Microfinance and Social Impact in Post-Conflict Environments

by
Laura K. Meissner

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Glossary of Acronyms

Acronyms in languages other than English are given the English translation of their full names.

ARC	American Refugee Committee
AYNLA	They Help Themselves and We Will Help Them (Guatemala)
BANDESA	Agricultural Development Bank
CGAP	Consultative Group to Assist the Poor (World Bank)
CRS	Catholic Relief Services
FAFIDESS	Financial Consulting Foundation to Development and Social Service Institutions (Guatemala)
FOCCAS	Foundation for Credit and Community Assistance (Uganda)
FUNDEA	Foundation for Business and Agricultural Development (Guatemala)
FUNDESPE	Foundation for Small Business Development (Guatemala)
IDP	internally displaced person
MFI	microfinance institution
NGO	non-governmental organization
REDIMIF	Guatemalan Network of Microfinance Institutions
SAPAP	South Asia Poverty Alleviation Programme
SEWA	Self-Employed Women's Association (India)
USAID	United States Agency for International Development

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Chapter 1: Introduction

Microfinance can help poor entrepreneurs to grow their businesses and lift themselves out of poverty. Its supporters also tout a range of social benefits, from social capital construction to women's empowerment. But can microfinance rebuild community and achieve social goals in post-conflict environments where social ties have eroded? My research shows that it can, but a multitude of factors and considerations affect this outcome.

This paper's focus point is the experience of women village banking clients in Guatemala, nearly ten years after peace accords finally ended 36 years of civil war. It begins with an analysis of literature on issues specific to microfinance, including microfinance and social development goals, village banking, and post-conflict microfinance. The second chapter presents existing studies and interviews with microfinance practitioners regarding microfinance and social impact. Chapter 3 explores the social impact microfinance might have in post-conflict situations. In Chapter 4, I present my own research from Guatemala on the effect of group lending and particularly village banking on social capital construction. Next, I analyze factors that may affect microfinance's success at meeting social objectives in post-conflict situations. Lastly, I identify key points and common themes from the research, and offer policy suggestions for microfinance practitioners and donors as well as topics for further study.

Microfinance and development goals

Before we study microfinance's ability to build community in post-conflict environments, we should consider whether microfinance should even aim to achieve development goals. Christen and Drake (2002) provide an important commentary on microfinance's recent trend of commercialization, either through NGOs 'upgrading' to regulated institutions or through commercial banks providing microfinance. This movement is not without controversy; some worry that commercialization contributes to a 'mission drift' away from helping the poor.[1] However, reaching very large numbers of poor people may only be possible through commercialization; the authors refer to this as "the ultimate irony of microfinance."[2] Christen and Drake conclude that while commercialization is a desirable move for the industry, this does not mean that microfinance institutions, or MFIs, should abandon their mission to provide financial services for the very poor.[3]

Littlefield, Morduch and Hashemi (2003) provide an excellent summary of what microfinance is capable of accomplishing. Beyond helping people smooth consumption and protect themselves against economic shocks, microfinance also has the ability to create "social benefits on an ongoing, permanent basis and on a large scale."[4] For example, microfinance clients can more easily send their children to (and keep them in) school, which may help lift families from poverty in the long term.[5] The authors also cite studies finding health improvements in microfinance clients and their families, and give examples of clients' political participation.[6]

Cheston and Kuhn (2002) study women's empowerment through microfinance. In an age of increasing commercialization in microfinance while donors continue to focus on development goals, they ask, "Why are many MFIs reluctant to focus on women's empowerment?"[7] Some MFIs assume that empowerment is an automatic outcome of lending; others do not wish to put their financial sustainability at risk.[8] The authors disagree, saying that empowerment need not be expensive and can even cut costs. For example, clients of village banks partially manage their own funds. This both empowers women, and minimizes MFI staff effort.[9] I discuss village banks in more detail in the next section.

Village banking

Microfinance's social impact is strongly tied to its group lending methodologies, which supposedly foster social capital, trust, empowerment and leadership. In the Guatemala case study, I interview members of two village banks (also called 'communal banks.') "What Is Village Banking?" on the FINCA website introduces the reader to the concept. The basic structure, first launched by FINCA, is as follows: 15 to 30 poor entrepreneurs, usually women, organize into a village bank and borrow a lump sum of money from an MFI. The village bank elects its own leaders, who then manage the on-lending of that money in smaller sums to individual members. FINCA stresses the importance of group work and community building, making microfinance clients active participants.[10] Through this teamwork, village bank members create networks among themselves.[11] FINCA aims to create "community-run, community-focused" groups wherein members help one another to grow, both personally and in the business world.[12]

Westley (2004) goes into more detail about who does village banking and what works best. Village banking is one of the most 'down-market' products of microfinance. Prominent Latin American MFIs' village banks reach approximately 410,000 clients (nearly all women), loaning out an average of $150 per client for a collective $61 million portfolio.[13] (In comparison, those in five- to seven-member solidarity groups borrow an average of $329 per person; clients with individual microfinance loans take out a mean of $980.) Approximately 29% of village bank members live in rural areas, versus 17% for solidarity groups and just 8% for individual loans.[14]

Westley remarks that village bank meetings are time-consuming for members, but enumerates the many benefits that members receive. Clients share information about business and economic opportunities, find support among other members, make friends, learn to manage a substantial amount of money, and expand their social networks.[15] He remarks that even those who have 'graduated' to larger loans "value very highly" these intangible benefits.[16]

Nelson, MkNelly, Stack and Yanovitch (1996) explain how the village banking model has grown since its inception at FINCA. Some banks form smaller solidarity groups within the village bank, in part to ensure more democratic administration.[17] Village banks offer savings as well as credit, and many offer nonfinancial services such as training. Some village banks now accept men in mixed-gender or men-only arrangements. The authors also identify particularly empowering components of village banking, including managing the group and its finances, guaranteeing each other's loans, and electing one's own leaders.[18] Such aspects may help village banks be agents for civic, political or social change.[19]

Conducting post-conflict microfinance

How does post-conflict microfinance differ from microfinance in 'normal' situations? Larson (2001) compares the two situations. The author stresses that post-conflict MFIs should ideally plan for the long term, implementing the structures necessary for sustainability and growth in the years beyond the immediate post-conflict stage.[20] Situations do eventually return to normal, at which point MFIs must embrace 'regular' best practices.[21]

Larson insists that some practices, such as demand-based product development, cost-efficient operations, and working towards sustainability and outreach are important in any situation.[22] However, post-conflict microfinance does require some adaptation. MFIs will spend additional time and money in recruitment, educating clients, and ensuring employee and client security. They face higher costs and a longer road to financial sustainability.[23] On a positive note, "microfinance may play a real (albeit intangible) role in social and political reconciliation," perhaps by getting hostile groups to trust one another by working together in lending groups.[24] The stronger the MFI, the greater are the chances for success at reconciliation.

Tillman, Norell and Stephens (2004) offer some concrete lessons on conducting post-conflict microfinance. They stress fostering client trust and security, for example by providing secure savings before offering loans, or by working with institutions that have already gained credibility.[25] Regardless of the state of the conflict, microfinance must be a development intervention, separate from relief work.[26] Donors and NGOs new to microfinance may not agree; the authors suggest that those in the field work together to set up common norms and rules for conducting microfinance in a given area.[27] Lastly, given all of the obstacles in post-conflict situations, microfinance practitioners should not hesitate to be innovative in their products, loan terms, logistics and organization.

Nagarajan (2004) identifies several 'next steps' in post-conflict microfinance, now that it has gained credibility as an appropriate intervention in post-conflict environments.[28] She insists upon a realistic view of what microfinance can accomplish, particularly where weak social bonds and a culture of relief make practicing good microfinance difficult.[29] Nagarajan suggests looking to local financial institutions (for example, the rotating savings groups common in many developing countries) for examples of appropriate products and methodologies. Relapsing conflicts may necessitate concurrent relief and development efforts, though microfinance is not appropriate as a relief tool.[30] The author emphasizes that microfinance's strength is in economic improvement, not social reconciliation; despite what some may hope, "microfinance is not a panacea."[31]

The literature review poses vital questions, which I further explore in this study. Can microfinance build social capital, or empower women? How much can microfinance, a primarily economic intervention, contribute to social change? Can microfinance institutions simultaneously deliver on development goals and work toward financial sustainability? Does village banking live up to its promise of building trust and community among its members? Is it possible for post-conflict microfinance to maintain best practices and meet social goals?

All of these issues contribute to this study's main research question: Can microfinance group lending build community and achieve social goals in countries where that social environment has been damaged or destroyed due to conflict? This question is particularly important now, as the microfinance industry grapples with the 'double bottom line' of financial sustainability and social performance. Early days of the microfinance movement were heavily development-focused, followed by a stricter emphasis on financial sustainability. Currently, the prevailing wisdom says that poverty impact and financial sustainability are not incompatible goals. But what sort of social impact do post-conflict MFIs have? Should they aim for social effects in their mission and program design? Should donors seek to support microfinance group lending in post-conflict situations as a means to building community and achieving social objectives? As much of the developing world is in conflict, post-conflict or transition stages, it is vital to address the role of microfinance as a development tool in these situations.

To conduct this research, I focus primarily on a case study of post-conflict Guatemala, seeing whether group lending (and specifically village banking) has built community and social capital. I conducted medium-length (usually 30- to 50-minute), one-on-one, structured interviews with microfinance practitioners in the cities of Quetzaltenango, Quiché (both cities are in the western region of Guatemala), and Guatemala City. I also held a longer interview with a representative from REDIMIF, the national Guatemalan microfinance network.

Additionally, I held two interviews with village banks in Quetzaltenango and Quiché departments. Both village banks were members of FAFIDESS (Financial Consulting Foundation to Development and Social Service Institutions), a nationwide Guatemalan MFI. Interviews were conducted in Spanish; at the Quiché village bank, a FAFIDESS employee translated my questions into Quiché. All village bank members were female. At the Quiché meeting, the entire bank was present; at the Quetzaltenango meeting only a few members were able to attend.

To draw conclusions based exclusively on one country's experience would be ill advised, so I bolster my research through two additional means. First, I make use of case studies, impact studies and articles on microfinance's social impact and post-conflict microfinance. I also conducted phone and in-person interviews with microfinance professionals who have experience in post-conflict situations. I have attempted to provide some geographical diversity and difference in the nature of the conflicts. This boosts my conclusions' applicability to other situations, and helps me identify factors that influence post-conflict microfinance's success in achieving social goals. The collective experience of these practitioners and scholars helps to direct my research, make sense of my findings—and highlight what questions we have yet to answer.

Limitations of the study

The existing literature on this topic poses several difficulties. First, there are few impact assessments of microfinance's social performance, and even fewer in post-conflict environments. The impact studies of post-conflict microfinance that do exist tend to focus entirely on financial indicators or practical tips (a 'how-to' of post-conflict microfinance), and give social indicators short shrift at best. There is a dearth of in-depth studies on the simple question of microfinance's social impact in post-conflict situations—those environments where social rebuilding is perhaps most needed. My Guatemala case study attempts to fill that gap in part, but my research had its own limitations.

Additional case studies for comparison with Guatemala would have been desirable, but due to financial and time constraints, this was not feasible. Additionally, due to the pitfalls in quantifying social indicators, I do not attempt to conduct a quantitative study. Social performance monitoring through quantifiable indicators (discussed in the first section of the next chapter) is gaining in popularity, but this is a task best suited for MFIs, not outside researchers. Unfortunately, the MFIs I interviewed did not track social indicators, much less effects such as building trust and social capital.

All MFIs interviewed were members of REDIMIF. This limits my research to more formal microfinance providers, excluding very small and informal providers. However, it ensures a level of professionalism among interviewees, and makes me better able to analyze effects on a regional and national basis.

As previously mentioned, I only conducted interviews with members of two village banks. I would have liked to visit more village banks, preferably from several different MFIs.

However, FAFIDESS is a large, successful, well-known MFI, with a strong village-banking program. I was also limited by my and the village bank members' scheduling constraints.

Village bank interviews posed more problems. At the Quiché bank, I have no doubt that some information was lost in translation (Spanish-Quiché), but this was unavoidable. Furthermore, there are many pitfalls involved in interviewing microfinance clients, including a possible propensity to extol microfinance's benefits in the presence of MFI staff. Still, I believe their responses are an important contribution to this study. Microfinance practitioners can relate what they have seen and offer analysis, but only clients can really tell me if microfinance has helped them.

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[1] Christen and Drake 2002: 2.
[2] Christen and Drake 2002: 16.
[3] Christen and Drake 2002: 19.
[4] Littlefield, Morduch and Hashemi 2003: 1-2.
[5] Littlefield, Morduch and Hashemi 2003: 4.
[6] Littlefield, Morduch and Hashemi 2003: 7-8.
[7] Cheston and Kuhn 2002: 14.
[8] Cheston and Kuhn 2002: 14.
[9] Cheston and Kuhn 2002: 16.
[10] "What Is Village Banking?"
[11] "What Is Village Banking?"
[12] "What Is Village Banking?"
[13] Westley 2004: 1. (citing an IDB/CGAP survey)
[14] Westley 2004: 2.
[15] Westley 2004: 2-3.
[16] Westley 2004: 5.
[17] Nelson, MkNelly, Stack and Yanovitch 1996: 12.
[18] Nelson, MkNelly, Stack and Yanovitch 1996: 64.
[19] Nelson, MkNelly, Stack and Yanovitch 1996: 64.
[20] Larson 2001: 1.
[21] Larson 2001: 2.
[22] Larson 2001: 2-3.
[23] Larson 2001: 4-5.
[24] Larson 2001: 5.
[25] Tillman, Norell and Stephens (eds) 2004: 2. Emphasis omitted.
[26] Tillman, Norell and Stephens (eds) 2004: 2. Emphasis omitted.
[27] Tillman, Norell and Stephens (eds) 2004: 4.
[28] Nagarajan 2004: 2.
[29] Nagarajan 2004: 2.
[30] Nagarajan 2004: 4.
[31] Nagarajan 2004: 4.

Chapter 2: Microfinance and Social Impact

Purported social benefits of microfinance

As discussed in Chapter 1, microfinance has the ability to achieve development goals even with (and perhaps ultimately due to) a focus on financial sustainability. Microfinance's ability to reduce poverty is well understood, but some debate remains as to microfinance's strength in achieving its social goals. Social improvements attributed to microfinance include women's empowerment, individual or family improvements in health and education, greater social stature or social mobility due to increased income, networking benefits, and increased trust and feelings of community (social capital construction). Some have suggested that these benefits may lead to broader social or political change, as microfinance clients feel empowered to run for political office, or organize to improve their communities and nations.

Measuring social performance

We can define social performance as "the effective translation of an institution's social mission into practice."[1] Social impact, unlike financial performance, is often intangible. Why and how, then, do MFIs and others measure social impact? Since "most microfinance institutions (MFIs) have a social mission," social performance monitoring can help MFIs to turn social rhetoric into results.[2] How MFIs do this varies according to the resources and sophistication of the institution. Social performance monitoring ranges from sporadic client interviews to regular tracking of multiple variables in an MFI's information system, just like financial indicators. However, most MFIs practice only rudimentary social performance monitoring. Still, proper social performance management is "a core part of good business practice," and can translate into stronger MFIs with improved client retention and repayment.[3]

Imp-Act stresses that MFIs should "set clear and realistic performance objectives" and "choose a small number of simple and easy-to-measure indicators that will provide the most relevant information."[4] This information usually falls into three categories: client outreach, needs, and benefits. The effects studied in this paper, such as building community and trust, fall under the third category. Imp-Act asks, "What changes are happening in your clients' lives? What is the relationship between these changes and your services? How does your work relate to broader social and economic factors?"[5] These larger changes, especially on group- and community-wide levels, are the most difficult to track because there are few easily measurable indicators or appropriate proxies.

Microfinance group lending and social effects

Although there are not a large number of studies on microfinance's impact in building trust, community or social capital, those that exist have encouraging results. Larance (1998) studies one center of the Grameen Bank in Bangladesh. Grameen offers solidarity group (usually five- to seven-person) loans, and explicitly aims to improve self-worth, health, education, and family life among its clients and their families through loans and training. Among Larance's interviewees, many did not normally leave their homes before receiving loans, and had lost their social networks when they left their families to live with their husbands. Such a situation was ripe for improvements in social capital among women microfinance clients.

Murthy, Raju and Kamath (2002) assess the South Asia Poverty Alleviation Programme (SAPAP) in Andhra Pradesh, India. SAPAP formed self-help groups (SHGs), which combined self-managed credit and savings with skills training in topics as diverse as health, education, gender issues, group management, technology, and agriculture. The impact study found that SAPAP was able to reach the very poor and socially marginalized, including women-headed households, although it could not reach some groups, such as migrants.[6] 69% of members surveyed reported an improvement in their quality of life, and members of the program had greater access to credit and greater means of income generation than non-members.[7]

All of the interviewees in the Grameen study "believed their interaction at [Grameen Bank] center meetings enabled them to expand their existing networks."[8] Lending groups were almost always formed expressly for the MFI, not from pre-existing relationships. Although relationships with other Grameen Bank users would start with asking for help with repayment or sharing business information, "these initial economic transactions often developed into personal relationships."[9] Nearly 60% of Larance's respondents said that they were sad to miss a meeting, "because they missed the opportunity to see or talk to the other members."[10] The financial capital gained through loans helped women to grow or strengthen their social networks, too. 81% of respondents found it easier to "fulfill…social obligations," such as giving wedding gifts.[11]

At SAPAP, women members' children had better nutrition than the children of non-members.[12] SAPAP female members had greater mobility outside the home than non-members, and had more social relationships than non-members.[13] Women members also had more sources of income and economic independence than non-members of the program. They told researchers they were now more able to control their own assets, and had greater access to their husbands' finances, as well.[14] The associations formed through SAPAP were able to address several community issues, including caste inequities and the gender gap in children's schooling.[15]

Non-clients also gave positive feedback about MFIs' effects on the community. The husband of a Grameen Bank member remarked that his wife's membership "has given us [other husbands of clients and himself] something to talk about" at the tea stall, and so he too had expanded his social network.[16] The husbands of SAPAP members reported that their spouses had gained independence since joining the program.[17] And a village leader thought that Grameen clients "would prefer to keep their quarrels to a minimum rather than lose face among the group."[18]

Microfinance practitioners and scholars have varying views on microfinance's effect on the community. Nanci Lee of the Coady Institute, studying SEWA Bank in India, finds, "For a financial institution that also considers itself part of a social movement, cultivating the courage among members to negotiate for their own interests is crucial…At best, group forums and leadership can encourage members to strengthen their capacity and participation—in essence, to become political."[19] B. Lynne Milgram, an anthropologist studying microcredit in the Philippines, suggests that "solidarity among women can…serve as a powerful tool for social change as long as it fosters critiques of entrenched cultural ideologies and works toward infrastructure change that can open new…opportunities for women."[20] Tim Nourse, a microenterprise development technical advisor with American Refugee Committee (ARC), has experience in such post-conflict situations as Cambodia, Croatia, the Gaza Strip, Sierra Leone, Liberia, Sudan and Uganda. While he does believe that group lending does have a positive effect on community building by helping forge a group identity, this is very hard to juggle with the best practices of operating a financial institution.[21]

Amy Davis, formerly with FINCA and currently an independent consultant in microfinance, stresses the importance of program design. Village banking, for instance, will only build social cohesion if "the village bank is conducive to people getting to know each other," and if both MFI staff and village bank leaders are committed to transparency and common goals.[22] The proper incentives are necessary to ensure good service from MFI staff. Continuity in the village bank's executive committee, efficiency, punctuality, participatory meetings, and good facilitation are all important.[23] It also helps if the village bank gets involved in the community, for example maintaining a community garden or participating in church activities.[24] Nourse agrees that if credit officers are attentive to such group dynamics and to clients' needs, microfinance "can be a tool for improving or strengthening a community's… cohesiveness."[25]

However, microfinance cannot do everything. The SAPAP study, for example, found that the program had little impact on women's ability to claim land or home titles, and had only limited impact on empowering women to avoid domestic violence and assert control over their sexual lives.[26] Nor does microfinance automatically build community; lending groups "may in fact perpetuate existing social hierarchies."[27] The group's leaders may dictate the agenda, "enabling members to defer to their representatives…Perhaps worse still, groups can support a coercive process of maintaining the status quo."[28]

Additionally, at Grameen Bank membership did not seem to spur wider social change, despite the MFI's commitment to encouraging this. "Members had not leveraged the social capital of center membership to break away from the traditional practice of *purdah* or break into the predominantly male union council."[29] Although SAPAP members were able to organize for change in their communities, they did not have much success at expanding women's role in the political arena.[30]

Joan Hall, formerly of FINCA and Catholic Relief Services and co-founder of Green Microfinance, points out that village banking can threaten social cohesion by not incorporating everyone in a community.[31] Nourse agrees; "solidarity groups or village banks [can] exclude the poorest, or minorities, or outcasts;" and lending groups can "exacerbate or at least mirror" existing divisions in society.[32] Hall also notes people's propensity towards gossip and spreading rumors, potentially hurting village banks or solidarity groups.[33] Additionally, when village banking clients are unable or unwilling to pay, they may be "kicked out of the group" but remain part of the larger community, which may lead to awkwardness or ostracism.[34] Or perhaps microfinance uses up, rather than builds, social capital. Some "scholars and development experts…worry that by using existing social capital in communities to ensure repayment, MFIs are introducing new stresses and pressures on community life and may damage important support relationships."[35]

External factors

We should not assume that microfinance's social impact is the same everywhere. In the Grameen and SAPAP stories, microfinance played a large role in building women's networks and self-esteem. While this may be true in Bangladesh and India, the situation may be very different in other contexts. I have identified three environmental factors that may play a role in microfinance's potential success at meeting social goals; others no doubt are also important.

- **Gender relations.** Environments where women have historically had less independence or rights may see greater benefits from microfinance group lending to women. However, nearly all poor women in developing countries have imperfect access to financial services, so microfinance can be beneficial to women even in environments with more egalitarian gender relations.

- **Racial, ethnic or caste relations.** Group lending may be a way for people from conflicting ethnic groups to realize a common interest (see Chapter 3 for more discussion on this). Microfinance can also help those in ethnically-based poverty (for instance, indigenous Latin Americans) to counteract discrimination and improve their social standing through increased income. For example, some MFIs in India focus on lower-caste clients, hoping to address societal bias by fighting economic inequality.
- **Macroeconomic and political context.** Although solidarity groups or village banks may in fact build community, trust, and social capital, that social capital will not be very useful in a highly repressive political context or under extremely poor management of the economy. Furthermore, a socially unstable context is unlikely to support the growth of community or social capital due to microfinance. Stable situations with at least a neutral macro context may be better breeding grounds for larger social or political change that had its spark in microfinance.

Internal (MFI-specific) factors

External factors matter, but so does the individual MFI. These internal factors may help determine how well MFIs are able to build community and achieve social goals:

- **Social mission**. Nearly all of the MFIs mentioned in this chapter, including Grameen, SAPAP, SEWA and FINCA, have social development, women's empowerment or other social goals as part of their explicit mission. This implies a higher likelihood of actually realizing those goals. While purely commercial MFIs may have some social impact, this is likely to be neither significant nor properly measured.
- **Program design.** Simply having a social mission is not enough; MFIs must interpret that mission into everyday practice. This may involve a more 'maximalist' approach to microfinance, which offers training or education in addition to financial services. SAPAP, for example, combined credit with a wide variety of training programs and goal-oriented associations. FINCA's village banks offered training and social events, and prioritized transparency and cooperation.[36]
- **Success at economic impact.** As Grameen and SAPAP clients demonstrated, economic impact can translate directly into social impact. For example, greater contribution to household income can result in women having a greater say in household finances, which is empowering for women. MFIs that are not financially healthy and cannot improve clients' economic situations will not have much success at meeting their social goals.
- **Staff competencies and incentives**. Do MFI staff see themselves as facilitators of women's empowerment and social capital construction, or are they only concerned with prompt repayment of loans? Davis suggests rewarding loan officers' customer service, efficiency and other quality measure, to encourage a focus on social ambitions.[37]

Achieving social goals and building trust and community are difficult enough for microfinance practitioners in stable, peaceful situations. Post-conflict environments pose new challenges and difficulties. The next chapter takes an in-depth look at the microfinance industry in one post-conflict context, that of Guatemala. The following chapter discusses microfinance's ability to achieve social goals, both in Guatemala and in other post-conflict situations around the world.

[1] "Managing Social Performance in Microfinance:" 1.
[2] "Managing Social Performance in Microfinance:" 1.
[3] "Managing Social Performance in Microfinance:" 1.
[4] "Managing Social Performance in Microfinance:" 2.
[5] "Managing Social Performance in Microfinance:" 2.
[6] Murthy, Raju and Kamath 2002.
[7] Murthy, Raju and Kamath 2002.
[8] Larance 1998: 18.
[9] Larance 1998: 20.
[10] Larance 1998: 15.
[11] Larance 1998: 21-22.
[12] Murthy, Raju and Kamath 2002.
[13] Murthy, Raju and Kamath 2002.
[14] Murthy, Raju and Kamath 2002.
[15] Murthy, Raju and Kamath 2002.
[16] Quoted in Larance 1998: 24-25.
[17] Murthy, Raju and Kamath 2002.
[18] Larance 1998: 23.
[19] Lee 2004: 24.
[20] Milgram 2004: 18.
[21] Nourse 2005(b).
[22] Davis 2005.
[23] Davis 2005.
[24] Davis 2005.
[25] Nourse 2005(b).
[26] Murthy, Raju and Kamath 2002.
[27] Milgram 2004: 18.
[28] Lee 2004: 24.
[29] Larance 1998: 28.
[30] Murthy, Raju and Kamath 2002.
[31] Hall 2005.
[32] Nourse 2005(b).
[33] Hall 2005. Detrimental as it may be, gossip is a way for people to build networks and share information (or misinformation).
[34] Hall 2005.
[35] Cheston and Kuhn 2002: 29.
[36] Davis 2005.
[37] Davis 2005.

Chapter 3: The Guatemalan Context

The previous chapter studied microfinance's effect on social goals and community building in 'normal' situations. In Chapter 4, I will examine whether this is possible in post-conflict environments. I draw on a variety of experiences, examining microfinance's effect in areas as diverse as Cambodia, the Democratic Republic of the Congo, El Salvador, Rwanda, Kosovo, Uganda, and Bosnia and Herzegovina. To this, I add my own research, conducted in 2005 in Guatemala, examining the effect of microfinance on social capital construction after the civil war. This chapter provides a brief description of that research, and of the conflict history and microfinance industry in Guatemala.

History of the Guatemalan conflict

Guatemala's civil war was fought between the repressive, right-wing government and its allied paramilitaries against left-wing guerrilla fighters, capped by serious political and economic inequality. Two previous decades of state violence led up to the 1980s, when government policy consisted of all-out war on community organizing, especially among indigenous communities and in rural areas.[1] The war broke up social and civil society structures, as the compulsory, pro-government Civilian Defense Patrols and other anti-guerrilla measures "dragged the civilian population into the war."[2] The guerrillas, in turn, employed violence and recruitment campaigns to gain power.[3]

The war finally ended after 36 years with the signing of peace accords in 1996. Indeed, fighting ended several years earlier in some regions. The initial trauma and shock from such violence is gone now. Despite serious damage to its community structures (see the next chapter), the country has begun to recover. Community groups and positions such as religious groups and worker's associations have reemerged, and new civil-society groups have established themselves in the post-conflict period.[4]

However, some wartime perpetrators remain unpunished, making it difficult for Guatemala to truly move past the conflict experience. Perhaps more troubling, the country still suffers from a high crime rate and serious income inequality, with a Gini coefficient of .60 in 2000.[5] With an estimated three quarters of the population living below the poverty line, the microfinance industry in Guatemala has its work cut out for it.[6]

The Guatemalan microfinance industry

Guatemala's microfinance industry is relatively well developed, with providers ranging from socially motivated NGOs to commercial microfinance banks. The country has a national microfinance network, REDIMIF (*Red de Instituciones de Microfinanzas* or Network of Microfinance Institutions), founded in 2001. REDIMIF is comprised of 21 member MFIs, who operate a total of 150 offices and branches throughout the country.[7] All told, REDIMIF's member institutions reach more than 150,000 clients through lending and other services. In 2004, network members lent out 737 million Quetzales, or $95 million.[8]

Nearly half of REDIMIF members' clients work in commerce; they receive 59% of the loan portfolio. Agriculture, forestry, small industry, and services are other common occupations among clients. 65% of REDIMIF's credit portfolio is lent out in rural areas, and 70% of loans go to women clients.[9] The average active average portfolio size for REDIMIF members is Q26.5 million ($3.5 million), with an average 7,899 active clients.

Interviewed MFIs and microfinance practitioners

Table 1 identifies and provides summary statistics for the interviewed MFIs. There is considerable diversity in size, women clientele, and average loan size (indicating client poverty).

Table 1. Interviewed Microfinance Institutions

MFI	AYNLA	CRS	FAFIDESS	FUNDEA	FUNDESPE
English translation of name	They Help Themselves and We Will Help Them	Catholic Relief Services	Financial Consulting Foundation to Development and Social Service Institutions	Foundation for Business and Agricultural Development	Foundation for Small Business Development
Location	Quiché	Guatemala City	Quetzaltenango, Quiché, Guatemala City	Guatemala City	Quetzaltenango
Social mission?	Promote social and economic rural development	Help the poor, promote justice, alleviate suffering	Social and economic development through services to rural women, improve quality of life	Self-development of small entrepreneurs	Promote economic, social development; improve quality of life
Microfinance portfolio	$2.8 million	$1.8 million	$3.5 million	$5.5 million	$1.4 million
Active clients (Rank)	5,434 (9th)	10,508 (4th)	8,439 (5th)	11,770 (3rd)	2,626 (15th)
Avg. loan size	$569	$176	$512	$817	$1,019
Loans*	Individual, SG	75% VB, others offered	Individual, SG, VB	Individual, SG, VB	Individual, VB
Services	Credit/savings, training, advisory services	Credit/ savings, training, marketing, education	Credit/savings, training, microinsurance	Credit/savings, technical assistance, training	Credit, administrative and managerial training
Women/ rural Clients**	75% women, 80% rural	51% women, 90% rural	100% women, 90% rural	30% women, 90% rural	60% women (VBs 100%), 25% rural
Target or track?***	No	No	No	No	No
Interviewed practitioners	Iginio Xaminez, director	Catalino Miculax Leon, microfinance specialist	Erwin Chavarria, national director of operations; Rodolfo Orozco, manager; Gaspar Soc Poncio, regional coordinator; Ana Lissette Garcia de Walter and Betsy Morales, village bank loan officers.	Edgar Balsells Conde, director	Giovanni Granados Navarro, national director

All data most recent available (2004), self-reported from interviewees and from REDIMIF. Missions of MFIs reported on microfinance sites: http://www.proderqui.org/aynla.htm, www.catholicrelief.org, www.fafidess.org, http://www.intercambio.org.pe/archivos_bancoexperiencias2/act-guatemala.pdf, www.infomipyme.com.
*SG=solidarity group; VB=village bank.
**If interviewed in one region, percentages are regional. For other interviews, percentages are national.
***Target to reach conflict-affected populations (e.g. refugees, ex-combatants), or track these statistics.

My interviews took place in Guatemala City, where I discussed Guatemala's microfinance situation on a national level; in the city of Quetzaltenango (located in the department of the same name), Guatemala's second city of approximately 250,000 located in the mountainous western region; and in the city of Quiché (in the department of the same name), also in the west. I conducted nine individual interviews with microfinance practitioners, and two group interviews with village banks.

All interviewed MFIs had some kind of social mission. However, none specifically aimed to rebuild trust or social capital, and none had the sort of sophisticated social performance monitoring as described in Chapter 2. In keeping with their social missions, all MFIs offered some kind of services beyond financial services, often training or technical assistance.

All interviewees could name a substantial number of other microfinance providers in their region. This includes other MFIs and REDIMIF members, co-ops, and government and commercial lenders. None of the interviewed MFIs specifically targeted conflict-affected populations, such as internally displaced persons (IDPs), widows or former combatants, nor do they track these statistics. However, nearly all interviewees reported that widows or other conflict-affected populations formed part of their clientele.

Interviewed practitioners had a wealth of experience in the sector. At AYNLA in Quiché, Director Iginio Xaminez had been with the MFI since its founding 16 years ago.[10] Catalino Miculax León had 13 years of microfinance experience, and had worked at CRS since 1998. Edgar Balsells Conde, FUNDEA's general manager, had been with the MFI for three years and had previously worked in consulting, banking and management. Giovanni Granados Navarro, national director of FUNDESPE, had worked at the MFI for two years.

Rodolfo Orozco had worked for nearly a year at FAFIDESS Quetzaltenango, and was previously with FUNDEA. At the same office, Ana Lissette Garcia de Walter was the loan officer for the Carlín Communal Bank, one of two village banks interviewed. Gaspar Soc Poncio is the regional coordinator in Quiché; he has spent ten years with the organization. Betsy Morales, a village bank officer in Quiché, had spent seven years at FAFIDESS. And Erwin Chavarria, FAFIDESS's national director of operations, had 10 years of experience in the sector. Additionally, I interviewed Gabriela de Leon, administrative coordinator for REDIMIF, at the network's office in Guatemala City. Ms. de Leon had four years of experience at REDIMIF, and had previously worked in finance.[11]

Interviewed village banks

My interviews with two village banks provide this paper with the voice of microfinance clients on the impact of group lending in their lives. One village bank was located in a peri-urban area outside Quetzaltenango; the other, in a rural setting in the department of Quiché. Both were affiliated with FAFIDESS, described in more detail in Table 1. The village banks visited are as follows:

Table 2. Interviewed Village Banks

	Carlín	Chuguila
Setting	Peri-urban, Quetzaltenango	Rural, Quiché
Total Portfolio	Q57,000 ($7,536)	Q42,500 ($5,326)
Average Loan Size	Q3,594 ($471)	Q2,500 ($313)
Interest rate	3% monthly	3% monthly
Average Education	Sixth grade; 60% are literate	Third grade; 59% literate
Average Family	Married, four children	Married, five children
Common occupations	Run *tiendas*; sell cheese, beverages, tortillas, food, piñatas, traditional clothing, animals	Raise cattle, pigs; run *tiendas*; sell clothing, avocados, grain, other goods
Formation	Formed 1999 from defunct village bank, joined FAFIDESS 2004	Women organized on own initiative and joined FAFIDESS 1998

*All data from village bank interviews and technical site visit booklets (see Works Cited).

Although both village banks were affiliated with FAFIDESS, they differed in several important characteristics. Chuguila was in a much more rural area than Carlín; as such, its loan sizes to individual members were significantly smaller, and its members are slightly less well educated. Chuguila was also older than Carlín and had been with FAFIDESS for longer, although both village banks were formed by the members rather than directly by FAFIDESS. In the next chapter, I will discuss the community-building and other social effects the women of each village bank reported, and analyze what factors might have influenced these outcomes.

This chapter set the stage of the Guatemalan context. Chapter 4 takes a comparative look at the ability of microfinance to achieve social goals and build social capital in this context, and in other post-conflict contexts around the world.

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[1] REMHI 1999: xxxii.
[2] REMHI 1999: xxxiii.
[3] REMHI 1999: xxxii.
[4] REMHI 1999: 49.
[5] Source: *World Development Indicators.* 0 denotes perfect equality and 1.0 represents perfect inequality.
[6] Source: CIA *World Factbook.*
[7] *Memoria 2004*: 5.
[8] *Memoria 2004*: 5. Some currency conversions were provided in REDIMIF's annual report; others are through www.xe.com as of November 2005 ($1 = 7.63 Quetzales).
[9] *Memoria 2004*: 5.
[10] Xaminez 2005.
[11] De Leon 2005.

Chapter 4: Microfinance's Social Impact in Post-Conflict Situations

Chapter 2 suggested that microfinance group lending can, in fact, build social capital and meet its social goals. As much of the developing world is in, emerging from, or has recently ended a conflict, it is imperative to find ways to reconstruct societies after war. To know if microfinance can be a useful tool in these scenarios, we must first ask how post-conflict environments differ from 'normal' situations.

How are post-conflict situations different?

First, in immediate post-conflict environments, physical and human capital suffers greatly from the loss of life, damaged or destroyed property, and the loss of those who have fled the country. For those who remain, trauma can be a major problem. Shaw and Clarke (2004) describe the situation in Bougainville, Papua New Guinea: "Many people were traumatized by the violence directly afflicted upon them, but also by what they had seen and by what they did to others." [1] If the conflict has just ended, there may be "a heavily armed population with a recent history of reverting to violence" to solve their problems. [2] One researcher, studying Rwanda, was wary even to discuss "the effect of people killing members of their own community" with interviewees.[3] Certain populations are at higher risk in post-conflict situations. For instance, women may not feel safe or secure, and the poor see what little stability they had disappear.[4]

Guatemala's conflict was no different. The 1999 report *Guatemala: Nunca Más* (Never Again) reports the damage suffered by interviewed Guatemalans. It paints a vivid picture of the social problems that remained in the country, even after the immediate post-conflict period. The extensive militarization "dominated the daily life of every village or neighborhood, trampling local values and culture," even as murder and violence wreaked more immediate suffering.[5] The effects of such a prolonged conflict lasted beyond the peace settlement; non-conflict-related violence and poverty are still serious problems.[6] Long-term individual effects include sadness and anger; communities also suffered, particularly if they had experienced murders, persecution or other violations. [7] Even for communities that did not experience such trauma, the militarization of society had adverse effects:

> Community structures responsible for conflict resolution or development were eliminated by the criminalization of any type of leadership not under military control. This loss also had an impact in the medium term because *anyone who tried to step into a significant organizing or community role was harassed and denounced*.[8]

As people were forced to pick sides between the guerrillas and the government or paramilitaries, families and then communities split due to the conflict.[9] Social organizing came to a standstill and was replaced by suspicion and fear, as people were afraid to be fingered as guerrillas.[10] Economies, too, suffered as paramilitaries and guerrillas cut off towns from communication and restricted mobility, making it difficult for small businesspersons to conduct their affairs.[11] The war also disrupted important structures such as marriage and family networks, making it more difficult for people to rely on their customary social relationships.[12]

The conflict and post-conflict periods had a profound impact on women. Gender norms faced challenges, as women were forced to head families alone.[13] Some Guatemalan women spearheaded human-rights movements; others suffered human-rights violations.[14]

All of the damage from conflict results in low levels of community, trust, and social capital. For example, "the Khmer Rouge in Cambodia destroyed co-operation between individuals as all people were forced to work for" the regime, and were encouraged to turn on those who did not comply. [15] Even in less extreme cases, the upheaval of conflict leaves lasting impressions. Uncertainty is common, particularly if there is a risk of recurring violence. The effects are multidimensional, resulting in social, financial, physical and psychological damage. "Long established bonds of trust could be permanently severed, the vision of one's life-span and abilities cut short, years of earnings and assets destroyed overnight, and tight and trusting community bonds broken."[16] In large cities or in refugee areas, community is even less cohesive; "a population of near strangers initially exists and it takes time for co-operation to become a norm between individuals."[17]

All of this has several repercussions for would-be microfinance providers. Uncertainty about the future "makes it difficult for people to plan and results in less demand for microfinance services."[18] If many people have lost money or property due to the conflict, potential microfinance customers may be more interested in savings than loans.[19] Risk aversion and reducing vulnerability, rather than new enterprises or new relationships, may be clients' main goals. And group lending may not be as popular among clients as in 'normal' situations.

Why use microfinance in post-conflict situations as a social-impact tool?

Clearly, post-conflict environments are suffering from a lack of financial and social capital, infrastructure, and functioning relationships. But why use microfinance as a tool in these situations? Indeed, "finding the appropriate financial resources is just one aspect of re-building one's life. Both the reconstruction and transformation of the social and political frameworks are equally important."[20] Some assert that microfinance has the potential to simultaneously address financial, social, and even larger political needs. Although microfinance can do this in 'normal' situations, post-conflict environments suffer from less social capital and stability, and so microfinance's social capabilities become more important.[21]

What about microfinance (or the microenterprise development programs, such as training, that often accompany it) makes it useful in these situations? Some say that economic gain is a good 'carrot' for peace. That is, if people work together for economic benefit, this will transcend ethnic or other differences. For example, in Uganda "the need to reintegrate veterans (many of whom were uneducated, isolated from their communities, and lacked previous business experience) placed an additional social and economic burden upon an already stressed society."[22] Shaw and Clarke find evidence from several studies, including examples from Tajikistan and Rwanda, "that peer group processes contribute to inter-ethnic cooperation between members, their neighbours and families."[23]

Additionally, those in post-conflict societies may express serious demand for group-based services. Wilson's study of Angola, Cambodia, Mozambique and Rwanda found this to be true. While some prefer individual loans in post-conflict situations, others wish to join groups "in order to recreate some of the social norms that existed before the armed conflict began… [This] may be more prevalent immediately after particularly prolonged conflict."[24]

Guatemalan microfinance practitioners highlighted other reasons for using microfinance as a development tool in post-conflict environments. They did not focus on microfinance's potential use as a reconciliation method, but instead discussed the sluggish economy present after the conflict ended. Small entrepreneurs had been afraid even to leave their homes or take their goods to market, and many had lost what capital they had to violence or crime. Microfinance, they said, helped replenish capital and encourage people to enter back into economic activity. Additionally, MFI lending groups offered one way for people to return to the normal social organizing that had been illegal during the conflict.

These considerations are not purely altruistic. Addressing social goals may be necessary for MFIs' long-term sustainability. Nagarajan lists "restoration of social capital" as one of the "facilitating conditions" for microfinance, which MFIs will need if they hope to provide long-term, viable services.[25] Since group lending relies on social capital as a collateral substitute for loans, post-conflict MFIs may have to build up social capital just to ensure repayment.[26] In Guatemala as elsewhere, members must trust each other in order for village banking to function as a credit model.[27] Or, MFIs may have to invest in community-building simply to gain the trust of the areas where they work. Davis remarks that in the Democratic Republic of the Congo, "the population [had] been ripped off so many times" through pyramid schemes and other finance scams that they no longer trusted financial institutions.[28] One possible solution is to offer a secure place for savings, often badly needed in unstable situations, before offering credit.[29] Or, MFIs can build relationships with trusted actors in the community.[30]

Encouraging experiences: positive reports from post-conflict countries

Reports from field experience with post-conflict microfinance and its social impact are mixed. However, those with positive experiences were able both to build community and to achieve other social goals.

Social capital construction

Experiences from post-conflict environments show that **increases in social** capital and community are possible as a result of microfinance. In Angola, for example, "people actively seek association with others, perhaps in reaction to the damage caused to civil society by mass migration."[31] Rotating savings and credit groups provide a forum for this group activity.

Microfinance's contribution in this arena can be as simple as **providing a space for a rekindling of social interaction**. Goronja found that members of lending groups in Bosnia and Herzegovina "naturally" built social capital simply through attending their meetings and receiving loans together.[32] Lending groups stayed together, despite initial difficulties in formation or frustration at non-repaying members. Joan Hall, formerly with FINCA in El Salvador, says that it was not uncommon to hear of village banks getting together for purely non-microfinance-related purposes, such as having a party or going on a trip.[33] Additionally, these women took the initiative to gain economically from their new networks. "You'd see them bringing stuff to sell… [They would] make a little market out of the village bank meeting."[34]

How well did Guatemalan MFIs succeed at rebuilding social capital? Nearly all interviewed practitioners had something to say on the topic. On the most basic level, some noted, group meetings were enjoyable and helped build friendships. FAFIDESS clients, according to Chavarria, appreciated the village bank meetings as a break from their daily schedules and as a chance to exchange knowledge on useful topics (or perhaps just the latest gossip).[35] This was particularly true in rural areas, where geography kept people from being able to see each other often. Miculax cited village banks that have organized to build roads and acquire streetlights, directly involving themselves in civic action. Orozco noted that village banks gave members the chance to make decisions; Chavarria agreed, saying that members felt empowered through managing their own funds.[36] Xaminez noted that village bank members often shared skills with one another, using their social networks to build their capacities.

Both Guatemalan village banks also demonstrated flourishing social capital. Members of the Carlín bank chatted with one another in one member's basement, occasionally stepping out to take calls on their cell phones. They reported that the village bank had built up trust among them. The women also shared business knowledge with others, demonstrating social capital in action. For instance, one member taught other women how to make clothes; another was in a group of business owners.[37] The women there agreed that there were no problems among members of the group (although not everyone was present). They appreciated FAFIDESS, although they placed much more emphasis on the capital they received than on social benefits. "*Todo camina bien*," said one woman; "everything works well," except that they wanted larger loans and a lower interest rate.[38]

At the Chuguila bank, microfinance's success at rebuilding social capital was more obvious. The village bank members; the bank supervisor, Juan Gabriel Tiu; the FAFIDESS loan officer, Betsy Morales; and I met in a mud-brick hut with a wood-slat roof and a dirt and grass floor. The women, who ranged in age from 22 to over 60, spoke Quiché sprinkled with Spanish; at least one woman carried a cell phone. Twelve babies and children accompanied their mothers to the meeting.

The Chuguila members, particularly the older ones, said that they were deeply affected by the conflict. Candelaria Quino related that during the war, people used to steal the goods she sold at the market. Encarnación Quino Gonzalez, pregnant at one point during the war, was "always afraid." Rosa Ixtuc Suar had been afraid to travel, saying that she and her family could not go out or communicate with others. Tomasa Chitic Dominguez shared a similar experience.

The village bank meeting itself demonstrated the democratic, participatory process. Members spent their free time talking and laughing with each other; several members worked on a joint embroidery project. At the end of the meeting, the women voted to add four new members for the next six-month loan cycle. They also paid internally levied fines of Q1-Q15 (under $2), for arriving late or for other minor infractions; funds went to small bank expenses such as buying drinks. Some members, such as Tomasa Ixtuc Ren and Josefa Macario, had been with Chuguila for as many as seven years. For some, Chuguila was their first village bank. Candelaria Quino Gonzalez, on the other hand, had spent nearly 12 years with different banks.

I asked if microfinance helped the village bank members put their lives back together after the conflict ended, either financially or socially. Josefa Macario credited microfinance with helping to sustain her family and meet basic needs. Microfinance also helped Encarnación's household. She explained that the loans and the training she received helped to motivate her; the lower interest rate (other lenders charge 7-8% monthly) was also a boon. Encarnación added that Chuguila members served as examples to other women in the area, prompting them to organize their own village banks. The funds Chuguila members managed not only helped the individual women, but also went into community development projects such as buying drinking water or fixing the main roads. Some of the women in the village bank were also involved in other community organizations. For example, 22-year-old Elena León Ixtuc was a *guardiente de salud* or health educator.

Other social effects of post-conflict microfinance

Women's empowerment is also possible in post-conflict environments. Goronja (1999) finds that in one village in Bosnia and Herzegovina, microfinance clients have benefited immensely, sending their children to school more often and participating in "discussions on various issues such as the importance of participation in the elections [and] domestic violence."[39] Although little of the literature on post-conflict microfinance specifically addresses women's empowerment, the examples from Chapter 2 suggest that microfinance can in fact achieve this. While post-conflict situations pose some obstacles, there is no reason that women's empowerment should not be possible in such environments.

Microfinance practitioners in Guatemala put considerable emphasis on women's empowerment. Morales explained that FAFIDESS's role was to help women, both through training and through the confidence in women they demonstrated by lending to them. Additionally, microfinance built their self-confidence and sense of security.[40]

Increased decision-making ability is a contributing factor to women's empowerment, which Granados mentioned along with the opportunity to be economically productive.[41] Chavarria noted that village banks managed their own funds, making the women more independent.[42] Orozco credited FAFIDESS's training with helping women overcome language and cultural barriers to economic participation.[43] Soc Poncio said that microfinance could not entirely change the prevailing culture of *machismo*, but that group lending and training gave women a space for decision-making.[44] De Leon felt that the opportunities microfinance provides for women to come together empowered them to address greater issues of discrimination. [45] Granados concurred, suggesting that microfinance helped women to more effectively negotiate for their economic and political rights in their families and communities.[46] Still, there is little hard evidence for such empowerment in wider arenas (see the next chapter). Guatemala is still a heavily sexist society, and microfinance by itself will not be nearly sufficient to turn the tide towards gender equality.[47]

Several microfinance programs have had success at **smoothing refugees' reentry** into communities. In Uganda, FINCA's village banking program incorporated refugees. This both improved their economic situation and helped with refugee-local relations; "contrary to some predictions, the refugees were among the most reliable and most appreciative clients." [48] Hall, who worked with an NGO consortium implementing a modified village banking scheme in Vietnam through the parastatal Vietnamese Women's Union, had a similar experience. The consortium's original plan had been to only offer loans to refugees, enticing them to return to their communities (although the refugees were often economically better off than locals). However, the Vietnamese government insisted that half of every lending group be comprised of locals who had never left during the conflict. The mixed-group lending helped refugees feel "welcomed back into society."[49]

The lending scheme used in Vietnam is notable in itself. With every monthly repayment, the collected money was lent out to a new client, thus enlarging the lending group every month. This inclusive and easily adaptable method—as opposed to many village banks, where new members can join only at the start of new 3- to 6-month cycles—may have itself helped build community. In Bosnia and Herzegovina, too, "cooperation among [displaced persons] and [the] domicile population has significantly improved in the villages where microcredit operations have been ongoing."[50]

Whether this happened in Guatemala is unclear; many refugees left permanently for the United States. Although there are an estimated quarter of a million IDPs in the country, none of the MFIs interviewed tracked such statistics among their clients.[51] Nor did any of the MFIs have programs specifically designed to encourage refugee integration.

Former combatants may need even more help assimilating into the community than refugees or IDPs. Microfinance's best bet with ex-combatants may be simply to accept them as clients without making special provisions for them. "First, integration may break the mentality of special privileges; second, it may provide an opportunity for them to observe sound business behavior and to learn how to manage money."[52]

In Guatemala, most of the MFIs interviewed had majority women clientele. When discussing conflict-affected populations, practitioners named widows and refugees far more than ex-combatants. Additionally, none of the MFIs tracked statistics on clients' status as former combatants. Therefore, I doubt that Guatemala's microfinance industry has had an impact on helping ex-soldiers integrate into the community.

Finally, microfinance may help **reconcile ethnic groups** or religious factions whose tensions sparked the conflict. Ten years after the genocide in Rwanda, tensions and strain from the conflict still run high.[53] Yet a village banking program coupled with AIDS prevention training seemed to help. "Men and women said that the introduction of the village bank…supported them and their community, [and that they] no longer looked at each other as Hutu or Tutsi," although they placed heavy emphasis on the faith-based nature of the MFI.[54] In Uganda, displaced women from the north said that FINCA's village banking both helped them unify as a group and encouraged them to interact with women outside of their ethnic group.[55] The MFI also encouraged inter-village bank solidarity, holding "FINCA Day" events, stressing the village bank's role in the community, and fostering women's solidarity.[56] Unfortunately, notes Davis, such measures are no longer common due to a focus on efficiency.

This effect did not apply to the Guatemalan case. Discrimination against indigenous groups is common, and they were particularly persecuted during the war. However, none of the interviewed MFIs reported trying to improve interethnic relations through group lending. This may be because of the nature of ethnic poverty in Guatemala: nearly all the rural or peri-urban poor belong to indigenous ethnic groups. At the Chuguila village bank, for example, I was perhaps the only person present who could not speak Quiché.

Post-conflict group lending is capable of building trust and social capital, empowering women, helping refugees and former combatants integrate into society, and even promoting ethnic reconciliation. The next chapter takes a realistic look at obstacles MFIs encounter when trying to achieve social goals in post-conflict situations, and considers why impact varies in different post-conflict contexts.

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[1] Shaw and Clarke 2004: 13, paraphrasing Howley 2002.
[2] Shaw and Clarke 2004: 13.
[3] Wilson 2002: 32.
[4] Shaw and Clarke 2004: 13 and Jacobson 1999:4.
[5] REMHI 1999: xxxiii [sic].
[6] REMHI 1999: 4.
[7] REMHI 1999: 4.
[8] REMHI 1999: 42. Emphasis mine.

[9] REMHI 1999: 43.
[10] REMHI 1999: 44.
[11] REMHI 1999: 43.
[12] REMHI 1999: 44.
[13] REMHI 1999: 81.
[14] REMHI 1999: 85.
[15] Wilson 2002: 32.
[16] Jacobson 1999: 4.
[17] Wilson 2002: 32.
[18] Wilson 2002: 46.
[19] Wilson 2002: 33.
[20] Das 2003: 3.
[21] Shaw and Clarke 2004: 4.
[22] Jacobson 1999: 9.
[23] Shaw and Clarke 2004: 5, citing Doyle 1998 and USAID 2001.
[24] Wilson 2002: 33.
[25] Nagarajan 1999: 9.
[26] Shaw and Clarke 2004: 5; Doyle 1998: 11.
[27] Garcia de Walter 2005.
[28] Davis 2005.
[29] Tillman, Norell and Stephens (eds) 2004: 2. Emphasis omitted.
[30] Doyle 1998: 11.
[31] Wilson 2002: 54.
[32] Goronja 1999.
[33] Hall 2005.
[34] Hall 2005.
[35] Chavarria 2005.
[36] Orozco 2005; Chavarria 2005.
[37] Carlín Communal Bank 2005.
[38] Carlín Communal Bank 2005. Members paid 3% per month (not unusual for microfinance).
[39] Goronja 1999.
[40] Morales 2005.
[41] Granados 2005.
[42] Chavarria 2005.
[43] Orozco 2005.
[44] Soc Poncio 2005.
[45] De Leon 2005.
[46] Granados 2005.
[47] De Leon 2005.
[48] Jacobson 1999: 12.
[49] Hall 2005.
[50] Goronja 1999. Emphasis omitted.
[51] Source: CIA *World Factbook.*
[52] Parker 2002: 14.
[53] Davis 2005.
[54] Davis 2005.
[55] Davis 2005.
[56] Davis 2005.

Chapter 5: Post-Conflict Social Impact: Challenges and Factors to Consider

Rebuilding community and trust is no easy task, and microfinance programs are likely to run into problems and complications. On-the-ground experiences highlight these problems as well as ways to address them.

Encouraging people to work together is not as simple as it sounds, particularly when the groups in question must borrow and manage money together. Some practitioners find that social capital and trust are too low in post-conflict situations for group loans; clients are too concerned with themselves and their families.[1] At least one MFI in Kosovo, for example, stopped offering group loans due to very low client demand.[2] A preference for individual loans was also noted in Cambodia and Rwanda.[3] Or, the initial urge to join groups may fade. This happened in Mozambique when people began to return to their pre-conflict ways of socializing, and no longer saw MFIs as a way to jump-start social relationships.[4]

Other MFIs stick to group lending but modify their products. Delphi, an MFI in Bosnia and Herzegovina, attempted to set up a modified village-banking program. "However, at the meeting when this was explained to the villagers, they said that this would never work," and maintained their opposition even after MFI staff explained the program several times.[5] The community explained to MFI staff that "Serbs and Moslems…were not prepared" to enter into large group guarantees with each other. Delphi responded appropriately to clients' needs, abandoning the village bank product in favor of five-person solidarity groups.[6] Still other MFIs invest in educating potential clients about group lending:

> You will undoubtedly, in any part of [Bosnia and Herzegovina], hear people say 'I have no confidence in anyone. I can not guarantee for anyone because I trust no one.' Interestingly enough, after the [solidarity group] methodology is explained in detail…, they always do manage to organize themselves into groups with persons they trust.[7]

Attracting conflict-affected populations such as refugees and women is also not a simple "if you lend it, they will come" equation. Three Kosovo MFIs struggling to recruit more women had not yet tried "actively seeking out women clients" or "insisting that loans should be in their [rather than their husbands'] names."[8] Female loan officers, though, seemed to attract women clients. In Rwanda, MFIs found it difficult to entice returned refugees and former looters to group lending. People in these categories were relatively wealthy, and "preferred to save and borrow individually."[9] Nonetheless, microfinance best practice warns against targeting conflict-affected populations, as it may foment jealousy or aggravate existing tensions. Instead, well-designed and all-inclusive initiatives will attract conflict-affected populations and people from different ethnic groups.[10] The better your credit officers are at promoting the inclusive nature of the program, the better results will be.

Microfinance practitioners in Guatemala seemed to be following this practice. None targeted conflict-affected populations, such as widows or refugees. All reported that these groups formed at least part of their clientele, particularly in hard-hit Quiché. Still, the Guatemalan MFIs did not track clients' conflict status, so it is impossible to tell how well the programs truly attracted these groups.

Microfinance programs may have difficulties maintaining social-development effects **beyond the immediate post-conflict stage**. Women for Women, in Bosnia and Herzegovina, places a strong emphasis on women's empowerment and community. The MFI "found that although clients enjoyed the social time they spend together, especially in the beginning," it became harder to encourage social capital building as clients' businesses took off, taking up more of their time.[11]

At the time of the Guatemala interviews, it had been nine years since the signing of the peace accords. While civic organizing was no longer illegal and social capital levels had risen in those years, microfinance practitioners still clearly saw a need to alleviate poverty, empower women, and build clients' networks through group lending. Therefore, though the social *priorities* may have changed, the *need* for microfinance with a social agenda had not diminished.

Internal MFI issues can pose barriers to MFIs' efforts to build community. For instance, Davis cites a "lack of supervision… [or] accountability."[12] If MFI staff and village bank executives are not held accountable, they are unlikely to foster a culture of transparency and trust.[13] Other problems include a "lack of communication about the intentions of the village bank" or a lack of proper training of village bank officers. A gap between the MFI's intentions and its on-the-ground message can lead to confusion. And without proper incentives, staff will not put much effort into achieving social goals.[14]

Although internal MFI problems were not discussed in the Guatemala interviews, I suspect that they existed. For example, all of the MFIs had a social mission, often quite explicit. Yet none of them employed rigorous social performance monitoring, so it was quite difficult for them to determine how well they were meeting that mission. On a positive note, the Chuguila village bank meeting was a model of transparency.[15] All members carried certified passbooks stating how much they had paid and how much they still owed; members democratically elected bank leaders and new members. Moreover, Guatemalan practitioners at all levels from general managers to village bank loan officers expressed similar commitments to their MFI's mission.

All MFIs struggle with **financial sustainability**, but in post-conflict contexts where additional training and activities are necessary, sustainability is particularly tricky. In post-conflict Uganda, for example, FOCCAS offered credit, savings, and training in "health, nutrition, family planning, HIV/AIDS prevention, and business management."[16] Women in the group benefited directly, and the community gained indirectly from clients' setting an example with their behaviors.[17] But with just 4.5% operational sustainability in 1997 (100% equals full coverage of operating costs), FOCCAS was heavily dependent on donor grants and subsidies.

Likewise, Guatemalan MFIs are by no means immune to the problems of financial sustainability. Several practitioners said that financial constraints restricted their outreach to very poor or remote areas. Granados worried that only a percentage of aid money actually made it to its intended beneficiaries, and conceded that FUNDESPE's "impact is small" because they were a small institution.[18]

External constraints play a role, too. Well-intentioned MFIs must be careful not to "exacerbate tensions or fault lines" in the community.[19] In communities that distrust financial institutions, MFIs have to win the trust of potential clients.[20] Additionally, a lack of economic opportunities in the area prevents MFIs from addressing their first goal of economic improvement. If microfinance cannot improve clients' economic well-being, how can it address social problems?[21]

This last limitation is a noticeable problem in Guatemala. The country has democracy, but not economic reform: "The conflict is different now; it's economic," said Balsells.[22] Unemployment was high after the conflict. During the war, people had been afraid even to engage in economic activity, for fear of victimization.[23] Many women lost spouses or jobs, leading to a loss of income. Others had problems recovering their money or regaining their land and homes after the war.[24]

Post-conflict countries with high income inequality, such as Guatemala and El Salvador, may have additional problems building community as inequality leads to divisions in society. Countries such as Bosnia and Herzegovina, with a Gini coefficient of just 0.26, may avoid this problem.[25]

Potential or real continuing conflict means that clients may be unable to devote their attention to rebuilding relationships. In Cambodia, World Relief had to cancel the first of a planned series of human rights training due to a coup.[26] Although conflict-related fighting is long over in Guatemala, some problems still remain. Security is still a problem, especially for women; violence due to drug trafficking or delinquency is not uncommon.

The **legislative and regulatory environment** can be problematic; in Guatemala REDIMIF advocates for legislation and policies that are hospitable to microfinance.[27] In post-conflict situations where the government is weak or newly formed, government authorities are unlikely to prioritize effective regulation of microfinance.

Donor dependency can be a major obstacle to a healthy microfinance industry with appropriate social goals. In Guatemala, donor money poured in after the war ended. However, a lack of coordination among donors hindered MFIs' abilities.[28] Government-run microfinance outfits such as BANDESA (Agricultural Development Bank) offered loans at highly subsidized rates, hurting the microfinance industry.[29] Xaminez and Chavarria blamed the relief monies for fostering a culture of dependency and paternalism in the years after the conflict ended. Others felt that the government, lacking the necessary resources, did not offer enough aid in the post-conflict period.[30]

Such effects do not occur in all post-conflict situations, but some other contexts show parallels. For example, post-conflict Bosnia and Herzegovina was a preferred destination of donor money, with more foreign aid per capita than any other country at the time.[31] Since microfinance was trendy in the late 1990s, many donors invested in MFIs, even though they may have had little experience in that field.

Just as microfinance's effectiveness differs among post-conflict countries, there are likely to be **regional differences** within countries. In Guatemala, community destruction differed widely by region. Neither the city nor the department of Quetzaltenango was deeply affected by the conflict, for instance.[32] On the other hand, in Quiché many microfinance clients had suffered greatly during the war.[33] De Leon noted that the western region, more deeply wounded by the war, was more dynamic and enterprising.[34]

Such regional variation may help account for the disparities I found between the two interviewed village banks. As shown in Table 3, the Carlín bank was located in a peri-urban area of Quetzaltenango, while the Chuguila bank members lived in a rural area of Quiché department. When I asked Carlín members how the conflict had affected them, they shook their heads. The decades-long civil war, they said, did not really affect their social networks.

In rural areas and particularly in Quiché, however, the conflict had been much worse. Members reported a loss of economic opportunities and a fear of leaving their homes. Although village banking 'worked' in both instances, the Chuguila bank demonstrated a much greater need of social capital reconstruction than did Carlín. (Additionally, Chuguila members received much more training in social-development topics, such as self-esteem and leadership, than women at Carlín. Whether this was a *cause* of greater social capital construction, or a *response* to the greater social devastation suffered in Quiché than in other areas, is unclear.)

Although the other post-conflict contexts I studied did not explicitly discuss regional variations, one may assume they existed. For example, rural areas may suffer from longer-lasting poverty due to conflict. In cities, populations may not know each other as well and existing social capital may be lower. Refugee camps pose their own difficulties, with a transient or heavily donor-dependent population.

Table 3. Village Bank Interviews Comparison

	Carlín	**Chuguila**
Setting	Peri-urban, Quetzaltenango	Rural, Quiché
Training received	Village bank methodology, administration, internal regulation, board functioning, and member responsibilities; social organization, solidarity	Village bank methodology, administration, internal regulation, board functioning, and member responsibilities; social organization, solidarity, leadership, self-esteem, product quality, customer service, technical skills (making piñatas, etc)
Affected by conflict?	-War was not really a problem in the region -Did not suffer economically or socially	-Afraid to travel or organize -Unable to communicate with others -Loss of economic opportunities -Economic loss due to theft
Impact of microfinance	-Village bank built up trust among them -Enjoyed group -Helped businesses to grow -Members share business information with other women (e.g. clothes-making skills)	-Loans helped meet basic needs -Low interest rate a boon -Loans and training provided motivation -Funds go to community development (fixing roads, buying drinking water) -Members are an example for other women to form village banks

*All data from village bank interviews and technical site visit booklets (see Works Cited).

Even if microfinance group lending is able to bring people together to rebuild trust and community, this does not necessarily lead to **larger political or social change.** Post-conflict countries are not known for their political stability and openness. Clients in Kosovo said that "there was no real leader within the community as most people do not want to get involved with politics and those that do hold positions of leadership are usually self-appointed."[35]

Only a few practitioners in Guatemala suggested that microfinance could encourage wider political and social participation, though there was little hard evidence for this. Granados, for example, asserted that microfinance encouraged political and social participation, particularly in rural areas.[36] De Leon indicated that microfinance helped clients fight discrimination, though she observed that it had not really helped to change the country's heavily sexist culture.[37]

Finally, **measuring impact and determining causality** is difficult for microfinance and social goals in any situation, and particularly post-conflict settings. In some conflicts, such as Guatemala, civic organizing had been illegal. In others, such as Cambodia, joining pro-government organizations had been forced and violent. In these cases, the mere end of the conflict likely contributed to a reconstruction of normal social networks.

Clients of microfinance may in fact build their social capital and feelings of trust, yet not attribute microfinance as the cause of such improvements. Or, clients may place greater emphasis on microfinance's economic rather than social benefits; this was the case in Guatemala. In both of the interviewed village banks, members had in some way taken the initiative to organize themselves. In these cases, the MFI seems to have played a facilitating role in social capital construction, rather than being its instigator. Finally, effects such as social capital construction may take years to emerge. Even after nearly a decade of peace, de Leon did not think enough time had passed to determine microfinance's contribution to reconstruction.[38]

Is microfinance an appropriate tool for post-conflict community building?

Despite the positive experiences of some practitioners, others do not see microfinance as a suitable social tool for post-conflict communities. Nourse cautions against the practice: "I don't think you should be using group lending as a tool [for] reconciliation."[39] Microfinance should be primarily focused on financial services. MFIs that construct lending groups in the name of reconciliation rather than good group dynamics will suffer, perhaps in the form of lower repayment rates or less successful businesses.[40] "Any time you try and have multiple objectives in a single program," he explains, there will be tradeoffs.[41]

Nourse argues that training and grant programs, which have no need of enforcing repayment, are better venues than microfinance for encouraging people to work together. While reconciliation is "a natural outcome" of group lending, it is "ideally a side effect," not a primary goal.[42] Goronja agrees; microfinance should not explicitly aim for reconciliation, "as much as it may seem like an attractive idea."[43] And none of the post-conflict microfinance practitioners Doyle (1998) interviewed felt that social goals should supersede economic considerations.[44]

While most practitioners in Guatemala were enthusiastic about microfinance's ability to achieve various social goals, others were more cautious. Miculax, for example, warned that microfinance was only the economic component of development.[45] Granados cautioned that microfinance may not have as much of a community impact as other development tools. For example, the country's social investment fund finances projects such as building schools, which may do more for community development than microfinance.[46]

Finally, some practitioners are uncertain that group lending can contribute to community-building at all. Hugh Greathead of KosInvest/World Vision in Kosovo warns,

> It is often thought that activities that surround business can create peace. But more often than not it forces tolerance and we [donors/relief agencies and NGOs] shouldn't fool ourselves that it is actually forming relationships. The Albanians and Serbs were trading before the war too...just because it's happening again now, post-war, doesn't necessarily mean that it is bringing about reconciliation…business is a unifying factor, so long as things are going well.[47]

Conclusions

In Chapter 2, I examined the existing literature on microfinance and social impact. Factors that affected microfinance's success at achieving social goals in 'normal' situations fell into two categories, external and internal (MFI-specific). External factors included gender relations; racial, ethnic or caste relations; and macroeconomic and political context. Internal factors included the MFI's social mission; program design; success at economic impact; and MFI staff competencies and incentives.

In Chapter 3 and in this chapter, I have investigated whether and how microfinance can achieve social goals in post-conflict situations. What additional factors, therefore, matter for

MFIs looking to maximize their social impact in these contexts? In the next chapter, I establish these factors, both external and MFI-specific; I also identify key points from my research, and offer recommendations for microfinance practitioners and donors.

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[1] Das 2003: 62.
[2] "Environmental Preconditions for Successful Post-Conflict Microfinance:" 3-4.
[3] Wilson 2002: 85.
[4] Wilson 2002: 89.
[5] Goronja 1999.
[6] Goronja 1999.
[7] Goronja 1999 [sic].
[8] Das 2003: 69-70.
[9] Wilson 2002: 85.
[10] Nourse 2005(b).
[11] Goronja 1999.
[12] Davis 2005.
[13] Davis 2005.
[14] Davis 2005.
[15] This is not to imply that the Carlín bank was otherwise; that meeting was simply an extraordinary session called to meet with me. The Chuguila meeting was a regularly scheduled meeting.
[16] Jacobson 1999: 11.
[17] Jacobson 1999: 11.
[18] Granados 2005.
[19] Nourse 2005(b).
[20] Goronja 1999.
[21] Davis 2005.
[22] Miculax 2005.
[23] Orozco 2005.
[24] Miculax 2005.
[25] Source: *World Development Indicators.*
[26] Doyle 1998: 28.
[27] De Leon 2005.
[28] De Leon 2005.
[29] Orozco 2005.
[30] Granados 2005.
[31] Goronja 1999; *Foreign Affairs* cited for aid per capita data.
[32] Garcia de Walter 2005.
[33] Miculax 2005.
[34] De Leon 2005.
[35] Das 2003: 54.
[36] Granados 2005.
[37] De Leon 2005.
[38] De Leon 2005.
[39] Nourse 2005(b).
[40] Nourse 2005(b).
[41] Nourse 2005(b).
[42] Nourse 2005(b).
[43] Goronja 1999.
[44] Doyle 1998: 28.
[45] Miculax 2005.
[46] Granados 2005.
[47] Quoted in Das 2003: 52.

Chapter 6: Conclusions

What lessons can we learn from the experience of Guatemalan microfinance practitioners and other post-conflict situations around the world? Some microfinance interventions succeeded at building trust and community among their clients. Others had difficulty doing so, and still others failed to build community or chose instead to focus primarily on financial sustainability. There is no easy answer regarding the success of post-conflict microfinance in achieving social goals, but I can identify key points:

Key points

- **Microfinance group lending can meet social goals.** However, this may not always occur, depending on the intentions of the MFI and the structure of group lending. Additionally, poor social performance monitoring or impact assessment can understate, overstate, or miss entirely the social effects of microfinance.
- **Achieving social goals is possible for MFIs in post-conflict situations**. This does not mean it is certain; MFIs must be aware of factors that can help or hinder this outcome. These include the ability to facilitate people's working together in groups; attracting conflict-affected populations without targeting; transitioning beyond the immediate post-conflict stage; dealing with financial sustainability goals; managing internal MFI issues; and accepting that microfinance may not lead to larger social or political change.
- **Guatemala's post-conflict microfinance industry has seen social capital construction and other social effects**, but the extent of such effect varies widely by region and other factors. Despite the length and nature of the conflict, clients in some regions did not feel that the conflict had affected their social fabric. Establishing the causality of social capital construction, furthermore, is extremely difficult. Have clients built trust and established relationships because of village banking, or would they have done this anyway when the conflict ended and stability returned? Were MFIs the 'spark' of social capital construction, or were they primarily facilitators? Finally, clients in Guatemala highlight microfinance's economic benefits more than its social gains.
- **The factors that affect post-conflict microfinance's social performance are similar across different contexts**. The Guatemala case has parallels in microfinance programs in Kosovo, Rwanda, Bosnia and Herzegovina, El Salvador, Uganda and Southeast Asia. The next section identifies some of those factors, based on these diverse experiences.

What factors affect microfinance's social impact in post-conflict situations?

Chapter 2 identifies several external and MFI-specific factors affecting microfinance's ability to meet social goals in 'regular' situations. These include gender relations in the community; racial, ethnic or caste relations; and the macroeconomic and political context. Some important MFI-specific factors are the MFI's social mission; program design; success at economic impact; and staff incentives and abilities. Here, I identify additional factors specific to post-conflict environments.

External factors

- **State of the conflict.** Although the conflict need not be entirely over, a minimum level of stability is essential before microfinance can hope to build social capital. Building community in refugee camps or other transient situations is far from impossible. But for community effects to occur, clients must remain in place at least for an entire loan cycle.
- **Nature of the conflict.** Conflicts based on inter-ethnic or religious tension, civil wars, and conflicts involving a crackdown on civil society will result in greater breakdown of social capital. These may be the situations in greatest need of community-building interventions, but MFIs should prepare for the challenges involved in such activities.
- **Existing state of communities.** Communities that had a high degree of civic participation before the conflict, or that maintained some degree of social capital during the conflict, are more likely to be able to return to that state. On the other hand, if community life has been completely destroyed, microfinance will not work miracles.[1]
- **Quality of economic opportunities.** Microfinance's first goal is and should be to improve the economic situation of its clients. If this is impossible, social goals may be unattainable. Economic prosperity can itself build social capital through improving clients' social status.[2] Additionally, if entrepreneurs must travel many miles in dangerous areas simply to buy inputs or sell their goods, community building is unlikely to occur.[3]
- **The 'donor darling' phenomenon.** MFIs in 'popular' post-conflict countries, like Bosnia and Herzegovina, are more likely to secure funding.[4] However, many donors may have a relief mentality rather than a development agenda, and many not understand the complexities of microfinance. I address this later in this chapter.

Internal (MFI-specific) factors

- **Donors' intentions and incentives.** Even NGO-run microfinance programs now place an emphasis on financial viability.[5] This is beneficial to MFIs in the long term, since it spurs efficiency and innovation. However, sustainability for post-conflict MFIs is problematic, and is even harder for MFIs aiming to fulfill a social mission. After a post-conflict situation has stabilized, financial sustainability may become more important and social objectives may fall by the wayside.[6]
- **MFIs' adherence to best practices.** Targeting conflict-affected populations sounds like a good idea, but may backfire as others become jealous or as groups remain segregated. If MFIs stick to loaning to good clients, while being genuine equal-opportunity lenders, they will have greater success in both financial and social performance.
- **MFI staff competencies.** MFIs may be best off creating an inclusive, enabling environment for post-conflict reconciliation to take place, rather than seeking to direct it themselves. For instance, at Women for Women in Bosnia, a conflict resolution specialist was "mocked" by clients for "not [being] aware of the cultural specifics of the region. Looking back, most of the resolution of the conflict trauma happened naturally, through conversations women began to have during the [lending group] meetings."[7]

Recommendations for microfinance practitioners

What do these findings imply for practitioners on the ground? The following points may help to guide MFI staff in their efforts to meet social goals in post-conflict environments:

- **Set, adhere to and widely advertise an inclusive client policy**. Those living in post-conflict communities may have a hard time trusting newcomers. Therefore, MFI staff must "go a step further—conveying this message [of equal opportunity] to every person they meet in the field, always behaving honestly and fairly towards all."[8] This means not targeting conflict-affected populations. Not all widows, refugees or ex-combatants want a loan, and not all of them will make good clients.[9]
- **Be consistent in your message and mission**. MFIs do not need to have a social mission, but if there is one, MFIs must follow through on it. Davis stresses the importance of making sure that MFI staff and village bank leaders "buy into" the MFI's social mission, and that they know how to communicate it to clients and others.[10]
- **Tie staff incentives to stated goals**. Staff whose pay depends solely on the quantity of clients they serve have no reason to focus on quality and group dynamics. Tie pay and incentives to customer service and client satisfaction.
- **Keep goals realistic**. Providing quality financial services and rebuilding social capital are difficult goals on their own. Trying to address both with one program will not be easy. "Figure out what your priority is," says Nourse. Make choices and set performance targets accordingly, and do not be disappointed if you cannot achieve everything.[11]
- **Do not abandon best practices**. Due to the post-conflict environment, sustainability may take longer to reach, and client repayment may be lower than usual. But MFIs not committed to best practices are themselves unsustainable, and will have limited impact.
- **Use 'normal' loan products and methods whenever possible**. Village banks, solidarity groups or individual loans may require some adaptation to the circumstances, but are usually "relevant and desirable to clients in post-conflict environments."[12]
- **Consider other tools for reconciliation**. Forcing people to join together in lending groups for conflict reconciliation is unlikely to result in functioning, repaying groups. But complementary training groups or small grant projects are well suited for post-conflict reconciliation, since repayment is not a concern.[13]
- **Plan for the long term**. In the immediate post-conflict period, relief organizations may come and go. It may be difficult for clients to trust that MFI staff will be around for the long run: "Oh, this is just relief, they'll be gone in a year," paraphrases Nourse.[14] MFIs should stress their permanence when talking to clients, and demonstrate it, for example by setting up a permanent headquarters.
- **Allocate for performance monitoring**. The need for immediate activity is tempting. But practitioners should still take the time to properly evaluate communities and possible interventions before beginning operations, and to evaluate client impact at regular intervals.[15] Also, if the MFI has a social mission, monitor social indicators. Some suggested by Davis are the percentage of attendance at lending group meetings, the percentage of those who arrive on time, the level of participation, and time efficiency.[16]

Recommendations for donors

The following suggestions may help guide donors supporting post-conflict MFIs:

- **Consider not using microfinance.** If your most important goal is post-conflict reconciliation and the rebuilding of community (rather than providing high-quality financial services to the under-served), consider interventions besides microfinance. "Don't do it! ...Microfinance is too sensitive of a tool for these blunt objectives," says Nourse. [17]
- **Educate yourself about microfinance.** In post-conflict situations, many donors who ordinarily support only relief activities (such as food aid) may wish to support microfinance interventions. This requires knowledge of microfinance best practices, costs, and goals. LEAP, an MFI in Liberia, "found it difficult to help donors, government officials, and others to understand microfinance standards and how markedly they differ from those of traditional relief activities."[18]
- **Only support programs by microfinance professionals.** Using qualified MFIs and skilled staff may seem costlier than using relief workers already on the ground. But relief workers "have few skills and probably no experience" in microfinance and will not be able to conduct microfinance properly.[19] If you wish to support microfinance through an existing grant with a relief organization, fund their partnership with a strong MFI.
- **Insist on an open client policy.** Targeting is a tempting option for donors, but is unlikely to work and may exacerbate tensions between groups. Additionally, many faith-based donors are interested both in microfinance and in post-conflict reconciliation. This is fine, but there should be no limiting of clients based on religion or other factors irrelevant to their responsibilities as clients.
- **Know MFIs' strengths and weaknesses, and fund appropriately**. Hall suggests training loan officers in conflict resolution. A cheaper solution may be to offer funding for MFIs to make strategic partnerships, such as with community educators.[20]
- **Set appropriate social and financial performance targets and incentives**. MFIs that are financially rewarded only for financial performance are unlikely to devote much effort to social objectives. Additionally, post-conflict MFIs will have more difficulty achieving sustainability than those in 'regular' situations, and performance targets should reflect this accordingly.[21] Both social and financial goals may take years to meet; structure funding to match these time frames.
- **Fund long-term social performance monitoring and evaluation**. To know if microfinance is really an appropriate tool for community building in post-conflict situations, longitudinal studies in a variety of contexts will give the only reliable answers. MFIs rarely have the resources or the necessary performance-monitoring tools to do this, and most funding is too short-term to capture long-term or community-wide effects.

For further study

Clearly, this paper does not address all of the issues surrounding post-conflict microfinance and the achievement of social goals. Nor do the existing literature and impact studies adequately address these questions. I have identified several areas for further study:

- **The impact of commercialization on social performance**. Here, I refer to the trend for MFIs to act more like commercial banks, focusing on financial performance without a social mission. It may be that good business practices make microfinance stronger, even in unstable situations such as post-conflict environments. However, Davis argues that microfinance's efficacy as a social impact tool is decreasing due to commercialization.[22]
- **The effect of gender-based lending on post-conflict microfinance.** Does lending to women enable them to become leaders in reconciliation in their communities, as UN programs have done in several post-conflict countries?[23] Or does targeting women, like targeting refugees or oppressed ex-combatants, merely open the door for jealousy and aggravated tensions in communities?
- **The effect of faith-based MFIs**. One MFI in Kosovo, whose name meant 'covenant,' had "predominantly Christian staff."[24] Das (2003) worries that this could have posed a barrier to Muslim-Christian reconciliation.[25] Clients were not offended, though, and the MFI accepted both Christian and Muslim clients; perhaps this was in fact a positive step. Additionally, Rwandan MFI clients cited the faith-based nature of their MFI as a uniting factor, helping them overcome ethnic differences.[26] How does an MFI's faith-based mission affect its post-conflict social impact? What other factors come into play?
- **Social performance monitoring in post-conflict situations**. Social performance monitoring is itself a relatively new trend. However, it tends to focus on easily quantifiable indicators or proxy variables. Post-conflict MFIs may not have the long-term vision or the funds to conduct even simple quantitative findings. Can we ever verify and quantify the larger effects, such as social capital construction, that microfinance may have? How would this be possible in post-conflict environments, where impact assessment and performance monitoring are often at best afterthoughts?

We now know that microfinance can rebuild community and meet other social objectives in post-conflict environments, and understand some of the variables that affect its ability to do so. As development practitioners work to rebuild communities in the aftermath of conflict, more detailed study can help identify effective tools to achieve financial and social improvements in people's lives.

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[1] Hall 2005.
[2] Hall 2005.
[3] Hall 2005.
[4] Goronja 1999.
[5] Paxton 1999: 5-6.
[6] Shaw and Clarke 2004: 7.
[7] Goronja 1999. Emphasis omitted.
[8] Goronja 1999.
[9] Goronja 1999.
[10] Davis 2005.
[11] Wilson 2002: 97.
[12] "Developing Post-Conflict Microfinance Institutions:" 4.
[13] Nourse 2005(b).
[14] Nourse 2005(a).
[15] Nourse 2005(a).
[16] Davis 2005.
[17] Nourse 2005(b).
[18] "Developing Post-Conflict Microfinance Institutions:" 2.

[19] Wilson 2002: 102.
[20] Davis 2005.
[21] Davis 2005.
[22] Davis 2005.
[23] Doyle 1998: 22.
[24] Das 2003: 72.
[25] Das 2003: 72.
[26] Davis 2005.

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