

MICROFINANCE DURING AND AFTER ARMED CONFLICT: LESSONS FROM ANGOLA, CAMBODIA, MOZAMBIQUE AND RWANDA

CONCERN WORLDWIDE &
THE SPRINGFIELD CENTRE FOR BUSINESS IN DEVELOPMENT
OUTPUT OF A PROJECT SUPPORTED BY
THE ENTERPRISE DEVELOPMENT AND INNOVATION FUND OF DFID

BY TAMSIN WILSON

MARCH 2002

THE SPRINGFIELD CENTRE FOR BUSINESS IN DEVELOPMENT
MOUNTJOY RESEARCH CENTRE
DURHAM, DH1 3UZ
TEL:+44 191 3831212
EMAIL:twilson@springfieldcentre.com

ACKNOWLEDGEMENTS

The author wishes to acknowledge the dedication of the research team, comprising Mercedes Rafael Ramos in Angola, Alison Williams, Uch Vantha and Soeng Vouch Ngim in Cambodia, Ann Kathrin Schneider, Alice Mutabazi and Jean Baptiste Uwanyilijuru in Rwanda and finally, Susan Fraser and Rodolfo Candido in Mozambique. In often difficult circumstances, they worked exceedingly hard to fulfil high expectations and ambitious plans.

My thanks also go to the staff of the Concern Worldwide field offices in Rwanda, Angola, Cambodia and Mozambique who provided essential logistical support to the research team. In addition, I'd like to thank the Concern Worldwide microfinance adviser, Isabelle Kidney, who co-ordinated logistical arrangements and provided valuable insight.

Finally, and most importantly, I should like to thank the many respondents living and working in Angola, Cambodia, Mozambique and Rwanda who kindly gave up their time to talk to the research team. I hope that this report accurately reflects their views and that in some small way it may lead to improved microfinance services in the future.

Tamsin Wilson

March 2002

CONTENTS

Index of Tables	3
Index of Figures.....	3
Glossary	4
Currency Conversion	5
EXECUTIVE SUMMARY.....	6
QUICK REFERENCE GUIDE.....	9
1. INTRODUCTION	10
1.1 Rationale	10
1.2 Overview of the Study.....	11
1.3 Definitions	13
1.4 The Case Study Countries	15
2. STUDY DESIGN	17
2.1 Data Studied.....	17
2.2 Research Methodology	19
2.3 Methods of Data Collection	22
2.4 Strengths and Limitations of the Methodology	23
2.5 Claims That can be Made About the Data.....	26
3. ENVIRONMENTAL CONDITIONS THAT IMPACT ON MICROFINANCE	28
3.1 Civilian Upheaval.....	28
3.2 Disrespect for Rule of Law	33
3.3 Socio-economic Impacts.....	36
3.4 Macro-economic Indicators.....	39
3.5 Economic Policy Change	43
3.6 The Financial Infrastructure	44
3.7 The Uncertain Political Situation Post Conflict	46
3.8 Physical Infrastructure Targeted During Conflict.....	47
Summary of Results: The Environment.....	48

4. COPING MECHANISMS OF THE POOR FOR MANAGING HOUSEHOLD FINANCE	50
4.1 The Effect of Conflict Upon the Household	50
4.2 Coping Mechanisms.....	55
4.3 Categories of Households.....	62
4.4 Categories of Coping Mechanism.....	66
Summary of Results: Coping Mechanisms.....	71
5. THE CHARACTERISTICS OF MICROFINANCE PRODUCTS IN DEMAND	72
5.1 Change in the Supply of Microfinance After Conflict.....	72
5.2 Change in the Demand for Microfinance After Conflict.....	83
Summary of Results: Demand for Products	94
6. IMPLICATIONS	95
7. CONCLUSION	103
REFERENCES	105
APPENDIX 1: HISTORY OF THE CONFLICTS	108
Cambodia	108
Angola	109
Mozambique.....	110
Rwanda	111
APPENDIX 2: RESEARCH TOOLS	112
Tool 1 - Stakeholder Analysis	112
Tool 2 - Village Wealth Ranking	114
Tool 3 - Timeline.....	116
Tools 4 & 5 - Semi-structured Interview and Focus Group Discussion	118
APPENDIX 3: LIST OF INSTITUTIONS AND PEOPLE CONTACTED/INTERVIEWED	123
APPENDIX 4: COMMUNITY MEMBERS INTERVIEWED	124

INDEX OF TABLES

Table 1	Research locations in Angola, Cambodia, Mozambique and Rwanda.	18
Table 2	Comparison of GDP/GNP at different stages in the conflicts.	40
Table 3	Comparison of average inflation rates at different stages in the conflicts.	41
Table 4	Characteristics of the poorest households	63
Table 5	Characteristics of the poor households	64
Table 6	Characteristics of the rich households	65
Table 7	Methods of reducing vulnerability to future risk	67
Table 8	Methods of coping with loss	70
Table 9	Informal microfinance providers post conflict	74

INDEX OF FIGURES

Figure 1	Relationship between the environment and the microfinance market	13
Figure 2	Theory of Generalisability	21
Figure 3	Diagram showing process of research and reporting	22

GLOSSARY

ASCA	Accumulating Savings and Credit funds
CRESCCE	Credit Sustenavel para o Crescimento dos Empresarios
DFID	Department for International Development
FAA	Angolan Armed Forces
FNLA	The National Liberation Front of Angola
FRELIMO	Front for the Liberation of Mozambique
FUNCINPEC	National United Front for an Independent, Neutral, Peaceful and Cooperative Cambodia
FCC	Fundo Credito Comunitario
FGD	Focus Group Discussion
GDP	Gross Domestic Product
GNP	Gross National Product
IDP	Internally Displaced Person
IMF	International Monetary Fund
INGO	International Non-governmental Organisation
KPNLF	Khmer People's National Liberation Front
MFI	Microfinance Institution
MPLA	Movimento Popular de libertacao de Angola
NGOs	Non-governmental Organisation
NIS	National Institute of Statistics
PCM	Post conflict microfinance
PRA	Participatory Rural Appraisal
RoSCA	Rotating Savings and Credit Association
RENAMO	Mozambique National Resistance
RPA	Rwandan Patriotic Army
SME	Small and Medium Enterprises
SSI	Semi-structured interview
UN	United Nations
UNHCR	United Nations High Commission for Refugees
UNITA	Uniao Nacional para a Independencia Total de Angola
UNTAC	United Nations Transitional Authority of Cambodia
VDC	Village Development Committee
WFP	World Food Programme

CURRENCY CONVERSION

This gives an indication of the US Dollar equivalents of amounts stated in the document. In a post conflict environment, exchange rates and the value of the local currency change rapidly, therefore, they must not be used as accurate rates.

Cambodian Riel	5000 Riel = US\$1
Thai Baht	35 Baht = US\$1
South African Rand	10 Rand = US\$1
Mozambican Metacais	25,000 = US\$1
Angolan Kwanza	25 = US\$1

EXECUTIVE SUMMARY

The Concern Worldwide and Springfield Centre post conflict microfinance (PCM) research project aims to improve the awareness, skills and knowledge available to implement successful post conflict microfinance projects for the poor. This synthesis report is the culmination of qualitative research work in Angola, Cambodia, Mozambique and Rwanda between June and August 2001.

The research attempted to answer three questions:

- What environmental conditions have the greatest impact on microfinance?
- What are the coping mechanisms of the poor for managing household finances during and in post-conflict situations?
- What types of microfinance products are in demand during and in post-conflict situations?

In acknowledgement of the complexities of the post conflict environment, a qualitative research methodology, based upon semi-structured interview and focus group discussion was employed. Hypotheses were tested to the limit through recurrent examination against evidence collected in the field and subsequent redevelopment where necessary. The hypotheses developed were then tested in a contrasting province using the same approach.

Few environmental factors were found that entirely precluded microfinance. *Informal* microfinance post conflict is dependent upon mutual trust and the lender's knowledge of the borrower's livelihood activities. Informal borrowing and cash savings occurs in refugee camps and immediately after the return home of refugees and IDPs. *Semi-formal* microfinance is dependent upon adequate security in the locality. Many aspects of relief operations negatively affect the development of microfinance in the long term. Immediately post conflict, 'microfinance' from NGOs has commonly been a misnomer for grants. Serious semi-formal microfinance providers have in the past established themselves years after the end of armed conflict. The transition toward peace from conflict occurs at a different pace in different pockets of the country but organisations have failed to adequately assess and later monitor the changing environment.

Coping Mechanisms initially focus upon substantial reductions in consumption, including food substitution and food intake reduction. Livelihood activities are characterised by low risk, low investment and quick return and are normally based upon household labour and the unsustainable exploitation of natural resources. For example, buying and selling goods on a daily basis and chopping firewood for sale are common livelihood activities. Unless there are no alternatives, sedentary agriculture develops only when the security situation improves. Diversification of

income sources is commonly preferred. The use of informal microfinance is an important way of smoothing consumption. Dissaving occurs during conflict but very liquid assets are only desirable during the emergency period. When external threats diminish there is a strong preference for investment in more productive, less liquid assets (e.g. investing in cattle or saving with an employer), where the household can grow the value of an asset over time. Social linkages within and between communities are important for poor people in emergencies and for business development.

Microfinance products that are attractive to poor people post conflict support their coping mechanisms. The products are very small sums of money that are repaid or saved in frequent instalments over a short term. Where in-kind transactions are the norm, which can be the case in remote areas after conflict, clients prefer to receive loans in kind. Households are reluctant to borrow, but when they make the decision to do so, it is normally informal sources that offer the most attractive products - as well as providing flexibility in repayment schedules. In general, small informal loans are used as consumer loans and semi-formal loans are used for productive activities.

Potential semi-formal providers of microfinance have in the past intervened relatively late in relation to the development of demand for microfinance services in war torn countries. However, demand has been misunderstood as organisations failed to properly assess the environment or to offer suitable microfinance products. Moreover, the perception of clients that NGOs are not serious about repayment in emergencies has led them to default claiming poverty, which has further distorted NGOs understanding of the market. In contrast, informal microfinance is initiated in response to the genuine, early demand for microfinance and as providers are smaller and more similar to their clients, they better understand client preferences. Consequently, they offer more suitable products and communicate a strong desire to see their own money again. The pervasiveness of the moneylender indicates that the system works. Poor people post conflict are bankable. However, they require innovative services with low overheads that are designed for their livelihood activities and the war torn environment in which they must live.

A role for relief, and in particular for grants, undoubtedly remains. Organisations can assist future long-term development by making a clear distinction, both verbally and in the actions of their staff, between grants and microfinance. Using microfinance as a means to achieve non-financial objectives is costly and serves to blur the lines between microfinancial services and NGO relief.

For microfinance to have a significant impact upon poverty levels post conflict, and to cater for widespread demand which grows exponentially after conflict, microfinance interventions must be on a large scale. To be large scale, they must hold a sustained attraction to a broad group of people with changing needs. To be attractive they must

react to the actual demand for and preferences for microfinance, to the changing coping mechanisms of households and to the changing environment.

QUICK REFERENCE GUIDE

Go here if you want to find out about:

Section

1. INTRODUCTION (p. 5)	<ul style="list-style-type: none">• The rationale of the project• How the study was undertaken• The case study countries
2. THE STUDY DESIGN (p. 11)	<ul style="list-style-type: none">• The general approach to the research• How the data was collected and analysed• What worked and what didn't
3. RESULTS I The Environment (p. 21)	Effects of conflict on: <ul style="list-style-type: none">• Social, economic, political and physical environmental conditions
4. RESULTS II Coping Mechanisms (p. 41)	<ul style="list-style-type: none">• The effect of conflict upon the household• Methods employed to cope with the effects• Categories of household and of coping mechanism
5. RESULTS III Microfinance products (p. 61)	<ul style="list-style-type: none">• The effect of conflict upon the household• Methods employed to cope with the effects• Categories of household and of coping mechanism
6. IMPLICATIONS (p. 83)	The implications of the research for post conflict microfinance and humanitarian assistance in the future.
7. CONCLUSION (p. 91)	Concluding remarks

1. INTRODUCTION

'After the war, our institution started up microfinance projects all over the country. But after some time, we had to close down many of the projects because many clients did not pay back. This was one reason. The other reason was that right after the war, a lot of donors gave a lot of money, but a little later, the money stopped coming' (Local NGO staff member, Rwanda)

The purpose of the Concern Worldwide and The Springfield Centre's action research project on post conflict microfinance is to enhance the provision of sustainable microfinance services in post conflict situations. Towards this goal, the project aims to improve the awareness, skills and knowledge available to implement successful post conflict microfinance projects for the poor.

1.1 RATIONALE

Microfinance during and after conflict has been seen as a proverbial 'Trojan Horse' for peace building, reducing dependency on relief, kick starting war torn economies, supporting relief and development programmes, improving gender roles and increasing self-worth - to name but a few. Expectations of microfinance have been high. However, in the past, multiple objectives have caused confusion and damaged microfinance markets. It has been demonstrated that, whether in the post conflict context or in more settled environments, microfinance can achieve significant breadth and depth of outreach when managed in a business-like manner as a minimalist service.

During and post conflict the expanding informal business sector, is a significant source of employment and household income. These businesses require a wide range of business development services, including finance which normally must be obtained from informal sources. Demand for microfinance also emanates from household budgets, primarily for consumption smoothing. Addison et al. (2001) assert that the reopening of the banking system should be a high priority of government in conflict affected countries. They state, 'The provision of bank finance for working capital, fixed investment and residential reconstruction must (also) restart. Otherwise, unemployment will remain high, thereby impeding the demobilisation and absorption of soldiers into the peacetime economy, potentially endangering peace itself'.

The incidence of conflict is not abating. There were at least 37 active conflicts in 1999 (Wallensteen and Sollenburg 2000). Sixteen of the 20 poorest countries, or half of all low-income countries, have experienced conflict in recent years. The way in which conflict manifests itself has changed and the distinction between peace and war, spatially and in time is fraught with ambiguity (Marshall 1997). Crisp (1998) states 'there is no longer a hard and fast dividing line between war and peace in the modern world'. Rather nations oscillate along a continuum between armed conflict and peace. Marshall's (ibid.) description of the Angola conflict as one where 'peace and war coexist even within a single region, where the "front" has been diffused throughout the country' is unfortunately the case in numerous countries involved in civil war. The result is instability and unpredictability.

Previous assumptions about what constituted good post conflict microfinance were probably wrong. Traditionally, it has been assumed that business-like microfinance can be part of the development package following successfully executed emergency interventions. This rather simplistic, staged approach is ineffective, can delay peace making and even endanger peacekeeping (Marshall, 1997). It is incumbent upon all microfinance providers to find ways to offer more effective microfinance services in more complicated and unpredictable environments.

1.2 OVERVIEW OF THE STUDY

This post conflict microfinance project is a three-year DFID funded initiative that began in January 2001. The first phase, lasting one year, consists of qualitative research in four countries and culminates in the production of three technical documents for wide dissemination. The second phase, beginning in January 2002, will create an innovative microfinance pilot project in Rwanda that will test the results of the first phase.

This report synthesises the findings from a major research project undertaken in the first phase by a team of researchers working in Angola, Cambodia, Mozambique and Rwanda, between June and August 2001.

The report is expected to interest those involved with microfinance after armed conflict who are working for microfinance projects and institutions, local and international NGOs and donor agencies. Furthermore, it is believed that the report could be of assistance to project planners and donors in humanitarian emergencies and even those involved in microfinance in countries that have not been affected by conflict.

This synthesis report forms the theoretical foundations for two further documents; '*Principles of better practice in post conflict microfinance*' and '*Tools for microfinance*

providers working in post conflict situations' are based. All three documents will be available on the PCM project web site¹, albeit the latter two in a draft format, by December 2001.

A qualitative research methodology was chosen in order to capture the complexity and the variability of the post conflict environment. However, it is acknowledged that qualitative studies can fail to offer the scientific rigour required by the academic community. Poor qualitative reports tend to offer broad-brush portrayals based upon unfocused enquiry and anecdotal reports. In response, to this common failure, Wolcott (1990:62) suggests 'Do less, more thoroughly' and Silverman (2000:101) states 'Make a lot out of a little'. This advice was followed throughout the research, where a small number of samples were studied in depth.

To gain rich and detailed information on post conflict microfinance the research was confined to three specific subject areas, the post-conflict environment, household coping mechanisms and suitable microfinance products. Three research questions, corresponding to the subject areas were constructed:

- What environmental conditions have the greatest impact on microfinance?
- What are the coping mechanisms of the poor for managing household finances during and in post-conflict situations?
- What types of microfinance products are in demand in post-conflict situations?

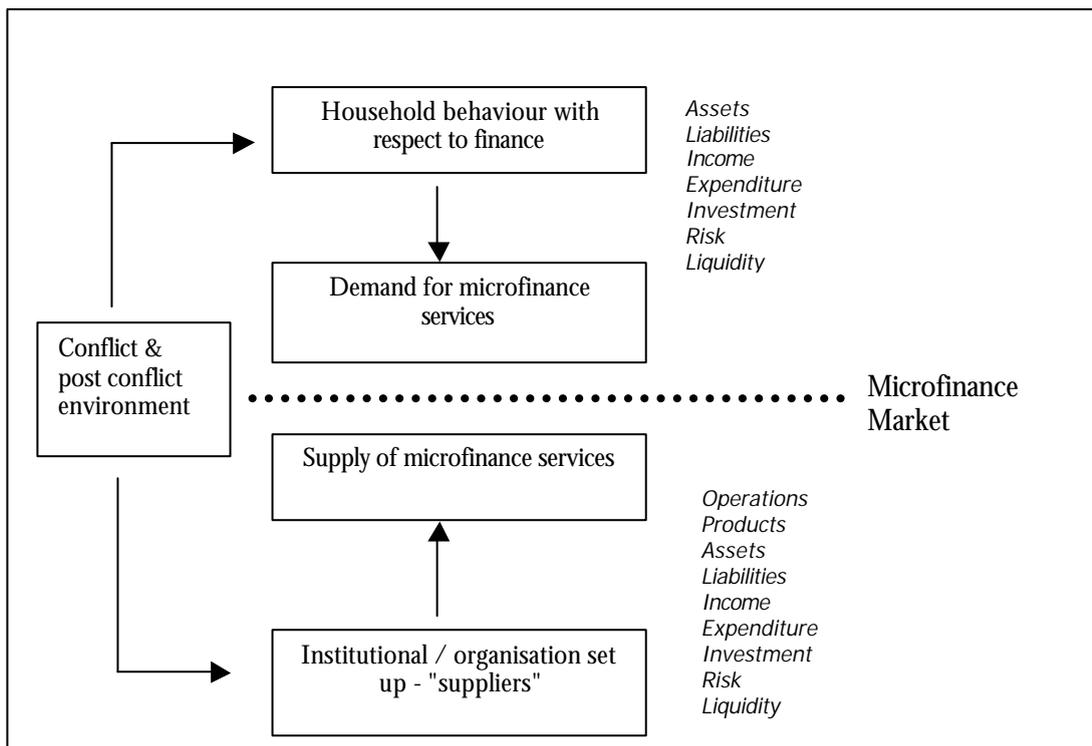
The enquiry was based on the assumptions that (i) the post conflict environment influences household behaviour (ii) household behaviour influences the demand for microfinance products (iii) the post conflict environment influences the development of microfinance institutions and the way in which they supply microfinance services (Figure 1).

The research questions were designed to test the following hypotheses:

- Microfinance products strengthen household coping mechanisms during and after conflict.
- Fulfilment of Doyle's essential preconditions² ensures a satisfactory environment for the supply and demand of microfinance products.

¹ <http://www.postconflictmicrofinance.org>

² The essential preconditions for microfinance are low intensity of conflict, re-opening of markets and long-term displacement.



- Fulfilment of Doyle's preferred conditions³ ensures a satisfactory environment for the supply and demand of sustainable microfinance.
- When choosing a microfinance product clients prefer those that are flexible, convenient and give people easy access to their money.

Figure 1 Relationship between the environment and the microfinance market

1.3 DEFINITIONS

The research required mutual understanding by the team on a number of important terms that were frequently used during the research. Williams (2001), in her country report on post-conflict microfinance in Cambodia, describes them thus;

Coping Strategies are strategies households undertake to cope with a shock. Sebstad and Cohen (2000) note that a range of strategies may be taken to manage loss and they may have negative or positive consequences in the long term – the way households mix and sequence these strategies will depend on the nature and

³ The preferred requirements for microfinance are bare bones, functioning commercial banking system, absence of hyper-inflation, relatively dense population, enabling legislation for MFIs, skilled, educated workforce, social capital, trust in local currency and financial institutions.

extent of poverty. They define three main types of coping strategies – consumption modifying, income raising and personal financial intermediation.

Microfinance is an 'economic development approach intended to benefit low-income women and men' (Ledgerwood, 1999:1) and it refers to the provision of financial services that may include credit, savings, insurance and payment services. The European Commission (1998) defines it as involving transactions of less than US\$1,000.

Informal Microfinance refers to microfinance services provided by organisations and individuals, but generally not institutions, that are created by people themselves, without external intervention and with no legal status (European Commission, 1998).

Semi-Formal Microfinance refers to the services that fall somewhere in-between formal and informal microfinance. It is usually not regulated by banking authorities although providers may have to have a licence and are subject to supervision by government agencies (Ledgerwood, 1999).

Formal Microfinance includes services provided by public and private banks, insurance firms and finance companies which are subject to banking regulations and supervision (Ledgerwood, 1999).

Microfinance Institution (MFI) is any organisation that has a single focus on microfinance.

The Poor are very difficult to define and Rahnema (1995) notes that the variety of cases defining a person as poor in different cultures and languages is such that there may be as many poor and perceptions of poverty as there are human beings. However, Sen (1999) helps in this definition by defining the poor as those that lack basic freedoms. He argues that freedom can relate to economic poverty when people do not have the freedom to satisfy hunger, to have adequate shelter and clothing, safe water and sanitation. Freedom can also relate to access to health, education and social care facilities and institutions that maintain law and order. Finally, Sen notes that there are freedoms related to political and civil liberties and the ability to participate in the social, political and economic life of a community.

Post Conflict refers to the situation in war torn societies that are transitioning towards a more peaceful and stable situation (UNHCR, cited by Macrae, 1999). It assumes that conflict is not a temporary blip in a linear path towards 'development' but a phenomenon that regrettably often recurs but in reality is part of a country's development.

In this document, the terms post conflict and war torn are used interchangeably, in recognition of the inadequacies of the term post conflict and, in particular, the fact

that a post conflict situation can rapidly regress to a conflict situation. Therefore, the label 'post conflict' does not necessarily mean the end of conflict.

1.4 THE CASE STUDY COUNTRIES

The countries were chosen because of the diversity of characteristics they displayed and the types of conflict they represented (see Appendix 1). They varied in terms of the colonising nation(s); the duration of conflict; their political and ideological influences; the cause of and motivation for war and the relative impact upon civilians. Collier (1995) distinguishes between two types of conflict. First, brief civil wars where capital is not significantly reduced but household production is interrupted. In these conflicts the banking system may close temporarily but rapidly recovers post conflict and "with peace the economy reverts almost to its initial income so that the peace dividend is large" (Collier 1995). The second type of conflict is the prolonged war in which the capital stock declines continuously but households find alternative livelihood activities so as to reduce disruption to household income. In a situation of this type it is common for the rural banking infrastructure to be destroyed, but for the Central Bank to remain operational. Recovery of the economy to pre-war levels may take more than a decade as it is dependent upon the creation of capital.

Mozambique and Cambodia can be characterised as the two countries in the group that have experienced prolonged conflicts that have been resolved. In recent years economic and development indicators have steadily improved but at a slower rate than neighbouring war-free countries.

The conflict in Cambodia lasted for almost three decades and at different stages displayed the characteristics of many different types of conflict, including ideological, interstate and civil war. In Cambodia, the Khmer Rouge regime lasting less than four years and ending in 1979 was one of the most barbarous periods of governance the world has ever seen. People lived in an agrarian society, in which it is estimated that between 1 and 3 million people died either of starvation and disease or as punishment for alleged petty crime or simply for being from the educated elite. The banking system and the national currency was totally destroyed. Cambodia has now been at peace for more than a decade.

Renamo, fighting against the Marxist Frelimo government in Mozambique until 1992 targeted infrastructure, such as road, rail, and social services, including schools and health clinics - the creation of which had made Frelimo popular a few years before. The rural banking infrastructure was another casualty of the conflict which lasted for two decades. Mozambique, like Cambodia, transitioned from a centrally planned to a

market economy and from an authoritarian regime to a pluralist democracy. There has been peace for nearly ten years.

In contrast, Rwanda struggles to achieve justice and reconciliation after the genocide perpetrated between April and July 1994. There has been an uneasy peace since then. The conflict was relatively brief, lasting just three months, but it affected every Rwandan. The banking infrastructure was less affected than it was in Cambodia and Mozambique. The Central Bank closed temporarily. Looting damaged financial institutions but few were destroyed.

The Angolan conflict has lasted four decades and continues to this day. There have been brief respites in the conflict. The uneasy peace following the signing of the Lusaka protocol in 1994 lasted just four years, which was nevertheless the longest period of peace since the 1950s. Today the conflict between UNITA and the government has reached, in military terms, a stalemate and the once ideological conflict reduced merely to a battle for control of Angola's abundant natural resources. The Central Bank is in operation but rural financial infrastructure has been destroyed. A brief summary of the history of each conflict may be found in Appendix 1.

2. STUDY DESIGN

2.1 DATA STUDIED

The research locations within each country were selected after the team had arrived in country. The decision was based upon a thorough assessment of the situation. Adequate security and accessibility were the most important factors⁴. Then areas were chosen so that cumulatively they exhibited a wide range within the criteria listed below:

1. Represent different parts of the country.
2. Presence of returned refugees, returned IDPs and people who had not been displaced during conflict.
3. NGO target areas.
4. Experienced conflict in the past.

In each research country, two main research locations were chosen (See Table 1). The first area e.g. Banteay Meanchey province in Cambodia, was the main data collection area and the second e.g. Pursat province in Cambodia, was where initial ideas and theories that had been developed in the first location were tested. In Angola, the process of data collection and testing in two different locations was impossible due to the short time scale.

⁴ In Rwanda and Angola armed conflict was present during the period of the research and the need for access and security became a priority.

COUNTRY	FIRST AREA (Data collection)	SECOND AREA (Testing ideas)
ANGOLA	Malange and Bie province	N/A
CAMBODIA	Banteay Meanchey province	Pursat province.
MOZAMBIQUE	Manica province	Gaza province.
RWANDA	Umutara province	Butare province, Kimironko market

Table 1 Research locations in Angola, Cambodia, Mozambique and Rwanda.

The research team consisted of nine people, seven women and two men. Three people each were in Cambodia and Rwanda, two people in Mozambique and one person was in Angola. In each country, there was a group leader, an international researcher, who had been heavily involved in the design of the initial research and had attended a three-day workshop prior to the assignment. This person was responsible for training the other national team members. In Mozambique and Cambodia, the capacity of the national team members was such that, in time, they became able to work more independently of the international researcher.

In Cambodia, Mozambique and Rwanda the research took place over seven weeks. In Angola, the research lasted for four weeks as the on-going humanitarian emergency in June and July 2001 precluded the organisation supporting the researcher for longer.

Sources of Data

Three main sources of data were used. First, primary data, from semi-structured interview and focus group discussion. These involved a wide range of actual and potential microfinance clients including the poor and poorest borrowers, people with large assets, amputees and the disabled, returnees, IDPs, those who were not displaced by conflict, MFI clients, lapsed clients, non-clients, moneylenders, traders providing credit and gold sellers.

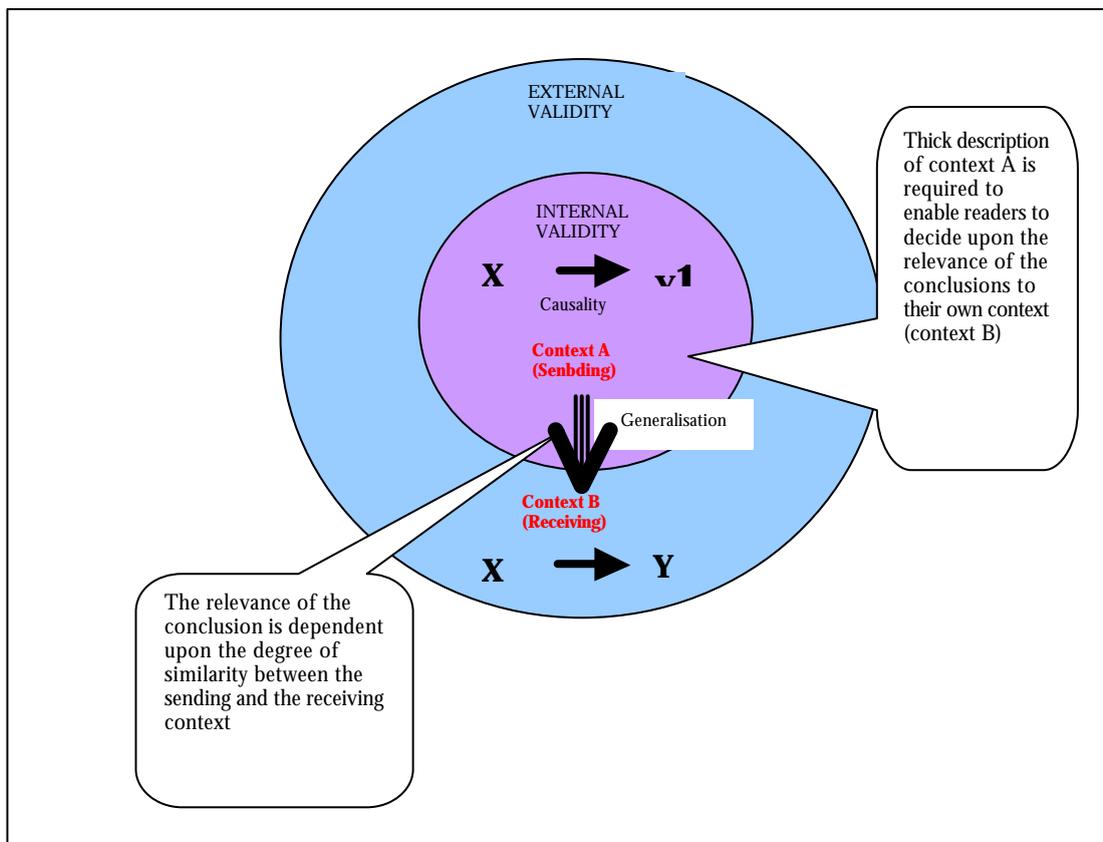
Second, primary data collected through interviews with the staff of NGOs, government and donors, mainly working in towns and cities. Some people worked in the microfinance sector and others were closely involved with the humanitarian operations during the emergency period.

Third, secondary data obtained from World Bank socio-economic statistics, UN reports, books, journals, government reports and documents written by NGOs and donors.

2.2 RESEARCH METHODOLOGY

For the purpose of collecting rich, in-depth information, a small number of samples were investigated in great detail. In-depth enquiry in a small number of villages, with few interviewees, is nevertheless of little benefit if it does not produce results that can be applied by the wider microfinance community working in different post conflict situations. Therefore, throughout the research the team sought to create generalised statements, called testable propositions. Supported by detailed description of the 'sending environment' the generalised statements would enable others to assess whether or not they could apply the research to a 'receiving environment' (See Figure 2).

Figure 2 Theory of generalisability



The team managed a cyclical process of data collection, translation, transcription and analysis in which they sought to find causal relationships between factors (Figure 3). Data analysis was not left until the end of the research so the interim findings frequently informed the direction and subject of future enquiry.

To avoid producing a simplistic, anecdotal account of post conflict microfinance (where only the best quotations are selected to fit the key arguments and the word count) the transcribed field notes were coded and every scrap of information was included in the data analysis. In particular the research team sought deviant (contrary) cases that disproved testable propositions.

By the end of the period of research in the first location, the testable propositions had been tested to the limit. Then, they were transferred to the second location, which differed in terms of the main selection criteria. The final output was a list of generalised statements demonstrating the beliefs of the research team, and based upon intensive analysis of research data. The generalised statements are the framework of this report.

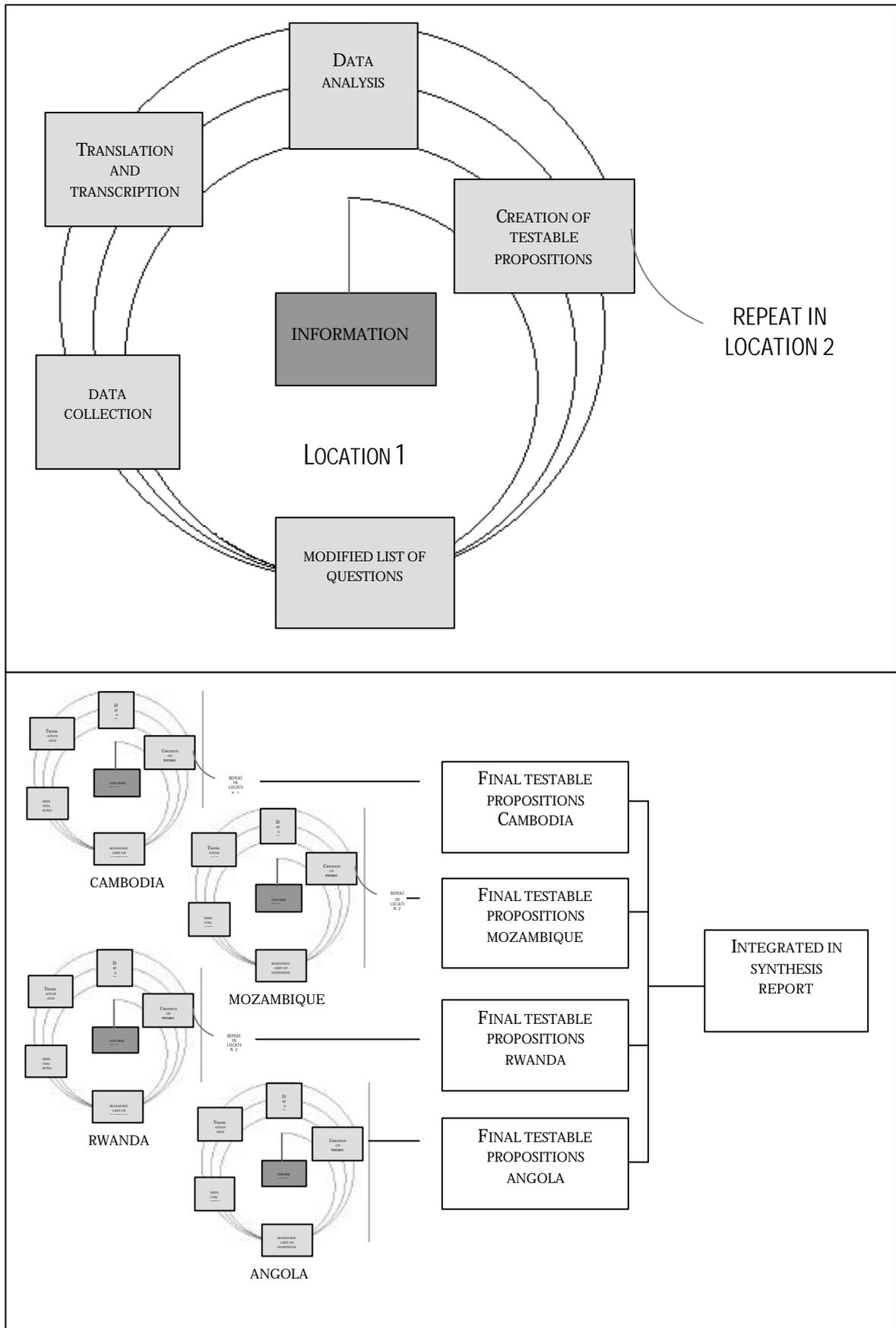


Figure 3 Diagram showing process of research and reporting

In Cambodia and Mozambique, a dictaphone was used to record every interview. The transcription of the interviews provided a verbatim account so less information from the interviews was lost through selective note taking. Due to the time constraint in Angola and the fear of blame in Rwanda the use of dictaphones was not considered an option. Instead, the researchers attempted to take word-for word notes of the interviews.

During the field research, the team kept in contact through email, which was important to ensure that the continuously developing methods of data collection remained the same in each country. A research co-ordinator, the author of this report, visited the team members in Cambodia, Mozambique and Rwanda. Angola was not visited due to the emergency in the country in June 2001.

2.3 METHODS OF DATA COLLECTION

The five research tools are described in detail in Appendix 2 and summarised below. In practice semi-structured interview and focus group discussion were the main methods used to collect information as the other methods were found to be inefficient.

- Stakeholder analysis
- Village wealth ranking
- Semi-structured interviews (SSI)
- Focus group discussions (FGD)
- Timeline

Stakeholder analysis

Stakeholder analysis was undertaken at the beginning of the research period to identify primary, secondary and external stakeholders. The overt and hidden interests of the stakeholders with regard to this research were assessed. Then the stakeholders were placed in a matrix that helped the group to understand the relative importance of each actor to the research and the influence that they would normally exert.

Village wealth ranking

The objective of the wealth ranking was to identify, using locally defined parameters, the relative wealth of all households in a village to gain greater understanding about livelihoods. This was normally carried out using small homogenous groups of men or women. The groups ranked each household in the village based upon their perception of wealth. Once all the households had been ranked, the group defined the characteristics that placed a household in a particular category.

Semi-structured interview

To gain in-depth, qualitative information, essential areas for discussion based on the testable propositions were listed prior to interviews with one or two people. The list guided the conversation, but did not control it, so that if an interesting subject arose the team was able to investigate further. Semi-structured interviews often followed a focus group discussion.

Focus group discussion

Generally, five to ten people were brought together for a focus group discussion. In practice, focus group discussions were similar to semi-structured interviews, except more people were present and a discussion rather than a dialogue ensued. The focus group discussion was an opportunity to identify important people for semi-structured interview, although occasionally it worked the other way and an individual interviewee would bring together a group of friends or colleagues for a focus group discussion.

Timeline

In some semi-structured interviews and focus group discussions, it was attempted to create a timeline that could be the basis for further discussion about the past. Normally one person volunteered to draw on poster paper a line that showed how peoples' lives had changed for better or worse over a particular period. A discussion about the shape of the line then ensued.

2.4 STRENGTHS AND LIMITATIONS OF THE METHODOLOGY

Strengths

The most significant positive characteristic of the methodology was the flexibility it brought to the process of information gathering.

1. Through frequent communication between members of the research team and the co-ordinator, it was possible to make quite significant changes to the process without negatively affecting the research. For example,
 - When the focus of the research was perceived to be too broad it was narrowed in favour of investigating the three research questions stated with less emphasis than had originally been planned, upon the past activities of NGOs and MFIs.
 - Members of the team arrived in their respective research countries armed with a wide variety of tools, encompassing Participatory Rural Appraisal (PRA) activities as well as the more usual interview techniques. It became clear that they were too time consuming and would complicate the process of data analysis. Consequently, the tools were scaled down to comprise FGD and SSI, plus the three auxiliary ones, wealth ranking, stakeholder analysis and the timeline.
2. A flexible timetable for the research was made possible by the research design which focused upon disproving testable propositions, rather than upon keeping to a tight planned schedule. In particular, the researchers could return to the same area in order to discuss further with an interesting interviewee, or to investigate in detail a particular subject that had been thrown up after a previous interview had been translated.
3. Recording interviews using a dictaphone facilitated the collection of high quality, in-depth information.
4. Frequent analysis of the data meant that the researchers' understanding of the phenomena progressively increased. This provoked more in-depth, informed questioning and the inclusion of important stakeholders that had not been identified in the initial stakeholder analysis.
5. Semi-structured interview and focus group discussion were the methods of data collection with which the informants felt most comfortable, reflecting the strong oral tradition and high illiteracy rates in all of the countries. During these discussions people felt free to arrive and leave at will which kept the discussions very relaxed. However using the research definitions, it also meant that occasionally a semi-structured interview became a focus group discussion or a focus group discussion became a semi-structured interview.

Weaknesses

1. The timeline and wealth ranking tools required the use of pen and paper and automatically introduced a formality to the proceedings that made both the researchers and the interviewees uncomfortable. Consequently these two

activities were emphasised less and if the research were repeated would not be used.

2. Qualitative research is time consuming. The research plan may have been too ambitious for a period of 7 weeks research in Cambodia, Mozambique and Rwanda and a period of 4 weeks in Angola. Unanticipated was the long journey to the field. In the worst case the researchers in Banteay Meanchey province, Cambodia, travelled for 6 hours per day on poor roads to and from the field area as the local insecurity meant they could not remain overnight in the locality. As a rule, translation and transcription took four times the length of an interview.
3. In practice, some tools were found to be inefficient. In particular, the information obtained from the Stakeholder Analysis could have been done as thoroughly in a less structured manner. Wealth ranking is from the quantitative tradition and is commonly used by NGO project managers who need information on every household in a community. For qualitative research, discussion by a skilled facilitator would have been adequate to identify the attributes of the poorest households.
4. The original aim of the research was to produce *theory* that could be applied to other situations. However, the team prefer to call their results *testable propositions* for further research by others. This reflects the complexity of the environment and the short time available in which to investigate it. The four-week period of research in the complex environment of Angola was insufficient to come up with firm results.
5. The ethnic divide in Rwanda, the immediate cause of the recent conflict, proved problematic for the selection of researchers that could interact well with a broad range of people.
6. Occasionally, one or two interviewees dominated the focus group discussions. This made for unsatisfactory research as it was rarely possible to change the focus without offending or embarrassing the whole group.
7. In Cambodia and Mozambique, the long period since the conflict blurred memories of that time. However, there was a positive side in that less sensitivity to political issues was encountered and it is plausible that people may have spoken more openly about what they could remember.
8. Dictaphones were not used in Rwanda where they were believed to be inappropriate and in Angola where their was felt to be too time consuming. This reduced the accuracy of the information collected and resulted in asymmetry in the volume and quality of data collected in Cambodia and Mozambique, compared to Rwanda and Angola.

2.5 CLAIMS THAT CAN BE MADE ABOUT THE DATA

The quality of qualitative research can be measured in terms of the validity of the conclusions drawn and the reliability of the methodology used which should be replicable by others. Validity and reliability can be assessed through two questions:

Would other researchers match the same constructs to the data and would it be possible to reproduce the data given the information available?

This question assesses the reliability of the methodology and refers to the fact that there is no single reality; every person has a different perception or interpretation of a situation. When different people are given the same data, some phenomena will be interpreted differently depending upon the individual, nevertheless there will be some that are always interpreted in the same way by all.

Data was recorded using a dictaphone and transcribed or noted manually so that it remained accessible after the research. In the narrative, interviewees have been 'allowed to speak' as much as possible to give the reader their exact words, rather than the research team's interpretation. It is hoped that this will allow the reader to make up his or her own mind as to whether or not the author has accurately interpreted the information.

Field notes and transcriptions were coded to ensure that the same interpretation was given. Using multiple researchers meant that several people could be allowed to analyse and interpret the same data, which could reduce errors in interpretation. The research team documented the names of interviewees, location and environment in which people were interviewed so that the research could be replicated in the future. However, to protect the privacy of the informants, quotations have not been attributed to individuals.

Have solid relationships been established between cause and effect and could the same causal explanation apply in different contexts?

Referring to the validity of the conclusions reached, this asks whether valid linkages have been made between cause and effect and whether or not these are valid in other contexts too. To establish strong causal relationships the team constantly questioned their assumptions and constantly sought to disprove their beliefs. By testing the relationships in a second location it was possible on a small scale to see whether or not the relationships might apply in a different context to the one in which they were constructed.

This report aims to draw out findings that are applicable in many different post conflict contexts. It focuses particularly on areas where the same cause and effect

relationship was observed in all four countries. The results should be used as testable propositions for further testing. They are by no means final and it is not claimed that they are 'the truth'. In presenting the results, quotes are used extensively to illustrate statements made.

3. ENVIRONMENTAL CONDITIONS THAT IMPACT ON MICROFINANCE

'When we came back it was still a bit crazy. We weren't sure what we were doing. I think people were still drunk on the blood of war.' (Lito, Pindanganga, Mozambique)

This study attempts to uncover the general characteristics of conflict and post conflict environments that might affect MFIs. In the past, organisations have inadequately assessed the post conflict environment when designing microfinance interventions which has led to negligible understanding of how the environment influences MFIs but also how MFIs influence the environment, particularly the microfinance market. This has resulted in the creation of institutions that are unsuited to the needs of their clients and the harsh environment in which they must operate.

The characteristics of conflict differed in Angola, Cambodia, Mozambique and Rwanda, and each conflict exerted a different influence upon the environment. Using examples, this chapter provides an overview of the environment, as described by the interviewees and secondary data sources. It documents first the effect of war upon the civilian population, second the effect upon the macro-economic environment, third the effect upon the political situation and finally the effect upon infrastructure.

3.1 CIVILIAN UPHEAVAL

During civil armed conflict, or intra-state conflict, the civilian population is more exposed to fighting than would normally be the case in inter-state war. Armed conflict disrupts production and causes the destruction of capital (Collier 1995). Public services are neglected as state finance is devoted to military expenditure. In contravention of the Geneva Conventions of 1949, violence against civilians is used as a military tactic and is not just the by-product of the natural course of the war (Azam and Hoeffler 2001). Furthermore, armies are allowed to loot in order to supplement their pay (Azam 2000 cited in Azam and Hoeffler 2001).

The disruption to development, including the loss of important years of education, the loss of human capital through flight, the destruction of social capital, and the psycho-social problems exerts an influence for generations.

Civilians Become 'Legitimate' Targets

Cairns (1997) states that 'Estimates of the proportion of civilians now being killed (in civil wars) range upwards of 84%'. In Cambodia, it is estimated that between one

and three million people died between 1975 and 1979 in Cambodia. When the Khmer Rouge regime was toppled by the invasion of Vietnam in January 1979, it created famine and a decade of conflict. The Khmer Rouge became one of several groups in opposition to the new Heng Samrin - Hun Sen government and they succeeded in disrupting the recovery of the country by continuing to destroy infrastructure and killing or kidnapping members of local administration.

'If the rice land is far from the village about 5 km we are not able to go because at that time (between 1970-5) they are waiting there. ... Where I lived a lot of people died because when the Khmer Rouge went into the village they would kill everyone they met. We had to escape from our village because we were afraid that they would take us away to be with them in the mountains or the forest where they lived. When they came we escaped and when they went we came back' (man, village chief of Trapeng Thlork talking of his native village Knach Romeas in Battambang, Cambodia).

The Renamo forces in Mozambique also pursued terror tactics against civilians. The war claimed the lives, directly or indirectly, of one million Mozambicans.

'We were threatened several times by soldiers. Many times we fled to the bush when the fighting was near our homes. One night they came and burnt everything, even my animals. I fled with my family to Bengo and then Cafumpe where I found security. They gave me a plot of land and some food.' (Teresa, Chipindaumwe, Mozambique).

The Angolan conflict fought between UNITA rebels and the government of Angola has created intense insecurity in rural areas. UNITA rebels target civilians but the government can only effectively protect those that live in a number of towns that are guarded by government forces.

'Joana's story is so terrible yet so common here. While they (she and nine others) were in the fields UNITA attacked them. They killed eight of the people immediately. She and another woman were to be taken as "brides", but they resisted. Joana was burned, beaten, kicked about the head, and then hit on the left side of her head with the machete to finally kill her. Thinking both women were dead or dying UNITA left them. Joana was taken to Malange and reunited with family there. They were truly shocked but delighted to see her. They had already had her funeral' (NGO staff, Malange, Angola).

Those in power in Rwanda incited the population to participate in the genocide that lasted for three months in 1994. One-eighth of the population, around one million people labelled Tutsi and moderate Hutu, were killed often by neighbours, family

members and friends, during a campaign fought mainly with machete. The genocide was only halted by the military victory of the Rwandan Patriotic Army (RPA).

Structure of Households and Community Transformed

The loss of human resources causes the morphology of households to change. In Cambodia, approximately 26% of households (Ministry of Planning, Cambodia) are headed by women and in Angola, it was reported that approximately one-third of all households are female headed.

'I felt difficulty during the Lon Nol period because my husband died in a bomb blast. I then moved to live in Bavel district in Battambang because my parents had rice land there but the Khmer Rouge came and took all my family to live in the mountains. In that time we didn't have enough food nor even water.'

The shape of the household is further altered after the end of conflict when IDPs and refugees return home. Multiple forms of cohabitation result, which can be temporary or permanent. This increases pressure on the household budget as income must be shared between more dependants.

Multi-headed households were reported in all four countries studied and in Angola, a form of polygamy is practised.

'Some men find it advantageous to have two wives. In Angola women work hard, start business, go sell in the market... men are not so dynamic. I know of some civil servants, for example, who have a small salary that always arrives late. They take a second wife, and for them that means an extra source of income, they take advantage of the situation with so many widows... Some women use the same strategy, they have a husband and then a "sponsor" who helps with money or presents, but polyandry is not so common or acceptable' (local NGO staff, Angola).

Individuals must take on responsibilities at a younger age than in the past. In Rwanda, this manifested itself in the phenomenon of child-headed households. A man who was eighteen when his mother was killed in the genocide, supported three younger siblings after their father remarried and left them. Two teenage Rwandan boys stated that their fathers had been killed during the war and alleged that their stepfathers did not adequately support them so they were obliged to work.

The ratio of productive members to dependant members in the community decreases. Often households accept the orphans of close relatives and also widowed elderly people. It is common for women to assume larger productive and reproductive roles.

Population Movement

Over time there can be several waves of refugees and IDPs who respond to both household, political and military developments.

'I was living here in Massingir town. When the war intensified I was obliged to look for a safer place to stay. I just left as light as possible because the journey was too long and we couldn't manage to walk to South Africa with all our belongings.' (Carmona, Massingir, Mozambique)

Informants in Angola and Cambodia both describe 'escaping' from a conflict in which they had become unavoidably caught up.

'You try to escape from war and leave all you have behind if necessary. If you can keep your life you consider yourself lucky. Keeping other things is not so important' (Female IDP, recently arrived in Luanda, Angola).

'I helped my mother escape from this place but the Khmer Rouge followed us. At that time my mother was frightened and left us and ran away. I went back to fetch my sister and we met with the Khmer Rouge but they said no need to follow because I was still young. At that time we had 15 days without rice or water. We were in the forest and my brother and one sister died at that time because there was no food or water. We drank the dew off leaves and my mother gave her urine to me to drink so I could survive' (woman, Trapeng Thlork, Cambodia).

This common experience suggests that many people who flee lose nearly all their household assets in the process.

Table 2, below, shows the numbers of people that were displaced by fighting in each of the four study countries. It should be noted that the conflict in Rwanda that created 1.7 million mainly Hutu refugees enabled 800,000 Tutsi refugees displaced in the previous conflict of 1959 to return to Rwanda.

Country	Year	Refugees (million)	Refugees as % popn	IDPs (million)	IDPs as % popn.
Angola ⁵	2000	0.4	N/A	1.0-3.5	~ 30%
Cambodia	N/A	N/A	N/A	N/A	N/A
Mozambique ⁶	10/92	1.6	10%	3.74	23%
Rwanda ⁷	1994	1.7	N/A	0.9	N/A

⁵ www.refugees.org

⁶ Final Report of the Consolidated Humanitarian Assistance Programme 1992-1994. UNOHAC and UNDHA, 1994.

Table 2 Refugees and internally displaced (peak figures).

In Rwanda the reduction in population movements signalled an end to the emergency period and in Mozambique it was a change in peoples' attitudes, which for many signalled the end of the emergency.

Damage to Social Capital

Social capital, an instantiated informal norm that promotes co-operation between two or more individuals, gives rise to such phenomena as trust, networks and civil society (Fukuyama 2001). In the economic sphere, social capital reduces transaction costs associated with contracts and rule enforcement. This is important for microfinance where success depends upon a transactional agreement between borrower and lender. As Fukuyama states "No contract can possibly specify every contingency that may arise between the parties; most presuppose a certain amount of goodwill that prevents the parties from taking advantage of loopholes".

Social capital is damaged by the movement of large numbers out of the community. In the place of refuge (especially in cities) a population of near strangers initially exists and it takes time for co-operation to become a norm between individuals. The Khmer Rouge in Cambodia destroyed co-operation between individuals as all people were forced to work for 'Ankar' (the organisation, meaning the Khmer Rouge) and they encouraged the population to report people who were disloyal to Ankar. In Rwanda, the effect of people killing members of their own community was too sensitive a subject for the researcher to discuss but it is thought to be a significant factor even today. In Mozambique the two factions Frelimo and Renamo carved up the country between themselves. The Concern Worldwide (unpublished) end of project review notes,

'The levels of distrust can be illustrated by the fact that, at the start of the project, even the Concern staff were suspected by some of the communities in the project area to be agents of Frelimo, while District staff were initially unhappy that scarce resources were being directed to a former Renamo area. Communities initially wanted to retain their own teachers at the newly built schools even though they were untrained and the quality of education provided was poor'.

What are the implications of such civilian upheaval for microfinance interventions? There is a high probability that households with few income earners and many dependants will have little spare cash or motivation to purchase microfinance

⁷ www.refugees.org

services. Those that perceive they are particularly risk prone will actually attempt to minimise the risks over which they have some influence. Microcredit is commonly seen as an avoidable risk and therefore demand is subdued. In some cases, there may be demand for very small consumption or investment loans. The loan portfolio performance of microfinance institutions can be impaired by a large concentration of Addison's 'distressed borrowers', civilians affected by conflict.

Upheaval of civilians is likely to create a community of savers; people that are intent on rebuilding lost assets in order to reduce vulnerability to future risk. Damaged social capital can have two effects. Either clients prefer to transact on an individual basis because groups are perceived to cause a variety of problems or else people freely submit to the creation of groups in order to recreate some of the social norms that existed before the armed conflict began. The latter scenario may be more prevalent immediately after particularly prolonged conflict.

3.2 DISRESPECT FOR RULE OF LAW

Threat of Banditry and Theft Increases

The threat of insecurity, organised crime, banditry and corruption are omnipresent.

'You should not wear your glasses or your watch if you go to Roque Santeiro, some "gatuno"-thief- will come to you and steal them before you can even set your eyes on him' (Woman vendor in Rocha Pinto market, Luanda, Angola).

The most powerful find it easy to appropriate the property of those with less power,

"Farmers often find their crops stolen, and normally the rebels take the blame for that, but in many occasions it really is the FAA- Angolan Armed Forces, or the police" (NGO staff, Angola).

In Cambodia there has been a transition in the most prominent threats to civilians. First they describe the threat of conflict, then insecurity and then finally banditry. NGOs are particular targets of bandits today.

'Since 1998 there were improvements ... but the robberies are more now compared to before and there's kidnapping and everything. I don't want to say why there is more as that's getting into politics and I hate talking about that but I heard of many cases where people had a gun and the only people who can have a gun are those who have been in the army or the Khmer Rouge' (NGO worker, Cambodia).

Corruption Pervasive

A World Bank report (2001) suggests that corruption is the biggest issue facing Cambodia above all others including governance, unemployment and political instability. Describing their return from a Thai refugee camp in the 1990s, people described having to pay 'protection' money.

'When we arrived in the village we had spent all of the money (from UNHCR)

FORCED CONSCRIPTION

The local population is press ganged to fight or to provide ancillary support to an army.

'We were forced to be soldiers at that time (between 1970-5) but I managed to escape. My village was affected by shooting and bombing so we had less time to earn money and grow rice' (man, 55 years now living in old Trapeng Thlork).

including paying for the places where they guard the road' (woman, Trapeng Thlork, Cambodia).

Today in Banteay Meanchey province, Cambodia an unofficial government tax is levied for using the public roads, as described by a wood trader living in the province.

'At all the check points I have to drop wood... in Pongro two bundles, Sisophon two bundles, near the railway station and near Sesen bridge on the road to Mongkul Borei' (woman, 38 years, wood seller in Makak, Cambodia).

"In Angola you cannot go anywhere without finding some official extending his palm for his 'gazosa'-a little bribe to help him. He will tell you his salary is small and comes late and he has to eat too" (NGO staff, Angola).

The Transparency International Corruption Perceptions Index (Transparency International 2000) ranks 90 countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. Mozambique is ranked 81 and Angola is ranked 85.

Less Respect for the Rule of Law

De jure and the more common *de facto* property rights become prone to abuse after conflict when the goodwill that Fukuyama (2001) associates with the upholding of contracts in a strong civil society is depleted. IDPs and returnees are particularly vulnerable to the loss of their assets by virtue of their absence.

'If we escape from the village they take the land away from us...when we came back there was nothing and we were treated as enemies as we came from Thailand' (man, 44 years, VDC member in Trapeng Thlork, Cambodia).

When property rights are ambiguous, it is perceived to be risky to invest labour or money in productive assets. As the case below illustrates, doing so can be disastrous for poor households,

'The former commune chief provided rice fields to us but when the new commune chief came to power the people from outside came to say that the land belonged to them. When they said it belonged to them the new commune chief allowed them to take it... I heard from the old person who knew well about the history that this land did not belong to anyone in the past. ... They claim the land already cleared and they say that the forest is theirs but they don't claim it. We went to the commune chief and to the court in the province but we still lost the land' (man, mid 30s)..... *'We did not have enough money to fight the case'* (elderly woman, Trapeng Thlork, Cambodia).

In Rwanda, assets were stolen by people returning to Rwanda after years of exile,

'When we came back (from Tanzania), our land and our house was occupied by the returnees. In 1997, the land was divided between my family and the returnees'. (female shopkeeper in Akabeza Cellule, Rwanda).

The result of the corruption, insecurity, banditry and theft described above is the loss of assets. This is the crux of the problem in war torn countries. It is the reason why households can be so vulnerable and it is also the reason why it takes those that have experienced prolonged conflict so long to recover. Whiteside (1996) notes that "Rural households in Mozambique remained vulnerable to shocks to their livelihoods even after they were resettled and had produced their first harvest. Their livelihood systems remained fragile until the reserves needed for crisis coping strategies were rebuilt.

Without assets, households are more vulnerable to risk and informal lenders are rightfully cautious about lending money for consumption or investment purposes to a household without assets⁸. Fear of risk causes asset-poor households to forgo potentially profitable production choices. Rosenzweig and Binswanger (1993), cited in Morduch (1999), show that an increase in risk (in this case related to a natural hazard in South India) leads to a 35% reduction in farm profits for the poorest quarter of households but has no effect on the wealthiest households.

⁸ For an excellent discussion of the role of assets and more specifically capital in economic development, see de Soto (2000) *The Mystery of Capital: Why capitalism triumphs in the West and fails everywhere else*: New York, Basic Books

Lost assets change clients' attitude to financial services. As Morduch (1999) concludes, "Inflation, recession, drought, flood, illness and civil war hit hardest those households that are least well equipped to handle the shocks. Harder still...poverty is a source of vulnerability, and repeated exposure to downturns reinforces poverty". Borrowing money is a risk that becomes unattractive to such households. Those that have the ability to do so would prefer to pool their exposure to the risk of large disasters through insurance schemes or to guard against smaller risks through savings accounts.

Corruption reduces what little profit enterprises create and the overall effect is depressed actual demand for microfinance. The microfinance institution must carefully guard against fraud and theft among staff and clients. It must also maximise employee safety which demands significant increases in fixed and variable costs as it involves the use of more sturdy vehicles for the transportation of cash between safe locations.

3.3 SOCIO-ECONOMIC IMPACTS

Inadequate Food Supply

During conflict, agricultural assets are destroyed and people flee from insecurity which may also have prevented them from farming. Output from agriculture declines during prolonged conflicts if farmers are not able to work in their fields at key stages in the production cycle. Damage to infrastructure has in the past meant that food cannot be transported from areas of agricultural surplus to those experiencing a deficit. The result can be national food insecurity and subsequently, dependence on international aid.

'There was nothing to eat. They (Renamo soldiers) escorted us at night through the bush to the corridor to look for food. We searched for wild mushrooms and anything else we could find while the soldiers looked out for any government army attack. Sometimes we searched for hours and found nothing.' (Madalena, woman held by Renamo forces in Gondola district, Mozambique)

'In my area I saw that people eat the meat of people. I do not tell a lie I see with my own eyes in Mr Kun's house. The boy said that the woman asked him to wait and sleep while she boiled the potato but she just boiled the water in a big pot and then cut his throat and poured the boiling water down his throat...We know clearly that the woman did like this because the boy is still

alive...His name is Ahour'. (focus group discussion, Trapeng Thlork village, Cambodia).

Food insecurity is notoriously difficult to assess post conflict. Reports of large deficits in Rwanda prompted a large humanitarian response but the short duration and type of conflict meant that standing crops, especially cassava, remained intact after the conflict had ended and food insecurity was not the problem that had been expected.

Large Sums of Donor Money

The influx of NGOs and donors as soon as the situation allows provides some limited support to those made most vulnerable by conflict. Since 1994, the World Bank has provided US\$20 million grants and US\$100 million loans to the Rwandan government and in 1997, the IMF approved a US\$ 20.6 million post conflict reconstruction programme (World Bank online). Similarly, the UNTAC mission in Cambodia cost US\$ 2 billion and employed 20,000 international staff.

Dependency, or reliance, upon handouts was only reported by NGO staff in Rwanda,

'From 1994 to 1997, a lot of grants were distributed, especially to those made vulnerable by the conflict, orphans and widows etc.. This resulted in a change of mentality, people got used to grants. The whites gave a lot of money during that period. It was justified, but at the same time, it changed the mentality of the people. And it resulted in huge microfinance repayment difficulties'. (NGO staff, Kigali, Rwanda).

An interviewee working for an NGO in Mozambique emphasised the willingness of people today to steal from international agencies whose large budgets appeared to make them a legitimate target.

'One of the legacies of war is that people think it is acceptable to steal, especially from an international NGO. So good systems and controls are essential to mitigate against fraud.' (NGO employee, Mozambique)

In the other three countries, there was no evidence that the grants that reached the household were significant or predictable enough to create dependency, per se. Interviewees in the four study countries described how the grants from NGOs were used to top up household income, rather than to entirely support it. Whiteside (1996) shows that in Mozambique households planned production and consumption *with the hope* of receiving some supplementary emergency aid. There may also have been a feeling that what was offered by NGOs was transient, prone to shifts in targeting and generally unpredictable; and therefore risky to depend upon, so instead diverse income streams were developed.

SMEs Very Important

The informal sector grows rapidly post conflict as people resort to income generating activities and micro-enterprise to raise household income. The formal sector exhibits sluggish growth. Agricultural production is impeded by: the presence of landmines; the unpredictability of the local security situation; the low numbers of livestock surviving the conflict and the inequitable redistribution of land.

Though not the work of choice, many people nevertheless rely upon the informal business sector for self-employment post conflict when unemployment is high and there is little hope of gaining other employment. The informal business sector grows disproportionately quickly. There is a preference for uncomplicated, adaptable business, requiring common sense but no prior knowledge or skill, such as trading. Limited and liquid investment is an important requirement of livelihood activities as the owner must be able to withdraw assets quickly if the environment dictates.

Slightly richer people have a tendency to slide below the poverty line during conflict and this hinders the development of the economy as businesses encounter little demand for high value, or a large volume of products or traded goods. This is particularly visible in Angola where the very competitive markets are based on the sale of very small quantities of goods and low gross margins. This illustrates the fallibility of only providing services to the poor.

Rural Markets Slow to Start

Market activity returns first to urban areas, where there tends to be less conflict and a more monetised economy. Money, brought by returnees, and dollarised donor funds increase the circulation and acceptability of other currencies, particularly in border and urban areas. In post conflict Cambodia, the population used Thai Baht, Cambodian Riel, and US \$. In Mozambique the Mozambican Metacais, the South African Rand, the Zimbabwean Dollar and the US Dollar were in circulation.

Conversely in remote areas demonetisation is apparent. Despite the high associated costs, in-kind transactions were preferred. This is thought to be caused, not only by demonetisation, but also by a lack of trust for the local currency and limited agricultural surplus for sale. As one woman, talking about present day Cambodia stated,

'People have no habit to spend money their habit is to spend in rice' (woman, 21 years, Chambok Meak, Cambodia).

'There was cash circulating in the towns (between 1992 and 1994), namely Chimoio, Manica and Beira and the villages that were linked to the (Beira)

corridor. However there was still insecurity in the remote areas with armed bandits and Renamo and Frelimo soldiers. You have to consider that nearly all of the economic activity was in the towns along the corridor'. (NGO employee, Mozambique).

During conflict, people are extremely dependent upon informal microfinance. Initially this might be in-kind, mirroring the currency that is in use at the time. Loans and repayments can involve cash, labour and goods in-kind.

'We bought the saw from the people in the market as credit' (woman, Trapeng Thlork, Cambodia)

'Sometimes I got loan and I pay back in labour ... when I take 300 baht I would work for them for 6 days' (man, poorest category, Chamnoam Keut, Cambodia).

In urban areas local markets stimulate demand for microfinance, but in rural areas the markets are often not present and demand for microfinance develops more slowly.

What are the effects on potential microfinance projects of the socio-economic factors mentioned above? First, when households are unable satisfy basic needs then microfinance is a highly problematic intervention. Demand for cash is easily confused by NGOs with demand for financial services. However, in these circumstances, donor emergency relief or public welfare is more effective.

Donor money designed to enable households to meet basic needs has masqueraded as microfinance to prevent recipients becoming dependent upon aid. Serious microfinance projects that come after must counter the misunderstanding that is created by the grants called microfinance. In war torn rural areas, historically the most difficult in which to construct sustainable microfinance institutions, new innovative, low cost lending and saving mechanisms will be the only way in which microfinance can be offered effectively.

3.4 MACRO-ECONOMIC INDICATORS

This section draws mainly from secondary data sources, but where possible primary data is compared.

Economic Growth

Table 3 shows how GDP growth has changed during conflict in Angola, Cambodia, Mozambique and Rwanda. Relatively slow growth during conflict is seen in the former three countries. This is supported by Collier (1995) who describes how annual GDP growth rate during conflict in three countries with prolonged conflict was 5% lower than the prior period of peace. He also shows that the rate of recovery is far slower than the rate of growth seen in neighbouring war-free countries. In contrast, short conflicts, such as the one in Rwanda, cause a sharp decrease in GDP growth and then a fast recovery (which Collier terms, 'a peace dividend').

	Stage in conflict	Angola	Cambodia	Mozambique	Rwanda
GDP/ GNP growth⁹	Pre	1960-1970	1960-1970	1960-1970	1989
		4.8%	3.1%	4.6%	N/A
	During	1992	1980	1980-1992	1985-1994
		3.3%	N/A	0.4%	-6.6%
	Post	1995*	1990-1997	GNP 1995-1996	1995
		2.5%	6.2%	3.8%	34.4%*

* 1995 was a period of relative peace within Angola and is used in place of a post conflict period.

Table 3 Comparison of GDP/GNP at different stages in the conflicts.

Inflation

The national economic indicators (Table 4) show that inflation rises moderately during conflict. The influx of donor funds post conflict is one of the main factors that causes an increase in the amount of money in circulation which places upward pressure on the annual rate of inflation.

The annual inflation rate peaked immediately post conflict in Cambodia, Mozambique and Rwanda. Similarly, in Angola, the period of peace between 1994 and 1998 was also a period of hyperinflation, reaching a peak of 3783% in 1995. Despite the high and hyper-inflation displayed, governments in Cambodia, Mozambique and Rwanda were able to reduce the rate very rapidly.

⁹ All GDP/GNP and inflation statistics from World Development Reports 1981-1996 and countrywatch.com, except for inflation figures with asterisc which are unconfirmed.

Loss of confidence in the economy and in particular in the national currency causes dis-saving and a preference for using a second currency. Capital flight is observed as international and some local business investors physically withdraw their interests from the country.

	Stage in conflict	Angola	Cambodia	Mozambique	Rwanda
Inflation	Pre	1960-1970	1960-1970	1970-1976	1980-1988
		3.3%	3.8%	6.9%	4.1%
	During	1992	1980	1980-1988	1985-1994
		500%**	N/A	33.6%	4.5%
	Post	1995*	1992	1985-1994	1995
		3780%**	110%**	53.2%	89%

N/A = Not available

*1995 was a period of relative peace within Angola and is used in place of a post conflict period.

**These data are estimates o.

Table 4 Comparison of average inflation rates at different stages in the conflicts.

Currency reform (the introduction of a new currency) can be used to shore up the economy. In Rwanda, it was undertaken immediately after the conflict in order to render worthless the cash stolen by members of the ex-government (Addison et. al 2001). In Angola, there have also been a number of currency reforms. The most devastating was in the early 1990s when 95% of the monetary value of bank accounts was frozen during the switch from Kwanza to new Kwanza (Hodges 2001).

'The currency change in 1990 was the worst, because the government did not change the old Kwanzas into new ones, and everybody who had a little money in the bank suddenly had nothing. At least in the last occasion, when they change the Kwanza Reajustado for the Kwanza again, the exchange was properly made: one million of the old, one of the new. Nobody lost anything this time' (Female IDP in Palanca, Luanda, Angola).

Foreign Debt

Upon cessation of conflict and demobilisation the reconstruction effort is launched, funded largely by The Bretton Woods Institutions. For example, in Angola in 1996 the government began rehabilitation and reconstruction programmes, involving rebuilding schools, administrative buildings and town halls.

The national fiscal deficit is high as, despite high public expenditure, systems for collecting tax revenue are not operating effectively. In Mozambique in the five years after the conflict ended the fiscal deficit averaged 10-20 percent of GDP (before the inclusion of grants from international donors)(Addison and de Sousa 1999).

One might question how such broad, macro-economic effects could influence the development of a small microfinance institution. First, local demand for microfinance services is related to economic growth. It is proposed that Collier's peace dividend, displayed after short conflicts, enables the rapid development of demand for microfinance services. In contrast the slow economic growth exhibited after prolonged conflict results in the more gradual increase in demand for microfinance. Second, even moderate annual inflation rates can rapidly reduce the value of savings and loan funds, if interest rates are not properly applied. Hyper-inflation makes microcredit and savings in cash all but impossible, except perhaps for very short term loans. Third, high taxation of the formal private sector to finance the national fiscal deficit pushes many into the informal sector, where it is more difficult to secure adequate financing.

3.5 ECONOMIC POLICY CHANGE

High military spending is a prominent characteristic of countries in conflict. In Angola 30% of the national budget for 2000 was allocated to defence and security compared to 1.4% for education and 2.8% for health and sanitation (UNDP 2000). There is also a sense among government that they must win the conflict, 'no matter what the cost'. Loans taken by the Angolan government in 1994 to finance the war against UNITA have now matured. In 1999 more than 95% of the government's oil revenue (US\$260 million) was allocated to debt servicing, thereby further reducing the amount that could be spent on public services (le Billon 1999).

Economic policy change and the strengthening of the central bank *during conflict* occur in countries where conflict and donor aid are sustained over a long period, such as in Angola and Mozambique. Addison et al (2001) state 'The greater role of financial liberalization in contemporary reconstructions reflects the weakness of the states (and histories of extreme rent-seeking in state-controlled financial systems) but also the emphasis on financial liberalisation in the conditionality of the IMF and World Bank adjustment and sector lending'.

As a pre-condition to receiving grants and loans from either the IMF or the World Bank governments are required to improve national economic policy by moving towards a decentralised, liberalised market economy. This might explain in part the ability of each of the above governments to bring inflation under control so rapidly.

The daily operations of the Central Bank of Angola have benefited from technical assistance (Aguilar 2000) and the Bank of Mozambique was similarly supported as part of the wartime adjustment programmes of the 1980s (Addison et al 2001).

After conflict, the changed capacity of the Central Bank, for better or worse, will affect MFIs when the time comes to create the regulations that govern them.

3.6 THE FINANCIAL INFRASTRUCTURE

Armed conflict can variously destroy the rural banking infrastructure, the Central Bank or the entire financial system. The operation of the Central Bank, which is the licensing organisation and financial regulator, is a pre-cursor to the re-establishment of an effective banking sector. It is the very foundation upon which formal and semi-formal microfinance is built.

In Cambodia, the entire financial infrastructure and the local currency were obliterated during the Khmer Rouge regime. In the short Rwanda conflict limited damage, consisting of the temporary closure of the Central Bank, was sustained. The protracted civil wars experienced in Mozambique and Angola damaged the entire rural banking system, but the Central Banks have remained intact (Addison et al. 2001).

In those countries where the Central Bank was destroyed, as in Cambodia, or closed, as in Rwanda its re-opening should be a priority. However, the role of the Central Bank is highly specialised and the loss of human resources during conflict invariably makes it more difficult for the bank to do its job effectively. Poor regulation and unwise licensing decisions can be made by weak Central Banks, which can cause the national banking system to be exposed to excessive risk.

Weakened regulatory influence at the national level facilitates fraud and insider lending within formal banks. Abuse of unregulated semi-formal and informal microfinance also occurs. For example, in Cambodia in the 1990s, Addison et al. (2000) assert that 12 of 33 licensed private banks are laundering money from drug trafficking and illegal logging. Members of the ex-Hutu government in Rwanda left the country in 1994 for Zaire (now DRC) with two-thirds of the national monetary base which they planned to use to finance a future invasion (Addison et al, 2001).

Post conflict, banks are privatised as part of the financial liberalisation strategy. External investment benefits financial institutions many of which will have had assets stripped by staff and clients fleeing conflict or by governments funding the war effort. Private banks from neighbouring or ex-colonising nations choose to invest in the

Formal Banks are not for Poor People

Formal banking institutions do not offer a quality financial service to the poor, nor do they aim to do so. In Cambodia, 56% of the rural population and 27% of the population living in urban areas outside of Phnom Penh must travel more than 5 Km to a bank or Credit Union (NIS, 1997).

'This is the big problem in Mozambique. The banks only loan to well established people. They are not interested in the poor, by that I mean peasants. NGOs did not start with microfinance until much later.' (NGO employee, Mozambique).

'I was a farmer when I was living in the province, in Bengo. I sold the produce in the market, and I thought of asking some money from the bank, but they asked me to deposit a big amount of money first. I would not have earned that amount in ten years...' (Male IDP, Luanda, Angola).

country after conflict. However, neither the privatised national banks nor the private banks consider the poor to be an important client group.

Semi-formal microfinance providers must also recover from the loss of assets after conflict. In 1994, US \$7 million in cash was transferred with the *genocidaires* from the Rwanda Popular Banks to the refugee camps in Zaire (now Democratic Republic of Congo) (Addison et al 2001). In the case of semi-formal microfinance providers, privatisation is not a realistic option and external donor re-financing is usually the only means of recovery.

Conflict creates distressed borrowers among previously sound enterprises (Addison et al 2001). The loss of markets, human resources, assets that can be used as collateral, equipment for production and the negation of insurance policies cause significant problems to business owners and to lenders. Conflict also decreases the choice of semi-formal and informal finance available to poor people, so lenders that remain can adopt opportunistic behaviour.

Without the supporting financial infrastructure, it is costly to provide a microfinance service. Past experience of collapsing financial institutions creates suspicious potential clients.

3.7 THE UNCERTAIN POLITICAL SITUATION POST CONFLICT

'...By 1997 people were starting to show some hope again...little by little, we started thinking: it seems like this is it, the future will be better, things are improving now' (NGO staff, Angola)

Just one year later the conflict in Angola had resumed. This oscillation between conflict and peace is characteristic of the post conflict environment. Uncertainty remains while the different factions bluster and jockey for positions of power within newly formed governments. Meanwhile soldiers representing the same factions on the ground can maintain pockets of control, so insecurity and even conflict continue intermittently.

'The Khmer Rouge disagreed with the first election and so there was a big battle after this. From 1988-94 there was a lot of shelling. Since the first election they could not shell the village but they come through the village and burnt down some people's houses' (man, government official in Chamnoam Keut, Cambodia).

Instability is not only caused by the opposing factions. Demobilised soldiers must also be re-integrated into a society where there may be scarce and unequally distributed natural resources, high population pressure and few employment opportunities. The task of re-integration is made more difficult when society itself is divided.

Security throughout the country takes time to develop. Usually secure pockets, encompassing the main urban centres are more commonly achieved immediately after conflict.

'I would say it (the transition from relief to development) happened around 1994/1995. I think the main feature was people's participation....but this was possible sooner in the towns than it was in rural areas because of lack of trust. Obviously security was an important issue, but, yes, trust in the communities was crucial. I also think an important factor was political willingness. Much was dependent on both Frelimo and Renamo wanting changes to take place for the good of the people.' (NGO Employee, Mozambique).

The uncertainty makes it difficult for people to plan and results in less demand for microfinance services. Demobilised soldiers can destabilise microfinance institutions,

particularly if they are given the opportunity to threaten staff. Knowing when the political situation is stabilising is important and calls for accurate local information.

3.8 PHYSICAL INFRASTRUCTURE TARGETED DURING CONFLICT

Like the financial system, the level of destruction wrought on the physical infrastructure is dependent upon the type of conflict. Infrastructure is tactically one of the first targets for both sides in conflicts between military factions (as opposed to the civilian factions in Rwanda).

Decades of conflict in Angola, Cambodia and Mozambique ensured that the roads, railways, irrigation systems and flood control, especially in rural areas were barely useable or completely destroyed. Public services infrastructure was similarly ruined. For example, in Mozambique 4,000 rural primary schools and 1,100 rural health posts were destroyed or abandoned (Hanlon 1991). In Cambodia, only 12% of the rural population had access to improved water sources in 1996 (World Bank 2001). The Angolan rail system, which provides a link to the seaboard, was also badly affected. In 1973 it carried 9.3 million tonnes of freight but in 1994 this decreased to 135,000 tonnes (EIU 2000).

In contrast, the genocide in Rwanda had less impact on infrastructure but, as the statistics so strikingly show, proportionately more on civilians.

Colonial rulers made little or no provision for investment in people. Armed conflict serves to extend the period of under-investment in public services, in particular, health and education. Countries emerging from long conflicts have fewer, poorer quality public services than those that have had short 'spikey' conflicts.

Particularly following prolonged conflict, poor roads and few banks increase direct costs of microfinance service provision and reduce the profits made by small businesses. Improvements in infrastructure take decades rather than years and need to be budgeted for as such. Poor health services negatively affect the health of the local population and bad health is one of the most commonly stated reasons for loan default but in such circumstances there is likely to be strong demand for savings and insurance services.

SUMMARY OF RESULTS: THE ENVIRONMENT

1. The lack of a legal framework for the microfinance sector does not hamper its development or growth.
2. Trust and knowledge of borrowers' business is essential for informal microfinance.
3. Security is essential for semi formal microfinance.
4. The microfinance market begins to develop in what is normally termed the 'relief phase'.
5. Many aspects of the relief operation have a negative impact on the provision of microfinance.
6. Microfinance is developed by many NGOs on the basis of trial and error.
7. The political situation affects the development of microfinance.
8. A semi-monetised or demonetised economy leads to a preference for goods in kind.
9. Obstacles to the sustainability of MFIs exist as there will be greater expenditure by the institution due to insecurity, low human resource capacity, trauma and displacement.
10. The transition to peace occurs at a different pace in different parts of the country and there is uncertainty surrounding the maintenance of peace.
11. Income generating activities and micro enterprise are the most important sources of household income after conflict.

4. COPING MECHANISMS OF THE POOR FOR MANAGING HOUSEHOLD FINANCE

'We were not allowed to work for cash, but there were ways of escaping the control. I did seasonal jobs like working on the farms to get some money. It was illegal because we were not allowed to work by law. If you were unfortunate you would get arrested and repatriated through Maputo while your family are still in the (refugee) camp. Then you would walk again to South Africa.' (Senhor Ngovene, Massingir, Mozambique)

Coping mechanism is the term used to describe strategies that are used by households to manage the effects of shock. Sebstad and Cohen (2000) state that poorer households with limited options may have to resort to negative coping mechanisms such as selling productive assets. In contrast, those with more options will prefer to mobilise labour, reduce consumption or find a new source of income.

The ways in which the poor adapt and survive after conflict have been neglected by MFI designers but they relate to the type of microfinance products that are most attractive and are therefore very important. This section firstly describes the effects of conflict upon households. Second, it describes the coping mechanisms and finally it attempts to categorise the types of household and the types of coping mechanism.

4.1 THE EFFECT OF CONFLICT UPON THE HOUSEHOLD

To bring sense to the wide variety of ways in which conflict affects peoples' lives, Luckham et al (2001) use a framework that discusses entitlements. The framework comprises livelihood entitlements, public entitlements, civil/social entitlements and reverse entitlements. The results of the research into the effects of conflict on households will be presented within this framework.

Livelihood Entitlements

This includes land, labour, capital, infrastructure and communications systems. The means to earn an income is, as has already been discussed, reduced in the aftermath of war.

In particular, household livelihoods are affected by the destruction or loss of capital and productive assets, such as cattle, ploughs, vehicles and buildings. It is most apparent when people are forced to flee rural for urban areas and leave bulky, productive assets behind. The loss of assets signals a change in livelihoods.

'I had a sawing machine in the province where I was living, but now here in Luanda I have nothing, the church has given my family a place to stay and we have to beg for food. Sometimes the nuns come to help us with food or clothes. If it were not for them we'll be hungry'(man, Luanda, Angola).

The destruction of infrastructure reduces the ability of people to maintain production and to access markets. Damage to the Angolan rail system significantly reduced the capacity of the country to move goods to the coast. Loss of irrigation systems in the paddy rice-dependent provinces of Cambodia was also damaging.

'In this area there is no irrigation but we have a dam at Prey Khpaos but during the war the Khmer Rouge destroy it so now we have nothing.' (man, Chamnoam Keut, Cambodia).

Formal sector employment is hard to come by in poor countries that have not been at war. During and after conflict, the size of the private sector further contracts and there are fewer employment opportunities. State-owned enterprises can collapse and there are few civil service jobs available either.

'People survived on their salaries, but when people lost their jobs there was no more source of income.' (CRESCE client, Chimoio town, Mozambique)

'My husband was working in the government so we had an income. But we could buy less and less with this money.' (CRESCE client, Chimoio town, Mozambique)

One of the few employment opportunities during emergencies is with NGOs and a number of people interviewed during the research in Rwanda stated that they had been able to get work with international agencies.

The withdrawal of labour because of death, injury or displacement damages livelihoods. Mine victims account for 8% of all disabled people in Cambodia, the highest rate in the world. The mines, accumulated over decades of fighting, remain a

constant threat and can precipitate the voluntary withdrawal of labour if the area is deemed too risky,

'at that time not anyone wanted to make the rice field, some of them they lacked money to make the rice field and some of them were afraid that when they make the rice field the Khmer Rouge would come and destroy all so they sold it to me' (man, Chamnoam Keut, Cambodia).

'The bombs and mines on the road meant that we could not go (to our ricefields). They put mines on the roads and on the bunds of our rice fields. That's why all the people could not go far away from the village because they were scared about the mines. For my memory over 100 people were injured by mines, some died and some are now amputee.' (man, talking about the situation in Chamnoam commune, Cambodia, in the 1980s).

As time goes by and the situation does not improve, the danger is acknowledged but considered unavoidable if people are to make a living.

'I am afraid of mines ... every time but we have no choice as it is my occupation and if I do not go I cannot earn any money' (woman, 38 years, woodcutter in Makak, Cambodia).

'They have accident when they collect firewood in the forest and some people when they collect some leaves off the trees in the forest and some they go together three people and they all come back with accident – lost hand or leg' (man, village chief of Khlempor Cheung, Cambodia).

Public Entitlements

The term public entitlements relates primarily to entitlements that citizens can reasonably expect the government to provide. This includes the maintenance of law and order, an efficient legal system and public services such as water and sanitation, education, health services and welfare. In practice, these may only be available to privileged groups, though.

Cambodia has been dealing with the effects of the decimation of its public service infrastructure. Nearly a decade since the first peace, the limited human capacity for community leadership roles means that the same educated people must be re-elected to village committees, just to keep them in operation.

Rural public services were undermined in Mozambique as they were targeted by the Renamo rebels.

'Traditional birth attendants continued to offer a basic service to expectant mothers and new born infants but, without access to any materials, medicines or to any training, infant and maternal mortalities rose. A very basic education service was maintained but teachers were poorly trained, had no equipment and often not even the simplest of buildings' (Concern, End of Project Review, 2001:31).

Public entitlements were particularly weak in rural Mozambique during the conflict. The government was unable to protect rural areas from insecurity which in turn inhibited the distribution of food aid. Maintaining law and order in the relatively remote parts of Cambodia was difficult too in the early 1970s when the Khmer Rouge gained ground over the Lon Nol government in the provinces. Insecurity re-emerged when the Khmer Rouge was overthrown in 1979. Over more than a decade they targeted leaders of the local administration and educated people, especially teachers. The government could not protect these people and consequently they lived in fear of kidnapping or death.

'At night ... I always sleep in the forest with my cow. There are a lot of robberies and the Khmer Rouge interrupt us all the time (in the 1980s).' (man, village chief, Bour Srange Cambodia).

Banditry and corruption become a threat particularly to NGOs, but also to those people doing business, in the post conflict context.

The weakened legal system and civil society following conflict, allows people to break the law with relative impunity.

'Before if we had rice land no one could take it away from us but after we fled from our village and came back after many years we found our land had been taken away from us and given to someone else' (woman now living in Trapeng Thlorck village, Cambodia).

'They said that the land had belonged to them for a long time from their parents and we had to go to the courts to claim from the people from Thma Pouk. We spent a lot of money because we went to the courts often but finally I stopped to claim' (man, chief of Throm Deikas village, Cambodia).

The Rwandan government has failed to provide a public entitlement, access to the judicial system after the 1994 genocide. Six and a half years after the conflict nearly 119,000 people accused of genocide remained lodged in community lockups, awaiting trial. Fewer than 4,000 had been tried. In an attempt to solve this very political problem, and perhaps to demonstrate that there is a political will to give the

accused a fair trial, the government is planning to establish village-based, people's courts, called 'Gacaca'.

Social Entitlements

Social entitlements comprise social capital and citizenship. Theoretically, offering a response to the collapse of public entitlements, these can be weakened by long periods of conflict. As a result, households become more vulnerable to risk as they are less able to cope with the unexpected.

The Khmer Rouge in Cambodia caused great damage to civil society through a divide and rule policy where every individual was expected to report on others, which bred distrust and fear. There were reports of households supporting each other during the difficult period after the Khmer Rouge had fallen from power. However on a few occasions, particularly in Rwanda and Cambodia, people described either being left alone or having to leave because a relative was no longer willing or able to support them.

'In early 1980 I arrived here and I had nothing and just stayed with my sister. I lived under her house. At that time my sister was not in a good mood and she always worried about how she could earn money...I felt upset with my sister and I decided to take my family to live in the school with three other families' (man, mid 50s, Koy Meng, Cambodia).

Nevertheless, co-operation rather than individualism is most common after conflict. In Angola people actively seek association with others, perhaps in reaction to the damage caused to civil society by mass migration. For example, a large number of Rotating Savings and Credit Associations (RoSCAs) are in operation and in contrast to the other countries a preference for group activities is stated. In Cambodia, families habitually form small working parties to pool productive assets and labour. A market trader in Kimironko market, Kigali stated, 'it is important to help each other, maybe the people whom I help now will help me later'.

Reverse Entitlements

Extra-legal entitlements are entitlements obtained through theft or through threats and force, and through power to control markets. They are a common survival strategy for people in the most desperate situations. However, one person's benefit is another's loss and the flip-side of reverse entitlements is that others must suffer.

The occupation of land and houses and the theft of food from fields in Rwanda has already been described. People who left their homes in a hurry also found that

people had looted them in their absence. Land seized by the powerful in Cambodia is another example of reverse entitlements.

4.2 COPING MECHANISMS

Households alter their behaviour during and after conflict by reducing consumption, maximising income, diversifying risk, liquidating assets, avoiding liabilities, accepting grants and using informal financial services. Understanding household survival strategies can help those supporting and assisting in the process of improving livelihoods after conflict.

Households Reduce Consumption

In conflict, household income can be significantly reduced and therefore it is imperative that expenditure is correspondingly cut. This is something at which poor households are very adept and there are nearly as many ways of reducing consumption, as there are poor households. In Rwanda, one of the biggest household expenditures is primary and secondary education which is not free even for the poorest. A female household head in Mwendo cellule stated that she could not afford to pay to send her children to school, but sent them anyway because sometimes the teachers allowed them to stay. Another female head in the same cellule stated that she could not afford to purchase medicine for her children, so when they were sick she collected traditional herbs instead.

Expenditure on food, which is another one of the major costs for the landless poor, is reduced by selecting the cheapest food or by mixing the staple with wild foods or with water to make a soup.

'At that time (early 1980s) we lack rice and my older son goes to pick water lilies to mix with the rice and cook...I eat for a few times until my tears come out because it is very difficult to eat. Eat it just for surviving' (man, around 50, Koy Meng, Cambodia).

'At times we were very hungry. We were always looking for food and ate whatever we could find. Even now there are times when we are hungry. But that is normal, especially just before the harvest.' (Kativa, Pindanganga, Mozambique)

Income From Labour and Natural Resources

When most businesses and employment opportunities have collapsed, it is incumbent upon households to generate income using whatever means they can.

For the majority there are two essential resources for resuming economic activity straight after conflict: These are household labour and natural resources; activities based upon daily unskilled labour and the exploitation of natural resources.

Interestingly, the methods used to increase income were similar in the four countries immediately post conflict. Poor people sought income-generating activities that could be characterised as '*low risk, low investment and a quick return.*'

In Angola trade in imported goods is a common activity as it requires only labour rather than scarce raw materials. Similarly, in Mozambique, many activities required only the investment of people's time,

'I had a small business. I managed to set up a kiosk in the refugee camp. My clients were mainly my fellow refugees. They were getting money from ganho ganho (seasonal labour).' (Carmona, Massingir, Mozambique)

In Angola, the transience of the livelihood activities undertaken is striking, but the flexibility may be the secret of success,

'I sell anything, sometimes soft drinks, but not during the winter, now nobody buys them because it is cold. So today for example I bought some bread; but tomorrow it could be something else. If my colleague goes tomorrow to the market and she says, look, I bought this for a good price, then I can buy it too and make a better profit' (Female IDP in Luanda, Angola).

'I came from Uige sixteen years ago. My parents were farmers, and we all worked in the fields. Now I sell food in the market: eggs, sausage, sandwiches... everybody has to eat something when they come to the market, it is a good business' (Female IDP in Luanda, Angola)

Relief goods were commonly traded in all four study countries during and after conflict. Being able to trade part of the food ration for other household items suggests that households have a remarkable ability to reduce consumption. After the conflict, people in Cambodia made a very risky journey to the Thai border to obtain relief goods, such as rice, from aid agencies or to buy goods on the local market. This trade was illegal and the land was mined but the rewards apparently made this worthwhile.

'From 1979 I went to the Thai border and collected the rice, some we kept some for eating and some for selling' (man, 58 years, Chamnoam Keut).

In Rwanda, people exploited the price differential between Rwanda and cheaper neighbouring countries to engage in importing goods.

Households that have a low labour to dependent ratio are often the poorest, particularly in rural areas. In Cambodia, people in the poorest wealth-ranking category generally comprise widows, disabled people and large families with many young children. Similarly, in Mozambique, the poorest are those that are sick, disabled and elderly (See Table 5). Wealthier people can afford to pay cash for hired labour, but this is normally not an option for the poorest. One interviewee explained why people were wealthy.

'They had big families helping in the farming work. The surplus (maize) was ground and exchanged for labour to extend their farms, or sold in cash. Those people were also breeding animals which enabled them to have access to cash.' (Felix, Pindanganga, Mozambique).

The exploitation of natural resources, is attractive because it requires little or no up front investment and households can be sure of rapidly selling small quantities of primary commodities. In Banteay Meanchey province, Cambodia chopping wood from natural forests was and remains an important source of cash for poor people. In Angola, wood was also chopped until the resource was denuded.

'The first thing many did to survive was produce and sell charcoal. At the time there were five thousand hectares of eucalyptus forest around Malange, not anymore. Others sold their labour for household chores, like laundry or collecting water for others. The only ones who had some money were a handful of people who had been living in diamond areas... those came with either the gems or some money from having sold them.' (Local NGO staff, Angola).

The motivation for selling charcoal was reported to be related to its wide appeal,

'Selling charcoal is not very profitable but at least charcoal, like food, is something everybody needs and buys every day. For cooking, and heating... it is better business in the wintertime' (IDP in Malange, Angola).

In Rwanda, people took crops from the deserted fields of refugees, which was again a low investment, low risk, and quick return enterprise.

Some Profited, Others Struggled

It would be incorrect to see people as a homogenous group of victims. Through risk taking, business acumen, and perhaps some luck, some people became wealthy during and after conflict.

'I had a good benefit from my business before (in the 1980s) but now there are a lot of shops so I have less benefit. Before it was only my shop and I

have a lot of things because my husband goes to buy for me, but now everyone has a motorbike so can go to buy themselves' (woman, selling groceries in Chamnoam Keut market, Cambodia).

'There was enough food in the fields, we made food reserves. You can preserve cassava for more than a year, so we had a lot of cassava.' (woman, Akabeza cellule, Rwanda).

In Rwanda the period immediately post conflict was a time when the newly arrived Tutsi returnees were able to occupy the empty shops and houses of the displaced Hutus without paying rent. This gave them a significant advantage over others as they began to establish businesses.

However, it should be noted that some people felt that immediately after conflict there was little potential for business due to the riskiness of the situation.

'I could not make a very profitable business then because at that time we are still fighting and sometimes the Khmer Rouge came to the village and destroyed something or bombed us. Since 1993-4 the bombing stopped so from that time up to now we came to make the more profitable business because the situation is better but in the past it was very difficult because we were afraid of fighting' (man, 58 years owner of fertiliser shop in Chamnoam Keut, Cambodia).

Sedentary Agriculture Returns Later

Agricultural production requires significant investment of labour and inputs. That investment will not normally be made unless it is judged that a financial return is likely. Once security returns to an area agricultural production becomes more attractive to households. Mozambique was the exception to the rule as households began farming more quickly than in the other countries. It is believed that this is due to the availability of fewer options to people in rural Mozambique than in the other countries.

A relatively wealthy man in Cambodia explained how he had been able to take advantage of early uncertainty,

'At that time not anyone wanted to make the rice field some of them they lacked money to make rice field and some of them were afraid that when they make the rice field the Khmer Rouge would come and destroy all so they sold it to me' (man, 58 years, fertiliser shop keeper, Chamnoam Keut).

As the situation becomes more predictable, land becomes an important asset that gradually eclipses the exploitation of natural and human resources in importance.

This reflects households' willingness to invest more, take more risks and wait longer for a financial return as the security situation stabilises.

In Cambodia IDPs and refugees effectively lost their right to ownership of land when they left the locality. Today, without the opportunity to produce rice, these people are significantly more vulnerable than those who do farm. In Angola, IDPs who are normally given a small plot of land (0.25ha) when they flee to the towns are also very vulnerable because this small area cannot support an average family.

Linkages

Linkages between rich and poor, urban and rural, buyer and seller, and lender and borrower are extremely important to household livelihoods.

'Money only began to circulate here in 1995 when those people who had returned had started farming and had some surplus. Then the interaction between people from the town and here was increasing mainly to buy and sell agricultural surplus.' (Tomas, Pindanganga, Mozambique)

In Cambodia, there is an important linkage between the rural wood sellers and the urban wood buyers. Richer urban people have relationships with poor rural villages and market traders develop trade relationships with poorer rural people. When civil society is damaged, these linkages are threatened as the co-operation, goodwill and trust, underpinning the relationships, are destroyed. Moreover, physical barriers such as the destruction of roads or vehicles for trade in rural areas can prevent the re-emergence of co-operation between groups.

Diversifying Income, Diversifying Risk

Poor people strive to diversify risk associated with household income. They achieve this by maximising the number and type of business activities undertaken, by organising for members of the household to find paid employment and by having members of the household working in different locations.

'I was earning a small bit of money and I had a machamba (garden) so I stayed a bit longer with the children. My husband went back to the village before us, anyway we were not sure about security. He started to open up the machamba again and then we went back later.' (Aida, Chipindaumwe, Mozambique)

'People did a bit of everything to survive. We were lucky to have assistance from WFP while getting settled but that was not enough. We did ganho ganho (seasonal labour) and buying and selling what we could find while we

were opening up our machambas. Other sources of income were handicraft, baskets, mats and clay pots and charcoal production. These were sold in Gondola and Chimoio town but during the wet season access was very difficult.' (Tomas, Pindanganga, Mozambique)

Avoidance Of Liabilities

Taking on liabilities, such as a loan, from a source serious about a formal, structured repayment schedule is strenuously avoided by the poor. In Rwanda people preferred to reduce consumption rather than take a loan. One person stated that she would work for the money to pay for their children's education but wouldn't take a loan.

Grants

Accepting emergency grants from church sources, local and international NGOs and UNHCR is a coping mechanism. However, the money appears to supplement income from other activities rather than supplanting it. In Cambodia, people reported receiving relief assistance in the 1990s.

'The girl provided some bucket, pot, mosquito net, blanket, spoon and plate and the petrol lamp. So only one time they did like this. Then the road built in our village by Meta Karuna and other roads were built by the community with support from WFP' (man, 55 years, Trapeng Thlork, Cambodia).

In Mozambique, it was reported that aid was for meeting basic needs such as shelter, food and clothes. The cash or in kind income was often combined with income from petty trading and other activities.

Soon after the conflict in Rwanda money was given to people and called microfinance although there was no supervision or repayment discipline. The result was that the loans became grants. One microfinance institution reported re-opening its doors after the conflict for the sole purpose of giving grants.

Personal Financial Intermediation

The use of informal financial services is a very important coping mechanism in refugee and IDP camps and upon return home as it enables consumption smoothing using small consumer loans or savings. Loans are taken frequently and repaid rapidly through frequent instalments.

'When we arrived here my wife was selling cakes and earned about 30 or 40 Baht (approximately one or two US dollars) profit per day. She got the money to buy the ingredients from another (points to house nearby) because that

family came to live here first so they have enough money for them and then they know me from when we were living in the Thai border camp together.' (man, chief of Throm Deikas village, Cambodia).

'We knew each other and developed a certain trust amongst ourselves. Some of us were well known even with the local people so you could borrow money from them. I am talking about 10 or 20 Rands (approximately one or two US dollars) and we returned the same amount with no interest.' (Jorge, Massingir, Mozambique)

'Neighbours, relatives and friends are people to knock their doors in moments of crisis to solve immediate problems like paying hospital bills if someone is sick.' (Armando, Massingir, Mozambique)

Saving Money

People reported saving during and after conflict but finding a reliable place to deposit money was not easy,

'It was difficult for many people because they didn't have any identification. But myself I had a passport which could enable me to save at the Post Office. I could withdraw money any time without inconveniences. Those with no official document ran the risk of saving in the refugee camp.' (Carmona, Massingir, Mozambique).

The issue of liquidity, or access to assets, is a complicated one. Contrary to perceived wisdom households were not keen to liquidate assets during or after conflict but did so to be able to cope with the unpredictable environment. There appeared to be a general feeling that liquid assets were assets at risk from theft, flooding, fire or further conflict. Therefore, only the minimum amounts appeared to be kept as cash. In effect, households were balancing two risks, the risk of loss against the risk of being in a situation where they had funds but could not access them.

Village banks, which are often perceived to provide a safe and liquid source of funds, were unpopular. There was a certain degree of distrust, but also it appears that the savings were not accessible enough.

In present day Rwanda, a number of interviewees talked of the need to put savings out of easy reach so that they could not be spent on non-essential items, but would instead accumulate to a significant sum. Toward this purpose, people saved with family and other trustworthy members of society. Men gave money to their wives to

look after. Thus, liquidity of savings remained important but the temptation to spend was tempered.

4.3 CATEGORIES OF HOUSEHOLDS

During and post-conflict a household's livelihood status changes more easily than would be the case in war-free countries. Visible, movable assets can be lost or stolen which can substantially reduce the ability of the household to cope with emergencies and to generate income. In contrast, profits can be high as disrupted markets are less competitive, offering wider marketing margins and there are more opportunities to acquire assets by illegitimate means (Collier 1995).

Within households access to resources can differ considerably, depending upon gender and age. Based upon the results of the research in Cambodia, Mozambique and Rwanda, tables 5-7 indicate the characteristics of different categories of household from poorest to rich. Information on Angola was not collected.

THE POOREST		
CAMBODIA	MOZAMBIQUE	RWANDA
<ul style="list-style-type: none"> • Have access to less than 1 ha rice land and maybe some vegetable land. Land owned in the past seized by more powerful people or moneylenders. • Small house with thatched roof; in disrepair. • Possess few assets and no livestock. • Depend upon selling labour for their livelihoods and foraging in the forest firewood, thatch materials which they may process. • Earn less than 300 Baht or 30,000 Riel per month (less than US\$10). • Most expenditure is on food and they may eat rice soup rather than steamed rice. • May not have enough money to purchase medicines. • Includes households that are poor in labour such as those with amputees, single headed households, those with a high proportion of children to adults, the elderly whose families are too poor to support them. • IDPs and returnees are normally in this category. 	<ul style="list-style-type: none"> • Returned to Mozambique with no assets. • Found assets such as houses in Mozambique had been destroyed. • Suffering psycho-social trauma. • Members are blind or disabled. • Members are elderly and widowed, or lone mothers. • Supports orphans. • Lacks food reserves. • Farm poorer land. • Have few or no hens or ducks. 	<ul style="list-style-type: none"> • Single headed households occasionally child headed. Many dependants. • Returned to Rwanda without assets or money. • Houses and fields looted and destroyed in their absence. • Live in single roomed houses. • Family members, especially male adults imprisoned. • Less than 0.7ha land. • Grow wide variety of crops and attempt to sell labour. • Unvaried diet which nevertheless accounts for large proportion expenditure. • Rarely save and rarely borrow - perceive themselves to be too poor. • Unable to pay user school fees. • No agricultural or income earning.

Table 5 Characteristics of the poorest households

• THE POOR

Cambodia	Mozambique	Rwanda
<ul style="list-style-type: none"> • 1-2 ha of rice land and possibly some vegetable land. • Own a house but no other major assets. • May possess a pig or chicken but no draught animals. • Income from 300-600 Baht or 30,000-60,000 Riel per month. • Earn money from growing a surplus of rice, vegetables, raising small animals and foraging for forest products. • Diverse sources of income. • Cultivate linkages with better off people who may be able to provide employment opportunities or finance. 	<ul style="list-style-type: none"> • Stable family. • Possess small animals such as goats and hens. • Own a bicycle and/or a sewing machine. • Farm large fields and/or 'baixas' (wetlands). • Possess sleeping mats. • Have food reserves and eat well. 	<ul style="list-style-type: none"> • Two economically productive adults for income earning and agricultural activities. • Live in houses with two or more rooms. • Spend relatively smaller proportion of their income on food than do the poorest group. • As well as meeting nutritional requirements able to satisfy need for soap, sugar, oil, blankets, petrol and furniture. • Some means of support after and in spite of the conflict. • Returned to their homes with cash or assets. • Houses and/or crops were not destroyed so they had shelter and/or means of income.

Table 6

Characteristics of the poor households

THE RICH		
Cambodia	Mozambique	Rwanda
<ul style="list-style-type: none"> • 2-5 ha rice land and vegetable land. • Own a house with a roof made of corrugated iron sheets. • Own productive assets like cows, motorbikes and tractors. May have a rice mill or other machinery. • Income of 1,500 Baht or 150,000 Riel comes from a variety of sources that might include formal employment and business. Businesses often involve trading and may have been set up immediately post conflict. Often employ people. • Not displaced by conflict or displaced but able to do business in their place of refuge. • Receive remittances from relatives overseas. • Lend money and rice to poorer people. Those defaulting on loans forfeit land to this group. 	Data not collected	<ul style="list-style-type: none"> • At least one member of the household has lucrative paid work. • Stayed in their homes during conflict or are returnees. • Exploited economic opportunities / engaged in opportunistic behaviour that arose with the conflict; took risks. • Household members have a varied, stable diet. • Spend a small proportion of their income on food. • Able to buy luxury goods such as cosmetic products, beds for each person in the household, furniture, a bicycle and things to decorate the house.

Table 7 Characteristics of the rich households

4.4 CATEGORIES OF COPING MECHANISM

Sebstad and Cohen (2000) place coping mechanisms in two groups. First those used to minimise a household's vulnerability in the future. Second, those coping mechanisms that are employed by households in reaction to the loss of assets. They show how income smoothing and building financial, physical, human and social assets can protect a household against future shock. Furthermore, they describe how loss can be managed using consumption modifying strategies, income raising strategies and personal financial intermediation. These will be explored further below.

This section does not attempt to provide a complete list of the different ways that people could cope with risk. Instead, it is a summary of the most common actual responses that were provided by interviewees during the research. Also noteworthy is the number of reverse coping mechanisms employed by people that have been affected by conflict. In general, these have a negative affect on the most vulnerable e.g. the looting from abandoned houses of refugees and IDPs in Rwanda or taking the land from IDPs and refugees in Cambodia.

Table 8 indicates the methods used by households in the study countries to minimise vulnerability to future risks. These include income smoothing and building physical, financial, human and social assets. Table 9 shows the methods the same households use to respond to disaster when it strikes. Strategies include modifying consumption, drawing on assets, raising income and using personal financial intermediation. It is instructive to note the relative emphasis placed on the categories in the coping with loss section.

Table 8 *Methods of reducing vulnerability to future risk*

MINIMISING VULNERABILITY TO FUTURE RISKS

ANGOLA	CAMBODIA	MOZAMBIQUE	RWANDA
Income Smoothing			
<ol style="list-style-type: none"> 1. Create diverse source of income. 2. Take a second wife, or for women gain support from a male relative or a partner. 	<ol style="list-style-type: none"> 1. Create diverse sources of income, some low and some high risk. 2. Accept remittances from abroad. 	<ol style="list-style-type: none"> 1. Create diverse sources of income. 2. Part of household stays on in countries of refuge, effectively becoming migrant labour. 	<ol style="list-style-type: none"> 1. Farm diverse crops.
Building Financial Assets			
<ol style="list-style-type: none"> 1. Save with a RoSCA. 	<ol style="list-style-type: none"> 1. Save cash in the house. 2. Very small savings in refugee camps. 	<ol style="list-style-type: none"> 1. Save small sums from emergency relief distribution. 	<ol style="list-style-type: none"> 1. Save cash with friends and relatives.
Building Physical Assets			
	<ol style="list-style-type: none"> 1. Occupy agricultural land. 2. Accumulate assets in gold, rice, pigs and cows. 3. Spend UNHCR grant on productive assets. 	<ol style="list-style-type: none"> 1. Accumulate assets such as CI sheets in the refugees and bring home. 2. Raise chickens in lieu of cash savings 3. Grow a surplus of crops. 	<ol style="list-style-type: none"> 1. Occupy agricultural land, business premises and houses. 2. Loot houses. 3. Invest in productive assets e.g. animals upon return home and buy trade goods.
Building Human Assets			
<ol style="list-style-type: none"> 1. Flee to places where household is not in physical danger. 	<ol style="list-style-type: none"> 1. Flee to places where household is not in physical danger. 	<ol style="list-style-type: none"> 1. Flee to places where household is not in physical danger. 	<ol style="list-style-type: none"> 1. Flee to places where household is not in physical danger. 2. Return to homeland once household is no longer in danger. 3. Send children to school, even if fees not paid. 4. Collect traditional medicines for sick children.
Building Social Assets			
<ol style="list-style-type: none"> 1. Cultivate relationship with richer friends and relatives. 	<ol style="list-style-type: none"> 1. Cultivate linkages with richer people. 	<ol style="list-style-type: none"> 1. Cultivate relationship with wealthier people. 	<ol style="list-style-type: none"> 1. Cultivate social networks for risk protection. 2. Siblings or extended family take care of dependent or orphaned children. 3. Upon return, build business linkages with country of refuge. 4. Join associations that provide support during emergencies.

COPING WITH LOSS

ANGOLA	CAMBODIA	MOZAMBIQUE	RWANDA
Modifying Consumption			
1. Change diet to cheaper food and naturally occurring food.	1. Change diet to cheaper food and naturally occurring food.	1. Change diet to cheaper food and naturally occurring food.	1. Reduce and alter food consumption.
2. Reduce food consumption.	2. Reduce food consumption.	2. Reduce food consumption.	
Drawing on Assets			
1. Sell physical assets.	1. Ask for support richer friends and relatives including loans, food and accommodation.	1. Sell physical assets.	1. Accept international relief and church assistance.
2. Accept relief and public assistance.	2. Accept relief assistance (particularly refugees and IDPs).	2. Accept international relief assistance (especially refugees).	2. Accept public welfare.
3. Ask for support richer friends and relatives including capital and accommodation.	3. Take support from extended families including capital, shelter and food.		3. Leave school to begin generating income.
4. Spend savings.			4. Sell assets.
5. Sell labour for laundry, collecting water and other wage labour.			
6. Sell diamonds.			
Raising Income			
1. Fetch firewood, make charcoal.	1. Exploitation of natural resources e.g. thatch, collecting leaves, fishing, making charcoal, fetching firewood outside refugee camps.	1. Fetch firewood.	1. Daily waged labour e.g. agricultural labour.
2. Farm agricultural plots.	2. Grow rice.	2. Farm small agricultural plot in IDP sites.	2. Steal food or demand food from less powerful people (used by soldiers).
3. Trade relief goods.	3. Gain employment with and NGO.	3. Trade relief and imported goods.	3. Petty trade.
4. Short term trade in imported goods.	4. Do waged labour.	4. Run business in informal economy in urban areas.	4. Grow crops on occupied land.
5. Salaried work from the formal business sector.	5. Trade or exchange relief goods for other products.	5. Provide services to fellow refugees in the camps.	5. Trade from occupied business premises.
6. Steal crops from fields and livestock and request bribes (government and other factions).	6. Traditional production activities possible for those not displaced.	6. Do waged labour.	6. Steal crops from deserted, untended fields.
		7. Sell agricultural surplus to wealthier people in urban areas.	7. Subsistence agriculture.
			8. Gain employment with an NGO.
Personal Financial Intermediation			
1. Take loans from richer friends and relatives.	1. Take loans from richer friends and relatives.		1. Take loans from friends, family and work colleagues.
2. Join RoSCA. Borrow money by taking loan early in cycle, save money by waiting until the end of the cycle.	2. Borrow in cash and in kind from contemporaries.		

Table 9 *Methods of coping with loss*

SUMMARY OF RESULTS: COPING MECHANISMS

1. In rural areas people prefer to save in productive assets in the immediate post conflict situation.
2. Trading is an important survival strategy during and immediately after conflict.
3. In urban and peri-urban areas, the most common characteristics of coping mechanisms are low risk, low investment and quick return activities.
4. Exploitation of natural resources and household labour are important survival strategies during and after conflict.
5. The use of land for agricultural production is an important coping mechanism and becomes more so as the security situation improves. Later it is a divisive factor between wealthy and poor.
6. Opportunistic behaviour is widespread after conflict.
7. Reliance upon humanitarian assistance is an important coping mechanism contributing to overall food security.
8. Cultivating social and business linkages with richer, urban and peri-urban markets is important for establishing businesses and for reducing vulnerability.
9. Liquid assets are only useful and desirable to a limited point. Liquidity incurs the risk of theft or loss and therefore normally a balance is sought between need for liquidity and safety.

5. The characteristics of microfinance products in demand

'A small amount in your pocket, 50 Kwanza, is worth nothing, you will spend it at the end of the day. But if you play with it (in a RoSCA), at the end of the week you have 500 and you don't want to spend it, you save it for the rainy days' (Demobilised soldier, Luanda, Angola).

'Some play kixikila (RoSCAs) to buy a radio, or a stove for the kitchen, but I first bought a sack of cement, then a second one, then some sheets of metal roofing.... with that, and God's help, I have a house now' (Female IDP in Luanda, Angola)

So what exactly are poor people looking for in a loan product immediately after conflict? The answer may surprise some relief and development organisations. It seems that poor people do need loans but the characteristics of the products they seek are contrary to what is offered by most semi-formal microfinance providers.

To gain information on this subject the team conducted semi-structured interviews and focus group discussions with the staff and the clients of informal and semi-formal microfinance institutions. They also talked to people who were not borrowing. This section describes the supply of and demand for savings and loan services, post conflict from both the point of view of lenders and borrowers. First it describes the supply of microfinance services and second, the demand for microfinance services.

5.1 CHANGE IN THE SUPPLY OF MICROFINANCE AFTER CONFLICT

Cambodia offers an interesting introduction to the situation regarding the availability of informal microfinance post conflict. When the Khmer Rouge regime in Cambodia ended in the early 1980s, amid a completely demonetised economy, relatives neighbours and moneylenders rapidly began to make in kind loans to others in the community.

'At that time when someone has no food we just help each other and when they have they just give back with no interest' (man, Chamnoam Keut village)

'I borrowed some milled rice from the other people and when we have the money then we brought the rice and paid back to them' (woman, 43 years, Bour Srange, Cambodia)

'I can get a loan because I repay them (moneylenders) quickly so I can get easily from them' (woman, Trapeng Thlork talking of Preah Net Preah village, Cambodia).

People reported using informal microfinance during conflict when they were living in refugee camps and upon their return.

'We bought the saw from the people in the market as credit. We bought the axe on credit as well but we asked a trader to buy it for us and we paid to him later with firewood. We paid back for the saw in money. When we sold the firewood we paid them the money'(woman, Trapeng Thlork, Cambodia).

For some it was more difficult to secure finance at that time,

'Even if they wanted to lend money to us they would be afraid that we were the poorest and had no way to earn some money to pay back because we had nothing...I wanted to borrow some money 500 baht from the people in the market but they didn't lend to me' (woman, Trapeng Thlork, Cambodia).

A wide variety of informal services were observed in all four countries, as illustrated in Table 10 below. Particularly in urban areas, RoSCAs were very common - both for savings and credit. When in need of cash poor people also relied heavily upon friends, family and neighbours.

The objective of informal systems varies from, at one end of the spectrum, profit maximisation by some career moneylenders to social-orientated objectives by village groups, at the other. Others still, have different rates depending upon the client,

'I am kind only for the people who live near by me who I know very well. ... If I was strict and didn't let them buy in credit then I cannot live with this group' (moneylender, Chambok Meas, Cambodia).

'Some people they borrow from me and then they don't pay back so I just take the land' (moneylender, 63 years, Chambok Meas, Cambodia).

'All the people take pity on me so they do not charge me interest. Maybe after a few days I would pay back'(woman, 43 years in Bour Srange, Cambodia).

Angola	Cambodia	Mozambique	Rwanda
Friends, relatives, neighbours, and fellow market traders facilitated saving and small loans.	In rural areas, friends, relatives and neighbours provide loans.	In urban areas: Xitique, a RoSCA, Xitique geral, an ASCA, borrowing from friends and family, savings collection, solidarity groups, trade credit and individual in kind savings are common.	Friends, relatives, neighbours, employers and work colleagues facilitated saving and small loans.
Kixikila, a RoSCA system, is now very popular in urban Angola.	People save cash in bamboo tubes and pots in the house.	In rural areas: loans from friends, neighbours and family, trade credit, animal credit from one farmer to another and in kind savings.	Tontine, a RoSCA system for saving and lending
	Productive assets e.g. cows and pigs are a common 'sink' for savings.		
	Moneylenders, village traders and small businesses provided credit and they began to operate immediately post conflict.		

Table 10

Informal microfinance providers post conflict

Lender Perspectives on the Change in the Supply of Informal Microfinance

Lending decisions by moneylenders, including loan size and interest rate are based on trust and knowledge of the client. Though immediately post conflict lenders may have taken more risks in that they knew less about their clients, today they need to be reassured that the household is settled and stable, willing and able to repay.

The supply of informal microfinance develops very rapidly, even during conflict. Unlike semi-formal microfinance, its sole requirement is that the lender knows the business of and trusts the borrower.

'I only lend to people I know. I know where they live and I know what they do. You had to be very careful with the people that you trusted after the war because they could easily disappear. I know cases of people who gave their livestock to people to be sold and they never saw those people again.' (Joao, Moneylender, Chimoio town, Mozambique).

The type of informal finance that develops depends upon the local tradition. In Cambodia, individual lending is provided by traders and neighbours, whereas in Angola, RoSCAs are the predominant credit and savings mechanism used. The key

Who are Moneylenders?

During the research, the quest for "moneylenders" proved difficult. "Moneylenders don't exist in our area" was the common response. It seems that the term 'Moneylender' was interpreted to mean 'a capital rich person who has a full time job lending to less wealthy people and charging sometimes usury rates of interest'. Consequently, there was an almost universally negative perception of moneylenders as exploitative individuals.

It is in some ways unsurprising that these 'moneylenders' are rare. Particularly in the rural environment it would be rather foolhardy to invest all ones capital in risk-prone agriculture-reliant households. Furthermore, there could be more profitable enterprises which would create a high opportunity cost of lending.

So, if not from moneylenders, from whom do poor people take informal loans? Enquiry about "friends that lend money" was invariably more fruitful. The interest rate varies depending upon the loan size and the type of relationship of the lender with the borrower. Borrowers that are not well known to the lender must pay much higher interest rates and must sometimes offer collateral, too. Which sounds rather like the service provided by.....a moneylender.

to their success is flexibility in loan and savings management, so that they are responsive to the unpredictable needs of clients.

When talking about moneylenders, this encompasses a wide range of people that make informal loans. Rarely is money lending the sole business. For example, a wood trader in Banteay Meanchey province stated that capital availability for loans varied depending upon the demands of the other livelihood activities within the moneylenders' household.

'before its many but now few (moneylenders) because they are busy in cultivation so they don't want to give loans to anyone as they need money also themselves. If we need 1,000 Baht maybe they give but if 10,000 no' (woman, 30 years, Makak village, Cambodia).

For people who are well known to the lender collateral on small loans is not required.

'When we trust each other no need for collateral' (moneylender, Chamnoam Keut village, Cambodia).

'No need for collateral because I know them very well and I trust them. I look at their assets and if they have none I trust them with a small amount because they are my neighbours in this village. ... It depends on their situation as well and if they have ability I give them a big amount but if no ability, only a small amount of money' (moneylender, Koy Meng, Cambodia).

'When they borrow one time 10,000 Baht (a relatively large amount worth approximately \$250) I need the people to guarantee it for me' (moneylender, Koy Meng, Cambodia).

Collateral has become increasingly important for larger loans made to people living outside of the village.

'If we borrow in the village they ask for no collateral but we cannot get much money, the big size is up to 2,000 Baht. If we borrow outside the village we can get more but they need collateral because we are poor and they are not sure that we are a permanent village' (man, leader of Throm Deikas village, Cambodia).

Borrower Perspectives on the Change in the Supply of Informal Microfinance

For the borrower it is important to cultivate good relationships with people who have spare capital to lend and are willing to lend it. Immediately post-conflict, it is these people who are approached in emergencies for small, short-term, un-collateralised loans. Alternatively, or in parallel, households may have reciprocal loan arrangements with another household within the village. In the demonetised and semi-monetised economies of Mozambique and Cambodia these loans are often made in kind.

'If I need some money for extra expenditure I would ask my relatives, or I would play kixikila. But asking someone who doesn't know me... I think it is very difficult... Who would give to a stranger?' (Male IDP in Luanda, Angola).

Talking of the relationship between refugees and local people in South Africa, one returnee explained that small loans were supplied by local people,

'We knew each other and developed a certain trust amongst ourselves. Some of us were well known even with the local people so you could borrow money from them. I am talking about 10 or 20 Rands (approximately one or two US dollars) and we returned the same amount with no interest.' (Jorge, Massingir, Mozambique).

The importance of friends, neighbours and relatives was repeatedly emphasised.

'I asked my neighbour and she lent me what she could to help me, and I gave it back to her, the same amount, after two or three days. She knows me,

Semi-formal Microfinance Offers Competition in the Market Place

Competition from semi-formal providers can significantly alter the terms and conditions of competing services, in favour of the borrower.

'In Khrovanh before the NGO came the (moneylenders) charged 30% per month, but after the NGO established the village bank and charged 7% per month many of them reduced their rates to 20% per month. In Bakan before the village bank, the interest rate was about 20% per month. When the NGO established the village bank the moneylenders were angry with the organisation as the village bank interfered with their business and they had to reduce their rates to just 10% and now some charge just 5% interest. Moneylenders reduce their rates as competition increases' (NGO staff member, Cambodia).

'If we say about the lending money at that time the interest was very high interest but now it is the low interest' (woman, 46 years, gold seller in Sisophon market, Cambodia).

It was impossible to ascertain whether or not some informal providers had been totally pushed out of the market due to the arrival of competing, donor subsidised services.

knows where I live, no problem. Otherwise I would have asked some relative but they are also poor, it would be difficult" (Female amputee in Kuito, Angola).

'Neighbours, relatives and friends are people to knock their doors in moments of crisis to solve immediate problems like paying hospital bills if someone is sick.' (Armando, Massingir, Mozambique)

'There is no moneylender in this community, but there are some people who are better off who usually give loans on the basis of trust. Repayment depends on the agreement. If somebody has no food they can go to someone else to borrow a bag of maize to be repaid after the harvest with interest of half a bag.' (Felix, Pindanganga, Mozambique)

Especially post conflict, households were de-capitalised and often the loans requested were very small - even by local standards. The testimonies indicate that loans were sometimes made without an interest requirement, which strictly speaking is not microfinance. In general, the closer the relationship between lender and borrower, the less interest is charged.

Suppliers of microfinance were very flexible in what they would loan and the repayment they would accept. For example, in Cambodia, one shop owner lent money and was repaid in kind, by use of the borrower's agricultural land.

'I borrow from the family who have more rice field, and sometimes my husband takes money and then pays back with the land preparation (woman, poorest wealth category, Chamnoam Keut).

'For this year (2001) I borrow five sacks of rice (425-500 kg) and she charges interest 400 kg of paddy rice that I pay back after the harvesting season. For me she charges low interest and for the others they borrow the same as me and she will charge 500 kg of paddy rice.' (widow, 50 years in the poorest wealth category in Chamnoam Keut).

The supply of microfinance in urban areas was normally greater and more diverse than in rural areas, though this was not fully investigated as the research focused on rural areas. If we look at the situation today in urban Mozambique, there is certainly a wider variety of microfinance systems than in rural areas. In all four countries, RoSCAs were more of an urban than rural phenomenon.

No firm trend could be identified in the change in the supply of consumer and business loans. It is thought that initially very short term loans were offered by lenders, wary of committing their own funds for long periods when they may need the money themselves. Such loans were most suited to consumption use. It appears that business loans which are longer term and larger became increasingly available later.

Collateral and loan guarantees are required for larger loans. It is difficult to judge whether or not larger loans were even offered immediately post conflict. However as they have become available, it is clear that greater reassurance of repayment is now required.

'In this village if people borrow a small amount of money there is no collateral but if we wanted to borrow the big amount of money they will need it because when we wanted a lot of money they do not trust us so they need some assets such as gold or land title. (man, Khlempor Cheung, Cambodia).

'If they want to borrow 100,000 to 200,000 riel I guarantee them and the moneylender will agree to lend the money. I tell the moneylender about people's rice fields and so they feel secure because if something happens they know I can help them' (village leader of Bour Srange, Cambodia).

Post conflict there are also informal mechanisms available for saving money. Interestingly in both cases below the sum accrued was relatively small before it was withdrawn and used for productive purposes.

"Immediately after the war, I worked for a returnee who had come back from Uganda. He had a car and bought bananas in Uganda to sell them here. I worked for him and made some money, which I then saved in an association. I saved while I was working for him. I saved 500 Rwf a day with the association and at one stage, I got 10 000 Rwf. I then kept this money in my pockets. This money was helpful for me in starting up my own business." (young man, banana vendor, Kigali, Rwanda).

"I was in a tontine (RoSCA) from 1996 onwards. Every member paid 500 Rwf every month and then at one point, when it was my turn, I got 12 000 Rwf." (young man, agricultural labourer, Rwanda).

Wood Traders Lend to the Poor in Cambodia

It is rare for people to remain permanently indebted in Cambodia, but from time to time they may require small loans to last until the next household income is due. In Cambodia some of the poorest people are IDPs and returnees who have lost their land and must rely upon daily waged labour and the exploitation of natural resources, primarily wood cutting to earn income to buy food.

Trade finance is provided by wood traders who visit villages in small tractors to purchase wood for sale in the towns. Households known to the traders can request loans of less than ten dollars for between one and four weeks in expectation of sale of wood to the traders in a few days.

When repayment of loans is in kind, the effective interest rate is significantly higher than when it is in cash. For example in Trapeng Thlork loans of 120-130 Baht were made against future repayment in wood, normally worth 140-150 Baht. A household taking a one week loan of 120 Baht would therefore pay 14% interest on the one week loan if they repaid wood worth 140 Baht.

This indicates how relatively small amounts, accumulated over a short period, can be used for productive, investment purposes. Extending loans to others in the community is also thought to be a method used by the lender to save money.

Lender Perspectives on the Change in the Supply of Semi-formal Microfinance

Microfinance in Mozambique has been described as 'chaos' (de Vletter 1996). A variety of providers with a variety of objectives have in all four countries offered microfinance in an uncoordinated fashion immediately post conflict. This however has rarely been recognised by practitioners until many programmes have failed.

There has also been considerable confusion over the term 'microfinance' when grants were called microfinance or microfinance was provided by organisations that did not have the capacity to establish systems to retrieve the money. In this case, what began as microfinance rapidly became grants as borrowers realised that they need not repay. Moreover, the staff didn't see the importance of ensuring that borrowers did repay their loans. The situation continues to this day, particularly in rural Angola, and to a lesser extent in Rwanda.

In Rwanda, relatively large loan amounts were offered at subsidised rates of interest as in contrast to the under-capitalised informal microfinance sector, the semi-formal microfinance sector received large amounts of donor funding to lend to Rwandan people. The most significant point in the development of the supply-side was when donors began to reduce the emergency aid. Microfinance projects that were wholly reliant upon donor funds were unprepared to secure funding from the more exacting development budget lines of donors. The result, also witnessed in Cambodia and in Mozambique, was an enormous turnover of microfinance organisations. The unsustainable grant giving organisations collapsed or were transformed into MFIs and international organisations more commonly associated with serious microfinance also entered at this later stage.

The volume of semi-formal microfinance supplied, increased significantly after 1993 in Cambodia and in the mid to late 1990s in Mozambique. The result was increased competition, which encouraged organisations to view the loans in a more business like manner. People began to talk of *microfinance products* and to more carefully assess whether or not the organisation really was providing the products that people wanted. Informal microfinance was also influenced by the competition,

'Now the moneylender they reduce the interest because they know the organisation established the village bank and they charged the low interest' (man, 49 years, village leader of Bour Srange, Cambodia).

Diverse Objectives of Microfinance in Anglola

Relief-oriented organisations have become involved in microfinance for a variety of reasons including to secure donor funding, to improve the livelihoods of poor people, to reduce dependency on NGO handouts and to support people living in NGO-constructed housing.

“We have two types of MF products. Firstly, we have some funds for group projects, normally for building a shop or tavern, and we don’t expect any repayment here. Secondly, proper MF with subsidised interest rates that can be given to groups or individuals” (NGO staff, Malange, Angola).

‘The objective was to reduce the relief mentality. Instead of giving things away, we started with Food for Work programmes, and people accepted them well. In a second stage we set some goals for the recovery of the things we distributed. In the third, we started asking for the full recovery of seeds. We met with some resistance, but we more or less managed’. (NGO staff, Angola).

“We start MF activities when the emergency phase is over, when malnutrition rates and child mortality rates subside... then we can start development programmes, for example instead of giving seeds or animals away we ask them to give us back the same” (NGO Staff, Malange, Angola).

“We tell everybody they have to give back the same amount we gave them, but with IDPs we cannot recover anything, and with local residents 50%, it is not too bad”. (NGO staff, Kuito, Angola).

As a result of this re-assessment there is increased flexibility in microfinance services so that they may offer larger individual, as well as group, loans.

‘At the moment we have two people receiving individual loans of 12 million meticaïs. They have demonstrated that they are good at managing money. They began when we were giving loans of (US\$35 to US\$40 equivalent) in meticaïs and they have gradually grown up to this point.’ (MFI employee, Mozambique)

In Cambodia, too, it was reported that the product range has become more diversified (including the addition of savings services) and the products more flexible. This partly resulted from the change in the environment, which became more conducive to microfinance. Organisations like ACLEDA (which had not yet become a

formal bank) significantly reduced the number of clients served, while simultaneously increasing the loan size.

One NGO implementing microfinance explained about how their products have developed over time,

'Our manual is now in its fourth revision...at our annual village bank summit we discuss what is working well, what problems we have and from this we make changes. For example, before we said the loan period was 4-6 months take it or leave it but now we have realised that someone may get a higher price if they sell their pig after 8 months. Another one is we have also allowed for differences in the number of meetings one must attend before we start credit. It used to be eight meetings over eight weeks in which time up to 30% of the loan amount would be saved. However there are some periods such as the planting season when people want the meetings to be all together, whilst in the dry season they sometimes want them more spread out. Another one is the frequency of village bank meetings, we used to have them every week but some people would pay the fine and not turn up because they were too busy, then we changed them to every month... The biggest changes were in terms of areas in that areas that were not open to us before were after 1998 so suddenly we had great growth' (NGO worker, Cambodia).

Borrower Perspectives on the Supply of Formal Services

The supply of formal microfinance services has so far failed to offer an acceptable service.

'I would like to save but I don't have enough to go to a bank. Also I am not literate. The little I have I keep at home.' (CRESCCE client, Chimoio town, Mozambique)

'Formal banks are very demanding and ask for lots of guarantees.' (MFI employee, Mozambique)

'There is a bank in town but I never keep my money there. I think that it is difficult if you didn't go to school. It's threatening. I heard that people are saving money in banks but I think it's only for people who are saving a lot of money.' (Jorge, Massingir, Mozambique)

'I don't ask for credit in the bank because it's a long process. Anyway the bank only gives to those who already have money.' (Julieta, Chokwe town, Mozambique)

5.2 CHANGE IN THE DEMAND FOR MICROFINANCE AFTER CONFLICT

NGO/MFI Perspectives on Change in Demand for Microfinance.

During interviews with the staff of MFIs, there was a lack of clarity on what clients originally wanted and what they desire now. Few had conducted market assessment or were able to clearly enunciate the reason why their microfinance products had been designed the way they had.

In Angola, a number of people involved in NGO microfinance stated that RoSCAs did not exist because of a lack of trust. However, the researcher in Angola found that there was a proliferation of RoSCAs.

What we can be fairly sure of is the characteristics of products that were offered. It might be assumed that these are a compromise between what organisations believed that people wanted and what they were able to offer.

- Group guarantee
- Very low interest rates (usually <4% /month even in high inflation environments)
- Long term relative to other finance available (6-12 months)
- Large loan size, fixed (\$20 - \$100)
- Loans in cycles and obligation to take a loan to stay in the group
- Compulsory savings
- Balloon repayment patterns (in some of the countries)
- Managed by village committee
- Specified for productive activities

Borrower Perspectives on Change in Demand for Microfinance

Demand for microfinance was higher and grew more rapidly in towns and cities, probably in response to greater security, the availability of cash, functioning markets and some very limited household income. There was a preference for loans and savings products that responded to and supported, rather than drove, household financial management. The characteristics of microfinance products in demand changed rapidly in response to the developing environment. Initially potential clients were extremely wary of borrowing money.

A woman who lived in an IDP camp in the early 1990s used to borrow money on a daily basis to buy firewood to sell in Sisophon market,

'I sell at 8.00 in the morning and then come to pay the capital back sometimes maybe two or three times a day.' (woman, Khlempor Cheung, Cambodia).

Others were similarly searching for very short term, small loans,

'For my part I was still in an area where there were some security problems. To do business and buy products was difficult. We did just enough to survive. But I did not want to have borrowed money or goods inside my house. It was preferable just to lose your own things. So it was small amounts and from day to day.' (MFI client, Chimoio town, Mozambique).

'I just borrow from them (moneylenders usually an amount of 5-10,000 riel) for a short while and when I have money I pay them back at once because I am poor and if I am late to repay I am worried that I have nothing to repay them. I always borrow only a small amount though they offer me a big amount I couldn't borrow because I do not expect to have any income' (woman, 43 years, Bour Strange, Cambodia).

In Rwanda a preference for short loan terms was expressed; as the investment cycle remains relatively short,

“The credit needs to be repaid in six months, but this period is too long. I want a shorter repayment period. This long period is very expensive because a lot of interest is involved. A shorter period would be better.” (female vendor, Kimironko market, Kigali, Rwanda)

However, several traders at the same market and who were all in the same solidarity group were dissatisfied with the short period between loans being disbursed and repayment expected,

“We have to start paying back after one week already. This is very soon. It is too soon. We would like to start paying back later.” (female trader, Kimironko market, Kigali, Rwanda)

This is a good illustration of how poor people in the same location can simultaneously require different types of products. The 'one product fits' all concept does not apply.

As the availability of grants decreased and household assets and security gradually increased, the demand for savings and loans services grew, both in frequency and in size. To begin with there was a general preference for in kind products, particularly in remote areas. This was dependent upon many factors including the level of market activity the degree of monetisation and the market linkages,

‘When I came home I needed some help to start animal breeding. I would suggest that the loan would be in kind because it was difficult to purchase animals. To go to the market in Chokwe took a lot of time and was expensive.’ (Carmona, Massingir, Mozambique)

In Mozambique, Cambodia and Rwanda, people preferred individual to group loans. In Rwanda, returnees who had established themselves outside of the country had built up a significant asset base. Together with those who had remained in Rwanda and looted, they formed a group of significant size that preferred to save and borrow individually. So requirements were varied and generic solidarity group loan products were unsuitable as it appeared to be difficult to form groups with others of the same socio-economic background. In Cambodia de-selection occurred,

‘I didn’t dare to get loan from organisation as I didn’t have any income and then there is no one to guarantee me (man, poorest wealth category, Chamnoam Keut, Cambodia)

‘I formed group but they took out my name...they said that I have nothing to repay the loan even though I have idea to buy a boat for fishing and sell fish

to pay monthly interest... He told me to form group but when I had a group he took my name out...he said there is nobody to guarantee me. People like to form a group with the medium or rich and they do not want to form a group with the poorest' (woman, poorest category, Chamnoam Keut, Caambodia).

'They do not allow us because we have nothing and we are afraid that we are not able to repay back the loan...before they came to ask us to form a group but still couldn't get a loan because all my group members are very poor. If we are not able to repay they feel difficult to be responsible for loans with the organisation... Let's say they do not trust us and they do not want to give a loan to us'(man, Chambok Meas, Cambodia).

At the other end of the spectrum, richer clients also disliked the solidarity group lending mechanism.

'It leads you to share other people's problems. If you are in a bank with people who are not serious or who do not have experience in business then you will suffer.' (Teresa, Chilembene, Mozambique)

'The less poor they don't want to borrow money from the village bank because first they spend time and second the loan size is small and not enough for them, so they always borrow from moneylender' (man, 49 years, village leader of Bour Srange, Cambodia).

'I work with my own capital now. The money that the MFI gave me became too little to increase as I wanted. And there were some problems with repayment in the group. I prefer to work on my own now.' (Carlos, Chimoio town, Mozambique)

Of concern is the implication that slightly richer borrowers, described above by the village leader of Bour Srange, excluded themselves from semi-formal microfinance groups but nevertheless remained unable to borrow from formal sources. In this case they had access to fewer sources of finance than the poor, yet may have been in better position to develop the local economy.

Only in Angola was a strong preference for solidarity lending expressed. In a country where it might be expected that mass migration would have caused the destruction of civil society and a strong spirit of individualism, this deviant case is important. The preference for association may be linked to a phenomenon that was detected by

Exclusion of the Poor from Solidarity Group Lending

The microfinance services used by NGOs specifically to assist the poor were found to exclude some of the poorest. Group and committee members consistently stated that people were excluded. One landless woman in Cambodia, dependant on fishing, foraging in the forest and on daily labour, gave a detailed account of her experience,

'I want a loan and the village bank committee asked me to form a group...we formed a group with three of us and went to the village bank committee and they said we must find two more people. Then after we found another two people they said that first we had to save 40 baht each. When we had done this the village bank committee said that they had not yet had any members repaying the loan so we could keep our money until somebody repaid the loan and then they would call us to get a loan. When the money arrived the two other families in our group say they don't want to guarantee the three of us because we may not be able to repay the loan as one is amputee, one is disabled and the other doesn't have occupation. Also I don't have any rice field. At that time I only wanted 1,000 Baht to buy fishing net to fish because I thought that with just 1,000 I can pay back by selling labour to harvest one ha. First time they agree to give and when the money comes they don't agree to give' (woman from Chamnoam Keut, Cambodia).

Fukuyama (2001) in the United States. There, in reaction to the pervasive individualism of this strongly capitalist society, large numbers of Americans were found to belong to associations. In Angola the same appeared to be happening, perhaps because people liked the opportunity to build relationships and begin to co-

operate with other IDPs. Occasionally some people in Mozambique indicated a liking for solidarity groups in the period immediately after conflict,

'We worked well as a team because we could remind ourselves about meetings, rules and exchange experiences with other group members. I had not had a business before so the support of the other women in the group helped me.' (Maria, ex FCC client, Chokwe town, Mozambique)

Such artificial group and community organisation loses popularity (though may still be used) when the more spontaneous norms of co-operation between individuals are rekindled. More informal relationships tend to carry lower transactional costs than the formalised equivalents.

In Angola the interest rate on loans had become an important consideration for borrowers, who were probably more vulnerable than those in the other three countries (though a comparison of this sort was not made). In the short time available for the research it was impossible to judge whether the sensitivity to interest rates had been created by NGOs or whether people genuinely couldn't pay high rates. There was certainly little evidence of people paying high interest rates even in the informal sector in Angola.

In the other three countries, where the availability of grants is virtually non-existent now, interest rate was not mentioned as an important factor in assessing loan products. For example, in Cambodia out of all the focus groups and semi-structured interviews conducted, only one person, a village chief, mentioned low interest rates as an important characteristic of microfinance.

'The people like the organisation money. Though they always spend time with monthly meeting it has a low interest' (man, 49 years, leader of Bour Srange village, Cambodia)

The inflexibility of semi-formal microfinance was criticised. In a high risk environment, it created a situation in which there was no room for error,

'If we take the loan from the (village) bank we have to work hard and if we miss one interest repayment we will have a problem and someone will blame us. If I delay the repayment the trader will not blame us' (woman, Trapeng Thlork, Cambodia).

'I wouldn't invest a loan directly in my machamba (garden) because it takes too long to get a profit, but mainly because it is risky. If the harvest fails you still have to pay the loan and interest. If we buy a sewing machine then it's quicker and safer to repay the loan and we can keep the business running.' (Woman, Pindanganga, Mozambique).

Many borrowers, like the woman from Pindanganga showed that they had a very good understanding of where the largest risks in their livelihood strategies lay. A loan was perceived to be an additional risk. An ex-client in Mozambique explained her position,

'I decided to abandon the community bank because the way the repayment is scheduled they forget that some people may have serious problems in the household. After I left I borrowed money from a relative who is in South Africa. The repayment conditions are very flexible.' (Helena, Chilembene, Mozambique).

"I have to pay back every week. I am obliged to get the money every week. And if I have a problem, I can't ask to speak to the manager in order to explain my problem, I have to pay back." (Female shopkeeper, Akabeza cellule, Rwanda)

When asked whether she would consider rejoining the community bank, another former client replied,

'No because I may have some more health problems so I cannot take the risk. If I could have a credit without those strict rules I wouldn't hesitate.' (Maria, Chokwe town, Mozambique).

Others stated a preference for the flexibility of informal microfinance,

'Sometimes I cannot pay this month and she (the moneylender) says "oh you

The Inflexibility of Semi-formal and Formal Microfinance

One woman from Makak borrowed from a microfinance bank in the late 1990s. Today she uses informal sources of microfinance only.

'I am afraid to get more loans maybe I have to sell the land property to pay back...When I had loan from the microfinance bank I had to go to the forest even when it rained because I don't have money to pay back to the microfinance bank at that time...If I borrow money from the microfinance bank I will spend time in the middle of the night to try and earn some money and I would have to leave my four kids alone in the house. There would not be anyone to cook for them and I would struggle to earn the money to pay them back....

With the moneylender we still work hard but not like when we borrow money from the organisation. When we have money we pay to the moneylender but with the microfinance bank we must pay monthly and we cannot delay repayment... In this village maybe three or four people had to sell assets to repay their loan because they did not have enough income and when the date to pay interest came there was no money to pay and they were allowed to delay for one month but after the next month we must pay back to them and they come to our house every day although we still owe them only 100 baht. Some people they haven't yet finished their ban and when the microfinance bank staff come to the village all of them always escape to the forest' (woman, 30 years, wood seller from Makak village, Cambodia).

can pay next month double" (woman in Koy Meng, Cambodia).

'I know that if it is not possible to pay the MF bank they will confiscate some property from us so we are afraid. If we have any property they will take it and this is the reason why I cannot get a loan from the organisation there. But for moneylender they can accept the problem and if for this month we can not repay we can delay for a month or more. Whatever happens the moneylender does not take any property from us' (woman, Trapeng Thlork, Cambodia).

Nonetheless, it should be noted that contrary evidence collected indicates that some moneylenders will confiscate assets if they do not receive repayment.

Accessibility is also an important characteristic which made microfinance from moneylenders in Cambodia more attractive than the same from semi-formal sources. Despite village banks being located in the village and managed by local people there was a perception, expressed particularly strongly in Cambodia that village bank loans and household savings were not accessible enough.

'Easier is from the moneylender as for the organisation (village banking methodology) we have to wait until the day comes and for the moneylender we can take any time from her' (woman, Koy Meng, Cambodia).

'When they want to plough their rice field they can come quickly to the moneylender to borrow money and pay for ploughing' (man, Khlengpor Cheung, Cambodia).

By being overly prescriptive on loan use, and having limited understanding of the types of microfinance products that people need, some lenders are only just beginning to confront the fact that they may be forcing people to lie about intended loan use.

"At the beginning of our microfinance programme, most of the groups who asked us for credit were engaged in business activities. Now, most of them ask for credits for livestock projects. But I am not sure how to explain this change. The reason might be that for livestock projects, people receive the total amount of the credit at the beginning, whereas for business loans, they get the money in tranches." (NGO staff, Rwanda).

However, as discussed above, the developing market encourages organisations to be more flexible in later years.

Change in demand for savings products has been less easy to unravel. In particular, it is believed that a savings service must be accessible and available before it is possible to gain an indication of demand for savings and in most countries nothing existed. Nevertheless, two facts are believed to be relevant. First there was some evidence of demand for savings services developing post conflict and second lack of trust prevents potential clients from saving anywhere else but in their own houses or with close relatives, colleagues and friends.

A small number of interviewees did save cash regularly and voluntarily.

'Initially people were not saving with the NGO because of a lack of money and lack of knowledge and trust. But they saw that those who joined the savings scheme managed to use their money wisely for business and other household needs. With these results, new members were keen to join.' (Felix, member of NGO savings club, Pindanganga, Mozambique)

Approximately ten percent of clients of a well-established NGO in Mozambique save voluntarily. When asked if she had seen people whose lives have visibly changed as a result of being a member of this organisation, a client replied,

‘Yes, especially people who managed to save and then use their savings to improve their standard of living. For example I’ve heard of some women who have savings of two, three or even four million meticaís. They can then use this to buy goods for personal use. Now I try to save whatever I can.’ (Maria, Chilembene, Mozambique).

"When you enter a savings club you do it with your neighbours in the market. Those are the people you see every day. I know if I can trust them, because I can see how their business is going" (Male IDP, Luanda, Angola).

In Cambodia, there was a general opinion amongst returnees that refugees could not have saved money in the Thai camps. Nevertheless in Mozambique, refugees with access to safe savings services did save small amounts of money. In Rwanda, people expressed a desire to have saved after the conflict but many stated that there were too many demands upon their small incomes.

"I would have liked to save some of the money I received for my demobilisation, but I had so many financial needs, that it was not possible." (Demobilised soldier, Rwanda)

An additional factor in Rwanda was that people feared the resurgence of violence and therefore wanted to keep money close at hand in case of emergency. Once the immediate threat of a resurgence of violence had subsided, they sought safer ways to save money. The Mozambican woman mentioned previously who saved in the Post Office in South Africa, talked of others 'running the risk of saving in the camps'. In Rwanda, people sought safe but accessible savings repositories. It was acknowledged that "money burned a hole in peoples' pockets" and therefore it was important that any savings were out of sight, but accessible enough in an emergency. A similar case was heard in Mozambique,

When people save they can access their money when it is needed most and it also allows time to plan and prioritise expenditure. If you keep your money at home you may end up spending it on things of less importance for the household. Look at Joao here – when the savings club finished and he withdrew his money he went out and bought these clothes that he doesn't even need! (Lito, Member of savings club, Pindanganga, Mozambique)

Savings services have proved their worth in the aftermath of the Mozambique floods in 2000 which had a devastating effect on households.

'I saved there (with FCC) but the floods have ruined my life because they happened just after I withdrew my savings. People now do not want to leave money in their house in case we have more floods.' (Maria, ex-FCC Client, Chokwe town)

A similar case of a woman losing all her possessions and wealth as a result of floods was encountered in Cambodia, too.

SUMMARY OF RESULTS: DEMAND FOR PRODUCTS

1. In rural areas, with under developed and semi-monetised economies, people have a preference for in kind products immediately post conflict.
2. People negatively affected by conflict are reluctant to borrow and if they do they use informal rather than (semi) formal sources.
3. The types and characteristics of appropriate microfinance change with the environment.
4. People prefer the characteristics of informal microfinance because it offers easy access, flexibility and individual loans.
5. People demand consumer loans from informal sources.
6. People prefer to use semi formal microfinance for productive and trade activities (not a conclusive finding as size of loan influences use and informal sources tend to offer small loans.).
7. Even among a fairly homogeneous group a variety of preferences for loan products can exist.
8. Where savings services are available in refugee camps and immediately post conflict people use them.
9. A preference for group activities exists in highly individualistic societies, created by prolonged conflict.

6. IMPLICATIONS

'I don't have anyone to borrow money from. My chickens are my support if I need to pay school fees or buy books for the girl or if there is an emergency. I sell them in the town but I don't always get a good price.' (Kativa, old woman living with her grand daughter in Pindanganga, Mozambique)

'I just borrow from them (moneylenders usually an amount of 5-10,000 riel) for a short while and when I have money I pay them back at once because I am poor and if I am late to repay I am worried that I have nothing to repay them. I always borrow only a small amount though they offer me a big amount I couldn't borrow because I do not expect to have any income' (woman, 43 years, Bour Srang, Cambodia).

The previous chapters have forced a rather unnatural division between environment, coping mechanisms and products in demand, but in this chapter the three topics are presented more holistically with a specific focus on future microfinance interventions.

The objective of this section is to analyse what the findings, presented in the foregoing three chapters, might mean for future microfinance initiatives and for future humanitarian assistance programmes. First, the implications for early relief operations are considered, second, the process of planning microfinance interventions, third the products and mechanisms that are believed to be most suitable and fourth, operational issues surrounding a newly created MFI.

Distinction Between Relief and Development

The results indicate that lack of clarity between grants and loans has caused confusion in the past and significant difficulties for future microfinance providers. People do not become dependent upon grants but they do come to expect that what comes from NGOs is given for free. In the dire situations encountered after war some people genuinely depend upon grants others - even those who are just meeting basic needs - do save and do take loans from informal sources. People want to be economically active and access to financial services enables households to manage their finances more effectively.

It should be emphasised that some people cannot satisfy even basic needs and for them loans might be unsuitable and savings impossible. For this group, completely

separate welfare programmes are justified. However, there should be greater transparency over the rationale for grant programmes, the objectives, the target group and the intended length of the programme.

Those just meeting basic needs not only need loans but are already taking them at high interest rates from moneylenders. In fact, the highest interest rate reported was 100% per day charged by informal lenders just after the conflict in Rwanda. What must stop is the situation like the one the researchers encountered in Angola where an NGO offered two types of microfinance first a product where repayment was not expected and second a 'proper subsidised microfinance product'. Rwanda is another case in point where it was reported that grants were called microfinance but also microfinance became grants because repayments were not collected. In this context, the term microfinance is a misnomer, which can only encourage confusion and disrespect for microfinance among NGO beneficiaries. In the future organisations must clearly articulate to their clients and beneficiaries that grants are free money and microfinance is a financial service that must be paid for.

Earlier Intervention in Microfinance Markets

It was found that demand for microfinance exists during and in the immediate post conflict transition, but the market is damaged with few microfinance providers operating and the opportunity to safely save money very limited. Informal moneylenders are under pressure to extend loans but the opportunity cost and the risks can be high which pushes up interest rates. There is also a temptation to charge usury rates of interest as there is little competition in the microfinance market.

Deciding when to intervene is difficult, but the need for rapid intervention is clear. Two factors should be considered. First, it is essential that there is a reasonable level of security and that the design of the saving or lending mechanism reflects this. Second, people must be settled, either at home or in refugee camps. The products should once again reflect the level of permanence in the area. For example, an organisation might decide that financial services are required in a refugee camp. If the camp residents are expected to move within a number of months, then products involving one day or one week terms may be the most appropriate from the point of view of the organisation.

To be successful in providing microfinance at an early stage after the conflict has ceased, there needs to be active co-ordination with relief providers and other microfinance operators. How people are supported after conflict is an emotive subject, so it is particularly important that others fully understand the rationale and potential benefits of providing sustainable microfinance.

Setting Precise and Realistic Institutional Objectives

The varied objectives of past microfinance interventions demonstrate that some organisations believe microfinance can be used for reducing dependency and conflict, supporting housing initiatives and supporting small business projects to name but a few. Despite the high hopes of microfinance providers, the research uncovered a general preference for finance from moneylenders. NGO microfinance schemes were perceived to be inflexible, unnecessarily time consuming and prone to creating conflict within communities.

Microfinance should certainly not be perceived purely and simply as a way to channel donor funds to 'help poor people'. The damage, in terms of microfinance market distortion, caused by the suppression of demand for sustainable microfinance (nobody wants to borrow when free money is available) and also the suppression of the supply of sustainable microfinance (nobody wants to lend, either) is probably far greater than the benefit derived by the small number of recipients.

Providing a financial service is in itself an ambitious and worthy objective. By integrating additional objectives like community health, staff are forced to become good generalists, wearing for example a supportive health visitor cap one minute followed by a strict bankers hat, the next. For some organisations such as a number in Cambodia, it has worked, but it immeasurably complicates projects. The result can so easily be lax follow up of those clients that are in arrears. In war-torn countries, the best chance for success of a microfinance initiative depends upon simplicity, emanating from precise and realistic objectives.

Rigorous and Informed Analysis

Interviews with the staff of NGOs and MFIs showed limited understanding of the environment, household financial service needs and of the implications for the households of the microfinance service provided. The senior, decision-making staff in MFIs often do not talk to clients and consequently do not understand their requirements. Moreover, there is inadequate upward communication from field staff to their managers. The design of projects is often rushed and any analysis undertaken is superficial. The majority of NGO providers interviewed did not understand the concept of a market where suppliers compete to offer services to clients. There was a common misconception among many that the microfinance market would be much improved by the exorcism of all moneylenders.

To properly plan and design a post conflict microfinance intervention, an organisation must invest people and money in the process. There should be a significant period

of information collection which should be undertaken by the people who will manage the microfinance project.

In depth information on the following areas should be gathered:

- Existing microfinance competition in the market place and details of products
- The environment at the macro and local level including social, economic and political situation
- Identification of products that are in demand
- The nature and impact of conflict
- Coping mechanisms that will influence preferences and demand for microfinance
- Available human resources for projects
- Criteria for people who should receive handouts not microfinance and therefore should not be involved in micro-credit.

Though this list may seem quite overwhelming, specific tools can enable researchers to collect the information with the minimum investment of time and labour. Methods of information collection relying exclusively upon traditional PRA are unsuited to this assessment. An approach based on market research, with an emphasis on semi-structured interview, is more likely to yield the information required.

The MFI should continue to monitor the rapidly changing post conflict environment. In particular, staff should listen to clients demands and feed back to the organisation.

Products that Support Coping Mechanisms

In the past the design of specific microfinance products have been imported from other NGO projects and have not always supported the specific coping mechanisms of households operating in the war-torn environment. Loss of assets is most significant causing greater vulnerability to future disasters and reducing both the demand for, and the ability to, repay loans. Savings has been neglected because organisations lack the capacity to safely manage savings.

The research found that during and after conflict people undertake diverse low risk, low investment and quick return activities. The microfinance products in demand allow small, frequent payments by clients. They do not specify loan use as clients are adept at distributing investment and risk between a variety of activities. Most importantly, immediately post conflict the loan or savings term is short. Households can repay productive loans using income streams from activities other than the one in which they have invested their loan. Low interest rate is not the major factor that

assists the poor, rather it is easy access to flexible and convenient microfinance services.

The ideal characteristics of services during and immediately post conflict are listed below. The NGO must decide which characteristics can be incorporated into a microfinance product designed to enable the institution to achieve sustainability.

- Small loan and saving size (e.g. < \$10).
- In-kind loan products, particularly in rural areas.
- Very frequent repayment or deposit schedule (e.g. every day or even several times a day).
- Very short term (e.g. one day to one week).
- Loan use unspecified and therefore can be used for income smoothing as well as small enterprise or agriculture.
- Individual loans and savings; no group meeting and no group guarantee, except in the immediate post conflict transition.
- Wide range of loan sizes so that richer people who remain without access to formal banking services can take loans.
- Very frequent visits by lender or lender always available, thus making loans and savings very accessible.
- Instant loan decisions.
- Some flexibility in repayment schedule.

The characteristic of the providers that was most valued immediately after conflict and even during conflict was flexibility, enabling easy access to savings and loans. Experience shows that providers that are small and closer to the ground better understand the market in which they are operating and can provide a more flexible service without sacrificing portfolio quality.

As preferences for microfinance products change rapidly in the developing post conflict environment so MFIs should prioritise keeping products in-line with current client demands. For example, normally as the security situation improves, a larger, longer term loan product will be required to enable people to invest in more capital intensive, slower return activities.

There appears to be potential for savings services immediately post conflict, if people are convinced that the bank is safe and trustworthy. Liquidity is important for households during periods of high insecurity when they prefer to conceal in the

house a higher ratio of their assets as cash or small portable assets. This suggests that banks must be prepared for high savings withdrawals from banking institutions with the resurgence of conflict. In contrast, as soon as the security situation improves the situation reverses and there is a strong preference for removing the risk associated with having portable (and therefore easily stolen) assets in the house. Post conflict, people rapidly begin saving small amounts of cash income so that in the future they can buy more lumpy productive assets.

Plan for Sustainability From the Beginning

It has been found that people are willing to pay market rates for microfinance services, post conflict. They do use the services of moneylenders, which may or may not be exploitative. Increased competition does improve the quality of microfinance services available, but highly subsidised services may squeeze out unsubsidised competitors. In the damaged and uncompetitive markets that are found post conflict, it is vital that other serious microfinance players enter the market as soon as possible and, more importantly, try to compete on a level playing field.

Many organisations have attempted to transform from unsustainable credit projects to MFIs. This approach was reported in Rwanda, Mozambique and Cambodia, and in the main it failed. Projects that survived were less effective service providers during the transition period as the organisational upheaval was debilitating.

Those organisations that provided very subsidised, unsustainable microfinance may have had a negative effect on other providers in the market, though this too is difficult to ascertain. On the one hand very subsidised services rarely affect more than a few dozen households so their impact could be considered insignificant, but on the other, there were reports of other providers' margins being squeezed as a result of the influence of subsidised NGO interventions.

There are significant benefits associated with the creation of a microfinance institution that aims for sustainability from the beginning - not least because sustainable providers can achieve significant scale. Subsidised credit projects that work with twenty or fifty clients are quite simply not achieving their potential. Millions more remain excluded from the limited funds available.

Achieving sustainability should be a long term objective from the beginning of the project. Funding is inevitably for less than three-year periods. Experience shows that in their third years organisations still require donor assistance. Once funds must be sourced from development rather than emergency budgets, MFIs that are not working seriously towards sustainability objectives shouldn't - if donors are consistent. - be funded.

Inclusive and Enabling Policy Towards Clients

There were reports of NGO microfinance providers following a narrow and exclusive policy where only the poor were assisted. The less poor are excluded through written policy or through the design of interventions that are inappropriate to slightly wealthier people.

A reality check is required. First the dynamic nature of poverty means that there is no guarantee that non-poor households will remain that way. Second, the non-poor remain excluded from formal microfinance. Wright and Dondo (2001), in an article entitled 'Are you poor enough?' - Client Selection by Microfinance Institutions', argue that 'MFI programmes should include the non-poor on the grounds described above and because this more profitable business can cross-subsidise outreach to the poor.

It should be emphasised that whereas NGO relief projects depend upon limited funding and therefore must target spending at the most needy, microfinance benefits from diversity, particularly in the high risk post conflict environment. Achieving sustainability is made easier by having a mix of clients, some large, some small. By achieving sustainability, more poor clients can be offered microfinance services. This argument is still hotly debated but it should be considered by NGOs operating in harsh environments as those that have blindly pursued a policy of only working with the poorest clients have sometimes created shakey, unstable institutions, as vulnerable as the clients they serve.

A Business-like Image and Behaviour

It was found that some clients believe that the large amounts of donor funds handled by NGOs during emergencies makes them wealthy organisations, which will not miss a few loan payments.

Giving the impression from the beginning that the microfinance intervention is wholly private sector owned is thought to be a good way in which to maintain low default rates amid a climate of free handouts and highly subsidised microfinance/grants from government and relief agencies.

The MFI should have a different name to the supporting NGO. In addition, where possible vehicles should not fly the flags or display the logos of an international NGO and staff should have a business-like attitude to clients who are valued and respected because they pay the staff wages. The NGO office and the MFI office should be separate and where possible, the MFI should have a shop front in the town or in a different compound. This need not affect the poverty focus of the MFI, which should still be in a position to attract large numbers of poor people. A separate banking office may be costly when security and rent is factored in, but the cost might

be repaid in terms of the higher quality of the loan portfolio. Fixed assets should be kept to a minimum reflecting the initially low levels of interest income. It is easy to create a high cost base at the beginning of the programme from which the MFI never recovers.

Sustained and More Intensive Support from Donors

Because of the security considerations, it is more costly to operate in war-torn environments than in those that have remained war-free. After prolonged conflict, the associated costs remain for some significant time after. Therefore, a period of significant loss making should be acceptable to donors if it can be proved that the high costs are related to an NGO attempting to operate in the post conflict environment rather than to inefficiencies in the design or operation of the project.

Providing small, short-term loans is also very costly and interest rates must reflect this. Nevertheless, if as is often the case, inflation peaks post conflict it can be very difficult to charge an interest rate that covers even administration costs. However, after some time demand does grow for larger, longer term and more profitable loans. NGOs should for their part treat this period as a time to generate loyal clients that, providing the microfinance products remain responsive and meaningful, will stay with the organisation. It should also be a time to focus on creating and testing systems and training staff.

Insecurity and later banditry are threats to microfinance for years after conflict has ceased. Microfinance is particularly costly to operate in insecure areas, as preventative measures must be taken to reduce risk to staff and to the funds. Flexibility of the microfinance service provided is reduced when safety restrictions are imposed. For example, in Cambodia loans must be disbursed and collected on the same day. In Luanda, Angola, there is danger of theft when committee members take savings to a nearby bank.

Microfinance requires the input of skills from a variety of specialists, including market researchers, microbankers and advertisers. A microfinance intervention should be managed by a microfinance specialist. It should not be the responsibility of skilled relief workers to manage microfinance interventions, for which they have few skills and probably no experience. There is a danger that relief staff will also be pulled away from the project when a new emergency strikes - at just the time when people are most likely to want to make use of savings and loans. Human resources, neglected and depleted during conflict, must be intensively developed which requires more time and money than would normally be the case in other developing countries. Performance related pay might be a useful way of encouraging enthusiasm and a push for high portfolio quality.

7. CONCLUSION

'Just knowing my clients is not sufficient. I must trust the person and be sure that they are going to pay back. Otherwise it would be like tying the money to the leg of a hippopotamus and throwing it in the river.' (Jonas, Moneylender, Chokwe town, Mozambique)

This study aimed to increase knowledge and awareness of microfinance during and after conflict. It employed a qualitative research methodology to gather information in four countries, Angola, Cambodia, Mozambique and Rwanda. It focused upon three areas which were environmental conditions, household coping mechanisms and microfinance products that are in demand, during and post conflict. The research was designed to test the following hypotheses:

- Fulfilment of Doyle's minimum requirements ensures satisfactory conditions for the supply and demand of microfinance products.
- Fulfilment of Doyle's preferred requirements ensures satisfactory conditions for the supply and demand of sustainable microfinance.
- Microfinance products strengthen household coping mechanisms during and after conflict.
- When choosing a microfinance product clients prefer those that are flexible, convenient and give people easy access to their money.

It was found that the environment has a significant effect upon the establishment of microfinance services. Security is the most important factor in the supply of semi-formal microfinance. Trust or knowledge of borrowers' affairs and functioning markets is as important for informal microfinance. Informal microfinance develops faster than semi-formal and exists in areas of intense insecurity. The environment develops rapidly post conflict but the transition from war to peace does not occur at the same pace throughout the country, rather pockets of security and insecurity are identifiable. Secure areas can also slip back into insecurity. Relief grants can have a negative effect on microfinance for years after the handouts end. This research confirms Doyle's minimum requirements but illustrates that the requirements are more nuanced and depend upon the type of microfinance provided. Doyle's preferred requirements are important for sustainable microfinance but after long periods of peace some countries, including Cambodia still have not attained these conditions.

IDPs and returnees are particularly vulnerable after conflict because they have a reduced asset base due to loss, destruction or theft, resulting from conflict. The study found that informal microfinance in particular is used post conflict and constitutes a coping mechanism. Informal loans and savings are used to support other livelihood activities. Household coping mechanisms are initially based on labour-intensive livelihood activities, especially ones that involve the unsustainable use of natural resources. Trading is a common livelihood activity, particularly in urban areas. Activities that are low risk, require low investment and offer a very fast return on investment are generally preferred. In general, agricultural activities that offer returns in the future for a greater initial investment become increasingly important as the environment stabilises.

Microfinance is used in refugee camps and immediately after displaced people return home. When choosing a microfinance product, clients prefer those that are flexible, convenient and give people easy access to their money. Informal microfinance has responded most effectively to those preferences. Demand for microfinance is directly related to coping mechanisms and clients prefer microfinance products that fit their livelihood arrangements. The use of loans is avoided unless there are no alternatives and then there is a preference for very small, short term, individual loans with a repayment schedule that allows for frequent repayment. Small amounts of money are often saved with informal sources over a short term for future investment in livelihood activities. High liquidity is only required in very unpredictable and insecure situations but as soon as the environment stabilises, cash is invested in productive assets or saved in safe places.

The research suggests that semi-formal microfinance post conflict is failing to offer microfinance products that are attractive and useful to clients. The relief interventions are damaging future opportunities for the development of microfinance by offering grants masquerading as microfinance.

In the future, there is a need to more accurately assess the environment before planning a microfinance intervention. The type of product that is in demand post conflict is extremely costly to provide, so future interventions should create innovative lending and saving mechanisms and must achieve a balance between the costs of provision and the attractiveness of the product to clients. The changing environment requires that the developing financial needs of clients are monitored more closely than they would be in stable environments.

Flexible microfinance interventions that can operate effectively closer to conflict, both spatially and in time, are more likely to develop a market in which high quality financial services are offered to support a nation to continue to move along the continuum towards peace.

REFERENCES

Addison, T. and de Sousa, C. (1999) 'Economic Reform and Economic Reconstruction in Mozambique', in McGilivray, M. and Morrissey, O. (eds) *Evaluating Economic Liberalization*, London: Macmillan.

Addison, T., Geda, A., Le Billon, P., Murshed, S.M. (2001) Financial Reconstruction in Conflict and 'Post-Conflict' Economies. Paper presented at the Conference of the Finance and Development Research Programme, 5-6 April 2001.

Addison, T., Le Billon, P. and Murshed, S.M. (2000) 'Finance in conflict and reconstruction', Working Paper No. 20, UNU/WIDER and ODI. Paper presented at the Annual Conference of the Development Studies Association, SOAS, University of London, 4 November 2000.

Aguilar, R. (2000) 'Angola's incomplete transition', in Addison, T. (ed.) *From Conflict to reconstruction in Africa*, Helsinki: UNU/WIDER

Azam, J. and Hoeffler, A. (2000) 'Looting and Conflict Between Ethno-Regional Groups: Lessons for State Formation in Africa'. Paper presented at The World Bank's (DECRG) Centre for International Studies Workshop on The Economics of Civil Wars. Princeton University. March 18&19 2000.

Azam, J. and Hoeffler, A. (2001) Violence against Civilians in Civil War. Discussion Paper No. 2001/46. WIDER/UNU.

Brown, M.E. (1996) *The International Dimensions of Internal Conflict*. Cambridge, Mass., The MIT Press

Cairns, E. (1997) *A Safer Future. Reducing the Human Cost of War*. Oxford, Oxfam Publications.

Collier, P. (1995) *Civil War and the Economics of the Peace Dividend*. Centre for the Study of African Economies, University of Oxford.

Crisp, J. (1998) 'The 'Post-Conflict' Concept: Some Critical Observations', Geneva: Research and Development Policy Unit, United Nations High Commission for Refugees.

De Soto, H. (2000) *The Mystery of Capital: Why Capitalism Triumphs in the west and Fails Everywhere Else*. New York: Basic Books

EIU: Economic Intelligence Unit (2000) EIU Country Profile 2000: Angola. London. EIU

Fukuyama, F. (2001) Social Capital, Civil Society and Development. *Third World Quarterly*, Vol. 22, No. 1, pp 7-20.

Hodges, Tony (2001). *Angola from Afro-Stalinism to Petro-diamond Capitalism*. Oxford: James Currey

Le Billon, P.(1999) 'A land cursed by its wealth? Angola's War Economy 1975-99', *Research in Progress* 23, Helsinki:UNU/WIDER.

Marshall, K. (1997) *Emerging from Conflict:: What Roles for International Development Finance Institutions?* Development Discussion Paper No. 587. Cambridge, Mass.

Ministry of Planning (2000) 'Interim poverty reduction strategy paper'. Phnom Penh: Royal Government of Cambodia. Accessed at <http://www.imf.org/external/NP/prsp/2000/khm/01/102000.pdf> on 7 November 2001.

Morduch, J. (1999) *Between the state and the market: Can informal insurance patch the safety net?* *The World Bank Research Observer*, Vol. 14, No. 2. IRDB/World Bank.

National Institute of Statistics (1997). 'Report on the Cambodia Socio economic Survey 1997' Ministry of Planning, Phnom Penh, Cambodia

Sebstad and Cohen (2000) *Microfinance, Risk Management, and Poverty*. AIMS, USAID.

Silverman, D. (2000) *Doing Qualitative Research: A practical Handbook* London: Sage Publications

Transparency International (2000) Accessed at <http://www.transparency.org> on 4 November 2001

UNDP (2000) *Human Development Report 2000*. Oxford, Oxford University Press

Wallenstein, P. and Sollenburg, M. (2000) 'Armed Conflict 1989-1999', *Journal of Peace Research*, 37 (5)

Whiteside, M. (1996) *Realistic Rehabilitation: linking relief and development in Mozambique*. *Development in Practice* Vol. 6, No. 2,. Oxford: Oxfam.

Williams, A., Vantha, U. and Vouch Ngim, S. (2001) *Post Conflict Microfinance in Cambodia*. Accessed at <http://www.postconflictmicrofinance.org> on 1 November 2001.

Wolcott, H. (1990) *Writing Up Qualitative Research*, Newbury Park, CA: Sage Publications

World Bank (2001) *World Bank Development Report 2000/2001: Attacking poverty*. New York, Oxford University Press

World Food Programme (2001) *Forest and food security, A first attempt at nationwide analysis*'. Cambodia: World Food Programme.

Wright, G.A.N. and Dondo, A. (2001) 'Are you poor enough?' - Client selection by microfinance institutions, *Small Enterprise Development*, Vol. 12, No. 1.

APPENDIX 1

HISTORY OF THE CONFLICTS

CAMBODIA

Cambodia gained independence from France on 9 November 1953. The history of conflict in Cambodia is very complex. Doyle notes that characteristics of ethnic civil war, interstate war and ideological war have been displayed over three decades from 1960 to 1990.

The most significant political and ideological influences were introduced by the Khmer Rouge which tried to create a Maoist, peasant dominated agrarian co-operative (Ray 2000:20). The conflict has been fuelled mainly by a struggle for political control of the country. Initially this was in response to the harsh policies of Sihanouk in the 1960s and 1970s. In the 1970s, Sihanouk's successor, Lon Nol, was himself overthrown by the Vietnamese and Khmer Rouge forces in response to Lon Nol's greed and corruption. Nearly 4 years of Khmer Rouge rule followed - one of the most radical and brutal restructuring of society ever attempted (Ray, 2000). In 1979, the Vietnamese overthrew the Khmer Rouge, installing in government two ex-Khmer Rouge officers, Hun Sen and Heng Samrin. Fighting between the new government and opposition forces (FUNCINPEC, KPNLF and the party of Democratic Kampuchea or the Khmer Rouge), continued throughout the 1980s, supported by different superpowers intent on fighting their own ideological wars by proxy on Cambodian soil. A coalition government was formed in 1982 that included all of the opposition groups but it was the Paris Agreement, signed by the same groups in 1991 that signalled the beginning of peace. UNTAC was installed in 1992 and despite some conflict since, relative peace has been sustained.

During the Lon Nol period, it is estimated that 700,000 people were killed and millions displaced to Phnom Penh. The Khmer Rouge experiment, though not strictly a conflict, was a particularly brutal period for the Khmer people, which is thought to have caused the deaths of between one and three million people and the displacement of very large numbers. The end of the regime brought famine and prompted 500, 000 people to flee to Thailand.

ANGOLA

Angola was colonised by the Portuguese and gained independence in November 1975. The country has been in active conflict for the past forty years. In fact, conflict has been a characteristic of Angolan history since the fifteenth century when the Portuguese first arrived in the country. Angola has experienced peace in four different periods over the past five centuries, totalling less than fifty years (Hart and Lewis, 1995).

The conflict began as a nationalist struggle for independence against the colonising nation. However, Angola also became a site for a proxy war between the cold war powers fighting for their own ideological and economic systems. Since the fall of communism the additional economic motivation for conflict is more visible, but is thought to have always existed.

Following forty years of relative peace, 1961 marked the beginning of a long and bloody struggle for independence. Three factions were established, the MPLA (The People's Movement for the Liberation of Angola), the FNLA (The National Liberation Front of Angola) and the UNITA (The National Union for the Total Independence of Angola). All three fought against the Portuguese rulers but they also fought between themselves. Ironically, it was political change in Portugal in April 1974 that provided the impetus for the Portuguese to withdraw from Angola in 1975. Following independence peace lasted a matter of weeks, as the three political groups could not work in harmony. The resulting armed conflict has been characterised as a war of 'greed and grievance' (Collier, 2000), a battle for control of the natural resources of the country but also a battleground for the superpowers to play out their ideological agendas through support for different factions. The Bicesse Accords (May 1991) and The Lusaka Protocol (November 1994) brought hope for peace but both failed to secure it. The Angolan conflict is now, more than ever motivated, by greed. The government has control of the oil resource and UNITA controls the diamond mines. Today there is practically a military stalemate.

The War of the Cities, which broke the Bicesse Accords, was a period of particularly vicious conflict, affecting civilians as well as soldiers. The urban/rural ratio has shifted from 15:85 in 1970 to 43:57 in 1997, reflecting the relative security of urban areas.

MOZAMBIQUE

In 1975, Portugal, the colonial power gave independence to Mozambique. However, the Mozambique conflict actually began in 1964 as a struggle for independence by Frelimo. After 1975, Frelimo and Renamo fought a continuous conflict for nearly twenty years, which only ended in 1992.

Frelimo's socialist policies were initially popular with Mozambicans who had few opportunities during colonial rule. However, by the early 1980s the same policies had caused increased poverty and disenchantment. South Africa began to support Renamo at this time. The conflict became a blend of conflicts operating at the local and national level but also involving regional actors and becoming a convenient location for the Capitalist west and the Soviet Bloc to continue their ideological wars by proxy.

Renamo was created with support from Rhodesia in 1977; two years after Frelimo came to power. Renamo exploited the economic problems facing the country in the early 1980s. The conflict between Renamo and Frelimo reached its peak in the mid-1980s. The country became split into Renamo and Frelimo held territories. The changing world order of the 1990s meant that the support of South Africa and the Soviet Union was withdrawn. Amid crop failure, massive population displacement and a decimated infrastructure, talks between the Frelimo government and Renamo began in June 1990. A peace agreement was signed in Rome on 4 October 1992 and despite delays in its implementation, the peace has held.

With independence, 90% of the skilled and semi-skilled workforce left Mozambique in the form of retreating Portuguese. The socialist experiment that followed either directly or indirectly claimed the lives of one million Mozambicans. Renamo used terror tactics against civilians and by 1992, 1.6 million people were refugees and 3.7 million were internally displaced (UNHCR, 1994).

RWANDA

Germany was the colonial power in Rwanda until the end of world war one. Rwanda was passed to Belgium after the war and in 1962, Rwanda was given independence by the Belgians. The colonial powers polarised society, creating an echelon of Tutsi elite and discriminating against the majority Hutus. This laid the foundations for decades of conflict.

In the case of Rwanda, power shifted between ethnic groups. The conflict can be seen as a scramble for political power in order to prevent discrimination of a particular ethnic group by repressing the other.

In 1959, tens of thousands of Tutsis fled Rwanda following change in the balance in favour of the Hutu ethnic group. Between 1959 and 1973, power passed to a small group of Hutus, originating from central Rwanda and led by Gregoir Kayibanda. His regime was overthrown in 1973 by a northern Hutu, Juvenal Habyarimana, who objected to the preferential treatment given to the central Hutus. Habyarimana's policies were equally discriminatory, but this time in favour of northern Hutus. This concerned the international community who placed pressure on Habyarimana to democratise. Meanwhile the Tutsi rebel army, the Rwandan Patriotic Army (RPA) invaded in 1990, the first of many incursions into Rwanda. This is the point widely considered the beginning of the most recent political and military conflict in Rwanda. Under intense international pressure, the Arusha Peace Accords were signed in 1992, between the RPA and the Rwandan government. The peace did not hold. A plane carrying Habyarimana was shot down in April 1994 and it sparked a genocide in which one million Tutsis and moderate Hutus were killed. Only the military victory of the RPA ended the genocide in which the international community is widely seen to have failed in their duty to intervene. Every person living in Rwanda was affected by the conflict that resulted in the death of one-eighth of the population and caused 1.7 million Hutus to become refugees. After the conflict, one in 60 people was imprisoned upon charges of genocide.

APPENDIX 2

RESEARCH TOOLS

TOOL 1 - STAKEHOLDER ANALYSIS

This section is taken from Concern Worldwide's notes on doing Stakeholder Analysis

Objective:

- ◆ To draw out the interests of stakeholders in relation to the problems which the project is seeking to address
- ◆ Identify conflicts of interest between stakeholders which will influence the information collected in the research
- ◆ Help to identify relations between stakeholders which can be built upon
- ◆ Help to assess the appropriate type of participation by different stakeholders in the research

Participants:

Researcher and local researcher. Possibly some Concern staff

Materials required:

Poster paper and pens

Method:

1. Draw up a stakeholder table.
2. Identify all secondary stakeholders (including intermediaries offering microfinance services)
3. Identify and list all primary stakeholders (groups ultimately affected by microfinance during and after conflict)
4. Identify and list all those external stakeholders
5. Identify important sub groups within organisations
6. Identify the interests (overt and hidden) of all stakeholders in relation to microfinance during and after conflict.

7. Assess the impact (+ or -) of the results of the research on the stakeholders.
8. Indicate the relative priority that the project should give each stakeholder.
9. Place all stakeholders in an appropriate position within the influence/importance matrix. Stakeholders in each category will need to be treated differently

Expected results:

Two outputs are expected from the Stakeholder analysis. These are detailed below.

1. Stakeholder Table

Secondary Stakeholders	Interests	Potential Project Impact	Relative priorities of interest
Primary Stakeholders	Interests	Potential Project Impact	Relative priorities of interest
External Stakeholders	Interests	Potential Project Impact	Relative priorities of interest

2. Influence/Importance Matrix

High importance/Low influence	High importance/high influence
Low importance/low influence	Low importance/high influence

TOOL 2 - VILLAGE WEALTH RANKING

Objective:

To identify, using locally defined parameters, the relative wealth of every household in a village and to gain greater understanding about livelihoods.

Preparation required:

- ◆ An understanding of what wealth means to local people
- ◆ Appointments with two groups per village
- ◆ List of households from village leader

Participants:

A sample of approximately five men and five women should take part in this exercise. The groups should be as homogeneous as possible e.g. all women from the same socio-economic group. The activity should be conducted as many times as it takes to gain a clear picture of the situation, but usually twice is sufficient.

Materials Required:

Poster paper, pens, card, names of each household head written on individual pieces of card

Method :

1. Divide participants into two groups of approximately five men and five women. The groups need to work out of earshot of each other, though the activity could be explained to the two groups together at the beginning.
2. Explain about the research. Emphasise that the research team is working to gather information about PCM to help all organisations to deliver better microfinance after armed conflict. Strenuously avoid raising expectations of immediate NGO assistance because of this activity!
3. Introduce the activity and explain that it will enable the team to gain a better understanding of what makes some people poor and others rich.
4. Ask questions to find out perceptions

- ◆ If you go to a village you don't know very well, how can you tell that people are poor?
- ◆ What are the major causes of some people being poor?
- ◆ Have the poor people always been poor?
- ◆ Have the rich people always been rich?
- ◆ Thirty years ago, was the gap between rich and poor the same as it is today? How has it changed?
- ◆ If there is an emergency such as flood or drought, what enables some people to cope better than others?
- ◆ How do people become wealthier in this area? What activities are most profitable?

What are the most important factors in a household being able to maintain a good standard of living? If this discussion has taken more than forty minutes, consider having a break, or even returning the next day.

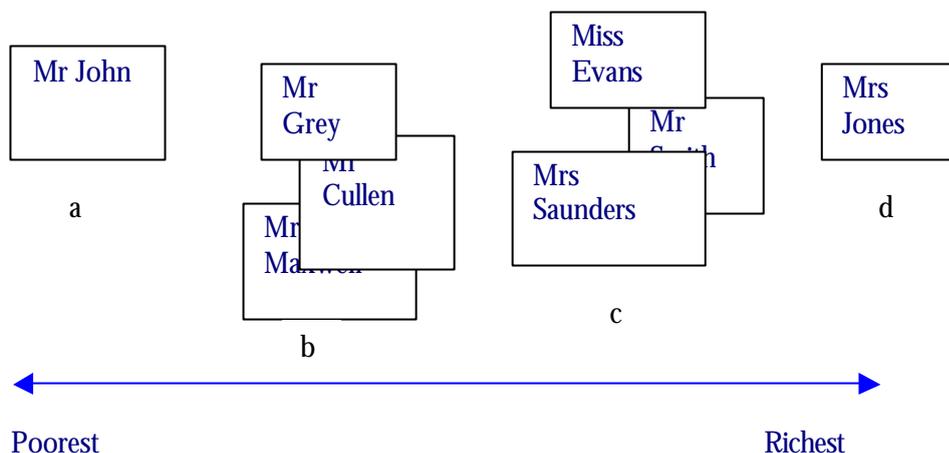
5. Hold up two names - ask who is wealthier then who (make sure you start with one well off - one not so well off - get suggestion beforehand) Assign the cards to two different piles.

6. Hold up third name - ask if this person is equivalent in wealth to either of the two piles or is in a separate category.

7. Continue with the other cards - you may get 4 - 6 categories.

8. When you have ranked them, go back to the piles and ask the participants to explain what people in group a have, then group b and so on. Ask the participants to name/characterise the different groups (eg poor, very poor etc.) and use these definitions for the duration of the research.

Expected results:



TOOL 3 –TIMELINE

Objective:

- To identify how the environment changed, during and after conflict, and how it influenced the supply of and demand for microfinance products
- To identify household coping mechanisms during and in the post-conflict environment

Participants:

- ◆ The oldest people in the village
- ◆ Groups of MFI clients, especially the poor and poorest
- ◆ Groups of non-MFI clients, especially the poor and poorest

There should be about 5-10 people in a group for the timeline activity. Semi-structured interviews should be carried out with individuals.

Materials required:

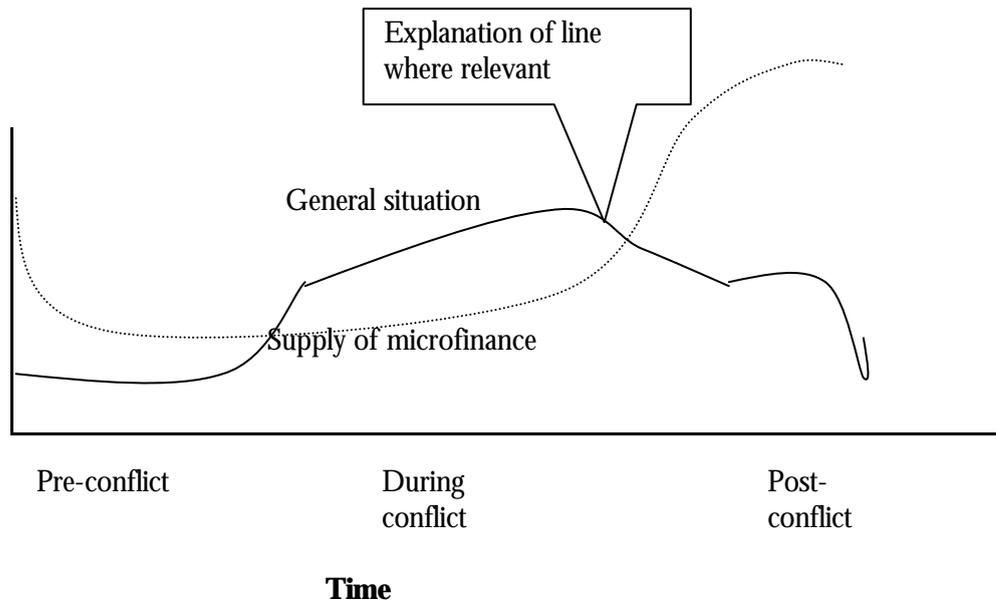
Large sheets of poster paper stuck together to form long piece of paper, coloured pens, Dictaphone and cassette (if applicable)

Method:

1. Prepare a list of essential areas to cover during the interview.
2. Explain to the timeline group about the PCM research
3. Introduce the theme of the session
4. Brainstorm about the events that have occurred in the past
5. Draw timeline axis on piece of paper with time on the x-axis (along the bottom).
6. Explain how a bad time and a good time can be represented on the axis. Based on the group's description ask someone to draw a line to represent the good times and bad times in the local area (see example below).
7. Referring to the timeline, begin to ask questions as to when and why a situation was considered good or bad. Ask questions about the environment (see suggested areas to explore below).

Expected results:

A timeline and, from a variety of sources, and in addition detailed descriptions of the behaviour of households, including how the households responds to the changing environment.



Notes

- The longer the piece of paper, the more people will be able to sit around and participate

TOOLS 4&5 - SEMI-STRUCTURED INTERVIEW AND FOCUS GROUP DISCUSSION

Objective:

- ◆ To gain in depth information on peoples' preferences and perceptions

Preparation required:

- ◆ Organise appointments with interviewees

Participants:

Less than two people per interview

- ◆ MFI clients, especially the poor and poorest
- ◆ Non-MFI clients, especially the poor and poorest
- ◆ Providers of formal and semi formal microfinance e.g. banks, MFIs, credit unions
- ◆ Providers of informal microfinance e.g. shops providing credit, self-help groups, traders, moneylenders, co-operatives and NGOs

Materials required:

Dictaphone and cassette (if applicable)

Method for SSI

1. Find a quiet place to talk.
2. Prepare a list of essential areas to be covered during the interview. Modify the list after each interview depending upon the findings. It is important that the views of men and women, even within the same household, are recorded separately as they may differ.
3. Facilitate a structured discussion based on the list of essential areas but pursuing others that crop up, if of interest.

Method for FGD

1. Prepare a list of questions on one or two essential areas that should be covered during the interview. Modify the list after each interview depending upon the findings.

2. Facilitate a structured discussion based on the list of essential areas but pursuing others that crop up, if of interest. Try to encourage everyone to talk and no individual to dominate the discussion.
3. If appropriate, ask for a timeline to be drawn.

SUGGESTED AREAS TO EXPLORE

Microfinance Products

1. How has the MFI developed since its inception in response to the changing environment?
2. What have been the strengths and weaknesses of the MFI from its inception?
3. Would things have worked better if the MFI had started later/earlier and why?
4. What could have been done better and why?
5. How does demand for in-kind and cash products vary?
6. How does demand for production and consumption loans vary?
7. What productive activities were/are chosen?
8. Do they prefer loans with compulsory savings or loan products that are not linked to savings?
9. Do they prefer instant access or forgo for higher interest rates?
10. What is the preferred loan period and conditions? Why?
11. What interest rate and fees will be tolerated?
12. The type of microfinance that would have been most helpful to the household once the humanitarian assistance (grants and food distribution) had finished
13. Users and providers of microfinance (savings, transfer, insurance and credit services) in the area
14. Which socio-economic groups use which providers
15. Why certain groups prefer to use certain providers
16. Development of the microfinance products in response to the changing environment

17. Attitudes to products that have been offered by informal and formal providers, including response to the:

- Initial loan size
- Interest rate
- Loan term
- Savings services (amount & frequency of deposits)
- Access to savings
- Frequency of meetings
- Activities of meetings (training etc)
- Loan officer supervision
- Individual technical assistance
- In-kind or cash products?
- Production or consumption loans
- Types of income generation activities chosen
- Loans with compulsory savings or loan products that are not linked to savings

18. Microfinance products: Strengths, weaknesses, opportunities and threats focusing particularly on the time during and just after the conflict

19. Likely effect if the microfinance products had been offered later/earlier

20. How could products/characteristics have been improved?

21. What alternative products/characteristics would have been more attractive?

Household Coping Mechanisms

1. What formal sources of finance are used during and after conflict and why?
2. What informal sources of finance are used during and after conflict and why?
3. Who do the poor turn to for finance and for relief? Who do the slightly better off turn to?

4. What are the traditional methods of savings, loans and insurance?
5. Which are the preferred sources of finance?
6. When repayment of loans is due which creditors are repaid first (i.e. which are most highly valued?)?
7. How does household behaviour change with regard to finance during and after conflict?
8. What coping mechanisms are employed with regard to labour, production, trading, assets, liabilities, consumption and expenditure?
9. How do households begin to regenerate income?
10. Description of life history
11. How poor and wealthy people save
12. How poor and wealthy people invest
13. How poor and wealthy people protect against risk How the household regenerates economic capacity after conflict
14. The effect of conflict on household assets and liabilities.
15. Changes in the patterns of household income and expenditure as a result of the conflict
16. The response of households to risk during and after conflict
17. Household preference for liquidity during and after conflict (a preference for high liquidity requires that households can quickly, easily and with little risk realise the value of an asset. Change in the supply of formal and informal microfinance services to the household
18. Change in the demand for microfinance services from the households
19. Impact (positive or negative) of the formal sources on household coping mechanisms
20. Impact (positive or negative) of the informal sources on household coping mechanisms
21. Traditional ways of coping with natural disasters like floods or droughts

22. Traditional household banker - husband or wife?
23. The time when the interviewee had the most livestock or cash (or whatever commodity wealth is stored in)
24. The time when the interviewee had the least wealth.

The Environment

1. How has the environment changed?
2. How has the supply of microfinance services changed?
3. What environmental factors are important in deciding when to start microfinance?
4. How has the demand for microfinance services changed?
5. What environmental factors are important in determining the demand for microfinance services?
6. What were the conditions when MFI was established?

Appendix 3

LIST OF INSTITUTIONS AND PEOPLE CONTACTED/INTERVIEWED

COUNTRY	ORGANISATIONS
Mozambique	CARE International ¹ Concern Worldwide ² World Relief ³ Accion CRESCE FCC NovoBanco Tchuma European Commission Food Security Office (EU) European Community Humanitarian Office (ECHO) Department for International Development (DFID) United States Agency for International Development (USAID) Institute of Rural Development (INDER) The World Bank Various Consultants
Cambodia	Phnom Penh: Catholic Relief Services, Concern Worldwide, EMT, World Relief/CREDIT, World Vision Banteay Meanchey: ACLEDA, CAAFW, Concern Worldwide, Khmer Family Development, Rufade, SEADO, Seilanithi Pursat: Concern Worldwide, Hatta Kasekar
Rwanda	Not stated
Angola	Not stated

APPENDIX 4

COMMUNITY MEMBERS INTERVIEWED

MOZAMBIQUE

Name	Location	Relevant Information
Felix	SSI, Pindandanga	Member of savings club. Owns bakery and drives a 'chapa' (local transport).
Tomas, Joao, Lito	FGD, Pindandanga	All are involved in various activities – handicraft, petty trading and hiring labour.
Four women	FGD and timeline, Pindandanga	Agriculture, mainly for subsistence. Sell surplus when possible.
Veronica, Madalena	SSI, Pindandanga	As above.
Kativa	SSI, Pindandanga	As above.
Felix	SSI, Pindandanga	As above.
Jacinta	SSI, Pindandanga	As above.
Royane, Luciano, Chimoio, Aida, Maria, Teresa, Leonor	FGD and timeline, Chipindaumwe	All members of the Savings Commission.
Three women	FGD, Chimoio	All market traders and clients of CRESCE.
Carlos	SSI, Chimoio	Market trader. Ex-client of CRESCE.
Joao (m)	SSI, Chimoio	Moneylender.
Celeste, Rute, Julieta, Sara, Antonio, Rafael, Teresa	FGD and timeline, Chokwe	Market traders. All members of FCC community bank in 3 rd Barrio Chokwe.
Maria	SSI, Chokwe	Market trader. Ex-client of FCC.
Felismina	SSI, Chokwe	Dependent on family. Ex-client of FCC.
Jonas, Siteo	SSI, Chokwe	Moneylenders and moneychangers.
Celeste	SSI, Chokwe	Moneylender.
Jose, Maria, Sebastiao, Florinda, Phalafene	FGD and timeline, Chilembene	Market traders. All members of FCC community bank in Chilembene.
Helena	SSI, Chilembene	Ex-client of FCC.
Maria	SSI, Chilembene	Ex-client of FCC.
Teresa	SSI, Chilembene	Non-client. Remittances from South Africa
Carmona	SSI, Massingir	Agriculture and animal breeding.
Ngovene	SSI, Massingir	Fisherman.
Jorge	SSI, Massingir	Agriculture and animal breeding.
Maria, Biro, Jorge	SSI and timeline, Massingir	Family members. Agriculture and animal breeding.
Armando	SSI, Massingir	Animal breeding.
Samuel	SSI, Massingir	Lends animals for breeding.

Note: Pindandanga and Chipindaumwe are remote rural villages in Gondola district in Manica Province. Chimoio is the provincial capital of Manica province. Chokwe town is the main town in Chokwe district, Gaza Province. Chilembene is a village in Chokwe district. Massingir is a district in Gaza province that borders South Africa.

CAMBODIA

Semi structured interviews were held with 42 people (24 women and 18 men) in nine villages, five districts within two provinces. Focus group discussions were held with three groups, in three villages in two districts within two provinces. Further details of the sources of data are outlined below. Transcriptions of interviews are available on request.

1. BANTEAY MEANCHEY PROVINCE, MONGKUL BOREI DISTRICT

Semi Structured Interviews in Chamnoam Keut Village, Chamnoam Commune

Gender	Age	Refugee/IDP/Not Displaced	Wealth Category	Other
Man	58	Not displaced	Rich	Sells fertiliser, also moneylender
Man	-	Not displaced	Rich	Vice Commune Chief
Woman	50	Not displaced	Poorest	Widow
Woman	-	Not displaced	-	-
Woman	-	IDP	Poorest	-
Man	-	IDP	Poorest	Ex-soldier now amputee
Woman	-	Not displaced	Poorest	7 children between 2-19 years
Man	-	Not displaced	Poorest	Sick
Man	-	Not displaced	-	-
Woman	-	Not displaced	Poorest	5 children
Woman	59	Not displaced	Rich	Chamnoam Market Trader
Woman	30s	Not displaced	Rich	Chamnoam Market Trader
Boy	12	Not displaced	-	School boy

Semi-structured interviews in Koy Meng Village, Koy Meng Commune

Gender	Age	Refugee/IDP/Not Displaced	Wealth Category	Other
Man	50	IDP	-	Demobilised soldier

Gender	Age	Refugee/IDP/Not Displaced	Wealth Category	Other
Woman		IDP	-	
Woman	-	-	-	Moneylender
Woman	30	-	-	Village Bank Committee Member

2. THMA POUK DISTRICT, BANTEAY MEANCHEY PROVINCE

Focus Group Discussions:

- **Trapeng Thlork village, Banteay Chhmar Commune** – discussion held with approximately 20-30 people in village leaders house.
- **Kbaltonsorn village, Banteay Chhmar Commune** – discussion held outside the village shop with about 10 people.

Semi Structured Interviews in Trapeng Thlork Village, Banteay Chhmar Commune

Gender	Age	Refugee/IDP/Not Displaced	Wealth Category	Other
Woman	Old	IDP	Poorest	Widow
Woman	-	Refugee	Poorest	Disabled
Man	-	Refugee	Poorest	Recently bitten by snake so can't work
Woman	-	Refugee	Poorest	
Man	-	Refugee	Poorest	Blind in one eye, weak so difficult to work
Man	-	Refugee	-	Village Chief

Semi Structured Interview in Throm Deikas Village, Banteay Chhmar Commune

Gender	Age	Refugee/IDP/Not Displaced	Wealth Category	Other
Man	-	Refugee	-	Village Chief

3 SEREISOPHON DISTRICT, BANTEAY MEANCHEY PROVINCE

Semi Structured Interviews in Makak Village, Makak Commune

COMMUNITY MEMBERS INTERVIEWED

Gender	Age	Refugee/IDP/Not displaced	Wealth Category	Other
Woman	30	Refugee	-	Wood Trader
Man	38	-	-	Wood Trader

Semi Structured Interviews in Sisophon Market

Gender	Age	Refugee/IDP/Not displaced	Wealth Category	Other
Woman	46	Not Displaced	-	Gold seller and moneylender
Woman		Not Displaced	-	Gold seller and moneylender

4. SVAY CHEK DISTRICT, BANTEAY MEANCHEY PROVINCE

Semi-Structured Interviews in Khlempor Cheung Village, Taben Commune

Gender	Age	Refugee/IDP/Not Displaced	Wealth Category	Other
Man	-	Refugee	Medium	Village Chief
Woman	About 50	IDP	Poorest	Widow
Man	Old	IDP	-	Government Employee
Man	-	IDP	-	Disabled – had gun shot wounds
Woman	-	IDP	-	-

5. BAKAN DISTRICT, PURSAT PROVINCE

Focus Group Discussions:

- **Chambok Meak village, Snam Preah Commune** – discussion held in a squatter area of the village. Participants included one soldier, one demobilised soldier and four women one of whom used to be a moneylender before the floods wiped out her crops and wealth last year.

Semi Structured Interviews in Bour Srange Village, Trapeng Chaung Commune

Gender	Age	Refugee/IDP/Not Displaced	Wealth Category	Other
Man	49	IDP	Rich	Village Chief
Woman	43	Not Displaced	Poorest	7 children and cares for elderly, sick mother
Man	-	Not Displaced	Poorest	Demobilised Soldier
Woman	55	-	Poorest	Separated and lost home and land trying to save her son who recently died

Semi Structured Interviews in Chambok Meas Village, Snam Preah Commune

Gender	Age	Refugee/IDP/Not Displaced	Wealth Category	Other
Woman	63	Refugee	Rich	Moneylender and shopkeeper
Man	74	Refugee	Rich	Moneylender and Shopkeeper
Woman	21	Not displaced	-	Worked in a garment factory in Phnom Penh
Woman	-		-	Works in the family shop