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SYNTHESIS REPORT

AMAP KG ECONOMIC RECOVERY AMID CONFLICT CASE STUDIES

microREPORT #131

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SYNTHESIS OF CASE STUDIES

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INTRODUCTION

In the past 15 years, there have been remarkable achievements in implementing microfinance programs in conflict affected countries. In fact, some of the most successful MFIs in the world have been formed immediately after conflicts, such as ACLEDA in Cambodia formed in 1993 and the ProCredit Bank in Bosnia and Herzegovina formed in 1997. As recently as 10 years ago, most microfinance experts would have downplayed the potential of successful microfinance programming in conflict affected countries. Typical arguments against microfinance in conflict countries included a concern about political instability, cost and security. Many still have doubts that it can be as *successful* as in other regions not touched by war.

Over the years, the arguments against microfinance in conflict countries became more subdued as evidence that MFIs could be successful was growing. Expert voices identified a set of minimum and preferred conditions that needed to be met before determining if microfinance was possible, rather than denying its potential outright. The minimum conditions were identified as relative political stability, population stability[1], and a cash economy.[2] While these served as good general guidelines, they continued to be challenged with each newly emerging conflict setting. In most recent conflicts, such as Iraq and Afghanistan, microfinance has started earlier and attempted in more insecure locations than in previous conflict settings, challenging these previous political and security assumptions. In fact, in both Iraq and Afghanistan, microfinance has become one of the most important donor funded activities, tasked with helping to stabilize the economy, provide alternative livelihoods from illicit and war activities and achieve political goodwill by demonstrating that the government is addressing issues of bread and butter.

AMAP KNOWLEDGE GENERATION PROJECT

USAID's AMAP Knowledge Generation (KG) research on Microfinance amid Conflict[3] began in 2003 with a focus on identifying best practices among microfinance organizations in conflict countries. This was later expanded to examine particular populations impacted by war, specifically youth. The focus of research during the last two years of the project has been the role of microfinance within broader economic recovery efforts after conflict. This shift was due to many broader shifts in the countries where conflicts are currently active and in the approaches applied by relief and development organizations, donors and others working in these environments. While there were numerous successes, as noted above, there were still many questions around the broader peace-building and economic recovery agendas of agencies working in these contexts and it was not clear how or in what ways microfinance programming was contributing to the broader recovery and peace objectives.

To understand the role of microfinance within this broader agenda on economic recovery and peacebuilding, the AMAP KG team conducted a series of workshops and discussions with practitioners and donors working in conflict affected contexts. Participants at the workshops agreed that there were undocumented examples from the field that could provide valuable lessons on how microfinance institutions are addressing broader goals of economic recovery. To solicit case studies for documentation, AMAP KG issued a call for nominations in July 2007 and received 13 nominations from Afghanistan (4), Bosnia and Herzegovina (1), Burundi (1), Democratic Republic of Congo (1), Kosovo

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[1] Population stability refers to the movement of internally displaced people or refugees. Given that microfinance requires loan payback, communities should be sedentary for the duration of the loan and should not be expected to move in the short or medium term.

[2] See www.microlinks.org for a series of briefs developed by USAID on Microfinance Following Conflicts. Reference to these briefs are provided in the annex to this paper. See also CGAP's Donor Brief No. 21, "Supporting Microfinance in Conflict Affected Areas", December 2004.

[3] See www.microlinks.org for more information on this research.

(2) and Nepal (4). Of these submissions six were selected by USAID's Microenterprise Development Office for documentation in a series of MicroNotes. Two organizations each in Kosovo and Afghanistan were selected and these were merged into one MicroNote for each country.

The case studies aimed to address several themes where existing knowledge has been limited. These themes included:

- Addressing both short-term quick impact as well as long-term economic recovery needs.
- Linking community-based models with financial services.
- Incorporating conflict mitigation and management within the economic recovery agenda.
- Modifying and adapting design and operations to address recurring conflict.
- Integrating gender issues, particularly in light of conflict's effects on gender, in program design and implementation.

Several of the cases selected addressed multiple themes. For example, the short-term and long-term impact theme was addressed through the Afghanistan and Kosovo cases. The conflict mitigation and management theme was covered by the Burundi and Kosovo cases. The theme on community-based models was addressed by the Afghanistan, Burundi and Nepal cases. The modifying and adapting design to address recurring conflict theme was addressed by the Nepal case. Finally, the gender theme was raised in the Burundi and Afghanistan cases.

Data on the cases was collected with assistance from the organization or projects being profiled, but the lead researcher was external to the organizations. Once drafted, cases were sent to the organizations for fact checking.

AMAP KG CASES ON MICROFINANCE AND ECONOMIC RECOVERY

- ***Kosovo***: Addressing the Realities of a Post Conflict Environment.
- ***Afghanistan***: Revitalizing a Financial Sector After Conflict
- ***Burundi:*** Addressing the Drivers of Ethnic Conflict within the Model of Financial Services Delivery
- ***Nepal***: Adapting Approach and Products to Persevere during Conflicts

BRIEF BACKGROUND ON MICROFINANCE AND CONFLICT

There has been a lot of anecdotal evidence on the successes, and to a lesser extent, failures, of microfinance in conflict affected countries. There has also been considerable work done with operational guidance from practitioners with experience working in these environments.[4] In many ways the guidance and findings of much of the literature on microfinance in conflict versus non-conflict countries states that operationally there is little difference and that "best practices" applied in normal contexts also applies in conflict affected contexts. Nonetheless, there is no denying that the environments are quite different and may pose additional challenges as well as present some opportunities.

More Complex Donor and Government Agendas

Given the global nature of more recent conflicts, donor involvement in conflict affected countries has been high. Places like Iraq and Afghanistan have received far more donor funding than in other conflicts (see Table 1 below). While this is not always the case, the amount of resources flooding conflict affected countries appears to be significant. The availability of more funding clearly has a major impact on the post-conflict recovery process.

[4] Annex I provides links to resources developed by USAID, the SEEP Network, the ILO and others.

Table 1: Receipts of Overseas Development Assistance by Conflict Affected Countries

	2004	2005	2006	
Conflict Affected Countries	Net ODA (USD millions)	Net ODA (USD millions)	Net ODA (USD millions)	Net ODA/GNI
Afghanistan	2,171	2,752	3,000	35.7%
Bosnia and Herzegovina	684	553	494	4.2%
Burundi	362	365	415	52.8%
Iraq	4,650	22,052	8,661	n/a
Nepal	428	425	514	6.3%
Serbia (including Kosovo)	1,170	1,136	1,586	5%

Source: OECD Development Cooperation Directorate

With more funding at stake, donors often also have significant clout and in many cases have agendas that they themselves want to address. The heavy focus on poppy eradication and alternative livelihoods in Afghanistanis a case in point. Political sensitivities can greatly shape the form that aid resources take in conflict countries, as donors and governments aim to address the needs of their various constituents. For example, there is often considerable pressure to address political grievances by appeasing those who partook in the hostilities such as political factions or demobilized soldiers. By pursuing the political agenda, governments and donors may utilize non-market based solutions in an attempt to achieve quick-impact results.

While conflict affected countries have more complex political and donor dynamics overall, the role of international actors is often elevated and can be an opportunity for applying good practices and for expansion of the microfinance sector in a rapid way. Effective donor coordination and sector support provided to Bosnia and Herzegovina and Afghanistan is often credited with the successes of these two microfinance markets.

Less Competitive Market Environment

Immediately after the cessation of hostilities, most post-conflict markets have had limited formal financial services to offer low income populations. This has been demonstrated in a number of countries such as Afghanistan, BiH, Kosovo, Liberia, Sierra Leone, and Sudan. In a few countries with ongoing conflicts, such as the West Bank and Gaza, the microfinance industry is severely curtailed due to political and economic policies that hamper any and all forms of trade and economic activity. As such, competition from other financial providers is often weak or non-existent immediately after hostilities cease and there is tremendous market potential for new market entrants and expansion of outreach. As the market matures, competition increases requiring more client-responsive products and services in order to retain market share.

Afghanistan is an example of this trend in more recent years. With nearly no formal provision of financial services when hostilities ended in 2002, the industry is significantly more competitive today with more than 15 formal institutions and outreach to over 400,000 clients in 5 years and an interest by several banks to downscale into this market. BiH is the oft cited example of an industry moving from nascent to consolidation in under 10 years.

Demand and Client Profiles Differ

As war has enormous impact on people and their lives, the nature of the demand for microfinance as well as the profiles of typical clients may differ than in normal contexts. In many developing and emerging economies typical microfinance clients are the economically active poor, often with pre-existing businesses. In conflict countries, the profiles of typical clients can vary significantly. First, as many enterprises have been destroyed or have come to a halt during war, entrepreneurs often re-start their enterprises. Many others have lost their traditional livelihoods and have turned to entrepreneurship out of need, and therefore do not have entrepreneurial experience. As war often produces a growing informal economy and a shrinking formal one, the potential demand for microfinance can be high and may be significantly higher than would be expected in a normal context.

High Cost of Implementation

Security costs may have a much greater impact on a mcrofinance institution in a conflict environment than in a more stable context. In countries such as Iraq and Afghanistan, security costs can severely impact the operational sustainability of an MFI, diverting resources that might otherwise be used for more productive purposes such as loan capital. In addition to security costs, the typical "war price" on rents, staffing and other basic goods apply. As demand is high but supply is often low, these standard operational costs become exorbitant in many conflict affected settings.

Different Types of Actors

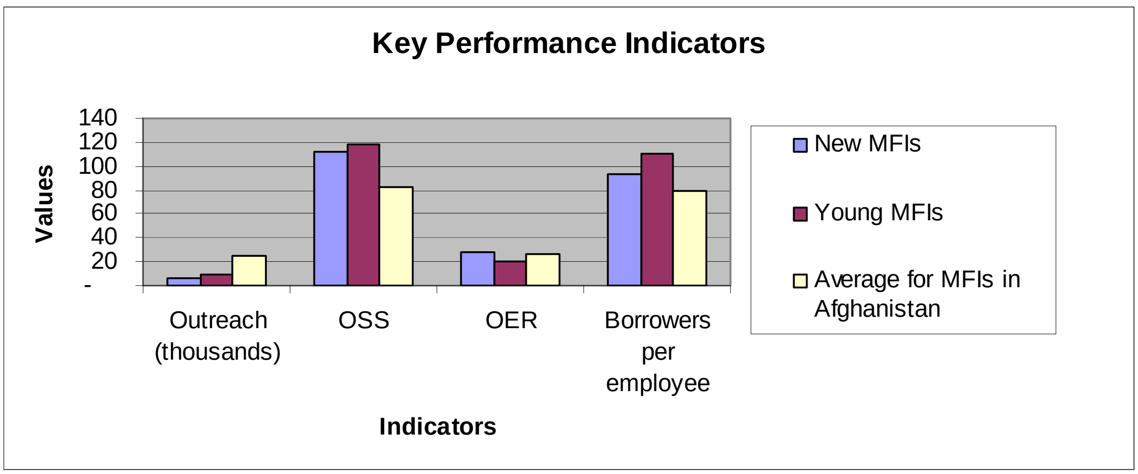
The number of actors involved in microfinance or financial services more generally is often atypical of normal contexts. Recent conflicts in Afghanistan and Iraq have witnessed the introduction of Provincial Reconstruction Teams (PRTs)[5] which help finance, incubate or support in some other way economic activities such as microfinance and enterprise development. Relief practitioners and military personnel have also been involved in the support of microfinance programs in conflict countries, something which would be clearly delegated to development practitioners and donors in more normal contexts

DEFINING SUCCESS IN MICROFINANCE IN CONFLICT AFFECTED COUNTRIES

[5] PRTs bring together government development actors and military actors to establish stability in regions not yet considered safe for traditional development work. The objective of PRTs is "to help the national government, in partnership with local communities, develop the institutions, processes, and practices to create a stable environment for long-term political, economic, and social development." (USAID Note from Afghanistan: Civil-Military Cooperation in Micro-enterprise Development., March 25, 2008).

Success in microfinance 15 years ago was focused on the application of "best practices," such as charging sustainable interest rates. Over the years the concept of success has evolved. Today, the focus is more on the widespread provision of financial services, meeting client demand, and utilizing outreach channels that help increase efficiencies and reduce operational costs. There is less focus on a "cookie cutter" model that can be replicated anywhere and a greater reliance on innovations at the local level to address some of the remaining challenges of reaching difficult and remote populations. The new actors involved in the provision of financial services go far beyond the traditional NGO-MFI, so the image of what is successful has also changed. Perhaps today one of the simplest definitions of success is serving large numbers of low-income people in a cost-effective and efficient manner.

Measuring this success has come in the form of social and financial indicators that are tracked by institutions themselves as well as industry sources such as the Mix Market. While there has been a great deal of anecdotal support that microfinance in conflict countries can be successful, there is no systematic study that utilizes standard measures and ratios to compare performance between conflict countries or between conflict affected and more stable settings.



The graph above provides a quick snapshot of some of the key indicators of performance comparing the average MFI in Afghanistan, one of the more recent conflict affected microfinance industries, with new (1 to 4 years old) and young (5 to 8 year old) MFIs globally that report to the Microbanking Bulletin (MBB). With regard to outreach, the average MFIs in Afghanistan outperform their peers in other regions of the world. With regard to operational self-sufficiency (OSS), the average in Afghanistan falls below that of other MFIs. One measure of efficiency, operating expense ratio (OER), shows that the average Afghan MFI is more efficient than a typical young MFI reporting to the MBB, but slightly less efficient than that of new MFIs reporting to the MBB. Finally, an indicator of productivity, borrowers per employees shows that Afghan MFIs are less productive than peers elsewhere.

While these indicators are only a snapshot, they do demonstrate that some of the many assumptions that have been made about microfinance in conflict affected countries may be off the mark. A recent evaluation by the International Finance Corporation of one of its investees in Afghanistan, which included a look at the MFI's performance in relation to its peers in Afghanistan and other MFIs in conflict affected countries, revealed that many institutions (not average country performance), can outperform peers regardless of environmental factors.[6] A much more thorough benchmarking study that looks at the performance across many conflict affected countries would add to the body of knowledge on performance of MFIs in conflict affected countries and how this differs from "normal" contexts.

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[6] Contact the IFC for more information on this evaluation.

Data on social and financial performance of MFIs in conflict countries shows that success as defined by industry norms in microfinance can certainly be achieved, both at the institutional as well as the overall industry level. However, given the conflict environments in which these MFIs operate, is this success enough? Should other goals, such as advancing the overall economic recovery effort and facilitating reconciliation also be considered? In the past, most microfinance experts have noted that measuring the achievement of such goals would be impossible and as such microfinance should focus only on what it has been proven to achieve, as measured by standard industry indicators. This bias on ease of measurement has led to a heavy focus by many MFIs operating in conflict affected countries to focus almost exclusively on the standard goals of microfinance, which are often shortened further to outreach and sustainability. Much of the success of the best performing MFIs in conflict countries, for example, can be attributable to their separation of identity, staff and operations from other relief and development activities occurring by their side in these contexts. Guidance and industry "best practices" for working in conflict countries often included the need to separate financial and more commercial programming, such as microfinance, from any relief-based efforts.

INTEGRATING MICROFINANCE WITH THE BROADER ECONOMIC RECOVERY AGENDA

Despite the clear achievements made by MFIs in many conflict affected countries, they have fallen short on a few critical issues. There is still a need for more empirical evidence that microfinance is a better or the best programming option in conflict affected countries than other types of assistance as its impact on the broader economy or on the conflict itself has never been systematically measured. As mentioned earlier, there is certainly clear evidence that microfinance can provide access to finance for many low-income people who are excluded from formal finance. But does this access to finance translate into the economic growth that is needed to reduce the potential for a return to conflict? Does this access to finance improve peace and reconciliation between different groups?

The successes noted above only hint at the possibility that microfinance has had impact on economic recovery and on conflict dynamics. The cases highlighted under the AMAP KG series aim to shed more light on these issues by giving real examples of how MFIs have addressed the issues that are evident in conflict contexts. This case study series also aims to encourage additional research to further our collective understanding on how microfinance impacts economic recovery and peace building.

MAJOR LESSONS LEARNED FROM THE CASE STUDIES

As noted earlier, the rationale behind the AMAP case study series was to address gaps in knowledge and to seek real life examples of institutions addressing these gaps. The following table is a brief summary of the main themes that were identified for this research initiative and the main lessons that the cases revealed regarding these themes. Each of the themes is addressed more fully below.

Table 3: Research Themes and Summary of Main Lessons

Theme	Institutions	Lessons
Short term and long term impact	• ARFC - Afghanistan • CFA - Afghanistan • ICCED – Kosovo • DRC and KEP – Kosovo	- Linkages are intentional, not ad hoc - Consolidates gains to enterprises and clients - Appears to be more efficient use of subsidies
Community based models	• CFA – Afghanistan	- Can help an MFI build community trust - Can help an MFI reach difficult to reach

	• NUBL – Nepal • Turame - Burundi	communities - Can be used to bridge ethnic divisions and reduce hostilities - May be more costly to operate
Conflict mitigation and management	• Turame - Burundi • ICCED – Kosovo	- Has important ripple affects in the culture of the institutions and helps staff internalize reconciliation - Has definite cost implications but managers perceive social benefits to outweigh costs
Modifying and adapting design to address recurring conflict	• NUBL - Nepal	- Can save an institution from collapse - Is an ongoing process and not one off - Has significant impact on client loyalty and long-term growth potential
Gender	• Turame – Burundi • CFA - Afghanistan	- Result of overall mission of founders and institutions, not tailored for conflict setting

SHORT-TERM GAINS AND LONG-TERM IMPACT

One of the most important gaps that exists in economic programming in conflict affected countries is the ability to address both short-term, immediate gains while building the foundation for long-term impact. This is a frequent cited achievement but there has been little evidence of actual impact or success of models that work. Four of the institutions highlighted in the series specifically addressed this theme including ARFC-Afghanistan, CFA-Afghanistan, ICCED-Kosovo and DRC/KEP-Kosovo. The research showed that by creating deliberate linkages between short and long-term programming, institutions were more likely to consolidate support to clients and in turn, would be more likely to demonstrate long-term impact. It is important to note that measuring impact was not an explicit goal of the research and that impact perceived is that expressed by the institutions themselves.

In all of the cases covering this theme, linkages were deliberate and were not based on a simple ad hoc approach. Without a deliberate agenda to link with other programs, these institutions would operate in isolation. In one case the linkages created were informal (ARFC-Afghanistan), while in another it was based on a coordinated marketing approach (ICCED and MFIs), and yet in another it was a formal legal merger (DRC-KEP merger).

Also of note is the fact that in all cases, the driving force behind the linkage has not necessarily been the financial services provider, but rather, the non-financial or subsidized programs which are seeking follow-on financial services for their clients. In two of the cases, donors have a substantial role to play in creating and encouraging ongoing linkages between organizations (ARFC-Afghanistan and DRC/KEP- Kosovo).

INFORMAL LINKAGES IN AFGHANISTAN

ARFC-Afghanistan, a financial services company targeting small and medium enterprises, links with a variety of non-financial services projects supported by USAID such as the ASMED and ALP projects. The linkages are informal and are based on relationships of projects, with strong backing and support by USAID. Through this linkage model, businesses approach both the non-financial service provider as well as ARFC and a package of services is provided. This approach ensures that the business is able to secure sufficient technical assistance and know-how to grow, while at the same time can demonstrate strong financials to be worthy of an investment by ARFC.

In the case of ICCED, a training and consultancy organization in Kosovo that aimed to integrate minorities more fully within the economy, the linkages created were informal and were structured to allow organizations and clients a safe environment to learn more about each other. ICCED believed that lack of market information by Serb minorities and lack of awareness by MFIs, limited the access of Serb minorities to financial services and in turn to broader economic opportunities. ICCED utilized a subsidized training model as a forum to advance the skills and knowledge of both majority and minority clients, while also presenting an opportunity for MFIs to see the potential credit worthiness of these clients. In this case, it was the vision and drive of ICCED that led to linkages with MFIs as these financial providers did not initially see market potential in minority enclaves or other locations where minorities resided.

A more formal linkage model was utilized by DRC which merged its operations with KEP. While this linkage model created clear gains at the institutional level, gains at the client level were not always as apparent. DRC's one-off assistance through its income generation program was not considered sufficient to alleviate poverty or transition the most vulnerable clients out of social assistance. There was a perceived need by DRC as well as its donors that the institution had to seek an "exit strategy" for the income generation program to transition clients away from grant assistance to commercial financial services. In this case, DRC sought an institutional linkage model whereby it fully merged itself with a financial services provider, KEP, to create this linkage. The initial concept would transition DRC employees as well as DRC clients who would continue to access financing beyond the income generation grant through KEP. In reality, as DRC transitioned its program into one that would merge with KEP, it found itself moving away from its original client base of extremely vulnerable clients. DRC discovered that entrepreneurship is not easily created with a one-off grant and as such its clients were not yet capable to transition with it into a more commercial approach to finance.

ROLE FOR COMMUNITY BASED MODELS

Three of the cases dealt with the use of community based approaches and found that by either starting with a community based model (CFA Afghanistan) or adapting into a community based model (NUBL Nepal), institutions were better able to obtain buy-in from local communities, officials, and rebels. Turame in Burundi used a community model to help promote ethnic reconciliation.

A community based model allowed organizations to reach remote rural areas, without the need to create costly branch offices. In the case of NUBL in Nepal, the community based model was essential to avoid harassment and sabotage by Maoist rebels. NUBL was able to adapt to be perceived as an institution that worked with and through the people to address social objectives, rather than an external financial services provider that was exploiting the poor with high interest rates.

COMMUNITY MODEL PROMOTES ETHNIC RECONCILIATION

Turame in Burundi utilized a community based approach as part of its conflict management objective, using the structure to get groups from different ethnic and religious groups to work toward a similar objective. The model increased the level of cooperation required in the community and in turn helped to re-instill trust and mutual cooperation back into communities in which these social norms had been lost.

CFA in Afghanistan began its operations using a community based model but eventually transitioned out of this as it evolved into a commercially oriented MFI. Nonetheless, it clearly perceives its successes in reaching difficult market segments and in starting early after the war to its strong community links and model. The benefits of this model are still felt today, even after transitioning out of it in 2005.

The three institutions pointed out that community based models, while creating certain efficiencies, are nonetheless expensive to operate and none of the institutions had yet to see the operational efficiencies translate into stronger overall financial performance. Nonetheless, in the case of NUBL, the alternative was shutting down or shrinking in scale and as such the added benefits of the community model far outweighed any additional operational costs.

CONFLICT MITIGATION AND MANAGEMENT

As noted earlier, few MFIs working in conflict countries address the issues around conflict outright. The number of responses focusing on conflict mitigation and management to the call for nominations for this research confirm this. Only two of the cases address conflict mitigation and management in any direct way, Turame in Burundi and ICCED in Kosovo.

Turame addresses conflict issues through its community banking model as well as through direct training on conflict resolution to its staff and community banks on conflict mitigation. While Turame does not have impact evidence that these two factors directly reduce conflicts in the communities in which it works, staff and management attest to the reduction of conflicts internally within the organization. Loan officers also point out that community banks are better able to resolve conflicts at the community bank level.

ETHNIC RECONCILIATION THROUGH TRAINING

Interviews with Turame staff indicated that the impact of the conflict reconciliation training on day to day operations of the organization have been considerable. As one loan officer in Bujumbura noted "clients benefit from the training… when a problem happens…they are able to resolve it." Interviews with community groups also revealed the benefits of the training. One client noted that "before we didn't know the importance of working in a group." Another client noted that "we learned to love each other, learned about reconciliation and also how to think and put yourself in someone else's shoes." The director of Turame noted that the number of staff conflicts has been reduced since undergoing the training as now staff knows how to deal with conflicts. While the causes of internal conflicts can vary, the director noted that the trauma experienced by everyone in Burundi, including the staff, continues to impact their daily lives. The training has helped individuals understand how this trauma is manifested in the day to day and has helped individuals empathize and internalize the concepts of reconciliation.

ICCED-Kosovo addresses conflict and ethnic reconciliation through a special training initiative that integrated minority and majority populations. The training was established as a neutral forum where individuals would interact with Albanian, Serb and other ethnic groups. The training itself was taught in both the Albanian and Serbian languages and the trainers were also from different ethnic groups. The exposure to different ethnic groups allowed for greater opportunity to create business linkages. ICCED identified 56 different business linkages that were formed as a result of the training format utilized.

In both cases, there is an added cost to the institutions by offering these specialized conflict mitigation and management components to their programs although both organizations indicate that the benefits outweigh the cost. Turame's community based model and conflict resolution training add costs as well as reduces the efficiency of front-line staff who focus on training community banks as opposed to their main function as loan officers. ICCED's training model is completely donor dependent and no cost recovery was sought. The model did create benefits for partner MFIs who found a new market segment among Serb minorities, who had no other sources of financing, and whose repayment capacity and quality was as high as the majority clients in Kosovo.

MODIFYING AND ADAPTING DESIGN TO ADDRESS RECURRING CONFLICT

Only one of cases in the series addressed ongoing and recurring conflicts by adapting its approach. NUBL in Nepal made numerous adaptations in its programming and was eventually able to grow substantially despite the Maoist insurgency. Three primary threats had potential to destroy the organization. The first was the overall insecurity of the environment. While clients were not themselves targeted, they were nonetheless affected by violence, strikes and road blocks. NUBL itself was impacted as arrears started to increase, savings were withdrawn and its traditional collateralized loans proved ineffective as defaults were increasing. To adapt, NUBL made the critical decision to continue lending and not to close offices despite the many closures of competitors and banks. The organization also began to do market research to understand the impact on clients and to better improve the client-staff feedback loop. Through this it adapted its model away from the strict Grameen replication. Pragmatically, it also increased its loan loss reserves. The effects of these changes were significant. Clients and staff reacted with greater loyalty to NUBL. Better market intelligence empowered staff to support organizational changes.

The second major threat was the direct criticism by the insurgents which impacted the organization by reducing its growth, increasing its arrears and loan losses and increasing client drop outs. NUBL made several adaptations to respond to this threat including increasing its visibility and communication, reducing its pricing, empowering front-line staff to reschedule loans and added an insurance product to better meet client needs. The effects of these changes were successful in countering portrayals of NUBL as usury driven.

The third major threat was the direct insurgent violence on staff and the looting of branch offices. The organization instituted new cash management regulations such as paying at branches, improved back-up procedures for its data including off-site storage, and improved security awareness and procedures for its staff such as identifying safe areas and training staff on evacuation procedures.

The main lessons from NUBL were that instituting operational changes in response to new market dynamics and the threats created by the Maoist insurgency, was essential to its survival as an organization. One-off changes were not sufficient and the organization has become a much better learning organization, adapting it products, systems and procedures on a continual basis.

THE EFFECT OF THE MAOIST INSURGENCY ON NUBL

Nirdham was initially established in Nepal as an NGO in 1991 and introduced microfinance two years later. From its early days as a poverty focused NGO, the organization evolved into a microfinance development bank - Nirdhan Uttham Bank Limited (NUBL) in 1996 and was the first NGO to transform into a microfinance bank in Nepal. By microfinance standards, the organization was increasingly becoming a sustainable entity and its portfolio quality was strong. Problems began in 2000-2003 when NUBL experienced stagnation in growth of client outreach and loan portfolio, and a surge in loan arrears and losses. The key reasons were the public criticism and pressure exerted by Maoists on clients to stop repayments (and credit in general) as well as increasing incidences of theft of cash from loan officers and branch offices, two of which were attacked in 2007.

GENDER

Addressing the specific issues around conflict and gender was not perceived to be an explicit finding in any of the cases highlighted in this series, despite the fact that many of the institutions report on and address gender within their missions. CFA-Afghanistan and Turame-Burundi are the only institutions which have a stated mission to serve female clients. They do so based on the premise that women are the majority of the poor and that working with and empowering women helps to strengthen both social and economic objectives. Both CFA and Turame were founded by US based private voluntary organizations, Christian Children's Fund and World Relief. Both organizations have strong social service foundations and missions that aim to serve the poor. As such, reaching women is an integral component of all of their programming, whether microfinance or otherwise, and is certainly not limited to conflict environments. As board members of their respective MFIs, this social orientation has been carried through to their MFI partners, CFA and Turame.

Serving female clients is an important achievement, particularly as women represent the majority of the poor and are often those most impacted economically by conflict. But substantial evidence and research has also shown that women and girls are more severely affected by conflicts than men. For example, in its report "The Impact of Conflict on Women and Girls in West and Central Africa and the UNICEF Response", UNICEF points out that women and girls are more susceptible to gender-based violence during war such as rape, trafficking, and HIV/AIDS. The UNICEF report goes on to state…"Such experiences have long-term devastating effects on their lives and those of their children, as many of them become stigmatized, rejected from their communities, unmarriageable and forced to live on the streets. Women and girls deserve special attention in healing communities as both victims of abuse and actors in reconstruction."

While microfinance is certainly not the solution for all social and economic ills, it is surprising that few microfinance programs working in conflict affected communities have adapted products or pursued linkage models with social services that aim to address some of the healing that is required for women impacted by war.

NEXT STEPS AND CONCLUSIONS

The cases covered under the AMAP Microfinance amid Conflict research theme help demonstrate some of the possible models that link microfinance within the broader goals and contexts of conflict affected countries. While certainly not exhaustive, the series has demonstrated that linkages can be created between short-term gains and long-term programming, that community based models have some advantages in conflict affected environments, that microfinance institutions can adapt and prosper during recurring conflicts, and that MFIs can instill conflict mitigation and management principles in their models and staff training.

These cases also demonstrate that there are still many research gaps. The cases highlighted in this series continued to struggle with the issues around subsidies and sustainability. The programs that integrated specific goals around conflict mitigation and management and reaching marginalized communities also had higher costs and were not yet able to demonstrate economic returns from their socially oriented programming components. While many MFIs in more mainstream environments have shown that social missions do not necessarily impinge on profitability, the evidence in these conflict settings shows that MFIs in conflict affected countries have yet to achieve the level of scale and efficiency needed to counter the added costs of introducing subsidized components.

The cases were also not sufficient in addressing the specific issues around gender that arise in conflict setting. None of the cases covered in this series adapted their products, methodologies or approaches when dealing with gender issues in conflict countries. Given the complexities of working in conflict countries, many MFIs focus on getting the basics right and have yet to divert energy and resources to some of the more complex issues in war affected communities, such as gender-based violence. More work is needed to understand how MFIs can better adapt their services to address the added burdens conflict creates on women's lives.

The case studies represent one type of evidence which is anecdotal in nature, highlighting the experiences of one or more organizations. Case studies are a great source for understanding the details behind how or why organizations do what they do. Case studies, however, are not sufficient evidence to draw large scale conclusions. They only demonstrate examples. To better understand the broader impact of microfinance on conflict settings, additional empirical research is needed. There is still a need to understand how microfinance actually impacts economic recovery, as demonstrated by measurable economic indicators. There is also a need to understand how microfinance impacts conflict or ethnic reconciliation, as measured by recurrence or lack thereof of fighting.

ANNEX

Additional Resources on Microfinance and Conflict

1. ILO. "Introduction to Microfinance in Conflict Affected Countries," 2002.
2. Nagarajan, Geetha. "Microfinance Research in Conflict Affected Environments: State of the Art and Moving Forward," August 2004.
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