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NOTE FROM THE FIELD

Robust MF Sectors Post-Conflict

USAID-supported project examines how the development of microfinance industry in conflict-affected areas of West Africa requires leadership, linkages, and coordination

American Refugee Committee, International

Clients of Hope Micro, a microfinance institution in Freetown, Sierra Leone.

"Through decades of experience in conflict-affected areas, microfinance institutions have developed clear lessons for effective operation," says Tim Nourse, of American Refugee Committee, International. "How to develop a robust microfinance sector in these areas, however, has been less apparent."

Under USAID's AMAP Knowledge Generation project and the Microfinance Amid Conflict research topic, Tim Nourse of American Refugee Committee, International (ARC) was recently in Sierra Leone and Liberia to capture lessons learned on how robust microfinance sectors can be developed in conflict-affected areas. He explains:

"Through decades of experience in conflict-affected areas, microfinance institutions (MFIs) have developed clear lessons for effective operation. Utilizing experienced technical assistance, relatively simple systems and products, and standard best practices, MFIs can succeed in most post-conflict environments with few preconditions. How to develop a robust microfinance sector in these areas, however, has been less apparent. How do leading MFIs influence the development of the sector? What types of donor coordination are possible and appropriate? What opportunities exist for linking income-generating programs and MFIs?

"Liberia and Sierra Leone offer an interesting context for studying microfinance sectoral development in post-conflict environments. This past January, I visited both countries and met with representatives of MFIs, government, donors, commercial banks, and clients to investigate the impact of donor coordination, the influence of leading MFIs on sectoral development, and the potential for linkages between income-generating programs and microfinance institutions.

"Liberia, a country recently emerging from a 13-year intermittent civil war, is currently making its second attempt to develop a microfinance sector. Following the 1995 peace negotiations and 1997 elections that closed the first phase of its conflict, donors invested in a number of MFIs. All but one of these local and international NGO programs failed due to poor implementation and insufficient funding and/or technical assistance. According to Bill Massaquoi, former manager of the Liberian Enterprise Advancement Program (LEAP), they were

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'managed like relief programs' that are short term in nature and were ill-equipped to conduct sustainable microfinance. Unfortunately, the one successful institution, LEAP, was then crippled by fighting during the second phase of Liberia's conflict in 2002-3. Now, following the fall 2005 election of Africa's first woman head of state, donors are again trying to rebuild the sector.

"Sierra Leone, too, has gotten a late start on building a microfinance sector. Due to the prolonged nature of its conflict (1990–2001), it missed the 'microfinance revolution' and saw little development of the sector during the 1990s. As peace drew near in 2001, the government invested in a large-scale and poorly designed microcredit program with scores of local NGOs and CBOs. Although criticism of the program cast a shadow over the microfinance industry for a time, a combination of government education, donor pressure, practitioner good practice and targeted funding of strong institutions has reinvigorated the sector. The number of MFIs is growing and, in the past four years, outreach has more than quadrupled, expanding from fewer than 7,000 to 40,000 clients. A multi-donor investment and technical assistance facility has supported individual institutions and promoted an enabling environment with the government, and commercial banks are beginning to study how to enter the field.

"Some initial insights that emerged from the investigation of the emerging microfinance sectors in both Liberia and Sierra Leone include the following:

- The case for donor coordination in post-conflict countries is compelling. The general consensus is that the microfinance sector in many post-conflict countries can quickly be polluted if donors do not coordinate substantively on basic principles to support the sector, investments in institutions and interaction with the government.
- Leading MFIs have the potential to significantly influence the sector, but only if they have the additional human resources necessary to engage other MFIs and stakeholders, and if the smaller promising MFIs have the funding and capacity to take advantage of a leading MFI's example of best practices.
- Under the right conditions, livelihood programs initiated with small cash and in-kind conditional grants for business start-ups can be coordinated with microfinance to prepare and increase the number of potential clients for MFIs.

"The detailed findings will be described in two upcoming microNOTES as part of a larger Microfinance and Conflict microNOTE series. The first note will discuss the potential of donor coordination and leading MFIs to influence microfinance sectoral development, and the second note will focus on opportunities for linkages between humanitarian agencies and MFIs in post-conflict environments."