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THE PROVISION OF MICROFINANCE IN THE WAKE OF CONFLICT: THE UGANDAN EXAMPLE

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In response to the bleak economic opportunities that accompany war, governments, banks and non-profit organizations have expressed interest in extending financial services to afflicted areas. Doing so without well-developed plans and strategies can be fraught with risk. This paper recognizes the benefits that organizations can bestow on war-torn communities and explores microfinance service provision in post-conflict environments using the example of Uganda. I first explain post-conflict microfinance and how it differs from typical microfinance operations. I then outline general theories of post-conflict microfinance service provision, including conditions for entry, target populations, and suggested strategies. The Uganda case study illustrates these theories in action, detailing the types of institutions that are active, the success achieved, and the reasons for success or failure. Finally, based on these lessons, I offer nine specific recommendations for governments, service organizations, and policy makers.

INTRODUCTION

Effective delivery of microfinancial services is challenging under any circumstances, but it is especially difficult in post-conflict environments. Local institutions are shaky or non-existent, individuals lack collateral and are locked into defensive mechanisms, and paradigms for successful operations and best practices models are blown away with the gunshots.

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For survival, many groups desire to jump-start their economies, but their specific needs vary widely. Refugees, returnees, the internally displaced, the recently demobilized, and the local populations all seek individual specialized services.

If service providers are willing to endure the substantial risks, they have the potential for great impact on local and national development. Microfinance institutions can effect positive change at the individual, community, and national levels. For example, war survivors desperately want to fulfill their basic needs and to maintain their personal security. The opportunity to earn a steady income gives a family confidence that they can meet their needs on a regular basis, removing much of the fear and insecurity of wartime. By uniting a community in support of economic development and developing unique service delivery methods, institutions can ameliorate prejudices and local tensions. On a larger scale, institutions can demonstrate the positive effects of microfinance to an attentive national audience. Successful examples in the early reconstruction phase can influence policy makers and legislators to support legislation enabling microfinancial service provision and can prevent restrictive regulations.

Uganda presents a clear example of a country that endured long-term and devastating conflict. Several types of microfinancial institutions are active in Uganda and struggle with the issues of providing services in a post-conflict environment. Examining their work sheds light upon the strategies that can be employed under difficult circumstances, along with the potential problems and successes of such endeavors.

This paper will outline the issue of post-conflict microfinance service provision and will discuss the specific characteristics that differentiate it from standard service delivery sites. Utilizing the case study of Uganda, the paper will examine the impact of conflict on a country. With a focus on the various institutions active in Ugandan microfinancial services, we will see how practices were adapted to the unique environment. Various strategies will be outlined along with their implications, both for the successful provision of microfinance and for the organization's sustainability.[1] Finally, the Ugandan example will be incorporated into the larger context and analyzed in terms of future developments and possibilities in post-conflict microfinance and poverty alleviation.

Review of the Post-Conflict Literature

Little consensus exists among development specialists and donors on when or how to commence assistance after conflict (Olson 1998). It is

agreed that long, recurrent conflicts, as witnessed in Uganda, require substantial intervention and rehabilitation before they are prepared for solid micro-entrepreneurial growth (Nagarajan). However, the small amount of emerging research on this subject highlights the different levels of impact that conflict has, including the unique characteristics of post-conflict sites and how war may change the need and demand for credit.

Impact

The ravages of war affect a nation on several levels, categorized by Geetha Nagarajan as ***micro***, ***meso***, and ***macro***. At the highest, or national level, ***macro*** effects of conflict disrupt macroeconomic or financial stability. Specific effects include difficulties accessing markets due to destroyed infrastructure and barriers such as landmines. Other difficulties include human and capital flight, low levels of government financial capital, poor judicial adjudication and unclear property rights. In addition, such zones feature large amounts of donor grant money, and high levels of remittances (Nagarajan). These effects disrupt the fundamental structure of a national network that is necessary for effective trade and economic growth.

The impact of such macro-instability on institutions and their operations comprise the ***meso*** effects. When the overarching national systems do not function, neither do the institutions that draw local communities into the greater system. Decimated financial institutions that are unable to serve as effective intermediaries are an example of meso-level effects. Other results include a short-term focus on poverty lending, grants, and credit, rather than deposit mobilization or sustainability; and a lack of useful regulation or supervision (Nagarajan).

At the local community, or ***micro*** level, micro-entrepreneurs are also affected by the macro and meso level consequences of conflict. Local citizens do not have a national government or financial system to place their trust in, their income may be subject to detrimental hyperinflation, and their local or regional institutions cannot intermediate for them. Accustomed to unstable support institutions, these individuals face an additional burden of social and political instability in their community. Long-established bonds of trust could be permanently severed, the vision of one's lifespan and abilities cut short, and years of earnings and assets destroyed overnight. Tight and trusting community bonds are broken by death, disease, and the entrance of unknown refugees, demobilized soldiers, and displaced persons (Nagarajan). The consequences include fear, trauma, and uncertainly about the future.

Combined, the *macro*, *meso*, and *micro* effects make establishing a business a daunting challenge for local residents and cause many potential microfinance service providers to be wary of entry.

Demand for credit

Sustained conflict also influences the demand for credit within a community. Contrary to other widely applicable effects, credit demand is highly individualized and is very difficult to predict. The resurgence of demand depends upon the circumstances surrounding the conflict, the sum of money allotted to reconstruction, and the state of the economy before the conflict (Doyle 1998a).

Demand is typically low immediately following hostilities but rises rapidly as reconstruction progresses. The reconstructive process requires economic development and small businesses to supplement the limited formal employment that exists (Doyle 1998a). Demand can also be responsive to the availability of credit (Doyle 1998a). Some microfinance organizations believe it is in the communities' interest to foster credit demand and small-enterprise development.

Reemerging markets are an integral part in the recovery process. A sign of normality to local residents, these markets also provide risk-reduction opportunities. As markets become denser, they become more reliable, providing a strong incentive for the community to subsidize market return (Azam 1994). In addition, an institution that enters a post-conflict area early has the opportunity to help nascent businesses take root and garner the profits from reconstruction. Wider impact also may be possible. Research indicates that loans slightly above the micro level (at least $10,000) can influence broad, multi-ethnic cooperation and commerce (Doyle 1998a).

Differences

Some of the key characteristics differentiating post-conflict microfinance sites from a standard location are highlighted in Table 1.

Table 1 – Features of post-conflict zones

Pervasive poverty and loss of assets	Greater dependence on informal sector
Mobile population	High levels of dissaving
Damaged or non-existent banking system	Inflation
Non-operational regulation and supervision	Severe distrust
Short-term operational focus vs. sustainability	Safety threats
High level of uncertainty and incentive to avoid irreversible investments	

Sources (Olson 1998; Doyle 1999a; and Azam 1998)

Increased reliance on the informal sector can help burgeoning micro-entrepreneurs. The remaining post-conflict characteristics, however, are more likely to deter potential microfinance organizations from entering. Dissaving, mobility, poverty, and lack of assets force institutions to envision unique means of collateral and loan insurance. Malfunctioning banking systems, poor regulations, and inept central governance force well-meaning microfinance organizations (MFOs) to assume multiple additional burdens, and these factors open the door to potentially corrupt organizations. Inflation, dissaving, and safety threats force service providers to battle short-term obstacles and may divert institutional attention away from best practices and long-term sustainability.

Together, these characteristics dissuade many microfinance organizations from entering the region until the situation improves. The U.S. Agency for International Development (USAID) cautions MFOs from entering post-conflict areas for fear that moving quickly in dire circumstances will come "at the expense of developing sound foundations" (USAID, 31-32). In contrast, some organizations ardently believe that post-conflict areas provide ideal opportunities for maximum outreach and impact.

Overview of Financial Service Provision in Post Conflict Areas

In debating the risks versus the opportunities of service provision, microfinance institutions must decide whether the potential for vast and deep outreach justifies the potential risk to resources and staff. Institutions that do choose post-conflict sites as bases for operations must clearly identify their required conditions for entry, their target populations, and their strategies.

Conditions for entry

Despite the difficulties involved in entering a post-conflict area, institutions committed to establishing services are able to commence with remarkably few conditions. Even for the most well managed institutions, however, the complexities of post-conflict environments may have detrimental effects on operations and sustainability. For this reason, most institutions eye post-conflict sites with hesitation, and many prefer to wait.

Microfinance practitioners widely agree that financial services should be withheld during initial emergency or refugee crises and implemented once some permanence and stability emerge. Certain essential conditions have been identified as necessary before microfinance services commence. In the case of refugees, the displaced population should plan to perma-

nently settle (for the long term, usually at least 18 months), be allowed to settle, and have the ability (skills and access to markets) to form successful businesses (Tsilikounas 1999). Regardless of the targeted clients, financial institutions look for a partially monetized economy, the ability to develop and implement risk-management strategies, a cohesive community (Nagarajan 1998), some market activity, credible insurance and guarantee markets, and a government social safety net (Doyle 1998a; Nagarajan 1998).

Other desired conditions are generally not present in post-conflict areas. These include a large client base, an educated and skilled workforce, trust in the local currency and financial institutions, an absence of hyperinflation, a functioning banking system, and a favorable policy environment (Nagarajan 1998; Doyle 1998a).

Microfinance organizations often establish services in post-conflict areas more rapidly than they do in standard sites. Doyle (1998a) argues that it is acceptable to begin a program after a rapid market assessment and forego the traditional comprehensive feasibility studies and pilot projects. However, MFOs must monitor conditions carefully. Although it is possible to deliver services in minimalist environments, conditions must improve eventually if the institution is to be sustainable.

Target populations

Several groups – women, demobilized soldiers, refugees, and the internally displaced – are disproportionately affected by conflict. As a result, microfinance agencies frequently attempt to target these populations, but they have often proven unsuccessful. Reasons for failure have included community resentment, a lack of business skills among the targeted population, high costs, and host country regulations that prohibit refugees from participating in the economy (Doyle 1998a; Nagarajan).

An alternative to targeting is to establish a specific *financial* focus, rather than an emphasis on meeting the needs of certain people (Doyle 1998a; Nagarajan). The first emphasis should be on residents with some assets and the motivation to stay in the area if they are able to earn a living (Doyle 1998a; Gallagher 1999). In time, services should be extended to the wider local community.

Strategies

After determining that the environment is propitious for service delivery and identifying the clients expected to utilize microfinance, an institution must evaluate the strategies it intends to pursue to improve the local environment. This is especially important when an agency is entering a

previously unserved post-conflict area or a region characterized by destroyed infrastructure, a major loss of client assets, and psychological trauma. Non-governmental Organizations (NGOs) commonly participate in one of five service fields: refugee/survival service, development grant initiatives, development lending for income-generating activities, brokerage services (low-income and lending institutions), and financial intermediation (Nagarajan). Certain strategies are effective in furthering one priority, but may simultaneously hinder another.

For example, providing relief services or initial grace periods on interest may be an important step in establishing an institution's credibility and trust within a community. But simultaneously, the institution delays its ability to achieve financial sustainability and provide permanent access to credit for local residents. As most institutions have unsatisfactory paths toward sustainability, this is a serious consideration (Nagarajan). If managed efficiently, it generally takes about a year for a lending portfolio to return to a sustainable path after a crisis. This transformation tends to happen after the staff members have collected as many loans as possible and the emergency situation recedes (Doyle 1998a).

Savings and deposit services are a difficult issue for all MFOs. It is one of the most valuable services that a MFO can provide, but it is fraught with risk. The benefits to residents of post-conflict areas are substantial. Granting clients the security that their assets will be safe in the case of a future conflict, deposit services allow individuals to preserve what little assets they may have left. In order to provide these services, an institution assumes a great deal of risk by taking responsibility for peoples' assets in an insecure environment. The MFO can be threatened by hyperinflation, mismanagement in the formal banking sector, and an increased risk of theft or violence due to increased transfers of money.

Those institutions that have a primary focus on sustainability will offer funds at a market rate of interest and will not provide training, relief, or concessionary services. Post-conflict environments are unpredictable, though, and even the best-intentioned institution can find itself forced to focus on short-term operational capacity rather than long-term financial health.

Case study of Uganda

The Ugandan example clearly portrays the difficulties and opportunities inherent in post-conflict operations. Well over a decade of brutal internecine conflict de-legitimized state institutions and left an impoverished, traumatized citizenry to pick up the pieces. Low-level fighting continued until 1990, when the present peace began. Despite continued conflict in the

north, northwest, and western border areas, the government has attempted to repair damage since 1986 though economic reconstruction, constitutional reform, and political reconciliation (Brett 1998). The post-conflict environment was stark and offered few concessions to microfinance organizations seeking propitious conditions for entry. However, several institutions decided to battle the obstacles and invest their time and resources in the nascent Ugandan micro-entrepreneur. Their endeavors offer valuable insights into the unique world of post-conflict microfinance service provision and the strategies that can be utilized to enable success.

Overview of the Ugandan Post-Conflict Operating Environment

Microfinance organizations surveying the Ugandan post-conflict environment would have described it as in shambles. National and local economic systems had collapsed, communities were torn apart, financial institutions were non-existent, and government and regulatory systems were unreliable, preventing any effective enforcement or adjudication.

Economics

Statistics can only begin to capture the economic devastation. Between 1971 and 1986 Uganda's gross domestic product (GDP) decreased by 13 percent (Azam 1994). Had Uganda been spared civil war, analysts predict the country's GDP would have been double its actual level in 1986. Although GDP has increased yearly once the war ended, by 1994 it was still below its pre-war peak (Azam 1994).

Uganda suffered several other forms of economic malaise in addition to the drastic drop in income and national wealth. Illegal markets were rampant, corruption diverted donor money from its targets, and inflation plagued the nation, wavering between five and 230 percent per annum (Azam 1994). The lack of large-scale businesses and farms resulted in low productivity and contributed to the continued high poverty rate (Brett 1998). Personal incomes were unequally distributed across regions, showing how conflict disparately affect standards of living. The average urban dweller earned 38,000 shillings a year in 1994 and 1995, compared to 19,000 in the relatively stable central rural areas, 12,500 in other rural areas, and 9,500 in the violent and unpredictable northern region (Brett 1998). Residents of the heavily conflict-ridden north earned only half of what rural residents in the calmer central regions garnered.

Lifestyle and Community Relations

Economic hardship and the trauma of war were evidenced in local

lifestyles and in community relationships. Those who were not among the hundreds of thousands killed had their lives irrevocably altered by torture, disfiguration, loss of assets, traumatic stress, economic destitution, isolation, insecurity, reduced access to healthcare and education, and broken community bonds (Brett 1998).

Poor women (with an average of 7.1 birth children) assumed responsibility for additional children orphaned by conflict or by AIDS (Brett 1998). As the sounds of conflict died away, the persistent buzz of a massive killer appeared. The fear of death and AIDS entered many homes and reduced expected life-span as well as the incentive to save (Nagarajan). 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 a already stressed society.

Governmental/Legal/Regulatory Systems

At the onset of peace,[2] the governmental, judicial, and regulatory systems were fully dysfunctional. State services declined because of reduced tax revenue and foreign monetary exchange, combined with the inefficiency of the civil service. Transportation networks, health services, and educational and financial institutions all fell apart (Brett 1998). Inefficiency, corruption, and poor decision-making caused the government to lose all legitimate authority (Azam 1994). In addition to crumbling buildings, an absence of legal enforcement, and a dysfunctional staff structure, many aspects of essential service provision were obliterated, such as records and record management centers (Morddel 1987). The absence of these resources prevented microfinance institutions from accessing critical information and from meeting several of their specified conditions for entry.

On the positive side, the Ugandan government began a structural adjustment, stabilization and economic recovery effort in 1987, followed by an ambitious decentralization agenda in 1992. As a result, inflation was reduced to less than 15 percent a year, real GDP began to grow at about five percent a year, and fiscal decentralization streamlined operations and reduced waste (Brett 1998; Kullenberg 1998). The government made a substantial commitment to reform, and the positive effects are reflected in the success that some microfinance organizations have experienced there.

However, further improvements are still needed. Matsiko (1998) describes the police and judiciary as the most corrupt institutions in Uganda, and she calls the state of formal bank regulation "pathetic." These institutional difficulties continue to threaten depositors. Problematic banks go unsupervised, and depositors have little legal recourse when disputes occur.

Ugandan Post-Conflict Service Provision

Despite past and present problems, Uganda ranks among the most active and most successful examples in microfinance. Several institutions weathered the difficulties and were responsible for much progress. The prevalence of micro-entrepreneurs and the role of micro-enterprises in national income generation also played important roles in the industry's successful development.

In 1995, micro- and small enterprises employed 29 percent of the Ugandan working-age population (Barnes 1998). Of the households containing micro-entrepreneurs, 27 percent relied on the business for all of their income, and an additional 33 percent received half or more of their income from the enterprise (Barnes 1998). The ability to access credit and expand small-business income has had a massive effect upon Ugandan household income. Clients who receive loans use the funds for enterprise investments and household assets. Most of the borrowers would not have made the additional investments in their businesses without the credit (Barnes 1998).

The variety of microfinance practitioners in Uganda is immense. They include two banks, several companies limited by shares, many NGOs, companies limited by guarantee, cooperatives, and credit unions. More than 60 microfinance organizations were registered with the USAID's PRESTO project in 1997, but only a few of those employed best practices (Barnes 1998). This section will examine the operations and impact of the two most vibrant and successful groups: commercial banks and non-profit institutions.

Service Providers

Banks

Although the financial sector was virtually destroyed during the war, by the 1990s several foreign and local banks operated in Uganda, and virtually all of them established branches in Kampala. Most of the urban poor were unable to take advantage of the new banking services. They lacked the required collateral and financial history to obtain credit, and their savings were too small to open a standard $350 savings account (Van Hook 1999a; Barnes 1998).

Two commercial banks, the Cooperative Bank of Uganda (CBU) and the Centenary Rural Development Bank (CRDB), recognized the profit potential among micro-entrepreneurs and inaugurated special departments offering microfinancial products.

Institution structure

The CBU, the second largest bank in Uganda, is the most recent commercial bank to enter the microfinance field. It began operations in the early 1970s but only initiated microfinance operations in the late 1990s. The concept was introduced in 1995 and implemented in 1997 through six special microfinance branches and two existing branches. The CBU hopes to continue expanding until it captures the largest market share. It chooses expansion locations based on the need for CBU representation, the presence of a small business population of over 2,000, quality infrastructure in place, and security (Chen 1999).

The CRBD commenced banking services in 1986. In 1993, it legally transformed from a trust into a commercial bank. Through 11 branches around the country, the bank services both rural and urban micro-entrepreneurs. CRDB commenced operations in the southwest region of Uganda, where it was able to mobilize the most capital and where security considerations were relatively minor. In determining future locations, the bank looks for local community support and a concentration of micro-enterprises (Van Hook 1999a).

Target population and services provided

Both banks target micro-entrepreneurs and offer both credit and savings services. CRDB focuses solely on financial services and provides minimal training through informal interactions between credit officers and clients. Its 100,000 depositors and 10,000 borrowers (20 percent of all micro-borrowers in Uganda) include small commodity, general merchandise, produce, tobacco, and drink micro-entrepreneurs from throughout the country (Van Hook 1999b). Encouraging savings among all economic classes, CRDB requires a very low minimum balance, $7.50, to establish an account. It provides an average of 1,000 new loans a month, which demonstrates the high demand for credit in its branch locations. The average loan size is $877 and is paid back over 3 to 12 months. Smaller loans (under $500) and larger-scale loans (over $2,000) are also available (Van Hook 1999a).

Despite experiencing serious structural adjustment problems recently, the CBU has made impressive gains in collecting micro-deposits and continues to develop its microcredit products (Van Hook 1999a). In addition to savings and credit, CBU offers skills training on a fee basis during its weekly meetings. Attempting to increase the number of skilled microfinance practitioners, it is also involved with developing course curriculum for a micro-enterprise banking certificate, to be offered

through the Uganda Institute of Bankers (Van Hook 1999a; Chen 1999). Its microcredit program has provided 4,287 loans in only two years of operation. Luring clients with opportunities to win money (through the "Save for the Future Lucky Draw" promotion), CBU increased its number of depositors from 30,000 in 1993 to 120,000 in 1997 (Van Hook 1999b). Its operations focus on strong customer service, professional staff, sustainability, and a positive public image.

Strategies

Both commercial banks have operated through periods of conflict and have seen their operations affected by instability. As a result, both banks implement certain strategies to minimize the effect of conflict on bank operations and service provision.

CRDB has security procedures for avoiding conflict and for dealing with it when it unexpectedly arises. The bank establishes its first branches in areas least affected by conflict. Once a branch is running, CRDB will hire two security guards and a security assistant to protect the premises, run limited operating hours, and devise creative solutions to circumvent non-functional legal or regulatory systems.[3]

CBU began offering microcredit only two years ago, so it has not been impacted by conflict as much as CRBD. Two strategies that CBU has implemented are exploring "transition financing" to help businesses grow and withstand conflict, and devising safe methods to transfer deposits to the central bank (Chen 1999). Both banks immediately reduce or stop lending at branches affected by new conflict. This action reduces the amount of money subject to arrears and helps the banks to manage their losses.

Impact

The proliferation of banking has benefited Ugandans by increasing competition and improving service quality for people and businesses (Barnes 1998; Van Hook 1999b). The Ugandan central bank has become involved in the development of microfinance, and this interest has been well coordinated with commercial bank efforts. However, the number of people who have benefited from this development is still small. Most small traders are still unable to access finance, and most commercial banks don't have the capacity or the interest to provide long-term capital (World Bank 1996).

NGOs

Unlike the banks, non-profit organizations were much more hesitant to enter the post-conflict environment. They possessed neither the infrastructure nor the necessary familiarity with the local environment. With

the exception of the Ugandan Women's Finance Trust (UWFT), founded in 1984, no other non-profit organizations among the best practices models entered until 1992, six years after the official termination of conflict. Upon entering, the MFOs commenced operations in the most stable areas of the country. It was only within the past few years that the Foundation for International Community Assistance (FINCA) began to expand to areas still experiencing intermittent conflict.

Among the organizations considered models are FINCA, the Foundation for Credit and Community Assistance (FOCCAS), and the Promotion of Rural Initiatives and Development Enterprises (PRIDE) (Barnes 1998).

Institution structure

UWFT was the first institution to offer microfinance services in Uganda. Established in 1984, it offered credit and savings to groups and to individual women entrepreneurs. Eight years later, FINCA set up village banking operations in Jinja. Despite having only half the institutional history, FINCA grew rapidly and surpassed UWFT's level of outreach. FOCCAS established its program in 1996, concentrating its efforts in two districts. PRIDE Uganda commenced the same year and within three years expanded its branches to 20 locations nationwide.

Target population and services provided

All four organizations target poor entrepreneurs, though each one has a slightly different focus. FINCA targets poor female entrepreneurs through its group lending program. In addition to loans, voluntary savings, and mandatory savings, it offers a five-week mandatory training program and low-cost group disability and life insurance. FINCA has established the widest outreach among the NGOs. Through its small localized program, it is able to reach local populations that might not have access to any type of financial institutions. Its network of 404 banks spans the country and is responsible for disbursing 88,271 loans. FINCA's loan loss rate is remarkably low, having lost only $696 over its seven-year program life. (McCord 1999).

PRIDE is the only NGO among the four that focused on individual rather than group-based lending. Its clients are established urban entrepreneurs, and two thirds are women. Because of its individual and urban focus, it tends to attract higher-income entrepreneurs and distributes slightly larger loans. PRIDE supplies the loan sums but requires clients to establish a savings account with a commercial bank, forcing a link between formal financial institutions and micro-entrepreneurs. PRIDE is investi-

gating a new software system that will link groups of microfinance clients to formal financial institutions, reducing the banks' costs of lending to the clients and encouraging further linkages (PRIDE Africa).

FOCCAS is the most rural-based institution among the group. It focuses its work in two districts of Uganda and targets poor rural women. In addition to credit and savings (both voluntary and mandatory), FOCCAS places a strong emphasis on informal education. Through the group lending process, it incorporates information on health, nutrition, family planning, HIV/AIDS prevention, and business management. FOCCAS's efforts have shown success in getting women to try new health and nutrition practices and to encourage others to do the same (Barnes 1998). However, these results come with a financial consequence. FOCCAS's 1997 operational sustainability was only 4.5 percent.[4] Should the steam of grants halt, the program would no longer be sustainable.

The UWFT reaches out to women but allows men to participate as long as they are not more than 20 percent of a group or do not assume any leadership positions. Originally concentrating its efforts on professional women, it has reached out to low-income women entrepreneurs since 1995. It operates through nine branches and provides savings and credit services through group and individual relationships.

The international relief organization CARE has been involved in Ugandan microfinance, though it does not operate its own permanent program. Through the VITENDO project, CARE actively helped to reintegrate demobilized soldiers in the Western Nile region and link them to sources of credit.

Strategies

By entering the microfinance field several years after conflict ended in Uganda, and by limiting service sites to the more stable areas, most NGOs have significantly reduced their exposure to conflict. However, the risk still exists and organizations must enact strategies to limit the effect of potential conflict on microfinance program operations. When CARE confronted heavy violence in a collaborative project in Arua, it withdrew its staff and ceased group lending. In the Western Nile, CARE's work itself contributed to lessening conflict by reintegrating demobilized soldiers. This effort reduced violence by reducing the number of alienated and disgruntled soldiers reverting to violence in the community.

FINCA is the only program that is actively looking to expand services to sites with recent or active conflict and has recently established sites in the cities of Lira (the gateway to the conflict-ridden northern region) and

Arua. When examining sites with a clear threat of conflict, FINCA evaluates the area's economic and political stability, market potential, likely staff capacity, conditions for sustainability, and presence of support structures to assist entry (Barnes 1998). Since establishing the two new branches, FINCA has found that clients are equally responsible and receptive in the conflict zones are they are in non-conflict sites. Defying much of the literature warning of instability in providing services to refugees, FINCA has successfully integrated refugees from the northern region into its village banking program. The refugees were among the most reliable and most appreciative clients, contrary to some predictions. Providing credit to refugees ameliorates some of the extreme poverty that results from war and helps to integrate the displaced into their new community. Additional strategies employed by FINCA include using simple, unpretentious office buildings, and ensuring staff safety by encouraging them to give up the money and run if confronted with an armed robbery attempt (McCord 1999).

Because they avoided most of the violence to date, many NGOs lack strategies to deal with new conflict or with expansion into more volatile regions. No one is immune from threat in a transitioning political and economic system, and every institution should have a clear plan of action that it is ready to implement quickly when trouble strikes.

Impact

NGOs have successfully expanded their outreach to integrate many micro-entrepreneurs in need of credit. By doing so, they granted these individuals the opportunity to economically benefit from the post-war reconstruction. While NGOs have accomplished significant outreach in the central areas of Uganda, they are slow to approach areas affected by conflict and are lacking formal procedures designed to salvage a portfolio from insecurity.

Successes/Failures by Institution Type

In sum, NGOs have embraced the concept of microfinance and recognized its profit and outreach capability more rapidly than formal financial institutions. As a result, they have established large microfinance networks throughout the much of the country and provide impressive outreach. While banks have been slower to recognize the widespread benefits of microfinance, they do recognize the profit potential in areas ravaged by conflict, and they possess the infrastructure, the capital, and the strategic planning to act quickly and decisively in the case of conflict.

Bank lending rates in 1996-1997 were above 20 percent a year, significantly higher than the six to seven percent annual inflation rate. Despite the large margin, the bank rates were competitive with the non-profits. PRIDE charged a flat 30 percent a year, while FINCA and FOCCAS charged 12 percent for each 16-week cycle. These large margins reflect a lack of competition and a continued weakness in the financial sector (McCord 1999). The large difference between the bank and the non-profit interest rates may reflect bank cost savings from serving a high-density urban population, greater efficiency in formal financial institutions, or lower prices as a result of focusing solely on financial products. Programs offered by both types of institutions can be sustainable if the management is committed to longevity and concentrates on financial services, rather than non-financial training, relief, or education.

The impact of conflict on operations is more stark for the formal financial institutions because they are located in the less stable areas. Most NGOs are clustered in a circle around the central region, except for CARE's work in Arua and FINCA's recent expansion northward. The formal financial institutions extend much further toward the insecure border regions. CRDB must spend up to 1.5 percent of deposits at their least secure locations in order to pay for the necessary security, including a truck and eight police officers (Barnes 1999). Banks experience more conflict, but NGOs are more threatened by it because of their smaller size. This is likely the reason that NGOs do not often enter conflict areas, for the risks appear greater than the potential impact. One small NGO, operating in the Western Nile region folded when troops forced most of its clients to move, scattering them about and disrupting repayments (Van Hook 1999a). While a bank may lose a percentage of its profit, an NGO could lose its entire mission.

While both NGOs and formal financial institutions have made significant inroads, several challenges still inhibit greater outreach. Foremost is the continued conflict. It is concentrated in the border region, but occasionally appears in unexpected places. Conflict in the north is common and poses a serious threat to agencies and to individuals' lives. No microfinance agencies are willing to deliver services in this area (Ritchie 1999). Another challenge to institutions is increased competition in central urban areas. While a boon to clients, intense competition in popular sites has forced some MFOs to relocate to less desirable areas. In this manner, FINCA believes that difficult sites will eventually be reached, although it might take some time (Ritchie 1999).

Impact

The demand for microfinance in Uganda far exceeds the supply. For this reason, all MFOs (NGOs and formal financial institutions) are making a positive contribution by satisfying a need. As long as MFOs respond to active demand, they are encouraging investments in enterprises that might not otherwise be made and helping residents to recover from the post-conflict economy. It is a positive effect that is worth their time and talent.

Despite the proliferation of MFOs in Uganda and the widespread support for microfinance, there is still a great amount of unmet need. Nationwide, there is less than one bank branch for every 120,000 people, less than 20 percent of micro-entrepreneurs have access to credit (McCord 1999), and less than ten percent of the population have a bank account (PRIDE Uganda).

The efforts of microfinance agencies have been aided by strong government support through a decentralization plan and structural adjustment reforms. The government policy is to create an enabling environment for micro-enterprise by improving education, credit, and transport services (Oyie 1998). The support of the government and a strong governmental commitment to reconstruction are critical factors in successful post-conflict microfinance endeavors.

Although poverty has not been substantially reduced as a result of microfinance in Uganda, the number of "hard-core" poor has declined (Brett 1998). This means that fewer people are living in misery, fearing their inability to meet daily survival needs. It has allowed them to transfer their vision to the future. More importantly, microfinance has provided lower-income entrepreneurs with the opportunity both to take a stake in the new economy, and though savings, to build security to protect them in case of future crises.

Conclusion

The Ugandan case corresponds very well with the theoretical model. The Ugandan economy was destroyed at the *macro*, *meso*, and *micro* levels, disrupting both national and local stability. With the impressive government reconstruction effort, the demand for credit was very high and the MFOs have been unable to meet the need. Uganda epitomizes the characteristics of post-conflict sites that differentiate them from standard sites. It has a mobile population, high levels of dissaving, inflation, distrust, safety threats, poverty, a damaged banking system, non-functioning regulation, increased dependence on informal sector, and a high level of uncertainty. Consistent with the overview of service provision in post-

conflict areas, some MFOs commenced operations with in areas very few enabling conditions, while others waited until the environment was more favorable. Specific groups – women, demobilized soldiers, and refugees – were targeted, but many programs opened their services to the general population as well. Finally, institutions devised strategies that they felt were appropriate to minimize their risk in a volatile environment.

The experience of the Ugandan MFOs provides examples of best practices and also offers recommendations to governments, policy makers, and organizations on what methods would be most successful in the future.

- Wait until the environment has stabilized before initiating services. Before then, encourage grant and emergency assistance.

- Commence organizational operations in the more secure areas of the country. Once an institution has gained a greater local understanding, a comprehension of the risks, and a clear strategy to reduce the risks, it may expand into more dangerous areas that may have higher demands for service.

- Multi-lateral agencies that can provide several services (such as relief, microcredit, and education) are best positioned to respond to the many needs of post-conflict survivors. They may rely on grants, but grants do tend to be available after a conflict (World Bank 1996).

- Plan and define reactions to conflict.

- Employ established best practices, including: lending to credit group members, group guarantee of loans, commercial interest rates, weekly mandatory group meeting, mandatory savings, service provision to micro-entrepreneurs whose businesses earn weekly revenue (Doyle 1999b), and avoiding excluding groups from targeting efforts to avoid antipathy (Barnes 1998).

- Offer available services to both refugees and locals in order to prevent antipathy (Borzello).

- Be prepared to respond to unique local needs with innovative services.

- The success of a post-conflict microfinance venture is largely dependent upon the commitment of a state's resources and state energies devoted to the reconstruction effort (Borzello).

- Remember the positive effects that, with proper planning and execution, can be achieved despite formidable risks.

In the case of Uganda, MFOs didn't rush into areas still affected by war. They recognized the need, but waited several years until the atmosphere was conducive and they had developed their programs in calmer areas. As time progressed and capabilities grew, MFOs slowly expanded into more risky areas.

The impact of MFOs in Uganda has been beneficial for the local and national economy. The growth in GDP has slowed since the initial post-war boom but remains positive. The MFOs have mobilized a significant amount of savings and have provided tens of thousand of loans to micro-entrepreneurs desiring expansion. The success of their work has attracted further donor funds and additional entries among the institutions. They have demonstrated that the poor, even in a post-conflict environment, are bankable, and that profits await those institutions prepared to extend outreach.

Notes

[1] Service provision during an ongoing conflict is very different from working in a post-conflict reconstruction phase. This paper focuses on the provision of microfinancial services in a post-conflict environment. Different principles may apply to an existing institution that continues services during conflict.

[2] Generally considered to be 1986, although intermittent conflict has continued to date.

[3] Such as using *kabange* (the right to use land) in rural areas, or stipulating in the contract that no legal action is necessary to collect debt. (Van Hook 1999a).

[4] An operational sustainability of 4.5 percent means that the group's profits cover 4.5 percent of its operations. Fully sustainable organizations that do not need grant funding would have 100 percent operational sustainability.

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