



PLANET FINANCE

www.planetfinance.org

The Microfinance Platform

Microfinance Role in Post Conflict and Crisis Situations

8th of February 2005

By Dr. Mostaq Ahmmed





I. What is Microfinance ?



Table of contents

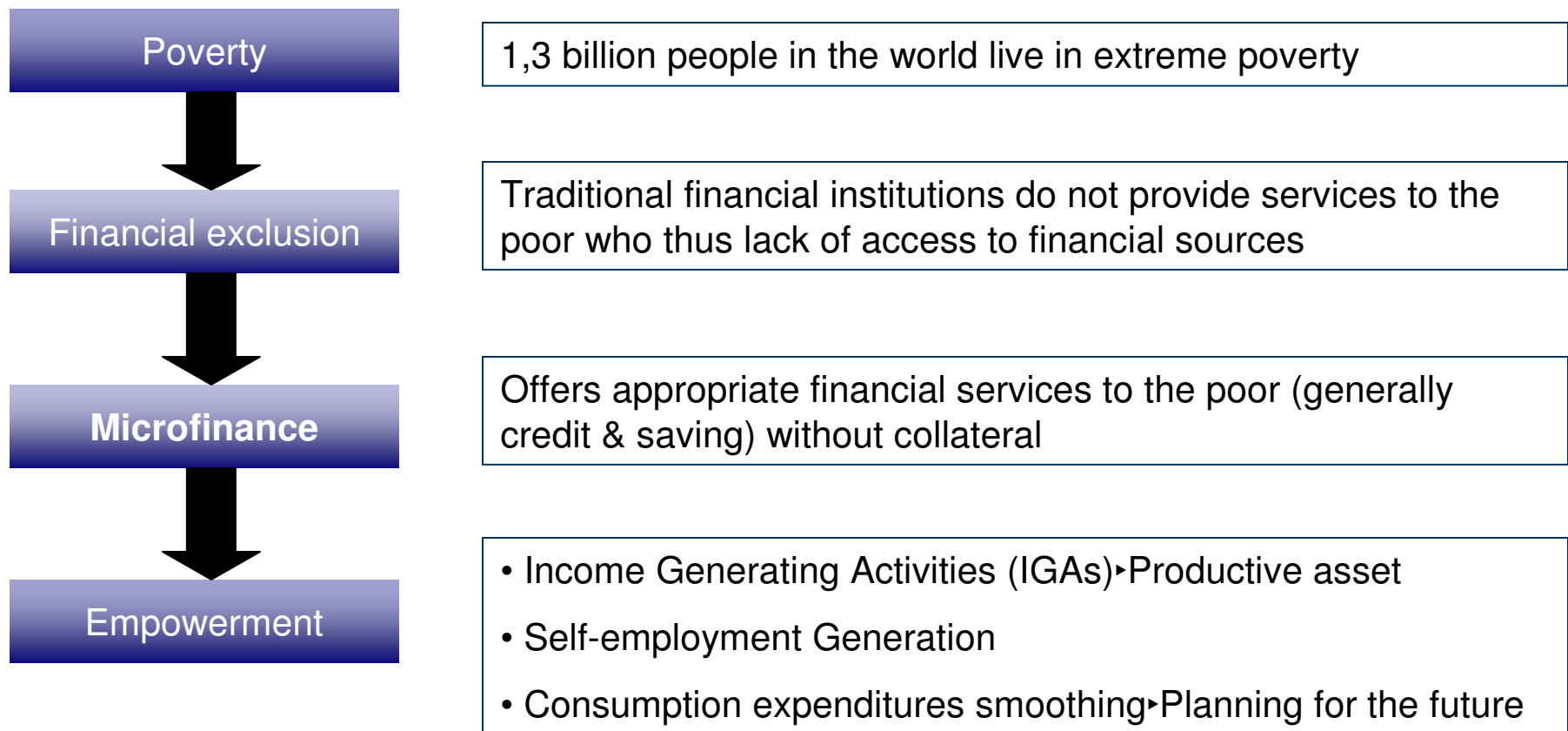
1. What is Microfinance ?

2. Microfinance in Post Conflict and Crisis Situations





Microfinance, an effective tool for poverty alleviation

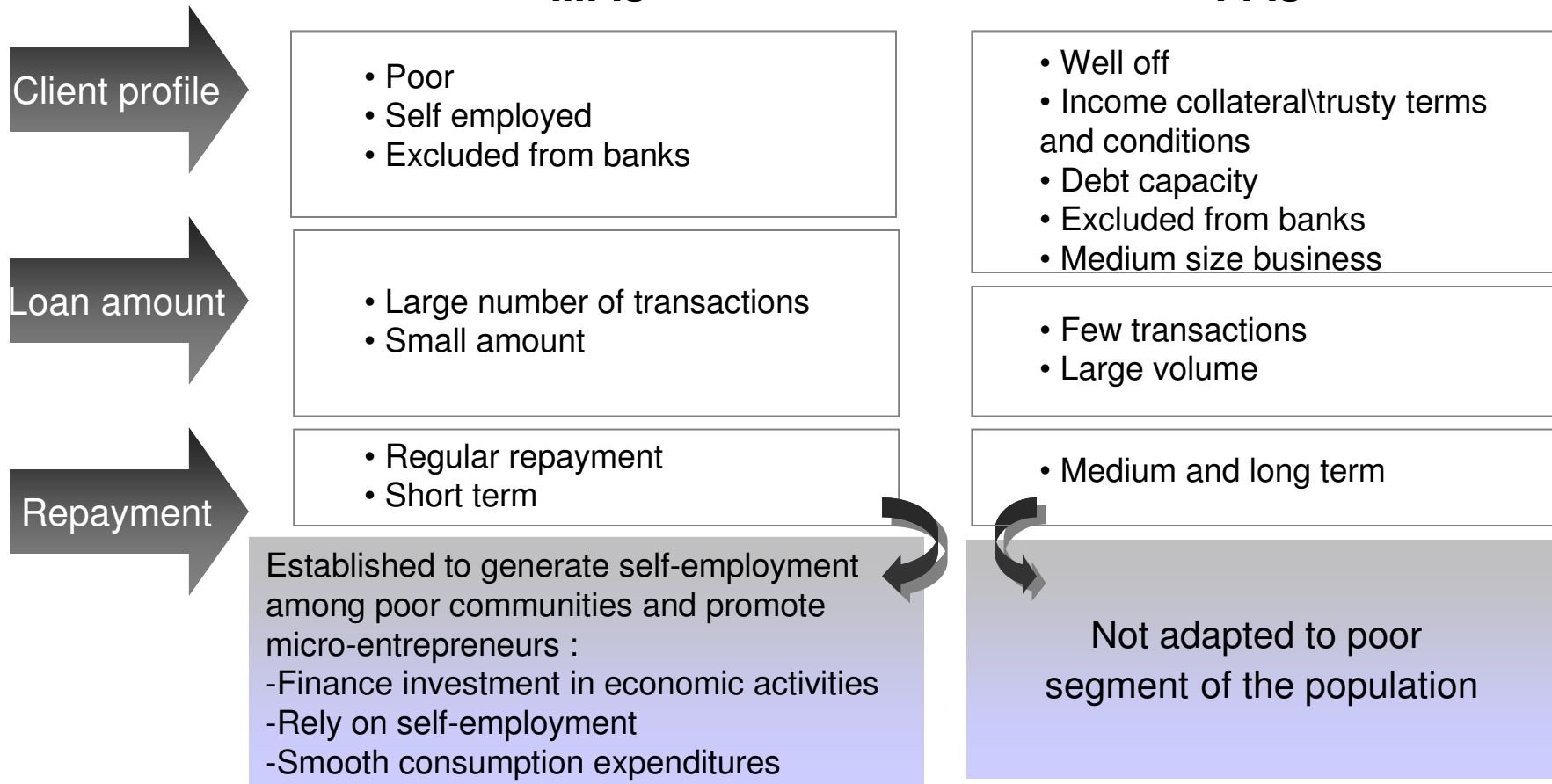




Microfinance versus Formal Financial Institutions

MFIs

FFIs





Target Population : Poor People

Microfinance services are targeted to the poor segments of the population, characterized by :

Material deprivation (low food consumption, poor housing)

Lack of voice & ability to influence decisions

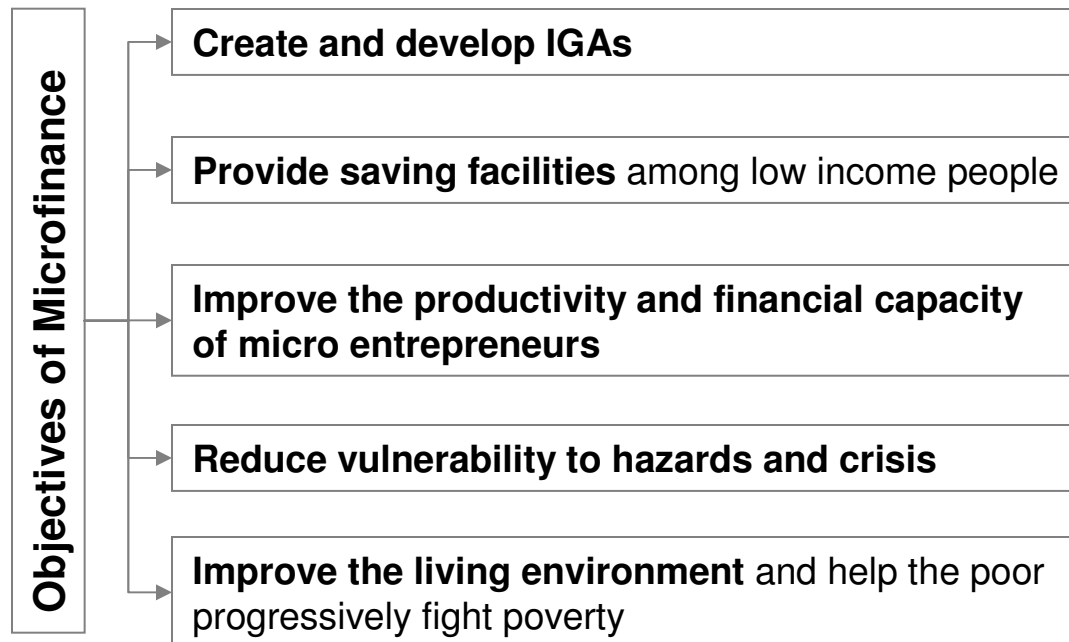
Low human development (education, health)

Acute vulnerability to adverse shocks (illness, economic crises, natural disasters)



Goals & Principles

To achieve their field goals, Microfinance programs attach great importance in the following key principles



Key principles:

- Proximity
- Customer friendly approach
- No collateral
- Rigorous selection criteria
- Regular repayment schedule
- Design according to needs
- Financial support along with motivation and training



Products and Services of Microfinance

Financial and non financial instruments against poverty

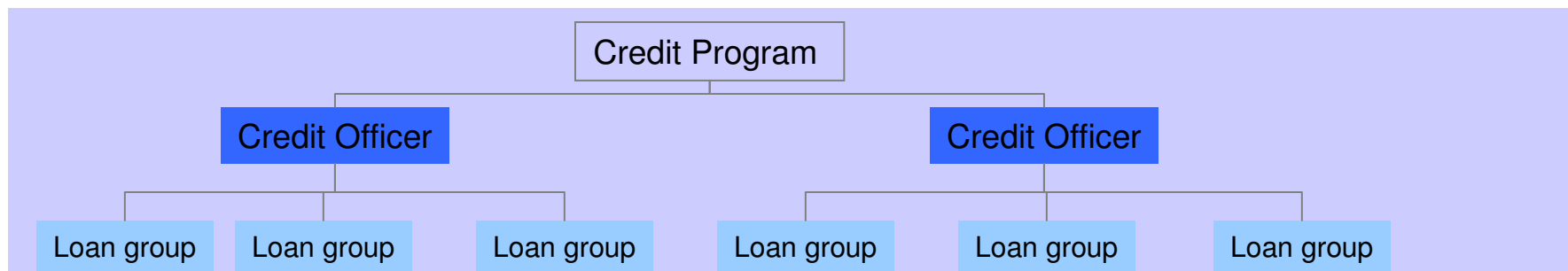




Credit services: Microcredit

Microcredit is the core product provided by MFIs

- **Screening** and **group formation** for loan agreement is done according to target criteria. The group is generally made up of 10 to 30 persons who have shown interest and seriousness
- **Loan program starts through the saving mobilization and informal training**
- **Loan disbursement process** consists of a small loan disbursed for an **Income Generating activity** by a credit officer, if conclusive, it can lead on the long run to a **small business loan** (more than initial loan, 300 to 3000 US\$)
- **Loan repayment** occurs on a regular basis (weekly or monthly), with the whole group at a set time, place and date, during **group meeting**
- **Group meeting** appears to be a kind of **informal training centre-cum-collection centre**, where clients not only come to repay loans but also to share experiences, take advice, evaluate their IGAs...





II. Microfinance in Post Conflict and Crisis Situations



Microfinance in post crisis areas

Situations of recovery and reconstruction, including post conflict or disaster ones, are characterized by the following aspects :

- Lack of confidence to build
- Weak domestic market and economic opportunities
- Mental confusion
- Vulnerability
- Difficulty to view the future with confidence
- Absence of security
- Fear of crisis repetition
- Loss of human capital
- Collapse of infrastructures

Since ▶ sound Microfinance principles are based on **flexibility and adaptation to people needs**
Microfinance can thus bring **effective solutions**

Through a double approach :

- **Economic development** with the allowance of financial services, especially microcredit
- **Motivation along with social unity** during the regular group meeting



Microfinance, a development tool through microcredit

Post crisis situation is clearly the transition between emergency and recovery.

In this context, MFIs as a link with operating NGOs, are able to provide :

- An economic answer in the form of financial products adapted to identified vulnerable and low income household;

To identified :

- **people affected by conflicts, ex-combatants, refugees...**
- **people hit by natural disasters, dislocated families...**

Through a progressive path :

- 1) Identifying and taking vulnerable people in hand

Assistance to most disadvantaged population segment

- 2) Jointly design of a possible economic activity + motivation\advice + training

Facilitate capacity building and reconstruction of local business activities

- 3) Loan disbursement for **Income Generating activities** according to local possibilities

Jump start economy along with self employment



The role of group meeting and social mobilization, as a social answer

- Post crisis area, as a general rule, need development opportunities, sustainable and useful in the long run
- But they lack of: **human and financial resources, training and expertise**
- Group formation and group meeting is the key, it brings to members a comprehensive informal training based on:

1 – Technical support to (a) **properly identify business opportunities according to local resources and constraints** (demand, climate conditions, material supply...) & **contribute to reconstruction and thus relaunch local dynamic from grassroots initiatives**

Ex:poultry farm, handcraft, fishing...

(b) **run their own small businesses** through training\education lessons and advice in:

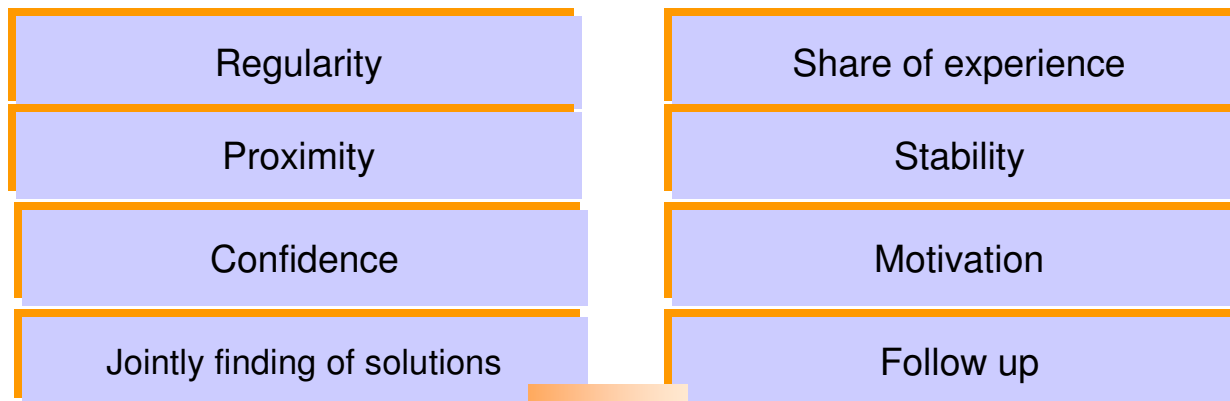
- planning
- management
- basic accountability
- basic marketing



The role of group meeting and social mobilization, as a social answer

2 – Moral and social reconstruction

MFIs through group formation, can build up an **effective social network among the vulnerable** population segments identified to change their mind set up, in a cost-effective way that ensures :



Informal Training and Therapy

Change of social pattern



The concrete benefits of Microfinance

Loan package

+

Training on sectorial knowledge

+

Group motivation

=

- Change of social pattern
- Empowerment
- Sectorial development

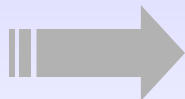


How can multilateral partnerships make an effective contribution ?

The donor community and operating MFIs, in the areas affected by the main following situations :

- Conflicts
- Natural disasters

can join forces so as to significantly :



Through

Strengthen institutional capacity building

- **Capital and human resources mobilization**, as well as **dissemination of Best Practices**
- **Strategic planning for reconstruction and rebuilding**



Case study

ASA – Association for Social Advancement

General information : (June 2004)

- Location : Bangladesh
- Number of branches : 1725
- Number of members : 2,74 millions

Performance Indicators : (June 2004)

- Yearly total loan disbursed (million taka) : 12,124
- Number of loans disbursed (million) : 1,56
- Effective yield on average portfolio : 14,59 %
- Operational Self-sufficiency : 264,19 %
- Financial Self-sufficiency : 166,44 %
- Recovery Rate (2003) : 99,95 %

Background: Bangladesh is one of the most vulnerable country to natural hazards : floods, storm surges, earthquake, droughts, river bank erosion. However, ASA, operating in this context, is one of the most efficient MFI in the world. It has been able to provide flexible products according to situations.



Case study

FCC – Fondo de Credito Comunitario

General information : (2002)

- Location : Mozambique
- Number of active borrowers : 7196

Performance Indicators : (2002,US\$)

- Gross loan portfolio : 421,383
- Total assets : 1 362 773
- Operational self-sufficiency : 27,20 %

Financial product used for conflict and disaster management are of two kinds : ex-post and ex-ante, and include grants, loans, savings and training

Background: The Mozambican conflict claimed the life of over one million Mozambicans, created 1,6 millions of refugees and about 3,7 millions of internally displaced people. FCC is the largest MFI of Mozambique, one of the first launching microfinance programs following the civil war. Despite the environmental challenges it has to face (floods-2000-and droughts-2001), FCC continues to grow.



PlaNet Finance

**13, rue Dieumegard
93 400 Saint-Ouen Paris
France**

Tel : + 33 (0)1 49 21 26 26

Fax: + 33 (0)1 49 21 26 27

Site Web: <http://www.planetfinance.org>

E-mail: contact@planetfinance.org