

## NGO microfinance after armed conflict

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Civil war, which has become the most common form of armed conflict, can cause the loss of valuable household assets such as livestock, productive infrastructure and property holdings. Quite apart from the emotional and psychological damage, the disruption to education and the loss of family members during armed conflict reduces household productive capacity. Civil society is also damaged, physical infrastructure may be destroyed and previously limited access to financial services further reduced. Thus, the impact of conflict on households can be severe and pervasive. The need to reduce susceptibility to livelihood crises is increasingly recognised among NGOs. There is potential for microfinance to contribute to reducing vulnerability, but our expectation of the achievements of this type of service must not be too high.

The situation after armed conflict is unpredictable and usually not conducive to microfinance. Institutions may be required to operate in an environment characterised by continuing violent conflict, limited investment opportunities, high inflation, the enfeebled remnants of a banking system and high unemployment. Political insecurity and the lack of rule of law, high population mobility and damaged social capital also affect microfinance operations. Thus, a wide variety of interrelated factors influence the performance of any microfinance initiatives in such a context (these factors are well documented by [Nagarajan \(1998\)](#) and [Doyle \(1998\)](#)). However, it is believed that characteristics beneficial for microfinance (e.g. high population density, the operation of traders or remaining social capital) can compensate for negative characteristics (e.g. high inflation, insecurity or the destruction of the formal banking sector).

In general, the NGO experience of microfinance to date illustrates the conflicting demands faced by relief organisations attempting to offer microfinance services in the harsh, conflict environments in which they choose to work. The method of direct delivery that has been favoured by relief organisations for so long has caused confusion among clients as to the seriousness of the organisation, and ultimately has resulted in high default rates. Subsequently cheap credit has come to be seen by the clients as a right, rather than temporary emergency assistance. The usual process of largely unplanned transformation from informal NGO project to formal MFI has proved to be inefficient because of repeated disruption to services. Product innovation and marketing has remained a low priority and by offering unsuitable products, it has been difficult for many organisations to attract clients.

The [Springfield Centre research project](#) funded by the Department for International Development (DFID), aims to further investigate the issues surrounding microfinance during and after conflict. The research consists of two phases. The first phase began in January 2001 and aims to answer two key questions through qualitative field research in Mozambique, Rwanda, Angola and Cambodia:

- What conditions are necessary for microfinance projects in post conflict economies?
- What kind of microfinance products are most attractive to the poor after conflict?

A synthesis report will be available at the end of 2001 and the second phase will take place in Rwanda, where a microfinance project will be established to make available the products suggested in phase 1, using an innovative model and mechanism. A continuous process of action and critical reflection will contribute to increased understanding of the Rwanda project. At the end of the second phase, two documents will be produced: "A Tool Box for Post-Conflict Microfinance" and "Principles of Better Practice for Post-Conflict Microfinance".

In the past, the benefits of microfinance in war-torn countries may have been overstated. It is now time to thoroughly re-examine the potential and constraints to providing micro-financial services in war-torn countries. This project aims to objectively re-evaluate the assumptions that have been made regarding models, mechanisms and products in the context of armed conflict.

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