Microfinance in a conflict state: Principles, strategies and challenges

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ABSTRACT

Conflict leads to destructions of life, properties and infrastructures such as markets, airports, schools, train stations, places of worships, diplomatic houses, bus stations, roads and bridges and the consequences causes outbreak of diseases and sicknesses, loss of business and jobs, leads to conflict in the host state of the refugees and create social problems and breach of law and order and consequently, increases the number of the poor people in the society. The most hit victim of conflict is the poor. Therefore microfinance institutions have to come in to support the victims with microcredit to assist them start a micro business to generate income to get them out of poverty. The aim of the study is to determine the principles, strategies and challenges face by microfinance in the states that are besiege with conflict. The source of data collection is basically documentary. The study found out that for microfinance to operate in the conflict areas, they must initiate and implement plans that will help them carry out their functions by securing their physical assets and their staff, established a data recovery and backup system, diversify their loan portfolio, expanding their services to include micro insurance and savings. Microfinance should be able to assist their customers to foresee and get ready for any disaster by encouraging compulsory deposit or savings to help the victims of conflict to have access to funds immediately. Lastly, conflict leads to decrease in productivity of the staff, revenue or income and loss of properties both physically and financial for the clients and the microfinance institutions and hence, issuance of microloan and loans repayment also decrease.

KEYWORDS: conflict, microfinance, state, microloans, savings

1.0 Introduction

The result of any kind of conflict is accompanied with a devastating effect on growth and development of the community or the economy as a whole. The consequences can be inform of loss of trust, decrease in interaction with one another, depleting economy, death, rise in tension or fair of attack between the ethnic groups, trauma, displacement and loss of self esteem (Marohabout *et al.*, 2009). More so, the clients and staff of micro credit institutions and their assets are endangered during conflict because of lack of security. Most at a time huge sum of money are being taken to the crisis areas or villages where small loans are to be giving to the poor people affected and when the clients are repaying to the microfinance institutions, the money are taken back to their offices and banks. Therefore, such situation can lead to threat of robbery, injuries and even killings, because it is expected that almost all the members of the community will be aware of their coming, the time and the place (Graber, 1997).

Many researchers have looked into microcredit in conflict areas and found out that, the needs for financial services abound in those areas even though the demand may reduce at the beginning, but it will still rise up again and clients can make repayment at a stipulated time and hence, microcredit institutions can work successfully in such areas where there is conflict (Larson, 2001; Domond *et al.*, 2006; Phillip, 2004 & Tarvis, 2004). Although some researches point out the difficulty to be encountered in terms of security, human resources of microfinance institution and the beneficiaries which can in some situation reduce progress of self reliance of the clients and create dependency on the aid funds (Wilson, 2002). Studies have shown us some relevant direction or procedure to follow by the microcredit institutions to work in such areas where there are conflicts. Even though the guidelines to be used still rely on the specific nature of the situation they may encountered in those areas, which may possibly be different from one place and another.

Microcredit in the wake of conflict situation is considered to be a means of lessening reliance on relief materials, restoration or building peace and contribute it quota in bringing back the affected community into it former self, improving gender roles, giving a helping hand to developmental programs (Wilson, 2002). This means that more financial intervention is needed as an important measure or yard stick for an economy that has suffered in conflict to be kick started in order to speed of growth and development in that community(Nagarajan, 1999). Even though, provision of finance is going to be low in communities with low income that has passed through conflict for some times. Micro credit institutions becomes very important and an avenue to decrease the gap or vacuum by channeling services, products and process to the society in the way that it cannot be done by the commercial banks. Other ways to do it is by providing short term aid and project reconstruction and technical assistance (Hailey, 2001). If microfinance institutions are able to provide the above services in the conflict area, there will be increase in microenterprise activities, increase in micro business will increase job and consequently income of the households will increase and the economy of the community will be busted and revived. Most especially when micro credit institutions focus their interest and emphasis on the positive effect they are bringing to the livelihood of the people in the communities as against the negative effects because they realize their important contribution in conflict situation (Larson, 2002). Although, Nagarajan and McNulty (2004) argued that despite the effort of microcredit as a means that assist in economic development among other tools, it cannot stop conflict and cannot be the main tool for building peace in the areas. Despite all the issues surrounding microfinance, microcredit has still remain a promising tool in conflict affected areas to assist in building the economy that has being destroyed with reasonable outreach and stability (Emre *et al.*, 2007).

The objective of microfinance is to meet the financial need of the poor who are at high risk side in the society in whatever situation. Therefore, microcredit can lent an immediate helping hand to the social and economic recovery of the poor affected by the incidence of conflict by giving them money inform of credit and other services to be used to generate income for the upliftment of their wellbeing, straitening society tie and depending those living in poverty from reduction of income (Poston, 2010). Giving microcredit in a crisis situation can be done on the condition that the microcredit institution is ready. Any microcredit institution that is not ready for the time of crisis may not be able to guide it clients as well as protect itself during the attack (Miamidian *et al.*, 2005).

The main goal of this paper is to determine the principles and practice to be used and the challenges facing microfinance institutions in a conflict affected areas. The study is subdivided into the following sub headings; microfinance, conflict and its features, measures to be taken by microfinance in anticipation of conflict, principles and practice of microfinance in conflict affected state, microfinance strategies in a conflict affected state, why not to do microfinance, Clients needs during and after conflict, product and services that support coping mechanism in conflict areas, impact of conflict to microfinance, the challenges of microfinance use in the conflict affected state and the conclusion.

2.0 Literature Review

2.1 Microfinance

Microfinance is a bank for the poor people, which give microloans, savings and other services or products to the poor or those living in poverty that cannot be attended to by the traditional banks as a result of their inability to have and present enough collateral (Maanen, 2004). Grameen Bank observed that micro credit is a program which gives loans to the vulnerable and poor individuals to do micro business in order for them to realized revenue that will help them carter for themselves and their households. The services or product at the disposal of microcredit institutions are; microloan, insurance, savings and funds transfer (MIL, 2013). Microfinance is established on the believed that poor people have the ability and skills that are not being utilized. Hence, it is not the absence of ability or skill that leads to poverty and gift is not the best solution to poverty, but instead it assists in increasing and widening the level of poverty and it existence. When people relied on somebody or persons for gift all the time, those people ability and skill will disappear and it will be difficult for them to be removed out of poverty cycle. Therefore, releasing creativity and power to people is the solution or answer to poverty (Yunus, 2004). Doyle (1998) opined that microcredit is seen as a medium that can be used to meet so many objectives and becomes an economic growth and development policy or strategy that is directed at reconstruction by making available all the necessary financial services for the establishment of a venture for beginning the local economy and also serves as a means of bringing peace and reconciliation.

Doyle (1998) concluded that a lot of attention is being shifted to financial service market in a conflict affected areas, with specific consideration to targeted people in the area like demobilized soldiers, returnees, women, refugees, internally displace individuals and households, and those living in some rural areas affected by conflict. More so, microfinance institutions are expected to reduce the rate of interest, introducing new microloan products like, agricultural credit or loan, providing training to help them know the kind of business to do immediately after the conflict, and creating training partners locally.

Larson (2001) opined that micro credit institutions play a great role in the provision of intangible services informs of socio-political settlement or reconciliation. This take place inform of building trust and confidence through group lending and encouraging economic activities between the ethnic groups in the society. These goal can be promoted when the microcredit succeed for a long time and in the improvement of the welfare of the communities that are engulfed with conflict experience as a result of the availability of the microcredit.

Manalo (2003) concluded that conflicts brings fresh type of clients or beneficiaries, such as refugees, returnees, demobilized soldiers, war widows, internally displace people, rape victims and argued that, embracing a wider coverage of clients in a conflict zones will help the microcredit provider to spread the operational risk and undertake the process of providing financial service effectively and efficiently as a strategy. This will help in reducing tension and settle little differences among the groups of the clients and the process of bring back war affected group together in the community becomes high.

The studies above agrees that microfinance donors in conflict areas are believe to gear their efforts toward the objective of kick starting the building of the economy in a conflict situation or areas, encouraging self employment as a means of survival since the microcredit institutions can lent a helping hand in that direction through microloans and other services.

2.2 Conflict and its features

Conflict comes out of disagreement over something between two individuals or groups, where the individuals or groups perceive a threat to their interest and needs (Rahim, 2010). The process of conflict is equal whether between a nations, groups and individuals. The features of conflict affected areas as observed by CGAP (2004) are:

- Psycho-social - this can come in form of fear of another attack, lack of trust, separation of the members of the family from each other, death, in ability to have good plan for the future in the areas.
- Infrastructures and services - some basic and essential amenities like schools, healthcare delivery, good water and sanitation may be difficult to access and possible lost. Existing infrastructures like electricity, roads and bridges may be destroyed and consequently neglected and forgotten.
- Economic - there will be destructions of houses and microenterprises properties, people may no longer believe in the financial system, aid funds will fill the state or the economy.

While, World Bank (1999) Collier *et al.*, (2003) and Manalo (2003) gave some reasons for the occurrence of conflict to include:

- Historical - the structures laid down and left by colonialism and imperialism such as the existing unmerited favor of one ethnic group over another, creation and forceful imposition of artificial boundaries contributes in the border conflict between one village or state and another, fight for the control of government most especially in an event whereby the government in power is dissolved, force imposition of communities leaders against the wish of the people.
- Political - conflict aroused or came into being, most at a time as a result of the differences in political ideologies, lack of equality in the distribution or sharing of state resources, domination of the military.
- Social exclusion - inability of the state to give equal change to individuals or group of individuals to participate in a community on ethnic, regional, religious or social activities create tension and frustration that could lead to conflict.
- Economic - fall in income as a result of long period of economic stagnation, lack of good and sustainable agricultural programs, increase denial of a section of the community, increase in population without a correspondent increase in resources and jobs. Lastly, lack of education or knowledge, poverty and lack of jobs are some of the contributing factors to conflict.

2.3 Measures to be taken in anticipation of conflict by microfinance

Microfinance institutions most to be ready to cope in the advent of conflict by initiating and implementing an impromptu plan that will help them to know what to do and also how to protect their assets in an environment that is subject to conflict. According to Microfinance Gate Way (2013) for the microfinance to protect its financial and physical assets, the following have to be provided:

- Secure physical assets by making security arrangement and ensuring their properties.
- Establish a data recovery and backup system.
- Protect cash assets through bank account.
- Diversify loan portfolio (locations, types of loans, types of customers).
- Expand the range of financial products to micro insurance, and savings.

Therefore, microfinance institutions must has the ability to assist its customers foresee and be ready for possible disaster. Hence, they can provide loans and implement compulsory deposits to help the victims of conflict financially.

2.4 Principles and practice of microfinance in a conflict area

The principles and practice of micro finance in a conflict affected areas as opined by Microenterprise Best Practice (1999) are as follows:

- To give services that meets the needs of poor micro-entrepreneur: Just like any other venture, microcredit institutions are expected to give services or products that the poor people want and are willing to go for it in a conflict area. Such as, shorter credits that can be matched with their kind of businesses, market and expense and income, small loans given at an interval with small increase, and giving services to clients at their door post.

- Decrease unit cost by streamlining the operation: Microfinance institutions should create a method of giving their services more efficiently and at a very minimal cost. This will go a long way in decreasing cost of interest charged to clients, makes it easier to give standard credit services, own less expensive cars and buildings unlike commercial banks, credit and saving officers should be accessible always by the clients and their level of education and income should not be wide.

- Encourage beneficiaries to pay loans by informing them that it is on their best interest to pay the credit not to just go away and leave them, other things to do is to give the clients access to your service continuously that will serve as an incentive to repay their loans, group lending will give pressure to repay and support each other, give discounts for paying earlier and punishment for late repayment and other incentives.

- Charge full fees and interest rate **-** For microfinance to operate continuously it is expected to take care of its long-term cost. Although, losses are being subsidies by the donors most at a time for a long period in conflict areas, this will not last forever.

- Achieve scale: it is possible for the micro credit institutions to maintain and observe the principles above and at the same time incurred a loss most especially, if the number of clients they have is small. Therefore, scale is good for the microfinance institutions not only for the sec of haven many clients, but it helps them to be sustainable. After the conflict, clients may not be many due lack of enough economic activity, the extent of the trust in the early stage of the conflict and hence, good planning, monitoring and implementation after conflict most have to be incorporated as part of the significant principle of microfinance institutions.

2.5 Microfinance strategies in an area of conflict

In areas of conflict, microcredit institutions have to change some of their strategies and operational rules to suit the environment in the following areas as opined by Manalo (2003) and Desmond, Loupeda *et al.*, (2006):

1. Manage increase risk for clients, assets and staff by insuring their properties.
2. To manage the problem of staffing when the staff and management flee or possibly got a job somewhere else as a result of the conflict in the area, microfinance institutions should be ready to recruit and train staff on how to work in conflict areas.
3. To manage rise in daily administrative and operational costs due to the increasing need for more monitoring and underwriting costs.
4. To manage lack of trust in the community economic and institution as a result of conflict, by making loans and other service available to the people in the community.

5. To manage unfriendly nature of the market as a result of the immediate change in the type and level of economic activities by training the people to know what type of business to do at that moment that will be marketable.
6. To manage the balance sheet because it will expose microfinance to more risk and return on investment will decrease as a result of decrease in productivity of the staff, reduce revenue, theft and loss of physical and financial assets as well as decrease in repayment of loans.

2.6 Why not to operate a microfinance in an area of conflict

FIFC (2003) gave the following reasons as to why microcredit institutions should not operate in an area of conflict:

- Lack of adequate security and dismantled infrastructures that hinder movement to trade and market areas.
- Bridge of law and order in the communities makes enforcement of loan repayment difficult.
- When government policies are not in favor of the displaced persons such as banning of business activities in the refugee camps.
- When the microcredit institutions do not have the technical ability to run their activities in a conflict affected area.
- When the number of people living in that area is small or negligible.
- When the microfinance institutions do not have enough fund to manage their programs continuously for a long time.
- When the economy of the place is not monetized.

2.7 Clients' needs during and after conflict

Wilson (2002) identifies the following needs of the client during and even after the conflict to include:

1. The predominant things people do to survive is trading during and after the conflict
2. Savings in assets that can generate income after the conflict.
3. Use of natural endowment and labor in the household as the means of survival.
4. Return to use of land as a means of earning a living.

Wilson (2002) opined that during and after conflict most people go for different less risky business activity or low investment that will bring fast returns. The microcredit services people look for are those microloans that require constant repayments. Getting the services so easy from the microfinance institutions is the main factors that help the poor not low interest rate.

The real features of the products to be offered by microfinance institution during and after the conflict are: microloan and a savings (e.g $100), loans or credit services in kind most especially in the villages, regular time table for deposit or repayment (e.g daily or many period daily), short period (e.g one week), credit to be used for micro business or agriculture or income smoothing, individual credit and savings no group loans and meetings until after post conflict transition, varieties of credit should be given so that rich individuals can take loans since they cannot access the traditional banks, regular visit by the loan officers to give the clients accessibility to savings and credit, there is no rigidity in payment.

The feature of microfinance provider that is more valued during and after conflict is flexibility not rigidity, which accord quick access without problem to savings and credit. Microfinance providers that are experience and are always available knows the market very well, give products and services that is flexibility without given up the quality of its portfolio.

2.8 The Impact of conflict to microfinance

Microcredit has good intentions, however, conflict makes these institutions unable to carry out their plans as expected. As such microcredit institutions are seen battling to keep their regular operations in the communities they operate which has become unfriendly to them (Demond *et al.,* (2006). Some of the impacts of conflict on microfinance institutions include:

- In areas of conflict, officers in charge of microloans devote a majority of their time chasing borrowers who have refused (or unable) to pay their loans when due, instead of seeking out new clients. Time is also devoted for assessment of loans by credit committee, causing an increase in administration costs.

- Conflict may cause microfinance to slash or cutback on programs which will affect income and growth when clients refused (or unable) to pay their loans. As a consequence, donors are not always so keen in giving more money to microfinance due to conflict.

- Decrease in operational profit and income due to the inability of clients in paying back their loans when due.

- Clients of microfinance operating in conflict areas face great physical risk. The conflict may distract or disrupt business activities at any time, or loss of goods and properties for fear of their lives.

- Conflict also encourages traders to shift from dealing with perishable to non-perishable goods even though they do not have the experience about this new business.

- Staff of microfinance, especially the loan officers and central office staff, finds it difficult to carry out their daily functions (site supervision and support). This may contribute to a decrease in the entitlement of the staff, or worst, unpaid salaries for months.

2.9 Challenges for microfinance used in conflict

Provision of microcredit to microenterprise is not the total answer during and after conflict. This is because microfinance requires technical help and marketing advice or guide to operate continuously apart from the microcredit in the period of the attack and even after. The cash saving of the clients have to be restored, healthcare services, infrastructures and protection from attack to continue with their normal business activities. For microcredit to yield positive results in their quest to reach the poor in conflict areas many thing have to be put in place as observed by Karen (1998) and Loving and Sandusky (2010) as follows:

Individuals or microenterprise should be able to give back the amount given to it as loan as at when due. The microenterprise that cannot be marketable during and after the conflict cannot be supported by the microcredit institution due to the fact that it may be difficult for the business to pay back the credit.

There should be a reasonable level of security existing in the area where microcredit is being distributed and used by the clients. An area without adequate security cannot be given loan by the microcredit institution because it is going to be very difficult to enforce repayment.

The number of people in that area most be many or enough to assist businesses to recover. Areas with high population density are more likely to receive credit than those areas with a population that is sparse. This is because clients in areas with high population will have market for their goods, unlike area that have low population because they will suffer from lack of demand from few and small markets.

The impact of conflict can deter the positive effect of microloans on the individual, households and the society as a whole, most importantly when there is health problem and the cost is very high. Microenterprise may likely be able to pay back the loan but not, as it will be when the burden of sickness is low or non existence.

Microcredit is not usually a long-term solution to conflict. But it serves as an avenue to build up savings and assets to be able to access the traditional banking institutions.

Outreach and sustainability setbacks: during conflict outreach to clients and financial sustainability suffers a lot where the staff has to take more time in going round to retrieve back the credit instead of reaching out to the poor. This has increase the cost of operation of microfinance institutions in the areas, and hence, there is fall in income as a result of the decrease in demand (Larson, 2002).

The ability of the microfinance to be able to match supply and demand and maintain sustainability during and after a conflict due to the increase in demand as a result of increase in the number of the poor due to the crisis post a problem due to lack of fund (Heen, 2004).

3. Conclusion

Conflict is a situation that causes destruction of life and properties, business, forced migration, and loss of employment. If not stopped, it can lead to conflict in the host nation of the refugees as well as increase the number of people that are living in poverty. For microfinance to operate in a conflict area, it must initiate and implement plans that will assist it carry out functions by securing its physical assets and staff, establish a data recovery and backup system, diversify its loan portfolio, expand it services to include micro insurance and savings. Microfinance should be able to assist its customers to foresee and be ready for any disaster by encouraging compulsory deposits or savings to help the victims of conflict to have access to funds immediately. Lastly, conflict leads to decrease in productivity of the staff, revenue or income and loss of properties both physically and financial for the clients and the microfinance institutions and hence, issuance of microloan and loans repayment also decrease.

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