UGANDA: THE PROVISION OF MICROFINANCE IN THE WAKE OF CONFLICT

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Introduction

The negative effects of conflict are well-known. In addition to the social and psychological trauma that war survivors sustain, many basic tenets of society crumble under the pressure. Communities may be torn apart, government structures corrupted or dissembled, and basic infrastructure vital to economic life and cross-regional transport rendered useless.

Effective delivery of micro-financial services is challenging under any circumstance. Institutions that desire deep outreach and financial sustainability however, encounter even more obstacles in post-conflict societies. Local institutions are shaky or non-existent, individuals lack collateral and are locked into defensive mechanisms, and paradigms for successful operations and best practices models are blown away with the gunshots. Many groups desire a jump-start to economic survival, although, their specific requirements vary widely. Refugees, returnees, the internally displaced, the recently demobilized, and the local populations all seek individual specialized services.

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

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

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

Review of the post-conflict literature

Virtually no consensus exists among development specialists and donors on when or how to commence or resume assistance after conflict[2]. It is agreed that long, recurrent conflicts, such as that witnessed in Uganda, require substantially more intervention and rehabilitation before they are prepared for solid mirco-entrepreneurial growth.[3]. However, the small amount of emerging research on this subject highlights the different levels of impact that conflict imparts, including the unique characteristics of post-conflict sites and how war may change the need and demand for credit.

Impact

The ravages of war affect a nation on several levels, clearly delineated by Geetha Nagarajan as micro, meso, and macro. At the highest, or national level, macro effects of conflict disrupt macroeconomic or financial stability[4]. Specific effects include difficulties accessing markets (due to destroyed infrastructure and conditions such as landmines), human and capital flight, low levels of government financial capital, poor judicial adjudication and unclear property rights, large amounts of donor grant money, and high levels of remittances[5]. These effects disrupt the fundamental structure of a national network that is necessary for effective trade and economic growth.

The meso effects highlight the results of macro-instability on institutions and their operations. When the overarching national systems are non-functioning, so are the institutions that draw local communities into the greater system. Decimated financial institutions that are unable to serve as effective intermediaries are an example of meso level effects. Other effects include a short term focus on poverty lending, grants, and credit, rather than deposit mobilization or sustainability; and a lack of useful regulation or supervision[6].

At the local community, or micro level, micro-entrepreneurs are also affected by the macro and meso level consequences of conflict. Local citizens do not have a national government or financial system to place their trust in, their income may be subject to detrimental hyperinflation, and their local or regional institutions cannot intermediate for them. Accustomed to unstable support institutions, these individuals face an additional burden with the social and political instability in their community. Long established bonds of trust could be permanently severed, the vision of one's life-span and abilities cut short, years of earnings and assets destroyed overnight, and tight and trusting community bonds broken by death, disease, and the entrance of unknown refugees, demobilized soldiers, and displaced persons[7]. Examples of the disruption and consequences include fear, trauma, and uncertainly about the future.

Combined, the macro, meso, and micro effects make establishing a business a daunting challenge for local residents and cause many potential micro-finance service providers to look upon the entry option warily.

Demand for credit

Sustained conflict also influences the demand for credit within a community. Contrary to other widely applicable effects, credit demand is highly individualized and is very difficult to predict. The resurgence of demand depends upon the circumstance surrounding the conflict, the sum of money allotted to reconstruction, and the state of the economy before the conflict[8].

Demand is typically low immediately following hostilities, but rises rapidly as reconstruction progresses. The reconstructive process requires economic development and small businesses to provide an attractive alternative to limited formal employment[9]. Demand can also be responsive to the availability of credit[10]. Some micro-finance organizations believe it is in the communities' interest to foster credit demand and small enterprise development.

Reemerging markets are an integral part in the recovery process. Indicating a sign of normalcy to local residents, these markets also provide risk-reduction opportunities. Paradoxically, as markets become denser, they become more reliable, providing a strong incentive to the community to subsidize market return[11]. In addition, an institution that enters a post-conflict area early has the opportunity to help nascent business take root and garner the profits from reconstruction. Wider impact also may be possible. Research indicates that loans slightly above the micro level (at least $10,000) can influence broad, multi-ethnic cooperation and commerce[12].

Differences

Some of the key characteristics differentiating post-conflict micro-finance sites from a standard location are highlighted below.

- Pervasive poverty and loss of assets
- Mobile population
- Damaged or non-existent banking system
- Non-operational regulation and supervision
- Short-term operational focus vs. sustainability
- Greater dependence on informal sector
- High levels of dissavings
- Inflation
- Severe distrust
- Safety threats
- High level of uncertainty and incentive to avoid irreversible investments[13]

Increased reliance on the informal sector can serve as a boon to burgeoning micro-entrepreneurs. However, all of the remaining post-conflict characteristics are more likely to deter potential micro-finance organizations rather than encourage their entry. Dissavings, mobility, poverty, and lack of assets force institutions to envision unique means of collateral and loan insurance. Opening the door to potentially corrupt micro-finance institutions, malfunctioning banking systems, poor regulations, and inept central governance also force well-meaning MFOs to assume multiple additional burdens. Inflation, dissavings, and threats to individual or institutional safety force service providers to battle short-term obstacles and may divert institutional attention away from best practices and long-term sustainability.

Together, these characteristics dissuade many micro-finance organizations from entering their region until further pre-conditions for entry can be met. The U.S. Agency for International Development cautions MFOs considering entering post-conflict areas for fear that pressures to move quickly in dire circumstances will be "at the expense of developing sound foundations[14]." In contrast, some organizations ardently believe that post-conflict areas provide ideal opportunities for maximum outreach and impact.

Overview of Financial Service Provision in Post Conflict Areas

Debating the risks versus the opportunities of service provision, micro-finance institutions must decide whether the potential for vast and deep outreach justifies the potential risk to resources and staff. Institutions that do choose post-conflict sites as bases for operations must clearly identify their preconditions for entry, their target populations, and their strategies in order to successfully achieve their goals.

Pre-conditions for entry

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

Micro-finance practitioners widely agree that financial services should be withheld during initial emergency or refugee crises and implemented once some permanence and stability emerges. Certain essential pre-conditions have been identified as necessary before micro-finance services commence. In the case of refugees, the displaced population should plan to permanently settle (for the long term, usually at least 18 months), be allowed to settle, and have the ability (skills and access to markets) to form successful businesses[15]. Regardless of the targeted clients, financial institutions look for a partially monetized economy, the ability to develop and implement risk management strategies, a cohesive community[16], some market activity[17], credible insurance and guarantee markets, and a government social safety net[18].

Additional pre-conditions serve as propitious signs for effective delivery of financial services, but they are more often desired than encountered in post-conflict areas. These include a large client base[19], an educated and skilled workforce, trust in the local currency and financial institutions[20], an absence of hyperinflation, a functioning banking system, and a favorable policy environment[21].

Micro-finance organizations often establish services in post-conflict areas more rapidly than they do in standard sites. It is acceptable to begin a program after a rapid market assessment, foregoing the traditional comprehensive feasibility studies and pilot projects[22]. However, micro-finance organizations should analyze which pre-conditions have been met, and which are likely to improve. Although it is possible to deliver services in minimalist environments, the enabling conditions must appear eventually if the institution desires sustainability.

Target populations

Several groups, such as women, demobilized soldiers, refugees, and the internally displaced, are disproportionately affected by conflict. As a result, micro-finance agencies often attempt to specifically target these populations. There is no doubt that these groups are in need of assistance, however concentrated targeting effects have often proven unsuccessful. Targeting efforts aimed at these groups have failed due to community resentment, a lack of business skills among the targeted population, high costs, and host country regulations prohibiting refugees from participating in the economy[23].

If an institution avoids restricting services to targeted clients, it can retain a financial focus, rather than an emphasis on meeting the needs of certain people[24]. The first emphasis should be on residents with some assets and the motivation to stay in the area if they are able to earn a living[25]. In time, services should be extended to the wider local community.

Strategies

Upon determining that the environment is propitious for service delivery and identifying the clients expected to utilize micro-finance, an institution then must evaluate the strategies it intends to pursue to ameliorate the difficulties inherent in the local environment. This is especially important when an agency is entering a previously un-served post-conflict area, or a region characterized by destroyed infrastructure, a major loss of client assets, and psychological trauma.

The following table identifies some of the strategies undertaken by various micro-finance institutions operating in post-conflict areas. The actions taken depend upon organizational capability, the goals of service provision, and the specific characteristics of the operating environment.

In order to determine which strategy or strategies will further a micro-finance organization's goals, it must determine priorities and a time frame. NGOs commonly participate in one of five service fields: refugee/survival service, development grant initiatives, development lending for income generating activities, brokerage services (low-income and lending institutions), and financial intermediation[26]. Certain strategies are effective in furthering one priority, but may simultaneously hinder another.

For example, providing relief services or initial grace periods on interest may be an important step in establishing an institution's credibility and trust within a community. But simultaneously, the institution will delay its ability to achieve financial sustainability and provide permanent access to credit for local residents. As most institutions have unsatisfactory paths toward sustainability, this is a serious consideration[27]. If managed efficiently, it generally takes about one year for a lending portfolio to return on the path to sustainability after a crisis. This transformation tends to happen after the staff members have collected as many loans as possible and the emergency situation recedes[28].

Institutions that want to maximize their community reconciliation and conflict mediation abilities will implement strategies such as formulating community problem solving groups, and innovating lending and training procedures in ways that will promote dialogue and economic exchange. These groups also might promote micro-finance on a larger scale by demonstrating the motley ways that it can be beneficial to a community and a country.

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

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

Strategies for Post-Conflict Service Delivery[29]	
Strategy	**Effect**
Offer insurance programs	Provides security for client assets in case of recurrent conflict.
Provide initial relief service or community support	Demonstrates concern for community and builds bonds of trust. Provides evidence that conscientious members will benefit from their affiliation during times of trouble.
Create and train a partner organizations	Prevents need to compete with other organizations for scare reliable local partners. Provides opportunity to offer training and develop skilled and dedicated staff.
Do not offer deposit services	Reduces threat of client assets being lost to violence, theft, or other crimes.
Provide remittance services	Offers a useful service to community that is widely used in post-conflict areas.
Provide housing or capital assets loans	Allow clients to rebuild pre-war life and meet daily needs before establishing economic venture.
Add new methodologies or products	For example, agricultural loans or solidarity group lending. Specialized products meet the specific needs of the community and can help an institution to weather instability or conflict.
Offer deposit taking and/or mandatory savings	To protect client assets and provide security. Mediate with local banking system or provide service within institution.
Offer short term solidarity group loans to refugees	By focusing on inventory and working capital, activities that can be conducted in multiple places, and activities that don't need large equipment or production investments, can offer refugees ability to earn income.
Suspend operations during conflict and restart when stability resumes	Protects institutional viability and sustainability.
Initially offer lower interest rates or grace periods, then increase rates as normalcy returns	Earns respect of community and provides assistance when people are unable to make payments.
Deliver more training and design more detailed incentive systems. Place priority on human resources development	To retain staff and ameliorate conflict between work loyalty and concern for family in difficult times. Also prepares new cadre of leaders to replace those who were killed or fled.
Use neutral NGO to distribute financial services to previously warring factions	Maintains neutrality and promotes community reconciliation.
Provide business development services	This is especially helpful to refugees or ex-combatants with little or no experience.
Offer loans at market interest rates	Ensures organizational sustainability.
Reduce frequency of repayments and disbursements	Reduces security threats caused by monetary handling and transfers.
Increase security measures	Ensures security and organizational viability.
Limit expatriate visits	Ensures security and reduce image of money being transferred.
Use sturdier, more reliable vehicles	Ensures security and reduce likelihood of vehicle being robbed during monetary transfer.
Consider ethnic makeup of staff	Reduces divisions and ethnic tensions within community.
Decrease size of lending groups.	Addresses trust issues.
Have plans ready to leave operations to local staff.	Ensures that institution will continue to operate in the absence of expatriates.
Use satellite offices to reduce travel time	Reduces exposure and ensures staff security.
Restrict times when staff can visit borrowers or promote program and conduct visits on random days	Reduces exposure and ensures staff security.
Offer community problem solving teams	Diffuses local tensions and garners respect for institution.
Keep as little cash on hand as possible.	Reduces exposure and ensures security.
Make loans in-kinds or through transfers	Reduces the use of cash and decreases threat of theft.
Keep low profile and utilize dilapidated store front	Reduces exposure and ensures security.
Develop local institutions that can manage projects	Increases likelihood of sustainability.
Have directors bring large amounts of cash when no one, including staff, is aware of it.	Reduces exposure and ensures staff and institutional security.

Case study of Uganda

The Ugandan example clearly portrays the difficulties and opportunities inherent in post-conflict operations. Well over a decade of brutal internecine conflict de-legitimized state institutions and left an impoverished, traumatized citizenry to pick up the pieces and reconstruct personal and local economies. The post-conflict environment was stark and offered few concessions to micro-finance organizations seeking propitious pre-conditions for entry. However, several institutions decided to battle the obstacles and invest their time and resources in the nascent Ugandan micro-entrepreneur. Their endeavors offer valuable insights into the unique world of post-conflict micro-finance service provision and the strategies that can be utilized to enable success.

Brief history of recent conflict

Immediately after independence, the economic future of Uganda looked bright. The country embarked upon a "Golden Age" boom, replete with rapid economic growth, large amounts of donor funding, and high commodity prices[30]. Little did the citizens expect the forthcoming violence and anarchy that would wreck havoc upon the newly developed nation.

The first tear in the social fabric occurred in the mid-1960s when the Uganda People's Congress, headed by Milton Obote, was threatened by a split. Sensing that his leadership was weakened, Obote attempted to maintain control by arresting opponents, suspending the constitution, and eliminating local council authority. His administrative and economic system fostered a corrupt elite by promoting an unequal distribution of resources. As public discontent mounted, an intense and destructive conflict ensued, resulting in Idi Amin assuming power in a 1971 coup[31].

Notorious for terror and massive human right violations, the Amin regime single-handedly destroyed national infrastructure and state neutrality in the economic sphere. His 1972 declaration of "economic war" against the Asians caused the most educated workers to flee the country, along with their capital. The economy collapsed shortly afterwards. Widespread looting by military and local officials, brutality, incompetence, the expulsion of the business community, insecurity, and the loss of qualified workers all contributed to the collapse[32]. Amin's tactics, combined with the external shocks of the 1970's (the 1973 sharp increase in gas prices and the 1977 breakup of the East African Community[33]), resulted in a 42 percent drop in GDP between 1970 and 1980 and an 80 percent decrease in industrial production. Quality of life for the average citizen declined precipitously. Those who were not among the 500,000 killed experienced a 500 percent increase in the cost of living between 1971 and 1977 and only a 41 percent increase in the minimum wage[34].

The 1980's were marked by continued instability and conflict. Amin was removed by a Tanzanian army incursion and replaced by Obote in a fraudulent election. Obote attempted to favor his ethnic kin[35] and the strong ethnic opposition resulted in one of the worst slaughters in Ugandan history. Military instability ruled the land and several governments toppled as territories were lost to rebels. By 1985 seven percent of the Ugandan population were displaced or refugees[36] and up to one half million people died as a result of post-Amin state-inspired violence[37].

In 1986 NRA forces took Kampala and gained more territory in the following year. The government inaugurated by Yoweri Museveni repatriated Asians and opened leadership roles to all ethnic groups. Low-level fighting continued until 1990, when the present period of peace commenced. Despite continued conflict in the north, northwest, and western border areas, the government has attempted to repair damage since 1986 though economic reconstruction, constitutional reform, and political reconciliation[38].

Overview of the Ugandan Post-Conflict Operating Environment

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

Economics

While the economic disarray indicated a clear need for credit, it also highlighted the national disorder and high risk factors that emerging micro-finance organizations were likely to face. The prolonged conflict imparted disastrous damage upon the economy, a blow the country has not entirely recovered from yet.

Between 1971 and 1986 the gross domestic product decreased by 13 percent[39]. Had Uganda been spared from civil war, the gross domestic product would have been double what it actually was. Although the GDP increased yearly once the war ended, by 1994 it was still below the level of the post-war peak[40].

In addition to the drastic drop in income and national wealth between 1971 and 1986, post-conflict Uganda suffered several other economic malaises. Illegal markets were rampant, corruption diverted donor money from its targets, and high inflation plagued the nation as it wavered between five and 230 percent per annum[41]. The lack of large scale businesses and farms resulted in low productivity and contributed to the continued high poverty rate[42]. Personal incomes were unequally distributed across regions and clearly portrayed how conflict could adversely affect standards of living. The average urban dweller earned 38,000 shillings in 1994-1995, compared to 19,000 in the relatively stable central rural areas, 12,500 in rural areas, and 9,500 in the violent and unpredictable northern region[43]. Residents of the heavily conflict-ridden north earned only half of what rural residents in the calmer central regions garnered.

Lifestyle and Community Relations

Economic hardship and the trauma of war were evidenced in local lifestyles and in community relationships. Those who were not among the hundreds of thousands killed may have had their lives irrevocably altered by torture, disfiguration, loss of assets, traumatic stress, economic destitution, isolation, insecurity, reduced access to healthcare and education, and broken community bonds[44].

Poor women (with an average of 7.1 children of their own) assumed responsibility for additional children orphaned by conflict or by AIDS[45]. As the sounds of conflict died away, the persistent buzz of a massive killer appeared. The fear of death and AIDS entered many homes and reduced the vision of an individuals life span as well as the incentive to save[46]. The need to reintegrate veterans (many of whom were uneducated, isolated from their communities, and lacked previous business experience) placed an additional social and economic burden upon a already stressed society.

Governmental/Legal/Regulatory Systems

Upon the onset of peace[47], the governmental, judicial, and regulatory systems were fully dysfunctional. The reduction in taxes and foreign monetary exchange combined with the inefficiency of the civil service produced declining state services. Transportation networks, health services, and educational and financial institutions all fell apart[48]. Inefficiency, corruption, and poor decision-making caused the government to lose all legitimate authority[49]. In addition to crumbling buildings, an absence of legal enforcement, and a dysfunctional staff structure, many aspects of essential service provision were obliterated, such as records and record management centers[50]. The absence of these resources prevented micro-finance institutions from accessing critical information and from meeting several of their specified pre-conditions for entry.

In 1987 the Ugandan government began a structural adjustment, stabilization and economic recovery effort, followed by an ambitious decentralization agenda in 1992. As a result, inflation was reduced to less than 15 percent a year, real GDP began to grow at about five percent a year, and fiscal decentralization streamlined operations and reduced waste[51]. The government made a substantial commitment to reform and the positive effects are reflected in the success that some micro-finance organizations have experienced in Uganda.

However, further improvements are still needed. The police and judiciary are the most corrupt institutions in Uganda[52], and the state of formal bank regulation is "pathetic[53]." These institutional difficulties continue to threaten depositors by failing to supervise problematic banks and financial institutions and by continuing to place the status of legal recourse in jeopardy.

Ugandan Post-Conflict Service Provision

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

In 1995, micro and small enterprises employed 29 percent of the Ugandan working age population[54]. Of the households containing micro-entrepreneurs, 27% relied on the business for all of their income, and an additional 33 percent received one half or more of their income from the enterprise[55]. The ability to access credit and expand their small business income has a massive effect upon Ugandan household income. Clients who receive loans use the funds for enterprise investments and household assets. Most of the borrowers would not have made the additional investments in their business without the credit[56].

The variety of micro-finance practitioners in Uganda is immense. They include two banks, several companies limited by shares, many non-governmental organizations, companies limited by guarantee, cooperatives, and credit unions[57]. More than 60 micro-finance organizations were registered with the USAID PRESTO project in 1997, but only a few of those employed best practices[58]. This section will examine the operations and impact of the two most vibrant and successful groups, the commercial banks, and the non-profit institutions.

Service Providers

Banks

Although the financial sector was virtually destroyed during the war, by the 1990's several foreign and local banks operated in Uganda and virtually all of them established branches in Kampala. Most of the urban poor were unable to take advantage of the new banking services. They lacked the required collateral and financial history to obtain credit, and their savings were too small to open a standard $350[59] savings account[60]

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

Institution structure

The Cooperative Bank of Uganda (CBU), the second largest bank in Uganda, is the most recent commercial bank entry to the micro-finance field. It began operations in the early 1970's but only initiated micro-finance operations in the late 1990's. The concept was introduced in 1995 and implemented in 1997 through six special micro-finance branches and two existing branches. The Cooperative

Bank hopes to continue expanding until it captures the largest market share. Its expansion locations are chosen based on the need for CBU representation, a small business population of over 2,000, quality infrastructure in place, and security[61].

The Centenary Rural Development Bank (CRBD) registered as a trust with the Ugandan National Council of the Lay Apostate in 1983 and commenced banking services in 1986. In 1993 it legally transformed into a commercial bank. Through eleven branches around the country, the bank services both rural and urban micro-entrepreneurs. CRDB commenced operations in the southwest region of Uganda where they were able to mobilize the most capital and where security considerations were minor compared to other regions of the country. In determining future locations, the bank looks for local community support and a concentration of micro-enterprises[62].

Target population and services provided

Both banks target micro-entrepreneurs and offer both credit and savings services. CRDB focuses solely on financial services and provides minimal training through informal credit officer/client interactions. Its 100,000 depositors and 10,000 borrowers (20 percent of all micro-borrowers in Uganda[63]) include small commodity, general merchandise, produce, tobacco, and drink micro-entrepreneurs from throughout the country. Encouraging savings among all economic classes, CRDB requires a very low minimum balance ($7.50) to establish an account. Demonstrating the high demand for credit in its branch locations, it provides an average of 1,000 new loans a month. The average loan size is $877 (but ranges from under $500 to over $2,000) and is paid back over three to twelve months[64].

Despite experiencing serious structural adjustment problems recently[65], the Cooperative Bank of Uganda it has made impressive gains in collecting micro-deposits and continues to develop its micro-credit products. In addition to savings and credit, CBU offers skills training on a fee basis during its weekly meetings. Attempting to increase the number of skilled micro-finance practitioners, it is also involved with developing a Micro-enterprise banking certificate course curriculum to be offered through the Uganda institute of Bankers[66]. In operation only two years, its micro-credit program has provided 4,287 loans. Luring clients with opportunities to win money (through the "Save for the Future Lucky Draw" promotion), UCB increased its number of depositors from 30,000 in 1993 to 120,000 in 1997[67]. Its operations focus on strong customer service, professional staff, sustainability, and a positive public image[68].

Commercial Banking and Micro-Finance[69]

	Centenary Rural Development Bank	Cooperative Bank of Uganda
Program Start Date	1986	Bank operating and offering micro-deposits since early 1970's. Began to offer micro-credit in 1997
Number of branches	11 branches and 5 small agencies	6 micro-finance branches and 2 standard branches that also offer micro-finance products
Financial products offered	Credit, savings, drawing, and money transfer services	Savings and credit
Non-financial products offered	None except informal training by credit officers	Training provided on a fee basis at weekly meetings. Involved in establishing micro-enterprise banking certificate course curriculum offered by the Uganda Institute of Bankers.
Average loan size/term	$877 over 3-12 months	
Impact of conflict	Arrears increase in Arua due to West Nile Front skirmishes.	Kitgum branch manager killed by Lord's Resistance Army after branch managers meeting

Strategies

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

The immediate reaction of banks is to reduce or stop lending at a branch affected by conflict. As the table below elaborates, this action reduces the amount of money subject to arrears and helps the banks to manage their losses. Centenary Rural Development Bank has several security procedures that are enacted upon conflict occurrence. The bank first tries to avoid conflict in early stages of operations by establishing the first branches in areas least affected by conflict. Before establishing a branch, the bank conducts a feasibility study and foregoes the operation if profitability cannot be achieved. Once a branch is running, CRDB will hire two security guards and a security assistant to protect the premises, reduce operating hours, and devise creative solutions to circumvent non-functional legal or regulatory systems[70]. Cooperative Bank of Uganda began offering micro-credit only two years ago, so it hasn't been impacted by conflict as much as CRBD. Two strategies that CBU has implemented are looking into "transition financing" to help businesses grow and withstand conflict, and devising safe methods to transfer deposit to the central bank[71].

Impact

The proliferation of banking has positively impacted Ugandans by increasing competition and improving service quality for people and businesses[72]. The Ugandan central bank has become involved in the development of micro-finance and this interest has been well coordinated with commercial bank efforts[73] However, the numbers that have benefited from this development are still low. Most small traders are still unable to access finance and most commercial banks don't have the capacity or the interest to provide long-term capital[74].

NGOs

Unlike the banks, non-profit organizations were much more hesitant to enter the post-conflict environment. They did not possess the infrastructure, nor the familiarity with the local environment. With the exception of the Ugandan Women's Finance Trust, founded in 1984, no other non-profit organizations among the best practices models entered until 1992, six years after the official termination of conflict. Upon entering, the MFIs commenced operations in the most stable areas of the country. It was only recently that FINCA began to expand to areas still experiencing intermittent conflict.

Among the organizations considered models are the Foundation for International Community Assistance (FINCA), the Foundation for Credit and Community Assistance (FOCCAS), and the Promotion of Rural Initiatives and Development Enterprises (PRIDE)[75].

Institution structure

Uganda Women's Finance Trust was the first institution to offer micro-finance services in Uganda. Established in 1984, it offered credit and savings to groups and to individual women entrepreneurs. Eight years later, FINCA set up village banking operations in Jinja, supporting a group of American students from the Midwest who raised the initial capital and established local contacts[76]. Despite having only half the institutional life of UWFT, FINCA grew rapidly and surpassed its level of outreach. FOCCAS established its program in 1996, concentrating its efforts in two districts. PRIDE Uganda commenced the same year and within three years expanded its branches to 20 locations nationwide.

Target population and services provided

All four organizations target poor entrepreneurs, though each one has a slightly different focus. FINCA targets poor female entrepreneurs through its group lending program. In addition to loans, voluntary savings, and mandatory savings, it offers a five week mandatory training program and low-cost group disability and life insurance. FINCA has established the widest outreach among the non-governmental organizations. Through its small localized program, it is able to reach local populations that might not have access to any type of financial institutions. Its network of 404 banks spans the country and is responsible for distributing 88,271 loans. Losing only $696 over the seven year program life, the loan loss rate is remarkably low[77].

PRIDE is the only organization among the four that focused on individual rather than group based lending. Its clients are established urban entrepreneurs and two thirds are women. Due to its individual and urban focus, it tends to attract higher income entrepreneurs and distributes slightly larger loans. PRIDE supplies the loan sums, but requires clients to establish a savings account with a commercial bank, forcing a link between formal financial institutions and micro-entrepreneurs. PRIDE is investigating a new software system that will link groups of micro-finance clients to formal financial institutions, reducing the banks costs of lending to the clients and encouraging further linkages[78].

FOCCAS is the most rural-based institution among the group. It focuses its work in two districts of Uganda and targets poor rural women. In addition to credit and voluntary and mandatory savings, FOCCAS places a strong emphasis on non-formal education. Through the group lending process, it incorporates information on health, nutrition, family planning, HIV/AIDS prevention, and business management. FOCCAS's efforts do result in women trying new health and nutrition practice and encouraging others to due the same[79]. However, these results come with a financial consequence. FOCCAS's 1997 operational sustainability was only 4.5%. Should the steam of grants halt, the program would no longer be sustainable.

The Uganda Women's Finance Trust reaches out to women, but allows men to participate as long as they don't compose more than 20 percent of a group nor assume any leadership positions. Originally concentrating its efforts on professional women, since 1995 it has reached out to low-income women entrepreneurs. It operates through nine branches and provides savings and credit services through group and individual relationships.

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

	FINCA	PRIDE Uganda	UWFT	FOCCAS
Program Start Date	12/1/92	1996	1984	Late 1996
Number of branches	404	20	9	Work in two districts
Target Population	Poor women micro-entrepreneurs	Established urban male and female entrepreneurs	Originally professional women; now low-income women entrepreneurs	Poor rural women
Financial products offered	Loans, voluntary and mandatory savings	Individual loans, savings accounts with local banks	Credit and savings	Credit and mandatory and voluntary savings
Non-financial products offered	Group disability and life insurance, five week mandatory training	Eight week mandatory training	Awareness raising	Five weeks mandatory training, non-formal education
Average loan size/term	$111 - 16 weeks paid weekly	$127 - 25 week period; extended with subsequent loans	$9,677 to $32,000 for group (10-15 members); $3,200 individual	$44 - 16 weeks paid weekly
Number of loans made	88,271	14,713		
Loan Loss	$696 over life of program	1%		
Number of savers	16547	16,483	11,212	3,297
Average amount of savings	$62	$49	$5,000	
Percent operational self-sufficiency	104%	Expected 18 months after branch begins operations		4.5% (1997)
Impact of conflict	Four armed robberies of credit officers; high level of distrust, expectations of hand-outs in some communities			

Strategies

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

FINCA is the only program that is actively looking to expand services to sites with recent or active conflict and has recently established sites in Lira (the gateway to the conflict-ridden northern region) and Arua. When examining sites with a clear threat of conflict, FINCA evaluates the economic and political stability, market potential, likely staff capacity, cost and income structure to lead beyond financial sustainability, money, and an existent support structure that can be used to assist entry[80]. Since establishing the two new branches, FINCA has not identified any differences in client responsibility or receptivity in the conflict versus the non-conflict sites. Defying much of the literature warning against the instability of service provision to refugees, FINCA has successfully integrated refugees from the northern region into its village banking program. Contrary to some predictions, the refugees were among the most reliable and most appreciative clients. Providing credit to refugees ameliorate some of the extreme poverty that results from war and helps to integrate the displaced into their new community. Additional strategies employed by FINCA include using simple, unpretentious office buildings, and ensuring staff safety by encouraging them to give up the money and run if confronted with an armed robbery attempt[81].

Successful in avoiding most of the violence to date, many NGOs are lacking the strategies that they will need to implement should conflict arise or should they expand to more volatile regions. Five terrorist bombs in Uganda within the past month[82] have reminded practitioners that no one is immune from insecurity in a transitioning political and economic system. Every institution should have a clear plan of action ready to implement as soon as conflict unexpectedly strikes.

Impact

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

Strategies Used by Ugandan MFIs to Avoid Conflict

Method	Used by:	Results:	Implications	Obstacle addressed:
Reduce or stop lending	Centenary Rural Development Bank and Cooperative Bank of Uganda	Helps arrears rate and loan loss but decreases amount that can take in and profits	Can continue taking deposits, but without being able to lend deposits out, loss in profit.	Threat of violence or theft
Increase security (2 24hour guards plus security assistant)	Centenary Rural Development Bank	Allow to continue taking deposit and to bring money to currency center.	Expensive. Can cost up to 1.6% of funds deposited. Must be reflected in interest rate charged to clients if sustainability is desired.	Threat of violence or theft
Reduce operating hours	Centenary Rural Development Bank	Assuages staff concerns about safety by allowing them to return home before dark	Less service hours for clients, may result in increased transaction costs to come during limited hours.	Threat of violence or theft
Conduct feasibility study and forego operations if profitability can't be achieved	Centenary Rural Development Bank	Excludes unprofitable and conflict ridden centers from service delivery	Denies outreach to those who may be most in need. Preserves institutions viability so that they can expand services to conflict areas once conditions have improved.	Inability to conduct successful operations due to insecurity
Begin operations in areas least affected by conflict	Centenary Rural Development Bank	Allows institutions to grow and spread outreach gradually. Also gives them opportunity to learn what is needed to operate in various settings.	Same as above.	Inability to conduct successful operations due to insecurity
Devise creative solutions to circumvent inept legal environment	Centenary Rural Development Bank	Helps institutions to reduce arrears and loan loss.	Permits institutions to provide services in places that they might otherwise be unable to due to malfunctioning government and legal systems.	Inability to collect payments due to non-functioning legal or regulatory system

Frequent reviews of internal and external factors in order to react to market changes in sustainable manner. "Know Your Customer and the Market Place[83]"		Keeps institutions in tune with the operating environment, how it may effect the institution, and how it may affect the clients and their repayment.	Helps the institution to blend into the community and the events that affect it, rather than being a branch of an "outside" agency.	Inability to conduct successful operations due to insecurity
Offer "transition financing" to help small enterprises transform into medium sized businesses	Cooperative Bank of Uganda	Provides the assistance necessary to help small businesses jump to the next level.	Larger businesses offer more employment opportunities and make a greater economic contribution to a community. By supporting larger business, institutions can ameliorate the detrimental effects of war on a local economy.	Threat of local economy collapsing due to conflict.
Determine most secure method of transferring cash to central bank or deposit cent	Cooperative Bank of Uganda	Minimizes risk of theft during cash transfer procedures. Protects deposits by placing them in a more secure environment	May require trucks, security guards, etc. that can be very expensive.	Threat of violence or theft
Simple, unpretentious office buildings	FINCA	Minimizes appearance of wealth or cash in location. Makes it less likely to stand out as site for theft.	Can help to make clients with no formal financial sector experience feel more comfortable.	Threat of violence or theft
Provide micro-financial services to refugees	FINCA	Provides assistance to the most destitute. Helps those who will stay long-term integrate into community.	Refugees can be a higher risk due to mobility and expectations of hand-outs. However, FINCA's experience demonstrates that refugees are more reliable and appreciative clients.	Threat of extreme poverty and hunger.
Provide business training and links to credit for demobilized soldiers	CARE	Demobilized soldiers often leave service without income, skills, or connection with formal community. Training and credit reduces the chances that they will resort to violence in civilian life.	Can cause resentment among local community if services are limited only to demobilized soldiers.	Threat of violence from demobilized soldiers.
Hold meetings at branch locations	PRIDE Uganda	Reduces threat to credit officers who otherwise may travel in remote areas and be more subject to attack.	May increase threat to clients, especially if they are carrying deposits or payments. Imposes transaction cost on client.	Threat of violence to traveling credit officers.

Successes/Failures by Institution Type

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

Bank lending rates in 1996/1997 were above 20 percent a year, significantly higher than the six to seven percent annual inflation rate. Despite the large margin, the bank rates were competitive with the non-profits. PRIDE charged a flat 30 percent a year, while FINCA and FOCCAS charged 12 percent for each 16 week cycle. These large margins reflect a lack of competition and a continued weakness in the financial sector[84]. The large difference between the bank and the non-profit interest rates may reflect bank cost savings from serving a high density urban population, greater efficiency in formal financial institutions, or lower prices as a result of focusing solely on financial products. Programs offered by both types of institutions can be sustainable if the management is committed to longevity and the services concentrate on financial services, rather than non-financial training, relief, or education.

The impact of conflict on operations is more stark for the formal financial institutions because they are located in the less stable areas. The attached map demonstrates how most NGOs are clustered in a circle around the central region (except for CARE's work in Arua and FINCA's recent expansion northward). The formal financial institutions extend much further toward the insecure border regions. Centenary Rural Development bank must spend up to 1.5 percent of deposits at their least secure locations in order to pay for the necessary security (including a truck and eight police officers)[85]. Banks experience more conflict, but NGOs are threatened by it more due to their smaller size. This is likely the reason that NGOs do not often enter conflict areas, for the risks appear greater than the potential impact. One small NGO operating in the Western Nile region was obliterating when troops forced most of its clients to move, scattering them about and enabling non-repayment[86]. While a bank may lose a percentage of its profit, an NGO could lose its entire mission.

While both NGOs and formal financial institutions have made significant inroads, several challenges still inhibit greater outreach. Foremost is the continued conflict. It is concentrated in the border region, but occasionally appears in unexpected places. Conflict in the north is common and poses a serious threat to agencies and to individuals lives. No micro-finance agencies are willing to deliver services in this area as it is just too risky[87]. Another challenge to institutions is the increased competition in central urban areas. While a boon to clients, intense competition in popular sites has forced some MFOs to relocate to less desirable areas. In this manner, Michael McCord believes that difficult sites will eventually be reached, although it might take some time[88].

Impact

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

Despite the proliferation of MFOs in Uganda and the widespread support for micro-finance, there is still a great amount of unmet need. Nationwide there is less than one bank branch for every 120,000 people, less than 20 percent of micro-entrepreneurs have access to credit[89], and less than ten percent of the population have a bank account[90].

The efforts of micro-finance agencies have been aided by strong government support through a decentralization plan and structural adjustment reforms. The government policy is to create an enabling environment for micro-enterprise by improving education, credit, and transport services[91]. The support of the government and a strong governmental commitment to reconstruction are critical factors in successful post-conflict micro-finance endeavors.

Although poverty has not been substantially reduced as a result of micro-finance in Uganda, numbers of "hard-core" poor have declined[92]. This means that fewer people are living in misery, fearing their inability to meet daily survival needs. It has allowed them to transfer their vision to the future. More importantly, micro-finance has provided lower-income entrepreneurs with the opportunity both to take a stake in the new economy, and though savings, to build security to protect them in case of future crises.

Conclusion

The Ugandan case corresponds very well with the theoretical model. The Ugandan economy was destroyed at the macro, meso, and micro levels, disrupting both national and local stability. Corresponding with the impressive government reconstruction effort, the demand for great was very high and the MFOs have been unable to meet the need. Ugandan epitomizes the characteristics of post-conflict sites that differentiate them from standard sites. Ugandan after the war was characterized by a mobile population, high levels of dissavings, inflation, distrust, safety threats, poverty, damaged banking system, non-functioning regulation, increased dependence on informal sector, and a high level of uncertainty. Consistent with the overview of service provision in post-conflict areas, some MFIs commenced operations with very few pre-conditions, while others waited until the environment was more enabling. Specific groups, such as women, demobilized soldiers, and refugees were targeted, but many programs opened their services to the local population as well. Finally, institutions devised strategies that they felt were appropriate to minimize their risk in a volatile environment.

The experience of the Ugandan MFIs provides examples of best practices and also offers recommendations on what methods would be most successful in the future.

- Wait until the environment has stabilized before initiated services. Before then, encourage grant and emergency assistance.
- Commence organizational operations in the more secure areas of the country. Once an institution has gained a greater local understanding, a comprehension of the risks, and a clear strategy to reduce the risks, it may expand into more dangerous areas that may have higher demands for service.
- Multi-lateral agencies that can provide several services (such as relief, micro-credit, and education) are best positioned to respond to the many needs of post-conflict survivors. They may rely on grants, but grants do tend to be available after a conflict[93].
- If implemented effectively, there can be a clear link between micro-financial services and economic growth.
- Plan and define reactions to conflict.
- Employ established best practices including: lending to credit group members, group guarantee of loans, commercial interest rates, weekly mandatory group meeting, mandatory savings, service provision to micro-entrepreneurs whose businesses earn weekly revenue[94], and avoiding excluding groups from targeting efforts to avoid antipathy[95].
- Must make services available to both refugees and locals in order to prevent antipathy [96]
- Innovate services to correspond to unique local needs.
- The success of a post-conflict micro-finance venture is largely dependent upon the commitment of a state's resources and state energies devoted to the reconstruction effort[97].
- Recognize the possibilities that exist through proper planning and execution despite formidable risks.

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

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

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[93] Karen Doyle, Telephone interview.
[94] Barnes, vii.
[95] Borzello.
[96] Borzello.
[97]Karen Doyle, Telephone interview.