff the MFI and who will not; whether or not the organization will challenge the structural barriers to formalizing the economic activities of their clients, and more. Second, to the degree that MFIs see themselves as purely financial entities making apolitical decisions, the more challenging it may be to convince them of the need for greater conflict-sensitivity in their programs. Commercial banks that go down market are already a tough audience to reach with this message; less obviously, NGOs that transform into commercial entities may suffer "mission drift" and become less attentive to the impacts they have on the political and social fabric of the community in which they are located.

A second observation is that the current trends in the microfinance field revolve mostly around institutional capacity, product development and appropriateness, and scale of operations. This disproportionate focus on the economic and financial sides of the

microfinance picture means that many MFIs may be neglecting the political and social impacts of microfinance. Important exceptions to this trend exist and are discussed more fully in Chapter 2. Still, the loudest voices in the microfinance world do seem to be coming from the financial systems MFIs, their advocates and supporters. With this brief overview of the current microfinance movement in hand, we now turn to the dialogue within the development arena on conflict.

The Development-Conflict Nexus

Until the 1990s, the international development and conflict resolution fields operated largely as autonomous enterprises with clearly delineated boundaries: development happened in peaceful times, and when violence broke out the conflict resolution experts would come in, mop up, and get the community back on the road to upward mobility. In other words, it was assumed that progress was linear, one *either* did development *or* conflict resolution work, and neither had any real bearing on the other.[16]

[16] In between the two, humanitarian assistance attempts to address the catastrophic physical effects of violent conflict. However, as the focus of this section is on development and conflict, the intellectual movements in the relief community that coincided with the shifts in the development and conflict resolution communities are left unaddressed here. This omission is to the detriment of this thesis, as one of the most relevant shifts in the relief world has been the move away from saving lives toward saving livelihoods. See, e.g., Sue Lautze, *Saving Lives and Livelihoods: The Fundamentals of a Livelihood Strategy* (Medford, MA: Feinstein International Famine Center, 1997). Microfinance is intricately related to livelihood strategies; arguably the research highlighted in Chapter 2, particularly Tamsin Wilson's work on the coping mechanisms of those impacted by violent conflict and the implications for providing microfinance to such clients, reflects this relief-based livelihood protection perspective.

Mark Duffield sharply criticized this mindset. Writing in June 1994, he argued that "[d]evelopmentalism rests on the assumption of the universality of linear forms of social progress (Norgaard 1994). Development is a normative process of becoming: a series of interconnecting movements leading from poverty-and vulnerability to security and well-being. It is part of the myth of modernity."[18] The relevance of his criticism cannot be overstated, being published as it was on the heels of the genocide in Rwanda, in which an estimated 800,000 Tutsis and moderate Hutus were murdered in a 100-day period. More than any other single event, the implosion of Rwanda caused many both within and without to cast a critical eye on the international development community and ask what went wrong. Rwanda, after all, had been widely considered a prototypical model for successful international development before the genocide. As described by Peter Uvin,

> [e]conomic growth per capita progressed nicely; the important indicators of modernization—industrial production, services, domestic investment, exports, paved roads, telephone lines, electricity consumption—were all growing fast, especially for African norms. Between 1965 and 1987, industry's contribution to GNP rose from 7 to 23 percent, and services from 18 to 40 percent. Vaccination rates, often considered important indicators of so-called human development, were also up significantly; in fact, Rwanda in 1990-93 was among the three most advanced countries in sub-Saharan Africa…[h]ence, according to the different indicators used by different development theories and models, Rwanda was clearly on the path to development."[19]

When Rwanda went to hell fast and thoroughly in April 1994, development donors and practitioners were completely upended. Such extreme

[18] Mark Duffield, "Complex Emergencies and the Crisis of Developmentalism," *IDSBulletin*, Vol. 25, No. 4 (1994): 39. Note that a draft of this article circulated in June 1994 though it was not formally published until September 1994.
[19] Peter Uvin, *Aiding Violence: The Development Enterprise in Rwanda,* (West Hartford, CT: Kumarian Press, 1998), 47-48.

violence does not materialize out of thin air; thus, the conditions that led to the genocide must have been present and festering in the years leading up to it. How had the development community missed, or ignored, all the signs? Could or should they have done something to prevent it?

The mid-to-late 1990s were important years of reflection and criticism in the development world, as the modernist myth of the neat, clean separation between development and conflict began to break down. As noted in a 1999 *Global Development Network Conference* paper, "[c]ases such as Rwanda, where well established development structures were not able to prevent genocide, raise[d] fundamental questions about the type of development being supported."[20]

Writing in 1999, Uvin identified one of the fundamental problems as follows: "the development aid system still neglects most of the non-economic aspects of development in favour of a narrow economic-technical approach. It does not include addressing human rights violations, income inequality, authoritarianism, humiliation, fear, or persistent impunity in daily life to be part of its core mandate…"[21] This narrow focus, or conflict blindness, meant that "[d]evelopment assistance programmes…have the potential to increase tensions and exacerbate conflict, even in relatively stable environments…[thus] potentially beneficial programmes have created mistrust and disharmony and ultimately undermined the successful achievement of project objectives. Inadequately planned or inappropriately targeted programmes can marginalise vulnerable

[20] Manuela Leonhardt and David Nyheim, *Promoting Development in Areas of Actual or Potential Violent Conflict: Approaches in Conflict Impact Assessment and Early Warning* (Bonn: International Alert, Forum on Early Warning and Early Response, 5-8 December 1999), 1.
[21] Peter Uvin, "Development Aid and Structural Violence. The Case of Rwanda", *Development* 42, 3 (1999).

groups, overlook underlying root causes of poverty and contribute to the risks of violent conflict.[22]

By the late 1990s the international development community began to converge toward a shared understanding of the conflict-related shortcomings of the dominant development paradigm: development focused too narrowly on the technical side of their work and paid inadequate attention to how their programs may exacerbate existing political, social, or other problems. These appraisals coincided with a growing international momentum toward conflict prevention. The 1992 report of former United Nations Secretary General Boutros Boutros-Ghali, *Agenda for Peace: Preventive Diplomacy, Peacemaking and Peacekeeping,* served as the UN's siren call to move away from crisis response toward approaches that might prevent violence from erupting in the first place.[23] UN Secretary General Kofi Annan pinpointed development as a central focus of this new conflict prevention agenda in his 2000 *Millennium Report*, noting that "every step taken towards reducing poverty and achieving broad-based economic growth is a step toward conflict prevention."[24]

Within the development world, the 1997 publication of *Guidelines on Conflict, Peace, and Development Co-operation* by the Organisation for Economic Co-operation Development's (OECD) Development Assistance Committee "signalled a sea-change in

[22] Cynthia Gaigails with Manuela Leonhardt, *Conflict Sensitive Approaches to Development: A Review of Practice.* (Saferworld, International Alert, International Development Research Centre, 2001), 6.
[23] Boutros-Ghali argues that the "most desirable and efficient employment of diplomacy is to ease tensions before they result in conflict…" Boutros-Ghali, Boutros, *Agenda for Peace: Preventive Diplomacy, Peacemaking and Peacekeeping* (New York: United Nations, 1992), para 23.
[24] Kofi Annan, quoted in Lakhdar Brahimi, *Report on the Panel on United Nations Peace Operations* (New York: United Nations, 2000), para. 27.

the thinking of donors with respect to conflict prevention."[25] A 2001 review of donor progress toward incorporating conflict prevention goals into development work showed that Belgium, Canada, Denmark, the European Commission, Germany, the Inter-Monetary Fund, Japan, the Netherlands, Norway, OECD, OSCE, Sweden, Switzerland, the United Kingdom, and the United States had made tangible progress toward institutionalizing structures to address conflict in development.[26] An important conceptual shift accompanied these bureaucratic changes, in that conflict was no longer considered to occupy a wholly separate realm from development. As described by Bernard Wood in 2001, the (new) "developmental perspective starts from the premise that conflict itself is not just an aberration, but a normal and inescapable fact of life *and development*"[27] (emphasis added).

Conflict Sensitivity

In the mid and late 1990s, Mary Anderson, Ken Bush, Luc Reychler, and others attempted to conceptualize and operationalize conflict prevention goals in development programming.[28] In 2001 the Forum on Early Warning and Early Response (FEWER), International Alert, and Saferworld launched a joint program called *Conflict sensitive*

[25] Cynthia Gaigails with Manuela Leonhardt, *Conflict Sensitive Approaches to Development: A Review of Practice.* ([Unknown location]: Saferworld, International Alert, International Development Research Centre, 2001), 5.
[26] Ibid., 11-16.
[27] Bernard Wood, *Development Dimensions of Conflict Prevention and Peace-building* (New York: United Nations Development Programme, Emergency Response Division, June 2001 updated in February 2003), 10.
[28] See, e.g., Mary Anderson, *Do No Harm: How Aid Can Support Peace—Or War* (Boulder, London: Lynne Rienner Publishers, 1999), and Cynthia Gaigails with Manuela Leonhardt, *Conflict Sensitive Approaches to Development: A Review of Practice.* ([Unknown location]: Saferworld, International Alert, International Development Research Centre, 2001).
[32] Jos De La Haye and Celine Moyroud, *Conflict Sensitive Approaches to Development, Humanitarian Assistance and Peace-building: A conceptual Background* (London: Forum on Early Warning and Early Response, International Alert and Saferworld, 2003), 2.

approaches to development, humanitarian assistance and peace building: Tools for peace and conflict impact assessment. The program reframed the conceptual ideas undergirding the work of Anderson et al. as constituting a broader "conflict sensitive" approach. The project defined conflict sensitivity as "the need for organisations, in particular national governments, donors and civil society, to be sensitive to the (conflict) environments in which they operate, in order to reduce the negative impacts of their activities - and to increase their positive impacts - on the situation and its dynamics. In this sense, conflict sensitive approaches to development…need to be adopted in situations of violent conflict, as well as of unstable peace."[32] The project identified the following as constituent pieces of the conflict sensitivity concept:

- Conflict sensitive approaches are relevant to development…that is undertaken not only *in situations of violent conflict but also in situations of unstable peace;*
- Conflict sensitive approaches are…not limited to interventions specifically *working on conflict;*
- Conflict sensitive approaches require *thinking innovatively* about development… programming throughout the management cycle…and, in particular, to move away from the immediately defined objective and beyond immediate results of the intervention; and,
- Conflict sensitivity is regarded as a *comprehensive and integrated approach*, in the sense that it aims at incorporating conflict sensitive perspective into development… *throughout the whole management cycle.*[33]

It is to this conceptualization that the terms *conflict sensitivity* and *conflict-sensitive programming* will refer throughout this thesis.

[33] Ibid., 2-3.

Implications for Microfinance

As an instrument of growing popularity and importance in the development toolbox, microfinance is not untouched by development-conflict nexus and the overall shift toward conflict-sensitive programming. For those microfinance institutions operating in unstable environments characterized by submerged tensions, rising tensions, open or hot conflict, or a post-conflict transition, microfinance presents both opportunities to contribute to conflict reduction, and risks of exacerbating conflict.

On the opportunity side, because microfinance programs focus on the economic empowerment of some of the poorest members of society and involve them in building viable microfinance institutions, they are often inherently grassroots in nature. As Rhyne writes with respect to microfinance in Bolivia, "[t]he poor participate actively in their betterment. They are not passive recipients of assistance, not simply refugees from a failed formal sector, but economic actors out to improve the quality of their lives…"[40] These twin ideas of *empowerment* and working at the *grassroots* level are central to some critics' views of how development and conflict resolution should be done,[41] which in turn suggests that microfinance can be a key tool in finally getting development "right."

On the risk side, just because microfinance programs focus on marginalized groups in a given society does not mean that microfinance automatically avoids the

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[40] Rhyne, 216.
[41] See, for example, Christine Bigdon & Benedikt Korf, "The Role of Aid in Conflict Transformation: Facilitating Empowerment Processes and Community Building" in *Berghof Handbook for Conflict Transformation*, eds. Martina Fischer, Beatrix Schmelzle, Oliver Wils (Berlin: Berghof Research Center for Constructive Conflict Management).

broader problems and risks of development discussed above. Indeed, microfinance products and programs may, in fact, create conflicts in a number of ways.

First, microfinance can create conflict by reinforcing or creating new social cleavages, such as through client or spatial targeting methodologies. Researcher Aminur Rahman provides one such example. His dissertation research in a rural village in Bangladesh showed that loans that many women obtained through the Grameen Bank were often expropriated by their husbands or other men in their household and that women's' involvement in the program actually increased their exposure to aggression or violence in the home: "[o]ut of 120 women borrowers…70% emphasize[d] an increase in violence and aggressive behavior in the household because of their involvement with the Bank."[43] Rahman argued, in part, that this violence resulted directly from the Grameen decision to target women in their programs and to exclude men.

Another example is suggested by the Bolivian microfinance experience. Elisabeth Rhyne identifies the Bolivian poor as being of Inca or Aymaran origin and she contrasts them, collectively, against the political and economic leaders who tend to be of Spanish origin.[44] To the degree that her description reflects a belief that the poor in Bolivia are a monolithic group, and that it does not therefore matter which sub sectors are targeted, microfinance providers that "green-line"[45] one community over others may

[43] Aminur Rahman, "Micro-credit Initiatives for Equitable and Sustainable Development: Who Pays?" *World Development* 27, no. 1 (1999): 74.
[44] Rhyne, 50-51.
[45] The Greenlining Institute defines greenlining as "the practice that recognizes business opportunities in low-income and minority communities and provides quality financial services and products at a fair price." This stands in opposition to the illegal redlining practice of "denying, limiting, or overcharging financial services and products to low-income and minority communities." Accessed 22 April 2004. Available at: http://www.greenlining.org/about/index.html

inadvertently privilege one or another ethnic, religious, or linguistic group, potentially creating jealousies or resentments where none before existed.

In addition, microfinance programs may cause conflicts between clients, particularly if group lending methodologies are used. As noted in a 2001 USAID report on its Guinea microfinance programs, "Conflicts arise when one member of the group has trouble with repayment, often because of costs related to an illness, a death in the family, or other unforeseen problems."[46]

The argument herein is not that microfinance institutions, products, or programs must not create conflicts of any kind. Economic empowerment by definition challenges the status quo, and changing the status quo involves friction and resistance. Moreover, conflict in itself is not necessarily bad or a precursor to mass violent conflict. However, given the potential for MFIs to create or exacerbate conflicts as described above, there can be more serious consequences than might meet the eye. As Uvin argues, a purely economic-technical approach to development may help "to lay the groundwork for further inequality and mal-development, as well as structural, and, eventually, acute, violence."[48]

For these reasons, the author believes that a strong argument can be made for MFIs to adopt a conflict-sensitive approach to their work, whether they are operating in environments of unstable peace, crisis, war, or post-conflict transition. To that end,

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[46] United States Agency for International Development. *Conflict Mitigation as an Indicator for Loan Repayment.* Accessed 10 February 2004. Available at: http://www.usaid.gov/gn/democracy/news/010701_conflictmitigation/loanrepayment.htm

[48] Peter Uvin, "Development Aid and Structural Violence. The Case of Rwanda", *Development* 42, 3 (1999).

Chapter 2 discusses the current research on microfinance and conflict, framing the state of play on the idea of introducing conflict sensitive approaches to microfinance.

Chapter 2: Existing Research on Microfinance and Conflict

The Current State of Research

According to Ohio State University researcher Geetha Nagarajan, the earliest known experimentation with microfinance in a post-conflict developing country was in the early 1970s with the initiation of Bangladesh Rural Advancement Committee (BRAC) in Bangladesh.[1] However, sustained writing and reflection on the subject does not seem to have emerged until the late 1990s. While there is surely more work going on at the intersection of microfinance and conflict than has been captured in writing, the focus here is on the knowledge and lessons that have emerged in the literature over the last eight years, particularly as described in the six studies below.

Nagarajan (1997). In this 1997 International Labour Organisation (ILO) report by Geetha Nagarajan titled *Developing Microfinance Institutions in Conflict Affected Countries: Emerging Issues, First Lessons Learnt and Challenges Ahead,* the author notes that "issues regarding the development of financial institutions in conflict-affected countries are emerging topics of interest on which there has been little research and even less published."[2] Nagarajan goes on to examine the experiences of MFIs operating in Cambodia, El Salvador, Mozambique, and Uganda, to better understand "the consequences of conflicts on the development of financial markets and on issues

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[1] Nagarajan, G. *Microfinance in Post-Conflict Situations: Towards Guiding Principles for Action* (International Labour Organization, Enterprise and Cooperative Development Department, Social Finance Unit, 1999), para 5.

[2] Nagarajan, Geetha. 1997. *Developing Microfinance Institutions in Conflict Affected Countries: Emerging Issues, First Lessons Learnt and Challenges Ahead* (Geneva: Enterprise and Cooperative Development Department, International Labor Organization, 1997), 5.

concerning the design and implementation of financial programmes in post-conflict countries."[3] A notable feature of this research is that it looks at multiple microfinance actors in each of the aforementioned countries, not just one or two. At the time of the study, formal, semi-formal, and informal providers (as depicted in Table 1.1 of Chapter 1) were offering deposit and loan services in each of the four countries.[4]

Nagarajan first describes the conditions in post-conflict societies that impact on the delivery of microfinance products and services; these are categorized as macro, meso, and micro conditions. Macro conditions include national level circumstances that impact the supply and demand for financial services;[5] meso level conditions affect transactions that are carried out through intermediaries, especially financial ones;[6] and micro conditions directly influence demand for financial services.[7]

Nagarajan's comments on client targeting and maximal/minimal approaches are worth noting. With regard to client targeting, Nagarajan notes that "targeting ex-combatants and demobilized soldiers for financial assistance has become a political necessity to promote overall security and stability. The challenge is to find specific

[3] Nagarajan (1997), 5.
[4] Ibid., 12.
[5] Macro level conditions include such things as a general lack of confidence in the economy, a low level of financial capital, a surplus of donor funds, substantial capital and human flight, fuzzy property rights, large remittances, a large amount of cross-border trade and bootlegging, and a general lack of access to markets. See Nagarajan (1997), 9-10.
[6] Meso level conditions include financial intermediaries that cannot mobilize resources or augment capital through lending; dysfunctional formal financial institutions; semiformal financial institutions being largely donor-funded and oriented toward poverty than on creating sustainable financial institutions; lack of strong supervisory and regulatory agencies; disrupted or destroyed informal arrangements that include loans to finance trade and consumption; and financial arrangements that focus on grants and credit and not deposit mobilization. See Nagarajan (1997), 10-11.
[7] Micro level conditions include lack of confidence and trust in institutions and society; lack of productive activities and weak markets; myopic vision on life; lack of real assets for collateral and lack of good client information; a need to reintegrate demobilized soldiers; a need to reintegrate displaced persons, widows, orphans, and the disabled. See Nagarajan (1997), 11.

approaches for a limited period of time so that disruption to the financial markets due to targeting is minimized."[8]

Nagarajan also discusses MFIs' preferences for minimalist or maximalist approaches, with the former relying on credit alone to "create opportunities for wealth and health improvements of the client" and the latter adding technical assistance and social services to the financial products to accomplish the same thing.[9] Nagarajan argues that the "efficiency of providing a package of financial and non-financial services compared to exclusive financial services on client performance and repayment rates has been debatable" and gives three examples of poor performance doing maximalist programs to support what seems to be his/her argument that, since there is no conclusive evidence that suggests that a package approach is cost-effective, it should not be used.

Finally, Nagarajan makes a curious statement toward the end, stating that "efforts should be made to avoid recurrence of conflict and resurgence of opportunistic behavior (as happened in Rwanda and Angola) in order to restore peace, stability, safety and investor confidence."[10] There is a curious and important omission in this statement, not explained elsewhere in this section: *who* should take these efforts to avoid recurrence of conflict? Given the content of the rest of the report, it seems doubtful that Nagarajan meant that MFIs can or should do this, but this is indeed part of the proposition of conflict-sensitivity: development agencies can play a role in reducing the possibility of renewed conflict.

Doyle (1998). The bulk of Karen Doyle's 1998 *Microfinance in the Wake of Conflict: Challenges and Opportunities* report focuses on post-conflict issues

[8] Ibid., 13.
[9] Ibid., 16.
[10] Ibid., 26.

practitioners face in initiating or continuing microfinance services. Essential preconditions to the continuation of microfinance services are discussed, including such things as a low intensity of conflict and reopened markets.[11] 'Preferred' conditions are also discussed, but these are, as the name suggests, merely preferable and not required for microfinance programs and projects to succeed. Considerable attention is given to the market for financial services in post-conflict settings, as well as the need to target special populations such as returnees, internally displaced persons, refugees, demobilized soldiers, women, and rural residents.[12]

Doyle writes that "microfinance is being viewed as a tool that can serve multiple goals. Predominantly, it remains an economic development strategy that focuses on rebuilding and restarting local economies by providing needed financial services for enterprise creation. But there is also consideration of its use as a relief and survival strategy in the immediate wake of disaster, and *as a tool for peace and reconciliation*"[13] (emphasis added). Later, she writes that "secondary goals…of social and political development…are viewed as highly complementary to primary economic goals" though she notes that "no practitioner thought it wise to place a priority on secondary goals over economic ones."[14] In the same section she outlines the efforts CARE/Bosnia and World Relief Rwanda have made to incorporate reconciliation goals into their operations.

Doyle also examines practitioners' wide-ranging adaptations to original microfinance strategies in post-conflict environments. These include: changing the required size of solidarity groups in the face of extreme degrees of mistrust; targeting

[11] Ibid., 7-12.
[12] Ibid., 13-25.
[13] Karen Doyle, *Microfinance in the Wake of Conflict: Challenges and Opportunities* (1998, Bethesda, MD: Microenterprise Best Practices), vii.
[14] Ibid., 27-28.

rural communities where levels of trust may be higher; lowering interest rates in the early stages of reconstruction; providing an interest-only grace period, halting deposits in post-conflict areas; adding new loan products such as agriculture loans; creating and training local partners; and offering more training to identify, assess, and select self-employment activities.[15]

Nagarajan (1999). We return to Nagarajan in a paper prepared for a 1999 ILO/UNHCR Workshop on Microfinance in Post-Conflict Countries. This paper, *Microfinance in Post-Conflict Situations: Toward Guiding Principles for Action,* revisits many of the themes already discussed. The starting point for this paper is that, for better or worse, "microfinance is now advocated in the wake of conflicts in an anticipation to jump-start the crippled economy."[16] Nagarajan's guidance for implementing microfinance programs in post-conflict environments clusters around seven questions:

1. When to intervene with microfinance in a post-conflict situation?
2. Who to use with what objectives to implement microfinance activities in post-conflict situations?
3. Who to include as clientele?
4. How to intervene with design and provision of appropriate products and services?
5. How to create successful financial institutions in post-conflict countries?
6. What innovations are in place for financial intermediation in post-conflict countries?
7. When to exit?

Like Doyle, Nagarajan observes a role for secondary goals in post-conflict microfinance: the "final objective of all stakeholders may converge on sustainable economic development and peace. The intermediate objectives, however, may range from

[15] Ibid., 31-33.
[16] Nagarajan (1999), para 4.

conflict resolution and provision of relief …[t]he stakeholders may pursue a combination of these objectives or just one of them"[17] (emphasis added).

Two examples of MFIs possibly using intermediate objectives can be culled from Nagarajan's writing. In 1998 in the former Yugoslavia, a UNHCR-funded NGO in Brcko (where Bosnian Serbs and Bosnian Muslims were attempting to settle together) started a village banking[18] program with both Serb and Muslim participants. The lack of trust between the two groups made joint fund management and mutual guarantees as a large group impossible; this approach was dropped in favor of a solidarity group methodology[19] which allowed Serbs and Muslims to voluntarily form smaller, separate groups.[20]

In a second example, Nagarajan reports on a 1997 Women for Women International microcredit program outside of Sarajevo that had trouble using a solidarity group methodology with returnees and survivors. A similar lack of trust marked their interactions, but this time "[e]xtra 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."[21] Later in the report, Nagarajan suggests that

[17] Ibid., para 25.
[18] As defined by Catholic Relief Services: "Village banks are community-based credit and savings associations of 25 to 50 low-income individuals who are seeking to improve their lives through self-employment activities. The participants themselves choose their members, elect their officers, establish their by-laws, distribute loans to individuals, and collect payments and savings. Their loans are backed not by goods or property, but by moral collateral: the promise that the group, in solidarity, stands behind each individual loan." Accessed 26 February 2004. Available at: http://www.catholicrelief.org/definitions.cfm#village_bank
[19] As defined in a USAID Microenterprise Development Brief: "Solidarity groups are peer group lending schemes. Under such schemes, members receive loans and then make regular weekly or monthly payments, with all group members providing a mutual guarantee of loan repayment." Accessed 26 February 2004. Available at: http://www.mip.org/pdfs/usaid/mdobrf20.pdf
[20] Nagarajan (1999), para 60.
[21] Ibid., para 61.

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."[22]

Wilson (2001). Tamsin Wilson's report *Microfinance During and After Armed Conflict: Lessons from Angola, Cambodia, Mozambique, and Rwanda* starts from a fundamentally different starting point from the preceding researchers. She seeks to answer the following questions:

- What environmental conditions have the greatest impact on microfinance?
- What are the coping mechanisms of the poor for managing household finances during and in post-conflict situations?
- What types of microfinance products are in demand in post-conflict situations?

As such, her focus is on client needs instead of the organizations providing microfinance products and services. In particular, she sheds light on how the conflict-induced coping mechanisms create financial needs that differ from financial needs in 'normal' (i.e. non-conflict) development circumstances. She summarizes these as follows:

1. In rural area people prefer to save in productive assets in the immediate post conflict situation.
2. Trading is an important survival strategy during and immediately after conflict.
3. In urban and peri-urban areas, the most common characteristics of coping mechanism are low risk, low investment and quick return activities.
4. Exploitation of natural resources and household labour are important survival strategy during and after conflict.
5. The use of land for agricultural production is an important coping mechanism and becomes more so as the security situation improves. Later it is divisive factor between wealthy and poor.
6. Opportunistic behaviour is widespread after conflict.

[22] Ibid., para 105.

7. Reliance upon humanitarian assistance is an important coping mechanism contributing to overall food security.
8. Cultivating social and business linkages with richer, urban and peri-urban markets is important for establishing business and for reducing vulnerability.
9. Liquid assets are only useful or desirable up to a limited point. Liquidity incurs the risk of theft or loss and therefore a balance is struck between need for liquidity and safety.[23]

Among her suggestions for financial products that support these coping mechanisms are the following:

- Small loan and saving size (e.g. < $10).
- In-kind loan products, particularly in rural areas.
- Very frequent repayment or deposit schedule (e.g. every day or even several times a day).
- Very short term (e.g. one day to one week).
- Loan use unspecified and therefore can be used for income smoothing as well as small enterprise or agriculture.
- Individual loans and savings; no group meeting and no group guarantee, except in the immediate post conflict transition.
- Wide range of loan sizes so that richer people who remain without access to formal banking services can take loans.
- Very frequent visits by lender or lender always available, thus making loans and savings very accessible.
- Instant loan decisions.
- Some flexibility in repayment schedule.[24]

Larson (2001). Dave Larson of World Vision authored this series of technical briefs on microfinance following conflict, published by the USAID-funded project Microenterprise Best Practices. Using case studies in Cambodia, Liberia, and Kosovo as illustrations in Briefs #2 and #3, Larson revisits the question of environmental preconditions for successful post-conflict microfinance in Briefs #4 and #5, first noting what conditions hold across 'normal' and conflict environments, and then discussing differences in post-conflict environments that impact an organization's ability to do

[23] Tamsin Wilson. *Microfinance During and After Armed Conflict: Lessons from Cambodia, Mozambique and Rwanda* (Durham, United Kingdom: Concern Worldwide and the Springfield Centre for Business in Development, November 2001), 69.
[24] Ibid., 97.

microfinance. The last difference he includes, though described at a high level of generality, bears directly on possibilities for conflict sensitivity in microfinance:

> **Intangible Benefits of Microfinance.** In addition to the core microfinance values of breadth and depth of outreach, impact, and sustainability, microfinance may play a real (albeit intangible) role in social and political reconciliation. This may occur through encouraging inter-ethnic economic activities, or by building trust through multi-ethnic community banks or solidarity group lending. These goals are enhanced by the success of microfinance—in terms of longevity and scale—and in the increased economic wellbeing that conflict-torn communities experience due to microfinance's availability.[25]

In Brief #6, Larson discusses special security issues, particularly with respect to the safety of loan offers responsible for disbursing loans and collecting cash payments; Brief #7 addresses targeting issues, particularly refugees, demobilized soldiers, and other populations.

Manalo (2003). Marilyn Manalo takes an institutional perspective in her research on MFIs in Eritrea, West Bank/Gaza, and Haiti. Her paper *Microfinance Institutions' Response in Conflict Environments,* published by the World Bank Africa Region Working Paper series, looks at institutional and programmatic adaptations made by three MFIs—notably, one a government-owned bank, another a commercial bank, and the third an NGO—in their respective crisis environments. She begins with an assessment of the environmental conditions in each place, using Doyle's essential/preferred conditions framework. The majority of her report discusses each MFI's performance in such things as increases in branches and number of clients following conflicts; increase in number of active borrowers by product; change in average principal balance per client; portfolio at risk, change in active loans per loan officer, change in administrative efficiency, adjusted

[25] Dave Larson, *Searching for Differences: Microfinance Following Conflict vs. Other Environments,* MBP Microfinance Following Conflict, Brief No. 5 (Bethesda, MD: Development Alternatives, Inc., Sept 2001), 5.

Return on Assets and adjusted Return on Equity, and operational and financial self-sufficiency. In short, she is most interested in the health and reach of these institutions.

Two comments are of particular interest in her report. First, in the Program Features section of her report, Manalo notes that "MFIs are often called upon to contribute to resolving societal issues requiring them to complement their primary goals with secondary ones. Secondary goals are generally social and political in nature…MFIs, therefore, continue to face challenges in balancing their role in resolving larger societal goals while maintaining cost recovery standards, particularly at a time when they too are not immune from struggling to stay afloat under difficult conflict conditions."[26]

Second, Manalo acknowledges that conflict creates "new categories of clients" such as returnees, refugees, internally displaced people, demobilized soldiers, landmine survivors, war widows, and rape victims, but she argues that "by adopting a broad-based client targeting mechanism in conflict areas, [practitioners] are better able to diversity operational risks and more effectively carry out financial services. Also, tension and ill will between client groups and those left out of the program are avoided and the process of reintegrating war-affected client groups into society is enhanced."[27]

Summary and Observations on the Research

A few common threads run through these pieces of research. First, microfinance donors in conflict environments (and to some degree, practitioners) are mainly concerned with short-term goals, particularly the goal of jump-starting a shattered economy in the wake of conflict. The consensus seems to be that informal self-employment is a common

[26] Manalo, Marilyn S. *Microfinance Institutions' Response in Conflict Environments.* Africa Region Working Paper Series No. 54 (Washington DC: The World Bank, 2003), 17.
[27] Ibid., 13-14.

coping mechanism in such situations; it can be supported through microfinance (primarily credit) interventions; and minimal environmental conditions, such as low intensity of conflict and reopened markets, are essential for offering microfinance products. The predominant research focus on post-conflict and transitional environments does not speak to societies that have not as yet experienced mass armed conflict but could nonetheless be described as conflict-affected (with, for example, submerged or rising tensions). This is an interesting gap in the research.

Second, with the notable exception of Wilson all of this research is oriented toward the microfinance provider. The overarching research goal seems to be that of gleaning lessons for MFIs on how to survive the crisis, in part by offering appropriate financial products and services. Multiple reports also speak to lessons for relief organizations and donors on how to start microfinance projects without their being viewed as charity by the recipients.

The third common thread is related to the first two: there remains a heavily technical/economic focus in all of this research. Notwithstanding the many comments noted above about the possibility of taking on secondary goals, the main lessons are oriented toward the operational challenges of matching microfinance supply and demand in difficult conflict environments, and of maintaining sustainable microfinance institutions in the process. Manalo's documentation of the fact that her three case study MFIs did not adopt secondary goals reinforces the idea that the dominant focus among practitioners remains on the technical side.

Fourth, much attention is focused on client targeting strategies in post-conflict environments. There is broad agreement that new subgroups of clients or potential

clients are created during armed conflict, and there seems to be a shared view that targeting communities as a whole works better than targeting particular subgroups. Client selection is an important issue in all of microfinance but particularly so in conflict affected environments.

Given everything just mentioned, one would be hard-pressed to argue that these pieces of research, important as they are, indicate a broad movement toward a conflict sensitive approach as discussed in Chapter 1. Bits and pieces, ideas and experiments suggest the possibility, but none of these researchers explicitly focuses on it. Nagarajan gives passing reference to this idea in the 1999 report, stating that "[w]hile 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."[28] Still, there is little operational advice in this or any other report on what "doing no harm," or using a conflict-sensitive approach, would actually look like. Microfinance providers seem to largely view conflict sensitivity as a secondary goal that comes in at a very distant second to the short-term challenges of successfully doing microfinance in conflict affected environments.

Toward Conflict Sensitivity in Microfinance

The following excerpt from a 1999 International Alert/FEWER report identifies three constituent pieces of conflict-sensitivity:

> *a. The conflict and its dynamics:* On the macro-level, agencies need a better understanding of the conflict and its dynamics. This includes long-term monitoring of the conflict situation including the main conflict and peace

[28] Nagarajan (1999), para 15.

> actors and their agendas with the aim of recognizing the structural sources of conflict as well as short-term windows of opportunity for promoting peace. Such monitoring can also involve developing strategic response options, mainly on the national level. This task has traditionally been undertaken by early warning systems.
>
> *b. The role of the aid agency within the conflict context:* Agencies also need to enhance their awareness of their own position within the context of conflict. Aid agencies are conflict stakeholders, too, which bring resources into the conflict, build coalitions and follow certain agendas. Agencies are encouraged to critically reflect on their position to detect and minimise any potential negative impact of their presence and work on the conflict. This issue has mainly been addressed by "Do No Harm" methodologies.
>
> *c. Strategic planning, monitoring and learning:* For development agencies to contribute to conflict prevention and peacebuilding, it is crucial to use their instruments in a systematic manner to address the root causes of conflict. Strategic planning, therefore, is extremely important. Due to the volatility of conflict situations, however, its needs to be complemented by a sensitive monitoring system, which allows project workers to detect emerging problems and react to them in time.[29]

The typology of credit as a conflict mitigator falls within the third constituent piece: strategic planning, monitoring and learning. As the typology is the theoretical focus of this thesis, we leave unaddressed the opportunities and constraints the first two pieces of the concept might create for MFIs. In particular, this thesis does not discuss institutional policies and procedures an MFI might adopt that would contribute to conflict sensitivity, such as non-discriminatory hiring and compensation practices. In the author's view, much good writing has already been done on this subject and such practices are not necessarily unique to microfinance institutions.[30] Instead, the value of this thesis rests on the proposition that strategic programmatic decisions MFIs make about what loan

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[29] Manuela Leonhardt and David Nyheim, *Promoting Development in Areas of Actual or Potential Violent Conflict: Approaches in Conflict Impact Assessment and Early Warning* (Bonn: International Alert and FEWER, 5-8 December 1999), 3.
[30] See, e.g., Mary Anderson, *Do No Harm;* the Collaborative for Development Action, Inc.'s *Reflecting on Peace Practice* project (available at: http://www.cdainc.com/rpp/); and the Forum on Early Warning and Early Response, International Alert, and Saferworld *Resource Pack* (available at http://pcia.fewer.org/resource_pack_82.html). Full citations available in bibliography.

products they offer to which clients can have important conflict mitigating benefits. Notwithstanding the challenges of motivating MFIs to adopt conflict sensitive approaches in the first place, the typology as discussed in the following pages attempts to contribute to the programmatic knowledge base from which MFIs could draw as they consider moving toward conflict sensitive approaches.

Chapter 3: A Typology for Credit as a Conflict Sensitive Programming Tool

The concept of credit as a conflict sensitive programming tool emerged from field research the author conducted in Cameroon in 2003.[2] That research sought to explore the question of whether the revolving fund of a small credit union in rural Cameroon, the *Caisse Villageoise d'Epargne et de Credit* (CVEC), contributed to the mitigation of conflict and displacement in the immediate area. Credit union leaders hypothesized that the process by which loan recipients implemented their borrowed funds caused them to come into contact with people with whom they had major differences or tensions.[3] This contact, they argued, provided an opportunity to ameliorate the tension and thus help stabilize the village.

Data collection in support of this research was done almost entirely in the field during a two-month period between June and August 2003. Methods included individual interviews, document reviews, and an eight-page conflict questionnaire administered to a 20-person sample group and a 10-person control group.[4]

The sample interviews identified several conflict factors in the Foyet community, including agro-pastoral problems, political and religious problems, family issues, and generalized problems of poverty. The research findings ultimately refuted the starting

[2] This chapter draws heavily on the author's article: "The Role of Microcredit in Conflict and Displacement Mitigation: A Case Study in Cameroon." Rosemarie Rogers Working Paper #24. Cambridge, MA: Mellon-MIT Program on Non-Governmental Organizations and Forced Migration. Available at: http://web.mit.edu/cis/www/migration/pubs/rrwp/24_heen.html
[3] This hypothesis was communicated in an email from Flaubert Djateng to Tsering Gellek, 5 March 2003.
[4] For a more detailed discussion of methodology, see Heen 6-10.

hypothesis, in that conflict mitigation through the process of loan implementation did not seem to occur: by and large, individuals took out individual loans for production and certain consumption needs, and did not pool money with neighbors or otherwise jointly expend their funds. However, as Table 3.1 below shows, interviewees believed that many of the identified conflict tensions could be resolved through greater availability and use of credit.[5]

Table 3.1: *Would Loans Solve the Problem? Percent Responding Affirmatively, by Issue*

Issue	Percent
Farmers and Cattle Raisers (19 mentions)	60%
Wahabis and Tidjianis (12)	43%
Political parties (10)	33%
Marital problems (6)	100%
Parents and children (5)	60%
Other (6)	60%

The interviewees' confidence in the ability of credit to solve these problems spurred the author's thinking on how, specifically, credit might be able to mitigate these conflicts. CVEC leadership had already identified one potential mechanism: **process mitigation** through credit mobilization. In addition, credit availability could play an **indirect mitigation** role through general livelihood support of vulnerable populations. Finally, a hypothetical **direct mitigation** role was also envisaged, in which loans might be used to directly address or solve a given conflict factor. These three mechanisms, or typology, form the conceptual heart of this thesis and are the focus of the remainder of this chapter. The sections below describe the theory of mitigation associated with each mechanism, and give an illustrative example to show how an MFI might operationalize the mechanism.

[5] Full descriptions of these conflict factors are given in Heen, 16-20.

Direct Mitigation

The direct mitigation mechanism refers to providing credit to support a substantive project that directly resolves or reduces a conflict pressure in a given locale. The idea is for an MFI to lend to individuals or groups, who in turn would use the funds to address some resource-related problem, such as building fences to protect fields from crop destruction.[6]

The Theory

The underlying theory of change associated with the direct mitigation mechanism is the idea that, by resolving or dampening some openly manifested conflict, it may be possible to interrupt what might otherwise be an escalation toward violence. In this respect, an MFI is not interested in any and every conflict manifestation in a given community, but only those identifiable problems that could be part of an escalatory dynamic. To create an appropriate "direct mitigation" loan product, then, an MFI must have a deep and nuanced understanding of the local context, and how those local conflict dynamics "map" onto what is currently known about escalatory patterns of conflict. Several conflict analysis methodologies exist and can aid an MFI in mapping relevant root causes, proximate causes, and triggering events.[7]

[6] For simplicity's sake, this section does not consider the possibility of an MFI to fund larger public projects, such as building construction or infrastructure rehabilitation. The necessarily larger scale of such projects moves away from the "micro" nature of microcredit, and such projects would raise important questions of who would repay the MFI for its expenses.
[7] See, e.g. Part I of Hampson, Fen Osler and David M. Malone, eds. *From Reaction to Conflict Prevention : Opportunities for the UN system* (Boulder, CO: Lynne Rienner Publishers, 2002); Forum on Early Warning and Early Response, International Alert, and Saferworld, *Resource Pack,* Conflict sensitive approaches to development, humanitarian assistance and peacebuilding: Tools for peace and conflict impact assessment. Accessed 3 April 2004. Available at http://pcia.fewer.org/resource_pack_82.html

An Illustrative Example

In Cameroon, the most frequently mentioned conflict was the agro-pastoral tension between area farmers and pastoralists resulting from crop destruction. The problem had two dimensions: the first involved the loss of village garden crops from local goats and sheep; the second involved the loss of field crops from cattle belonging to Bororo Fulani pastoralists. One interviewee said that, while laws on the books require reimbursement for destroyed crops, Bororos avoided this payment by bribing public officials. Interviewees also related stories of angry farmers killing Bororos; while other sources related similar stories, such killings were never verified.

CVEC could offer loans to farmers to build fences around their fields or to local goat herders to build a pen for their animals. CVEC would need to understand whether and how the financial risks associated with goat herding differ from that of farming, as well as consider the size of the lump sum that would be needed to build one or the other fence. Further, they would want to consider whether individual or group loans would be a more preferable delivery mechanism. These issues would be important in determining the size, cost, and repayment terms of the loan. See Appendix I for a more detailed development of such a loan product.

Opportunities and Limits

It is important not to underestimate the importance of the required loan size and repayment terms under the direct mechanism. The cost of building a fence could be much greater than an MFI's average loan size, and the MFI would need to consider its willingness to make a larger loan and/or consider possibilities for installment loans to

build the fence over a longer period of time. It would also be important to match credit supply with demand: it would not make much sense, for example, to offer a fencing loan to Bororo pastoralists who are migratory and who do not likely currently perceive any need to fence their animals. It would be financially risky for an MFI to try to create such demand for a direct mitigation product it wishes to offer instead of responding to existing demand for a product that could have conflict mitigating benefits.

Clearly, there are limits to credit as a tool of direct conflict mitigation. By definition, MFIs offer micro or small sized financial products and apart from the Bank Rakyat Indonesias and Grameen Banks of the world whose borrowers number in the millions,[8] most MFIs are unlikely to mobilize enough direct mitigation loans to measurably impact the systemic, institutional root causes of conflict in any given locale. Similarly, microcredit is ill-suited to address triggering events since the latter are single, sometimes unanticipated, events that result very suddenly in overt violence. Direct mitigation is thus most likely to play a positive role in ameliorating proximate or accelerating causes of conflict.

Indirect Mitigation

Indirect mitigation rests on the idea that the general alleviation of poverty yields benefits in conflict arenas that are fueled by the persistent lack of revenue and livelihood support. The reduction of economic vulnerability is theorized to reduce friction among individuals and groups. By providing credit to such individuals or groups experiencing

[8] As of December 2002, BRI had over 3.0 million active borrowers (*The MIXMarket*, accessed 17 April 2004; available at http://www.mixmarket.org/en/home_page.asp). As of January 2004, the Grameen Bank had 3.14 active borrowers (*Grameen Bank at a Glance,* accessed 17 April 2004; available at http://www.grameen-info.org/bank/GBGlance.htm).

conflict as a direct result of lack of income or livelihood possibilities, indirect mitigation would address poverty as a root cause of these conflict factors.

The Theory

Anne-Marie Gardner argues that inequality is often generalized into the "simplistic maxim" that poverty leads to conflict and war.[9] Group inequalities may not singularly cause conflict but inequality, especially as described by the *relative deprivation* and *horizontal inequality* theories, may underpin other grievances that "are key[s] to mobilization for conflict."[10]

The gist of these two theories[11] is that discrepancies between some social group's economic and political expectations[12] and their attainment of those expectations can spur collective violence by that group against the government or other culturally defined groups. Providing credit to an underserved social group may thus, over time, reduce the discrepancy between their expectations and reality. This reduction may in turn dampen the "extent and intensity" of shared discontent that might otherwise lead a given segment of society toward collective violence. Note also that part of this shared discontent could

[9] Anne-Marie Gardner, "Diagnosing Conflict: What Do We Know?" in Hampson, Fen Osler and David M. Malone, Eds. *From reaction to conflict prevention : opportunities for the UN system* (Boulder, CO: Lynne Rienner Publishers, 2002), 19.
[10] Ibid.
[11] See, e.g. Ted Robert Gurr, *Why Men Rebel* (Princeton, NJ: Princeton University Press, 1970) and Frances Stewart, *Horizontal Inequalities: A Neglected Dimension of Development* (Queen Elizabeth House Working Paper #81, United Kingdom: University of Oxford, 2002).
[12] Gurr makes the following distinction between physical and political goods: "*Welfare values* are those that contribute directly to physical well-being and self-realization. They include the physical goods of life—food, shelter, health services, and physical comforts—and the development and use of physical and mental abilities…*Power values* are those that determine the extent to which men can influence the actions of others and avoid unwanted interference by others in their own actions. Power values especially salient for political violence include the desire to participate in collective decision-making—to vote, to take part in political competition, to become a member of the political elite—and the related desires for self-determination and security, for example freedom from oppressive political regulation or from disorder." Gurr 25-26.

stem from a perceived or actual lack of control over one's political and religious affiliations; this point is reflected in the example below.

An Illustrative Example

In Foyet, tension between Wahabi and Tidjiani Muslims was the second most named conflict factor among interviewees.[13] Anecdotal evidence suggested that Tidjianis were the majority Muslim population group in the area, with the more conservative Wahabis being seen, at least by some, as "newcomers" to the region.[14] Problems between these two groups had led to a six-month closure of the main mosque in the nearby town of Foumban, and several interviewees related rumors of Wahabis hiring Tidjianis to kill for them in the bigger cities. Interviewees described the problem in different ways, from being rooted in theological differences to being caused by poor leadership within each confessional group to resulting from manipulation by external (non-local) religious actors. Regardless of how respondents described the problem, there was near unanimity among them that a key cause of the problem was lack of adequate resources on the part of local Tidjianis.[15] This made them vulnerable to the influence of Wahabis in ways they would not have been were they more financially secure.

Assuming that interviewees' descriptions of the problem reasonably reflect reality, CVEC could target Tidjianis as a client group of particular interest. The idea would be that extending credit as an income builder to this group would over time help reduce the vulnerability of this group to manipulation by more powerful Wahabi religious actors. The key to this mechanism would be developing capacities to track incidents or

[13] See Heen, 18.
[14] Njimbam, Ahmadou El Hadj, personal interview with the author, 15 July 2003, Foumban, Cameroon.
[15] Ten of eleven respondents mentioned poverty as a key reason why the problem existed. Unsurprisingly, other reasons cited were religious convictions, leadership, and corruption.

perceptions of bribery or persuasion; the expectation would be that rising incomes among the Tidjiani client base would be inversely correlated to their perceived vulnerability to bribery or coercion by such elites.

Opportunities and Limits

Arguably the indirect mitigation mechanism requires the fewest modifications to an MFI's existing client targeting strategies, loan products, and delivery mechanisms. This flows, of course, from the facts that MFIs already target the poor and that the underlying theory of this mechanism relates to the ability of poverty reduction to alleviate conflict pressures.[16] However, this mechanism could reasonably imply extending the MFI's reach as much as possible to particular segments of the vulnerable poor, and committing to the long-term economic improvement of these clients.

This approach, in turn, could imply expanding one's financial products as the MFI follows these clients up the ladder of economic activity. Such an approach is not without its down sides, since these clients might eventually demand lump sum loans for education, health, or other consumption needs. Furthermore, moving up market could shift the institution away from, for example, serving the extreme or moderate poor to serving medium or even high income earners.

Process Mitigation

Process mitigation might occur when individuals or groups work or otherwise come into contact with members of an "opposing" social group during the credit delivery,

[16] Left untouched here is the debate as to whether microfinance does or should seek to alleviate poverty of the poorest segments of society, or whether it is better suited as an economic growth tool. See, e.g., P Mosley and David Hulme. *Microenterprise finance: Is there a conflict between growth and poverty alleviation?* (Amsterdam, Netherlands: Elsevier Science Ltd); World Development, 26(5): 783-790.

implementation, or payback period. Contact could occur in at least four ways: by funding income-generating projects run jointly by members of opposing social groups; by organizing members of opposing social groups into solidarity groups in which they guarantee each others' loans; by increasing client diversity such that borrowers of opposing groups come into contact, however intermittent, through the institution's lending processes; or by funding processes in which members of opposing social groups participate (e.g. soccer games, leader meetings, training workshops).[17]

The Theory

The underlying theory of the process mitigation mechanism revolves around the role that group identities play in conflict dynamics. Social-psychological explanations of conflict focus on the formation of "in-group love" and "out-group hate"; in other words, processes of social categorization in which negative stereotyping of the out-group increases in the face of such things as "negative interdependence over shared resources,"[18] power politics, or highly segmented societies.[19] These correspond to social psychologist Erwin Staub's argument that intergroup hatred grows when "instigating" factors are present, such as "inflation, depression, and unemployment; political disorganization or political chaos; and rapid social changes."[20] Increasingly negative social cleavages, then, contribute to the escalation toward mass violence. It need hardly

[17] Here the lending aspect of microfinance should be re-emphasized. An MFI could create conflict benefits by funding education, campaigning, or infrastructure rehabilitation projects with heavy participation components. However, these activities may have "public good" characteristics about them such that it may not be possible for the MFI to recover the cost of the activity.
[18] Brewer, M.B. "Ingroup identification and intergroup conflict: when does ingroup love become outgroup hate?" In R.D. Ashmore, L. Jussim, and D. Wilder (Eds.). *Social identity, intergroup conflict, and conflict resolution.* (Oxford: Oxford University Press, 2001), 28.
[19] Ibid, 34-35.
[20] Staub, E. "Individual and group identities in genocide and mass killing." In R.D. Ashmore, L. Jussim, and D. Wilder (Eds.). *Social identity, intergroup conflict, and conflict resolution* (Oxford: Oxford University Press, 2001), 160.

be mentioned that mass violence or war can utterly shatter inter-group levels of trust and cohesion.

The antidote to "out-group hate" is found in Gordon Allport's "contact hypothesis,"[21] the idea that under certain conditions, exposure between individuals who are members of hostile groups helps reduce prejudice toward the other group. The gist of this theory was captured by S.W. Cook, in the introduction to his 1978 study on black-white prejudices in the United States: "One of our most persistent faiths has been that if members of hostile groups came to know each other through personal contact, the development of mutual understanding and liking would follow and would neutralize the negative relationships that formerly existed."[22] According to Allport, four preconditions for optimal inter-group contact are necessary: equal group status within the situation, common goals, inter-group cooperation, and the support of authorities, law, or custom.[23]

An Illustrative Example

The Wahabi-Tidjiani conflict described above could also motivate CVEC to adopt a process mitigation mechanism that aims to increase interaction between the two groups.[24] In general, perceptions of these groups toward one another seemed to be both bad and worsening. At least one interviewee stated that he avoided contact with Wahabis whenever he could, and another described Wahabis as "untrustworthy" and "bad-intentioned" people.[25] To the degree that this cleavage is negative and growing, CVEC

[21] See generally, Gordon W. Allport, *The nature of prejudice* (Cambridge, MA: Addison-Wesley, 1954).
[22] S.W. Cook as quoted in Dana Bramel, "The Strange Career of the Contact Hypothesis", in Yueh-Ting Lee, Clark McCauley, Fathali Moghaddam, Stephen Worchel, *The Psychology of Ethnic and Cultural Conflict* ([Unknown location]: Praeger Publishers, 2004), 60.
[23] Pettigrew, T.F. "Inter-Group Contact Theory," *Annual Review of Psychology* 49 (1998): 66.
[24] The indirect and process mitigation examples with the Wahabis and Tidjianis may or may not be mutually exclusive options.
[25] Heen, 18.

may well want to ensure client diversity across both groups to dampen the possibility of growing "out-group hatred." Because Tidjianis are the village majority and credit union majority, this strategy would require CVEC to actively seek more Wahabi clients.

At first, contact between Wahabis and Tidjianis could occur through normal institutional processes. CVEC offers individual loans, and disbursements and collections are made on Wednesdays and Fridays at their small building near the village entrance; Wahabis and Tidjianis making payments or receiving loan disbursements would see each other at the CVEC building. A more ambitious contact strategy might involve incentivizing members of both groups to create joint business ventures. This was the strategy of UNHCR's *Imagine Coexistence* pilot in Rwanda and Bosnia, discussed below.

Opportunities and Limits

UNHCR's 2000 *Imagine Coexistence Initiative* in Rwanda and Bosnia funded income-generating projects to members of their respective communities only if opposing ethnic groups worked together to implement the projects. It was hoped that this contact would foster positive relationships and increased social ties between Hutus and Tutsis, Serbs and Croats or Serbs and Muslims. Evaluators of the Rwanda initiative found, in fact, that "the project has influenced issues of cooperation, relationships, trust, tolerance, and justice…[and] the process of forming groups to handle the grants results in improved relations among community members."[26]

However, the UNCHR pilot program used grants and not loans, thus bypassing fundamental questions of risk that are central to credit-based programs. Further, in focusing so heavily on the coexistence benefits of this project, the evaluation report did

[26] Amr Abdalla, Noa Davenport, and Mutahi Ngunyi, *Peacebuilding Pilot Project Impact Assessment* (Oxfam Great Britain, Rwanda Programme, October 2002), v.

not include any clear statements about the financial successes or failures of the enterprises. This omission makes it difficult to assess whether MFIs could recreate similar positive coexistence results with loan-based projects elsewhere. MFIs tend not to fund start-up enterprises due to their high risk of failure even under the best circumstances;[27] this reluctance makes it an even greater challenge for an MFI to offer a start-up loan to individuals who have little or no trust in each other.

Summary

The intention of presenting the illustrative examples above was not to give detailed operational guidance on creating direct, indirect, or process mitigation loan products, although the "Good Fences" loan described in Appendix I gets closer to operational feasibility. Instead, the goal was to suggest possible programmatic directions an MFI might take as it considers incorporating the typology. Indeed, the specifics of any given MFI's local context should guide the development of appropriate loan products and processes. Much as Tamsin Wilson's research documented the fact that MFIs can make financial product modifications and innovations to cope with clients' special needs in post-conflict environments, MFIs can surely adapt the typology to their particular conflict context and institutional norms and forms. What *should* be clear from the above discussion is what each conflict mitigation mechanism is, and on what theory of change it is based. To this end, Table 3.2 below distills the main characteristics of the typology.

[27] Ledgerwood writes: "Most MFIs prefer to focus on existing businesses, with perhaps a small portion of their portfolio invested in start-up businesses, thereby reducing their risk." (Ledgerwood, 43)

Table 3.2: *Summary of the Typology*

	Direct Mitigation	Indirect Mitigation	Process Mitigation
Main Idea	Credit may support substantive projects that directly resolve or reduce conflict pressure(s)	General alleviation of poverty yields benefits in conflict arenas fueled by persistent lack of revenue, livelihood support	Contact between hostile groups during credit delivery, implementation, or payback period helps reduce mutual prejudice
Underlying Theory	Conflict escalatory pressure can be interrupted	Relative deprivation; Horizontal inequalities	Contact hypothesis
Illustrative Example	Fence loans to farmers to protect fields	Focus on lifting Tidjiani clients out of poverty	Ensure client diversity across Muslim factions
Possible Programming Strategies			
Client Targeting	Community members who are party to a conflict with some resource dimension	The poor, in general; or those vulnerable, e.g., to bribery or coercion by elites	Members of estranged, culturally defined groups
Loan Product	Designed to meet resource aspect of identified conflict issue	Increasing diversity and scale as clients become more economically active	Joint income-generating projects; Activities in which members of opposing social groups participate
Delivery Mechanism	Individual or group	Individual or group	Individual or group

Chapter 4: Challenges and Conclusions

The typology of credit as a conflict mitigation tool was born as an intellectual exercise, a thought experiment based on one case study in rural Cameroon. To be sure, the typology has an intellectual place within the literatures on development, conflict, and conflict sensitivity. Moreover, the research to date on microfinance and conflict has examined only how conflict affects microfinance, not how microfinance impacts conflict. In this respect, the typology is an important contribution to a decidedly understudied issue. Still, the typology raises more questions than it answers, especially around institutional capacities and "will."

Institutional Capacities

The incorporation of the typology into an MFI's operations requires processes and capacities that do not necessarily already exist in the institution. These include, but are not limited to:

- Ongoing conflict analysis capacity, including designated staff responsibility for monitoring and evaluation;
- Special staff skills and qualifications, such as mediation or conflict resolution skills if the process mitigation mechanism is used;
- Providing or linking to non-financial products and services such as negotiation training or facilitation;
- Possibly higher reserves to accommodate what might be higher loan loss rates.

Creating these capacities are not trivial matters in time, personnel or financial respects. A small MFI might increase its operating costs significantly simply by adding one staff person to handle the conflict-sensitive aspects of their work. While it may be possible to rely on conflict analysis that other agencies working in the same locale may already have

completed, there is no substitute for dedicated in-house resources to attend to the development of appropriate typology-based loan products.

Institutional "Will"

Even if the above institutional capacities exist or are possible to create, MFIs may still reject the typology for the same reason that they may reject conflict sensitive approaches in general: they may see them as "mission creep." Many MFIs already feel over-tasked and under-resourced without adding a new layer of labor- and resource-intensive activities to their plate. As Gaigails and Leonhardt acknowledge, there is "a growing appreciation among donors of the difficulties associated with applying [conflict sensitive] tools and frameworks. The difficulties derive from the diversity of war-torn societies, the uniqueness of approaches, the intrinsically political nature of conflict analysis, limited capacity and resources for this type of analysis and the constraints of funding and accountability frameworks."[1]

Microfinance, especially in its more commercialized forms, poses an additional difficulty in its increasing focus on financial sustainability and high repayment rates. Financial systems-oriented MFIs are moving away from donor largesse to fund their operations; this shift toward operational sustainability in turn means that MFIs may have even less room for experimentation and innovation. Researcher Marilyn Manalo states the issue succinctly: "…MFIs, therefore, continue to face challenges in balancing their role in resolving larger societal goals while maintaining cost recovery standards, particularly at a time when they too are not immune from struggling to stay afloat under

[1] Cynthia Gaigails with Manuela Leonhardt, *Conflict Sensitive Approaches to Development: A Review of Practice.* ([Unknown location]: Saferworld, International Alert, International Development Research Centre, 2001), 24.

difficult conflict conditions."[2] Without calculable benefits associated with the typology, MFIs may see only costs and risks to using it, and thus reject it in favor of known methodologies of client targeting, credit products, and delivery channels.

Possible Research Strands

Despite the challenges discussed above, it is too early to declare the typology dead. For one thing, there may well be more examples of agencies using direct, indirect, or process mitigation approaches than are reflected here. UNHCR's *Imagine Coexistence* project and Women for Women International's work in Bosnia suggest this possibility. It would be worthwhile, then, to explore non-MFI organizations working in conflict-affected societies that may have incorporated microlending in their portfolio of activities. Among such programs may be the World Bank's Social Fund, youth projects, refugee lending schemes, and conflict resolution activities. Such programs would likely have microcredit as a secondary goal in service of a primary goal of creating or recreating a disrupted social fabric. Search for Common Ground in Angola, for example, plans to start a microcredit project in villages with women residents and returnees, with the goal of improving relationships between the two groups.[3] More empirical data from such programs would further flesh out the mechanisms by which credit may impact conflict factors.

A second research thread could build on this empirical data to explore how to track the linkages between credit and conflict. Mary Anderson's *Local Capacities for*

[2] Manalo, Marilyn S. *Microfinance Institutions' Response in Conflict Environments.* Africa Region Working Paper Series No. 54 (Washington DC: The World Bank, 2003), 17.
[3] Heather Kulp (Director of Search for Common Ground—Angola), in telephone conversation with author, March 2004.

Peace Project has done important work in developing indications of negative and positive impacts of aid on conflict. The project offers a list of questions an aid agency should ask as it determines these impacts, such as:

- Is aid provided in ways that benefit one (some) sub-group(s) over others? Does the aid agency employ people more from one group than others? Do material goods go more to one group than others?
- Has the aid agency actively sought to identify things in the conflict area that cross the boundaries and connect people on different sides? Has it designed its programme to relate to these connectors?
- Is the aid delivered in ways that reinforce a local sense of inclusiveness and intergroup fairness? Are programmes designed to bring people together? Are they designed so that for any group to gain, all groups must gain?[4]

Helpful as these question are, additional research is needed to develop more specific indications of how the typology's suggested client targeting strategies, credit products, and delivery channels impact conflict—positively and negatively. If appropriate indicators are not established, it is possible, for example, for fence loans to farmers to create new types of conflicts. Similarly, client targeting strategies under the indirect mechanism that focus on an identifiable sub-sector of the poor may be perceived as discriminatory by other groups.

Third, more empirical data could also inform research that seeks to quantify the costs and benefits of using the typology. As noted above, one of the major acceptance hurdles for MFIs is the sense that the costs and risks far outweigh the benefits of the typology. It would be worthwhile to explore the financial risk differential that using the typology poses for a MFI. At a minimum, one might hope that using the typology does not pose increased financial risks. At an aspirational—if ultimately incalculable—maximum, one could imagine that the typology saves an MFI money by forestalling the

[4] The Collaborative for Development Action, Inc. "Indications for Assessing Aid's Impact on Conflict." Accessed 18 April 2004. Available at: http://www.cdainc.com/dnh/archives/2001/07/indications_for_assessing_aids_impacts_on_conflict.php.

eruption of violent conflict, which would otherwise cause significant client drop-off and loan losses.

These research agendas should be helpful in exploring more thoroughly how much potential exists for the typology to become a feasible tool in a microfinance conflict-sensitive toolbox. If continued research does suggest that there is a "there" there and that the typology may indeed be a helpful tool in an MFI's toolbox, MFIs might even consider how to leverage other microfinance products—savings, insurance, mortgage, money transfer services—to yield conflict-sensitive benefits as well. In all events, it is the author's hope that organizations and institutions providing microfinance services in conflict-affected regions will take up the research challenges associated with the typology as their learning about how to provide appropriate financial products and services in conflict sensitive ways evolves.

Appendix I: Good Fences Make Good Neighbors[1]

The Product

A new loan product will be offered through the existing credit union *Caisse Villageoise* in Foyet, Cameroon. This credit union already offers savings services and small individual loans, with a maximum loan amount of approximately 50 USD. The goal of this product, in addition to providing a loan package for which an unmet demand exists, is to address agro-pastoral tension between Bororo pastoralists and farmers whose crops have been threatened or damaged through grazing by the Bororos' cattle.

The product, "The Good Fence Loan," differs from existing loan offerings in several important respects. First, the loan is significantly larger than current products. Fences generally cost between 100USD and 500USD to construct. Second, because of the increased loan size and the fact that it may not lead to a direct income increase for all borrowers, the repayment period will be longer than the current period of 4-months. Third, owing to bordering farmlands and the larger loan amount, the loan will be targeted to self-selected small groups, though an individual product will also be available.

Target Market

The target market is subsistence farmers, a numerous population within the village. Many of these farmers are already savers and/or borrowers in the credit union. A product was not chosen geared at Bororo pastoralists because this group is migratory and does not have strong ties to the village. Because the village is small (about 5,000 people) and many of the farmers are currently members of the credit union, advertising the new loan product at the credit union and through word of mouth will be sufficient in communicating the news of the new loan product.

The product is aimed at self-selected groups of farmers. Economy of scale benefits exist both for the building of the fence (it is cheaper to buy wood in bulk, to do shared fences rather than ones surrounding plots individually) and for the provision of services by the bank. Dispersing one group loan rather than five individual loans requires less time on behalf of bank staff. In addition, some individuals would not have enough collateral for an individual loan but may collectively have enough for a group loan, as the collateral amount required per person is lower. Lending less per person through group loans than individual loans, and requiring a group system of collateral, also spreads the risk out over several clients. However, in the event that some farmers have plots far away from others such that group formation is not practical, an individual loan will also be available.

[1] The contents of this Appendix were developed by the author and four Fletcher School colleagues in an attempt to operationalize the idea of creating a fence loan product. Bailey, Sarah, Christopher Blakeley, Stacy Heen, Jeff Isen, and Oren Murphy. "Good Fences Make Good Neighbors." Paper submitted to Community-based Financial Institutions and Microfinance in Theory and Practice class, Kennedy School of Government, Harvard University, April 2004.

Product Advantages

This product was chosen for two reasons. First, it has the capacity to decrease current tension between pastoralists and farmers by potentially providing *direct mitigation.* Such mitigation occurs when substantive projects funded with microcredit resources directly diminish conflict pressures in a given community. Fences around agricultural land would help prevent Bororo cattle from grazing on these lands, which is currently a source of tension within the village. The fences, while not necessarily directly creating new income, would assist in protecting future income from such damage. They may also encourage other investment in agricultural productivity technologies, such as chemical fertilizer, if farmers feel more secure that their crops will not be eaten by grazing cattle. Second, demand for this product exists. Interviews with farmers show that they would like to build durable fences but do not have the cash needed. They cannot get financing through existing loan offerings because the current maximum loan size is not large enough for such an endeavor.

Loan Amount and Loan Period

The maximum amount of an individual loan is 150 USD. The maximum amount of a group loan is 100USD per group member (i.e. a group of five could take a loan of up to 500USD, amount subject to approval by the loan officer). This amount is based on an estimate of the cost of wood and other related supplies. The loan period is for one year, which three times longer than the current credit period. While length can increase risk, it also provides farmers with a system whereby they are not relying solely on the income generated from one crop cycle to repay the loan. Crop diversity and four-month growing cycles mitigate some of the risk in focusing this product on agriculturalists.

Interest and Collateral

The interest rate currently used by the *Caisse* of 2% per month will be applied. While the higher loan amount and longer loan term both increase risk for the *Caisse*, collateral requirements will be used to address the risk rather than increased interest rate, which could discourage borrowing. The collateral requirement will likely not decrease demand because it currently exists on the smaller loans. Again, because individuals will be less likely to be able to meet such collateral requirements on their own, and due to the fact that most of the farming lands are situated in ways in which fences could border several different farmers' plots, group fence loans will be likely be preferred. The collateral necessary is that the members of the group (or the individual, in the case of an individual loan) have cash savings totaling 75% of the amount borrowed (in their savings account in the *Caisse*). This practice does not veer significantly from current loan requirements. Physical assets will not be used as collateral because they are not easily converted to cash. Land cannot be used because there is no formal system of property rights.

Information-Gathering on Loan Applicants

Eligibility

To be eligible for a Good Fence Loan, the individual must currently be farming a plot of land and have the village chief's approval to be farming this land. There are no restrictions regarding age or gender. These farmers have been on their land for

generations, so there is no need for a requirement regarding the number of years that a person has been farming. In cases where farmers have not been on their land as long, their expansion to new land must be approved by the village chief. Each applicant, whether applying for an individual or group Good Fence Loan, must be a member of the credit union, with an adequate savings balance to meet the 75% collateral requirement.

Required Information and Information-Gathering

The *Caisse* officers from the credit committee (henceforth referred to as "loan officers") gather information through a loan application and business proposal form. Officers already have a built in system of intra-institutional checks and balances by virtue of the fact that the information is reviewed later in the committee during the loan approval process. The application requires the names of the persons in the group and individual forms for each group member. These forms ask for the following information: name, savings account numbers, how long they have had an account at the *Caisse*, income, monthly expenditures, and existing debts. Information such as address and identity card numbers is already on file in the information regarding their savings accounts. The business plan requires the size of land to be fenced, the amount of wood needed and the cost of this wood, the cost of any additional materials, the amount of capital (if any) supplied by the applicants, the estimated time of construction, and the division of supply costs per group member (as plots may be uneven and require more supplies for areas bordering a larger plot). This form requires the signatures of all group members.

During the application and interview process, loan officers have a work-sheet guide on which they record information. Some "yes or no" requirements, such as permission to fence by the chief, require a check. Others require numerical information: how much money each person has in savings, how large the land is that will be fenced. Finally, there are subjective questions filled in by the loan officers based on his/her impression, using a ranking system of 1-5, with 5 being the ideal responses. These questions concern the level to which the applicants appear to understand the loan process, their apparent knowledge of how build a fence, and the loan officer's opinion on their collective ability to repay based on all of the factors.

Information evaluation

The evaluation of the above information will be conducted by one or more loan officers through a combination of interviews with clients and a site visit to the land to be fenced. The preliminary interview, in which a loan officer details the loan requirements, occurs with all group members present in the case of group loans. Site visits are individual.

Evaluation of information by loan officers regarding the loan applicant also occurs through discussions with community members. Foyet is a small village where "everyone knows everyone." It does not have the problems of anonymous urban areas where people can pretend to occupy a certain stall or area in order to secure a loan. Crop yields are common knowledge; credit officers have access to savings and loan history as well.

Decision-Making

The Decision-Making Process

As with individual loans currently offered by the institution, the decision will be made by the credit committee. This committee consists of eight individuals from diverse religious and ethnic backgrounds. The committee meets once a week to review loan applications. The loan officer who has acted as the primary liaison with the group/individual presents his/her findings from the interview, site visit and data verification. There must be a majority decision (5 votes) to approve a loan. There do not appear to be cases or corruption of favoritism of certain ethnic and religious groups. The final decision is approved by the head of the *Caisse*, who is an upstanding member of both the institution and community.

Key Determinants

The key determinants of the process are membership in and history with the credit union (with a savings account), collateral (savings), and land tenure security. Collateral is the most significant risk-mitigating element for the group. The underdeveloped system of land titles is somewhat problematic. As most farmers do not hold legal documents to aid in the verification process, local leadership needs to be consulted. In particular, the village chief will be consulted to confirm that the person has the right to farm and fence the specified land. This is the current system of land tenure. As the village chief is currently a member of the *Caisse* (as he is in most ventures affecting community welfare) and he is well-known by those on the credit committee, organizing such information verification transactions should be relatively easy.

Fund Disbursement and Receipt

The *Caisse* recently built a bank office where secure cash transactions and storage occur. This office will be utilized for all transactions regarding the Good Fence loans. As with other loans, it will be open for loan repayments and disbursement on Wednesday and Fridays. In the case of groups, one group member will be elected to collect the loan amount. The loan officer will verify with other members that this person will receive the money and the date when he/she will receive it. It will be disbursed in cash in one lump sum.

Repayment will occur in methods similar to existing modalities, which take into account the growing seasons for farmer clients. Groups will have the option of paying in one to three balloon payments four months, eight months, and one year after the loan disbursement, or developing a monthly system of repayment. Groups will consult with their primary credit officer in order to decide on a system that works best for them.

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